# SRI LANKA STATE OF THE ECONOMY 2016

## Fiscal Policy for Growth: Sustainable Financing for Development



INSTITUTE OF POLICY STUDIES OF SRI LANKA

# SRI LANKA
# STATE OF THE
# ECONOMY
# 2016

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## Acronyms

| | |
|---|---|
| ABCD | Asset Based Community Development |
| ADB | Asian Development Bank |
| ALMP | Active Labour Market Programme |
| AMDP | Accelerated Mahaweli Development Programme |
| ASEAN | Association of South East Asian Nations |
| BOI | Board of Investment |
| BOP | Balance of Payments |
| BPO | Business Process Outsourcing |
| BRICS | Brazil-Russia-India-China-South Africa |
| CBHI | Community Based Health Insurance |
| CBO | Community Based Organization |
| CBSL | Central Bank of Sri Lanka |
| CCPI | Colombo Consumers' Price Index |
| CCT | Conditional Cash Transfer |
| CD | Customs Duty |
| CEA | Central Environment Authority |
| CEB | Ceylon Electricity Board |
| CESS | Commodity Export Subsidy Scheme |
| CIT | Corporate Income Tax |
| CPC | Ceylon Petroleum Corporation |
| CSE | Colombo Stock Exchange |
| CSR | Corporate Social Responsibility |
| DAC | Development Assistance Committee |
| DCS | Department of Census and Statistics |
| DDD | Department of Divineguma Development |
| DHS | Demographic Health Survey |
| DOC | Department of Commerce |
| DRS | Deposit Refund System |
| ECB | European Central Bank |
| ETCA | Economic and Technology Cooperation Agreement |
| EDB | Export Development Board |
| EFR | Environmental Fiscal Reform |
| EIA | Environment Impact Assessment |

| | |
|---|---|
| EFF | Extended Fund Facility |
| EPF | Employees' Provident Fund |
| EPZ | Export Processing Zone |
| EU | European Union |
| FAO | Food and Agriculture Organization |
| FDI | Foreign Direct Investment |
| FLFP | Female Labour Force Participation |
| FTA | Free Trade Agreement |
| FTZ | Free Trade Zone |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| GSP | Generalized System of Preferences |
| HIES | Household Income and Expenditure Survey |
| ICT | Information Communication Technology |
| IDR | Issuer Default Rating |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| IPO | Initial Public Offering |
| IPR | Intellectual Property Right |
| IRD | Inland Revenue Department |
| ISB | International Sovereign Bond |
| ISCO | International Standard Classification of Occupations |
| IT | Information Technology |
| LRF | Livelihood Revolving Fund |
| MBI | Market Based Instrument |
| MCH | Maternal and Child Health |
| MDG | Millennium Development Goal |
| M&E | Monitoring and Evaluation |
| MENA | Middle East and North Africa |
| MOE | Ministry of Education |
| MOH | Ministry of Health |
| NAITA | National Apprenticeship and Industrial Training Authority |
| NBT | Nation Building Tax |
| NCD | Non Communicable Disease |
| NEA | National Environment Act |

| | |
|---|---|
| NEC | National Education Commission |
| NGO | Non-Government Organization |
| NHRDC | National Human Resource Development Council |
| NVQ | National Vocational Qualification |
| NYC | National Youth Corps |
| NYSC | National Youth Services Council |
| ODA | Overseas Development Assistance |
| OECD | Organization for Economic Cooperation and Development |
| OOP | Out of Pocket |
| OPEC | Organization of Petroleum Exporting Countries |
| PAL | Port and Airport Levy |
| PAYE | Pay-As-You-Earn |
| PHC | Poverty Head Count |
| PIM | Participatory Irrigation Management |
| PIT | Private Income Tax |
| PMB | Paddy Marketing Board |
| PPP | Public-Private Partnership |
| RBI | Reserve Bank of India |
| R&D | Research and Development |
| RDA | Road Development Authority |
| RIDL | Regional Infrastructure Development Levy |
| SCL | Special Commodity Levy |
| SDG | Sustainable Development Goal |
| SHI | Social Health Insurance |
| SLC | Sri Lanka Customs |
| SLECIC | Sri Lanka Export Credit Insurance Corporation |
| SLFP | Sri Lanka Freedom Party |
| SME | Small and Medium Enterprise |
| SOE | State Owned Enterprise |
| SRL | Social Responsibility Levy |
| SRR | Statutory Reserve Ratio |
| S&T | Science and Technology |
| T&G | Textiles and Garments |
| TEH | Total Expenditure on Health |

| | |
|---|---|
| TIEP | Temporary Importation for Export Processing |
| TPO | Trade Promotion Organization |
| TPP | Trans Pacific Partnership |
| TRIPS | Trade Related Intellectual Property Rights |
| TVEC | Tertiary and Vocational Training Commission |
| TVET | Technical Vocational Education and Training |
| UDA | Urban Development Authority |
| UGC | University Grants Commission |
| UHC | Universal Health Coverage |
| UNCTAD | United Nations Commission on Trade and Development |
| UNDP | United Nations Development Programme |
| UNP | United National Party |
| US | United States |
| VAT | Value Added Tax |
| VTA | Vocational Training Authority |
| WHO | World Health Organization |
| WRMP | Western Region Megapolis Project |
| WTO | World Trade Organization |

# TOWARDS GROWTH AND STABILITY

# 1. Policy Perspectives

The Sri Lankan economy grew at a modest 4.8 per cent in 2015, capping a year of socio-political transformation in which electoral politics dominated the headlines. Presidential and Parliamentary elections in January and August 2015, respectively, witnessed a redrawing of traditional political battle-lines, bringing a section of the Sri Lanka Freedom Party (SLFP) led by the President and the United National Party (UNP) led by the Prime Minister into an alliance to form a national unity government.

Attempts to overhaul Sri Lanka's institutional governance structures received the attention of policymakers for much of 2015. Although there were notable successes - the passage of the 19th Amendment to the Constitution being the most obviously successful outcome - other legislative enactments pertaining to abolition of the Executive Presidential system of government and electoral reforms dragged on through the year and into 2016. In the midst of the socio-political transition, the economy received little attention despite worrying signs of a deteriorating macroeconomic environment, particularly in the arena of public finances.

Sri Lanka's already shaky public finances received a further set-back with a rush for votes under its practice of 'competitive populism' - the political compromises that have driven much of the country's ill-disciplined fiscal policy. With Parliamentary elections yet to come, electoral

**In the midst of the socio-political transition, the economy received little attention despite worrying signs of a deteriorating macroeconomic environment, particularly in the arena of public finances.**

pledges made to attract votes in the run-up to the Presidential polls were met by handing out large wage and pension increases to Sri Lanka's sizeable public sector employees, and higher transfer and subsidy payments to households.

The government had a rough start in its attempts to finance the additional expenditures. Ad hoc taxation measures announced in the January 2015 interim budget failed to find safe passage through Parliament. In addition, budgetary support by way of long-term foreign loans to the government began to shrink as progress of on-going infrastructure projects slowed or were put on hold. Foreign investors took their cue from both domestic and external developments to exit from government debt securities putting a further strain on public expenditure financing.

Sri Lanka's fiscal policy induced excesses quickly spiralled into the monetary and exchange rate policy spheres. Government domestic borrowing surged, nudging up interest rates. However, the impact on interest rates was stifled to a large extent owing to subdued economic activity that meant more spare capacity in the economy. Nonetheless, the increase in household disposable incomes translated into a surge in consumer imports, particularly of motor vehicles, draining foreign exchange from the country. As the government loosened fiscal policy, the Central Bank of Sri Lanka (CBSL) prematurely slashed its benchmark policy rates by 50 basis points in April 2015, adding fuel to the import-related consumption bubble. It then compounded the downward macroeconomic spiral by attempting to hold the exchange rate by dipping into Sri Lanka's already declining holdings of foreign exchange reserves.

By mid-2015, an incipient balance-of-payments (BoP) crisis was held-off by a mix of short-term financing arrangements. The Reserve Bank of India (RBI) granted a 3-year US$ 400 million currency swap arrangement in March 2015; in May 2015, Sri Lanka issued a US$ 650 million Sovereign bond; in July 2015, a further 6-month US$ 1.1 billion swap facility was arranged with the RBI.

The delayed August 2015 general elections cleared any remaining political snags on putting forward a medium term economic agenda. The broad cross-party consensus under a minority UNP government that had held together from January 2015 was formalized under a 'national unity government', with a majority of UNP seats. While Sri Lankan voters did not deliver a sweeping win to any one party, the UNP's electoral mandate can be viewed as sufficiently decisive to set and pursue its own economic agenda.

A foretaste of the government's economic thinking was spelt out by the Prime Minister in a statement to Parliament in November 2015. In a nutshell, it envisioned a transformational change of course - from an overwhelmingly foreign debt financed, consumption driven growth model to one that is private investment-led and export driven. The underpinning reforms indicated moves towards fiscal consolidation as the first priority to tackle Sri Lanka's dismal revenue generation, bloated loss making state owned enterprises (SOEs), and unsustainable state pension systems, to name a few.

The much awaited policy statement was followed by the government's first post-election budget. The 2016 Budget proposals, however, failed to establish any firm steps towards a coherent and prioritized fiscal consolidation

agenda. Rather, it brought together a loose assortment of policies that were in some instances at odds with the government's economic policy statement. Ultimately, the ungainly mix of proposals floundered under continuous revisions, and Sri Lanka was left without a credible fiscal policy consolidation plan.

An overall fiscal deficit estimate of 6 per cent of GDP for 2015 presented with the 2016 Budget proved to be unduly optimistic. By early 2016, it was clear that the country's fiscal situation was in fact far weaker, with the final deficit number put at 7.4 per cent of GDP - an increase of 1.7 percentage points of GDP compared to 2014. Much of the expanded fiscal deficit came via higher current spending - up by 1.5 percentage points of GDP - as a result of generous salary increments, and higher payments on subsidies and interest costs. The wage increases to the public sector allowed consumers to borrow more, which encouraged still more spending.

Against this background, the CBSL's monetary policy directives also looked timid. The CBSL only resorted to monetary tightening - via an increase in the Statutory Reserve Ratio (SRR) by 1.5 percentage points in December 2015 - despite strong credit growth to the private sector in the second half of 2015. As inflation began to edge up, the CBSL followed up with a 50 basis point policy rate hike in February 2016.

The task of pulling the economy back from the brink of fiscal oblivion - and a weakening macroeconomic environment overall - fell on the International Monetary Fund (IMF) in its role as the lender of last resort. Despite allowing a sharp adjustment to the exchange rate in September 2015, followed the next month by a US$ 1.5 billion Sovereign bond issue, official

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reserves were down to 4 months of imports (or US$ 6.3 billion) by January 2016. A sovereign ratings downgrade by Fitch in February 2016 - to be followed by both Standard & Poor's and Moody's in March and June 2016, respectively - further dimmed Sri Lanka's options to test the waters once again in international capital markets. Thus, the government's formal approach to the IMF for a loan programme in February 2016 was a foregone conclusion.

The agreement with the IMF came in the form of an Extended Fund Facility (EFF) of US$ 1.5 billion (185 per cent of Sri Lanka's quota), spread over three years. The EFF is built on six pillars: i) lower budget deficits; ii) higher government revenues; iii) stronger public financial management; iv) state enterprise reform; v) monetary policy reform; and vi) supporting higher trade and investment. The 'conditions' are to be found in the fine print: fiscal tightening, a soft inflation target, and a flexible exchange rate regime.

Clearly, the proposed adjustments are meant to address a set of interrelated problems on the economic front.[1] The Sri Lankan economy suffers from fundamental imbalances that produces 'twin deficits': budget deficits that mean debt is piling up and current account deficits that indicate the economy is reliant on foreign capital inflows. At the heart of it, the imbalances denote i) national expenditure exceeds national income; and ii) production of tradable goods and services is inadequate. So long as foreigners are willing to finance the external current account deficit, the economy can drift along. But, if there is a tightening of such inflows, as happened in 2015, painful adjustments have to be made.

A current account deficit can be addressed by either cutting national expenditure or raising income. The latter cannot be increased sufficiently in the short-term as GDP growth typically increases expenditures, and productivity improvements take time. Alternatively, governments can attempt to switch resources to produce more tradable goods and services. This calls for a depreciation of the currency. A nominal depreciation alone is insufficient; expenditures must also be reduced to keep domestic cost increases at bay, and ensure that a real depreciation of the currency takes place.

The medium term macroeconomic framework under the EFF suggests government current expenditure is to be reduced from 15.2 per cent of GDP in 2015 to 13.9 per cent in 2016. On the revenue side too, the near term increases in taxes will be a drag on demand. The share of VAT and income taxes is set to increase incrementally, impacting households' disposal incomes and firms' profits. There is also very limited scope for monetary policy to act as a counterweight to fiscal policy; indeed, in order to allow the exchange rate to adjust to underlying economic fundamentals, policy rates were tightened by 50 basis points in August 2016. Not surprisingly, the accompanying overall macroeconomic framework suggests there is little or no room for an immediate fiscal or monetary policy stimulus, with the economy expected to see a modest GDP growth of 5 per cent in the medium term. Already, the adverse impact of inclement weather on agriculture has seen growth plummet to 3.9 per cent in the first half of 2016 compared to 5.7 per cent in the first half of 2015.

1 Weerakoon, D., (2016), http://www.ips.lk/talkingeconomics/2016/07/07/sri-lankas-extended-fund-facility-arrangement-with-the-imf-its-mostly-fiscal/.

The IMF-led programme will draw the usual criticism that fiscal austerity can lead to a stagnant or shrinking economy, at least in the short run, and exacerbate debt burdens needlessly. Monetary policy also cannot compensate under the proposed macroeconomic framework; a targeted low inflation environment automatically reduces the growth in nominal GDP and all else equal, raises the debt-to-GDP ratio.

Sri Lanka finds itself in an unenviable position of having a high public debt ratio - at over 75 per cent of GDP - and a low government revenue ratio - at 13 per cent of GDP - relative to comparable low middle income country thresholds. A high public debt ratio holds two important downside effects: the government is forced to allocate a large share of expenditure toward servicing its liabilities - estimated at 22 per cent of total expenditures in 2015; excessive public debt also weighs down an economy, leaving it vulnerable to shocks. Whilst there is no conclusive evidence pinpointing to a debt threshold at which growth begins to falter, few would question the idea that there is some point at which markets and investors will get jittery as debt piles up, and the economy appears more prone to crises.

Sri Lanka's stock of debt has grown substantially over the last few years. In the euphoria of post-war economic optimism, the stockpiling of debt as a claim on future wealth was viewed sanguinely. The appetite for such borrowing was helped by a weak dollar and ample global liquidity. High nominal GDP growth in post-war Sri Lanka kept the debt ratios down to manageable levels. Thus, more than the stock of debt what matters more is the size of the debt relative to the size of the economy. But, even more importantly, the mix of debt is also critical. For Sri Lanka, the immediate problem lies in the rapid changes to the structure of its debt portfolio - an unprecedented shift from lower cost external concessional borrowing to higher cost domestic and non-

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concessional external borrowing. This has clearly raised both the costs and risks of the total debt portfolio.

Funding choices to meet domestic debt provides much greater flexibility to governments - at one extreme, countries can inflate their debt away. With international creditors, those options are much more limited. External debt also carries additional risks of currency mismatches that can lead to debt servicing difficulties in the event of a rapid currency depreciation. The risks are compounded for an emerging economy such as Sri Lanka that carry current account deficits and has failed to build up its foreign exchange reserves as a bulwark against a sudden exit of foreign capital.

Reliance on foreign borrowing can also make exchange rate management an obsessive compulsion and renders monetary policy powerless. Monetary authorities could be compelled to set exchange rates to make dollar denominated debt manageable rather than to keep prices in check. Indeed, the Sri Lankan economy has been regularly subject to the resultant consumption bubbles and BOP crises in the recent past where both fiscal and monetary policies tended to be pro-cyclical, accentuating rather than damping economic volatility.

Thus, the pressure to address fiscal problems is mounting on several fronts. High fiscal deficits and public debt, and growing currency mismatches constrain fiscal and monetary policy responses. If the Sri Lankan economy is to escape the trap of fiscal dominance in macroeconomic policy setting - leading to volatile inflation and/or an unfavourable exchange rate dynamic - then steps towards fiscal consolidation is a must.

Cutting spending and raising taxes are easier to implement when economic growth is high. Generating surpluses in good times and borrowing only to finance public investment means a more effective counter-cyclical fiscal policy. Sri Lanka, however, has failed to do this even during the post-war growth spurt; paradoxically, the government lowered taxes and did little to broaden the tax base. As a result, tax revenue kept declining to reach its lowest of 10 per cent of GDP in 2014.

It seems then that only a crisis helps enforce change in the Sri Lankan economy. Fiscal tightening in the current circumstances is less avoidable than critics of austerity might acknowledge. The converse will be the government continuing to spend more than it taxes, adding to the debt and having to tax even more to service interest payments on debt. The best hope is that the impact of austerity measures on Sri Lanka's growth outlook can be softened by how it is imposed and what other policies to stimulate growth accompany it.

Restructuring public finances in the midst of sluggish growth will require a careful calibration of taxes and expenditures to harness growth and equity outcomes. Sri Lanka like many developing countries uses an array of subsidies, tax incentives and grants, with varying levels of success. A particular mix of fiscal policy measures has impacts not only on macroeconomic stability but also on employment, investment and productivity through tax and spending policies at the micro level. Thus, the effectiveness of fiscal consolidation is likely to be enhanced when reforms reinforce each other and are accompanied by complementary structural reforms. Indeed, fiscal consolidation can pave the way for reforms by generating fiscal space -

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i.e., by setting aside money in advance as a compensatory measure for those expected to lose from reforms.

Structural reforms - a variety of policies to raise productivity and competitiveness and lift the economy's growth rate - are needed to shift the balance away from consumption and towards investment in the Sri Lankan economy.[2] Overhauling Sri Lanka's regulatory systems to improve public service delivery, enhance labour market efficiency, and fill skill gaps in the workforce, to name a few, are amongst a menu of reforms that need attention. A stronger fiscal stance makes it easier to design and implement such a structural reform effort.

Thus, fiscal policy is not only to be found at the heart of Sri Lanka's lack of macroeconomic rigour, it is also the pivotal focus to mitigate further risks of economic turmoil and set the stage for sustainable growth. At its simplest, fiscal consolidation efforts should focus on broadening Sri Lanka's tax base and minimizing distortions; expenditure measures should aim at rationalizing spending and improving efficiency.

This year's *Sri Lanka: State of the Economy* report focuses on the many interrelated problems constraining investment and productivity across the economy owing to weak public finance management. For instance, one of the easiest to implement - and one that is politically least controversial - is imposing taxes on trade as an immediate revenue tool. Indeed, Sri Lanka has witnessed a sharp increase in para-tariffs that not only distorts the import duty structure but also leads to policy inconsistency. Conversely, Sri Lanka has granted significant tax exemptions to attract foreign direct investment (FDI) which has contributed to weakening the country's tax base and tax compliance. Both these sectors perform poorly. Exports have continued to decline as a share of GDP, hitting a new low of 14 per cent of GDP in 2015; in the first half of 2016, export earnings have contracted by 6 per cent. Similarly, Sri Lanka has failed to raise its FDI beyond 1.5 per cent of GDP even following the post-war

[2] IPS (2015), "Economic Reforms: Political Economy and Institutional Challenges" in *Sri Lanka: State of the Economy 2015*, Institute of Policy Studies of Sri Lanka, Colombo.

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economic euphoria. FDI inflows fell by 30 per cent in 2015; they have fallen by a further 53 per cent in the first half of 2016.

Fiscal incentives also matter in raising investment and productivity in labour markets. Despite a relatively low unemployment rate of 4.6 per cent in 2015 - albeit up steadily from 4 per cent in 2012 - Sri Lanka's labour market indicates significantly high educated youth unemployment as well as a low level of female labour force participation. So far, well-meaning intentions to generate one million jobs and improve living standards of workers have been spelt out in the government's Economic Policy Statement, but without much guidance on the precise direction or the urgency with which it will be implemented. If one million jobs are to be generated, Sri Lanka will have to rely on those who are economically inactive, particularly females and youth and devise appropriate incentives to get them into the workforce.

Increasing the labour force participation of youth is intrinsically connected to the quality and relevance of education that equip workers with evolving skills demanded in a more globalized world. Sri Lanka has relied heavily on public sector financed general education and tertiary education systems, including other measures such as the distribution of free textbooks, scholarships for disadvantaged students, free uniforms, and subsidized transport facilities, etc., to ensure high education outcomes. However, even with public spending on education set to increase further, the resource gap to meet quality and equity issues in the education sector will of necessity require incentivizing private sector participation, particularly in the tertiary education system.

Private participation - both as providers and consumers of services - is already more heavily present in Sri Lanka's health sector. The current total expenditure on health of 3-4 per cent of GDP falls short of comparable global averages even at present, and expenditure is set to increase with the country's rapid demographic and epidemiological transition. Out-of-pocket expenses by households on health care is

rising, raising issues of affordability and equity. Thus, improving allocative efficiency of health care expenditures and finding alternative sources of finance are high on the agenda to address improved health outcomes in the country.

Sri Lanka's demographic transition also holds important implications for fiscal policy reforms, including the provision of adequate social protection systems and social safety nets. Efforts to reform the country's non-funded public sector pension schemes - as outlined in the 2016 Budget proposal - have fallen by the wayside in the face of stiff opposition. Sri Lanka also provides as array of social safety nets. The cost-efficiency and effectiveness of current poverty reduction programmes - primarily, the Samurdhi/Divineguma programme - is doubtful in view of poor targeting and other implementation weaknesses. Although Sri Lanka has made progress in tackling poverty at the national level, the presence of significant pockets of poverty and rising inequality within the country means that considerable attention needs to be paid to bridging such disparities in the coming years.

Targeted efforts to narrow disparities between population groups - especially between urban and rural sectors of the economy - need to accompany Sri Lanka's renewed efforts to fast-track the development of cities. The growing demand for urban lifestyles as incomes rise and the economic arguments for urban agglomeration make a compelling case for planned large scale developments. Sri Lanka has already launched an ambitious US$ 40 billion Western Megapolis project that will require significant new sources of funding. While such infrastructure-reliant projects can have an immediate and more long-term impact on growth, they can also lead to fiscal and broader macroeconomic stress unless financing aspects are managed effectively.

If large scale urban development initiatives are not well managed, they can also have strong negative impacts on a country's natural resources and environment. Air pollution and urban slums are common undesirable outcomes of ill-planned big projects. With the renewed global emphasis on sustainable development, managing the environment is at the centre of economic policy. In Sri Lanka, environment policy has been dominated by command-and-control instruments based on regulations and standards. However, owing to their limited effectiveness, high cost of implementation, low economic efficiency, and problems of sustainability, market-based instruments (MBIs) have been gaining ground. Such economic instruments - a shift from penalties for non-compliance to payments or adjustments in the systems of ownership rights - offer countries like Sri Lanka a more fiscally effective means of environment management.

Indeed, the lack of user charges for irrigation for instance, has long been identified as reason for over-use of scarce water supply. The development and maintenance of irrigation facilities, however, is an onerous fiscal burden on the government. Similarly, the government spends considerable amounts on other producer subsidies such as fertilizer - a programme which has often been criticized for lack of effectiveness. The sale of subsidized fertilizer and its over-usage that has led to other health related problems are some of the drawbacks. Sri Lanka's growing consumer demand for food and inadequate incomes to farmers do not support the country's moves towards food security and poverty reduction efforts. Thus, Sri Lanka needs to re-examine economic incentives to leverage the existing

resources in a more fiscally efficient way to support agriculture sector development in the country.

Thus, Sri Lanka's needed fiscal reforms are not only about attaining macroeconomic stability, although it is a prerequisite. The reforms go beyond the macro to the micro - and will be the more effective if they are self-reinforcing. Progress towards meeting such a broader fiscal reform agenda has been facilitated with financial support for complementary reforms such as liberalizing trade, labour and product markets. Sri Lanka's IMF package is expected to catalyze an additional US$ 650 million from other multilateral and bilateral agencies to support reform efforts.

The big hurdle for the government is to ensure political and social consensus for a successful reform initiative. In government, the reality of hard choices is being felt; tax increases on VAT as a prelude to concluding the IMF agreement is bringing widespread strikes by traders; consumers will also be disaffected by rising prices amidst tighter economic conditions. The government's efforts to foster public support for reforms, including effective communication have fallen short.

The government's policy somersaults have not helped. Many of the tax proposals presented in budget proposals have been either revised or failed to be implemented. The appropriate legislative procedures to enact fiscal proposals have also been mismanaged. Revisions to the VAT introduced in May 2016 were abruptly withdrawn two months later, after being successfully challenged in the courts by opposition parties. Such signals of policy missteps and confusion strengthen the hands of those opposed to reform and make government capitulation easier.

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There is also microeconomic interference in the economy such as price fixing on everyday consumables. The private sector too must feel shortchanged by ad hoc taxes on corporate profits such as the one-off tax on corporate profits, possible reintroduction of capital gains tax and the general environment of policy indecision. By most indicators, private sector business confidence has been flat, as has the performance of the stock market.

The lack of clarity on the direction of economic policy is perhaps not a surprise in the initial settling down period to an awkward partnership of a national unity government. Even by Sri Lanka's fluid political alignments, it is an uneasy alliance involving the country's political arch rivals - the UNP and the SLFP. It is, therefore,

bound to be more susceptible to policy gridlock common to coalition arrangements.

But, time is running out for Sri Lanka to unlock its jammed economic policy levers. Settlement of International Sovereign Bond (ISBs) issues is bunching up from 2019; indeed, over the period 2019-2022, Sri Lanka is set to repay US$ 5 billion in ISBs. In the interim, if foreign debt is not matched by foreign currency earnings, Sri Lanka will be looking to roll-over the ISBs; to avoid any elevated risk premia, the government will have to retain the confidence of the three big rating agencies and international creditors.

The immediate task at hand is to instil confidence that the fiscal consolidation process instigated under the IMF arrangement will be pursued. While the IMF deal is not a panacea for all Sri Lanka's economic ills, it can be leveraged as a confidence-restoring measure and generate stimulative benefits. Once a semblance of fiscal control has been restored, the impact of such austerity on the country's growth outlook can be reversed with monetary loosening. Sri Lanka has already lost time in preparing the details of a complementary medium term structural reform agenda to promote growth. That too is a priority to set clear direction on the economic policy front.

With the announcement that the unity government will continue for a further three years till the end of the current Parliamentary term, there is still time in between for the benefits of reforms to be felt before going for fresh polls. The transition period will test the government's political acumen and dexterity in instilling confidence that it has a firm hand on steering the economy, and delivering a better economic future for all Sri Lankans.

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# 1. ප්‍රතිපත්ති පර්යාලෝකය

මැතිවරණ දේශපාලනය මුල් තැනට පත් සමාජ ආර්ථික පරිණාමීය වසරක් සනිටුහන් කරමින් 2015 වසරේ ශ්‍රී ලංකාවේ ආර්ථිකය සියයට 4.8 ක සාමාන්‍ය ප්‍රමාණයේ වර්ධනයක් වාර්තා කර ඇත. පිළිවෙළින් 2015 ජනවාරි සහ අගෝස්තු පැවති ජනාධිපති සහ පාර්ලිමේන්තු ඡන්ද විමසීම්වලදී දේශපාලන සටන් පෙරමුණු නැවත පෙළ ගැසීමකට ලක් විය. එම මැතිවරණවලින් පසු ජනාධිපති මෛත්‍රීපාල සිරිසේන මහතාගේ නායකත්වයෙන් යුත් ශ්‍රී ලංකා නිදහස් පක්ෂයේ කොටසක් සහ අගමැති රනිල් වික්‍රමසිංහ මහතාගේ නායකත්වයෙන් යුත් එක්සත් ජාතික පක්ෂය ජාතික එකමුතු ආණ්ඩුවක් පිහිටුවීම සඳහා සන්ධානයකට එක්ව සිටිති.

2015 වසර තුළ ප්‍රතිපත්ති සම්පාදකයන්ගේ අවධානය වැඩි කාලයක් යොමු වූයේ ශ්‍රී ලංකාවේ ආයතනික පරිපාලන ව්‍යුහය ප්‍රතිසංස්කරණය වෙනුවෙනි. සැලකිය යුතු සාර්ථකත්වයන් සමහරක් අත් කර ගත් නමුත් - ඒවායින් පැහැදිලිවම කැපී පෙනෙන සාර්ථකත්වය වන්නේ ආණ්ඩුක්‍රම ව්‍යවස්ථාවේ 19 වැනි සංශෝධනය සම්මත කර ගැනීමය - විධායක ජනාධිපති ආණ්ඩු ක්‍රමය අහෝසි කිරීම සහ මැතිවරණ ක්‍රමය සංශෝධනය කිරීම වසර පුරාම සාකච්ඡාවට ලක්ව 2016 වසරේදීද සාකච්ඡාවන තැනට පැමිණ ඇත. සමාජ දේශපාලන පරිණාමීය තත්වයක් තුළ සාර්ව ආර්ථික පරිසරයේ විශේෂයෙන්ම රාජ්‍ය මූල්‍ය ක්ෂේත්‍රය පරිහානියට ලක්වෙන බවට පත්වීමේ අඳුරු සලකුණු තිබුණ නමුත් ආර්ථිකයට යොමු වූයේ මද සැලකිල්ලකි.

ලිහිල් විනයකින් යුත් මූල්‍ය ප්‍රතිපත්තිය වැඩි වශයෙන්ම මෙහෙය වූ දේශපාලන සම්මුතීන් වන 'තරගකාරී ජනප්‍රියතාවාදී' භාවිතය යටතේ ඡන්ද ලබා ගැනීමේ වුවමනාවෙන් ඒ වන විටත් දුර්වල තත්වයක පැවති ශ්‍රී ලංකාවේ රාජ්‍ය මූල්‍යය වඩාත් පසුබෑමකට ලක්විය. පාර්ලිමේන්තු මැතිවරණය ආසන්නයේ පැවැත් වූ ජනාධිපතිවරණයේ දී සැලකිය යුතු ප්‍රමාණයක් වන ශ්‍රී ලංකාවේ රාජ්‍ය සේවකයන්ගේ වැටුප් සහ විශ්‍රාම වැටුප් විශාල වශයෙන් වැඩි කිරීමත් පවුල් ඒකකවලට සංක්‍රාම සහ සහනාධාර ගෙවීම් වැඩි කිරීමත් දැකගත හැකි විය.

අතිරේක වියදම් මූල්‍යනය කිරීමේ ප්‍රයත්නයේ දී ආණ්ඩුවට අසීරු ආරම්භයකට මුහුණ දීමට සිද විය. 2015 ජනවාරි අන්තර්වාර අයවැය ලේඛනය වෙනුවෙන්ම ප්‍රකාශයට පත් කළ බදු වැඩි කිරීමේ පියවර පාර්ලිමේන්තුවෙන් සම්මත වූයේ නැත. ඊට අමතරව ආණ්ඩුවට දීර්ඝ කාලීන විදේශ ණය වශයෙන් අයවැය පවත්වා ගැනීමට ලැබුණු සහාය ක්‍රියාත්මක වෙමින් පවතින යටිතල පහසුකම් ව්‍යාපෘතිවල වේගය අඩාලවීම හෝ ඒවා නතර කිරීම නිසා හැකිළිණ. දේශීය සහ බාහිර වර්ධනයන් සැලකිල්ලට ගත් විදේශීය ආයෝජකයෝ ආණ්ඩුවේ ණය සුරැකුම්වලින් ඉවත්වීම නිසා රාජ්‍ය වියදම් මූල්‍යනය කෙරේ වඩාත් පීඩණයක් විය.

ශ්‍රී ලංකාවේ බදු ප්‍රතිපත්තියෙන් දිරි ගැන් වූ පීඩණය ඉක්මණින්ම මූල්‍ය සහ විනිමය අනුපාත ප්‍රතිපත්ති ක්ෂේත්‍රවලටද ව්‍යාප්ත විය. ආණ්ඩුවේ දේශීය ණය ගැනීම් ඉහළ යෑම පොලී අනුපාතවලට තෙරපීමක් විය. කෙසේ වුවත් පොලී අනුපාත කෙරේ වූ බලපෑම ආර්ථික ක්‍රියාකාරිත්වයේ පැවති මන්දගාමී ස්වභාවය නිසා බොහෝ දුරට සීමා කෙරිණ. එසේ වුවත් පවුල් ඒකකවල වියදම් කළ හැකි ආදායම්

ප්‍රමාණය වැඩිවීමෙන් පාරිභෝගික ආනයන, විශේෂයෙන් මෝටර් රථ ආනයනය සීඝ්‍ර වැඩිවීමකට හේතුවීමෙන් විදේශ විනිමය පිටතට ගලා යෑමකට හේතු විය. ආණ්ඩුව බදු ප්‍රතිපත්තිය ලිහිල් කරත්ම ශ්‍රී ලංකා මහ බැංකුව කල් නොබලාම 2015 අප්‍රේල් මස ප්‍රතිපත්ති අනුපාත මිනුම් ප්‍රමිතිය (Benchmark policy rate) ඒකක 50ක පදනමකින් කපා හැරීම ආනයන හා බැඳුණු පාරිභෝගික විස්ථාපනයට රුකුළක් විය. සාර්ව ආර්ථික පහත වැටීම පහත වැටෙමින් පැවති ශ්‍රී ලංකාව සතු විදේශ විනිමය සංචිත යොදා ගැනීමෙන් විදේශ විනිමය අනුපාතය පවත්වා ගැනීමට ගත් උත්සාහයෙන් තත්වය වඩාත් සංකීර්ණ විය.

2015 මැද භාගය වන විට ගොඩ නැගෙමින් පැවති ගෙවුම් ශේෂ අර්බුදය මග හැරීමට හැකි වූයේ කෙටි කාලීන මූල්‍යනය වැඩ පිළිවෙළකිනි. ඉන්දීය සංචිත බැංකුව (RBI) 2015 මාර්තු මස ඇමරිකානු ඩොලර් දශ ලක්ෂ 400 ක වසර තුනක මුදල් හුවමාරු කර ගැනීමේ වැඩ සටහනක් ප්‍රදානය කිරීමෙන් ද, 2015 මැයි මස ශ්‍රී ලංකාණ්ඩුව ඇමරිකානු ඩොලර් දශ ලක්ෂ 650ක රාජ්‍ය බැඳුම්කර නිකුත් කිරීමෙන් ද, 2015 ජූලි මස ඉන්දීය සංචිත බැංකුව සමග මාස හයක් සඳහා තවත් ඇමරිකානු ඩොලර් බිලියන 1.1ක මුදල් හුවමාරු වැඩ සටහනක් ඇති කර ගන්නා ලදී.

2015 අගෝස්තු මාසයේ දී ප්‍රමාද වී පැවැත් වූ මහා මැතිවරණයෙන් මධ්‍ය කාලීන දේශපාලන න්‍යාය පත්‍රයක් ඉදිරිපත් කිරීමේ දී ශේෂවී පැවති දේශපාලන බාධා ඉවත් කෙරිණ. 2015 ජනවාරියේ සිට සුළුතර එක්සත් ජාතික පක්ෂ ආණ්ඩුව තුළ දේශපාලන පක්ෂ අතර පැවති පුළුල් එකතුව එජාපයේ බහුතරයක් ඇති ජාතික එකමුතු ආණ්ඩුවක් තුළ විධිමත් විය. ශ්‍රී ලාංකීය ඡන්ද දායකයන් කිසිම පක්ෂයකට පැහැදිලි ජයග්‍රහණයක් අත් කර නොදුන් නමුත් එජාපයේ මැතිවරණ ජයග්‍රහණය තමන්ගේම ආර්ථික න්‍යාය පත්‍රයක් නියම කොට ඉදිරියට යෑමට ප්‍රමාණවත් අනුමැතියක් ලෙස දක්නා ලදී.

ආණ්ඩුවේ ආර්ථික චින්තනය පිළිබඳ පෙරදැක්මක් අගමැතිවරයා 2015 නොවැම්බර් මස පාර්ලිමේන්තුවේ කළ ප්‍රකාශයෙන් ඉඟි කෙරිණ. ඉතාමත් කෙටියෙන් ඉන් අදහස් කරන ලද්දේ විශාල වශයෙන්ම විදෙස් ණය මගින් මූල්‍යනය වන පාරිභෝගිකත්වය පෙරමුණු කර ගත් වර්ධන ආකෘතියක සිට පෞද්ගලික ආයෝජන මුල් කර ගත් අපනයනය කෙරේ යොමු වූ ගමන් මගක පරිණාමීය වෙනසකි. ඉන් කීපයක් සඳහන් කරන්නේ නම් ශ්‍රී ලංකාවේ අසතුටුදායක ආදයම් ඉපිදවීමේ තත්වය වෙනස් කිරීමේ ප්‍රමුඛතාවයක් ලෙස බදු ප්‍රතිපත්තිය ස්ථාවර කිරීම සඳහා පියවර, පාඩු ලබන රාජ්‍ය ව්‍යවසාය සහ පවත්වා ගත නොහැකි විශ්‍රාම වැටුප් ක්‍රමය සංශෝධනය කිරීමට පදනම් වූ පියවරවලින් දැක්වේ.

බෙහෙවින් අපේක්ෂා කළ ප්‍රතිපත්ති ප්‍රකාශයෙන් පසුව ආණ්ඩුවේ පශ්චාත් මැතිවරණ අයවැය ඉදිරිපත් කෙරිණ. කෙසේ වුවත් 2016 අයවැය යෝජනා සංයුක්ත සහ ප්‍රමුඛතාගත කළ මූල්‍යමය ස්ථාවර න්‍යාය පත්‍රයක් සඳහා වූ කිසියම් පියවර ස්ථාපනය කිරීමට අපොහොසත් විය. ඒ වෙනුවට ඉන් ඉදිරිපත් වූයේ සමහර අවස්ථාවල ආණ්ඩුවේ ආර්ථික ප්‍රතිපත්ති ප්‍රකාශනයට නොගැලපෙන ප්‍රතිපත්ති සමූහයක සරල එකතුවකි. අවසානයේ දී එකිනෙකට නොගැලපෙන ප්‍රතිපත්ති එකතුව දිගින් දිගට සිදු වූ සංශෝධනවලින් වරින් වර වෙනස්කම්වලට ලක්වීම වීමෙන් ශ්‍රී ලංකාවේ ශක්තිමත් මූල්‍ය ප්‍රතිපත්තියක් ස්ථාවර කිරීමේ සැලැස්මක් නැති තත්වයට පත්විය.

2016 අයවැය සමග ඉදිරිපත් කරන ලද 2015 සමස්ත බදු ආදායම් හිඟය ද.දේ.නිෂ්පාදනයෙන් සියයට 6ක් සේ කරන ලද ගණනය අනවශ්‍ය ලෙස බලාපොරොත්තු සහගත තත්වයකි. 2016 මුලදීම අවසාන ආදයම් හිඟය ද.දේ. නිෂ්පාදිතයෙන් සියයට 7.4ක් වීමෙන් රටේ බදු ආදායම් තත්වය වඩාත් දුර්වල බව පැහැදිලි විය. එම හිඟය 2014 හා සසඳන විට සියයට 1.7ක ප්‍රමාණයකින් වැඩි වීමකි. බදු ආදායම් හිඟය පුළුල්වීමට වැඩි වශයෙන්ම හේතු වූයේ වර්තන වියදම් සියයට 1.5ක ප්‍රමාණයකින් ඉහළ යෑමයි. ඊට හේතු වූයේ නොමසුරුව වැටුප් වැඩි කිරීම සහ සහනාධාර ගෙවීම් වැඩි කිරීම සහ පොලී පිරිවැය යි. රාජ්‍ය අංශයේ වැටුප්

වැඩි කිරීමෙන් පාරිභෝගිකයන්ට වැඩියෙන් වියදම් කිරීමට හැකි වූ අතර එය වඩාත් වියදම් කිරීමට දිරි ගැන්වීමක් විය.

මෙම පසුබිමේ ශ්‍රී ලංකා මහ බැංකුවේ මූල්‍ය ප්‍රතිපත්ති නියෝග බයාදු ගතියක් පෙන්නුම් කෙරේ. ශ්‍රී ලංකා මහ බැංකුව පියවර ගනු ලැබුවේ 2015 දෙසැම්බර් මස ව්‍යවස්ථාපිත සංචිත අනුපාතය (RR) සියට 1.5 කින් වැඩි කිරීමෙන් මූල්‍ය තත්වය සීමා කිරීමටය. ඒ 2015 වර්ෂයේ දෙවැනි භාගයේ පුද්ගලික අංශයේ ප්‍රබල ණය වර්ධනයක් තිබියදීය. උද්ධමනය ඉහළ යෑමත් සමග ශ්‍රී ලංකා මහ බැංකුව 2016 වර්ෂයේ පෙබරවාරි මස ප්‍රතිපත්ති අනුපාතය (Policy rate) ස්ථාන 50කින් ඉහළ දැම්මේය.

බදු ආදායම් අගාධයෙන් සහ දුර්වල වන සමස්ත සාර්ව ආර්ථික පරිසරයකින් ආර්ථිකය ආපසු ගලවා ගැනීමේ කාර්යභාරය පැවරුණේ වෙනත් පිළිසරණක් නැති විට ණය ලබා දෙන්නාගේ භූමිකාව ඉටු කරන අන්තර්ජාතික මූල්‍ය අරමුදලටය. 2015 සැප්තැම්බර් මස විනිමය අනුපාතය තියුණු ලෙස ගැළපීමට ඉඩ දී ඊළඟ මාසයේ ඇමරිකානු ඩොලර් බිලියන 1.5 ක රාජ්‍ය බැඳුම්කර නිකුත් කළ නමුත් 2016 ජනවාරි වන විට නිල සංචිත ප්‍රමාණය මාස 4ක ආනයනවලට (ඇ.එ.ජ.ඩොලර් බිලියන 6.3) සෑහෙන මට්ටමක් දක්වා පහත වැටිණ. 2016 පෙබරවාරි මස ෆිච් (FITCH) ආයතනය විසින් ද ඉන් පසුව 2016 මාර්තු සහ ජුනි මස පිළිවෙළින් ස්ටැන්ඩර්ඩ් සහ පුවර් සහ මූඩි ආයතන මගින් ශ්‍රී ලංකාවේ ණය ශ්‍රේණිගත කිරීම් පහත දැමීම නිසා නැවත වරක් අන්තර්ජාතික මූල්‍ය වෙළඳපොළට පිවිසීමට ඇති අවස්ථා අඳුරු කරවීය. එම නිසා 2016 පෙබරවාරි මස ආණ්ඩුව ණය ලබා ගැනීමේ වැඩ පිළිවෙළකට අන්තර්ජාතික මූල්‍ය අරමුදල වෙත යෑම සිදුවිය යුතුව තිබුණ තත්වයකි.

අන්තර්ජාතික මූල්‍ය අරමුදලත් සමග ඇති කර ගත් එකඟතාවය වූයේ වසර තුනක කාලයක් සඳහා ඇ.එ. ජ. ඩොලර් බිලියන 1.5ක (ශ්‍රී ලංකාවේ කෝටාවෙන් සියයට 185ක්) විස්තීර්ණ අරමුදල් පහසුකම (EEF) යටතේ ණයක් ලබා ගැනීමයි. විස්තීර්ණ අරමුදල් පහසුකම පදනම්ව ඇත්තේ කරුණු හයක් මතය. i) අයවැය හිඟය පහත දැමීම ii) රාජ්‍ය ආදායම් වැඩි කිරීම iii ) රාජ්‍ය මූල්‍ය කළමනාකරණය දැඩි කිරීම, iv) රාජ්‍ය ව්‍යවසාය ප්‍රතිසංස්කරණය, v) බදු ප්‍රතිපත්තියේ සංශෝධන සහ vi) වෙළඳාමට සහ ආයෝජනයට වැඩි සහායක් දක්වීමයි. කොන්දේසි පවතින්නේ කුඩා අකුරෙනි: බදු ප්‍රතිපත්තිය දැඩි කිරීම, සාමාන්‍ය උද්ධමන අනුපාතයක් සහ නම්‍යශීලී විනිමය අනුපාත ක්‍රමයක් පවත්වා ගැනීමය.

පැහැදිලිවම යෝජිත ගැලපීම්වලින් අදහස් වන්නේ ආර්ථික පෙරමුණේ අන්තර් සම්බන්ධතාවයකින් යුත් ප්‍රශ්න ගණනාවක් විසඳීමයි. ශ්‍රී ලංකා ආර්ථිකය 'ද්විත්ව හිඟයන්' ඇති කරවන මූලික අසමතුලිත තත්වයකින් යුක්තය. අයවැය හිඟයෙන් අදහස් වන්නේ ණය බර ගොඩ ගැසීමය. වර්තන ගිණුමේ හිඟයෙන් පෙන්නුම් කරන්නේ ආර්ථිකය විදෙස් ප්‍රාග්ධන ගලා ඒම මත රඳා පැවතිමය. කේන්ද්‍රීය වශයෙන් අසමතුලිතයෙන් අදහස් වන්නේ: ස) ජාතික වැය ජාතික ආදායම ඉක්මවා යෑම සහ සස) අලෙවි කළ හැකි භාණ්ඩ සහ සේවා නිෂ්පාදනය ප්‍රමාණවත් නොවීමයි. විදේශිකයන් බාහිර වර්තන ගිණුමේ හිඟය මූල්‍යනය කරන තාක් ආර්ථිකයට පැවතිය හැකිය. එහෙත් එවැනි ගලා ඒම 2015 දී සිදු වූ ආකාරයට සීමා වුවහොත් වේදනාකාරී ගැලපීම් සිදු කළ යුතු වනු ඇත.

වර්තන ගිණුමේ හිඟයක් ජාතික වියදම් කපා හැරීමෙන් හෝ ආදායම් වැඩි කිරීමෙන් විසඳිය හැකිය. ආදායම් වැඩි කිරීම කෙටි කාලිනව ප්‍රමාණවත්ව සිදු කළ නොහැකි වන්නේ ද.දේ.නිෂ්පාදිතයේ වර්ධනය සාමාන්‍යයෙන් වියදම් වැඩි කරවන නිසාත්, ඵලදායිතා වැඩි දියුණු කිරීම ඵල දැරීමට කලක් ගතවන නිසාත්ය. විකල්පයක් වශයෙන් ආණ්ඩුවලට අලෙවි කළ හැකි භාණ්ඩ සහ සේවා වැඩියෙන් නිෂ්පාදනය කිරීමට සම්පත් මාරු කළ හැකිය. ඒ සඳහා මුදල් අවප්‍රමාණය විය යුතුය. නාමික අවප්‍රමාණයවීම පමණක් ප්‍රමාණවත් නැත.

දේශීය පිරිවැය වැඩිවීම් පාලනය කිරීමටත්, මුදල් අවප්‍රමාණය තත්‍ය වශයෙන් සිදුවීම තහවුරු කිරීමටත් වියදමද අඩු කළ යුතුය.

ආණ්ඩුවේ වර්තන වියදම් 2015 ද.දේ. නිෂ්පාදිතයෙන් සියයට 15.2 සිට 2016 දී ද.දේ. නිෂ්පාදිතයෙන් සියයට 13.9 දක්වා අඩු කෙරෙනු ඇත. ආදායම් පැත්තෙන් පවා බදු වැඩි කිරීමෙන් ඉල්ලුම සීමා කෙරෙනු ඇත. වැට් සහ ආදායම් බදු ක්‍රම ක්‍රමයෙන් වැඩි කිරීමට නියමිත නිසා එය පවුල්වල වියදම් කළ හැකි ආදායම කෙරේ සහ සමාගම්වල ලාභ කෙරේ බලපෑමක් වනු ඇත. මූල්‍ය ප්‍රතිපත්තිය බදු ආදායම් ප්‍රතිපත්තියට ප්‍රතිතෝලකයක් (Counterweight) වශයෙන් ක්‍රියා කිරීමට ඇත්තේ සීමිත අවකාශයක් පමණි. ඇත්තෙන්ම විනිමය අනුපාතය ආර්ථික පදනම්වලට අනුකූලවන ආකාරයට ගැලපීමට 2016 අගෝස්තු මස ප්‍රතිපත්ති ස්ථාන පදනම් 50 කින් (50 basis points) සීමා කරන ලදී. ආර්ථිකය මධ්‍ය කාලීනව ද.දේ. නිෂ්පාදිතයේ සියයට 5ක සාමාන්‍ය වර්ධනයක් අපේක්ෂා කරන තත්වයක් යටතේ වහාම ලබා දෙන බදු හෝ මූල්‍ය ප්‍රතිපත්ති උත්තේජන සඳහා පවතින්නේ සුළු ඉඩක් හෝ ඉඩක් නැති බව පවතින සමස්ත සාර්ව ආර්ථික රාමුවෙන් පෙන්නුම් කිරීම පුදුමයක් නොවේ.

අන්තර්ජාතික මූල්‍ය අරමුදලෙන් දක්වෙන වැඩ සටහන් වලින් බදු ආදායම් කපා හැරීමෙන් ආර්ථිකය අඩුම වශයෙන් කෙටි කාලීනව එකතැන පල්වන්නේයැයි හෝ හැකිළෙන්නෙ-යැයි සහ ණය බර අනවශ්‍ය ලෙස උග්‍ර කරවන්නේයැයි සාමාන්‍යයෙන් කෙරෙන විවේචනය එල්ල වනු ඇත. යෝජිත සාර්ව ආර්ථික රාමුව යටතේ මූල්‍ය ප්‍රතිපත්තිය හිලවු කිරීමක් නොවන අතර ඉලක්ක කර ගත් පහත් උද්ධමන පරිසරයක් නිරායාසයෙන්ම නාමික ද.දේ. නිෂ්පාදිතයේ වර්ධනය අඩු කරයි. අනෙක් සියල්ල සමානව පැවතීමෙන් ණය ද.දේ. නිෂ්පාදිත අනුපාතය ඉහළ නංවයි.

සැසඳිය හැකි පහළ මධ්‍යම මට්ටමේ ආදායම් ලබන කඩඉම සිටින රටවල් අතරෙන් ශ්‍රී ලංකාව ඉහළ රාජ්‍ය ණය අනුපාතයක් - ද.දේ නිෂ්පාදිතයෙන් සියයට 75 ට අධික- සහ පහත් රාජ්‍ය ආදායම් අනුපාතයක් - ද.දේ. නිෂ්පාදිතයෙන් සියයට 13ක - පවතින අසීරු තත්වයක සිටින රටකි. ඉහළ රාජ්‍ය ණය අනුපාතය තුළ පිරිහීමට පත්වීමේ ලක්ෂණ දෙකක් පවතී. ආණ්ඩුවට තම වියදමෙන් විශාල කොටසක් ණය සේවා ගෙවීම් සඳහා වෙන් කිරීමට සිදු වේ. 2015 දී එය මුළු වැයෙන් 22% ක් යැයි ගණනය කර ඇත. අධික ණය ආර්ථිකයට ද බරක් වීමෙන් හදිසි කම්පනවලට ලක්වීමේ අවදානම වැඩිය. වර්ධනය පහත වැටීමට පටන් ගන්නා ණය කඩඉම හරියටම දැක්වීමේ නිශ්චිත සාක්ෂි නොමැති වුවද එක්තරා අවස්ථාවක වෙළඳපොළ සහ ආයෝජකයන්, ණය ගොඩ ගැසෙනවිට සහ අර්බුදවලට ලක්වීමේ අවදානම වැඩි වෙත්ම කලබලයට පත්වන්නේය යන්න ප්‍රශ්න කරන්නේ කීප දෙනකු පමණි.

ශ්‍රී ලංකාවේ ණය ප්‍රමාණය පසුගිය වසර කීපය තුළ සැලකිය යුතු ප්‍රමාණයකින් වර්ධනය විය. පශ්චාත් යුද ආර්ථික උද්‍යෝගය ණය ඒකරාශීවීම අනාගත ධනයට ඇති හිමිකමක් සේ ගෞරවයෙන් බලන තත්වයක් ද තිබිණ. එවැනි ණය ගැනීමේ ආශාවට හේතු වූයේ ඩොලරය දුර්වල තත්වයක පැවතීම සහ ගෝලීය ද්‍රවශීලතාවයේ සුලබතාවයයි. පශ්චාත් යුද කාලීන ද.දේ.නිෂ්පාදිතයේ නාමික ඉහළ වර්ධන අනුපාතය නිසා ශී ලංකාවේ ණය අනුපාතය කළමනාකරණය කළ හැකි මට්ටමක පවත්වා ගත හැකි විය. ඒ අනුව වඩාත් වැදගත් වන්නේ මුළු ණය ප්‍රමාණය නොව ආර්ථිකයේ ප්‍රමාණයට සාපේක්ෂක ණය ප්‍රමාණයයි. නමුත් ණය ප්‍රමාණයේ සංයුතිය ඊටත් වඩා වැදගත්ය. ශ්‍රී ලංකාව සම්බන්ධයෙන් ආසන්න ගැටළුව පවතින්නේ ණය ප්‍රමාණයේ ව්‍යුහයේ ඇති වූ ශිඝ්‍ර වෙන්ස්වීම්ය: පෙර නොවූ විරූ ආකාරයට අඩු පිරිවැයක් සහිත බාහිර ණය ගැනීම්වල සිට ඉහළ පිරිවැයක් ඇති දේශීය සහ අනුග්‍රාහී නොවන බාහිර ණය ගැනිමය. ඉන් පැහැදිලිවම මුළු ණය ප්‍රමාණයේ පිරිවැය සහ අවදානම යන දෙකෙහි ඉහළ නංවා ඇත.

දේශීය ණය අවශ්‍යතා සපුරා ගැනීමට අරමුදල් තෝරා ගැනීමේ දී ආණ්ඩුවට වඩාත් වැඩි

නම්‍යතාවයක් ලබා ගත හැකිය. එක අන්තයකදී රටකට තම ණය ප්‍රමාණය උද්දමනයට හසු කළ හැකිය. ජාත්‍යන්තර ණය හිමියන් සමග මෙම විකල්ප වඩාත් සීමිතය. මුදල් ඒකකයක වටිනාකම ශීඝ්‍රයෙන් ක්ෂය වන තත්වයකදී ණය ආපසු ගෙවීමේ දුෂ්කරතාවලට තුඩු දිය හැකි මුදල් එකක නොගැළපීමේ අතිරේක අවදානම් ද බාහිර ණය තුළ පවතී. වර්තන ගිණුම් හිඟයක් පවතින සහ විදේශ ප්‍රාග්ධනය හදිසියේ ඉවත් කර ගැනීමේ දී ආරක්ෂාවක් වශයෙන් විදේශ විනිමය සංචිත ගොඩනගා ගැනිමට අපොහොසත් වූ ශ්‍රී ලංකාව වැනි ආර්ථිකයන්හි අවදානම් වඩාත් සංකීර්ණය.

විදෙස් ණය ගැනීම් මත විශ්වාසය රැඳවීමෙන් විනිමය අනුපාතය කළමනාකරණය බලවත් අවශ්‍යතාවයක් වීමෙන් මූල්‍ය ප්‍රතිපත්තිය බලරහිත කරවයි. මිල ගණන් පවත්වා ගැනිමට වඩා ඩොලර්වලින් ලබා ගත් ණය කළමනාකරණය කළ හැකි මට්ටමක පවත්වා ගැනිමට විනිමය අනුපාත නියම කිරීමට මූල්‍ය අධිකාරීන්ට සිදු වනු ඇත. ඇත්තෙන්ම චක්‍රීයතාවයට හිතකර (Pro-cyclical) සහ ආර්ථික සංචලතාවය අඩු කරනු වෙනුවට උත්සන්න කිරීමට තුඩු දෙන බදු සහ මූල්‍ය ප්‍රතිපත්තිවල ප්‍රතිඵලයක් වශයෙන් පාරිභෝගික පිබිදීම් සහ ගෙවුම් ශේෂ අර්බුදවලට ශ්‍රී ලංකාවේ ආර්ථිකය නිතිපතා ලක් විය.

මේ ආකාරයට බදු ප්‍රතිපත්තියේ ගැටළු ඇති වීමට පෙරමුණු කිපයකින්ම පීඩණයක් ගොඩ නැගෙමින් පවතී. බදු ආදායම් හිඟය සහ රාජ්‍ය ණය ඉහළ යෑම සහ මුදල් ඒකකයේ නොගැළපීම වැඩිවීම නිසා බදු සහ මූල්‍ය ප්‍රතිපත්ති ප්‍රතිචාර සීමා කරවයි. ශ්‍රී ලංකාවේ ආර්ථිකය සංචලතාවයෙන් වැඩි උද්ධමනය සහ/හෝ අහිතකර විනිමය අනුපාත ගතිකත්වයට තුඩු දෙන සාර්ව ආර්ථික ප්‍රතිපත්ති නියම කිරීමේ දී බදු ආදායම් ප්‍රමුඛත්වයට පත් කිරීමේ උගුලෙන් මිදීමට නම් බදු මුදල් ස්ථාවර කිරීම සඳහා පියවර ගැනීම අත්‍යවශ්‍යය.

ආර්ථික වර්ධනය ඉහළ මට්ටමක පවතින විට වියදම් කැපීම සහ බදු වැඩි කිරීම ක්‍රියාත්මක කිරීම පහසුය. යහපත් කාලයේ දී අතිරික්ත ඇති කිරීම සහ රාජ්‍ය ආයෝජන මූල්‍යනයට ණය ලබා ගැනීමෙන් අදහස් වන්නේ වඩාත් කාර්යක්ෂම චක්‍රීය නොවන (කැමබඑැර-ජහ-ජකසජ්ක) බදු ආදායම් ප්‍රතිපත්තියකි. පශ්චාත් යුද සමයේ වර්ධනය පිබිදීමේ දී පවා මෙය කිරීමට රජය අපොහොසත් විය. ඊට හාත්පසින්ම වෙනස්ව ආණ්ඩුව බදු අඩු කර බදු පදනම පුළුල් කිරීමට කිසිත් කෙළේ නැත. එහි ප්‍රතිඵලයක් වශයෙන් බදු ආදායම එහි පහළම මට්ටම වූ ද.දේ. නිෂ්පාදිතයෙන් 10%ක් 2014 දී වාර්තා කෙළේය.

ශ්‍රී ලංකාවේ ආර්ථිකයේ වෙනස්කම් ක්‍රියාත්මක කිරීමට හේතු වන්නේ ආර්ථික අර්බුදයක් පමණක්යැයි සිතේ. දැනට පවතින තත්වය මත බදු වැඩි කිරීම, වියදම් කපා හැරීමේ විවේචකයන් පෙන්වන ආකාරය මෙන් නොව මගහැරීම අපහසුය. ඊට වෙනස්ව සිදුවිය හැකි වන්නේ ආණ්ඩුව බදු ආදායමට වඩා වියදම් කිරීමෙන් ණය වැඩි වීමය. එවිට ණය පොලි ගෙවීම සඳහා වඩාත් බදු පැනවීමට සිදු වේ. ඉතාමත් හොඳ අපේක්ෂාව රඳා පවතින්නේ ශ්‍රී ලංකාවේ ආර්ථික වර්ධන තත්ත්වයට වියදම් කපා හැරීමේ බලපෑම ලිහිල් කර ගැනීමට එය පනවන්නේ කෙසේද සහ ඒ සමගම වර්ධනයට උත්තේජනයක් ඇති කිරීමට ගනු ලබන අනෙක් ප්‍රතිපත්ති මොනවාද යන්න මතය.

මන්දගාමී වර්ධනයක් තුළ රාජ්‍ය මූල්‍ය ප්‍රතිව්‍යුහගත කිරීම සඳහා වර්ධනය සහ කොටස් ආදායම් යොදා ගැනීමට බදු සහ වියදම් ප්‍රවේශමෙන් ක්‍රමාංකණය කළ යුතුවේ. ශ්‍රී ලංකාව සංවර්ධනය වන රටවල් බොහොමයක මෙන් විවිධ තලවල සාර්ථකත්වයක් ලබන සහනාධාර, බදු දිරිගැන්වීම් සහ ප්‍රදාන යොදා ගනී. විශේෂිත බදු ප්‍රතිපත්ති පියවර එකතුවක් සාර්ව ආර්ථික ස්ථායිතාවයට පමණක් නොව ක්ෂුද්‍ර මට්ටමේ බදු සහ වියදම් ප්‍රතිපත්ති හරහා සේවා නියුක්තිය, ආයෝජන සහ ඵලදායිතාවය කෙරේ බලපෑම් කරයි. සංශෝධන එකිනෙකින් ශක්තිමත් වන විට සහ ඌනපූරණ ව්‍යුහාත්මක සංශෝධන හා බැඳී පවතින විට බදු ආදායම් ස්ථායිකරණයේ සාර්ථකත්වය වැඩි විය හැකිය. ඇත්තෙන්ම බදු ආදායම් අවකාශයක් ඇති

කිරීමෙන් එනම් සංශෝධනයෙන් අවාසියක් විය හැකියැයි අපේක්ෂා කරන අය සඳහා වන්දි ගෙවීමේ පියවර වශයෙන් කල් ඇතිවම මුදලක් වෙන් කිරීමෙන් බදු ආදායම් ස්ථායිකරණයට මග පෑදෙනු ඇත.

ශ්‍රී ලංකාවේ ආර්ථිකය පරිභෝජන නැඹුරුවෙන් ඉවත් කොට ආයෝජනය කෙරේ යොමු කිරීම සඳහා ඵලදායිතාවය සහ තරගකාරිත්වය නංවාලීම සහ ආර්ථික වර්ධන වේගය ඔසවා තැබීම සඳහා වූ ව්‍යුහාත්මක ප්‍රතිසංස්කරණ සිදු කළ යුතුය. රාජ්‍ය සේවා සැපයීම වැඩි දියුණු කිරීම, ශ්‍රම වෙළඳ පොළ කාර්යක්ෂමතාවය නගා සිටුවීම හා ශ්‍රම බලකායේ කුසලතා අවකාශ පිරවීම සඳහා ශ්‍රී ලංකාවේ නියාමන පද්ධතිය සම්පූර්ණයෙන්ම වෙනස් කිරීමේ දී අවධානය යොමු විය යුතු සංශෝධන මාලාවට ඇතුළත් විය යුතුය.

ඒ අනුව බදු ආදායම් ප්‍රතිපත්තිය ශ්‍රී ලංකාවේ සාර්ව ආර්ථික දැඩිභාවයේ කේන්ද්‍රස්ථානයේම පවතින අතර එය ආර්ථිකය තව දුරටත් අවුලට පත්වීමේ අවදානම සමනය කිරීමේ සහ තිරසාර වර්ධනය සඳහා පසුබිම සැකසීමේ කේන්ද්‍රීය අවධානයයි. ඉතාමත් සරලව බදු ආදායම් ප්‍රයත්න ශ්‍රී ලංකාවේ බදු පදනම පුළුල් කිරීමට සහ විකෘතිවීම් අවම කිරීමට යොමුවිය යුතු අතර වියදම් කිරීමේ ප්‍රතිපත්ති වැය තර්කානුකූල කිරීමට සහ කාර්යක්ෂමතාවය වැඩි දියුණු කිරීමට ඉලක්ක කර ගත යුතුය.

මෙම වසරේ ශ්‍රී ලංකාව: ආර්ථිකයේ තත්ත්වය වාර්තාව අවධානය යොමු කරනුයේ රාජ්‍ය මූල්‍ය කළමනාකරණයේ දුර්වලතාවය නිසා ශ්‍රී ලංකාවේ ආර්ථිකය මුළුල්ලේම පවතින ආයෝජනය සහ ඵලදායිතාවය වළක්වන අන්තර් සම්බන්ධතාවයෙන් යුත් ප්‍රශ්න රැසක් කෙරේය. නිදසුනක් වශයෙන් ක්‍රියාත්මක කිරීමට වඩාත්ම පහසු දේශපාලන වශයෙන් අඩුවෙන්ම මතභේදයට ලක් විය හැකි වන්නේ ආදායම් ලබා ගැනීමේ කඩිනම් පියවරක් ලෙස වෙළඳාම මත බදු පැනවීමයි. ඇත්තෙන්ම ශ්‍රී ලංකාවේ ආනයන බදු ව්‍යුහයන් විකෘති කරනු පමණක් නොව ප්‍රතිපත්ති නොගැළපීම්වලට යොමු වන අර්ධ තීරුබදුවල තියුණු වැඩි වීමක් දක්නට ලැබිණ. ඊට වෙනස්ව ශ්‍රී ලංකාව විදේශීය සෘජු ආයෝජන (ෆෘඅ) ආකර්ෂණය කර ගැනීමට සැලකිය යුතු බදු නිදහස් කිරීම් ලබා දුන් අතර එය රටේ බදු පදනම සහ බදු අනුකූලතාවය දුර්වල කිරීමට හේතු කාරක විය. මෙම අංශ දෙකේම ක්‍රියාකාරිත්වය දුර්වල තත්වයේ පැවතිණ. ද.දේ. නිෂ්පාදිතයේ ප්‍රතිශතයක් ලෙස අපනයනය දිගටම පහත වැටෙමින් 2015 වසරේ දී 14% ක් තරම් පහත මට්ටමකට වැටිණ. 2016 පළමු මාස පහ ඇතුළත අපනයන ආදායම් තවත් 8%කින් පහත වැටිණ. එමෙන්ම පශ්චාත් යුද කාලීන ප්‍රබෝධයක් පැවතිය ද ශ්‍රී ලංකාවට ගලා ආ සෘජු ආයෝජන ද.දේ.නිෂ්පාදනයෙන් 1.5%න් ඔබ්බට ගියේ නැත. සෘජු විදේශ ආයෝජන 2015 දී සියයට 30කින් පහත වැටිණ. එය 2016 වසරේ පළමු මාස පහ ඇතුළත තවත් 50%කින් පහත වැටිණ.

බදු ආදායම් දිරි ගැන්වීම් ආයෝජන සහ ඵලදායිතාවය නගා සිටුවීමේදී වැදගත් ය. 2015 දී 4.6% ක සාපෙක්ෂ වශයෙන් පහත් විරැකියා අනුපාතයක් පැවතියද, - එය 2012 පැවති 4%ක අනුපාතයෙන් කැපී පෙනෙන වැඩි වීමකි - ශ්‍රී ලංකාවේ ශ්‍රම වෙළඳපොළ සැලකිය යුතු උගත් තරුණ විරැකියාවක් මෙන්ම ශ්‍රම බලකායේ ස්ත්‍රී සහභාගීත්වය ඉතා පහත් මට්ටමක පවතින බවත් දක්වේ. ආණ්ඩුවේ ආර්ථික ප්‍රතිපත්ති ප්‍රකාශනයෙන් රැකියා දශ ලක්ෂයක් උත්පාදනය කිරීමේ සහ කම්කරුවන්ගේ ජීවන තත්වය නගා සිටුවීමේ යහපත් බලාපොරොත්තු සඳහන් වුවද නිශ්චිත යොමුවීම් හෝ එය ක්‍රියාත්මක කිරීමේ කඩිනම් බවක් පිළිබඳ මගපෙන්වීමක් නැත. රැකියා දශ ලක්ෂයක් උත්පාදනය කිරීමට නම් ශ්‍රී ලංකාවට ආර්ථිකව ක්‍රියාකාරී නොවන, විශේෂයෙන්ම ස්ත්‍රීන් සහ තරුණයන් මත යැපීමට සිදුවන අතර ඔවුන් ශ්‍රම බලකායට ඇතුළත් කර ගැනීමට සුදුසු දිරි ගැන්වීම් සැකසීමට සිදුවනු ඇත.

ශ්‍රම බලකායේ තරුණ සහභාගිත්වය වැඩි කිරීම ශ්‍රමිකයන්ට නෛසර්ගික වශයෙන්ම වඩාත් ගෝලීයකරණයට ලක් වූ ලෝකය ඉල්ලා සිටින වෙනස්වන කුසලතාවයන් ලබා දෙන අධ්‍යාපනයේ ගුණාත්මකභාවය සහ අදාලත්වය සමග බැඳී පවතී. ශ්‍රී ලංකාව නොමිලයේ පෙළ

පොත් බෙදා දීම, අසරණ ළමයින්ට ශිෂ්‍යත්ව ලබා දීම, නිල ඇඳුම් නොමිලයේ ලබා දීම සහ ප්‍රවාහන පහසුකම් සඳහා සහනාධාර ලබා දීම යනාදිය ඇතුළත් වෙනත් පියවර සමග රාජ්‍ය අංශයෙන් ලබා දෙන පොදු අධ්‍යාපනය සහ තෘතීය අධ්‍යාපනය මත වැඩියෙන්ම රඳා පවතී. කෙසේ වුවත් රාජ්‍ය අංශයෙන් අධ්‍යාපනයට කෙරෙන වියදම් තවත් වැඩි කිරීමට නියමිතව තිබීමත් සමග අධ්‍යාපන අංශයේ ගුණාත්මක භාවය සහ සමානාත්මතාවය පිළිබඳ ගැටලු විසඳීමේ දී විශේෂයෙන්ම තෘතීය අධ්‍යාපන පද්ධතියේ පුද්ගලික අංශයේ සහභාගීත්වය දිරිගැන්විය යුතුය.

සේවා සපයන්නන් වශයෙන් හා පාරිභෝගිකයන් වශයෙන් පෞද්ගලික සහභාගීත්වය දැනටමත් සෞඛ්‍ය අංශයේ විශාල වශයෙන් දැකිය හැකිය. දැනට ද.දේ. නිෂ්පාදිතයෙන් සියයට 3 - 4 අතර වන සෞඛ්‍ය වියදම් සැසඳිය හැකි ගෝලීය සාමාන්‍යයට වඩා අඩුය. මෙය රටේ ජනවිද්‍යාත්මකව සහ ලෙඩ රෝග (Epidemiological transition) පරිණාමීය තත්ත්වයේ වේගය නිසා වැඩි විය හැකිය. සෞඛ්‍ය ආරක්ෂණය සඳහා පවුල් ඒකක තමන් විසින්ම කරන වියදම් ඉහළ යන අතර ඉන් ඔරොත්තුදීම සහ සමානත්වය පිළිබඳ ගැටලු මතු කරයි. ඒ ආකාරයට සෞඛ්‍ය රැකවරණ වියදම් වෙන් කිරීමේ කාර්යක්ෂමතාවය වර්ධනය කිරීම සහ විකල්ප මූල්‍ය මූලාශ්‍ර සොයා ගැනීම රටේ සෞඛ්‍ය තත්වය වැඩි දියුණු කිරීමේ න්‍යාය පත්‍රයේ ඉහළින්ම ඇත.

ශ්‍රී ලංකාවේ ජන විද්‍යාත්මක පරිණාමය ප්‍රමාණවත් සමාජ ආරක්ෂණ පද්ධති සහ සමාජ ආරක්ෂණ ජාල සැපයීම ඇතුළත් බදු ආදායම් ප්‍රතිපත්ති සංශෝධන හා බලවත් බැඳීම් ඇති කරවයි. 2016 අයවැය යෝජනාවලින් දක්වන ලද අරමුදලක් නැති රාජ්‍ය විශ්‍රාම වැටුප් යෝජනා ක්‍රම සංශෝධනය කිරීම දැඩි විරෝධය හමුවේ අතහැර දැමීමට සිදු විය. ශ්‍රී ලංකාව සමාජ ආරක්ෂණ ජාල ගණනාවක් ලබා දේ. දැනට ක්‍රියාත්මක දරිද්‍රතා අඩු කිරීමේ වැට සටහන් - මූලික වශයෙන්ම සමෘද්ධි/ දිවි නැගුම වැඩ සටහන - පිරිවැය කාර්යක්ෂමතාවය සහ සාර්ථකත්වය, ඉලක්ක කිරීමේ දුර්වලතා සහ ක්‍රියාත්මක කිරීමේ දුර්වලතා නිසා සැක සහිතය. ශ්‍රී ලංකාව ජාතික මට්ටමේ දරිද්‍රතාවය පාලනය කිරීමේ දී ප්‍රගතියක් අත් කර ගත් නමුත් තැන් තැන්වල දරිද්‍රතාවය සැලකිය යුතු මට්ටමෙන් පැවතීමෙන් සහ රටතුළ අසමානතාවය ඉහළ යෑමෙන් අදහස් වන්නේ ඉදිරි වසරවල එවැනි අසමානතා පියවීමට අවධානය යොමු කිරීමේ අවශ්‍යතාවයයි.

ජන කණ්ඩායම් අතර - විශේෂයෙන්ම ආර්ථිකයේ නාගරික සහ ග්‍රාමීය අංශ අතර - පවතින අසමානතා අඩු කිරීමට ඉලක්ක කර ගත් වැඩ සටහන්, ශ්‍රී ලංකාවේ නගර සංවර්ධනය වේගවත් කිරීමේ නව ප්‍රයත්න සමග බැඳී සිටීම අවශ්‍යය. ආදායම් ඉහළ යන්ම නාගරික ජීවන ශෛලීන්ට ඇති ඉල්ලුම ඉහළ යෑම සහ නාගරික රාශිකරණය සඳහා ඇති ආර්ථික තර්ක, සැලසුම් කර ඇති මහා පරිමාණයේ සංවර්ධන වැඩ සටහන්වලට ප්‍රබල හේතුවකි. ශ්‍රී ලංකාව දැනටමත් ඇ.එ. ජ. ඩොලර් බිලියන 40ක බස්නාහිර පළාත් මෙගාපොලිස් ව්‍යාපෘතියක් දියත් කර ඇති අතර ඊට අරමුදල් සැපයීමට සැලකිය යුතු මට්ටමක නව මූලාශ්‍ර අවශ්‍ය කරනු ඇත. මෙවැනි යටිතල පහසුකම් මත විශ්වාසය රඳවන ව්‍යාපෘති වර්ධනය කෙරෙහි ආසන්න සහ වඩාත් වැඩි දීර්ඝ කාලීන බලපෑම් ඇති කළ හැකි අතර ඒවායේ මූල්‍යනය අංශය කාර්යක්ෂමව කළමනාකරණය නොකළ හොත් බදු ආදායම් සහ පුළුල් සාර්ව ආර්ථික පීඩණයන් ඇති කළ හැකිය.

මහා පරිමාණයේ නාගරික සංවර්ධන මුලපිරුම් හොඳින් කළමනාකරණය නොකළහොත් ඒවායින් රටේ ස්වාභාවික සම්පත්වලට සහ පරිසරයට ප්‍රබල නිෂේධාත්මක බලපෑම් ඇති විය හැකිය. වැරදි ලෙස සැලසුම් කළ මහා ව්‍යාපෘතිවල අහිතකර පොදු ප්‍රතිඵලයක් වන්නේ වායු දූෂණය සහ නාගරික මුඩුක්කුය. තිරසාර සංවර්ධනය පිළිබඳව නැවතත් ඇති ගෝලීය අවධාරණය නිසා පරිසර කළමනාකරණය ආර්ථික ප්‍රතිපත්තියේ කේන්ද්‍රය වේ. ශ්‍රී ලංකාවේ පරිසර ප්‍රතිපත්තියේ පුමුඛ වන්නේ නියාමන සහ ප්‍රමිතීන් මත පදනම් වූ අණ සහ පාලන විධික්‍රමයි. කෙසේ වුවත් ඒවායේ සීමිත සාර්ථකත්වය, ක්‍රියාත්මක කිරීමේ අධික

වියදම්, අඩු ආර්ථික කාර්යක්ෂමතාවය, නිසා වෙළඳපොළ පදනම් විධික්‍රම (MBIs) ජනප්‍රිය වෙමින් පවතී. අනුකූල නොවීමට දඬුවම් කිරීමේ සිට මුදල් ගෙවීම්වලට මාරුවීම හෝ හිමිකම් අයිතිවාසිකම් පද්ධතියේ ගැලපීම් වැනි ආර්ථික විධික්‍රම, ශ්‍රී ලංකාව වැනි රටවල පරිසරය කළමනාකරණය කිරීමේ බදු ආදායම් වශයෙන් වඩාත් සාර්ථක ක්‍රමයකි.

නිදසුනක් වශයෙන් වාරි ජලය සඳහා ගාස්තු අය කිරීමක් නොමැතිවීම හිඟ භාණ්ඩයක් වූ ජල සැපයීම වැඩියෙන් භාවිතා කිරීමේ එක හේතුවක් ලෙස දිගු කලක සිටම හඳුනා ගෙන ඇත. කෙසේ වුවත් වාරි පහසුකම් සංවර්ධනය සහ නඩත්තුව ආණ්ඩුව මත පැවරෙන භාරදූර බදු ආදායම් බරකි. ඒ ආකාරයටම ආණ්ඩුව පොහොර වැනි නිෂ්පාදකයාට ලබා දෙන වෙනත් සහනාධාර සඳහා ද සැලකිය යුතු මුදලක් වැය කරයි. මෙම වැඩ සටහනේ සාර්ථකත්වයක් නොමැතිකම බොහෝවිට විවේචනයට ලක් වේ. සහන මුදලට ලබා දෙන පොහොර විකිණීම, සහ සෞඛ්‍යයට අදාල වෙනත් ගැටලු වලට හේතුවන පොහොර භාවිතය වැඩිවීම එහි ඇති සමහර පසුබෑම් ය. ආහාර සඳහා ශ්‍රී ලංකාවේ ඉල්ලුම වැඩිවීම සහ ගොවීන්ගේ ආදායම් ප්‍රමාණවත් නොවීම ආහාර සුරක්ෂිතතාවයක් ඇති කිරීමට සහ දරිද්‍රතාවය අඩු කිරීමට ගන්නා උත්සාහයට සහාය වන්නේ නැත. මේ අනුව ශ්‍රී ලංකාව කෘෂිකාර්මික අංශයට මූල්‍යමය වශයෙන් පවතින සම්පත් වඩාත් කාර්යක්ෂමව යෙදවීම සඳහා දැනට ලබා දී ඇති ආර්ථික දිරිගැන්වීම් නැවතත් විමසා බැලිය යුතුය.

ඒ අනුව ශ්‍රී ලංකාවට අවශ්‍ය කරන බදු ආදායම් සංශෝධන යනු පූර්ව කොන්දේසියක් වුවත් සාර්ව ආර්ථික ස්ථායිතාවය අත් කර ගැනීම පමණක් නොවේ. සංශෝධන සාර්ව තත්ත්වයෙන් ඔබ්බට ක්ෂුද්‍ර මට්ටම දක්වා යයි. ස්වයංක්‍රීයව ශක්තිමත් වන්නේ නම් ඒවා වඩාත් සාර්ථකය. එවැනි පුළුල් බදු ආදායම් සංශෝධන න්‍යාය පත්‍රයක් වෙළඳාම, කම්කරු සහ නිෂ්පාදන වෙළඳ පොළ නිදහස් කිරීම වැනි ඌණපූරක සංශෝධන සඳහා මූල්‍යමය සහායක් ලබා දීමෙන් පහසුකරණය වේ. ශ්‍රී ලංකාවට අන්තර්ජාතික මූල්‍ය අරමුදලෙන් ලැබෙන ණය පහසුව, වෙනත් බහු පාර්ශ්වීය සහ ද්වි පාර්ශ්වීය ආයතනවලින් සංශෝධන ප්‍රයත්නයට සහායවීමට ලැබෙන අතිරේක ඇ. ඒ. ජ. ඩොලර් දශ ලක්ෂ 650 කින් උත්ප්‍රේරණය වනු ඇතැයි අපේක්ෂා කෙරේ.

ආණ්ඩුවට ඇති බලවත් බාධකයක් වන්නේ සාර්ථක සංශෝධන මුලපිරුමක් සඳහා දේශපාලන සහ සමාජ එකඟතාවය සහතික කිරීමයි. අන්තර්ජාතික මූල්‍ය අරමුදලේ එකඟතාවය සපිරීමට ප්‍රාරම්භයක් වශයෙන් ගෙනෙන ලද වැට් බදු වැඩි කිරීමට වෙළඳුන්ගෙන් මතු වූ පුළුල් විරෝධයෙන් ආණ්ඩුවට සිදු කිරීමට ඇති අසීරු තෝරා ගැනීම් පිළිබඳ යථාර්ථය දැනිණ. පාරිභෝගිකයෝ ද දැඩි ආර්ථික තත්වයන් යටතේ මිල ඉහළ යෑමෙන් අසහනයට පත් වූහ. ආණ්ඩුව සාර්ථකව සන්නිවේදනය කිරීම ඇතුළත්ව සංශෝධන සඳහා මහජන සහාය ගොඩ නැගීමට ගත් උත්සාහයන් ප්‍රමාණවත් වූයේ නැත.

ආණ්ඩුවේ ප්‍රතිපත්ති කරණම් ගැසීම් ප්‍රයෝජනවත් වූයේ නැත. අයවැය යෝජනාවලින් ඉදිරිපත් කරන ලද බදු යෝජනා බොහොමයක් සංශෝධනය කිරීමට හෝ ක්‍රියාත්මක කිරීමට නොහැකි විය. බදු ආදායම් යෝජනා පැනවීමේ උචිත ව්‍යවස්ථාමය ක්‍රියා පටිපාටි නිසි ලෙස කළමනාකරණය වූයේ නැත. 2016 මැයි මස වැට් බදුවලට හඳුන්වා දුන් සංශෝධන විපක්ෂය විසින් අධිකරණය ඉදිරියේ සාර්ථකව අභියෝග කිරීම නිසා මාස දෙකකට පසුව හදිසියේ ඉවත් කර ගැනිණ. එවැනි ප්‍රතිපත්තිමය වැරදි ජියවරවලින් සහ ව්‍යාකූලතාවයෙන් සංශෝධනවලට විරුද්ධ-වන්නන් ශක්තිමත් කරවන අතර ආණ්ඩුව යටපත් කිරීම පහසු කරවයි.

දෛනික පාරිභෝගික භාණ්ඩවල මිල නියම කිරීම වැනි ආර්ථිකයට කෙරෙන ක්ෂුද්‍ර ආර්ථික මැදිහත්වීම් ද පවතී. සමාගම් ලාභ මත වරකට පමණක් පනවන බද්ද වැනි සමාගම් ලාභ මත පනවන බදු, ප්‍රාග්ධන ඉපැයීම් බද්ද නැවත හඳුන්වාදීමට ඇති හැකියාව සහ ප්‍රතිපත්ති

අතිරණයේ පොදු වාතාවරණයෙන් පුද්ගලික අංශය තමන් මුලා කෙළේ යැයි සිතනු ඇත. බොහෝ දර්ශක අනුව ව්‍යාපාරික විශ්වාසය ද කොටස් වෙළඳපොළ ක්‍රියාකාරිත්වය මෙන් දුර්වලය.

ආර්ථික ගමන් මග පිළිබඳ පවතින අපැහැදිලිතාවය සමහරවිට, ජාතික එකමුතු ආණ්ඩු හවුලක පවතින නුහුරු බව නිසා පටන් ගැන්මේ කාල සීමාවක පුදුමයක් නොවේ. ශ්‍රී ලංකාවේ දේශපාලන බැඳීම්වල පවතින වහා වෙනස්වන ස්වභාවය නිසා එය රටේ ප්‍රධාන දේශපාලන පක්ෂ දෙක වන එජාපය සහ ශ්‍රී.ල.නි.ප. අතර නොගැලපෙන සන්ධානයකි. එමනිසා එය සභාග වැඩ පිළිවෙළට පොදු ප්‍රතිපත්ති සිරවීම්වලට වඩාත් ලක්විය හැකිය.

නමුත් ශ්‍රී ලංකාවට හිරව ඇති ආර්ථික ප්‍රතිපත්ති උත්තෝලන ඉවත් කිරීමට ඇත්තේ කෙටි කාලයකි. අන්තර්ජාතික රාජ්‍ය බැඳුම්කර නිකුතු නිරාකරණය කිරීම 2019 සිට ආරම්භවනු ඇත. ඇත්තෙන්ම 2019 - 2022 කාල පරිච්ඡේදය ඇතුළත ශ්‍රී ලංකාව අන්තර්ජාතික රාජ්‍ය ණය බැඳුම්කර ඇ. ඒ. ජ. ඩොලර් බිලියන 5ක් ආපසු ගෙවිය යුතුය. අන්තර්වාර කාලය ඇතුළත ශ්‍රී ලංකාවට විදේශ ණයට සරිලන ප්‍රමාණයට විදේශ විනිමය ඉපැයීම් නොමැති වුවහොත් අන්තර්ජාතික රාජ්‍ය ණය බැඳුම්කර කාලය දීර්ඝ කර ගැනීමට සිදු වනු ඇත. අවදානම් වාරික වැඩි කිරීම වැළැක්වීමටනම් ආණ්ඩුවට විශාල ණය ඇගයුම් ආයතන තුනේ (Rating Agencies) සහ අන්තර්ජාතික ණය ලබා දෙන ආයතනවල විශ්වාසය පවත්වා ගත යුතුය. ආසන්නයේම පවතින කාර්යභාරය වන්නේ අන්තර්ජාතික මූල්‍ය අරමුදලේ වැඩ පිළිවෙළ යටතේ ආරම්භ වූ බදු ආදායම් ස්ථායීකරණ ක්‍රියාවලිය අනුගමනය කරන බවට විශ්වාසය ඇති කරවීමයි. අන්තර්ජාතික මූල්‍ය අරමුදලේ වැඩ පිළිවෙළ ශ්‍රී ලංකාවේ සියලු ආර්ථික ව්‍යාධිවලට දිව ඔසුවක් නොවන අතර එය විශ්වාසය ප්‍රතිස්ථාපනය කිරීමේ පියවර සහ ප්‍රතිලාභ උත්තේජනය ඇති කිරීමේ උත්තෝලනයක් විය හැකිය. බදු ආදායම් පාලනයේ ලක්ෂණ ප්‍රතිස්ථාපනය කළ පසු ආර්ථික වර්ධන තත්වය කෙරේ එවැනි වියදම් කපා හැරීමකින් කෙරෙන බලපෑම මූල්‍ය ලිහිල් කිරීමකින් ආපසු හැරවිය හැකිය. ශ්‍රී ලංකාව දැනටමත් වර්ධනය ප්‍රවර්ධනය කිරීම සඳහා මධ්‍ය කාලීන උණුසුම්කර සවිස්තරාත්මක ව්‍යුහාත්මක සංශෝධනයක් සකස් කිරීමට ප්‍රමාද වූවා වැඩිය. මෙය ද ආර්ථික ප්‍රතිපත්ති පෙරමුණේ පැහැදිලි මගපෙන්වීම් නියම කිරීමේ ප්‍රමුඛතාවයකි.

එකමුතු ආණ්ඩුව මෙම පාර්ලිමේන්තුවේ නිල කාලය අවසන් වන තෙක් තවත් වසර තුනක් පවතින බවට කළ ප්‍රකාශයත් සමග නැවතත් මැතිවරණයකට යෑමට පෙර සංශෝධනවල ප්‍රතිලාභ අත්විඳීමට කාලයක් පවති. ආර්ථිකය මෙහෙයවීමට ප්‍රබල හස්තයක් පවතින බවත් සියලුම ශ්‍රී ලාංකිකයන් සඳහා වඩාත් හොඳ ආර්ථික අනාගතයක් අත්කර දිය හැකි බවත් පිළිබඳ විශ්වාසයක් ඇති කිරීමේ දී ආණ්ඩුවේ දේශපාලන තීක්ෂණභාවයත් සාමාර්ථායත් පරිවර්තනීය කාල පරිච්ඡේදයේ දී පරීක්ෂණයට ලක් කරනු ඇත.

# 1. கொள்கை நோக்கு

தேர்தல் அரசியலானது பிரதான இடத்தினை வகிக்கின்ற சமூகத்தில் சமூக பொருளாதார பரிணாம வருடமொன்றை நினைவு படுத்தி 2015 ஆம் ஆண்டில் இலங்கையில் பொருளாதாரம் நூற்றுக்கு 4.8 சதவீதமளவில் சராசரி அளவினால் வளர்ச்சியொன்றை அறிக்கையிட்டுள்ளது. முறையே 2015 ஆம் ஆண்டு சனவரி மற்றும் ஆகஸ்ட் மாதங்களில் நடைபெற்ற சனாதிபதி மற்றும் பாராளுமன்றத் தேர்தல்களின் போது தேர்தல் போட்டியில் முன்னணி வகித்தல் மீண்டும் உருவெடுத்துள்ளது. இந்தத் தேர்தல்களின் பின்னர் சனாதிபதி மைத்திரிபால சிரிசேன அவர்களின் தலைமையுடன் கூடிய இலங்கை சுதந்திரக் கட்சியின் ஒரு பகுதியினரும் பிரதம அமைச்சர் ரணில் விக்கிரமசிங்க அவர்களின் தலைமையுடன் கூடிய ஐக்கிய தேசியக் கட்சி என்பன ஒருங்கிணைந்து அரசொன்றை உருவாக்குவதற்காக முண்ணனியொன்றாக சேர்ந்துள்ளன.

2015 ஆம் ஆண்டில் கொள்கை உருவாக்குனர்களின் கவனம் நீண்டகாலமாக செலுத்தப்பட்டது இலங்கையில் நிறுவன நிருவாக கட்டமைப்பை மறுசீரமைப்புச் செய்தல் தொடர்பாகவாகும். கருதத்தகு வெற்றிகள் பல அடையப்பெற்ற போதும், அதன் மூலம் தெளிவாக தெரிகின்ற வெற்றியாக இருப்பது அரசியலமைப்பின் 19 ஆவது திருத்தத்தை நிறைவேற்றிக் கொண்டமையாகும். நிறைவேற்று அதிகாரம் கொண்ட அரசியலமைப்பு முறைமையினை இல்லாதொழித்தல் மற்றும் தேர்தல் முறையினை திருத்துதல் போன்ற விடயங்கள் வருடம் பூராகவும் கலந்துரையாடலுக்கு உட்பட்டு 2016 ஆம் ஆண்டிலும் கலந்துரையாடும் களத்துக்கு வந்துள்ளது. சமூக அரசியல் வளர்ச்சி நிலைமையின் கீழ் முழு மொத்த பொருளாதார சூழலில் விசேடமாக அரச நிதித் துறையானது அழிவுக்கு உட்பட்டு வருகின்ற இருளான அறிகுறிகள் காணப்பட்ட போதும் பொருளாதாரம் தொடர்பாக செலுத்தப்பட்டது குறைவான அவதானமாகும்.

இறுக்கமற்ற ஒழுக்கத்துடன் கூடிய நிதிக் கொள்கையினை அதிகமாக செயற்படுத்திய அரசியல் உடன்பாடான போட்டித்தன்மை, பிரபல்யத்தன்மை போன்ற காரணிகளின் கீழ் வாக்குகளினைப் பெற்றுக் கொள்ளும் நோக்கத்தில் அப்பொழுது மிக மோசமான நிலையில் காணப்பட்ட இலங்கையின் அரச நிதி நிலைமை மிகவும் ஆதாள பாதாளத்திற்கு தள்ளப்பட்டது. பாராளுமன்றத் தேர்தல் அண்மிக்கும் போது சம்பளம் மற்றும் ஓய்வூதியச் சம்பளம் பாரிய அளவில் அதிகரிக்கப்பட்டமையினால் குடும்ப அலகுகளுக்கு ஒருங்கிணைந்த மற்றும் நிவாரணம் செலுத்தல்கள் அதிகரிக்கப்பட்டமைகளையும் காணக் கூடியதாக இருந்தது.

மேலதிக செலவீனங்களுக்கு நிதியீட்டம் செய்யும் முயற்சியில் அரசானது மிக மோசமான ஆரம்ப முன்னெடுப்புக்கு முகங்கொடுக்க வேண்டி ஏற்பட்டது. 2015 ஆம் ஆண்டு சனவரி மாதத்தில் இடைக்கால வரவு செலவுத்திட்டம் தொடர்பாக வெளியிடப்பட்ட வரி அதிகரிப்பு முன்னெடுப்பு பாராளுமன்றத்தினால் நிறைவேற்றப்படவில்லை. அதற்குப் புறம்பாக அரசானது நீண்ட கால வெளிநாட்டு கடன் அடிப்படையில் வரவு செலவுத்திட்டத்தை பேணிச் செல்வதற்கு கிடைத்த ஒத்துழைப்பு மற்றும் நடைமுறைப்படுத்தப்பட்டு வந்த உட்கட்டமைப்பு செயற்திட்டங்களின் வேகம் மந்தமடைதல் அல்லது அவை முழுமையாக நிறுத்தப்பட்டமையின் காரணமாக ஏற்பட்டது. உள்நாட்டு மற்றும் வெளிநாட்டு வளர்ச்சிகளை கவனத்திற் கொண்ட வெளிநாட்டு முதலீட்டாளர்கள் அரசாங்கத்தின் கடன் காப்பிலிருந்து நீங்கியமையினால் அரச செலவீனங்கள்

தொடர்பான நிதியீட்டம் தொடர்பாக அதிகமான அழுத்தம் ஏற்படுத்தியது.

இலங்கையில் வரிக் கொள்கையிலிருந்து ஊக்கம் அடைந்த அழுத்தமானது விரைவாக நிதி மற்றும் செலாவாணிச் சதவீத கொள்கைகளுக்கு பரவல் அடைந்தது. அரசாங்கத்தின் உள்நாட்டு கடன் பெறல் அதிகரித்தமை வரிச் சதவீதத்தில் அசைவினை ஏற்படுத்தியது. எனினும் வரிச் சதவீதம் தொடர்பான அழுத்தமானது பொருளாதார செயற்பாட்டில் காணப்பட்ட மந்தமான தன்மையின் காரணமாக வேகமாக மட்டுப்படுத்தப்பட்டது. எனினும், குடும்ப அலகுகளின் செலவு செய்யக் கூடிய வருமான அளவு அதிகரித்தமையினால் நுகர்வு இறக்குமதி, விசேடமாக மோட்டார் வாகன இறக்குமதியானது துரிதமாக அதிகரிப்பதற்கு காரணமாக அமைந்தமையினால் வெளிநாட்டு செலாவாணி வெளிச் செல்வதற்கு காரணியாக அமைந்தது. அரசானது வரிக் கொள்கையினை இலகுபடுத்தியமையானது இலங்கை மத்திய வங்கியானது காலம் தாழ்த்தாது 2015 ஏப்பரல் மாதமளவில் கொள்கைச் சதவீத அளவீட்டு சதவீதம் (Benchmark policy rate) 50 அலகினை அடிப்படையாகக் கொண்டு பதிவளித்தமை இறக்குமதி மற்றும் அதனுடன் இணைந்த நுகர்வு ஸ்தீரமடைவதற்கு உதவியாக அமைந்தது. முழு மொத்த பொருளாதாரமானது வீழ்ச்சியடைந்து காணப்பட்ட நிலையில் இலங்கையின் வெளிநாட்டு செலாவாணி ஒதுக்கத்தினை பயன்படுத்தி வெளிநாட்டு செலாவாணி சதவீதத்தை பேணிக் கொள்வதற்கு மேற்கொண்ட முய்றசியினால் நிலைமையானது மேலும் சிக்கல் அடைந்ததது.

2015 ஆம் ஆண்டு நடுப்பகுதியாகும் போது அதிகரித்த வந்த கொடுப்பனவு நிலுவை பிரச்சினையினை தவிர்த்துக் கொள்வதற்கு இயலுமை கிடைத்தது குறுங்கால நிதியீட்ட நிகழ்ச்சித்திட்டத்தின் ஊடாகவாவாகும். இந்திய ஒதக்கு வங்கி 2015 மார்ச் மாதம் அமேரிக்க டொளர் 400 மில்லியன்கள் மூன்று வருட நிதிக் கொடுக்கல் வாங்கல் செய்யும் நிகழ்ச்சித்திட்டத்தை நன்கொடையளிப்புச் செய்தமையும், 2015 மே மாதம் இலங்கை அரசாங்கம் அமேரிக்க டொளர் 650 மில்லியன்கள் அளவான அரச திறைசேரி முறிகளை வெளியீடு செய்தமையினாலும், 2015 யூலை மாதம் இந்திய ஒதுக்கு வங்கியுடன் ஆறு மாத கால மேலும் அமேரிக்க டொளர் 1.1 பில்லியன் நிதி கொடுக்கல் வாங்கல் நிகழ்ச்சித்திட்டமொன்றை ஏற்படுத்திக் கொண்டமையினாலும் ஆகும்.

2015 ஆகஸ்ட் மாதத்தில் நடைபெற்ற பொதுத் தேர்தலிலில் நடுத்தர கால அரசியல் நிகழ்ச்சித்திட்டமொன்றைச் சமர்பிக்கும் போது அருகலடைந்து காணப்பட்ட அரசியல் தடைகள் நீக்கப்பட்டன. 2015 சனவரி மாதம் முதல் சிறுபாண்மை ஐக்கிய தேசிய கட்சி ஆட்சியில் ஒழுங்கு முறைப்படுத்தப்பட்டது. இலங்கை வாக்காளர்கள் எந்தவொரு கடசிக்கும் தெளிவான வெற்றியை வழங்காததுடன் அத்தோடு ஐ.தே.க.யின் தேர்தல் வெற்றியானது தமது பொருளாதார நிகழ்ச்சித்திட்டத்திட்டத்தை தீர்மானித்து முன்னெடுத்துச் செல்வதற்கு போதியளவான அங்கிகாரத்தை வழங்கியதாக கருதப்பட்டது.

அரசின் பொருளாதார சிந்தனை பற்றி முன்னோட்டமொன்றை பிரதம அமைச்சர் 2015 நவம்பர் மாதம் பாராளுமன்றத்தில் ஆற்றிய உரையிலிருந்து வெளிப்பட்டது. மிகச் சுருக்கமாக அதன் பொருள் படுவது பரந்த அளவில் வெளிநாட்டு கடன் ஊடாக நிதியீட்டம் செய்யப்படும் நுகர்வோர் தேவைகளை முன்னிலைப்படுத்தி வளர்ச்சி வேலைச் சட்டகமொன்றிலிருந்து தனியார் முதலீட்டை அடிப்படையாகக் கொண்ட ஏற்றுமதி தொடர்பான கவனம் செலுத்தப்பட்ட பயணத்தின் பரிணாம மாற்றமாகும். அவற்றில் சில குறிப்பிடுவதாவது இலங்கையில் திருப்திகரமற்ற வருமானம் உழைக்கும் தன்மையினை மாற்றி முன்னுரிமை விடயமாக வரிக் கொள்கையை நிரந்தரதப்படுத்துவதற்கு நடவடிக்கை, நட்டம் அடையும் அரச தொழில்முயற்சிகள் மற்றும் நடாத்திச் செல்ல முடியாத ஓய்வூதிய முறையினை திருத்துவதற்கு அடிப்படையாகக் கொண்ட முன்னெடுப்புக்களிலிருந்து தெரியவருகின்றன.

வெகுவாக எதிர்பார்த்த கொள்கை பிரகடணத்தின் பின்னர் அரசின் தேர்தலின் பின்னரான வரவு செலவுத்திட்டம் தொடர்பாகவாகும். எனினும், 2016 வரவு செலவுத்திட்ட முன்மொழிவுகள் திரண்ட மற்றும் முன்னுரிமைப்படுத்தப்பட்ட நிதி ரீதியான நிலையான நிகழ்ச்சித்திட்டம் தொடர்பான ஏதேனும்

படிமுறையினை உருவாக்குவதற்கு இயலாது போனது. அதற்குப் பதிலாக சமர்ப்பிக்கப்பட்ட சில சந்தர்ப்பங்களில் அரசாங்கத்தின் பொருளாதார கொள்கைப் பிரகடணத்திற்கு பொருந்தாத பொள்கைகள் பலவற்றின் ஒரு ஒன்று சேர்ப்பாகும். இறுதியாக ஒருவருக்கொருவர் பொருந்தாத கொள்கைகள் தொடர்ச்சியாக மேற்கொள்ளப்பட்ட திருத்தங்களினால் அடிக்கடி மாற்றங்களுக்கு உட்பட்டமையினால் இலங்கையின் வலுவான நிதிக் கொள்கையினை நிரந்தரப்படுத்திக் கொள்ளும் திட்டமொன்று இல்லை என்ற நிலை காணப்பட்டது.

2016 வரவு செலவுத்திட்டத்துடன் சமர்ப்பிக்கப்பட்ட 2015 ஆண்டின் மொத்த வரி வருமான பற்றாக்குறையானது மொ.தே.உற்பத்தியின் நூற்றுக்கு 6 சதவிதமாக கணக்கிடப்பட்ட கணிப்பீடானது தேவையற்ற எதிர்பார்ப்பு வைக்கப்பட்ட நிலைமையாகும். 2016 ஆம் ஆண்டின் ஆரம்பத்தில் இறுதி வருமானப் பற்றாக்குறை மொ.தே.உற்பத்தியின் நூற்றுக்கு 7.4 சதவீதமாக ஆகியமையினால் நாட்டின் வரி வருமான நிலைமையானது மிகவும் மோசமான நிலையினை அடைந்துள்ளமை தெளிவாகின்றது. அந்தப் பற்றாக்குறை 2014 ஆம் ஆண்டுடன் ஒப்பீடு செய்யும் போது நூற்றுக்கு 1.7 சதவீதத்தால் அதிகரிப்பொன்றாகும். வரி வருமான பற்றாக்குறையானது பரவலடைவதற்கு வெகுவாக காரணமாக அமைந்தது நடைமுறை செலவீனம் நூற்றுக்கு 1.5 சதவீதத்தால் உயர்வடைந்தமையாகும். அதற்கான காரணம் சாத்தியமற்ற வகையில் சம்பள அதிகரிப்பு மற்றும் நிவாரணம் வழங்கல் அதிகரித்தமை மற்றும் வட்டிச் செலவீனமும் ஆகும். அரச துறையின் சம்பளம் அதிகரிக்கப்பட்டமையினால் நுகர்வோர்களுக்கு அதிகமாக செலவு செய்வதற்கு இயலுமை கிடைத்ததுடன் அது மிகவும் செலவு செய்வதற்கு ஊக்கப்படுத்துவதற்கு ஊக்கப்படுத்தலாக அமைந்தது.

இந்தப் பின்னணியில் இலங்கை மத்திய வங்கியின் நிதிக் கொள்கைகள் கட்டளையானது அதீத வலுவினை காட்டுகின்றது. இலங்கை மத்திய வங்கி நடவடிக்கை எடுத்தது 2015 திசம்பர் மாதம் நியதிச் சட்ட ஒதுக்கு (SRR) வீதம் நூற்றுக்கு 1.5 சதவீதத்தால் அதிகரிப்பதன் மூலம் நிலைமையினை மட்டுப்படுத்திக் கொள்வதற்காகவாகும். அது 2015 ஆம் ஆண்டில் இரண்டாவது பகுதியில் தனியார் பிரிவின் பிரபல்யமான கடன் முன்னேற்றமொன்று இருக்கும் வேளையிலாகும். பணவீக்கமானது உயர்வடைந்ததைத் தொடர்ந்து இலங்கை மத்திய வங்கியின் 2016 ஆம் ஆண்டு பெப்ரவரி மாதம் கொள்கைகள் சதவீதத்தை (Policy rate) 50 இடங்களினால் உயர்வடையச் செய்வதாகும்.

வரி வருமானமானது ஆபத்தான மற்றும் மிக நலிவானதாக மொத்த பொருளாதார சூழலில் பொருளாதாரத்திலிருந்து மீட்டுக் கொள்ளும் பணியானது வழங்கப்பட்டது வேறு மாற்று வழியொன்று இல்லாத போது கடன் பெற்றுத் தருகின்றவரின் பாத்திரத்தை நிறைவேற்றுகின்ற சர்வதேச நிதியத்திற்காகும். 2015 ஆம் ஆண்டு செப்தெம்பர் மாதம் வெளிநாட்டுச் செலாவாணிச் சதவீதமானது முழுமையாக சீர் செய்வதற்கு வாய்ப்பு வழங்கப்பட்டு அடுத்த மாதத்தில் அமேரிக்க டொளர் 1.5 பில்லியன்கள் அரச திறைசேரி முறிகள் வெளியீடு செய்யப்பட்ட போதும் 2016 சனவரி ஆகும் போது உத்தியோகபூர்வ ஒதுக்கு அளவானது 4 மாத இறக்குமதிக்கு (ஐ.அ.டொ. 6.3 பில்லியன்கள்) பாரிய அளவில் வீழ்ச்சியடைந்தது. 2016 பெப்புருவரி மாதம் பிட்ச் நிறுவனத்தினாலும் அதன் பின்னர் 2016 மார்ச் மற்றும் யூன் மாதம் முறையே ஸ்டேன்டாட் மற்றும் புவர் சஹமுட் நிறுவனத்தினால் இலங்கையில் கடன் தரப்படுத்தலை வீழ்ச்சியுறச் செய்தமையினால் மீண்டும் ஒரு முறை சர்வதேச நிதிச் சந்தையில் நுழைவதற்கான சந்தர்ப்பம் இருளடைந்தது. இதன் காரணமாக 2016 பெப்புருவரி மாதம் அரசு கடன் பெறும் நிகழ்ச்சித்திட்டத்திற்கு சர்வதேச நிதி நிறுவனத்திற்கு செல்ல வேண்டிய நிலை ஏற்பட்டது.

சர்வதேச நிதி நிறுவனத்துடன் இணைந்து ஏற்படுத்திக் கொண்ட உடன்பாடானது மூன்று வருட காலத்திற்கு ஐ.அ.டொ. 1.5 பில்லியன்கள் (இலங்கையின் கோட்டாவிலிருந்து நூற்றுக்கு 185 சதவீதம்) விரிவுபடுத்தப்பட்ட வசதிகளின் கீழ் கடனொன்றைப் (EEF) பெற்றுக் கொள்வதாகும். விஸ்தரிப்பு நிதிய வசதியை அடிப்படையாகக் கொண்டதாக இருப்பது ஆறு விடயங்களின் படியாகும். ை. வரவு செலவுதிட்ட

பற்றாக்குறையினை குறைத்தல், ை. அரச வருமானத்தை அதிகரித்தல், ை. அரச நிதி முகாமையினை வலுப்படுத்தல், ை. அரச தொழில்முயற்சிகளை மறுசீரமைத்தல், எ. வரிக் கொள்கை திருத்தம் மற்றும் எை. வியாபாரத்திற்கு மற்றும் முதலீட்டுக்கு அதிக ஒத்துழைப்பு வழங்குதல் என்பனவாகும். நிபந்தனைகள் காணப்படுவது சிறிய எழுத்துக்களிலாகும்: வரிக் கொள்கையினை இறுக்குதல், சராசரி பணவீக்க சதவீதமொன்று மற்றும் நம்பகத்தகு செலாவாணி மாற்றுவீதமொன்றைப் பேணிச் செல்லல் என்பனவாகும்.

தெளிவாக உத்தேச சீராக்கங்களினால் கருதப்படுவது பொருளாதா ஓட்டத்தில் இடை தொடர்புகளுடன் கூடிய பிரச்சினைகள் பலவற்றை தீர்த்துக் கொள்வதாகும். இலங்கைப் பொருளாதாரம், இரட்டைப் பற்றாக்குறைகள், ஏற்படுத்துகின்ற ஆரம்ப சமநிலையற்ற தன்மை நிலைமை என்பவற்றை உள்ளடக்கும். வரவு செலவுத் திட்ட பற்றாக் குறையிலிருந்து கருதப்படுவதாவது கடன் சுமையினை திரட்டுவதாகும். நடைமுறைக் கணக்கின் பற்றாக்குறைகள் காட்டுவதாவது பொருளாதாரத்தில் வெளிநாட்டு மூலதனம் உட்பாய்ச்சலின் படி தங்கியிருப்பதாகும். கேந்திர முக்கியத்துவ ரீதியாக சமநிலையற்ற தன்மையின் ஊடாக கருதப்படுவது: ஐை தேசிய செலவீனம் தேசிய வருமானத்தை விஞ்சிச் செல்லல் ைஐ விற்பனை செய்யக் கூடிய பொருட்கள் மற்றும் சேவை உற்பத்திகள் போதியளவின்மையாகும். வெளிநாட்டவர்கள் வெளியக நடைமுறைக் கணக்கின் பற்றாக்குறை தொடர்பாக நிதியீட்டம் செய்யும் வரை பொருளாதாரத்திற்கு பேணிச் செல்ல முடியும். எனினும் அவ்வாறான உள்வருகைகள் 2015 ஆம் ஆண்டில் நடைபெற்ற பிரகாரம் மட்டுப்படுத்தப்படுமாயின் கவலைதரும் சீராக்கங்களை மேற்கொள்ள வேண்டி ஏற்படும்.

நடைமுறைக் கணக்கின் பற்றாக் குறையானது தேசிய செலவீனத்தை பதிவளிப்பதன் மூலம் அல்லது வருமானத்தை அதிகரிப்பதன் மூலம் தீர்த்துக் கொள்ள முடியும். வருமானத்தை அதிகரித்துக் கொள்வதற்கு குறுங்காலத்தில் போதியளவில் மேற்கொள்ள முடியாமல் போவது மொ.தே.உற்பத்தியில் வளர்ச்சியானது சராசரியாக செலவீனத்தை அதிகரிக்கின்றமையாலும், வினைத்திறன் மேம்படுத்தல் பயன்களை பெற்றுக் கொள்வதற்கு காலம் எடுப்பதனாலும் ஆகும். மாற்றுவழியாக அரசாங்கங்களுக்கு சந்தைப்படுத்தக் கூடிய பொருட்கள் மற்றும் சேவைகளை அதிக அளவில் உற்பத்தி செய்வதற்கு வளங்களை மாற்றிக் கொள்ள முடியும். அது தொடர்பாக பணத்தின் பெறுமதிக் குறைப்பு செய்தல் வேண்டும். பெயரளவிலான பணப் பெறுமதிக் குறைப்புச் செய்தல் போதுமானதன்று. உள்நாட்டுச் செலவீனம் அதிகரிக்கின்றமையினை கட்டுப்படுத்துவதற்கும், பணப் பெறுமதி குறைப்பானது உண்மையாக ஏற்படுவதை உறுதிப்படுத்திக் கொள்வதற்கும் செலவீனங்களை குறைத்துக் கொள்ளுதல் வேண்டும்.

அரசின் நடைமுறைச் செலவீனம் 2015 இல் மொ.தே. உற்பத்தியின் நூற்றுக்கு 15.2 சதவீதத்திலிருந்து 2016 ஆம் ஆண்டில் மொ.தே. உற்பத்தியின் நூற்றுக்கு 13.9 சதவீதம் வரை குறைக்கப்பட்டுள்ளது. வருமானப் பக்கத்திலும் கூட வரி அதிகரிக்கப்பட்டமையினால் கேள்வி வரையறை செய்யப்பட்டுள்ளது. வெட் மற்றும் வருமான வரி முறை முறையாக அதிகரிப்புச் செய்வதற்கு உத்தேசிக்கப்பட்ட போது அது குடும்பங்களில் செலவு செய்யக் கூடிய வருமானம் தொடர்பாக மற்றும் கம்பனிகளின் இலாபம் தொடர்பாக தாக்கமொன்றாகும். நிதிக் கொள்கை வரி வருமானம் கொள்கைக்கு எதிர்தாக்கமாக (ஊழரவெநசறநபாவ) செயற்படுவதற்கு உள்ளது மட்டுப்படுத்தப்பட்ட அவகாசம் மாத்திரமாகும். உண்மையாக செலாவாணிச் சதவீதம் பொருளாதார அடிப்படைகளுக்கு இணங்கிச் செல்கின்ற விதத்தில் சீர் செய்வதற்கு 2016 ஆகஸ்ட் மாதம் கொள்கைகள் 50 இடங்கள் அடிப்படை டூ50 டியளளைழிவைளரூ புள்ளியில் மட்டுப்படுத்தப்பட்டுள்ளது. பொருளாதாரமானது நடுத்தர கால மொ.தே. உற்பத்தியில் நூற்றுக்கு 5 சதவீத சராசரி வளர்ச்சியொன்று தொடர்பாக எதிர்பார்க்கப்படுகின்ற நிலைமையின் கீழ் உடனடியாக வழங்கப்படுகின்ற வரி மற்றும் நிதி கொள்கைகள் ஊக்கம் தொடர்பாக காணப்படுவது சிறிதளவு இடம் அல்லது இடமில்லை என்பதை தற்பொழுதைய மொத்த பொருளாதார வேலைச் சட்டகத்தின் மூலம் காட்டுவது புதுமையன்று.

சர்வதேச நிதியத்தினால் வழிகாட்டுகின்ற நிகழ்ச்சித்திட்டங்களிலிருந்து வரி வருமானத்தை குறைப்பதன் மூலம் பொருளாதாரத்தை குறைந்த அளவு குறுகிய காலத்தில் ஒரே இடத்தில் தேக்கி வைத்தல் அல்லது மந்தமையச் செய்தல் மற்றும் கடன் சுமையினை தேவையற்ற விதத்தில் தீவிரரமடயச் செய்தல் தொடர்பாக பொதுவாக மேற்கொள்ளப்படுகின்ற விமர்சனங்கள் முன்வைக்கப்படுகின்றன. உத்தேச மொத்த பொருளாதார வேலைச்சட்டகத்தின் கீழ் நிதிக் கொள்கையை ஈடு செய்ய முடியாததுடன் இலக்கு வைக்கப்பட்ட குறைந்த பணவீக்க சூழலொன்றை எதேட்சையாக பெயரளவில் மொ.தே. உற்பத்தியில் வளர்ச்சியை குறைக்கின்றது. ஏனைய சகல விடயங்களும் சமமாக காணப்படுவதுடன் கடன் மொ.தே. உற்பத்திச் சதவீதமானது அதிகரிக்கின்றது.

ஒப்பீடு செய்யக் கூடிய கீழ் நடுத்தர மட்டத்தில் வருமானம் பெறுகின்ற எல்லையில் இருக்கின்ற நாடுகளில் இலங்கை உயர் அரச கடன் சதவீதம் - மொ.தே. உற்பத்தியில் நூற்றுக்கு 75 சதவீதத்திற்கு - மற்றும் கீழ் நிலை அரச வருமான சதவீதம் - மொ.தே. உற்பத்தியில் நூற்றுக்கு 13 சதவீதம் - காணப்படுகின்ற மிக மோசமான நிலையில் இருக்கின்ற நாடொன்றாகும். உயர் அரச கடன் சதவீதத்தில் அருகல் அடையும் பண்புகள் இரண்டு காணப்படுகின்றன. அரசிற்கு தமது செலவில் பாரிய பகுதியானது கடன் சேவைகள் கொடுப்பனவு தொடர்பாக ஒதுக்குவதற்கு ஏற்படுகின்றது. 2015 ஆம் ஆண்டில் அது மொத்தமாக 22 சதவீதமாக கணக்கிடப்பட்டுள்ளது. அதிக கடனானது பொருளாதாரத்திற்கு சுமையாக இருப்பதனால் திடீர் அழுத்தத்திற்கு உள்ளாகும் ஆபத்தும் அதிகமாகும். வளர்ச்சி வீழ்ச்சியடைவதற்கு தொடங்கப்பட்ட கடன் எல்லை பற்றி சரியாக காட்டும் உண்மையான சாட்சிகள் இல்லாததுடன் சில சந்தர்ப்பங்களில் சந்தை மற்றும் முதலீடுகள், கடன் அதிகரிக்கின்ற போது மற்றும் பிரச்சினைகளுக்கு உள்ளாகும் ஆபத்து அதிகமாக குழப்பதற்திற்கு உள்ளாகின்றது ஏன் என்ற கேள்வி கேட்ப்பது ஒரு சிலர் மாத்திரமாகும்.

இலங்கையின் கடன் அளவானது கடந்த வருடங்கள் சிலவற்றில் கருதத்தகு அளவினால் அதிகரித்துள்ளது. யுத்தத்தின் பின்னரான கடன் ஒன்று திரள்கின்றமை எதிர்கால சொத்துக்களுக்கான உரிமை என கௌரவத்துடன் பார்க்கும் நிலைமையும் காணப்பட்டது. அவ்வாறான கடன் பெறும் ஆசைக்கு காரணமாக இருப்பது டொளர் மோசமான நிலையில் காணப்பட்டமையாகும் அத்தோடு பூகோள திரவத்தன்மையில் நலிவான தன்மையாகும். யுத்தத்தின் பின்னரான காலத்தில் மொ.தே. உற்பத்தியின் பெயரளவு உயர் வளர்ச்சி சதவீதமொன்றின் காரணமாக இலங்கையில் கடன் சதவீதமானது முகாமை செய்யக் கூடிய மட்டத்தில் பேணிக் கொள்ள முடிந்துள்ளது. அதன் பிரகாரம் மிகவும் முக்கியமானது யாதெனில் மொத்தக் கடன் அளவு அன்று பொருளாதாரத்தின் அளவிற்கு ஒப்பீட்டு ரீதியாக கடன் அளவாகும். எனினும் கடன் அளவின் உள்ளடக்கமானது அதைவிடவும் பார்க்க முக்கியமாகும். இலங்கை தொடர்பில் அண்மிய பிரச்சினை காணப்படுவது கடன் அளவின் கட்டமைப்பில் ஏற்பட்டுள்ள துரிதமான மாற்றமாகும். முன்னர் இல்லாத விதத்தில் குறைந்த கிரயத்துடன் கூடிய வெளியக கடன் பெறுகைகள் முதல் உயர் கிரயத்துடன் கூடிய உள்நாட்டு மற்றும் அனுசரணையில்லாத வெளியக கடன் பெறுகையாகும். இதில் தெளிவாக மொத்த கடன் அளவில் கிரயம் மற்றும் ஆபத்துத்தன்மை என்பன உயர்வடைந்துள்ளன.

உள்நாட்டுக் கடன் தேவையினை நிறைவு செய்து கொள்வதற்கு நிதியங்களைத் தெரிவு செய்து கொள்ளும் போது அரசாங்கத்திற்கு மிக அதிகமாக நம்பகத்தன்மையினை பெற்றுக் கொள்ள முடியும். ஒரு புறத்தில் நாடொன்றுக்கு தமது கடன் அளவினை பணவீக்கத்திற்கு உட்படுத்த முடியும். சர்வதேச கடன் வழங்குனர்களுடன் இந்த மாற்று வழி மிக மட்டுப்படுத்தப்பட்டதாகும். பண அலகொன்றின் பெறுமதி துரிதமாக அருகல் அடையும் நிலைமையின் போது கடனை மீளச் செலுத்தும் கடினங்களுக்கு துணை போகக் கூடிய பண அலகு பொருத்தமற்ற மேலதிக அவதானம் வெளியக கடனில் காணப்படுகின்றது. நடைமுறைக் கணக்கில் பற்றாக்குறை காணப்படுகின்ற மற்றும் வெளிநாட்டு மூலதனத்தை துரிதமாக நீக்கிக் கொள்ளும் போது பாதுகாப்பொன்றாக வெளிநாட்டு செலாவாணி ஒதுக்கத்தை கட்டியெழுப்புவதற்கு இயலாதுபோன இலங்கை போன்ற

பொருளாதாரங்களில் ஆபத்துத் தன்மை மிக சிக்கல் வாய்ந்ததாகும்.

வெளிநாட்டுக் கடன் பெறுகையின் படி நம்பிக்கையை பேணிக் கொள்வதன் மூலம் செலாவாணிச் சதவீதம் முகாமையானது மிக அத்தியவசியமாக இருப்பதுடன் நிதிக் கொள்கையினை வலுவிழக்கச் செய்யும். விலைகளினைப் பேணிச் செல்வதிலும் பார்க்க டொளர்களினால் பெற்றுக் கொண்ட கடன்களை முகாமை செய்யும் மட்டத்தில் பேணிக் கொள்வதற்கு செலாவாணிச் சதவீதத்தை நிச்சயித்துக் கொள்வதற்கு நிதி அதிகார சபையிற்கு இக்கட்டான நிலை ஏற்படும். உண்மையாக சுழற்சி முறைக்கு விருப்பமான மற்றும் பொருளாதார தளம்பலை குறைப்பதற்குப் பதிலாக அதிகரப்பதற்கு ஏதுவாகின்ற வரி மற்றும் நிதிக் கொள்கைகளின் பெறுபேறொன்றாக நுகர்வோர் உருவாதல் மற்றும் கொடுப்பனவு நிலுவை பிணக்குகளுக்கு இலங்கையின் பொருளாதாரம் உட்படுகின்றது.

இவ்வாறாக வரிக் கொள்கையில் பிரச்சினைகள் ஏற்படுவதற்கு திசைகள் பலவற்றிலிருந்தும் அழுத்தங்கள் அதிகரித்து வருகின்றது. வரி வருமான பற்றாக்குறை மற்றும் அரச கடன் உயர்வடைந்து செல்லல் மற்றும் நிதி அலகின் பொருத்தமின்மை காரணமாக வரி மற்றும் நிதிக் கொள்கை பிரச்சாரம் மட்டுப்படுத்துகின்றது. இலங்கையில் பொருளாதார தளம்பல்கள் அதிகமான பணவீக்கம் மற்றும் அல்லது மிக மோசமான செலாவாணி சதவீத நிலைமைக்கு ஊக்கம் வழங்குகின்ற மொத்த பொருளாதார கொள்கைகளை தீர்மானிக்கும் போது வரி வருமானம் முதல்னிலைக்கு உள்ளாக்கும் பொறியிலிருந்து விடுபட வேண்டுமாயின் வரித் தொகையினை நிலைப்படுத்துவது தொடர்பாக நடவடிக்கை எடுக்க வேண்டியது மிக முக்கியமாகும்.

பொருளாதார வளர்ச்சியானது உயர் மட்டத்தில் காணப்படும் போது செலவீனங்களைக் குறைத்தல் மற்றும் வரியினை அதிகரித்தல் போன்ற செயற்பாடுகளை மேற்கொள்ளல் இலகுவாகும். சிறந்த காலத்தில் மேலதிக தொகையினை உருவாக்குதல் மற்றும் அரச முதலீட்டு நிதியளிப்புக்கு கடன் பெற்றுக் கொள்வதன் மூலம் கருதப்படுவதாவது மிகவும் வினைத்திறனான சுழற்சியற்ற (Counter-cyclical) வரி வருமானக் கொள்கையாகும். யுத்தத்தின் பின்னரான காலகட்டத்தில் வளர்ச்சியை உருவாக்கும் போது கூட இவற்றைச் செய்வதற்கு அரசினால் இயலாது போனது. இதற்கு முழுமையாக மாற்றமான விதத்தில் அரசாங்கமானது வரியினைக் குறைத்து வரிக் கட்டமைப்பை விஸ்தரிப்புச் செய்வதற்கு ஒரு போதும் மேற்கொள்ள வில்லை. அதன் பெறுபேறொன்றாக வரி வருமானம் அதன் கிழ் நிலை மட்டமாக இருப்பது மொ.தே. உற்பத்தியின் 10 சதவீதம் 2014 இல் அறிக்கையிடப்பட்டுள்ளது.

இலங்கையின் பொருளாதாரத்தில் மாற்றங்களை அமுல்படுத்துவதற்கு காரணமாக இருந்தது பொருளாதார நெருக்கடி மாத்திரமாகும் என நினைக்கின்றனர். தற்பொழுது நிலவுகின்ற நிலைமையின் பிரகாரம் வரியினை அதிகரித்தல், செலவீனங்களை குறைத்துவிடும் விமர்சனங்களைக் காட்டுகின்ற விதமாக அல்லாது விட்டுவிடுதல் கடினமாகும். இதற்கு வித்தியாசமாக நிகழக் கூடியதாக இருப்பது அரசாங்கமானது வரி வருமானத்திலும் பார்க்க செலவு செய்வதன் மூலம் கடன் அதிகரிக்கின்றமையாகும். அப்போது கடன் வட்டியைச் செலுத்துவது தொடர்பாக மிகவும் அதிகமாக வரியினை விதிப்பதற்கு ஏற்பட்டது. மிகவும் சிறந்த எதிர்பார்ப்பு தங்கியிருப்பது எவ்வாறு மற்றும் அத்தோடு வளர்ச்சிக்கு ஊக்கமொன்றை ஏற்படுத்திக் கொள்வதற்கு எடுக்கப்படுகின்ற ஏனைய கொள்கைகள் என்ன என்ற கருத்தாகும்.

மந்தமான வளர்ச்சியில் அரச நிதியினை மீள் கட்டமைப்புச் செய்தல் தொடர்பான வளர்ச்சி மற்றும் பங்கிலாபங்களை பயன்படுத்திக் கொள்வதற்கு வரி மற்றும் செலவீன பிரவேசங்களை முறையாக பயன்படுத்த வேண்டியுள்ளது. இலங்கை அபிவிருத்தியடைந்து வரும் நாடுகள் பலவற்றினைப் போன்று பலதரப்பட்ட துறைகளில் வெற்றிகளை அடைகின்றதோடு நிவாரணங்கள், வரி ஊக்கப்படுத்தல் போன்றவற்றை பிரதானமாக ஈடுபடுத்திக் கொள்கின்றன. விசேடமான வரிக் கொள்கை முன்னெடுப்புக்களின் ஒன்று சேர்ப்பானது முழு மொத்த பொருளாதார நிலைத்ததன்மைக்கு மட்டுமன்றி நுண் பாக

மட்டத்தில் வரி மற்றும் செலவீனக் கொள்கைகள் ஊடாக வேலைவாய்ப்பு, முதலீடு மற்றும் வினைத்திறன் போன்ற துறைகள் சார்பாக செல்வாக்குச் செலுத்துகின்றன. திருத்தங்கள் ஒன்றுடன் ஒன்று வலுவடையும் போது மற்றும் குறைவான கட்டமைப்பு ரீதியான திருத்தங்கள் மற்றும் இணைந்து காணப்படுகின்ற போது வரி வருமான நிலைபடுத்தலின் வெற்றியை அதிகரித்துக் கொள்ள முடியும். உண்மையாக வரி வருமான சந்தர்ப்பமொன்றை ஏற்படுத்திக் கொள்வதன் ஊடாக அதாவது திருத்தங்களிலிருந்து தீமையொன்று ஏற்படலாம் என எதிர்பார்க்கின்றவர்கள் தொடர்பாக நட்டயீடு வழங்கும் நடவடிக்கையொன்று என்ற வகையில் முன் கூட்டியே நிதியினை ஒதுக்கிக் கொள்வதன் மூலம் வரி வருமான நிலைத்ததன்மைக்கு வழி பிறந்துள்ளது.

இலங்கையில் பொருளாதாரமானது நுகர்விலிருந்து விலகி முதலீடு தொடர்பாக ஈடுபடுத்துவதற்கு வினைத்திறன் மற்றும் போட்டித்தன்மையினை கட்டியெழுப்புதல் மற்றும் பொருளாதார வளர்ச்சி வேகத்தினை அதிகரித்துக் கொள்வதற்கு கட்டமைப்பு ரீதியான மறுசீரமைப்புக்களை மேற்கொள்ளுதல் வேண்டும். அரச சேவைகளின் வழங்கலினை முன்னேற்றுதல். கலப்பு வியாபாரச் சந்தை வினைத்திறனை கட்டியெழுப்புதல் மற்றும் ஊழியப் படையின் திறன்கள் இடைவெளியினை நிரப்புதல் தொடர்பாக இலங்கையில் ஒழுங்கு முறைப்படுத்தல் கட்டமைப்பினை முழுமையாக மாறுபடுத்தும் போது கவனம் செலுத்தப்பட வேண்டிய திருத்தங்கள் அடங்கிய கோவையொன்று தொடர்பாக பிரவேசித்தல் வேண்டும்.

அதன் பிரகாரம் வரி வருமான கொள்கையானது இலங்கையில் முழு மொத்த பொருளாதார ஸ்திரத்தன்மையின் மத்திய நிலையமாக காணப்படுவதுடன் அது பொருளாதாரத்தை மேலும் சிக்கலுக்குள் மாட்டிவிடும் ஆபத்தினை தணிக்கும் மற்றும் நிலையான அபிவிருத்தி தொடர்பாக பின்னணியை தயார் செய்யும் மிக முக்கியமான அவதானிப்பாகும். மிக எளிமையாக வரி வருமான முயற்சிகள் இலங்கையில் வரி அடிப்படையை விஸ்திரணப்படுத்திக் கொள்வதற்கு மாற்றம் அடைதல்களை குறைத்துக் கொள்வதற்கு அவதானம் செலுத்த வேண்டியதுடன் செலவு செய்யும் கொள்கைகளை தர்க் ரீதியாக அமைத்துக் கொள்வதற்கும் மற்றும் வினைத்திறனை அதிகரித்துக் கொள்வதற்கும் கவனம் செலுத்தப்படுதல் வேண்டும்.

இந்த ஆண்டில் இலங்கையானது: பொருளாதார நிலைமை அறிக்கையானது கவனம் செலுத்தியிருப்பது அரச நிதி முகாமையின் குறைபாடுகளின் காரணமாக இலங்கையில் பொருளாதாரம் முழுவதிலும் காணப்படுகின்ற முதலீடு மற்றும் வினைத்திறனை தடுக்கின்ற இடைத் தொடர்புகளுடன் கூடிய பல பிரச்சினைகள் தொடர்பாகவாகும். உதாரணமாக அமுல்படுத்துவதற்கு மிகவும் இலகுவான அரசியல் ரீதியாக குறைவாக கருத்து வேறுபாடுகளுக்கு உட்படக் கூடியதும் வருமானம் பெற்றுக்கொள்ளும் துரித நடவடிக்கையாக வியாபாரங்கள் மீது வரி விதித்தலுமாகும். உண்மையாக இலங்கையில் இறக்குமதி வரி கட்டமைப்பு மாற்றப்படுத்தப்பட்டுள்ளது மட்டுமன்றி கொள்கைகள் பொருத்தப்பாடின்மை தொடர்பாக அவதானம் செலுத்தப்படுகின்ற இடைக்கால வரி கட்டமைப்பில் துரித அதிகரிப்பொன்றைக் காணக் கூடியதாக உள்ளது. அதற்கு மாற்றமாக இலங்கை வெளிநாட்டு நேரடி முதலீட்டை கவர்ந்திழுத்துக் கொள்வதற்கு கருதத்தகு வரி விடுவிப்புக்களை வழங்கியுள்ளதுடன் அது நாட்டின் வரிக் கட்டமைப்பு மற்றும் வரி நன்மைகளினை நலிவடையச் செய்வதற்கு காரண காரியங்களாக உள்ளன. இந்தப் பிரிவுகள் இரண்டிலும் செயற்பாடானது மோசமான நிலையில் காணப்படுகின்றது. மொ.தே. உற்பத்தியின் சதவீதமொன்றாக இறக்குமதியானது தொடர்ச்சியாக வீழ்ச்சியடைந்து 2015 ஆம் ஆண்டில் 14 சதவீதம் வரை வீழ்ச்சி நிலைக்குச் சென்றுள்ளது. 2016 ஆம் ஆண்டின் முதல் ஐந்து மாதங்கள் உள்ளடங்கலாக ஏற்றுமதி வருமானம் இன்னும் 8 சதவீதமாக வீழ்ச்சியடைந்துள்ளது. அதே போன்று யுத்தத்தின் பின்னரான வளர்ச்சியொன்று காணப்பட்ட போதும் இலங்கைக்கு உள் வருகின்ற நேரடி முதலீடுகள் மொ.தே. உற்பத்தியின் 1.5 சதவீத எல்லையிலிருந்து வெளிச் செல்லவில்லை. நேரடி வெளிநாட்டு முதலீடுகள் 2015 ஆம் ஆண்டில் நூற்றுக்கு 30 சதவீதத்தால் வீழ்ச்சியடைந்துள்ளது.

இது 2016 ஆம் ஆண்டின் முதல் ஆறு மாதகாலத்தின் போது மேலும் 50 சதவீதத்தால் வீழ்ச்சியடைந்துள்ளது.

வரி வருமானத்தை ஊக்கப்படுத்தும் முதலீடுகள் மற்றும் வினைத்திறனை கட்டியெழுப்புதல் மிக முக்கியமாகும். 2015 ஆம் ஆண்டில் 4.6 சதவீதமான ஒப்பீட்டு ரீதியில் குறைந்த அளவில் இருந்த வேலையின்மை சதவிதமொன்று காணப்பட்ட போதும், அது 2012 ஆம் ஆண்டில் காணப்பட்ட 4 சதவீதத்தில் தெளிவான அதிகரிப்பொன்றாகும். இலங்கையில் ஊழியச் சந்தை கருதத்தகு கற்ற இளைஞர் வேலையின்மை மற்றும் ஊழியப் படையில் பெண்கள் பங்களிப்பானது மிக கீழ் நிலையில் காணப்படுகின்றது. அரசாங்கத்தின் பொருளாதார கொள்கை பிரகடணத்தில் பத்து இலட்சம் தொழில் வாய்ப்புக்களை உருவாக்குதல் மற்றும் தொழிலாளர்களின் வாழ்வாதார நிலைமையினை கட்டியெழுப்பும் சிறந்த எதிர்பார்ப்புக்கள் குறிப்பிடப்பட்ட போதும் உரிய முன்னெடுப்புக்கள் அல்லது அவற்றை அமுல்படுத்தும் துரிததன்மை தொடர்பான வழிகாட்டல்கள் இல்லை. பத்து இலட்சம் தொழில் வாய்ப்புக்களை உருவாக்கிக் கொள்ள வேண்டுமாயின் இலங்கைக்கு பொருளாதார ரீதியற்ற, விசேடமாக பெண் மற்றும் இளைஞர்களில் தங்கியிருப்பதற்கு ஏற்படுவதுடன் அவர்கள் ஊழியப் படைக்கு உள்ளவாங்கிக் கொள்வதற்கு பொருத்தமான ஊக்கப்படுத்தல்களை தயார் செய்வதற்கு ஏற்பட்டுள்ளது.

ஊழியப் படையில் இளைஞர் பங்களிப்பை அதிகரித்தல் ஊழியர்களுக்கு உண்மையாக வெகுவாக பூகோள மயப்படுத்தலுக்கு உட்பட்ட உலகம் எதிர்பார்க்கின்ற மாற்றடைந்து வருகின்ற திறன்களை வழங்குகின்ற கல்வியின் பண்புசார் தன்மை மற்றும் தொடர்புத் தன்மையுடன் இணைந்து காணப்படுகின்றது. இலங்கை இலவசமாக அப்பியாசக் கொப்பிகளை பகிர்ந்தளித்தல், ஏழைப் பிள்ளைகளுக்கு புலமைப் பரிசில்களை வழங்குதல், சீருடைகளை இலவசமாக வழங்குதல் மற்றும் போக்குவரத்து வசதிகள் தொடர்பாக நன்கொடைகளை வழங்குதல் போன்ற முன்னெடுப்புக்கள் உள்ளடங்கலாக வேறு முன்னெடுப்புக்களுடன் அரச துறையிலிருந்து வழங்கப்படுகின்ற பொதுக் கல்வி மற்றும் மூன்றாம் நிலைக் கல்வியில் அதிக அளவில் தங்கியுள்ளது. எனினும் அரச துறையினால் கல்விக்காக மேற்கொள்ளப்படுகின்ற செலவீனத்தை மேலும் அதிகரித்துக் கொள்வதற்கு உத்தேசிக்கப்-பட்டுள்ளதோடு கல்வித் துறையில் பண்புசார் தன்மை மற்றும் சமநிலைத்தன்மை பற்றிய பிரச்சினைகளை தீர்க்கும் போது விசேடமாக மூன்றாம் நிலைக் கல்விக் கட்டமைப்பில் தனியார் பிரிவின் பங்களிப்பை ஊக்கப்படுத்தல் வேண்டும்.

சேவை வழங்குனர்கள் என்ற வகையில் மற்றும் நுகர்வோர்கள் என்ற வகையிலும் தனியார் பங்களிப்பானது தற்பொழுது சுகாதாரத் துறையில் பாரிய அளவில் காணக் கூடியதாக உள்ளது. தற்பொழுது மொ.தே. உற்பத்தியில் நூற்றுக்கு 3- 4 க்கு இடைப்பட்டதான சுகாதாரச் செலவீனத்துடன் ஒப்பீடு செய்யக் கூடிய பூகோள சராசரியிலும் பார்க்க குறைவாகும். இது நாட்டின் குடிசன விஞ்ஞான ரீதியாகவும் நோய்களின் வளர்ச்சி (நுினைநஅழைடழபஅையட வசயெளவைழெ) நிலைமைகளின் அதிகரிப்புக் காரணமாக அதிகரிக்க முடியும். சுகாதாரப் பாதுகாப்பு தொடர்பாக குடும்ப அலகுகள் தாங்கள் மேற்கொள்ளும் செலவின் அளவு அதிகரித்துள்ளதுடன் அதற்கு ஈடுகொடுத்தல் மற்றும் சமநிலைத்தன்மை பற்றிய பிரச்சினைகளை ஏற்படுத்துகின்றது. அவ்விதத்தில் சுகாதார பாதுகாப்பு செலவீனங்களை ஒதுக்கீடு செய்யும் வினைத்திறனை அதிகரித்தல் மற்றும் மாற்று நிதி மூலங்களை தேடிக் கொள்வதற்கு நாட்டின் சுகாதார நிலைமையினை அபிவிருத்தி செய்யும் நிகழ்ச்சித்திட்டத்தில் முன்னுரிமையாக உள்ளன.

இலங்கையில் குடிசன விஞ்ஞான ரீதியான வளர்ச்சியானது போதியளவான சமூகப் பாதுகாப்புக் கட்டமைப்புக்கள் மற்றும் சமூக பாதுகாப்பு வலையமைப்புக்களை வழங்குதல் உள்ளடங்கலாக வரி வருமானக் கொள்கைகளின் திருத்தம் மற்றும் அத்தோடு இறுக்கமாக பிணைத்துள்ளது. 2016 வரவு செலவுத்திட்ட முன்மொழிவுகளில் குறிப்பிடப்பட்ட நிதியமொன்று இல்லாத அரச ஓய்வூதியச் சம்பள திட்டத்தினை திருத்தம் செய்தல் கடுமையான எதிர்ப்புக்கு மத்தியில் கைவிட்டு விடுவதற்கு ஏற்பட்டது. இலங்கை சமூக பாதுகாப்பு வலையமைப்புக்களை வழங்குகின்றது. தற்பொழுது அமுல்படுத்த-

ப்படுகின்ற வறுமை நிலையினை குறைப்பதற்கான நிகழ்ச்சித்திட்டங்கள் - முன்னோடியாக விசேடமாக சமுர்த்தி .ஃ. திவி நெகும நிகழ்ச்சித்திட்டம் - கிரய வினைத்திறன் தன்மை மற்றும் வெற்றித்தன்மை, இலக்கு வைக்கும் குறைபாடுகள் மற்றும் அமுல்படுத்தும் குறைபாடுகள் காரணமாக சந்தேகமானதாகும். இலங்கை தேசிய மட்டத்தில் வறுமை நிலையினை கட்டுப்படுத்தும் போது முன்னேற்றமொன்றை அடைந்துள்ள போதும் சிற் சில இடங்களில் வறுமை நிலைமையானது குறிப்பிடத்தக்க அளவில் காணப்படுதல் மற்றும் நாட்டில் சமநிலையற்ற தன்மை உயர்வடை-கின்றமையினால் கருதப்படுவதாவது எதிர் வரும் வருடங்களில் அவ்வாறான சமநிலையற்ற தன்மைகளை தீர்த்துக் கொள்வதற்கு அவதானம் செலுத்தப்பட வேண்டிது தேவையாகும்.

இனக் குழுக்களுக்கிடையில் - விசேடமாக பொருளாதாரத்தில் நகர மற்றும் கிராமிய பிரிவுகளுக்கிடையில் - காணப்படுகின்ற சமநிலையற்ற தன்மையினை குறைத்துக் கொள்வதற்கு இலக்கு வைக்கப்பட்ட நிகழ்ச்சித்திட்டங்கள், இலங்கையில் நகர அபிவிருத்தியை துரிதப்படுத்தும் புதிய முயற்சிகளுடன் இணைந்திருத்தல் மிக முக்கியமாகும். வருமானம் உயர்வடைந்து செல்வதுடன் நகர வாழ்க்கை பாணிக்கு உள்ள கேள்வி உயர்வடைதல் மற்றும் நகர மயமாக்கல் தொடர்பாக உள்ள பொருளாதார விவாதங்கள், திட்டமிடப்பட்டுள்ள பாரிய அளவான அபிவிருத்தி நிகழ்ச்சித்திட்டங்களுக்கு பிரபல்யமான காரணங்களாகும். இலங்கை தற்பொழுது ஐ.அ.டொ. 40 பில்லியன் தொகையில் மேல் மாகாண மெகா பொலீஸ் செயற்திட்டமொன்றை முன்னெடுத்துள்ளதுடன் அதற்கு நிதியளிப்புச் செய்வதற்கு கருதத்தகு மட்டத்தில் புதிய நிதி மூலங்கள் தேவையாக உள்ளது. இவ்வாறான உட்கட்டமைப்பு வசதிகளின் படி நம்பிக்கையை தக்கவைத்துக் கொள்ளக் கூடிய செயற்திட்டங்களின் வளர்ச்சி தொடர்பாக அண்மித்த மற்றும் மிகவும் அதிகமான நீண்ட கால தாக்கத்தை ஏற்படுத்தக் கூடியதுடன் அவற்றினால் நிதிப் பிரிவு விதைதிறனாக முகாமை செய்யப்படாவிட்டால் வரி வருமானம் மற்றும் பரந்த மொத்த பொருளாதார அழுத்தமொன்று ஏற்பட முடியும்.

பாரிய அளவில் நகர அபிவிருத்திக்கான முன்னெடுப்புக்கள் சிறந்த முறையில் முகாமை செய்யப்படாவிட்டால் அதன் ஊடாக நாட்டின் இயற்கை வளங்களுக்கும் மற்றும் சுற்றாடலுக்கும் பாதகமான தாக்கங்கள் ஏற்பட முடியும். பிழையாக திட்டமிடப்பட்ட பாரிய செயற்திட்டங்களில் பாதகமான பொதுவான பெறுபேறாக இருப்பது வாய்வு மாசடைதல் மற்றும் நகர சேரிப் பிரதேசங்களாகும். நிலையான அபிவிருத்தி தொடர்பாக மீண்டும் ஏற்பட்டுள்ள பூகோள அவதானத்தின் காரணமாக சுற்றாடல் முகாமை பொருளாதார கொள்கையில் மிக முக்கியமான இடத்தினை வகிக்கின்றது. இலங்கையின் சுற்றாடல் கொள்கையின் முன்னோடியாக இருப்பது ஒழுங்கு முறைப்படுத்தல் மற்றும் தரங்களின் அடிப்படையில் அமைந்த கட்டளை மற்றும் நிருவாக ஒழுங்கு விதிகளாகும். எனினும் அவற்றின் வரையறையான வெற்றித்தன்மை, அமுல்படுத்துவதற்கான அதிக செலவீனம், குறைந்த பொருளாதார வினைத்திறன்கள் காரணமாக சந்தையினை அடிப்படையாகக் கொண்ட முறைமைகள் (ஆடீஜள) பிரபல்யம் அடைந்து வருகின்றன. நன்மை இல்லாதிருப்பதற்கு தண்டணை வழங்குவதிலிருந்து கொடுப்பனவு செலுத்தல்களுக்கு மாற்றமடைதல் அல்லது உரித்துரிமை கட்டமைப்பின் பொருத்தம் போன்ற பொருளாதார முறைமைகள், இலங்கை போன்ற நாடுகளில் சுற்றாடல் முகாமை செய்வதில் வரி வருமானம் என்ற வகையில் சிறந்த முறையாகும்.

உதாரணமாக நீர்ப்பாசனம் தொடர்பாக கட்டணம் அறவிடப்பாடாது பற்றாக்குறை சிக்கன நீர் வழங்கல் அதிகமாக பயன்படுத்தப்படும் ஒரு காரணியாக நீண்ட காலம் முதல் இனம் காணப்பட்டுள்ளது. எனினும், நீர்ப்பாசன வசதிகள் அபிவிருத்தி மற்றும் பராமரிப்பு அரசின் அடிப்படையில் சாட்டப்படுகின்ற பாரிய அளவான வரி வருமான சுமையாகும். அந்த விதத்தில் அரசானது வளமாக்கி போன்ற உற்பத்திகளுக்கு வழங்குகின்ற வேறு நன்கொடைகள் தொடர்பாகவும் கருதத்தகு தொகையினை செலவு செய்கின்றது. இந்த நிகழ்ச்சித்திட்டங்களில் வெற்றியின்மையால் அனேகமாக விமர்சனத்துக் உள்ளாகின்றன. குறைந்த விலையில் வழங்கப்படுகின்ற உர விற்பனை, மற்றும் சுகாதாரத்துடன் கூடிய ஏனைய பிரச்சினைகளுக்கு

காரணமாக இருக்கின்ற உரப் பாவனை அதிகரித்தல் அதில் உள்ள சில பின்னடைவுகளாகும். உணவு தொடர்பாக இலங்கையில் கேள்வி அதிகரித்தல் மற்றும் விவசாயிகளின் வருமானம் போதியளவாக இன்மை உணவுப் பாதுகாப்பினை ஏற்படுத்திக் கொள்வதற்கும் வறுமை நிலையினை குறைத்துக் கொள்வதற்கும் எடுக்கின்ற முயற்சிக்கு ஒத்துழைப்பு வழங்கப்படுவதில்லை. இதன் படி இலங்கை விவசாயத் துறைக்கு நிதி ரீதியாக காணப்படுகின்ற வளங்கள் மிகவும் வினைத்திறனாக ஈடுபடுத்துவது தொடர்பாக தற்பொழுது வழங்கப்பட்டுள்ள பொருளாதார ஊக்கப்படுத்தல்கள் பற்றி மீண்டும் கவனம் செலுத்தப்படுதல் வேண்டும்.

அதன் பிரகாரம் இலங்கைக்கு தேவையான வரி வருமான திருத்தம் என்பது ஆரம்ப நிபந்தனையாக இருந்த போதும் மொத்த பொருளாதார நிலைத்த நிலைமையினை அடைந்து கொள்ளுதல் மாத்திரமன்று. திருத்தங்கள் மொத்த நிலைமையிலிருந்து வெளியில் நுண் மட்டம் வரை சென்றுள்ளது. சுயமாக வலுவடைய வேண்டுமாயின் அவை சிறந்த வெற்றியாகும், அது போன்ற பரந்த வரி வருமான திருத்த நிகழ்ச்சித்திட்டம் வியாபாரம், தொழிலாளர் மற்றும் உற்பத்தி சந்தையினை விடுவித்தல் போன்ற குறைபாடுகளின் திருத்தம் தொடர்பாக நிதி ரீதியான ஒத்துழைப்பை வழங்குவதுடன் இலகு படுத்தப்பட்டுள்ளது. இலங்கைக்கு சர்வதேச நிதியத்திலிருந்து கிடைக்கின்ற கடன் வசதிகள், வேறு பல பகுதி மற்றும் இரு பக்க நிறுவனங்களினால் திருத்த முயற்சிகளுக்கு ஒத்துழைப்பு வழங்குவதற்கு கிடைக்கின்ற மேலதிக ஐ.அ.டொ. 650 மில்லியன்கள் பற்றாக்குறையாக இருக்கும் என எதிர்பார்க்கப்படுகின்றது.

அரசுக்கு இருக்கின்ற மிக பாரிய தடையாக இருப்பது வெற்றிகரமான திருத்த முன்னெடுப்பு தொடர்பாக அரசியல் மற்றும் சமூக ஒருமைப்பாட்டை உறுதிப்படுத்திக் கொள்வதாகும். சர்வதேச நிதியத்தின் உடன்பாட்டை பூரணப்படுத்திக் கொள்வதற்கு முன்னோடியாக கொண்டுவரப்பட்டுள்ள வட் வரியினை அதிகரிப்பதற்கு வியாபாரிகளிடமிருந்து எழுந்துள்ள எதிர்ப்புக்களினால் அரசு செய்ய முன்னெடுக்கவுள்ள மிக கடினமான தெரிவுகள் தொடர்பான யதார்த்தங்களைக் காணக் கூடியதாக உள்ளது. நுகர்வோர்களும் மிக கடுமையான பொருளாதார நிலைமையின் கீழ் விலைகள் அதிகரிக்கின்றமையினால் அல்லலுக்கு உட்பட்டுள்ளனர். அரசு வெற்றிகரமாக தொடர்பாடல் செய்தல் உள்ளடங்கலாக திருத்தங்கள் தொடர்பாக பொது மக்கள் ஒத்துழைப்பைக் கட்டியெழுப்புவதற்கு மேற்கொள்ளப்பட்ட முயற்சிகள் போதுமானதாக இல்லை.

அரசின் கொள்கை மாற்றங்கள் நன்மை அளிக்கவில்லை. வரவு செலவுத் திட்ட முன்மொழிவுகளிலிருந்து சமர்ப்பிக்கப்பட்ட வரித் திட்டங்கள் பலவற்றை திருத்தம் செய்வதற்கு அல்லது அமுல்படுத்துவதற்கு இயலாது போயின. வரி வருமான திட்டங்களை விதிப்பதற்கான பொருத்தமான சட்ட ரீதியான நடபடிமுறைகள் உரிய முறையில் முகாமை செய்யப்படவில்லை. 2016 மே மாதம் வட் வரி தொடர்பாக அறிமுகம் செய்யப்பட்ட திருத்தங்கள் எதிர்கட்சியால் நீதி மன்றத்தின் முன்னிலையில் வெற்றிகரமாக சவால் விடப்பட்டமையினால் இரண்டு மாதங்களின் பின்னர் திடீரென நீக்கம் செய்யப்பட்டது. இது போன்ற கொள்கை ரீதியான பிழையான முன்னெடுப்புக்களினால் மற்றும் சிக்கல் தன்மையினால் திருத்தங்களுக்கு எதிர்ப்புத் தெரிவிப்பவர்களை வலுப்படுத்துவதுடன் அரசினை வீழ்ச்சியடைச் செய்வதற்கு இவ்வாறான நிகழ்வுகள் இலகு படுத்தின.

நாளாந்த நுகர்வுப் பொருட்களின் விலைகளை தீர்மானித்தல் போன்ற பொருளாதாரத்திற்கு மேற்கொள்ளப்படுகின்ற நுண்பாக பொருளாதார சமரசங்களுகம் காணப்படுகின்றன. கம்பனியின் இலாபத்தின் படி ஒரு முறை மாத்திரம் விதிக்கப்படுகின்ற வரி போன்ற கம்பனியின் வருமானத்தின் மீது விதிக்கப்படுகின்ற வரி, மூலதன உழைப்பு வரி போன்றன மீண்டும் அறிமுகம் செய்வதற்கு உள்ள இயலுமை மற்றும் கொள்கை தீர்மானத்தில் பொதுவான நிலைமையினால் தனியார் துறை தம்மை ஏமாற்ற முடியும் என நினைக்கின்றது. அனேகமான குறிகாட்டிகளின் பிரகாரம் வியாபாரத்தில் நம்பிக்கை பங்குச் சந்தை செயற்பாடும் மோசமாகும்.

பொருளாதார போக்கு தொடர்பாக நிலவுகின்ற தெளிவற்ற தன்மை சில வேளைகளில், தேசிய ஒற்றுமை அரசாங்கத்தின் கூட்டு ஆட்சியில் காணப்படக் கூடிய பழக்கமற்ற தன்மையின் காரணமாக ஆரம்பிக்கப்பட்ட கால எல்லையில் புதுமைப்படக் கூடியதொன்றன்று. இலங்கையின் அரசியல் கடப்பாடுகளில் காணப்படுகின்ற உடனடியாக மாற்றம் அடைகின்ற தன்மையின் காரணமாக அது நாட்டின் அரசியல் கட்சிகள் இரண்டான இ.சு.க மற்றும் ஐ.தே.க. என்பவற்றுக்கடையேயான பொருந்ததா முன்னணியாகும். அதன் காரணமாக அது ஒத்துழைப்பு வேலைத்திட்டத்திற்கு பொதுவான கொள்கை தடைகளுக்கு கூடிய வாய்ப்பு காணப்படுகின்றது.

எனினும் இலங்கையில் தடையாக உள்ள பொருளாதார கொள்கை போக்கினை நீக்கிக் கொள்வதற்கு வேண்டியது குறுங்காலத்திலாகும். சர்வதேச அரச முறிகளை மீட்டுக் கொள்ளல் 2019 ம் ஆண்டு முதல் ஆரம்பிக்கப்படும். உண்மையாக 2019 - 2022 கால எல்லையினுள் இலங்கை சர்வதேச அரச கடன் பிணை ஐ.அ.டொ. 5 பில்லியன்கள் வரை மீளச் செலுத்துதல் வேண்டும். இடைக்காலம் உள்ளடங்கலாக இலங்கைக்கு வெளிநாட்டு கடனுக்கு ஒப்பாக அளவில் வெளிநாட்டு செலாவாணியை உழைத்துக் கொள்ள முடியாது போனால் சர்வதேச அரச கடன் பிணைகளின் காலத்தை நீடித்துக் கொள்வதற்கும் ஏற்படும். இடர் தவணைகளை அதிகரித்துக் கொள்வதனை தவிர்த்துக் கொள்ள வேண்டுமாயின் அரசிற்கு பாரிய கடன் மதிப்பீட்டு நிறுவனங்கள் மூன்று மற்றும் சர்வதேச கடன் வழங்குகின்ற நிறுவனங்களின் நம்பிக்கையை பேணிக் கொள்ளுதல் வேண்டும்.

அண்மையில் நிலவுகின்ற பணியாக இருப்பது சர்வதேச நிதியத்தின் நிகழ்ச்சித்திட்டங்களின் கீழ் ஆரம்பிக்கப்பட்ட வருமானத்தை நிலைநிறுத்திக் கொள்ளும் செய்றபாட்டை மேற்கொள்வதாக நம்பிக்கையை ஏற்படுத்துவதாகும். சர்வதேச நிதியத்தின் நிகழ்ச்சித்திட்டங்கள் இலங்கையில் சகல பொருளாதார சிக்கல்கள் தலை தூக்குவதற்கு முடியாததுடன் அது நம்பிக்கையை உறுதிப்-படுத்திக் கொள்ளும் படிமுறைகள் மற்றும் பெறுபேறுகளை ஊக்கப்படுத்தி உருவாக்கிக் கொள்வதற்கு முடியும். வரி வருமான நிருவாகப் பண்புகளை மீள நிலைநிறுத்திக் கொண்டதன் பின்னர் பொருளாதார வளர்ச்சி நிலைமை தொடர்பாக இது போன்ற செலவீனங்களை குறைத்துக் கொள்வதன் மூலம் மேற்கொள்கின்ற தாக்கங்கள் நிதி ரீதியான இலகுபடுத்தல்கள் மீள திருத்திக் கொள்ள முடியும். இலங்கை தற்பொழுது வளர்சியினை அபிவிருத்தியாக மாற்றிக்கொள்வது தொடர்பாக நடுத்தர கால குறைநிரப்பு தொடர்பாக முழுமையான கட்டமைப்புத் திருத்தமொன்றை தயார் செய்வதற்கு காலதாமம் அதிகமாகும். இது பொருளாதார கொள்கைகள் முன்னிலையில் தெளிவான வழிகாட்டல்களை தீர்க்கமாக அமைத்துக் கொள்ளல் முன்னுரிமை விடயமாகும்.

ஒன்றிணைந்த அரசின் இந்த பாராளுமன்றத்தின் உத்தியோகபூர்வ காலம் நிறைவடைவதற்கு இன்னும் மூன்று வருடங்கள் காணப்படுகின்றது என்ற கூற்றுக்கு ஏற்ப மறுபடியும் தேர்தலொன்றுக்கு செல்வதற்கு முன்னர் திருத்தங்களின் பயன்களை அனுபவித்துக் கொள்வதற்கான காலம் காணப்படுகின்றது. பொருளாதார செயற்பாட்டுக்கு பிரபல்யமான உறுதுணையாக காணப்படுகின்ற சகல இலங்கை மக்கள் தொடர்பாக மிகவும் சிறந்த பொருளாதார எதிர்காலத்தை ஏற்படுத்திக் கொள்ள முடியும் என்றும் அது தொடர்பான நம்பிக்கையை ஏற்படுத்திக் கொள்வதில் அரசாங்கத்தின் அரசியல் சாணக்கியத்தன்மையை வெற்றியாக மாற்றிக் கொள்ளப்பட்ட கால எல்லை ஆய்வுக்கு உட்படுத்தப்பட்டுள்ளது

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# 2. Macroeconomic Performance

## 2.1 Introduction

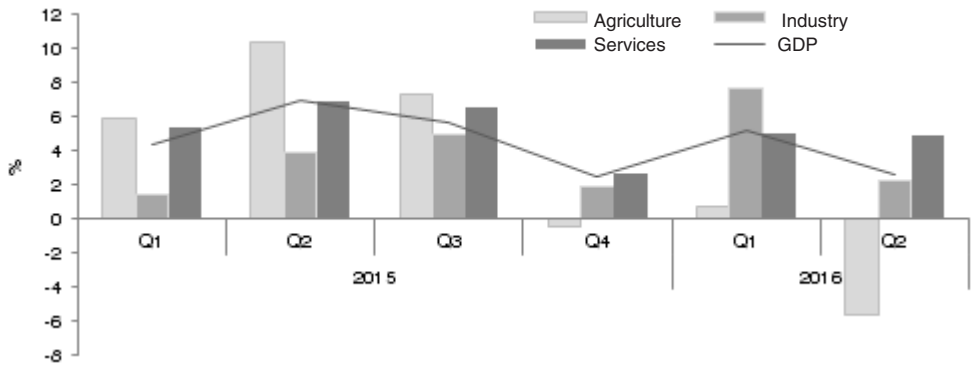
Sri Lanka's macroeconomic environment weakened considerably in 2015, marked by deteriorating public finance indicators and a currency continually under pressure. The fiscal deficit widened to 7.4 per cent of GDP in 2015 from 5.7 per cent in the previous year, while the rupee depreciated by 10 per cent by year end compared to a near stable rate in 2014. A decade of a near continuous decline in the country's debt indicators was reversed in 2015 with the public debt to GDP ratio climbing to 76 per cent from 70.7 per cent in 2014.

In the absence of credible policy initiatives to address the above noted weakening of the country's macroeconomic fundamentals, external rating agencies not surprisingly saw fit to downgrade Sri Lanka's sovereign rating in early 2016. The task of pulling Sri Lanka out of this muddle has clearly fallen to the 'lender of last resort' - the IMF with its technocratic tradition of exerting external discipline on fiscal, monetary and exchange rate policy management.

Of necessity, the focus of the IMFs programme with Sri Lanka is on public finance management; that too, less on controlling expenditure and more on raising revenues. Reforming the tax code and improving tax administration, it is hoped, will lead to lower deficits as soon as growth and tax revenues revive. A period of fiscal austerity - an increased tax burden and curtailments on expenditure increases - in an environment of modest economic growth will call for strong political acumen to deal with any public disaffection on the economic front. Sri Lanka's underlying economic fundamentals suggest that a period of painful adjustment lies ahead in the near term; the onus is on the government to ensure that prudent macroeconomic reforms are implemented early and decisively so that the policy space is created for growth enhancing structural reforms to follow.

**Sri Lanka's underlying economic fundamentals suggest that a period of painful adjustment lies ahead in the near term.**

**Figure 2.1**
**Quarterly GDP Growth**




Source: DCS and CBSL, *Annual Report*, various years.

# 2.2 Growth Dynamics

The revised GDP estimates (2010 base year) compiled by the DCS strongly suggest that Sri Lanka's growth outlook is moderating to around 5.0-5.5 per cent in the near term. The new series displays considerable volatility in growth on a quarterly basis across all three sectors of agriculture, services and industry (Figure 2.1). Frequent revisions to announced quarterly estimates suggest that the new methodology is still in the process of being fine-tuned.[1]

A sector-wise breakdown shows agriculture sector growth to have performed reasonably well in 2015, despite poor performance in key export products such as tea and rubber (Table 2.1). Indeed, with an overall growth of 5.5 per cent, agriculture fared better than overall GDP growth, raising its share of GDP marginally to 7.9 per cent. According to first half 2016 estimates, agriculture sector growth dropped sharply to -2.5 per cent, with slower growth resulting from adverse weather conditions. Aside from tea and rubber production, rice and fishing sectors experienced notable contractions.

By contrast, the industrial sector which accounts for 26 per cent of GDP saw a decline in overall growth from 3.5 per cent in 2014 to 3 per cent in 2015. This was largely on account of a sharp slowdown in growth in construction, textiles and apparel, and mining and quarrying – three of the largest contributors to industrial share of GDP. Only the food, beverages and tobacco sub-sector performed strongly in 2015 (Table 2.2).

[1] For instance, 2015 first quarter estimates released in July 2015 (6 per cent) was subsequently revised in September (4.4 per cent), December (4.9 per cent) and June 2016 (4.4 per cent). 2015 second quarter estimates released in September (6.7 per cent) was revised in December (6 per cent) and June 2016 (7 per cent).

**Table 2.1**
**Agriculture Sector Growth (% of GDP)**

| | Share (%) | Annual Growth (%) | | First Half Growth (%) | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2015 | 2016 |
| Agriculture | 7.9 | 4.9 | 5.5 | 8.1 | -2.5 |
| Rice | 0.9 | -7.0 | 23.3 | 51.0 | -10.5 |
| Vegetables | 0.8 | 2.1 | 24.9 | 31.1 | 5.0 |
| Fruits | 0.6 | 9.4 | 16.5 | 28.1 | -0.4 |
| Oleaginous fruits | 0.8 | 20.1 | 5.1 | 4.6 | 5.3 |
| Tea | 0.8 | -1.1 | -2.6 | 0.0 | -11.9 |
| Spices | 0.7 | 13.1 | 1.3 | -1.8 | -4.3 |
| Rubber | 0.3 | -24.5 | -10.2 | -17.4 | -5.0 |
| Forestry | 0.6 | 10.2 | 1.9 | 11.1 | -4.0 |
| Fishing | 1.4 | 3.7 | -2.7 | 0.0 | -6.5 |

Source: DCS and CBSL, *Annual Report*, various years.

Overall, industrial sector growth at 3 per cent in 2015 remained well below GDP growth. First half 2016 GDP estimates suggest a recovery in the industry sector with a growth rate of 5.2 per cent, with a strong recovery in the construction sector. However, Sri Lanka's apparel sector - as well as the food and beverage sector - continues to perform poorly, registering a growth rate of only 1.6 per cent and 0.8 per cent, respectively.

The largest contributor to growth, the services sector that accounts for 56.6 per cent of GDP did reasonably well to grow steadily at 5.3 per cent in 2015 (Table 2.3). Services sector growth was helped by strong growth in financial services. Other sectors such as wholesale and retail trade and transportation also fared reasonably well. Financial services continued to be the driver of the services sector growth even in the first half of 2016.

**Table 2.2**
**Industry Sector Growth (% of GDP)**

| | Share (%) | Annual Growth (%) | | First Half Growth (%) | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2015 | 2016 |
| Industry | 26.2 | 3.5 | 3.0 | 2.5 | 5.2 |
| Construction | 6.8 | 6.6 | -0.9 | -2.8 | 8.5 |
| Textile, apparel & leather | 3.2 | 4.6 | 5.6 | 1.5 | 1.6 |
| Food, beverages & tobacco | 6.3 | 1.3 | 0.0 | 9.3 | 0.8 |
| Mining & quarrying | 2.3 | 2.2 | -0.7 | -3.9 | 1.5 |

Source: DCS and CBSL, *Annual Report*, various years.

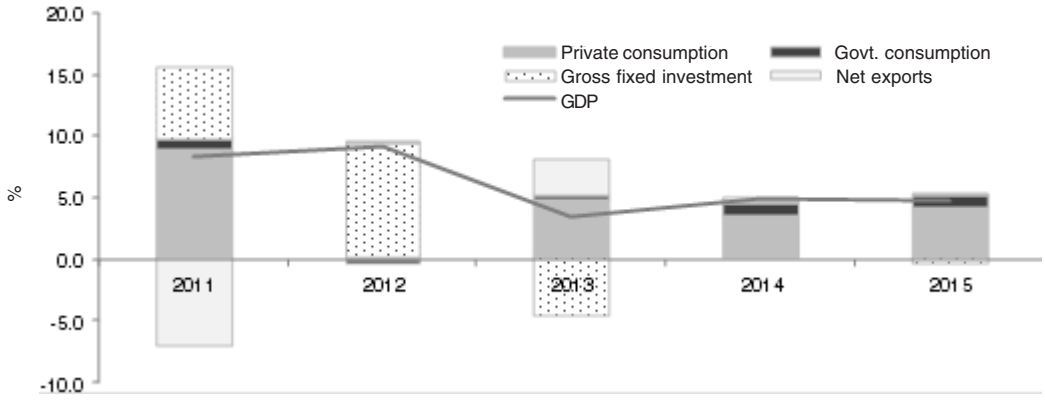
**Table 2.3**
**Services Sector Growth (% of GDP)**

| | Share (%) 2015 | Annual Growth (%) 2014 | 2015 | First Half Growth (%) 2015 | 2016 |
|---|---|---|---|---|---|
| Services | 56.6 | 5.2 | 5.3 | 6.2 | 4.9 |
| Wholesale & retail trade | 10.9 | 4.5 | 4.7 | 1.7 | 4.5 |
| Transportation | 10.8 | 3.6 | 5.5 | 11.4 | 2.1 |
| Food & beverage service activities | 1.5 | 4.0 | -1.3 | 1.9 | 3.7 |
| Financial service activities | 5.7 | 10.3 | 15.8 | 15.6 | 15.1 |
| Real estate activities | 5.6 | 6.5 | 9.6 | 13.3 | 1.8 |
| Professional services | 1.8 | 2.8 | -7.1 | -5.2 | -5.4 |
| Public administration & defence | 5.0 | 5.2 | 6.9 | 7.5 | 5.2 |
| Education | 1.8 | 10.3 | -7.5 | -9.7 | 8.1 |
| Health activities | 1.8 | 1.0 | 5.5 | 9.3 | 5.2 |
| Other personal services | 10.3 | 4.6 | 2.9 | 3.0 | 4.4 |

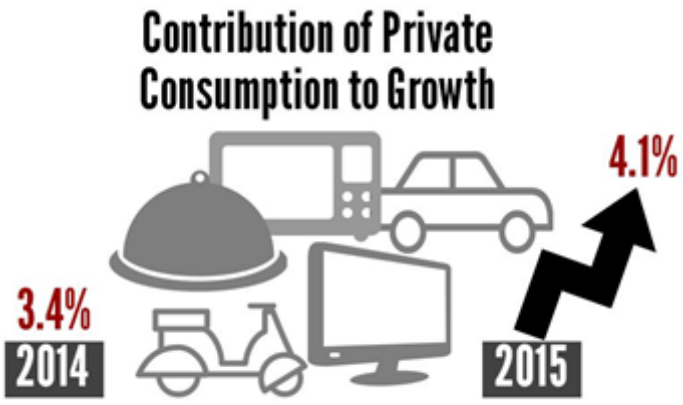
Source: DCS and CBSL, *Annual Report*, various years.

The newly computed national accounts appear to suggest that Sri Lanka's growth has been heavily dependent on private consumption (Figure 2.2). Indeed, the contribution of private consumption to growth increased sharply to 4.1 per cent in 2015 from 3.4 per cent in 2014. This is to be expected in view of generous salary increments granted to public sector employees in 2015 following election pledges that fed into an import expenditure related consumption boom.

**Figure 2.2**
**Growth Decomposition**




Source: DCS and CBSL, *Annual Report*, various years.




**Sri Lanka's growth has been heavily dependent on private consumption.**

**Table 2.4**
**Consumption, Savings and Investment**

| *% of GDP* | 2013 | 2014 | 2015 |
|---|---|---|---|
| Private consumption | 67.6 | 67.7 | 68.6 |
| Domestic savings | 24.6 | 24.0 | 22.6 |
| Total investment | 33.2 | 32.0 | 30.1 |

Source: DCS and CBSL, *Annual Report*, various years.

What is of concern is the decline in the investment share of GDP in 2015 (Table 2.4). Whilst a breakdown of the private and public sector shares for 2015 are not available, fiscal data suggest that public investment increased to 5.4 per cent of GDP in 2015 from 4.7 per cent in 2014; it would appear then that the decline in overall investment is largely on account of weak private investor sentiment. This is clearly not helpful in the context of the government's overall policy objectives of shifting to a private investment and export led growth process. Clearly, private sector investment appetite can be expected to slow down during a major political transition as that of 2015, but other contributory factors were also at play. The most important of these was a general weakening of Sri Lanka's public finance management that spilled over into the broader macroeconomic policy arena. This, coupled with a seeming lack of policy decisiveness no doubt had a dampening effect on investor sentiment despite the rhetoric on a more liberal economic policy approach.

## 2.3 Fiscal Policy Developments

Sri Lanka's key fiscal indicators took a turn for the worse in 2015. Amidst much confusion on the actual fiscal estimates, the numbers suggest a significant weakening with the overall deficit ending at 7.4 per cent of GDP in 2015 from 5.7 per cent in 2014, with the public debt to GDP ratio climbing to 76 per cent from 70.7 per cent in the previous year (Table 2.5).

**Table 2.5**
**Fiscal Indicators**

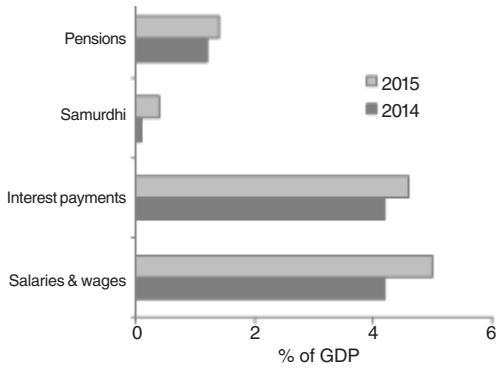
| % of GDP | 2013 | 2014 | 2015 |
|---|---|---|---|
| Total revenue | 13.3 | 11.5 | 13.1 |
| Tax revenue | 11.6 | 10.1 | 12.1 |
| Total expenditure | 19.2 | 17.2 | 20.5 |
| Current | 13.9 | 12.7 | 15.2 |
| Overall balance | -5.9 | -5.7 | -7.4 |
| Public debt | 70.8 | 70.7 | 76.0 |

Source: DCS and CBSL, *Annual Report*, various years.

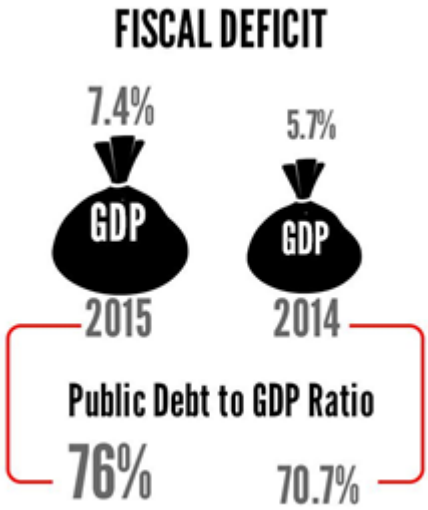
The sharp increase in the overall deficit arose from higher expenditures – a rise of 3.3 per cent of GDP, with current spending alone rising by 2.5 per cent of GDP. The overall deficit would have been much larger if not for higher revenue collections in 2015, particularly an increase in tax revenues of 2 per cent of GDP due largely to "one-off" taxes imposed in 2015 .

Sri Lanka's fiscal woes of 2015 thus lie squarely with political economy imperatives of electoral related populist spending sprees. The interim budget presented in January 2015 delivered on electoral pledges to raise public sector

**Figure 2.3**
**Current Expenditures**




Source: DCS and CBSL, *Annual Report*, various years.




salaries and pension payments. The increase in wages and emoluments – adding Rs. 160 billion in payments – was the most notable contributor to higher government current expenditures in 2015 (Figure 2.3). In addition, transfers to households such as pension and Samurdhi payments also rose noticeably in 2015.

The interim budget introduced 'one-off' revenue proposals to finance the increase in expenditures; the super-gains tax on corporate entities - applied retrospectively on profits earned in 2013/14 - could only be passed in Parliament in the aftermath of Parliamentary elections in August 2015, imposing significant revenue constraints on the government in the interim. Other revenue proposals such as the imposition of a 'mansion' tax on the value of a building quietly faded from being implemented.

As a result of the one-off interim revenue measures, as well as higher revenues from taxes on imports, Sri Lanka's tax-to-GDP ratio reversed in 2015 to 12.1 per cent from a progressive decline to 10.1 per cent of GDP in 2014 (Figure 2.4). Revenues collected from

**Sri Lanka's fiscal woes of 2015 lie squarely with political economy imperatives of electoral related populist spending sprees.**

**Figure 2.4**
**Tax Revenues**

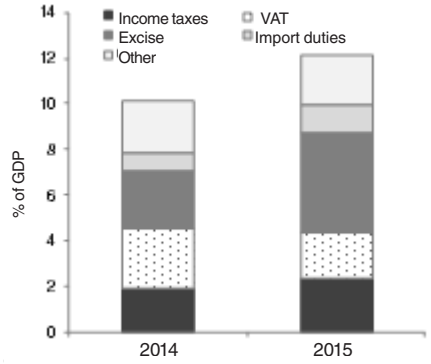
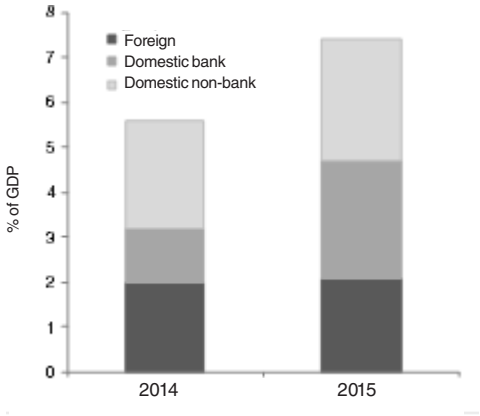



**Figure 2.5**
**Deficit Financing**




Source: DCS and CBSL, *Annual Report*, various years.

income taxes saw an increase primarily as a result of the 'super gains' tax that netted Rs. 50 billion to government coffers. In addition, excise duty collection was also helped by a surge in vehicle imports subsequent to easing of taxes on smaller vehicles, salary increases to the public sector and a low interest rate environment. It is clear, therefore, that the reversal in Sri Lanka's tax-to-GDP ratio in 2015 was a transient occurrence, calling for focused attention on a substantive revenue reform agenda for medium term fiscal consolidation.

With an expenditure overrun of 2.5 per cent of GDP from approved estimates for 2015, and a revenue shortfall 0.5 per cent of GDP, the government resorted to heavy domestic bank borrowing to bridge the deficit financing gap (Figure 2.5). In turn, this raised the government's recurrent expenditures on interest payments as seen in Figure 2.3.

Amidst a weakening fiscal outlook, the government prepared to present its first full budget in November 2015. The Prime Minister's Economic Policy Statement delivered in early November attempted to set out the broad parameters not only on the overall economic

policy direction, but critically on fiscal policy as well. The most significant was the stated policy to minimize regressive taxation - i.e., to shift the ratio of indirect and direct taxes to 60:40 from the prevailing 80:20 ratio - broaden the tax base, eliminate tax holidays and exemptions, etc. However, the Budget for 2016 presented later in the month appeared to go against some of these broad principles; for example, there was to be a further lowering of income tax rates to a single standard rate and raising taxable thresholds, whilst raising direct taxes such as the Nation Building Tax (NBT) and the Value Added Tax (VAT).

The 2016 Budget ran into controversy almost immediately, with both expenditure and revenue proposals subject to appeals and revisions on a continuous basis. In addition, fiscal estimates presented to Parliament underwent substantial revisions; at the time of presenting the 2016 Budget, the forecast overall fiscal deficit for 2015 was put forward as 6 per cent of GDP, whereas the final deficit turned out to be 7.4 per cent of GDP. [2] Thus, lack of clarity and confusion dogged the budgetary process in an unprecedented fashion.

With the government making a formal approach to the IMF for a loan programme in early 2016, reworking and revising the Budget 2016 proposals and estimates was thus of highest priority. Significant changes to revenue proposals were made as a precondition for a credible fiscal consolidation plan to place before the IMF. These included amending the initial proposal on a 3-tier VAT - at zero per cent, 8 per cent and 12.5 per cent, including reductions to taxable gross revenue thresholds - to a single rate of 15 per cent from the existing 11 per cent, dropping plans to raise the NBT to 4 per cent from the existing rate of 2 per cent, etc. Additionally, the VAT was also extended to the retail and wholesale sector.[3]

Thus, the overall impression of public finance management has been overwhelmingly one of policy confusion and uncertainty. Weak public finance management also spilled over into the conduct of monetary policy, setting in motion an emerging BOP crisis on the external front.

**The overall impression of public finance management has been overwhelmingly one of policy confusion and uncertainty.**

[2] The MF's Staff Report for the 2016 Article IV Consultation issued in June 2016 places the overall fiscal balance for 2015 at -6.9 per cent of GDP.

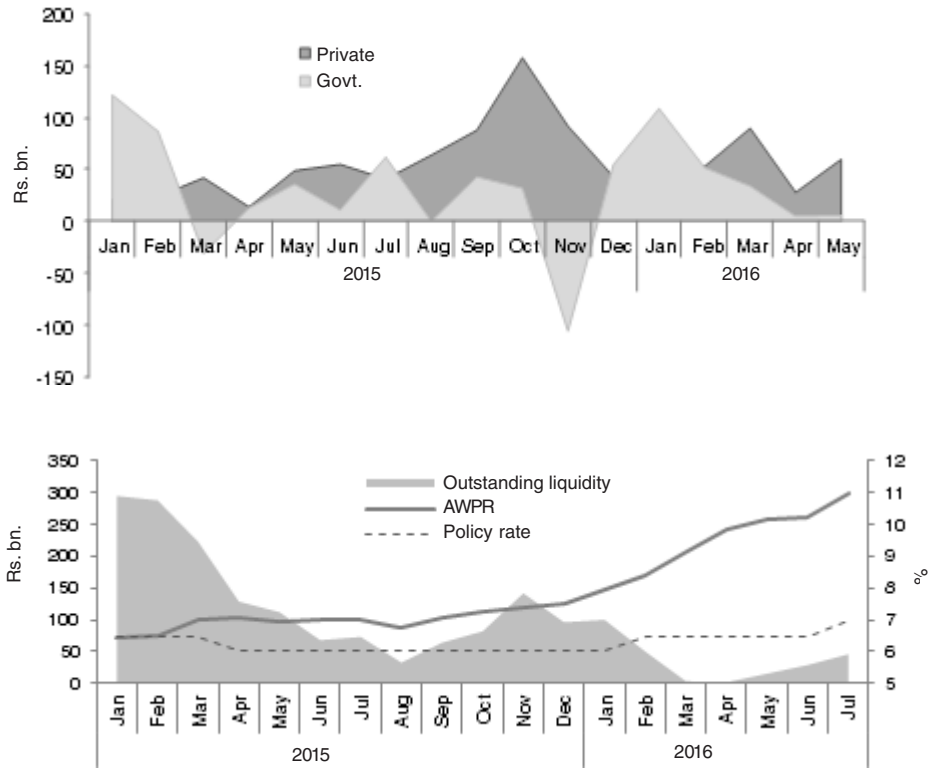
[3] The VAT increase that came into effect in May 2016 was challenged once again in the courts on grounds of non-compliance with approval procedures (i.e., obtaining the required Parliamentary approval) and was temporarily suspended in July 2016.

# 2.4 Monetary and Exchange Rate Policy Developments

With delays in passing certain revenue Bills, heavy dependence on domestic borrowing to meet government expenditures in 2015 saw domestic credit to the government spiking sharply in the first quarter of 2015, and continuing to expand until mid-year (Figure 2.6). As a result, interest rates began to nudge upwards as total outstanding market liquidity was squeezed sharply. The CBSL responded by lowering policy rates - the Standing Deposit Facility (SLF) previously known as the Repurchase (Repo) and the Standing Lending Facility (SLF) previously known as the Reverse Repurchase - by 50 basis points in April 2015.

The attempt to ease monetary policy was ill advised in the face of growing depreciating pressure on the exchange rate. Indeed, the signs were of rising credit uptake by the private sector to finance consumer import goods, especially on motor vehicles. As previously noted, lower import duties on motor vehicles and generous salary increments to a sizeable public sector cadre was bound to fuel a surge in consumer spending. The Sri Lankan

**Figure 2.6**
**Credit Growth, Market Liquidity and Interest Rates**

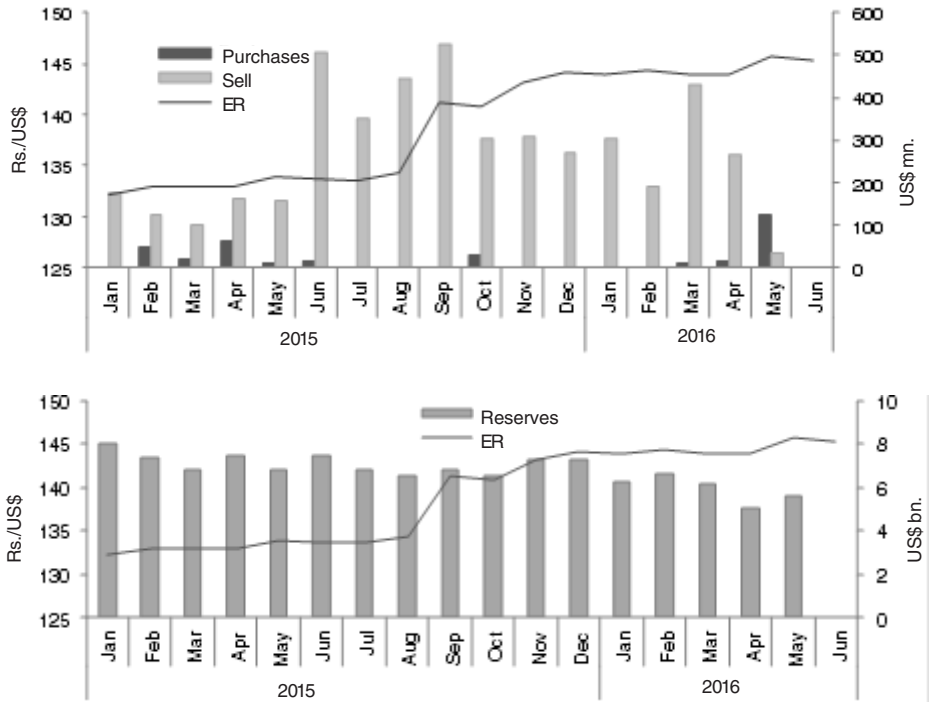



Source: CBSL, "Monthly Economic Indicators", various issues.

economy had last experienced a similar consumption driven bubble in 2011-12 that led to a sharp devaluation of the currency in February 2012.

Instead of tightening monetary policy, the CBSL began to intervene heavily to prop up the rupee in the midst of a slowdown in government foreign loan inflows as well as outflows of foreign funds from the Treasury bills and bonds market. In March 2015, the CBSL negotiated a 3-year US$ 400 million currency swap arrangement with the Reserve Bank of India (RBI). From April 2015, the CBSL began to inject dollars into the market, accelerating such injections after the issuance of a US$ 650 million Sovereign bond in May 2015 (Figure 2.7). In July 2015, a further 6-month US$ 1.1 billion swap facility was arranged with the RBI.[4] However, as Sri Lanka's official reserves dipped to 4 months of imports (US$ 6.5 billion) in August 2015, it was clear that the exchange rate was on an untenable path. The currency was finally allowed to 'float' in September 2015; it saw an immediate devaluation of over 5 per cent before continuing to depreciate further. Despite the market volatility, Sri Lanka successfully raised US$ 1.5 billion through a second 10-year Sovereign bond issue in October 2015, priced reasonably with a coupon of 6.85 per cent, albeit higher than the previous 10-year bond coupon of 5.875 per cent issued in July 2012.

**Figure 2.7**
**Forex Market Intervention and Exchange Rate Movement**




Source: CBSL, "Monthly Economic Indicators", various issues.

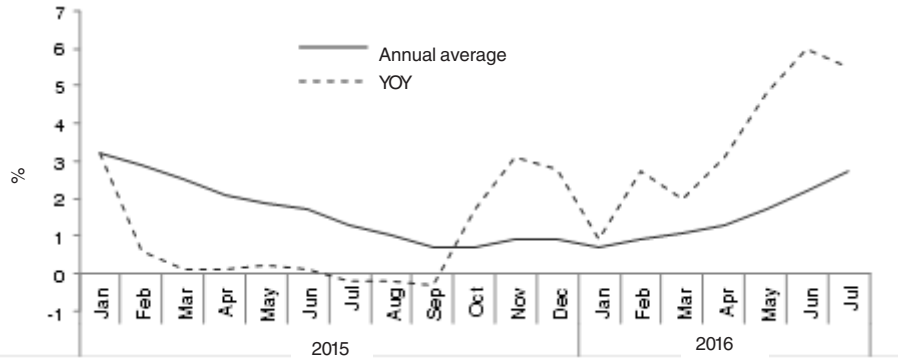
4. This is in addition to the RBI's existing Framework on Currency Swap Arrangement for SAARC countries.

The build-up of rupee liquidity in the market saw a sharp rise in credit growth to the private sector in the latter half of 2015 (see Figure 2.6). Despite signs that inflation was beginning to edge up in the third quarter of 2015 as evident from Figure 2.8, the CBSL continued to hold policy rates steady, opting instead to raise the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks by 1.50 percentage points to 7.50 per cent only in December 2015 (effective 1 January 2016). Whilst this move helped to absorb excess liquidity in the market, it also has a downside. The SRR works through quantity rather than price and can be effective if there is no significant variation in levels of liquidity between institutions - i.e., forcing credit rationing in those institutions operating at the margins.

In February 2016, the CBSL raised policy rates by 50 basis points as the year-on-year inflation rate started to climb sharply (see Figure 2.6). At the same time, the exchange rate continued to be under pressure with official reserves dropping once again to 4 months of imports in March 2016. In the same month, the CBSL negotiated a 3-month US$ 700 million swap arrangement with the RBI, ahead of finalizing an Extended Fund Facility (EFF) loan with the IMF.

Sri Lanka had no realistic alternative to an IMF deal for both budgetary and balance of payments (BOP) support. In February 2016, Fitch Ratings was the first to downgrade Sri Lanka's sovereign rating from BB- to B+ with a negative outlook on Issuer Default Ratings (IDRs); this was followed by a sovereign downgrade from stable to negative issued by Standard & Poor's (S&P) in March 2016. Both rating agencies cited worsening external and fiscal indicators and challenges in effectively addressing the imbalances owing to a 'fragmented political landscape'. Moody's, the last of the big three global rating agencies followed suit in June 2016, downgrading Sri Lanka's rating from stable to negative, despite the signing of a US$ 1.5 billion 3-year EFF earlier in the month.

**Figure 2.8**
**Inflation Rates**




Source: CBSL, "Monthly Economic Indicators", various issues.

**Table 2.6**
**Fiscal Adjustments under the IMF (% of GDP)**

| | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| Total revenue | 13.0 | 12.9 | 14.0 | 15.2 |
| Tax revenue | 12.1 | 11.8 | 12.9 | 14.1 |
| Total expenditure | 19.9 | 18.4 | 18.8 | 19.3 |
| Current | 15.2 | 13.9 | 13.9 | 13.9 |
| Overall balance | -6.9 | -5.4 | -4.7 | -4.0 |
| Domestic financing | 4.3 | 2.3 | 3.0 | 1.3 |
| Public debt | 76.0 | 77.2 | 75.5 | 73.1 |
| Foreign currency | 35.0 | 36.2 | 35.7 | 35.8 |

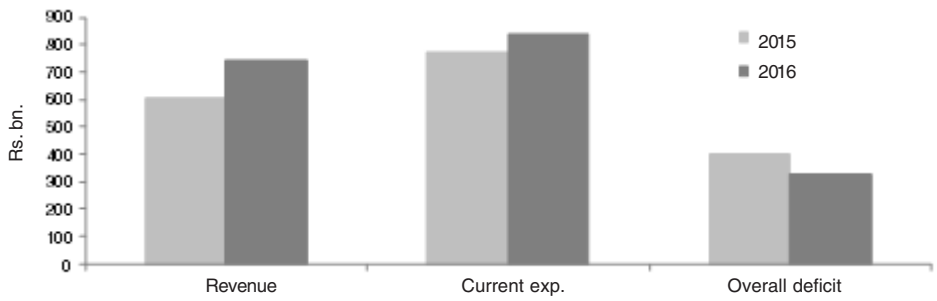
Source: IMF, Staff Report for the 2016 Article IV Consultation.

## 2.5 Regaining Macro-economic Stability under the IMF's EFF

Sri Lanka's IMF programme rests on six key pillars: lower budget deficits, monetary policy reform, higher government revenues, state enterprise reform, strong public financial management, and supporting higher trade and investment. Fiscal consolidation clearly lies at the heart of the macroeconomic adjustment programme (Table 2.6).

Sri Lanka is expected to reduce the overall fiscal deficit to 5.4 per cent of GDP through stringent controls on expenditures and higher revenue generation measures. Increases to the VAT rate - from 11 to 15 per cent - was implemented in May 2016 but was subsequently suspended by the Supreme Court in July 2016, pending approval by the Parliament. The extension of VAT to retail and wholesale trade (with a reduced threshold) that brought many small businesses into the tax net generated growing opposition, calling into question the ability to sustain VAT increases over the medium term. Nonetheless, with the release of the first IMF tranche in June 2016, Sri Lanka's fiscal position in the first half of the year has shown a significant improvement over the corresponding period in 2015 (Figure 2.9).

**Figure 2.9**
**Fiscal Outcome: First Half 2016**




Source: Ministry of Finance.

In July 2016, the government leveraged its IMF agreement to issue a dual-tranche US$ 1.5 billion Sovereign bond. In addition, budgetary support of US$ 650 million is expected from other sources such as the World Bank as well as the ADB. Thus, Sri Lanka's fiscal consolidation efforts in 2016 is expected to be on a sounder footing, opening up policy space for more prudent monetary and exchange rate policy initiatives.

Indeed, the IMF has set out the basic principles towards this end, introducing a soft inflation targeting framework and placing emphasis on moving towards a flexible exchange rate regime. Monetary policy excesses and misaligned exchange rates have combined in the recent past to produce import-driven consumption bubbles that have then necessitated sharp adjustments. The intention is clearly to allow an independent monetary policy to operate - i.e., to set interest rates - rather than 'target' the exchange rate.

Under these circumstances, the health of Sri Lanka's external sector performance is important. The contraction in earnings of the two main foreign exchange earners - export earnings by 5.6 per cent and remittance inflows by 0.5 per cent in 2015 - is of concern (Table 2.7). Export earnings have continued to post negative growth in 2016.

On the capital account, a net outflow of foreign investors from the Treasury bills and bonds market in 2015 is continuing into 2016. In addition, Sri Lanka has done poorly in attracting FDI, despite the emergence of a government viewed as more 'business-friendly' and focused on encouraging more private sector involvement in the economy. Total FDI inflows fell by over 30 per cent in 2015 and have continued to record even a sharper decline of over 50 per cent in the first half of 2016.

As per the medium-term macroeconomic framework outlined in the IMF agreement, there is limited room for CBSL policy intervention to support the currency as practised in the past. Thus, the fragile nature of the country's external accounts position needs to be reversed. In fact, it is not only the immediate macroeconomic

**Table 2.7**
**External Sector Developments (US$ mn.)**

| | January-December | | January-June | |
|---|---|---|---|---|
| | 2014 | 2015 | 2015 | 2016 |
| **Current account** | | | | |
| Exports | 1,1130 | 10,504 | 5,424 | 5,108 |
| Imports | 1,9416 | 18,934 | 9,547 | 9,321 |
| Trade balance | -8,286 | -8,429 | -4,122 | -4,213 |
| Tourism | 2,431 | 2,980 | 1,375 | 1,598 |
| Remittances | 7,017 | 6,980 | 3,433 | 3,613 |
| **Capital account** | | | | |
| Treasury bills & bonds | 1,775 | 1,210 | 547 | 601 |
| Sovereign bonds | 1,500 | 2,150 | 650 | - |
| Long term loans | 1,438 | 1,267 | 531 | 790 |
| FDI | 894 | 681 | 346 | 165 |

Source: CBSL, "External Sector Performance", various issues.

**Total FDI inflows fell by over 30 per cent in 2015 and have continued to record even a sharper decline of over 50 per cent in the first half of 2016.**

adjustment that is at stake, but also the medium term growth outlook for the country.

As per the IMF medium term economic framework, Sri Lanka is expected to see moderate GDP growth in the range of 5 per cent (Table 2.8). The anticipated fiscal policy adjustments under the IMF programme - i.e., a higher tax burden on firms and households - will cause disposable income to shrink as evident from forecasts of declining domestic savings to GDP ratios and stagnant private investment to GDP ratios. GDP growth is expected to be driven by an export-push, with a competitive exchange rate policy in place.

With domestic savings and investment expected to remain somewhat lacklustre, Sri Lanka will be looking to FDI to fill its savings-investment gap, as well as bring in additional spillover benefits for export expansion. The alternative to attracting greater volumes of FDI is continued reliance on external borrowing, as was the case in 2015, but this holds significant risks in terms of debt sustainability and exposure to domestic and external economic shocks.

**Table 2.8**
**Medium-term Adjustment: Growth, Savings and Investment (% of GDP)**

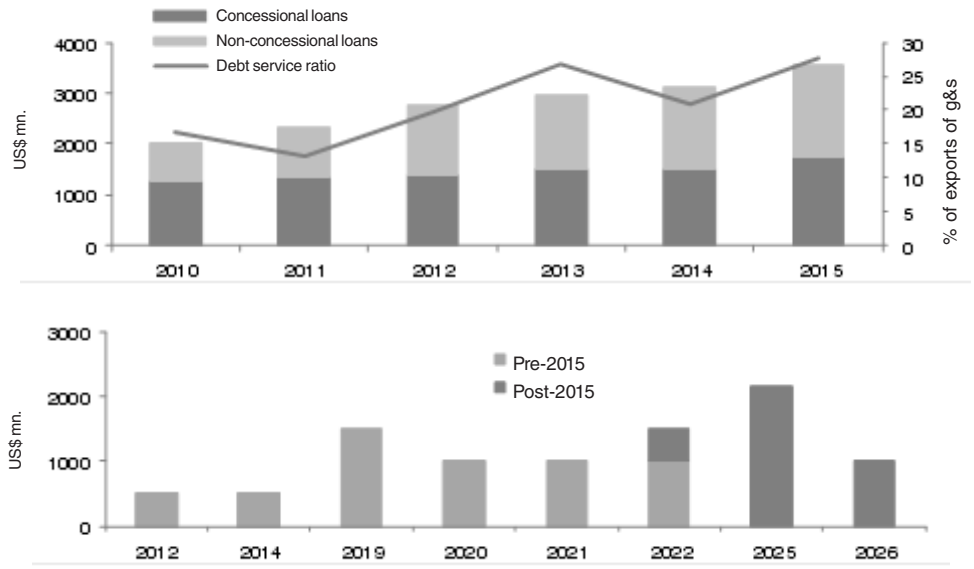
| | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| Real GDP growth | 4.8 | 5.0 | 5.0 | 5.0 |
| Inflation | 0.9 | 4.1 | 5.3 | 5.1 |
| National savings | 25.9 | 26.9 | 26.0 | 26.2 |
| Private savings | 28.0 | 27.8 | 25.9 | 24.8 |
| National investment | 28.4 | 28.3 | 28.8 | 29.3 |
| Private investment | 21.9 | 21.9 | 21.9 | 21.9 |
| Export value growth | -5.6 | -0.5 | 4.6 | 8.2 |

Source: IMF, Staff Report for the 2016 Article IV Consultation.




Sri Lanka's public debt-to-GDP ratio at 76 per cent is already high by comparable thresholds for emerging economies, and its gradual reduction is part and parcel of the IMF fiscal adjustment framework. While the increase in the overall public debt ratio in 2015 has been primarily in less riskier domestic debt, Sri Lanka's changing external debt profile of recent years has been a cause of concern and subject to more scrutiny. Since 2006, the share of non-concessional and commercial borrowing in total external debt has crept up steadily to stand at over 50 per cent of the outstanding external debt stock (Figure 2.10). This increases the country's external debt servicing obligations as these funds are raised on much more costlier terms than long-term concessional financing. In 2015, Sri Lanka's external debt service ratio climbed to an all-time high of 27.7 per cent from the previous high of 26.8 per cent in 2013.

**Figure 2.10**
**External Debt Dynamics**




Source: CBSL, "Monthly Economic Indicators", various issues.

As shown in Figure 2.10, Sri Lanka's Sovereign bond settlements become heavy post-2019 as the country continues to tap international capital markets. In the event that earned foreign currency resources are insufficient to settle the payments, Sri Lanka will be looking to rollover such payments. The quality of the country's macroeconomic environment and its growth outlook therefore has to improve steadily in the intervening years to retain investor confidence.

## 2.6 Conclusion

The months of backtracking and confusion with regard to fiscal policy, particularly on taxation issues, has taken a heavy toll on the credibility of government economic policy. To compound matters, Sri Lanka seems to have learnt few lessons in adopting an accommodative monetary policy stance to fiscal excesses. It is not surprising that the country saw its sovereign rating being re-assessed in the wake of significant weakening of both fiscal and external sector indicators. In this context, Sri Lanka's second upward policy rate adjustment of 50 basis points in July 2016 is a welcome signal of independent monetary policy setting in the face of continued upward pressure on inflation.

The decision to approach the IMF for an EFF loan was a foregone conclusion. In the final analysis, the loan amount of US$ 1.5 billion, spread over three years, is relatively small to fully meet budgetary and external debt repayment needs. What it does provide is a useful signalling measure that the government is committed to a fiscal consolidation effort as a foundation for medium term macroeconomic stability. The government made a useful start, leveraging the IMF programme to raise needed foreign capital by way of a Sovereign bond for immediate BOP and budgetary support purposes. However, it has sent mixed signals on tax revisions that were implemented to reach revenue targets; for instance, various opinions are expressed from within the government with regard to the VAT increase and extension of VAT to areas such as wholesale and retail trade, health, etc. Any signs of indecisiveness will call into question the commitment towards implementation of reforms, and thus the status of Sri Lanka's loan agreement with the IMF. In the absence of any other medium term economic policy framework, the IMF agreement at least sets out the broad parameters on the macroeconomic front. It is not merely the funding that is at stake, but the more important considerations - of policy consistency and ability to deliver - by which the government's handling of the economy will be judged.

**Sri Lanka's Sovereign bond settlements become heavy post-2019 as the country continues to tap international capital markets.**

# 3. International Environment

## 3.1 Introduction

A first reading of the global economic outlook points towards uncertainty and pessimism dominating the current economic and business environment. On the plus side, discussions have moved away from the likelihood or otherwise of a possible collapse of a nation, like in the instance of Greece in 2015. Though still on the front line, a crisis was averted in Greece with significant bail out programmes. However, the global economy does have more pertinent issues to contend with, including Britain's exit from the EU (Brexit), considerable market turbulence in exchange and stock markets, and falling oil and commodity prices. China's rebalancing and slow growth, though not a surprise, seems to be having considerable spillover effects on the rest of the world, adding further downside pressure on commodity and oil prices, and affecting stock markets across Asia, Europe and the US. Being the second largest economy and the second largest importer of goods and services globally, the spillover effects of China's economic restructuring seem inevitable.

Growth expectations for 2016 have fallen consistently across the board for both advanced and emerging markets, and more so for European economies following Brexit.[1] US economic growth, however, is expected to be resilient; against the background of a recovery,

**Growth expectations for 2016 have fallen consistently across the board for both advanced and emerging markets, more so for European economies following Brexit.**

[1] Based on IMF (2016), "World Economic Outlook", International Monetary Fund, Washington, D.C.

there has been a gradual tightening of its monetary policy. The EU, which was initially expected to perform better in 2016, now faces deepened uncertainty with the ramifications of Brexit still unfolding. Furthermore, acts of terrorism and the flow of refugees to the region are creating major economic challenges and testing the EU's political system.[2] Japan, on the other hand, continues to suffer from stagnant growth and low inflation; both Japan and the EU are likely to continue pursuing an accommodative monetary policy stance.

Among emerging and developing economies, India will continue to grow the fastest in the world and according to some forecasts will continue to outdo China till 2024.[3] There are even some suggestions that India which is currently the eighth largest economy in the world is set to become the third largest in less than 15 years.[4] On the other hand, countries like Brazil and Russia continue to have a bleak outlook fuelled by political tensions.

Similar to 2015, the global environment is expected to pose continuing challenges to Sri Lanka, primarily via uncertainty in export and capital markets. Lower commodity prices will help to curtail import expenditures - and overall inflationary pressures in the economy - but the slide in commodity prices has a downside impact on key exports such as tea and rubber. On the export front, a modest recovery in the US, lift of the ban on Sri Lanka's fish exports to the EU, and possible reinstatement of EU GSP-plus offer a glimmer of hope. Overall, the trade balance is also expected to improve, supported by healthy earnings from tourism and remittances, although the latter is expected to show stagnant growth. However, the uncertainty following Brexit is likely to impact Sri Lanka's exports and tourism negatively in the short to medium term. Furthermore, Sri Lanka will find it harder to attract capital inflows in the face of a downgraded sovereign rating, even as foreign investors review the elevated risks of emerging market economies. Nonetheless, conditional financial support from the IMF will allow Sri Lanka some room to manage external sector risks while addressing broader near-term economic challenges.

# 3.2 Prospects for the Global Economy

## 3.2.1 Advanced Economies: Adjusting to Lower Growth

The global economy is projected to grow at 3.1 per cent in 2016, at the same rate as 2015 but lower than the average growth of 3.3 per cent over the past 5 year period (Table 3.1). Growth rates are much lower than the pre-financial crisis levels; against a background of high volatility and uncertainty, the outlook is not expected to change significantly in the next couple of years. Emerging and developing countries continue to slow down, while advanced countries are recovering, albeit at a slow pace.

Among the advanced economies, the US is expected to show steady growth with unemployment levels at natural rate and no

[2] *Ibid* – January 2016.

[3] *The Wall Street Journal* (2016), "India Will Be Fastest-Growing Economy for Coming Decade, Harvard Researchers Predict", available at http://blogs.wsj.com/indiarealtime/2016/01/01/india-will-be-fastest-growing-economy-for-coming-decade-harvard-researchers-predict/.

[4] Bloomberg (2016), "These Will Be the World's 20 Largest Economies in 2030:Take A Peek at the New World that Awaits Us", available at www.bloomberg.com/news/articles/2015-04-10/the-world-s-20-largest-economies-in-2030.

threats of high inflation or deflation. The US is projected to grow at 2.2 per cent in 2016 and 2.5 per cent 2017, compared to a growth rate of 2.4 per cent in the past two years. The unemployment rate which was 5 per cent in 2015 - lower than the Fed's target of 6.7 per cent - is expected to fall further to 4.7 per cent in 2016 (Figure 3.1). However, the growth in jobs has been mostly in low paying food and retail industries, with the real unemployment rate estimated at a high 10.1 per cent.[5] As a result, the growth in household income has been weak. Another significant development in the US economy was the rate hike in December 2015, after seven years of near-zero interest rates to stimulate the economy since the financial crisis of 2008. As anticipated, it has affected emerging market economies in terms of capital outflows and exchange rate movements.

Private consumption levels of the three major economies EU, US and Japan are not expected to rise significantly; in fact consumption expenditure in the EU and US are expected to fall while consumption levels in Japan, which is currently below zero, are expected to rise gradually. However, unemployment rates in all three economies are expected to improve during the period 2016-2017.

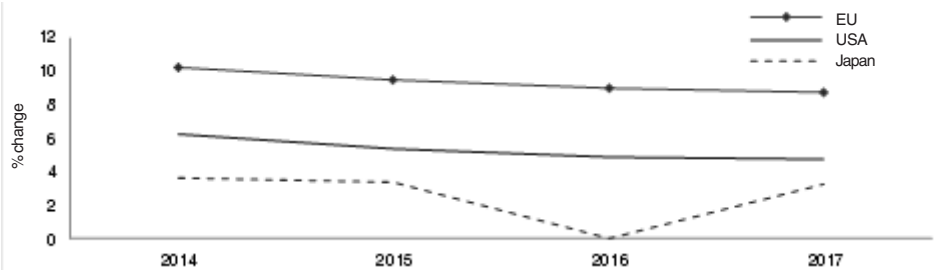
**Table 3.1**
**Overview of World Output (% change)**

| | 2010 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|
| **World Output** | **5.1** | **3.5** | **3.0** | **3.4** | **3.1** | **3.1** | **3.4** |
| **Advanced Economies** | **3.1** | **1.2** | **1.2** | **1.9** | **1.9** | **1.8** | **1.8** |
| US | 2.5 | 2.2 | 1.5 | 2.4 | 2.4 | 2.2 | 2.5 |
| Euro Area | 2.1 | -0.9 | -0.3 | 0.9 | 1.7 | 1.6 | 1.4 |
| Germany | 3.6 | 0.9 | 0.5 | 1.6 | 1.5 | 1.6 | 1.2 |
| France | 1.4 | 0.0 | 0.3 | 0.6 | 1.3 | 1.5 | 1.2 |
| Japan | 4.7 | 1.7 | 1.4 | 0.0 | 0.5 | 0.3 | 0.1 |
| United Kingdom | 1.4 | 0.3 | 1.8 | 3.1 | 2.2 | 1.7 | 1.3 |
| Canada | 3.2 | 1.7 | 2.0 | 2.5 | 1.1 | 1.4 | 2.1 |
| **Emerging & Developing Economies** | **7.3** | **5.0** | **4.7** | **4.6** | **4.0** | **4.1** | **4.6** |
| China | 10.3 | 7.7 | 7.7 | 7.3 | 6.9 | 6.6 | 6.2 |
| India | 10.1 | 4.7 | 4.4 | 7.2 | 7.6 | 7.4 | 7.4 |
| Russia | 4.0 | 3.4 | 1.3 | 0.7 | -3.7 | -1.2 | 1.0 |

Notes: 2016 and 2017 values are projections.
Source: IMF, "World Economic Outlook", 2016 (July).

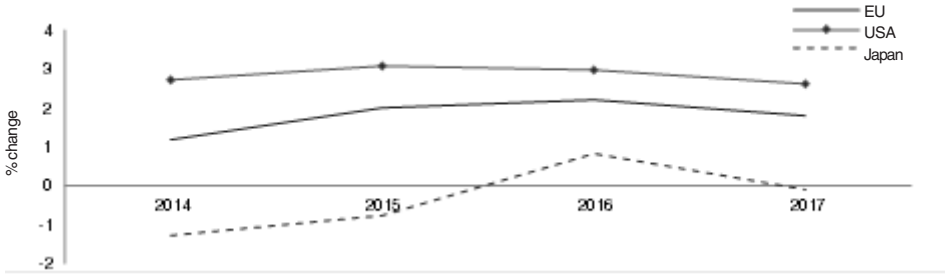
[5] US Bureau of Labour Statistics (2016), "Local Area Unemployment Statistics", available at http://www.bls.gov/lau/stalt16q1.htm.

**Figure 3.1**
**Forecasted Unemployment Rates in EU, US and Japan**




Source: European Commission (2016), "European Economic Forecast: Spring 2016", EU.

**Figure 3.2**
**Private Consumption Expenditure - EU, US and Japan**




Source: European Commission (2016), "European Economic Forecast: Spring 2016", EU.

Britain and the EU are faced with uncertainty with Britain becoming the first country to vote to leave the EU, following a tense referendum on 23 June 2016. The final result saw the 'Leave' campaign win by a small majority (52 per cent to 48 per cent), resulting in political and economic turmoil in the immediate aftermath.[6] The outcome of the referendum took the money and financial market by surprise; the value of the pound fell dramatically against the dollar and share prices plummeted. Although markets seem to have settled, much uncertainty remains over what form the break up will take and the implications for not only to the UK, but also its many trading partners, including the rest of Europe. Much depends on when Article 50 - the rules for exit - is triggered, after which the UK will have two years to negotiate its exit. There are suggestions that Article 50 will not be invoked till 2017, allowing the UK and other nations a transition period till 2019 (the earliest), while other predictions suggest the negotiations would take much longer. Subsequent to Brexit, UK's growth forecasts for 2016 were revised down from 1.9 per cent to 1.7 per cent in 2016 and from 2.2 per cent to 1.3 per

[6] Prime Minister David Cameron resigned from office while Theresa May, a fellow 'Remain' campaigner, took the reins vowing to make the transition as smooth as possible.

cent for 2017 by the IMF. Forecasts for EU were reduced by 0.1 percentage points. However, growth prospects for emerging and developing economies remain largely unchanged following Brexit.

The performance of the Japanese economy is seen to be paradoxical by some analysts, with a high per capita income and low unemployment rate (3.3 per cent compared to 5 per cent in US and 10 per cent in the Euro Zone) on the one hand, and deflation, high government debt (230 per cent of GDP) and a rising fiscal deficit (7 per cent) on the other.[7] It has made a moderate recovery supported by fiscal stimulus, low oil prices and rising incomes, but against the backdrop of a sharp decline in private consumption, it is expected to grow by just 0.5 per cent in 2016; consumption fell year-on-year for the second consecutive year in 2015 by 1.2 per cent. Despite the Bank of Japan announcing a move towards negative interest rates in early 2016 with the aim of spurring investment and keeping the yen low, these were not realized with the economy still faced with low inflation and weak growth.

## 3.2.2 Emerging Economies: Navigating the Challenging Global Backdrop

The Chinese economy is expected to grow at 6.6 per cent in 2016 and 6.2 per cent in 2017. The Chinese economy is undergoing a triple transition, moving from industry to services, shifting focus from exports to the domestic market and from investments to consumption. The spillover effects of the transition to other economies in the world have been significant, both in terms of demand for imports and impacts on commodity prices. In 2014, China accounted for over 12 per cent of global merchandise exports and around 10 per cent of global imports; over 20 per cent of the slowdown in import growth of developing economies and economies in transition during 2014-15 is apportioned to the China factor.[8] Although the transition was not a surprise, markets appear uncertain of the magnitude of the effects; this

**China's transition has translated into lower oil and commodity prices with spillover effects felt by both developed and developing economies.**

[7] Feldstein, M. (2016) "Japan's Economic Quandry", available at https://www.project-syndicate.org/commentary/japan-budget-cuts-deflation-risk-by-martin-feldstein-2016-04.

[8] UN (2016), "World Economic Situation and Prospects 2016", United Nations, New York.

had contributed to volatility and uncertainty in world financial markets as well.

India and the rest of emerging Asia is generally expected to grow robustly, despite some countries being buffeted by China's economic rebalancing. With growth of 7.4 per cent, India is expected to be the fastest growing economy in 2016 as well as in 2017.

The outlook for Middle Eastern countries is not encouraging given low oil prices and deepening conflicts in the region. The region as a whole is expected to grow by 3.1 per cent in 2016 backed by increased oil productions in Iraq and lifting of sanctions on Iran. The IMF estimates oil exporting nations in the Middle East to have lost US$ 390 billion due to lower oil prices in 2015.[9] While some countries in the region have responded by enforcing capital spending cuts (i.e., UAE, Saudi Arabia), others have focused on finding new sources of revenue (i.e., Oman, Bahrain and Iran).[10] Losses from lower oil prices are expected to increase to over US$ 500 billion in 2016, translating into budget deficits and slower economic growth, particularly in countries that are highly dependent on oil exports such as Saudi Arabia.

For Sri Lanka, India's strong growth can be expected to have positive spillover effects in terms of higher investment as well as stronger trade ties between the two countries. However, the weak outlook for Middle Eastern countries is of concern, given the region's importance to Sri Lanka as a destination for exports like tea and a key source of remittances.

# 3.3 World Trade Flows and Commodity Prices

## 3.3.1 Weaker World Trade Growth[11]

World trade performance has been sluggish in recent years both in terms of value and volumes of trade. Despite positive volumes of trade, the value of trade has fallen, pulled down by shifting exchange rates and falling commodity prices.[12] World trade grew by only 2.1 per cent on average (in terms of value) over the past five years (2011-15), compared to 9.1 per cent in the period before that (2006-10). In fact, 2015



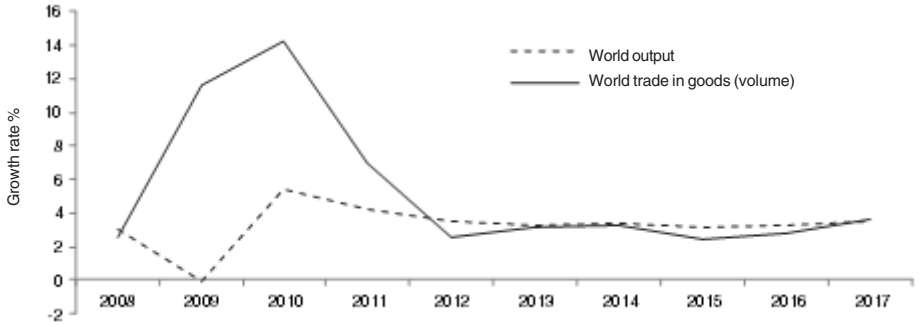

[9] IMF (2016), "Regional Economic Outlook Update: Middle East and Central Asia (April 2016)", International Monetary Fund, Washington, D.C.

[10] *Ibid*.

[11] The focus in this section is on merchandise trade and as such, the figures refer to trade in goods only.

[12] WTO (2016), "Trade Statistics and Outlook (April 2016)", World Trade Organization, Geneva.

**Figure 3.3**
**Comparison of Growth in World Output and Trade in Goods**




Note: Values for 2016 and 2017 are projections.
Source: IMF, "World Economic Outlook", 2016 (April).

recorded a negative growth of 13.7 per cent, the lowest recorded since the financial crisis of 2008 (Figure 3.4). In volume terms too, world trade has been stagnant, indicating a slowdown in demand. Growth remained at 2.8 per cent in 2014 and 2015 and is expected to grow at the same rate in 2016 as well. A comparison with world GDP shows that world trade has grown at a lower rate than world GDP from 2012 onwards (see Figure 3.3). This is a turnaround from the pre-crisis levels of trade which grew on average twice as fast as world GDP.[13] Analysts attribute the current slowdown in trade to both cyclical and structural factors: the Eurozone crisis and the slowdown of the Chinese economy which has affected consumption and commodity prices are some of the cyclical factors; structural factors include China's lower dependency on imported inputs for its exports and developments in the US' shale market which has reduced oil imports into the country.[14]

Unlike in the recent years where weak import demand stemmed from developed economies, in 2015 the downturn is traced back to emerging economies; emerging Asia accounted for 94 per cent of the decline in the slowdown of world import volumes.[15] Among the top importing and exporting countries, the largest reductions in demand for imports were reported from Japan and China in 2015, while Germany, US and Netherlands experienced the largest slowdown in exports (Table 3.2). Among others, notable countries whose exports have been hit are Saudi Arabia (39 per cent), Kuwait (-41 per cent) and Qatar (-45 per cent) in the Middle East and Russia (-33 per cent) where export earnings have been severely affected by plummeting oil prices.

In terms of product category, over a half of the decline in trade values in 2015 can be attributed to declines in fuel and mining products.[16]

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[13] Stratford, K. (2015), "Why has World Trade been So Weak in Recent Years?", available at, https://bankunderground.co.uk/2015/10/28/why-has-world-trade-been-so-weak-in-recent-years/.

[14] *The Economist* (2015), "What Slowing Trade Growth Means for the World Economy", available at, www.economist.com/blogs/economist-explains/2015/09/economist-explains-10.

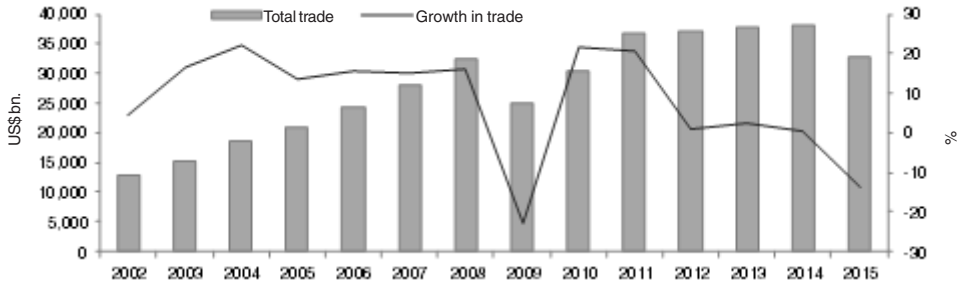
[15] Constantinescu, C., *et. al*., (2016), "Global Trade Watch: Trade Developments in 2015", World Bank, Washington, D.C.

[16] WTO (2016), "Trade Statistics and Outlook (April 2016)", World Trade Organization, Geneva.

Nevertheless, there has been a significant slowdown of trade in manufacturing and agricultural products as well. Among manufacturing products, office and telecom equipment, chemicals and other machinery (including investment goods and durables other than automobiles) have shown notable declines.

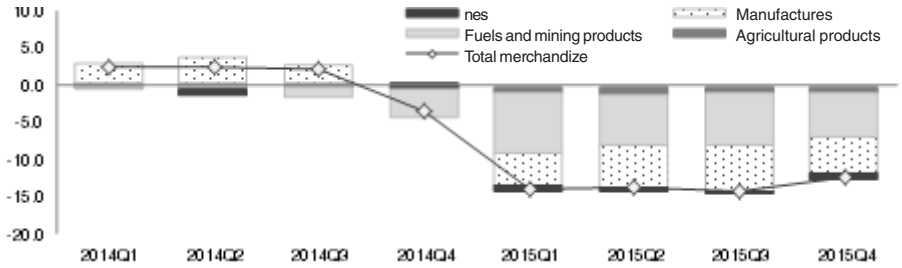
The outlook for 2016 and 2017 predicts exports of both developed and developing nations to grow at around the same rate in 2016 (2.9 per cent and 2.8 per cent, respectively) and 2017 (3.8 per cent and 3.3 per cent), with Asia taking the lead. However, a considerable divergence in terms of imports is expected. Demand for imports by developed countries is expected to grow by 3.3 per cent compared to that of developing and emerging economies which is estimated to grow by only 1.8 per cent in 2016; a trend that can be observed from 2014 which is a sharp reversal of what was observed during 2012-2013.

**Figure 3.4**
**World Trade and Growth in World Trade (in Value)**




Source: Compiled using Trade Map Data, 2016.

**Figure 3.5**
**Contributions to Year-on-Year Growth in World Merchandise Trade by Product**




Source: WTO (2016), 'Press Release: Trade Growth to Remain Subdued in 2016 as Uncertainties Weigh on Global Demand', available at https://www.wto.org/english/news_e/pres16_e/pr768_e.htm.

**Table 3.2**
**Contributions to World Trade (in Value) by Top Exporting and Importing Countries, 2015**

| Exports | | | Imports | | |
|---|---|---|---|---|---|
| Largest Exporters | % Contribution to Total Exports | Growth 2014-2015 | Largest Importers | % Contribution to Total Imports | Growth 2014-2015 |
| China | 12.5 | -3 | USA | 14.0 | -4 |
| USA | 8.3 | -7 | China | 10.2 | -14 |
| Germany | 7.3 | -11 | Germany | 6.4 | -13 |
| Japan | 3.4 | -9 | United Kingdom | 3.8 | -9 |
| Netherlands | 3.1 | -16 | Japan | 3.8 | -23 |

Source: Compiled using Trade Map Data, 2016.

## 3.3.2 Adjusting to Lower Commodity and Oil Prices

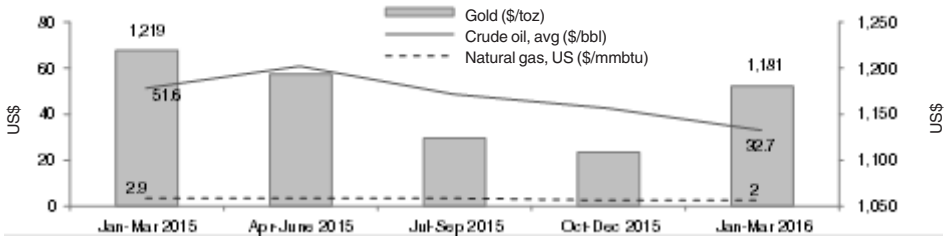
Commodity prices have continued to fall during 2015-16 with prices generally lower in the first quarter of 2016 compared to a year back (Figure 3.6). Oil prices in particular have been persistently low, falling below predicted levels to US$ 32.7 a barrel in the first quarter of 2016. This is about a 65 per cent (or US$ 70) drop in prices compared to June 2014.[17] While oil prices were pushed down mainly owing to excess supply, analysts predict a tightening of supply over 2016 will boost prices. However, lifting of Iran's sanctions may increase OPEC's crude oil production while a stronger dollar is also pushing down prices. Further, with oil being priced in dollars, higher interest rates in the US are pushing the value of the dollar up, making oil a less attractive investment. Nevertheless, compared to a year back, oil prices are now more responsive to supply disruptions (i.e., wildfire in Canada in May and escalating tensions in Libya) which according to analysts are a sign of recovery. However, the futures market anticipates oil prices to increase only up to US$ 50/barrel by the end of the decade.

World rubber prices and world tea prices - which have important implications for Sri Lanka - have continued to fall steadily in recent years (Figure 3.7). Compared to prices in 2013, current rubber prices are lower by over US$ 1. The slump in rubber prices is likely to continue with manufacturing in both China and US slowing down; leading producers of rubber, such as Thailand has been severely hit with the government stepping in to purchase rubber in order to assist struggling producers.

Tea prices, though lower compared to the levels in 2012 (the year till which prices consistently rose), have not seen as steep a drop in price as rubber. The FAO (2015) attributes weaker tea prices to CTC auction prices, which it warns if not corrected, would continue to contribute to

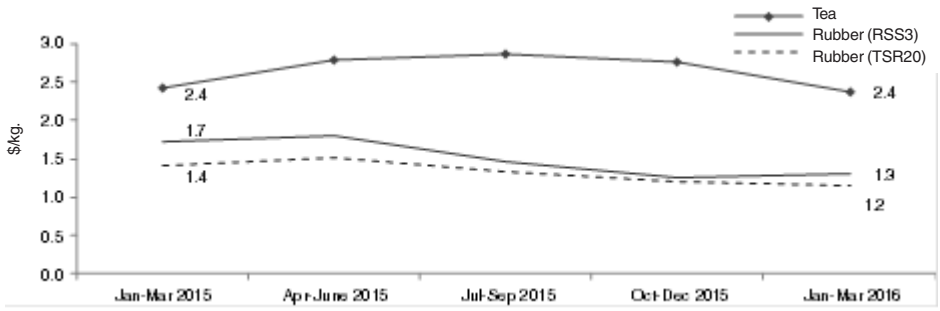
[17] Obstfeld, M., *et..al*. (2016), "Oil Prices and the Global Economy: It's Complicated", available at https://blog-imfdirect.imf.org/2016/03/24/oil-prices-and-the-global-economy-its-complicated/.

**Figure 3.6**
**Trends in Oil, Gold and Gas Prices**




Source: Compiled using World Bank (2016), Commodities Price Data (The Pink Sheet) – May 2016.

**Figure 3.7**
**Trends in Selected Commodity Prices**




Source: Compiled using World Bank (2016), Commodities Price Data (The Pink Sheet) – May 2016.

the downward trend. Sri Lanka is predominantly an orthodox tea producer and prices of orthodox tea is predicted to be higher; developments in export markets like Russia and the Middle East can dampen the sentiments though. Lower tea prices (overall) are a result of relatively high supplies whereas consumption has been increasing with growth in demand for green and specialist tea segments.[18] Projections suggest demand and supply of black tea to be at equilibrium in 2023, selling at a nominal price of US$ 2.81 per kilo.

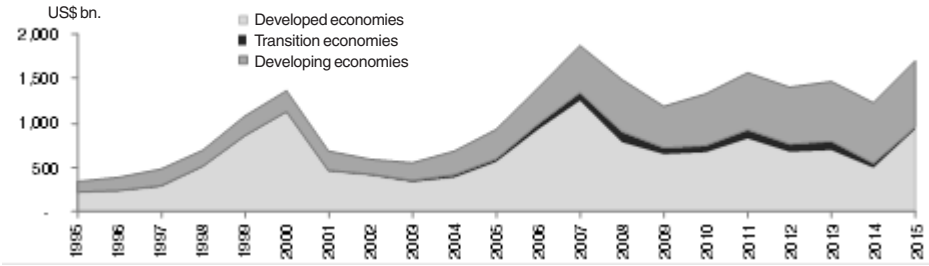
# 3.4 Access to International Capital

## 3.4.1Trends in International Capital Flows

In 2015, the anticipated rate hike in the US prompted foreign investors to reduce their emerging market exposures in favour of developed economies. This propelled a strong growth in flows into the EU as well as the US where FDI quadrupled to US$ 384 billion (albeit

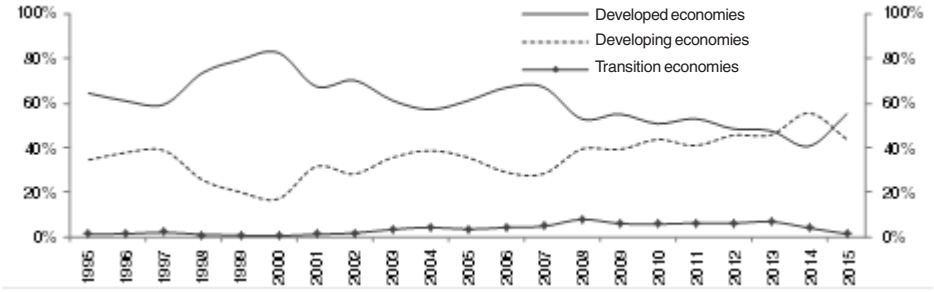
[18] FAO (2015), "World Tea Production and Trade: Current and Future Development", Food and Agriculture Organization, Rome.

**Figure 3.8**
**FDI Inflows: Global by Group of Economies 1995 - 2015**




Source: UNCTADstat and Global Investment Trends Monitor 2016.

**Figure 3.9**
**FDI Inflows: Percentage Inflows by Group of Economies 1995 - 2015**




Source: UNCTADstat and Global Investment Trends Monitor 2016.

from a historically low level in 2014). Overall, the pattern of FDI shifted back in favour of developed countries which now account for 55 per cent of global FDI flows compared with 2014 where 56 per cent of global inflows were to developing economies.[19]

Nevertheless, in absolute terms, FDI to developing countries reached a new high of US$ 741 billion, 5 per cent higher than that recorded in 2014. Of the developing economies, Developing Asia remained the largest recipient region in the world, accounting for one-third of global FDI flows. In total, FDI flows to Developing Asia surpassed half a trillion US dollars, rising by 15 per cent to US$ 550 billion, a new high. Hong Kong (China) and mainland China saw increases in FDI flows to US$ 163 billion and US$ 136 billion, respectively. FDI flows to India nearly doubled, reaching an estimated US$ 59 billion. The losers were Africa and Latin America and the Caribbean with flows faltering, reflecting the plummeting prices of their principal commodity exports.

[19] UNCTAD (2016), "Global Investment Monitor No.22", January 2016.

**Table 3.3**
**FDI Inflows, by Major Regions**

| | 2014 | 2015a | Growth Rate (%) |
|---|---|---|---|
| **World** | **1,245** | **1,699** | **36.5** |
| **Developed Economies** | **493** | **936** | **89.9** |
| European Union | 254 | 426 | 67.6 |
| North America | 146 | 429 | 193.5 |
| **Developing Economies** | **703** | **741** | **5.3** |
| Africa | 55 | 38 | -31.4 |
| Latin America and the Caribbean | 170 | 151 | -11.2 |
| Developing Asia | 475 | 548 | 15.5 |
| **Transition Economies** | **49** | **22** | **-54.1** |

Source: UNCTAD, "Global Investment Trends Monitor 2016".

Although FDI into Developing Asia has remained robust, international portfolio investment inflows were much weaker across the year (Table 3.4). These flows look at investments in shares and bonds as opposed to longer-term capital investments and tend to be more responsive to shifts in sentiment.

**Table 3.4**
**Portfolio Inflows, Selected Countries, 2008 - 2015**

| US$ mn. | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Bangladesh | 92 | 127 | 19 | (32) | 169 | 431 | 875 | 386 |
| China | 9,654 | 29,613 | 31,681 | 13,391 | 54,170 | 58,244 | 93,244 | 6,739 |
| India | (15,030) | 17,931 | 37,986 | 2,711 | 30,110 | 7,027 | 38,008 | 19,386 [a] |
| Indonesia | 3,059 | 10,480 | 15,713 | 4,996 | 14,673 | 12,145 | 23,556 | 17,705 [a] |
| Malaysia | (21,083) | 6,048 | 22,270 | 14,778 | 27,635 | 9,381 | (3,194) | (4,961) |
| Pakistan | (243) | (582) | (114) | (37) | 174 | 77 | 3,785 | 935 |
| Singapore | (14,644) | 1,183 | 8,005 | (6,336) | 5,120 | (2,290) | 3,180 | (6,874) |
| Sri Lanka | (488) | (382) | (1,049) | 828 | 2,116 | 2,068 | 2,065 | 689 |
| Thailand | (8,559) | 10,255 | 7,810 | 3,887 | 10,319 | (1,474) | (4,704) | (12,733) |
| Vietnam | (578) | 128 | 2,383 | 1,064 | 1,263 | 1,386 | 93 | (65) |
| US | 523,684 | 357,352 | 820,434 | 311,626 | 747,014 | 511,984 | 701,861 | 250,937 |
| **Total ex. US** | **(47,819)** | **74,802** | **124,705** | **35,250** | **145,750** | **86,997** | **156,909** | **21,207** |

Notes: a: Estimates.

Source: IMF, "Balance of Payments and International Investment Statistics".

Of the countries sampled, Malaysia, Singapore, Thailand and Vietnam all have net negative inflows in 2015. On an aggregate level, total inflows declined by 85 per cent year-on-year. Similar lows were last seen in 2011 as the Euro Zone crisis unfolded and many developed economies experienced a double-dip recession.

Overall capital market performance across Asian economies reflected these negative trends. Vietnam was the only market in the Southeast Asian region to post gains in 2015 of

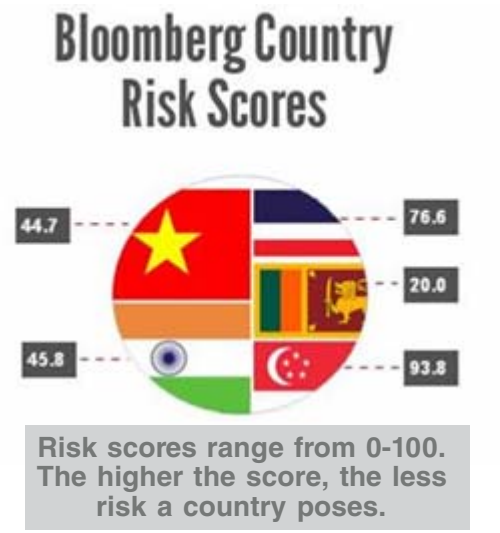
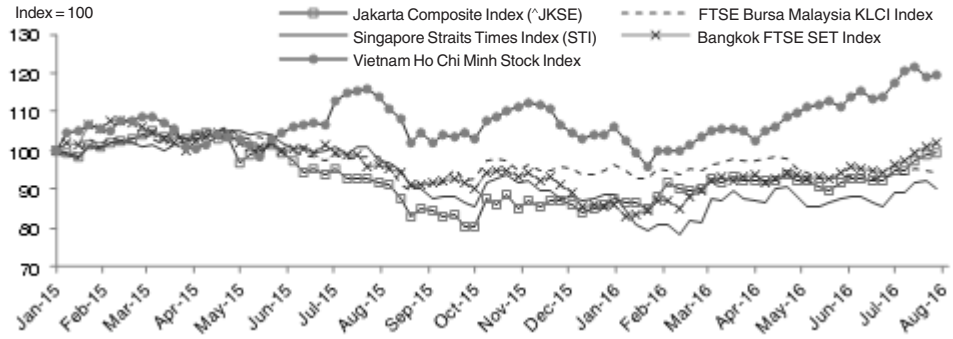
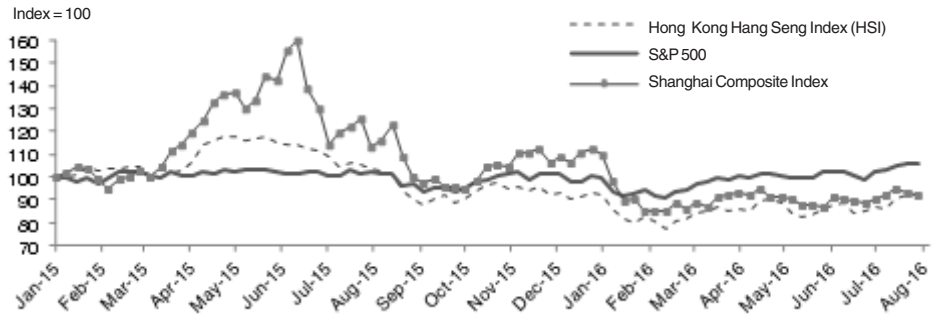



**Figure 3.10**
**Stock Market Performance Southeast Asian Economies**




Source: Bloomberg.

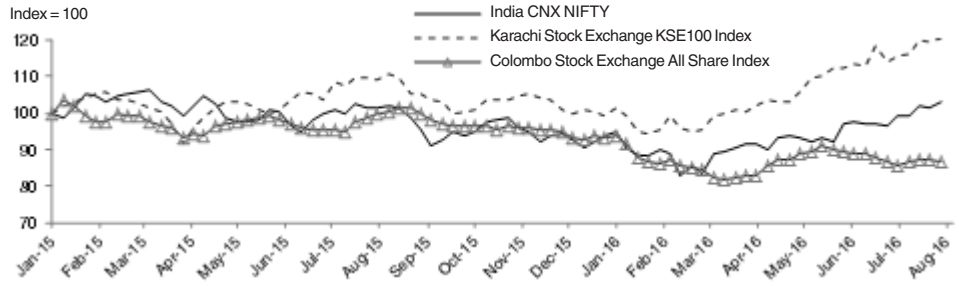
**Figure 3.11**
**Stock Market Performance East Asia**




Source: Bloomberg.

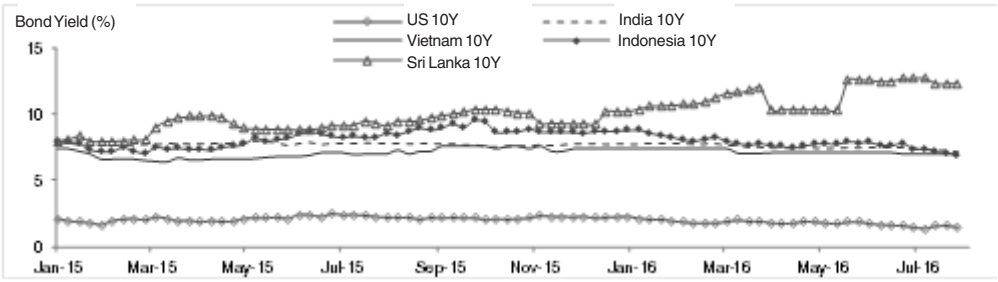
4 per cent (Figure 3.10). Other Southeast Asian stock markets performed poorly, with Thailand and Indonesia - the joint worst performers - losing -14 per cent over the year. Singapore also lost ground down -12 per cent, whilst Malaysia was the least badly hit at -5 per cent. The Southeast Asian economies suffered due to combined concerns over the effect of the US rate-hiking cycle on capital flows, and the impact of the slowing Chinese economy on the region's growth. Vietnam was somewhat shielded from this due to resilient growth despite the regional slowdown.[20] Estimates suggest that investors pulled US$ 6.7 billion from Thai, Indonesian and Philippine equity markets over 2015.[21] More recently in 2016, Southeast Asian markets have recovered somewhat with Malaysia the only market to continue a modest negative performance of -2 per cent.

**Figure 3.12**
**Stock Market Performance South Asia**




Source: Bloomberg.

**Figure 3.13**
**Bond Yields**




Source: Bloomberg.

[20] Bloomberg (2015), "Vietnam Stocks Are Giving Asia's Best Returns", http://www.bloomberg.com/news/articles/2015-09-28/china-no-bar-to-vietnam-bulls-backing-asia-s-best-stock-returns.

[21] *Straits Times* (2015), "Singapore Stocks Headed for 15 per cent Tumble in 2015", http://www.straitstimes.com/business/companies-markets/singapore-stocks-headed-for-15-tumble-in-2015.

The Chinese market experienced large gains and losses over 2015, triggered by a number of key events (Figure 3.11). A rate cut in early 2015 saw the equity market rally strongly until June, rising 1.5 times over the previous year. However, the narrative of China's weakness in the real economy began to gain traction in the second half of the year and the change in sentiment saw a 40 per cent drop in the stock market, reaching a low in August 2015.[22] Despite the turmoil, the Shanghai Composite was up 12 per cent over the year. In 2016, momentum has again turned negative with a -16 per cent fall in the first quarter of 2016. This was driven by currency concerns, poor communication from policy makers and fresh signs of slowing economic growth. During the first week of 2016, the People's Bank of China allowed the biggest fall in the Yuan in five months, twice triggering a circuit breaker that saw markets close early.[23] The Hang Seng Index (Hong Kong) lost -8 per cent over 2015 and 2016 with a consistent downward trend over the period. Much of this was a contagion effect from the struggling Chinese markets.[24] By contrast, the US S&P 500 was up +6 per cent over the period.

In South Asia, India and Sri Lanka both suffered losses in 2015 of -6 per cent and -7 per cent, respectively (Figure 3.12). However, whilst India has remained comparatively stable in 2016, Sri Lanka has continued to underperform. The outcome of these divergent trends is that India has gained +3 per cent since the beginning of 2015 compared to Sri Lanka's underperformance of -13 per cent. Pakistan outperformed its peers, gaining +21 per cent over the period.

Data from the Institute of International Finance (IIF) on cross border non-resident portfolio flows showed similar capital outflow patterns from emerging market economies. According to the IIF, net inflows flows turned negative in July 2015 and continued for the remainder of the year. However, while outflows from equities have continued into 2016, the trends in the bond market reversed with flows to debt instruments recording positive flows for the three months to January 2016.[25]

Bond yields capture the capital movements in and out of fixed income investments for a given market and maturity; as investors increase their investments in a particular bond, prices increase and yields (which move inversely) fall. The yield on a debt instrument incorporates five broad compensation concepts. The first two are the real risk-free rate and expected inflation. Combined, these two rates give the risk-free return which is often proxied in the real world by US Treasury bonds. Bond yields also incorporate a default premium that compensates investors for the risk that the issuer may default. The yield also incorporates a liquidity premium, which factors in how

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[22] *Financial Times* (2015), "China Stock Market Outperforms S&P Despite Wild Swings", http://www.ft.com/cms/s/0/7cb450ce-a000-11e5-85ae-8fa46274f224.html#axzz48zCm8X3P.

[23] CNBC (2016), "China Stocks Saw Worst Jan Since 2008", http://www.cnbc.com/2016/02/01/china-stocks-post-worst-monthly-performance-since-2008.html.

[24] Bloomberg (2015), "Asian Stocks Fall as Equities in Hong Kong, Seoul Join Selloff" http://www.bloomberg.com/news/articles/2016-02-11/asian-stocks-fall-as-equities-in-hong-kong-seoul-join-selloff.

[25] Reuters (2016), "Emerging Markets Set for $448 billion Outflows This Year –IIF", http://www.reuters.com/article/emerging-markets-flows-idUSL9N0WZ025 and Financial Times (2016), "Emerging market portfolio flows hit 21-month high", https://next.ft.com/content/cceb110e-f596-11e5-96db-fc683b5e52db.

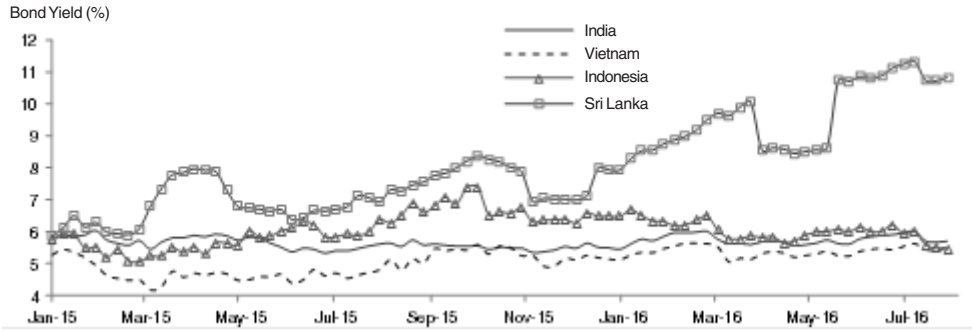
tradable the bond is and, therefore, how easy it is to monetize the asset. For less frequently traded issues, the holder is compensated by a higher interest rate. Finally, a maturity premium must also be added, as longer-tenured bonds are more sensitive to interest rate fluctuations and therefore carry more risk.

Positive inflows into Treasury bonds are reflected in the downward movement in bond yields in the latter part of 2015 (Figure 3.13). Across the year, bond yields rose in most Asian economies, peaking in the second half of the year and then moving in a downward trend that has continued into the start of 2016. Sri Lanka is the clear exception to this trend. Domestic worries, exacerbated by limited liquidity, caused exaggerated upward movements in yields, increasing by 431 basis points since the first week of 2015. There was some short-term relief at the end of April 2016, following the announcement of a possible US$ 1.5 billion loan from the IMF. However, yields have since returned to their previous levels.

Overall, in 2016, capital markets in most emerging economies are exhibiting signs of resilience after their losses in 2015. Singapore, Indonesia and Thailand have begun to reverse 2015 equity market declines whilst the remaining economies (excluding China and Sri Lanka) have seen a slowdown in persistent declines. Bond yields give a clearer picture with all countries (excluding Sri Lanka) recording a decline in bond yields since the start of 2015.

Sri Lanka's higher bond yields are an indication of a higher cost of capital compared to peers. As cost of capital rises, the number of viable projects in a given selection reduces. This is because creating value requires investing in capital projects that generate a return greater than the project's cost of capital. When comparing developed and developing nations, a good proxy is an estimate of the country risk premium. An approximate estimate is the spread between a US government bond yield and that of the respective country (Figure 3.14).

**Figure 3.14**
**Sovereign Yield Spread (vs US Govt. Bonds)**




Source: Bloomberg.

**Comparisons show Sri Lanka to be faced with higher bond yields, indicating a higher cost of capital compared to regional peers and also higher risk.**

Again, Sri Lanka is an outlier in terms of sovereign yield spread. Whilst other spreads have remained flat or even narrowed, Sri Lankan bond yields have diverged indicating a sizeable increase in the cost of capital.

This conclusion is corroborated by Bloomberg's Country-Risk Score Index (see Table 3.5). The user-based risk score ranges from 0-100. A high score denotes a lower level of perceived risk.

**Table 3.5**
**Bloomberg User-Based Country Risk Scores**

| Country | Bloomberg Country Risk Score |
|---|---|
| Singapore | 93.8 |
| United States | 86.9 |
| Thailand | 76.6 |
| Malaysia | 73.6 |
| India | 45.8 |
| Vietnam | 44.7 |
| Indonesia | 40.7 |
| Sri Lanka | 20.0 |
| Pakistan | 17.3 |

Source: Bloomberg.

Of a mix of countries examined, Sri Lanka has a risk score of 20, the second highest risk score in the group. Of the model determinants, Sri Lanka scores particularly poorly on EIU banking risk and external balance and foreign exposure risk.

Prompted by a number of these external balance factors, Fitch downgraded Sri Lanka's credit rating in March 2016. The new rating of B+ puts Sri Lanka below Vietnam for the first time (Table 3.6).

Many Asian countries are currently looking to international capital markets for additional funding, including countries such as Indonesia and Vietnam. Whilst both of these countries also have high levels of public debt, their current domestic yields are at 7.8 per cent and 7 per cent, respectively, considerably lower (5 per cent) than Sri Lanka's domestic bond yield.

**Table 3.6**
**Fitch Ratings Changes**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| US | AAA | AAA | AAA | AAA | AAA | AAA | AAA |
| India | BBB- | BBB- | BBB- | BBB- | BBB- | BBB- | BBB- |
| Vietnam | B+ | B+ | B+ | B+ | BB- | BB- | BB- |
| Pakistan | | | | | | B | B |
| Bangladesh | | | | | BB- | BB- | BB- |
| Indonesia | BB+ | BBB- | BBB- | BBB- | BBB- | BBB- | BBB- |
| Malaysia | A- | A- | A- | A- | A- | A- | A- |
| Singapore | AAA | AAA | AAA | AAA | AAA | AAA | AAA |
| Sri Lanka | B+ | BB- | BB- | BB- | BB- | BB- | B+ |
| Thailand | BBB | BBB | BBB | BBB+ | BBB+ | BBB+ | BBB+ |

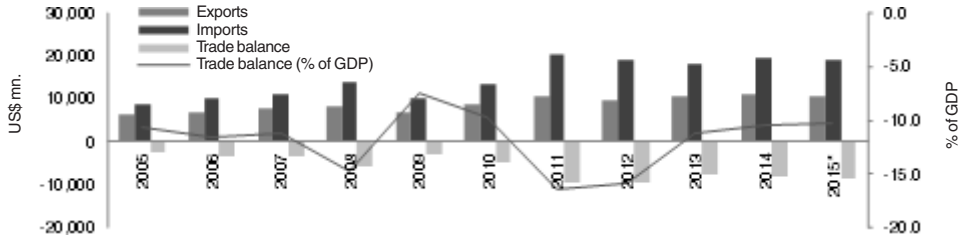
Source: Bloomberg.

# 3.5 Implications of External Environment Developments on Sri Lanka

## 3.5.1 Overview of Sri Lanka's Performance in Merchandise Trade

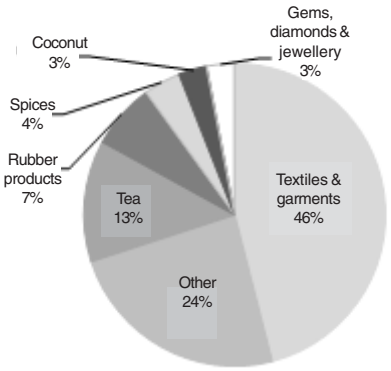
Sri Lanka's external sector performance in 2015 is largely reflective of the world economic and trade performance, including that of falling commodity prices. Export earnings which grew by 7.1 per cent reaching US$ 11 billion in 2014, declined by 5.6 per cent in 2015 to US$ 10.5 billion. The decline comes from all three major categories of exports, agriculture (-11.2 per cent), industrial exports (-3.5 per cent) and mineral exports (-52.3 per cent). The industrial sector continues to increase its contribution to exports, accounting for 76 per cent of total exports; the share of agriculture in total exports declined to 23.6 per cent in 2015 compared to 25.1 per cent in 2014, owing largely to falling commodity prices. Among agriculture exports in 2015, spices managed to record a marked increase in exports, growing by 43 per cent. Sri Lanka continues to be largely dependent on textile and garments, which accounted for 46 per cent of the country's total exports and 60 per cent of industrial exports.

**Figure 3.15**
**Sri Lanka's Trade Performance**




Source: CBSL, *Annual Report,* various years.

**Figure 3.16**
**Sri Lanka's Main Exports as a % of Total Exports**




Source: CBSL, *Annual Report,* various years.

There was a decrease in Sri Lanka's import expenditure in 2015 largely due to low oil prices and restrictions on vehicle imports via taxes and changes to loan-to-value ratio for leasing in the latter part of 2015. Sri Lanka's expenditure on fuel imports which accounted for 24 per cent of the country's total import bill in 2014 fell to 14.3 per cent in 2015. This is a reduction of US$ 1,898 million or a 41.3 per cent decline year-on-year. Notable increases in import expenditure were that of vehicles, which increased by over 50 per cent due to the reduction of import tariffs on selected motor vehicles in January 2015 and the depreciation of the Japanese yen (Table 3.7). Given the outlook on global prices of fuel and commodity prices, expenditure on fuel as well as food and beverage items cannot be expected to rise sharply. Furthermore, the depreciation of the rupee, which results in imports being more expensive, can be expected to curtail imports in 2016.

**Table 3.7**
**Sri Lanka's Main Imports, 2015**

| Category | Value US$ mn. (2014) | Value US$ mn. (2015) | Share in Total Imports (2015) | Y-o-Y Change % (2014-2015) |
|---|---|---|---|---|
| **Consumer Goods** | **3,852.5** | **4,713.5** | **24.9** | **22.3** |
| Food and beverages | 1.633.7 | 1,627.8 | 8.6 | -0.4 |
| Non-food consumer goods | 2,218.8 | 3,085.7 | 16.3 | 39.1 |
| Vehicles | 896.7 | 1.359.6 | 7.2 | 51.6 |
| Medical & pharmaceuticals | 380.5 | 459.8 | 2.4 | 20.8 |
| Clothing & accessories | 282.7 | 390.1 | 2.1 | 38.0 |
| Intermediate goods | 11,397.7 | 9,638.2 | 50.9 | -15.4 |
| Fuel | 4,597.3 | 2,699.6 | 14.3 | -14.3 |
| Textiles and textile articles | 2,327.6 | 2,296.2 | 12.1 | -1.3 |
| Chemical products | 808.2 | 870.3 | 4.6 | 7.7 |
| Investment goods | 4,152.2 | 4,567.0 | 24.1 | 10.0 |
| Machinery & equipment | 2,131.0 | 2,278.1 | 12.0 | 6.9 |
| Building materials | 1,308.9 | 1,352.0 | 7.1 | 3.3 |
| Transport equipment | 707.3 | 930.9 | 4.9 | 31.6 |

Note: This table comprises only main import products.
Source: Compiled using CBSL (2016), *Annual Report 2015*.

The following section looks at the performance of the garment industry, and the tea and rubber industries in more detail.

## 3.5.2 Garment, Tea and Rubber Industries

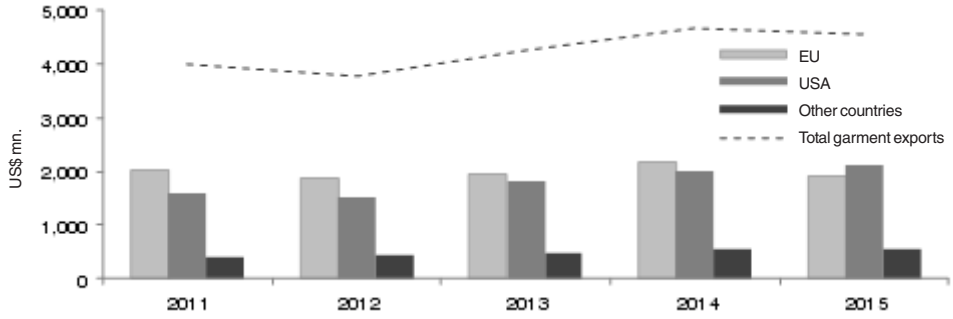
Exporting US$ 4.8 billion and accounting for 46 per cent of Sri Lanka's total exports in 2015, the apparel industry is Sri Lanka's second largest foreign exchange earner. 2015 saw a 2.2 per cent decline in textile and garment export earnings. Though garment exports to US and other non-traditional markets grew, exports to the EU dropped by 12.5 per cent in 2015 (Figure 3.17). In the EU, notable declines were noted in exports to UK, France and Italy. Consequently, US surpassed EU as the largest market for garment exports for the first time after 2007, accounting for 46.3 per cent of total garment exports in 2015.

The first six months of 2016 saw a recovery of garment exports, growing at 4.5 per cent. However, the garment industry is likely to feel the impacts of a weakened pound and the prevailing uncertainty in the EU. Nevertheless, Sri Lanka is fairly confident of regaining GSP-plus concessions to the EU, particularly in the aftermath of the lifting of the EU fisheries ban and this is likely to cushion to an extent the negative effects of Britain's exit from the EU.

Earnings from tea exports in 2015 were US$ 1.3 billion and remain the country's fourth largest export earner. However, shifting from a period of steady increase in exports over 2011-14, Sri Lanka saw a decline in both its volume and prices of tea exports in 2015 - export volumes declined by 6 per cent and prices by 12 per cent compared to 2014 (Figure 3.18). Earnings continued to contract by 9.5 per cent in the first six months of 2016. The fall in tea exports is underpinned by the fall in demand in traditional orthodox tea markets in the Russian Federation, EU and the Middle East (Table 3.8). Political issues between Russia and Ukraine, low oil prices facing the Middle East followed



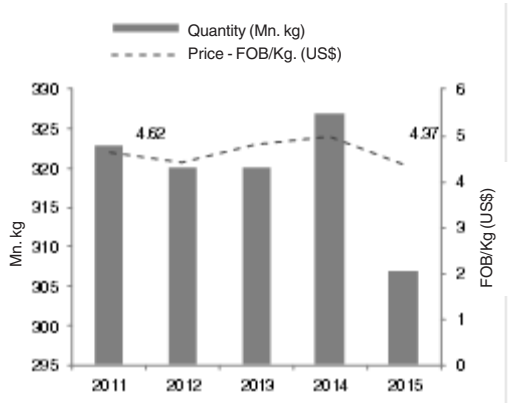
**Figure 3.17**
**Garment Exports 2011-2015**




Source: CBSL, *Annual Report 2015.*

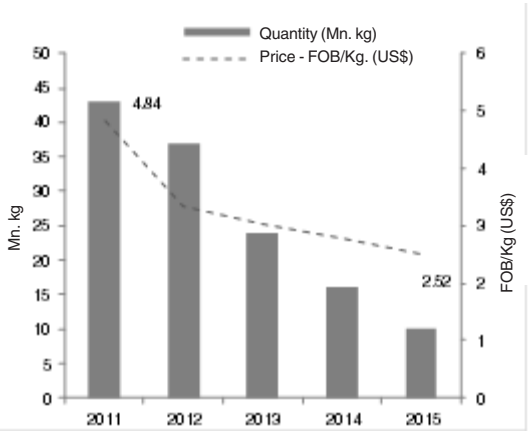
by currency depreciations brought down tea prices at the Colombo auctions. With the top 10 importers of Sri Lankan tea, with the exception of Japan relying on oil and gas for economic stability,[26] and with trends of rising demand for green and specialist tea segments globally,[27] it is imperative that Sri Lanka diversifies its presence in other segments of the market in

**Figure 3.18**
**Tea Export Volumes and Prices**




Source: CBSL, *Annual Report 2015.*

**Figure 3.19**
**Rubber Export Volumes and Prices**




Source: CBSL, *Annual Report 2015.*

[26] Forbes and Walker Tea Brokers (2016), 'Tea Industry's Performance in 2015 and Prospects for 2016', Daily FT, http://www.ft.lk/article/516083/Tea-industry-s-performance-in-2015-and-prospects-for-2016

[27] FAO (2015), 'World Tea Production and Trade: Current and Future Development', FAO: Rome.

terms of products (i.e., organic and value added teas) as well as new markets. Currently, 98 per cent of Sri Lanka's tea export volumes are in black tea while green tea makes up 1.5 per cent of total exports and instant tea accounts for 0.7 per cent. Further, over 40 per cent is exported in bulk form.

The fall in rubber exports has been more dramatic with export volume dropping by 37 per cent and prices by 9 per cent in 2015 compared to a year ago. Compared to 5 years back, the drop in volumes and prices is a staggering 77 per cent and 48 per cent, respectively (Figure 3.19). The slowdown in 2015 has stemmed mainly from the Pakistan, EU and Japanese markets. Year-on-year, there has been a contraction of rubber export earnings by 6.5 per cent during January-July 2016.

**Declines in export volumes as well as export prices were visible in Sri Lanka's major export categories in 2015.**

**Table 3.8**
**Sri Lanka's Main Tea and Rubber Export Markets and Performance**

| Country/ Region | Tea Exports | | | Country/ Region | Rubber Exports | | |
|---|---|---|---|---|---|---|---|
| | Share in Total Tea Export (Volume) | Growth in Volume (2014-2015) | Growth in Value (2014-2015) | | Share in Total Rubber Exports (Volume) | Growth in Volume (2014-2015) | Growth in Value (2014-2015) |
| Middle East | 49 | -5 | -17 | EU | 29 | -30 | -40 |
| CIS countries | 18 | -17 | -31 | Japan | 16 | -2 | -15 |
| EU | 8 | -11 | -18 | Pakistan | 13 | -43 | -48 |
| Other | 6 | -10 | -16 | Vietnam | 10 | -10 | -18 |
| Industrialized countries[a] | | | | | | | |
| Other countries[b] | 20 | 6 | -3 | USA | 5 | -33 | -38 |

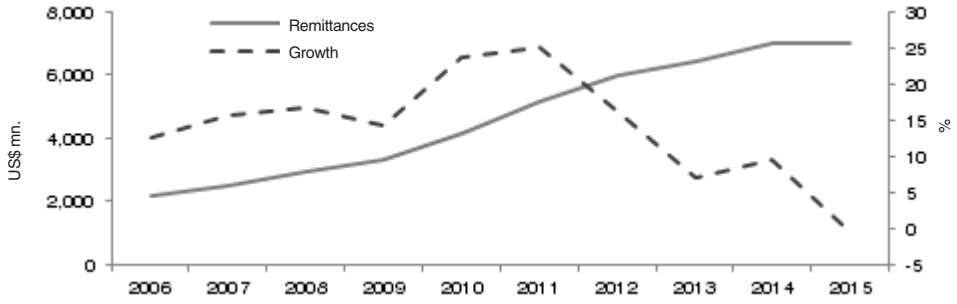
Note: a: Countries include Australia, Canada, Japan, New Zealand, US and others.
b : Includes Chile, China, Egypt, Hong Kong, India, Lebanon, Libya, Taiwan and others.

Source: Compiled using CBSL, *Annual Report 2015.*

## 3.5.3 Remittances and Tourism

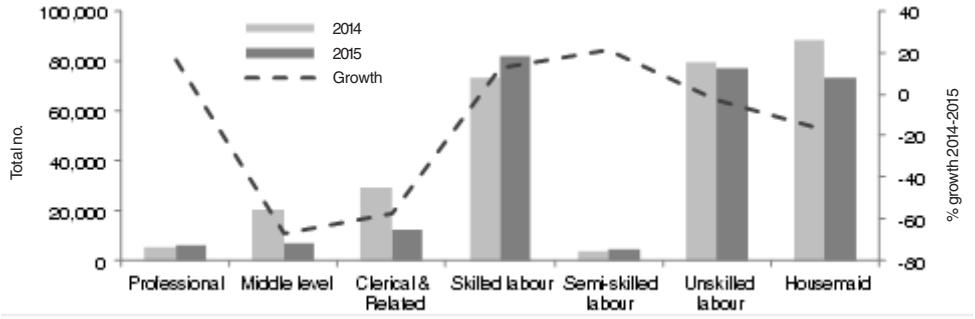
Worker remittances which saw a 9.5 per cent growth in 2014 stagnated at US$ 7 billion in 2015 (Figure 3.20). There was also a sharp decline in the departure of middle level migrants, and clerical and related job categories by 67 per cent and 57 per cent, respectively (Figure 3.21). Remittance inflows in the short-term can be expected to stagnate as the Middle East which accounts for half of Sri Lanka's migrant worker earnings is experiencing a fall in both revenue and growth due to low oil prices. Furthermore, despite undertaking policy measures at the domestic level to discourage the departure of low-skilled workers, with the absence of substitute income sources (i.e., high export earnings), a prolonged fall in remittances is likely to affect the country's economy negatively, leading to lower current account receipts, lower reserves and weaker credit profiles. Despite challenges faced by workers at the household level, foreign employment has been an important source of income with studies suggesting that migration of women for example, helps poor households catch up with the non-migrant households in the long-run.[28]

**Figure 3.20**
**Total Remittance Inflows and Growth of Inflows Year-on-Year**




Source: CBSL, *Annual Report,* various issues.

**Figure 3.21**
**Departure for Foreign Employment by Manpower Category and Growth, 2014-2015**




Source: CBSL, *Annual Report,* various issues.

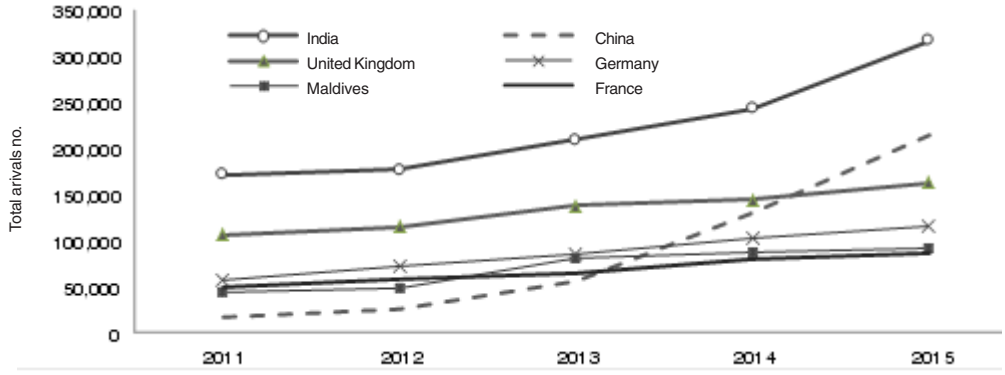
[28] De Silva, S. (2013), "Long-Term Benefits from Temporary Migration: Does the Gender of the Migrant Matter?", Levy Economics Working Paper No. 756, Bard College, US.

Sri Lanka's tourism industry on the other hand has been one of the fastest growing sectors of the country in the post-war period. It is the third largest foreign exchange earner and recorded 1,798,380 tourist arrivals in 2015, close to the revised target of 1.8 million for the year. This is a four-fold increase compared to that of 2009 at the time the war ended where the number of arrivals was limited to 448,000; 2015 also saw a 17 per cent growth in arrivals compared to that of 2014. Tourist earnings increased more rapidly, by over eight times over the period 2009-2015 to stand at nearly US$ 3 billion in 2015.

India continues to be the largest source of tourist arrivals accounting for 18 per cent of total arrivals, followed by China (12 per cent), UK (9 per cent) and Germany (6 per cent). The highest growth of arrivals in 2015 was recorded from China at 68 per cent, which surpassed the UK in 2015 to become the second largest source of tourists for the country (Figure 3.22). Overall, tourist arrivals from all major regions improved with the exception of Eastern Europe with arrivals from crises-ridden Russia and Ukraine declining notably in 2015 by 11 per cent and 20 per cent, respectively.

Sri Lanka aims at attracting over 2.5 million tourists in 2016 and 4 million by 2020. The country also aims to increase average daily expenditure of a tourist -- currently US$ 165 - to US$ 250, and total tourism revenue to US$ 5 billion by 2020. The industry expects growth to come from the regional markets of India and China. Sri Lanka tourism is planning on implementing a Nation Branding Campaign. In addition to the trade promotional activities such as participating in travel fairs, conducting roadshows and outdoor promotions, trade familiarization tours and media familiarization tours are expected to be major components of the promotional campaign.

**Figure 3.22**
**Tourist Arrivals from Major Source Countries, 2011- 2015**




Source: CBSL (2016), *Annual Report 2015*, Central Bank of Sri Lanka.

## Box 3.1
## Impact of Britain's Exit from EU on Sri Lanka

Britain's exit from the EU will slow down the economic activities of both the UK and other members of the EU, and is likely to impact Sri Lanka through different channels. Despite the timeframe and terms of withdrawal still being unclear, it is likely to affect Sri Lanka's exports, given the dependence on both the UK and EU as key export destinations. The EU is currently the largest export destination, taking up 28.8 per cent (US$ 3 billion) of Sri Lanka's total exports. The UK accounts for 10 per cent of total exports (US$ 1 billion) and 34 per cent of Sri Lanka's total exports to the EU. Garments are the main export product from Sri Lanka to the UK (accounting for about 80 per cent of Sri Lanka's total exports to the UK); UK also accounts for 43 per cent of Sri Lanka's total garment exports to the EU.

The immediate effect of Brexit on Sri Lanka will be felt through the depreciation of the pound; as of mid-July 2016, the pound had weakened by 10 per cent against the US dollar. The depreciation of the pound makes Sri Lankan imports into the UK market more expensive and this is likely to affect the sales and profit margins of Sri Lankan exports. There was significant volatility in the capital markets following the referendum that raised concerns that Sri Lanka's debt raising capacity would be hindered by falling investor confidence. In fact, investors fled to the safety of gold and dollar investments immediately after the referendum thereby raising the price of gold to its highest in two years. However, Sri Lanka is somewhat buffered by its limited foreign debt exposure to the European market (Euro-denominated debt of only 5 per cent and negligible exposure to sterling).

Sri Lanka went back to the international capital markets in July, with a Dual-Trance ISB issuance. Despite uncertainty following the referendum, there was a high level of interest and the bond was oversubscribed. Final pricing was well within the initial price guidance. Furthermore, volatility in the markets has stalled the Fed's rate hiking cycle, meaning that Sri Lanka's bonds remain attractive at their current yields.

Tourism is a sector that is likely to be affected in the short-run. Nearly 40 per cent of tourist arrivals into Sri Lanka are from EU, of which 9 per cent are from UK - making it the third largest source of tourists. The depreciation of the pound following Brexit will make overseas travel and stay more expensive, and this may affect inflows of tourists from UK. It may also affect their average duration of stay which was 13 nights in 2014; in comparison, the average stay of Chinese tourists was 9.8 nights.

Furthermore, if Sri Lanka is successful in regaining EU GSP-plus, the country will have preferential access to the UK only until it leaves the EU. Subsequent to that, if Sri Lanka wants preferential access to the UK market it will have to negotiate a bilateral agreement with the UK. Nevertheless, given that there is a two year period of negotiations between the UK and the EU following the trigger of Article 50, Sri Lankan companies should not be affected deeply in the short-run, unless uncertainty prevents UK companies from placing orders and benefitting from the concessions GSP-plus would offer in the future.

Overall, it is clear that while the ramifications of the exit are still unfolding, the multidimensional nature of the EU and the significance of the British market are likely to influence the global political economy. Therefore, Sri Lanka needs to closely watch the post-Brexit developments both in the UK and EU and accordingly adjust policies to minimize losses and maximize gains to the country.

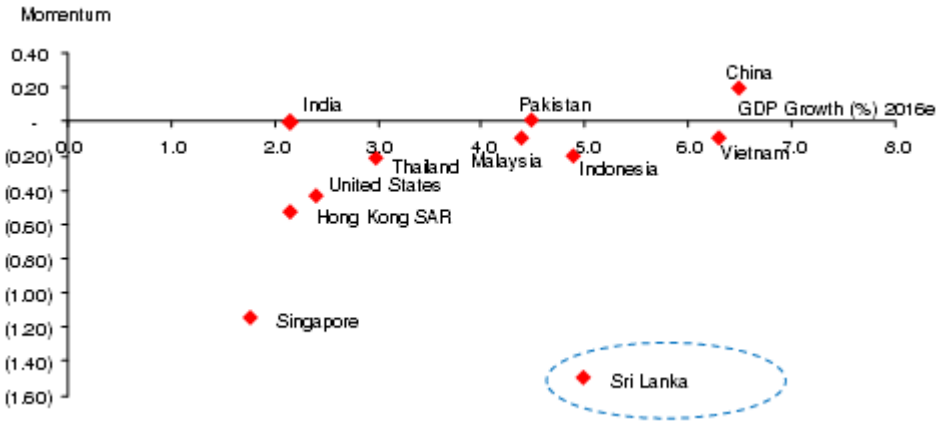
## 3.5.4 Capital Flows

Sentiment in Sri Lanka is decidedly worse compared to Asian peers. Despite concerns around the US tightening cycle affecting the entire region, the downward revisions to Sri Lanka's economic outlook is exerting an additional dampening sentiment. The lack of appetite for Sri Lankan investments is a country-specific issue that has arisen due to the deterioration in public finances, looming balance of payment crisis, declining foreign reserves and moderation in the country's growth outlook. As indicated in Figure 3.19, the IMF (April 2016) growth outlook for Sri Lanka saw a downward revision from 6.5 per cent to 5 per cent, representing the largest downward revision of Asian peers (-1.5 per cent).

In order to meet external financing requirements, Sri Lanka will have to return to international capital markets. However, the deterioration in investor sentiment leaves Sri Lanka exposed; the country will have to rely on the IMF for external liquidity support to generate investor confidence in the economy.

In 2015, there were net outflows from the government securities market of US$ 1,093 million. Foreign investments in the secondary market of the Colombo Stock Exchange (CSE) recorded a net outflow of US$ 32.3 million in 2015. This trend is continuing strongly into 2016 with a further outflow of US$ 366 million from T-bills and T-bonds,[29] and an outflow of US$ 40 million from the equity markets recorded in the first half of the year.[30]

**Figure 3.23**
**Growth Expectations Momentum**



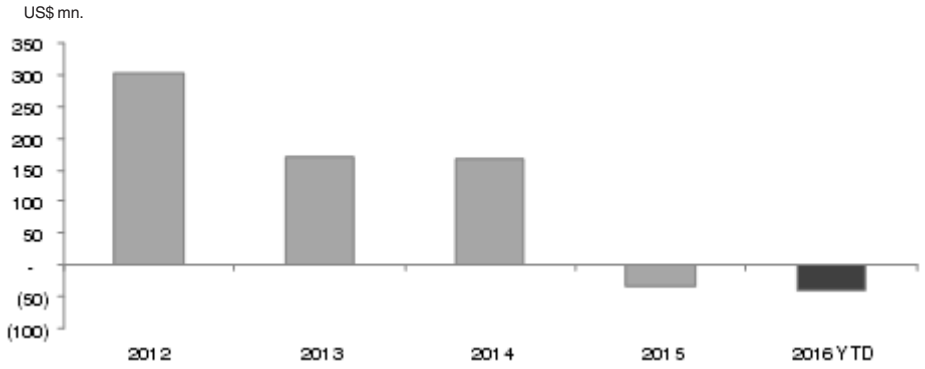

Note: Momentum is the change in forecast from the October 2015 WEO database release to the April 2016 WEO database release

Source: IMF WEO database.

[29] CBSL, "Weekly Economic Indicators", Central Bank of Sri Lanka, Colombo.

[30] CSE, "Monthly Trading Statistics", Colombo Stock Exchange, Colombo.

**Figure 3.24**
**Stock Market Net Foreign Flows**




Source: Colombo Stock Exchange.

International Sovereign Bond (ISB) issues have also seen yields edge upwards. The two ISB issuances in 2015 (US$ 650 million and US$ 1,500 million) in 2015 were priced at 6.125 per cent and 6.85 per cent, respectively, and were deemed successful at the time due to both being oversubscribed. However, since issuance, the yields on these instruments have increased to 6.93 per cent and 7.05 per cent, respectively, reflecting waning demand. Fitch estimates Sri Lanka's external debt service to be close to US$ 4 billion for the rest of 2016, compared with foreign reserves of US$ 6.3 billion (end-January 2016) meaning that the country will need to issue debt in order to meet its obligations. The CBSL announced intentions to issue up to US$ 3 billion in ISBs in 2016. However, the limited investor appetite suggests that this will come at a significant cost that will impact Sri Lanka's servicing burden in future years.

The IMF announcement of a US$ 1.5 billion Extended Fund Facility (EFF) will go some way to alleviating these pressures, particularly in terms of external funding. Firstly, the loan will provide external liquidity to ease immediate financing pressures. It will cushion the decline in foreign exchange reserves and reduce Sri Lanka's vulnerability to a potential drying up in the availability of capital inflows. Secondly, the terms of the loan are more favourable than the costs demanded by the international capital market, thereby reducing the anticipated increase in the debt-servicing burden. Finally, the agreement will assuage investor concerns around the economy and restore confidence in Sri Lanka's policy framework that could kick-start FDI flows into the country.

Assisted by the IMF announcement, Sri Lanka was able to return successfully to international capital markets in July, with its first dual-tranche ISB issue. The issuance saw strong interest globally, raising US$ 500 million 5.5-year bonds at a yield of 5.75 per cent and US$ 1 billion 10-year bonds at a yield of 6.825 per cent. Both were priced well inside the initial price guidance of 6.125 per cent and 7.125 per cent, respectively, but nonetheless reflect the trend of increasing yields in the domestic market.

## 3.6 Conclusion

The outlook for the global economy remains uncertain underlined by low growth and high volatility in financial markets. Much of this uncertainty stems from the slow-down in the Chinese economy and Britain's exit from the EU. China's transition has translated into lower oil and commodity prices with spillover effects felt by both developed and developing economies. While growth in developed economies is expected to be robust, emerging economies are confronted by capital outflows and exchange rate fluctuations due to US Federal Reserve rate hikes.

Sri Lanka's external sector performance in 2015 has been subdued with export earnings falling by over 5 per cent during the year. Declines in export volumes as well as export prices were visible in Sri Lanka's major export categories in 2015. While the tourism sector saw a boost in arrivals, remittances which are crucial for the Sri Lankan economy in many ways were stagnant. Impact of lower oil prices on oil exporting countries such as the Middle East translated into lower demand for exports such as tea. However, garments, remittances and tourism are expected to see positive growth in 2016 despite probable short to medium term effects of Brexit on the garment and tourism sectors. The lifting of the EU fisheries ban, developments in regaining GSP-plus concessions and a stronger US market will provide a boost to exports in 2016. The government has also stated its interest in pursuing preferential trading agreements in a number of countries, and if realized, this would provide an impetus to the country's export prospects (see Boxes 3.2 and 3.3).

While world trade is declining overall, an analysis of capital market performance suggest Sri Lanka will face the more pertinent issues in attracting capital. Comparisons show Sri Lanka to be faced with higher bond yields, indicating a higher cost of capital compared to regional peers and also higher risk. Deterioration in public finances with a widening fiscal deficit and a weakening BOP with declining foreign reserves - with a consequent downgrade to the sovereign credit rating - suggests that Sri Lanka will struggle to attract capital into the country. The remedy lies with domestic economic reforms and signalling of intentions to address them.

**Sri Lanka needs to closely watch the post-Brexit develop-ments both in the UK and EU and accordingly adjust policies to maximize gains to the country.**

## Box 3.2
## The Trans-Pacific Partnership Agreement (TPP): Changing the Landscape of International Trade and the Multilateral Trading System

On 4 February 2016 USA and 11 other countries in the Pacific Rim - Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, US and Vietnam - signed the TPP, an agreement considered to be groundbreaking in terms of coverage, scope and the membership. The 12 member countries account for 36 per cent of world GDP, one quarter of world trade and account for a population of 800 million. The TPP goes beyond a standard trade agreement and apart from services and investment, covers areas such as electronic commerce, intellectual property, SOEs, environment, SMEs, labour, trade facilitation and customs procedures, and government procurement amongst others. The Agreement which include 30 chapters runs into over 5,000 pages outlining country commitments and carve outs.

In terms of tariff reductions, all member countries would need to eliminate customs duties on exports of manufacturing goods and nearly all agricultural products based on agreed schedules. The majority of the tariff elimination will be immediate when the Agreement comes into effect with some tariffs eliminated over agreed timeframes. Furthermore, countries will not be able to impose para tariffs or cess. It is estimated that TPP would eliminate 98 per cent of tariffs in the TPP region (DFAT, 2015). The Agreement will come into force 60 days after all members complete their respective domestic treaty ratification processes within a two year timeframe or in the event of a lapse, when at least six members that account for 85 per cent of the combined GDP ratify the Agreement.

For Sri Lanka, the TPP markets account for 33.5 per cent of total exports and 23 per cent of total imports. A majority of Sri Lanka's trade with TPP is with the US (40 per cent) and Singapore (17 per cent). The formation of TPP clearly gives rise to concerns regarding its implications, as well as opportunities that such arrangements hold for Sri Lanka in terms of accession in the future. The most immediate impacts of TPP for Sri Lanka will be by way of preference erosion in accessing TPP markets through US GSP scheme and greater competition from improved market access offered to competitor countries such as Vietnam under TPP. Sri Lanka's major exports to the US are currently T&G products and rubber. However, the impact of the TPP on Sri Lankan industries will depend on a number of factors. Among the TPP members, Sri Lanka competes with Vietnam, Mexico, Peru and Canada on T&G. However, the latter three countries already have FTAs with the US. While the TPP would provide Vietnam a considerable tariff advantage, restrictions such as the 'yarn forward' rule in the TPP (requiring TPP nations to use TPP-member produced yarn in textiles) may affect the cost-structures and limit the benefits.

The Sri Lankan government has already expressed interest in exploring the possibility of joining the TPP. However, the pros and cons of joining should be carefully analyzed. Apart from tariffs, significant commitments would have to be made in a number of areas mentioned above, many of which Sri Lanka has little experience in - i.e., handling a negative list approach in services or compiling exceptions. Significant regulatory changes will also be required in a number of areas. Some analysts predict that that the TPP may become the template in future FTAs, including for any bilateral FTAs with the US. While international rules on environment, labour, etc., would be beneficial, others are also wary of using the trade regime as a general tool of global governance for these sectors.

References: IPS (2016), "TPP and Implications on Sri Lanka", Institute of Policy Studies of Sri Lanka, Colombo (unpublished); Barbee, I. and S. Lester, S., (2014), "The TPP and The Future of Trade Agreements", *Latin American Journal of International Trade Law*, 2(1).

## Box 3.3
## Forging Ahead with Trade Agreements

Compared to its neighbours in South and Southeast Asia, Sri Lanka has lagged behind in pursuing trade agreements which are vital for small market economies in order to benefit from large, emerging markets, and to attract FDI. The new government elected in 2015, has been clear of its intention of prioritizing trade and investment, and has been actively pursuing trade agreements under the aegis of the Ministry of Development Strategies and International Trade. It has expressed its intent of signing an Economic and Technology Cooperation Agreement (ETCA) with India as well as two free trade agreements with China and Singapore by the first quarter of 2017.

The Framework Agreement on ETCA between India and Sri Lanka is expected to provide a broader economic partnership with India, the fastest growing economy in the world. Resulting from opposition of various bodies, the government made a statement recently, declaring that it will not allow for the movement of natural persons under the agreement. Instead, entry of foreign professionals will remain tied to investments. ETCA is expected to strengthen economic exchange and cooperation with an 'Early Harvest Programme' that is expected to address issues such as non-tariff measures, trade remedies and rules of origin issues which have negative implications on trade in goods.

China-Sri Lanka FTA negotiations began with a memorandum signed by the respective governments announcing the launch of official negotiations in September 2014. Following two rounds of negotiations and a joint feasibility study which reported substantial economic and trade benefits to be accrued to both countries, the new government has restored talks with China on the FTA. China is Sri Lanka's second largest trading partner (over US$ 4 billion) and the second largest source of imports with potential for Sri Lanka to expand trade with China given the sheer size of the Chinese market and its share of world trade. However, if Sri Lanka is to gain from preferential access to the world's second largest and second fastest growing market, it is key that negotiations take into account the asymmetries of the size of the two markets and sensitivities of the domestic industries to imports from China.

Negotiations on the Singapore-Sri Lanka FTA were officially launched in July 2016 with the trade ministers of the two countries signing the joint statement and Prime Ministers Lee Hsien Loon and Ranil Wickremesinghe witnessing the event. Sri Lanka's current exports to Singapore account to US$ 85 million (less than 1 per cent of the country's total exports), while imports amount to US$ 923 million. Singapore is in fact, Sri Lanka's fifth largest source of imports accounting for 5 per cent of the country's total imports. While Sri Lanka's top exports to Singapore include petroleum oils (other than crude), tea, rubber tyres and previous/semi-precious stone the main import products are petroleum products, machinery, electronic equipment, chemicals and plastic. While a FTA with Singapore is expected to boost bilateral trade between the two countries, more significantly, it is expected to provide Sri Lanka a gateway to a larger ASEAN market given that many of the region's companies are headquartered in Singapore. It is also likely to increase FDI from Singapore which is currently Sri Lanka's fourth largest investor. Inclusion of services is likely to provide access to the Singaporean market in which telecommunications, banking, financial, education, and environmental services are liberalized. However, labour mobility is restricted under Singapore's FTAs.

References: Wijayasiri, W. and Pandey, A. (2016), 'Benefits of a Potential Singapore-Sri Lanka Free Trade Agreement', accessed at, http://www.ips.lk/talkingeconomics/2016/07/20/benefits-of-a-potential-singapore-sri-lanka-free-trade-agreement/.

# FISCAL POLICY FOR GROWTH:

## SUSTAINABLE FINANCING FOR DEVELOPMENT

# 4. Fiscal Policy for Growth: Sustainable Financing for Development

## 4.1 Introduction

Sri Lanka's public finances are at a perilous state. Already weakened by years of low revenue growth and high external debt to fund a public investment-led growth process, systemic weaknesses coalesced in 2015 to put the country on the cusp of falling into a public debt triggered economic crisis. A ballooning fiscal deficit and excessive public debt accumulation has resulted in a rising debt service burden; the conduct of monetary policy and exchange rate management has been compromised in attempts to deal with the fallout of funding the fiscal deficit gap. A serious BOP crisis has been averted, at least temporarily for now, with the inevitable decision to seek assistance from the IMF in its role as 'lender of last resort'.

The risks to stability on the macroeconomic front and growth prospects are high. Indeed, Sri Lanka's post-independence history is dotted with a failure to generate surpluses in public finances, leading to structural deficits and ingrained systemic weaknesses. Not surprisingly, fiscal indiscipline and weak institutional quality has led successive governments to accumulate unsustainably high-levels of public debt. From 2010, as the country entered the ranks of a low middle-income economy, this increasingly took the form of high levels of foreign borrowing from external capital markets. The high-risk strategy failed abysmally to give the necessary attention to domestic resource mobilization efforts, with the country's revenue-to-GDP ratio in free fall over the years.

Fiscal policy reforms are fundamentally vital for Sri Lanka to navigate through this impending crisis. At the outset, public expenditure needs to be rationalized by diverting resources away from loss-making public entities and towards investments with high economic returns. Simultaneously, the government's revenue mobilizing framework should be re-evaluated in view of broadening the revenue base and maximizing revenue potential. Only fundamental reforms to public finances will guarantee a measure of macroeconomic stability and improved growth outlook.

Against this backdrop, this chapter examines the trends and patterns of Sri Lanka's fiscal policy agenda and identifies avenues for potential reform. At the outset, the chapter establishes an analytical framework to identify areas of fiscal policy reform within the context of a developing economy. An overview of Sri Lanka's fiscal position is followed by an analysis of public spending and revenue patterns. Finally, the chapter briefly discusses some key areas of potential policy intervention.

# 4.2 A Framework for Fiscal Policy in a Developing Country Context

Fiscal policy can play a pivotal catalyst role in the process of economic growth and development. In the short-run, counter-cyclical fiscal policy is an important tool for managing business cycle fluctuations to ensure macroeconomic stability, a fundamental prerequisite for growth. In the medium to long-term, fiscal policy, especially in a developing country context – where private sectors are less dynamic and markets either underdeveloped or missing – can play an important role in spurring economic growth. In addition to spending on essential public goods and services such as national defence and the maintenance of law and order, it has now been well recognized that public investments in both physical and social infrastructure, such as roads, ports, power plants and spending on health and education, can enhance productivity of all firms and industries, and ensure that the growth process is more inclusive.[1]

At the same time, however, the manner in which governments go about raising revenue to finance these expenditure outlays also have a bearing on growth. Mobilizing revenue through taxes can harm growth prospects, given that taxes tend to distort economic incentives and behaviour if they are ill-thought through; raising corporate income taxes for instance have a negative impact on investment. Generally, however, different taxes vary in the extent of their distortionary impacts. Likewise, financing spending through excessive accumulation of debt poses risks of macroeconomic instability in the medium to long-term; debt fuelled public investment drives can crowd-out private investments or lead to BOP issues if borrowings are sourced internationally.[2] In light of the preceding, policy makers in developing countries for decades now have grappled with the fundamental fiscal policy challenge of trying to strike the right balance between maintaining a sufficient level of public investment with a view to support growth, whilst at the same time mobilizing enough fiscal resources to finance these expenditure outlays without undermining macroeconomic stability.

## 4.2.1 Improving Efficiency of Public Spending

Investments made by the public sector are primarily in public or collective goods such as defence and social security, which are under-supplied through market forces due to an inherent inability within the market or increasing returns to scale.[3] Whereas public expenditure on defence and social security is seen to be necessary, its investments in other areas such as health care, education, and infrastructure are more contentious - especially regarding the scale of investment. Public investment is required to be made in light of private investment and consumption patterns in these sectors since both public and private investments compete for the same resources. Public investment decisions also tend to have a complementarity effect on private investment.

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1 Gupta, S., B. Clements and G. Incuauste (eds.) (2004), *Helping Countries Develop: The Role of Fiscal Policy*, International Monetary Fund, Washington D.C.

2 *Ibid.*

3 Arrow, K. J., and M. Kruz (2011), *Public Investment, the Rate of Return, and Optimal Fiscal Policy*, Routledge, New York.

The presumed effect of government spending on economic growth can occur through its influence on consumption, investment, and transfer payments. The neo-classical school of thought argues that a shock to government consumption generates negative wealth effects.[4] It is argued that high levels of government spending lead to high levels of taxation, which consequently leads to households feeling poor. The impact on the representative household, in this instance, leads to an increase in labour supply, reducing consumption and lowering real wages. Contrastingly, neo-Keynesian thought posits that government spending causes an outward shift in the demand for goods, due to the presence of nominal rigidities, or countercyclical mark-ups.[5] Moreover, government spending is also seen as a positive influencer on growth due to increasing returns to scale.[6]

Macroeconomic stability is an essential prerequisite for strong and lasting growth, both in developed as well as developing countries. Unviable feasible fiscal policy measures that result in high levels of public debt hamper growth by increasing uncertainty, over-taxation, crowding out private investment, and weakening a country's resilience to shocks. As growth friendly reforms require fiscal space, revenue measures should ideally focus on broadening the tax base and minimizing distortions, while expenditure measures should aim at rationalizing spending and improving efficiency.[7]

Unlike industrialized economies, the budgets of developing economies are typically smaller (as shares of GDP). Moreover, while most of their revenue is gained through indirect taxes, the biggest share of government spending is accounted through the consumption of goods and services. Among spending on public goods and services, payment of public sector wages accounts for a significant proportion. The effectiveness of public spending is heavily dependent on its composition and developing countries are often seen to misallocate resources, whereby seemingly productive expenditure may become unproductive due to an excessive amount of them.[8]

Public spending on infrastructure, education, health, and pensions play an important role in determining the developmental impact of fiscal policy. Infrastructure spending can occur as recurrent expenditure, directly through the government budget or as part of an investment made by an SOE. Public investment in infrastructure considers two components that have diverging relationships with each other. The rationalization of public finances for public goods such as roads is wholly different to that of the utility subsector and travel infrastructure such as railways. For utilities, the basic public finance commitment should be to: (i) compensate for operational expenses that cannot be funded by tariffs - namely, public service obligations and essential service to users genuinely unable to pay, and (ii) create fiscal space for necessary investments where

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4 Baxter, M., and R. King (1993), "Fiscal Policy in General Equilibrium", *American Economic Review*, 83(3).

5 Perotti, R. (2007), "Fiscal Policy in Developing Countries: A Framework and Some Questions", World Bank, Washington D.C.

6 Devereux, M. B., *et al*. (1996), "Monopolistic Competition, Increasing Returns, and the Effects of Government Spending", *Journal of Money, Credit and Banking* , 28(2).

7 IMF (2015), *Fiscal Policy and Long-Term Growth,* International Monetary Fund, Washington D.C.

8 Devarajan, S., *et al*. (1996), "The Composition of Public Expenditure and Economic Growth", *Journal of Monetary Economics,* 37(2).

these also cannot be covered by tariffs, ideally through medium or long-term loans to be repaid by the utility revenues, or through loan guarantees.[9] However, the inability of service providers to achieve commercial viability leads to governments assuming even more, and often unsustainable, financial commitments.

For example, some studies note that public investment in transport and communications in developing countries leads to higher economic growth.[10] Similarly, others find that higher infrastructure quantity and quality reduces income inequality.[11] Comparatively, these positive effects of infrastructure investments and economic growth are more pronounced in developing countries than in developed countries. However it is important to note that the positive effect on a country's developmental prospects is dependent on investing in infrastructure that can have high rates of return for the investment. Infrastructure spending on non-viable or 'white elephant' projects may increase the financial burden of governments to unsustainable levels, and reduce the scope for more efficient public investments as well.

Public investment in the education sector is universally considered to be positively associated with economic growth. For example, across countries, more schooling is observed to result in higher individual earnings, with a rate of return of approximately 10 per cent per additional year of schooling.[12] In addition to private returns of investment in education, positive externalities associated with a more educated citizenry leads to positive social returns as well. Improvements in education levels are seen to reduce crime rates, improve health standards, and increase labour force participation.[13]

Moreover, investment in education affects labour productivity, improve an economy's innovative capacity, and increase the ability to replicate technology created abroad.[14] However, returns of public investment in education are not wholly dependent on continued increases in spending, but rather, focus on efficient spending. Middle-income countries, in particular, require investments in education that fulfill the needs of the economy that bridge the skills gap between demand and supply of labour.[15] In addition to efficiency, the inter-sectoral allocation of public spending, private education spending, and governance are also considered to be influential factors in influencing the link between public investment in education and education outcomes.[16]

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9 *Ibid.*

10 Easterly, W., and S. Rebelo (1993), *Fiscal Policy and Economic Growth: An Empirical Investigation,* National Bureau of Economic Research, Cambridge.

11 Serven, L., and C. Calderon (2004), *The Effects of Infrastructure Development on Growth and Income Distribution,* World Bank, Washington D.C.

12 Psacharopoulos, G., and H.A. Patrinos (2004), "Returns to Investment in Education: A Further Update", *Education Economics*, 12(2).

13 See Lochner, L., and E. Moretti (2004), "The Effect of Education on Crime: Evidence from Prison Inmates, Arrests, and Self-Reports", *American Economic Review* , 94(1); Currie, J., & Moretti, E. (2003), "Mother's Education and the Intergenerational Transmission of Human Capital: Evidence from College Openings", *The Quarterly Journal of Economics*, 118(4); Bowen, W. G., and T.A. Finegan (2015), *The Economics of Labour Force Participation,* Princeton University Press, Princeton.

14 Hanushek, E. A., and L. Wössmann (2007), *Education Quality and Economic Growth,* World Bank, Washington D.C.

15 Eichengreen, B., *et al*. (2013), *Growth Slowdowns Redux: New Evidence on the Middle-Income Trap,* The National Bureau of Economic Research, Cambridge.

16 Abu-Ghaida, D. (2007), "Education", in C. Gray, *et al*., *Fiscal Policy and Economic Growth: Lessons for Eastern Europe and Central Asia,* World Bank, Washington D.C.

While better health standards positively influence economic growth and reduce inequality, public spending on health and health outcomes are tenuously related. Studies note that an increase in health spending by 1 percentage of GDP results in a rise in the under-5 survival rate by 0.2 percentage points.[17] The World Bank's World Development Report 2004 also notes that efficiency (organization and allocation of spending) and effectiveness (capacity and governance) are influential factors in the relationship between public spending and health outcomes. Furthermore, it is important to note that successfully implemented public health initiatives related to issues such as smoking, alcohol consumption, and education on HIV/AIDS also results in positive effects on the economy.

## 4.2.2 Challenge of Mobilizing Revenue Resources

Governments have at their disposal a number of sources to mobilize revenue which could be broadly categorized into debt, non-debt capital, foreign aid and other unilateral grants, non-tax revenue including resource rents, seigniorage and taxes, of which a governments' own fiscal revenue pool is typically derived from taxes, non-tax revenue and seigniorage. In most economies, domestic and international taxes of goods and services followed by personal and corporate income taxes form the core sources of government revenue. In addition to these, governments also apply a number of taxes in the form of levies. The most important sources of non-tax revenue typically materialize in the form of requited payments including revenue from assets exploitation (fees, charges, royalty, dividend, interest, auction proceeds, sales of goods and services such as fees and user charges, and sales of licences for regulated activities such as licensing fees, permits, and registration fees). Fines and penalties are also amongst some of the widely utilized non-tax revenue sources.[18] The evidence thus far, however, suggests that many developing countries have tended to underutilize instruments of non-tax revenue. Whilst governments have at their disposal an array of instruments to mobilize fiscal revenue, the choice of instruments has a bearing on growth.

Minimizing distortions in the tax system is vital. Throughout history, taxation has been the instrument of choice for governments in mobilizing their own revenue. Whilst raising revenue is the core objective of any tax system, one of the central challenges confronting developing country governments is to design a tax system that mobilizes sufficient tax revenue to sustainably finance expenditure needed for growth and poverty alleviation, and to do so in a way that does not in itself undercut objectives by unduly worsening pre-existing distortions or inequities.[19] Furthermore, many characteristics of developing economies, such as large informal sectors make the problem of revenue mobilization through taxes particularly challenging. The agricultural sector, in particular is hard to tax in all countries, for both practical and political reasons. Likewise, the capacity of potential taxpayers to comply with tax rules and of the authorities to administer them is another

[17] Baldacci, E., *et al*. (2003), "More On The Effectiveness of Public Spending on Health Care and Education: A Covariance Structure Model", *Journal of International Development*, 15(6).

[18] Gupta, D. (2015), "Fiscal Resources for Inclusive Growth", in Park, D., *et al*. (eds.), *Inequality, Inclusive Growth and Fiscal Policy in Asia*, Asian Development Bank and Routledge, New York.

[19] IMF (2011), *Revenue Mobilization in Developing Countries,* International Monetary Fund, Washington, D.C.

challenge. Moreover, many of them are themselves likely to be affected by the tax system in force. For instance, heavy taxation of the formal sector will tend to encourage growth of the informal sector, and an inappropriate tax design may provide further opportunities for corruption.[20] All these features constrain effective taxation. Different taxes vary in terms of their long-term efficiency and equity effects. As such employing the right mix of tax instruments to suit individual country characteristics are critical to ensure that the tax system generates sufficient revenue at minimum costs.

Another important aspect to be kept in mind is the growth and distributional effects of taxes. As noted earlier, taxes tend to distort economic incentives and behaviour. Any change in the taxation system would require a change in the base or rate of some taxes. Firms and households would then respond by shifting resources from highly taxed activities to lesser taxed ones. When market prices reflect social costs and benefits reasonably well, this poses a trade-off between revenue and efficiency. Sometimes market prices may not reflect social costs and benefits; taxes can then improve the allocation of resources, but only if market imperfections can be quantified so as to guide the design of the tax structure. As a rule, the economic cost of taxation increases more than proportionately with the rate of taxation. The narrower the base, the higher the tax rate will have to be to generate a given amount of revenue. This is one of the strongest arguments in favour of broad based taxes.[21]

Furthermore, different taxes have varying impacts on growth. For example, in the OECD, corporate income tax (CIT), followed by personal income tax (PIT) are found to be the most distortive taxes for long-term growth, whilst consumption taxes followed by property taxes are least damaging.[22] Likewise, lower CIT rates are found to be associated with faster growth, including in non-OECD countries.[23] These findings support the theory that taxation of capital income has a potentially strong negative impact on investment. In addition to growth effects, taxation also has distributional consequences. Progressive personal tax rates and consumption tax rates are good examples. The issue here is one of the trade-off between growth costs and redistribution benefits. Thus, countries must seek to strike a mix of tax instruments in their bid to minimize adverse effects on growth.

## 4.2.3 Risks of Debt Financing

As noted earlier, in addition to a government's own source of finances, fiscal expenditures can be financed through debt. Debt financing does have its own merits and demerits. Assuming that returns from a project financed through debt are higher than the interest payment, debt-financed investments have the potential to spur economic growth. However, the strategy is fraught with risk since adequate levels of revenue from a project may not be created. In

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[20] Tanzi, V. and H. Zee (2000), "Tax Policy For Emerging Markets: Developing Countries", IMF Working Paper WP/00/35, International Monetary Fund, Washington, D.C.

[21] World Bank (1988), *World Development Report: Opportunities and Risks in Managing the World Economy - Public Finance in Development*, World Bank, Washington D.C.

[22] Arnold, J. (2008), "Do Tax Structures Affect Aggregate Economic Growth? Empirical Evidence from a Panel of OECD Countries," OECD Economics Department Working Paper No. 643, Organization for Economic Cooperation and Development, Paris.

[23] Lee, Y. and R.H. Gordon (2005), "Tax Structure and Economic Growth," *Journal of Public Economics*, Vol. 89(5).

addition, it is particularly important to note that high public debt has a tendency to hamper growth given that it increases uncertainty over future taxation, leading to a crowding out of private investment, and weakening a country's resilience to shocks.

Theoretical literature on the relationship between the stock of external debt and growth has largely focused on the adverse effects of 'debt overhang'. Debt overhang is defined as a situation where the expected repayment on external debt falls short of the contractual value of debt.[24] If a country's debt level is expected to exceed its repayment ability with some probability in the future, expected debt service is likely to be an increasing function of the country's output level. Thus, some of the returns from investing in the domestic economy are effectively 'taxed away' by existing foreign creditors, and investment by domestic and foreign investors - and thus economic growth - is discouraged.[25]

**Figure 4.1**
**Fiscal Deficits and Public Debt**

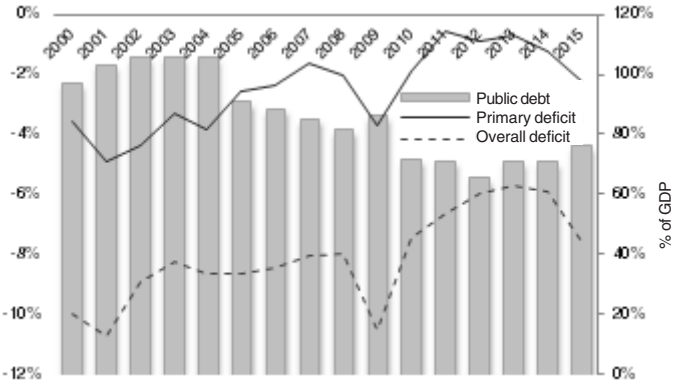
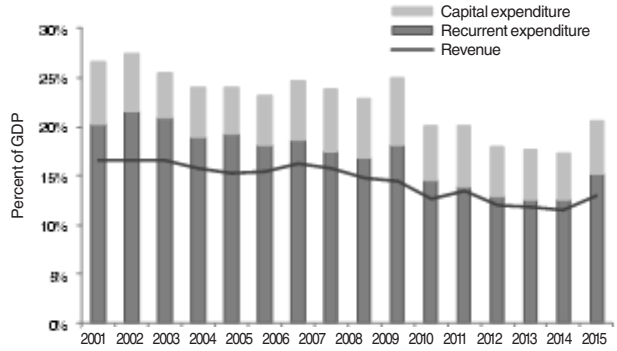



**Figure 4.2**
**Revenue and Expenditure**




Source: Estimated using data from Ministry of Finance and Planning, *Annual Report,* Colombo, various years.

**Government revenue mobilization efforts have failed to even adequately cover public recurrent expenditure needs, let alone capital investment requirements.**

[24] Krugman, P. (1988), "Financing vs. Forgiving a Debt Overhang", National Bureau of Economic Research Working Paper No. 2486, Cambridge.

[25] IMF (2011), *Revenue Mobilization in Developing Countries*, International Monetary Fund, Washington D.C.

Debt overhang also depresses investment and growth by increasing uncertainty. As the size of the public debt increases, there will be growing uncertainty about actions and policies that the government will resort to in order to meet its debt servicing obligations, with adverse effects on investment. In particular, as the stock of public sector debt increases, there may be expectations that the government's debt service obligations will be financed by distortionary measures. External debt service (in contrast to the total debt stock) can also potentially affect growth by crowding out private investment or altering the composition of public spending. Other things being equal, higher debt service can raise the government's interest bill and the budget deficit, reducing public savings; this, in turn, may either raise interest rates or crowd out credit available for the private investment, dampening economic growth. Higher debt service payments can also have adverse effects on the composition of public spending by squeezing the amount of resources available for infrastructure and human capital, with negative effects on growth.

Amidst extensive research on debt and growth, there is no consensus on the optimal level of public debt. Yet, numerous studies recognize that a nonlinear relationship between debt and growth exists. Increases in debt at a higher level tend to affect growth more negatively than the same debt increase at a lower level of debt. In their seminal study, Reinhart and Rogoff (2010) find that countries with debt above 90 per cent of GDP experience significant weakening of growth.[26] Other studies also find similar nonlinearity at the same level of debt.[27]

# 4.3 Overview of Sri Lanka's Fiscal Position

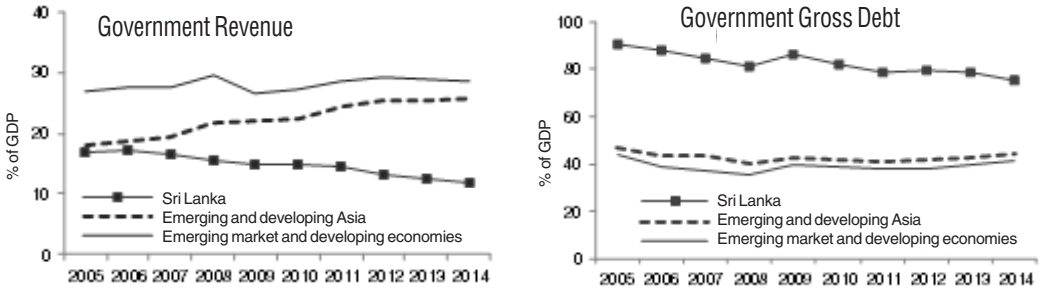
Throughout Sri Lanka's post-independence history, successive Sri Lankan governments have racked up unsustainable fiscal deficits. The implementation of the Accelerated Mahaweli Development Project during the period 1978-1983, in tandem with the first wave of economic reforms, saw the fiscal deficit balloon into unsustainably high double-digit levels, where the deficit peaked to 19.2 per cent in 1980. The second highest deficit of 12.7 per cent was recorded in 1988, which marked the commencement of a fiscal stabilization programme under a second wave of economic reforms. Despite some improvements as shown in Figure 4.1, deficits have continued to average 7-8 per cent of GDP with knock-on effects on other critical areas of macroeconomic policy management, most notably fuelling high and volatile rates of inflation. With rising fiscal imbalances, the country's indebtedness also rose - peaking most recently at 105 per cent of GDP in 2002 - narrowing the options for policy manoeuverability and limiting the ability to respond appropriately to domestic and external shocks.

Figure 4.1 also shows that the government has been a continuous dis-saver, running primary deficits in the range of 2-3 per cent of GDP. This reflects the fact that government revenue mobilization efforts have failed to even adequately cover public recurrent expenditure needs, let alone capital investment requirements (Figure 4.2).

[26] Reinhart, C. M., and K.S. Rogoff (2010), *Growth in a Time of Debt,* National Bureau of Economic Research, Cambridge.

[27] Kumar, M. S., and J. Woo (2010), *Public Debt and Growth,* International Monetary Fund, Washington D.C.

**Figure 4.3**
**Comparative Trends in Government Revenue and Debt**




Source: IMF, World Economic Outlook database.

Reforms towards more efficient public finance management have been sporadic and largely ineffective. In 2003, the government enacted the Fiscal Management Responsibility Act, aimed at containing the size of both the fiscal deficit and public debt. However, in the aftermath of the December 2004 tsunami that necessitated a sharp increase in expenditures for reconstruction and rehabilitation, the targets set by the Act were largely ignored. On a more positive note, reporting requirements saw some improvement with the Ministry of Finance tabling mid-year reviews on performance.

Since 2009, Sri Lanka appears at first glance to have made some headway in reversing the country's fiscal fortunes. The fiscal deficit fell progressively to 5.4 per cent of GDP in 2013, while the public debt-to-GDP ratio too climbed down steadily to around 70 per cent of GDP. However, the explanation for this lies in more robust nominal GDP growth over the same period than any underlying efforts at addressing structural weaknesses in fiscal policy management.

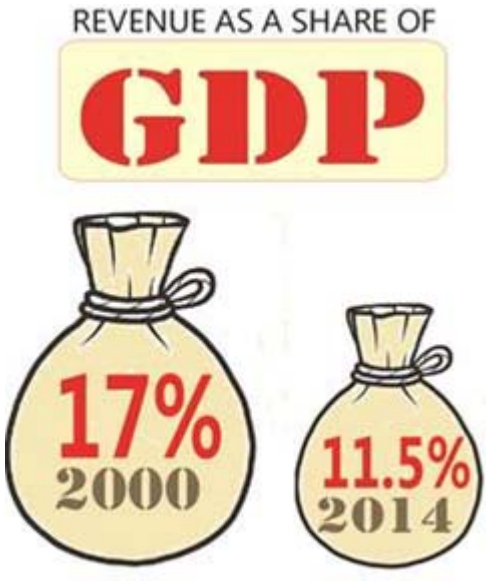
As could be observed from the Figure 4.3, Sri Lanka's fiscal position in comparison with other developing and emerging market economies is poor. Government revenue generation is well below the desired level, while the government debt burden is much higher than countries at similar levels of development.

**Sri Lanka's fiscal position in comparison with other developing and emerging market economies is poor.**

## 4.3.1 Trends and Patterns of Tax Revenue Generation

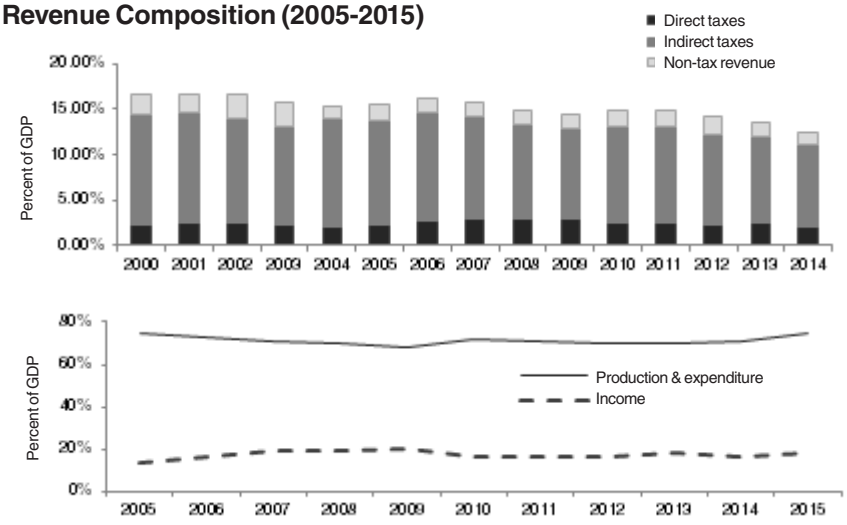
The bulk of Sri Lanka's tax revenue is sourced through indirect taxes, followed by direct taxes and non-tax revenue (Figure 4.4). Whilst the share of direct taxes has remained more or less unchanged over the years, revenue from indirect taxation and non-tax sources have declined significantly over the years which has contributed to the poor revenue collection performance.

The 'progressivity' of Sri Lanka's taxation system however has improved marginally. The share of taxes on income has begun to trend upwards since around 2010. Nonetheless, this is not truly reflective of the underlying taxation principles adopted, given that the regressivity of taxes such as VAT and import duties have been minimized through exemptions on basic consumption commodities as well as imposing high duties on items considered to be of a 'luxury' nature, etc. Indirect taxes currently make up 80 per cent of total revenue; the government has announced intentions to reverse this over time to a ratio of 60:40 as indirect and direct sources of tax revenue.



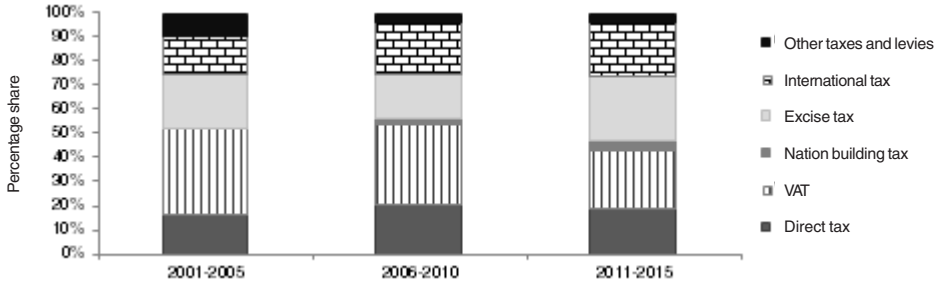

Revenue as a share of GDP has declined persistently from around 17 per cent in 2000 to a historic low of 11.5 per cent in 2014 (see Figure

**Figure 4.4**
**Revenue Composition (2005-2015)**




Source: Estimated using data from Ministry of Finance and Planning, *Annual Report,* Colombo, various years.

**Figure 4.5**
**Breakdown of Tax Revenue by Instrument, 2000-2015**




Source: Estimated using data from Ministry of Finance and Planning, *Annual Report,* Colombo, various years.

4.2). This is despite a steady rise in per capita income in the country over the same period. As noted earlier, consistent with the characteristics of a developing economy, the bulk of Sri Lanka's tax revenue is sourced through indirect taxation, Value Added Tax (VAT) and a Nation Building Tax (NBT) being the main indirect tax sources (Figure 4.5). There has been a significant drop in revenue generated from VAT, from a high of 5.9 per cent of GDP in 2004 to a historic low of 2.6 per cent of GDP by 2015 which has been a major contributory factor behind the steady decline in the tax-to-GDP ratio over the last decade.

In terms of the direct tax revenue, corporate income tax accounts for the major portion of direct taxes, followed by taxes on interest income and personal income tax. Revenue generated from direct taxes has remained stagnant over the past decade. In an ideal scenario revenue from direct taxes should increase given the progressive nature of such taxes; however, in Sri Lanka's case, despite the high growth rates enjoyed by the country over the past decade, tax revenue mobilization from direct tax sources have been stagnant. Sri Lanka has a long history of offering tax incentives as an instrument to attract investments with limited success, which has also led to the erosion of the tax base and complicated the tax structure further (Box 4.1).

It is important to note that revenue from trade taxes and excise taxes has helped off-set the decline in indirect tax revenue to a large extent. Whilst there was a decline in revenue generated through Customs duties as a consequence of greater trade openness up to 2003, a more restrictive trade policy outlook post-2004 through the application of a less transparent para-tariffs regime - the Port and Airport Levy (PAL), CESS and a Special Commodity Levy - have off-set the fall in Custom duty revenues and contributed significantly to the overall growth of trade tax revenue. In terms of excise taxes, whilst taxes collected from tobacco and liquor account for the lion share of excise revenue, there has been a notable increase in excise collected on motor vehicle sales.

The inability to reverse the country's weakening revenue base comes despite a slew of recommendations to address tax administration and policy under a 2010 Presidential Commission on Taxation. The implementation of reforms at best has been ad hoc and incomplete, weakening overall public finance management in the country.

## Box 4.1
## History of Tax Incentives in Sri Lanka

Sri Lanka has a long history of offering tax incentives to attract investment dating back to the heights of the import substitution industrialization era. Up until 1977, keeping with the inward-looking economic policy that prevailed, they were offered to certain import-substitution industries, agriculture, housing, non-traditional exports, tourism and gem industry, in addition to the specific incentives offered to the crop sectors of tea, rubber and coconut. All such incentives were offered under the authority of the Inland Revenue Department (IRD).

With the shift towards a market led growth strategy and the emphasis on attracting FDI to catalyze the export sector, tax incentives were offered to foreign investors setting up operations within designated free trade zones owned and operated by the Greater Colombo Economic Commission (GCEC). The amalgamation of the GCEC and the Foreign Investment Advisory Council (FIAC) to form the Board of Investment in 1992, saw the BOI being vested with powers to grant tax incentives to foreign investors. The BOI Act superseded the provisions set out in the Inland Revenue Act with regard to tax incentives offered to BOI projects. Projects receiving 'BOI status' were granted generous income tax concessions and Customs duty exemptions, subject to meeting criteria based on the size of investment, export orientation and employment generation. This however created a dichotomy between local and foreign investors. Thus, recognizing the 'uneven playing field', the government extended BOI tax incentives to local companies from the early 1990s.

In 2006, the government introduced the Nipayum Sri Lanka, 300 enterprise programme which offered a special tax incentive package to investors setting up enterprise outside the Colombo and Gampaha districts. The lead agencies in the implementation of this programme were the Ministry of Industries and the BOI. The tax incentives for projects under this programme were granted both under the BOI and under the IRD, and new projects had the option of availing themselves of either, not both.

Sri Lanka took an important step in streamlining tax incentives through the Budget 2011. All tax incentives offered related to corporate income tax were written into the Inland Revenue Act. From there onward, tax incentives for new projects are granted in line with the country's general income tax provisions, and the BOI was relieved of the authority to introduce any new incentive packages on its own.

In the meanwhile, for pioneering investments, special incentives packages are to be negotiated on a case-by-case basis under the provisions set out in the Strategic Development Projects (SDP) Act of 2008. These are only in respect of investments that require incentives exceeding those stipulated in the tax holiday provisions of the IRD tax code.

In addition to tax incentive offered under the BOI Act, successive government budgets over the years have seen the introduction of tax incentives targeted at SMEs. Incentives include pre-establishment cost write-offs, tax holidays for both new investments and expansions ranging from 3-6 years depending on the volume of investment, triple deductions on R&D expenditure undertaken by SMEs and VAT and duty exemptions for selected manufacturing activities such as handlooms, agriculture processing, fisheries, poultry and rice milling to name a few.

## 4.3.2 Trends and Patterns of Public Expenditure

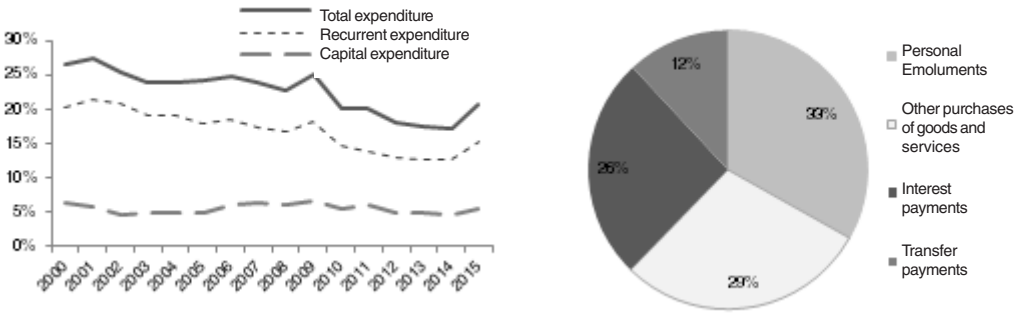
As evident from Figure 4.6, Sri Lanka has seen a steady decline in fiscal expenditure from a high of nearly 27 per cent of GDP in 2000 to 17.2 per cent in 2014. This has come about through a better mix of expenditure, focused on restraining current spending whilst accelerating capital investment.

The bulk of Sri Lanka's fiscal expenditure over the past decade has been expended on financing recurrent government expenditure. Whilst this figure has been falling over the years, it still accounts for a significant portion of expenditure outlays. The composition of current expenditures - primarily made up of salaries and wages, interest payments on public debt, and transfers and subsidies - has hardly changed either, underlying the lack of meaningful reform efforts in public finance management.

Of the three main recurrent expenditure categories, reform initiatives have hardly touched on the country's large public sector or subsidies and welfare measures in place. This is despite the fact that in the case of the latter, a host of subsidies (e.g., fertilizer) and transfers (e.g., Samurdhi) where issues of targeting and the effectiveness of outcomes have been subject to considerable debate.[28] Public finances are heavily burdened by a non-contributory pension scheme, whilst at the same time leaving a large share of Sri Lanka's elderly and vulnerable population without adequate means of social protection.[29]

Sri Lanka has a large and growing cadre of public sector employees, estimated to account for approximately 15 per cent of the total

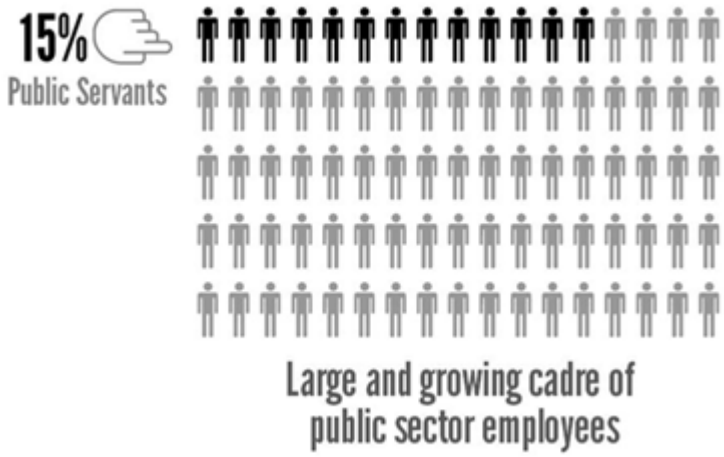
**Figure 4.6**
**Government Expenditure Trends (2000-2015)**




Source: Estimated using data from Ministry of Finance and Planning, *Annual Report,* Colombo, various years.

[28] Tilakaratna, G., A. Galappattige and R. Jayaweera (2013), "Safety Nets in Sri Lanka: An Overview", report prepared for the World Bank, Colombo.

[29] IPS (2015), "Reforming Sri Lanka's Social Protection System" in *Sri Lanka: State of the Economy 2015*, Institute of Policy Studies of Sri Lanka, Colombo.




employed in 2015. Aside from the heavy fiscal recurrent expenditure burden of salaries and a non-funded public sector pension scheme, the Treasury must also grapple with transfers to loss making SOEs.

Sri Lanka currently hosts 245 SOEs under different legal structures such as statutory bodies, limited companies, subsidiary firms, and even government departments. As Table 4.1 illustrates, several loss-making and non-functional SOEs rely heavily on the government budget for recurrent expenditures. Most of the minority share-holding companies fail to pay dividends to the government and accrue heavy debts, which have impacts on bank performance, and an unusual accumulation of inter-SOE debts as well. Among the 245 SOEs, the government has identified 55 SOEs as strategically important. Eleven SOEs among these too have incurred heavy losses - especially in the commercial operations of the energy, aviation, commuter transport, and plantations sectors.

**The government has identified 55 SOEs as strategically important. Eleven SOEs among these too have incurred heavy losses – especially in the commercial operations of the energy, aviation, commuter transport, and plantations sectors.**

**Table 4.1**
**Profitability of Selected SOEs (Rs. mn.)**

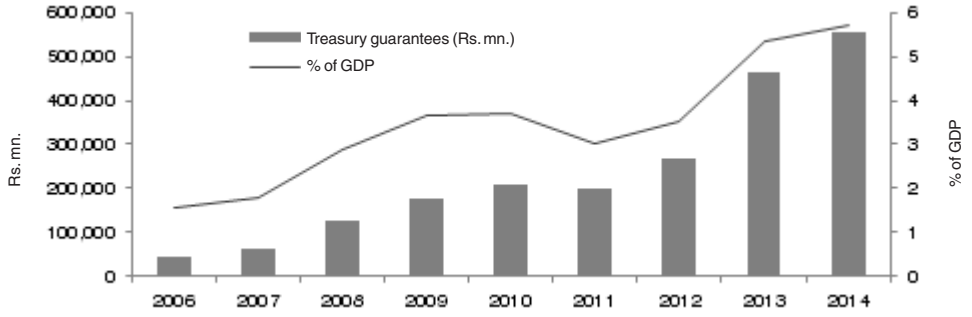
| Enterprise | Profit/(Loss) | | | | Budgetary Support (2014) | |
|---|---|---|---|---|---|---|
| | 2005 | 2012 | 2013 | 2014 | Recurrent | Capital |
| Sri Lankan Airlines Ltd | 480 | (21,751) | (32,358) | (16,181) | - | - |
| Ceylon Electricity Board | (6,852) | (61,447) | 22,945 | (13,303) | - | 16,793 |
| Sri Lanka Transport Board | (1,119) | (2,964) | (10,640) | (9,407) | 6,965 | 1,597 |
| Mihin Lanka (Pvt) Ltd | | (2,866) | (2,566) | (1,187) | - | 6,528 |

Source: MOFP, *Annual Report 2014*, Ministry of Finance and Planning, Colombo.

In addition to direct budgetary assistance, in order to sustain the operation of SOEs, the government has also resorted to issuing Treasury guarantees. Sri Lanka's Fiscal Management Responsibility Act of 2003 capped such contingent liabilities at 4.5 per cent of GDP; this was amended and raised to 7 per cent in 2013. Contingent liabilities have increased sharply from 1.6 per cent of GDP in 2006 to 5.7 per cent of GDP in 2014 (Figure 4.7).

These contingent liabilities, therefore, effectively increase the level of government liabilities. As Table 4.2 indicates, many non-revenue generating entities that previously depended on fiscal transfers have resorted to direct borrowing with Treasury guarantees. Among state institutions issued with government-backed guarantees, the Ceylon Petroleum Corporation (CPC) has been issued the most contingent liabilities. Moreover, the Road Development Authority (RDA) has also been granted significant guarantees. This indicates the vicious cycle associated with the subsidization of loss-making SOEs and their impact on ancillary institutions. For instance, the CPC continues to provide fuel to loss-making enterprises such as SriLankan Airlines, Mihin Lanka, and the Ceylon Electricity Board (CEB) that are consequently unable to fulfil financial obligations. In turn, the CPC absorbs a financial loss that is eventually borne by the state.

**Figure 4.7**
**Treasury Contingent Liabilities**




Source: MOFP, *Annual Report*, Ministry of Finance and Planning, Colombo, various years.

**Table 4.2**
**Contingent Liabilities Granted to Select Government Agencies, 2014**

| | Value (Rs. mn.) | Capital on Treasury Guarantee (Rs. mn.) |
|---|---|---|
| Airport and Aviation Service Ltd | 32,587.23 | 445.46 |
| CEB | 17,985.11 | 13,876.05 |
| CPC | 206,426.00 | 205,950.00 |
| CPC Storage Terminals Ltd | 4,634.50 | 2,374.50 |
| Lakdhanavi Ltd | 5,984.00 | 5,984.00 |
| Ministry of Defence and Urban Development | 7,550.00 | 7,017.59 |
| National School and Business Management Ltd | 8,600.00 | 2,856.46 |
| Paddy Marketing Board | 6,493.00 | 6,377.01 |
| People Bank Pension Trust Fund | 5,000.00 | 5,000.00 |
| RDA | 97,961.81 | 71,560.45 |
| Sir John Kotalawala Defence University | 27,726.39 | 27,152.53 |
| UDA | 21,372.37 | 21,222.37 |
| West Coast Power | 21,993.75 | 11,184.08 |
| **Total** | **465,784.03** | **382,261.20** |

Source: MOFP, *Annual Report 2014*, Ministry of Finance and Planning, Colombo.

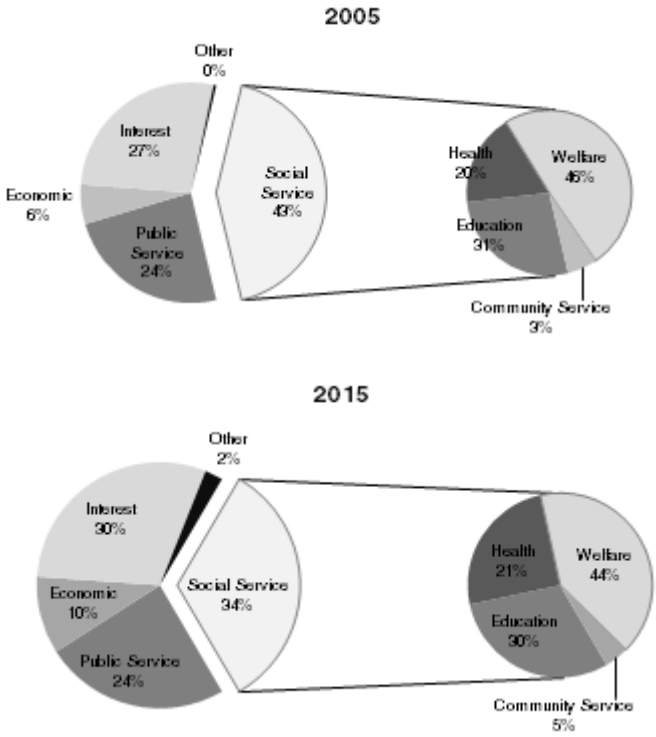
In critical areas for funding such as education and health, the share of public expenditures as a percentage of GDP has been declining. For example, current expenditure on health and education as a share of total government current expenditure has remained the same (Figure 4.8).

Adequate investments in health and education are important not only to ensure a skilled and productive work force, but also to meet broader objectives of socio-economic development and equity. Available evidence suggests that although, education and health services are provided free of user fees, households on average spend 6.2 per cent of their monthly expenditure on health and education.[30] Further, these incidence of out-of-pocket expenditure on health and education is regressive, indicating that this could contribute to widening the existing inequalities in quality and access to these services.

In contrast to recurrent expenditures, there has been a significant change in Sri Lanka's capital investment profile. Sri Lanka's public investment lagged behind for years as other expenditure priorities, particularly spending on defence, took precedence during three decades of armed conflict. This clearly is costly for long-term sustained growth; inadequate attention to

[30] Arunatilake, N., N. Attanayake and P. Jayawardena (2010), "Equitability in Education and Health Services in Sri Lanka", report prepared for the Asian Development Bank, Manila.

**Figure 4.8**
**Breakdown of Current Expenditure, 2005 and 2015**




Source: MOFP, *Annual Report*, Ministry of Finance and Planning, Colombo, various years.

**Since becoming a lower middle-income country, Sri Lanka has become less qualified for concessional loans, and issues pertaining to debt accumulation and repayments have become more acute.**

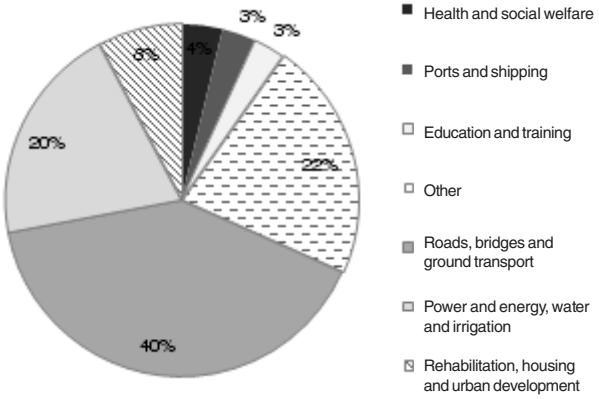
capital spending, especially in investments that have higher returns, reduces the government's capital formation and consequently inhibits the development potential of the country.

Capital expenditure, in non-military productive purposes, is seen to create multiplier effects that stimulate growth and expand economic activities in the private sector in the medium to long-run. As previously noted, capital spending was raised to an average of 6 per cent of GDP post-2006 in support of the government's infrastructure investment led growth strategy. While some projects were clearly justifiable, there were also many that will perhaps not generate returns to repay costs incurred. Given that the bulk of public infrastructure investment was financed through external borrowing, the long-term fiscal implications on debt financing is increasingly of growing concern.

## 4.3.3 Public Debt and Debt Servicing

Successive governments have pursued debt-financed investment as well as debt-financed consumption through both domestic and foreign means of borrowing. For example, the Accelerated Mahaweli Development Programme (AMDP) was mainly a foreign debt-financed investment. Such policy prescriptions led to the accumulation of debt that amounted

**Figure 4.9**
**Composition of Foreign Debt Expenditure, 2005-2014**



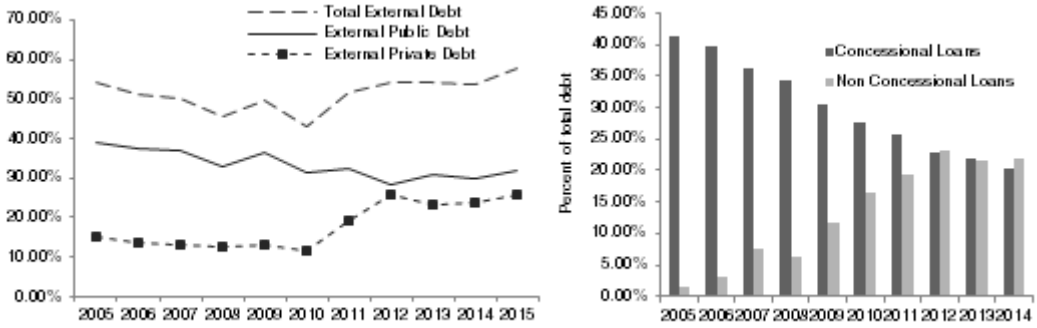

Source: Estimated based on data from MOFP, *Annual Report*, Ministry of Finance and Planning, Colombo, various years.

to 105 per cent of GDP in 2002. Notably, as a low-income country, Sri Lanka was granted access to concessional foreign loans with long repayment periods and low interest rates. However, since becoming a lower middle-income country, Sri Lanka has become less qualified for concessional loans, and issues pertaining to debt accumulation and repayments have become more acute.

The negative impacts of debt-financed investments are somewhat ameliorated with pertinent investments in projects that produce high returns in dollars (or other exchange) through direct or indirect means. Such returns would better facilitate the repayment of debts. Politically motivated investments with low returns result in a necessity for debt rollovers, as the government requires more loans to repay previous loans. As evident from Figure 4.9, a vast proportion of debt expenditure has been spent on investments that have low financial returns such as roads, bridges and ground transport with fewer resources dedicated to

**A vast proportion of debt expenditure has been spent on investments that have low financial returns such as roads, bridges and ground transport with fewer resources dedicated to investments with high returns such as education.**

**Figure 4.10**
**External Debt Trends**



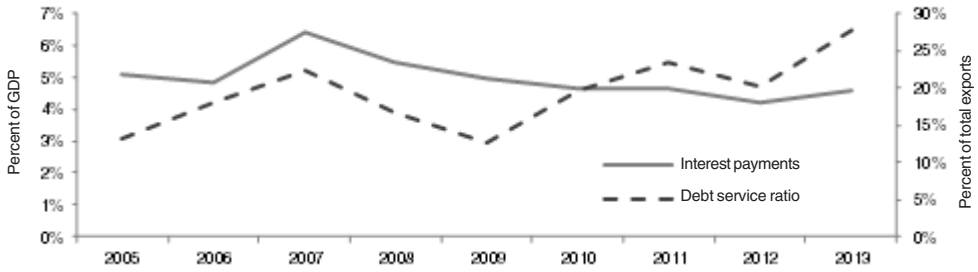

Source: CBSL, *Annual Report*, Central Bank of Sri Lanka, various years.

investments with high returns such as education. The situation is worsened even further if the investments fail to generate employment for domestic citizens.

While Sri Lanka's overall public debt ratios have fallen steadily from unsustainably high levels in excess of 100 per cent of GDP in the early 2000s to 70.7 per cent by 2014 - helped by rapid nominal GDP growth - the country's external debt profile has undergone significant changes. As seen in Figure 4.10, there has been a notable increase in total external debt, driven largely by an increase in private external borrowings; regulations governing foreign borrowing by Sri Lanka's private sector were eased from 2011 in a bid to encourage private firms and commercial banks to tap foreign sources for funding.

Critically, the composition of Sri Lanka's outstanding external debt has swung sharply, away from concessional forms of foreign borrowing to high cost non-concessional borrowing. This is partly a result of Sri Lanka graduating into middle income status in 2010, thus limiting access to the pool of concessional funds from international donor agencies. This increase in non-concessional borrowing has resulted in a significant increase in debt servicing costs, despite the reduction in overall debt levels.

**Figure 4.11**
**Debt Servicing Costs**




Source: CBSL, *Annual Report*, Central Bank of Sri Lanka, various years.

Total interest payments on debt as a percentage of GDP has reduced from progressively from 6.4 per cent to 4.2 per cent between 2009 and in 2014 before reversing in 2015 (Figure 4.11). The reduction was primarily due to lower domestic interest rates, as well as foreign currency interest rates in the aftermath of the global financial crisis. However, Sri Lanka's debt service ratio has risen progressively over the same period, with growth in earnings from exports of goods and services lagging behind high external debt accumulation.

# 4.4 Areas for Reform

As Sri Lanka continues to face a rapid demographic transition associated with an ageing population and dwindling numbers entering the labour force, the pressures on public finances will grow. The necessity is not only to rationalize current spending patterns, but also to focus on better directed public spending in areas such as education and health, to be in line with the changing demographic profile of the country.

## 4.4.1 Rationalizing Fiscal Expenditure

Reforms to fiscal policy in an economy similar to Sri Lanka's require a careful balance of imposing policy disciplines while maintaining its development objectives. On the expenditure front, it is imperative that an expenditure policy aims to restrain the expansion of non-developmental expenditure while adequately providing for important social and infrastructure needs of a developing economy. Within the government's current fiscal policy reform agenda, some focus has been given to public expenditure, especially in the SOE sector. The IMF intervention of a 36-month Extended Fund Facility (EFF) of US$ 1.5 emphasis has been placed on reforming SOEs and reducing the subsidy bill. However, the extent of expenditure reforms is severely constrained by the political-economy of the country and populist measures - such as the public sector salary increase of Rs. 10,000 through the interim-budget of 2015 - which are counter-intuitive to the reform agenda.

As noted previously, loss-making SOEs have become a severe burden on the taxpayer and immediate reform is required to stem the wastage of resources. Moreover, the state-led development agenda pursued during the past decade or so has crowded-out private investment and has led to the public sector becoming one of the main employment generators in the country, leading to a bloated and inefficient public sector. In recognition of these pitfalls, the government proposed to create a State Holding Corporation Limited in order to manage and establish fiscal and institutional disciplines across SOEs. Even though the exact nature of the State Holding Corporation is yet to be finalized, the process will possibly be developed along the lines of the Temasek Company of Singapore. Simultaneously, the government has proposed to sell shares of ventures deemed to be incongruent to the core competencies of SOEs while creating a 'Special Purpose Vehicle' to concentrate on infrastructural development initiatives.[31]

Cognizant of the political-economy of the country, the pursuit of PPPs is regarded as a more viable option in this regard since complete privatization will require significant political political capital. The adoption of PPPs enables

[31] Economic Policy Statement by Hon. Prime Minister, Ranil Wickremesinghe in Parliament, 5th November 2015.

a developing country to sequence its liberalization process by gradually exposing SOEs and the public sector to increasing levels of private sector participation (especially foreign) and competition.[32] Joint-ventures enable transfers of skills that improves local private sector capabilities while also extracting long-term value-for-money through appropriate transfer of risk to the private sector. In doing so, the government is better capable of stemming a significant outflow of revenue towards subsidizing loss-making SOEs and to direct its expenditure into more efficient investments.

Another area for reform is subsidies and transfers. Given Sri Lanka's fiscal position and its economic growth trends, inclusive growth is becoming a more pertinent policy issue. Towards that end, it is vital that scarce government resources are directed towards policies that will have the most significant impact in alleviating poverty while also mitigating wastage. Conditional cash transfers (CCTs) - both direct and indirect - have been identified as an important tool that balances these needs well in developing economies. Conditional cash transfers, which are also provided in the form of means tested subsidies, can provide a valuable safety net along with investment in human development that benefits the poor.

CCT programmes require recipients to undertake certain behavioural changes in return for the cash transfer, such as enroling children in school and maintaining adequate attendance levels, receiving prenatal and postnatal treatment, and encouraging immunization. It is assumed that major changes in human capital investment can be stimulated through income transfers. Similar programmes have been particularly successful in Latin American and Caribbean nations such as Brazil, Mexico and Jamaica. However, it is important that where necessary, supply-side constraints are also addressed along with stimulating demand in order to fully realize the benefits of a CCT programme.[33] Such targeted programmes are more cost effective than blanket subsidies that have the potential of crowding out low-income individuals from vital services such as health care and education.

It is important to note that as with many developing countries, subsidies are a key component of Sri Lanka's economic policies as well. The fertilizer subsidy and subsidies associated with school uniforms have gained particular focus recently due to policy changes. In order to achieve a 'social market economy', the government initially replaced the granting of fertilizer and uniforms at subsidized rates, with a voucher system. The voucher system was expected to reduce bureaucratic inefficiencies associated with government procurement and also reduce the associated cost burden on the government. In the face of opposition to the new system, the voucher, however, has now been replaced with a cash transfer to target recipients.

## 4.4.2 Rethinking Sri Lanka's Tax Policy

An IMF assessment carried out in 2005 set out a revenue-to-GDP target of 15-20 per cent as a reasonable minimum 'threshold' for developing countries.[34] Sri Lanka's revenue to GDP ratio

[32] IMF (2015), "Making Public Investment More Efficient", International Monetary Fund, Washington, D.C.

[33] Son. Hyun H. (2008), *Conditional Cash Transfer Programmes: An Effective Tool for Poverty Alleviation?,* Asian Development Bank, Manila.

[34] IMF (2005), "Monetary and Fiscal Policy Design Issues in Low Income Countries," International Monetary Fund, Washington, D. C.




has been on a steady decline and currently stands at 13 per cent which is well below the minimum threshold, raising concerns with respect to the effectiveness and efficiency of the existing tax system. Furthermore, Sri Lanka's tax structure remains highly regressive with close to 80 per cent of revenue being generated through indirect tax, thus having distributional consequences.

Most economists and policymakers today are of the belief that high tax rates not only discourage and distort economic activity, but are also ineffective in redistributing income and wealth. The common mantra today is to apply lower tax rates on broader bases. As such, the 'holy trinity' of options, proposed by most fiscal experts are broadening bases, lowering rates, and better administration. Consistent with this premise, the budget proposals for 2016 saw the government lowering tax rates on a number of key revenue instruments; however, the narrow tax base continues to remain unaddressed. Whist the government's economic policy statement unveiled in November 2015 expressed the intention to make the tax system more progressive, a number of recently introduced changes to the tax structure run counter to this objective and are regressive in nature, thus having important distributional consequences. Moreover as per the recommendations given by the Presidential Tax Commission, there is a need to downscale the number of taxes to about 8-10 taxes from the current level of about 25 taxes.

Against the preceding backdrop, this section discusses some of the key area Sri Lankan policymakers should contemplate in undertaking reform with a view to strengthening the tax base and address structural flaws and thereby address fiscal sustainability and equity concerns. As shown in Table 4.3, Sri Lanka's tax system has undergone frequent changes that have often made the system more complex and unpredictable.

At the outset, Table 4.3, seats out the chronology of major tax policy developments since 1992, to set the tone for the analysis.

## Box 4.2
## Successful Tax Reform Experiences in Developing Countries

Successful tax reform efforts in developing countries have been few and far to come by. However, a number of interesting cases exist. Indonesia's tax reform programme during the 1980s has been one to stand out. Prior to 1983, the bulk of Indonesia's fiscal resources were sourced through non-tax oil revenue. The oil crisis of the early 1980s compelled Indonesian authorities to diversify revenue sources paving the way for a comprehensive tax reform agenda. Reforms saw the introduction of a VAT, together with a luxury sales tax. Both personal and corporate income tax bases were broadened by eliminating special tax preferences, and tax rates were lowered to encompass a three-rate structure down from 17 personal income taxes and three business taxes. In addition, Indonesia introduced a property tax and a comprehensive restructuring of the tax administration was carried out. The outcomes of the reforms were impressive; within a period of three years, the share of non-oil revenues as a share of GDP increased by almost 50 per cent.

Vietnam's tax reform experience is another interesting case. Even though Vietnam had attempted to reform its tax system for well over two decades, a new round of comprehensive tax reforms was undertaken in 2006. This new round was necessitated by a relative decline of revenue for SOEs - the major payer of corporate income tax and VAT at the time - the anticipated decline in oil output and hence oil revenues, the rise of the private sector, increased FDI flows into the country, and a decline in trade taxes. The reform package encompassed a reduction in corporate income tax (CIT) rates, the simplification of incentives, and the reduction of exemptions. VAT was modified to reduce the number of exemptions and reduce the number of items that benefitted from a lower tax rate. In addition, the country's tax administrator, the General Department of Taxation (GDT) which had a reputation for red tape and corruption was subject to comprehensive governance reform. To overhaul governance, the government sought to: a) simplify tax administrative procedures, b) enhance and diversify tax services, c) promulgate regulations on audit and examination on the basis of risk management, d) modernise, automate and integrate a single system of tax management, and e) enhance cooperation with foreign tax authorities and international institutions.

The lowering of CIT rates, the introduction of a much revised personal income tax (PIT), and notwithstanding the decline in oil output and the resultant drop in revenues had left the overall tax ratio in 2012 at about the same level as in 2005. This was despite the fact that tax revenues from the oil sector declined from 35 per cent of all tax revenues in 2005 to only 12 per cent in 2012. The revenue levels had been maintained as a result of the improvement in the CIT from non-oil sector companies, as well as from a tripling in revenues from the tax on individuals. In addition, due to legal changes and fierce enforcement, the number of active, registered taxpayers soared from about 4 million in 2006 to about 15 million by 2014. In terms of taxpayer compliance requirements, World Bank reporting indicates that procedures have been streamlined and that the new laws and their regulations are more user-friendly.

Source: Khalidzadeh-Shiraz J and A. Shah (1991), "Tax Reform in Developing Countries, What Constitutes Successful Tax Reform, A Review of Developing Country Experiences", *Finance and Development*, 28(2); ITC-OECD (2015), "Examples of Successful DRM Reforms and the Role of International Co-operation", Discussion Paper, available at https://www.oecd.org/ctp/tax-global/examples-of-successful-DRM-reforms-and-the-role-of-international-co-operation.pdf.

## Table 4.3
## Major Changes in Tax Structure, 1992-2015

| Year | Description |
|---|---|
| 1992 | Introduction of Withholding Tax on specified fees and the National Security Levy (NSL) |
| 1998 | Introduction of Goods and Services Tax (in place of Turnover Tax) from 01.01.1998 - threshold for registration Rs. 500,000 per quarter or Rs.1,800,000 per annum at 12.5% |
| 2002 | Introduction of Value Added Tax – (by abolishing Goods and Services Tax and National Securities Levy) – threshold for registration Rs. 500,000 per quarter or Rs.1,800,000 per annum and charged under 3 types of rates – zero, 10% and 20% for goods specified in the schedules |
| 2003 | VAT on financial services was introduced on the book profit of banks and financial institutions |
| 2004 | Economic Service Charge was introduced by Finance Act No. 11 of 2004 |
| | Standard VAT rate changed to 15% from 01.01.2004 and basic rate was imposed on several essential goods at 5% with effect from 19.11.2004 |
| 2005 | Introduced Share Transaction Levy at the rate of 0.2% of tax payable by every buyer and seller |
| | Introduced Social Responsibility Levy at 0.25% of tax payable |
| | Luxury VAT rate changed twice; from 01.01.2005 to 01.08.2005 18% and from 02.08.2005 – 20% |
| 2006 | Inland Revenue Act No.10 of 2006 introduced |
| | Economic Service Charge Act No.13 of 2006 – with effect from the quarter commencing on April 1, 2006 ESC imposed under this Act |
| 2008 | Introduction of Nation Building Tax (NBT) – rate of 1% from 01.02.2009 and from 01.05.2009 increased to 3% |
| | Standard VAT rate reduced to 12% and basic rate was removed |
| | Registration limit for VAT was increased to Rs.650,000 per quarter or Rs. 2.5 million per year |
| | Optional VAT limit for registration was increased to Rs.3 million |
| 2011 | Individual tax free allowance increased to Rs. 500,000 |
| | 20% VAT rate was reduced to 12% w.e.f. 23.11.2011 and VAT on financial rate also reduced to 12% from 01.01.2011 |
| | NBT rate was reduced to 2% and extended to wholesale and retail businesses |
| | Threshold for ESC registration was increased to Rs. 25 million per quarter |
| 2012 | Threshold on ESC was increased to Rs. 50 million per quarter and made liable to those who have no taxable income |
| 2013 | Registration threshold on VAT and NBT was increased to Rs. 12 million per annum |
| | Introduction of VAT on wholesale and retail trade, and liable threshold for registration not less than Rs.500 mn. (including exempt supplies) for any consecutive 3 months in a year |
| | The threshold in relation to partnership tax was increased to Rs.1,000,000 |
| 2014 | Maximum rate of income tax applicable on employment income of qualified professionals 16% |
| 2015 | Threshold on VAT and NBT was increased to Rs. 15 million per annum and rate of VAT reduced to 11% |
| | Liable threshold for registration of wholesale and retail business reduced to Rs.100 million |
| | Super Gain Tax was introduced as one off payment, for any individual, companies or group of companies who have earned profits over Rs. 2,000 million in the tax year 2013/2014 and who will be liable to pay 25% of their profit. |

Source: IRD, "Policy Changes over the Years", Inland Revenue Department, available at http://www.ird.gov.lk/en/about%20IRD/SitePages/Policy%20Changes.aspx?menuid=110406.

Despite being a major source of revenue, mirroring the global trend, revenue generation through corporate income tax (CIT) has been a challenge for Sri Lanka owing to downward pressure exerted on CIT rates as a consequence of global competition. In view of encouraging investments, the 2016 budget lowered CIT tax rates to a single rate of 15 per cent from a progressive tiered rate structure and subsequently increased to 17.5 per cent in May 2016. This move has two important consequences; firstly, lowering the tax rate whilst the base remains narrow will see revenues from CIT taking a further hit; secondly, a single CIT rate eliminates any sense of progressivity in the CIT structure, working counter to the stated objective of making the tax system more progressive.

Sri Lanka offers corporate tax holidays and concessions as incentives to encourage investment. International experience, however, suggests that despite their continued popularity, tax incentives are often redundant and ineffective and tend to reduce revenue and complicate the fiscal system without achieving their stated objectives.[35] In addition, excessive use of tax incentives complicates tax administration, facilitating evasion and corruption. With a view to maximize the likelihood of beneficial results from tax incentives and to reduce the damage that may be caused by poorly designed and implemented incentives, countries should at the very least try to offer as minimum number of concessions as possible, and as simple in structure as possible. Moreover, one of the key recommendations of the Presidential Tax Commission of 2010 has been to move towards as system of (i) accelerated depreciation allowances and (ii) interest relief as a replacement for tax holidays.

In light of the above, Sri Lanka should revisit its tax incentive structure and better rationalize its policy with a view to prevent the erosion of its tax base to ensure that revenue considerations are not undermined in the attempt to attract investment. Furthermore, policymakers must rethink the design of the CIT structure with a view to addressing regressive concerns.

Current VAT exemptions are also an area needing reform. As alluded to earlier, VAT accounts for the lion's share of Sri Lanka's tax revenue; however, its share over the last decade or so has been on a gradual decline raising concerns on its effectiveness in sustaining the required level of revenue. VAT in Sri Lanka is a single rate tax and a number of essential goods and services are zero rated. The VAT rate was increased in May 2016 from 11 per cent to 15 per cent and the base widened to cover some of previously untaxed goods and services. This move whilst contribution to improving revenues is bound to have adverse distributional consequences.

Whilst most developing countries around the world have adopted VAT, international experiences suggest that in many instances flawed design and implementation often undermine the effectiveness of VAT. One of the most common issues that has emerged in developing countries has been the fact that whilst at the time of initial implementation of VAT, most VAT structures usually stand close to the standard broad-based international model, however as time passes by VAT structures tend

[35] Bird, R. (2008) "Tax Challenges Facing Developing Countries", Working Paper 9, Institute for International Business.

to be littered with privileges and exemptions that gradually erodes the base, thereby minimizing its revenue impact and creating administration difficulties. Ad hoc and extensive exemptions and zero rating also creates classification disputes and increasing compliance costs, opening up scope for VAT evasion, and corruption.[36] As in the case of CIT incentives, Sri Lanka has introduced a number of tax concessions and exemptions with a view to encourage investment in the country. This has been carried out in a rather ad hoc manner which has led to the erosion of the VAT base; it has also complicated the VAT structure, leading to compliance issues.

Unlike in developed countries, receipts from personal income tax (PIT) in developing countries are low and stagnant, and come predominantly from wage withholding on large enterprises and public sector employee.[37] Sri Lanka's experience reflects this; Pay-As-You-Earn (PAYE) is the principal PIT collected from both private and public sector employees. Like the CIT, the PAYE tax was initially applied on a tiered rate structure; however, as of 2016 this was moved to a single rate system, where the standard rate is 16 per cent. As with the CIT, the move to a single rate structure eliminates any sense of progressivity, working contrary to the stated objective of making the tax regime more progressive.

Curbing tax evasion and avoidance by high-income individuals is seen as a potential area for generating additional revenue. Establishing dedicated units within the tax administration to high-income/wealth individuals could provide a focus for enforcement efforts, with high profile prison terms sending a salutary lesson. Strong audit power, including the possibility to use indirect methods to assess tax liabilities, is an effective tool for increasing the effectiveness of audit operations; these enable revenue agencies to use third party information, particularly related to assets and flow of investments, to estimate the taxpayer's income. Taxing property is also seen as a powerful means of taxing the better-off.[38]

# 4.5 Summary

The legacy of Sri Lanka's welfare-state, history of populist public spending programmes, poorly managed SOEs, and a bloated public sector bureaucracy have made rationalization of expenditures an uphill task. If performance of public finance management on the expenditure front has been mixed, fiscal performance on the revenue front has clearly been very poor since the early 1990s.

The fiscal landscape - marked by high deficits and government borrowing - leaves little leeway to reorient public investment toward high return, high productivity sectors such as education and health care. Some degree of expenditure rationalization is necessary, particularly with regard to the loss making SOEs, poorly targeted subsidies and transfers and populist spending measures adopted from time to time; much will depend on the political will to tackle these and which are perceived as highly sensitive to voter sentiment.

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[36] *Ibid*.

[37] Carnahan. M. (2015), 'Taxation Challenges in Developing Countries', *Asia & the Pacific Policy Studies*, 2(1).

[38] IMF (2011), *Revenue Mobilization in Developing Countries*, International Monetary Fund, Washington D.C.

## Box 4.3
## Property Tax

Property taxes refer to "recurrent taxes on immovable property, measured gross of debt, levied on proprietors or tenants" . While there exists a dearth in research regarding such forms of taxes, analyses and estimates deduce that a nation tends to utilize Immovable Property (IP) taxes as it progresses towards the high income threshold.

The primary advantage of IP taxes is that it provides the state with a stable and predictable revenue source. Property taxes maintain high 'cyclical resiliency' in comparison to other sources of government revenue - i.e., the funds collected through property taxes tend to not fluctuate heavily during swings in the economic cycle. For instance, during 2007-09, when the US found itself in the midst of a pronounced depression, the revenue derived from individual income tax and sales tax plunged between 7.5-17 per cent. However, in comparison, revenue from property taxes increased by 5 per cent during the given time period. As such, the use of such taxes appears to provide much needed relief during times of great financial constraints. Furthermore, by compelling owners to bear a cost for holding property, IP taxes incentivize the efficient allocation of resources to increase productivity. Thus, such taxes can act as a check on unbridled speculative pricing during economic booms. In addition, the immovability and tangibility of the tax base reduces the chance of evasion. Finally, since land taxes are considered to be an endogenous mode of revenue collection, its implementation does not require an impetus on international tax coordination. The possible advantages of IP taxes have encouraged several contemporary developing nations such as Vietnam, Cambodia and Singapore to take the lead in implementing a more refined property tax mechanism. Vietnam, for example, has adopted an area-based tax on non-agricultural land (excluding houses), and is considering further reforms in this particular area. The tax is levied on the value of the land area, with additional improvements exempted from taxation. By enacting such a policy, the Vietnamese policy makers aim to ensure that economic and industrial activities are not discouraged. Furthermore, Singapore has increased the tax levied on home buyers as a means of safeguarding the housing market from rapid appreciation.

However, IP taxes are no golden eggs. The general lack of contemporary enthusiasm in regard to such modes of taxation indicates the presence of drawbacks that need to be considered when analyzing policy decisions. For instance, unlike other forms of taxes, the value of IP cannot be self-assessed. Therefore, the state has to bear the additional costs incurred in assessing rates and collecting revenue from the tax base. This lowers the revenue to expense ratio, thus making the tax a less appealing proposition to law makers. Furthermore, the implementation of a property tax scheme is hindered by the unpopularity of such revenue collection methods amongst general voters. According to Bahl and Bird (2008) for each "per dollar of revenue raised, property taxes generate more negative reaction than any other levy". Thus, politicians tend to be reluctant to campaign for property taxes for fear of losing political mileage. Dissent against property taxes arise, paradoxically, due to its transparency, as the burden is not hidden from taxpayers. Furthermore, such a tax is often considered to be unfair as it assumes that it does delineate between ownership and payability. For instance, citizens who are property rich but income poor, tend to be victimized. Hypothetically, the use of property taxes encourages the efficient reallocation of land. However, when examined from an altruistic manner, it may be a bitter pill to swallow.

The implementation of an IP tax in Sri Lanka can aid the government in combating fiscal vulnerability, and incentivizing the efficient reallocation of (land) resources. In Sri Lanka, the decision making authority in regard to property taxes lies with the Provincial Councils. While such a system reduces the burden of governmental transfers, it prohibits the Centre from maximizing revenue, especially from its urban localities. With Sri Lanka embarking on a massive urbanization endeavour, the base for property taxes is bound to increase. Thus, at this conjuncture - when taking the country's fiscal position and its development trajectory into account - the government has an opportunity to re-evaluate its IP tax policies and verify the feasibility of utilizing such taxes to increase revenues.

Source: Bahl, R., and R. Bird (2008), "The Property Tax in Developing Countries: Current Practices and Prospects", in Toward a 2015 Vision of Land, Lincoln Institute of Land Policy, Taiwan; Trin, H..L. and W. McCluskey (2012). "Property Tax Reform in Vietnam: A Work in Progress" in Papers on Municipal Finance and Governance, Volume VIII, Institute of Municipal Finance and Governance, Toronto.

In the near term, the solution lies squarely in reversing the progressive decline in Sri Lanka's revenue collection efforts. The widespread and ad hoc use of tax incentives as a tool to entice investments has led to a severe erosion of the tax base. This has also contributed to increasing the complexity of the tax structure, leading to issues of monitoring and compliance. Sri Lanka must urgently reevaluate this policy stance in view of broadening the tax base and rationalizing the tax structure with the broad aim of simplifying revenue administration and increasing compliance.

Another critical area of intervention that needs attention is to address distributional weaknesses of the current tax system. Historically, Sri Lanka's tax structure has been a regressive one, with the bulk of revenue generated through production taxes. Whilst the government expressed its intention to arrest this trend and make the structure more progressive, a number of recent tax policy changes introduced in 2016 work counter to this stated objective. With limited fiscal resources constraining investments in social sectors such as health and education and gaps in fiscal support for social protection, especially of the more vulnerable such as the elderly, regressive tax structures will further undermine efforts towards equitable growth and development in the country.

# 5. Promoting Exports and FDI under Financing Constraints

## 5.1 Introduction

In the late 1970s, with reforms aimed to liberalize the foreign trade regime, Sri Lanka was seen as the first South Asian country to significantly open its borders to trade and FDI. In the decades that followed, trade in goods and services increased to nearly 90 per cent of GDP in 2000, with tea and apparel exports leading the way. However, trade openness began to decline steadily - at a time when the rest of the world was integrating more strongly and global trade was accelerating - to reach 36 per cent of GDP in 2015. Even at present, FDI remains below 2 per cent of GDP, five years after the end of the armed conflict. The decline in openness and stagnating FDI is reflected in a shrinking world market share to levels last seen in the 1980s, accompanied by a steady decline in exports and an export basket that has remained largely unchanged in a context of rising production costs and weakening demand in some of its main markets (Europe and the Middle East).

Sri Lanka has set itself an ambitious target of US$ 20 billion exports by 2020; achieving this target will require an increase in exports of nearly 80 per cent during 2016-2020. Meanwhile, the government has also placed significant emphasis on driving FDI, with a target of US$ 5 billion within the next three years from current levels of US$ 970 million in 2015. Hence, stronger export and FDI promotion efforts will be needed to achieve Sri Lanka's export and FDI targets in the years to come.

Given the country's unsatisfactory fiscal performance, efforts to channel state funds to incentivize exports and FDI will be difficult. This calls for alternative approaches towards promoting exports and export-oriented FDI without drawing upon dwindling state funds. In this light, export and FDI promotion agencies need to play a stronger role in facilitating export and export oriented-FDI amidst a challenging macroeconomic setting. This chapter will examine the role of key export and FDI promotion agencies in Sri Lanka with the aim of analysing the existing export and FDI promotion programmes in place. The chapter will focus on identifying ways of maximizing

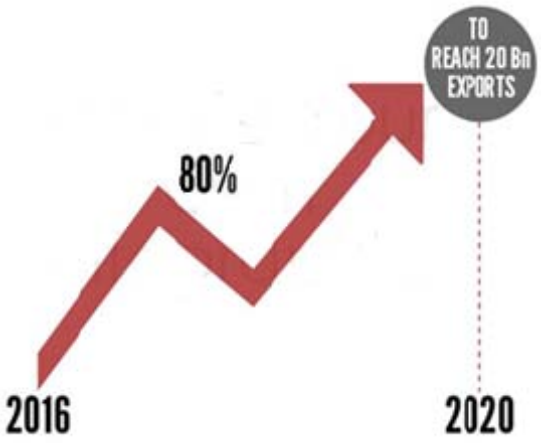
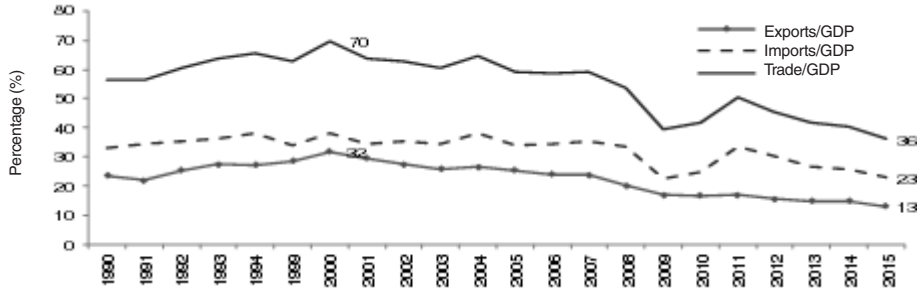


**Figure 5.1**
**Sri Lanka's Trade Performance, 1990-2015**




Source: WITS and WDI databases.

gains from export and FDI promotion efforts currently in place, and examine some alternative ways of financing exports and FDI, given current budgetary constraints.

## 5.2 Trade and Investment Performance

Sri Lanka's trade performance has shown a weakening trend over the years, with exports as a share of GDP dipping down to just 12.8 per cent in 2015 compared to 24 per cent in 1990 (Figure 5.1). Meanwhile, imports have grown faster than exports but are lower compared to the 1990s. An unfavourable external environment following the global financial crisis of 2008, though impacting Sri Lanka's trade performance, has not been the only factor at play. The lack of diversification of exports, lack of an enabling environment for trade caused by destabilizing macroeconomic environment, increasing levels of protection, etc., can also be blamed for the country's poor trade performance despite various export measures and a dedicated institution in place to promote exports, calling into question their effectiveness. However, it is important to note that revenue generated from trade has increased over time and continues to remain an important source of revenue for the government (Box 5.1).

Despite numerous fiscal incentives, FDI flows have also been disappointing. Inflows remain below 2 per cent of GDP, five years after the end of the armed conflict; FDI flows are low compared to countries in the Asia-Pacific (Figure 5.2). Moreover, FDI inflows have been concentrated in infrastructure projects, with little or no FDI going into industries associated with global production networks either in manufacturing or services sectors. In 2015, Sri



## Box 5.1
## Revenue and Expenditure Generated from Trade

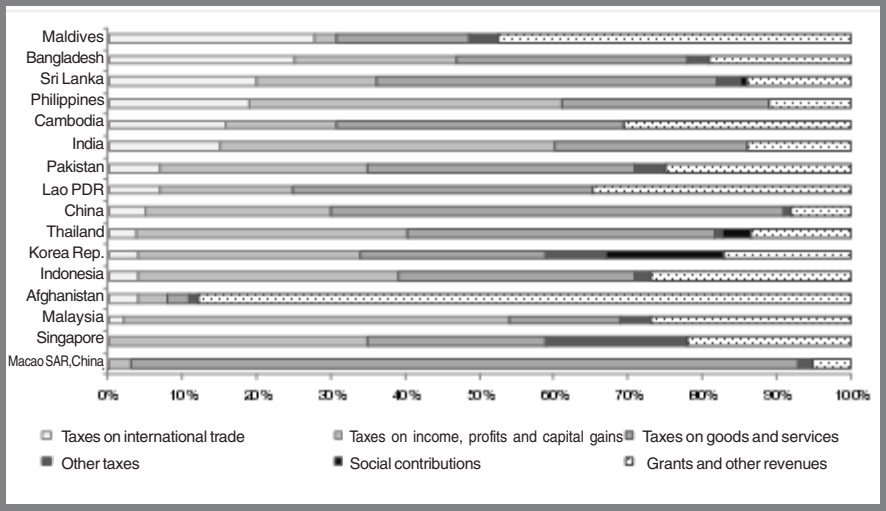
In 2014, Sri Lanka Customs (SLC) collected about 51 per cent of national tax revenue. This is a reduction from 61 per cent collected a decade ago. In fact, Sri Lanka collects more from taxes on trade than its neighbours in the region as seen below.

While total revenue collection by SLC has increased over time, the contribution of various border taxes has changed. Customs duty (CD) has been one of the main measures of border taxes and currently raises about 17 per cent of tax revenue from international trade. However, its contribution has fallen over time with the growing importance of other tariffs like Excise duty and VAT on imports. The relative decline in revenue from CDs owing to trade liberalization and a gradual reduction of duties, was off-set by an increase in revenues from other charges like the PAL, CESS, SCL, Excise, VAT (on imports) and NBT in the last decade.

The introduction of a number of border taxes from time to time has enabled SLC to maintain its important position as a collector of revenues for the government. However, the proliferation of para-tariffs has resulted in a shift towards protectionism, making the current import tariff regime complex and more 'protectionist' over time. Moreover, an escalating tariff structure with higher rates of protection on final goods than on inputs used in production leads to higher effective rates of protection and an anti-export bias.

Sri Lanka also imposes border charges on certain exports (vein quartz) as well as an export CESS on some raw materials (cashew nuts with shells, raw hides and skins, metal scraps, natural rubber, coconut products and tea) for various reasons, from discouraging export in raw form to ensuring local supplies and generating funds for cultivation. Revenues from the CESS are supposed to be ploughed back into the respective industries to encourage value addition but this has not happened. It is yet to be seen whether an export CESS has any impact on boosting value added exports of these products.

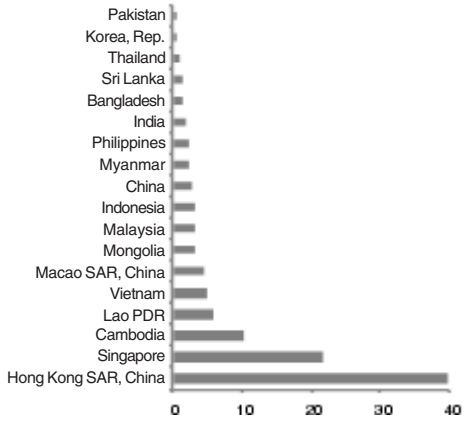
**Composition of Government Revenue, Asia-Pacific, 2013**




Source: World Bank, "World Development Indicators"; SLC (2014); "Customs Performance Report 2014", Sri Lanka Customs, Colombo.

Lanka received a total FDI flows of US$ 969.7 million, of which 46.7 per cent went into infrastructure, followed by manufacturing (26.5 per cent), services (26.3 per cent) and agriculture sector (0.5 per cent).[1] The need for Sri Lanka to increase FDI in place of debt financing is critical; a revamped role for the Board of Investment (BOI) - the central facilitation point for investors - will be significant in this regard. The soon to be established Agency for Development has the mandate to revamp the BOI (Box 5.2).

**Figure 5.2**
**FDI as % of GDP, 2013**




Source: World Bank, World Development Indicators.

## Box 5.2
## Development Bill

### Agency for Development

Under the proposed Development (Special Provisions) Bill, an Agency for Development will be established soon with the twin objectives of stimulating growth, expansion, and development of the Sri Lankan economy; and reporting on key competitiveness issues facing the economy with the required policy action. Towards this end, the Agency will draft plans, programmes, schemes while being responsible for their implementation and coordination with relevant department/state institution/authorities (including the BOI). The Agency will have powers over economic development areas, demarcate special areas for development, and give directives to specified institutions to ensure the effective implementation of plans/ programmes/schemes.

In terms of FDI, the Agency will be given the task of attracting more investments into the country and alleviate the problems faced by foreign investors by expediting the approval process. The Bill promises to remove other obstacles facing potential investors including ownership of buildings and land (i.e., Land Restriction and Alienation Act) and offer tax incentives to foreign and local companies that will locate in economically depressed rural areas in the country. The Agency for Development seeks to insert Sri Lanka into global value chains and enhance the competitiveness and value of the country's exports of goods and services while generating employment and increasing people's incomes/welfare.

### Agency for International Trade

The proposed Development Bill also aims to establish an Agency for International Trade, with the objective of promoting international trade and creating an environment to facilitate export trade. Specifically, the Agency will recommend measures to the government to increase exports, and change import policies of the country. The Agency will also represent the Government of Sri Lanka during negotiations of regional and multilateral trade agreements, and liaise with OECD, UNCTAD, ASEAN, APEC, BIMSTEC, and SAARC. The Agency will also have the authority over institutions relating to international trade including the Sri Lanka Export Development Board (EDB), the BOI, Department of Commerce, the Department of Import and Export Control, the Sri Lankan Tea Board, etc.

[1] CBSL, *Annual Report 2015*, Central Bank of Sri Lanka, Colombo.

# 5.3 Export Promotion

Promoting exports ranks as a priority in both developed and developing countries in view of the suggested strong relationship between exports and economic growth. Export promotion has been defined in various ways, based on different ideological schools of thought. At one extreme is a narrow definition of export promotion as the adoption of a neutral trade policy, maintaining an effective exchange rate,[2] or one in which the effective exchange rate of exports equals the effective exchange rate of imports; this gives producers equal incentives to sell domestically and to export.[3] A broader definition such as that of OECD includes a set of 'specific measures that generally amount to the government bearing a portion of the private cost of production of export'.[4]

Generally speaking, it includes a set of measures/programmes which aim at assisting current as well as potential exporters to penetrate markets abroad through export subsidies, reduced tax rates on exporting firms' earnings, favourable insurance rates, advantageous financial conditions, or effective exchange rates.[5] It can also include removing domestic regulations (i.e., export licences), infrastructure or human resource constraints which hinder export expansion.

Economic justifications for government intervention in trade are usually related to the existence of market failures pertaining to externalities/infant industry protection; information problems, coordination problems, credit and other market imperfections; comparative advantage discovery; spillovers and learning by doing; production of knowledge goods and R&D spillovers.[6] The theory of international trade suggests that when perfect competition prevails in markets, free trade is

**Export promotion is widespread and most governments intervene, ranging from providing infrastructure support to direct export subsidies, though the latter is currently limited by WTO rules.**

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2 Effective exchange rate includes currency earned at parity and also any export subsidy, tax credits, and special credits.

3 Bhagwati. J.N. (1988), "Export-promoting Trade Strategy: Issues and Evidence", *The World Bank Research Observer*, 3(1).

4 OECD (1984), *Competition and Trade Policies: Their Interaction*, OECD, Paris.

5 Belloc. M. and M. Di Maio (2011), "Survey of the Literature on Successful Strategies and Practices for Export Promotion by Developing Countries", Working Paper, International Growth Centre, London.

6 *Ibid.*

better than protectionism. However, when one or more conditions required for the well-functioning of markets are missing, government intervention aimed at correcting the distortions may be welfare enhancing.

Nowadays export promotion is widespread and most governments intervene in one way or another, ranging from providing infrastructure support to offering direct export subsidies, though the latter is currently severely limited by

## Box 5.3
## Transformational Export Promotion Policies of South Korea: The Role of Institutions

South Korea, an underdeveloped war-torn desolate economy until the 1960s, with a per capita income of around US$ 87 in 1962 (similar to that of the poorest parts of Africa), has seen a sea change in development since the country adopted export-based industrialization in 1961 with the commencement of Park Jung-hee's regime. Today, South Korea is ranked as an advanced economy with a per capita income of around US$ 30,000 and is one of the world's top ten exporters. South Korea has been coined as the only country that has so far managed to go from being the recipient of development aid to being rich within a working life. Much of Korea's seemingly miraculous growth has been the consequence of aggressive export promotion policies pursued since the mid-1960s.

The provision of state subsidies to promote export industries (high value added industries since the 1970s) was a common feature of Korea's aggressive export promotion period witnessed during 1960s to 1980s. Since 1964, tax benefits such as 80 per cent reduction of profit tax were provided to profits arising from exports, while imported raw materials that were used to produce export products (within thirteen months from import) qualified for duty drawback under the Special Act for Duty Drawback in Korea until 1997. Other common export promotion tools include special rates of depreciation targeting export industries, income tax exemptions in special investment zones, establishment of FTZs, the provision of policy loans and export financing through state-owned banks, etc. Korea's success story goes beyond having the right export promotion policies in place and makes a strong case for the importance of the institutional set-up in effectively implementing such policies.

Design and implementation of export promotion policies in Korea was supported by a strong institutional set-up. The Economic Planning Board of Korea (EPB), set up in 1961 was a unique organization that initiated longer-term policy planning, consisting of various consistent five-year plans. Having a systematic longer-term plan makes the planning process more methodical and helps avoid imbalances that come about from ad hoc policy changes. Additionally, heavy pressure was exerted on bureaucrats belonging to various state-owned enterprises to complete projects based on targets. For example, the Ministry of Commerce and Industry set annual export targets for officials connected with export administration; if targets were not fulfilled, the administrative process was expedited to strengthen existing export-support schemes to innovate new subsidy measures. These additional checks and balances have been noted to be unique features of Korea's institutional set-up that aided trade promotion. Moreover, a host of institutions such as the Korea Development Bank, the Export-Import Bank, the Technology Development Corporation, and the National Investment Fund, etc., were among some of the other institutions that supported the implementation of export promotion efforts in Korea.

Source: *The Economist* (2011), "South Korea's Economy: What Do You Do When You Reach the Top?", available at http://www.econo mist.com/node/21538104; Mah., J.S. (2010), "Export Promotion Policies, Export Composition and Economic Development of Korea", paper presented at Law and Development Institute Inaugural Conference, Sydney, Australia; Kim. S.K. (1991), "The Korean Miracle (1962-1980) Revisited: Myths and Realities in Strategy and Development", Working Paper No. 166, Kellogg Institute for International Studies, Paris.

WTO rules.[7] In fact, export promotion through government intervention has been an important contributor to the impressive export performance of East Asian countries led by Japan, and followed by the four Asian Tigers (Hong Kong, the Republic of Korea, Singapore, and Taiwan), and much later by Southeast Asian countries such as Indonesia, Malaysia and Thailand. Selective interventions in the form of provision of protection, subsidized credit, tax benefits, export processing zones (EPZs) to attract FDI, etc., have played a key role in setting up export-oriented manufacturing bases that boosted growth in these countries. However, there is little evidence to suggest that export promotion has been the only factor for their success.

The overall context or environment within which export promotion took place in these countries is noted to be as important to their success, as the policy interventions themselves. It has been argued that export promotion will have greater success if they take place where there are good fundamentals (low inflation, competitive exchange rates, human capital, secure financial systems, etc.), and strong institutions to implement them (Box 5.3).[8] This is particularly evident when comparing the experience of export promotion in Latin America with that of East Asia. A range of export promotion measures like tax refunds, duty drawbacks, temporary admission and EPZs have been used to increase exports in Latin America. However, they have been found to be less effective in driving export growth compared to the experience of East Asia due to the context in which they were implemented - macroeconomic stability, government intervention, high quality of bureaucracy, and high quality of institutions.[9]

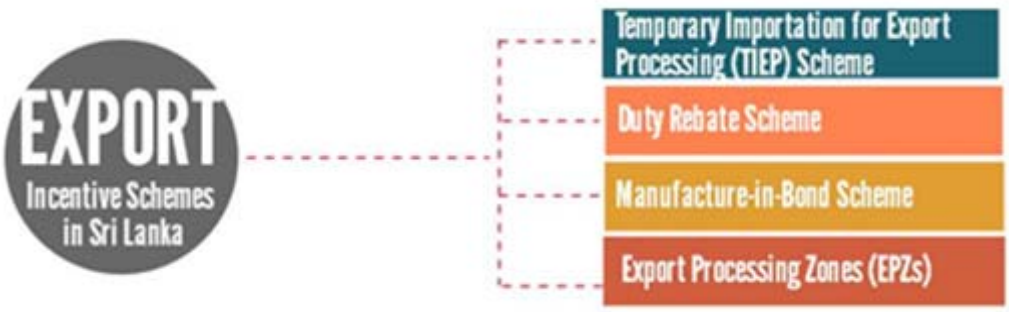
In the case of Sri Lanka, successive governments have promoted exports through various incentives/measures. These include a duty rebate (drawback) scheme, a temporary importation for export processing (TIEP) scheme, a manufactured-in-bond scheme, as well as tax incentives administered through

**Export promotion will have greater success if they take place where there are good fundamentals and strong institutions to implement them.**

[7] Export subsidies and subsidies for the use of domestic inputs are now prohibited for all non-LDC countries. Local content requirements and quantitative restrictions on imports are also banned.

[8] See World Bank (1993), *The East Asian Miracle: Economic Growth and Public Policy*, World Bank, Washington D.C. and Oxford University Press; Weiss. J. (2005), "Export Growth and Industrial Policy: Lessons from East Asian Miracle Experience", ADB Institute Discussion Paper No. 26, Asian Development Bank Institute, Tokyo.

[9] Elson, A. (2006), "The Economic Growth of East Asia and Latin America in Comparative Perspective: Lessons for Development Policy", *World Economics,* 7(2).




EPZs (Box 5.4). Dedicated institutions such as the Export Development Board (EDB), Sri Lanka Export Credit Insurance Corporation (SLECIC) and Board of Investment (BOI) have been set up with the aim of increasing the sales of domestically produced goods and services abroad through provision of better knowledge of foreign markets, access to credit, and attracting FDI to support export growth, respectively. The remainder of the chapter will identifying ways of maximizing gains from export and FDI promotion efforts currently in place through these institutions, and examine alternative ways of financing export and investment promotion, given current budgetary constraints.

## 5.3.1 Strengthening Institutions for Export Promotion

Trade promotion organizations (TPOs) such as the EDB are important instruments for export promotion, with governments in both developed and developing countries establishing TPOs to facilitate and encourage exports.[10] TPOs aim to reduce the problems of imperfect information on the part of local exporters/potential exporters about foreign markets on one side, and foreign customers about domestic products/firms on the other side and thereby increase and diversify exports. TPOs provide a number of services including: (i) dissemination of information on export markets; (ii) assistance in export marketing; (iii) packaging and labelling; (iv) quality standards management; (v) general training about export activity; (vi) legal assistance; (vii) assistance in obtaining export financing; and (viii) trade missions and trade fairs.

In several cases, TPOs had a positive impact in terms of increasing both export volumes and export products' diversification. Lederman *et al.* (2010), using survey data on TPOs from 104 developed and developing countries, found that export promotion agencies have a strong and statistically significant impact on the countries' total export volumes; an additional dollar spent on export promotion increases exports by about US$ 40. However, the magnitude of this positive effect is found to change across regions, and the marginal impact to decrease with GDP and with the amount of expenditure. TPOs have also proved to be more effective when focused on solving specific needs of firms. In most cases, support and assistance provided to exporting

[10] Lederman, D., M. Olarreaga, M. and L. Payton (2010), "Export Promotion Agencies: Do they Work?", *Journal of Development Economics*, 91(2).

firms is not considered enough by domestic entrepreneurs. Nevertheless, some early studies have a negative assessment of TPOs in developing countries; for example, arguing that TPOs in developing countries are inefficient because of weak leadership, inadequate funding and inefficient bureaucracy.[11]

In the case of Sri Lanka, the apex state organization for promoting and developing exports is the EDB. Established in 1979 under the Sri Lanka Export Development Act No. 40, the EDB functions as the executive arm of the Export Development Council of Ministers (EDCM), known as EDB's policy-making body.[12] EDB's role in export promotion has diluted from being a provider of direct export assistance to more of a facilitator of exports over the years. EDB does not currently provide any direct supply development assistance,[13] and its activities are considered by the exporters to be minimal or basic.[14] Its scope in export promotion is limited to that of a policy adviser, formulating, implementing and monitoring export development activities, and as the focal point for all export related issues, including as a knowledge provider to exporters.

From an institutional perspective, EDB's key weaknesses in the past included lack of a strategic vision for export promotion; inadequate resources for export promotion; weak monitoring of export promotion activities; and poor targeting of beneficiaries for export promotion programmes. Some of these weaknesses have been addressed during the last one year.

*Strategic vision for export promotion:* EDB lacked a systematic national export promotion strategy which lays out a detailed plan for export promotion in the country. This is vital to achieve export competitiveness. Meanwhile, the EDCM has been inactive for a long time and has not met since 1992.[15] Implementing a systematic export promotion policy, with strong commitments from key trade promotion organizations like EDB, is vital to achieve export expansion. A systematic export policy will ensure that the country not only prioritizes export promotion at a national level, but that it will also detail the relevant commitments and actions needed at various tiers for export promotion. It will also ensure that the country has a strategic roadmap and a holistic export promotion drive (free of ad hoc policy changes) for synergizing export promotion efforts to gain maximum returns.

In this regard, it is promising that the EDB has already undertaken efforts to develop a National Export Development Plan (NEDP) for Sri Lanka. However, the success of the NEDP will depend largely on the commitments of relevant state and non-state agencies for export promotion. Hence, a stronger focus at a national level is needed for export promotion in order to push the NEDP forward with support from

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[11] Keesing, D. B. and A. Singer (1991), "Development Assistance Gone Wrong: Failures in Services to Promote and Support Manufactured Exports: The Role of Support Services in Expanding Manufactured Exports in Developing Countries", Economic Development Institute, World Bank.

[12] Headed by the President and consisting of Ministers in charge of trade, shipping, industries, agriculture, plantation industries, textile industries, fisheries, finance, foreign affairs, planning and rural industries.

[13] Some of the supply development schemes previously carried out by EDB included establishing agro export zones, and capacity building and quality upgrading programmes.

[14] Key Informant Interviews (KIIs) with exporters.

[15] KIIs and EDB (2010), *Annual Report*, Export Development Board, Colombo.

## Box 5.4
## Export Support Schemes and their Effectiveness

**Temporary Importation for Export Processing (TIEP) Scheme:** is a scheme under which direct and indirect exporters in Sri Lanka can import inputs for the production of exports, without having to pay import duties and taxes. The scheme consists of two sub-schemes: TIEP-1 for importation of raw material, components, parts and packaging material exempt from duty; and TIEP-4 for whole or partial exemption of duties for importation of capital goods, intermediate materials, etc. Approval for the scheme is granted by SLC and a bank guarantee (with the type of guarantee depending on the proven track record of exporters) is mandatory in order to access the scheme. At the end of 2014, there were 1,055 operators under TIEP-1 and 534 operators under TIEP-4. However, small and medium exporters in the country feel that the cost of compliance to the scheme is too high, and that it is also not appropriately designed to accommodate multi-product exporters.

**Duty Rebate Scheme:** is a scheme under which duties paid are fully or partially refunded or rebated for imported raw materials and intermediate inputs used to manufacture exports. Products that are eligible for this scheme are gazetted annually by the Ministry of Finance; only Customs duties and import surcharges are applicable under this scheme. The rate of rebate is decided by SLC upon approval of cost statements, and registration is required for each export shipment. The management of the scheme is quite difficult, especially for developing countries. In most cases they have not worked efficiently and their effects have been negligible. However, in countries such as Dominican Republic, Colombia and Chile, simplified schemes were implemented; these are considered to be effective in the absence of costly bureaucratic processes. In Sri Lanka, reimbursement of duties has been subject to delays and exporters have been critical of the bureaucratic process, excessive documentation required and the many agencies that need to be contacted for an application.

**Manufacture-in-Bond Scheme:** exporters are provided the facility of manufacturing-in-bond warehouses in which production processes can be conducted free of duties. Imported goods can be stored up to six months without payment of taxes and extended up to two years or more under special circumstances. There are currently six manufacture-in bond warehouses operating in the country. Their impact on export performance depends on a number of factors such as the political environment, the administrative capabilities to distribute and monitor usage. Thus, assessing the effectiveness of such schemes is difficult.

**Export Processing Zones (EPZs):** there are 14 such zones administered by the BOI, comprising over 200 enterprises, and employing over 75,000 persons. Locating an enterprise in an EPZ entitles a company to tax holidays, duty-free imports, and concessionary land prices. Existing experience relating to EPZs underpin that the determinants of successful EPZs are economic and political stability, profitability of local production (and related exchange rate policies), trade facilitation, etc.

Source: Belloc, M. and M. Di Maio (2011), "Survey of the Literature on Successful Strategies and Practices for Export Promotion by Developing Countries", Working Paper, International Growth Centre, London; Hinkle, L., et al. (2003), "How Far Did Africa's First Generation Trade Reforms Go? An Intermediate Methodology for Comparative Analysis of Trade Policies', World Bank Africa Region Working Paper Series, World Bank, Washington, D.C.; KIIs.

relevant stakeholders. Reactivating the EDCM will help to gain support from state agencies and ministries in this endeavour.

The EDB with the Department of Commerce (DOC) are now directly reporting to the newly established Agency for International Trade (see Box 5.2). The new Agency is empowered to expedite plans and activities of the EDB and DOC. The exact role of this Agency will become clearer once legislation to establish it is passed in the Parliament.

Private sector engagement can be sought through PPPs to deliver export promotion programmes on a cost sharing basis. It can also help to address budgetary constraints faced by the EDB as well as introducing innovative export promotion programmes. In fact, TPOs of developing countries are increasingly utilizing PPPs to build exporter readiness; this has taken the form of collaborative arrangements with stakeholders in the private sector, universities and research institutes. For example, Go-Exports programme of Enterprise Mauritius is a three-time award winner at the TPO Network Awards.[16] The Go-Exports programme aims to build export capacity of SMEs by providing practical knowledge transfers with real-time simulations of activities. The programme is conducted in collaboration with industry experts from the private sector including factory managers, bankers, freight forwarders, marketing consultants, etc. Similarly, Chile's export promotion agency - ProChile - build SME exporters capacity through a systematic one year long training conducted in collaboration with private consultants.[17] It is encouraging that EDB has already introduced a host of innovative export promotion services through PPPs. Examples include ventures with the Sri Lanka Institute of Nanotechnology (SLINTEC) to enhance R&D access to exporters, and partnering with Sri Lanka Association of Professional Services (SLASSCOM) to develop the ICT/BPO sector, etc.

*Targeting of beneficiaries for export promotion programmes:* Exporters have expressed concerns about smaller firms lacking capacity to deliver large export orders being chosen for export promotion programmes such as trade fairs,[18] subsequent to which they have been noted to be incapable of meeting the large

**Private sector engagement can be sought through PPPs to deliver export promotion programmes on a cost sharing basis.**

[16] International Trade Centre (2014), "What Makes a Winner?", available at: http://www.intracen.org/itc/events/tpo-network-world-conference-and-awards/.

[17] World Bank (2014), "Malaysia Economic Monitor: Boosting Trade Competitiveness", available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/06/27/000350881_20140627082245/Rendered/INDEX/891020WP0P14640B00PUBLIC00MEM100web.txt.

[18] *Ibid.*

orders received during trade fairs. The selection of beneficiaries for export promotion is generally done in-house by the relevant export promotion officers and departments in charge but this appears to be not systematic.

In the case of ProChile for instance, training is used for targeting, whereby following a comprehensive training programme becomes a prerequisite or the first step to qualify for assistance. Training is also used to filter export ventures so that direct assistance will go towards building export readiness of the most viable ventures to ensure higher returns on assistance provided. Similar programmes can be observed in other countries including Costa Rica and Colombia to name a few. In the case of Sri Lanka too, targeting beneficiaries for existing export promotion programmes of EDB through training programmes could improve the efficient use of limited resources available.

*Inadequate resources for export promotion:* Under the Sri Lanka Export Development Act, export development activities are to be financed through the Export Development Fund, which draw from the proceeds of the Export Development Levy known as the Commodity Export Subsidy Scheme (CESS), while the remaining allocations are to be made through state budgetary provisions. Revenue collected from CESS, which was imposed with the objectives of protecting local manufacturers and channelling funds for R&D through the EDB, amounted to Rs. 46.3 billion in 2015.[19] Though proceeds of the CESS were initially ploughed back to exporters by way of financing export development services of EDB, their use for export development has been halted since the 1990s, with collected funds diverted to the Consolidated Fund of the Treasury for financing other national priorities. This has resulted in EDB experiencing financial constraints; the only source of financing available for EDB is now through budgetary provisions. Moreover, this problem has been compounded by a substantial portion of funds allocated to EDB being spent on administration, leaving very little for exporter assistance.[20]

*Monitoring export promotion activities:* Monitoring and evaluation efforts of export promotion programmes are noted to be fairly weak in the context of Sri Lanka. For example, it was noted that necessary follow-up mechanism for trade fairs could be improved further through evaluation tools such as surveys, which are important in assessing the usefulness of such programmes.[21] Moreover, the current setting lacks representation of local trade promotion organizations in foreign markets and this hampered the follow-up action in processing orders after trade fairs.

Many TPOs have systematic M&E mechanisms in place to ensure that programmes are meeting their objectives and achieving the targeted level of export promotion. These checks and balances ensure that financial assistance granted is being utilized to the fullest. For example, one of the outstanding characteristics of Go-Exports programme of Enterprise Mauritius is the systematic evaluation framework that the programme has adopted. M&E efforts are used to ensure that the financial assistance distributed yields the highest returns. Though

[19] CBSL, *Annual Report 2015*, Central Bank of Sri Lanka, Colombo.

[20] According to the latest published and publicly available information, more than a half of the total expenditure (55 per cent) of EDB was used up for administrative expenses (EDB *Annual Report 2010*).

[21] KIIs with exporters.

EDB has made some headway in this regard recently, further efforts to have systematic M&E processes in place like in the case of Mauritius could ensure better results from the limited programmes and budget it maintains.

## 5.3.2 Strengthening Export Financing in Sri Lanka

Another means of government support for the export sector is through export finance. Access to credit represents an important barrier to exports; imperfections in credit markets increase transaction costs faced by firms and limit access to credit, even in developed countries. These financial constraints may be the result of inefficiencies in financial sectors or lack of creditworthiness by private firms.[22] Export credits may be in the form of supplier credits or buyer credits.[23] In addition, export guarantees can be used to cover the risks of export credits (political or commercial) in the case of default by the borrower. Studies on the effects of credit and export guarantees highlight their positive role in increasing exports, especially that of SMEs.[24]

In most countries, governments intervene in credit financing by establishing specialized institutions like EXIM banks that provide special credit facilities to exporters. The prevalence of such credit facilities and credit institutions circumvent the need to finance exports through direct assistance, while motivating exporters to work towards utilizing the money borrowed in order to repay their loans. This in turn can guarantee higher returns on investments compared to direct subsidies.

While there is no state funded export finance bank in Sri Lanka, the Sri Lanka Export Credit Insurance Corporation (SLECIC) functions as the official state credit agency and is the only agency that insures exporters. The products and

**Access to credit represents an important barrier to exports; imperfections in credit markets increase transaction costs faced by firms and limit access to credit.**

[22] English, P. and L. de Wulf (2002), "Export Development Policies and Institutions", in Hoekman, B. *et al*. (eds.), *Development, Trade, and the WTO,* World Bank, Washington, D.C.

[23] Supplier credit is when credit is granted by an exporter to a foreign buyer; buyer credit is when an exporter enters into a contract with a buyer, financed through a loan agreement between a bank in the exporter's country and a bank in the buyer's country.

[24] Belloc, M. and M. Di Maio (2011), "Survey of the Literature on Successful Strategies and Practices for Export Promotion by Developing Countries", International Growth Centre, London.

services provided by SLECIC are export insurance, including insurance against non-receipt or delayed receipt of payments resulting from commercial and non-commercial risks, credit guarantee for exporters, etc.

However, the availability and utilization of export finance in Sri Lanka is found to be low, with the percentage of export transactions covered by export credit guarantee/insurance found to be around 2-4 per cent compared to an international average of 10-12 per cent.[25] These low levels are due to several weaknesses including institutional deficiencies and the limited portfolio of export finance instruments available in the market; low risk and static export structure; information gaps and asymmetries; limited role of institutions that facilitate export finance due to low level of policy focus; weak government support; and limited skills and capacity within related institutions.[26] Furthermore, given that there is no dedicated state funded development bank that provides export credit, exporters have to rely on commercial banks at commercial rates to obtain export credit.

Export finance has been an important instrument of export promotion as far back as two decades ago for most developing countries. Though there has been much discussion about setting up an EXIM bank in Sri Lanka over the years, progress in this regard to date has been slow. The importance of setting up a specialized export credit agency was underlined in the Budget 2016 with Rs. 50 million to be allocated as seed capital for the setting up of an EXIM bank jointly by the government and industry. The proposed EXIM bank is to be listed under the Colombo Stock Exchange (CSE).

EXIM banks around the world have adopted different operational models and include both state-owned and privately owned ones. In China, export finance facilities are provided by several state funded banks including the China Export-Import Bank (EXIMbank). It primarily offers overseas financing through a range of activities such as export credits (including export seller's credit and export buyer's credit), international guarantees, loans for overseas construction and investment, and official lines of credit. Whilst the bank mainly serves SOEs and foreign trade corporations, it also serves SMEs and is now the third largest Export Credit Agency (ECA) in the world. Similarly, the Export-Import Bank of Malaysia Berhad (EXIM Bank), was incorporated in 1995 as a government owned development financial institution and is a wholly owned subsidiary of the Ministry of Finance. It aims to promote reverse investment




[25] Verite Research (2015), "Expanding Exports: Role and Relevance of Export Finance", available at http://www.veriteresearch.org/research-spreport-archives.cfm?category=economics

[26] *Ibid.*

and export of strategic sectors, facilitate the entry of Malaysian companies to new markets, particularly to the non-traditional markets. The facilities provided by the bank include a host of services such as buyer credit, supplier credit, export credit refinancing, buyer credit guarantees, and buyer credit insurance, etc. Unlike most other EXIM banks, the Export Import Bank of Bangladesh Limited is a private initiative, incorporated in 1999 with its Initial Public Offering (IPO) held in 2004. It provides a host of export credit services for exporters including retail services, corporate banking, agri-banking, etc. While several models of EXIM banks are currently in place around the world, it is important for Sri Lanka to decide which model would best suit its context, including the budgetary costs and long-term sustainability.

## 5.4 Investment Promotion

Since Sri Lanka's initial bout of economic reforms in the late 1970s, FDI has been promoted as an important nexus for trade and development. The institutional structure created for this purpose was the setting up of the Greater Colombo Economic Commission (GCEC) in 1978 and the Board of Investment (BOI) as its successor in 1992. The BOI was to function as a one-stop shop for FDI, with powers to grant generous tax holidays, tax concessions and exemptions from Customs duty and exchange control laws, depending on criteria such as investment amounts and employment creation.

While FDI promotion is unambiguously associated with greater FDI flows, the effectiveness of investment promotion is likely to have the greatest impact in countries where other factors (investment climate, market size, level of development, etc.) that attract FDI are favourable.[27] There is a debate on the effectiveness of investment promotion centres on arguments that governments should work

**While FDI promotion is unambiguously associated with greater FDI flows, effectiveness of investment promotion is likely to have the greatest impact in countries where other factors that attract FDI are favourable.**

[27] Morriset, J. and K. Andrews-Johnson (2004), "The Effectiveness of Promotion Agencies at Attracting Investment", World Bank, Washington, D.C.

towards building a good investment climate and investors will automatically seek out opportunities; proponents of investment promotion highlight market failures due information gaps/misperceptions regarding investment climate and opportunities, and the need for investment promotions to influence FDI decisions.

Although there are no substitutes for having the 'right' basics, investment promotion and facilitation can play an important role. In fact, investment promotion and facilitation is identified to be a vital pull factor of investments to a country; studies have found a significant and positive correlation between investment promotion efforts and FDI flows to developing countries.[28] As such, dedicated investment promotion agencies (IPAs) have emerged at both national and sub-national levels to engage in investment promotion in many countries. Investment promotion covers a range of services, varying from investor outreach, facilitation, after care, and strategy. Of these, investment facilitation is widely seen as the most basic and cost effective activity supporting FDI promotion.[29]

More specifically, IPA services include four main types of activities: (i) image building; (ii) investment targeting/ generation; (iii) investment facilitation/servicing; and (iv) policy advocacy.[30] 'Image building' creates the perception of a country as an attractive site for international investment. Activities commonly associated with image building include focused advertising, public relations events, the generation of favourable news stories by cultivating journalists, and so on. 'Investor facilitation and investor services' refer to the range of services provided in a host country that can assist an investor in analysing investment decisions, establishing a business, and maintaining it in good standing. Activities in this area include information provision, 'one-stop shop' services aimed at expediting approval process, and assistance in obtaining sites, utilities, and so on. 'Investment generation' entails targeting specific sectors and companies with a view to creating investment leads. Activities include identification of potential sectors and investors, direct mailing, telephone campaigns, investor forums and seminars, and individual presentations to targeted investors. Investment generation activities can be done both at home and overseas. 'Policy advocacy' consists of the activities through which the agency supports initiatives to improve the quality of the investment climate and identifies the views of the private sector on that matter. Activities include surveys of the private sector, participation in task forces, policy and legal proposals, and lobbying.

The degree of importance of each activity however, may vary from country to country. According to a survey which measured the effectiveness of various functions of IPAs in attracting FDI, 'policy advocacy' was the most effective activity in attracting FDI followed by 'image building' and 'investor services'.[31] However, 'investment generation' was not

[28] Morisset, J. (2003), "Does a Country Need a Promotion Agency to Attract Foreign Direct Investment?", available at http://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-3028

[29] IFC (2015), "Investment Promotion", available at https://www.wbginvestmentclimate.org/advisory-services/investment-generation/investment-policy-and-promotion/

[30] Piontkivska, I. and E. Segura (2003), "Survey on International Foreign Investment Promotion Practices", The Bleyzer Foundation.

[31] Morriset, J. and K. Andrews-Johnson (2004), "The Effectiveness of Promotion Agencies at Attracting Investment", World Bank, Washington, D.C.

associated with higher FDI flows.[32] The study recommends that IPAs should dedicate a larger portion of their resources towards policy advocacy to improve the country's business environment.

## 5.4.1 Strengthening Institutions for FDI Promotion

In Sri Lanka, the BOI has been the government entity responsible for FDI. It functions as a central facilitation point for foreign investors and manages a number of export processing zones (EPZs). BOI provides assistance and advice throughout the investment process from initial point of inquiry through project approval, implementation, monitoring and aftercare facilities.

From an institutional perspective, the effectiveness of BOI in its current form, as well as that of incentives offered to attract FDI, are two key areas of concern that need attention.

*Effectiveness of BOI:* Promoting and attracting investment is financially costly and public expenditures towards this end can be justified only if government agencies set up for these purposes are successful in attracting greater volumes of FDI. By this measure, the performance of the BOI is mixed; whilst the major constraint to FDI in the form of the armed conflict was extraneous, as noted previously, Sri Lanka's record in attracting FDI even five years after the conflict ended has not been promising. Aside from attracting FDI, its role as a 'one-stop shop' appears to be weak. Lack of authority to mandate relevant agencies and ministries, limited role in negotiating on behalf of BOI companies, lack of detailed and comprehensive investment-related information (other than in English), insufficient detailed and project specific information, inconsistency in the information provided, limited post-investment services, and weak monitoring are some organisational limitations that have been identified.[33]

**Promoting and attracting investment is costly and public expenditures towards this end can be justified only if government agencies set up for these purposes are successful in attracting greater volumes of FDI.**

[32] *Ibid.*

[33] IPS (2016), "One-Stop-Shop Functions of the Board of Investment", Institute of Policy Studies of Sri Lanka, Colombo (unpublished); Jayaratne, S. and R. Ekanayake (2016), "Attracting Foreign Direct Investment to Sri Lanka: The Need for Proactive Investor Facilitation", available at http://www.ips.lk/talkingeconomics/2016/05/26/attracting-foreign-direct-investment-to-sri-lanka-the-need-for-proactive-investor-facilitation/.

A review of BOI's role as an investor promoter and facilitator suggests significant room for improvement in line with practices of top performing investor agencies around the world (Box 5.4). The most important elements are listed below:

- Give greater authority to the BOI to carry out its mandate. The limited power wielded by the BOI over other relevant agencies has made the BOI more of an 'intermediary' rather than a 'facilitator' of investments into the country. The BOI often refers investors to other ministries/ agencies undermining the concept of a 'one-stop-shop'. It is encouraging to note however that BOI has started a 'one-stop' from 2016 with officials from six different agencies (Inland Revenue Department, Registrar of Companies, Customs, CEB, CEA, and Ports Authority) housed within the BOI.
- Update BOI companies on changes to policy. This is identified as necessary by investors; there is no mechanism in place to do this at present, with firms having to resort to accounting and auditing firms for information. Relatedly, the BOI needs to provide detailed and comprehensive investment-related and project specific information, and maintain consistency in the information provided to investors.
- Improve post-investment services provided by the BOI. Currently, they are limited; the focus should extend beyond being a one-stop-shop to facilitate investments and include opinion surveys aimed to improve post-investment services of BOI.
- Strengthen supply of workers for companies. The BOI has a contractual obligation to provide employees to BOI companies. However, the BOI job bank is currently not functioning and as a result, companies have resorted to alternative sources like employment outsourcing companies to hire workers. According to companies, hiring workers is a challenge due to dearth of workers, new trends in youth employment (preference for temporary jobs compared to permanent jobs) and preference for desk jobs. The labour issue is highlighted as a major area of concern to existing investors, and one which can discourage new investors.
- Develop a promotional plan. The need for a well-researched promotional plan targeting investors and markets to use resources optimally is important. Improving the capacity of the promotions department within the BOI is also identified to be important, especially in terms of numbers and training.
- Adopt a more pro-active approach to attract potential investors. Currently, the system is more reactive than pro-active with officers following up with investors who take the initiative first and contact the BOI. However, there is no mechanism to be pro-active and identify potential investors and investments, and follow up with them to convince investors to come to Sri Lanka.
- Improve the capacity of BOI officers through training programmes. This is intended to ensure better understanding of the sensitivities, cultures and way of life of countries to be targeted for FDI.
- Improve monitoring mechanism of the BOI by maintaining comprehensive information on concessions provided, improve the evaluation procedure for duty free applications, reduce leakages, and ensure systematic and frequent monitoring of BOI projects and commitments.

## Box 5.5
## Fourteen Essential Practices of Top IPAs

The Global Investment Promotion Benchmark 2009 study assessed 219 IPAs in 181 countries and uncovered 14 essential practices for effective investment facilitation - practices which were evident among strong IPAs. The world's top performing IPAs distinguish themselves from weaker ones by fostering a private sector-minded culture, accumulating deep business knowledge, and implementing internal systems that ensure the agencies can provide foreign investors with the necessary information to influence their investment decisions.

**Foster a Private Sector-Minded Culture**

1. Build a staff with public and private sector experience.
2. Offer salaries and bonuses closer to private sector standards.
3. Secure operational freedom and high-level reporting channels.
4. Establish and concentrate efforts in a few priority sectors.
5. Coordinate facilitation with networks and partners sub-nationally and overseas.
6. Maintain English-speaking staff in sufficient numbers and with the full range of facilitation skills.
7. Continually train and develop staff, especially in soft skills.

**Accumulate Deep Business Knowledge**

8. Establish a minimum level of in-house research capacity.
9. Develop account managers into reservoirs of knowledge on particular sectors.
10. Ensure the accumulation of knowledge and its relevance.

**Implement Internal Systems for Consistently Good Facilitation**

11. Make facilitation a priority within the overall strategy, including by training and dedicating an adequate proportion of staff.
12. Maintain the equipment and practices to be easily reached and to quickly return calls and e-mails.
13. Demonstrate professionalism and dynamism through the Web site with frequent news updates of importance to investors.
14. Follow detailed guidelines on the content, style, timeframe, and quality assurance of inquiry responses.

Source: Investment Climate Advisory Services (2009), "Global Investment Promotion Benchmarking 2009: Summary Report", World Bank, Washington, D.C.

Finally, there needs to be a continuous evaluation and follow-up of investors from the point of expressing interest to invest in Sri Lanka. While there is an internal system of follow-up (i.e., progress report from officers) it is beneficial to have a system online, accessible to staff members to feed in information continuously.

*Effectiveness of incentives:* Despite a poor record of attracting FDI, Sri Lanka - like many countries at different points in time - offers significant incentives to promote inward investments. These can take the form of general investment promotion measures, or be directed at selected economic activities. Sri Lanka has tended to rely on the provision of incentives (corporate tax incentives, import duty exemptions, exemption tax on dividends, and exemption on exchange control) for FDI promotion subject to fulfilment of an investment threshold or any other specified requirements. These have been used extensively since 1978 to attract FDI and promote export-oriented industrialization.

Currently, various exemptions under the Inland Revenue Act, Port and Airport Development Levy Act, Value Added Tax Act, and Strategic Development Project Act are available for BOI approved companies. In addition, BOI provides duty free facilities and exchange control exemptions for projects approved under BOI. For example, companies that export more than 90 per cent of goods produced (with the exception of apparel and ceramic) or services (with 70 per cent turnover in convertible foreign currency) can benefit from zero Customs duty on capital goods and raw materials. Similarly, non-export oriented companies are entitled to import project related capital goods free of Customs duty during the project implementation period. In addition, exchange control exemptions are granted in the form of operating Foreign Currency Banking Unit (FCBU) accounts in any commercial bank in Sri Lanka.

These incentives to promote investments have eroded Sri Lanka's tax base and this is particularly important in the context of rising fiscal imbalances. Moreover, tax exemptions have made tax administration more difficult, discouraged tax compliance, and created demand for new exemptions.[34] Although the types of benefits that stem from additional investments as a result of incentives (flow of capital, job creation, transfer of skills, knowledge and technology) are difficult to estimate/quantify to do a cost-benefit analysis, the approximate cost of BOI incentives have been estimated to be about 1 per cent of GDP per annum.[35] In this context, and given that investor competing countries such as Vietnam have been able to attract more FDI with less generous incentives, there is a need to reconsider the incentives currently offered by the BOI for attracting projects.

The effectiveness of incentives in promoting investment has been extensively debated; incentives might not be the most effective means of attracting investments, especially 'efficiency seeking' (export-oriented) ones compared to 'market-seeking' (tariff jumping) investments as long as other factors (political stability, geographical location and

[34] World Bank (2015), "Sri Lanka – Ending Poverty and Promoting Share Prosperity: A Systematic Country Diagnostic", World Bank, Washington, D.C.

[35] GOSL, "Presidential Taxation Committee Report 2010", Government of Sri Lanka.

**Effectiveness of incentives in promoting investment has been extensively debated; incentives might not be the most effective means of attracting investments.**

infrastructure) remain favourable.[36] While incentives have been used to compete for potential investors, and attract investment into priority sectors/areas, international experience suggest an investor's decision on where to locate is based on various factors including market size, political and economic stability,[37] liberal policies/regulations,[38] natural resources, infrastructure, and availability of skilled labour. Investment incentives tend to be of marginal importance in investment making decisions. In fact, incentives alone are insufficient to attract FDI, while retention of FDI is low as investors switch between destinations when incentives dry up. While some insist on the importance of maintaining incentives to attract FDI, others argue that other forms of incentives which would place a less fiscal burden should be considered,[39] while fixing deficiencies in the enabling environment can be more effective than offering incentives to cover up the deficiencies.

In this context, Sri Lanka has to review the prevailing incentives structure.[40] Under the 2015 Budget proposals, the BOI is no longer able to grant any new tax holidays other than facilitating and implementing concessions. Currently, the granting of tax concessions for any investment is under the supervision and monitoring of the Ministry of Finance. Given that Sri Lanka is competing with other FDI destinations in the South and Southeast Asian region, the abrupt withdrawal of tax incentives could have an adverse impact on FDI attraction and the full implication will be seen in the coming months. A better policy would have been to gradually de-emphasis tax holidays and move towards other incentives like approved investment relief, investment tax credits/ allowances, accelerated depreciation allowances, and non-tax incentives like concessionary land, as recommended by the Presidential Tax Commission Report of 2010.

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[36] Athukorala, P. (2012). "Sri Lanka's Trade Policy: Reverting to Dirigisme?," *The World Economy*, 35(12).

[37] Macroeconomic stability determined by a mix of monetary, fiscal and exchange rate policies.

[38] A business-friendly environment, including protection of investors, attractive tax rates, ease of trading across borders, contract enforcement, rule of law, etc.

[39] Stakeholder interviews and GOSL, "Presidential Taxation Committee Report 2010", Government of Sri Lanka.

[40] See IPS (2015),"Reforming Sri Lanka's Trade and Investment Policies for Export Growth" in *Sri Lanka: State of the Economy,* Institute of Policy Studies of Sri Lanka, Colombo.

The above mentioned alternative incentives benefit the companies ex-post - i.e., only after a project is implemented - and not ex-ante. Also these incentives minimize the need for frequent monitoring to ensure that conditions stipulated by the investment agreements have been fulfilled, reducing administrative burdens. In fact, many countries have moved away from offering blanket tax holidays towards these other types of incentives. For example, Malaysia and Brazil are using tax relief for investment in higher technology sectors, while Vietnam is using accelerated depreciation allowances for investment in difficult areas, etc.[41]

## 5.5 Conclusion

Despite numerous measures (TIEPs, duty drawbacks, manufacture in bond, tax incentives) and dedicated institutions like the EDB and BOI in place to promote exports and FDI, Sri Lanka's world market share in trade has declined to levels last seen in the 1980s while FDI remains below 2 per cent of GDP even after the end of the war. This poor performance highlights the dire need for renewed efforts to incentivize exports and FDI attraction, although the scope for additional state support is limited given budgetary constraints. In this context, Sri Lanka needs to re-examine and rationalize these measures to improve efficiency in the delivery of services of these institutions whilst engaging the private sector to explore how it could too contribute to trade and investment promotion as discussed in previous sections.

However, improving the existing institutional set-up and incentives for trade and FDI promotion will only deliver desired outcomes if they happen in the context of sound economic fundamentals and strong institutions. As highlighted by the experience of East Asia, the overall environment within which export and FDI promotion takes place is as important to the success of these countries, as the policy interventions themselves. Thus, creating an enabling environment for trade and FDI should remain the primary objective of the government in promoting trade and investment.

A prerequisite is to reduce/eliminate ad hoc policy changes. Towards this end, a systematic trade policy framework, which sets out policy guidelines and identifies principal areas of action to strengthen different aspects of Sri Lanka's export competitiveness is crucial. Here, rising levels of protection and complexity in the tariff structure witnessed over the past decade need to be addressed, and efforts made to improve trade facilitation measures.[42]

Overall, Sri Lanka also needs to streamline business procedures and undertake urgent reforms to improve the country's business climate to attract large volumes of FDI. In addition, minimizing policy uncertainty and fostering investor confidence through consistent and predictable policies and regulations is vital. The powerful signalling role that clear coherent government policy direction plays cannot be underestimated.

Whether the newly established Agency for Development and Agency for International Trade could address these anomalies remains to be seen.

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[41] Wijesinha, A. and R. Ekanayake (2013), "Incentivizing Foreign Investment in Sri Lanka and Role of Tax Incentives", Working Paper Series No. 17, Institute of Policy Studies of Sri Lanka, Colombo.

[42] See IPS (2015),"Reforming Sri Lanka's Trade and Investment Policies for Export Growth" in *Sri Lanka: State of the Economy,* Institute of Policy Studies of Sri Lanka, Colombo.

# 6. Labour Market Reforms under Tight Fiscal Conditions

## 6.1 Introduction

The medium-term economic development policy framework presented in Parliament in November 2015 envisaged generating one million jobs and improving living standards of workers. The stated goal of employment creation was to be met by encouraging investments in high employment intensity sectors on the demand side, and by improving skills on the supply side. The policy framework gives special attention to create a sophisticated and modern knowledge-based economy which is able to compete effectively in the global market.

One main challenge faced by the government in achieving the above mentioned labour market objective is limited public finances at its disposal. In order to consolidate public finances - targeting a gradual reduction in both fiscal deficits and the country's debt burden - the room for a significant increase in government expenditure, both recurrent and capital, is limited. Indeed, the fiscal outlook suggests the need for a restructuring of existing expenditures. In this backdrop, funds available to invest towards improving labour market performance are limited.

This chapter examines the policy reforms needed to achieve the stated labour market goals set out for Sri Lanka by government policy pronouncements. Recommendations for reforms are made drawing on lessons from the other country experiences in reforming employment markets during times of stress in government finances.

## 6.2 Lessons on Improving Labour Markets under a Tight Fiscal Space

The challenge of improving labour market conditions with limited budgets is not unique to Sri Lanka, or to developing countries in general whose governments often face tight fiscal conditions. Developed countries are also not immune from such challenges. The global financial crisis of 2008 had a devastating impact on global growth and spearheaded an employment crisis, resulting in increased unemployment levels and reduced job creation in many advanced economies. Given the tight fiscal position experienced by these countries at the time, the revival of the employment market was required to be done in the context of limited finances.

### 6.2.1 Lessons from Advanced and OECD Countries

In the aftermath of the financial crisis, the main objectives of the labour market reforms of the

Organization for Economic Cooperation and Development (OECD) and their five key non-member BRICS countries (Brazil, Russia, India, China, South Africa) was to increase utilization of labour and to enhance productivity.[1]

Policies for improving labour utilization were done on several fronts.[2] First, policies focused on facilitating job creation through relaxing labour regulations. Of the OECD countries introducing labour utilization enhancing policy reforms, Greece, Portugal and Ireland were amongst the most successful.[3] This is partly due to the fact that they were forced to introduce previously unpopular policy reforms due to severe fiscal constraints. The labour market reforms introduced by these three countries included, reducing the costs of severance and making collective and individual dismissals easier (Greece and Portugal); measures to enhance temporary employment by extending the period under temporary work agencies (Greece); relaxing legislation to facilitate more flexible working-times (Greece); giving firms more flexibility in determining wages by allowing firms to move out of collective bargaining agreements (Greece and Ireland); and introducing a sub-minimum wage for youth to encourage hiring of young people (Greece).

A second set of policies on improving labour utilization resorted to encouraging labour force participation of older workers. In this regard, several countries raised minimum and statutory retirement ages (e.g., Belgium for females, France, Greece, Hungary and Spain); extended the contribution requirements to claim full pension benefits (France, Greece and Spain); reduced the generosity of pension benefits (Greece and Hungary); and aligned the retirement age with life expectancy.

Third, several countries that identified increasing labour force participation of females as a priority introduced measures to lower barriers to entry into the labour market. These initiatives included, expanding child care facilities (Germany, Ireland and Switzerland); increasing child care subsidies (Korea, New Zealand and Slovak Republic); lowering compulsory schooling age; and promoting full-day schools (Germany and Switzerland).

Lastly, all countries identifying active labour market programmes (ALMPs) as priorities invested in these in several ways. More than two-thirds of the countries in Europe increased resources for employment services and training programmes to increase employability and re-skilling. South Africa, in addition to increasing funding available for employment services, also improved information on training and employment opportunities. The efficiency of these ALMPs was improved by more regular monitoring and evaluation. The Canada Job Grant is a good example of an ALMP which trains individuals to jobs in demand. Canada Job Grant assists firms and employers to train individuals (new or existing) to fill existing job vacancies.[4] The programme is designed to help firms of all sizes and industries located across the country. The government contributes two-

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1 This section draws mainly from OECD (2012), "Economic Policy Reforms in 2012 - Going for Growth", available at OECDiLibrary: http://dx.doi.org/10.1787/growth-en-2012.

2 Only policies that are directly relevant to Sri Lanka are discussed here.

3 OECD, (2012), "Economic Policy Reforms in 2012 - Going for Growth", available at OECDiLibrary: http://dx.doi.org/10.1787/growth-en-2012.

4 Government of Canada (2013), " The New Canada Job Grant", available at http://www.budget.gc.ca/2013/doc/themes/skills-eng.pdf.

third of the training cost, while the firm contributes the rest of the training cost. These grants are given for beneficiaries to undergo short-duration courses conducted by third parties, such as community colleges or private trainers.

Attempts to improve productivity were mainly aimed at boosting innovation policies and reforming education systems in many countries. Other reforms included product market reforms, public infrastructure development, public sector reforms, general tax reforms, and reforms of subsidies given to the agriculture sector. Among these, raising levels of human capital has been recommended as a means of raising productivity in a majority of the OECD countries and in all BRICS countries.

## 6.2.2 Lessons from Developing Countries

Developing countries were also not immune to the contagion impacts of the global downturn and labour market impacts, with some regions hit harder than others. In the case of countries in the North African region for instance, the main labour market benefit to the disadvantaged in the aftermath of the financial crisis was in the form of ALMPs.[5] However, the ALMPs implemented in North Africa were not successful in creating decent long-term jobs in the private sector for several reasons. First, the programmes were implemented mainly by the government sector providers, who were ill-equipped to deliver quality programmes due to financial, technical, and capacity limitations of their institutions. Further, the programmes suffered from design flaws due to the non-inclusion of all stakeholders in the planning process. For example, those completing entrepreneurship programmes were unable to start self-employment ventures due to lack of access to credit; wage subsidy schemes were successful in creating jobs only till the subsidies lasted; and the skills taught in vocational training programmes were not those demanded by the market. The North African countries which were less constrained by finances, mainly oil exporting countries, expanded their public sector to create jobs. However, this was a costly means of creating employment, both in terms of the expense of the programme, as well as the labour market distortions created and the long-term issues caused by such initiatives (see Box 6.1).

Research suggests that recommendations to revive labour markets in North African countries in the aftermath of the financial crisis examine labour market policies along four dimensions, namely; (i) ALMPs; (ii) labour regulations; (iii) social protection legislation; and (iv) collective representation.[6] The research emphasizes the need to take into account all four of these dimensions when making overall policy recommendations as these different aspects of the labour markets are interlinked. For example, relaxing labour market regulations to allow for more mobility between jobs should go hand in hand with measures to safeguard workers who are in-between jobs. Further, any changes to labour regulations should take place only after discussions with all stakeholders to prevent a social backlash. Additionally, the need to be aware of the capacity of a country to implement reforms when making policy recommendations needs to be recognized. This will depend on

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[1] Subrahmanyam, G., and V. Castel (2014)," Labour Market Reforms in Post-transition North Africa", African Development Bank Group, Tunis.

[2] *Ibid*.

**Box 6.1**
**Expanding the Public Sector is Not a Solution for Job Creation**

International experiences suggest that public sector job creation is costly and distorts the labour market in the long-run. In the aftermath of the financial crisis, governments in North African countries were compelled to create jobs. Some countries reacted to this need by creating public sector jobs. For example, Egypt created one million new public sector jobs, Tunisia created 40,000 new direct public sector jobs, and Libya absorbed large numbers of ex-combatants and others into the government forces.

However, Subrahmanyam and Castel (2014) point out that such public sector job creation is not a solution to unemployment for several reasons. First, job creation through expanding the public sector is expensive. For example, in Egypt, the public sector wage bill increased by 15 per cent. This creates additional pressure on the public budget in the long-term. Second, it does not address the real cause of unemployment. Third, it is not sustainable, as governments cannot continue to expand the public sector. Fourth, it creates a perpetual problem of graduate unemployment as future graduates also queue to obtain public sector jobs. The only means of breaking the cycle of unemployment and public sector employment provision is to facilitate private sector led job growth.

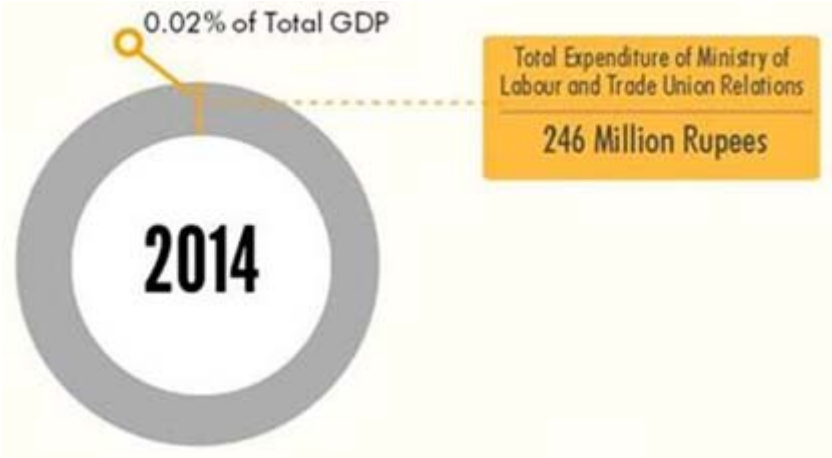
Source: Subrahmanyam, G., and V. Castel (2014), "Labour Market Reforms in Post-transition North Africa", African Development Bank Group, Tunis.

many factors, including available fiscal space, level of human capital development in the country, level of diversification and sophistication of the economy, and the strength of institutions in the country.

## 6.3 Public Sector Involvement in Labour Market Activities in Sri Lanka

Total public expenditure on labour market improvement in Sri Lanka is difficult to estimate, as the different functions involved in policy making, policy implementation, vocational and technical training, career guidance, labour market information provision, and job matching are done by a multitude of institutions in the country. However, available budget estimates show that public expenditure on labour and employment is very low.[7] The Department of Labour, which is primarily involved in law enforcement, spent Rs. 1,424 million in 2014. The Ministry of Labour and Trade Union Relations (MLTUR), which is responsible for enforcement of labour laws, implementation of social security schemes, provision of labour market information as well as human resource development only spent Rs. 246 million in 2014.[8] Together, these expenditures amount to less than 0.02 per cent of GDP.

[7] Estimates from MOFP (2014), *Annual Report 2014,* Ministry of Finance and Planning, Colombo.
[8] *Ibid*.




In addition to the above, the government is involved in ALMPs such as technical and vocational training, career guidance and job matching activities. The technical and vocational training (TVET) in the country is conducted by an assortment of organizations including most importantly, the Ministry of Youth Affairs and Skills Development (MYASD) and the Department of Technical Education and Training (DTET). Under DTET, 38 technical training institutions operate, of which 9 (one in each province) are operating as Colleges of Technology (COTs). In addition to DTET, several other vocational training bodies come under MYASD. These include the Vocational Training Authority (VTA), National Apprentice and Industrial Training Authority (NAITA), the National Youth Services Council (NYSC) and the National Youth Corps (NYC), which together operated more than 300 vocational training institutes in urban and rural areas. The government expenditure on MYASD and DTET together had fluctuated around 0.1 per cent of GDP from 2000 to 2014.

The public institutions for vocational and technical training mainly evaluate their effectiveness through enrolments and completions. The latest student enrolment and completion data are available for 2012, and they indicate much room for improving performance. For example, the drop-out rates for these institutions for the latest year for which data is available were very high (e.g., DTET-29.2 per cent (2011); VTA -11.2 per cent (2012) NAITA - 18.4 per cent (2012)).[9] This suggests that many of these training institutions are not run efficiently. Further, due to lack of proper monitoring, the effectiveness of these institutions in improving employability of youth is not clear.

## 6.4 Challenges in Meeting Government Employment Goals

This section provides stylized facts on the labour market in Sri Lanka, keeping in mind the policy

[9] State Ministry of Youth Affairs (2016), "Statistics", available at http://www.youthmin.gov.lk/web/index.php?option=com_content&view=article&id= 178&Itemid=233&lang=en.

**0.12%**

Public expenditure on labour market activities including technical and vocational training in 2014 (as a % of GDP)

goals of the government with a view to identifying policy priorities for the labour market.

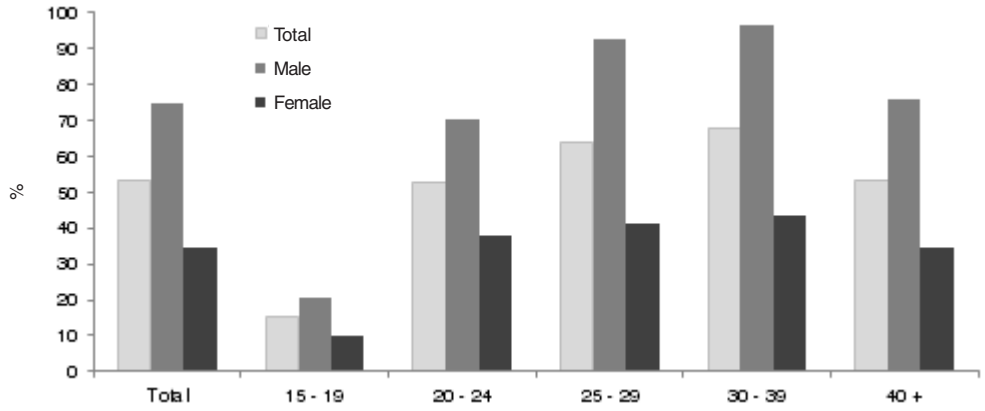
## 6.4.1 Creating One Million Jobs

The government envisages creating one million jobs in the next five years. In order to achieve this goal, the economy will need to create 200,000 jobs a year, on average. The employed increased by 237,689 from 2011 to 2014, which resulted in an average annual increase of 79,230 employed. This means that in order to meet the policy target, job growth will need to increase by two and a half times its current levels. In 2014, there were 380,554 unemployed persons in the country, which amounted to an unemployment rate of 4.3 per cent. An unemployed rate of around 4 per cent is usual in any economy in the presence of new entrants to the labour market and movement of workers between jobs (frictional unemployment). Given this, workers for the new jobs will need to be sourced mostly from the currently economically inactive.

**This means that in order to meet the one million jobs target, job growth will need to increase by two and a half times its current levels.**

The currently economically inactive in Sri Lanka are mostly females, youth and elderly. According to 2014 labour force survey data, 75 per cent of the economically inactive were

**Figure 6.1**
**Labour Force Participation Rate by Age Group and Sex (2014)**




Source: Estimated from data based on DCS, "Labour Force Survey- Annual Report 2014", Department of Census and Statistics, Colombo.

females.[10] By age group, 22 per cent of the inactive individuals were aged 65 years or more, and 27 per cent of them were youth (15-24 year olds). By type of activity, 49 per cent were engaged in household duties, 20 per cent were engaged in studies, and 21 per cent were retired or too old to work. As shown in Figure 6.1, labour force participation of prime age (25-40 years) of males is quite high; however, the labour force participation of youth, females and older persons has room for improvement.

The low labour force participation is partly due to the mismatch between the availability of jobs and the types of jobs aspired to by those economically inactive. However, job prospects for females and older persons have improved during the 2011-14 period. Jobs for youth (15-24 year olds), in contrast, have declined. The growth in employment from 2011 to 2014, by nearly 1 per cent annually, is mainly explained by growth in female employment. On average during the time considered, female employment grew by 1.7 per cent and male employment grew by 0.6 per cent annually. Across age groups, this growth is mainly explained by employment growth of older persons. The average annual employment grew by 2.7 per cent and 2.2 per cent, respectively, for 40 and above individuals and 30-39 year olds between 2011 and 2014. In contrast, employment for those below 30 years declined (at an average annual rate of 5.2 per cent) over the same period.

The disparity between the jobs available and the jobs desired is also reflected by the unemployment rates. The unemployment rates for females and the educated have decreased over the 2011 to 2014 period, but youth unemployment rate has increased (Table 6.1).

The government practice of expanding the public sector to address the unemployment problem is not sustainable. The above

[10] DCS (2014), "Labour Force Survey - *Annual Report 2014*", Department of Census and Statistics, Colombo.

**Table 6.1**
**Trends in Unemployment Rates**

| | Unemployment Rate (%) | | Unemployment Rate Relative to Overall Unempoyment Rate (%) | |
|---|---|---|---|---|
| | 2011 | 2014 | 2011 | 2014 |
| All | 4.2 | 4.3 | 1.0 | 1.0 |
| By gender | | | | |
| Male | 2.7 | 3.1 | 0.6 | 0.7 |
| Female | 7.0 | 6.5 | 1.7 | 1.5 |
| By age group | | | | |
| 20-24 | 17.7 | 20 | 4.2 | 4.7 |
| 25-29 | 7.6 | 8.3 | 1.8 | 1.9 |
| By level of education | | | | |
| GCE A/L & above | 9.0 | 8.1 | 2.1 | 1.9 |

Source: Estimated from data based on DCS, "Labour Force Survey- Annual Report 2014", Department of Census and Statistics, Colombo.

mentioned decline in the unemployment rate of females and the more educated is partly owing to 51,420 graduates being absorbed into the public sector under the graduate employment programme.[11] It is unlikely that the government can continue to provide employment for such large numbers of unemployed graduates. Hence a more sustainable means of creating employment is needed.

A recent survey by the National Human Resource Development Council (NHRDC) suggests that public sector unemployed graduate recruitments are not strategic.[12] About 48 per cent of the interviewed were dissatisfied with the way graduates were recruited. The main reasons for dissatisfaction were political interference (43 per cent), unsystematic methods of recruitment (33 per cent) and recruitment not aligned with degree qualification (8 per cent). The suggestions given by the newly recruited on the means of

**A recent survey by the National Human Resource Development Council (NHRDC) suggests that public sector unemployed graduate recruitments are not strategic.**

[11] NHRDC (2013), "Recruitment of Graduates into the Public Service, and their Contribution to the Productivity vis-a-vis their Job Satisfaction", National Human Resource Development Council of Sri Lanka, Colombo.

[12] *Ibid*.

**The main reason for low labour force participation of youth is education, but the education outcomes of youth are mediocre.**

improving the recruitment process also reveal that such recruitments are unlikely to enhance productivity in the public sector. For example, 30 per cent recommended avoiding political interference in recruitments; 23 per cent recommended recruiting for existing vacancies; 20 per cent recommended recruiting for a position worthy of a graduate; and, 16 per cent recommended recruitments that match the subject of the degree.

The low labour force participation of youth is partly due to the inefficiencies in the education system. The main reason for low labour force participation of youth is education, but the education outcomes of youth are mediocre. The youth labour force participation only start to increase in the late twenties (see Figure 6.1). According to DCS data, among inactive youth (15-24 year olds), 84 per cent of males and 61 per cent of females are engaged in studies.[13] Although youth spend many years in education, the proportion of 25-30 year olds with degrees (5.9 per cent) and tertiary level vocational training (14.7 per cent) is quite low (see Figure 6.3), indicating that although many years are spent in education, the education outcomes of youth are low. A first degree or a tertiary level vocational training course takes only 3-4 years to complete. If young people undertake these education courses soon after leaving school, they should be able to complete their studies and enter the labour market in their early twenties. However, an average Sri Lankan university student takes three years longer to graduate compared to their counterparts in the UK and the US.[14] This is due to late entry into universities as well as longer time spent in universities.

The main reasons for low labour force participation of females and elderly are household responsibilities (mainly females) and retirement (mainly elderly). About 90 per cent of the 25-55 age group females who are not in the labour force are engaged in household duties. A large proportion of 55 and above males (75 per cent) and females (47 per cent) are not active in the labour market due to retirement and old age.

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[13] DCS (2014), "Labour Force Survey - Annual Report 2014", Department of Census and Statistics, Colombo.

[14] Jayasekera, H. (2012), "Lankan University Graduates: Late Birds, No Worms" available at Talking Economics: http://www.ips.lk/talkingeconomics/ 2012/08/22/lankan-university-graduates-late-birds-no-worms/.

Policies for improving employment will have to target jobs mainly for females, youth and elderly. Further, job creation will need to be done strategically and by creating jobs needed for improving production.

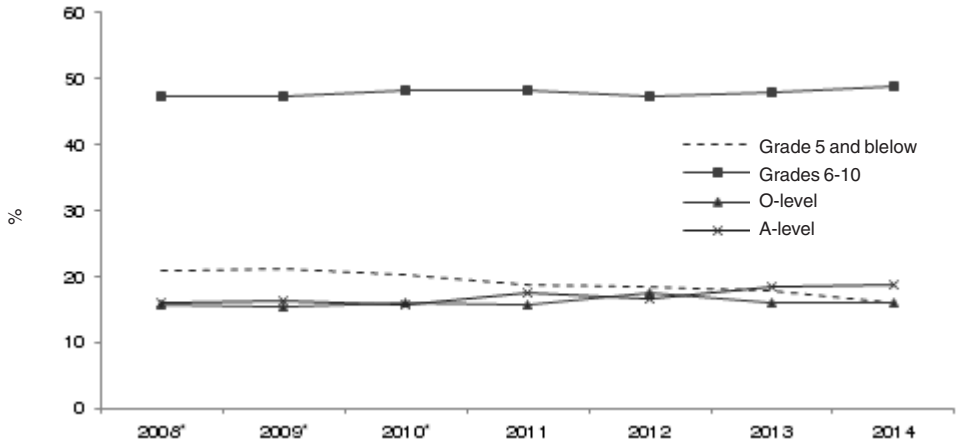
## 6.4.2 Towards a Modern Knowledge-based Economy

The government envisages creating a sophisticated and modern knowledge-based economy which is able to compete in the global market. One essential prerequisite for creating a modern knowledge economy is a highly educated labour force; in particular, tertiary level science and technology workers are needed for a dynamic knowledge-based economy.

The employed in Sri Lanka has become more educated over time, but improvements are marginal. From 2011 to 2014, the employed with A-levels have increased annually by 3.7 per cent, while the employed with less than a primary level education has declined by nearly 4 per cent annually. Although the employed are more educated, still a large proportion (65 per cent) of the labour market has less than a secondary level education (i.e., has not passed O-levels) as can be seen in Figure 6.2. Less than 20 per cent of the population has A-levels or a higher level of education. Although there is a slight increase in the proportion of those passing A-levels, this increase has been rather gradual.

The proportion of tertiary educated in the population is low, and those with post-graduate level education are almost non-existent. The highest incidence of tertiary educated are observed for 25-29 year olds in Sri Lanka (Figure 6.3). The proportion of tertiary educated, decreases steadily for older age groups. This could either be because emigration of skilled individuals or the late improvements to the

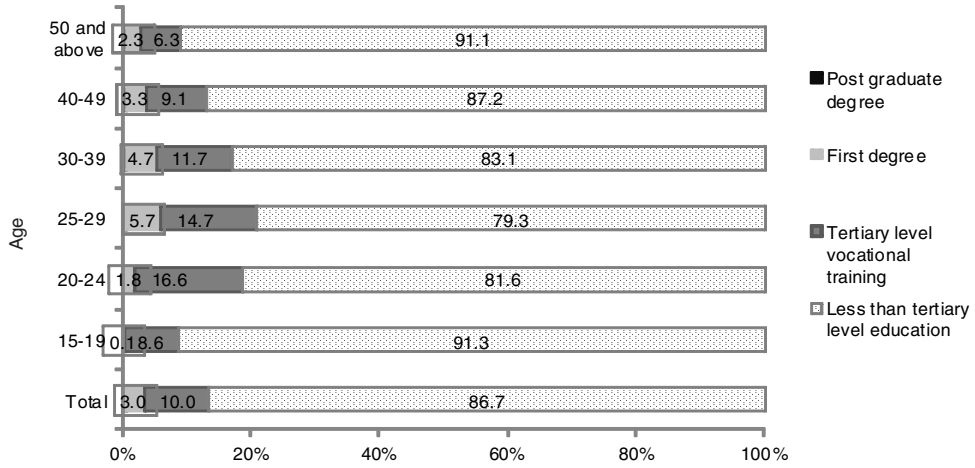
**Figure 6.2**
**Currently Employed by Level of Education**




Notes: Data for 2008-10 exclude the Northern Province.

Source: Estimated from data based on DCS, "Labour Force Survey- Annual Report 2014", Department of Census and Statistics, Colombo.

**Figure 6.3**
**Population Aged 15 and Over, by Level of Eduation and Age**




Source: Arunatilake, N., "Census of Population and Housing Thematic Report – Labour Market Characteristics", United Nations Population Fund, Colombo (forthcoming).

tertiary education in the country. The proportion of persons with post- graduate degrees is very low in Sri Lanka; individuals with such qualifications are essential for training and driving innovation.

## 6.4.3 Increasing Productivity and Competitiveness

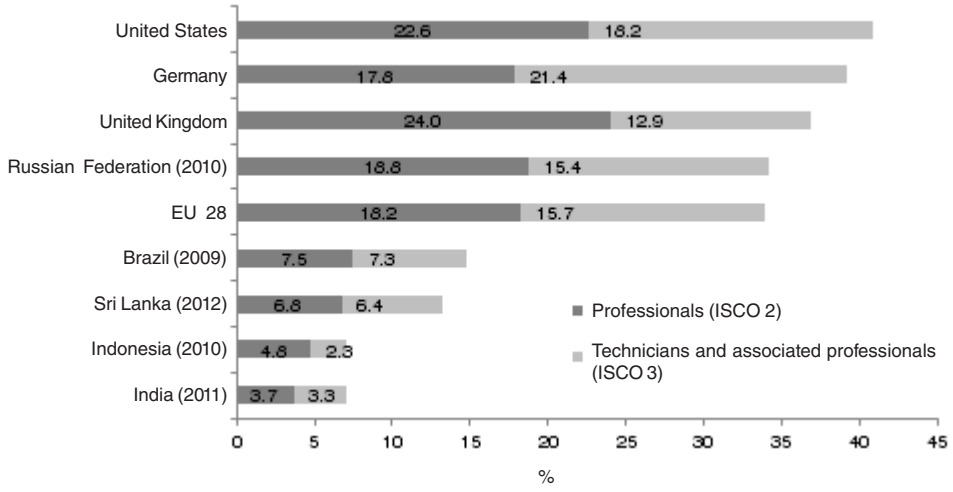
It is often argued that "science, technology and innovation promote competitiveness, productivity and growth";[15] as such, the OECD has put in place procedures to monitor progress in science, technology and innovation. A workforce that is highly skilled in science and technology (S&T) are a prerequisite for driving innovation. In recognition of this fact, many developed countries have re-oriented their policies to train and attract individuals to become S&T workers. More resources given to science education and change of migration policies to attract more skilled workers are some examples of strategies adopted by developed countries to increase the proportion of S&T workers in their countries. In order to monitor the prevalence of S&T workers, the OECD developed a methodology for measuring S&T workers.[16] According to this, science and technology workers are those with a tertiary education,[17] and/or those employed as professionals, associate professionals and technicians. Countries benefit when professional, associate professional and technical level occupations are carried out by

[15] OECD (2015), "OECD Science, Technology and Industry Scoreboard", available at http://www.oecd.org/sti/scoreboard.htm.

[16] OECD (1995), "The Measurement of Scientific and Technological Activities - Manual on the Measurement of Human Resources Devoted to S&T: CANBERRA MANUAL", OECD, Paris.

[17] For example, those with an education level of 5 or more according to the International Standard Classification of Education (ISCED); these include post-graduate degree holders (ISCED level 7), graduates (ISCED level 6), and holders of tertiary level vocational training diplomas (ISCED level 5).

**Figure 6.4**
**Incidence of Professionals and Technicians in the Total Employed**



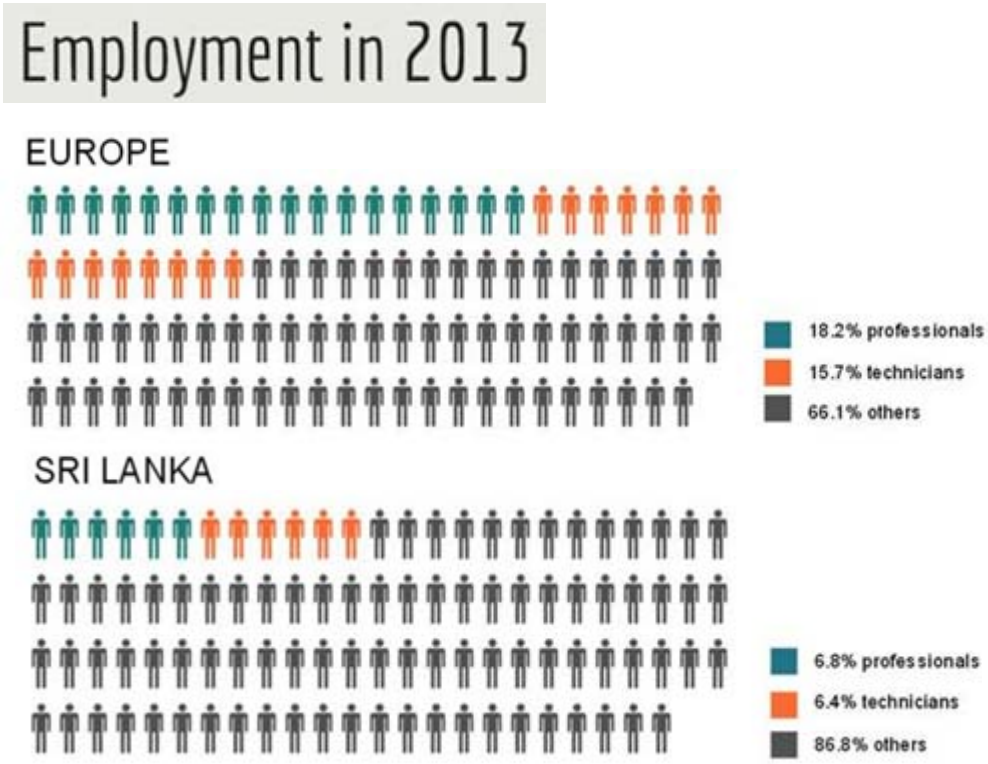

Notes: Professionals, and technicians and associate professionals are defined according to the International Standard Classification of Occupations 2008 (ISCO-08) major groups 2 and 3 respectively, except for Brazil, India, Indonesia, and the Russian Federation, for which the corresponding ISCO-88 groups are reported.

Source: For Sri Lanka see Arunatilake, N., "Census of Population and Housing Thematic Report – Labour Market Characteristics", United Nations Population Fund, Colombo (forthcoming); for other countries see OECD, based on European Labour Force Surveys, Eurostat; ILO Laborsta database; and national sources from (OECD, 2013), http://www.oecd-ilibrary.org/science-and-technology/oecd-science-technology-and-industry-scoreboard-2013/professionals-and-technicians-2012_sti_scoreboard-2013-graph76-en.

tertiary educated individuals as they are trained to conduct these occupations.

The proportion of professionals, associate professionals and technicians in Sri Lanka are much lower than those in OECD countries. The proportion of professionals and technicians in the total population is used as an indicator for a knowledge economy by the OECD. In 2013, on average 18.2 per cent of the total employed in Europe were professionals and 15.7 per cent of total employed were technicians and associate professionals (Figure 6.4). The corresponding statistics for Sri Lanka were 6.8 and 6.4 per cent, respectively. This indicates that to reach the current incidence of professionals in Europe, Sri Lanka has to almost triple its proportion of professionals in the economy at present.

A large proportion of the S&T jobs are done by persons not formally qualified in tertiary education. Even though the proportion of professionals, associate professionals and technicians (International Standard Classification of Occupations (ISCO) 2 and 3) are higher in Sri Lanka compared to India and Indonesia, many of those in these ISCO 2 and 3 occupations do not have a tertiary level education. For example, 35.8 per cent of professionals and 67.6 per cent of technicians and associate professionals were without a tertiary level education in the country (Table 6.2). Further, the proportion of those with post-




**A large proportion of the S&T jobs are done by persons not formally qualified in tertiary education.**

graduate degrees was very small; this hampers the ability to conduct R&D in the country.

In Sri Lanka, a large proportion of those with degrees have studied arts subjects. There is an over-supply of university students majoring in social science and humanities and an under-supply of those majoring in science subjects. In 2014, 36.1 per cent of graduates had majored in arts, while a further 20 per cent had majored in commerce (Figure 6.5). Although the proportion of arts graduates have marginally declined from 2011 to 2014 (by 3.2 percentage points) this decline is very gradual. Sri Lanka will need to think about expanding S&T graduates in order to spur innovation.

**Table 6.2**
**Working Age Population in S&T Occupations, by Level of Education**

| | Units | Total | Post-graduate Degree | First Degree | Tertiary Level Vocational Training | Other (Less than Tertiary Level) |
|---|---|---|---|---|---|---|
| Employed | No. | 7,335,432 | 35,530 | 323,36 | 4858,116 | 6,118,422 |
| | % | 100.0 | 0.5 | 4.4 | 11.7 | 83.4 |
| Professionals (ISCO 2) | No. | 499,505 | 20,834 | 175,934 | 123,740 | 178,997 |
| | % | 100.0 | 4.2 | 35.2 | 24.8 | 35.8 |
| Technicians and associate professionals (ISCO 3) | No. | 465,882 | 4,205 | 53,589 | 93,108 | 314,980 |
| | % | 100.0 | 0.9 | 11.5 | 20.0 | 67.6 |

Note: 15 and above population.

Source: Arunatilake, N., "Census of Population and Housing Thematic Report – Labour Market Characteristics", United Nations Population Fund, Colombo.

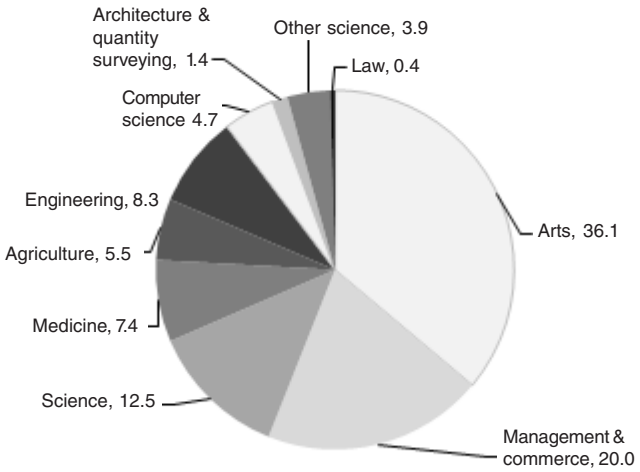
# 6.5 Policy Priorities

## 6.5.1 Improving Labour Utilization

The above discussion shows that policies for improving labour utilization will need to look at means of improving labour force participation of youth, females and the elderly, and reduce the unemployment rate of youth. This section discusses policy options available for achieving these goals.

In the case of females, these mainly aim to improve social support to families, in order to reduce barriers to female labour force participation. Policy measures in this regard include expanding child care facilities and increasing child care subsidies and allowing more flexible work-time arrangements. Sri Lanka could also learn from these experiences to increase female, youth and elderly labour force participation. Policies to be considered

**Figure 6.5**
**Distribution of Graduate Output by Higher Education Programme (%) 2014**




Source: UGC, "Sri Lanka University Statistics 2014", University Grants Commission, Colombo.

include relaxing legislation to reduce disparities between part-time workers and full-time workers, and policies aimed at building the capacity of human resource managers to manage a mix of part-time and full-time workers. Again such policies can be implemented without much public expenditure.

As shown earlier, the most economically inactive youth are involved in education. However, the education outcomes of tertiary educated 25-30 year olds are low. Improving efficiency of the education market plays an important role in improving youth labour force participation. The transition time from O-Levels to A-Levels and from O-Levels and A-Levels to higher studies or vocational training should be minimized. Universities and vocational training institutes should function according to a set calendar in order to avoid unnecessary delays. Improving the quality and relevance of education, and improving services for matching job seekers to jobs can help to minimize the school to work transition. Again, improving the efficiency of transition between different levels of education can improve labour market outcomes without increased spending.

Studies may be needed to identify the reasons for long delays between different levels of education and take corrective action to minimize them. Computerizing exam taking and paper marking, and selection of candidates to universities may help to improve the efficiency of transition between different levels of education. Some of these measures may be costly to implement, but the likelihood of negotiating multilateral aid for such efficiency improvements are likely to be high.

**Improving efficiency of the education market plays an important role in improving youth labour force participation.**

## 6.5.2 Improving Employability and Employment Services

As discussed earlier, government expenditure on technical and vocational training, career guidance and job placements is very small. Even available funds are distributed amongst a multitude of institutions. The high drop-out rates in these institutions suggest inefficiencies in the management of these institutions.

International experience suggests that the success of the ALMPs depend largely on several factors.[18] These are: (i) inclusion of multiple stakeholders in the design; (ii) involvement of the private sector to ensure that correct skills

[18] Subrahmanyam, G., and V. Castel (2014), "Labour Market Reforms in Post-transition North Africa", African Development Bank Group, Tunis.

are taught; (iii) availability of reliable information on the labour market to make correct policy decisions; (iv) proper targeting aimed at the most disadvantaged; and (v) comprehensive programmes that link training to job placement. Training programmes which directly target 'skilling' workers to fill available vacancies are more efficient, and can be less costly.

The TVET sector in Sri Lanka can also benefit from reforms that aim to involve more stakeholders in the design, involvement of the private sector, better labour market information for making decisions, proper targeting, and programmes that are linked to employment placements. Among these, improving labour market information will be most costly to implement. But, rationalizing the existing TVET sector can free resources for developing a system to collect better labour market information.

## 6.5.3 Policies for Improving Job Creation and Productivity

Past governments resorted to public sector job creation to reduce unemployment amongst graduates. However, this is not a sustainable solution (see Box 6.1). The way forward is to facilitate private sector job creation. Highly regulated labour markets make access to employment harder for vulnerable groups such as youth and females, as prime age individuals who secure jobs enjoy long job tenures. There is increasing evidence that more flexible labour markets facilitate more efficient worker allocation, job creation and productivity (see Box 6.2). In the aftermath of the financial crisis, many policy reforms adopted by OECD countries were aimed at allowing more flexibility for firms to hire and fire workers. These include, reducing the severance payments, simplifying judicial procedures related to firing procedures, allowing longer term temporary work arrangements, subsidizing social welfare payments linked to wages to reduce the costs of hiring and increase the flexibility of adjusting the workforce to suit market requirements.

Sri Lanka also has highly stringent labour market regulations where hiring and firing of workers is costly and cumbersome, and the costs involved are uncertain. Relaxing these regulations by reducing the costs of social protection to firms and ensuring income protection, rather than job protection,[19] can benefit job creation. For example, in many OECD countries firms have greater freedom in hiring and firing workers. But, workers' incomes are protected during times of unemployment through unemployment insurance or stipends paid during times of unemployment. This is beneficial to both the firms and the workers. Firms are able to adjust their work forces to match the current economic and technological requirements of the market, while workers are able to get re-skilled and re-enter the labour market. In many countries, unemployment insurance schemes are coupled with policies for training unemployed workers, so that they can acquire new skills and improve their employability. But, any policy reform will need to be carefully evaluated for their social consequences before implementation. This entails introducing social security programmes to support workers in-between jobs as well as

[19] Job protection usually refers to legislation, collective agreements or other policies that restrict the hiring and firing practices of firms. Income protection usually refers to protecting the incomes of workers so that they do not have to face hardships even when they are laid-off (e.g., through unemployment insurance). Job protection is a form of income protection as workers are paid as long as they are employed. But, excessive job protection is criticized, as it lowers productivity of workers and hinders the creation of more and better jobs.

**Box 6.2**
**Effect of Labour Market Institutions on Job Growth and Productivity**

Economic growth requires the reallocation of productive resources from low growth sectors to high growth sectors. Reviewing the literature on firm growth, Henrekson (2014) finds that younger high growth firms have higher productivity and grow more rapidly, thereby contributing to job growth more. Regulations that provide high job security restrict job mobility and are detrimental to the growth of young high growth firms, as they restrict the ability of firms to secure skilled workers. Stringent labour markets can dampen job creation. High job protection increases the opportunity cost to workers of changing employers or becoming self-employed. As such, in highly protected labour markets, worker mobility is low. When formal employment is highly regulated, employers tend to circumvent the regulations by hiring temporary workers. Although this reduces the costs of worker adjustment, it restricts the ability of firms to attract highly skilled workers. International experiences suggest that more flexible labour markets assist job growth. A study evaluating the relationship between productivity and firm size in the US and seven European countries using harmonized firm-level data find that the relationship between productivity and firm size is much stronger in the US, where labour markets are less stringent.

Source: Henrekson, M., (2014), "How Labour Market Institutions Affect Job Creation and Productivity Growth", Institute for the Study of Labour (IZA), Bonn.

social dialogues to minimize adverse social reactions. If carefully designed, social security programmes can be created without much public funds, financed by contributions from employers and employees. Such policies may increase job creation and benefit females, youth and elderly without stretching the public budget.

### 6.5.4 Labour Market Reforms for Creating a Knowledge-based Economy

Improving human capital, especially tertiary level educated S&T workers is seen as an essential element for boosting innovation, which is needed for improving productivity and competitiveness. As shown, although the education level of employed in Sri Lanka have improved over time, the proportion of tertiary educated in the country is very low. Many who are in professional, technical and associate professional occupation categories are without a tertiary education. A large proportion of those who are tertiary educated have done their studies in arts and humanities subjects. The country will need to expand access and improve the quality of the tertiary educated to promote innovation and competition. In this regard, in the face of tight budget constraints, Sri Lanka will need to bring in policies for giving tertiary education institutes more autonomy to function independently, more autonomy to generate funding, and at the same time making tertiary education institutions more accountable.

## 6.6 Conclusions and Policy Recommendations

The government envisages creating one million jobs and improving Sri Lanka's living standards. To reach one million workers in five years, the economy will have to increase its current trends

**Improving human capital, especially tertiary level educated S&T workers is seen as an essential element for boosting innovation; the proportion of tertiary educated in Sri Lanka is very low.**

in employment by two and half times. With a very low unemployment rate already, the majority of workers for the envisaged new jobs will have to come from the currently economically inactive population. These consist mainly of females, old persons and youth. Hence, policies to creating one million jobs will need to especially target these population groups.

International experience suggests a variety of ways to increase labour force participation of youth, females and elderly without relying much on public expenditure. The main means of doing this is by relaxing legislation that inhibits the natural growth of firms due to statutory requirements. Such incentives need not be financial. For example, they can take the form of reducing the severance payment requirements, simplifying firing procedures, and allowing longer-term temporary work arrangements that encourage firms to expand employment. Reducing job protection through lowering the costs of severance pay and allowing firms more flexibility to hire and fire workers can benefit the young and females. Further, better child care facilities and more flexible work arrangements are the main policies adopted by OECD countries to improve female labour force participation. If done with private sector participation, providing better and more affordable child care may not be an extra burden on government finances.

Youth enter the labour market quite late in Sri Lanka. This is partly due to the longer time spent in education by youth. However, the education outcomes of youth are not very good. Increasing youth labour force participation can be brought about by improving the education system. Policies should aim at reducing the transition time between general and tertiary education and ensuring that the education courses are completed according to a schedule. Improving the efficiency of education will also help to increase female labour force participation indirectly. If females enter the labour market in their early twenties, they are more likely to gain several years of experience before their reproductive years. With prior experience in the labour market, they are more likely to resume work after their reproductive years than those

who never work. On the other hand, engaging in education till the late twenties allows females very little time to gain experience before starting a family.

Improving the quality of tertiary and vocational training, and making them more relevant to the market place can improve the employability of young people. Further, job-search assistance can facilitate job matching and ensure that young people receive training that is in demand in the market. Given budget constraints, expanding publicly provided vocational training may not be an option. Further, already a variety of institutions are involved in providing vocational and technical training in the country. The way forward would be to streamline the publicly funded vocational and technical training sector, and encourage more training that are linked to existing vacancies, through partnerships with firms, training providers, and the government.

The current development policy framework gives special attention to create a sophisticated and modern knowledge-based economy. Countries that envisage promoting their knowledge-based industries promote innovation and invest in S&T workers. However, as discussed, the proportion of professionals in Sri Lanka is quite low. Further, a majority of the professionals, associate professionals and technicians do not have the education levels at the tertiary level required by their jobs. Reforming the tertiary education sector to expand education courses in S&T fields and improving the quality of education is crucial for creating a knowledge-based economy. Again, in the absence of funding, the way forward would be to do this through PPPs. Earlier attempts at expanding higher education concentrated more on expanding numbers. The need is not only to increase the number of tertiary educated, but to ensure that they come out with the proper skills needed to spearhead innovation.

# 7. Advancing Sri Lanka's Education System through Innovative Funding

## 7.1 Introduction

Since 1945, Sri Lanka has been committed to providing free education from the kindergarten to university. In this context, public spending on education covers general education, higher education as well as most vocational education programmes. Further, with the aim of improving access to general education, several welfare programmes were implemented by successive governments, including the distribution of free textbooks, scholarships for disadvantaged students, free uniforms, and subsidized transport facilities. In view of these efforts, Sri Lanka had little difficulty in meeting education sector related MDGs; by 2012, the primary net enrolment rate was 99.7 per cent; survival to grade 5 was 100 per cent; and literacy was a high of 97.8 per cent among 15-24 year olds.[1]

However, the Sri Lankan education system faces new challenges in improving the quality and relevance of education to equip workers with evolving skills demanded in a more globalized world. There are substantial mismatches between demand for and supply of workers, especially in terms of higher education and high-skilled workers.[2] Further, university education is beset with problems of meeting and improving the quality and relevance of courses compatible with labour market requirements.[3] Also, there is a wide gap between school and the world of work; the quality of the general education system, mainly provided by the public sector, does not transmit much productive skills to pupils.

To meet the emerging needs of Sri Lanka's labour market, the education system now needs substantial modernization to equip workers to think and act creatively, work industriously and productively, and be able to innovate and adapt to available technologies to strengthen economic activities. With existing public finance constraints and limited private sector participation, addressing these education sector needs to align with changing needs of a dynamic labour market is a major challenge. Although, there have been attempts to improve the quality and relevance of general education by introducing market-oriented subjects, and more practical-oriented curriculum, etc., there were many implementation issues at the ground level; financial constraints, lack of resources which obstruct the expected outcomes of

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1 UNDP (2015), *Millennium Development Goals Country Report 2014 - Sri Lanka*, United Nations Development Programme, Colombo.

2 Dundar, H. *et al*. (2014), "Building the Skills for Economic Growth and Competitiveness in Sri Lanka", World Bank, Washington, D.C.

3 ADB (2007), "Sri Lanka Country Assistance Programme Evaluation: Education Sector", Asian Development Bank, Manila.

attempted reforms were some of the more critical.[4] Given this backdrop, the objective of this chapter is to analyze the existing education system in Sri Lanka and identify the priority areas to be addressed. Thereafter, the discussion will focus on innovative ways of funding the education sector, while drawing relevant examples from international experiences.

# 7.2 Governance and Issues in the Education System

## 7.2.1 Service Delivery in General Education

The public education system remains the predominant education service provider of general education in Sri Lanka. The present schools system comprises of 10,997 schools, of which 92 per cent are government schools. In 2015, approximately 4.1 million students were taught by around 236,999 teachers in government schools, yielding a student-teacher ratio of 18:1.[5] In the Sri Lankan socio-political context, private sector involvement in the education sector is limited. For instance, with the nationalization of private schools in 1961, private schools which provide general education are not allowed to be established. Some private schools (established before 1961) were taken over by the government, while others were allowed to function as private schools under the supervision of the Ministry of Education (MOE).[6] In this context, only a small number of private schools schools function in Sri Lanka, numbered at 78 as of 2014.[7]

Given restrictive legislation on private schools, international schools were established from the late 1970s, under the Companies Act of Sri Lanka. Although international schools entered the education sector with the idea of allowing children of expatriates to be enroled, at present, there are thousands of local students in these schools due to high competition for school admissions. International schools are not registered with the MOE and are not required to follow the national curriculum or national examinations. Accordingly, the MOE does not have information on these international schools. Their numbers are not known, but most estimates suggest that there are around 700 international schools currently functioning in the country.[8] With the increasing trend of mushrooming international schools, their role need special attention, especially on curriculum, quality of teaching, and school discipline.

## 7.2.2 Deficiencies in the General Education System

Given the country-wide network of state funded schools and other welfare measures, Sri Lanka has made remarkable progress in terms of

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[4] IPS (2015), "Educational Sector Reforms to Bridge Skill Gaps" in *Sri Lanka: State of the Economy 2015*, Institute of Policy Studies of Sri Lanka, Colombo.

[5] CBSL, *Annual Report 2015*, Central Bank of Sri Lanka, Colombo.

[6] MHRD (n.d), Education for All National Action Plan for Sri Lanka, Ministry of Human Resource Development, Sri Lanka.

[7] DCS, Statistical Abstract 2015, Department of Census and Statistics, Battaramulla.

[8] MOE, "High Awakening is Happening at Present in the Field of Education in Sri Lanka", available at http://www.moe.gov.lk/english/index.php? option=com_content&view=article&id=1113:high-awakening-is-happening-at-present-in-the-field-of-education-in-sri-lanka&catid=344&Itemid=771.

**Table 7.1**
**Trends in Education Provision**

| | 2000 | 2010 | 2015 |
|---|---|---|---|
| **General Education** | | | |
| Total no. of schools | 10,615 | 10,492 | 10,997 |
| Government schools | 9,976 | 9,675 | 10,144 |
| Pirivena schools | 561 | 719 | 853 |
| Private schools | 78 | 72 | 78 |
| Special schools[a] | | 26 | 25 |
| Government schools | | | |
| No. of teachers | 186,097 | 215,692 | 236,999 |
| No. of students | 4,193,908 | 3,932,722 | 4,129,534 |
| **Higher Education** | | | |
| No. of universities | 13 | 15 | 15 |
| No. of new admissions | 11,805 | 21,547 | 25,624 |
| No. of lecturers | 3,241 | 4,918 | 5,525 |
| **TEVT** | | | |
| No. of registered institutions | | | |
| Government and semi-government | 556 (2001) | 939 | 1362 (2014) |
| Private | 252 (2001) | 898 | 1240 (2014) |
| NGO | 112 (2001) | 240 | 99 (2014) |
| Intake | 67,612 (2002) | 96,620 (2009) | 254,091 (2014) |
| Public expenditure on education (Rs. mn)[b] | 30,929 | 104,248 | 225,047 |
| Current | 23,794 | 85,195 | 169,600 |
| Capital | 7,135 | 19,053 | 55,447 |

Notes: a: Special schools are for differently abled children; b: Government expenditure on general and higher education.

Sources: UNDP/IPS (2012), *Sri Lanka Human Development Report 2012*; CBSL, *Annual Report 2015;* TVEC (2015), "Baseline Survey in the Technical and Vocational Education and Training (TVET) Sector", TVEC.

**The provision of equitable access for quality education is a major challenge for Sri Lanka today.**

access to education compared to many other developing countries. However, the provision of equitable access for quality education is a major challenge for Sri Lanka today. There are large disparities in the quality of education provided due to unequal distribution of both human as well as physical resources. For instance, there are limited opportunities, to study A-Level in the science stream at the school level. As of 2014, out of 10,121 schools only 959 (less than 10 per cent) had the facilities to teach A-Level in the science stream, while there were 1,852 schools that offered only arts




and commerce streams for A-Levels.[9] Consequently, many students are compelled to follow the latter owing to lack of other options.

Further, limited higher-order learning spaces - such as science laboratories, ICT facilities, activity rooms and multi-purpose rooms - hinder the expected outcomes of attempted educational reforms in Sri Lanka. With the aim of preparing future generations with market-oriented skills, a more practical oriented curriculum was introduced in the recent past with the inclusion of more demanding subjects -- e.g., expanded science syllabus, introducing computer literacy under a 'practical and technical skills' subject of the secondary curriculum and use of IT as a tool for learning teaching process, etc.[10] However, most of the attempted reforms are not supported by availability of required resources. For instance, although IT education was promoted in general education system under a Master Plan for ICT Education from 2005 to 2010, there were limited IT resourced schools; even as of 2013, out of 7,139 schools (Type 2 and Type 3 schools),[11] only 43 per cent of schools had an IT laboratory.[12] Most of the planned reforms thus tend to get stuck halfway due to lack of required resources to support the reforms. In fact, the National Education Commission (NEC) claims that a key reason for implementation issue of recognized reforms is lack of required funds to sustain the changes.[13]

Also, there are teacher deficits for more demanding subjects such as mathematics, science, English and IT, especially in rural areas. Teacher shortages badly affect the educational outcomes as well as slow progress of educational reforms in the country. For instance, although English medium instruction was introduced in 2001, only 6.5 per cent of schools had English medium instructions in 2013.[14] Lack of teachers for more demanding subjects is partly due to teachers being recruited under 'unemployed graduate recruitment' schemes where their qualifications are not aligned with the subjects in demand. On the other hand, with relatively low salaries, the teaching profession is not attractive for more qualified people.

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[9] DCS (2015), "Statistical Abstract 2015", Department of Census and Statistics, Colombo.

[10] IPS (2015), "Educational Sector Reforms to Bridge Skill Gaps" in *Sri Lanka: State of the Economy 2015*, Institute of Policy Studies of Sri Lanka, Colombo.

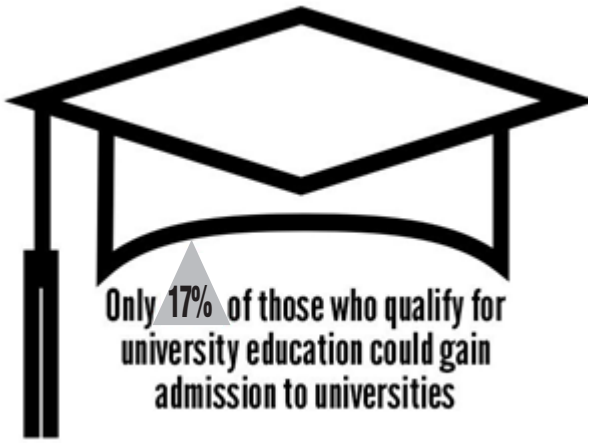
[11] Type 2 schools are those with classes up to G.C.E. Ordinary Level; Type 3 schools are those with classes up to Grade 5.

[12] MOE (2013), "Sri Lanka Education Information 2013", Ministry of Education, Colombo.

[13] De Silva. E. J. (2013), *Politics of Education and Other Reforms*, Sarasavi Publishers, Colombo.

[14] MOE (2013), "Sri Lanka Education Information 2013", Ministry of Education, Colombo.

**Teacher shortages badly affect the educational outcomes as well as slow progress of educational reforms in the country.**




## 7.2.3 Sri Lanka's Higher Education Sector

As in the case of general education, the government plays a prominent role in the provision of higher education services as well, but the capacity of the state university system is limited. It comprises of 15 universities, with approximately 80,000 students enroled in the public university system.[15] With the aim of increasing opportunities for higher education, the university intake which was confined to about 21,547 students in 2010 has now increased to about 25,624 in 2015.[16] Yet, even as of 2014, only 17 per cent of those who qualify for university education could gain admission to universities due to the limited number of placements in the state funded universities.[17] Consequently, each year, about 120,000 students who qualify have to abandon their ambitions to enter a university.

Those who cannot enter public universities have little options for pursuing higher education. Although, there is no legal barrier for private universities to function in the country, these institutions are unable to offer degrees unless affiliated with a foreign university. Although different higher education institutions have attempted to get authority to award degrees, these attempts have not been successful due to political economy reasons, and issues with controlling the quality of education. Affiliation to foreign universities increases the costs of awarding a degree. Notwithstanding, various private sector degree-awarding institutions have sprung up across the country to cater to rising demand for higher education. However, there is no proper monitoring mechanism to ensure the quality of the programmes offered by these institutes.

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[15] CBSL, *Annual Report 2015*, Central Bank of Sri Lanka, Colombo.

[16] *Ibid*.

[17] DCS (2015), "Statistical Abstract 2015", Department of Census and Statistics, Colombo.

The absence of an accreditation system for private sector higher education providers makes it difficult to regulate the quality of programmes offered by these institutions. As identified in the National Policy Framework for Higher Education, there is a growing need to recognize the role played by non-state degree awarding institutions in the provision of higher education services.[18] In 2011, the government attempted to introduce new legislations under the Bill on Quality Assurance, Equalization, Qualification and Framework with the aim of uplifting the quality of the diplomas and degrees which are being offered by private sector degree awarding bodies. Under the proposed framework, degrees and diplomas awarded by the non-state sector were to be regulated to ensure quality. However, the government had to withdraw the proposed Bill owing to escalating protests from student groups and academics.[19]

**The absence of an accreditation system for private sector higher education providers makes it difficult to regulate the quality of programmes offered by these institutions.**

Establishment of degree awarding institutions outside the purview of the University Grants Commission (UGC) is a recent development in the field of higher education in Sri Lanka. There are certain state and non-state local institutions which have been given permission by the UGC to conduct certain degrees.[20] As of 2015, 16 non-state higher education institutes are recognized as 'degree awarding institutes'.[21] Established institutes like the Sri Lanka Institute of Information Technology (SLIIT) and the National Institute of Business Management (NIBM) are some non-controversial set-ups under this system, while there are others such as the South Asian Institute of Technology and Medicine (SAITM) which has garnered opposition from students and doctors alike. In 2011, SAITM was recognized as a legitimate degree-awarding institute to award the degree of Bachelor of Medicine and the Bachelor of Surgery (MBBS) under the University Act. However, the Government Medical Officers Association (GMOA) and the Sri Lanka Medical

[18] NEC (2009), "National Policy Framework on Higher Education and Technical and Vocational Education", National Education Commission, Sri Lanka.

[19] It should be noted that although the draft Bill had been approved by the Cabinet in 2011, its provisions have never been made fully public.

[20] Degrees awarding institutes were recognized under Section 25 A of the Universities Act No. 16 of 1978.

[21] CBSL, *Annual Report 2015*, Central Bank of Sri Lanka, Colombo.

Council (SLMC) opposes the move due to certain concerns on standards to be met and maintained, especially with regard to clinical training.

## 7.2.4 Sri Lanka's Technical Education and Vocational Training (TEVT) System

Sri Lanka's Technical Education and Vocational Training (TEVT) system is undertaken by a wide array of institutions including public and private sector training providers; standards and curriculum development agencies, National Apprentice and Industrial Training Authority (NAITA) and the University for Vocational Technology (UNIVOTEC); and a regulatory body, Tertiary and Vocational Education Commission (TVEC). Almost all state training institutions operate under the purview of the Ministry of Skills Development and Vocational Training.

Private and NGO sector training institutions also play a key role in providing TEVT in the country. There are a large number of TEVT institutions operating on a fee-levying basis while a widespread network of non-fee levying institutions supported by national and international charities are also in operation. TVEC has put in place a system for registration of training institutions and accreditation of courses to establish and maintain a credible system for quality assurance for the TEVT sector. By end 2015, there were 718 registered private and NGO sector training providers in the country.[22]

The general acceptance of the country's TEVT sector is low owing to low recognition of qualifications due to varying standards, low employability of graduates, and weaknesses of courses to cater to market demands. However, in the recent past, the government initiated major reforms to restructure the TEVT system. These include, improving the quality and relevance of programmes by introducing National Vocational Qualifications (NVQ) standards, and registration and accreditation of courses of all vocational institutions. The

**The general acceptance of the country's TEVT sector is low owing to low recognition of qualifications due to varying standards, low employability of graduates, and weaknesses of courses to cater to market demands.**

[22] CBSL, *Annual Report 2015*, Central Bank of Sri Lanka, Colombo.

University of Vocational Technology (UNIVOTEC) was established in 2008 to award NVQ degree equivalent qualifications. Along with that, nine Technical Colleges in the nine provinces have been upgraded to Colleges of Technology to offer national diplomas starting from 2010.[23]

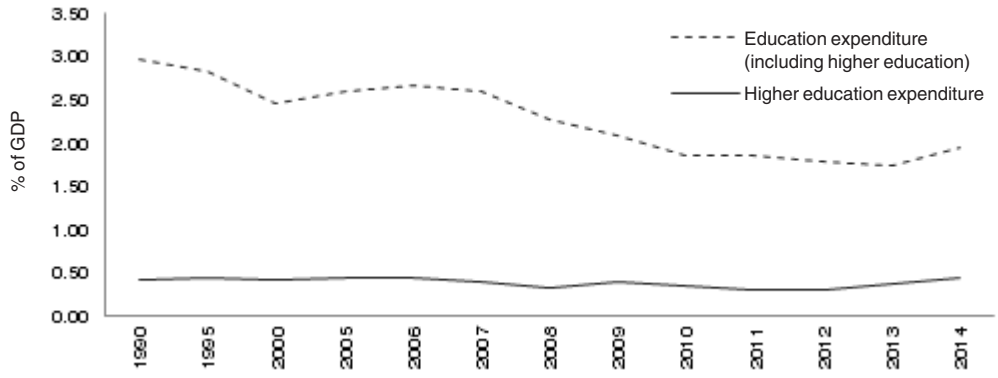
However, TEVT is underdeveloped in Sri Lanka. It is not able to produce enough qualified, skilled workers to respond to changing labour market needs.[24] A baseline survey of the TEVT sector commissioned in 2014 by TVEC reveals that only 26 per cent of the training programmes in the overall TVET sector are conducted in line with NVQ standards. Meanwhile, institutions under the Ministry of Skills Development and Vocational Training conduct 64 per cent of its programmes under NVQ certification; for other government training institutions and private sector training institutions, the figures stand at only 10 per cent and 12 per cent, respectively.[25]

Also a validation report by the ADB reveals a number of downsides including amongst others, the lack of teachers, which hampered the actual output for technical diploma programmes; limited benefits attained from the short-term staff training due to late scheduling, large numbers to be trained, and some irrelevant training.[26]

## 7.3 Financing the Education Sector

While Sri Lanka's budgetary constraints have limited government investment in the education sector, the public education system remains the predominant service provider. Sri Lanka has historically invested between 2-3 per cent of GDP on education; this registered a decline post-2010 owing to an almost exclusive focus on infrastructure investment during 2010-14 (Figure 7.1). However, this is likely to be reversed with government policy statements indicating a

**Figure 7.1**
**Public Expenditure on Education as a Percentage of GDP**




Source: CBSL, *Annual Report 2015*, Central Bank of Sri Lanka, Colombo; UGC, "University Statistics 2014", University Grants Commission, Colombo.

[23] TVEC (2012), "Corporate Plan 2013-2017", Tertiary and Vocational Education Commission, Sri Lanka.

[24] ADB (2014), "Sri Lanka Technical Education Development Project", Asian Development Bank, Manila.

[25] TVEC (2015), "Baseline Survey in the Technical and Vocational Education and Training (TVET) Sector", Tertiary and Vocational Education Commission, Sri Lanka.

[26] ADB (2014), "Sri Lanka Technical Education Development Project", Asian Development Bank, Manila.

renewed focus on increasing social sector spending, recognizing that low investment in education may create young school leavers who are not equipped to deliver the manpower needed for economic growth and development. Indeed, the stated intention is to increase government spending on education to 6 per cent of GDP over five years.

The overall public education investment in Sri Lanka is relatively low, compared to investments in education by comparable countries in the region (Table 7.2). Of this limited spending on education, a major part (80 per cent) is devoted to recurrent expenditure (Figure 7.2); the bulk (90 per cent) of this recurrent expenditure is devoted for teacher salaries and welfare programmes.[27] The very limited capital spending on education has held back improvements to up-grade facilities, and increased out-of-pocket expenditure by households on education.[28]

**Very limited capital spending on education has held back improvements to up-grade facilities.**

At the same time, while providing universal free general education, restrictions on private sector participation in the provision of education services reduce private sector investments. In this context, even wealthier households, who

**Table 7.2**
**Public Expenditure on Education, 2013**

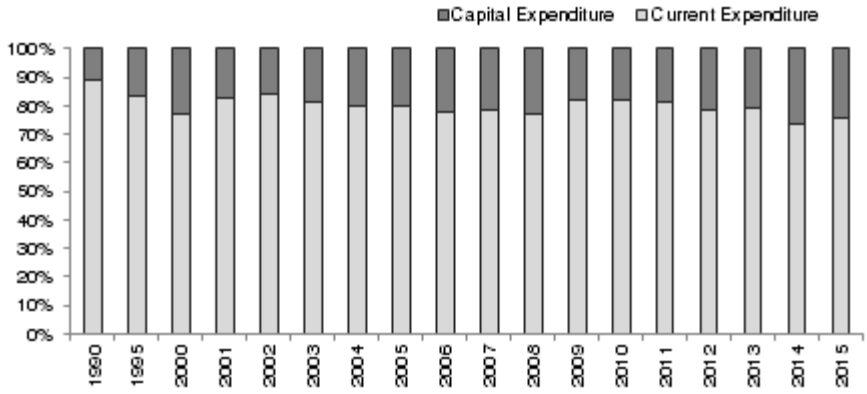
| | As % of GDP | As % of Total Government Expenditure |
|---|---|---|
| Malaysia | 6.3 | 21.5 |
| Singapore | 2.9 | 19.9 |
| Indonesia | 3.4 | 17.6 |
| Philippines | 3.4 | 20.3 |
| India | 3.8 (2012) | 14.1 (2012) |
| Bangladesh | 2.0 | 13.8 |
| Nepal | 4.1 | 21.4 |
| Sri Lanka | 1.6 | 9.0 |

Source: World Bank, available at http://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS.

[27] MOFP (2015), *Annual Report 2014*, Ministry of Finance and Planning, Colombo.

[28] CED (2008), "Budget Process and Budget Tracking in Formal School Education In Sri Lanka", Coalition for Educational Development, Sri Lanka.

**Figure 7.2**
**Share of Recurrent and Capital Expenditure on Education**



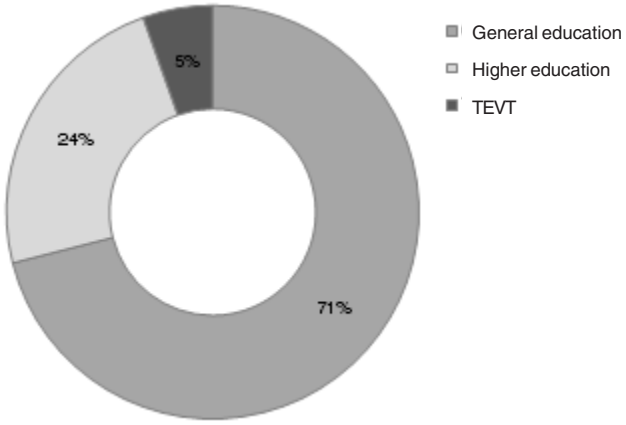

Source: CBSL, *Annual Report*, Central Bank of Sri Lanka, various years.

have the capacity to bear their education expenditure, receive education services free of charge. If the government allows private sector participation, with a proper regulatory framework in place, then people can choose either public or private sector service delivery. It will reduce the financial burden on the government while those resources could be used for pro-poor education.

Sri Lanka spends below 0.5 per cent of its GDP as public expenditure for higher education (see Figure 7.1). The public sector is the main provider of tertiary education in the country. Investments in both general and higher education are fundamental for countries to prepare future generations for the skills needs, and a smooth transition from education to the world of work. However, Sri Lanka currently spends a relatively small percentage of its education expenditure on higher education (Figure 7.3). At the same time, the ability of public universities at present to raise funds for improving standards are severely limited. Since the public sector is the main provider of university education in Sri Lanka, the limited public resources for tertiary education is a key constraint on expanding opportunities for university education in the country. In addition, the government spends only 5 per cent of its education budget on the TEVT sector. Lack of resources has limited the expansion of tertiary and vocational education sectors and constrained improvements with regard to its relevance and quality.



**Figure 7.3**
**Share of Education Expenditure by Level of Education, 2014**




Source: MOFP (2015), *Annual Report 2014*, Ministry of Finance and Planning, Colombo.

## Box 7.1
## Cash Vouchers for School Uniforms

Since 1993, the Sri Lankan government has been providing textile material for school uniforms for about 4.2 million students, accounting about Rs. 2,300 million annually. Some problematic issues identified with this programme are quality of the material provided, and supply-monopoly of apparel manufacturers and importers; in addition, more practical issues - such as allocating staff for procurement committees, providing the material on time, storing, maintenance, packing, transport, etc., have also added to the logistical and financial costs. Therefore, as an alternative, and in line with government efforts to promote cash transfers policies, a decision was taken to issue cash vouchers instead of uniform material for school children with the budget 2016 proposals. Accordingly, the voucher system was to target the 2016 school year, with the government planning to hand over vouchers to school authorities in December 2015 before the closure of schools. However, there were some practical issues to be resolved; teachers were burdened with the task of handing over vouchers and checking bills relating to the uniform vouchers, some shops have refused to accept vouchers without the school seals, vouchers were received late by some schools (not before closure of schools in December 2015), parents faced difficulties in collecting the vouchers as they have to present themselves in schools, etc. However, the government is in the process of continuing the new system, while making attempts to resolve the administrative issues.

Source: MOE, "A Cash Voucher instead of Uniform Material for School Children from 2016", available at http://www.moe.gov.lk/english/ index.php?option=com_content&view=article&id=1388:a-cash-voucher-instead-of-uniform-material-for-school-children-from-2016&catid=344&Itemid=771; *Sunday Times* (2016), "School Uniforms: Opposition Grows Over Voucher System", available at http://www.sundaytimes.lk/160110/news/school-uniforms-opposition-grows-over-voucher-system-178399.html.

## 7.4 Service Delivery Models in the Education Sector

Models of private sector participation in the provision of educational services demonstrate a range of involvement, from purely private models to joint ventures between state and private organizations. New trends include the use of choice-based policy initiatives - i.e., the use of voucher schemes and contracting educational services to private organizations. Proponents of choice and contracting mechanisms argue that outsourcing of services to the private sector could help reduce politicization and increase productivity in the education sector. It could further increase transparency in government spending, improve efficiency and quality in the delivery of education, and improve choice and access to education, especially to those excluded from traditional systems. Conversely, others argue that contracting could also lead to less government control, increased administration costs and open up opportunities for corruption.[29]

The management contract model involves the use of private providers to manage an existing government service where ownership remains with the government. This usually occurs when a public educational institution is taken over by a private management team where either the staff remains (pure management model) or where a completely new staff is hired (operational management model). Alternatively, under the service delivery model, a government agency would contract the use of private owned infrastructure to deliver particular services. This could be a core service like supplementary tuition or a non-core service like providing transport or food.[30]

The Asian University for Women (AUW) in Bangladesh, established by the AUW Support Foundation, follows a management contract model. The government allocated land and infrastructure to the university, while providing complete academic autonomy to the institution. Similar practices exist in Pakistan, where the Higher Education Commission provides 'gap funding' grants to pay for digital library access, Internet access and financial assistance for hiring faculty and researchers.[31]

In 2005, the first private university in Singapore, SIM University (UniSIM), was established to cater to working professionals and adult students through a flexible learning approach. Having recognized the university's significance in the education sector, the government introduced fee subsidies for part-time undergraduate programmes and also launched a publicly-funded full-time degree programme in collaboration with UniSIM. Through this partnership, the government was able to monitor the use of funds and ensure quality assurance.[32]

The cost-sharing system incorporated in the Chinese higher education system ensures that tuition fees do not exceed 25 per cent of the

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[29] H.A. Patrinos and N. LaRocque (2007), "Enhancing Accountability in Schools: What Can Choice and Contracting Contribute", World Bank, Washington, D.C.

[30] *Ibid*.

[31] Elizabeth Boye and M. A. Mannan (2014), "Bangladesh: Public-Private Partnership in Higher Education", Technical Assistance Consultant's Report, Asian Development Bank, Manila.

[32] *Ibid*.

average annual cost of a student's education. In 1999, the Chinese government introduced a government subsidized student loan scheme (GSSLS) to cover tuition costs and daily expenses of poorer students in certain regions. The scheme did not perform so well due to institutional quotas, and the defaulting on loans by low-income students (for whom it was designed in the first place). This led to the introduction of a more comprehensive, performance-based loan scheme in 2006. The Chinese government partnered with an insurance company to create a government subsidized student loans credit insurance (GSSLCI) scheme. This proved to be more financially feasible as the risk of defaulting was now transferred to the insurance company.[33]

Malaysia is slowly becoming a higher education hub in Southeast Asia. Prior to 2004, private higher education institutions (IPTS) in Malaysia came under the purview of the Ministry of Education. The Private Higher Education Institution Act of 1996 was enacted with the aim of regulating these institutions. Once the Ministry of Higher Education took over the responsibility of IPTS, more emphasis was laid on private enterprises in higher education. Government policy on IPTS encouraged the setting up of many private universities, colleges and even branch-campuses (Monash University Sunway Campus, Curtin University of Technology Sarawak Campus, University of Nottingham in Malaysia and Swinburne University).[34]

The Malaysian government plays a significant role, ensuring that IPTS became performance-driven organizations providing high quality services. Currently, there are around 25 reputed IPTS providing higher education services internationally. Among them are the Asia Pacific Institute of Information Technology in Sri Lanka, India and Pakistan, and Limkokwing University in the UK, Lesotho, Botswana, Cambodia and Indonesia. Further, the Malaysian government supports such endeavours by providing education loans to enter IPTS through a National Higher Education Fund Corporation.[35]

Some governments provide financing to students and families under a voucher programme. This system allows students to choose from a variety of education providers (public or private), either recognized or accredited by the government. In this case, the consumer chooses the service provider.[36]

The 'Colorado Opportunity Fund', introduced in 2004, is a typical example of a voucher-based model of financing in higher education. Instead of directly funding state colleges and universities, funds go straight to students in the form of vouchers, which are redeemable upon enrolment. Thus, state universities were able to achieve 'enterprise status' allowing them to raise tuition fees at higher rates. These market-based reforms were brought in to combat revenue restrictions on colleges imposed by Colorado's Constitutional tax and expenditure

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33 *Ibid*.

34 Rahman, M. A. A. (2010), "MALAYSIA: Models in Private Higher Education", *University World News,* available at: http://www.universityworldnews. com/article.php?story=20101105220921112.

35 *Ibid*.

36 H.A. Patrinos and N. LaRocque (2007), "Enhancing Accountability in Schools: What Can Choice and Contracting Contribute", World Bank, Washington, D.C.

limitations. Though these policies were successful in improving cost efficiency at Community Colleges, it did, however, result in reduced access to students from certain communities and low-income backgrounds.[37]

Voucher programmes exist for students engaged in technical and vocational training as well. In Kenya, the technical and vocational training voucher programme targets individuals aged 18-30 years. Vouchers are awarded to applicants drawn at random from a Kenya Life Panel Survey. Half of the chosen applicants receive redeemable vouchers for vocational training at private institutions, while the other half can use their vouchers for training in either private or public institutions.[38]

PPPs are vital for the development of TEVT. Such partnerships facilitate communication between professionals in the field and education providers. This allows TEVT providers to keep up-to-date with emerging trends, identify skills required in the job market and provide relevant training to young students. The 'dual system' model adopted in Germany involves the delegation of assessment and curriculum development to labour representatives, business associates and educators. Business associates essentially manage the system by monitoring and ensuring the quality and standards of training provided by firms. Very few countries have implemented such models due to the high cost involved with such associations.[39]

The Japanese model is more pragmatic, and has been adopted by many countries including the US. Traditionally, vocational training in Japan is provided at high-school level. The staff maintains strong relationships with managers of companies (private sector) who assist students with job placements (matching skills with job requirements).[40]

Other strategies adopted in countries like South Korea, Malaysia and Singapore involve a human resource development system or workforce development system. Governments use incentives such as tax levies to promote training in private firms. However, such policies require proper guidance and control from governments to ensure funds are not misused. The human resource development system has been successful in many Asian countries where training policy is monitored directly by the government.[41]

## 7.5 Policy Recommendations

As Sri Lanka aims to accelerate growth, it is critically important that the human capital needed to compete globally is developed. Hence, it is essential for the government to do careful planning and critically examine the present needs of the education sector, and find effective means of catering to these needs by improving resource mobilization, as well as the quality and relevance of education services.

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[37] N.W. Hillman, *et al*. (2014), "The Efficacy of Vouchers in Higher Education: The Case of Colorado", WISCAPE Policy Brief, University of Wisconsin, Madison.

[38] P. Krishan and I. Shaorshadze (2013), "Technical and Vocational Education and Training in Ethiopia", International Growth Centre (IGC), UK.

[39] Hawley, J., n.d. "Public Private Partnerships in Vocational Education and Training: International Examples and Models", World Bank, Washington, D.C.

[40] *Ibid.*

[41] *Ibid.*

Sri Lanka's tertiary education system caters to only a very small proportion of the population. Therefore, the scope of university education in the country is very limited. Since the public sector is the main provider of university education in Sri Lanka, limited public resources for tertiary education is a key constraint on expanding opportunities for university education in the country. Thus, most students who are not able to enter state universities, opt for a private certificate, diploma, or degree, currently offered without state regulations on standards. Therefore, it is important to explore ways of funding higher education that is of a greater quality. The options for improving resources in the higher education sector include either increasing public investments in the sector, or encouraging private participation in the sector. However, with the current fiscal constraints it is unlikely that sufficient public funds for the sector are a viable option.

Private investment in university education - operated under state regulations and standards - could improve the quality of education through competition, enhanced access to university education and resource mobilization, etc. However, accommodating PPPs in higher education can be very challenging. Policy makers have to ensure that quality and standards are not compromised through effective monitoring and control. Therefore, urgent attention should be given to regulating these private higher education institutes. Although the proposed Quality Assurance, Equalization, Qualification and Framework Bill failed, it is necessary to strengthen the regulatory mechanism of these institutes by incorporating new rules and regulations as in the case of Malaysia. It is crucial, therefore, to identify desired standards of these institutions with respect to their student recruitment criteria, fee structure, academic programmes, quality assurance and accreditation, etc.

Further, state universities should change to become dynamic centres of teaching and learning that respond to changes in the market in a timely manner. There are enough examples of countries which have a combination of effectively run private and public universities. Some of the best universities in the US, for example, are public universities. Also, rethinking the governance structure of public universities and allowing them more autonomy to manage their affairs and raise funds could also increase the resources available for public universities. A good example in Sri Lanka is the Postgraduate Institute of Management (PIM). Again, this will need to be allowed such that the students and their education programmes are not affected. For example, universities can be allowed to rent out their facilities (lecture halls, and play grounds) for private sector use so that universities can generate funds for improving degree programmes.

Spending on education needs to increase by a substantial amount, with more of it distributed towards the TEVT sector. Lack of resources has limited the expansion of the tertiary and vocational education sector and constrained improvements to its relevance and quality. It is increasingly important for Sri Lanka to focus on the vocational and training levels of the education system, as TEVT is needed to respond to the changing labour market needs with individuals who possess specific demand driven skills.

PPPs, and schemes of recruitment through vocational education and training institutes

directly to the industry, are essential. There are two possible ways to finance these programmes. First, introducing a voucher system, state/private funded pay back loans for unemployed youth. A second option is introducing a system of pay back to private companies when recruiting trained graduates from state funded training institutes. To achieve these, vocational education systems should be linked with industries that can absorb these trained students. Also, training programmes should be developed with the involvement of private sector companies, and the programmes should be made more relevant to regional development priorities.

Financing can be devised to meet the recurrent costs of TVET sector through a 'voucher' system, where students who are qualified to receive this education have the freedom to spend it at institutions of their choice. As discussed in relation to international practices, such schemes motivate the private sector to be education providers in this sector, especially given the availability of a voucher system. Such indirect support of the private sector is acceptable, because it will create competition; also the real support is directly to students. In addition, institutions will be forced to perform in order to attract students, and also deliver programmes that are relevant.

Governments can take measures to encourage private investments in general education. Within existing legislation in Sri Lanka, international schools are entering the system, without proper regulatory mechanisms. Therefore, attention should be given to regulate these private education institutes by incorporating new rules and regulations, especially with regard to standards of the curricula, teacher qualifications, school discipline, etc. Meanwhile, private investment could be encouraged by lifting current restrictions on establishment of private schools. As a result, students who can afford costs, can choose private schools while those who cannot, can continue in better funded state schools.

# 8. Health Care Financing in Sri Lanka: Challenges and Alternatives

## 8.1 Introduction

Health is a crucial input into economic development and poverty reduction. The levels and distribution of health outcomes can be regarded as a key indicator of the inclusiveness of a country's economic growth; they also often serve as proxies for a government's concern for all its citizens.[1] By and large, Sri Lanka's health sector has contributed to the country's economic development, recording progress in achieving health indicators and maintaining their status. Indeed, Sri Lanka is considered as a success story for achieving most of the vital health indicators - such as on child mortality, maternal health, combating HIV/AIDS, malaria and other diseases set by the Millennium Development Goals (MDGs) - despite being a low spender on health.[2] The health status depicted by such indicators places Sri Lanka at a more advanced position than many of its developing country regional counterparts, and on par with developed countries.

Sri Lanka's considerable health sector achievements are financed through a combination of general taxation and out-of-pocket payments by households. However, in view of changing demographic and epidemiological patterns and economic context, it is questionable whether Sri Lanka will be able to finance health sector needs in a sustainable manner under the present financing system.

**Sri Lanka's considerable health sector achieve-ments are financed through a combination of general taxation and out-of-pocket payments by households.**

[1] Tandon A., and J. Zhuang (2007), "Inclusiveness of Economic Growth in the People's Republic of China: What Do Population Health Outcomes Tell Us?," Asian Development Bank, Manila.

[2] UN (2015), "MDG Country Report 2014 - Sri Lanka", United Nations, Colombo.

Thus, this chapter attempts a preliminary assessment of current financing gaps and possible alternative options for health care financing. It offers a general overview of health care financing, discusses the health care system and health policy and regulations in Sri Lanka; the present health care financing status; the need for alternative mechanisms to finance the health sector; the gaps in the existing financing system; the steps towards a sustainable health care financing system; some possible alternative health care financing models for Sri Lanka, and concluding remarks.

## 8.2 Models of Health Care Financing

In general, health care financing refers to the ways in which money is generated to pay for health services. Robust health financing systems are critical for reaching universal health care coverage; the financing levers lie in three interrelated areas: (i) raising funds for health; (ii) reducing financial barriers to access through prepayment and subsequent pooling of funds in preference to direct out-of-pocket payments; and (iii) allocating or using funds in a way that promotes efficiency and equity.[3] In order to ensure fair financing, while providing appropriate incentives to health care providers, countries need to reform and harmonize three interrelated sub-functions of financing, namely: (i) collection of revenue, (ii) pooling of financial resources; and (iii) purchasing of interventions. Of these sub-functions, pooling is of particular significance for fair financing.

There is a wide variety of health care systems around the world. These can be categorized into four main models: the Beveridge model, the Bismarck model, the national health insurance model, and the out-of-pocket model.[4] In the Beveridge model, health care is provided and financed by the government through tax payments. Many, but not all, hospitals and clinics are owned by the government; some doctors are government employees, but there are also private doctors who collect their fees from the government (e.g., Britain, Spain, most of Scandinavia and New Zealand). The Bismarck model uses an insurance system - the insurers are called 'sickness funds' - usually financed jointly by employers and employees through payroll deduction (e.g., Germany, France, Belgium, the Netherlands, Japan, and Switzerland). The National Health Insurance model has elements of both Beveridge and Bismarck. It uses private sector providers, but payment comes from a government-run insurance programme that every citizen pays into. Since there is no need for marketing, no financial motive to deny claims and no profit, these universal insurance programmes tend to be cheaper and much simpler administratively than for-profit insurance (e.g., Canada, Taiwan, and South Korea). The out-of-pocket model is one where cost-sharing, self-medication and other expenditures are paid directly by private households, irrespective of whether the contact with the health care system was established on referral or on the patient's own initiatives. The out-of-pocket model is what is used in most of the poorest countries.

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[3] WHO, "Health System Financing", available at http://www.who.int/healthsystems/topics/financing/en/.

[4] PNHP (2016), "Health Care Systems - Four Basic Models", Physicians for a National Health Programme, Chicago, available at http://www.pnhp.org/resources/health-care-systems-four-basic-models.

There are different sources of funding these health care systems. Most typically, the five primary methods of funding are: (i) general taxation to the state, county or municipality; (ii) social health insurance (a programme where risks are transferred to and pooled by an organization, often governmental, that is legally required to provide certain benefits); (iii) voluntary or private health insurance (insurance against the risk of incurring medical expenses among individuals); (iv) out-of-pocket payments (cost-sharing, self-medication and other expenditure paid directly by private households, irrespective of whether the contact with the health care system was established on referral or on the patient's own initiatives); and (v) donations to charities.[5]

## 8.3 Sri Lanka's Health Care System

Sri Lanka has a pluralistic system of care with many people utilizing a combination of systems including Western (allopathic or modern), Ayurveda (including indigenous, unani and siddha), homeopathic and Chinese medicine but by far, the dominant system is the Western system of care. The health system in Sri Lanka consists of public and private health care services, but the government plays the major role as the health care provider of the country. The role of the public sector in health care delivery is much significant in inpatient and preventive care. In 2012, the public sector treated 96 per cent of inpatients and 45 per cent of outpatients.[6]

Various policy interventions that took place in the pre and post-independence eras have contributed significantly in shaping the health system of the country. Granting of universal franchise in 1931 and forming a State Council with a dedicated ministry portfolio for health were some of these initial interventions. The elected representatives were able to leverage a larger allocation of resources for the provision of social services to the constituencies they represented. In addition, direct taxation on income was introduced in 1932 and provided finances needed for the various welfare schemes.

The present structure of the government health care system is a result of the Health Services Act of 1953 and the Provincial Council Act of 1987. The government health structure is basically a de-concentrated one. The government sector encompasses the entire range of preventive, curative and rehabilitative health care provision. From 1850s until the 1980s, government health services were managed by a central health department or ministry. By the 13th Amendment to the Constitution in 1987, responsibility for health services was devolved to Provincial Councils, each of which has its own Provincial Health Ministry. The central ministry is responsible for management of national facilities, medical education, formulation of health policy and bulk purchase of drugs and medical supplies and the nine Provincial Directors of Health (PDHS) are totally responsible for management and effective implementation of health services in the respective provinces.

While Sri Lanka has a free health care system based on the principle of citizenship, it does not meet the quality health needs of all people

[5] WHO (2014), "Regional Overview of Social Health Insurance in South-East Asia", World Health Organization, Regional Office for South-East Asia, New Delhi.

[6] MOH (2012), "Annual Health Bulletin 2012", Ministry of Health, Colombo.

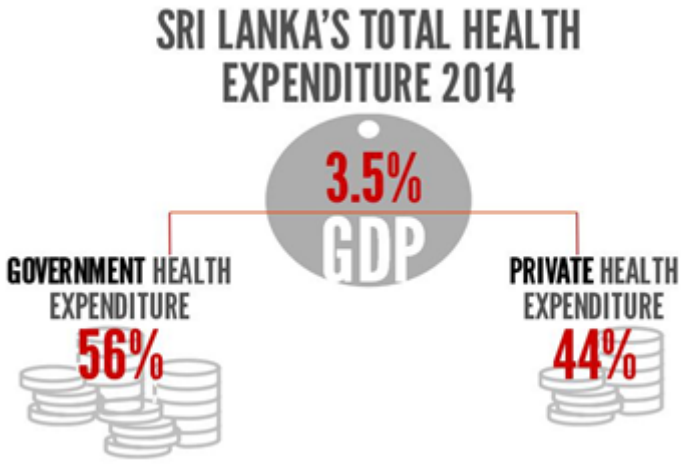
- a fundamental requirement of a universal health care system. Universal health coverage (UHC) is defined as all people receiving quality health services that meet their needs without being exposed to financial hardship in paying for the services.[7] Conceptually, UHC requires that all people receive the health services of appropriate quality without exposing them to financial hardship. It encompasses three critical coverage dimensions - population (who is covered), services (which services are covered and at what quality), and cost (how much of the cost is covered).[8] With a two tier health system - comprised of a heavily subsidized public sector and a user charged private sector, and a context of sharing the total health expenditure almost equally between the public and private sector, a universal health care system does not exist in Sri Lanka.

## 8.4 Health Care Financing in Sri Lanka

Sri Lanka's health care financing strategy is essentially a combination of two resource mobilization methods; (i) general taxation and (ii) out-of-pocket payments by households. Sri Lanka's total expenditure on health (TEH) - including all expenditure on personal health services, community (public health and preventive) health services, and gross capital formation in health care providers stood at 3.5 per cent of GDP in 2014.[9] The share of total government spending was 56 per cent (or 2 per cent of GDP).

Private health expenditure plays a major role in health financing in Sri Lanka. It accounts for nearly a half of the total health expenditure of the country. It is evident that private sector financing has become more prominent over time; however, recent data shows a significant drop in the share of private expenditure from 2012 to 2013 (Figure 8.1).

Sri Lanka's TEH as a percentage of GDP has hovered around 3-4 per cent with a decline in more recent years (Figure 8.2). Whilst health expenditure is comparable with that of other lower middle income economies, the amount




[7] WHO (2014), "Making Fair Choices on the Path to Universal Health Coverage", World Health Organization, Geneva.

[8] WHO (2010), "Health System Financing: The Path to Universal Coverage', World Health Organization, Geneva.

[9] WHO (2014), "Global Health Expenditure Database", available at http://apps.who.int/nha/database/Select/Indicators/en.

**Figure 8.1**
**Government Health Expenditure and Private Health Expenditure 2005-2014**

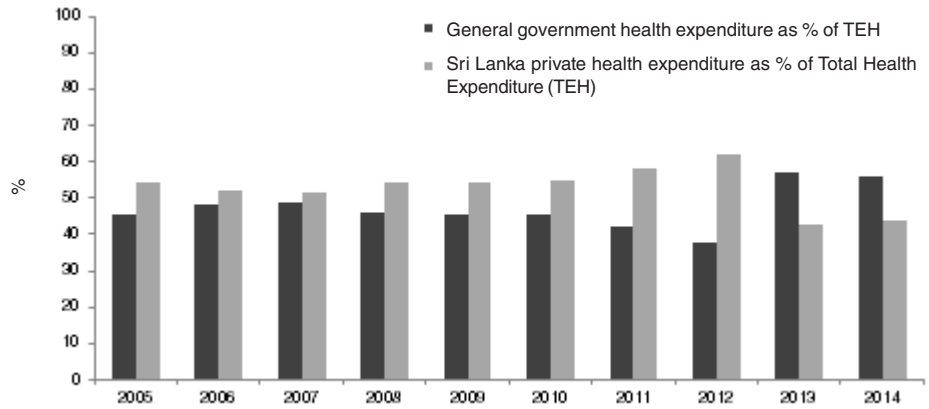
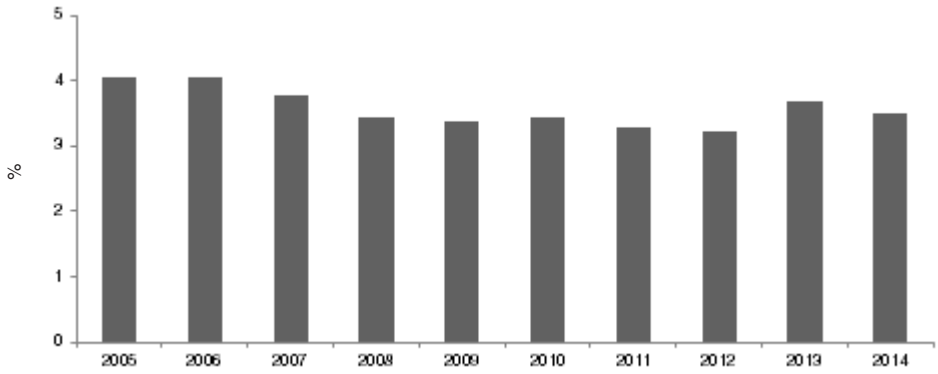



**Figure 8.2**
**TEH as a % of GDP**



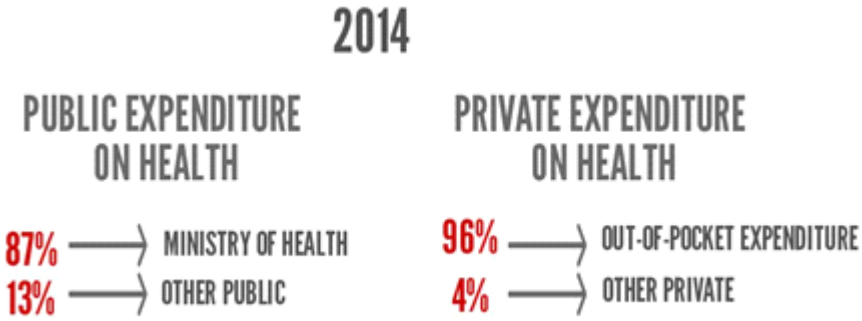

Source: WHO (2014), "Global Health Expenditure Database", available at http://apps.who.int/nha/database/Select/Indicators/en

of money allocated for spending is not adequate in the context of changing disease patterns which is more similar to a high income economy.

## 8.4.1 Sources of Health Care Financing

The main source for the public sector expenditure is contributions from the central government through the Ministry of Health (MOH).[10] In 2014, 87 per cent of the total public expenditure on health was incurred by the MOH. The rest (13 per cent) was borne by the Provincial Departments of Health (DOH), local governments, other ministries and government entities, the President's Fund, and the Employees' Trust Fund (ETF). Out-of pocket expenditure by households is the main source

[10] *Ibid*.




of finance for private expenditure on health and in 2014 it accounted for 96 per cent of total private health expenditure . Other financing sources for private sector health expenditure are private sector employers' health expenditure reimbursements, voluntary private health insurance, provider's own resources and NGOs.

## 8.4.2 The Need for Alternative Financing Mechanisms

Sri Lanka's changing demographic and epidemiological transition is the primary reason why the country needs to examine changes to its health care financing system. As a result, health care expenditure is likely to increase in the future owing to: (i) increased demand for more expensive treatment; with rising income levels along the transition to middle income status, there will be greater demand for more expensive treatment and higher service quality requiring more financial resources to be allocated; (ii) meeting health needs of an ageing population; and (iii) the increase in non-communicable diseases (NCDs) related to an epidemiological transition.

It is estimated that the 60 years and above population in Sri Lanka will double between 2011 and 2041, reaching nearly 5.4 million.[11] Further, the share of this age category will rise to 24.8 per cent by 2041 (from 12.5 per cent in 2011) indicating that one-in-every four people in Sri Lanka will be an elderly person. Elderly people need more health care and treatment than younger people and the pattern and causes of their illness are different as well (e.g., Alzheimer and dementia), which need special care and geriatrics treatment where costs are high.[12] The elderly are also more vulnerable to chronic illnesses such as heart diseases, stroke, lung and liver diseases, cancer, asthma and rheumatism and also degenerative diseases like hypertension, diabetes, cancer, etc., in their early ages of the elderly period. With the increasing number of elderly, the demand for intensive diagnostic tests, long-term hospitalization and better treatment as well as rehabilitation and social and clinical therapy will go up. Further, geriatric health care needs special medical training and skills. In order to meet this demand, the country's health service should be well equipped with required

[11] IPS, (2014), "Demographic Challenges of an Ageing Asia" in *Sri Lanka: State of the Economy 2014*, Institute of Policy Studies of Sri Lanka, Colombo.

[12] Siddhisena K.A.P., (2005), "Socio-economic Implications of Ageing in Sri Lanka: An Overview", Working Paper WP105, Oxford Institute of Ageing, UK.

**Sri Lanka's changing demographic and epidemiological transitions is the primary reason why the country needs to examine changes to its health care financing system.**

resources, both financial as well as non-financial resources.

Sri Lanka is experiencing an epidemiological transition (transforming the pattern of mortality and disease from communicable diseases to NCDs). Government hospital statistics indicate that 71 per cent of all annual deaths in Sri Lanka are due to chronic NCDs.[13] Cardiovascular diseases, diabetes, cancers and chronic respiratory diseases are the major NCDs in Sri Lanka. NCDs place more economic strain on individuals than communicable diseases as NCDs are permanent in nature and leave residual disabilities. From a health system perspective, a patient suffering from NCDs requires a longer period of supervision, observation and care with high priced medication placing a huge economic burden on the health system.

## 8.4.3 Closing Existing Gaps in Health Care Financing

The most critical gaps in Sri Lanka's current system of health care financing are: (i) inadequacy of resource mobilization; (ii) allocative inefficiency in the distribution of health care provision outcomes amongst the population; and (iii) weaknesses in financial management.

The main gap in the present health care financing system is the inadequacy of resource mobilization for health. As described earlier, Sri Lanka's TEH - hovering around 3-4 per cent of GDP - is not sufficient to finance the future health care needs of the country. Indeed, the Health Master Plan (2006-2017) highlights how health expenditure should increase with rising life expectancy at birth. When life expectancy at birth was less than 68 years, it is estimated that Sri Lanka required TEH of 4.9 per cent of GDP; when life expectancy rose to greater than 68 years as currently (life expectancy at birth for males and females were 72 and 78 years, respectively, in 2013), TEH needs to be 5.8 per cent of GDP. Even though life expectancy has increased over time, there has been a failure to raise health expenditure accordingly.

Thus, the expectation is that the country will need to bear a larger financial burden if it is to provide health care services adequately and

[13] MOH (2012), "Annual Health Bulletin 2012", Ministry of Health, Colombo.




cater to the changing demographic and disease patterns. Even at present, health expenditure indicators for Sri Lanka are not satisfactory when compared with global averages (Table 8.1). Apart from low spending on health at an aggregate, the share of spending on social security by the government and private prepaid plans by the private sector, are also considerably low, while the share of out-of-pocket expenditure on health by the private sector is significantly higher than the global average.

Another critical area for improvement is allocative efficiency - i.e., how well the outcomes of health care provision are distributed among the population. Accordingly, questions of allocative efficiency in the health sector tend to revolve around what might represent the mix of services or interventions that maximizes health improvements, both within disease entities (such as prevention versus treatment strategies for HIV/AIDS) and across them (i.e., how the health of a population

**Table 8.1**
**Health Expenditure Indicators: Sri Lanka and Global 2000 & 2011**

| | Sri Lanka | | Global | |
|---|---|---|---|---|
| | 2000 | 2012 | 2000 | 2012 |
| TEH as % of GDP | 3.7 | 3.1 | 7.7 | 8.6 |
| General government expenditure on health as % of TEH | 48.3 | 39.1 | 55.5 | 57.6 |
| Private expenditure on health as % of TEH | 51.6 | 60.9 | 44.5 | 42.3 |
| General government expenditure on health as % of total government expenditure | 6.8 | 5.9 | 12.9 | 14.1 |
| External resources for health as % of TEH | 0.3 | 2.0 | 0.3 | 0.5 |
| Social security expenditure on health as % of general government expenditure on health | 0.3 | 0.1 | 59.2 | 59.3 |
| Out-of-pocket expenditure on health as % of private expenditure on health | 80.8 | 83.0 | 52.2 | 52.6 |
| Private prepaid plans as % of private expenditure on health | 2.8 | 4.1 | 37.0 | 36.2 |
| Per capita total expenditure on health at average exchange rate (US$) | 32 | 88 | 487 | 1025 |
| Per capita government expenditure on health at average exchange rate (US$) | 16 | 34 | 281 | 615 |

Source: World Health Organization (2015), "World Health Statistics 2015", WHO, Geneva.

can be most improved with existing resources).[14]

When allocative efficiency is related to health financing, two issues are immediately identifiable, namely; (i) disparities in allocation between preventive care and curative care; and (ii) disparities in allocation for primary, secondary, and tertiary care. Although during the early post-independence years, nearly 20-25 per cent of TEH was allocated for preventive and promotional services, the share spent on preventive care has been decreasing gradually.[15] The allocation for preventive health services was 11 per cent of TEH in 1990, but dropped to 7 and 5 per cent in 1995 and 2000, respectively; from 2000 onwards, it has stayed at not more than 5 per cent.[16] This allocation is grossly insufficient even to sustain the achievements of the past. With the rapidly escalating burden of NCDs, more financing is needed for preventive services.

A referral system is absent in Sri Lanka. Hence, patients tend to bypass primary medical institutions, particularly those in the rural areas mainly because of the erroneous belief that the outpatient treatment in the secondary and tertiary institutions is superior to those in the periphery, and lack of confidence in the primary institutes.[17] Health expenditure trends confirm the decline in persons using primary care. In 1991, primary care level facilities obtained between 30-35 per cent of total recurrent patient care expenditure and 65-70 per cent were allocated to secondary and tertiary institutes. However, this disparity has widened whereby one-quarter of allocation is for primary level institutions and three-quarters for secondary and tertiary level care institutions.[18]

Gaps related to allocative efficiency also exist in financial management. The present management set-up of the public sector care is more a command-control type of administration. It offers only very limited flexibility and authority for individuals to manage the delivery of services locally, considering the population distribution and terrain, as standards and norms are set centrally. Managers face difficulties in taking decisions not only on finance but also on other matters such as staffing and resource utilization because of the management structure. Further, the present managerial and financial systems are inadequate and there is a shortage of trained staff.[19] The Provincial Council system has also resulted in a confused macro organization of health care financing and delivery.

## 8.5 Towards A Sustainable Health Care Financing System and Alternative Mechanisms

Ensuring sustainable health care financing is vital. It allows a country to secure sufficient

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[14] Dan C., and B.E. David (2010), "Improving Health System Efficiency as a Means of Moving Towards Universal Coverage", background paper for World Health Report 2010, World Health Organization, Geneva.

[15] Fernando, J. (2013), "Health Care Financing in Sri Lanka: Retaining Welfare and Promoting Markets", *OPA Journal*, Vol. 28.

[16] IPS (2014), "Sri Lanka National Health Accounts 2010-2011", Institute of Policy Studies of Sri Lanka, Colombo.

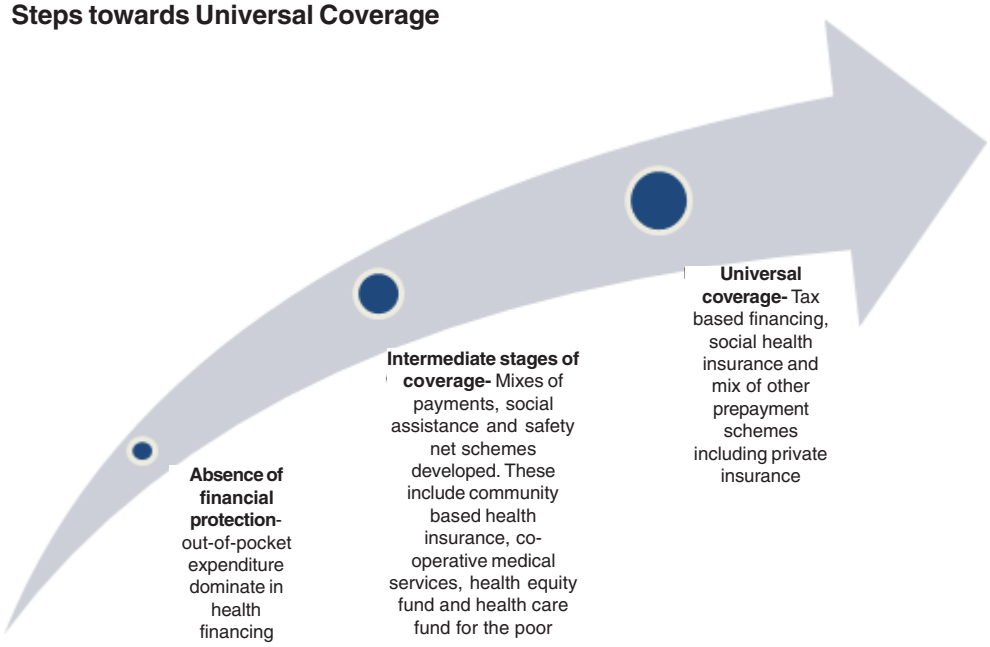
[17] Fernando, J., (2011), "The Urgent Need for a Well-planned Referral System for Health Care Delivery in Sri Lanka", *Sri Lanka Journal of Medical Administration*, Vol. 13.

[18] *Ibid*.

[19] *Ibid*.

resources; enables improvements in the effectiveness of health care; allows resources to be used effectively and efficiently to meet health needs, to carry out these functions on a continuous basis, and to perform them with minimum external inputs. For Sri Lanka to ensure sustainable ealth care financing, new and innovative mechanisms need to be explored. Innovative financing mechanisms can be defined as "non-traditional applications of official development assistance (ODA), joint public-private mechanisms, and flows that either support fundraising by tapping new resources or deliver financial solutions to development problems on the ground".[20] At present, Sri Lanka has a combination of general taxation and out-of-pocket payments by households as the financing mechanism for the health sector. As discussed earlier, the share of out-of-pocket payments by households is increasing over time, placing a considerable financial burden on them. In fact, the current focus of the international debate is on the need to move away from excessive reliance on out-of-pocket payments as a source of health financing towards a system which incorporates a greater element of risk pooling, and thus affords greater protection for the poor.[21] A

**Figure 8.3**
**Steps towards Universal Coverage**




Source: World Health Organization (2009), "Health financing strategy for the Asia Pacific region (2010-2015)", WHO, Geneva.

[20] Gargasson, Jean-Bernard Le and Salomé Bernard, (2010), "The Role of Innovative Financing Mechanisms for Health", background paper for *World Health Report 2010*, World Health Organization, Geneva.

[21] Bennett, S., and L. Gilson (2001), "Health Financing: Designing and Implementing Pro-poor Policies", DFID Health System Resource Center, London.

**Ensuring sustainable health care financing is vital. It allows a country to secure sufficient resources; enables improvements in the effectiveness of health care; allows resources to be used effectively and efficiently to meet health needs, to carry out these functions on a continuous basis, and to perform them with minimum external inputs.**

gradual decrease in out-of-pocket expenditure is a salient feature of stepping towards universal coverage in health (Figure 8.3).

The WHO's Health Financial Strategy for the Asia Pacific proposed the following four indicators to monitor and evaluate overall progress in attaining universal coverage in countries, and in the Asia Pacific region specifically: (i) out-of-pocket spending should not exceed 30-40 per cent of TEH; (ii) TEH should be at least 4-5 per cent of GDP; (iii) over 90 per cent of the population should be covered by prepayment and risk pooling schemes; and (iv) close to 100 per cent coverage of vulnerable populations should be covered with social assistance and safety-net programmes.[22] However, Sri Lanka is still working towards these indicators, implying that the country's health financing system need reforms and innovative mechanisms to be sustainable in the long run. When increasing health care financing, three dimensions have to be considered; breadth (proportion of population insured); depth (scope /range of services available); and the height (proportion of costs covered).

In this backdrop, examining the alternative and innovative financing options available for Sri Lanka is important in order to fill the gaps in the existing system and to achieve universal coverage in health. Various innovative and alternative health financing methods ranging from market-based systems to government financed systems, from community funded to donor funded systems are to be found in practice. Of these alternatives, more focus is

[22] WHO (2009), "Health Financing Strategy for the Asia Pacific Region (2010-2015)", World Health Organization, Geneva.

paid to four options - PPPs, social health insurance, community based health insurance, and user fees - to assess their possible benefits and potential to be adapted in Sri Lanka's context.

## 8.5.1 Public-Private Interventions and Private-Public Partnerships

The public sector can use a wide range of policy instruments to engage and create partnerships with the private sector in health care delivery. Contracting out, licensing and accreditation, private-public partnerships (PPPs), and social marketing are some of the available options. These are practised in various countries as indicated in Table 8.2.

Of alternative options, PPPs have become a major force in health care delivery and financing owing to three primary reasons: (i) a shift in philosophy about the roles of the public and private sectors; (ii) a recognition by both the public and private sectors of their interdependence; and (iii) a better understanding of how each party can gain from a partnership with the other.[23] A PPP is defined as a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. The most common reason for entering into a PPP is financial. This might take the form of increasing resources or through reductions in cost. In either case, each of the partners sees a long or short-term financial gain that will come about from the partnership. Other than financial benefits, both the parties stand to gain from greater efficiency and transfer of technical knowledge through a PPP.

A PPP is not a new concept in Sri Lanka; there have been various PPPs in practice informally for the last few decades. The government provides only minimal support for private participation in public health programmes. For example, during 2007-10, only 25 per cent and 10 per cent of reviewed private facilities received financial and technical assistance, respectively, for programmes on childhood vaccination; similarly, only 25 per cent and 8 per cent, respectively, received financial and technical support for antenatal care.[24] Given the benefits of PPPs (e.g. improving access and reach, improving equity by reducing out-of-pocket expenses, and better efficiency) steps should be taken to mobilize the responsible development of PPPs. Developing and enforcing quality standards by providing financial and technical support to the existing regulatory body (Private Health Regulatory Commission) and modifying existing policies and regulations to foster the role of the private sector (e.g., streamlining bureaucratic processes that limit market entry, liberalizing human resource regulations, reducing tariffs and other import barriers) are some of the measures that can be taken in this regard.[25]

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[23] Mitchell, M., (n.d.), "An Overview of Public Private Partnerships in Health", Harvard School of Public Health, Massachusetts.

[24] IPS (2015), "Health Sector Reforms" in *Sri Lanka: State of the Economy 2015*, Institute of Policy Studies of Sri Lanka, Colombo.

[25] Dayaratne, G. D., (2015), "Transforming Health Care Delivery in Sri Lanka- Public Private Partnerships (PPP)", Health Economic Series No. 02, Institute of Policy Studies of Sri Lanka, Colombo.

## Table 8.2
## Public-Private Interventions in Health Care Delivery

| Intervention | Description | Expected Results | Where it is happening |
|---|---|---|---|
| **Contracting out** | Governments contract with private providers (non-profit and for-profit) to deliver health services. | Can expand private sector coverage of particular services via public funding and may improve (through contracts pecification) the quality of care; can improve efficiency and quality through competition. | Afghanistan, Bangladesh |
| **Licensing and accreditation** | Governments can extend licensing and accreditation systems to include provisions for private sector providers. | Can strengthen quality of private health services and help governments monitor the care that private providers offer. | Brazil, South Africa, Tanzania, Zambia |
| **Regulation** | By updating and harmonizing laws, policies, regulations, and procedures, governments can authorize private provision of services and products by certain health professionals in specific settings. | Can promote competition and organization (e.g., multi-pharmacy chains) more conducive to quality or lower prices. Can increase private sector contribution by removing obstacles and creating incentives that motivate the private sector to provide public health services and products. | Tanzania |
| **Provider networks and franchises** | Networks and franchises group health care providers under an umbrella structure or parent organization. | Ensures standard quality and prices and encourages individual private providers to scale up their services. | Bangladesh, Benin, Cameroon, Ethiopia, Ghana, India, Kenya, Lesotho,Madagascar, Malawi, Mali, Pakistan, Philippines,Rwanda, SierraLeone, South Africa, Swaziland, Togo, Vietnam, Zimbabwe |
| **Public-private partnerships** | Private providers and businesses join with governments, international organizations, or non-profits to address social needs. | Leverages private sector resources and expertise to deliver health products and services. | Brazil, Czech Rep., India, Lesotho, Mexico, Romania, South Africa, Republic of Yemen |
| **Social marketing** | Use commercial marketing techniques to make subsidized products available more widely. The programmes can distribute and promote products such as contraceptives, oral rehydration salts, and insecticide-treated bed nets. | Increases access to and use of essential health products. | Many countries, for family planning products and services and bed nets. |
| **Training and continuous education for private providers** | A variety of training techniques – including direct training, long -distance learning, continuous medical education, and detailing – can improve the knowledge and skills of private health care providers. | Can improve private providers' knowledge, skills, and the quality of the care they provide in areas that address public health objectives. | India |
| **Vouchers** | Governments can give vouchers to target populations to subsidize the price of health services and products, which makes them more affordable and more likely to be used. | Can increase consumer choice and make private sector care more affordable through subsidies. Vouchers also create financial incentives to private providers to offer services and products they might not otherwise deliver. Can motivate quality improvement via provider eligibility requirements. | Ghana, India, Indonesia, Nicaragua, Tanzania |
| **Insurance** | Government-funded insurance, commercial insurance, and community-based mutuelles pool financial risk across large population groups. | Can expand financial protection and ease burden on households, paying out-of-pocket for health services. Insurance can reduce financial barriers to seeking health care, especially for preventive health services. | Colombia, Ghana, India, Mali, Namibia, Nigeria, Rwanda, Senegal |

Source: CGD (2009), "Partnerships with the Private Sector in Health: What the International Community Can Do to Strengthen Health Systems in Developing Countries", Center for Global Development, Washington D.C.

## Box 8.1
## PPP Involvement in Sri Lanka's Health Sector

- Government doctors doing channeling practice in private hospitals during their off-duty hours;
- Government doctors doing their own General Practice in privately owned dispensaries who work as a catalyst to referral system with government or private hospitals;
- Involvement of traditional health care providers- Ayurveda, Homeopathy;
- Supply of equipment and drugs by the private sector;
- Clinical investigations and admissions to the state sector hospitals through private channel consultations and vice-versa;
- Medical consultation services, laboratory and other diagnostics services in public sector are obtained from private laboratories;
- TB/ influenza prevention/vaccination programmes available in the private sector funded by the government;
- President's Fund providing assistance in major surgical procedure treatment in the private sector;
- Provision of government servant's insurance, such as 'Agrahara' to obtain treatment by the private sector;
- National Blood Bank operation to provide blood to the private sector;
- Representatives from major private hospitals serving as members of the Private Health Regulatory Commission;
- Outsourcing of facility services such as cleaning, clinical waste management, laundering, cafeteria, etc.

Source: Dayaratne, G. D. (2015).

## 8.5.2 Social Health Insurance

A social health insurance (SHI) mechanism allows health services to be paid through contributions to a health fund. The SHI system is different from a government funded insurance scheme, commercial or private insurance schemes, and community health insurance (Table 8.3).

**Table 8.3**
**Selected Characteristics of SHI Compared to other Forms of Health Insurance**

| Type of Insurance | Financing Source | Nature of Contribution | Funds Ear-marked for Health | Membership |
|---|---|---|---|---|
| SHI | Employer and/or employee contributions from wages and salaries | Mandatory | Yes | Contributing members and usually their dependents |
| Private insurance | Out-of-pocket payments of premiums | Voluntary | Yes | Contributing members and usually their dependents |
| Community prepayment health "insurance" | Out-of-pocket payments | Voluntary | Yes | Contributing members and usually their dependents |
| National insurance | Government general revenue and other taxes | Funded | No | All citizens |

Source: Hsiao, W. *et al*. (2007), *Social Health Insurance for Developing Nations*, World Bank, Washington, D.C.

SHI has three distinctive characteristics. First, social insurance is compulsory; the second characteristic relates to eligibility -citizens only become entitled to receive benefits when they have paid the required premium. The third characteristic is that SHI premiums and benefits are described in a social compact, which is usually set out in the legislation that establishes the economic exchange between the two parties: enrolees and the social insurance plan.[26] An SHI in principle involves compulsory membership amongst the entire population. The most common basis for contributions is the payroll, with both employer and employee commonly paying a percentage of salary towards this end. In general, membership of SHI schemes is mandatory, although for certain groups (such as the self-employed) it might be voluntary. While for workers and enterprises, the contribution is usually based on the worker's salary, the contributions of self-employed persons are either flat-rate or based on estimated income.

Governments may provide contributions for those who otherwise would not be able to pay, such as the unemployed and low-income informal economy workers. The health fund is usually independent of the government but works within a tight framework of regulations. Premiums are linked to the average cost of treatment for the group as a whole, not to the expected cost of care for the individual. Hence there are explicit cross-subsidies from the healthy to the less healthy. Countries such as Austria, Belgium, Costa Rica, Germany, Israel, Japan, Republic of Korea, and Luxembourg are some examples which have transited to universal coverage via SHI.[27] SHI system has several strengths - i.e., mobilizing new, stable funds for health, pooling risks widely and providing insurance protection, enabling the government to target new public funds to the poor - and the potential to shift existing public resources to the poor by having formal sector employees and their families pay for 'free' public health services they currently use. It can be a strategy to reform the health care delivery system to produce higher quality and more efficient services.

The viability of SHI for Sri Lanka is questionable given the large informal sector in the country. There is also a vast and extensive administrative operation involved in the implementation of SHI schemes, such as registration, collection of contribution, contracting and reimbursement of providers that would also make it a challenging option for Sri Lanka. Collecting premiums would be difficult with the high level of informal employment in the country and the additional costs involved would have to be financed either by the government, by employers or by the people. Preliminary studies need to be undertaken to estimate the levels of contribution that can be expected, and the general feasibility of setting up such a system. Free enrolment for the poor and the informal sector, offering insurance on a voluntary basis to the non-formal sector, and a sliding scale fee for voluntary enrolment for those above a certain level of economic status in the informal sector are some of the steps that can be taken in order to capture the informal sector under SHI system.[28]

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[26] Hsiao, W. *et al*. (2007), *Social Health Insurance for Developing Nations*, World Bank, Washington, D.C.

[27] Carrin, G., and C. James (2005), "Social Health Insurance: Key Factors Affecting the Transition Towards Universal Coverage", *International Social Security Review*, 58(1).

[28] Acharya, A. *et al*., (2012), "Impact of National Level or Social Health Insurance for the Poor and the Informal Sector: A Systematic Review for LMICs", University of London, UK.

## 8.5.3 Community-based Health Insurance

Community-based health insurance (CBHI) schemes are based on three principles, namely; community cooperation, local self-reliance, and pre-payment. There are also five characteristics that CBHI schemes share, namely: (i) community-based social dynamics and risk pooling, where schemes are organized by and for individuals who share common characteristics (geographical, occupational, ethnic, religious, gender, etc.); (ii) solidarity, where risk sharing is as inclusive as possible within a given community and membership premiums are independent of individual health risks; (iii) participatory decision-making and management; (iv) non-profit character; and (v) voluntary affiliation.[29] They are intended to facilitate health-financing at the sub-national and/or community level (e.g., households in a village or district; socio-economic, professional or ethnic groups), and provide limited coverage to population groups that are typically difficult to reach. Membership in CBHI schemes is usually voluntary and not linked to employment status, where funds are collected from the members and typically held by a private non-profit entity. In some cases, funds come from donor and government subsidies, but as a smaller percentage.

The success of a CBHI depends on many factors including technical strength and institutional capacity of the local group, financial control as part of the broader strategy in local management and control of health care services, support received from outside organizations and individuals, links with other local organizations, and diversity of funding. Even though less than 10 per cent of the informal sector population in the developing nations has health coverage from a CBHI, the number of such schemes is growing rapidly.[30] Unlike SHI schemes, CBHI normally covers those outside formal sector employment. There is evidence that CBHI provides some financial protection by reducing out-of-pocket spending and that such schemes improve cost recovery. The main policy implication is that these types of community financing arrangements are, at best, complementary to other more effective systems of health financing.[31] CBHI is considered as an important social protection device by reducing out-of-pocket payments of their members, and in improving access to health services. Weak management, poor quality government health services, and limited resources that local populations can mobilize to finance health care are some of the issues faced by CBHI systems. Because of their financial viability due to lack of resources they may have to depend on national subsidies; further, their coverage is usually extended to a small percentage of the population.

Sri Lanka can consider the CBHI as a complement to strong government involvement in health care financing. The government can provide incentives to CBHI schemes in many ways, for instance by creating a supportive environment, building technical and

[29] Soors, W. *et. al*. (2010) "Community Health Insurance and Universal Coverage: Multiple Paths, Many Rivers to Cross", background paper for World Health Report (2010), World Health Organization, Geneva.

[30] Tabor, S. R. (2005), "Community-based Health Insurance and Social Protection Policy", Social Protection Discussion Paper Series, World Bank, Washington, D.C.

[31] Ekman Björn (2004), "Community-based Health Insurance in Low-income Countries: A Systematic Review of the Evidence", *Health Policy and Planning*, 19(5).

management capacities of the CBHI, and providing some form of subsidies.

## 8.5.4 User Fees

Under a system of user fees, patients are requested to pay directly, according to a set tariff, for the health care services they use. There is no insurance element or mutual support. User fees may encourage more efficient utilization patterns if they are graduated by level of the system - a by-pass fee is introduced in areas where the primary care network is adequate, and referred patients are exempted at higher levels of the system - and are associated with quality improvements that promote utilization at the primary level.[32] Improved consumption efficiency, demand rationing (to counter moral hazard) and better targeting are the other main arguments used in favour of user fees.[33] Where user fee revenue is used to increase quality, utilization by the poor could actually increase, suggesting that fees might not always reduce access for the poor. The general notion on user fee is that it impedes access to health care, especially of the poor, and there is a vast literature to support that argument too. However, on a positive note, user fees have the potential to improve access to better quality services. If the extra revenue earned from fees is re-invested into the health system, or if fee payment allows consumers to insist successfully on better service, demand is likely to increase. This would partially or fully off-set the negative price effect of user fees. At the peripheral level, the revenue generated by fees can be significant and can be used to upgrade health facilities when government systems fail to adequately shift funds to the peripheral level.

Considering the positive effects of the user fee option, it can be considered in Sri Lanka given the tendency to bypass primary medical institutions, and its potential to generate income and upgrade available health services, especially in rural areas. In fact, user fees have been a policy option in Sri Lanka in the past; for example, government hospitals charged user fees prior to the 1930s. When the principle of free health care was established in 1951, user fees were abolished since it was no longer considered as a revenue collection mechanism. In 1971, it was re-introduced - charging 25 cent for OPD visits, a substantial amount in terms of price. It also reduced utilization by 30 per cent, but it did not contribute appreciably to overall revenue mobilization,[34] and was once again abolished in 1977. A more recent example is Sri Jayawardenepura General Hospital (SJGH) mobilizing revenue through patient charges since its inception in 1984. In 2012, 54 per cent of total revenue of the SJGH was generated from hospital care.[35] However, user fees are not readily acceptable to the electorate, and there can be heavy political costs for policy makers in pursuing this option. Such political costs, and the economic costs of designing effective means testing systems to protect the poor, continue to make user fees an unattractive option.

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[32] Gilson, L., (1997), "The Lessons of User Fee Experience in Africa", *Health Policy and Planning*, 12(4).

[33] James, C. D. *et al.* (2006), "To Retain or Remove User Fees? Reflections on the Current Debate in Low- and Middle-Income Countries", *Applied Health Economics and Health Policy*, 5(3).

[34] Rannan-Eliya, R., and N. De Mel, Nishan, (1997), "Resource Mobilization in Sri Lanka's Health Sector", Harvard School of Public Health, Massachusetts.

[35] SJGH (2013), "Annual Report 2012", Sri Jayewardenepura General Hospital, Sri Lanka.

## Box 8.2
## Best Practices

**Singapore's Innovative Approach**

Singapore's health financing system combines universal medical saving accounts with supplementary programmes to protect the poor and address potential market failures in health financing. This approach has been able to get impressive results with low costs, excellent health outcomes, and full consumer choice of providers and quality of care. In Singapore, both the public and private sector provide health care. The public sector provides 20 per cent of primary care and 80 per cent of hospital care through two integrated care networks. The private sector dominates primary health care, providing 80 per cent through its 1,900 clinics. The 13 private hospitals account for 20 per cent of inpatient admissions. Patients have the choice of selecting their provider at all levels. Rates are regulated and subsidized at government polyclinics and all the citizens are entitled to basic medical services provided in these institutes. Patients are expected to pay part of the cost, and to pay more when they demand higher levels of service. Rates at private clinics and hospitals are unregulated. There are four complementary programmes within Singapore's health financing system namely: (1) Medisave, (2) Medishield, (3) Medifund, and (4) ElderShield. These programmes are designed to promote individual responsibility, protect the poor, and address potential market failures.

***Medisave:*** Under this programme introduced in 1984, employees contribute 6-8 per cent of their monthly salary (with the share depending on their age) to an individual medical savings account (MSA), while employers make a matching contribution. Medisave contributions are part of a broader compulsory savings programme in which employees contribute 16 per cent of salaries, and employers 20 per cent, to a central provident fund to cover hospitalization (Medisave), pensions, and mortgages.

***Medishield:*** Medisave account holders face the risk that a catastrophic illness could wipe out their MSAs. To address this risk - in the absence of a traditional national health insurance programme - Singapore introduced the Medishield programme in 1990. All Medisave account holders under age 80 are eligible to buy Medishield insurance and can pay their premiums using their MSAs. Medishield covers hospital expenses (surgery, intensive care) and some high-cost outpatient treatments.

***Medifund:*** To ensure that no Singaporean is denied good basic care because of inability to pay, the government set up Medifund in 1993 to subsidize health care for the poor (roughly 10 per cent of the population).

***ElderShield:*** This was introduced as a low-cost insurance programme in 2002. ElderShield provides financial protection for people with severe disabilities. Medisave account holders are automatically enrolled in ElderShield when they reach age 40 unless they opt out. ElderShield pays a monthly cash allowance (for a maximum of 60 months) to those unable to perform three or more basic activities of daily living.

**UpliftHealth Mutual Fund (HMF), India**

This is a community-based health insurance scheme which was launched in 2003 and relies on strong community structures in urban and periurban slums to build and maintain health insurance. The programme originated in Pune slums and then spread to rural Marathwada (one of the five regions in the Indian state of Maharashtra) and Mumbai slums. It has an ongoing membership of more than 65,000. The implementer of this programme is an Indian non-profit organization, UpLift India Association. HMF's operations are 60 per cent self-financed, and the remaining 40 per cent is financed by domestic and international organizations and private funders. Families in the informal sector and living in ghettos - mostly daily wage earners who lack access to social protection schemes - are the target population of this programme.

HMF is designed to reduce the financial shock of an unforeseen health emergency through community risk-pooling. The insurance is introduced and marketed through local community groups such as self-help groups and village microfinance organizations. They also process claims and reimbursements. Any organization working with the informal sector is eligible to join the programme and receive support, including marketing, servicing, and funds management. Whenever possible, members are encouraged to use free public services in order to maximize the resources of the insurance pool. By doing this, the programme has been able to maintain a broad benefits package including inpatient surgical services, some outpatient services, and all primary health care consultations. Members are also entitled to a lost wages benefit. Community ownership, operational partnerships, and claim settlement are the key components of this programme.

Sources: The World Bank, (2003), "Financing Health Care: Singapore's Innovative Approach", Public Policy for the Private Sector, Private Sector and Infrastructure Network, Note No. 261, , The World Bank Washington DC; Dimovska, D., Sealy, S., Bergkvist S., and Pernefeldt, H., (2009). "Innovative pro-poor health care financing and delivery models'. Results for Development Institute, Washington DC.

## 8.6 Conclusion

Health is an important contributing factor for economic development. Sustainable financing of the health sector is of great importance in order to have a properly functioning health system and to generate positive health outcomes and indicators. Given the demographic and epidemiological transitions taking place in Sri Lanka, and gaps in the existing health care financing mechanism, Sri Lanka too has to look for alternative financial mechanisms. Sri Lanka's health care expenditure is likely to increase in the future owing to increase in income levels, an ageing population, and the increase in NCDs. In order to cater to these changes, the health sector needs more resources, financial as well as non-financial.

The main gap in the present health care financing system is the inadequacy of resource mobilization for health. Sri Lanka's TEH has been around 3-4 per cent of GDP for a considerable time period, which is lower than the global benchmark average. Current spending on health is not adequate in the context of changing disease and demographic patterns which are more similar to a high income economy. Further, private sector financing has become more prominent over time to become the main source of financing; at present, more than 50 per cent of the TEH is borne by the private sector. Of this, more than 80 per cent is out-of-pocket payments by individuals and households, indicative of a significant financial burden on households. Moving away from excessive reliance on out-of-pocket payments as a source of health financing assures greater protection for the poor.

Apart from the inadequacy of funding and heavy economic burden on households, allocative inefficiencies, and inefficient management practices are weakening the present system. Disparities in allocation between preventive and curative care, and disparities in allocation for different levels of institutes are the main defects in the allocation of financial resources. Further, the present system is also characterized by notable administrative rigidities, adversely affecting the efficiency of the system.

Mechanisms such as PPPs, SHI, CBHI, and user fees are some of the possible financing policy options available for Sri Lanka. Among these options, PPPs and user fees are not novel concepts to Sri Lanka. Government doctors engaging in private practice at private hospitals, supply of medical equipment and drugs by the private sector, and laboratory and other diagnostic services done in private laboratories for the public sector are some examples of existing PPPs. For Sri Lanka, there is a vast

**Mechanisms such as PPPs, SHI, CBHI, and user fees are some of the possible financing policy options available for Sri Lanka.**

opportunity to take advantage of existing and emerging private sector operators entering PPPs. Government support can come in various ways to strengthen the PPP system in the country (e.g., by providing financial and technical support to the existing regulatory body of the private health care service and modifying existing policies and regulations to foster the role of the private sector). Although it is challenging to utilize the profit driven private sector to serve public health objectives, with proper organizational arrangements and close monitoring, the desired objectives could be achieved.

The SHI scheme is ideal for formal sector workers. It helps prevent people from falling into poverty due to health care costs as SHI combines prepayment and risk pooling with mutual support. Further, SHI can mobilize additional resources for the health system, such as funding from employers. However, the huge administrative challenge, capacities and infrastructure requirements have to be taken into account. Offering free enrolment for the poor and the informal sector, offering insurance on a voluntary basis to the non-formal sector, and introducing a sliding scale fee for the informal sector are some of the measures that can be taken to cover the informal sector under the SHI scheme.

Similarly, given the large informal sector in the country and the experience in operating community based organizations, CBHI schemes can be considered as a complementary health financing option for Sri Lanka. CBHI reduces out-of-pocket spending and improves cost recovery; it is also important as a social protection device. Weak management and limited resources are the major challenges faced by CBHI systems. Governments can ease these challenges by creating a supportive environment, building technical and management capacities of the CBHI, and providing subsidies.

Although Sri Lanka has previous experiences in applying user fee as a financing option, those were not successful in most cases. Nonetheless, there is a possibility of using user fee as a suitable approach of improving quality and promoting resource utilization at the primary level given the positive effects of this option (e.g., improved consumption efficiency, demand

**Experiences from other countries show that a combination of alternative financing options can result in positive outcomes while addressing market failures as well.**

rationing, better targeting, and revenue generation at the institution level). The main argument against user fees option is that it impedes access to health care, especially of the poor. But some studies suggest that fees might not always reduce access for the poor, and it has the potential to improve access to better quality services. However, the political sensitivity of applying user fees and the public notion of 'free health care' make it doubtful whether Sri Lanka can apply this as an alternative financing mechanism for the health sector.

It is obvious that Sri Lanka's health system needs more financial resources with changes in the demographic structure, disease pattern, and rise in income levels where the existing financing mechanism is not geared to mobilize adequate funding to accommodate this change and to provide the desired levels of health care for the whole population. Hence, finding alternative and innovative financing mechanisms is essential. Each of the health financing option discussed in this chapter has benefits as well as drawbacks. Experiences from other countries show that a combination of alternative financing options can result in positive outcomes while addressing market failures as well. The available options have to be analyzed comprehensively considering the socio-economic context and the political economy of the country and have to be implemented with the aim of achieving Sri Lanka's health objectives and ensure universal health care coverage.

# 9. Improving Efficiency and Mobilizing Resources for Poverty Reduction Initiatives in Sri Lanka

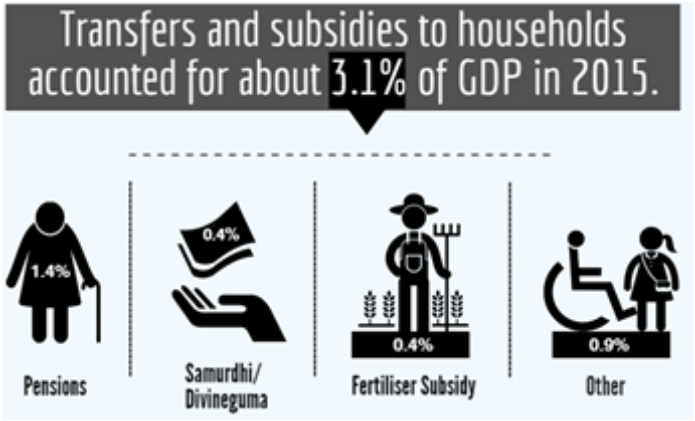
## 9.1 Introduction

Sri Lanka's performance with regard to poverty reduction over the years has been commendable, with the poverty headcount ratio (PHC) falling to 6.7 per cent in 2012/13 and successfully achieving the MDG of halving poverty before the deadline. Government expenditure related to poverty and vulnerability has shown a remarkable increase in recent years. Government spending on transfers to households has more than doubled during 2009-2015, accounting for about 3.1 per cent of GDP in 2015. The reduction in poverty should ideally lead to a decrease in expenditure on the poor. However, this has not been the case for Sri Lanka. A closer inspection of the existing government poverty and vulnerability initiatives shows that there are many inherent inefficiencies leading to the ineffective implementation of programmes.

The focus of this chapter is to assess possible improvements in cost-efficiency of current poverty reduction programmes -- primarily, the Divineguma programme as it is the single largest -- while lessening their fiscal burden. The chapter further explores the potential of mobilizing private sector participation as a complementary measure of financing poverty reduction. In this context, section 9.2 analyses government spending patterns on poverty and vulnerability, particularly looking at the Samurdhi/Divineguma programme. The three key components of Divineguma, i.e., the welfare programme (section 9.3), livelihood programme (section 9.4) and microfinance programme (section 9.5) are then discussed in detail, highlighting the issues and weaknesses while reflecting on how efficiency can be improved to ensure further poverty reduction, and make the Divineguma programme sustainable overall. Section 9.6 examines the possibility of encouraging private sector participation in poverty reduction via Corporate Social Responsibility (CSR) initiatives, while section 9.7 includes some concluding remarks.

## 9.2 Expenditure Patterns for Poverty and Vulnerability

Expenditure related to poverty and vulnerability, in particular transfers and subsidy expenditure has shown a remarkable increase in recent years. Government spending on transfers to households has more than doubled during 2009-2015; transfers and subsidies to households accounted for about 3.1 per cent of GDP in 2015. Pensions for public servants and Samurdhi cash transfers are the two main items among household transfers. Government expenditure on pensions accounts for nearly a



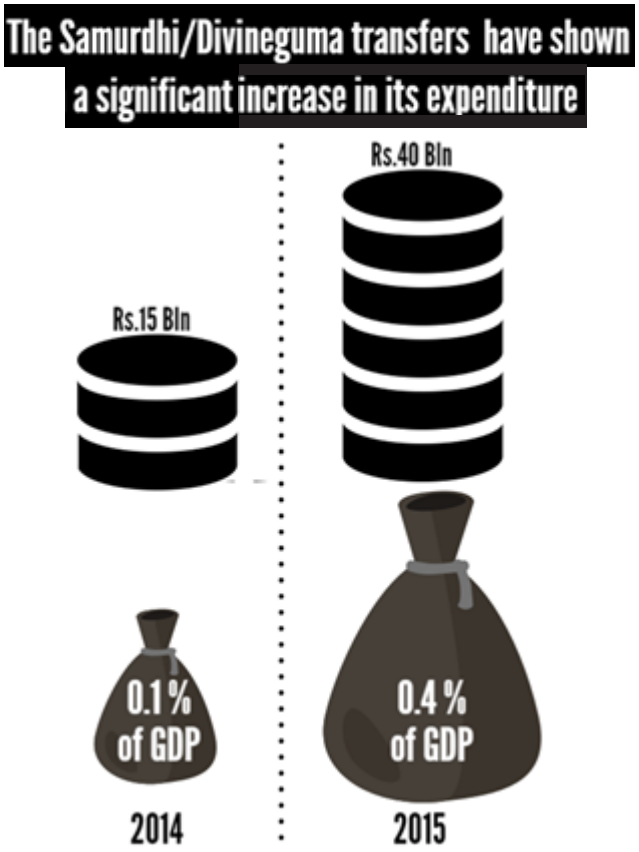

half of the total spending on transfers and subsidies to households. The expenditure on pensions has increased from around Rs. 85 billion in 2009 to Rs. 155 billion in 2015, despite its decline as a percentage of GDP from 1.8 per cent to 1.4 per cent during this period.

The Samurdhi transfers - the largest transfer programme for the poor in Sri Lanka - has shown a significant increase in its expenditure from around Rs. 15 billion in 2014 to nearly Rs. 40 billion in 2015. In 2015, Samurdhi transfers accounted for about 0.4 per cent of GDP - a substantial increase from 0.1 per cent of GDP in 2014. Expenditure on other transfers and subsidies to households that include school welfare programmes, assistance to elderly and disabled persons, etc., too has shown a notable increase. Some of the increased expenditures arise from political-economy factors where

**Table 9.1**
**Expenditure on Transfers and Subsidies**

| Item | Rs. million | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016[a] |
| Current transfers and subsidies | 190,168 | 196,216 | 216,602 | 234,692 | 248,549 | 317,674 | 419,420 | 439,065 |
| O/w to households and other sectors | 148,993 | 156,194 | 171,438 | 187, 895 | 195,288 | 251,665 | 345,483 | 371,392 |
| Samurdhi | 9,267 | 9,241 | 9,044 | 10,553 | 15,256 | 15,042 | 39,994 | 43,950 |
| Pensions | 85,139 | 90,995 | 99, 936 | 111,682 | 122,813 | 126,136 | 155,320 | 167,845 |
| Fertilizer subsidy | 26,935 | 26,028 | 29, 802 | 36,456 | 19,706 | 31,802 | 49,571 | 35,000 |
| Other | 27,652 | 29,931 | 32, 656 | 29,203 | 37,512 | 78,685 | 100,598 | 124,597 |
| | As a Percentage of GDP | | | | | | | |
| Current transfers and subsidies | 3.9 | 3.5 | 3.3 | 3.1 | 2.9 | 3.0 | 3.8 | 3.5 |
| O/w to households and other sectors | 3.1 | 2.8 | 2.6 | 2.5 | 2.3 | 2.4 | 3.1 | 3.0 |
| Samurdhi/ | 0.2 | 0.2 | 0.1 | 0.1 | 0.2 | 0.1 | 0.4 | 0.4 |
| Pensions | 1.8 | 1.6 | 1.5 | 1.5 | 1.4 | 1.2 | 1.4 | 1.3 |
| Fertilizer subsidy | 0.6 | 0.5 | 0.5 | 0.5 | 0.2 | 0.3 | 0.4 | 0.3 |
| Other | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 | 0.8 | 0.9 | 1.0 |

Notes: a: Approved estimates for 2016.
Source: CBSL, *Annual Report*, various years.




The high cost of transfer programmes related to poverty and vulnerability highlights the need to reform these programmes to improve their efficiency and sustainability.

welfare-based politics come to the fore during electoral cycles. The cost of these transfers to households has increased from around Rs. 37.5 billion in 2013 to over Rs. 100 billion in 2015, raising its percentage share of GDP from 0.4 to 0.9 per cent.

The high cost of transfer programmes related to poverty and vulnerability highlights the need to reform these programmes to improve their efficiency and sustainability. The rising cost of the pension scheme for the public sector workers emphasizes the urgent need to reform it, not only to reduce the fiscal burden but also to ensure its sustainability. This is particularly important given Sri Lanka's rapid population ageing, where only around 40 per cent of the elderly are currently covered by some form of an old age income security programme.[1]

The rising cost of the Samurdhi programme also requires a detailed analysis of the Samurdhi / Divineguma programme; this is needed to identity its issues and weaknesses so that efficiency of the programme can be improved and the fiscal burden reduced. Samurdhi/ Divineguma has been the largest poverty alleviation programme in Sri Lanka since 1995.

[1] The reform options for Sri Lanka's pension system were discussed in detail in the *State of the Economy 2015*. For details see Chapter 10 on "Reforming Sri Lanka's Social Protection System" in IPS (2015) *Sri Lanka: State of the Economy 2015*, Institute of Policy Studies of Sri Lanka, Colombo.

It has multiple components that include a welfare programme, a livelihood development programme and a microfinance programme. Until 2014, the Samurdhi welfare programme was administered by the Department of the Commissioner General of Samurdhi (DCGS), while the livelihood development and microfinance programmes were administered by the Samurdhi Authority of Sri Lanka (SASL). Since 2014, all the components were taken under the purview of the Department of Divineguma Development (DDD), established by amalgamating the DCGS, SASL and three other institutions under the Divineguma Act, No.1 of 2013.

The government spends a large sum of money annually on the Divineguma programme. As per the budget estimates for 2016, the cost (which includes that of transfers, personal emoluments like salaries and allowances and capital expenditure) is around Rs. 57 billion. This accounts for about 80 per cent of the total budget estimate of the Ministry of Social Empowerment and Welfare (MOSEW) for 2016.

The (estimated) budget of the DDD has increased in 2016 from its 2015 level - both in terms of the value and as a share of the total budget estimate for the Ministry. The increase in the Divineguma budget is mainly due to the increase in the estimated cost of transfers under the welfare programme, and the cost of personal emoluments such as salaries, wages and personal allowances. As shown in Table 9.2, the welfare programmes accounts for over 75 per cent of the overall budget of the DDD, while the personal emoluments account for about 20 per cent of the Divineguma budget. The budgetary allocations for the welfare programmes (primarily, the cash transfer programme) is over Rs. 43 billion in 2016, while allocations for the other components like livelihood development and microfinance programmes are relatively low. For example, the budget for the livelihood development programme was Rs 1.2 billion in 2015 while the same amount has been estimated for 2016.

Sections 9.3-9.5 examine the three key components of the Divineguma programme -

**Table 9.2**
**Divineguma Department - Budget Estimates 2016 (Rs '000)**

| | 2016 Estimate |
|---|---|
| **Total Recurrent Expenditure** | **55,990,320** |
| Personal Emoluments | 11,678,000 |
| Salaries and wages | 5,208,000 |
| Overtime and holiday payments | 10,000 |
| Other allowances | 6,460,000 |
| Transfers | 43,970,000 |
| Welfare programme | 43,950,000 |
| Public institutions | |
| Property loan interest to public servants | 20,000 |
| Other | 342,320 |
| **Total Capital Expenditure** | **1,247,600** |
| Livelihood development programme | 1,200,000 |
| Other | 47,600 |
| **Total Expenditure** | **57,237,920** |

Source: MOF, *Budget Estimates 2016;* Interviews with the Department of Divineguma Development.

welfare programme, microfinance programme and the livelihood development programme.

## 9.3 Divineguma Welfare Programme

The Divineguma (or Samurdhi) welfare programme comprises a monthly cash transfer programme, social security/insurance programme and a housing assistance programme for low income groups. It aims at addressing consumption shortfalls and reducing vulnerability among the poor. It is the main component of the Divineguma programme in terms of its budgetary allocations, accounting for over 75 per cent of the total Divineguma budget.

The cost of the welfare programme increased substantially in 2015 with an increase granted in the monthly benefits to families - twice during the year, in January and in April 2015. Since April 2015, the identified families receive a monthly grant between Rs. 420 and Rs. 3500. The amount received depends on the family size, except for the so-called 'empowered family' category that is given the minimum amount of Rs. 420. There are deductions from the monthly grant to three different funds: (i) compulsory savings - that can generally be withdrawn after the beneficiary reaches the age of 60, (ii) the social security fund that provides cover for the beneficiaries in the event of illness, death, marriage and childbirth; and (iii) the housing fund to provide housing assistance to low-income families. The net cash transfer amount (after the deductions) is transferred to the beneficiary's account at a Divineguma bank.

As at December 2015, the cash transfer programme covered 1,453,078 families. About 41 per cent of the beneficiary families receive the maximum monthly grant of Rs. 3500, followed by nearly 32 per cent that received Rs. 1500. About 18 per cent received Rs. 2500 per month, while 10 per cent received the lowest monthly grant of Rs. 420 (Table 9.3).

Despite the large number of beneficiaries and considerable government spending, the Divineguma welfare programme, in particular its cash transfer programme, has many shortcomings; inefficiencies of the targeting mechanism; lack of clearly defined eligibility criteria; lack of clearly defined entry and exit

**Table 9.3**
**Divineguma Welfare Programme (As at December 2015)**

| Beneficiary Family Categories | No. of Beneficiaries (as at December 2015)[a] | Value of Monthly Grant | | Total Expenditure 2015 (Rs. mn.) |
|---|---|---|---|---|
| | | Jan-Mar 2015 (Rs.) | Value Increased from April 2015 (Rs.) | |
| 4 or more family members | 594,594 | 3,000.00 | 3,500.00 | 24,552.85 |
| 3 family members | 253,246 | 2,000.00 | 2,500.00 | 7,450.81 |
| Less than 3 family members | 459,643 | 1,000.00 | 1,500.00 | 7.456.11 |
| Empowered families | 145,595 | 420.00 | 420.00 | 749.97 |
| **Total** | **1,453,078.00** | | | **40,209.74** |

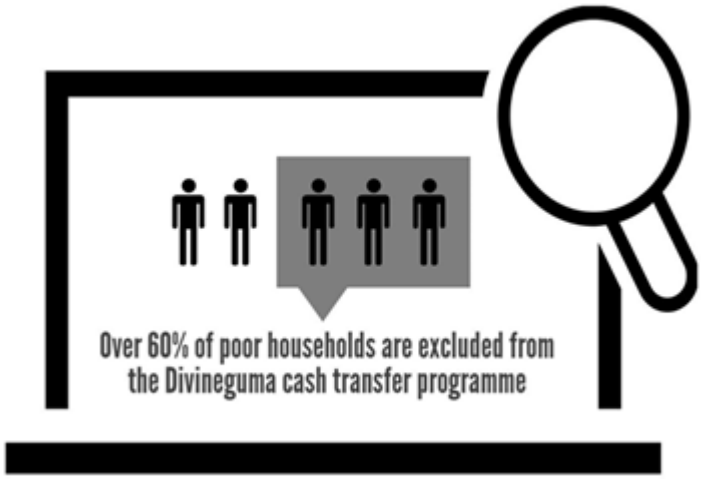
Notes: a: The number of beneficiary families was not constant during January-December.

Source: Department of Divineguma Development – Performance Report 2015.

mechanisms; issues related to the quality of benefits; and the politicization of the programme.[2]

Poor targeting is one of the main weaknesses of the Divineguma welfare programme.[3] Estimates based on DCS HIES (2012/13) show that 16.4 per cent of households in the country are receiving Samurdhi cash transfers with some households having multiple Samurdhi recipients.[4] This is around three times higher than the percentage of poor households in the country (5.3 per cent). The targeting errors are substantial - 14.4 per cent of the 16.4 per cent of Samurdhi recipient households (accounting for about 88 per cent of beneficiary households) are non-poor households, while only a smaller share of the beneficiaries are from poor households as defined by the national poverty line. By contrast, there is a substantial share of poor households who are not receiving Samurdhi cash benefits. For instance, only around 38 per cent of poor households are recipients of Samurdhi cash transfers, while over 60 per cent of poor households are currently excluded from the programme. Such inclusion and exclusion errors are observed across all the districts of the country (Figure 9.1).

As shown in Figure 9.1, the percentage of households receiving cash transfers under the Samurdhi/Divineguma programme is higher than the percentage of poor households in all the districts (except in Mullaitivu). However, a larger share of Samurdhi recipients in all the districts is non-poor households. For example, in the Monaragala district (where around 19 per cent of households are in poverty), over 30 per cent of total households receive Samurdhi benefits although nearly 24 per cent are non-poor households. By contrast, another 12 per cent of households in this district are poor, but are not beneficiaries of this programme. Unlike the other districts, in the Mullaitivu district, the percentage of households receiving Samurdhi benefits is lower than the percentage of poor households in the district.




The existing targeting errors are partly due to the lack of clearly defined criteria for the selection of beneficiaries, and lack of a systematic entry and exit mechanism.

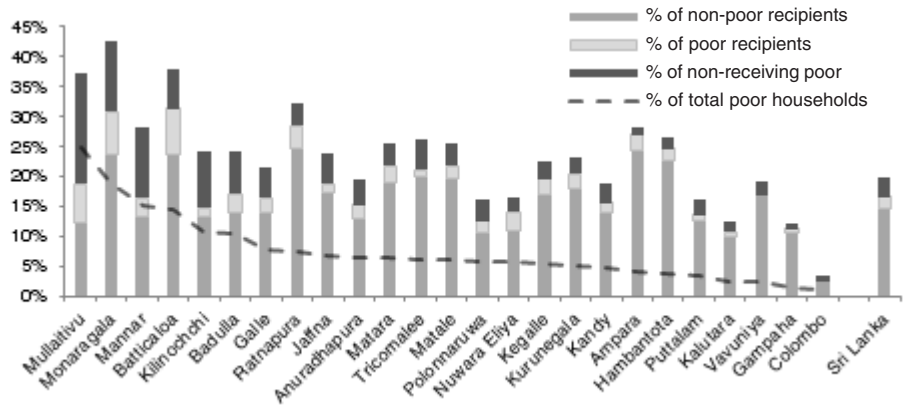
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[2] For a detailed discussion, also see IPS (2015), ""Reforming Sri Lanka's Social Protection System" in *Sri Lanka: State of the Economy 2015*; Tilakaratna, G., *et al*., (2013), "Safety Nets in Sri Lanka: An Overview", report prepared for the World Bank, Colombo (unpublished).

[3] IPS ( 2015); Tilakaratna *et al.* (2013) and Glinskaya, E. (2000). *An Empirical Evaluation of Samurdhi Program* (http://siteresources.worldbank.org/INTDECINEQ/Resources/SamurdhiJune042003.pdf).

[4] In Samurdhi/Divineguma cash transfer programme, the unit considered is family not household, and hence some households can have multiple beneficiaries.

**Figure 9.1**
**Percentage of Samurdhi Beneficiary Households by Poverty Status and District**




Source: Estimated based on data from DCS HIES 2012/13.

## Box 9.1
## Conditional Cash Transfer (CCT) Programmes: *Bolsa Famîlia* (Brazil)

Bolsa Família is the world's largest conditional cash transfer programme, providing benefits to poor and extremely poor families in Brazil. The programme was established in 2003, scaling up and coordinating scattered existing social protection initiatives. Within a decade of its establishment, the programme has benefited over 14 million households (amounting to 50 million people) and cut poverty by 28 per cent in Brazil within a decade for just 0.5 per cent of GDP.

Bolsa Família's cash transfers are conditional on participants meeting health and education targets that focus on human capital formation. Basic benefit structure includes the provision of monthly cash payments through a debit card to the beneficiary families.

Bolsa Família uses the Means Testing targeting method to identify beneficiaries for the programme. Municipal agents use a standardized questionnaire to collect information on income and input this information to Brazil's database on the beneficiaries of all targeted social programmes called Cadastro Único (CadÚnico). This database is considered a prominent feature of the Bolsa Família programme as it facilitates the effective monitoring and management of all participants in every social assistance programme in the country. The database is screened annually to ensure eligibility of all families participating in Bolsa Família.

Families within the programme continue to receive cash transfers as long as they are eligible, with re-certification occurring every two years. Over the course of two years, municipal workers verify compliance with conditionalities on a bi-weekly basis for education, and on a bi-annual basis for health care.

Sources: World Bank. (2016), "Bolsa Família: Brazil's Quiet Revolution", available at: http://www.worldbank.org/en/ news/opinion/ 2013/ 11/04/bolsa-familia-Brazil-quiet-revolution; The Economist, (2015), "Helping the Poorest of the Poor, available at: http://www.economist .com/news/international/21638333-developing-countries-have-started-weave-social-safety-nets-heres-how-they-should-do-it; Coady, D., et al., (2004), Targeting of Transfers in Developing Countries: Review of Lessons and Experience, World Bank, Washington, D.C., Mostafa, J. and K. da Silva, K. (2007), Brazil's Single Registry Experience: A Tool for Pro-poor Social Policies, available at: http://www.ipc-undp.org/doc_africa_brazil/Webpage/ missao/ Artigos/ CadastroUnicoJoanaMostafa.pdf.

Currently, there is no clearly defined eligibility criteria for selecting beneficiary families. The majority of families that were selected for the Samurdhi programme in the mid-late 1990s have simply continued as beneficiaries, with a relatively small number of 'new entrants' and 'exits' over the years. There is no systematic mechanism to identify the 'new poor' families who deserve to be included or to remove the non-poor families who are not entitled to receive benefits. The Divineguma cash transfer programme also does not have a stipulated assessment timeline in which the beneficiaries are to be (re)assessed for their eligibility to remain, or enter/exit the programme.

In this context, Sri Lanka can learn from the experience of a successful cash transfer programmes such as Brazil's Bolsa Familia conditional cash transfer programme (Box 9.1). Bolsa Familia's clearly defined entry and exit mechanism serves as a good example; beneficiaries are selected methodically after collecting information on their income via a standardized questionnaire; after selection, beneficiaries need to be re-certified every two years. Such a systematic selection can provide a solution to politicization of beneficiary selection in the Divineguma programme. Additionally, if the targeting mechanism is fine-tuned to ensure that only the deserving can enter the programme, the quality of the benefits provided can also be raised (as the number of beneficiaries will automatically decrease with the exit of non-deserving beneficiaries). Moreover, in the Bolsa Familia, receiving the cash grant is conditional on beneficiaries meeting certain health and education targets set by the government. The conditional nature has also contributed to ensuring that basic health and education standards are met among the Brazilian poor.

Furthermore, the availability of a database on all the beneficiaries of all the targeted social programmes in Brazil has also facilitated the effective management and monitoring of all beneficiaries across the country's various social assistance programmes.

## 9.4 Divineguma Livelihood Programme

The livelihood development programme is another component of the Divineguma programme that aims at addressing poverty by empowering low-income families via enhancing their capacity to generate income. This programme targets a variety of sectors including agriculture, fisheries, animal husbandry and micro-industry. Since the establishment of the DDD in 2014, over 150,000 livelihood development projects have been carried out under this; the projects were mostly aimed at assisting beneficiaries to acquire certain machinery/equipment that could help enhance their earning potential. The projects were at least partially funded by the government. The proportion of the project cost that should be borne by the beneficiary depends on the level of poverty/vulnerability of the family. For example, in 2015, low-income families with a member who suffers from chronic illness or long-term disability could receive up to 90 per cent of the project cost as a grant while contributing only 10 per cent. In addition to providing individual project assistance, the livelihood programme has also carried out some village/region based projects during 2014-15.

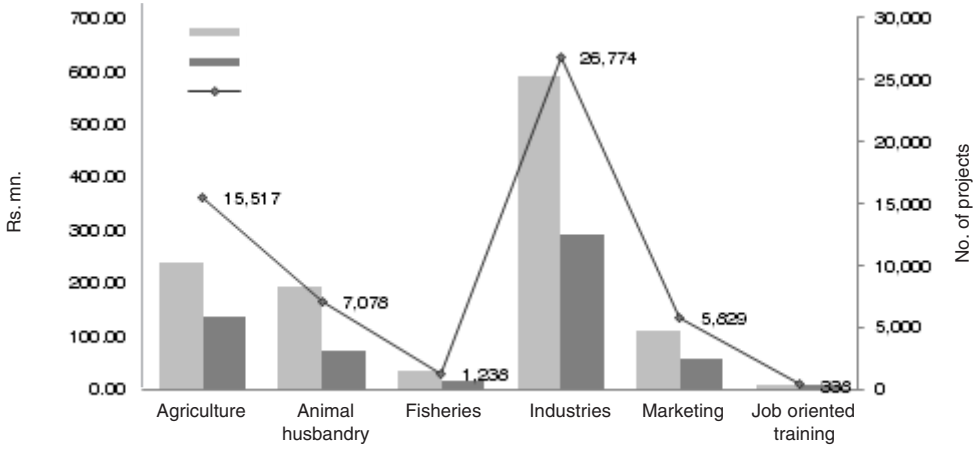
The projects carried out are funded via three sources: Treasury grants, beneficiary contribution, and the Livelihood Revolving Fund (LRF). For the most part, livelihood projects are funded from Treasury grants that are allocated

for the livelihood development programme. Whenever these Treasury grants are given to beneficiaries in the form of a loan (as opposed to a grant), it is re-collected to the LRF which is then used to finance livelihood projects when the Treasury grants are not sufficient.

In 2014, there were instances where the whole cost was borne by the DDD. In fact, over 60 per cent of projects carried out in 2014 were funded fully by the department.[5] However, provision of full financial support was abandoned in 2015 to better ensure beneficiary commitment. In 2015, almost 30,000 of the projects (i.e., 53 per cent of total projects) were funded under the scheme which requires the least contribution from DDD, where only 40 per cent of the project cost is provided as a grant (see Table 9.4). Furthermore, it is under this scheme that the highest amount of beneficiary capital has been mobilised (i.e., Rs. 474 million or 82 per cent of total beneficiary contribution). However, another 26,692 projects were provided with 90 per cent of the project cost as a grant by the DDD with a total cost of Rs. 712 million. The DDD spent approximately Rs. 2 billion to support a total of 56,777 projects in 2015. The highest expenditure has been incurred on projects related to industries/small enterprises. In 2015, 26,774 industrial projects were supported under the Divineguma livelihood development programme incurring a total cost of Rs. 590 million (Figure 9.2).

In 2016, there was a significant shift in the livelihood development policy of the DDD. Before 2016, it mostly aided beneficiaries to acquire machinery and equipment required for income generating activities. However, since 2016, the DDD is now concentrating its efforts to help finance business/project proposals of selected beneficiaries. Earlier, the focus was on aiding the maximum possible number of beneficiaries; now, the strategy is to identify

**Figure 9.2**
**Project Breakdown Based on the Sector and Contributory Source - 2015**




Source: Department of Divineguma Development, "Livelihood Division Performance Report 2015",

[5] Department of Divineguma Development, "Livelihood Division Performance Report 2015",

beneficiaries with entrepreneurship potential and viable project proposals with financial feasibility.

Under this new strategy, each district is authorized to identify a certain number of beneficiaries: this number will be decided by the number of Samurdhi beneficiaries in the district as well as its poverty level. Similar to the previous years, it is not necessary for the beneficiaries to be Samurdhi subsidy recipients; any low-income family member can submit their project proposal for consideration. The selection will be done by the grass-root level officers including the Divineguma Development Officers and Grama Niladaris. Project proposals are evaluated on their feasibility to be self-sustaining within a given period of time. In this case, the minimum beneficiary contribution is 50 per cent. The balance 50 per cent is provided by the DDD as a grant. The beneficiary can either invest his own capital, or he can apply for a loan from Divineguma banks.

Before 2016, the livelihood programme provided assistance for individual beneficiaries as well as for village/region based projects. In the latter case, the DDD worked in tandem with existing societies in the village or with Divineguma community based organizations (CBOs). The assistance provided was generally in the form of machinery/equipment. However, with the change in the livelihood development strategy to provide financial assistance to those with entrepreneurship potential to realize their business plan, there will be no more village/region based machinery/equipment procuring projects.

Another change in the livelihood programme in 2016 is the introduction of a special project scheme for the estate sector, aimed at helping estate sector workers to earn an additional income. In this case, the minimum beneficiary contribution required is 10 per cent with the DDD providing up to 90 per cent of the capital required as a grant. However, the size of the projects will be smaller compared to the other projects because the estate sector families have been identified as having comparatively less financial capacity.

## 9.4.1 Improving Efficiency of the Livelihood Development Programme

Since the Divineguma livelihood development programme was introduced in 2014, there has been a trend towards increasing the beneficiary contribution to the livelihood programme. The 2014 practice of fully financing projects was terminated in 2015 and the programme succeeded in mobilizing around Rs. 578 million as beneficiary contribution (Table 9.4). Decreasing the grant component was also taken as a step to ensure beneficiary commitment because there have been cases where, after receiving the machinery/equipment free of charge, the beneficiary has not actively used it to generate income.

When formulating poverty reduction policies it is important to ensure that they are conducive to communities/beneficiaries becoming self-sustaining in the long run. Government hand-outs can induce a culture of dependency. Therefore, the DDD's stance to increase the beneficiary contribution of livelihood assistance (as opposed to the grant component which does not have to be paid back) can be considered as a progressive step.

## Table 9.4
## Project Breakdown based on the Sector and the Contributory Scheme - 2015

| Sector | Project Cost (90% as a grant, 10% beneficiary contribution) | | | Project Cost (50% as a grant, 50% beneficiary contribution) | | | Project Cost (40% as a grant 10% beneficiary contribution 50% from LRF) | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. of projects | Dept. contribution (Rs. mn. | Beneficiary contribution (Rs. mn.) | No. of projects | Dept. contribution (Rs. mn. | Beneficiary contribution (Rs. mn.) | No. of projects | Dept. contribution (Rs. mn.) | Beneficiary contribution (Rs. mn.) | No. of projects | Dept. contribution (Rs. mn.) | Beneficiary contribution (Rs. mn.) |
| Agriculture | 6,797 | 141.96 | 28.17 | 29 | 0.50 | 0.40 | 8,691 | 94.47 | 108.70 | 15,517 | 236.93 | 137.27 |
| Animal husbandry | 4,488 | 143.15 | 22.79 | 3 | 0.09 | 0.07 | 2,587 | 49.56 | 49.76 | 7,078 | 192.79 | 72.61 |
| Fisheries | 659 | 22.58 | 3.17 | 3 | 0.08 | 0.29 | 576 | 11.02 | 12.34 | 1,238 | 33.67 | 15.80 |
| Industries and entrepreneurship | 11,946 | 337.86 | 40.53 | 40 | 1.15 | 1.13 | 14,788 | 251.72 | 248.20 | 26,774 | 590.73 | 289.86 |
| Marketing development | 2,704 | 63.46 | 5.62 | 14 | 0.37 | 0.18 | 3,111 | 45.18 | 50.37 | 5,829 | 109.01 | 56.17 |
| Job oriented training | 95 | 3.64 | 1.80 | - | - | - | 243 | 5.26 | 4.73 | 338 | 8.90 | 6.53 |
| Total | **26,692** | **712.66** | **102.08** | **89** | **2.18** | **2.06** | **29,996** | **457.20** | **474.10** | **56,777** | **1,172.03** | **578.24** |

Notes: These figures do not include the 2,603 special projects undertaken by the DDD in 2015 which were aimed at a variety of purposes including the development of minor irrigation works and provision of drinking water facilities.

Source: Department of Divineguma Development, "Livelihood Division Performance Report 2015",

The stance taken since 2016 of providing financial assistance to execute selected business plans can also be considered as an improvement in the strategy which up to this point focused on maximising the number of beneficiaries, rather than ensuring the financial viability of the projects carried out. This is especially evident in the lack of an evaluation mechanism capable of measuring the actual economic outcome (e.g., the additional income received by the beneficiary) of the projects. However, the new strategy is capable of naturally addressing this shortcoming due to two main reasons; the number of beneficiaries will be significantly reduced, which will simplify the monitoring mechanism; and the nature of the new strategy is such that there is a heavy emphasis on evaluating the results and the progress of the projects since the project proposals are selected on the basis of their capability to become self-sustaining within a given period of time.

The Divineguma livelihood programme could be further improved by taking an Asset Based Community Development (ABCD) approach (discussed in detail in Box 9.2) where particular attention is paid to linking micro-assets of the community to the macro-environment of the community through an endogenous mechanism, instead of the current, apparently ad-hoc nature of livelihood assistance based on beneficiary requests financed by injecting external resources to communities.

ABCD has been globally identified as an approach that is appropriate in an increasingly diverse world where there is no one-size fits all approach to community development. Any national level poverty reduction strategy in Sri Lanka should take into account regional disparities; even within the same districts, there exists areas that require different approaches to development.

**When formulating poverty reduction policies it is important to ensure that they are conducive to communities/ beneficiaries becoming self-sustaining in the long run.**

The DDD is already poised to make such an approach to community development possible. CBOs and the Divineguma community based banks (or 'Divineguma banks' which comprises of over 1,000 banks) that have already been established around Sri Lanka can easily facilitate such an approach. Furthermore, the Divineguma Development Officers who represent the DDD at the grass-root level can also play a key role in guiding this process.

**Box 9.2**
**Asset Based Community Development (ABCD)**

Asset Based Community Development (ABCD) is a "strategy for sustainable community driven development. The appeal of ABCD lies in its premise that communities can drive the development process themselves by identifying and mobilizing existing, but often unrecognized assets, and thereby responding to and creating local economic opportunity." It has been identified as an innovative alternative to need-based approaches to development and relies on the existing strengths of communities instead of injecting external resources to the community.

Thus, ABCD focuses on existing resources within a certain community and linking micro-assets to the macro environment, thereby ensuring social mobilization and sustainable community development. ABCD recognizes five types of assets: individuals, associations, institutions, physical assets and, connections. Individuals are the residents in a community and possess various skills. Associations are small informal groups of people who have come together around a common interest. Institutions are paid groups of people who are professionals and are structurally organized. Physical assets are assets such as land, building, space and funds. Connections are the relationships between people. ABCD builds on these assets that are already found in the community and mobilizes the individuals, associations and institutions to come together to build on their assets.

Source: www.abcdinstitue.org; Mathie, A. and G. Cunningham (2003), "From Clients to Citizens: Asset-Based Community Development as a Strategy for Community-Driven Development", *Development in Practice*, 13(5).

In fact, it can be argued that the DDD is already moving towards an ABCD approach by examining the modifications made to the Divineguma livelihood development programme. First, it took steps to curb the charitable nature of its assistance by making beneficiary contribution compulsory. This is important because ABCD focuses on mobilizing existing resources, as opposed to continuously injecting new resources to the community which would be less sustainable and would lead to a culture of dependency. Then in 2016, the assistance provided was made more tailor-made. The DDD can further facilitate ABCD by prioritising project proposals that are centred on utilizing the existing resources within the community, instead of simply providing beneficiaries with financial assistance.

## 9.5 Divineguma Micro-finance Programme

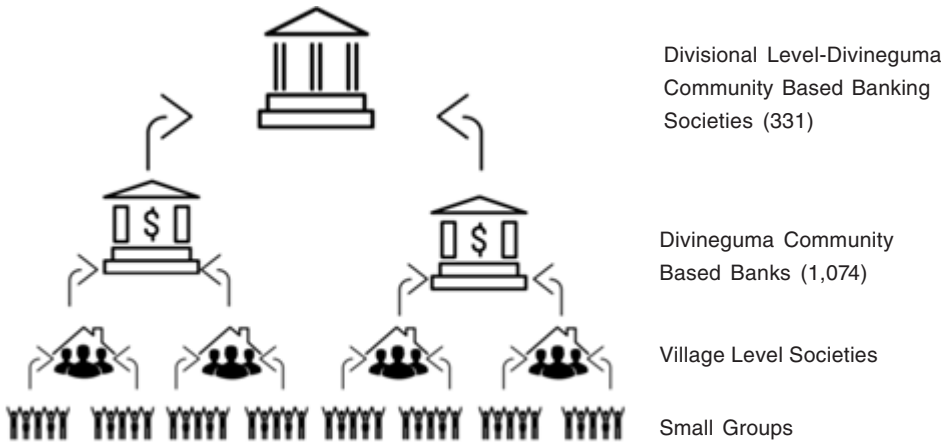
The Divineguma microfinance programme aims at promoting savings habits among low-income families and providing them with access to loan facilities to enhance their investment potential and support their income generation activities. This programme is implemented through the Divineguma banks; the banks also play an important role in implementing the Divineguma cash transfer and livelihood development programmes.

At the inception of the Divineguma programme (then called the Samurdhi programme), the benefits of its welfare component (cash stamps and food stamps) were channelled via the cooperative shops and the compulsory savings were deposited at state banks like the Bank of Ceylon and the People's Bank. However, with the establishment of the Samurdhi banks in the late 1990s, these banks came to play a major role in the implementation of the overall Samurdhi/Divineguma programme. Currently, the Divineguma monthly cash transfer is directly transferred to the beneficiary's bank account at a Divineguma bank. The banks are also involved in the selection of beneficiaries for the livelihood development programme.

As shown in Figure 9.3, the structure of the Divineguma community based banking system is based on small groups (generally comprised of five members) at the village level. In order to be eligible for a loan from a Divineguma bank, it is necessary to be a member of a small group and have a group account at the Divineguma bank. Village level societies are created from all the small groups in a village. Currently there are around 40,000 village level societies. These societies fall under a Divineguma bank in the area. The banks are managed by a manager and a governing board (*Palaka Mandalaya*). In a given Divisional Secretariat (DS) divisional level, all the Divineguma banks fall under the Divineguma Community Based Banking Society of the DS division. At present, there are 331 such societies and 1,074 Divineguma banks. At the district level, the District Divineguma Director oversees the Divineguma programme while at the national level, the Board of Management oversees the activities of the banks and the banking societies.

Under the Divineguma microfinance programme, low income families have access to a range of loan products including consumption loans, livelihood loans, agriculture loans and housing loans. As shown

**Figure 9.3**
**Structure of the Divineguma Banking System**




Source: Compiled by the IPS.

in Table 9.5, a bulk of the loans has been granted for self-employment and livelihood activities. Over 3.3 million loans with a total value of Rs. 80 billion have been granted for self-employment activities during 1998-2015. This is followed by over 1.1 million loans for consumption (with a value of Rs. 6 billion). The number of housing loans granted, although lower than the number of consumption loans, amounts to around Rs, 20.5 billion during 1998-2015.

In order to promote savings habits among low income earning families, Divineguma banks also offer various savings products to their members and non-members from low income groups. These include member deposits, shares, non-member deposits, children's deposits, deposits designed for female members ('Diriyamatha'), group deposits, compulsory savings, and deposits for school children ('Sisuraka'). Currently, Divineguma banks have over 4 million savers including around 3.4 million members. Total savings of the banks amounted to around Rs. 63 billion by end of 2014. There were over 12 million bank accounts in total, including 3.4 million member deposits, 1.1 million children's savings accounts

**Table 9.5**
**Progress of Some of the Divineguma Credit Programmes 1998-2015**

| Type of loan | From 1998 to 2015 | |
|---|---|---|
| | No. of Loans Granted | Financial Value (Rs. bn.) |
| Self-employment loans | 3,386,475 | 80.03 |
| Livelihood loans | 191,146 | 4.44 |
| Cultivation loans | 886,544 | 11.96 |
| Fishermen loans | 15,616 | 0.33 |
| Swa Shakthi loans | 90,697 | 2.82 |
| Divi Neguma Diriya Saviya loans | 33,767 | 2.87 |
| Consumer loans | 1,108,384 | 6.36 |
| Distress loans | 140,275 | 0.48 |
| Housing loans | 460,037 | 20.56 |
| Yovun Diriya loans | 517 | 0.02 |
| Jana Pubudu loans | 377,625 | 11.50 |
| Mihijaya loans | 17,615 | 0.87 |
| Kirula development loans | 2,766 | 0.63 |
| Rata Viruwo loans | 12,105 | 3.65 |
| Divi Neguma Sahana Aruna loans | 313,057 | 6.37 |
| **Total** | **7,036,626** | **152.89** |

Source: Department of Divineguma Development, "Annual Progress Report 2015".

and 2.3 million compulsory savings accounts. However, the compulsory savings (made of the deductions from the cash transfer) account for nearly 40 per cent of total savings of the Divineguma banks.

The main source of funding for the Divineguma banks is internal - i.e., savings deposits of their members and non-members. The loans from a Divineguma bank are primarily funded by the bank's savings.[6] A Divineguma bank can give up to 80 per cent of the deposits held at the bank as loans. If a bank exceeds the maximum, it has the option of obtaining a loan from the DDD. However, the salaries and other allowances of the permanent employees of Divineguma banks are paid by the government and are included under the budget of the DDD (see Table 9.2).

## 9.5.1 Addressing Weaknesses and Improving Efficiency

Given the large number and volume of savings deposits and loans of the Divineguma banks, it can be argued that these banks have played an important role in improving access to financial services among low income groups, particularly among females. Nevertheless, the Divineguma banking system has a number of issues and weaknesses that need to be addressed to ensure its sustainability, protect the clients and to ensure sustainable access to financial services among low income groups.

Inadequate regulation and supervision of the Divineguma banks is an issue of concern, particularly given the large volume of savings it has mobilized from low income groups. Until

**Table 9.6**
**Divineguma Savings Products as at 31.12.2014**

| Savings Product | No. of A/Cs | Amount (000') |
|---|---|---|
| Member deposits | 3,452,413 | 14,445,613 |
| Shares | 3,676,389 | 8,499,497 |
| Children's deposits | 1,155,734 | 2,461,307 |
| *Diriyamatha* deposits | 998,132 | 1,713,336 |
| Non-member deposits | 577,469 | 2,778,047 |
| Group deposits | 458,012 | 7,690,748 |
| Compulsory savings | 2,312,173 | 25,194,058 |
| *Sisuraka* deposits | 180,649 | 347,048 |
| **Total** | **12,810,971** | **63,129,654** |

Source: Department of Divineguma Development.

[6] There are few exceptions such as the loans funded by the Livelihood Revolving Fund, created through government funds.

2013, the Samurdhi banking societies came under the regulation of the Samurdhi Authority of Sri Lanka (SASL), established under the Samurdhi Authority of Sri Lanka Act No. 30 of 1995. Since the establishment of the DDD in 2014, a proper regulatory framework for Divineguma banks is yet to be formed. Currently, the Board of Management of the DDD oversees the activities of the Divineguma banks but it lacks regulatory powers.

Low lending rates of the Divineguma banks is a concern that affects their financial sustainability. The lending rates charged by the Divineguma banks have decreased in recent years while the interest paid for savings have not changed significantly. For example, the lending rates have dropped from around 12 per cent (reducing balance) in 2013/14 to around 8 per cent, which is relatively low compared to other microfinance institutions in the country. However, the interest rates for savings have remained around 5-7 per cent, making it difficult for the banks to make a profit. Moreover, introduction of ad-hoc loan schemes by the government on concessionary terms and conditions at times, also affects loan repayments and the profitability of the Divineguma banks.

In addition, inadequate use of new technology and lack of computerized systems in banks, and inadequate training for bank staff and Divineguma Development Officers on microfinance principles, banking and accountancy are other constraints to improving the efficiency of the Divineguma banking system.

**Low lending rates of the Divineguma banks is a concern that affects their financial sustainability.**

## 9.6 Beyond Government Initiatives - CSR Initiatives for Poverty Reduction

Sri Lanka's significant progress in poverty reduction has been helped by overall economic growth in the country, but various government poverty reduction policies and programmes have also contributed. Despite this, approximately 1.3 million individuals are still mired in poverty according to HIES 2012/13 estimates. Moreover, there are considerable regional disparities and 'pockets of poverty' with PHCR as high as 35-45 per cent in some districts like Batticaloa and Mullaitivu.[7]

[7] DCS and CBSL, *Annual Report 2015*.

There is room to improve the efficiency of government poverty reduction programmes; the targeting mechanism can be perfected to ensure that all the poor and deserving (including all these pockets of poverty) are provided coverage. However, while improving these, it is also important to explore complementary sources of financing poverty reduction and reaching pockets of poverty in the country. One such viable option is to mobilize private sector participation in poverty reduction initiatives through encouraging and directing the Corporate Social Responsibility (CSR) related activities of private sector organizations.

CSR can be defined as the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.[8]

There is great untapped potential in using CSR expenditure as a means of financing poverty reduction in Sri Lanka. According to 2012 estimates, Rs. 4 billion are spent annually on CSR through various avenues.[9] However, this money is spent on ad hoc projects carried out by various organizations, prioritized at the discretion of individual companies. Box 9.3 discusses two different initiatives undertaken by John Keel's Holdings (JKH) and Ceylon Biscuits Limited (CBL). These highlight the potential of such initiatives to address pockets of poverty.

The two projects highlighted here differ in terms of their scale and the vision: The Munchee Samaga Gamata Sarana project by CBL has so far undertaken 92 infrastructure development projects with the aim of helping the rural and marginalized communities to meet their basic needs; the Village Adoption project by JKH has so far involved five villages with the aim of providing an integrated plan for their sustainable development.

However, both these projects are aimed at contributing to community development via community participation. Such initiatives undertaken by private sector companies illustrate the willingness of the private sector to take part in national development and their potential to contribute to the development of pockets of poverty spread around the island.

**There is great untapped potential in using CSR expenditure as a means of financing poverty reduction in Sri Lanka.**

[8] World Business Council for Sustainable Development, Stakeholder Dialogue on CSR, The Netherlands, Sept 6-8, 1998.

[9] Csrsrilanka.lk. (2016). *CSR Sri Lanka (Gurantee) Limited*. [online] Available at: http://www.csrsrilanka.lk/profile.php [Accessed 9 May 2016].

## Box 9.3
## CSR Initiatives for Poverty Reduction and Community Development

**Case Study 01: Village Adoption Project by John Keells Holdings (JKH)**

This project, launched in 2005, is aimed at uplifting the lives and living standards of disadvantaged persons and groups by empowering them to build and develop themselves and their communities in a sustainable and entrepreneurial manner. For this project, JKH has adopted an integrated development scheme asserting that developing just one aspect of a poor community is insufficient to ensure sustainable development as the causes of poverty are interlinked. For example, low employment is linked to low levels of education, so simply improving income generation activities will not be adequate to pull the village out of poverty in the long run. As such, the project includes facilitating access to basic needs like water and sanitation, as well as providing electricity and educational infrastructure facilities, and developing sustainable and diversified livelihoods to improve income generation, while also conducting gender and youth empowerment activities.

JKH takes a tailor-made approach to the development of each adopted village. The scope of the village adoption project (in terms of the number of villages) is deliberately kept limited to prevent finances and attention given to each village from being diluted. The choice of village to be adopted is subject to such considerations as the ground level presence of JKH and the capacity of JKH employees to volunteer their own time for such projects. Currently five villages have been adopted under this project: Halmillewa (Anuradhapura district), Mangalagama (Ampara district), Iranaipalai (Mullaitivu district), Puthumathalan (Mullaitivu district) and Morawewa North (Trincomalee district).

**Case Study 02: Munchee Samaga Gamata Sarana by Ceylon Biscuits Limited (CBL)**

The CBL initiative, launched in 2006, aims at identifying marginalized areas of the country and assisting those communities in meeting their basic needs via village infrastructural development. CBL emphasizes the importance of community participation in carrying out these projects and requires the villagers to participate in the projects carried out for the development of the village. Under Munchee Samaga Gamata Sarana, mainly infrastructure related projects are undertaken. The projects (i.e., villages) are identified based on the information gathered by the CBL field personnel who are spread all around the country. The scope of these infrastructure development projects are subject to time and cost concerns as the CBL employees work on them on a voluntary basis. The villages are provided assistance based on their requirements. Projects vary from the construction of mini-bridges, suspension bridges, roads, community facilities and health facilities, most of which are also maintained by CBL to ensure sustainability. The 92 projects carried out thus far have directly benefitted over 100,000 Sri Lankans at a cost of around Rs. 30 million.

Source: Interviews with JKH and CBL/Annual Reports.

In such a context, it is important to explore the potential of mobilizing private sector participation in poverty reduction via CSR. To this end, an important initiative was undertaken in 2013 with the encouragement of United States Agency for International Development (USAID) which resulted in the establishment of CSR Lanka (Guaranteed) Limited. This is an initiative piloted and managed collectively by a group of private sector companies in Sri Lanka with the aim of providing strategic guidance and necessary resources to bridge the gap between ad hoc CSR projects and creating sustainable value. A key factor for its coming together is a belief that a majority of companies would like to put in more effort in relation to CSR and are willing to obtain services from a third party for CSR development.

Currently, the CSR related activities of the private sector are not aligned with national priorities nor are they particularly encouraged by the Sri Lankan government. These issues need to be addressed in order to fully utilize the potential of CSR activities to reduce poverty. Box 9.4 discusses in detail the CSR model adopted by

## Box 9.4
## India's Mandatory CSR Model

With the introduction of the Company Act 2013, India became the first country in the world to legally compel companies to undertake CSR initiatives: every company with an annual turnover exceeding US$ 161 million or a net worth of over US$ 80 million or a net profit over US$ 800,000 are legally obliged to spend at least 2 per cent of their average net profit over the three previous years on CSR activities.

This is a rather controversial policy initiative which sparked global debate about the nature of CSR. It has been portrayed as a backward step for India, one that is incapable of promoting genuine business responsibility and societal trust in business. The policy has been further criticised as one that treats the corporate sector as wealthy contributors and expects them to be partners in ensuring equality in income distribution instead of seeing corporations as economic powerhouses who are responsible for their impact on a large number of stakeholders and thus should be mindful of this impact throughout the course of their business operations (and not simply by allocating a portion of their profits after it is earned).

As such, the applicability of a similar policy measure in Sri Lanka is debatable. However, there are certain other components of the Indian CSR model that could be beneficial in terms of improving the state of CSR in Sri Lanka. One such policy measure is that the Indian government has clearly stated the areas where the private sector should focus their energy. Many Sri Lankan private sector companies interviewed are of the opinion that it would be very helpful if the government could guide them by identifying the areas/sectors which are in need of development. Additionally, the Indian CSR policy necessitates the establishment of a CSR committee in every eligible company to guide and monitor the company's CSR policy. Even without adopting a mandatory CSR policy, the government could encourage Sri Lankan companies to set up such CSR committees for more effective outcomes.

Source: Singh, A. and Verma, P. (2014), "CSR@ 2%: A New Model of Corporate Social Responsibility in India", International Journal of Academic Research in Business and Social Sciences, 4(10); Maira, A. (2013), "India's 2% CSR Law: The First Country to Go Backwards", Economic & Political Weekly, 48(38); Venkatesan, R. (2013), "Ordering Corporate Responsibility: A Misplaces Faith?", Economic & Political Weekly, 48(38).

the Indian government whereby all companies are legally compelled to spend a defined percentage of their profit on CSR activities. This is the first and only mandatory CSR model in the world and has led to much debate; its applicability in Sri Lanka is debatable. However, it does suggest that there is scope for Sri Lanka to take a more proactive stance towards encouraging CSR. Many private sector organizations would welcome direction and guidance from the government in identifying the areas in need of development.[10]

There is much that could be done to improve the existing government initiatives to achieve the goal of poverty eradication. Nevertheless, while improving government programmes it is also important to appreciate the potential of the private sector to contribute to the national development agenda and address pockets of poverty which seem impervious to the national level policies of the government.

# 9.7 Conclusion

Government expenditure related to poverty and vulnerability, especially the transfers and subsidies have shown an increase in recent years. The cost of the Divineguma/ Samurdhi programme in particular is substantial. Despite its operations for two decades and considerable coverage of population, the Divineguma programme and its key components, namely the welfare, livelihood and microfinance components have many weaknesses.

Currently, over 75 per cent of the total budget of the DDD is spent on the cash transfer programme, the cost of which has increased substantially in recent years. Although Sri Lanka's poverty level has declined significantly in recent years, with the percentage of the poor households falling to 5.3 per cent (and the poverty headcount ratio to 6.7 per cent in 2012/ 13), the number of cash transfer recipients has not reduced significantly over the years. Moreover, substantial targeting errors continue to persist with a notable share of the poor being excluded from the programme. In this context, it is pivotal to revisit the Divineguma programme to assess the right balance between its key components and improve its efficiency.

It is important to limit the coverage of the cash transfer programme to the most needy households (e.g., poor or extreme poor with no other income source, with special attention to families with disabled persons and more dependents like small children and elderly) with some mechanism to absorb those who fall in to poverty due to various shocks. While this would help reduce the cost of the cash transfer programme substantially, it is important to put more emphasis on the livelihood development and microfinance components of the Divineguma programme, which will assist low income households to improve their income generating activities and thereby increase their income in the long run. This in turn will help them to earn a sufficient income to fulfil their consumption needs, without having to depend on the government monthly cash transfer. It is imperative for the Divineguma programme to have the right balance between safety nets (like cash transfers) and safety ropes (e.g., livelihood support and access to finance) in order to alleviate poverty and to reduce the strain on the government budget.

[10] Based on interviews with various private sector organizations.

**It is pivotal to revisit the Divineguma programme to assess the right balance between its key components and improve its efficiency.**

While improving the efficiency in the design and focus of the Divineguma programme, it is also important to find ways to mobilize resources to finance its different components like microfinance and livelihood programmes, in the form of beneficiary contributions, savings, etc. This is key to ensure sustainability of government initiatives to alleviate poverty in the country.

Moreover, while improving the existing government poverty reduction programmes, it is vital to explore alternative ways of addressing poverty and vulnerability and reach pockets of poverty, without further pressure on the government budget. A complementary mechanism would be to encourage private sector participation in poverty reduction through CSR activities. However it is crucial that the private sector initiatives are aligned with national priorities/ national agendas to fully utilize the potential of the private sector to reduce Sri Lanka's poverty and vulnerability.

# 10. Financing Urbanization

## 10.1 Introduction

Fostering efficient and competitive cities is integral for sustainable development. Resonating this sentiment, the Sri Lankan government plans to develop the entire Western region into a Megapolis under the Western Region Megapolis Project (WRMP). A megapolis is a synonym for a 'great city' in Greek, typically defined as a chain of roughly adjacent metropolitan areas. A megapolis normally has characteristics such as a large population of about 10 million, a high population density, efficient markets, enhanced trade, and fluid transportation to name a few.

The WRMP aims to create a megapolis spanning Colombo, Kalutara and Gampaha by 2030. As noted in literature, such forward thinking projects need massive amounts of funds to provide infrastructure and services that are not fully in demand now, but will become so as urbanization picks up speed.[1] This futuristic vision, coupled with the not yet materialized demand, makes financing the WRMP at an estimated cost of US$ 40 billion a challenge for the exchequer. Generally, there are two different ways governments fund urbanization projects - i.e., use their own revenue or use external financing. Methods of own-revenue financing include user charges and local taxes.[2] A successful user charge project is the Hong Kong

**The futuristic vision coupled with the not yet materialized demand makes financing the Megapolis Project at an estimated cost of US$ 40 billion a challenge for the state coffers.**

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[1] Mohan, R. (2009), "Global Financial Crisis: Causes, Impact, Policy Responses and Lessons", 7th Annual India Business Forum Conference, London Business School, London, April 23; IBRD (2013), *Planning, Connecting, and Financing Cities: Now Priorities for City Leaders*, International Bank for Reconstruction and Development/The World Bank, Washington, D.C.

[2] Bahl, R.W. and J. Linn (2014), "Governing and Financing Cities in the Developing World Policy", Lincoln Institute of Land Policy, Massachusetts.

Metro which is able to support its own capital and operating costs.[3] Methods of external financing include borrowing from abroad (loans and grants), and PPPs where a private company manages, builds or runs a part of a development project.[4]

Against this backdrop, this chapter aims to examine the fiscal capacity in Sri Lanka and the alternative financing mechanisms for the planned WRMP and recommend best practices from international experiences. The remaining sections of the chapter include the international context of mega cities; the policy context in Sri Lanka; an overview of the WRMP; its budget and cost estimates, and financial situation; possible mechanisms to finance the project and recommendations for its sustainability and overall success.

## 10.2 The Debate on Mega Cities

With growing populations and greater demand for urban lifestyles, the existence of huge megapolises is becoming prominent around the world. In 1990, the UN estimated that there were 10 megapolises; by 2014, this number had grown to 28.[5] The world's largest megapolis is Tokyo with 38 million inhabitants, followed by New Delhi with 25 million, and Shanghai with 23 million. Other megapolises include Mexico City, Mumbai, São Paulo, Osaka, and New York. Currently, it is estimated that by 2030 there will be 41 megapolises. The rising numbers of megapolises is reflected in the international discourse on the subject, mainly due to their beneficial development opportunities. In many instances, the megapolis is a driver of economic growth for the entire country with a GDP higher than for the rest of the economy. For example, in 2008, it was determined that Mumbai produced 16 per cent of India's overall GDP while only having 1.7 per cent of India's population.[6] There is similar data for other megapolises including Sao Palo and Mexico City where their impact on the country's overall GDP is more than twice their population size.[7] Additionally, well managed megapolises provide economic development opportunities, environment efficiency and cost efficient access to basic services including health care, electricity, and education for a large population; in turn, this can lead to improved quality of life for a critical mass of a population.

Nonetheless, megapolises are also viewed sceptically due to their negative impact on the environment and population.[8] For instance, the WHO determines that residents of Cairo inhale the equivalent of a pack of cigarettes a day due to air pollution.[9] Due to such adverse environmental effects, megapolises are often labelled as 'global risk areas'. In addition, the large population can lead to a burden on transportation networks resulting in vehicular

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3 UN HABITAT (2015), "Municipal Finance" HABITAT III Issue Papers 7, United Nations, New York.

4 Bahl, R.W. and J. Linn (2014), "Governing and Financing Cities in the Developing World Policy", Lincoln Institute of Land Policy, Massachusetts.

5 UN (2014), "World's Population Increasingly Urban with More than Half Living in Urban Areas", available at http://www.un.org/en/development/desa/news/population/world-urbanization-prospects-2014.html.

6 Kalan, J. (2014), "Think Again: Megacities", *Foreign Policy,* Issue 206, May/June 2014.

7 Satterthwaite, D. (2008), "Urbanization and Sustainable Development", available at http://www.un.org/en/development/desa/ population/pdf/ commission/2008/keynote/satterthwaite-presentation.pdf6.

8 Guriar, B. *et al*. (2010), "Human Health Risks in Megacities Due to Air Pollution", *Atmospheric Environment*, 44(36).

9 Kalan, J. (2014), "Think Again: Megacities", *Foreign Policy,* Issue 206, May/June 2014.

**In many cases, the megapolis is a driver of economic growth for the entire economy with a GDP higher than the rest of the economy. For example, in 2008 it was determined that Mumbai produced 16% of India's overall GDP while only having 1.7% of India's population.**

traffic congestions causing lower productivity amongst the population, while the existence of urban slums in megacities can lower the quality of life of its residents and raise issues of urban housing and urban crime.[10] Against the backdrop of such mixed potential, megapolises are also considered as development initiative that should be avoided if possible.

## 10.3 Urban Development in Sri Lanka: Policy Background

A Western Region and Megapolis Plan (Megapolis Plan) was initially mooted in 1991 by the then Minister of Industries, Science and Technology - the current Prime Minister - and revived in 2001-02; an updated version of the concept was included in the election manifesto of the UNP in the run up to Parliamentary elections in 2015. The WRMP became a fully-fledged project proposal under a newly established Ministry of Megapolis and Western Development, aimed to create a megapolis spanning three districts, which would transform the entire Western Province by improving/ developing essential infrastructure, creating a more liveable cosmopolitan modern city with an all 'inclusive development plan' that will position Colombo as the best city in the South Asian region.

Prior to the heightened momentum of the WRMP, the strategy for urban development in Sri Lanka was guided by the National Physical Planning Policy and Plan (NPPP). The NPPP identifies strategies and projects for implementation, and sets out a process for planning and implementing national, regional,

[10] *Ibid*.

## Box 10.1
## India's Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

In 2005, the government of India enacted one of its most ambitious urbanization projects - the Jawaharlal Nehru National Urban Renewal Mission (JNNURM). The government dedicated INR 50,000 crore (INR 500 billion) for seven years in order to help 60 different cities become "economically productive, efficient, equitable and responsive", placing emphasis on infrastructure projects including water sanitation, sewage, roads, and urban transport systems, as well as providing basic services and amenities to the urban poor. After the 7 year deadline, India had completed 217 of the 539 projects and extended the plan for two more years until 2014 in order to complete the remaining projects. As of 2016, there has been no new information as to the completion of the additional projects. Some of the completed projects include the construction of roads, railways, as well as rehabilitating old pumping stations.

As this was India's first large-scale attempt at urban planning, it cannot be denied that it has made important forward progress. However, the main deficiencies that were identified were a lack of incorporation of different ways of funding and a lack of inclusion of the citizens affected in the urbanization plan.

Source: Government of India, "Jawaharlal Nehru National Urban Renewal Mission Overview", available at http://jnnurm.nic.in/wp-content/uploads/2011/01/PMSpeechOverviewE.pdf; Naik, M. (2012), "Lessons from JNNURM", Context, 9(1).

district and local level plans and projects. Based on the NPPP, the first five year plan focused on urban infrastructure development, urban environment and resource management, and urban governance, as priority areas for urban development.[11] In the subsequent second five year development strategy (2011-16),[12] the urban development policy focused on establishing an effectively linked, systematic network of settlements and cities in the country. To this effect, the policy aimed to develop four metro regions in the Western, Southern, Eastern and North Central Provinces, and several metro cities. Subsequent revisions to the development strategy also involved the development of large cities, strategic cities, secondary cities and urban service centres.[13] By contrast, the current urban development policy relies heavily on the WRMP as a single large scale urban development project.

# 10.4 Western Region Megapolis Project (WRMP)

The geographic area designated to be considered under the Megapolis Project consists of Gampaha, Colombo and Kalutara, and the Marine Zone which encompasses

[11] NPD (2006), "Mahinda Chintana: Vision for a New Sri Lanka - A Ten Year Horizon Development Framework 2006-2016", Department of National Planning, Colombo.

[12] NPD (2010), "Sri Lanka the Emerging Wonder of Asia: Mahinda Chintana, Vision for the Future", Department of National Planning, Colombo.

[13] NPD (2013), "Unstoppable Sri Lanka 2020: Mahinda Chintana, Vision for the Future", Public Investment Strategy 2014-16, Department of National Planning, Colombo.

marine waters and a landmass bounded by 200m depth contour along the continental shelf. Geographically, the region covers a flat area along the coastline and undulating areas towards the eastern and southern part. Paddy fields, marsh land, coconut and rubber plantations dominate the landscape of the region. Based on 2012 estimates, the Western region is home to a population of 5.8 million residents.

The WRMP aims to achieve twin objectives of spatial transformation of urban agglomerations in the Western region of the country and the structural transformation of the national economy as a whole. By achieving this dual transformation, the plan expects to address three broad national goals: (i) address issues created by congestion pressures exerted on urban physical infrastructure, urban services and amenities, and the environment from 'messy urbanization'; (ii) development and transformation of the physical and institutional infrastructure, and national economic structure to leverage economies of agglomeration; this is with the broad objective of creating an enabling environment to avoid a middle income trap and allow Sri Lanka to reach the status of a high income developed country; and (iii) harness the benefits of a knowledge-based, innovation-driven global economic environment characterized by a 'new industrial revolution' and emergence of 'smart cities'.

The overall development philosophy guiding the conceptualization, planning, and implementation of all specific objectives, strategies, projects and programmes pertaining to the WRMP is based on four fundamental pillars - i.e., economic growth and prosperity; social equity and harmony; environmental sustainability; and individual happiness.

**The WRMP aims to achieve twin objectives of spatial transformation of urban agglomerations in the Western region of the country and the structural transformation of the national economy as a whole.**

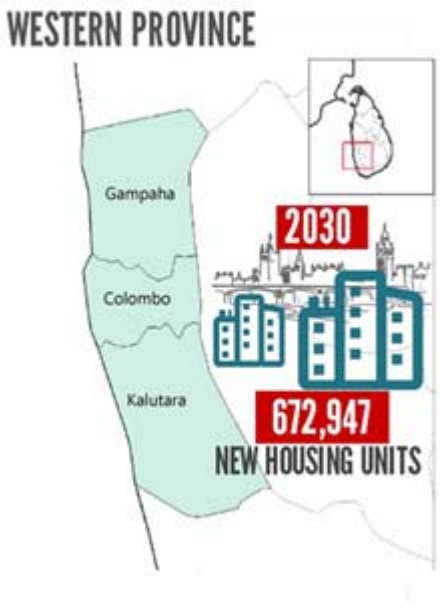
## 10.4.1 Mega Projects

The basis and framework for detailed planning which will guide the physical development under the WRMP consists of two plans - i.e., the planning area division plan and the structure plan. Planning area division is prepared based on the strength, weaknesses and a specific role of the area in the context of the region. The planning area division thus prepares the different parts of the region to be

planned according to its role and characteristics. The structure plan is a step further to assign broad land uses and density based on the existing land use, the role of different planning areas, and the employment and population distribution.

Due to the large scale of the WRMP and the need for efficient implementation, it is grouped into 10 project components called mega projects. Spanning the 10 mega projects, over 150 individual projects have been identified for which detailed proposals are still being developed. The 10 mega projects are:

- Transport, energy and water: aims to provide an efficient transport connectivity system with easy access to facilities whilst avoiding overcrowding at the Colombo core area; aims to ensure sufficient and reliable power supply to the region; aims to progressively augment the existing water supply system to meet future demand.




- Housing and relocation of administration: the WRMP estimates that by 2030, a total of 672,947 new housing units will be required to meet rising demand due to natural population increase and expected migration into the Western region as a result of planned economic and social development. This mega project aims to address this by developing three categories of housing - underserved, middle class and the luxury housing. At the same time, it also aims to optimize utilization of urban lands and the concentrated infrastructure network, to contain the rising demand for infrastructure within the present magnitude, and improve productivity by relocating government offices and releasing valuable land.

- Environment and waste management: the main scope is to address conservation of wetland, flood control, storm water drainage, reduce mosquito breeding, and improve waste disposal.

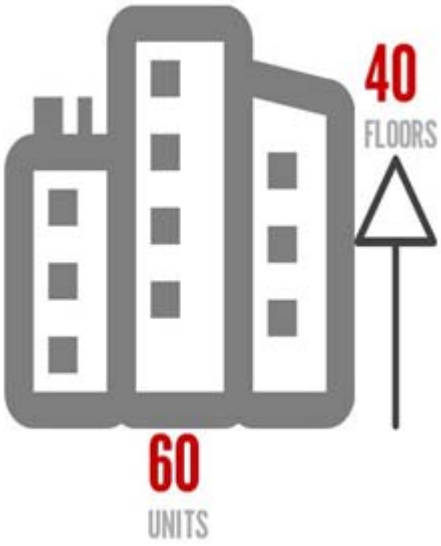
- The aero-maritime trade hub: is aimed to be developed as a unique maritime, aviation, logistics and trade hub of Asia. It will be geographically bi-centric with a maritime city centred on the sea port of Colombo and an aero city centred on the international airport at Katunayake; the two city-centres are to be connected by a proposed 'port-to-airport' highway to be built through the 'Modera bridge' across the Kelani river, extending to the airport expressway. Both the aero and maritime hubs are to be efficiently connected to a 'logistics village' to be set up as part of the plan.

- The 'high rise' central business district: aims to develop a dynamic, vibrant and glamorous central business district which as a hive for international trade, commercial and financial activity, with an attractive environment; the project aims

to develop about 60 new high rise buildings of at least 40 floors.

- Industrial and tourist cities: aims to develop Mirigama and Horana as industrial cities, while Negombo and Aluthgama will be developed as tourist cities. The industrial city at Mirigama is expected to specialize in food processing for export (mainly diverse varieties of Sri Lankan and regional culinary products), while the industrial city at Horana is aimed at promoting both import substitution and export development, and facilitate the concentration of SMEs scattered across the region.

- Science and technology city: aims to provide the necessary structural transformation of the national economy into a knowledge-based, innovation-driven economy with a major high-tech manufacturing and tradable services sector with strong export orientation. The science and technology city is designed to provide a comprehensive all-encompassing eco-system for innovation; it will provide infrastructure for the geographic concentration of all high-tech R&D centres, incubation centres, and high-tech industries with all requisite support services and facilities, including a dedicated technological university among other major technology centres.




- 'Eco habitat' and plantation city: this project covers two distinct and adjacent geographical areas, both abundant with flora and fauna as well as with plantations. The 'Eco Habitat' component will involve the Singharaja forest reserve, while the adjacent zone abounded by plantations will constitute the plantation city. Under this initiative, the Avissawella town will be developed as the commercial hub for value added plantation products, while Matugama will be home to a bio-tech research institute. To enrich tourist experience offered by the plantation city area, an 'eco park' of tropical flora will be developed at Matugama and, a new zoological garden will be developed at Avissawella.

- 'Smart nation'- the smart city development: to ensure efficiency and sustainability of the WRMP in the long-run, appropriate infrastructure is critical. The services and facilities identified to be provided through the smart city infrastructure development project include payments and transport management, government service management, and utility management to facilitate smart citizen services; to facilitate a smart government, facilities such as smart management of travel and public transport, smart enablement of public services, smart interfaces to government services, and smart energy and environmental initiatives are identified.

- 'Tranquility' - spiritual development facilitation: 'Individual happiness' is an important aspect of the WRMP; this mega project include rehabilitation and improvement of buddhist temples, and religious places belonging to all other

main religions within the megapolis; it aims also to establish centres of meditation belonging to each religion; establish 10 centres for the practice, training and education of techniques for holistic development of physical and mental health, such as 'yoga'; develop a comprehensive performing arts centre in Colombo with multiple galleries for different disciplines.

## 10.4.2 Institutional Framework and Cost Estimates

To carry out the proposed plans for the WRMP, a Ministry of Megapolis and Western Development (MMWD) was established in 2015. The ministry is in charge of macro level planning of the Western megapolis region based on bio-geo-physical and socio-economic aspects. Within the ministry, a specialized division named Western Region Megapolis Planning Project handles all activities related to the project. Additionally, a Western Region Megapolis Development Authority (WRMDA) is also to be established under the purview of the MMWD. As yet, however, the scope and function of the WRMDA is not clear, especially how it will differ from the existing Urban Development Authority (UDA). Nonetheless, the WRMDA is expected to steer the planning and development of the WRMP, with a more regional and integrated approach.

The legal framework for the WRMP - the proposed Megapolis Development Authority Bill - is expected to be formulated based on interactive consultation between the general public, professionals, public and private sectors.

**Table 10.1**
**Budget Estimate for WRMP**

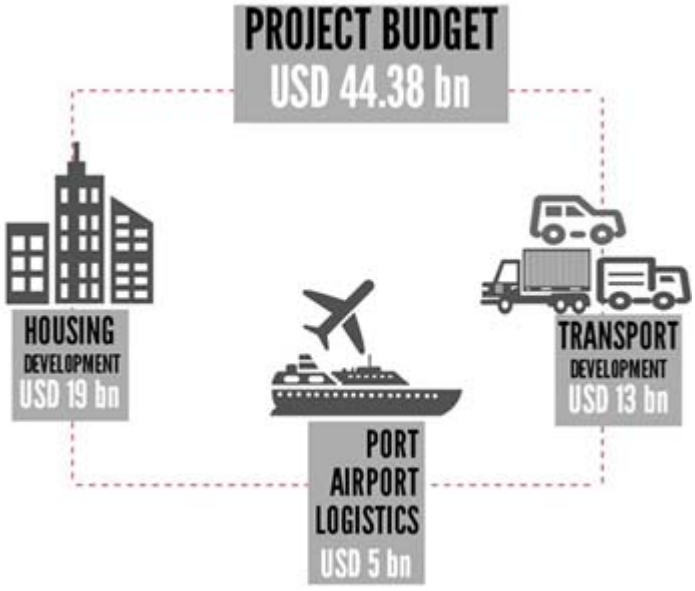
| Proposed Projects | Estimated Investment (USD bn), approx. |
|---|---|
| Townships | 0.450 |
| Housing development | 18.700 |
| Transport development | 12.870 |
| Power and energy | 2.000 |
| Water supply | 2.900 |
| Solid waste and sewerage | 1.200 |
| Coastal and marine | 0.031 |
| Port, airport and logistics | 5.400 |
| Industrial establishment | 0.047 |
| IT technology and education | 0.007 |
| Natural environment improvement | 0.150 |
| Healthcare | 0.200 |
| Archeology and tourism | 0.041 |
| Others | 0.380 |
| **Total** | **44.380** |

Source: MMWD (2016), "Western Region Megapolis Master Plan: From Island to Continent", Western Region Megapolis Planning Project, Ministry of Megapolis and Western Development.

The proposed project is budgeted to cost US$ 44.4 billion in total, with housing and transport development accounting for the largest chunks at US$ 19 and 13 billion, respectively (Table 10.1).

Despite the availability of detailed plans and information about the mega projects and individual projects, a noticeable limitation of the WRMP is the absence of sufficient focus on financing this massive development initiative. The official document which lays out the master plan consists of 115 pages and 16 chapters. However, the brief hint on financing this initiative is presented only on the last chapter as "project packaging will allow the projects to be offered to local and international investors through direct negotiation or through international tender".[14] Hence, the exact mechanisms of sourcing finances for the project are not adequately focused on as yet, and the project as a whole is deemed to lack "firm financing arrangements".[15]

Moreover, the plan also notes that "most of the catalyst projects identified are proposed based on the assumptions that there is demand and that the land is available for development, although pre-feasibility study has not been done and some of the land for the projects are not yet acquired" (p.98). As such, it is important to be realistic about financing this grandiose project.




**The exact mechanisms of sourcing finances for the project is not ad-equately focused in the Megapolis Plan.**

[14] MMWD (2016), "Western Region Megapolis Master Plan: From Island to Continent", Western Region Megapolis Planning Project, Ministry of Megapolis and Western Development, pp.98.

[15] Mushtaq, M. (2016), "Sri Lanka's $40bn 'Megapolis' Plan Is Bold — But Achievable?, available at http://asia.nikkei.com/Politics-Economy/Policy-Politics/Sri-Lanka-s-40bn-megapolis-plan-is-bold-but-achievable.

At present, the viability of the entire WRMP is uncertain due to three financing related issues - (i) absence of detailed plans for financing, (ii) the necessity to raise funds up front, and (iii) the budgeted cost of US$ 40 billion far exceeding the budgetary allocations. Specifically, the 2016 Budget allocated only Rs. 10 billion (US$ 70 million) for projects such as township development, urban solid waste management, etc., under the WRMP and another Rs. 2.5 billion (US$ 17 million) to the Ministry of City Planning and Water Supply to improve access to clean water, provision of sewerage, and urban development. Additionally, alternative financing estimates suggest that the total budget could be much higher; for instance, projected investment in the short, medium and long-term are also estimated at US$ 23 billion by 2020, US$ 50 billion in 2025 and US$ 84 billion in 2030, respectively.[16] There is clearly a need to ensure that financing estimates are accurate and credible to avoid risks of actual costs running monumentally over the budgeted cost, which results in interfering with completion dates, repayment schedules, interest payment, and revenue generation forecasts, to name a few.

In this context, the next section examines some potential means of raising funds to finance the WRMP.

## 10.5 Financing the WRMP

To finance any project, two extreme cases are public sector financing and private sector financing. However, given the scale and cost of the WRMP and public finance constraints,

**It is important to be realistic about financing the megapolis project. The viability of the entire project is uncertain due to three financing related issues - (i) absence of detailed plans for financing, (ii) the necessity to raise funds up front, and (iii) the budgeted cost of US$ 40 billion far exceeding the budgetary allocations.**

[16] Surbana Jurong (2016), "Review of the Western Region & Megapolis Master Plan- Final Report", Surban Jurong Private Limited, Singapore.

total public sector financing is not a viable option. However, certain specific projects may be able to pursue either public or private sector financing. For instance, the social housing development project in the Colombo core area identified in the detailed project document is earmarked to be a public sector funded project, while the Mirigama town development project is identified to be a private sector funded project. Within the spectrum of public and private sector financing, other available alternatives consist of various combinations in the degree of involvement of these two sectors.

## 10.5.1 PPPs

There are different types of PPP that can be pursued to raise funds for the WRMP. Depending on the nature of construction, operation, financing and ownership of arrangements, PPPs are categorized as Build Operate Transfer (BOT), Build Own Operate Transfer (BOOT), Rehabilitate Own Operate Transfer (ROOT), Rehabilitate Own Operate (ROT), Build Own Operate (BOO), and Rehabilitate Own Operate (ROO), to name a few (Box 10.2).

Despite having several nuances to PPP arrangements, the benefits, common to all types of PPPs can include risk-sharing by the public and private sector, and an incentive for efficient delivery of a project or service. Moreover, opening up projects for PPPs can also improve project selection, and contribute towards ensuring that selected projects are sustainable mechanisms.[17] In order to reap these benefits,

### Box 10.2
### PPP Categories

BOT projects are financed by the government and constructed by the private sector. The facility may be operated by a government institution, with the possibility of service or operation and maintenance (O&M) aspects being contracted to a private company. At the end of the O&M concession, the facility is transferred to the government.

**BOOT** projects are similar to BOT projects, where a private developer builds, owns and operates a facility for a specified period. The difference in BOOT compared to BOT is that the private sector is responsible for financing the project. Similar to BOT projects, at the end of the concession period, the facility is transferred to the government.

**BOO** projects are similar to BOOT, except that the facility is not transferred to the government and the private company retains ownership of the facility in perpetuity. In BOO projects, the operation and maintenance aspects are typically outsourced to another private company.

**ROOT** and **ROT** projects are similar to BOOT and BOT, respectively, except for the involvement of the rehabilitation of an existing facility rather than the construction of a new one.

**ROO** projects also encompass an existing facility being rehabilitated; while similar to BOO, a private company retains ownership of the facility in perpetuity.

[17] World Bank, "PPP Arrangements - Types of Public-Private Partnership Agreements", available at http://ppp.worldbank.org/public-private-partnership/agreements/civil-works-and-service-contracts.

tariff setting and pricing have to be carefully implemented, especially in the context of weak regulatory mechanisms. The literature notes that "when risks are underestimated, feasibility studies overlooked and financial sustainability ignored, failure is the result".[18] Hence, it is important to strengthen public sector capacity, develop an appropriate legal framework, ensure rigorous planning and risk assessment through feasibility studies, introduce transparent and competitive procurement procedures, strengthen monitoring systems, and improve flexibility to adapting to unpredictable events.

Similarly, PPPs require commitments from sustainable cost-covering tariffs or equivalent tax revenues. However, costs of long-term fiscal commitments are difficult to assess because they are a function of volatile variables such as costs, demand, or exchange rates. Similarly, it is hard to estimate the cost of guarantees offered. Hence, such uncertainty may prompt over-commitment from the government and excessive fiscal risk. To avoid such pitfalls, the detailed planning exercises of the WRMP should be meticulously executed and pay adequate attention to international experiences and best practices.[19]

For instance, Columbia underestimated the risk of guaranteeing revenues on toll roads and airports to private companies, which resulted in the government paying US$ 2 million in guarantees in 2005. Similarly, in 1990, the South Korean government guaranteed 90 per cent of forecast revenue for 20 years on a privately financed road that linked Seoul with a new airport in Incheon. However, the demand was lower than expected, which resulted in the government paying tens of millions of dollars as guarantees. On the contrary, Chile was successful in their PPP efforts due to its cautious approach of adhering to clear and transparent procurement processes, focusing on public awareness of the process, and adopting a learning-by doing approach which allowed for adjustments during the process.

Learning from these international experiences, it would be more than prudent for Sri Lanka to emulate Chile and start bidding on smaller projects to facilitate a learning-by doing and maintain leeway for adjustments during the process. This would also enable the government to test the market, while minimizing risks for the private sector. Nonetheless, it is important to note that private participation will not address all challenges in financing the WRMP.

## 10.5.2 Leveraging Existing Assets

Within the large umbrella of PPPs, capital for financing a large scale development project can also be raised by leveraging land and other existing assets. In the recent past, land based financing has been a popular approach in urban development initiatives in Sri Lanka. For example, in 2011 two large land parcels at prime locations in Colombo were sold to the Hong Kong based Shangri La leisure group and China National Aero Technology Import and Export Corporation (CATIC) to develop luxury hotels. In addition to land sales, leaseholding is another way of leveraging the value of land. Contrary to land sales being a one-time income flow, leasing retains the asset to meet future financing needs. Currently, large

[18] Lall, S.V. *et al*, (2013), *Planning, Connecting and Financing Cities Now: Priorities for City Leaders*, World Bank, Washington, D.C.

[19] *Ibid*.

land parcels in Colombo are open for bidding for 50 or 99 year leases for development purposes. One of the main advantages of leveraging land for financing is its capacity to generate more cash up front than through other means.

However, it is noted that corruption in land sales has two deleterious effects on policy.[20] The first is that corruption generally means that less is paid to the seller, thus siphoning off potential public funds as savings to a private buyer. The second is in the form of misallocation of development potential, where honest developers who offer to pay higher prices are deprived of the chance to develop the land. Additionally, other forms of corruption are those where bidders collude, especially if there are a small number of qualified bidders. As such, for countries like Sri Lanka, where corruption is deemed high, auctioning lends credibility to public land sales.

It is also important to note that land sales and leaseholding as a means of financing urban development also have the capacity to introduce significant fiscal risks, such as diverting proceeds for current expenditure and using land and other hard assets as collateral for debt instruments such as bank loans. As such, it is important to introduce rules to assign and protect property rights; create institutions for the valuation (determine leasing and sales prices or floor prices in land sale auctions, by defining objective land valuation techniques); disseminate information on land values; and create a strong legal framework with a healthy judicial system to handle disputes and oversee the land-based financing process to ensure the success of land based financing. Additionally, in the absence of an integrated system between land use planning and land-based financing, the potential of the latter is limited. As such, land-based financing has to be integrated with urban land use planning into a single planning strategy.

In addition to straight forward sale and lease of land, other ways to generate funds though existing assets include property taxes and levies. For instance, 'betterment levies' are payments made by affected property owners who help fund infrastructure improvements based on the increased value of their property. In Columbia, betterment levies have been very successful in financing local projects. Studies show that as much as half of Bogotá's arterial road network was funded by betterment levies.[21] Other forms of levies include tax increment financing and special assessment taxes. Tax increment financing uses property tax increases from improvements to finance infrastructure investments. Like betterment levies, tax increment financing requires a well-established, functioning property tax regime. Similarly, special assessment taxes collect payments from property owners within a designated area of improvement.

However, property taxes and levies discussed above are hard to collect; as well noted,[22] no one likes to pay taxes, and once a tax is imposed, people change their behaviour to try and avoid paying the tax. This is true in the case

[20] Lozano-Gracia, N., *et al*. (2013), "Leveraging Land to Enable Urban Transformation: Lessons from Global Experience", Policy Research Working Paper 6312, World Bank, Washington, D.C.

[21] Lall, S.V. *et al*, (2013), *Planning, Connecting and Financing Cities Now: Priorities for City Leaders*, World Bank, Washington, D.C.

[22] O'Sullivan, A. (2012), *Urban Economics,* Eighth Edition, McGraw Hill, Irwin.

of Sri Lanka where properties are often undervalued when it comes to taxation purposes and the actual use of properties are shrouded by bogus claims on activities. Nonetheless, along with the roll out of the WRMP, the institutional framework in Sri Lanka has to gear up to address these inconsistencies. The success of financing through taxes and levies hinges upon the strength of institutions to collect taxes and to build project capacity; understanding among taxpayers about how the levy's distribution is defined and how its benefits are calculated; and a positive attitude among taxpayers.

## 10.5.3 Paying for Infrastructure through Ancillary Services

In many infrastructure development projects such as roads and highways, the developers/ investors cannot recover the full cost in the foreseeable future on user fees alone. For such projects, one way to attract investors for PPP's is to sweeten the deal by offering rights to ancillary services related to the project. For road and highway projects, the government can auction off the full package of rights and obligations to secure the best price for the entire deal. It is noted that such add-ons to basic infrastructure service can make funding possible without resorting to regular government budgets.[23] Moreover, when infrastructure services are independent of fiscal processes, the government is better insulated from undue political influence.

Projects identified in the WRMP include development of multi-modal transport hubs that will connect all major public transport modes in a central city location and function as a transit facility; modernization of railways with track improvements, station upgrades and signal system upgrades; and a new rapid transits system and a new water transit system. For these investment needs, projects can be offered for investment with the right to lease out service concessions for restaurants, stores, gas stations, parking lots, etc. Here the investor has the discretion to lease out the rights to real estate development for all or some areas of the project sites. Such coupling of basic infrastructure services with additional revenue generating opportunities can make funding possible with a minimum burden on regular government budgets.

## 10.5.4 UDA Debentures/Municipality Bonds

Issuance of sub-sovereign bonds implicitly backed by the government is a popular source of financing for large scale development projects. Municipal bonds serve as a flexible source of financing for local governments to (re)finance high interest, short duration trust loans, and would serve as a critical debt management tool.[24] They are seen not only as debt diversification instruments for local governments, but also as means of improving the alignment between the project life of local government assets (such as bridges, roads, subways, or schools) and the duration of debt instrument liability. For example, long duration assets such as highways may require a decade to produce a positive cash flow, thus a 7 or 10 year municipal bond would lessen the duration

[23] Lozano-Gracia, N., *et al*. (2013), "Leveraging Land to Enable Urban Transformation: Lessons from Global Experience", Policy Research Working Paper 6312, World Bank, Washington, D.C.

[24] Frey, D., *et al*. (2014), "China's Urban Future: Financing a New Era of Urbanization", KPMG Global China Practice, KPMG China.

mismatch, and significantly lower the interest expense obligation.

However, in the case of Sri Lanka, rather than municipal bonds, UDA bonds are a more practical option, given the existing mechanism for UDA bonds under the Urban Development Authority Law No. 41 of 1978, which gives provisions for the issuance of UDA debentures to borrow money to raise the working capital of the UDA. Similar to UDA bonds, the proposed WRMDA may also have provisions for the issuance of similar bonds. However, previous experience of UDA debentures indicate that bonds issued in 2010 which were up for maturity in 2015 did not have funds to repay investors despite Treasury guarantees; as such, the options were to raise money through another debenture issue or a Treasury grant.[25] Similar weak financing management will hamper efforts to attract funds through sub-sovereign instruments.

Nonetheless, international experience offers some guidelines for Sri Lanka to follow. For instance, the large municipality of Ahmedabad in India applied for a credit rating and successfully issued municipal bonds without a state guarantee in 1998. In 2002, Ahmedabad successfully issued its first tax free municipal bonds and raised INR 1 billion through a 10-year tax-free bond with 9 per cent annual interest.[26] Similarly, the state owned municipal development fund in India was converted to the Tamil Nadu Urban Development Fund (TNUDF), which became India's first financial intermediary, with private sector capital and management participation. TNUDF has successfully mobilized financial resources from the capital market, through various innovative financing schemes and helped small municipalities develop PPP projects.

## 10.5.5 Project Bonds

Project bonds are standardized securities that finance individual stand-alone infrastructure projects. They are issued solely to finance a specific project; hence, the risk of loss to credit holders is higher for any one specific project versus a diversified portfolio of projects. However, it is noted that project bonds are a more viable option for large projects (in excess of US$ 100 million) and when longer duration finance is needed. Project bonds are most appropriate to be issued during the operational phase of an asset - subsequent to the end of construction risk where the asset begins to generate positive cash flow. Studies show that project bonds with maturities of 50 or even 99 years have been completed.[27] Projects bonds can be coupled with BOT type of PPP projects discussed earlier.

## 10.5.6 Establish Government Creditworthiness

As discussed above, there are a multitude of avenues to raise funds. However, the availability of avenues does not necessarily

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[25] *Daily Mirror* (2015), "UDA's Cash Crunch Pushes Rs.10 billion Debenture Investors into a Quandary", available at http://www.sundaytimes.lk/ 150906/business-times/udas-cash-crunch-pushes-rs-10-bln-debenture-investors-in-a-quandary-162938.html.

[26] Lozano-Gracia, N., *et al*. (2013), "Leveraging Land to Enable Urban Transformation: Lessons from Global Experience", Policy Research Working Paper 6312, World Bank, Washington, D.C.

[27] OECD (2015), "Infrastructure Financing Instruments and Incentives", Organization for Economic Cooperation and Development, Brussels.

guarantee the ability to attract required funds. Attracting investors and funds boils down to the creditworthiness of the government. Sri Lanka has had mixed results recently in this context, most recently being the sovereign credit downgrade in early 2016.

The best way to establish creditworthiness, especially with a focus on raising funds for the WRMP is by securing cash flows from user fees and taxes in the Western region, which reflect the viability of investing in projects in the region. With future cash flows secured, the WRMDA will be better positioned to borrow or attract private investment needed for urban development. This can facilitate a culture of raising funds locally, which is already a widespread practice in developed countries and is beginning to become popular in developing countries too. It is noted that developed country experience suggests "that local credit can work for long-term municipal financing - if regulations are in place to guide the issuance of debt and manage the risks".[28] It is critical to learn from the experiences of other countries about the importance of strong regulations to manage debt and reduce the risk of insolvency involved with local financing. For instance, in the 1990s many countries such as Argentina, Brazil, Colombia, Hungary, Mexico, the Russian Federation, and South Africa, experienced sub-national debt crises due to the absence of a regulatory framework to strengthen sub-national fiscal discipline.[29]

Some key steps to improving creditworthiness is ensuring transparency in the proposed WRMDA or whichever authority is to handle this aspect, and applying for a credit rating from international credit rating agencies. For instance, the Municipality of Lima in Peru obtained donor supported technical assistance to apply for such a credit rating from an international rating agency, which helped Lima to secure long term financing.[30] Other recommended steps to improve credit-worthiness include creating credible accounting mechanisms; creating sound financial management systems; requiring independent auditing of local government finances; and requiring performance evaluations for local government services.

## 10.6 Summary

As discussed in the foregone sections, the WRMP is a colossal project estimated to cost over US$ 40 billion, spanning a period of 15 years with the aim of transforming Sri Lanka's entire Western region to a megapolis. The WRMP consists of 10 mega projects and over 150 individual projects. Given the country's strained fiscal circumstances, and the magnitude of the proposed project, the government budget cannot finance the entire effort. As such, both the public and the private sectors need to find ways of financing the project. Existing planning documents of the WRMP do not address financing aspects,

[28] Lozano-Gracia, N., *et al*. (2013), "Leveraging Land to Enable Urban Transformation: Lessons from Global Experience", Policy Research Working Paper 6312, World Bank, Washington, D.C.

[29] Liu, L. and M. Waibel (2008), "Managing Sub-national Credit and Default Risks", Policy Research Working Paper 5362, World Bank, Washington, D.C.

[30] Lozano-Gracia, N., *et al*. (2013), "Leveraging Land to Enable Urban Transformation: Lessons from Global Experience", Policy Research Working Paper 6312, World Bank, Washington, D.C.

despite laying out the master plan and detailed proposals for individual projects.

This chapter identifies that one of the main modes of funding the WRMP are PPPs, where the exact type depends on the degree of public and private sector involvement in the construction, operation, financing and ownership of the given specific project. In addition to PPPs, required funds for these projects could also be raised by leveraging existing assets such as land, through ancillary services such as service areas in highways or station conveniences in monorails, and issuance of bonds and debentures. For most of these optional financing methods to work, it is critical to establish the creditworthiness of the government. Successful financing and implementation of the WRMP also depends on an institutional framework that would facilitate such a project. Based on past experience, it is noted that urban planning in Sri Lanka is hampered by the division of responsibilities among many stakeholders such as the UDA, Provincial Councils and Urban Local Authorities.[31] Similarly, the limited coordination among specialized infrastructure development agencies further aggravates the fragmented nature of institutional responsibilities for urban planning in Sri Lanka. Learning from the country's own past experiences and those of others, the WRMP has to be rolled out cautiously to ensure that the objectives of boosting growth through this project is actually achieved in a financially sustainable manner.

[31] UNHABITAT (2015), "The State of Asian and Pacific Cities 2015: Urban Transformation Shifting from Quantity to Quality", United Nations Human Settlements Program (UN-Habitat), New York.

# 11. Sustainable Development under Economic Constraints: MBIs and Environmental Fiscal Reforms

## 11.1 Introduction

The current challenges of macroeconomic management call for innovative solutions in all spheres of policy making. Environment policy is no exception. Environment policy in Sri Lanka is conventionally dominated by 'command-and-control' instruments based on regulations and standards. Globally, command-and-control instruments of environmental management have come under criticism due to their limited effectiveness, high cost of implementation, low economic efficiency, problems of sustainability and associated social issues. As a result, a growing enthusiasm for economic instruments for environmental management - also known as market-based instruments (MBIs) - can be observed even in developing countries. In a global context where traditional boundaries of 'economy' and 'environment' are fast becoming indistinguishable, environmental management cannot be disconnected from economic management, and vice versa. Hence, Sri Lanka needs serious consideration about MBIs as a potential means of achieving sustainable development goals vis-a-vis handling the environmental costs associated with them.

This chapter focusses on prospects for adopting MBIs in Sri Lanka and possible challenges. It begins with a review of concepts and practice of MBIs in the broader context of environmental policies. The review also covers emerging ideas about environmental fiscal reforms (EFR) that attract the attention of policy makers on sustainable development. It is followed by a brief account of the current policies of environmental management in Sri Lanka which is largely biased towards command-and-control instruments. However, there are some efforts to apply MBIs in Sri Lanka and experience suggests that significant challenges may be involved in introducing MBIs and EFR into the environmental policy arena in the country. The section, also offers some thoughts on ways for promoting MBIs and EFR so that environment policy can complement broad directions of macroeconomic management.

## 11.2 Market-based Instruments: Concepts and Practice

Environment policies are relatively a new development even in developed countries compared with other long-established branches of policy governance such as macroeconomic policies, industrial policies and agricultural policies. The idea of applying dedicated policies to overcome environmental

problems gathered momentum gradually with growing evidence about the negative consequences of economic growth on the environment, and increased scientific understanding of the interactive relationships between the economy and environment. However, understanding on the subject has grown rapidly over the last few decades and many innovative approaches have been proposed and tested. This section provides a brief survey of major policy approaches used for environmental management and key policy instruments practised under them. Broadly, three major types of policy approaches can be identified, namely:

- Suasive policies
- Command and control (CAC) policies
- Market-based policies (economic instruments)

## 11.2.1 Suasive Policies

Suasive policies are the least coercive type of instruments used for environmental management. This approach enlists soft instruments that are applied horizontally without hierarchical arrangements. The key instruments used include informational measures and voluntary commitments.

*Informational measures*: Informational measures are aimed at achieving conservation objectives by increasing awareness among the public on environmental issues and their consequences. Global days dedicated to various environment and natural resources (e.g., World Environment Day, World Water Day, World Ocean Day, World Ozone Day, etc.) are among the more general versions of suasive instruments, whereas eco-

**Environment policies are relatively a new development even in developed countries compared with other long-established branches of policy governance such as macroeconomic policies, industrial policies and agricultural policies.**

labelling represent specific, targeted instruments.

*Voluntary commitments*: These include actions taken by parties under their own initiative such as codes of conduct, environmental charters, public voluntary schemes (PSVs), etc., that lead to improvement of the environment.

The essential features of suasive instruments are lack or limited involvement of coercive elements and encouragement of individuals/ firms to take action on enlightened self-interest and/or heightened sense of social responsibility. Suasive instruments are usually a part of an overall portfolio of environmental policy instruments in all countries, and can be considered as complementary measures to command-and-control and market-based instruments.

## 11.2.2 Command-and-Control Policies

Command-and-control policies make up the bulk of environmental policies in many countries. There are two major ways of applying command-and-control policies, namely, regulations and standards.

*Regulations*: Regulations involve imposing controls/restrictions over parties that are responsible for environmental degradation. They usually involve policies aimed at protection and safeguard of environmental resources. Banning substances identified as causing harmful impacts on environment and human health (e.g., chloro fluoro carbons (CFC), persistent organic pollutants (POPs)); controlling the transport of hazardous substances; declaring protected areas for conservation of forest, wildlife and biodiversity, and; prohibition of harvesting/ use of endangered species are some examples of applying regulations as environmental management policy instruments.

*Standards*: Standards are another widely applied instrument to control environmental pollution and maintain the quality of environment. Unlike in the case of certain product quality standards where producers can voluntarily select whether to adopt standards depending on their commercial advantages, environmental standards usually come in connection with regulatory tools that demand the compliance of target groups of polluters. Standards can be set in different forms. The more prevalent types include:

- Ambient environmental quality standards: set maximum allowable limits of pollutants in air and/or water
- Emission/effluent standards: define the maximum level of concentration of pollutants from the source of pollution
- Process standards: define the standard requirements to be met by production processes to minimize environmental threats associated with them
- Product standards: establish required quality standards that need to be adhered by final products
- Technology standards: specify the type of technologies that need to be adhered for controlling a pollution problem

The success of command-and-control instruments depends on the level of compliance. Hence, command-and-control instruments essentially involve hierarchical systems of institutional governance with legal powers bestowed upon them by legislative enactments.

Maintaining such institutional structures needs considerable capital and recurrent expenditures that lead to persistent fiscal burdens on national, provincial or local government bodies. Moreover, problems of governance, inefficiencies and corruption usually associated with such hierarchical systems could significantly affect the effectiveness of command-and-control instruments to address the environmental problems that they were designed for.

## 11.2.3 Market-based Instruments (MBIs)

In contrast, MBIs are policy tools that create incentives for environmental management through the manipulation of market forces instead of applying coercive regulations. Unlike 'penalties' for non-compliance or 'environmental offences', in the case of MBIs polluters or 'exploiters' of resources are expected to bear the environmental cost of their actions in terms of payments or adjustments in the systems of ownership rights. Economists have developed a strong theoretical foundation based on market failure concepts to support the policy applications of MBIs. Many types of environmental pollution can be explained as externalities. Polluters use environmental resources free of charge to dispose waste and harmful by-products associated with their activities; the public good nature of many environmental resources makes them vulnerable to such abuses. Moreover, non-private property rights associated with environmental resources could expose them to 'over-exploitation' as there are no incentives for private individuals/firms to conserve them. The very same market failure argument has also provided the theoretical basis for coercive government interventions through command-and-control instruments. Instead, proponents of MBIs suggest taking an 'economic' approach through manipulating prices and ownership systems to correct market failures so that incentives are created to conserve environmental resources or to control their abuse.

There are a number of MBIs discussed in the literature, and some are actually being practised with varying degree of success. There are a few major types that have been discussed widely in the literature, namely; taxes and charges, payments for environmental services (PES), property right adjustments, creation of markets (e.g., tradable permits) and deposit/refund systems.

*Taxes and charges*: Taxes and charges can be applied in numerous ways to correct market failures associated with environmental resources. The most prominent examples are emission taxes or pollution charges. They imply charging taxes on a per unit basis of pollutants to internalize the cost of pollution, so that the private cost to polluters will encourage them to control their activities. This has been practised for different types of pollutants for some time now, especially in developed countries. Charges on pollution can be applied on variable forms; directly on loads of emissions/effluents, indirectly on units of output or use of inputs responsible for pollution. Moreover, taxes can be charged in variant forms such as user charges for garbage or wastewater disposal into public systems, and licensing or permit charges for pollution generating activities. Such charges are prevalent in many countries though they are not always connected to environmental costs associated with them. Another way is to apply differential taxes on products depending on

the level of environmental damage they cause.

*Payment for environmental services (PES)*: Applications of PES has the same logical foundation as taxes and charges; where environmental 'bads' are taxed, 'goods' should be rewarded. This is very appealing to environmental economists of all branches even though the practical applications of the concept are still limited, especially in developing countries. Some projects on PES applications have been pilot-tested in areas such as forest, soil and watershed conservation in several countries recently and they indicate mixed results. One major constraint that restricts the application of PES instruments in developing countries is difficulties in raising long-term funding facilities for rewarding environmental services on a sustainable basis.

*Property rights*: Given that some environmental resources are of a non-private nature - i.e., public goods, common property or open access resources - controlling access through the creation of rights systems (e.g., water rights, mining rights, fishing rights), permits or licensing is another way of applying MBIs for environmental management. The application of property rights as an MBI has been tested in natural resources such as fisheries, groundwater, minerals and forestry sectors.

*Creation of markets*: Instead of controlling pollution through regulations and standards, some countries have attempted to create markets for polluting rights and controlling these markets to maintain the total level of emissions within manageable limits. The prominent example is tradable emission permit systems that have been practised in a number of developed countries for different type of pollutants. Since the permits are issued to maintain the total emission within a ceiling, this instrument is also called cap-and-trade systems. Tradable catch quota systems practised in fisheries resources is another example.

*Deposit/refund systems*: Deposit-refund systems have been widely used in the case of recyclable materials such as glass and plastics for over a long period, even in developing countries. This helps to reduce the accumulation of loads of waste, encouraging recycling. Currently, the possibilities to apply deposit-refund systems to handle rapidly growing loads of electronic waste are being explored.

## 11.2.4 Environmental Fiscal Reforms (EFR)

Environmental Fiscal Reforms (EFR) identify a range of taxation and pricing measures that can be used for environmental management, while helping to raise fiscal revenues.[1] In essence, it does not refer to any particular type of instrument, but a range of environmental instruments that can be used as a fiscal policy tool to help macroeconomic management too. The EFRs are usually discussed in connection with MBIs, while fines, penalties and fees for non-compliance (e.g., fines on timber extraction) and visitor fees collected from protected areas (which are associated with command-and-

[1] OECD (2005), *Environmental Fiscal Reform for Poverty Reduction*. OECD Publishing, Paris, France.

control policies) also generate fiscal revenue despite administrative costs associated with them. However, the importance of MBIs for EFR can be highlighted as they are 'economic' instruments that can be handled more easily as a source of government revenue for fiscal policy management.

Three major types of benefits are commonly identified with EFR, namely; environmental benefits, fiscal benefits and poverty-reduction benefits. Environmental benefits that can be generated by EFR are pollution control (e.g., pollution taxes), improved natural resources management (e.g., taxes on resource use), safe disposal of waste (e.g., user fees) and mobilization of funds for investment in environmental management. Fiscal benefits from EFR include government revenue, reduced public finance burden for environmental management, and minimized economic distortions due to coercive government interventions. On the other hand, correctly designed system of EFR can be expected to generate poverty reduction benefits such as improved access to water, energy and other environment related facilities while releasing funds for pro-poor investments from otherwise costly investments on environmental management. Overall, the essence of EFR is managing a country's environment as an economic asset, internalizing the cost of externalities through taxes/charges, and raising the returns from environmental resources to reflect the true scarcity value of resources and user costs associated with them - not only for the present generation but also for future generations to come. Correspondingly, key instruments associated with EFR are as follows:

- Taxes and charges on pollution and waste (emission/effluent and garbage)
- Taxes on natural resources extraction and use (e.g., forestry, fisheries and minerals)
- Taxes and subsidy reforms to discourage environmentally harmful products (e.g., fuel subsidies, fertilizer subsidies)
- Reforms on user fees and prices of basic services (e,g., water, energy)

## 11.3 Environmental Policies in Sri Lanka

As in the case of many developing countries, environment policy in Sri Lanka is dominated by command-and-control instruments. The country's experience in managing environmental resources through regulatory measures dates back to the colonial era. It includes a multiplicity of regulations and standards aimed at addressing environmental problems. They can broadly be divided into two major categories as follows:

- Policy instruments aimed at managing the environment as a whole. The National Environment Act (NEA) is the cornerstone of Sri Lanka's national environment policy. It was introduced in 1980 as the key legislative enactment dedicated to the protection and conservation of environment in Sri Lanka. The Central Environment Authority (CEA) was established as the agency responsible for implementation of the NEA.

- Policy instruments aimed at issues relating to specific natural resources (e.g., forests, wildlife, minerals) and related economic sectors (e.g., agriculture, irrigation). Apart from the NEA, there is an accumulated body of Acts, Ordinances and regulations introduced to address sector specific issues from the colonial

period. These regulatory instruments are being handled by several line agencies. An early milestone was the establishment of the Forest Department in 1887 under the Forest Ordinance of 1885.

The institutional mechanism for implementing environment policies in Sri Lanka involves a complex arrangement of several line ministries and agencies. Sri Lanka has a separate ministry for the subject of environment since 1992 which is supposed to take the leadership in preparing the country to face environmental challenges. However, the scope of subjects under the ministry has changed regularly over time. Presently, the subject of environment is handled by the Ministry of Mahaweli Development and Environment which has ten line agencies listed under it: Central Environmental Authority, Forest Department, State Timber Corporation, Marine Environmental Pollution Authority, Geological Survey and Mines Bureau, National Gem and Jewellery Authority, Gem and Jewellery Research and Training Authority, Mahaweli Authority, Coast Conservation Department and Central Engineering Consultancy Bureau. In addition, the Ministry of Sustainable Development and Wildlife is looking after the subject of wildlife, with the Department of Wildlife Conservation, Department of National Zoological Gardens and Wildlife Trust listed under it.

## 11.3.1 The NEA and Environmental Management

The NEA provides an overall coverage for legal protection of the environment as a whole. The Act, together with multiple amendments and several regulations introduced under it, offers extensive powers to the CEA, especially for controlling various forms of pollution. These powers build the structural framework of command-and-control policy instruments used in environmental management in Sri Lanka. The main regulatory instrument used for managing industrial pollution in Sri Lanka is Environmental Protection Licences (EPL). Three types of licences are being issued for high polluting, medium polluting and low polluting industries that lay conditions for discharge of emissions/effluents to land, water and air. Pollution from vehicle emissions is being handled through mandatory emission tests linked to annual revenue licences. The CEA also handles procedures for managing scheduled (hazardous) wastes in Sri Lanka that needs special licences depending on the type of operation (e.g., waste generation, storage, disposal, etc.).

The CEA is vested with the powers to prepare and gazette environmental standards that are legally enforceable. Accordingly, a number of regulatory standards have been prepared to control air pollution, noise pollution and waste management. Despite the legal validity of these standards, ensuring their compliance is the major challenge since there are no effective monitoring mechanisms in place. Even though the CEA has authority to control pollutants such as pesticides also, given the non-point nature of pollution involved, the effectiveness of controlling them through regulatory measures appear to be limited. As a result, selective banning of pesticides has been the main strategy used for controlling pollution from agricultural sources.

Another important instrument enabled by the NEA is screening of investments at the project level through the Environmental Impact Assessment (EIA) procedure. Under this, all projects with potential environment impacts are subject to either an Initial Environmental Examination (IEE) or an EIA depending on the

nature and level of environmental impacts they involve.

## 11.3.2 Policy Instruments to Address Specific Natural Resource Issues

Apart from the NEA, there are a number of legislative enactments and regulations that deal with specific natural resources and environmental issues. The key policy challenges involved in major natural resource sectors, important legislative enactments, and line agencies responsible for implementing them are given in Table 11.1. It shows that despite the central role to be played by the Ministry of Environment and the CEA, institutional responsibility to manage different environmental and natural resource issues is scattered among several ministries, government agencies and local government bodies. For instance, the responsibility to manage solid waste is vested with local government authorities - Municipal Councils (MCs), Urban Councils (UCs) and Pradeshiya Sabhas (PSs). Their mandate covers collection, transport, disposal/treatment of garbage and disposal of wastewater as stipulated by the Municipal Ordinance, the Urban Council Ordinance and the Pradeshiya Sabhas Act. Currently, there are 309 local government bodies (15 MCs, 37 UCs and 257 PSs) that fulfil this mandate around the country.

Overall, the policy governance in environmental management in Sri Lanka is a complex business involving several line ministries/ agencies with specific command-and-control mandates; some are overlapping with each other. Despite a multiplicity of institutions, there are significant gaps in policy and institutional arrangements to address certain critical environmental issues. For instance, line agencies in the water resource sector are mainly responsible for the supply of water for irrigation, household and industrial uses, and their capacity for handling environmental issues such as watershed protection and water pollution is limited. In the land sector, the current system is mainly designed to look after allocation of state lands for various purposes without effective mechanisms for controlling land degradation. Even though the NEA provides the CEA with powers to interfere in problems such as land degradation, soil erosion and watershed protection, etc., it cannot deliver without effective mechanisms involving sectoral

**Overall, the policy governance in environmental management in Sri Lanka is a complex business involving several line ministries/ agencies with specific command-and-control mandates.**

**Table 11.1**
**Key Policy Challenges, Important Legislative Enactments and Line Agencies in Major Natural Resource Sectors**

| Area of the Legislation | Key Policy Challenges | Key Legislative Enactments | Main Responsible Agency |
|---|---|---|---|
| **Land resources** | Land degradation<br>Soil erosion<br>Decline of fertility<br>Non-agricultural land degradation<br>Land fragmentation and tenure issues | Soil Conservation Act<br>Land Settlement Ordinance<br>Land Development Ordinance<br>Land Surveys Act<br>Land Reform Act<br>National Environment Act | Department of Agriculture<br>Department of Land Settlement<br>Department of Land Commissioner General<br>Department of Survey<br>Land Reforms Commission<br>Central Environment Authority |
| **Water resources** | Rising water scarcity<br>Destruction of critical watersheds<br>Overexploitation of groundwater<br>Water pollution | Irrigation Ordinance<br>Water Resources Board Act<br>National Water Supply and Drainage Board Act<br>Mahaweli Authority Act<br>Agrarian Development Act<br>National Environment Act | Department of Irrigation<br>Water Resources Board<br>National Water Supply and Drainage Board<br>Mahaweli Authority of Sri Lanka<br>Department of Agrarian Development<br>Central Environment Authority |
| **Biodiversity, forestry and wildlife** | Deforestation<br>Degradation of forests<br>Threatened species and ecosystems<br>Loss of habitats<br>Invasive alien species<br>Human-wildlife conflict | Forest Ordinance<br>Fauna and Flora Protection Ordinance<br>National Zoological Gardens Act<br>Botanic Gardens Ordinance<br>National Environment Act | Forest Department<br>Department of Wildlife Conservation<br>Department of National Zoological Gardens<br>Department of National Botanic Gardens<br>Central Environment Authority |
| **Coastal and marine resources** | Coastal resource degradation<br>Coastal erosion<br>Coastal pollution<br>Destruction of coastal habitats<br>Marine pollution | Coast Conservation Act<br>Marine Pollution Prevention Act<br>Fisheries and Aquatic Resources Act<br>National Aquaculture Development Act<br>National Environment Act | Coast Conservation Department<br>Marine Environment Protection Authority<br>Department of Fisheries and Aquatic Resources<br>National Aquaculture Development Authority<br>Central Environment Authority |
| **Waste management** | Municipal solid waste<br>Hazardous waste<br>Urban wastewater<br>Accumulation of e-waste | National Environment Act<br>Municipal Ordinance<br>Urban Council Ordinance<br>Pradeshiya Sabhas Act | Central Environment Authority<br>Municipal Councils<br>Urban Councils<br>Pradeshiya Sabhas |
| **Air pollution** | Decline of air quality<br>Health impacts of air pollution | National Environment Act<br>Factories Ordinance<br>Motor Traffic Act | Central Environment Authority<br>Department of Labour<br>Department of Motor Traffic |
| **Mineral resources** | Overexploitation of resources<br>Land and forest degradation<br>Deepening of river beds and river bank erosion | Mines and Minerals Act<br>National Environment Act | Geological Survey and Mines Bureau<br>Central Environment Authority |

Source: Compiled by the IPS.

line agencies. Hence, the command-and-control architecture of environmental policies in Sri Lanka has several gaps in policy coverage and institutional coordination.

## 11.4 Use of MBIs as Environmental Policies: Sri Lanka's Experience

Despite the dominant position of command-and-control policies in environmental management in Sri Lanka, the country has some experience in MBIs as well.[2] A successful example is the application of deposit-refund systems (DRS) for certain types of used containers enabling their recycling (Box 11.1). Steele (1999) and the Ministry of Environment and Natural Resources (2008) have reviewed existing and potential applications of MBIs for environmental management in Sri Lanka.[3] Both reviews have identified cases where taxes/charges and subsidies were applied in relation to environmental resources and associated economic sectors (Table 11.2).

### Box 11.1
### Deposit-Refund Systems for Used Container Management

A Deposit-Refund System (DRS) is an MBI which can be used in waste management, particularly with regard to used containers. Apart from the environmental benefits, DRS can bring in many other benefits such as employment generation, reduction in cost of collection for recyclers, and health benefits due to reduction of vector borne diseases. There are examples from other countries (e.g., Netherlands, Finland) where a DRS has been applied effectively for used container management.

In Sri Lanka, it has been proposed to introduce DRS for several types of containers including PET bottles, beer and energy drink cans and pesticide containers. There were successful attempts on DRS for local arrack bottles and certain brands of soft drink bottles in Sri Lanka. These are voluntarily initiated approaches by the corporate sector and they show that application of DRS is practically possible in the country.

There have also been attempts by the government in regard to DRS. However, a Cabinet proposal to introduce DRS for pesticide containers in 2012 did not materialize. Similarly, application of DRS for yoghurt containers has also been limited to discussions so far. Proper facilitation by government agencies and private sector involvement is important for the continuation of such programmes.

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[2] Steele (1999) suggests that Sri Lanka probably has the first documented example of applying environmental taxes as reported in an Anuradhapaura inscription in AD 65 about levying tax for fishing in large tanks owned by the King.

[3] See Steele, P. (1999), "Market-based Instruments for Environmental Policy in Developing Countries: From Theory to Practice with a Case Study of Sri Lanka's Recent Experience", in Sterner, T. (ed.), *Market and the Environment: The Effectiveness of Market-based Policy Instruments for Environmental Reform*, Edward Elgar, Cheltenham, UK.; Ministry of Environment and Natural Resources (2008), "Development of Market-based Instruments for Environmental Management in Sri Lanka", Ministry of Environment and Natural Resources, Colombo.

**The command-and-control architecture of environmental policies in Sri Lanka has several gaps in policy coverage and institutional coordination.**

As seen in Table 11.2, multiple taxes are charged for vehicles and petroleum imports, where the major purpose is raising revenue for the government. These taxes are not aligned to create incentives for changing the behaviour of consumers to overcome environmental issues associated with the use of vehicles or petroleum fuels. For instance, differential tax rates applied for petrol and diesel do not reflect any logical basis from the side of environmental management. Lower tax rates are applied for diesel even though it is not an environment-friendly product. Diesel is the fuel used for public transportation and hence low tax rates on diesel are justified as a move to reduce the cost of living burden on low-income groups who use public means of transport. Hence, it involves a trade-off between environmental and poverty-reduction objectives.

Increasing block tariffs are charged for electricity and pipe-borne water for domestic users. The block structure has been designed to discourage the overuse of electricity and water as large-scale users are charged at higher unit rates over and above block threshold limits. Hence, the price structure gives some incentive for conservation of energy and water. In the power sector, this has encouraged the use of energy saving technologies such as CFL bulbs, LED lighting and solar net metering. Moreover, this structure helps small-scale users, usually low-income earners, to manage their energy and water consumption bills at relatively lower levels. Hence, the pricing system of electricity and pipe-borne water supply has some beneficial features in terms of environmental and poverty-reduction benefits. However, suppliers of both services are state agencies that have reported persistent losses to be financed by tax revenues. Controlling the cost of living for masses is the justification given for keeping these utilities under state monopoly, disregarding inefficiencies that imply their services are undercharged. In the case of pipe-borne water, the services presently cover only a small segment living in urban areas. Limited coverage of pipe-borne water in the face of increasing water pollution and associated health problems implies negative impacts for the majority of people that do not have access to pipe-borne water.

No user charges are levied for irrigation and this leads to overuse of scarce water supply. Even though free irrigation provides some relief to a large number of small farmers, this relief is offered at a significant fiscal burden to the government for development and maintenance of facilities. A similar situation exists in the case of land and fisheries resources too. They do not involve any charges for services, or taxes to

control externalities associated with agriculture and fishing activities except for nominal licence/ permit fees. Such nominal payments cannot either change the behaviour of users in favour of conservation of resources or support effective management programmes to prevent resource degradation. Legal provisions available under the Soil Conservation Act and the Fisheries and Aquatic Resources Act are largely ineffective. As a result, land and fisheries resources are subject to rapid degradation, seriously limiting the ecosystem services available for future generations.

No charges are involved in the case of collection and disposal of solid waste and sewage too. These services are maintained with a direct fiscal burden on government/local authorities and the service quality is extremely poor. Poor quality of services for garbage and sewage collection/disposal has led to a host of environmental problems that are affecting the poor more than the rich.

Growing evidence from scientific studies suggest that air and water pollution levels in many locations across Sri Lanka exceed the allowable limits stipulated by respective ambient quality standards. This implies air and water resources are overused, discharging effluent/emissions from industrial activities and vehicles. In other words, no effective pollution control is provided by the current system of EPL for polluting industries and mandatory emission tests for vehicles.

The following observation can be made about taxes, charges and pricing systems currently applied for environmental resources and associated economic sectors.

- Some taxes and charges have been adopted for revenue purposes alone, and they have not been designed to encourage behavioural changes favourable for controlling pollution or conservation of resources.
- Pricing systems of electricity and water supply offered by state monopolies have some beneficial features that encourage resource conservation. However, as sources of government revenue, they have become failures.
- Some services relating to environmental management are offered at free of charge or subsidized rates. As a result, the quality of services remains poor, and they have failed to achieve their objectives, resulting in a fiscal burden to the government and environmental problems for the poor.
- No charges or taxes are applied to control resource degradation in land, water and fisheries resources, except certain nominal payments. Even though regulatory instruments are available, they fail to control rapid resource degradation taking place in these sectors.

Overall, even though there are taxes, charges and pricing systems applied in sectors relating to environment, many of them cannot be considered as true MBIs designed for environmental management. Considering this situation, the Ministry of Environment and Natural Resources (2008) has proposed certain recommendations to develop an effective system of MBIs that can also lay the foundation for successful EFR. Some of the key recommendations are:

- Introduction of user charges for the collection and disposal of waste and wastewater.

**Table 11.2**
**Taxes, Charges and Pricing Systems Applied in Environmental Resources and Associated Economic Sectors**

| Sector | Taxes/Charges/Subsidies | Perceived Outcomes (Direct/Indirect; Negative/Positive) | | |
|---|---|---|---|---|
| | | Fiscal Revenue/Cost | Environmental | Poverty /Livelihood |
| **Energy** | | | | |
| Electricity | Increasing block tariff with variable and fixed charges | Partial cost recovery at undercharged rates | No direct environmental benefit users | Subsidized rates for small |
| Petroleum | Excise duty | Income for government | No direct environmental benefit | |
| **Transport** | | | | |
| Vehicles | Import and excise taxes<br>Cess<br>Luxury vehicles tax<br>Revenue license | Income for government | No direct environmental benefit<br>Indirect due to increased vehicle prices | No direct impact on poor |
| Roads | No user charges involved<br>Toll fee collected from highways | Financed by national and local budget | Poor state of repair and maintenance | Free use of road facilities |
| **Water** | | | | |
| Domestic pipe - water borne | Increasing block tariff with variable and fixed charges | Partial cost recovery at undercharged rates | Health cost of non-users due to slow expansion of services | Subsidized rates for small users |
| Irrigation | No user charges involved | | Overuse of water | |
| **Pollution & waste** | | | | |
| Emissions | Fees for environmental protection licenses /mandatory vehicle emission tests | Partial cost recovery | Pollution control | No direct impact on poor |
| Effluents | Environmental protection license fees | Partial cost recovery | Pollution control | No direct impact on poor |
| Solid waste | No user charges involved<br>budget | Financed by national and local investment | Poor service quality due to low suffer due to poor service | Low-income neighbour-hoods to |
| Sewage | No user charges involved | Financed by national and local budget | Poor service quality due to low investment | Low-income neighbourhoods to suffer due to poor service |
| **Agriculture** | | | | |
| Land | Acreage tax | Proceeds to agrarian development | No direct environmental benefit. | Nominal taxes. Benefits back to farmers |
| Fertilizer | Fertilizer subsidies | Financed by national budget | Environmental degradation due to overuse of fertilizer | Subsidized prices for small farmers |
| **Fisheries** | | | | |
| Boats and gear | Annual license fees for boats, gear and fishing operations | Partial cost recovery | | Nominal rates for small operators |
| Fuel | Fuel subsidies (discontinued) | Partial cost recovery | | |

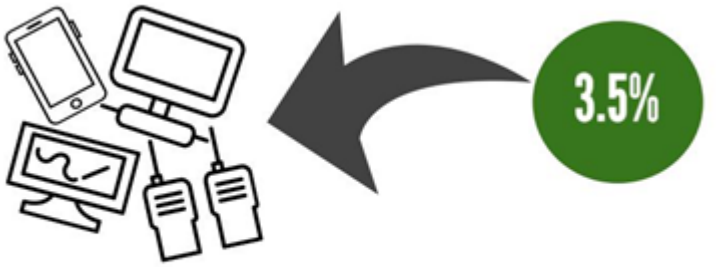
Source: Compiled by the IPS using Ministry of Environment and Natural Resources (2008) and Steele (1999).

## Box 11.2
## Extended Producer Responsibility for E-Waste Management

Of the entire amount of e-waste generated annually in Sri Lanka, only 3.5 per cent is disposed under the e-waste management programme of the CEA. In order to minimize the health and environmental costs of e-wastes, there should be an effective approach to manage them properly. At present, the e-waste collecting mechanism in Sri Lanka includes both formal and informal entities. The formal sector represents companies registered with the CEA, and the informal sector includes small to medium collectors who operate without guidelines and licences. There are certain regulatory mechanisms under the National Environmental (Protection & Quality) Regulation No. 01 of 2008. The CEA's e-waste programme is carried out based on voluntary participation. A survey undertaken by the Ministry of Environment has shown that a lack of proper awareness is a key issue in e-waste management in Sri Lanka, where many individuals do not know the real environmental and health costs of e-waste. Secondly, the absence of a monitoring system, especially for the informal sector, is another key issue.

In order to overcome the existing gaps, the Ministry of Mahaweli Development and Environment has proposed an MBI based on the principle of Extended Producer Responsibility (EPR). In this approach, the producers are given the responsibility of collecting e-waste in an environmental-friendly manner, while consumers are motivated to handover the obsolete equipment to sellers. Since there are no producers in relation to electronic equipment in Sri Lanka, it takes the form of an Extended Trader Responsibility approach. Accordingly, a fee (depending on the value of the equipment) is to be charged from the consumer at the time of sale. Remuneration can be redeemed with a market interest of the fixed deposit at the time of handing over the equipment to the trader after the end of its useful life. The system will establish a unique ID for each unit of equipment, allowing for transferring the ownership of the equipment to any number of users from the first buyer. The functioning of the system will be based on a password and electronic card to facilitate the end user to handover the obsolete equipment to any trader in Sri Lanka, while realizing cash (with interest or using it as a part of payment for any new equipment). However, there is still much to be done in regard to setting the legal framework for this mechanism and creating awareness. In effect, this is also a form of DRS designed for durable electronic goods, involving long-term handling of deposits with payments of interest.

- Introduction of water effluent tax and water extraction taxes for groundwater and surface water.
- Adoption of cost based prices for all products, inclusive of external costs.
- Redesigning the electricity and water supply tariffs in accordance with the full cost recovery principle.
- Disconnecting environmental taxes and user charges from social concerns, and addressing problems of the poor through well targeted subsidies.
- Establishment of an Environmental Fund to administer revenues expected from implementation of various MBIs.




Of the entire amount of e-waste generated annually in Sri Lanka, only 3.5 per cent is disposed under the e-waste management programme of the CEA.

These recommendations have not been adopted so far despite some discussions about them. Meanwhile, the Ministry of Environment has come up with new proposals for introducing MBIs. Details about a DRS for managing e-waste, based on the principle of Extended Producer Responsibility (EPR), is given in Box 11.2.

## 11.5 MBIs and EFR: Some Thoughts on the Way Forward

In spite of potential improvements that can be expected from adopting MBIs for environmental management and EFR in Sri Lanka, establishing a viable system may need long-term preparation. So far, the enthusiasm shown by policy makers in the environment sector has not been matched by other key stakeholders, including policy makers involved in macroeconomic management. A major challenge involved here is overcoming the barrier of public perceptions which seem to be yet unprepared to view MBIs in realistic terms. One reason for abandoning the proposed

**A major challenge involved is overcoming the barrier of public perceptions which seem to be yet unprepared to view MBIs in realistic terms.**

**The introduction of MBIs should be done through a fully transparent process to avert adverse publicity.**

National Water Policy in the early part of this century was the public allegation that it plans to charge taxes on water use. Long-nurtured offering of subsidies and free public services for small farmers, urban poor and other local resource users (e.g., fishers) is also closely connected to this situation. As a result, charging any payments in the form of taxes or user charges from those categories seems to be socially unwarranted, even in the light of ample evidence on resource degradation. Many civil society activists who champion the cause of environmental conservation also do not appear to view MBIs in a favourable light. Instead, they have often favoured the introduction of more stringent command-and-control instruments and strict implementation of existing regulations and standards. This situation has compelled politicians too to take a cautious approach, considering the political sensitivities involved.

Hence, the adoption of MBIs and EFR should be gradual and strategic. There should be well-designed awareness campaigns prior to 'pre-announcements' allowing time for stakeholders to adapt to the system in advance. The process of introduction should be initiated with interventions that would attract low public resistance. Instruments that can involve participated on a voluntary basis (e.g., DRS) may be given priority in the initial stage. Moreover, the introduction of MBIs should be done through a fully transparent process to avert adverse publicity, where authorities should be prepared to make amendments in a constructive manner whenever necessary in response to public views. More than anything else, a successful demonstration of effectiveness and public benefits from early interventions - ideally carried out in the Sinhala and Tamil media - would be the best advertisement for the long-term success of MBIs.

# 12. Role of Economic Incentives in Financing Agricultural Investments

## 12.1 Introduction

Sri Lanka needs accelerated agricultural growth to meet growing consumer demand for food, as well as to pull people out of poverty in rural areas of the country. Whether this dual burden was satisfactory addressed by sectoral policies adopted during different economic policy paradigms is still open to debate. The country has seen mixed results in relation to both food production and consumption; aggregate consumption of all major food groups has increased over the years. Domestic production and food imports too have increased; the former accounts for nearly 80 per cent of aggregate food consumption, while the value of food imports has grown in absolute terms even though its share in total imports has remained constant over time.

While expansion of local food production is due to both area expansion and yield enhancement, more disaggregated analysis shows that output of other field crops has been overshadowed by rice production. For example, movements in annual crop areas over time indicate that rice is the only crop that has increased sharply. A similar relationship prevails in the contribution of yield enhancement of rice relative to the other field crops due to recent yield stagnation of the latter. Moreover, Sri Lankan farmers who are price takers face severe price discrimination as shown by flat long run trends with short run fluctuations in real producer prices, even with ever increasing retail food prices. This low productivity and sluggish producer prices, combined with small farm sizes averaging at 0.48 ha,[1] do not provide adequate income for farmers to meet their basic consumption needs, let alone investment on farm improvements.

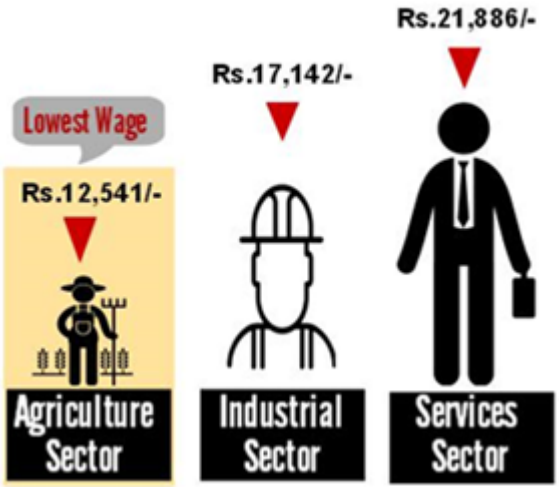
These trends do not support food security or poverty reduction efforts to any degree in Sri Lanka, especially in the rural agricultural sector that employs around 30 per cent of the labour force. This is clearly evident in indicators relevant to both food security and poverty. The depth of hunger for Sri Lanka in 2014 was 216 kcal/capita/day, indicative of a medium level food deficit among undernourished children;[2] the wage rates in the agriculture sector are the lowest, averaging Rs. 12,541 per earner per month compared to the industrial (Rs. 17,142) and services (Rs. 21,886) sectors.[3] While poverty rates in the agricultural sector halved between 2006/07 and 2009/10, and remained

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[1] DCS, *Census of Agriculture 2002*, Department of Census and Statistics, Colombo.

[2] Depth of hunger, which is the difference between the minimum and the average dietary energy intake of the undernourished population, indicates by how much food deprived people fall short of minimum food needs. The depth of food deprivation is medium when it is 200 to 300 (Global Hunger Index 2014).

[3] DCS, *Labour Force Survey 2012*, Department of Census and Statistics, Colombo.




Agricultural investment is one of the most important and effective strategies for economic growth and poverty reduction in rural areas where the majority of the agrarian poor live.

at 8 per cent in 2012/13,[4] this is a result of short run producer price fluctuations owing to food price inflation that occurred globally in 2008 rather than a result of potentially sustainable drivers of growth. Under these circumstances, agriculture survives primarily due to direct and indirect support measures such as free irrigation, a massive fertilizer subsidy, support prices for rice and ad hoc trade protection measures for selected crops that are provided by the government to partly alleviate lack of alternative employment opportunities in the non-farm sector.[5]

Agricultural investment is one of the most important and effective strategies for economic growth and poverty reduction in rural areas where the majority of the agrarian poor live. Sri Lanka is indeed blessed with myriad of opportunities to strengthen its agricultural sector that include its strategic location, a growing middle class, and increased tourist arrivals. However, there is global concern about the challenges of financing agricultural development across the developing world; the amount of investment needed to achieve acceptable levels of agricultural growth far exceeds the current trends in investment in agriculture by governments and donors.[6] Fiscal constraints in Sri Lanka have already led to a

[4] World Bank (2015), *Poverty in Sri Lanka: Recent Progress and Remaining Challenges*, World Bank, Washington, D.C.

[5] Weerahewa, J., M. Thibbotuwawa, and P. Samaratunga (2015), *Dynamics of Transforming Agriculture in Sri Lanka: Trends, Challenges and Opportunities*, AERA Conference on Transforming Agriculture in Asia, Mumbai, India, 2-4 December, 2015.

[6] Hazell, P. *et. al*. (2011), "Key Issues in Promoting Increased Investments in Agriculture", Technical Workshop on Policies for Promoting Investment in Agriculture, FAO, Rome, 12-13 December, 2011.

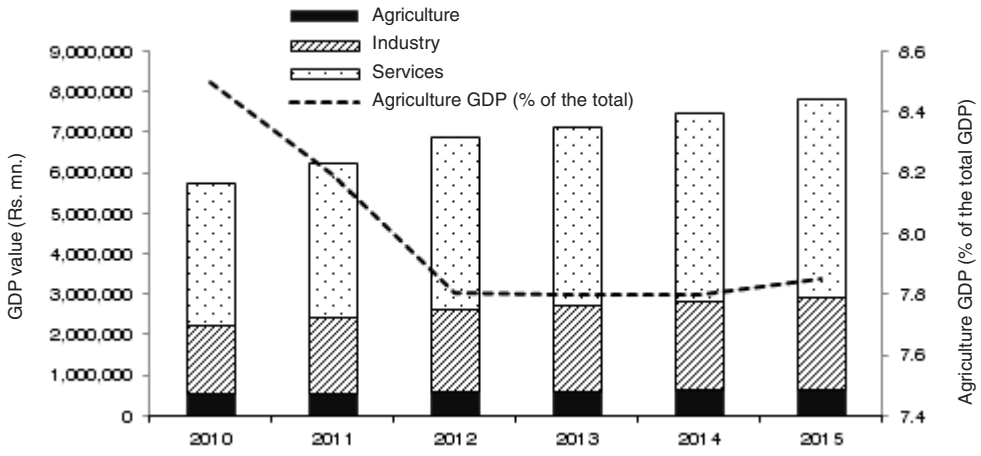
marked reduction in government investment in agriculture. Given the scope of the challenges, identifying innovative economic incentives to leverage the existing resources in a more efficient way and to reverse the decline in investments for agriculture in Sri Lanka are the main focus areas of this chapter.

## 12.2 Agriculture Sector in the Economy

Sri Lanka's agricultural sector is dualistic in nature in that it comprises of a well-developed export-oriented plantation sector and a less developed, partially market-oriented food crop production sector. The former produces tea, rubber, and coconut in medium to large estates while the latter producers rice, subsidiary food crops, and vegetables and fruits in predominantly small holdings. A significant transformation has taken place within the agricultural sector in terms of commercialization of the food crop sector with heavy public investments. With these developments, agriculture remains a vital sector in the economy through the provision of income, employment, foreign exchange, food and raw materials.

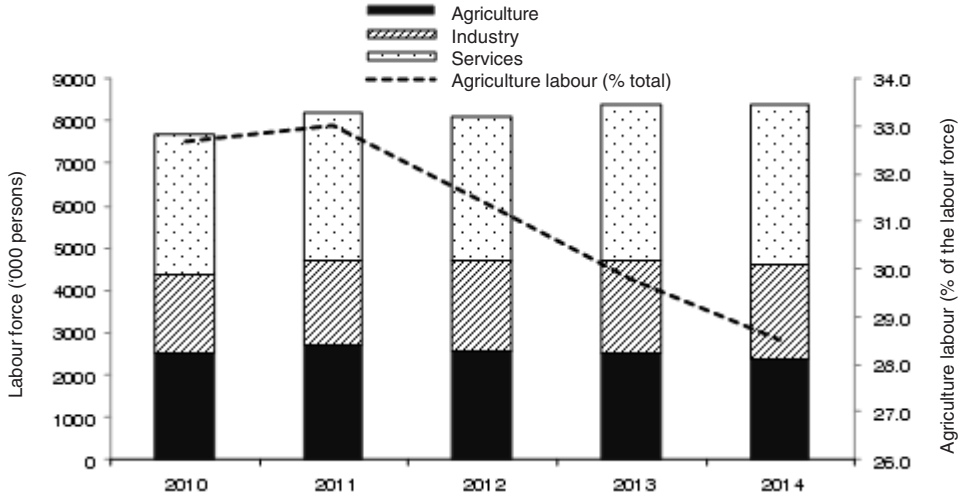
Despite the growth of agricultural GDP over the past few years, its share in total GDP has declined until 2012 and then, become fairly constant since (Figure 12.1). The share of agricultural GDP from total GDP was 8.5 per cent in 2010. This moderate contribution dipped further to 7.9 per cent in 2015 due to faster growth rates recorded by industry and services sectors. Since 2010, the agriculture sector grew at a rate of 4.4 per cent on average. By contrast, industrial and services sectors have shown much higher growth rates of 5.8 per cent and 6.9 per cent, respectively, for the same period. The decline in agriculture's contribution to GDP whilst contributing to absorb a larger share of employment is raising concerns about its productivity and the future role of agriculture in Sri Lanka's economic growth.

**Figure 12.1**
**Agriculture Contribution to GDP (2010-2015)**




Source: CBSL, *Annual Report,* Central Bank of Sri Lanka, Colombo, various years.

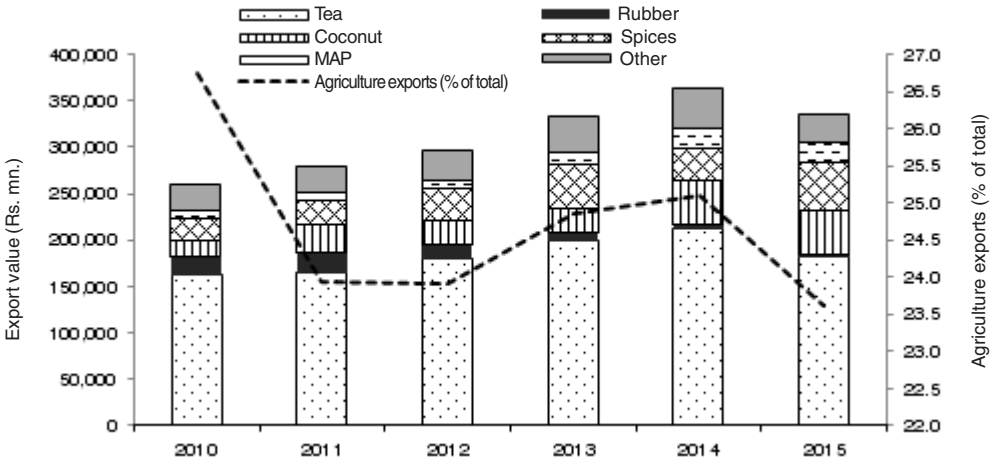
**Figure 12.2**
**Agriculture Contribution to Employment (2010-2015)**




Source: CBSL, *Annual Report,* Central Bank of Sri Lanka, Colombo, various years.

Agriculture still continues to be a significant source of employment and livelihood, accounting for 28.2 per cent of the employed in 2015 (Figure 12.2). The largest shares of employment generation come from rice and tea - the two dominant sectors in the non-plantation and plantation sectors, respectively. Further, the sector utilizes 43.7 per cent of the country's total

**Figure 12.3**
**Agriculture Export Diversification (2010-2015)**




Source: CBSL, *Annual Report,* Central Bank of Sri Lanka, Colombo, various years.

land area,[7] and remains the mainstay of the rural economy in Sri Lanka.

Earnings from agricultural exports too have not experienced a healthy growth in the past decade; low volume growth in exports and limited value addition are part of the problem. However, all the major agricultural exports, except rubber, have shown positive growth during 2010-15; export earnings have increased in value terms, with the share of agricultural exports in total exports hovering around 25 per cent during 2010-15 (Figure 12.3). Diversifying export commodities and adding value to exports is important. However, Sri Lanka's agricultural exports are still limited to a few traditional products and others such as spices, vegetables and fruits, with some processing.

Table 12.1 shows the availability of major food commodity groups categorized by domestic production and imports in 2014. Domestic agriculture still provides more than 80 per cent of Sri Lanka's food requirement in value terms. Even at individual commodity level, local production of all major food items except for sugar, pulses, canned fish and milk powder which are imported in bulk quantities exceeds 70 per cent of the total availability (Table 12.1).

## 12.3 Trends in Government Expenditure on Agriculture

Despite the importance of the agriculture sector for the Sri Lankan economy, it is yet to realize its full potential. Thus, the agriculture sector could be viewed as a sector that needs further economic and social development. The means to achieve this is primarily through

**Table 12.1**
**Food Availability in Sri Lanka by Major Food Groups (2014)**

| | Production Quantity ('000 mt) | % | Gross Import Quantity ('000 mt) | % |
|---|---|---|---|---|
| Cereals | 4,835.36 | 90.3 | 522.03 | 9.7 |
| Roots, tubers & other starchy food | 421.87 | 77.4 | 123.2 | 22.6 |
| Sugar | 54.86 | 9.2 | 538.97 | 90.8 |
| Pulses & nuts | 69.02 | 30.0 | 161.23 | 70.0 |
| Vegetable (including onions) | 1,055.71 | 85.1 | 184.26 | 14.9 |
| Fruits | 609.81 | 90.7 | 62.48 | 9.3 |
| Meat | 162.05 | 98.3 | 2.77 | 1.7 |
| Eggs | 92.81 | 100.0 | 0 | 0.0 |
| Fish | 512.84 | 97.0 | 15.84 | 3.0 |
| Dried fish | 68.2 | 64.5 | 37.61 | 35.5 |
| Tinned fish | 1.1 | 4.9 | 21.84 | 95.1 |
| Fresh milk | 278.0 | 100.0 | 0 | 0.0 |
| Whole dried milk | 11.6 | 11.4 | 89.91 | 88.6 |
| Oil & fats (including coconut) | 939.4 | 98.1 | 18.54 | 1.9 |
| Total | 9,134.7 | 83.7 | 1,779.21 | 16.3 |

Source: Department of Social Protection, "Food Balance Sheet 2013/14".

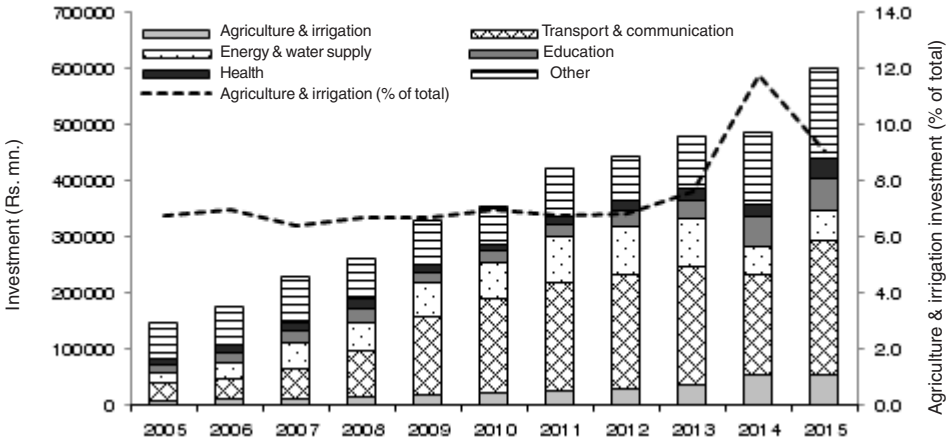
[7] http://data.worldbank.org/indicator/AG.LND.AGRI.ZS.

enhancement of agricultural productivity via increased investments.

The World Bank has noted that GDP growth in agriculture has been at least twice as effective in reducing poverty as growth originating in other sectors.[8] The regions of the world where hunger and poverty are most widespread today have seen stagnant or declining rates of agricultural investment over the past three decades. Eradicating hunger in these regions, alleviating agrarian poverty and increasing food production requires substantial increases in the level of investment in agriculture. The Food and Agriculture Organization (FAO) estimates that the yearly investment in agriculture needs to rise by more than 50 per cent in low and middle income countries.[9]

Since Sri Lanka's independence, investments on agriculture occupied a priority position in the country's public investment programme. The policy of expanding agriculture in the dry zone through heavy public investment on irrigation development and land settlement continued for over half a century from pre-independence era to the late 1980s, when the final stages of the Accelerated Mahaweli Development Project (AMDP) were completed.[10] Around 45 per cent of agricultural land is provided with irrigation facilities sourced by surplus water from the wet zone through a complex system of river diversion schemes. The simultaneous promotion of green revolution technological package of high-yielding-varieties (HYVs), inorganic fertilizer, farm machinery and agro-chemicals helped to increase food crop productivity significantly. The government invested on research and extension facilities to develop and promote HYVs and offered subsidies for purchasing fertilizer imported by public and private companies.

**Figure 12.4**
**Public Investments 2005-2015**




Source: MOFP, *Annual Report*, Ministry of Finance and Planning, Colombo, various years.

[8] World Bank (2008), *World Development Report: Agriculture for Development*, World Bank, Washington, D.C.

[9] Syed, S. and M. Miyazako (2013), "Promoting Investment in Agriculture for Increased Production and Productivity", Food and Agriculture Organization, Rome.

[10] AMDP was the biggest and the last major multipurpose (irrigation-land settlement-hydro power) river diversion scheme implemented in Sri Lanka.

Over the last decade or so, public investment has focused more on economic and social development projects such as roads, ports, expressways, bridges, etc. Currently, a high percentage of public investment goes to the transport and communication sector followed by energy and water supply, agriculture and irrigation, education, health and other investments. The investment on agriculture and irrigation increased gradually over the past ten years (Figure 12.4). Official estimates on agriculture and irrigation investments remained in the range of 6-7 per cent of government capital expenditure during the recent period. During 2014 and 2015, agriculture and irrigation investments saw higher shares of 11.7 per cent and 9 per cent, respectively, of government capital expenditure.

In 2015, the amount of agriculture and irrigation investment was Rs. 54,447 million of which a higher percentage was spent on irrigation development followed by fertilizer subsidy, plantation development and crop cultivation subsidies. Public investments in the agriculture sector are composed of food crops (41 per cent), plantation (27 per cent), fisheries (10 per cent), livestock (6 per cent) and export agriculture (6 per cent). The main public investment in the food crop sector is the fertilizer subsidy. Apart from that, public investments are on quality seeds and planting materials, research and extension, and for land sector development. These have typically been the core elements of public interventions on agriculture investments in Sri Lanka, and all other efforts such as guaranteed price schemes, cultivation loans, etc., can be considered as ancillary to this core strategy.

# 12.4 Is Sri Lanka's Agricultural Investment Focused in the Right Direction?

This section briefly reviews the major investments and incentives in the agricultural sector in order to identify their strengths and weaknesses for sustainable development in the sector. The main focus areas include irrigation, R&D, fertilizer subsidy, and guaranteed price scheme.

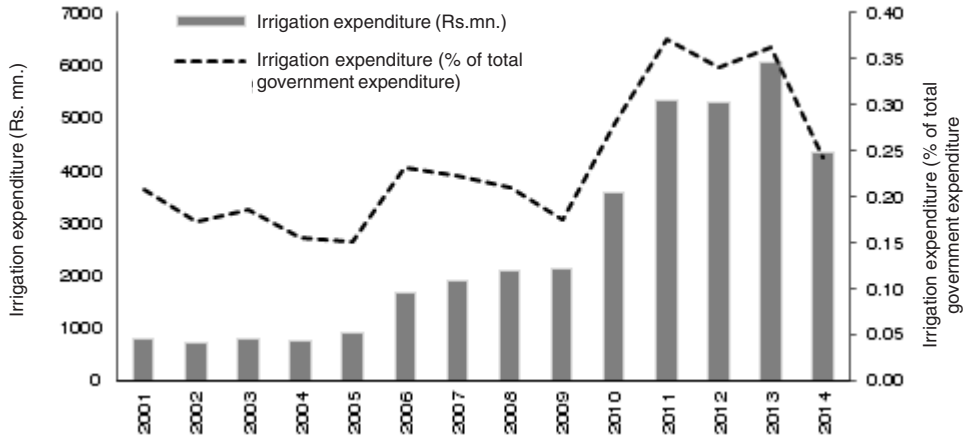
## 12.4.1 Irrigation Development

Sri Lanka being a predominantly rice based agricultural economy has historically been heavily dependent on irrigation and as a result, the country has been endowed with a sophisticated irrigation infrastructure. Public investments on irrigation infrastructure had been a major focus in agricultural policy even in the pre-independence era.

Successive governments invested in large-scale irrigation projects, and farmers received irrigated water for free. There are two main types of irrigation schemes in Sri Lanka; 'major irrigation' which comprises at least 650 ha of irrigated land fed by a relatively large reservoir and a network of canals, and 'minor irrigation' which consists of smaller tanks and small stream diversion projects.[11] The two types of irrigation systems are handled by separate government agencies. The Irrigation Department and the Mahaweli Authority are responsible for managing major irrigation systems. The Agrarian Development Department has a stake

[11] See IPS (2006), "Agricultural Reforms, Irrigation Water Charges and Land Policy" in *Sri Lanka: State of the Economy 2006*, Institute of Policy Studies of Sri Lanka, Colombo.

**Figure 12.5**
**Irrigation Investment Expenditure**




Source: Department of Irrigation, "Annual Administrative Reports", various years.

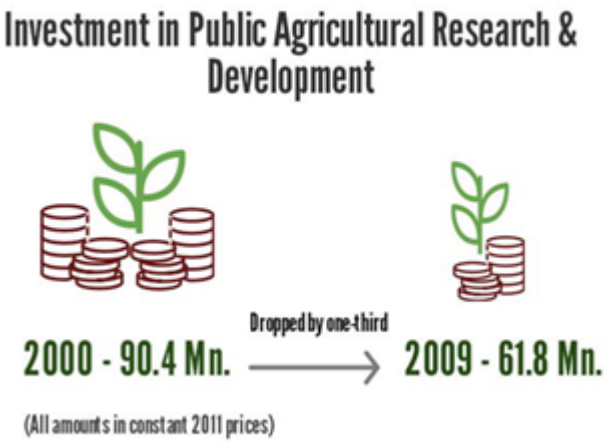
in the management of minor irrigation systems. In all, public irrigation investment can be categorized into three aspects namely, new constructions, rehabilitation of existing constructions, and operation and maintenance of existing facilities. Expenditure on irrigation management shows an increasing trend over the last decade (Figure 12.5).

Owing to this structural and organizational setting, Sri Lanka's irrigated agriculture sector currently faces two major problems; inefficiency of irrigation water utilization and the rising budgetary burden of providing irrigation water. Both these factors point to the need for some form of charging, or pricing, of irrigation water. It was suggested by the World Bank in 1996 that Sri Lanka should stop subsidizing irrigation water and introduce a water charging scheme in order to minimize inefficiency of water use and recover the budgetary expenditure on irrigation.[12] These major schemes are plagued by inefficient and wasteful use of water, largely due to its free provision by the state. On the other hand, large sums of capital have been invested initially on these projects and a substantial recurrent expenditure on operation and maintenance (O&M) is being incurred every year. Due to the absence of a mechanism of cost recovery, it is imposing a heavy burden on the public budget which is worsening over time.

## 12.4.2 Research and Development (R&D)

The major share of agricultural R&D is still met by public funds. All national agricultural research institutes, except the four plantation institutes, are almost entirely financed by the government. Government funding is supplemented with a few research grants from local and international sources. However, Sri Lanka's progress in agriculture research in recent decades appears to be slow. A major

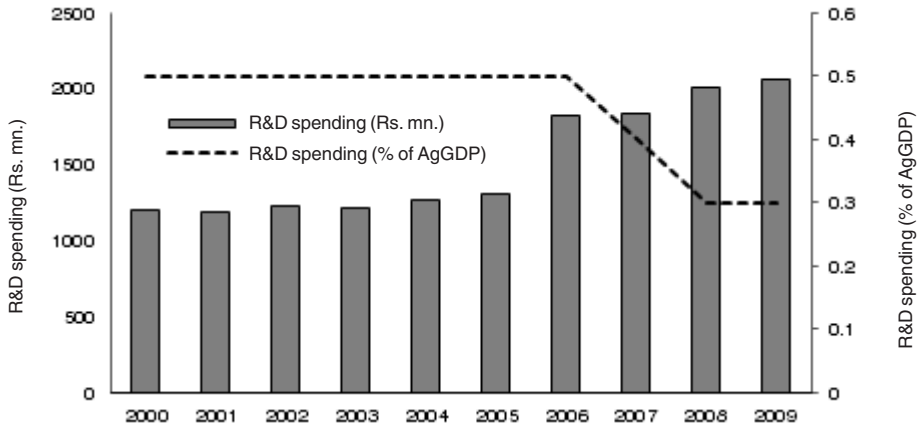
[12] World Bank (1996), *Sri Lanka: Non-plantation Crop Sector Policy Alternative,* World Bank, Washington D.C.




reason is lack of investments on research and brain drain. R&D expenditure has increased only marginally since 2000. However, there has been a sharp decline in R&D expenditure on agriculture from 0.5 per cent of agricultural GDP in 2000 to 0.3 per cent in 2009 (Figure 12.6). Investment in public agricultural R&D dropped by one-third from Rs.3.5 billion (or 90.4 million 2011 PPP dollars) in 2000, to Rs. 2.4 billion rupees (or 61.8 million PPP dollars) in 2009 (all amounts in constant 2011 prices).[13]

The reason for the decline in public agricultural R&D expenditures is twofold. First, the country's security situation pressed the government to divert resources toward combating civil unrest at the expense of other public causes. Second, revenues from a CESS on the production and export of plantation crops were gradually channelled away from R&D.[14] However, state intervention is required to promote effective R&D in agriculture as R&D in the agriculture sector shows public good characteristics.

**Figure 12.6**
**Investment Expenditure on R&D**

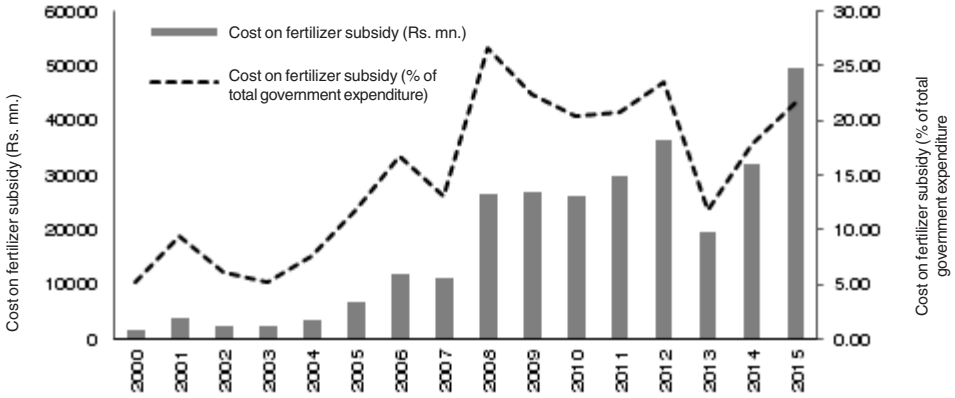



Source: Agricultural Science and Technology Indicators, available at http://www.asti.cgiar.org/sri_lanka.

[13] http://www.asti.cgiar.org/sri_lanka

[14] Girihagama, P. *et. al*. (2012), "Recent Developments in Public Agricultural Research in Sri Lanka: Country Note", Agricultural Science and Technology Indicators (ASTI), IFPRI.

**Figure 12.7**
**Actual Expenditure on Fertilizer Subsidy Programme**




Source: CBSL, *Annual Report,* Central Bank of Sri Lanka, Colombo, various years.

## 12.4.3 Fertilizer Subsidy

The fertilizer subsidy scheme was started in 1962 as a price subsidy. Its main objective was to increase productivity by encouraging the use of fertilizer. Fertilizer is a variable input and represents a variable cost rather than a capital investment in farmers' budgets. However, as a public expenditure, the fertilizer subsidy can be considered as an investment for maintaining the productive capacity of the country's agricultural land. Public investment on the fertilizer subsidy programme saw a remarkable increase during the last decade (Figure 12.7).[15]




Over the years, there have been several changes to the fertilizer subsidy programme in terms of price, type of fertilizers subsidized, crops that received the subsidy and the method employed - i.e., whether a fixed or variable subsidy (Box 12.1).[16] Several drawbacks have been identified in the process; these include selling subsidized fertilizer, limited storage and transport facilities,

[15] 2013 saw a sharp reduction in the fertilizer subsidy as a result of excess fertilizer stocks due to bad weather in 2012. In 2014, expenditures on fertilizer picked up again as arrears to importers in 2013 were paid off.

[16] Herath, H.M.K.V. *et. al*. (2013), The Impact of *"Kethata Aruna"* Fertilizer Subsidy Programme on Fertilizer Use and Paddy Production in Sri Lanka", *Tropical Agricultural Research,* 25(1).

**Box 12.1**
**Major Milestones in the Fertilizer Subsidy Programme**

| | |
|---|---|
| 1962: | Introduced fertilizer subsidy programme. Fertilizer subsidy was given for Urea, Sulphate of Ammonia, Muriate of Potash (MOP) and Triple Super Phosphate (TSP) at different rates according to the type of crop. |
| 1975: | Introduced a uniform subsidy scheme for all crops, but the subsidy rates varied according to the type of fertilizer. |
| 1983: | Introduced a fixed fertilizer price (variable subsidy programme). |
| 1988: | Removal of subsidy for some selected fertilizer types (Sulphate of Ammonia, Rock phosphate). |
| 1990: | Removal of fertilizer from all sectors of agriculture due to heavy burden on the government budget. |
| 1994: | Re-introduced subsidy for Sulphate of Ammonia, Urea, TSP and MOP. |
| 1997: | Removal of subsidy for all fertilizers except for Urea. |
| 2004: | Fixed retail price on fertilizer until December 2005. |
| 2005: | Introduced 'Kethata Aruna' fertilizer subsidy programme. In this only paddy farmers received a packet of fertilizer (50 kg) for Rs.350. This packet included Urea, TSP and MOP. |
| 2011: | 'Kethata Aruna' programme was extended to provide 50 kg fertilizer bag for Rs. 1200 for all the other crops. |
| 2016: | Provide fertilizer subsidy as an allowance of Rs. 25,000 to paddy farmers for 1ha land and for two seasons. |

shortage of fertilizer in the market, excessive usage of fertilizer, budgetary burden, etc. In 2015, the government introduced a mechanism to give a hectare based allowance to buy fertilizer in the market.[17]

## 12.4.4 Guaranteed Price Scheme

While providing foods for the rising population, Sri Lanka's agriculture sector faces a number of challenges that include production at competitive prices and meeting local and global quality standards. Agricultural commodity prices have been more volatile than those of manufactured goods over the last three decades, mainly due to the impacts of changing climate or weather related risks, and price related risks which is inherent to the agriculture sector.[18] This leaves farmers uncertain about the prices to be received at the point of sale. This problem is however, not limited to farm income, but affects the investment decisions of farmers as well. In the absence of appropriate risk management instruments, financial institutions are reluctant to finance farmers. As

[17] CBSL, *Annual Report 2015*, Central Bank of Sri Lanka, Colombo.

[18] Wijesooriya, N. and J.Champika (2015), "Agricultural Forward Contracts as Pre-harvest Commodity Marketing: Problems and Prospects", Research Report No.180, Hector Kobbekaduwa Agrarian Research and Training Institute (HARTI), Colombo.

**Sri Lanka's agriculture sector faces a number of challenges that include production at competitive prices and meeting local and global quality standards.**

a result, lack of price risk management has become one of the major reasons that poor farmers stay poor.[19]

Since the early 1970s, successive governments in Sri Lanka have intervened in agricultural marketing by various ways, including the offer of guaranteed prices to farmers for selected food crops. The two main objectives of government intervention in agricultural marketing were to stabilize food prices and to ensure that farmers receive remunerative prices for their produce.[20] Since 1977, the role of state intervention gradually diminished and private sector participation has increased in agricultural marketing, partly due to the obvious failure in state intervention and partly due to renewed interest in market based alternatives and innovation mechanisms.

At present, farmers in Sri Lanka have two options regarding marketing of their produce; they can approach government institutions or private traders. Farmers who are price takers tend to be exploited by private traders. As a result, the government declared a guaranteed price in the case of paddy for instance, with the intention to ensure paddy stock would be purchased at the guaranteed price by private paddy buyers as well. However, this is in fact not the case in practice. The government had directed the Paddy Marketing Board (PMB) to purchase paddy at the guaranteed price as a possible solution. Unfortunately, the monetary allocation provided to the PMB was not sufficient to buy a significant amount of the paddy stock. Thus, farmers were still dependent on prices offered by private buyers which are usually well below the guaranteed price. There are requests from farmer organizations to gazette the purchasing price of paddy. However, such a situation will violate the principals of demand and supply, and ultimately adversely impact efficiency of the paddy market further. Even under the current guaranteed price system, important production factors like cultivation extent, productivity, varietal selection, etc., which should be ideally determined by demand and supply, will no longer be valid.

Despite lower prices, private marketing agents may be still preferred by farmers because

[19] WBCSD (2004), "Insuring Fair Prices for Farmers in Developing Countries", World Business Council for Sustainable Development, Geneva.

[20] Weliwita, A. and R. Epaarchchi (2003), "Forward Contracts: A Market Based Alternative to Government Intervention in Agriculture Marketing in Sri Lanka", Agricultural Policy Series No. 6, Institute of Policy Studies of Sri Lanka, Colombo.

private buyers provide certain economic services such as collection at the farm gate, spot cash payments, accepting sub-standard products at discounted prices and credit services that the PMB never provides. Moreover, rapid and on-going changes are occurring in domestic and export procurement systems,[21] with increased quality and food safety awareness in the local and global trading system which create difficulties in commodity marketing by small scale producers. Therefore, efficient market based mechanisms have to be introduced in order to make the agricultural sector more productive. However, any alternative mechanism should give due recognition to the relationship between farmers and private traders.

## 12.5 Potential Economic Incentives for Agricultural Development

In the light of weakening productive investments and looming inefficiencies in current interventions, this section looks at possible economic incentives that could replace or supplement the aforesaid incentives for agricultural development in the country. The idea of incentives is not to strictly forbid/allow, but rather to provide signals on public objectives while leaving some room for individual and collective decision-making to respond to them.[22] They seek to induce individuals and firms to change their behaviour to more socially and environmentally desirable alternatives.

### 12.5.1 Irrigation Pricing and Participatory Management

The major irrigation schemes are plagued by inefficient and wasteful use of water, largely due to its free provision by the state. At zero pricing of irrigation water, there is no incentive for farmers to limit their water use or to adopt water saving technologies. One possible solution for this is to introduce a water pricing programme. However, in developing countries, irrigation water is frequently considered as a free gift of nature. This leads to a strong socio-political denial of any attempt to charge for irrigation water. Both free supply and under pricing practices have resulted in a serious misuse of water and poor O&M of irrigation in many parts of the world. The growing scarcity of water calls for a new market based approach that recognizes water as a scarce economic resource. Hence, the need for proper pricing of irrigation water is increasing.

Despite its theoretical appeal, pricing has many inherent problems, especially in the case of gravity flow irrigation systems. It may even fail in ensuring water use efficiency due to the very high implementation costs, particularly in relation to water metering. On the other hand, pricing and charging usually does not address the problem of inequity in irrigation water distribution unless variable charges dependant on the quality of irrigation services and the productivity of water are introduced. But, equity will come at the cost of some efficiency loss. Therefore, fixing a suitable pricing mechanism

[21] Product quality standards such as ISO 9000, ISO 14000 certification and process quality standards such as HACCP have become essential parameters in the food industry.

[22] Bailly, D. and R. Willmann (2001), "Promoting Sustainable Aquaculture through Economic and Other Incentives" in R.P. Subasinghe, *et. al*. (eds.), *Aquaculture in the Third Millennium*, Technical Proceedings of the Conference on Aquaculture in the Third Millennium, Bangkok, Thailand, 20-25 February 2000, FAO, Rome.

is very important; it will require information on marginal costs, marginal productivity and willingness to pay in relation to irrigation water.

There is another approach to solve this problem based on New Institutional Economics and participatory irrigation management (PIM) which is rapidly gaining ground. This approach is often presented as a better alternative to water pricing, especially in developing countries. Although this may be capable of improving water use efficiency at farm level, it does not perform the cost recovery function of a water price. Although there are claims that O&M expenditure reduced due to the introduction of PIM, the remaining burden on the Treasury will be still large.[23] The other reason is that PIM is still far from perfect, despite scattered success stories. They can be seriously affected by social non-cohesiveness resulting from social segmentations due to different factors such as education, economic background, caste, political affiliations, etc.

Although a decision to curtail the irrigation subsidy is politically risky, the ever increasing O&M expenditure and budget constraints are certain to force the government to at least partially reduce its expenditure on irrigation services provision. In fact, improved institutions with farmer participation can vastly enhance efficiency in implementing water pricing programmes. The PIM looks particularly attractive considering Sri Lanka's encouraging past experiences in this respect.[24] In terms of both efficiency and cost recovery grounds, these two approaches are viewed as complements rather than substitutes. Hence, the long-run solution to the problems of irrigation water use efficiency, equity and cost recovery should involve a suitable combination of participatory management and irrigation charges.

**The long-run solution to the problems of irrigation water use efficiency, equity and cost recovery should involve a suitable combination of participatory management and irrigation charges.**

[23] IPS (2006), "Irrigation Water Charges for Sri Lankan Agriculture", in *Sri Lanka: State of the Economy 2006*, Institute of Policy Studies of Sri Lanka, Colombo.

[24] In 1998, Sri Lanka became one of the first countries to institute sharing responsibility for O&M. PIM programmes was implemented in a number of major and medium schemes under three government schemes, namely: Integrated Management of Irrigation Schemes; Management of Irrigation System Programme and Mahaweli Project Systems.

## 12.5.2 Intellectual Property Rights and Private R&D

It is estimated that 94 per cent of agricultural R&D in developing countries is conducted by the public sector.[25] There are several constraints which need to be addressed when promoting private investments in agriculture. Due to lack of strong protection for property rights, private investments in agriculture in developing countries are very limited. The nature of the agriculture products also demotivates private investments to a certain extent. For example, once seeds in self-pollinated crops are given to farmers, it is exchangeable within the community and the technology would thus be freely shared among them; this can demotivate private investors as they cannot effectively market their inventions.[26] The legal institution of intellectual property rights (IPRs) - for example, patents, breeders' rights, copyrights, trade secrets, trademarks, etc. - is the main mechanism for accomplishing this. These property rights are created by countries and enforced by states and international conventions or treaties. With patents, breeders' rights, and copyrights, the discoverer is given an exclusive right to control the use, including charging a fee for use, for a finite time period. This provides an added method by which discoverers can expect to obtain remuneration from others for the use of their discoveries.

In the agricultural sector, there is sufficient evidence to suggest that IPRs have influenced private investment in R&D as intended, particularly with respect to crop genetic improvement. Box 12.2 provides in-depth facts on how India has attracted private investments in agriculture, especially in the seed industry after implementing rules and regulations to protect new seed varieties under the Trade Related Intellectual Property Rights (TRIPs) agreement. However, if no proper institutional structure exists to easily enforce them, the granting of IPRs to innovations is of little value. Insecure private property rights frequently arise from weak and inefficient institutions, as reflected in bureaucratic delays in the provision of civil services, weak contract enforcement, and public takings of private property without fair compensation. Therefore, encouraging private sector investments by providing a better investment climate and establishing a strong institutional system and an IPR system is very important.

**Encouraging private sector investments by providing a better investment climate and establishing a strong institutional system and an IPR system is very important.**

[25] World Bank (2008), *World Development Report: Agriculture for Development*, World Bank, Washington, D.C.

[26] *Ibid*.

## Box 12.2
## Private Investments in Indian Seed Industry

India's intellectual property rights in agriculture are closely linked with the seed industry. The seed industry evolved in the mid-1960s as a SOE. In 1987, India allowed private companies to produce and market seeds. Further, in 2002, India introduced a strong regulatory framework based on IPRs. At present, the seed industry comprises of competitive foreign and domestic firms, and the industry is rapidly expanding and opening up for several market and technology opportunities.

India signed the TRIPs agreement in 1995, and in 2001, the government passed the Protection of Plant Varieties and Farmers' Rights Act (PPV&FR Act) with the objective of: (i) providing an effective system for protection of plant varieties; (ii) protecting the rights of farmers and plant breeders; (iii) encouraging the development of new varieties of plants; (iv) stimulating R&D investment and seed industry growth; and (v) ensuring the availability of high-quality seeds and planting materials to farmers. It was noticeable that after 1987 and 2001, there was a huge increase in private sector involvement in the seed industry. From 1987 to 1995, the change was more than 150 per cent in some agricultural crops.

**Number of Firms in Indian Agriculture in 1987 and 1995**

| | Number of firms with R&D | | |
|---|---|---|---|
| **Crop** | **1987** | **1995** | **% change** |
| Sorghum | 10 | 27 | 170 |
| Pearl millet | 12 | 30 | 150 |
| Maize | 6 | 24 | 300 |
| Sunflower | 10 | 26 | 160 |
| Cotton | 9 | 27 | 200 |
| Mustard | 1 | 9 | 800 |
| Rice | 0 | 15 | |

By 2005, the commercial seed sector was dominated by the private sector with the ratio of private and public involvement at 76:24, measured by volume. At present, there are five multinational companies, 410 domestic seed companies (10 large sized, 50 medium, 350 SMEs). The Indian seed industry is growing at an average rate of 12-13 per cent per year. Further, during 2008-09, the industry generated revenues between US$ 1.3-1.5 billion and ranked as the world's fifth largest seed market.

Moreover, the private sector has pursued protection under the 2001 PPV&FR Act. In 2008-09, 64 per cent of the 460 PPV applications received by the PPV&FR Authority were from the private sector, with the balance from the public sector. The applications were mainly for hybrid varieties - hybrid maize, cotton, pearl millet, sun flower, etc. Several studies have stated that the private investors were encouraged to invest in the agriculture sector after implementing proper IPR mechanisms via PPV&FR. After opening up the markets for the private sector with strong IPRs mechanisms, India is leading the region in agricultural R&D.

Source: Kolady, D., *et. al*. (2010), "Intellectual Property Rights, Private Investments in Research and Productivity Growth in Indian Agriculture", IFPRI Discussion Paper 01031, International Food Policy Research Institute, Washington D.C.; Dewan, M (2011), "IPR Protection in Agriculture: An Overview", *Journal of Intellectual Property Rights*, Vol. 16, pp 131-138.

## 12.5.3 Removal of Fertilizer Subsidy and Organic Agriculture

There are two major steps which can be taken in order to overcome the dual problems of inefficient use and budgetary burden attached to the fertilizer subsidy; withdrawal of the subsidy completely, or formation of a better mechanism to target farmers who are actually in need of the subsidy.[27] A removal of the subsidy is likely to see a sharp escalation of fertilizer prices. Wasteful application of fertilizer at subsidized rates can be overcome by increasing their price. At the same time, it will secure the soil from nutrient imbalance conditions which may result in long-term adverse effects on soil fertility. However, a withdrawal of the subsidy may create serious problems to small scale paddy farmers, especially in the short run. A likely increase in the cost of production may cause a shift away from paddy. It may lead to an outflow of foreign exchange due to higher rice imports, and to greater poverty and landlessness in the rural sector, as well as increasing malnutrition in the rural economy.

Thus, what needs to be done is to manage the fertilizer subsidy effectively and efficiently, targeting only the farmers who are in need of the subsidy. The government's role in this regard is to support resource poor farmers who are in poverty and who do not have enough purchasing power to buy fertilizer at market prices or acquire credit to do so. A proper identification of the proportion of farmers who are truly in need of the subsidy and effective distribution of subsidized fertilizer by a system such as a voucher scheme,[28] are of great importance. Farmers can be permitted to purchase fertilizer from any dealer who will be able to redeem the voucher, possibly with a commission.

The Budget 2016 indicated a positive move with a surprise proposal to remove the long standing fertilizer subsidy and to introduce a cash grant scheme. Under this, a paddy farmer is entitled to a maximum of Rs.25,000 per hectare of paddy land. This will allow the farmer to buy fertilizer from private markets at a competitive rate, and permit private markets to develop. Since the impacts of the new scheme are yet to be known, the government should take precautionary actions to minimize the adverse impacts on farmers. Research has shown that fertilizer use is more responsive to farm gate price than the fertilizer price.[29] Therefore, one option is to introduce measures to increase the farm gate price of paddy. Alternatively, subsidies could be provided for organic farming in order to popularize the new trend towards organic agriculture.[30]

## 12.5.4 Land Markets and Property Rights

Along with the mobility of resources, equity plays an equally important role to achieve efficiency of land utilization, since poverty may arise from an unequal distribution of holdings. The

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[27] Thibbotuwawa, M. (2010), "Better Targeting of Transfers: The Fertilizer Subsidy", available at http://www.ips.lk/talkingeconomics/2010/08/16/better-targeting-of-transfers-the-fertilizer-subsidy/

[28] Voucher is a coupon carrying the name, predetermined quantity of fertilizer. and cash value given to target farmers.

[29] Rajapaksa, R.D.D.P. and K.S. Karunagoda (2009), "Factor Demand for Paddy Cultivation in Sri Lanka with Special Reference to Fertilizer Subsidy Programme", *Sri Lanka Journal of Agrarian Studies,* 13(2).

[30] Even today, organic paddy production is only around 5 per cent of the country's total paddy production. See Rodrigo, C. (2016), "Reducing Fertilizer Dependency in Paddy Farming in Sri Lanka: Should We Change Our Approach?", available at http://climatenet.blogspot.com/2016/01/reducing-fertilizer-dependency-in-paddy.html.

allocation of land in Sri Lanka has mostly taken the form of redistributive measures enacted by the government at various times. These redistributive measures have been closely linked with certain restrictions, leaving the beneficiaries with no option of selling the land. Urban and plantation sectors are endowed with well-established property rights for both ownership and user rights. The reason for the existence of formal property rights in these sectors was for commercial reasons because it was believed that the optimal level of investment takes place only through formal property rights, with long-term tenure security.

However, due to the absence of formal land titles in the rural sector, owners are reluctant to rent out land and also to make substantial investments in their land. This has resulted in poor tenure security associated with unclear ownership or user rights. Presently, a number of informal arrangements,[31] which are usually biased in favour of land owners, are occurring in the rural sector. The lack of formal property rights, and the rigidity of some formal rights in practice, has contributed the most towards existing issues in the agriculture sector; these include environmental unsustainability, overexploitation of scarce resources, low investment and declines in household welfare.[32]

No significant development in property rights, especially at the policy level, has occurred during the recent past in Sri Lanka. Insecure property rights have become an impediment to the efficient use of the land.[33] Therefore, revising outdated regulations on ownership, and removing restrictions on transactions of such lands to increase access to land by efficient farmers, is a requirement in terms of meeting the dual objectives of equity and efficiency. By creating a context of long-term tenure security, especially through long-term leases of state owned land, the right incentives will be created to encourage investment in land and adoption of modern technology. Even though securing land rights is an important issue, serious thought has to be given to avoid the possible equity implications for marginalized and vulnerable groups. Measures to mitigate the effects of imperfections in credit, and input and output markets have to be undertaken simultaneously in order to prevent large farmers getting a competitive advantage over small farms, resulting in a large scale land sell-out by the rural poor. However, these negative implications should not be constraints, as there will be net benefits, especially significant enhancement in land productivity and production efficiency.

## 12.5.5 Forward Sales Contracts

The conventional solutions for price stabilization such as guaranteed price schemes and the establishment of government marketing institutions are not sustainable in the long-term. This is mainly due to difficulties in maintaining a dual price system continuously, and the inefficiency of government marketing boards in functioning as effective marketing institutions.[34]

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[31] Such as 'Thattumaru' and 'Kattimaru' (both forms of joint cultivation) and also 'Ande' cropping (share cropping).

[32] IPS (2004), "Land Market in Sri Lanka", in *Sri Lanka: State of the Economy 2004*, Institute of Policy Studies of Sri Lanka, Colombo.

[33] Deininger, K. (2003), *Land Policies for Growth and Poverty Reduction*, World Bank, Washington D.C.

[34] Wijesooriya, N. and J. Champika (2015), "Agricultural Forward Contracts as Pre-harvest Commodity Marketing: Problems and Prospects", Research Report No. 180, Hector Kobbekaduwa Agrarian Research and Training Institute (HARTI), Colombo.

## Box 12. 3
## Lessons from International Experience

Global experience show that more secure property rights could affect productivity by: (i) improving households' security of tenure and thus their ability to make investments; (ii) providing better access to credit; and (iii) reducing the transaction costs associated with land transfers.

Secure long-term individual property rights are directly linked to higher demand for investment. For example, having more secure tenure in Ghana increased the probability that individuals would plant trees, and undertake a wide range of other investments such as drainage, irrigation, mulching, etc. Secure ownership rights even without either a formal or permanent title was found to facilitate improvements in Burkina Faso, Niger, and China.

In addition to enhancing demand for investment, secure formal land ownership can increase the supply of credit to undertake investment from formal sources, thus making an important contribution to the evolution of financial markets in more general terms. The importance of this credit supply effect is supported by evidences from Thailand, Brazil, Honduras, and Paraguay.

With regards to transferability of land, written records of land ownership allow verification of ownership status of land, making land transactions cheaper to implement. This was the experience in China.

(Source: World Bank (2003), available at http://documents.worldbank.org/curated/en/2003/02/2171986/sri-lanka-promoting-agricultural-rural-non-farm-sector-growth-vol-2-2-annexes-statistical-tables)

It has become necessary to approach the problem through a system which would be effective both in the short-run and in the long-run. Many countries have achieved this by establishing different market based instruments (MBIs) for agricultural produce to guarantee an acceptable price for both the seller and the buyer in the market. These instruments include forward sales contracts, futures contracts, options and commodity swaps.[35] The key advantages of MBIs instruments over price stabilization schemes are that MBIs provide certainty of future revenues and ensure the use of concrete cash flows, rely on market prices rather than administrative prices, thus shifting risks to viable financial markets that are better able and willing to assume risks.

A forward sales contract is generally a legally binding agreement between a buyer and a seller. By this agreement, the seller agrees to sell (and the buyer to buy) a given quantity of agricultural produce of a specified quality on a given future date at a predetermined price. The advantages of such contracts are: (i) they are tailor made to the needs of buyers and sellers; (ii) they ensure a physical market for the commodities produced; (iii) they enable contracting parties to obtain production or pre-export finance; and (iv) they increase the credit worthiness of the borrower.

The CBSL introduced commodity forward contracts in 1999 under the scheme called 'Govi Sahanaya'. It was the first attempt to introduce a forward contract system in Sri Lanka on a

[35] Weliwita A. and R. Epaarchchi (2003), "Forward Contracts: A Market Based Alternative to Government Intervention in Agriculture Marketing in Sri Lanka", Agricultural Policy Series No. 6, Institute of Policy Studies of Sri Lanka, Colombo.

formal basis. In this scheme, provision was made for a bank to participate as a facilitator of the contract in addition to the buyer and the seller. This voluntary based tripartite forward sale contract arrangement helps the farmer by assuring a stable price for the produce. The option that the price can be fixed by a mark-up over the cost of production assured a net profit to the farmer. At the same time, the buyer also benefitted due to guaranteed supply at a given price.

## 12.6 Conclusion and Way Forward

Agriculture is one of the key sectors of the Sri Lankan economy with a significant contribution to GDP, employment, and income. While the importance of the agricultural sector is well recognized, the future trends in agricultural production do not seem adequately supportive food security or poverty reduction efforts in Sri Lanka. Hence, the problem at present is accelerating agricultural growth to meet growing consumer demand for food, as well as to reduce poverty in rural areas of the country.

Investments in agriculture play a crucial role in fostering development of agriculture in Sri Lanka because it has the potential to drive growth, raise productivity, reduce poverty, and hence enable sustainable development efforts. However, there are concerns about the challenges of financing agricultural development; the amount of investment needed to achieve acceptable levels of agricultural growth far exceeds current investment trends. This chapter attempted to identify innovative economic incentives to leverage existing resources in a more efficient way.

Much of the current discussions on agricultural investments in Sri Lanka evolve primarily around investment on irrigation O&M, fertilizer subsidy, R&D and price support schemes. Agriculture spending, whether public or private, benefits smallholder farmers. However, it is highly questionable whether state funding is diverted towards appropriate investments in terms of their cost effectiveness and efficiency. This is important because increasing the agriculture budget alone, without proper prioritization in allocation, may result in the extra resources not being spent effectively.

Since the 1980s, the policy of agriculture expansion in the dry zone through heavy public investment in irrigation development and land settlement, along with simultaneous promotion of a green revolution technological package that include R&D and fertilizer subsidies, helped to increase productivity of food crops significantly. However, there was a reversal of this investment climate with increased focus on popular measures such as subsidies and price support in recent years. This strategy of ever increasing government spending on inefficient subsidies such as on fertilizer have continuously crowded out the most important investments like R&D investments. Public investments should be prioritized and restricted to pure public goods but not for input subsidies like fertilizer or irrigation.

The inefficient use of resources and cost effectiveness of most investments have become concerns with increasing budgetary burdens over the years. Therefore, new economic incentives that address budgetary pressure and are more efficient and effective in agricultural development are needed. In this regard, pricing irrigation water, taxing fertilizer (subsidy removal), private property rights and resource ownership, IPRs and contract farming are potential economic incentives.

**Increasing the agri-culture budget alone, without proper prioritization in allocation, may result in the extra resources not being spent effectively.**

A withdrawal of subsidies on irrigation and fertilizer will have a positive effect on not only the government budget but also on the efficiency with which these resources are used. Since irrigation pricing and PIM would not deliver better results in isolation, the long run solution to the problems of irrigation water use efficiency, equity and cost recovery would be a suitable combination of participatory management and irrigation charges.

While elimination of the inefficient subsidy on fertilizer is recommended, the transition towards such a policy framework needs to be done gradually due to several reasons such as the long standing dependence by farmers, political affiliation due to a large vote base, etc. Hence, the current system should first be reformed to support only the most deserving farmers and to prevent lengthy and inconvenient procedures of subsidized fertilizer distribution.

Moreover, a sudden withdrawal of existing subsidies may create serious problems at least in the short run to small scale rice farmers, especially in remote areas with poor infrastructure and non-functioning credit markets. Therefore, a gradual withdrawal that is coupled with provision of adequate R&D and property rights, improvements to the rural credit market, and creation of an environment where farmers get a better price for their product should be done. These investments will bring about improvements in resource use efficiency, which along with a subsidy removal in irrigation and fertilizer will ease government budgetary pressure on these investments and improve farm welfare.

The large sum of money that can be saved from subsidy removals should be directed towards more productive investments like improving R&D. Moreover, private property rights and resource ownership will lead to increased investment, particularly private investments, and productivity gains. This too needs the existence and accessibility of formal credit markets so that any pressures on farmers to sell land should not ultimately see farmers return to poverty. The formalization of forward sales contracts with increased private sector participation will result in better market mechanisms which give a fair price for the produce of small farmers. These efforts will not be effective in the absence of a sustainable agricultural policy. Hence, the development of a sustainable agricultural policy with a long-term vision will be the stepping stone to initiate these economic incentives.

# POLICY BRIEFS: The Global Development Agenda

# 13. Sustainable Development Goals: Challenges in Implementation

## 13.1 Introduction

At the United Nations Sustainable Development Summit on 25 September 2015, the world leaders agreed to the adoption of the "2030 Agenda for Sustainable Development". This agenda includes 17 Sustainable Development Goals (SDGs) broadly aimed to end poverty and hunger, combat inequalities within and among countries, build peaceful, just and inclusive societies, protect human rights and promote gender equality and empowerment of women and girls, and ensure the lasting protection of the planet and its natural resources.[1] To monitor progress on the 17 goals, 169 targets have been identified. These are to be achieved by 2030, with SDGs set to guide decisions on development and related matters over the next 15 years.

**At the United Nations Sustainable Development Summit on 25 September 2015, the world leaders agreed to the adoption of the "2030 Agenda for Sustainable Development".**

The SDGs go much further than the MDGs which had only 8 goals and 18 targets; the SDGs seek not only to build on the MDGs, but also to balance the three dimensions of sustainable development - economic growth, environmental sustainability, and social inclusion. With a broader agenda reflected in 17 goals and 169 targets, it will clearly not be an easy task to implement and regularly monitor them, unless proper mechanisms are in place to do so. For SDGs to be successful, cooperation across governments, private sectors, civil society as well as the people will be critical, with national governments playing

[1] Section 3 in the declaration of the Resolution adopted by the General Assembly on 25th September, 2015 A/RES/70/1.

a key role. In this context, the Policy Brief examines the background to SDGs and some of the implementation challenges for Sri Lanka in the years ahead.

## 13.2 What is Sustainable Development?

Sustainable development is defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".[2] At the 2005 World Summit it was noted that this requires the reconciliation of environmental, social and economic demands - the 'three pillars' of sustainability. As such, sustainable development depends entirely on how well the social, economic and environmental objectives or needs are balanced, when making decisions on development and other related issues.

Environmental sustainability is concerned with the natural environment and how it remains diverse and productive. As natural resources are derived from the environment, addressing climate change and air quality, maintaining water quality and availability, and protecting nature, are of particular concern. As natural resources are also limited, initiatives to minimize unnecessary over consumption or waste of such resources is necessary. Use of renewable energy; reducing fossil fuel consumption and emissions; adopting sustainable agriculture and fishing,[3] organic farming, tree planting to replace what is being consumed; recycling and better waste management; sustainable use of oceans/seas, freshwater resources, as well as forests, mountains and dry lands, protection of biodiversity, ecosystems and wildlife etc., are some of the examples of how natural resources can be protected and preserved for the use of future generations as well.

**With a broader agenda reflected in 17 goals and 169 targets, it will clearly not be an easy task to implement and regularly monitor them, unless proper mechanisms are in place to do so.**

[2] World Commission on Environment and Development, 1987.

[3] Sustainable agriculture consists of environmentally friendly methods of farming that allow the production of crops or livestock without damaging the natural systems. It involves preventing any adverse effects on soil, water, biodiversity, surrounding or downstream resources, as well as to those involved in agriculture activities or those living in agriculture areas or in the neighbourhoods of agricultural areas.

## Box 13.1
## Sustainable Development Goals

1. End poverty in all its forms everywhere;
2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture;
3. Ensure healthy lives and promote well-being for all at all ages;
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all;
5. Achieve gender equality and empower all women and girls;
6. Ensure availability and sustainable management of water and sanitation for all;
7. Ensure access to affordable, reliable, sustainable and modern energy for all;
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all;
9. Build resilient infrastructure, promote inclusive and sustainable industrializsation, and foster innovation;
10. Reduce inequality within and among countries;
11. Make cities and human settlements inclusive, safe, resilient and sustainable;
12. Ensure sustainable consumption and production patterns;
13. Take urgent action to combat climate change and its impacts;
14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development;
15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reverse land degradation, and halt biodiversity loss;
16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels;
17. Strengthen the means of implementation and revitalize the global partnership for sustainable development

Social issues of sustainable development aim to improve living standards and quality of lives, both present and for future generations. Access to certain basic goods and services in order to lead a healthy, fulfilling and productive life is a key tenet. For instance, in the sphere of education, it requires that all people should have access to life-long learning opportunities, as well as opportunities to earn and have a decent living; in the sphere of health, it calls for all to have access to adequate health care facilities and nutrition, with the elderly receiving medical care, social security benefits, pensions, etc.

Social sector issues are also closely linked to economic issues. For example, it is the poor, especially those living in remote rural areas who are least likely to have access to adequate health care, education, family planning

services, etc. The combined effects of these make it difficult for families to meet basic needs and escape from the poverty trap. Social issues are also linked to environmental concerns; for instance, contaminated water increases water-borne deseases and create health concerns; pollution in areas with a high concentration of industries or excessive use of vehicles can also lead to health problems. All these in turn will increase the burden on a country's health care system.

It is only when social conditions are looked at in combination with economic and environmental issues that the full impact of decisions related to development is properly understood. As such, any decision to improve the quality of life and well-being of the people today will have to be made without harming the environment and over-exploiting natural resources. Thus, balancing the social, economic and environment objectives in development is a central feature of the SDG agenda.

Thus, the SDGs are part of an important shift in thinking about development; MDGs were mainly about the poor and reducing poverty, focusing on ending extreme poverty, hunger, and preventable disease. The SDGs recognize that poverty is rooted in a whole system of inequality and injustice that calls for a broader focus on issues of governance, transparency, and creating peaceful and inclusive societies. Therefore, the SDGs go far beyond the poor, with goals proposed for urbanization, infrastructure, standards of governance, income inequality, climate change, etc. The SDGs also differed by allowing a much wider process of consultation and an unprecedented process of stakeholder involvement. The broadness of the agenda and the complexity of 17 goals and 169 targets have also drawn criticism. While SDGs appear to be well-intentioned, the problem is that they do not reflect effective prioritization, which is critical when resources are limited.

## 13.3 Sri Lanka and the SDGs

Sri Lanka made considerable progress in achieving its MDGs.[4] Out of a total of 26 indicators which had clear targets, only two indicators were not on track to be achieved by 2015. Free education, universal health care and a number of welfare programmes implemented for more than six decades have contributed to these impressive achievements in education, health and living conditions. However, despite the success at national level, there are variations between regions, as well as between socio-economic groups, which need to be addressed. In addition, implementing SDGs and achieving them by 2030 is likely to be more difficult and challenging; SDGs will require an unprecedented joint effort on the part of the government, civil society, private sector, and the public with additional funds to be allocated over the next 15 years.

### 13.3.1 Institutional Arrangements for SDGs

Sri Lanka has already taken a number of policy initiatives towards sustainable development, well before the adoption of the 2030 Agenda in September 2015. The National Council of Sustainable Development (NCSD) was

[4] UN (2015), "MDG Country Report 2014 – Sri Lanka", United Nations, Colombo.

established in 2009, chaired by the Head of State, to ensure political commitment at the highest level to harmonize economic growth and environmental sustainability. The Sustainable Development Unit (SDU) of the Ministry of Mahaweli Development and Environment serves as the secretariat to the NCSD. The responsibilities of the SDU include development of strategic plans for protection of the environment, disseminating knowledge on sustainable development, stakeholder coordination, promotion of a 'green economy' in national development programmes, facilitate promotion of cleaner production concepts, implementation of sustainable water management initiatives, etc. These activities cover mainly the SDGs 11 to 15, which are directly related to environmental issues. However, the SDGs are much broader than this and require a wider participation of stakeholders to ensure a successful outcome.

The integrated nature of the SDGs requires a suitable institutional arrangement, within and across national and regional administrations, involving multiple ministries, departments and other government institutions. The Ministry of National Policies and Economic Affairs (MONPEA) is expected to play a key role in coordination, as there are many crosscutting issues to be addressed. Ideally, a high powered coordinating body should have the necessary authority to direct, coordinate, monitor and evaluate performance of all activities to be carried out by multiple ministries, departments and other government institutions. It is also important for the MONPEA to play a lead role in the planning and implementation of SDGs, as there should be coherence between SDGs and national development strategies whereby SDGs are mainstreamed into national development planning.

Aside from national level considerations, the linkages between planning at national, sub-national and local levels also need to be coordinated. Thus, translating the ambitious SDGs into a workable action plan will be a considerable challenge to a country like Sri Lanka, with limited financial and human resources at its disposal. At present, ministries, departments and government agencies which are expected to implement specific SDGs have separate budgets, communication channels and monitoring systems. In cross-sectoral planning, it is necessary for them to effectively collaborate in areas, including sharing of information, human resources, technology, strategy designing, as well as in monitoring and evaluation processes of SDG related activities.

Thus, priority must be given to establish a high powered coordinating body or inter-ministerial group, and endorsed at the highest political level. Whilst MONPEA can take the lead, other subject ministries of Finance, Environment, Health, Education, Social Services, Agriculture, Labour, Industries, as well as the chambers of commerce, the Department of Census and Statistics, research institutions and other relevant stakeholders must also be represented in this group. Its primary responsibilities should be:

- Coordinate all activities related to SDGs and ensure that all three dimensions of sustainable development are well balanced in the implementation stage
- Direct planning and development of SDG implementation strategies at national, as well as sub-national and local levels, based on a long-term plan that maps out targets, milestones, and steps that need to be taken, including financing needs

- Develop a national monitoring framework and an accompanying set of national indicators (based on the UN recommended set of indicators), as necessary
- Document present status of SDG related indicators to monitor progress
- Develop and implement an effective awareness programme on SDGs to support implementation
- Compile or update a progress report on SDGs at least once in 3-4 years
- Consult with key stakeholders to obtain necessary feedback in regard to lagging regions, disadvantaged groups, etc.

## 13.3.2 Implementing SDGs

On establishing a coordinating body, developing an effective awareness programme is a second important step; the complexity and crosscutting issues between SDG goals need to be spelt out clearly and simply. The UNDP and other UN agencies can take the lead in implementing an efficient and effective

### Box 13.2
### Sri Lanka's Unfinished MDG Agenda

Sri Lanka is still lagging behind in some key areas of the MDG agenda. These items/areas need to be precisely targeted through effective interventions and policy action if the country is to achieve the SDGs by 2030. Some of the lagging items/areas are:

**Poverty:** Although Sri Lanka was successful in achieving poverty targets seven years before 2015, there are regional variations and vulnerable groups. Districts such as Mullaitivu, Monaragala, Mannar and Batticaloa, and some socio-economic groups such as those living in households headed by labourers, skilled agricultural workers, disabled persons or persons too old to work are still lagging behind.

**Income inequality:** Income inequality in Sri Lanka is high and has remained more or less unchanged for more than three decades.

**Female labour force participation:** Female labour force participation at around 35 per cent remains too low.

**Under-nutrition among children under 5 years:** Child under-nutrition of around 20 per cent at the national level and at around 30 per cent in the estate sector is too high.

**High school dropout rate after compulsory age for schooling (5 to 14 years):** Dropout rates of around 15 per cent in the age group 15-16 years and around 40 per cent in the age group 17-18 years are high.

**Inadequate facilities for science education:** Of schools with A/L classes, only 26 per cent have facilities for science education. As such, many children in rural areas do not have access to schools with science education.

**Infant mortality/under five mortality/maternal mortality:** Although Sri Lanka has been successful in reducing the mortality rates, there are regional variations.

**HIV/AID:** Although Sri Lanka remains a low prevalence country, the number of cases is gradually increasing.

**Forest cover:** Although Sri Lanka has managed to reverse the loss of forest cover, continuous attention of relevant authorities is needed, as environmental sustainability is one of the main concerns in SDGs.

SDGs will require an unprecedented joint effort
if Sri Lanka is to achieve them by 2030

**The proposed framework has 17 goals and 169 targets:**




**At the United Nations Sustainable Development Summit on 25th September 2015, the world leaders agreed to the adoption of the '2030 Agenda for Sustainable Development.' As such it is the responsibility of all countries to develop suitable strategies to implement SDGs with the aim to achieving them during the next 15 years.**

awareness programme. In addition, given the many SDG goals and targets to be achieved in the context of limited resources, identifying national priorities for implementation is critical. This requires an initial stock-taking exercise to better understand the priorities for implementation. It is important to note that identifying priorities does not mean choosing one goal at the expense of another. The SDGs are an integrated set, which are interdependent and complementary. As such, prioritization means, identifying those areas lagging furthest behind and taking necessary policy action to ensure rapid progress.

Since an initial snapshot is a rapid exercise, data will have to be obtained from existing official statistics, generated through national surveys and censuses, administrative records, satellite imagery and other forms of available data, disaggregated to the greatest extent possible. The exercise will also help identify existing data gaps.

After an analysis of the present status and prioritization, attention must be devoted to developing strategies to meet the SDGs across national and sub-national levels. Strategies need to be time bound and focused. For instance, a new SDG target is to eradicate extreme poverty throughout the country and to reduce poverty based on national definition to at least half by 2030. It is estimated that in 2012/13, 3.5 per cent of Sri Lankans were in extreme poverty and 6.7 per cent were below the national poverty line. Although the proportion of population in poverty is low compared to most developing countries, bringing extreme poverty to zero will be a challenging task. To achieve this, it will be necessary to properly identify people in extreme poverty and target them more precisely in welfare programmes.

Another example which is directly related to poverty is income inequality. The DCS HIES 2012/13 data indicate that the poorest in Sri Lanka are those living in households headed by agricultural and non-agricultural labourers and those headed by persons who are disabled or too old to work. The SDGs require countries to "progressively achieve and sustain economic growth of the bottom 40 per cent of the population at a rate higher than the national average". Income inequality in Sri Lanka has remained more or less unchanged for more than 2-3 decades. While the share of household income of the poorest quintile has remained around 5 per cent, the corresponding share of the richest quintile has remained at more than 50 per cent throughout; the Gini coefficient for household income has remained at around 0.48. As such, it would be necessary adopt suitable policies, especially fiscal, wage and social protection policies to ensure progressive achievement and sustained income growth of the bottom 40 per cent of the population at a rate higher than the national average.

Given the magnitude of the tasks, mobilizing adequate public and private resources in key sustainable development initiatives is important. Financial needs assessments should be transparent and account for both operating and capital costs. Areas requiring investments include health, education, social protection, food security, infrastructure, etc. The private sector can be incentivized to collaborate in areas such as: (i) sustainable production process, (ii) regenerative use of natural resources, (iii) improved social protection for labour, (iv) corporate social responsibility initiatives, etc.

### 13.3.3 Filling Data Gaps to Monitor SDGs

The success of the SDG Agenda depends on careful monitoring of the progress pertaining to each goal. For effective monitoring, it is essential to have high quality, timely, and reliable data disaggregated as far as possible by geographical location, gender, age, socio-economic status, etc. Disaggregated data are essential to ensure equitable progress to allow countries to identify progress of any particular group or groups or regions, so that necessary corrective action can be taken to minimize or eliminate such inequalities.

Collecting quality data to compile a broad range of indicators on sustainable development on a regular basis requires a modernized statistical system. As such, it is prudent to undertake a comprehensive needs assessment of data required to compile SDG indicators and possible sources for such data, frequency, level of disaggregation, and the cost of collecting, processing, analysing and maintaining a comprehensive data base. The data will allow governments to make evidence-based course corrections, periodically.

In Sri Lanka, tracking the progress of SDGs will increase demands on the DCS to collect, compile, analyse and disseminate statistical data in new areas, especially related to the environment. In addition, the number of indicators to be monitored has increased by around four times compared to MDGs. Moreover, new technologies will need to be adopted; for example, satellite imagery to estimate crop and forest cover, disaster impacts, measuring air quality, etc., to fill the existing data gaps. Qualitative methods of data collection may also have to be used together with quantitative approaches, to enhance understanding on SDGs and thereby to improve the monitoring and evaluation processes.

The new demand for statistics in turn will require a substantial increase in financial and human resources to improve the statistical system and to build the capabilities of the DCS, as well as other relevant agencies responsible for collecting and providing the necessary data/ information. The support of the international agencies will be essential for this purpose.

## 13.4 Summary of Recommendations

This Policy Brief concentrated mainly on the importance of establishing a high powered coordinating body with necessary authority to coordinate and monitor the progress of all activities related to implementation of SDGs, and what Sri Lanka needs to focus on to achieve the SDGs by end 2030. A summary of the recommendations are given below.

- Establish a high powered coordinating body or inter-ministerial group, to plan and develop SDG strategies to implement them at national, sub-national, and local levels
- The above body should coordinate all activities related the SDGs and it should specifically ensure that all three dimensions of sustainable development - economic growth, environmental sustainability, and social inclusion - are well balanced when implementing by the relevant ministries, departments or any other government or private agency
- Develop an effective awareness programme to make all stakeholders aware of SDGs and their responsibilities in implementing and achieving the goals by 2030. The awareness programme

should also be extended to the general public including school children as well

- Take stock of the present status of SDG indicators, using all available information and identify the data gaps
- Study each SDG and related targets carefully and develop detailed action plans to implement each SDG (this may have to be done by ministries/ departments/government agencies responsible for each SDG)
- Identify crosscutting issues related to SDGs (where attention and collaboration of more than one ministry/department/ government agency is required)
- Further develop the statistical system and capabilities of the DCS as well as in other agencies in which data required for SDGs are collected and compiled
- Collect all data required to compile the SDG indicators on a regular basis
- Monitor the progress of SDGs regularly, and take action if any indicators are not on track
- Prepare SDG progress reports at least once in 3-4 years.

# 14. SDGs to Ensure Healthy Lives

## 14.1 Introduction

Uplifting the health of a country's population is vital for enhanced socio-economic development as affirmed by many international reports and initiatives over the years.[1] In 1998, the World Health Organization (WHO) introduced the concept of 'Health for All in the 21st Century'; the MDGs followed up by setting three goals for health. This progressive importance on health is even more evident under the SDGs - amongst the 17 goals and 169 targets, one specific goal with 13 targets are assigned for health. And unlike MDGs - framed to strengthen human development - the health outcomes in SDGs are integrated towards sustainable development around three pillars namely; economic, social, and environmental. This integration is argued to make the approach to health in SDGs critically different from other development agendas.[2]

**Unlike MDGs - framed to strengthen human development - the health outcomes in SDGs are integrated towards sustainable development around three pillars namely; economic, social, and environmental.**

Sri Lanka has made impressive inroads in health care delivery and sound outcomes. However, with demographic and epidemiological transitions, and rising incomes, the demand for health care is changing. Maternal and child care issues, and infectious diseases are on the decline while non-communicable diseases (NCDs) are on the rise. Despite good national level health indicators, regional disparities continue to persist. Against these challenges, the financial burden of meeting

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[1] World Bank (1993), *World Development Report – Investing in Health*, World Bank, Washington, D.C.

[2] WHO (2015), "Executive Summary: Towards a Monitoring Framework with Targets and Indicators for the Health Goals of the Post-2015 Sustainable Development Goals (Draft)," World Health Organization, Geneva.

**Box 14.1**
**The 2030 Agenda for Sustainable Development - Health**

"To promote physical and mental health and well-being, and to extend life expectancy for all, we must achieve universal health coverage and access to quality health care. No one must be left behind. We commit to accelerating the progress made to date in reducing newborn, child and maternal mortality by ending all such preventable deaths before 2030. We are committed to ensuring universal access to sexual and reproductive health-care services, including for family planning, information and education. We will equally accelerate the pace of progress made in fighting malaria, HIV/AIDS, tuberculosis, hepatitis, ebola and other communicable diseases and epidemics, including by addressing growing anti-microbial resistance and the problem of unattended diseases affecting developing countries. We are committed to the prevention and treatment of non-communicable diseases, including behavioural, developmental and neurological disorders, which constitute a major challenge for sustainable development."

Source: UN (2015), "Transforming Our World: The 2030 Agenda for Sustainable Development", United Nations, New York.

health needs is falling increasingly on individuals and households. In this context, the SDG agenda on health comes at a critical juncture in Sri Lanka's efforts to improve health care delivery and health outcomes through national policy initiatives.

## 14.2 Health in SDGs

Of the 17 SDG goals, goal 3 is devoted entirely towards health, aiming to "ensure healthy lives and promote well-being for all at all ages", comprising 13 sub-goals/targets (see Table 14.2) and 4 targets which are focused more on implementation/action (see Box 14.2). In order to measure outcomes, more than 15 indicators are listed.

As already mentioned, the focus of the health goal in SDGs is wider compared to that of MDGs. Whilst emphasis is still given to the same health targets, the SDG targets are more aspirational; in addition to maternal and child mortality, and infectious diseases (HIV/AIDS, Malaria, and Tuberculosis (TB)), newer infectious diseases have been brought in. Hepatitis B & C (both common causes of liver cirrhosis and cancer) have set targets and indicators, but some other defined diseases (e.g., water-borne diseases, neglected tropical diseases (NTDs), and other communicable diseases) are yet to have identified targets and indicators set.

Importantly, SDGs have incorporated crucial changes in morbidity patterns (epidemiological changes) that gave birth to NCDs, which are now the leading cause of deaths and disability in the world.[2] Principally, NCDs includes chronic diseases (diabetes, cardiovascular diseases, respiratory diseases, cancers, etc.), injuries, and mental health issues. Of 56 million global deaths in 2012, NCDs and mental health are attributed to 30 million deaths (52 per cent) while about 8

[2] WHO (2014), "Global Status Report on Non Communicable Diseases 2014: Attaining the Nine Global Non Communicable Diseases Targets – A Shared Responsibility", World Health Organization, Geneva.

> **"To promote physical and mental health and well-being, and to extend life expectancy for all, we must achieve universal health coverage and access to quality health care. No one must be left behind."**

million deaths (14 per cent) occurred due to injuries.[3] More than 40 per cent of total NCD deaths (38 million) were premature deaths (under the age of 70 years).

Aside from being a cause of death, the rapid increase in NCDs impedes poverty reduction initiatives, particularly in low and middle income countries. The socially disadvantaged are at greater risk of getting sick and dying sooner because they are at high risk of being exposed to risk factors of NCDs (e.g., unhealthy diets, air pollution, and use of tobacco and alcohol). Further, the rise of NCDs can never be reversed or terminated. Therefore, NCDs are predicted to increase further by 15 per cent between 2010 and 2020, and further accelerated by 20 per cent in some countries of Africa, the Eastern Mediterranean, and South-East Asia.[4] Even though a set of targets for prevention and control of NCDs was introduced by the WHO, and technical and financial assistance was given to member countries for preparing and implementing effective interventions, some areas remain to be addressed. The SDGs aim to fill this with targets on NCDs (SDG 3.4 on NCDs and mental health, SDG 3.6 on accident and injuries) and NCD risk factors (SDG 3.5 on substance abuses, and SDG 3.9 on exposure to environmental and chemical pollutions). In addition, NCD targets are further underpinned by SDG 3a in which tobacco control programmes are to be carried out in all countries as appropriate.

Rising health inequalities within and between societies is also a key challenge addressed by SDGs. While a few initiatives are in place, such as the focus on social determinants of health by the WHO, the SDGs set ambitious targets with an emphasis on universal health coverage that pinpoints and addresses the determinants of health within and beyond the health sector. SDG 3.8 on "achieving universal health coverage (UHC)" is to act as a platform to integrate all sectors to address health issues and underpins existing approaches such as "health in all policies". UHC is defined as "a

[3] WHO (2014), "Non Communicable Disease: Country Profiles 2014", World Health Organization, Geneva.

[4] WHO (2010), "Global Status Report on Non Communicable Diseases 2010", World Health Organization, Geneva.

**The socially disadvantaged are at greater risk of getting sick and dying sooner because they are at high risk of being exposed to risk factors of NCDs.**

coverage that provides people with the health services they need while protecting them from exposure to financial hardship incurred in obtaining care".[5] As per the definition, UHC has three dimensions: (i) health service coverage; (ii) financial protection coverage,[6] and (iii) population coverage. Once all three dimensions are achieved, inequity in health can also be removed.

However, achieving UHC is not straightforward; both developed and developing countries are unable to meet either all or any part of the dimensions of UHC (WHO, 2015). Apart from regional and global achievement on UHC, even within a country, there can be a variety of drawbacks and challengers - such as lack of fiscal space, poor coordination within programmes, unavailability of adequate information, inadequate human resources, poor health literacy, poor quality of medical supplies, etc. - that hinder the effectiveness of health interventions/programmes towards UHC. However, it is important to note that SDGs do not ignore system issues prevailing within a country and these are to be rectified through SDG 3b, 3c and 3d.

Achieving UHC is not the sole responsibility of the health sector; other sectors must also give substantial attention to reinforce the outcomes of health interventions. Hence, other SDGs such as those on poverty reduction (goal 1), provision of water and sanitation (goal 6), urbanization and service delivery in human settlement (goal 11) have a pivotal role to play in support of UHC. Another facet is the importance given to 'ensuring equity', explicitly recognized in SDGs as well as in the frequent use of the phrase "no one will be left behind". While the overall health targets in SDGs is well valid for all countries, suitable alterations need to be made in accordance with each country context.

## 14.3 Relevance of SDG3 to Sri Lanka

Sustained basic health outcomes in Sri Lanka are the result of effective care delivery by the country's public health system with the inception of a free health system.[7] Sri Lanka is

[5] WHO (2010), "The World Health Report: Health System Financing – The Path to Universal Coverage", World Health Organization, Geneva.

[6] WHO (2015), "Executive Summary: Towards a Monitoring Framework with Targets and Indicators for the Health Goals of the Post-2015 Sustainable Development Goals (Draft)", World Health Organization, Geneva.

[7] See Chapter 8 of this report on "Health Care Financing: Challenges and Alternatives".

**SDG 3.8 on "achieving universal health coverage (UHC)" is to act as a platform to integrate all sectors to address health issues and underpins existing approaches such as "health in all policies".**

placed well ahead of countries in the region in term of infant mortality, newborn mortality, child mortality, maternal mortality, and life expectancy. As per the 3rd MDG report, Sri Lanka has already met many of the health goals and targets while some goals are on track to be attained.

When considering the relevance of each SDG health target, the first three targets are the continuation of MDG health targets. With a good network of maternal and child health (MCH) care facilities across the country, Sri Lanka is enjoying a commendable reduction in maternal mortality, infant mortality, neonatal mortality, and under 5 mortality at the national level. The indicators are even well ahead of SDG targets (Figure 14.1). However, to sustain these achievements, further investment in MCH care is vital, in particular to reduce regional disparities.[8] Hence, the agreed targets in SDG 3.1 and 3.2 regarding MCH care are more relevant.

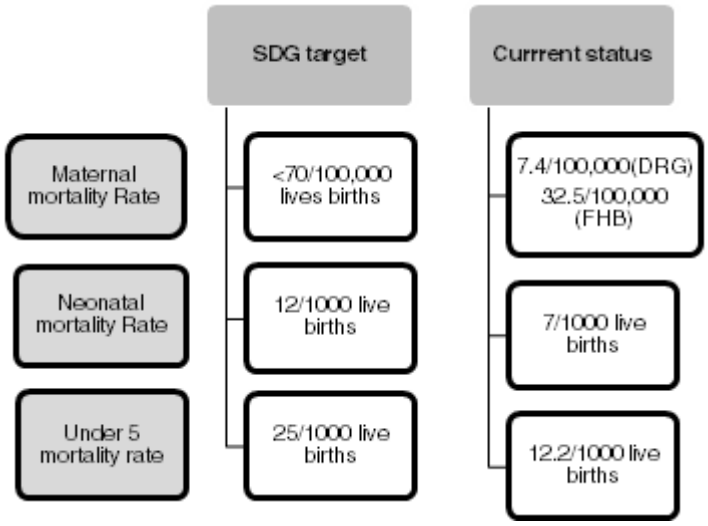
Although some SDG 3.3 commitments to "by 2030, end the epidemics of AIDS, TB, malaria, NTD, Hepatitis, water-borne diseases and other communicable diseases" have been monitored through the MDGs, there still remains challenges for Sri Lanka. While Sri Lanka is one among Southeast Asian countries whose HIV prevalence is less than 1 per cent,[9] reported cases have been increasing considerably over the years. From about 95 cases that were reported in 2009, the figures doubled to 186 cases in 2012; in 2015, reported cases stood at 235.[10] Notably, among the reported cases over the years, the proportion of males is progressively higher than females. For instance, in 2015 the male to female ratio increased to 2.8:1, from 1.7:1 in 2014. Further, a majority of cases are to be found in the age group of 25-34 and 35-49 years consistently, while the proportion of cases reported amongst 15-24 years has been gradually increasing. In

8 UN (2015), "Millenium Development Goals:Sri Lanka Country Report 2014", United Nations, Colombo.

9 WHO (2012), "HIV/AIDS in the South-East Asia Region: Progress Report 2011", SEARO/WHO, Geneva.

10 MOH (2015), "Annual Report 2015: National STD/AIDS Control Programme, Ministry of Health, Colombo.

**Figure 14.1**
**SDG Targets and Current Status of Maternal, Neonatal, and Under 5 Mortality Ratios**




Notes: DRG-Department of Register General; FHB- Family Health Bureau.

Source: MOH (2014), "*Annual Report*; Family Health Bureau 2013" and MOH (2015), "Annual Health Bulletin 2013", Ministry of Health, Colombo.

2015, the numbers living with HIV are estimated at around 4,200 with death by AIDS at 130. As per the HIV/AIDS target of SDGs, the number of deaths from AIDS is expected to be reduced by 117 from 130 deaths in 2015 base year.

Malaria is ranked as one of the top life threatening diseases. However, Sri Lanka has almost eradicated this epidemic with no deaths from malaria reported since 2007, and no single indigenous case reported since 2012.[11] However, the Ministry of Health (MOH) still carries out anti-malaria programmes to ensure that Sri Lanka remains a malaria free environment. By contrast, Sri Lanka is still combating the high prevalence of TB and dengue, despite widely carried out interventions across the country. Each year, about 5,000 dengue cases are reported and nearly 10,000 TB cases are detected and treated.[12] TB prevalence per 100,000 population in 2012 was 109 while out of 100 TB patients, almost 6 patients die, which is almost 4 times less compared to the average of WHO-SEARO (25 per cent). Further, Sri Lanka has taken steps to combat water-borne diseases, and Hepatitis by increasing access to safe drinking water across the country (with current coverage of 89.7 per cent), and vaccination coverage. However, Hepatitis B and C still exist, albeit with less prevalence (B and C range from 0.27- 2.5 per cent and 0.56-0.97 per cent, respectively).

[11] UN (2015), "Millenium Development Goals:Sri Lanka Country Report 2014", United Nations, Colombo.

[12] MOH (2015), "Annual Health Bulletin 2013", Ministry of Health, Colombo.

**Achieving UHC is not the sole responsibility of the health sector; other sectors must also give substantial attention to reinforce the outcomes of health interventions.**

NCDs and mental health are estimated to account for 75 per cent of all deaths in Sri Lanka, while 14 per cent of deaths occur due to injuries.[13] About 18 out of 100 people die before 70 years of age. Moreover, the country's leading cause of hospital death is Ischaemic heart disease. Sri Lanka has already begun to implement interventions in line with the NCD National Policy; more recently, a 'National Multisectoral Action Plan for the Prevention and Control of NCDs 2016-2020' was launched. With such national initiatives, Sri Lanka stands better placed to accelerate NCD prevention and control in line with SGD goals.

Sri Lanka's national targets with regard to reproductive health are also in line with SDG goals. In particular, teenage pregnancies (6.5 per cent in 2010), unsafe and illegal abortions (959.3/100,000 females of reproductive age in 2012), and contraceptive prevalence rate (64.2 per cent in 2010) are some critical areas which place teenagers/women at greater health risks.[14] Therefore, by incorporating the targets/ indicators of SDGs, current intervention on sexual and reproductive health care can be implemented more effectively.

UHC to be achieved through SDGs is an important concept towards health system development, with an emphasis on achieving equity progressively. Sri Lanka has been enjoying good health outcomes through a well functioning, publicly financed health system. However, over the years, the proportion of public sector finance has been declining while private sector contribution has increased, of which out-of-pocket (OOP) expenditure is the highest at 83 per cent of private health expenditure. Therefore, Sri Lanka's health system is far below the agreed SDG target of allowing people to stay free of OOP expenditure. Lack of access to quality, effective, and essential medicine is another critical issue that persists in Sri Lanka. Therefore, addressing poor financial sustainability in Sri Lanka's health system is pivotal.

The SDG goal on reducing deaths and illness due to chemical exposure is also relevant for Sri Lanka since a majority of people in the country engage in the agriculture sector. They are very often exposed to hazardous chemicals, with rising instances of chronic kidney diseases

[13] WHO (2014), "Non Communicable Disease: Country Profiles 2014", World Health Organization, Geneva.

[14] MOH (2015), "Annual Health Bulletin 2013", Ministry of Health, Colombo.

(CKD) in some areas where paddy farming is highly concentrated. Such chronic diseases are claimed to be a by-product of exposure to pesticides. Thus, exposure to such harmful chemicals needs to be addressed urgently to reduce endocrine imbalances in the human body and long-term health problems.

## 14.4 Key Challenges and Recommendations

Getting accustomed to a new global agenda is always a challenge for any country in view of scarcity of resources, and national agendas. While SDG goal 3 itself is very relevant to Sri Lanka, the real challenge in meeting the targets is in terms of resources - financial, physical, and human.

The estimated cost of achieving SDGs globally is US$ 2.5-4.5 trillion per year with a 'financial gap' of US$ 2.5 trillion, where sources of financing is still unclear. This merely reflects the scale of the challenge, particularly for low and middle income countries.[15] As defined by the WHO, a country can achieve UCH by spending around 5 per cent of GDP on health, and where OOP is less than 40 per cent of total expenditure on health (TEH).[16] As such, Sri Lanka is still far from attaining universal coverage; in 2013, Sri Lanka's TEH was 3.2 per cent of GDP and OOP 83 per cent of total private spending.[17] However, almost more than 75 per cent of health expenditure is financed by domestic funds. Increasing the country's fiscal space for higher spending on health to meet SDGs is a challenge. The private sector too has a crucial role to play in investing in SDGs. In many neighbouring economies (Singapore, Malaysia, and Thailand), the private sector plays a key role in bridging the financing gap. In Sri Lanka too, opportunities for investments by the private sector have to be clearly identified, and regulatory reforms carefully thought through in advance to ensure that the country's health system is safeguarded.

**Table 14.1**
**Health Target Coverage by Areas**

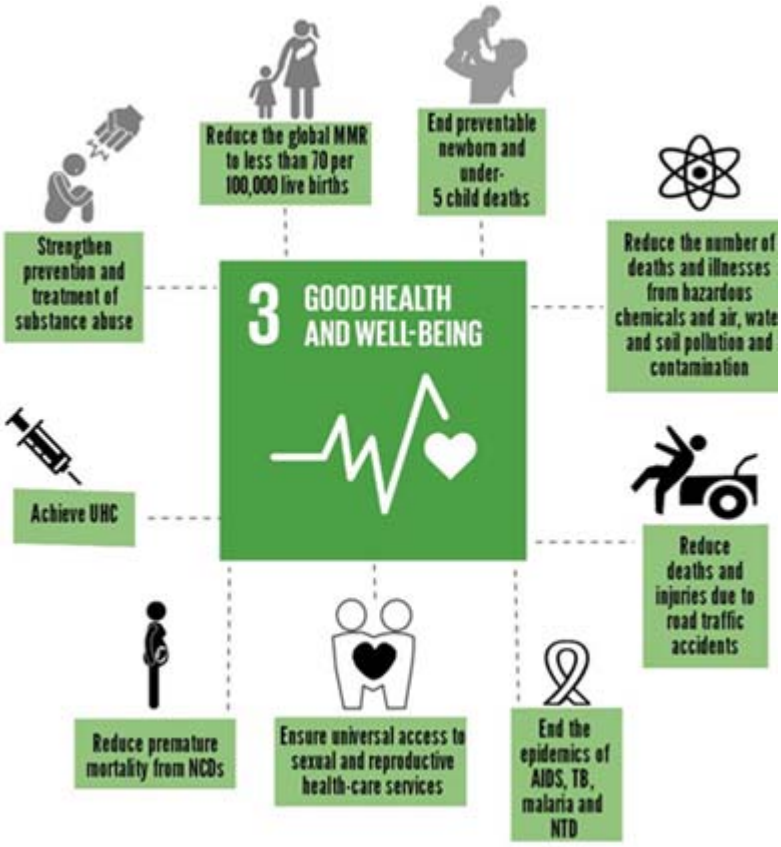
| Areas Covered | SDG Target Numbers |
|---|---|
| MDG health targets | 3.1<br>3.2<br>3.3 |
| NCD targets | 3.4<br>3.5<br>3.6 |
| Mixed targets (financial protection, health literacy, access to care, exposed to environmental hazardous etc.) | 3.7<br>3.8<br>3.9 |

[15] UN (2015), "Transforming Our World: The 2030 Agenda for Sustainable Development", United Nations, New York.

[16] WHO (2009), "Health Financing Strategy for the Asia Pacific Region (2010 – 2015). World Health Organization, Geneva.

[17] WHO (2013), "Country Profiles: Sri Lanka", retrieved from http://www.who.int/countries/lka/en/.

In addition to fiscal challenges, two other barriers need to be tackled. The first relates to a firm political commitment to establish an institutional mechanism (apex body) to ensure effective planning, implementation and monitoring of SDGs. This apex body should be representative of the public, private, and INGO/ NGO sectors. Thereafter, SDGs need to be aligned to national health policy initiatives, financing estimates worked out, and monitoring and evaluation systems developed at regional and national levels. The second constraint to be addressed is formalizing coordinated action between health and other health related sectors. In this, adopting the concept of 'health in all policies' is essential, to avoid overlaps and duplications in health interventions.



## Table 14.2
## Summary of SDG Health Sub-goals/Targets and Indicators

| Overall goal | Target specifics | Indicator |
|---|---|---|
| Ensure healthy lives and promote well-being for all at all ages | Increase (healthy) life expectancy by: 6 years in developing and 2 years in developed countries | Life expectancy at birth<br>(including 40% reduction in premature deaths before age 70 |
| **Sub-goal** | **Target specifics** | **Indicator** |
| 1. Reduce the global maternal mortality ratio to less than 70 per 100,000 live births | Reduce the global MMR to less than 70 and no country to have MMR above 140 | Maternal deaths per 100,000 live births |
| 2. End preventable newborn and under-5 child deaths | All countries to reduce under-5 mortality to less than 25 /1,000 | Under-five mortality per 1,000 live births |
| | All countries reduce neonatal mortality to less than 12 /1,000 | Neonatal mortality per 1,000 live births |
| 3. End the epidemics of AIDS, TB, malaria and NTD | 90% reduction in new adult HIV infections, including among key populations<br>Zero new infections among children | HIV incidence rate per 100 adult person years<br>HIV incidence rate per 100 children person years |
| HIV | 90% reduction in AIDS-related deaths | HIV/AIDS deaths per 100,000 population |
| TB | 80% reduction in tuberculosis incidence rate (< 20 cases per 100,000 population)<br>90% reduction in tuberculosis deaths | TB incidence per 1000 person years<br>TB deaths per 100,000 population |
| Malaria | 90% reduction in global malaria case incidence<br>90% reduction in global malaria mortality rate | Malaria incident cases per 1000 person years<br>Malaria deaths per 100,000 population |
| Neglected Tropical Diseases | No targets for 2030 at present | Multiple resolutions and targets for 2015 and 2020, often related to elimination |
| Combat hepatitis, water-borne diseases and other communicable diseases | 90% reduction in hepatitis B and C incidence rate<br>Water-borne diseases<br>Other communicable diseases | Hepatitis B antibody prevalence in children (age 5) |
| 4. Reduce premature mortality from NCDs through prevention and treatment and promote mental health and well-being | One-third reduction of premature mortality from NCD | Probability of dying of cardiovascular disease, cancer, chronic respiratory disease or diabetes at ages 30-70 |
| | 10% reduction in suicide-related mortality | Suicide-related mortality per 100,000 population |
| 5. Strengthen prevention and treatment of substance abuse, including narcotic drug use and harmful use of alcohol | 10% reduction of alcohol per capita consumption | Alcohol per capita consumption |

*Contd.....Table 14.2*

| Overall goal | Target specifics | Indicator |
|---|---|---|
| 6. Reduce deaths and injuries due to road traffic accidents | Halve the number of global traffic deaths (from 1.2 mln to 600,000) | Number of deaths due to road traffic accidents |
| 7. Ensure universal access to sexual and reproductive health-care services, including for family planning, information and education, and the integration of reproductive health into national strategies and programmes | Ensure universal access to sexual and reproductive health care services | Adolescent birth rate<br>Contraceptive prevalence rate<br>Unmet need for FP<br>Antenatal care use (4+ visits) |
| 8. Achieve UHC, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all | All populations, independent of household income, expenditure or wealth, place of residence or sex, have at a minimum 80% essential health services coverage<br>Everyone has 100% financial protection from out-of-pocket payments for health services | Coverage with a set of tracer interventions for prevention and treatment services*<br>Fraction of the population protected against impoverishment by out-of-pocket health expenditures,<br>Fraction of households protected from incurring catastrophic out-of-pocket health expenditure. |
| 9. Substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination | No specifics | Mortality attributed to:<br>• household air pollution<br>• outdoor ambient pollution at levels<br>• water and soil pollution and contamination<br>• hazardous chemicals<br><br>Morbidity: attributed to the same risk factors |

Note:* The tracer interventions may vary by country but all should include for prevention - FP, ANC (4+ visits), immunization (full or DTP3), non-tobacco use, and adequate water source and sanitary facilities - and for treatment - skilled birth attendance, TB treatment, ARV therapy, diabetes and hypertension treatment.

Source: WHO. (2015). Executive Summary: Towards a monitoring framework with targets and indicators for the health goals of the post-2015 Sustainable Development Goals (Draft). WHO.

## Box 14.2
## Implementation Targets

3a : Strengthen the implementation of the World Health Organization Framework Convention on Tobacco Control in All Countries, as appropriate

3b : Support the research and development of vaccines and medicines for the communicable and non-communicable diseases that primarily affect developing countries, provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the TRIPS Agreement and Public Health, which affirms the right of developing countries to use to the full the provisions in the Agreement on Trade-Related Aspects of Intellectual Property Rights regarding flexibilities to protect public health, and, in particular, provide access to medicines for all

3c : Substantially increase health financing and the recruitment, development, training and retention of the health workforce in developing countries, especially in least-developed countries and small island developing states

3d : Strengthen the capacity of all countries, in particular developing countries, for early warning, risk reduction and management of national and global health risks

# 15. SDGs to Improve Nutrition

## 15.1 Background

Hunger and food insecurity were key topics of discussion at the Sustainable Development Summit which is encompassed in the SDG 2: End Hunger, Achieve Food Security, Improve Nutrition and Promote Sustainable Agriculture. The targets under this goal are expected to be achieved by 2030.

This goal has a series of interrelated components. Agriculture is viewed as the central element of goal 2, therewith endorsing an agricultural, food-based, rural-centred approach. It is nonetheless complex to achieve goal 2 targets because there is insufficient evidence on how to successfully scale up food security and nutrition strategies. To alleviate hunger and to improve nutrition, non-agricultural factors, conflict reduction or prevention, clean water and sanitation, bridging gaps in inequality and social security policies have been overlooked.[1] Although there is a strong focus on food security and nutrition as observed in the title of the goal, it is merely two targets which directly address food security issues, whereas the remaining targets relate to food availability. Significant trade-offs within this goal are apparent. In particular between targets of doubling agricultural productivity and incomes of small scale farmers coupled with ensuring environment sustainability.[2]

While Sri Lanka has done commendably well on most human development indicators, it has struggled with nutrition indicators, particularly in relation to nutritional status of children, adolescents and women. Thus, this Policy Brief will examine the implications of the SDG 2 on nutrition for Sri Lanka's policy intervention.

## 15.2 From MDGs to SDG Nutrition Targets

The inter-linked SDGs are an integrated set of priorities that are built on the unfinished business of the MDGs (Table 15.1). From a regional perspective, Sri Lanka is advantageously placed in the field of child and maternal health and nutrition in South Asia. This is attributed mainly to sound governmental policies to strengthen the country's public health care system over the years, which in turn has decreased the burden of diseases. Nonetheless, a comparison of SDG targets and the status quo as depicted in Figure 15.1 indicate that Sri Lanka will need to pay considerable attention to necessary policy

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1 Scholes, M., *et al*, (2015)," Review of Targets for the Sustainable Development Goals: The Science Perspective", International Council for Science (ICSU), Paris.

2 Burchi,F.,and Holzapfel, S., (2015)," Translating an Ambitious Vision into Global Transformation: The 2030 Agenda for Sustainable Development", German Development Institute, Bonn.

**Table 15.1**
**Comparison of MDG and SDG Targets**

| | Targets |
|---|---|
| **MDGs** | • Halve, between 1990 and 2015 the proportion of people who suffer from Hunger.<br>• Reduce by two-thirds between 1990 and 2015, the under-five mortality rate.<br>• Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio |
| **SDGs** | • By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations including infants, to safe, nutritious and sufficient food all year round.<br>• By 2030, end all forms of malnutrition, including achieving by 2025 the internationally agreed targets on stunting and wasting in children under five years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women, and older persons.<br>• 40 per cent reduction in the number of children under-5 who are stunted.<br>• 30 per cent reduction in low birth weight.<br>• Reduce and maintain childhood wasting to less than 5 per cent. |

interventions to achieve some of the key SDG targets.

According to available data, the occurrence of stunting in Sri Lanka declined from 18.4 per cent in 2000 to 17.3 per cent in 2007; at the same time the percentage of underweight children dropped from 15.5 per cent to 14.7 per cent.[3] For Sri Lanka to achieve its given targets by 2025 further targeted investment in child health is central, especially to reduce gaps across geographic regions.[4]

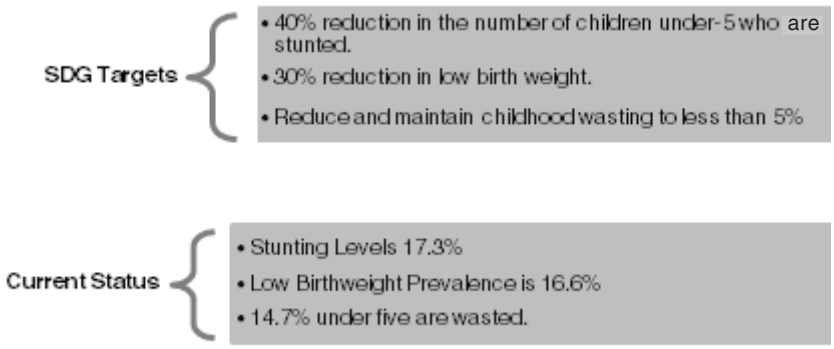
Although local cost estimates are not available, the World Bank, in partnership with the Gates Foundation and Children's Investment Fund, has estimated that it will cost approximately an additional US$ 8.50 per child per year to meet the global stunting target. In aggregate, it is estimated that the total additional investment required to scale up this package of interventions is US$ 49.6 billion over the next 10 years, with smaller annual investments in the first five years and increasing gradually as coverage increases.[5] This cost entails improving maternal nutrition and young child feed practices, such as exclusive breastfeeding for the first six months of life; and improving child nutrition through micronutrient supplementation and the provision of nutritious complementary foods.

[3] DCS, "Demographic and Health Survey 2006/07", Department of Census and Statistics, Colombo.

[4] For example, according to DHS 2006/07 data, regional variations indicate wasting ranges from 10.5 per cent to 28.1 per cent.

[5] World Bank "Reaching the Global Target to Reduce Stunting: How Much Will it Cost and How Can We Pay for it?", available at http://thousanddays.org/tdays-content/uploads/Stunting-Costing-and-Financing-Overview-Brief.pdf

**Figure 15.1**
**SDG Targets Compared with Status Quo**




Source: DCS, "Demographic and Health Survey 2006/07", Department of Census and Statistics, Colombo; WHO (2014), "Indicators for the Global Monitoring Framework on Maternal, Infant and Young Child Nutrition", World Health Organization, Geneva.

**For Sri Lanka to achieve its given targets by 2025, further targeted investment in child health is central, especially to reduce gaps across geographic regions.**

SDGs unlike the MDGs encompass the need for nutrient sufficiency and diet quality in goal 2, both necessary in the short and long-terms to improve nutrition. This requires efforts to enhance access to healthy diets, improved knowledge for food choices, stronger resilience of food systems to economic, climatic and human-made shocks, and remediation of food-borne threats to consumers.

The food security situation in Sri Lanka in particular has improved significantly over the years. International Food Policy Research Institute (IFPRI) report on Global Hunger Index (GHI) 2014 ranks Sri Lanka at the 39th position among 76 countries; indeed, a comparison of the 1990 GHI and the 2014 GHI depicts a noteworthy progress with a decrease of 42 per cent in the country's GHI index score.[6] All of these factors suggest that a multi-sectoral approach is central to achieve SDG targets on nutrition sufficiency.

[6] Thibbotuwawa,M.,(2015)," Food Security: Does it Matter for Sri Lanka?" http://www.dailymirror.lk/94013/food-security-does-it-matter-for-sri-lanka

**Gates Foundation and Children's Investment Fund, has estimated that it will cost approximately an additional US$ 8.50 per child per year to meet the global stunting target.**

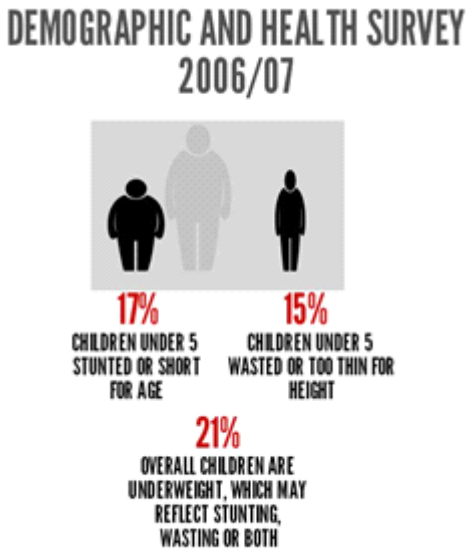



## 15.2.1 Current Nutritional Status in Sri Lanka

Continued support towards providing free universal health services has led to a steady improvement in Sri Lanka's health indicators, particularly in relation to maternal and infant mortality and life expectancy. For example, limiting the maternal mortality rate to 32.5 per 100,000 live births by 2013, the infant mortality rate to 8.6 per 1,000 live births by and a steady rise in the life expectancy to 74.3 years by 2013, are significant achievements.[7] However, Sri Lanka performs poorly on nutrition indicators. The nutritional status of children, adolescents and women are unsatisfactory. Data highlight that 20 per cent of children under five years are underweight, nearly 16 per cent of babies born have low birth weight and 16 per cent of women within the reproductive age (15-59) are malnourished.[8] Malnutrition is predominantly caused by household food insecurity, inadequate care for mothers and children, poor access to health and environment services. Socio-economic status, educational attainment, type of employment, and cultural norms and beliefs play a role in determining the extent of malnutrition. Inadequate dietary intake and disease are often the immediate

[7] CBSL, *Annual Report 2015*, Central Bank of Sri Lanka, Colombo.

[8] Jayawardena, P., (2014),"Underlying Causes of Child and Maternal Nutrition in the Estate Sector of Sri Lanka", *Journal of South Asia Studies*,2(3).




causes of under-nutrition. This increases the likelihood of illness, due to weakened immune levels, and illness leads to a loss of appetite and poor absorption which worsens under-nutrition.

Nutrition outcomes of women and children less than five years of age are primary indicators of household nutrition security. Stunting or 'shortness for age' is a measure of chronic malnutrition and results from prolonged lack of adequate nutrition, repeated infections or both. Similarly, wasting or 'low weight for height' is a measure of acute malnutrition which results from sudden deprivation of nutrients. According to the Family Health Bureau (FHB) data, during 2007-2013 nearly 12-13 per cent of newborns weighed less than 2.5 kilograms at birth.[9] The Demographic and Health Survey 2006/07 reveal that 17 per cent of children under five are stunted or short for their age, while 15 per cent of children under five are wasted or too thin for their height. Overall, 21 per cent of children are underweight, which may reflect stunting, wasting, or both.

The most critical period for the onset of child malnutrition is during the 1,000 day window from conception to two years of age. During pregnancy and while breast feeding, the health and nutritional status of the mother is critical; the practice of optimal feeding and care practices drives child nutritional status. Maternal undernourishment underlies a high rate of low birth weight (LBW), while pre-pregnant Body Mass Index (BMI) is an indication of the birth weight of the newborn which affects the child's nutrition. Approximately 23 per cent of pregnant mothers were found to be underweight and this proportion remained constant over the past seven years.[10] LBW is closely associated with heavy labour demands of agriculture particularly for women since they engage in strenuous activities throughout pregnancy and fail to obtain adequate sleep and nutrition. Thus, they run the risk of bearing LBW babies translating to an increased risk of child malnutrition. Apart from women engaging in heavy labour, maternal knowledge and cultural factors influence the utilization of health services and available food. While poverty is an important basic determinant of child under-nutrition, other major determinants of malnutrition in the country include inappropriate feeding practices, micronutrient deficiencies, and disease.[11]

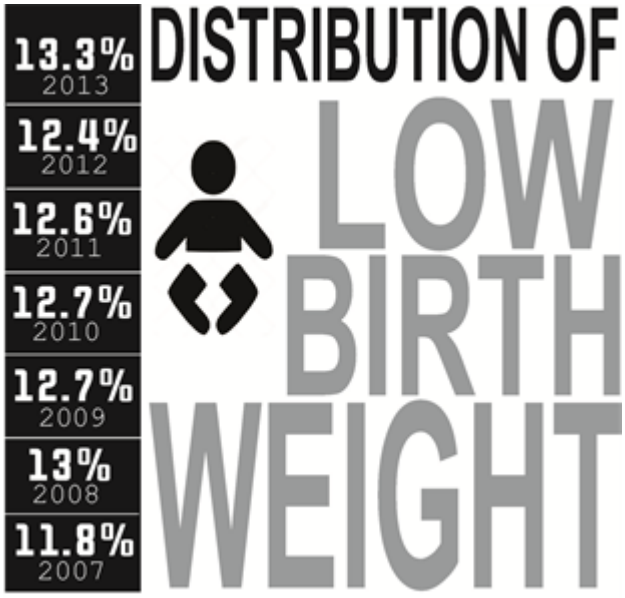
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9 Family Health Bureau (2013), *Annual Report 2013*, Ministry of Health, Colombo.

10 *Ibid*.

11 WFP (2015), "Sri Lanka Food Security Atlas: Livelihoods, Food Security and Resilience", World Food Programme.

**Figure 15.2**
**Distribution of Low Birth Weight: 2007-2013**




**A higher prevalence of mal-nutrition is observed in poor resource settings.**

A higher prevalence of malnutrition is observed in poor resource settings. The highest prevalence of LBW is in the estate sector where access to and utilization of health services between the estate sector and the rest of the country shows a marked disparity.[12] District-wise, Nuwara Eliya report the highest percentage (20.6 per cent) of newborns with LBW; districts with higher percentages of estate population, namely Badulla (17.5 per cent) and Kegalle (16.9 per cent), and rural districts such as Ratnapura (16.3 per cent), Ampara (15.8 per cent) and Polonnaruwa (15.3 per cent) also report a higher percentage of newborns with LBW (Figure 15.3).

Approximately 30 per cent of children below five years of age in the plantation sector are underweight, with one-in-three babies born recording LBW and one-third of women in reproductive age identified as malnourished.[13] Consumption of protein rich foods, other essential nutritional foods such as fruits, vegetables rich in Vitamin A and cereals are lower among estate children than the average. It has been observed that as a mother's education levels increase, the prevalence of stunting declines, reinforcing the importance of maternal education. Stunting is highest in the estate sector of the country where water and sanitation is poor and access to good quality health services is lower.[14]

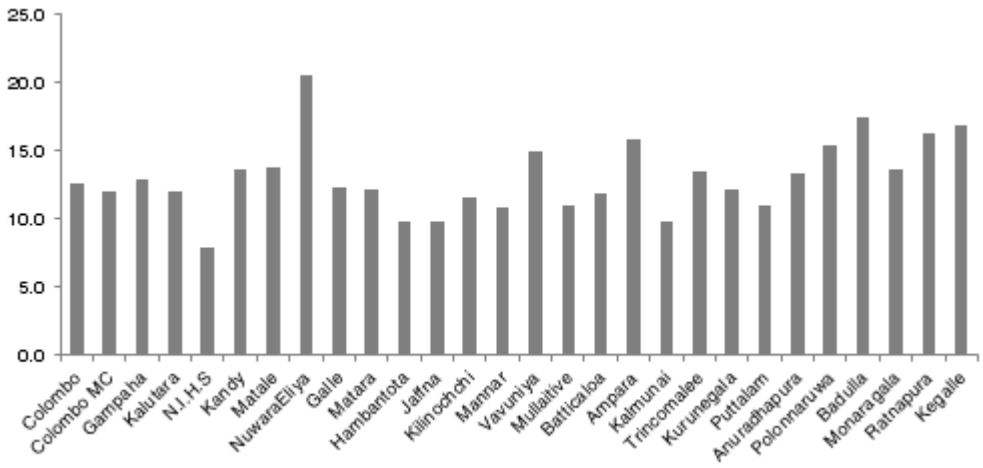
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[12] Jayawardena, P., (2014),"Underlying Causes of Child and Maternal Nutrition in the Estate Sector of Sri Lanka", *Journal of South Asia Studies,2*(3).

[13] *Ibid*.

[14] *Ibid*.

**Figure 15.3**
**Nutritional Status of Infants and Children 2013**




Source: Family Health Bureau, *Annual Report 2013*, Ministry of Health, Colombo.

## 15.3 Challenges and Recommendations for Improving Nutrition

A majority of nutrition programmes and expenditures are incurred by the government. However, impact evaluations of nutrition interventions are scarce and only limited information is available.[15] Maternal and child health (MCH) programmes have proven to be effective for providing maternal and child health services through routine nutrition services such as the provision of Iron foliate and Vitamin C supplements, although there has been a failure to provide adequate nutrition counselling and education. This is largely blamed on public health midwives being overworked and overburdened, leaving them insufficient time to counsel pregnant women and mothers. This illustrates the institutional incapacities to effectively deliver services. It is noted for example, that undernourished children are either advised to eat more food, or referred to a clinic if illnesses are detected, where Thriposha is prescribed as the remedy. However, irregular supplies and the tendency to share food supplements with the family results in some children and mothers receiving insufficient amounts of the food supplement. Health professionals are not equipped to provide counselling and to assess other potential causes of under nutrition.[16] This deficiency is partially explained by a medical incentive system that rewards medical professionals for treating patients and dissuades medical students from focusing on preventive health issues. As a result of these rigid attitudes, there

[15] World Bank (2008), "Policy and Programmatic Responses to Malnutrition: What is being Done?", available at http://siteresources.worldbank.org/ SRILANKAEXTN/Resources/233046-1222978473355/ch4LKNutritionOct2008-2.pdf.

[16] Weerasinghe, M., and S. Bandara (2015), "Health and Socio-economic Determinants of Malnutrition in the Plantation Sector of Sri Lanka: A Review", Working Paper Series No. 21, Institute of Policy Studies of Sri Lanka, Colombo.

**Irregular supplies and the tendency to share food supplements with the family results in some children and mothers receiving insufficient amounts of the food supplement.**

is little cross-sectoral collaboration at the community level across health, agriculture, education, and poverty reduction/social development sectors.

MCH programmes however have the potential to substantially improve the quality of nutrition services provided through the public health sector, but it is also likely to require the allocation of more resources towards improving the quality of services. Moreover, it is essential to identify a package of direct nutrition services which are cost effective and is responsive to the epidemiology profile. Being cost effective also implies that a package of services needs to be targeted to the populations that need it the most.

A critical path towards reducing malnutrition and meeting the SDG goal 2 in Sri Lanka is to meet nutrient requirements from an increasingly diverse diet, including processed, fortified foods for pregnant and lactating women and children of 6-23 months of age. Regionally more than a half of households in the Eastern Province could not afford an adequately nutritious diet.[17] In the Uva Province it ranged between 39-48 per cent, while in the Northern and Central Provinces the share ranges between 27-36 per cent. This indicates a direct link between diets and malnutrition outcomes; the inability of households to access sufficient nutritious food is a key contributing factor of malnutrition in the country. Interventions directed at preventing and reducing malnutrition should therefore either supplement incomes, make nutrient rich foods available or facilitate market functioning in addition to programmes focusing on nutrition awareness, improvement in water and sanitary facilities and access to health facilities, to make an impact on nutrition outcomes.

School-based nutrition services are necessary to activate nutrition aspects of many agricultural development projects and programmes. For example, promotion of traditional cropping systems should be accompanied by extension-based education services. These services

[17] WFP(2014),"Minimum Cost of a Nutritious Diet in Sri Lanka", available at http://documents.wfp.org/stellent/groups/public/documents/ena/ wfp 280059.pdf.

**It is essential to identify a package of direct nutrition services which are cost effective and is responsive to the epidemiology profile.**

would encourage crop diversification, distribution of high-nutrient foods accompanied by education and social marketing efforts to encourage increased intake of these foods. Promotion of gardens in schools, communities or individual households increases awareness regarding the importance of good nutrition, building local capacity, and increasing the physical availability of fruits and vegetables.[18] Education programmes that are an extension or school-based can also promote food safety. Promotion of preservation techniques to maintain micronutrient levels in foods not only reduces post-harvest losses but, when coupled with education services to improve nutrition education, will play an essential role in dietary diversity and improve intake patterns.

Availability of and access to nutritious products should be increased by collaboration between the private and the public sector. The private sector can produce and market special nutritious foods, while the public sector sets standards, promotes healthy food choices, and ensures access to special nutritious foods for the poorest, for example through social safety net programmes.

[18] Gates Foundation (2014), "Sustainable Agriculture, Food Security and Nutrition in the Post 2015 Framework," available at https://docs. Gatesfo undation.org/documents/Post%202015%20Food%20Security%20Discussion%20Paper.pdf.

# 16. Financing the SDGs

## 16.1 Transitioning to SDGs from MDGs

Financing for sustainable development is an integral part of the development discourse in the post-2015 UN development agenda. Efforts are already under way to explore ways in which new resources can be mobilized and used effectively to meet the next generation of goals. Quantifying the financing needs is a necessarily imprecise and complex process and, therefore, studies vary widely in their estimates. According to UN estimates, annual financing needs for infrastructure alone, amount to US$ 5-7 trillion globally. A further US$ 3.5 trillion will serve the unmet need for credit for small and medium-enterprises.[1] Aggregating industry estimates suggests that meeting the new goals could require as much as US$ 11.5 trillion a year (US$ 172.5 trillion over the 15-year time frame, although this omits the potential for synergies between industries). This number eclipses the estimated financing needs of the MDGs, which were estimated at $40-60 billion a year.[2]

Therefore, financing for development requires a holistic approach, one that encompasses all stakeholders and also enables developing countries to better finance their own development. The reform agenda will need to improve domestic resource mobilization, including by strengthening tax administration,

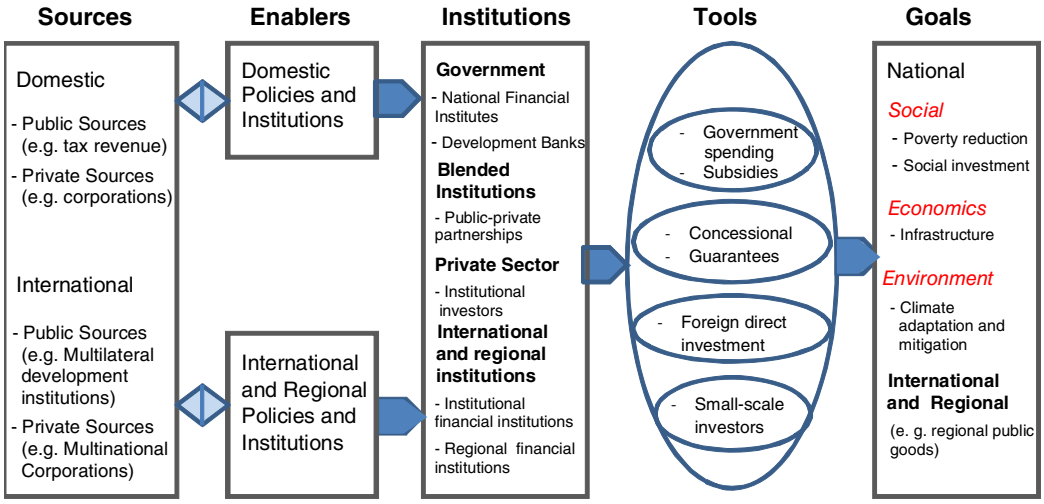
**Financing for development requires a holistic approach, one that encompasses all stakeholders and also enables developing countries to better finance their own development.**

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[1] UN (2014), "Report of the Intergovernmental Committee of Experts on Sustainable Development Financing", United Nations, New York.

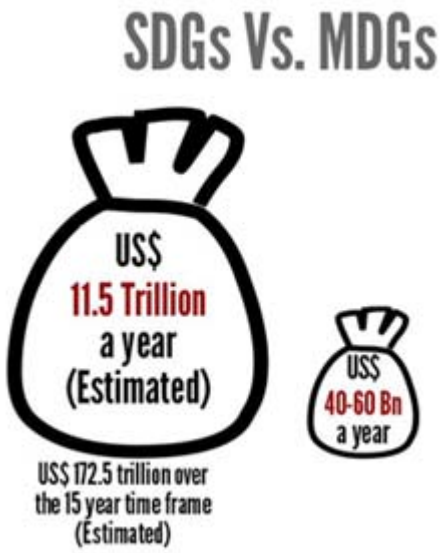
[2] Devarajan, S., *et. al*. (2003), "Development Goals: History, Prospects and Costs", World Bank Policy Research Working Paper, World Bank, Washington, D.C.

**Figure 16.1**
**Schematic Framework of the Sources of Financing for Sustainable Development**




Source: Schematic Framework taken from ESCAP (2015), "Sustainable Development Financing: Perspectives from Asia and the Pacific" United Nations Economic and Social Commission for Asia and the Pacific, Bangkok.

better harnessing natural resource revenue, and curbing illicit financial flows. Governments also have a catalytic role to play in attracting private sector financing, such as in infrastructure investment.[3]



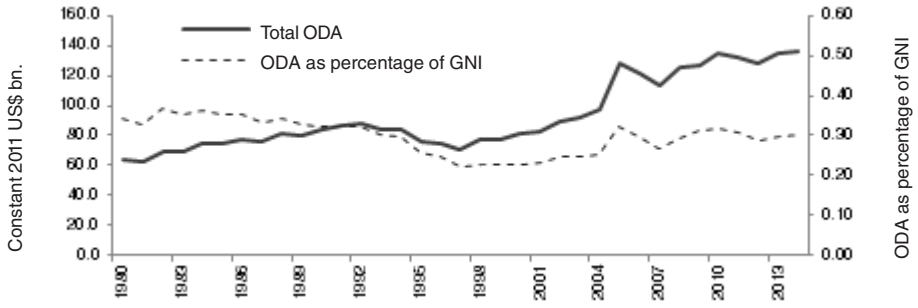

## 16.2 The Role of Official Development Assistance (ODA)

Aid has historically been an essential component of the financing agenda, helping low-income countries to accelerate growth above what would otherwise be achievable. ODA represents the third largest capital inflow into developing economies, after FDI and remittances. Despite the shift in attention towards harnessing alternative sources of finance, ODA will remain a critical input to achieving the new goals. This is particularly true of the poorest economies and fragile states with limited access to capital markets.

Goal 8 of the MDGs "Develop a Global Partnership for Development" outlines

[3] World Bank (2013), "Financing for Development Post-2015", World Bank, Washington, D.C.

**Figure 16.2**
**Trends in ODA**



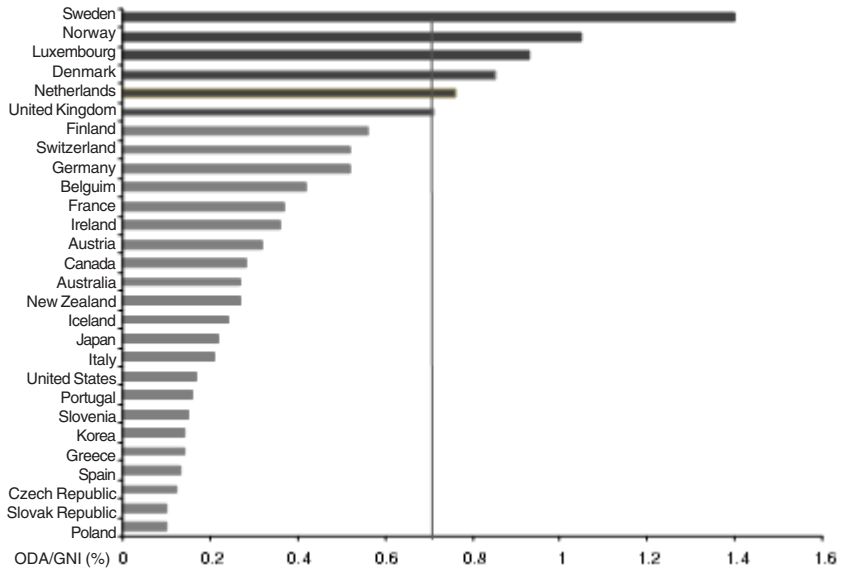

Source: Data taken from OECD (2015), "Development Co-operation Report 2015: Making Partnerships Effective Coalitions for Action", OECD, Paris.

commitments of developed nations in providing ODA, market access and debt relief to developing nations. It stipulates that net ODA from donor countries should reach at least 0.7 per cent of Gross National Income (GNI), and net ODA to the least developed countries should make up 0.15 per cent of GNI. Overall trends suggest ODA has been rising steadily, increasing in real terms by 83 per cent from 2000-2015 (Figure 16.2). However, the overall commitment remains significantly below target; preliminary estimates for 2015 show net ODA from the 28 member countries of the Development Assistance Committee (DAC) was US$ 131.6 billion, representing only 0.30 per cent of GNI. Moreover, the Euro Zone crisis and turmoil in the Middle East and North Africa (MENA) have impacted on a number of traditional donors reducing the availability of ODA. In 2015, aid spent on refugees in host countries more than doubled in real terms to US$ 12 billion as an unprecedented 1.5 million refugees claimed asylum in OECD countries.[4]

**Given the budget constraints confronting many DAC donors, a substantial increase in ODA is unlikely in the near future to meet the investment jump required.**

[4] OECD (2016), "Development Aid Rises Again in 2015, Spending on Refugees Doubles," Development Co-operation Directorate, Organization for Economic Cooperation and Development, Paris.

**Figure 16.3**
**ODA Commitments of DAC Member Countries, 2015**




Source: Estimates taken from OECD, "ODA Preliminary Data 2015 – Press Release".

Only six of the 28 DAC countries - Denmark, Luxembourg, The Netherlands, Norway, Sweden and the UK - met the UN target to keep ODA at or above 0.7 per cent of GNI (Figure 16.3). In value terms, the top five largest donors were the US, UK, Germany, Japan and France.

Aid remains an essential source of funds in countries where private investment and capital market access is limited. However, given the budget constraints confronting many DAC donors, a substantial increase in ODA is unlikely in the near future to meet the investment jump



required for the transition to the new development agenda.

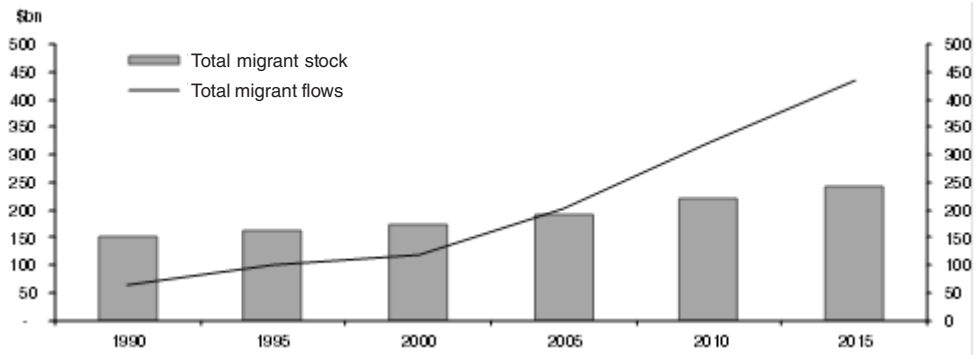
## 16.3 The Broader Financing for Development (FfD) Agenda

The Third International Conference on Financing for Development (FfD) was held in July 2015 in Addis Ababa, Ethiopia. The discussions centred on the various financing strands that could be explored and developed in conjunction to drive the SDGs. On the agenda were methods for improvements in domestic public resources, domestic and international private finance and investments, international development cooperation, international trade, and debt restructuring. However, the weak global backdrop for the conference was a known headwind - with flat-lined under-investment in global public finance.

Overall, the agreements received a mixed reception from the international development community. Many observers had initial hopes of more specific pledges and larger commitments. However, much energy was required simply to maintain the forward momentum of the collaborative effort for FfD. The outcome document, nine months in the making, will form the memorandum of understanding for development financing for the next 15 years.

In the document, there were some promising new commitments that can play an important role for the SDGs. For example, the commitment to a 'new social compact', targeted at carrying forward the progress made by the MDGs and eliminating extreme poverty. This commitment focusses on the delivery of social protection and essential public services for all. Major strides forward in addressing financing for universal secondary education targets came in the form of scaling up international investments such as the Global Partnership for Education. In light of infrastructure's large share of the SDG investment gap, elevated infrastructure efforts were well-received (including launching a new global infrastructure forum to improve alignment among the world's diversity of infrastructure-focussed efforts). Women's equal economic rights were addressed with a pledge to undertake legislation and administrative reforms to give women equal access to men for

**Figure 16.4**
**Remittances and Migrant Stock**




Source: UN Population Division, "Trends in International Migrant Stock: The 2015 Revision" and World Bank, "Annual Remittances Data".

ownership and control over land, credit, inheritance, natural resources, and other forms of property. Commitments were also made to improve municipality financing in order to tackle their technological and technical limitations, keeping pace with the devolution of expenditures and investments in sustainable development to the sub-national level.[5]

Additional initiatives were announced outside of the formal text. Amongst the most promising was the Addis Tax Initiative under which the US and other developed countries will double support for helping developing countries to build their domestic resourcing systems. Another is the Global Partnership for Sustainable Development Data, targeting the strengthening of data ecosystems which could herald a new approach to public accountability systems.

Another financing opportunity addressed in the outcome document was the role of remittances. These flows are significant and although the majority of remittances go to basic goods for receiving households, studies indicate that globally about US$ 80 billion - 20 per cent of remittances - could be available for investment purposes if such options were readily available.[6]

## 16.3.1 Remittances

Global diaspora resources represent a key source of funding for development. There are an estimated 244 million migrants in the world,[7] and they sent an estimated US$ 435 billion in recorded remittances to developing countries in 2015 (an increase of 2 per cent over the previous year). Actual remittances are perceived to be much higher, as many resources are transferred through informal channels.[8] These resource flows represent more than three times the value of development aid.




[5] McArthur, J. (2015), "What Happened at the Addis Financing for Development Conference?," Brooking Institute, Washington, D.C.

[6] Nwanze, K.F. (2015), "Empowering Families to Finance Development with Remittances and Diaspora Savings", available at http://www.brookings.edu/blogs/future-development/posts/2015/07/08-financing-remittances-diaspora-nwanze.[7] "Trends in International Migrant Stock: The 2015 Revision", available at www.unmigration.org.

[7] "Trends in International Migrant Stock: The 2015 Revision", available at www.unmigration.org.

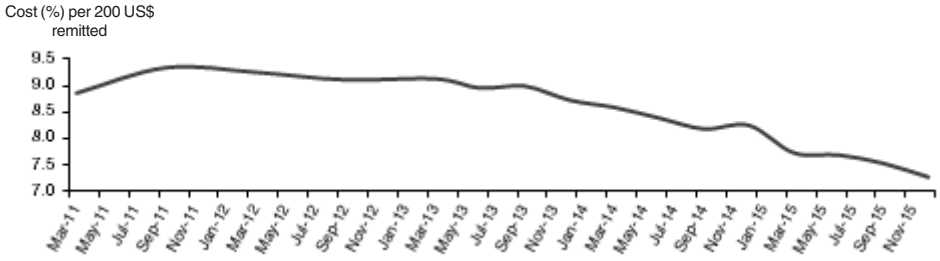
[8] World Bank (2013), "Financing for Development Post-2015", World Bank, Washington, D.C.

SDGs and the Addis Ababa Action Agenda on FfD advocate the need for reductions in the costs of transacting remittances. The target is to reduce the average transaction cost of migrant remittances by 2030 to less than 3 per cent of the amount transferred. Competition is the most effective method of reducing costs. It follows that the cost of transferring funds is found to be highest in smaller remittance markets. The Agenda commits to a further goal of ensuring no remittance corridor charges amount to more than 5 per cent by 2030, an ambitious ceiling for these smaller markets. According to World Bank estimates, cutting prices by 5 percentage points can save up to US$16 billion a year in transaction costs.[9]

Data from Remittance Prices Worldwide (RPW) shows that the global average cost of sending remittances was 7.3 per cent in 2015 compared with an average of 8.8 per cent in 2011 (Figure 16.5). Although significant progress is being made, average costs remain far above the targets stipulated in the FfD Agenda.

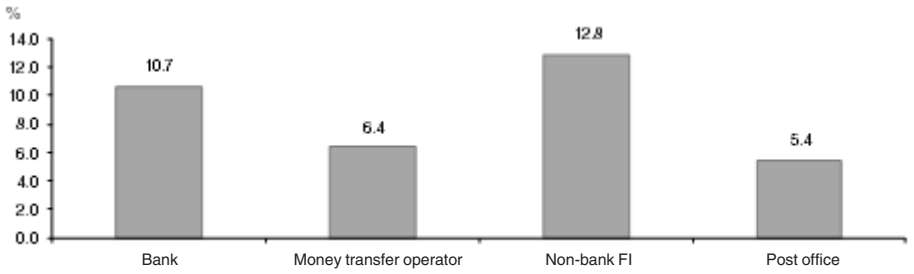
There is also significant disparity in the costs of transacting through different types of intermediaries. Non-bank financial institutions have the highest costs at 12.8 per cent, owing to the higher costs that they themselves incur in facilitating the transfer (Figure 16.6). The FfD Agenda will seek to increase coordination among national regulatory authorities to remove

**Figure 16.5**
**RPW Index on Transfer Cost**




Source: World Bank, "Remittance Prices Worldwide".

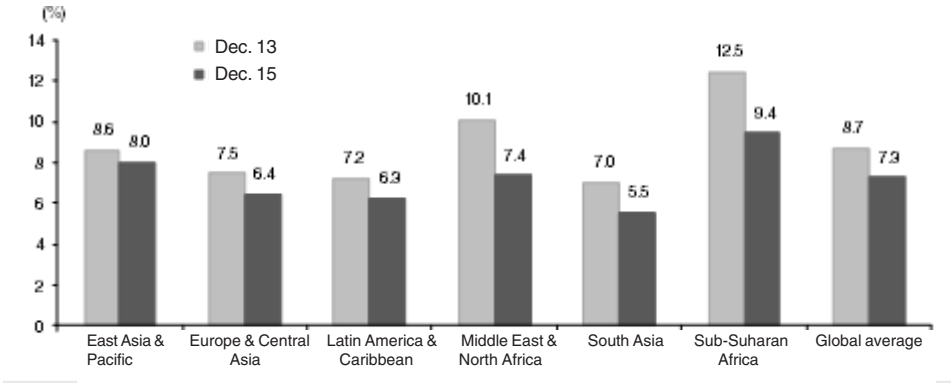
**Figure 16.6**
**Remittance Costs by Intermediary Type**




Source: World Bank, "Remittance Prices Worldwide".

[9] World Bank, Remittances Worldwide database at https://remittanceprices.worldbank.org/en

**Figure 16.7**
**Remittance Cost by Region**




Source: World Bank, "Remittance Prices Worldwide".

obstacles to non-bank remittance service providers accessing payment infrastructure. Increased pressure to transparently disclose pricing will further incentivize a reduction in these costs.

Figure 16.7 illustrates the disparity in pricing between regions. All regions have seen declines in costs since 2014 with the largest improvements in Sub-Saharan Africa (-3.1 per cent) and MENA (-2.7 per cent). South Asia has the lowest costs at just 5.5 per cent but still remains above the Agenda's 5 per cent target.

Competition is essential to lower these costs. Large remittance corridors by volume tend to have a greater number of money transfer operators and more competition, leading to lower prices and more transparency. Prices are decreasing in bigger volume corridors, but remain high in smaller remittance markets, involving transfers to smaller countries that are typically far more dependent on remittances as a share of GDP.[10] The most transparent are money transfer operators (MTOs) - with 98 per cent disclosing full information to their customers; for banks, this figure is 76 per cent whilst Post Offices are just 45 per cent.[11]

## 16.3.2 Climate Finance

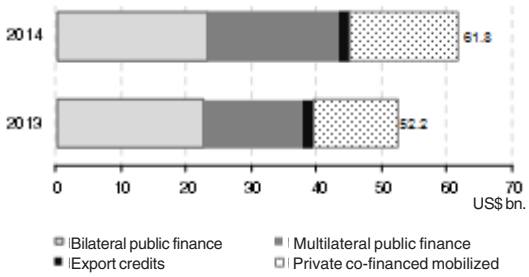
Linking climate finance and development finance ensures that in striving to achieve sustainable development, sustainability and climate effects are considered collectively such that one does not adversely impact the other and vice versa. Developed countries have committed to mobilizing US$ 100 billion a year by 2020 for climate action in developing countries. This initial commitment was made at COP15 in Copenhagen in 2006 and there has been significant progress in meeting this goal. Climate finance funds reached US$ 52 billion in 2013 and US$ 62 billion in 2014.[12]

[10] World Bank (2013), "Financing for Development Post-2015", World Bank, Washington, D.C.

[11] World Bank (2013), "Migration and Development Brief 20", World Bank, Washington, D.C.

[12] OECD and Climate Policy Initiative (CPI) (2015), "Climate Finance in 2013-24".

**Figure 16.8**
**Mobilized Climate Finance in 2013 and 2014, by Funding Source**




Source: Climate Policy Initiative, OECD.

**Developed countries have committed to mobilizing US$ 100 billion a year by 2020 for climate action in developing countries.**

Total finance from all sources reached in excess of US$ 391 billion in 2014, of which 62 per cent came from private investment and 38 per cent came from public climate finance (Figure 16.8). Public actors can set the groundwork for global climate finance by reducing the costs and risks of climate investments, strengthening knowledge and technical capacity, and paving the way in new technologies and enhancing the confidence in such investments.

Carbon pricing policies, such as carbon taxes or emissions trading combined with auctioning of allowances, are all promising concepts in their scope to mobilize larger private investment. The use of pricing policies can alter incentives such that low-carbon technologies become more competitive, thereby levelling the playing field for private companies committing to these substantial investments.

An innovative tool for generating climate finance is cap-and-trade schemes. The 'cap' sets a limit on the quantity of emissions that a company can release. The idea is that this limit is lowered over time as companies become more efficient and less pollutive. The 'trade' element creates a market for emission allowances, incentivizing companies to maximize their energy efficiency and come in under their allocated limit. In doing this, they are able to profit from selling their unused credit on the carbon markets. The scheme also creates incentive for project developers to invest in low-emissions projects (these include renewable energy, waste management, reforestation) as these generate carbon offsets which can also be sold on the carbon markets.

Overall, the size of these markets remains small and is yet to become mainstream. The total value of the carbon market reached a peak of US$ 176 billion in 2011. However, since then, external factors (Euro Zone recession and

commodity markets slump) have driven down the price of carbon credits, limiting their capacity to incentivize good practices. Low carbon prices mean that, left to market forces, existing technologies largely remain more attractive than green technologies.

## 16.3.3 New Financing Instruments

The Post-2015 FfD Agenda also addresses the need for innovation of new financial instruments. Instruments should be constructed such that they facilitate investment from specific target markets. Some of the examples include diaspora bonds, infrastructure bonds and blended finance.

Diaspora bonds and remittance-backed bonds have the potential to direct diaspora funds into infrastructure projects and other development projects in diaspora home countries. Diasporas tend to have lower perceptions of risk compared to traditional investors, due to existing ties to their home countries. This, combined with a certain willingness to 'give back' to their country of origin can help lower the cost of these funds. Evidence of home bias also makes these investments more stable than traditional foreign financing.[13]

India and Israel have been the first countries to successfully pioneer this funding strategy. Diaspora funds in India saved it from a 1991 BOP crisis and raised US$ 4.2 billion in 1998 to offset international sanctions imposed after nuclear tests, double the amount initially sought.[14] However, emulating their success has yielded mixed results. In 2009 and 2010, Nepal raised a fraction of its target when it offered yields below 10 per cent over five years on rupiah bonds, well below local rates at the time.[15] Moldova also decided against issuing diaspora bonds, concluding that Moldovans abroad who were willing to invest in its currency would prefer local bank accounts that pay 25 per cent interest.[16] The failure of Ethiopia's 2009 bond to fund a hydro-electric dam was attributed to the government's inability to convince investors it would repay the debt. The more recent second issuance raising funds for the Grand Ethiopian Renaissance Dam (GERD) aims to dispel these fears with new features such as payment of interest every six months. The bond also comes in denominations as small as US$ 50, ensuring that participation is not exclusive to wealthier citizens.[17]

Getting the pitch correct requires investment in knowledge of the diaspora's ties back home as well as their size, income and wealth characteristics. There are instances of countries attempting to build this capacity - Georgia as an example, established a Ministry of Diaspora Affairs and organises regular diaspora events in the capital. Maintaining diaspora ties to the country is essential as the first step to tapping into these capital flows.

Infrastructure bonds are another means of tapping funds for infrastructure investment in

[13] Okonjo-Iweala, N., and D. Ratha (2011), "A Bond for the Homeland," *Foreign Policy*, May 24, 2011.

[14] Ratha, D. (2007), "Development Finance via Diaspora Bonds: Track Record and Potential", Policy Research Working Paper 4311, World Bank, Washington, D.C.

[15] Rahman, M. and T. Yong (2015), *International Migration and Development in South Asia*, Routledge.

[16] Reuters (2016), "Countries Look to Draw Expatriate Cash with Diaspora Bonds", available at http://www.reuters.com/article/us-emerging-bonds-diaspora-idUSKCN0XE0ID.

[17] Fatunla, D.M. (2012), "Are Diaspora Bonds Worth the Risk for Diaspora Africans?", available at http://www.huffingtonpost.com/dele-meiji-fatunla/diaspora-bonds-in-africa_b_1377010.html.

**Table 16.1**
**Investment Needs and Private Sector Participation in Developing Countries**

| Sector | 2015 - 2030 | | | | |
|---|---|---|---|---|---|
| | Estimated Current Investment (latest available year) $ billion | Total Investment Required Annualized $ billion (constant price) | Investment Gap | Average Private Sector Participation in Current Investment | |
| | | | | Developing Countries | Developed Countries |
| | A | B | C = B - A | Per cent | |
| Power | ~260 | 630-950 | 370-690 | 40-50 | 80-100 |
| Transport | ~300 | 350-770 | 50-470 | 30-40 | 60-80 |
| Telecoms. | ~160 | 230-400 | 70-240 | 40-80 | 60-100 |
| Water and sanitation | ~150 | ~410 | ~260 | 0-20 | 20-80 |

Source: UNCTAD (2014), *World Investment Report 2014*, United Nations, New York and Geneva.

developing countries. New forms of financing can be achieved through the mobilization of local currency bond markets to issue project-specific bonds. The benefits lie in that they secure capital for a specific project. Repayments should also come from revenues generated by the project; thereby insulating the investment from the performance of other projects.

In order for these types of investment to flourish, governments need to establish the appropriate regulatory, supervisory and tax frameworks. For example, improving investment conditions and enhancing local market liquidity through government bonds will create stimulus for the growth of corporate bond markets. Thriving local bond markets ultimately facilitate infrastructure and asset-backed financing.

The success of these financial instruments often incorporates some form of public sector participation. For example, the success of infrastructure bonds in Chile and Peru stems partly from the presence of various guarantees.[18] In Peru, these were issued by the project operator as the project advances and carry a government certificate of completion. Peruvian pension funds were allowed to invest in these bonds from 2001 and have since established an infrastructure trust fund to invest in project debt.

In Africa, with the main exception of South Africa, pension funds are still relatively new and infrastructure project investments are very few and highly restricted by regulations. However, progress is taking place slowly. Since 2009, the Kenyan government has issued five infrastructure bonds targeted at specific infrastructure projects. The bonds have maturities ranging from 8-20 years and have been packaged with more incentives than typical government bonds. These bonds have proved popular with pension funds, which have taken significant portions of the total issue. In addition, a Kenyan energy generating company (Kengen Ltd.) issued an infrastructure bond in 2009 to fund a number of new projects. The bond issuance raised more than 160 per cent

[18] Stewart,F. and J. Yermo (2012), "Infrastructure Investment in New Markets: Challenges and Opportunities for Pension Funds", OECD Working Papers on Finance, Insurance and Private Pensions, No. 26, OECD, Paris.

of the original target; pension schemes accounted for around 40 per cent of the total take-up.[19]

Blended finance is another option. Neither the public sector nor private sector is able to fill the financing gap alone. Blended finance use development finance to mobilize private capital flows to developing countries. Blended finance instruments serve to lower investment-specific risks. A recent survey of blended finance funds identified 74 pooled public and private funds, accounting for a total of US$ 25.4 billion in committed assets.[20] These funds are already having an impact in sectors where blended finance occurs most often, including climate resilience and clean energy; financial services; food and agriculture; healthcare; and infrastructure.

The construction and use of blended finance instruments requires careful planning. Outcomes in the past have seen the public sector taking on all the risk whilst the private sector earns the returns.[21] Projects involving blended finance, including PPPs, should share risks and reward fairly, include clear accountability mechanisms and meet social and environmental standards.

## 16.4 Conclusion

The outcome document adopted at the Financing for Development Conference in Addis Ababa set out a blueprint for financing the needs of sustainable development. Resources must be channelled into these 'new' forms of financing to plug the funding gap left by traditional forms of development finance.

The MDGs process was relatively successful for Sri Lanka. By 2013, Sri Lanka was on track to achieve 24 of the 26 targets laid out. However, the MDGs were less demanding for Sri Lanka due to the head start it had in a number of key areas including health and education. As early as the 1950s, policies had been in place to develop these areas and, therefore, the funding required to meet these goals was very achievable without recourse to the steps described. The SDGs by comparison pose a significant challenge for Sri Lanka, particularly in light of the country's weak domestic public finance situation. Furthermore, Sri Lanka's

**The SDGs, by comparison to MDGs, pose a significant challenge for Sri Lanka, particularly in light of the country's weak domestic public finance situation.**

[19] OECD (2015), "Risk and Return Characteristics of Infrastructure Investment in Low Income Countries", OECD, Paris.

[20] WEF and OECD (2015), "Blended Finance: A Primer for Development Finance and Philanthropic Funders", OECD, Paris.

[21] UN (2014) Report of the Intergovernmental Committee of Experts on Sustainable Development Financing.

graduation from low income to middle incomes status in January 2010 limits its access to concessional funding sources and thereby increases its reliance on international capital markets and other non-concessional sources of borrowing. In light of these trends, Sri Lanka needs to look to less traditional forms of financing in order to effectively meet its funding needs.

Sri Lanka is still relatively inexperienced in the new financing instruments explored in this chapter. Two potential areas that can be looked at in the near term are various types of bonds as financing instruments and raising volumes of remittances through lower transfer costs. In February 2009, the country attempted to generate funds from issues of diaspora bonds; however, the context of the final stages of the war and strained relations with sections of the diaspora organizations would have hampered demand significantly. Now, far-removed from these factors, Sri Lanka can re-examine opportunities to diversify its bond offering into diaspora bonds and infrastructure bonds.

Remittances are an important source of savings and investment for Sri Lanka. The main remittance transfer corridors for Sri Lanka are Australia, Canada, Italy, Qatar, Saudi Arabia, Singapore, Switzerland, UAE and United Kingdom. Transfer costs range from 14.6 per cent and 8.9 per cent in Switzerland and Australia to just 2.9 per cent in Singapore. For many higher cost source countries, averages are skewed by uncompetitive high bank charges in comparison to more specialized Money Transfer Operators. However, even excluding the banks, transaction costs from several of these source destinations are higher than the 5 per cent target cap level and, therefore, a reduction in line with FfD targets will ensure benefits in terms of encouraging remittance flows into Sri Lanka.

[22] Data available at https://remittanceprices.worldbank.org/.

# APPENDICES

# Appendix A: Macroeconomic Indicators (Statistical Base)

## Table A1: Socio-Economic Indicators

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **1.** | **Basic indicator** | **Unit** | | | | | |
| | Area: | Sq. km. | 65,610 | | | | |
| | Mid year population (2015) | ('000) | 20,966 | | | | |
| | Population growth rate (2015) | % | n.a. | | | | |
| | Life expectancy at birth (2014) | years | 74.9 | | | | |
| | Infant mortality rate (2013) | per 1000 live births | 8.2 | | | | |
| | Gross school enrolment ratio (2005)(a) | % | 62.7 | | | | |
| | Adult literacy rate (2014) | % | 93.3 | | | | |
| | Human development index (HDI) (2014) | Value | 0.757 | | | | |
| | Human poverty index (HPI) (2005) | Value | 17.8 | | | | |
| **2.** | **Output, labour force and employment** | | **2011** | **2012** | **2013** | **2014** | **2015(e)** |
| | GNP at current market prices | Rs. bn. | 6,471.0 | 7,424.0 | 8,448.0 | 9,545.0 | - |
| | GDP at current market prices | Rs. bn. | 7,219.0 | 8,732.0 | 9,592.0 | 10,448.0 | 11,183.0 |
| | GDP per capita at current market prices | US$ | 3,129.0 | 3,351.0 | 3,610.0 | 3,853.0 | 3,924.0 |
| | Labour force (p) | mn. | 8.6 (l) | 8.5 (l) | 8.8 (l) | 8.8 (l) | 9.0 (l) |
| | Labour force participation | % | 47.8 (l) | 52.6 (l) | 53.8 (l) | 53.3 (l) | 53.8 (l) |
| | Unemployment | % | 4.2 (l) | 4.0 (l) | 4.4 (l) | 4.3 (l) | 4.6 (l) |
| **3.** | **Real output growth (g)** | | | | | | |
| | GDP | % | 8.4 | 9.1 | 3.4 | 4.9 | 4.8 |
| | Agriculture, forestry, and fishing | % | 4.6 | 3.9 | 3.2 | 4.9 | 5.5 |
| | Mining and quarrying | % | 18.6 | 24.6 | 7.6 | 2.2 | -0.9 |
| | Manufacturing | % | 3.5 | 3.2 | 2.3 | 2.3 | 4.7 |
| | Construction | % | 26.3 | 21.2 | 7.5 | 6.6 | -0.9 |
| | Services | % | 8.9 | 11.2 | 3.8 | 5.2 | 5.3 |
| **4.** | **Prices & wages** | | | | | | |
| | CCPI (2002 = 100) - annual average | % change | - | - | - | - | - |
| | CCPI (2006/07 = 100) - annual average (n) | % change | 6.7 | 7.6 | 6.9 | 3.3 | 0.9 |
| | WPI - annual average | % change | 10.6 | 3.5 | 9.2 | 3.2 | 1.0 |
| | Implicit GNP deflator (g) | % change | 7.9 | 8.9 | 6.7 | 5.1 | - |
| | Real wage rates (q) | | | | | | |
| | Workers in wages boards trades | % change | -2.0 | 13.8 | -1.2 | 0.4 | 1.9 |
| | Government employees | % change | -0.1 | -3.7 | -2.7 | 6.7 | 27.0 |
| **5.** | **Consumption, Investment, and Savings (g)** | | | | | | |
| | Consumption | % of GDP | 79.8 | 72.8 | 75.4 | 76.0 | 77.4 |
| | Gross domestic capital formation | % of GDP | 33.4 | 39.1 | 33.2 | 32.0 | 30.1 |
| | Gross domestic savings | % of GDP | 20.2 | 27.2 | 24.6 | 24.0 | 22.6 |
| | Gross national savings | % of GDP | 26.3 | 33.3 | 29.9 | 29.5 | 27.8 |
| | Net Imports of Goods and Services | % of GDP | -13.2 | -11.9 | -8.6 | -8.0 | -7.4 |
| **6.** | **Government finance (g)** | | | | | | |
| | Revenue | % of GDP | 13.4 | 12.0 | 11.9 | 11.4 | 13.0 |
| | Expenditure & net lending | % of GDP | 19.9 | 17.8 | 17.4 | 17.2 | 20.5 |
| | Current expenditure | % of GDP | 14.2 | 13.0 | 12.6 | 12.7 | 15.2 |
| | Capital expenditure & net lending | % of GDP | 5.7 | 4.9 | 4.8 | 4.5 | 5.3 |
| | Current a/c balance | % of GDP | -0.8 | -0.9 | -0.7 | -1.2 | -2.2 |
| | Budget deficit | | | | | | |
| | Primary deficit | % of GDP | -1.3 | -0.9 | -0.8 | -1.5 | -2.9 |
| | Overall deficit (before grants) | % of GDP | -6.2 | -5.6 | -5.4 | -5.7 | -7.4 |
| | Public debt | | | | | | |
| | External | % of GDP | 32.3 | 31.7 | 30.9 | 29.8 | 31.7 |
| | Domestic | % of GDP | 38.8 | 37 | 40 | 40.9 | 44.3 |

| | | Unit | 2011 | 2012 | 2013 | 2014 | 2015(e) |
|---|---|---|---|---|---|---|---|
| **7.** | **External trade** | | | | | | |
| | Terms of trade | % change | -8.9 | -1.5 | 4.6 | 4.3 | 2.3 |
| | Import price index | % change | 22.0 | -5.8 | -4.7 | -1.5 | -11.8 |
| | Export price index | % change | 11.1 | -7.3 | -0.3 | 2.7 | -9.8 |
| | Import volume index | % change | 23.6 | 0.5 | -1.5 | 9.5 | 10.6 |
| | Export volume index | % change | 10.2 | -0.2 | 6.7 | 4.3 | 4.6 |
| **8.** | **External finance (g)** | | | | | | |
| | Trade balance | % of GDP | -14.9 | -13.8 | -10.2 | -10.4 | -10.2 |
| | Current account balance | % of GDP | -7.1 | -5.8 | -3.4 | -2.5 | -2.4 |
| | Capital & financial account balance | % of GDP | 6.5 | 6.4 | 4.2 | -1.8 | -2.7 |
| | Foreign direct investments | % of GDP | 1.4 | 1.3 | 1.2 | 1.1 | 0.8 |
| | Foreign portfolio investments | % of GDP | -0.3 | 0.4 | 0.3 | 0.2 | -0.1 |
| | Import capacity | months of imports (d) | 4.7 | 5.4 | 5.7 | 6.1 | 5.9 |
| | External debt | % of GDP | 50.2 | 54.2 | 53.7 | 53.6 | 54.4 |
| | Debt-service ratio (m) | % of exports | 13.2 | 19.7 | 26.8 | 20.8 | 27.7 |
| **9.** | **Exchange rates (year end)** | | | | | | |
| | U.S.A. | Rs./US$ | 113.9 | 127.2 | 130.8 | 131.0 | 144.1 |
| | U.K. | Rs./UK Pound | 175.4 | 205.5 | 215.6 | 204.0 | 213.6 |
| | Japan | Rs./Yen | 1.5 | 1.5 | 1.2 | 1.1 | 1.2 |
| | European Union | Rs./Euro | 147.4 | 168.1 | 180.5 | 159.4 | 157.4 |
| | India | Rs./Rs. Indian | 2.2 | 2.3 | 2.1 | 2.1 | 2.2 |
| | SDR | Rs./SDR | 174.9 | 195.3 | 201.4 | 189.9 | 199.6 |
| **10.** | **Money supply** | | | | | | |
| | Narrow money supply (M1) | % change | 7.7 | 2.6 | 7.7 | 26.3 | 16.8 |
| | Broad money supply (M2) | % change | 19.1 | 17.6 | 16.7 | 13.4 | 17.8 |
| | Domestic credit | % change | 34.3 | 21.7 | 13.7 | 10.5 | 23.5 |
| | External banking assets | % change | -74.0 | -126.3 | -195.5 | 119.8 | -2071.2 |
| **11.** | **Interest rates** | | | | | | |
| | Treasury bill yeild rates | | | | | | |
| | 3 month | % per annum | 8.7 | 10.0 | 7.5 | 5.7 | 6.5 |
| | 12 months | % per annum | 9.3 | 11.7 | 8.3 | 6.0 | 7.3 |
| | Call money rates | % per annum | 9.0 | 9.8 | 7.7 | 6.2 | 6.4 |
| | Average prime lending rate | % per annum | 10.8 | 14.4 | 10.1 | 6.3 | 7.5 |
| | Commercial banks saving | % per annum | 8.5 | 10.5 | 9.1 | 8.0 | 8.0 |
| | NSB saving | % per annum | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| | Commercial banks fixed deposits | % per annum | 11.0 | 17.0 | 16.0 | 12.0 | 15.0 |
| | NSB fixed deposits | % per annum | 8.5 | 12.5 | 9.5 | 6.5 | 7.3 |
| **12.** | **Share market indicators** | | | | | | |
| | Annual turnover | Rs. bn. | 546.3 | 213.8 | 200.5 | 340.9 | 253.3 |
| | Companies listed | No. | 272 | 287 | 289 | 294 | 294 |
| | Market capitalisation | Rs. bn. | 2,214 | 2,168 | 2,460 | 3,105 | 2,938 |
| | Net purchases by non-nationals | Rs. mn. | -19,039 | 38,661 | 22,783 | 21,217 | -5,372 |
| | Share price indices | | | | | | |
| | CSE Share | (Index, 1985 = 100) | 6,074.4 | 5,643.0 | 5,912.8 | 7,299.0 | 6,894.5 |
| | CSE Sensitive(f) | (Index, 1998 Dec = 1000) | 5,229.2 | 5,119.1 | - | - | - |

Notes:
(a): Combined first, second, and third level gross enrolment ratio.
(b): Excluding Northern and Eastern Provinces.
(c): Average of four quarters.
(d): Months of same year imports.
(e): Provisional
(f): The Milanka Price Index(MPI) was introduced in Janaury 1999, (1998 December = 1000) to replace the Sensityive Price Index.
(g): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics and from 2010 onwards rebased GDP estimates (base year 2010) have been used.
(h): Excluding Northern Province.
(i): Excluding Mullaitivu and Killinochchi districts.
(j): From 2007 onwards, trade indices have been calculated with a wider coverage using 2010 as the base year.
(k): Estimates from 2006 onwards are based on National Accounts data of the Department of Census and Statistics.
(l): Data covers the entire island.
(m): The rebased CCPI (2006/07 = 100) has replaced CCPI (2002 = 100).
(n): Overall debt service ratios were reclassified to capture debt servicing"of government, short-term debt in accordance with the External Debt Statistics Manual (2003) "of the IMF."
(p): Data up to 2011 for household population aged 10 and above "while that of 2012 onwards for those aged 15 and above"
(q): Real wage rate indices are based on CCPI (2006/07 = 100).
(r): The data is based on the base year 2010 GDP estimates of the Department of Census and Statistics.

Sources: IPS database.
Central Bank of Sri Lanka, *Annual Report,* various issues.
Colombo Stock Exchange, *Annual Report,* various issues.
UNDP, *Human Development Report,* various issues.
Dept. of Census and Statistics, *Quarterly Report of the Sri Lanka Labour Force Survey*, various issues.

## Table A2: Gross Domestic Product (GDP), Mid-year Population (POP), Per Capita GDP (PGDP), and their Growth Rates, 1993-2015

| | Constant Prices (c) | | | Growth Rates | | |
|---|---|---|---|---|---|---|
| | GDP | PGDP | POP(b) | GDP | PGDP | POP |
| | Rs. mn. | Rs.mn. | ('000) | | | |
| 1993 | 602,171.5 | 34,125.1 | 17,646 | 6.9 | 5.6 | 1.3 |
| 1994 | 636,061.5 | 35,552.0 | 17,891 | 5.6 | 4.2 | 1.4 |
| 1995 | 670,742.2 | 36,984.0 | 18,136 | 5.5 | 4.0 | 1.4 |
| 1996 | 695,934.0 | 37,954.5 | 18,336 | 3.8 | 2.6 | 1.1 |
| 1997 | 739,763.0 | 39,840.7 | 18,568 | 6.3 | 5.0 | 1.3 |
| 1998 | 774,796.0 | 41,247.7 | 18,784 | 4.7 | 3.5 | 1.2 |
| 1999 | 808,340.0 | 42,419.2 | 19,056 | 4.3 | 2.8 | 1.4 |
| 2000 | 857,035.0 | 44,866.2 | 19,102 | 6.0 | 5.8 | 0.2 |
| 2001 | 843,794.0 | 44,889.8 | 18,797 | -1.5 | 0.1 | 1.6 |
| 2002 | 877,284.0 | 46,365.6 | 18,921 | 4.0 | 3.3 | 0.7 |
| 2003(c) | 1,733,222.0 | 90,399.1 | 19,173 | 5.9 | 4.6 | 1.3 |
| 2004 | 1,827,597.0 | 94,036.4 | 19,435 | 5.4 | 4.0 | 1.4 |
| 2005 | 1,941,671.0 | 98,843.0 | 19,644 | 6.2 | 5.1 | 1.1 |
| 2006 | 2,090,548.0 | 105,274.9 | 19,858 | 7.7 | 6.5 | 1.1 |
| 2007 | 2,232,656.0 | 111,415.5 | 20,039 | 6.8 | 5.8 | 1.2 |
| 2008 | 2,365,501.0 | 116,837.9 | 20,246 | 6.0 | 4.9 | 1.1 |
| 2009 | 2,449,214.0 | 119,613.9 | 20,476 | 3.5 | 2.4 | 1.1 |
| 2010 | 6,413,668.0 | 310,213.7 | 20,675 | 8.0 | 7.0 | 1.0 |
| 2011 | 6,952,720.0 | 333,160.2 | 20,869 | 8.4 | 7.4 | 1.0 |
| 2012 | 7,588,517.0 | 371,549.0 | 20,424 | 9.1 | 11.5 | 0.9 |
| 2013 | 7,846,202.0 | 381,272.3 | 20,579 | 3.4 | 2.6 | 0.8 |
| 2014 | 8,228,986.0 | 396,176.7 | 20,771 | 4.9 | 3.9 | 0.9 |
| 2015(d) | 8,622,825.0 | 411,276.6 | 20,966 | 4.8 | 3.8 | 0.9 |

Notes: (a): Up to 2002 data are based on 1996 prices , from 2003 onwards data are based on 2002 prices and from 2010 onwards data are based on 2010 prices.

(b): From 2001 figures are based on Census of Population and Housing - 2001.
From 2012 figures are based on Census of Population and Housing - 2012.
From 2011 figures are provisional.

(c): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics and from 2010 onwards rebased GDP estimates (base year 2010) have been used.

(d): Provisional.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A3: Structure and Growth of Output, 2010-2015

| | Unit | 2010 | 2011 | 2012 | 2013 | 2014 | 2015(a) |
|---|---|---|---|---|---|---|---|
| **1. Structure of output** | | | | | | | |
| Agriculture, forestry & fishing | % of total output | 8.5 | 8.2 | 7.8 | 7.8 | 7.8 | 7.9 |
| Manufacturing, mining and quarrying and other industries | % of total output | 21.4 | 20.7 | 20.0 | 20.0 | 19.5 | 19.4 |
| Construction | | 5.2 | 6.1 | 6.8 | 7.1 | 7.2 | 6.8 |
| Wholesale and retail trade, transportation and storage, accommodation and food service activities | % of total output | 22.8 | 23.6 | 23.6 | 23.5 | 23.3 | 23.2 |
| Information and communication | % of total output | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 |
| Financial and insurance activities | % of total output | 5.3 | 5.5 | 5.7 | 5.8 | 6.1 | 6.7 |
| Real estate activities (including ownership of dwelling) | % of total output | 4.8 | 4.7 | 4.9 | 5.3 | 5.4 | 5.6 |
| Professional, scientific, technical, administration and support service activities | % of total output | 1.7 | 1.8 | 2.1 | 2.1 | 2.0 | 1.8 |
| Public administration, defense, education, human health and social work activities | % of total output | 10.3 | 9.5 | 9.6 | 8.7 | 8.8 | 8.7 |
| Other services (excluding own?services) | % of total output | 9.2 | 9.2 | 9.6 | 10.2 | 10.2 | 10.0 |

| | Unit | 2011/10 | 2012/11 | 2013/12 | 2014/13 | 2015/14(a) |
|---|---|---|---|---|---|---|
| **2. Real output growth** | | | | | | |
| Agriculture, forestry & fishing | % growth | 4.6 | 3.9 | 3.2 | 4.9 | 5.5 |
| Manufacturing, mining and quarrying and other industries | % growth | 5.1 | 5.5 | 2.9 | 2.5 | 4.4 |
| Construction | % growth | 26.3 | 21.2 | 7.5 | 6.6 | -0.9 |
| Wholesale and retail trade, transportation and storage, accommodation and food service activities | % growth | 12.6 | 9.1 | 2.7 | 4.0 | 4.6 |
| Information and communication | % growth | 6.8 | 8.5 | 7.7 | 11.6 | 12.5 |
| Financial and insurance activities | % growth | 11.5 | 13.5 | 5.3 | 9.6 | 14.8 |
| Real estate activities (including ownership of dwelling) | % growth | 6.8 | 12.7 | 12.8 | 6.5 | 9.6 |
| Professional, scientific, technical, administration and support service activities | % growth | 13.7 | 22.3 | 4.0 | 2.8 | -7.1 |
| Public administration, defense, education, human health and social work activities | % growth | 0.0 | 10.2 | -5.5 | 5.5 | 3.2 |
| Other services (excluding own?services) | % growth | 8.6 | 13.6 | 10.0 | 4.7 | 2.9 |
| GDP | % growth | 8.4 | 9.1 | 3.4 | 4.9 | 4.8 |

Notes: (a): Provisional.

Source: Department of Census and Statistics, National Accounts of Sri Lanka.

## Table A4: Value Added in Industry and Industrial Production, 2010-2015

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015(a) |
|---|---|---|---|---|---|---|
| **1. Value added, current prices** (Rs. mn.) | | | | | | |
| Food, beverages & tobacco products | 433,769 | 604,367 | 798,849 | 801,748 | 969,402 | 1,099,149 |
| Textiles, wearing apparel and leather related products | 264,905 | 289,134 | 346,377 | 365,685 | 379,633 | 384,746 |
| Wood and of products of wood and cork (including furniture) | 82,720 | 85,044 | 82,913 | 85,331 | 90,118 | 92,716 |
| Paper products, printing and reproduction of media production | 26,094 | 28,325 | 26,989 | 28,261 | 21,294 | 22,530 |
| Coke and refined petroleum products | 22,281 | 5,872 | 40,339 | 66,064 | 11,869 | 33,909 |
| Chemical products and basic pharmaceutical products | 69,450 | 41,293 | 54,254 | 62,740 | 83,855 | 87,789 |
| Rubber and plastic products | 63,257 | 66,871 | 85,188 | 74,995 | 69,071 | 73,639 |
| Basic metals and fabricated metal products | 31,665 | 29,705 | 32,086 | 34,300 | 35,014 | 39,162 |
| Machinery and transport equipment | 35,909 | 34,119 | 33,735 | 34,584 | 21,694 | 22,973 |
| Electricity, gas, steam and air conditioning supply | 68,491 | 67,665 | 78,833 | 90,539 | 76,370 | 45,620 |
| Construction | 336,381 | 451,714 | 621,140 | 715,455 | 786,393 | 823,519 |
| Total | 1,434,922 | 1,704,109 | 2,200,703 | 2,359,702 | 2,544,713 | 2,725,752 |
| **2. Composition of industrial production** (%) | | | | | | |
| Food, beverages & tobacco products | 30.2 | 35.5 | 36.3 | 34.0 | 38.1 | 40.3 |
| Textiles, wearing apparel and leather related products | 18.5 | 17.0 | 15.7 | 15.5 | 14.9 | 14.1 |
| Wood and of products of wood and cork, except furniture | 5.8 | 5.0 | 3.8 | 3.6 | 3.5 | 3.4 |
| Paper products, printing and reproduction of media prod | 1.8 | 1.7 | 1.2 | 1.2 | 0.8 | 0.8 |
| Coke and refined petroleum products | 1.6 | 0.3 | 1.8 | 2.8 | 0.5 | 1.2 |
| Chemical products and basic pharmaceutical products | 4.8 | 2.4 | 2.5 | 2.7 | 3.3 | 3.2 |
| Rubber and plastic products | 4.4 | 3.9 | 3.9 | 3.2 | 2.7 | 2.7 |
| Basic metals and fabricated metal products | 2.2 | 1.7 | 1.5 | 1.5 | 1.4 | 1.4 |
| Machinery and transport equipment | 2.5 | 2.0 | 1.5 | 1.5 | 0.9 | 0.8 |
| Electricity, gas, steam and air conditioning supply | 4.8 | 4.0 | 3.6 | 3.8 | 3.0 | 1.7 |
| Construction | 23.4 | 26.5 | 28.2 | 30.3 | 30.9 | 30.2 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 |

Notes: (a): Provisional.

Source: Department of Census and Statistics, National Accounts of Sri Lanka.

## Table A5: Major Agricultural Crops, Production and Prices, 1993-2015

| | Tea | | | Rubber | | | Coconut | | Paddy | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Production | Price | | Production | Price | | Production | Price(a) | Production | Price(b) |
| | Mn. kg. | Colombo (net) Rs/kg. | Export (f.o.b.) Rs/kg. | Mn. kg. | Colombo (RSS 1) Rs/kg. | Export (f.o.b.) Rs/kg. | Mn.nut | Rs./nut | ' 000 Mt | Rs./bushel(c) |
| 1993 | 231.9 | 68.88 | 91.16 | 104.2 | 35.48 | 44.34 | 2,164 | 6.31 | 2,570 | 155.00 |
| 1994 | 242.2 | 65.12 | 91.32 | 105.3 | 50.36 | 51.81 | 2,622 | 5.67 | 2,684 | 155.00 |
| 1995 | 245.9 | 72.21 | 102.31 | 105.7 | 72.04 | 83.69 | 2,755 | 6.08 | 2,810 | 155.00 |
| 1996 | 259.0 | 103.88 | 139.56 | 112.5 | 67.88 | 79.73 | 2,546 | 9.42 | 2,061 | 155.00 |
| 1997 | 277.4 | 119.40 | 158.39 | 105.8 | 56.71 | 75.42 | 2,631 | 9.63 | 2,239 | 155.00 |
| 1998 | 280.7 | 134.35 | 184.94 | 95.7 | 49.83 | 67.72 | 2,504 | 8.31 | 2,692 | 155.00 |
| 1999 | 284.2 | 115.31 | 162.39 | 96.6 | 45.35 | 53.73 | 2,828 | 9.95 | 2,857 | 155.00 |
| 2000 | 306.8 | 135.53 | 184.73 | 87.6 | 54.91 | 66.87 | 3,096 | 7.35 | 2,860 | 155.00 |
| 2001 | 296.3 | 143.96 | 208.89 | 86.2 | 54.77 | 66.17 | 2,796 | 7.05 | 2,695 | - |
| 2002 | 310.6 | 149.30 | 216.26 | 90.5 | 68.76 | 69.53 | 2,392 | 12.06 | 2,859 | - |
| 2003 | 304.8 | 149.05 | 221.01 | 92.0 | 93.60 | 105.25 | 2,562 | 9.98 | 3,071 | - |
| 2004 | 309.4 | 180.74 | 248.38 | 94.7 | 127.20 | 127.26 | 2,591 | 11.03 | 2,628 | - |
| 2005 | 317.2 | 185.84 | 263.81 | 104.4 | 140.99 | 147.98 | 2,515 | 13.04 | 3,246 | - |
| 2006 | 310.8 | 198.87 | 279.97 | 109.2 | 202.23 | 204.70 | 2,785 | 12.08 | 3,342 | - |
| 2007 | 305.2 | 279.10 | 364.28 | 117.6 | 234.22 | 234.48 | 2,869 | 16.26 | 3,131 | - |
| 2008 | 318.7 | 301.63 | 430.55 | 129.2 | 269.51 | 278.39 | 2,909 | 23.46 | 3,875 | - |
| 2009 | 291.0 | 360.80 | 470.11 | 136.9 | 211.65 | 202.30 | 2,853 | 18.23 | 3,652 | - |
| 2010 | 331.4 | 371.54 | 496.27 | 152.9 | 403.02 | 377.54 | 2,584 | 24.64 | 4,301 | - |
| 2011 | 327.5 | 360.68 | 510.41 | 158.2 | 508.80 | 535.40 | 2,808 | 39.15 | 3,894 | - |
| 2012 | 328.4 | 392.40 | 563.94 | 152.0 | 416.47 | 420.74 | 2,940 | 28.80 | 3,846 | - |
| 2013 | 340.0 | 445.83 | 623.91 | 130.4 | 376.90 | 389.91 | 2,513 | 29.36 | 4,621 | - |
| 2014 | 338.0 | 459.01 | 649.44 | 98.6 | 286.05 | 362.83 | 2,870 | 39.08 | 3,381 | - |
| 2015(d) | 329.0 | 401.46 | 593.08 | 88.6 | 248.17 | 342.03 | 3,056 | 54.54 | 4,819 | - |

Notes: (a): Average export price of the three major coconut products only.
(b): Guaranteed price.
(c): 20.9 kg. of paddy = 1 bushel of paddy.
(d): Revised.
(e): Provisional.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A6: Labour Force Participation of the Household Population All Island, 2003-2015

| | Household population (10 yrs. & over) | Labour force | Labour force participation | Labour force | | | |
|---|---|---|---|---|---|---|---|
| | | | | Employed | | Unemployed | |
| | No. mn. | No. mn. | rate (%) | No. mn. | Rate | No. mn. | Rate |
| 2003 (a) | | | | | | | |
| q1 | 15.6 | 7.6 | 49.1 | 6.9 | 90.8 | 0.7 | 9.2 |
| q2 | 15.6 | 7.5 | 48.3 | 6.9 | 91.9 | 0.6 | 8.1 |
| q3 | 15.7 | 7.6 | 48.6 | 7.0 | 91.6 | 0.6 | 8.4 |
| q4 | 15.8 | 7.8 | 49.6 | 7.2 | 92.1 | 0.6 | 7.9 |
| 2004 | | | | | | | |
| q1 (b) | 16.3 | 8.0 | 49.0 | 7.3 | 91.9 | 0.7 | 8.1 |
| q2 (e) | 16.5 | 8.0 | 48.6 | 7.3 | 91.0 | 0.7 | 9.0 |
| q3 (e) | 16.7 | 8.0 | 47.8 | 7.3 | 91.5 | 0.7 | 8.5 |
| q4 (e) | 16.7 | 8.2 | 48.8 | 7.5 | 91.8 | 0.7 | 8.2 |
| 2005 (c) | 16.9 | 8.1 | 48.3 | 7.5 | 92.3 | 0.6 | 7.7 |
| 2006 (d) | | | | | | | |
| q1 | 14.8 | 7.6 | 51.7 | 7.1 | 92.8 | 0.5 | 7.2 |
| q2 | 14.8 | 7.5 | 51.1 | 7.1 | 93.7 | 0.5 | 6.3 |
| q3 | 15.0 | 7.6 | 50.7 | 7.1 | 93.6 | 0.5 | 6.4 |
| q4 | 15.0 | 7.6 | 51.0 | 7.1 | 93.7 | 0.5 | 6.3 |
| 2007(d) | | | | | | | |
| q1 | 15.0 | 7.5 | 49.8 | 7.0 | 93.8 | 0.5 | 6.2 |
| q2 | 15.0 | 7.4 | 49.0 | 6.9 | 93.5 | 0.5 | 6.5 |
| q3 | 15.0 | 7.5 | 50.2 | 7.1 | 94.4 | 0.4 | 5.6 |
| q4 | 15.1 | 7.6 | 50.1 | 7.2 | 94.5 | 0.4 | 5.5 |
| 2008 (a) | | | | | | | |
| q1 | 16.3 | 8.0 | 49.1 | 7.6 | 94.9 | 0.4 | 5.1 |
| q2 | 16.3 | 8.0 | 49.0 | 7.6 | 94.5 | 0.4 | 5.5 |
| q3 | 16.3 | 8.2 | 50.3 | 7.7 | 94.5 | 0.4 | 5.5 |
| q4 | 16.4 | 8.2 | 49.7 | 7.7 | 94.6 | 0.4 | 5.4 |
| 2009 (a) | | | | | | | |
| q1 | 16.6 | 8.2 | 49.2 | 7.7 | 94.5 | 0.5 | 5.5 |
| q2 | 16.5 | 8.0 | 48.3 | 7.5 | 93.8 | 0.5 | 6.2 |
| q3 | 16.7 | 8.1 | 48.7 | 7.6 | 94.1 | 0.5 | 5.9 |
| q4 | 16.6 | 8.1 | 48.5 | 7.6 | 94.3 | 0.5 | 5.7 |
| 2010 (a) | | | | | | | |
| q1 | 16.9 | 8.1 | 48.2 | 7.7 | 95.0 | 0.4 | 5.0 |
| q2 | 16.8 | 8.1 | 47.9 | 7.6 | 94.6 | 0.4 | 5.4 |
| q3 | 16.8 | 8.0 | 47.4 | 7.6 | 95.1 | 0.4 | 4.9 |
| q4 | 17.0 | 8.3 | 48.8 | 7.9 | 95.5 | 0.4 | 4.5 |
| 2011 (a) | | | | | | | |
| q1 | 16.9 | 8.1 | 48.0 | 7.8 | 95.7 | 0.3 | 4.3 |
| q2 | 17.2 | 8.3 | 48.3 | 8.0 | 95.8 | 0.4 | 4.2 |
| q3 | 17.1 | 8.3 | 48.3 | 7.9 | 96.1 | 0.3 | 3.9 |
| q4 (f) | - | - | - | - | - | - | - |
| 2012 (e) | | | | | | | |
| q1 (f) | - | - | - | - | - | - | - |
| q2 | 17.8 | 8.3 | 46.4 | 7.9 | 96.1 | 0.3 | 3.9 |
| q3 | 17.8 | 8.4 | 47.2 | 8.1 | 95.9 | 0.3 | 4.1 |
| q4 | 18.1 | 8.7 | 48.1 | 8.4 | 96.1 | 0.3 | 3.9 |
| 2013 (e)(g) | | | | | | | |
| q1 | 16.4 | 8.9 | 54.2 | 8.5 | 95.4 | 0.4 | 4.6 |
| q2 | 16.4 | 8.9 | 54.2 | 8.5 | 95.6 | 0.4 | 4.4 |
| q3 | 16.4 | 8.8 | 53.8 | 8.4 | 95.6 | 0.4 | 4.4 |
| q4 | 16.4 | 8.7 | 53.0 | 8.3 | 95.9 | 0.4 | 4.1 |
| 2014 (e) | | | | | | | |
| q1 | 16.4 | 8.8 | 53.4 | 8.4 | 95.9 | 0.4 | 4.1 |
| q2 | 16.5 | 8.8 | 53.6 | 8.4 | 95.5 | 0.4 | 4.5 |
| q3 | 16.6 | 8.9 | 53.2 | 8.5 | 95.8 | 0.4 | 4.2 |
| q4 | 16.6 | 8.8 | 52.9 | 8.4 | 95.6 | 0.4 | 4.4 |
| 2015 (e) | | | | | | | |
| q1 | 16.6 | 8.9 | 53.6 | 8.5 | 95.3 | 0.4 | 4.7 |
| q2 | 16.6 | 9.0 | 54.3 | 8.6 | 95.5 | 0.4 | 4.5 |
| q3 | 16.7 | 9.0 | 53.8 | 8.6 | 95.0 | 0.5 | 5.0 |
| q4 | 16.7 | 8.9 | 53.6 | 8.6 | 95.7 | 0.4 | 4.3 |

Notes: Up to 4th quarter 2002, data excludes both Northern and Eastern provinces.
- (a) Including Eastern province but excluding Northern province.
- (b) Excluding Vavunia,Mullaitivu ,Kilinochchi districts.
- (c) Quarterly labour force survey was conducted as a one off survey in August 2005.
- (d) Excluding Northern & Eastern provinces.
- (e) All the districts are included.
- (f) Labour Force Survey was not conducted for this quarter.
- (g) All persons of age 10 years and over are considered to be in the working age (Labour Force) , before 2013. However, this was changed as age 15 and over from 2013 onward.

Source: Department of Census and Statistics, *Quarterly Report of the Sri Lanka Labour Force.*

## Table A7: Gross Domestic Fixed Capital Formation, 1993-2015

| | Private(a) | Public(b) | Total | Private(a) | Public(b) | Total | Private(a) | Public(b) | Total | Private(a) | Public(b) | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Rs. mn., current market prices) | | | (As % of GDP) | | | (At constant prices(c)(e)) | | | (Growth in real terms) | | |
| 1993 | 105,305 | 20,570 | | 21.1 | 4.1 | | 11084.7 | 2165.3 | | 28.3 | 58.8 | |
| 1994 | 136,649 | 17,611 | | 23.6 | 3.0 | | 14693.4 | 1893.7 | | 32.6 | -12.5 | |
| 1995 | 147,280 | 23,595 | | 22.1 | 3.5 | | 17533.3 | 2808.9 | | 19.3 | 48.3 | |
| 1996 | 160,181 | 23,328 | | 20.9 | 3.0 | | 13238.1 | 1927.9 | | -24.5 | -31.4 | |
| 1997 | 186,950 | 29,923 | | 21.0 | 3.4 | | 21738.4 | 3479.4 | | 64.2 | 80.5 | |
| 1998 | 221,754 | 33,960 | | 21.8 | 3.3 | | 26399.3 | 4042.9 | | 21.4 | 16.2 | |
| 1999 | 266,518 | 35,210 | | 24.1 | 3.2 | | 60572.3 | 8002.3 | | 129.4 | 97.9 | |
| 2000 | 311,460 | 41,132 | | 24.8 | 3.3 | | 46486.6 | 6139.1 | | -23.3 | -23.3 | |
| 2001 | 267,298 | 42,346 | | 19.0 | 3.0 | | 21556.3 | 3415.0 | | -53.6 | -44.4 | |
| 2002 | 298,731 | 31,812 | | 18.9 | 2.0 | | 35563.2 | 3787.1 | | 65.0 | 10.9 | |
| 2003(e) | 318,909 | 46,285 | | 17.5 | 2.5 | | 62,531.2 | 9,075.5 | | 75.8 | 139.6 | |
| 2004 | 422,060 | 51,262 | | 20.2 | 2.5 | | 47,961.4 | 5,825.2 | | -23.3 | -35.8 | |
| 2005 | 478,917 | 94,347 | | 19.5 | 3.8 | | 46,049.7 | 9,071.8 | | -4.0 | 55.7 | |
| 2006 | 624,972 | 105,938 | | 21.3 | 3.6 | | 55,307.3 | 9,375.0 | | 20.1 | 3.3 | |
| 2007 | 714,084 | 170,604 | | 20.0 | 4.8 | | 51,006.0 | 12,186.0 | | -7.8 | 30.0 | |
| 2008 | 852,708 | 262,602 | | 19.3 | 6.0 | | 52,313.4 | 16,110.6 | | 2.6 | 32.2 | |
| 2009 | 838,629 | 308,811 | | 17.3 | 6.4 | | 142,140.5 | 52,340.8 | | 171.7 | 224.9 | |
| 2010(f) | - | - | 1,522,847 | | | 23.7 | - | - | 208,609.2 | - | - | - |
| 2011 | - | - | 1,896,225 | | | 26.3 | - | - | 499,006.6 | - | - | 139.2 |
| 2012 | - | - | 2,533,056 | | | 29.0 | - | - | 234,542.2 | - | - | -53.0 |
| 2013 | - | - | 2,809,789 | | | 29.3 | - | - | 453,191.8 | - | - | 93.2 |
| 2014 | - | - | 2,808,720 | | | 26.9 | - | - | 720,184.6 | - | - | 58.9 |
| 2015(g) | - | - | 2,929,107 | | | 26.2 | - | - | 1,394,812.9 | - | - | 93.7 |

Notes: (a): Private sector and public corporations.
(b): Government and public enterprises.
(c): Current series deflated by GDP deflator.
(d): Provisional.
(e): Up to 1995 data are based on 1982 prices. From 1996-2002 data are based on 1996 prices. 2003-2009 data are based on 2002 prices. 2010 onwards data are based on 2010 prices
(f): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A8: Saving and Investment, 2001-2015

| | 2001 | 2002 | 2003 (c) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015(a) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **(As % of GDP)** | | | | | | | | | | | | | | | |
| Gross domestic capital formation | 22.0 | 21.2 | 22.0 | 25.3 | 26.8 | 28.0 | 28.0 | 27.6 | 24.4 | 30.4 | 33.4 | 39.1 | 33.2 | 32.0 | 30.1 |
| Gross domestic savings | 15.8 | 14.4 | 16.0 | 16.4 | 17.9 | 17.0 | 17.6 | 13.9 | 17.9 | 23.1 | 20.2 | 27.2 | 24.6 | 24.0 | 22.6 |
| Net imports of goods and non-factor services (b) | 6.2 | 6.7 | 6.0 | 8.8 | 8.9 | 11.0 | 10.4 | 13.7 | 6.5 | -7.3 | -13.2 | -11.9 | -8.6 | -8.0 | -7.4 |
| Net factor income from abroad | -1.7 | -1.5 | -0.9 | -1.0 | -1.2 | -1.4 | -1.1 | -2.4 | -1.2 | -1.1 | -1.0 | -1.8 | -2.4 | -2.3 | -2.2 |
| Net private transfers | 6.2 | 6.6 | 6.4 | 6.5 | 7.1 | 6.7 | 6.8 | 6.3 | 7.0 | 6.5 | 7.1 | 7.9 | 7.6 | 7.8 | 7.5 |
| Gross national savings | 20.3 | 19.5 | 21.5 | 22.0 | 23.8 | 22.3 | 23.3 | 17.8 | 23.7 | 28.5 | 26.3 | 33.3 | 29.9 | 29.5 | 27.8 |
| Foreign savings | 4.5 | 5.1 | 5.5 | 5.6 | 5.9 | 5.3 | 5.7 | 3.9 | 5.8 | 5.4 | 6.1 | 6.1 | 5.3 | 5.5 | 5.2 |

Notes: (a): Provisional.
(b): Also referred to as external inflow or the resources gap.
(c): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.
(d): From 2010 ,data are based on the base year 2010 GDP estimates of the Department of Census and Statistics.

Sources: IPS database; Central Bank of Sri Lanka, *Annual Report,* various issues.

## Table A9: Summary of Government Fiscal Operations, 2003-2015

| (As % of GDP) | 2003 ( c) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015(b) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 15.7 | 15.4 | 16.1 | 16.3 | 15.8 | 14.9 | 14.5 | 14.6 | 14.3 | 13.9 | 13.1 | 11.4 | 13 |
| Grants | 0.5 | 0.4 | 1.4 | 1.0 | 0.9 | 0.7 | 0.5 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 |
| Expenditure | | | | | | | | | | | | | |
| Current expenditure | 19.0 | 19.2 | 18.7 | 18.6 | 17.4 | 16.9 | 18.2 | 16.7 | 15.4 | 14.9 | 13.9 | 12.7 | 15.2 |
| Capital & net lending | 4.7 | 4.3 | 6.0 | 5.6 | 6.1 | 5.7 | 6.7 | 6.1 | 6 | 5.6 | 5.4 | 4.5 | 5.3 |
| Current account balance | -3.3 | -3.9 | -2.7 | -2.4 | -1.6 | -2.0 | -3.7 | -2.1 | -1.1 | -1.0 | -0.8 | -1.2 | -2.2 |
| Primary deficit | -0.9 | -2.2 | -3.6 | -2.9 | -2.6 | -2.2 | -3.5 | -1.7 | -1.4 | -1.1 | -0.8 | -1.5 | -2.9 |
| Overall deficit (before grants) | -8.0 | -8.2 | -8.7 | -8.0 | -7.7 | -7.7 | -9.9 | -8.0 | -6.9 | -6.5 | -5.9 | -5.7 | -7.4 |
| Financing budget deficit | | | | | | | | | | | | | |
| Foreign financing | 2.4 | 1.8 | 2.0 | 1.4 | 2.8 | -0.1 | 4.8 | 4.4 | 3.4 | 3.8 | 1.4 | 2.0 | 2.1 |
| Domestic financing | 4.5 | 5.8 | 5.2 | 5.6 | 3.6 | 7.1 | 5.1 | 3.6 | 3.5 | 2.7 | 4.5 | 3.6 | 5.3 |
| Market borrowings | 4.5 | 5.5 | 5.0 | 5.6 | 3.6 | 7.0 | 4.9 | 3.4 | 3.6 | 2.7 | 4.4 | 3.8 | 5.3 |
| Bank | -1.2 | 2.1 | 1.1 | 2.7 | 0.4 | 4.4 | 1.0 | - | 2.9 | 1.7 | 3.4 | 1.2 | 2.6 |
| Non-bank | 5.7 | 3.4 | 3.9 | 2.9 | 3.1 | 2.6 | 3.8 | 3.5 | 0.7 | 0.9 | 1.0 | 2.5 | 2.7 |
| Other borrowings | - | 0.2 | 0.2 | - | - | 0.1 | 0.2 | 0.2 | -0.1 | - | 0.1 | -0.1 | - |
| Privatisation proceeds(a) | 0.6 | 0.1 | - | - | - | - | - | - | - | - | - | - | - |

Notes: (a): Since 1994, privatization proceeds have been shifted from the capital expenditure and net lending category to the financing section.
(b): Provisional.
(c): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.
(d): From 2010 ,data are based on the base year 2010 GDP estimates of the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report,* various issues.

## Table A10: Money Supply and Underlying Factors, 1996-2015

| | Unit | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003(b) | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1. Financial depth** | | | | | | | | | | | |
| Narrow Money Supply | M1/GDP | 10.2 | 9.6 | 9.5 | 9.8 | 9.4 | 8.7 | 8.8 | 8.9 | 9.0 | 9.4 |
| Broad Money Supply | M2/GDP | 33.0 | 32.4 | 31.1 | 32.4 | 32.2 | 32.0 | 32.3 | 31.9 | 32.9 | 33.6 |
| 2. Monetary Expansion/Contraction | | | | | | | | | | | |
| Narrow Money Supply | % growth | 4.0 | 9.8 | 12.1 | 12.8 | 9.1 | 3.2 | 14.0 | 16.0 | 16.6 | 22.4 |
| Broad Money Supply | % growth | 10.8 | 13.8 | 9.7 | 13.3 | 13.0 | 11.4 | 13.2 | 13.8 | 18.5 | 19.6 |
| 3. Causal Factors | | | | | | | | | | | |
| 3.1 External Banking Assets | Rs.mn. | 61,861.0 | 89,292.0 | 93,724.0 | 83,892.0 | 59,448.0 | 80,019.0 | 101,717.0 | 129,487.0 | 129,152.0 | 167,147.0 |
| | % growth | -7.0 | 44.3 | 5.0 | -10.5 | -29.1 | 34.6 | 27.1 | 27.3 | -0.3 | 29.4 |
| 3.2 Domestic Credit | Rs.mn. | 292,395.0 | 323,046.0 | 369,517.0 | 432,888.0 | 549,927.0 | 638,876.0 | 680,396.0 | 731,872.0 | 895,942.0 | 1,067,385.0 |
| | % growth | 11.3 | 10.5 | 14.4 | 17.1 | 27.0 | 16.2 | 6.5 | 7.6 | 22.4 | 19.1 |
| 3.2.1 to Government | Rs.mn. | 47,131.0 | 45,250.0 | 64,618.0 | 93,915.0 | 147,304.0 | 201,311.0 | 192,994.0 | 176,236.0 | 220,462.0 | 249,565.0 |
| | % growth | 21.9 | -4.0 | 42.8 | 45.3 | 56.8 | 36.7 | -4.1 | -8.7 | 25.1 | 13.2 |
| 3.2.2 to Private Sector | Rs.mn. | 229,773.0 | 263,198.0 | 294,868.0 | 325,927.0 | 364,369.0 | 396,754.0 | 444,371.0 | 519,444.0 | 634,310.0 | 801,149.0 |
| | % growth | 9.1 | 14.5 | 12.0 | 10.5 | 11.8 | 8.9 | 12.0 | 16.9 | 22.1 | 26.3 |
| 3.3 Other Liabilities | Rs.mn. | -66,813.0 | -79,874.0 | -97,425.0 | -106,660.0 | -136,035.0 | -163,867.0 | -168,544.0 | -181,111.0 | -207,515.0 | -246,438.0 |
| | % growth | 1.7 | -19.5 | -22.0 | -9.5 | -27.5 | -20.5 | -2.9 | -7.5 | -14.6 | -18.8 |

Contd..

| | Unit | 2006 | 2007 | 2008 | 2009 | 2010(c) | 2011 | 2012 | 2013 | 2014 | 2014-2015(a) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1. Financial depth** | | | | | | | | | | | |
| Narrow Money Supply | M1/GDP | 8.8 | 7.4 | 6.3 | 7.0 | 6.3 | 6.1 | 5.2 | 5.1 | 5.9 | 6.4 |
| Broad Money Supply | M2/GDP | 33.8 | 32.1 | 29.1 | 31.8 | 28.3 | 30.4 | 29.7 | 31.9 | 33.1 | 36.3 |
| 2. Monetary Expansion/Contraction | | | | | | | | | | | |
| Narrow Money Supply | % growth | 12.6 | 2.7 | 4.0 | 21.4 | 20.9 | 7.7 | 2.6 | 7.7 | 26.3 | 16.8 |
| Broad Money Supply | % growth | 20.7 | 15.6 | 11.7 | 19.9 | 18.0 | 20.9 | 18.3 | 18.0 | 13.1 | 17.2 |
| 3. Causal Factors | | | | | | | | | | | |
| 3.1 External Banking Assets | Rs.mn. | 185,005.0 | 225,989.0 | 88,760.0 | 358,554.0 | 390,284.0 | 150,916.0 | 112,395.0 | 133,808.0 | 318,203.0 | 206,923.0 |
| | % growth | 10.7 | 22.2 | -60.7 | 304.0 | 8.8 | -61.3 | -25.5 | 19.1 | 137.8 | -35.0 |
| 3.2 Domestic Credit | Rs.mn. | 1,382,004.0 | 1,607,786.0 | 1,897,500.0 | 1,907,748.0 | 2,262,861.0 | 3,037,970.0 | 3,696,131.0 | 4,200,783.0 | 4,640,146.0 | 5,732,013.0 |
| | % growth | 29.5 | 16.3 | 18.0 | 0.5 | 18.6 | 34.3 | 21.7 | 13.7 | 10.5 | 23.5 |
| 3.2.1 to Government | Rs.mn. | 357,289.0 | 374,100.0 | 582,907.0 | 640,326.0 | 627,185.0 | 833,610 | 1,045,232 | 1,301,342 | 1,435,900 | 1,759,470 |
| | % growth | 43.2 | 4.7 | 55.8 | 9.9 | -2.1 | 32.9 | 25.4 | 24.5 | 10.3 | 22.5 |
| 3.2.2 to Private Sector | Rs.mn. | 993,159.0 | 1,184,519.0 | 1,267,601.0 | 1,194,189.0 | 1,491,099.0 | 2,005,860 | 2,358,421 | 2,534,343 | 2,758,199 | 3,449,577 |
| | % growth | 24.0 | 19.3 | 7.0 | -5.8 | 24.9 | 34.5 | 17.6 | 7.5 | 8.8 | 25.1 |
| 3.3 Other Liabilities | Rs.mn. | -348,644.0 | -431,759.0 | -452,423.0 | -503,460.0 | -548,895 | -644,287 | -741,230 | -706,605 | -779,418 | -867,954 |
| | % growth | -41.5 | -23.8 | -4.8 | -11.3 | -9.0 | -17.4 | -15.0 | 4.7 | -10.3 | -11.4 |

Notes: Data have been reclassified starting from 1990. For more information, see *Annual Report 1995*, Central Bank of Sri Lanka.
(a): Provisional; (b): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics; (c ): From 2010 ,data are based on the base year 2010 GDP estimates of the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A11: Interest Rates, 2002-2015

| (%, end of period) | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank rate | 18.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 |
| Treasury bills, yield rates | | | | | | | | | | | | | | |
| 3 month | 9.9 | 7.4 | 7.3 | 10.1 | 12.8 | 21.3 | 17.3 | 7.7 | 7.2 | 8.7 | 10.0 | 7.5 | 5.7 | 6.5 |
| 12 month | 9.9 | 7.2 | 7.7 | 10.4 | 13.0 | 20.0 | 19.1 | 9.3 | 7.6 | 9.3 | 11.7 | 8.3 | 6.0 | 7.3 |
| Repurchase rate | 9.8 | 7.0 | 7.5 | 8.8 | 10.0 | 10.5 | 10.5 | 7.5 | 7.3 | 7.0 | 7.5 | 6.5 | 6.5 | 6.0 |
| Call money rate | | | | | | | | | | | | | | |
| Maximum | 10.9 | 8.3 | 10.6 | 11.0 | 15.1 | 40.0 | 20.0 | 9.1 | 8.4 | 9.1 | 9.9 | 7.8 | 6.5 | 6.4 |
| Minimum | 10.3 | 7.4 | 9.5 | 10.5 | 12.8 | 16.0 | 13.3 | 8.0 | 7.8 | 8.8 | 9.5 | 7.5 | 6.0 | 6.4 |
| Weighted average prime lending rate | 12.2 | 9.0 | 10.2 | 12.1 | 14.7 | 17.0 | 19.2 | 11.1 | 9.3 | 10.5 | 14.3 | 10.0 | 6.4 | 7.4 |
| Commercial bank saving | | | | | | | | | | | | | | |
| Maximum | 11.0 | 7.3 | 7.8 | 10.3 | 10.5 | 16.5 | 16.5 | 10.5 | 9.5 | 8.5 | 10.5 | 9.1 | 8.0 | 8.0 |
| Minimum | 3.5 | 2.1 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 1.5 | 1.5 | 1.0 | 0.8 | 0.8 | 0.5 | 0.5 |
| NSB saving | 6.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Commercial bank fixed deposit (one year) | | | | | | | | | | | | | | |
| Maximum | 11.0 | 7.8 | 9.8 | 11.5 | 14.0 | 20.0 | 20.3 | 19.0 | 17.0 | 11.0 | 17.0 | 16.0 | 12.0 | 15.0 |
| Minimum | 7.5 | 5.0 | 5.5 | 5.5 | 5.5 | 8.5 | 8.5 | 7.3 | 5.1 | 5.6 | 5.0 | 6.0 | 4.0 | 4.0 |
| NSB fixed deposit (one year, paid on maturity) | 10.0 | 7.0 | 8.0 | 9.0 | 11.0 | 15.0 | 15.0 | 9.5 | 8.5 | 8.5 | 12.5 | 9.5 | 6.5 | 7.3 |

Sources: Central Bank of Sri Lanka, *Annual Report*, various issues.
Central Bank of Sri Lanka, *Bulletin*, various issues.

## Table A12: Basic Indicators of the General Price Level, 1995-2015

| | CCPI (1952 = 100) (b) | % change | CCPI (2002 = 100) (c) | % change | CCPI (2006/07 = 100) | % change | WPI (1974 = 100) | % change | GDPD (1996 = 100) | % change |
|---|---|---|---|---|---|---|---|---|---|---|
| 1995 | 1,644.6 | 7.7 | | | | | 950.3 | 8.8 | 89.2 | 8.4 |
| 1996 | 1,906.7 | 15.9 | | | | | 1,145.1 | 20.5 | 100.0 | 12.1 |
| 1997 | 2,089.1 | 9.6 | | | | | 1,224.3 | 6.9 | 108.6 | 8.6 |
| 1998 | 2,284.9 | 9.4 | | | | | 1,298.7 | 6.1 | 117.8 | 8.4 |
| 1999 | 2,392.1 | 4.7 | | | | | 1,295.3 | -0.3 | 123.1 | 4.4 |
| 2000 | 2,539.8 | 6.2 | | | | | 1,317.2 | 1.7 | 131.3 | 6.7 |
| 2001 | 2,899.4 | 14.2 | | | | | 1,471.2 | 11.7 | 147.6 | 12.4 |
| 2002 | 3,176.4 | 9.6 | | | 100.0 | | 1,628.9 | 10.7 | 160.0 | 8.4 |
| 2003 | 3,377.0 | 6.3 | | | 105.8 | | 1,679.1 | 3.1 | 168.2 | 5.1 |
| 2004 | 3,632.8 | 7.6 | | | 115.3 | 9.0 | 1,889.0 | 12.5 | 183.0 | 8.8 |
| 2005 | 4,055.5 | 11.6 | | | 128.0 | 11.0 | 2,105.9 | 11.5 | 202.1 | 10.4 |
| 2006 | 4,610.8 | 13.7 | | | 140.8 | 10.0 | 2,351.5 | 11.7 | 224.9 | 11.3 |
| 2007 | 5,416.1 | 17.5 | | | 163.1 | 15.8 | 2,924.4 | 24.4 | 256.4 | 14.0 |
| 2008 | 199.9 | 22.6 | | | 129.2 | | 3,653.6 | 24.9 | 298.3 | 16.3 |
| 2009 | 206.8 | 3.4 | | | 133.6 | 3.5 | 3,500.9 | -4.2 | 315.8 | 5.9 |
| 2010 | 219.1 | 5.9 | | | 141.9 | 6.2 | 3,893.0 | 11.2 | 338.9 | 7.3 |
| 2011 | 226.5 | 6.9 | | | 151.5 | 6.7 | 4,306.5 | 10.6 | 351.8 | 3.8 |
| 2012 | - | - | | | 162.9 | 7.6 | 4,457.3 | 3.5 | 389.9 | 10.8 |
| 2013 | - | - | | | 174.2 | 6.9 | 4,867.9 | 9.2 | 414.3 | 6.2 |
| 2014 | - | - | | | 179.9 | 3.3 | 5,022.1 | 3.2 | 430.3 | 3.9 |
| 2015(a) | - | - | | | 181.5 | 0.9 | 5,072.7 | 1.0 | 439.5 | 2.1 |

Notes: (a): Provisional.
(b): Represents the consumption basket of low income households in the Colombo Municipality. Compilation of this index was discontinued"since May 2008.
(c): Represents the consumption basket of urban households within the Colombo District. Compilation of this index was discontinued"since June 2011.
CCPI: Colombo Consumers Price Index.
WPI: Wholesale Price Index.
GDPD: GDP Deflator.

Sources: Department of Census and Statistics.
Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A13: Wage Rate Indices, 1994-2015 (December 1978 = 100)

| | Workers in wages boards trades(a) | | Government employees(b) | |
|---|---|---|---|---|
| | Nominal | Real | Nominal | Real |
| 1994 | 712.4 | 111.7 | 735.5 | 115.4 |
| 1995 | 740.3 | 107.7 | 792.5 | 115.4 |
| 1996 | 801.7 | 100.7 | 818.2 | 103.0 |
| 1997 | 849.1 | 97.3 | 906.5 | 104.0 |
| 1998 | 953.3 | 99.9 | 1,001.4 | 104.9 |
| 1999 | 977.6 | 97.8 | 1,001.4 | 100.2 |
| 2000 | 1,000.4 | 94.3 | 1,084.7 | 102.1 |
| 2001 | 1,049.3 | 86.6 | 1,310.8 | 108.1 |
| 2002 | 1,126.5 | 84.9 | 1,525.3 | 115.0 |
| 2003 | 1,205.2 | 85.4 | 1,525.0 | 108.1 |
| 2004 | 1,233.0 | 81.3 | 1,872.1 | 123.3 |
| 2005 | 1,329.7 | 78.5 | 2,417.5 | 142.7 |
| 2006 | 1,358.2 | 70.5 | 3,150.8 | 163.5 |
| 2007 | 1,648.8 | 73.6 | 3,828.4 | 171.6 |
| 2008 | 2,070.4 | 75.5 | 4,116.1 | 150.4 |
| 2009 | 2,171.4 | 76.7 | 4,502.8 | 159.0 |
| 2010 | 2,865.3 | 95.3 | 4,651.6 | 154.7 |
| 2011 | 2,996.1 | 93.3 | 4,964.5 | 154.7 |
| 2012 | 3,662.0 | 106.2 | 5,304.7 | 153.8 |
| 2013 | 3,869.2 | 104.9 | 5,568.3 | 150.9 |
| 2014 | 4,012.2 | 105.3 | 6,058.0 | 159.0 |
| 2015(c) | 4,127.0 | 107.3 | 8,021.6 | 208.6 |

Notes: The wage rates used in the calculation of index numbers are minimum wages.
(a): Combined index for workers in agriculture, industry and commerce, and services.
(b): Combined index for non-executive officers and minor employees.
(c): Provisional.
(d): Based on CCPI (2002 = 100) from 2007 to 2009 and based on CCPI (2006/07 = 100) from 2010 onwards

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A14: Sri Lanka's Direction of Foreign Trade, 1998-2015

| | Unit | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Exports to selected countries and groupings** | | | | | | | | | | |
| U.S.A | US$Mn. | 1,890 | 1,792 | 2,193 | 1,926 | 1,763 | 1,777 | 1,869 | 1,988 | 2,006 |
| U.K. | US$Mn. | 530 | 604 | 737 | 576 | 590 | 640 | 779 | 777 | 880 |
| Germany | US$Mn. | 232 | 216 | 230 | 198 | 199 | 232 | 274 | 272 | 329 |
| Japan | US$Mn. | 196 | 159 | 230 | 186 | 140 | 162 | 158 | 145 | 164 |
| EC | % of total exports | 33.6 | 35.3 | 33.4 | 27.2 | 30.0 | 30.0 | 32.5 | 30.9 | 33.7 |
| Germany | % of exports to EC | 17.9 | 16.2 | 15.2 | 15.4 | 14.1 | 15.1 | 14.6 | 13.9 | 14.2 |
| UK | % of exports to EC | 41 | 45 | 48.5 | 44.8 | 41.6 | 41.6 | 41.6 | 39.6 | 37.9 |
| ASEAN | % of total exports | 3.0 | 3.1 | 3.5 | 2.5 | 2.5 | 2.0 | 2.2 | 2.3 | 2.8 |
| Singapore | % of exports to ASEAN | 38.1 | 37.9 | 38.7 | 48.1 | 60.3 | 62.7 | 68.6 | 54.4 | 38.5 |
| Malaysia | % of exports to ASEAN | 10.1 | 6.0 | 5.0 | 5.7 | 7.2 | 11.9 | 7.1 | 9.9 | 12.7 |
| SAARC | % of total exports | 3.0 | 3.8 | 4.2 | 3.3 | 5.4 | 6.8 | 8.8 | 10.3 | 8.7 |
| India | % of exports to SAARC | 33.2 | 33.7 | 30.6 | 45.6 | 66.4 | 70.0 | 77.3 | 86.7 | 81.6 |
| NAFTA | % of total exports | 51.5 | 49.8 | 50.5 | 42.9 | 39.4 | 36.6 | 34.4 | 33.3 | 30.9 |
| USA | % of exports to NAFTA | 95.4 | 95.1 | 95.4 | 95.1 | 94.6 | 94.6 | 94.5 | 94.1 | 94.2 |
| Canada | % of exports to NAFTA | 3.1 | 3.1 | 3.1 | 3.4 | 3.3 | 3.4 | 3.6 | 3.7 | 3.6 |
| APEC | % of total exports | 58.9 | 56.3 | 57.8 | 55.2 | 51.5 | 48.4 | 44.9 | 43.6 | 42.3 |
| USA | % of exports to APEC | 83.4 | 84.1 | 83.5 | 73.8 | 72.6 | 71.5 | 72.2 | 71.9 | 68.9 |
| Japan | % of exports to APEC | 8.6 | 7.5 | 8.7 | 7.1 | 5.8 | 6.5 | 6.1 | 5.2 | 5.6 |
| Singapore | % of exports to APEC | 1.9 | 2.1 | 2.3 | 2.2 | 3.0 | 2.7 | 3.3 | 2.9 | 2.6 |
| 2. Imports from Selected Countries and Groupings | | | | | | | | | | |
| Japan | US$Mn. | 556 | 561 | 646 | 337 | 355 | 448 | 412 | 380 | 450 |
| India | US$Mn. | 539 | 512 | 600 | 602 | 834 | 1,073 | 1,439 | 1,835 | 2,173 |
| Hong Kong | US$Mn. | 411 | 459 | 516 | 501 | 491 | 560 | 619 | 648 | 659 |
| U.S.A | US$Mn. | 230 | 216 | 255 | 267 | 218 | 198 | 240 | 205 | 201 |
| U.K. | US$Mn. | 305 | 251 | 311 | 221 | 263 | 273 | 312 | 277 | 303 |
| Taiwan | US$Mn. | 379 | 347 | 390 | 323 | 288 | 276 | 291 | 279 | 275 |
| EC | % of total Imports | 23.3 | 19.4 | 18.8 | 16.0 | 15.2 | 16.5 | 15.7 | 14.5 | 13.7 |
| Germany | % of Imports from EC | 20.2 | 15.8 | 16.5 | 15.9 | 13.2 | 13.0 | 15.4 | 13.9 | 15.8 |
| UK | % of Imports from EC | 30.3 | 29.1 | 32.8 | 25.5 | 28.6 | 24.8 | 24.8 | 21.6 | 21.5 |
| ASEAN | % of total Imports | 19.6 | 21.1 | 21.0 | 19.4 | 19.1 | 19.8 | 20.0 | 20.5 | 21.7 |
| Singapore | % of Imports from ASEAN | 36.8 | 48.2 | 46.7 | 44.8 | 46.0 | 46.2 | 51.2 | 48.2 | 52.9 |
| Malaysia | % of Imports from ASEAN | 22.8 | 18 | 20.5 | 22.7 | 21.7 | 25.6 | 24.1 | 25.7 | 23.7 |
| SAARC | % of total Imports | 15.1 | 14.2 | 14.0 | 13.2 | 15.5 | 17.6 | 19.7 | 22.4 | 22.9 |
| India | % of Imports from SAARC | 83.3 | 81.4 | 84.8 | 84.4 | 89.2 | 91.5 | 91.4 | 92.6 | 92.4 |
| NAFTA | % of total Imports | 7.1 | 5.5 | 6.0 | 5.4 | 3.9 | 3.5 | 3.6 | 3.2 | 4.1 |
| USA | % of Imports from NAFTA | 75.0 | 89 | 84.1 | 91.5 | 93.8 | 85.4 | 84.4 | 71.2 | 48.0 |
| Canada | % of Imports from NAFTA | 13.6 | 9.3 | 15.6 | 8.2 | 5.8 | 14.3 | 15.3 | 28.0 | 51.5 |
| APEC | % of total Imports | 45.9 | 53.4 | 54.9 | 55.6 | 52.1 | 49.2 | 46.4 | 44.0 | 43.8 |
| USA | % of Imports from APEC | 11.6 | 9.1 | 9.2 | 8.4 | 7.0 | 5.7 | 6.1 | 4.9 | 4.1 |
| Japan | % of Imports from APEC | 28.1 | 23.6 | 23.2 | 10.6 | 11.4 | 13.0 | 10.4 | 9.2 | 9.1 |
| Singapore | % of Imports from APEC | 15.7 | 19 | 17.8 | 12.9 | 13.8 | 15.1 | 17.6 | 17.8 | 20.2 |

Cont../

| | Unit | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015(a) |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Exports to selected countries and groupings** | | | | | | | | | | |
| U.S.A | US$Mn. | 1,970 | 1,869 | 1,576 | 1,701 | 2,145 | 2,126 | 2,494 | 2,731 | 2,810 |
| U.K. | US$Mn. | 1,018 | 1,090 | 1,024 | 990 | 1,112 | 1,059 | 1,078 | 1,116 | 1,029 |
| Germany | US$Mn. | 438 | 405 | 347 | 400 | 510 | 455 | 468 | 498 | 476 |
| Japan | US$Mn. | 160 | 159 | 139 | 171 | 223 | 217 | 224 | 237 | 216 |
| EU | % of total exports | 37.6 | 37.4 | 38.5 | 33.3 | 33.9 | 33.0 | 31.5 | 31.4 | 28.8 |
| Germany | % of exports to EU | 15.2 | 13.4 | 12.7 | 13.9 | 14.3 | 14.1 | 14.3 | 14.3 | 15.7 |
| UK | % of exports to EU | 35.4 | 35.9 | 37.6 | 34.4 | 31.1 | 32.8 | 32.9 | 32.0 | 34.0 |
| ASEAN | % of total exports | 3.0 | 3.2 | 3.9 | 5.5 | 6.9 | 4.1 | 2.8 | 3.9 | 2.8 |
| Singapore | % of exports to ASEAN | 34.4 | 29.0 | 31.4 | 107.7 | 56.1 | 25.3 | 35.6 | 32.6 | 27.9 |
| Malaysia | % of exports to ASEAN | 15.5 | 16.8 | 17.0 | 15.4 | 13.5 | 17.4 | 15.9 | 10.4 | 12.4 |
| SAARC | % of total exports | 8.5 | 6.9 | 6.2 | 7.2 | 6.6 | 7.8 | 7.4 | 7.9 | 8.5 |
| India | % of exports to SAARC | 79.8 | 74.5 | 73.0 | 76.8 | 74.1 | 74.4 | 70.4 | 70.9 | 72.2 |
| NAFTA | % of total exports | 27.6 | 24.9 | 24.1 | 21.6 | 22.4 | 24.3 | 26.4 | 27.1 | 29.5 |
| USA | % of exports to NAFTA | 93.3 | 92.4 | 92.2 | 91.5 | 90.5 | 89.6 | 90.8 | 90.6 | 90.7 |
| Canada | % of exports to NAFTA | 3.7 | 4.4 | 4.3 | 5.0 | 5.4 | 6.1 | 5.5 | 5.7 | 5.8 |
| APEC | % of total exports | 39.2 | 37.8 | 37.7 | 37.5 | 38.5 | 38.3 | 39.9 | 41.6 | 43.6 |
| USA | % of exports to APEC | 65.8 | 60.9 | 59.0 | 52.6 | 52.7 | 56.8 | 60.2 | 58.9 | 61.4 |
| Japan | % of exports to APEC | 5.3 | 5.2 | 5.2 | 5.3 | 5.5 | 5.8 | 5.4 | 5.1 | 4.7 |
| Singapore | % of exports to APEC | 2.7 | 2.5 | 3.3 | 15.8 | 10.1 | 2.7 | 2.5 | 3.0 | 1.8 |
| **2. Imports from Selected Countries and Groupings** | | | | | | | | | | |
| Japan | US$Mn. | 413 | 426 | 224 | 584 | 1,025 | 552 | 668 | 941 | 1,389 |
| India | US$Mn. | 2,610 | 3,447 | 1,820 | 2,570 | 4,431 | 3,640 | 3,171 | 4,023 | 4,268 |
| Hong Kong | US$Mn. | 725 | 695 | 517 | 580 | 632 | 605 | 430 | 351 | 365 |
| U.S.A | US$Mn. | 412 | 279 | 259 | 168 | 266 | 234 | 416 | 492 | 471 |
| U.K. | US$Mn. | 230 | 250 | 254 | 267 | 304 | 297 | 281 | 290 | 364 |
| Taiwan | US$Mn. | 264 | 251 | 201 | 264 | 352 | 365 | 435 | 443 | 460 |
| EU | % of total Imports | 12.4 | 12.5 | 12.6 | 10.9 | 9.2 | 9.3 | 9.2 | 8.2 | 8.9 |
| Germany | % of Imports from EU | 16.4 | 16.0 | 19.3 | 17.2 | 18.3 | 17.9 | 23.1 | 20.6 | 20.6 |
| UK | % of Imports from EU | 16.5 | 14.2 | 19.8 | 18.2 | 16.4 | 16.7 | 16.9 | 18.3 | 21.6 |
| ASEAN | % of total Imports | 17.4 | 18.3 | 18.3 | 19.2 | 16.1 | 14.8 | 19.2 | 16.9 | 14.1 |
| Singapore | % of Imports from ASEAN | 56.9 | 48.2 | 57.1 | 60.7 | 65.2 | 59.3 | 48.6 | 38.3 | 40.0 |
| Malaysia | % of Imports from ASEAN | 14.4 | 13.9 | 15.4 | 14.9 | 21.0 | 28.6 | 16.5 | 22.6 | 19.1 |
| SAARC | % of total Imports | 24.9 | 26.0 | 20.1 | 21.4 | 23.7 | 21.0 | 19.9 | 22.3 | 24.4 |
| India | % of Imports from SAARC | 92.7 | 94.0 | 88.6 | 89.3 | 92.1 | 90.2 | 88.4 | 92.7 | 92.3 |
| NAFTA | % of total Imports | 4.4 | 4.7 | 5.3 | 3.3 | 3.2 | 3.0 | 3.6 | 4.2 | 4.1 |
| USA | % of Imports from NAFTA | 83.5 | 42.2 | 48.2 | 37.4 | 41.1 | 41.2 | 64.0 | 60.8 | 60.8 |
| Canada | % of Imports from NAFTA | 16.1 | 57.3 | 51.3 | 62.2 | 58.4 | 58.1 | 35.2 | 38.3 | 37.8 |
| APEC | % of total Imports | 46.3 | 45.2 | 45.4 | 45.9 | 45.0 | 43.6 | 52.7 | 53.5 | 54.8 |
| USA | % of Imports from APEC | 7.9 | 4.4 | 5.6 | 2.7 | 2.9 | 2.8 | 4.4 | 4.7 | 4.5 |
| Japan | % of Imports from APEC | 7.9 | 6.7 | 4.8 | 9.5 | 11.2 | 6.6 | 7.0 | 9.1 | 13.4 |
| Singapore | % of Imports from APEC | 21.4 | 19.5 | 23.0 | 25.4 | 23.3 | 20.1 | 17.7 | 12.1 | 10.2 |

Note: (a): Provisional.
Sources: International Monetary Fund, *Direction of Trade Statistics*, various issues; Central Bank of Sri Lanka, *Annual Report*, various issues and Trade Map -http://www.trademap.org/Index.aspx.

## Table A15: Structure of Commodity Imports, 1996-2015

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Consumer goods | | | | | | | | | | |
| Value (US$ mn.) | 1,030.0 | 1,084.0 | 1,128.0 | 1,131.0 | 1,261.0 | 1,126.0 | 1,189.0 | 1,344.0 | 1,440.0 | 1,503.0 |
| Growth | 4.9 | 5.2 | 4.1 | 0.3 | 11.5 | -10.7 | 5.6 | 13.0 | 7.1 | 4.4 |
| % of total imports | 18.9 | 18.5 | 19.2 | 18.9 | 17.2 | 18.8 | 19.5 | 20.1 | 18.0 | 17.0 |
| 1.1 Food | | | | | | | | | | |
| Value (US$ mn.) | 597.0 | 642.0 | 596.0 | 551.0 | 566.0 | 545.0 | 566.0 | 564.0 | 596.0 | 611.0 |
| Growth | 14.4 | 7.5 | -7.2 | -7.6 | 2.7 | -3.7 | 3.9 | -0.4 | 5.7 | 2.5 |
| % of total imports | 11.0 | 10.9 | 10.1 | 9.2 | 7.7 | 9.1 | 9.3 | 8.5 | 7.5 | 6.9 |
| 1.2 Other | | | | | | | | | | |
| Value (US$ mn.) | 433.0 | 442.0 | 532.0 | 581.0 | 696.0 | 581.0 | 623.0 | 780.0 | 844.0 | 891.0 |
| Growth | -6.1 | 2.1 | 20.4 | 9.2 | 19.8 | -16.5 | 7.2 | 25.2 | 8.2 | 5.6 |
| % of total imports | 8.0 | 7.5 | 9.0 | 9.7 | 9.5 | 9.7 | 10.2 | 11.7 | 10.6 | 10.1 |
| 2. Intermediate goods | | | | | | | | | | |
| Value (US$ mn.) | 2,971.0 | 3,235.7 | 3,108.0 | 3,168.0 | 3,916.0 | 3,430.0 | 3,622.0 | 3,948.0 | 4,828.0 | 5,458.0 |
| Growth | 2.4 | 8.9 | -3.9 | 1.9 | 23.6 | -12.4 | 5.6 | 9.0 | 22.3 | 13.0 |
| % of total imports | 54.6 | 55.2 | 52.8 | 53.0 | 53.5 | 57.4 | 59.3 | 59.2 | 60.4 | 61.6 |
| 2.1 Petroleum | | | | | | | | | | |
| Value (US$ mn.) | 479.9 | 539.5 | 345.0 | 500.0 | 901.0 | 731.0 | 789.0 | 838.0 | 1,209.0 | 1,655.0 |
| Growth | 24.1 | 12.4 | -36.1 | 44.9 | 80.2 | -18.9 | 7.9 | 6.2 | 44.3 | 36.9 |
| % of total imports | 8.8 | 9.2 | 5.9 | 8.4 | 12.3 | 12.2 | 12.9 | 12.6 | 15.1 | 18.7 |
| 2.2 Textiles | | | | | | | | | | |
| Value (US$ mn.) | 1,168.8 | 1,386.9 | 1,397.0 | 1,320.0 | 1,471.0 | 1,320.0 | 1,321.0 | 1,372.0 | 1,514.0 | 1,531.0 |
| Growth | 0.9 | 18.7 | 0.7 | -5.5 | 11.4 | -10.3 | 0.1 | 3.9 | 10.3 | 1.1 |
| % of total imports | 21.5 | 23.7 | 23.7 | 22.1 | 20.1 | 22.1 | 21.6 | 20.6 | 18.9 | 17.3 |
| 3. Investment goods | | | | | | | | | | |
| Value (US$ mn.) | 1,203.0 | 1,324.0 | 1,477.0 | 1,565.0 | 1,737.0 | 1,081.0 | 1,169.0 | 1,320.0 | 1,670.0 | 1,869.0 |
| Growth | 1.2 | 10.1 | 11.6 | 6.0 | 11.0 | -37.8 | 8.1 | 12.9 | 26.5 | 11.9 |
| % of total imports | 22.1 | 22.6 | 25.1 | 26.2 | 23.7 | 18.1 | 19.1 | 19.8 | 20.9 | 21.1 |
| 4. Total imports | | | | | | | | | | |
| Value (US$ mn.) | 5,439.0 | 5,864.0 | 5,889.0 | 5,979.0 | 7,320.0 | 5,974.0 | 6,105.0 | 6,672.0 | 8,000.0 | 8,863.0 |
| Growth | 2.4 | 7.8 | 0.4 | 1.5 | 22.4 | -18.4 | 2.2 | 9.3 | 19.9 | 10.8 |

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| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015(a) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Consumer goods | | | | | | | | | | |
| Value (US$ mn.) | 1,782.0 | 1,665.0 | 2,006.0 | 1,565.0 | 2,476.0 | 3,654.0 | 2,995.0 | 3,182.0 | 3,853.0 | 4,713.0 |
| Growth | 18.6 | -6.6 | 20.5 | -22.0 | 58.2 | 47.6 | -18.0 | 6.2 | 21.1 | 22.3 |
| % of total imports | 17.4 | 14.7 | 14.2 | 15.3 | 18.4 | 18.0 | 15.6 | 17.7 | 19.8 | 24.9 |
| 1.1 Food | | | | | | | | | | |
| Value (US$ mn.) | 757.0 | 803.0 | 1,089.0 | 933.0 | 1,322.0 | 1,567.0 | 1,304.0 | 1,368.0 | 1,634.0 | 1,628.0 |
| Growth 23.9 | 6.1 | 35.6 | -14.3 | 41.7 | 18.5 | -16.8 | 4.9 | 19.4 | -0.4 | |
| % of total imports | 7.4 | 7.1 | 7.7 | 9.1 | 9.8 | 7.7 | 6.8 | 7.6 | 8.4 | 8.6 |
| 1.2 Other | | | | | | | | | | |
| Value (US$ mn.) | 1,024.0 | 862.0 | 918.0 | 632.0 | 1,155.0 | 2,087.0 | 1,691.0 | 1,814.0 | 2,219.0 | 3,086.0 |
| Growth 14.9 | -15.8 | 6.5 | -31.2 | 82.8 | 80.7 | -19.0 | 7.3 | 22.3 | 39.1 | |
| % of total imports | 10.0 | 7.6 | 6.5 | 6.2 | 8.6 | 10.3 | 8.8 | 10.1 | 11.4 | 16.3 |
| 2. Intermediate goods | | | | | | | | | | |
| Value (US$ mn.) | 6,161.0 | 6,983.0 | 9,019.0 | 6,158.0 | 8,054.0 | 12,275.0 | 11,578.0 | 10,554.0 | 11,398.0 | 9,638.0 |
| Growth | 12.9 | 13.3 | 29.2 | -31.7 | 30.8 | 52.4 | -5.7 | -8.8 | 8.0 | -15.4 |
| % of total imports | 60.1 | 61.8 | 64.0 | 60.3 | 59.9 | 60.6 | 60.3 | 58.6 | 58.7 | 50.9 |
| 2.1 Petroleum | | | | | | | | | | |
| Value (US$ mn.) | 2,070.0 | 2,516.0 | 3,392.0 | 2,184.0 | 3,041.0 | 4,795.0 | 5,045.0 | 4,308.0 | 4,597.0 | 2,700.0 |
| Growth | 25.1 | 21.5 | 34.8 | -35.6 | 39.2 | 57.7 | 5.2 | -14.6 | 6.7 | -41.3 |
| % of total imports | 20.2 | 22.3 | 24.1 | 21.4 | 22.6 | 23.7 | 26.3 | 23.9 | 23.7 | 14.3 |
| 2.2 Textiles | | | | | | | | | | |
| Value (US$ mn.) | 1,546.0 | 1,724.0 | 1,788.0 | 1,529.0 | 1,812.0 | 2,321.0 | 2,266.0 | 2,046.0 | 2,328.0 | 2,296.0 |
| Growth | 1.0 | 11.5 | 3.7 | -14.5 | 18.5 | 28.1 | -2.4 | -9.7 | 13.8 | -1.4 |
| % of total imports | 15.1 | 15.3 | 12.7 | 15.0 | 13.5 | 11.5 | 11.8 | 11.4 | 12.0 | 12.1 |
| 3. Investment goods | | | | | | | | | | |
| Value (US$ mn.) | 2,246.0 | 2,597.0 | 2,852.0 | 2,093.0 | 2,758.0 | 4,286.0 | 4,590.0 | 4,253.0 | 4,152.0 | 4,567.0 |
| Growth | 20.2 | 15.6 | 9.8 | -26.6 | 31.8 | 55.4 | 7.1 | -7.3 | -2.4 | 10.0 |
| % of total imports | 21.9 | 23.0 | 20.2 | 20.5 | 20.5 | 21.1 | 23.9 | 23.6 | 21.4 | 24.1 |
| 4. Total imports | | | | | | | | | | |
| Value (US$ mn.) | 10,254.0 | 11,296.0 | 14,091.0 | 10,207.0 | 13,451.0 | 20,269.0 | 19,190.0 | 18,003.0 | 19,417.0 | 18,935.0 |
| Growth | 15.7 | 10.2 | 24.7 | -27.6 | 31.8 | 50.7 | -5.3 | -6.2 | 7.9 | -2.5 |

Notes : (a): Provisional.
Categories are reclassified from 2007 based on National Import Tariff Guide - 2010

Sources: Central Bank of Sri Lanka, *Annual Report*, various issues; IPS database.

## Table A16: Structure of Commodity Exports, 1996-2015

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Agricultural exports** | | | | | | | | | | |
| Value (US$ mn.) | 961.0 | 1060.0 | 1088.0 | 947.0 | 1005.0 | 932.0 | 938.0 | 965.0 | 1065.2 | 1,153.8 |
| Growth | 15.9 | 10.3 | 2.6 | -13.0 | 6.1 | -7.3 | 0.6 | 2.9 | 10.4 | 8.3 |
| % of total exports | 23.5 | 22.8 | 22.7 | 20.5 | 18.2 | 19.3 | 20.0 | 18.8 | 18.5 | 18.2 |
| 1.1 Plantation crops | | | | | | | | | | |
| Value (US$ mn.) | 829.0 | 916.0 | 918.0 | 783.0 | 850.0 | 796.0 | 771.0 | 815.0 | 903.3 | 970.4 |
| Growth | 19.3 | 10.5 | 0.2 | -14.7 | 8.6 | -6.4 | -3.1 | 5.7 | 10.8 | 7.4 |
| % of total exports | 20.2 | 19.7 | 19.1 | 17.0 | 15.4 | 16.5 | 16.4 | 15.9 | 15.7 | 15.3 |
| 1.1.1 Tea | | | | | | | | | | |
| Value (US$ mn.) | 615.0 | 719.0 | 780.0 | 621.0 | 700.0 | 690.0 | 660.0 | 683.0 | 738.9 | 810.2 |
| Growth | 27.9 | 16.9 | 8.5 | -20.4 | 12.7 | -1.4 | -4.3 | 3.5 | 8.2 | 9.6 |
| % of total exports | 15.0 | 15.5 | 16.3 | 13.5 | 12.7 | 14.3 | 14.0 | 13.3 | 12.8 | 12.8 |
| 1.1.2 Rubber | | | | | | | | | | |
| Value (US$ mn.) | 104.0 | 79.0 | 44.0 | 33.0 | 29.0 | 24.0 | 27.0 | 39.0 | 51.3 | 46.9 |
| Growth | -6.3 | -24.0 | -44.3 | -25.0 | -12.1 | -17.2 | 12.5 | 44.4 | 31.5 | -8.6 |
| % of total exports | 2.5 | 1.7 | 0.9 | 0.7 | 0.5 | 0.5 | 0.6 | 0.8 | 0.9 | 0.7 |
| 1.1.3 Coconut kernel products | | | | | | | | | | |
| Value (US$ mn.) | 81.0 | 82.0 | 56.0 | 84.0 | 77.0 | 41.0 | 41.0 | 48.0 | 58.6 | 48.8 |
| Growth | 17.4 | 1.2 | -31.7 | 50.0 | -8.3 | -46.8 | 0.0 | 17.1 | 22.1 | -16.7 |
| % of total exports | 2.0 | 1.8 | 1.2 | 1.8 | 1.4 | 0.9 | 0.9 | 0.9 | 1.0 | 0.8 |
| 1.2. Minor agricultural crops | | | | | | | | | | |
| Value (US$ mn.) | 132.0 | 145.0 | 170.0 | 165.0 | 155.0 | 136.0 | 168.0 | 150.0 | 161.9 | 183.4 |
| Growth | -1.5 | 9.9 | 17.2 | -2.9 | -6.1 | -12.3 | 23.5 | -10.7 | 7.9 | 13.3 |
| % of total exports | 3.2 | 3.1 | 3.5 | 3.6 | 2.8 | 2.8 | 3.6 | 2.9 | 2.8 | 2.9 |
| **2. Mineral exports** | | | | | | | | | | |
| Value (US$ mn.) | 96.0 | 90.0 | 60.0 | 64.0 | 97.0 | 86.0 | 90.0 | 84.0 | 120.0 | 143.3 |
| Growth | 10.3 | -6.3 | -33.3 | 6.7 | 51.6 | -11.3 | 4.7 | -6.7 | 42.9 | 19.4 |
| % of total exports | 2.3 | 1.9 | 1.3 | 1.4 | 1.8 | 1.8 | 1.9 | 1.6 | 2.1 | 2.3 |
| **3. Industrial exports** | | | | | | | | | | |
| Value (US$ mn.) | 3,006.0 | 3,436.0 | 3,607.0 | 3,551.0 | 4,283.0 | 3,710.0 | 3,631.0 | 3,977.0 | 4,506.1 | 4,948.4 |
| Growth | 4.7 | 14.3 | 5.0 | -1.6 | 20.6 | -13.4 | -2.1 | 9.5 | 13.3 | 9.8 |
| % of total exports | 73.4 | 74.1 | 75.2 | 77.0 | 77.6 | 77.0 | 77.3 | 77.5 | 78.3 | 78.0 |
| 3.1 Textile & garments | | | | | | | | | | |
| Value (US$ mn.) | 1,902.0 | 2,274.0 | 2,460.0 | 2,425.0 | 2,982.0 | 2,543.0 | 2,424.0 | 2,575.0 | 2,808.9 | 2,894.5 |
| Growth | 2.6 | 19.6 | 8.2 | -1.4 | 23.0 | -14.7 | -4.7 | 6.2 | 9.1 | 3.0 |
| % of total exports | 46.4 | 49.0 | 51.3 | 52.6 | 54.0 | 52.8 | 51.6 | 50.2 | 48.8 | 45.6 |
| 3.2 Petroleum products | | | | | | | | | | |
| Value (US$ mn.) | 104.0 | 97.0 | 73.0 | 74.0 | 98.0 | 68.0 | 73.0 | 65.0 | 99.6 | 130.9 |
| Growth | 22.4 | -6.7 | -24.7 | 1.4 | 32.4 | -30.6 | 7.4 | -11.0 | 53.2 | 31.4 |
| % of total exports | 2.5 | 2.1 | 1.5 | 1.6 | 1.8 | 1.4 | 1.6 | 1.3 | 1.7 | 2.1 |
| **4. Total commodity exports inc. petroleum** | | | | | | | | | | |
| Value (US$ mn.) | 4,095.0 | 4,639.0 | 4,798.0 | 4,610.0 | 5,522.0 | 4,817.0 | 4,699.0 | 5,133.0 | 5,757.2 | 6,346.7 |
| Growth | 7.6 | 13.3 | 3.4 | -3.9 | 19.8 | -12.8 | -2.4 | 9.2 | 12.2 | 10.2 |
| **5. Total commodity exports excl. petroleum** | | | | | | | | | | |
| Value (US$ mn.) | 3,991.0 | 4,542.0 | 4,725.0 | 4,536.0 | 5,424.0 | 4,749.0 | 4,626.0 | 5,068.0 | 5,657.6 | 6,215.8 |
| Growth | 7.2 | 13.8 | 4.0 | -4.0 | 19.6 | -12.4 | -2.6 | 9.6 | 11.6 | 9.9 |

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015(a) |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Agriculture exports** | | | | | | | | | | |
| Value (US$ mn.) | 1,292.7 | 1,507.2 | 1,854.8 | 1,690.3 | 2,306.4 | 2,527.8 | 2,331.5 | 2,581.1 | 2,793.9 | 2,481.5 |
| Growth | 12.0 | 16.6 | 23.1 | -8.9 | 36.4 | 9.6 | -7.8 | 10.7 | 8.2 | -11.1 |
| % of total exports | 18.8 | 19.7 | 22.9 | 23.9 | 26.7 | 23.9 | 23.9 | 24.8 | 25.1 | 23.6 |
| 1.1 Plantation crops | | | | | | | | | | |
| Value (US$ mn.) | 1,098.2 | 1,275.8 | 1,567.6 | 1,449.9 | 1,779.6 | 1,963.3 | 1,745.9 | 1,818.1 | 2,030.0 | 1,718.3 |
| Growth | 13.2 | 16.2 | 22.9 | -7.5 | 22.7 | 10.3 | -11.1 | 4.1 | 11.7 | -15.4 |
| % of total exports | 16.0 | 16.7 | 19.3 | 20.5 | 20.6 | 18.6 | 17.9 | 17.5 | 18.2 | 16.4 |
| 1.1.1 Tea | | | | | | | | | | |
| Value (US$ mn.) | 881.2 | 1,025.2 | 1,271.5 | 1,185.1 | 1,440.6 | 1,490.9 | 1,411.9 | 1,542.2 | 1,628.3 | 1,340.5 |
| Growth | 8.8 | 16.3 | 24.0 | -6.8 | 21.6 | 3.5 | -5.3 | 9.2 | 5.6 | -17.7 |
| % of total exports | 12.8 | 13.4 | 15.7 | 16.7 | 16.7 | 14.1 | 14.4 | 14.8 | 14.6 | 12.8 |
| 1.1.2 Rubber | | | | | | | | | | |
| Value (US$ mn.) | 93.1 | 109.4 | 125.1 | 98.6 | 173.2 | 206.4 | 125.1 | 71.3 | 45.3 | 26.1 |
| Growth | 98.5 | 17.5 | 14.4 | -21.2 | 75.7 | 19.2 | -39.4 | -43.0 | -36.5 | -42.4 |
| % of total exports | 1.4 | 1.4 | 1.5 | 1.4 | 2.0 | 2.0 | 1.3 | 0.7 | 0.4 | 0.3 |
| 1.1.3 Coconut kernel products | | | | | | | | | | |
| Value (US$ mn.) | 52.8 | 60.3 | 82.4 | 58.2 | 55.4 | - | - | - | - | - |
| Growth | 8.2 | 14.2 | 36.7 | -29.4 | -4.8 | - | - | - | - | - |
| % of total exports | 0.8 | 0.8 | 1.0 | 0.8 | 0.6 | - | - | - | - | - |
| 1.2. Minor agricultural crops | | | | | | | | | | |
| Value (US$ mn.) | 194.6 | 231.5 | 287.3 | 240.4 | 71.6 | 88.7 | 76 | 101.3 | 165.2 | 160.4 |
| Growth | 6.1 | 19.0 | 24.1 | -16.3 | -70.2 | 23.9 | -14.3 | 33.3 | 63.1 | -2.9 |
| % of total exports | 2.8 | 3.0 | 3.5 | 3.4 | 0.8 | 0.8 | 0.8 | 1.0 | 1.5 | 1.5 |
| **2. Mineral exports** | | | | | | | | | | |
| Value (US$ mn.) | 119.9 | 127.8 | 97.8 | 88.7 | 24.2 | 32.9 | 61.3 | 51.6 | 59.5 | 28.4 |
| Growth | -16.3 | 6.6 | -23.5 | -9.3 | -72.7 | 36.0 | 86.3 | -15.8 | 15.3 | -52.3 |
| % of total exports | 1.7 | 1.7 | 1.2 | 1.3 | 0.3 | 0.3 | 0.6 | 0.5 | 0.5 | 0.3 |
| **3. Industrial exports** | | | | | | | | | | |
| Value (US$ mn.) | 5,401.1 | 5,967.3 | 6,158.0 | 5,305.4 | 6,096.1 | 7,991.7 | 7,371.2 | 7,749.4 | 8,262.0 | 7,975.6 |
| Growth | 9.1 | 10.5 | 3.2 | -13.8 | 14.9 | 31.1 | -7.8 | 5.1 | 6.6 | -3.5 |
| % of total exports | 78.5 | 78.1 | 75.9 | 74.9 | 70.7 | 75.7 | 75.4 | 74.6 | 74.2 | 75.9 |
| 3.1 Textile & garments | | | | | | | | | | |
| Value (US$ mn.) | 3,080.4 | 3,339.6 | 3,468.7 | 3,274.2 | 3,356.0 | 4,191.2 | 3,991.1 | 4,508.3 | 4,929.9 | 4,820.2 |
| Growth | 6.4 | 8.4 | 3.9 | -5.6 | 2.5 | 24.9 | -4.8 | 13.0 | 9.4 | -2.2 |
| % of total exports | 44.8 | 43.7 | 42.8 | 46.2 | 38.9 | 39.7 | 40.8 | 43.4 | 44.3 | 45.9 |
| 3.2 Petrolium products | | | | | | | | | | |
| Value (US$ mn.) | 188.4 | 168.9 | 254.9 | 134.7 | 263.4 | 552.7 | 463 | 427.7 | 338 | 373.9 |
| Growth | 43.9 | -10.4 | 50.9 | -47.2 | 95.5 | 109.8 | -16.2 | -7.6 | -21.0 | 10.6 |
| % of total exports | 2.7 | 2.2 | 3.1 | 1.9 | 3.1 | 5.2 | 4.7 | 4.1 | 3.0 | 3.6 |
| **4. Total commodity exports inc. petroleum** | | | | | | | | | | |
| Value (US$ mn.) | 6,882.7 | 7,640.0 | 8,110.6 | 7,084.5 | 8,625.8 | 10,558.8 | 9,773.5 | 10,394.3 | 11,130.1 | 10,504.9 |
| Growth | 8.4 | 11.0 | 6.2 | -12.7 | 21.8 | 22.4 | -7.4 | 6.4 | 7.1 | -5.62 |
| **5. Total commodity exports excl. petroleum** | | | | | | | | | | |
| Value (US$ mn.) | 6,694.3 | 7,471.1 | 7,855.7 | 6,949.8 | 8,362.4 | 10,006.1 | 9,310.5 | 9,966.6 | 10,792.1 | 10,131.0 |
| Growth | 7.7 | 11.6 | 5.1 | -11.5 | 20.3 | 19.7 | -7.0 | 7.0 | 8.3 | -6.1 |

Note: (a): Provisional.

Sources: Central Bank of Sri Lanka, *Annual Report*, various issue; IPS database.

## Table A17: Tourism, 1996-2015

| | Unit | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Tourist arrivals | No. | 302,265 | 366,165 | 381,063 | 436,440 | 400,414 | 336,794 | 393,171 | 500,642 | 566,202 | 549,308 |
| Excursionist arrivals | No. | 12,863 | 18,265 | 27,629 | 28,335 | 44,518 | 60,084 | 63,560 | 82,066 | 110,000 | 119,618 |
| Tourist nights | 000 | 2,947 | 3,680 | 3,944 | 4,479 | 4,056 | 3,342 | 3,989 | 5,093 | 5,742 | 4,754 |
| Earnings | Rs. mn. | 9,559.1 | 12,980.0 | 14,868.0 | 19,297.3 | 19,162.2 | 18,863.3 | 24,202.0 | 32,810.0 | 42,666.3 | 36,377 |
| | US$ mn. | 173.0 | 216.7 | 230.5 | 274.9 | 252.8 | 211.1 | 253.0 | 340.0 | 416.8 | 362.3 |
| Receipts per tourist per day | US$ | 57.9 | 58.6 | 59.5 | 61.4 | 62.3 | 63.1 | 63.4 | 66.8 | 72.2 | 74.6 |
| Average duration | Nights | 9.8 | 10.1 | 10.4 | 10.3 | 10.1 | 9.9 | 10.1 | 10.2 | 10.1 | 8.7 |
| Accommodation | | | | | | | | | | | |
| Rooms | No. | 11,600 | 12,370 | 12,770 | 12,918 | 13,311 | 13,626 | 13,818 | 14,137 | 14,322 | 13,162 |
| Beds | No. | 22,040 | 22,944 | 23,373 | 24,216 | 24,953 | 25,595 | 25,956 | 26,511 | 26,854 | 24,740 |
| Occupancy rate, graded | % | 40.3 | 49.1 | 52.8 | 57.6 | 52.3 | 42.1 | 43.1 | 53.2 | 59.3 | 45.4 |
| Sri Lanka nationals | | | | | | | | | | | |
| Arrivals | No. | 488,055 | 482,850 | 481,793 | 521,073 | 514,448 | 487,356 | 493,947 | 560,602 | 646,990 | 683,169 |
| Departures | No. | 494,258 | 530,712 | 518,050 | 496,963 | 524,212 | 505,341 | 533,565 | 561,126 | 680,248 | 727,301 |
| Employment | | | | | | | | | | | |
| Direct | No. | 31,963 | 34,006 | 34,780 | 36,560 | 37,943 | 33,710 | 38,821 | 46,761 | 53,766 | 52,085 |
| Indirect | No. | 44,748 | 47,608 | 48,692 | 51,184 | 53,120 | 47,194 | 54,349 | 65,465 | 75,272 | 72,919 |

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| | Unit | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015(a) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Tourist arrivals | No. | 559,603 | 494,008 | 438,475 | 447,890 | 654,476 | 855,975 | 1,005,605 | 1,274,593 | 1,527,153 | 1,798,380 |
| Excursionist arrivals | No. | 128,719 | 98,432 | 87,695 | 89,526 | 112,497 | 119,875 | 126,523 | 140,009 | 138,097 | 195,134 |
| Tourist nights | 000 | 5,793 | 4,940 | 4,166 | 4,075 | 6,548 | 8,560 | 10,056 | 10,961 | 15,119 | 18,163 |
| Earnings | Rs. mn. | 42,586 | 42,519 | 37,094 | 40,133 | 65,018 | 91,926 | 132,427 | 221,147 | 317,502 | 405,492 |
| | US$ mn. | 410.0 | 384.4 | 319.5 | 349.3 | 575.9 | 838.9 | 1038.3 | 1715.5 | 2431.1 | 2980.6 |
| Receipts per tourist per day | US$ | 83.4 | 79.1 | 76.7 | 81.8 | 88.0 | 98.0 | 103.0 | 156.5 | 160.8 | 164.1 |
| Average duration | Nights | 10.4 | 10.0 | 9.5 | 9.1 | 10.0 | 10.0 | 10.0 | 8.6 | 9.9 | 10.1 |
| Accommodation | | | | | | | | | | | |
| Rooms | No. | 14,218 | 14,604 | 14,793 | 14,461 | 14,714 | 14,653 | 15,510 | 16,223 | 18,078 | 18,954 |
| Beds | No. | 27,117 | 27,500 | 28,698 | 28,344 | 28,978 | 28,844 | 30,880 | 32,284 | 35,976 | 37720 |
| Occupancy rate | % | 47.8 | 46.2 | 43.9 | 48.4 | 70.1 | 77.1 | 71.2 | 71.7 | 74.3 | 74.5 |
| Sri Lanka nationals | | | | | | | | | | | |
| Arrivals | No. | 734,421 | 817,524 | 900,815 | 914,584 | 1,081,417 | 1,210,951 | 1,210,914 | 1,200,778 | 1,263,494 | 1,361,877 |
| Departures | No. | 756,735 | 862,011 | 966,337 | 962,786 | 1,122,212 | 1,239,290 | 1,268,792 | 1,261,711 | 1,311,063 | 1,356,411 |
| Employment | | | | | | | | | | | |
| Direct | No. | 55,649 | 60,516 | 51,306 | 52,071 | 55,023 | 57,786 | 67,862 | 112,550 | 129,790 | 135,930 |
| Indirect | No. | 77,909 | 84,722 | 71,828 | 72,899 | 77,032 | 80,899 | 95,007 | 157,600 | 170,100 | 183,506 |

Notes: (a): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report,* various issues; Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A18: Monthly Tourist Arrivals, 2004-2015

| | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth |
| January | 49,950 | 22.9 | 38,187 | -23.5 | 52,103 | 36.4 | 56,553 | 8.5 | 56,916 | 0.6 | 38,468 | -32.4 |
| February | 43,584 | 11.5 | 36,645 | -15.9 | 52,687 | 43.8 | 43,051 | -18.3 | 40,551 | -5.8 | 34,169 | -15.7 |
| March | 38,418 | -5.9 | 50,418 | 31.2 | 54,746 | 8.6 | 35,031 | -36.0 | 38,049 | 8.6 | 34,065 | -10.5 |
| April | 30,672 | -9.0 | 42,261 | 37.8 | 49,776 | 17.8 | 33,039 | -33.6 | 29,747 | -10.0 | 26,054 | -12.4 |
| May | 30,162 | 0.4 | 40,878 | 35.5 | 43,825 | 7.2 | 26,307 | -40.0 | 31,140 | 18.4 | 24,739 | -20.6 |
| June | 32,119 | 0.9 | 45,699 | 42.3 | 44,066 | -3.6 | 30,810 | -30.1 | 27,960 | -9.3 | 30,234 | 8.1 |
| July | 50,525 | 15.5 | 56,745 | 12.3 | 55,354 | -2.5 | 44,142 | -20.3 | 32,982 | -25.3 | 42,223 | 28.0 |
| August | 48,675 | 15.6 | 51,216 | 5.2 | 52,931 | 3.3 | 44,742 | -15.5 | 30,672 | -31.4 | 41,207 | 34.3 |
| September | 51,525 | 42.9 | 43,536 | -15.5 | 38,485 | -11.6 | 37,104 | -3.6 | 29,529 | -20.4 | 37,983 | 28.6 |
| October | 59,442 | 19.1 | 44,095 | -25.8 | 38,815 | -12.0 | 37,011 | -4.6 | 35,103 | -5.2 | 37,575 | 7.0 |
| November | 64,971 | 18.2 | 48,457 | -25.4 | 37,591 | -22.4 | 45,102 | 20.0 | 36,901 | -18.2 | 44,311 | 20.1 |
| December | 66,159 | 14.6 | 51,171 | -22.7 | 39,224 | -23.3 | 61,116 | 55.8 | 48,925 | -19.9 | 56,862 | 16.2 |
| Total | 566,202 | 13.1 | 549,308 | -3.0 | 559,603 | 1.9 | 494,008 | -11.7 | 438,475 | -11.2 | 447,890 | 2.1 |

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| | 2010 | | 2011 | | 2012 | | 2013 | | 2014 | | 2015(a) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth |
| January | 50,757 | 31.9 | 74,197 | 46.2 | 85,874 | 15.7 | 110,543 | 28.7 | 146,575 | 32.6 | 156,246 | 6.6 |
| February | 57,300 | 67.7 | 65,797 | 14.8 | 83,549 | 27.0 | 113,968 | 36.4 | 141,878 | 24.5 | 165,541 | 16.7 |
| March | 52,352 | 53.7 | 75,130 | 43.5 | 91,102 | 21.3 | 113,208 | 24.3 | 133,048 | 17.5 | 157,051 | 18.0 |
| April | 38,300 | 47.0 | 63,835 | 66.7 | 69,591 | 9.0 | 80,737 | 16.0 | 112,631 | 39.5 | 122,217 | 8.5 |
| May | 35,213 | 42.3 | 48,943 | 39.0 | 57,506 | 17.5 | 74,838 | 30.1 | 90,046 | 20.3 | 113,529 | 26.1 |
| June | 44,730 | 47.9 | 53,636 | 19.9 | 65,245 | 21.6 | 90,279 | 38.4 | 103,175 | 14.3 | 115,467 | 11.9 |
| July | 63,339 | 50.0 | 83,786 | 32.3 | 90,338 | 7.8 | 107,016 | 18.5 | 133,971 | 25.2 | 175,804 | 31.2 |
| August | 55,898 | 35.7 | 72,463 | 29.6 | 79,456 | 9.7 | 123,269 | 55.1 | 140,319 | 13.8 | 166,610 | 18.7 |
| September | 47,339 | 24.6 | 60,219 | 27.2 | 71,111 | 18.1 | 90,339 | 27.0 | 105,535 | 16.8 | 143,374 | 35.9 |
| October | 52,370 | 39.4 | 69,563 | 32.8 | 80,379 | 15.5 | 107,058 | 33.2 | 121,576 | 13.6 | 132,280 | 8.8 |
| November | 72,251 | 63.1 | 90,889 | 25.8 | 109,202 | 20.1 | 109,420 | 0.2 | 119,727 | 9.4 | 144,147 | 20.4 |
| December | 84,627 | 48.8 | 97,517 | 15.2 | 122,252 | 25.4 | 153,918 | 25.9 | 178,672 | 16.1 | 206,114 | 15.4 |
| Total | 654,476 | 46.1 | 855,975 | 30.8 | 1,005,605 | 17.5 | 1,274,593 | 26.7 | 1,527,153 | 19.8 | 1,798,380 | 17.8 |

Note: Monthly growth figures reflect percentage changes compared to the same month in the previous year.
(a): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report*, various issues and Monthly Statistical Bulletin, 2012.
Ceylon Tourist Board, Monthly Statistical Bulletion, 2012.

## Table A19: Tourist Arrivals by Country of Residence, 2004-2015

| | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth |
| North America | 29,759 | 18.5 | 46,457 | 56.1 | 35,323 | -24.0 | 28,355 | -19.7 | 24,311 | -14.3 | 24,948 | 2.6 |
| Canada | 14,633 | 31.1 | 21,185 | 44.8 | 14,623 | -31.0 | 11,869 | -18.8 | 10,258 | -13.6 | 10,707 | 4.4 |
| U.S.A. | 15,126 | 8.5 | 25,272 | 67.1 | 20,700 | -18.1 | 16,486 | -20.4 | 14,053 | -14.8 | 14,241 | 1.3 |
| Western Europe | 284,440 | 11.5 | 227,191 | -20.1 | 228,445 | 0.6 | 194,448 | -14.9 | 167,187 | -14.0 | 170,123 | 1.8 |
| Germany | 58,258 | -1.1 | 46,350 | -20.4 | 47,402 | 2.3 | 35,042 | -26.1 | 30,625 | -12.6 | 29,654 | -3.2 |
| United Kingdom | 106,645 | 14.3 | 92,629 | -13.1 | 88,306 | -4.7 | 94,060 | 6.5 | 81,331 | -13.5 | 81,594 | 0.3 |
| France | 29,996 | 4.9 | 26,653 | -11.1 | 22,693 | -14.9 | 8,091 | -64.3 | 10,594 | 30.9 | 15,886 | 50.0 |
| Italy | 18,862 | 20.5 | 10,192 | -46.0 | 12,424 | 21.9 | 11,451 | -7.8 | 9,126 | -20.3 | 7,514 | -17.7 |
| Netherlands | 21,455 | 17.9 | 15,156 | -29.4 | 19,360 | 27.7 | 17,526 | -9.5 | 13,030 | -25.7 | 11,291 | -13.3 |
| Asia | 198,068 | 11.7 | 223,351 | 12.8 | 242,132 | 8.4 | 202,480 | -16.4 | 173,039 | -14.5 | 174,534 | 0.9 |
| Japan | 19,641 | 14.8 | 17,148 | -12.7 | 16,189 | -5.6 | 14,274 | -11.8 | 10,075 | -29.4 | 10,926 | 8.4 |
| India | 105,151 | 16.1 | 113,323 | 7.8 | 128,370 | 13.3 | 106,067 | -17.4 | 85,238 | -19.6 | 83,634 | -1.9 |
| Pakistan | 9,638 | -0.7 | 11,029 | 14.4 | 11,145 | 1.1 | 10,204 | -8.4 | 7,885 | -22.7 | 7,373 | -6.5 |
| Australasia | 26,540 | 15.6 | 29,738 | 12.0 | 25,127 | -15.5 | 22,924 | -8.8 | 21,839 | -4.7 | 26,068 | 19.4 |
| Australia | 23,247 | 16.5 | 25,986 | 11.8 | 21,849 | -15.9 | 20,241 | -7.4 | 19,536 | -3.5 | 23,239 | 19.0 |
| Other(a) | 27,395 | 36.7 | 22,571 | -17.6 | 28,576 | 26.6 | 45,801 | 60.3 | 52,099 | 13.8 | 52,217 | 0.2 |
| Total | 566,202 | 13.1 | 549,308 | -3.0 | 559,603 | 1.9 | 494,008 | -11.7 | 438,475 | -11.2 | 447,890 | 2.1 |

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| | 2010 | | 2011 | | 2012 | | 2013 | | 2014 | | 2015(b) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth |
| North America | 40,216 | 61.2 | 49,057 | 22.0 | 59,236 | 20.7 | 65,616 | 10.8 | 72,653 | 10.7 | 84,943 | 16.9 |
| Canada | 21,123 | 97.3 | 24,671 | 16.8 | 29,329 | 18.9 | 30,926 | 5.4 | 33,282 | 7.6 | 37,732 | 13.4 |
| U.S.A. | 19,093 | 34.1 | 24,386 | 27.7 | 29,907 | 22.6 | 34,690 | 16.0 | 39,371 | 13.5 | 47,211 | 19.9 |
| Western Europe | 256,861 | 51.0 | 315,210 | 22.7 | 373,063 | 18.4 | 421,037 | 12.9 | 479,007 | 13.8 | 552,442 | 15.3 |
| Germany | 45,727 | 54.2 | 55,882 | 22.2 | 71,642 | 28.2 | 85,470 | 19.3 | 102,977 | 20.5 | 115,868 | 12.5 |
| United Kingdom | 105,496 | 29.3 | 106,082 | 0.6 | 114,218 | 7.7 | 137,416 | 20.3 | 144,168 | 4.9 | 161,845 | 12.3 |
| France | 31,285 | 96.9 | 48,695 | 55.6 | 56,863 | 16.8 | 64,388 | 13.2 | 78,883 | 22.5 | 86,126 | 9.2 |
| Italy | 11,423 | 52.0 | 13,527 | 18.4 | 15,871 | 17.3 | 17,982 | 13.3 | 21,116 | 17.4 | 24,293 | 15.0 |
| Netherlands | 17,861 | 58.2 | 23,966 | 34.2 | 26,754 | 11.6 | 22,281 | -16.7 | 24,196 | 8.6 | 32,742 | 35.3 |
| Asia | 244,124 | 39.9 | 333,841 | 36.8 | 380,289 | 13.9 | 509,653 | 34.0 | 650,810 | 27.7 | 822,272 | 26.3 |
| Japan | 14,352 | 31.4 | 20,586 | 43.4 | 26,085 | 26.7 | 29,923 | 14.7 | 39,136 | 30.8 | 39,358 | 0.6 |
| India | 126,882 | 51.7 | 171,374 | 35.1 | 176,340 | 2.9 | 208,795 | 18.4 | 242,734 | 16.3 | 316,247 | 30.3 |
| Pakistan | 9,148 | 24.1 | 14,724 | 61.0 | 16,056 | 9.0 | 25,336 | 57.8 | 25,424 | 0.3 | 32,300 | 27.0 |
| Australasia | 37,290 | 43.0 | 46,467 | 24.6 | 57,776 | 24.3 | 60,836 | 5.3 | 65,252 | 7.3 | 71,672 | 9.8 |
| Australia | 33,456 | 44.0 | 41,728 | 24.7 | 51,614 | 23.7 | 54,252 | 5.1 | 57,940 | 6.8 | 63,554 | 9.7 |
| Other(a) | 75,985 | 45.5 | 111,400 | 46.6 | 135,241 | 21.4 | 217,451 | 60.8 | 259,431 | 19.3 | 267,051 | 2.9 |
| Total | 654,476 | 46.1 | 855,975 | 30.8 | 1,005,605 | 17.5 | 1,274,593 | 26.7 | 1,527,153 | 19.8 | 1,798,380 | 17.8 |

Notes: (a): Latin America & the Caribbean, East Europe, Africa, and Middle East.
(b): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report,* various issues and Monthly Statistical Bulletin, 2012.

## Table A20: Balance of Payments, 2004-2015

| | Unit | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015(a) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Trade balance | US$ mn. | -2,243 | -2,516 | -3,370 | -3,657 | -5,981 | -3,122 | -4,825 | -9,710 | -9,417 | -7,609 | -8,287 | -8,430 |
| | % of GDP | -10.9 | -10.3 | -11.9 | -11.3 | -14.7 | -7.4 | -8.5 | -14.9 | -13.8 | -10.2 | -10.4 | -10.2 |
| 2. Services balance | US$ mn. | 419 | 338 | 257 | 302 | 401 | 391 | 707 | 1,099 | 1,262 | 1,180 | 1,880 | 2,325 |
| | % of GDP | 2.0 | 1.4 | 0.9 | 0.9 | 1.0 | 0.9 | 1.2 | 1.7 | 1.8 | 1.6 | 2.3 | 2.8 |
| 3. Income, net | US$ mn. | -204 | -299 | -389 | -358 | -972 | -488 | -617 | -647 | -1,219 | -1,751 | -1,808 | -2,097 |
| | % of GDP | -1.0 | -1.2 | -1.4 | -1.1 | -2.4 | -1.2 | -1.1 | -1.0 | -1.8 | -2.4 | -2.3 | -2.5 |
| 4. Net private transfers | US$ mn. | 1,350 | 1,736 | 1,904 | 2,214 | 2,565 | 2,927 | 3,608 | 4,583 | 5,339 | 5,619 | 6,199 | 6,167 |
| | % of GDP | 6.5 | 7.1 | 6.7 | 6.8 | 6.3 | 7.0 | 6.4 | 7.0 | 7.8 | 7.6 | 7.7 | 7.5 |
| 5. Net official transfers | US$ mn. | 30 | 93 | 101 | 97 | 101 | 77 | 52 | 60 | 53 | 21 | 28 | 27 |
| | % of GDP | 0.1 | 0.4 | 0.4 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| 6. Current account balance | US$ mn. | -648 | -650 | -1,499 | -1,402 | -3,886 | -214 | -1,075 | -4,615 | -3,982 | -2,541 | -1,988 | -2,009 |
| | % of GDP | -3.1 | -2.7 | -5.3 | -4.3 | -9.5 | -0.5 | -1.9 | -7.1 | -5.8 | -3.4 | -2.5 | -2.4 |
| 7. Capital and financial a/c | US$ mn. | 631 | 1,224 | 1,808 | 2,097 | 1,774 | 2,594 | 2,877 | 4,262 | 4,393 | 3,135 | -1,478 | -2,224 |
| | % of GDP | 3.1 | 5.0 | 6.4 | 6.5 | 4.4 | 6.2 | 5.1 | 6.5 | 6.4 | 4.2 | -1.8 | -2.7 |
| Capital account | US$ mn. | 64 | 250 | 291 | 269 | 291 | 233 | 164 | 164 | 130 | 71 | 58 | 46 |
| 8. Financial account | US$ mn. | 567 | 974 | 1,517 | 1,828 | 1,483 | 2,361 | 2,713 | 4,098 | 4,263 | 3,064 | -1,536 | -2,271 |
| Long-term | US$ mn. | 680 | 798 | 907 | 1,251 | 1,016 | 1,304 | 2,379 | 3,308 | 2,587 | 2,314 | 1,968 | 1,135 |
| Foreign direct investment | US$ mn. | 227 | 234 | 451 | 548 | 691 | 384 | 435 | 896 | 871 | 868 | 894 | 681 |
| Private long-term (net) | US$ mn. | 14 | 11 | -35 | 31 | 74 | 79 | 149 | 175 | 724 | 605 | 429 | -16 |
| Government long-term | US$ mn. | 439 | 554 | 491 | 672 | 252 | 840 | 1,796 | 2,237 | 992 | 841 | 646 | 470 |
| 9. Short-term | US$ mn. | -112 | 176 | 610 | 577 | 466 | 1,058 | 334 | 790 | 1,676 | 750 | -432 | 1,136 |
| Foreign portfolio investment | US$ mn. | 11 | 60 | 51 | 101 | 60 | -6 | -230 | -171 | 272 | 226 | 178 | -58 |
| 10 Other (b) | US$ mn. | -189 | -72 | -105 | -165 | 728 | 346 | -881 | -708 | -412 | -594 | 393 | -308 |
| 11. Overall balance | US$ mn. | -205 | 501 | 204 | 531 | -1,385 | 2,725 | 921 | -1,059 | 151 | 985 | 1,369 | -1,489 |
| | % of GDP | -1.0 | 2.1 | 0.7 | 1.6 | -3.4 | 6.5 | 1.6 | -1.6 | 0.2 | 1.3 | 1.7 | -1.8 |

Notes: (a): Provisional.
(b): Valuation adjustments, errors, and omissions.
(c): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report,* various issues.

## Table A21: Exchange Rate Behaviour, 2004-2015

| Currency | Unit | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Nominal exchange rates | | | | | | | | | | | | | |
| U.S.A. | S.L. Rs. per US$ | 104.61 | 102.12 | 107.71 | 108.72 | 113.14 | 114.38 | 110.95 | 113.90 | 127.16 | 130.75 | 131.05 | 144.06 |
| Japan | S.L. Rs. per Yen | 1.02 | 0.87 | 0.91 | 0.97 | 1.25 | 1.24 | 1.36 | 1.47 | 1.48 | 1.25 | 1.10 | 1.20 |
| U. K. | S.L. Rs. per Pound | 201.37 | 175.94 | 211.29 | 217.15 | 163.28 | 181.75 | 171.41 | 175.45 | 205.47 | 215.58 | 204.04 | 213.57 |
| Europeon Union | S.L. Rs. per Euro | 142.32 | 120.96 | 141.58 | 160.27 | 159.45 | 163.72 | 147.56 | 147.42 | 168.13 | 180.45 | 159.42 | 157.37 |
| India | S.L. Rs. per Ind. Rs. | 2.40 | 2.27 | 2.44 | 2.77 | 2.36 | 2.46 | 2.48 | 2.15 | 2.33 | 2.11 | 2.07 | 2.17 |
| 24 currency | | | | | | | | | | | | | |
| Nominal effective exchange rates (NEER) | NEER 2006 = 100 (a) | 104.32 | 104.06 | 110.94 | 98.96 | 100.07 | 99.85 | 100.00 | 99.84 | 90.44 | 91.39 | 91.99 | 96.61 |
| Real effective exchange rate (REER) | REER 2006 = 100 (a) | 90.60 | 97.43 | 81.02 | 78.07 | 95.19 | 97.36 | 100.00 | 101.84 | 95.80 | 100.61 | 101.94 | 106.18 |

Notes: (a): From 2006 onwards, NEER 2010 = 100.

Sources: Central Bank of Sri Lanka, *Annual Report,* various issues.

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- Labour market reforms under tight fiscal conditions
- Advancing Sri Lanka's education system through innovative funding
- Health care financing in Sri Lanka: challenges and alternatives
- Improving efficiency and mobilizing resources for poverty reduction initiatives
- Financing urbanization
- Sustainable development under economic constraints: MBIs and environmental fiscal reforms
- Role of economic incentives in financing agricultural investments



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