

## **BUDGET SPEECH - 2016**

### **PREAMBLE**

1. Honourable Speaker, as the 20<sup>th</sup> Finance Minister of the Democratic Socialist Republic of Sri Lanka it is not only a pleasure but also a privilege to present the 70<sup>th</sup> budget of the country for the year 2016. The effervescent leadership and guidance of His Excellency the President Maithripala Sirisena and the Prime Minister Honourable Ranil Wickramasinghe have provided the ideal formula to generate a budget seeking excellence in all fronts. The 2016 budget will go into the annals of history as the most significant budget ever to be presented as I represent a national government of consensus united to create a new economic and social order for the benefit of all Sri Lankans, akin to the first government of independent Sri Lanka which was truly a national government.
2. The statement made on 29<sup>th</sup> January 2015 on interim budget proposals termed as "Hundred Day Revolution" ensured that a majority of people of Sri Lanka who had undergone tremendous difficulties and hardships could finally seek economic freedom. I do not wish to dwell on the positives of the interim budget previously presented and look forward to delivering further dividends through the adoption of prudent and cohesive economic policies benefitting the nation.
3. Honourable Speaker, it is necessary to salute the people of Sri Lanka who stood up for their rights and delivered the verdict through the most democratic election to ensure the ascend of Honourable Maithripala Sirisena to be the President of Sri Lanka. We could remember the unceasing waves of economic rhetoric which filled our ears during the budget presentations of the last regime, devoid of benefits to suffering masses. Honourable Speaker and Honourable Prime Minister, the Presidential elections held on 8<sup>th</sup> January 2015 could be termed as a turning point of the nation, a nation with a heritage and culture dating back to over 2,500 years. The people of Sri Lanka once again endorsed their verdict by granting an opportunity to form a national government of consensus devoid of petty differences and a positive outlook

in August 2015, once more through a most democratic election. The dynamics of dedicated leadership based on consensual politics and commitment to an unwavering policy, the domineering hallmarks of the Prime Minister Honourable Ranil Wickramasinghe paved the way for back to back democratic victories for people of Sri Lanka.

4. During the short span of ten months, the transformation of the social, economic and political spheres in Sri Lanka could be termed as phenomenal. The derogatory "hubs of crony capitalism" had disintegrated forever, the fearsome "White van syndrome" had been extinguished and the "most detestable family bandyism" eradicated. Today, the average people of Sri Lanka are enjoying not only the fruits of economic dividends but also democratic freedom which was under a cloud during the last regime. The ten month period was a most difficult phase to traverse, from a governing view point. A crises ridden economy, differences rife, a minority government ruling the country. But the achievements were significant and new milestones reached paving the way for a new Sri Lanka.
5. Lord Acton's famous and mesmerizing words "Power corrupts. Absolute power corrupts absolutely" reverberate when we reminisce of the misdeeds of a regime which created almost a 'Banana republic' in Sri Lanka shunned by many nations. We lost our dignity as a nation and facing other issues of concern too such as the termination of concessions under GSP plus facility and also the ban on fish exports to the European Union (EU). When democracy prevails, the responses are of a benign nature which was felt whenever foreign countries were visited during recent months.
6. What we inherited in January 2015 was "a near crisis legacy". The crisis was not restricted merely to the economy but extended to foreign, welfare, governance, law and order policy issues and if it were to continue would have resulted in far reaching consequences to the nation and future generations too. We have confronted the crisis situation with utmost dexterity and I am sure would be able to face up to the herculean task with courage and confidence. Honourable Speaker, the track record established during the

"Hundred Day Revolution" depicts the manner in which crisis could be diffused and negative situations could be turned into positive.

7. Economic policies of the last regime were fundamentally flawed. Mounting debt was about to take control of the economy. Fiscal revenue as a percentage of GDP had fallen by about half in comparison to 1990, unproductive investments riddled the public finance structure, with inefficient state owned enterprises, corrupt procurement processes and unsolicited foreign borrowings and grant of contracts mademockery of good governance and transparency. When an economy is misguided and mishandled, the future of a country would be in perilous jeopardy and Sri Lanka did enter that deadly zone due to flawed economic policies of the last regime.
8. The foreign policy of Sri Lanka was blemished and we were on the brink of receiving stringent economic sanctions and almost left to fend for ourselves with limited assistance from previously supportive nations. Government policy was hazardous to the effect that the levels of waste and corruption reached hither to be unheard of proportions and the negative options were practiced with utmost impunity. Anti poverty programs were politically motivated and did not reach the needy and suffering masses. Law and order of the country was turning medieval and the country was gradually converting to a feudal entity.

The Rajapaksa regime was committed to ending the strife and eradication of terrorism. And they did succeed to rid mother Lanka of feared terrorism and they should be complemented for doing so with the gallant forces leading the way. However, the key turnaround factor should not be forgotten. At the end of 2001, the country was almost falling apart with a negative growth rate, continuous escalation of violence and key economic targets attacked.

Consensual policies of Honorable Ranil Wickremasinghe administration halted this slide so that not only the economy turned around but our gallant forces also could replenish much needed arms, equipment and ammunition and most importantly recover lost morale. We should remember the words of the prophecy quoted by late Honourable J R Jayawardena at San Francisco

from the DhammaPada that *"hatred should not be ceased by hatred but only with kindness"* . Although the war was won a lot was left to be done to with the heart and minds of all communities and religious sects in Sri Lanka. It is the objective of our government to ensure but our late leader so categorically presented is practiced in no uncertain terms.

9. We have restored not only democracy but brought in a new dimension of freedom devoid of fear and injustice. Policies have been revamped. Nineteenth amendment has restored major provisions of the repealed Seventeenth amendment and the Constitutional Council is very much in existence with independent commissions as well. We look forward to the goodness of the "YahaPalanaya" or good governance cascading to all strata of the society and are committed to do so.
10. We have a dream to be another rainbow nation, a developed nation. A nation with an upbeat happiness index, a nation of prosperity, cascading with goodness and goodwill. We need to provide economic freedom for our future generations to enjoy the fruits of our commitment. We will ensure delivery of targets and goals set focusing on short, medium and long term strategies and confront structural development challenges to facilitate transition towards an upper middle income economy. We are not looking forward to providing a platform for few millionaires only but endeavor to pave the way for millions of millionaires to come into existence.
11. It is in this context that on 5<sup>th</sup> November 2015, Honourable Prime Minister delivered a policy statement to this august body which enumerated the platform for the budget 2016. The medium term strategies proposed consisted of the under mentioned.
  - a) Generating of one million employment opportunities
  - b) Enhancing income levels
  - c) Development of rural economies
  - d) Ensuring land ownership to rural and estate sectors, the middle class and government employees
  - e) Creating a wide and a strong middle class

12. Honorable Speaker, the said policy statement is significant and it is the basis for this budget. The statement contains broad policies of national importance that will have far reaching positive implications to the Sri Lankan economy. It categorically points out that to achieve our economic and development goals, we need to establish the economic foundation correctly. Only with a strong foundation we can perform and achieve set goals and targets. That's why the policy statement particularly highlights the need to make fundamental changes in the economic perspectives to focus on the journey forward.
13. Hence, our government's policy would concentrate on removing the barriers that have resulted in the market not operating freely. The reform measures in the policy statement will be the key in this context. The proposed reforms will not only nurture but also foster private sector economic activities and ensure their positive role in the entire economic process.
14. Our policies will be implemented through reforms, particularly with reference to the state owned enterprises and international trade, which had been neglected without direction for many years. Reforms are also needed to come out from the legacy created by the previous regime, which had affected adversely, in particular the business environment of the country. Adherence to the policy will activate the process to move away from the erratic economic policies and irregular practices in economic management witnessed during the previous Rajapaksa regime.
15. With the reforms, we need to improve local competitiveness, international trade and investments as well as skills and productivity of our people while being conscious about the developments in the global economy. At the same time, we must foster a knowledge based Social Market Economy built on social justice principles.
16. We plan to put in place mechanisms that will seek not only to strengthen the economic sphere but also many other sectors such as the political, social, education and health. We are concerned about the fundamental requirements

like land, housing, education and health of the people. That is why Honorable Prime Minister has made on 5<sup>th</sup> November 2015 a series of proposals in the statement which are related to these areas as well.

17. We will have to continue to focus on agriculture, the prime enterprise of our nation. Our economy over the years had been based on agriculture. Our nation is a blessed nation. We have President who takes pride in stating that he represents the farming community. His Excellency the President Maithripala Sirisena's mission on agriculture will ensure that we would not only achieve food security but also commence agricultural exports. Reminiscent of the golden era when Sri Lanka was called the "Granary of the East" our President's omnipresent commitment to uplift the agriculture economy is poised to reap just dividends.
18. It may be prudent to dissect the economic policies adopted by previous regimes since independence. The positive and negative aspects which had resulted in the current situation could be disseminated based on the factual presentation.

### **THE BACKGROUND FOR BUDGET 2016**

19. Honourable Speaker, I would like to draw your attention to the context in which this budget is presented. We had gone through different phases in economic policy adopted during the past which see-sawed from forms of capitalism, socialism and welfare economic objectives, from the time we gained independence in 1948.

### **Since Independence to 1977**

20. When Sri Lanka gained independence from the British in 1948 the transition was so smooth that one of our great historians Prof. K.M. De Silva termed our country as "an oasis of stability, peace and order". However, many other such transitions upon the ending of the 2<sup>nd</sup> World War, of other countries were critically marred by violence and turmoil.

21. Rt. Honourable D.S. Senanayake, the father of the nation, managed to secure the support of the Sinhala Maha Sabha and the Tamil Congress and also the support of Muslims, Tamils, Burgers and Malays and in short all nationalities to form a unity government. That was the only occasion until the present day where a government united to serve the nation had been formed. Sri Lanka's economy was an agricultural economy producing Tea, Rubber and Coconut as the main agricultural products and major exports as well. The dualistic economy also managed to produce food crops to adequately sustain the requirements of the nation. A per capita income of around US\$ 120 and an economy of around US\$ one billion were vital economic statistics of that era.
22. During this period, the economic regulations were less, making it a free market economy, but exposure to international trade and low level of exports and continued focus on welfare measures made the economy vulnerable. Politically motivated welfare measures negatively reflected on the achievement of economic prosperity and nationalistic issues resulting in unplanned nationalization of resources added to the mounting economic turmoil.
23. The beginning of the seventies brought in an era of a closed economy, controls and rationing. The people who managed to survive the period of restricted commodity access will remember the era of "HaalPolu" (where carrying of rice over a given quantity was restricted) and "PaanPolim" (where bread was rationed and issued on a card). Other restrictions on clothing and other basic needs were also imposed making it difficult for the people to at least enjoy economic freedom. The era was signified by the restriction on movement of selected commodities and the restrictive era ended with the period of reforms based on "Open economic principles" commencing 1977, under the outstanding leadership of the Late His Excellency J.R. Jayawardena, the first Executive President of the Democratic Socialist Republic of Sri Lanka.
24. By 1977, the economy was still of a minor value of US\$ 4.1 billion and a per capita income of US\$ 294, an increase of a mere US\$ 174 over a period of thirty years.

## **1977: New Thinking**

25. A policy revolution followed with the resounding victory of the UNP in 1977 and the economy was opened almost overnight, the first country in South Asia to do so. The liberalized economic outlook opened doors for foreign investors to invest in productive ventures, socialist controls were lifted and Sri Lanka shifted from inward economic orientation to reach new heights in economic growth.
26. Phasing out of import controls, freeing of credit markets, introduction of unified exchange rate systems, withdrawal of state trading monopolies, ending of price controls as well as privatization of state owned enterprises were dynamic reforms introduced. The private sector was invited to be the "Engine of Growth" whilst the phrase that a "government has no business to do business" ideally suited the new economic process.
27. Late His Excellency J. R. Jayawardena's cabinet consisted of many political icons such as the Late His Excellency Ranasinghe Premadasa, Late Honourable Lalith Athulathmudali my own mentor and Guru, Late Honourable Gamini Dissanayake and Honourable Ronnie De Mel and of course the emerging political star of the seventies, the present Prime Minister Honourable Ranil Wickramasinghe. They ensured that the economy reached hitherto unheard of growth proportions averaging around 6%, avidly stimulated by FDIs, foreign aid and large scale productive investments.
28. Internal strife which precipitated in 1983 retarded growth to some extent and the UNP government's economic turnaround continued until 1994 with Her Excellency Chandrika Bandaranaike Kumaratunga taking over the high office as the President of the country under the newly formed coalition the "People's Alliance".

## **1994 - 2001: Rule of the "People's Alliance"**

29. The new government come to power in 1994 continued with the open economic policies of the previous regime with a human face and accelerated



the privatization process of state owned enterprises. The escalation of internal strife and terrorist attacks on significant economic targets hindered the progress and diverted the attention of the government away from the economy. By year 2000, Sri Lanka was still a low income economy with a per capita of US\$ 869, and the GDP amounted to US\$ 16.6 billion with unemployment was around 10 percent. For the first time since independence, the growth rate had a contraction in 2001.

### **2001-2004: A Two-year Turnaround**

30. The negative growth syndrome was reversed during this period by a government headed by the incumbent Prime Minister Honourable Ranil Wickramasinghe. The vision of the government created a multitude of opportunities for the entrepreneurs and new investments brought in an aura of goodness coupled with transparency and good governance. The economic policies adopted reaped rich dividends and once again the country was on the road to progress.

31. The bold approach provided a new impetus for the lagging economy and the slow paced economic activity of the previous regime was replaced by a new approach with an urgency to change for the better. However, the beginning of the era is signified by words of prophecy which had been summed up in the following manner.

*"The truth is that Sri Lanka is in the thick of an economic crisis - a crisis borne of deep indebtedness. If not arrested soon, it will keep employment and income at the worst nadir for generations to come. Therefore, we need to act prudently and with a renewed vision to stop the country from going down the slope of ruin. The need for reforming the economy is compelling as there is no way we can carry on the current way".*

32. I wish to digress Honourable Speaker, to query as to whether same principles should apply in today's context too. Words of wisdom, to be rewound and repeated, all over.

33. The government formed in 2001 which governed for two and a half years achieved significant policy changes with the introduction of the Fiscal Management (Responsibility) Act and Consumer Affairs Authority Act, long overdue amendments to the Termination of Employment of Workmen Act, Industrial Disputes Act, Employment of Women and Young Persons and Children Act and also the Welfare Benefits Act. Other revolutionary proposals such as to introduce a new Central Banking Act and a Foreign Exchange Management Act could not come into existence due to the premature dissolution of the government.
34. A focused effort to deregulate the economy through public sector reforms, thereby attracting foreign investments and providing alternative measures received special attention during this period.
35. Amidst these progressive steps, may be politically not the most popular, we managed to maintain strict fiscal discipline and market-friendly policies. We managed to secure the support and assistance from many nations in creating a new vision for economic development during this short span of time. As a result, the economy bounced back with enhanced investments and an improved productivity recording a higher economic growth of 6% with inflation declining to around 2%. However, the envisioned progress and economic revival expected under these policies came to an abrupt end in April 2004 with the change of the government.

### **2005-2014: Rajapaksa Regime**

36. The era from 2005 to 2014 would go down in history as one era where the expectations of the people were at a zenith but the delivery not even mediocre.
37. The end of the internal strife in 2009 signaled the culmination of about three decades of mayhem traversed with terrorist acts of such an inhuman nature which was condemned by all concerned. The people breathlessly looked forward to a future laced with prosperity and happiness. However, the belts that were requested to be tightened during the height of the strife could not

be slackened and the economy diverted to a perilous path stricken with mounting debts. The economic rhetoric churned out by "Gobellestic" promoters who were mere crony henchmen of the rulers, were in a cohesive partnership with the creators of never ending hosannas for the ruling elite but the country dragged on towards almost an abyss of no return. The "Bubble had to burst" and it did on the fateful day for the nation on the 8<sup>th</sup> January 2015.

38. The post strife period commencing 2009 was looked forward to by many as to be the era of reawakening of the nation with harmony and camaraderie between all citizens of the country devoid of racial, religious and caste restrictions. They also expected a rejuvenation of the economy.
39. Honourable Speaker, at this juncture it is my onerous duty to salute the gallant security forces who made it possible to save mother Lanka from about three decades of strife surfeit with the worst form of terrorism. The sacrifices made by our brave security forces, their families and friends will forever be in our minds. No amount of monuments or memorials could ever compensate the sacrifices they made. It is now incumbent upon us to preserve the gift of peace that they bequeathed on us. The freedoms that we have won must be upheld and preserved. We are mindful of the threats that are existing in the world we live in. We are cognizant of the changing face of terrorism. Isolationist policies will not do, instead this requires a very strategic approach working with our neighbors and friends globally. Use of modern technology is vital in maintaining security in the country. Let me reiterate that there will be no compromise when it comes to preserving our national security.
40. A country's economy could not be run on mere rhetoric and chirpy hosannas for the ruling elite. Tourism industry started to thrive, an outlook of vibrancy, investors returned once again positively interested in the country, new opportunities were available in the international capital markets for public and private sector financing, and as a result, the growth momentum of the economy accelerated showing the way for entering the path for Sri Lanka to achieve the status of a middle income economy. There were major hiccups

when a favored politician with a band of goons from the deep-south went on a rampage damaging the reputation of the country and causing irreparable loss of fame to the tourist industry by inflicting damage to tourism through despicable acts to two tourists on holiday. As we all know even the judicial process was unduly delayed and the relevant country of the victims had to intervene to accelerate the process. Other acts of misconduct mainly by political lackeys brought further disrepute to the nation retarding progress.

41. It was shown that the growth momentum had accelerated during the post 2009 period of the last regime but did the average Sri Lankan benefit benignly as the figures depicted. The road to achieving a new economic milestone was heavily showcased of reaching Middle Income status by 2016. But the international condemnation and non acceptance of not only the foreign policy but also the utterances of political mouth pieces of the last regime did not make Sri Lanka a sought after nation by the investors. Our status and ranking of the doing business index suffered. The nation was forced to witness the melodrama of a Cabinet Minister protesting outside the gates of the United Nations threatening to fast himself to death and giving up the protest upon been fed with King Coconut water by the then Leader of the country. That was a political drama at its best but the country suffered. The expected FDI's never realized and existing assistance provided by friendly nations such as GSP plus was withdrawn. Slowly the country was being dragged into an economic hell hole with international sanctions looming up in the near distance.
42. There was a golden opportunity to the then government to implement relevant reforms to sustain the development. With a proper vision and political and economic guidance, the country could have been on the road to becoming an upper middle income economy breaking the paradox of a long stint as a middle income nation, upon achievement. The politics based on misguided economic policies alienated Sri Lanka from many trading partners and investors, resulting in increased burden on public coffers whilst creating numerous imbalances in the macro-economy.

43. We have to accept the fact that the previous government embarked on upgrading the country's infrastructure including roads, ports, and airports, borrowing at high rates hither to be unheard, granting contracts on an unsolicited basis breaking many accepted norms of tender process in procurement. Honourable Speaker, I do have to dwell further, with reluctance due to the unsavory nature of the unholy and non professional approach of the infrastructure development activities in terms of financial management, governance and the ultimate negative impact on the economy.
  
44. The unplanned expenditure on infrastructure by the previous government on expressways, ports, airports and roads with the funding from foreign borrowings, at high interest rates, created a huge debt burden leading to a huge debt service burden of both interest and principal repayments. This high cost of funding was not used for investments which generate a return either in terms of local currency or foreign currency required for repaying the maturing debt but merely a long term investment and on some occasions without feasible returns. Sri Lanka could be termed as the only country in the world to be endowed with an international airport which is not even patronized by domestic airlines let alone international flights. So we have an airport to which airplanes do not land and no airplanes take off which is an ideal location for the Peacocks to flock in isolated splendor. The Hambantota sea port also has not stood up for what it is meant for and could be termed as a sea port to berth only a limited number of ships or a sea port with fewer ships. However, the name of the promoter lives on as the name boards to these locations of vast expenditure and waste, to bring out his name for the benefit of visitors who on and off embark on sightseeing.
  
45. Honourable Speaker, what we have heard through various official and or non-verified sources could be even less than the "tip of the iceberg". The investigative process may take time but the evidence is of an unimpeachable nature. Honourable Speaker, I request all patriotic citizens of Sri Lanka to be patient until the truth is disseminated and the culprits are found guilty through the due process of law in existence. I also take this opportunity to request the relevant citizens of our beloved motherland to bring back any

- riches hoarded out of the country as at this crucial juncture the country needs to pool together all such resources.
46. During the rule of the last regime, the government tax revenue as a percentage of GDP declined continuously to around 10.2 % of GDP by 2014, making the economy of Sri Lanka brittle, and Sri Lanka gradually became a country endowed with one of the lowest revenue to GDP ratios. Today, it is ironical that the revenue is not sufficient to accommodate our debt service payments. And remember we were endeavoring to be a wonder in Asia. Yes we had wandered away from the ideals of practical economics, away from reality and are now left to wonder what the so called economic maestros of the last regime had conjured during a decade of control.
  47. It is obvious and could be verified with ease that despite improvements in some infrastructure facilities, the real benefits of the economic decisions have not been filtered to rural and regional communities as expected during the post strife period. The living conditions of our people the most valuable asset of our motherland have not been improved to the level, as what would have been expected in the last decade. A critical look at the inequality of income and the Gini-Coefficient depicts that only a handful of Sri Lankans have garnered the largest share of the pie.

### **2015: National Unity Government- Sri Lanka's New Dimension in Politics**

48. The election of His Excellency the President Maithripala Sirisena in January 2015, and the establishment of the new national government of consensus led by the UNP under the charismatic leadership of the Honourable Prime Minister Ranil Wickremasinghe presents a fresh chapter in Sri Lanka's socio economic history and contemporary politics. Such a backdrop provides a welcome opportunity for the country to chart a course rationalized with appropriate economic strategies to ensure a future of prosperity before the opportunity is not missed yet again as we did in 2009 and on other occasions as well. It is the time to think of "what you can do for the country and not what the country can do for you". Famous words from the Late US President John F. Kennedy.

49. Upon being elected, we were faced with many queries which were communicated to us from various segments of the society. If per capita income is so high, bordering the middle income country status why a majority of the population is still struggling to eke out a living. If the growth is so high and inflation is slow, why do the prices of essential goods fluctuate almost every day making the day to day existence so difficult? If oil prices were falling in the international market, why fuel prices did not come down as expected? We did manage to bring forth positive inferences during our short tenure at governance but some questions did remain.
50. If the economy is growing, why are our sons and daughters still unemployed and looking for opportunities out of Sri Lanka. What is the use of highways and airports if they are built at inappropriate locations which do not bring forth desired results from an economic view point? When would a hardworking and committed middle class family afford to buy a small car? If the economy is growing, why is tax revenue ratio falling? In short, the society at large is seriously concerned as to what the true state of the Sri Lankan economy is?
51. The questions that are posed are based on the legacy of the previous regime that we inherited. Vulnerabilities that we inherited with regard to the economy are manifold which remain hardwired into the deep structure of the economy, despite impressive growth figures portrayed during the recent past. It could be said that economic growth was mainly driven by non-tradable sectors unlikely to be sustained sources of growth, 'Incredible fiscal' consolidation masking major structural weaknesses in the fiscal sector, long term productivity at risk as investments on human capital development suffering at the expense of increasingly rigid recurrent expenditure commitments, inefficient allocation of resources resulting in suboptimal social welfare as inequality of income levels increasing despite falling poverty head count.
52. The plight of economic woes is almost overflowing. Honourable Speaker, a major effort had gone into generating the budget proposals and we seek to

provide a solution with this National Budget for 2016 for a majority of the queries posed.

## **THE CURRENT STATE OF THE GOVERNMENT FINANCE AND THE ECONOMY**

53. Honourable Speaker, I now wish to focus on the task ahead of us. The Sri Lankan economy is stuck in a huge debt stock and a high deficit as well. However, I wish to reiterate that the debt and deficit mess that we inherited is not of our making and we condone the situation in no uncertain terms. We need to take positive action to make an innovative difference and deliver results which are acceptable from not only an economic view point but also from socio political aspects. Of course there is a greater amount of work to be expended on the arena of economic resurrection through what could be termed in mere colloquial terms as budget repair.
54. Every nation must live within its means, and Sri Lanka is no different. As such, we are not in a position to go on a rampage with regard to collection of taxes to generate revenue. Obviously we must continue to focus on the aspect of sensible savings as well. Honourable Speaker, I wish to endorse the principle that we must invest taxpayer money with great care for the benefit of the nation. During the last few years I wonder whether the economic maestros did adhere to this principle when the quantum of resources and opportunities wasted could be taken into due consideration.
55. The structural weakness in the fiscal sector warrants immediate attention without which sustained growth in the long term may not be a reality. The façade of lies churned out did not make good reading for seasoned economists. Fiscal deficit falling from 10% of GDP in 2001 to 5.7% by 2014, total debt, falling from 102% of GDP in 2002 to 72% of GDP in 2014 envisaging to make us believe that some fiscal consolidation had taken place.



56. As I have already stated, servicing of debt uses up all the government revenue which imposes heavy constraints on recurrent and capital expenditure. With an expanding debt profile, debt dynamics had shown some remarkable shifts. In the outstanding stock of foreign debt, the share of commercial loans had gained momentum during the recent years.
57. Our government is committed to follow more transparent market oriented policies that facilitate private sector economic activities and remove various barriers in the economy which disrupt the smooth operation of free markets. This requires drastic reforms to all sectors of the economy, beginning with the fiscal sector.
58. Honourable Speaker, let me present more specific details on some of the burning issues in the country's fiscal system, issues which are so important and of which all Sri Lankans need to be aware of. We have been discussing these issues for a long period of time over many years, and for the last 10 months, I was granted the opportunity to observe and dissect the real nature of fiscal issues faced by the country. It is my fervent wish that myself, and officials of the Ministry of Finance have addressed the issues utilizing the limited resources to optimize the benefits for the people of Sri Lanka.

### ***Tax Revenue***

59. It is obvious that the strength of any fiscal system depends on the ability to generate a sufficient amount of revenue to meet the planned and necessary expenditure. Unfortunately, it is not the case in Sri Lanka, and the situation has aggravated in the past decade and the action taken has not brought about meaningful results.
60. Declining government revenue to GDP ratio portrays a major macroeconomic concern for the country and this trend has to be reversed on a priority basis. Sri Lanka's tax revenue was 19% of GDP in 1990 falling drastically to 10.2% of GDP by 2014. Ironically, the growth of tax revenue in

absolute terms was just 4.4% in 2014 much below the nominal GDP growth rate of 7.3%. Thus, tax revenue had been unable to keep pace with economic expansion evidenced in recent years which is a serious phenomenon. It is also unfortunate to note that previous attempts to enhance fiscal revenue, have failed miserably during the past. Unbelievably there are about 35 taxes and levies in the system. Some of the laws are outdated and not readily understood by the taxpayers and only a few who are conversant about tax laws could fathom the intricate nature of the system of taxation in Sri Lanka.

61. Falling VAT collection is the main cause of the decline in tax revenue in recent years and the figures depict the malady in no uncertain terms. Revenue from VAT accounted for 41% of total tax collection in 2005, and it falls to 26% in 2014. Further, VAT collection as a share of GDP has decreased sharply from 5.8% in 2004 to 2.7% by 2014. Income tax dilution also had kept pace, falling from a 2.7% of GDP in 2006 to 1.9% of GDP in 2014. As such, although the national income had increased there is no commensurate tax income. Several inherent features are noteworthy as to why tax revenue is falling. The main culprit could be weak compliance due to tax administration issues. A multitude of tax exemptions granted by various institutions also had been hindering positive administration of tax.
62. A majority of the revenue is derived from indirect taxes and the revenue from direct taxes is very low. At the same time, many who could afford to pay taxes and also who are liable for payment of taxes are not in the tax system. It is a well known fact that tax compliance methodology has to improve in an endeavor to eliminate evasion. Further, tax administration also needs strengthening.
63. Honourable Speaker, you would recall that during the last few months, we took some efforts to address these issues opting for innovative measures of taxation. However, it is time to deviate from temporary solutions but endeavor to create a tax regime based on strong reforms to move forward, implementing such reforms which will have far reaching benefits to the country.

### ***Recurrent Expenditure***

64. Honourable Speaker, tax reforms in isolation to bolster revenue would not contribute to strengthen the fiscal system. It needs to be supported with appropriate expenditure rationalization measures as well which is of utmost importance. The question is how we could realize this necessity. We could take a lot of lessons on what should not be done from the period of the Rajapaksa regime when expenditure levels escalated to hitherto be unheard of proportions.
65. I very strongly believe and am convinced that the line ministries and departments could trim down their current expenditure levels. The time has come to critically analyze and evaluate the expenditure needs of the line ministries and departments to rationalize unnecessary expenditure and eliminate excessive administrative overheads which are spent at the expense of the limited direct taxpayers and also the revenue from indirect taxes, including from the poorer segment of the society.
66. As such, I strongly advocate the concept of zero budgeting in formulating the national budget. In fact, with this budget 2016, we have brought in to focus the concept of zero budgeting under which the spending agencies will have to justify each and every item in their respective budget before requesting for allocations. This process will be strictly adhered to in subsequent budgets as well. Honourable Speaker, zero budgeting although derived from accounting principles is practiced in many countries in the preparation of national budgets and I wonder why we took such a long time in the implementation of zero budgeting. From January 2016, the General Treasury will start follow-up actions on reviewing the allocations for respective ministries and institutions.
67. As a responsible government sensitive to the difficulties of the people, we have managed to maintain our commitments by increasing salaries and pensions substantially. In the meantime, we have to also realize that the employment in the public sector has quadrupled over the last several years.

68. Honourable Speaker, the obvious consequence of this phenomenon had been the significant increase in the salary bill, which we believe has escalated to the maximum and may be beyond any yardstick of rationality unless the efficiency of the Public Sector is improved drastically. Hence, we have to look into the most appropriate ways of maintaining the continuity and sustainability of public sector emoluments. This among others includes improving efficiency, effectiveness and productivity of the public sector service delivery.
69. Similarly, another important and sensitive issue which is growing into a huge challenge gradually is the pension liability of the government. The pension bill has increased by 170% during the 2005-2014 period requiring appropriate actions to manage the continuous increase amidst the ageing population and increasing need of resources to counter the ever expanding liability in the future. The increasing numbers of pensionable Sri Lankans and the outlay of funds on pensions could result in serious complications in the future if not addressed in advance at least at this stage.
70. Given the unfunded nature of the current pension system, the cost is likely to increase further over time, which will be a huge responsibility and a burden for future taxpayers. Hence, we need to look at new strategies to ensure that the pension cost will be of an affordable nature to the people of the country. Honourable Speaker, I assure you the government's commitment to bear the burden of the pension bill of those who have already retired and also those who are in service will continue without any restriction. But, it is essential to formulate an innovative strategy on how we plan out the retirement of new recruits to the government service in such a manner that could make the pension system sustainable.
71. Another related area is the ever expanding grant of subsidies and transfers, which account for about 21% of total recurrent expenditure of the budget. Improved targeting and rationalization of subsidies would need to be actively pursued with improved transparency and accountability to reduce recurrent expenditure so that more resources could be made available for investment in social and economic infrastructure which is essential to sustain the envisaged

high economic growth. At the same time, we are fully aware that there are highly vulnerable citizens who need special care and attention in our society. The government will continue to support and recognize the cause and do our best to protect and secure them from any ill effects.

### ***Public Investment***

72. Much has been spoken on the subject of public investment in the recent past especially during the period of the Rajapaksa regime where public investment was termed as an important requirement for the development of the country. I would like to lay emphasis on the fact that public investment is essential to the country primarily to promote private investment. There are no divisions or differences on this principle. However, we have to be specific and mindful about our priorities and the feasibility evaluation to create a reasonable return when we evaluate and select public investment programs.
73. During the past, private investment had been crowded out due to the over-expansion of the government. Private investment had remained subdued at a level of 22 per cent of the GDP in the recent past, which reflects a gradual diminution from 24 per cent in 2011 which has to be stemmed by converting the trend. On the other end government investment of 4 per cent of the GDP in 2005 had averaged at around 6% per cent of the GDP during last 10 years. Such increases could be due to investment in large scale development projects but the real issue of concern is how long it would take to realize a justifiable return on such investment. A casual evaluation of the recent public investments with a long gestation period with massive foreign debts at high interest rates had cast a pall of gloom on the economy based on the debt burden.

### ***Public Debt Management***

74. Honourable Speaker, as we all are critically aware, the management of public debt requires urgent attention with stringent strategies, to ensure its sustainability. At present, the public debt to GDP ratio stands at around 72%, which is high, by accepted international standards.

75. The important issue that has to be addressed is how we ensure debt sustainability. Obviously, the solution is based and relies mainly on the ability and commitment in mitigating the deficit target in the budget, which needs strict discipline in fiscal management. A key principle in improving debt management is to maintain debt service at affordable levels, and our focus and strategy would be to comply at all times.

### ***State Owned Enterprises (SOEs)***

76. The loss making nature of key SOEs has created immense pressure not only on the national budget but also on the entire financial system of the country. An inability to bring in innovative measures to combat the incidence could be termed as a dangerous trend. Hence, there is a strong necessity for the introduction of corrective measures on a priority basis to make them commercially viable enterprises rather than being loss making enterprises.
77. We have already initiated measures to address this malady. The creation of the innovative Ministry of Public Enterprise Development is a key step forward in this regard. What we are focused on is to restructure the management model of SOEs, introduce market based pricing mechanisms in public utilities on a selective basis, rationalize recruitment while adopting measures to improve productivity of the existing workforce, and explore avenues to improve efficiency of SOEs including through the public private partnership.

### ***Other Developments and Issues Concerning the Economy***

78. Honourable Speaker, one outstanding achievement of our period of governance of less than one year had been to conquer inflation. For the first time in over 30 years we have witnessed deflation this year. This decline, in my view, represents a structural shift. Moving forward, we expect inflation to remain at a respectable 2 - 3% by the end of this year. In the medium term too, our aim is to maintain inflation at lower single digit levels while enabling the Central Bank to work more independently towards achieving this goal.
79. Honourable Speaker, we are still grappling with issues created and left over by the previous regime. Their publicity on economic performance based rhetoric

reached a crescendo at times which could be termed only as an empty shell making a big noise. But as you are aware, the Department of Census and Statistics (DCS) recently published the new rebased economic growth figures, which laid many canards to rest providing a totally different picture. In fact, the economy has grown only by 3.4% in 2013 and 4.5% in 2014 miserly in comparison to dressed up figures. With this background, we expect the economic growth to be around 6% in 2015. We will forge ahead with renewed enterprise and our aim is to achieve an annual growth of 7-8% during the next few years. This budget will be the platform and will provide the impetus to ensure the planned growth levels are achieved.

80. The unemployment index depicts a percentage of around 4.6 of the employable population in the country. But, a critical analysis on an age based basis brings out the true incidence of unemployment of the educated youth at more than 20%. This is a tragic situation. We need immediate remedial measures to counter this malady which should not be allowed to fester. We should recognize the value of education and provide just opportunities for the youth who had managed to attain educational standards.
81. Honourable Speaker, the data of Department of Census and Statistics (DCS) indicates that the poverty index had declined to 6.7%. However, a true evaluation and a feature in Sri Lanka's poverty indicators is that the number of people who earn less than US\$ 2 per day number close to 20% indicating that a large share consists of a near-poor population. Could we be pleased with such a situation? All citizens born in Sri Lanka should have access to the basic necessities of food, shelter and clothing. And it is the responsibility of all concerned to address the relevant issues in an endeavor to provide the correct solutions. We must be seriously concerned about the inequality of income distribution as well.
82. Therefore, economic policy initiatives need to be designed in such a manner that poorer segments of the society are more inclusive in the development process. These initiatives must be better targeted and closely monitored in order to reduce any unnecessary burden on government finances. I am sure

- that the micro entrepreneurs, who are part of the poorer segments of society looking for new avenues of sustainability, will be provided some positive options by the micro finance institutions and pave way for improvements of an immense magnitude.
83. In order to develop a healthy nation, it is essential to eradicate acute malnutrition amongst Sri Lankan children and mothers. Educating the public through health services and schools and a cohesive policy to provide nourishment to the needy is necessary to strengthen the efforts in this respect. We have reached an international standard in our level of literacy. The present level of the acute malnutrition index by comparing the data with South Asian countries alone will not be a good exercise any more. We will have to compare our standard internationally beyond this region.
  84. Honourable Speaker, in this endeavor to bring about a strong economy, we have a long way to traverse to improve our external situation and the Balance of Payments (BOP). This process has to be implemented particularly through introducing measures to improve exports, rationalize imports, encourage other inflows to the current account while introducing necessary reforms in respective areas.
  85. Honourable Speaker, Sri Lanka is a country that is endowed with a high trade deficit. Our exports have declined gradually and now stand at a critical 14% of GDP. However, imports have increased and amount to 27% of GDP. The movement of trade of the country as reflected by the imports and exports as a percentage of GDP has declined to 41% of GDP compared to around 60% in the mid-2000s. This decline could be assigned to the short sighted policies adopted by the Rajapaksa regime extending to a period of a decade. Honourable Speaker, the economy of our country has gone through the agony of been subjected to diverse economic theories of so called maestros thus increasingly distancing from the open economic policies and has become a more of a closed economy over the years. The present negative scenario strongly suggests that we need to propel ourselves to promote exports with a cohesive approach duly complemented by innovative methodologies.



86. We also have to ensure the possibility of reducing import expenditure to a sustainable level. Of course I am aware that the growth process would require that import of intermediate and investment goods, as well as fulfilling the needs of a nationwide high income levels. What concerns us at this juncture is the non-existence of required assistance to promote our domestic manufacturing sector and improve the yield of agricultural commodities, with an extended objective to capture export markets too. Our ultimate objective should be to garner new export markets, expand current export markets and diversify export products whilst ensuring food security for the nation through self sufficiency of food.
87. Foreign employee remittances play a vital role in the country's BOP. We as a government is extremely grateful for all Sri Lankans who are employed abroad and remit their hard earned incomes to strengthen our economy. While appreciating their contribution in no uncertain terms, we should endeavor to restrict our mothers, sisters and daughters being sent to countries in the Middle East as un-skilled employees. The counter measure would be to create employment opportunities in our own country which will negate the necessity for such movement of migrant employment. We will explore all avenues to promote this objective. As a different strategy, we would endeavor to develop the skill levels of our employees so that more skilled and trained people will embark on employment out of Sri Lanka. Such an approach will no doubt add value to the numbers who seek foreign employment opportunities.
88. Honourable Speaker, I do not have to lay additional emphasis on the importance of tourism, which has become a thriving industry generating significant amount of foreign exchange and stimulating economic process and development of our country. It is a foregone conclusion that we are yet to realize the full potential of the enormous value of the country as a tourist destination. We will have to carry out an in depth analysis of what had gone wrong. The petty thinking of the previous regime on harping over slogans will not help us to move on and be a tourist destination to be reckoned by world standards. It is time we stop wandering around trying to focus on what should

be the right ingredients to make Sri Lanka what it was originally known "the Pearl of the Indian Ocean". Instead, we need to develop a comprehensive policy framework to develop this industry and exploit the enormous potential of our resplendent country of historical monuments and idyllic sceneries.

89. The performance of FDIs has been dismal in the last decade and remained well below the potential especially in the background of ending the three decades of internal strife. On average, we have received only US\$ 919 million per year during the last ten years thanks to a tyrannical foreign policy spiced with verbal insinuations targeting international leaders by the political fraternity of the last regime. This is totally unacceptable in many aspects. In particular, we need to attract more non-debt creating foreign investment flows to increase the level of investment required to maintain envisaged economic growth path based on the shortfall in domestic savings whilst supporting the growth of exports. Honourable Speaker, the economies of many Asian nations especially the nations who managed to extricate themselves from long years of internal strife are on the road to economic prosperity due to influx of FDIs. We as a country had lagged behind and now is the best time to break the shackles and invite foreign investments to upgrade the economy and accelerate rates of growth.
90. These envisaged developments in the country's external sector will facilitate boosting Sri Lanka's foreign exchange reserves and strengthen the rupee in the foreign exchange market.
91. Productivity improvement is absolutely vital to achieve development targets. In the productivity improvement drive, we need to pay special attention on the Agriculture sector, while improving the productivity in Industrial and Services sectors as well.
92. Agriculture productivity and related yields had been at a dismal standard due to many issues relating to quality of seeds, planting materials, low mechanization, lack of extension services, high post-harvest losses, low farm gate prices, as well as lack of storage and marketing facilities etc. The country

- had invested heavily through the provision of subsidies to develop the agriculture sector and the need to scientifically research the acute needs and the existing shortcomings is of paramount importance. Through such a process I am sure that the living standards of the farming fraternity also could be upgraded.
93. The progress of the SME sector is of vital importance for the success of a nation. As such more attention should have been provided for the development of this most vital sector. An approximately 70% contribution to the GDP from the SME sector is somewhat positive but with a more focused approach the opportunity to improve the sector will provide significant dividends to enhance growth rates. Honourable Speaker, I am compelled to state that the contribution through advances to develop the SME by state agencies had been found wanting whilst the private sector had managed to make a telling contribution during the past year. The focus of the previous regime on SMEs too had been blurred and very little had been done towards the development of same.
94. Honourable Speaker, the country also needs a sustainable industrial policy focusing more on an upward movement of the manufacturing sector improving the value chain from light industrial products towards the manufacture of hi-tech products. Adaptation of technology as well as introduction of innovative options, backed by proper research and development is an essential ingredient. Small and Medium Scale Enterprises (SMEs) will also have to be nurtured, developed and facilitated to build up linkages with large enterprises, which will provide opportunities to interface with larger supply chains. The internationally accepted principles of supply chain management has to be developed to upgrade our industries to the next level of competitive existence. It is the vision of our His Excellency the President to focus on improve the local industry by way of providing support to develop local entrepreneurship.
95. The micro finance sector had developed to be an important economic driver providing assistance to the micro level entrepreneur to be financially inclusive.

It may be prudent to state that the micro finance sector contribution to improve the economy in Sri Lanka would have had a positive inference in the lowering of the poverty index during the recent years. However there is a need to regulate the micro finance sector on a priority basis to ensure that the positive developments continue to further flourish.

96. The importance of the Services sector and the nature of the service sector had also undergone a significant transformation over the years, particularly with the introduction of market liberalization, from small-scale sundry services to higher skilled and higher value-added activities such as financial services and ICT. In this context, the policy initiatives in areas such as port and airport related activities, tourism, IT and telecommunication need to be strengthened. The Business Process Outsourcing (BPO) concept had been in existence for a long time. The improvement of the BPO sector on an year to year basis had been high but the overall contribution to the GDP is not significant enough by world standards considering the high standards of our employees.
97. Based on the continued low rate of the unemployment index, it is essential to support improvements in labour productivity and also increase capital intensity. With regard to increases in capital intensity the role of the private sector could be vital importance. With regard to unemployment and labour force participation, the female population is unequally affected, and hence improving the provision of child care facilities and dependable public transport systems could help address this asymmetry. We are fully aware of the tremendous contribution made by the women of Sri Lanka to ensure that the Sri Lanka economy is not subjected to greater adversity. As such all possible avenues have to be explored to provide maximum comfort for the mothers of the nation to continue in their positive endeavors to bolster the nation's economy.
98. Although Sri Lanka's archaic labour regulations were updated during the previous UNP administration, labour flexibility still remains low due to legal and social barriers as well as the mismatch between the available skills and the skills required. This task has to be devolved upon educational experts who

could create the nexus between these mismatches in charting a new course in educational reform in Sri Lanka. We also need to look at the negative aspects in the context of the recent advances in Sri Lanka's information and communication technology.

99. In addition, it is essential that physical infrastructure and socio-economic practices are improved to absorb differently-abled citizens into the workforce. The need of the hour is to provide a cohesive approach to addressing the issues of differently-abled citizens not through mere handouts but with the provision of sustainable employment options.
100. Honourable Speaker, as you are aware, successive governments have implemented many policies in the context of education. Nevertheless, Sri Lanka's education system requires a substantial modernization to create the required human capital base to sustain the growth momentum of the economy. It is essential to realign the education system to move away from an examination-centric, content based curriculum towards a competency based curriculum, helping children to gain life skills and to encourage independent thinking. The shortage of basic sanitation, library and laboratory facilities of schools in underprivileged schools as well as the shortage of teachers in key subjects need to be addressed urgently in order to provide equal opportunities to students in affected areas.
101. The investment level in education over the years by governments had continued to decline which is not a healthy phenomenon. It is time that we took stock of the present negative situation which had prevailed over a period of time. Honourable Speaker, I am sure that the "YahaPalanaya" government of consensus and good governance will be able to address the issues with aplomb and distinction bringing relief not only to the students but also the employers looking forward for efficient and effective staff.
102. Reforms in the university system can also positively contribute to alleviate the mismatch between the skills of graduates and the requirements of the

labourmarkets, which could be the necessary input to reduce youth unemployment and underemployment.

103. The changing demographic profile requires developing facilities to assist the aging population while improving the overall healthcare provision. Whilst a process has to be created for utilizing the resource base of the aging population for the benefit of the nation their needs also have to be addressed. It is also necessary to address issues such as the Chronic Kidney Disease of Unknown Etymology (CKDU), the widely increasing incidence of cancer and the spread of dengue. His Excellency the President is committed and relentless by working to eradicate the menace of the CKDU thus bring in relief for the masses who are suffering from it.
104. The ageing population challenge caused by the slow population growth needs to be taken into account with a long term focus through strengthening and the introduction of innovative retirement benefit schemes and with the reformation of the healthcare sector. The necessity to develop pension schemes for the benefit of the private sector employees too assumes tremendous importance at least to ensure that in the future, issues pertaining to senior citizens could be minimized.
105. The demographic transition taking place in Sri Lanka with a gradually ageing population and increasing life expectancy underscores the need for the development of savings and pension options to cater to the requirements of a rising share of the population that are reaching retirement age. The urgency to develop these products is intensified by the low interest rates prevailing in the market and the dependence of many retirees on interest income.
106. With the population growth and improving socioeconomic conditions, the requirement of good quality affordable housing has also increased over the years. This is a serious concern in the Colombo district where there is a relatively high population mainly due to internal migration. The UNP governments of yesteryears specially during the Era of Late President His

Excellency Ranasinghe Premadasa focused on providing houses for the people and I am happy that the process has been reignited.

107. The requirement for housing of the middle income earning categories has grown over the years, and this segment of households is less able to access housing projects run by the private sector due to associated high costs. Therefore, government intervention is required to introduce housing schemes at affordable prices probably through public private partnerships.
108. Also, the current capacity of public utilities such as electricity, water supply and sewage and solid waste disposal, telecommunication and internet, and public transport is barely adequate to cater to a modern economy effectively and efficiently. The principle of "Magapolis" could be a welcome option to address such issues in the Western Province.
109. The inefficiency of the public passenger transport system has resulted in increasing numbers of private vehicles on the roads transporting fewer numbers of passengers per vehicle leading to heavy traffic congestion, causing increased fuel costs to households and to the economy and a substantial loss of productive man hours. In spite of heavy investments in infrastructure development, the issue of congestion persists due to the lack of good quality and reliable mass transport options. Therefore, it is important to take appropriate measures to improve the existing road and rail transportation systems especially in urban areas. Honourable Speaker, we must take cognizance of the fact that new highways and bitumen laid roads alone would not provide an upgrade for the standard of transport in a country, which would have been the yardstick of the last regime, based on their over-zealous attitude to improve the road network. The important aspect is to what level the public transportation system should be developed to ensure that any citizen of the country could utilize the facility without resorting to private transportation.
110. Given Sri Lanka's strategic location and improving international relations, it is timely to encourage private sector-led commercial activities, which could effectively use the existing infrastructure productively. Encouraging the

private sector to establish financial institutions that offer offshore services could generate skilled employment opportunities and support increased economic activity. In parallel, a conducive legal infrastructure to facilitate operations of a global commercial centre should be developed in order to promote financial flows. It is time to move out from the age old economic options and focus on new and innovative measures as practiced by many developing and developed nations.

111. The focus on development needs to be aligned with environmental concerns. In this regard, a stringent and efficient mechanism needs to be established to ensure that all the required environmental approvals have been obtained before the commencement and execution of all projects. We have several outstanding classic examples on how the ecology and environmental issues have not been addressed properly in major projects. Such issues bring out not only tremendous complications but also leave legacies for the future difficult to unravel.
112. Our emphasis on sustainable development also requires that we promote energy use on a more environment friendly and efficient manner. It is essential that we increase utilising latest technology in solar and biomass based energy generation in place of fossil based power usage in electricity, transport and related sectors.

### **New Economic Order**

113. Honourable Speaker, the new government has a responsibility of addressing these concerns and turning many of these things around to create a strong base for future economic and social development of the country. In this context, we have to work hard for ensuring a truly national recovery. Our aim is to create value and new opportunities with economic democracy which means freedom to choice.
114. The improvement that we envisage will be reflected in improved international indices, which in turn, will facilitate future economic growth. The expected improvement of Sri Lanka's position in Doing Business Index, Global



Competitiveness Index, Global Innovation Index, Network Readiness Index as well as Global Economic Report are some of the important areas in this context.

115. Hence, the government is committed to follow more market oriented policies that facilitate private sector economic activities and remove various barriers in the economy which disrupt the smooth operations of the markets. The new economic order will be signified through the budget proposals and I am happy to formulate the same from a zero based platform alienated from previous mistakes and bias.
116. Honourable Speaker, we have had a host of lost opportunities. The Late Honourable Prime Minister Dudley Senanayake's tenure was strewn with two. When an option to construct a road to Jaffna was discussed he preferred to grant a measure of rice to the people as an alternative. Entry to "ASEAN" was offered to Sri Lanka in 1967 on a platter. Honourable Dudley Senanayake's close friend, the First Prime Minister of Malaysia the Late Honourable Tunku Abdul Rahaman had insisted that Sri Lanka becomes a member of the ASEAN. Honourable Dudley Senanayake had reached the airport to embark on the flight to take part in the conference but upon being informed of dissension by some left oriented parties, had aborted the mission. Reportedly, the commencement of the meeting had been postponed for six hours assuming Honourable Dudley Senanayake's flight is delayed. Since then, with regret, we try to seek membership of this high profile regional association without success. I could illustrate many more of such opportunities and it is time that we learnt from the bitter lessons.
117. We are not in a position to miss further opportunities. We will ensure the delivery of what is presented today and let us look forward to a future of happiness and prosperity. Our committed objective is to provide all Sri Lankans with a better tomorrow devoid of any differences. Let us unite and rally together for the sake of future generations and our motherland.

118. Honourable Speaker, we are ready, we have the will and we are able to provide the required leadership to carry out the programme that will be outlined below. We will just forget the past and unite to endeavour to this vital task.
119. At this juncture I, on behalf His Excellency the President, Honourable Prime Minister, my Cabinet Colleagues and the government, extend a hand of friendship to all supporters of various political hues to rally together in an effort to drive our nation forward on the road to prosperity. I have depicted the correct status of the economy which has to recover from years of turmoil and if we do not unite, our chances of survival will erode. "Without cursing the darkness let's light a candle and dispel the gloom".
120. In this background, now I wish to turn into the proposals in the maiden budget of our government. A government devoid of racial, religious or social barriers, a government of consensus dedicated for the betterment of the Democratic Socialist Republic of Sri Lanka and all its people.

# Budget Proposals

## Encouraging Micro, Small and Medium Enterprises

121. Honourable Speaker, the importance of Micro, Small and Medium Enterprises (MSMEs) in our economy is underpinned by the role it plays in the creation of employment, addressing the issues of income distribution, regional development and social cohesion. Today MSME sector is a key component of our economic strategy. The thrust areas that has a huge potential in this economy are furniture, IT, dairy industry, horticulture, floriculture, food industry, fruit and vegetable, inland fishing, beauty culture, ornamental fish and etc.
122. Yet in spite of the significant contribution to the economy, MSME's find expansion difficult, mainly due to the obstacles they face in accessing funding, both equity and debt. Our government is therefore keen to partner the growth of MSME's. As such we have already formulated a "SME Policy" that covers a gamut of issues of the SME sector. At the same time, a Bill to govern Micro Finance business will be presented to this House and a Regulatory Authority will be established to streamline this sector. I also propose that all Micro Financing Agencies be registered with this proposed Authority for an annual fee of Rs. 25,000/- per unit. As announced by the Prime Minister in his policy statement on the 5 November 2015, we will also be establishing an advisory committee to study the issues faced by Small and Medium Enterprises (SME) sector and our future action in the SME sector will be guided by their recommendations.
123. I note that the established financial institutions including Banks have shown a marked reluctance to lend to innovative MSME due to high administration costs and high risks involved in these sectors. Financial Institutions have become over reliant on collateral based financing which new entrepreneurs as well as existing entrepreneurs are not in a position to provide. Therefore, I propose to implement a MSMEs Credit Guarantee Scheme in 2016 with Rs.500 million contributed by the government as initial capital together with the assistance of selected financial institutions. Under this scheme the 75 percent of the principal amount if in default of the total facility will be guaranteed. This will expand MSME's access to financing options which are relatively cheaper and longer termed. In this regard, we have also been successful in obtaining a credit line of USD 100 million from the ADB to support MSME lending at concessional rates. Further, the funding schemes such as Saubhagya scheme and the Poverty Alleviation Micro-finance Project (PAMP) that Central

Bank has implemented to help SMEs will be merged into one large SME facility. The merger of these funds will create synergies that will enable the Central Bank to serve the MSME sector better.

124. **Venture Capital** - Honourable Speaker, today the most common mode of funding available for the SME's is debt financing for which collateral is a must. However, since the business start-ups with great ideas lack tangible assets to be utilized as collateral, I propose to initiate a venture capital approach for providing equity financing facilities to SMEs through the establishment of one fund that will be a "Fund of Funds". This will comprising of stakeholders such as Banks, Insurance Companies, State-Owned funds such as EPF, ETF and foreign funds. I would like to invite the International Finance Corporation (IFC) and Asian Development Bank (ADB) to contribute to the Fund and while encouraging the private sector conglomerates too to be part of this initiative. The Fund will lend to responsible Venture Capital firms for a guaranteed minimum rate of return, and the Venture Capital Firms will make equity investments in the SMEs. In addition to the equity investments, these firms will provide the SME's with the most required advisory services, including financial planning, information technology, marketing strategies, etc. and ensure the growth of the SMEs to gain healthy long term returns. In order to promote this initiative, I propose to reduce the applicable Corporate Income Tax by 50 percent for Venture Capital Firms for a period of 5 years. This will commence by 1 April, 2016.
125. **Incubators Assisting MSMEs** - Honourable Speaker, I propose to construct mini-industrial parks which will be incubators in Moneragala, Puttalam, Jaffna/Vanni, and Ampara. I encourage the private sector also to join in this endeavor. In order to promote such investment in designated areas, then applicable tax rate, will be reduced by 50 percent for a period of 03 years from the year in which the profit is generated. I propose to allocate Rs. 150 million for this purpose.
126. Further, I understand that the SME's have an issue in marketing their products. Given the lack of funds at SMEs for engaging in marketing and advertising activities, their products do not get displayed prominently at Super markets and shops. Therefore, I urge the large super markets and retail sellers to lend a hand to the SME's by providing them with some prominent shelf space at a reasonable price.

## **Agriculture**

127. Honorable Speaker, agriculture is the corner stone of our economy, our social fabric and our history. However, the statistics depict a different story. Our agricultural imports are around USD 1,000 million and our farmers remain to be a segment most vulnerable in the society battered by ever changing weather patterns, exploited by the middlemen and constantly locked in a battle to get a reasonable price for their produce. Our consumers also get a raw deal with substandard produce often at exorbitant prices. Hence, we recognize the urgent necessity for a reversal of this vicious trend. An out of the box thinking is the need of the hour. It is in this context, our government led by His Excellency, the President and the Prime Minister, have focused their attention on formulating a new agricultural policy. Our policy is anchored on the requirement to make the country self-sufficient in maize, soya beans, chilies, onions, and potatoes by 2018 through crop diversification and productivity improvements and graduate into an agri-business from subsistence economy whereby we will access export markets by 2020.
128. We also recognize that the optimal strategy to increase yields from the sector lies in strong collaboration between the private and public sectors, which will strengthen the supply chain management in agriculture. We encourage the private sector to take the lead. As such, I propose several measures including making available a fiscal regime to companies that develop seeds and plants and making available unutilized or underutilized government land for agriculture on request.
129. Honourable Speaker, investment to Agriculture especially into productivity improvement is a crying need. To this end, availability of quality seeds plays an important role in ensuring better productivity. As such, to encourage greater collaboration between the private sector and government to produce high quality seeds, unutilized state land would be allocated as an incentive. Therefore, I propose to allocate a sum of Rs.1,000 million for this purpose.
130. Half tax holidays will be granted to companies that use drip irrigation methods, greenhouse technology and endeavor to introduce high yielding seeds. At the same time, having recognized the importance of mechanization in productivity improvement, I also propose to remove the import duties pertaining to import of agriculture machinery and equipment.
131. At the same time, to strengthen the supply chain linkages via collaborative partnerships, it is proposed that Agriculture Extension Officers to be permitted to disseminate their knowledge to the private sector farms in addition to their normal duties at a fee.

132. Honourable Speaker, the issue of storage and marketing is also a key issue in agriculture. In addressing this issue, I propose to set up warehouses with state of the art technology to address the issue of post-harvest losses, which is about 30-40 percent. These warehouses provide good quality storage facilities for farmers during glut periods to store their produce such as paddy, maize, gingelly, pepper, black gram. Using the receipts issued by the warehouse, 50 percent of the value will be paid to the farmers by the bank, thereby solving the immediate cash flow of the farmer. However, once the prices are favorable the produce could be sold in the market for a better price. This method ensures the farmer is not exploited by unscrupulous middlemen while ensuring that farmers also reap benefit from the higher market prices that will prevail during the off season. Already the government has constructed warehouses in the Districts of Anuradhapura, Monaragala while the Mannar warehouse is under construction. This method also benefits the consumer as price of the produce will be lower, given that the cost incurred from the farm gate to the final consumer will now decrease with the elimination of the middlemen. As such it is proposed that Rs.1,000 million be allocated to construct 3 more warehouses in the Districts of Polonnaruwa, Kilinochchi and Ratnapura (Embilipitiya) while completing the balance work of the Mannar Warehouse.
133. Honourable Speaker, considering the cost of production to the farmer and also considering the impact to the consumer, I propose to give a guaranteed price of Rs. 50/kg for Keeri Samba, Rs.41/kg for Samba and Rs.38/Kg for Nadu and other varieties. This would help the consumer to get rice at Rs. 65/kg on average.
134. Honourable Speaker, the country's rice production has increased. We will be utilizing these stocks to be distributed amongst the Samurdhi recipients who are relatively more susceptible to malnutrition. Thus this proposed scheme will improve their nutrient levels. For this purpose we will be utilizing around 44,000 metric tons of rice.
135. I believe it is time we export our rice and as such we also encourage the farmers to produce rice varieties that could access export markets. As such, I encourage the Export Development Board to find markets and engage in a branding exercise of Sri Lankan rice.
136. Honourable Speaker, successive governments have made available a package of benefits to the farming community. This house has approved many of these benefits including the provision of fertilizer subsidy, land, technical support, seeds and the list is endless. Yet what

is the status of agriculture today? The contribution from agriculture has gradually declined in relative terms. We cannot compete internationally as our yield per hectare remains below par. There's still debate over the over-usage of fertilizer resulting in complexities such as the Chronic Kidney Disease Unknown of Aetiology (CKDU) in key paddy cultivating areas which has become a social issue. It has also led to water and soil contamination leading to many health issues and becoming an environmental hazard. The issue that we face today is critical in deciding on the future of our agriculture policy? Studies also note that there's no direct positive correlation between the use of fertilizer and productivity in paddy. In spite of the support given to paddy farmers, they remain an exploited segment of our society. Consumers also are not the recipients of the envisaged benefits. In the background where neither the farmer nor the consumer has reaped the envisaged benefit, I am therefore forced to revisit the plethora of the support extended to agriculture in various forms such that it yields better benefits to both the farmer and the consumer. As such, I propose to provide the existing fertilizer subsidy scheme to small scale paddy farmers. A cash grant of Rs. 25,000/- covering the production year, Yala and Maha, will be provided to farmers for a maximum extent of 1 hectare. This will allow the farmer greater flexibility in selecting his farming inputs and I am confident that this will increase productivity. For this purpose I have allocated Rs.37,500 million, which is an increase over Rs.35,000 million provided in 2015.

### **Fruit and Vegetable Industry**

137. Honourable Speaker, the commercial fruit and vegetable industry are still not developed adequately to be able to exploit the opportunities that exist in the domestic and international markets.
138. The dehydrated and canned fruit industry is still in its infancy stages and remain underdeveloped. In a bid to boost this industry, it is proposed to extend interest support on 50 percent of the interest on loans to be taken from Banks by individuals or companies who enter this industry. Machinery utilized for this purpose will also be allowed to import free from duties and a qualifying payment deduction will be available in addition to depreciation.
139. I encourage the private sector to optimize land usage through intercropping, use of high yield plants and seeds, and technology. Underutilized or unutilized government land will also be leased out to fruit and vegetable farmers on request.

140. It is also proposed to establish 5 cold rooms managed by private companies for vegetables and fruits within close proximity to economic centres situated in Nuwara Eliya, Dambulla, Embilipitiya, Keppitipola and Thambuthegama. It is envisaged that this will mitigate the post-harvest losses while ensuring price stability in the market. I propose to allocate a sum of Rs.2,000 million for this purpose.

### **Dairy Industry**

141. Honourable Speaker, the market share of the domestic milk industry is minimal. We acknowledge previous government's efforts directed towards enhancing local milk production and to dissuade importation of milk products. Government policy too is to encourage domestic milk producers to increase the production. As such, I propose to reduce the maximum retail price of a 400g domestically manufactured powdered milk packet to Rs.295 from the existing price of Rs.325. The government will provide the domestic manufacturers with a subsidy of Rs.30 per 400 g packet sold for which I propose to allocate a sum of Rs.1,000 million. This will have the dual impact of helping local producers as well as reducing cost of living.
142. The country's dairy sector contribution to the economy is very nominal but it has immense potential to grow. As such, to encourage commercial scale dairy farming on a Public Private Partnership (PPP) arrangement, underutilized or unutilized government land will be provided for a minimum level of investment of Rs 25 million. I would also like to propose to enter into PPP arrangements for such government land that is unutilized or underutilized to grow high yielding grass on an out grower basis. I propose to grant upfront depreciation on the machinery and a reduction of import taxes on machinery and equipment related to the dairy industry.
143. Since liquid milk consumption has still not gained momentum in the country, I propose to entrust the Ministry of Upcountry New Villages, Estate Infrastructure and Community Development and the Ministry of Health, Nutrition and Indigenous Medicine to undertake a massive campaign to promote liquid milk consumption in the country.

### **Fisheries**

144. Honourable Speaker, I regret to note that in spite of the country being an Island, we still import almost USD 150 million worth of fish and fish related products annually. Our local fishermen remain vulnerable to price fluctuations mainly due to seasonality and lack of



storage facilities, changes in the regulatory framework and little access to finance and new markets in expanding their businesses.

145. In keeping with the government's commitment of providing social safety network to fishermen from vulnerabilities and endemic to their work, we will introduce a life insurance cover of Rs.1 million for the fishermen who meet with accidents when at sea. This insurance scheme will also cover the expenses incurred in the search and rescue operations.
146. Honourable Speaker, approximately Rs. 5,000 million worth of canned fish has been imported to the country annually on average in the last 5 years. Given the potential in the industry, I encourage the private sector to engage in fish canning. To incentivize this industry, I propose to implement a buy back mechanism through Lak Sathosa Ltd., which would be sold at a concessional price of Rs. 125 each. This will help reduce cost of living. I propose to allocate a sum of Rs. 300 million to Lak Sathosa.
147. Moreover, to protect the local fisheries industry, I propose to increase the Special Commodity Levy (SCL) on the import of fish to Rs. 50/-. Further, import duty on fishing nets will also be reduced.
148. To facilitate the fisheries industry, I propose to develop and upgrade local fishery harbours with state of the art technology to include cold storages as well. I also propose to allocate further Rs. 750 million for the development of Fisheries Harbours in Chilaw, Mirissa, Kalmunai, Valvettithurai, Karai Nagar and Puranawella. These harbours will also facilitate repair and manufacturing of boats as well.
149. It is proposed to create agro and fish processing facilities in geographical locations close to the farm gate. This will be cost effective as facilities can be shared. Thus it is proposed to create an Agro Livestock and Fish Processing Park connecting the districts of Anuradhapura, Vavuniya and Kilinochchi. I propose to allocate Rs. 100 million for this purpose.
150. Honourable Speaker, inland fisheries provide food nutrition and a source of income. This sector is underutilized. Therefore, I propose to allocate Rs.100 million to National Aquaculture Development Authority (NAQDA) to undertake programmes to enhance fish breeding capacity.

151. I also propose to set up an Aquaculture Park in Batticaloa District by providing an enabling environment for the potential private sector investors to develop coastal aquaculture without causing environmental degradation. Aquaculture Park provides an 'investment ready' platform for organizations that want to set up commercial aquaculture operations. This Aquaculture Park will be developed and managed as a PPP. I propose to allocate Rs 100 million for the initial activities.
152. The Shrimp industry has been faced with difficulties in the immediate past which has remained unattended. However, given the potential in the shrimp industry I propose to provide capital and working capital requirements of the shrimp farmers, hatchery operators and processors through the proposed ADB supported SME credit line. I also propose to provide guarantees through the SME credit guarantee fund to those who are engaged in shrimp farming.
153. The suspension of fish export to EU market has adversely affected our local fishermen. As sensitive government we are aware of the difficulties faced by some of our fishermen. As such, the government is engaged in a continuous dialogue to get this ban lifted which would once again provide the access to EU market. Government has already taken action to install transponders to fishing vessels to comply with international requirements.
154. With the aim of improving the contribution of the fishery sector to the economy, I propose to introduce a deep sea fishing licensing scheme where one license holder will have to engage in collaboration with at least 100 persons in the fishing community.

### **Poultry**

155. Honourable Speaker, I encourage the local poultry industrialists to further invest for expansion and to improve productivity and quality. I also encourage them to take advantage of Sri Lanka being recognized as a bird flu free country in the region to penetrate overseas markets, especially the Middle East. Government will extend the maximum support in this regard.

### **Plantation Economy**

156. Honourable Speaker, the Regional Plantation Companies (RPC) that were established in 1992 have now run its course. It is time to rejuvenate the RPCs by restructuring them into small manageable units so that all RPCs could seek listing in the Colombo Stock Exchange (CSE). To strengthen the activities of the RPCs, I also propose to relax restrictions on the

usage of RPC land in the cultivation of different crops. However, leases of RPC's that commits to a long term investment for replanting and modernizing will be extended for 50 years, with management fees to be reviewed.

157. **Tea** - Honourable Speaker, Tea has remained a key export of our country but the value addition is not as significant to the extent expected. The industry is presently facing issue of significant dip in prices in the international market. This has had an impact on small and medium scale tea growers. Therefore so as to address these issues, we propose to establish a Working Committee consisting of both the government and private sector officials.
  
158. **Tea Blending** - Sri Lanka being one of the main tea producers of the world has lost ground on value addition to centers like Dubai. In the last few months the tea industry made strong submissions to liberalize tea imports to Sri Lanka. As such with the aim of developing Sri Lanka as a tea hub I propose to liberalize the tea imports to the country within a regulatory framework with a view to encouraging value addition through blending etc. I note that strict labeling requirements will be made mandatory so that the brand name "Ceylon Tea" remains uncompromised.
  
159. **Rubber** -Honourable Speaker, a Master Plan has been developed by the Ministry of Plantation in collaboration with the stakeholders of the rubber sector to carry out feasibility studies. Technical assistance has also being obtained by the government for this purpose. This plan addresses a wide range of issues faced by the sector and has also identified a way forward. As such I propose to allocate Rs.100 million to the Ministry of Plantation to support the implementation of this plan. Further, I urge manufactures to utilize locally produced natural rubber for their value added products instead of the imported rubber.
  
160. **Coconut** - The coconut industry too is faced with the issue of lack of coconuts for value addition. This is because a significant portion of the production is used by our households for food. As requested by the coconut industrialists, it is proposed to import coconut for value addition in a specially designated area regulated by the relevant government entities, from where such products will be exported. The proposed importation of coconuts will be allowed subject to strict adherence to quarantine requirements. I also propose to allocate Rs.250 million to coconut cultivation rehabilitation programme, which includes the promotion of practices such as mulching.

161. In order to incentivize the tea and rubber industries, a two year tax exemption period will be granted for companies engaged in tea and rubber plantation.
162. Further, with a view to develop the tea, rubber and coconut industries, it is vital that widespread research be conducted while such new findings and techniques be applied effectively. Hence, I propose to strengthen the Tea Research Institute, Rubber Research Institute and Coconut Research Institute, so that they can engage in research in improving productivity, finding new varieties, and etc. For this purpose, I propose to allocate a sum of Rs.200 million within a period of 2 years.
163. **Other Crops** - In support of these industries, the Sugarcane Research Institute and the Palmyrah Research Institute will be strengthened for which I propose to allocate a sum of Rs.100 million.
164. The arecanut industry has been neglected in the last decade with almost no support from the government. Given the potential in the industry, I encourage commercial cultivation of arecanuts and encourage the establishment of an arecanuts value addition zones, to take advantage of the export markets.

### **Spices and Allied Products**

165. History of the Spice trade in Sri Lanka dates as far back as 7<sup>th</sup> Century. However, Sri Lankan spice trade has not yet lived upto its expectations, thereby denying the country valuable export earnings.
166. To address issues faced by the spice industry, the government will collaborate with the Spice Council to undertake a branding exercise of Sri Lankan spices globally, for which, I propose to allocate Rs. 150 million. In order to enhance the production and generate more export revenue, I propose to facilitate the usage of unutilized fertile government land to be leased out to the private sector to grow spices such as cinnamon, pepper, cardamom, nutmeg, etc. I also encourage RPCs to engage in contract cultivation, especially spices such as pepper, cardamom etc. I further propose to allocate Rs. 50 million to strengthen the Cinnamon Research Unit at the Department of Export Agriculture.
167. Sri Lanka has the monopoly for the supply of "True Cinnamon" with over 85 percent supply share in the world market. Value chain of cinnamon is under many different agencies

which stifles the growth of this industry. Therefore, I propose to set up a Cinnamon Development Authority with private sector participation to bring all activities in the value chain under one entity and I propose to allocate Rs 50 million for this purpose.

168. Further, in order to enhance the skills required for cinnamon industry, the Cinnamon Training School will be expanded. I propose to allocate Rs 50 million for this purpose.
169. Given that value addition in this cinnamon industry is at a minimal level, it is proposed to allocate a sum of Rs. 50 million to National Science Foundation to fund research undertaken on cinnamon and cinnamon related activities.
170. To encourage export of spices, cesses imposed on, pepper, cloves and nutmeg will be removed.

### **Revival of the Rural Economy**

171. Honourable Speaker, one of the cornerstones in our economic policy is to upgrade the rural economy. In this regard, the 14,022 Grama Niladari divisions will be developed into 2,500 cluster villages as complete rural economic units. Accordingly, projects will be undertaken to develop infrastructure of the villages, and livelihood development to empower local community facilitating an upliftment of their standards of living. Large scale agricultural enterprises in which farmers can be members will be established under the plan to develop the rural economy. For this rural reawakening programme, I propose to allocate a sum of Rs.1.5 million to each village which will amount to Rs.21,000 million.
172. I also propose to establish a new economic zone in Vavuniya, for which I propose to allocate a sum of Rs.200 million to the Ministry of Rural Economic Affairs.
173. Honourable Speaker, rural agriculture remain a strong part of our economy in providing a livelihood. Their irrigation needs are met through small tanks and irrigation canals which require urgent attention. Therefore, I propose to allocate Rs.2,000 million to rehabilitate small tanks and canals to support rural agriculture.

### **National Environment Conservation Programme**

174. Honourable Speaker, our government led by His Excellency the President and the Prime Minister have placed the highest importance in conserving the environment within the

context of sustainable development. It is in this background, that His Excellency the President has initiated a 3 year National Environmental Conservation Programme considering the impact it has on all spheres of life while managing the Carbon foot print of our country by implementing the best practices in this respect. The key actions envisaged in this programme include, developing and conserving forest reserves, controlling environment pollution, sustainable land management, bio resource conservation etc. For these activities and for additional programmes relating to child protection, drug prevention, agriculture, I propose to allocate Rs.2,000 million.

175. Honourable Speaker, Sri Lanka has hundreds of species of plants and animals that rivals many countries of similar size. However, human activities and poor management practices has now threatened their habitats. Hence, I propose to allocate a sum of Rs. 4,000 million to be utilized within three years to programmes aimed specially at protecting wild life and addressing the human elephant conflict.

#### **Ornamental Fish Industry**

176. Honourable Speaker, the ornamental fish industry which was a thriving industry once has now lost its glory. I encourage the private sector, especially the youth of this country, to engage in this industry and propose to provide concessional credit to those who will venture into this industry, and convert it to a vibrant export industry.

#### **Gem and Jewelry**

177. While the Sri Lankan gem and jewelry industry has a history of over 2500 years, the industry potential remains underutilized. In this background, to improve the industry, I propose to upgrade the training courses offered by the State Gem and Jewelry training institutions to train both trainers and the trainees to match with the current demand. International exposure in gem and jewelry related activities will be provided to the trainers attached to these institutions while scholarships will also be granted to students who excel in these courses.
178. Honorable Speaker, to promote the sale of gems and jewelry and to attract tourists, I propose Sri Lanka to hold "Gem, Jewelry and Diamond" auctions in April and October every year. I also propose a "Gem Emporium" to be established by the private sector in Ratnapura, and further, to harness the benefits of increasing tourism, private sector is encouraged to open duty free gem and jewelry shops at the airport.

179. In order to protect the world class local jewelry craftsman, a 10 percent cess on imported jewelry will be imposed
180. With all this support and encouragement, we expect the export earnings from Gems and Jewelry sector to reach USD 2 billion by 2018.

### **Gold**

181. Honourable Speaker, the gold industry needs urgent action, especially given that gold prices in recent times have plummeted. Therefore, taxing of gold is superfluous. In this context, I propose Central Bank to adopt a scheme where 50 licenses will be issued allowing import of gold free of all import duties. These licensees will trade the imported gold to jewelry manufactures. No person will be permitted to trade gold without the said license.

### **Primary Industries**

182. Honourable Speaker, primary industries are susceptible to price volatilities that may occur due to various issues. We will form a Primary Industry Council consisting of industry experts who will create strategies to meet the challenges faced by primary industries.
183. As stated in Honourable Prime Minister's policy statement, we will be creating specialized agricultural and fishery export zones in the country. The Ministry of Primary Industries will be allocated Rs. 2,000 million for the establishment of the proposed agricultural and fishery export zones.

### **Digitalization of the Economy**

184. Honourable Speaker, digitalization is the process which had been practiced in many countries which had positively changed the data collection and data processing methodology resulting in the generation of additional revenue and value producing opportunities. Through such a process, Sri Lanka would be in a position to reach the next level in technological advances to be in par with many other developed nations of the world with regard to Information Technology. Such developments provide cascading positive developments resulting in the streamlining of systems and controls. In simple term we had observed that internet connectivity has a positive impact on economic growth.
185. As promised by our government and as part of our ICT transformation strategy, we have already provided free limited Wifi in selected public places. We will also be extending free

Wifi to all our state universities as well. This government is determined to implement a comprehensive Digital Development Strategy during the next three years, which will have a significant impact on the economy.

186. As such, it is envisaged that by end 2018 all the government buildings including Divisional Secretariats offices, Provincial Councils, Pradeshiya Sabhas, Sub Post offices and Police Stations will be connected electronically. This will enable the servicing of around 70 percent of their day-to-day transactions online.
187. Honourable Speaker, we also propose to introduce a National Digital Identity (NDI), which will ensure that all financial and non-financial digital transactions to be transpired in a secure manner. NDI will have a unique number in all other relevant data bases, namely, passports, tax file, customs documents, vehicle registration, voter registers, welfare registers, bank data bases, utility bills etc. Apart from using it to enhance tax collections, it can also serve to regularize various other systems such as welfare payments which will help reduce corruption, delays, waste and enhance efficiency. (Preliminary design is at Annex VI for the easy reference of the House).
188. Our digital strategy includes the introduction of the National Payment Platform (NPP) enabling the public to transfer funds from any of their bank accounts through the mobile phone for the payment of goods and services using their NDI. The National Payment Platform will bring in savings for the government by increasing efficiency thereby reducing cash movement and the cash float in the market.
189. I propose to form a special purpose company under the Information and Communication Technology Authority (ICTA) to bring about sharing of telecommunication resources efficiently and to protect air waves and the environment. All the fiber optics owned by telecommunication companies and other authorities including the Ceylon Electricity Board, Road Development Authority and Sri Lanka Railways as well as spectrum and mobile towers are to be brought into this company.
190. Honourable Speaker, we also envisage the implementing of a single window concept for citizen centric services integrating with the national digital identity, in the provision of public services including hospital services, land matters and Samurdi payments. The state land



management system and the Land Hub System will also be implemented as part of the single window concept.

191. To strengthen the use of ICT in the classroom teaching and learning process, several projects have been planned in collaboration with the Ministry of Education. As part of the initiative, initially 200 smart digital classrooms will be established by 2016 and another 1,000 digital classrooms by 2017 across the country.
192. Honourable Speaker, the government is committed to an Open Government Partnership (OGP). The implementation of the national big data platform will further help Sri Lanka to meet the requirement of OGP.
193. I propose to allocate Rs. 10,000 million for the purpose of implementing an advanced digitalization programme of economy.

#### **Investment Promotion**

194. Honourable Speaker, FDI inflow in 2014 was only USD 1.7 billion which is certainly below the regional peers. In the last few months we were engaged in studying the investment climate framework in the country. We have now created a strategic road map for improving and reforming the investment climate.
195. In this endeavor, our government will restructure the BOI, the Export Development Board and Sri Lanka Tourism Development Authority with a view to improve operational efficiency and to facilitate investments. Until the restructuring process is completed, an organization under the name "Agency for Development" will be established.
196. Honourable Speaker, we need to connect local and global investors in Sri Lanka with new world business competencies. Global value chains, manages different raw materials and competencies of different countries successfully. We are determined to augment the capacities of the enabling environment to so as to connect local and global investors in Sri Lanka to this chain.
197. Honourable Speaker, as enunciated in the policy statement made by Honourable Prime Minister in this house, the enabling legislation required to enhance the investment climate in

the country is now being drafted. Major investors have shown a keen interest to invest in the country given our commitment to good governance.

198. We have identified key thrust areas which has a potential for investment over USD 2 billion to be as follows:

- Oil Refinery
- Renewable energy
- Integrated car manufacturing
- Manufacturing Steel bridges for the region
- Fertilizer, manufacturing triple super phosphate
- Satellite technology
- Air craft repair and logistical support
- Integrated sugar industry

199. In this context, some of the key impediments to attracting investment will be addressed as follows:

- I propose to remove the tax imposed on the leasing of land to foreigners and also to consider the removal of restrictions on ownership on identified investments imposed through the Land (Restrictions on Alienation) Act, which has been an impediment for attracting investments to the country.
- Exchange Controls have been a key point of contention in attracting investments. As such, I propose to repeal the present archaic and draconian Exchange Controls Act and introduce an investor friendly Foreign Exchange Management Bill (FEMB), which would help attract foreign flows from the SAARC and the world at large.
- In order to promote foreign investment inflows, the income from dividends on investment made by non-citizens and foreign companies in listed shares through inward remittances will be exempted from income tax.
- The Agency for Development which will replace the BOI, will ensure that applications for foreign investment are completed to commence business within 50 days. This will certainly be a game changer in promoting investments.

200. Honourable Speaker, the existing Export Processing Zones (EPZs) are badly in need of a facelift if we are to retain and attract more investments. I therefore propose to entrust the management of these zones to private sector Management Companies with the necessary skills. The BOI will also actively engage in setting up of new EPZs and once they are in operation, the management of new zones will also be vested with the private sector Management Companies.
201. Highly environmentally sensitive industries will be facilitated to operate in specially designated areas such as Puttalam, Hambanthota and Kilinochchi.
202. Government lands and investment related tax concessions will be provided to investors who invest in lagging regions of the country given that the government's policy of ensuring an equitable development in all parts of the country. In order to encourage the investors to invest in these areas, I propose to grant a 50 percent tax reduction for a period of 5 years to any new company setting up facilities in such areas with a minimum investment of US dollars 10 million (excluding land and building) or 500 new employment opportunities (with new EPF Numbers). This period will be extended to 8 years if the number of employees exceeds 800. Various other concessionary provisions which are in existence will become redundant with these new concessions. .
203. **Lubricant** - Presently the lubricant market is managed only by a few companies. Hence I propose to liberalize the lubricant market and I encourage the companies to venture into more value added products with high investment. Further I propose to remove lubricants from BOI negative list.
204. Bitumen - I also propose to liberalize the Bitumen market so as to enable the expeditious rehabilitation and construction of roads and expressways.
205. I encourage the expansion and modernization of existing business by investing in machineries and based on the creation of new employment the profits from such expansion will be subjected to half tax rate for 3 years.
206. Honourable Speaker, we wish to review and make the necessary revisions to the Revival of Underperforming Enterprises and Underutilized Assets Act No 43 of 2011, which was introduced by the previous government where many investors were harassed. I would like to

emphasize that this government will not undertake such undesirable politically biased activities. Instead we will bring in new laws to protect local and global investors.

207. The Strategic Development Project Act will be continued to be effective for existing companies that have been availed the concessions under the last government. For new investments, instead of Strategic Development Project Act, a new investment Act will be enacted. Honourable Speaker, I propose to extend tax incentives to those private sector companies who wish to invest in mixed development projects that will have a significant impact on the landscape of the country. However, those companies that have already applied for concessions will be made privy to the same in the interim period, pending new legislations. Honourable Speaker, we imposed super gain taxes, and many companies complied. This was imposed as a one-off tax. Therefore, I wish to inform this house that there will be no such super gain taxes in future.
208. **Inward Remittances and Investment flows** - Honourable Speaker, the environment that prevailed in the last decade with lawlessness, corruption, lack of good governance was an anathema for the operations of businesses in the country. With the change of regime, the environment has become conducive for business. Now, there is political stability and good governance, and many have indicated an interest to bring in funds to the country. To give them an additional comfort, I propose to engage with international agencies that can provide an insurance to ensure security of their investments and inward remittances. Also, I urge Sri Lankans who have kept their money outside the country due to various reasons to bring such money to the motherland contributing to the development of the economy. Further, in line with the liberalization of the exchange controls, I propose to abolish Securities Investment Account (SIA) through which the foreign investors have been requested to channel their investments to the country. Instead, I propose that investors should be allowed to bring in money to Sri Lanka through any bank account existing in the formal banking system. The Government shall not take any criminal action against any persons making inward remittances of such monies held overseas through the banking channel except in instances where the proceeds are the result of terrorism, drugs, human trafficking and corruption. I also propose to expand the scope of the exemption available under the Inland Revenue Act for services rendered outside Sri Lanka, provided all transactions are made through the banking channels. Therefore, I encourage entities to make use of these provisions.

209. Honourable Speaker, the sea route passing Hambantota port is used by nearly 35,000 ships including 4,500 oil tankers annually. However, at present our bunkering industry caters to only a few ships annually. As such given the enormous potential, I encourage the private sector to engage in deep sea bunkering, for which licenses will be issued through competitive transparent bidding process.
210. Honourable Speaker, to encourage ship building, ship breaking and ship repair activities, for which I propose to allocate government land in Hambanthota and Trincomalee.
211. We also encourage the private sector to partner the public sector in manufacturing Triple Super Phosphate (TSP) in the country. This will result in generating savings in foreign exchange due to reduction in fertilizer imports while also providing relief to the farmers through affordable fertilizer.

### **Export Promotion**

212. Honourable Speaker, in spite of the rhetoric to improve exports, the last decade was the lost decade of exports for the country. The government's short sighted policies resulted in the loss of markets whereby the country saw substantially high trade deficits. Sri Lanka's merchandise export, as a share of GDP has declined from 33.3 percent in 2000 to 14 percent in 2014 while Sri Lanka's share in the global export market also has shrunk from 0.09 per cent to 0.06 per cent during the same period reflecting requirement for further measures to exploit its potential and improve its relative position through export diversification and bilateral regional trading agreements. Given that sustained export growth is crucial for the external sector stability, overall economic growth and development of Sri Lanka, we propose to take several key measures to be as follows.
213. A high level body who can take policy decisions and clear bottlenecks will be formed to ensure successful implementation and effective monitoring of the export strategy of the country. Therefore, an Export Development Council of Ministers (EDCM) chaired by His Excellency the President, as mandated by Statute and comprising of the Honourable Prime Minister and other relevant Ministers, will be appointed. This would synergize the strengths of all the stakeholders involved in export promotion, development and facilitation by removing the duplication of work among institutions, ensuring regular monitoring of the progress, taking corrective actions and effectively moving towards the achievement of medium to long term targets on exports.

214. Honourable Speaker, Sri Lanka must now graduate from an inward looking strategy to an outward looking strategy. Our local industries ranging from banking to construction to education and etc. have the capacity to reach out into new markets beyond the boundaries of the country. Therefore, I propose to set up an Export Import Bank (EXIM Bank) to facilitate tapping of such opportunities, with an initial capital of Rs. 25 billion, subscribed jointly by the government and the industry. As such I propose to allocate Rs. 50 million as seed capital being the contribution of the Government EXIM bank will be operational from 01 April, 2016. It is also envisaged to list this company in the CSE.
215. I am glad to note that local private sector companies have expanded overseas especially in areas relating to electricity generation etc. As such, the Ceylon Electricity Board (CEB) too is encouraged to seek opportunities overseas for generation, transmission and distribution. Already many local companies have expanded these operations into countries like Bangladesh, Uganda and Tanzania for electricity related projects.
216. We all know that, Sri Lankan Embassies can play a pivotal role in export promotion. Therefore, I propose to strengthen the commercial sections of our diplomatic missions abroad. I also propose to make it mandatory for commercial sections of Sri Lankan Diplomatic missions to provide a market guide on products and services of interest to local businesses periodically which will be made available on the websites of the Department of Commerce and Export Development Board (EDB).
217. Further, EDB would be strengthened to enhance export promotion activities and I also propose that EDB should actively be engaged in exploring new markets for Sri Lankan exports and carry out extensive brand promotion particularly for IT, Spices, Gem and Jewelry and to find new markets.
218. I also propose that the Sri Lanka Export Credit Insurance Corporation (SLECIC) must expand and enhance the export insurance coverage schemes enabling our exporters to access new markets. In particular, they should work towards providing necessary support to our SMEs which has an immense potential to enter into international markets.

## **Official Reserves**

219. Honourable Speaker, when our administration took over in January 2015, we had inherited an overvalued rupee largely due to the mismanagement of the previous government, which eroded the competitiveness of our exporters who suffered the most. During this same period, larger economies were devaluing their currencies including China, India and Singapore to meet the challenges of the global economy. Our government which faced the identical situation in 2001 was successful in realigning the rupee. Our administration is run by professionals and as such, we will ensure that the exchange rate will not be mismanaged but be allowed to be decided on fundamentals.
220. Honourable Speaker, it has been found that exporters are keeping around 30 percent or over USD 3 billion of the export earnings outside of Sri Lanka. Our government through this budget has given many incentives to the exporters and our commitment to ensuring a fair and transparent business environment in itself should make our businesses happy. It is time that they too reciprocated. They must deliver now. Given that we have now entered into a flexible exchange rate policy, I see no reason why there should be an excuse for exporters not to bring their foreign funds back to Sri Lanka. Therefore, I urge all Sri Lankan exporters to remit their export proceeds in full with immediate effect. This will further strengthen the macro fundamentals that will create the platform for a better economic environment. I am sure if you are truly Sri Lankan, you would not let Mother Lanka down. This is your turn!
221. Honourable Speaker, I do not have to re-emphasize the importance of strengthening foreign reserves to improve the resilience of our economy. With the enhanced inflows generated from exports of goods and services and investments inflows, I expect the official reserves of the country will increase to USD 10 billion by end June 2016.

## **International Trade**

222. Honourable Speaker, the existing Imports and Exports Control Act has created a license regime and has no teeth to control our country being a dumping ground for substandard goods. As such, I propose to introduce a new legislation replacing the existing Act that will create an improved level playing field for domestic industries and ensure a more efficient import export system in the country.
223. In order to strengthen our international trade policy framework, the government plans to incorporate an International Trade Agency. I also propose to explore the possibility of

entering into Free Trade Agreements (FTA) with countries such as United States, China, South Korea, Singapore, Australia, South Africa and Japan, and also to enhance exports to EU through the GSP+ scheme.

### **Land**

224. Honourable Speaker, to maximize the use of government land, and to curb fraudulent dealings relating to land, I propose to introduce a “land bank” which is an electronic database of state-owned lands. I propose to allocate Rs. 500 million for this purpose. ICTA will ensure quick migration to an electronic data base. Subsequently, this database can be extended to contain records of the privately owned land as well.

### **Housing**

225. Honourable Speaker, this government is committed to providing shelter for all. For which purpose, we will be freeing unutilized and underutilized government land to build houses for all.
226. I am aware of the untold difficulties that those who live in urban low income houses are confronted with. The problems transcends race, religion and caste and is all encompassing to the extent that its impact goes beyond economic and financial boundaries into health, education, social development and even political spheres. Therefore, it is incumbent upon us to address the issues of deprived citizens of our country. As such, I propose to provide 100,000 units of housing through private public partnerships (PPP) within a period of 5 years to these shanty dwellers ensuring that relocation will not affect their livelihoods and social networks.
227. Government envisages collaborating with the private sector to provide middle level government and private sector employees with 150,000 housing units while senior officials of the government sector will be provided with 5,000 housing units at reasonable prices. These houses will be constructed on state-owned lands in Colombo, Jaffna, Kandy, Matara, Batticaloa, Puttlam and Kurunegala. Other community based facilities will also be built around these units. Credit facilities will also be provided to government officials to enable the purchase of such houses, and half tax rate will be granted to such private investors.
228. Further, our government will undertake new rural housing schemes to uplift the living standards of the rural community. The government will share the cost with the occupant, with the government contribution being a maximum of Rs.300,000 per house (milestone



payments) with a floor area of at least 500 square feet. It is envisaged that at least 1,000 such houses will be built in each electorate and I propose to allocate Rs.4,500 million for this purpose.

229. Necessary legislative enactments will be brought about so that all permit holders of land and houses with occupancy of over 10 years, under the Land Development Ordinance, including the Swarnabhoomi and Udagama, will be given ownership. This will also be extended to those living for more than 10 years in government owned houses and estate sector houses as well.
230. Honourable Speaker, different local government councils levy exorbitant rates on properties, which is a sheer exploitation of the tax payer. I propose that the rates charged by local bodies should not exceed 15 percent of the annual value of commercial entities. I also propose to exempt the rates on properties where the current annual rate is Rs. 500 or less.
231. In order to encourage energy saving, I urge owners of residential premises to convert to solar energy, and the cost would be considered as a qualifying deduction for tax purposes.
232. Existing laws relating to rent and ceiling on housing property will be reviewed to suit the present day context.
233. Also I propose to allow foreigners to borrow 40 percent of their investment in condominiums from banks in local currency.

### **Construction**

234. Honourable Speaker, I commend the domestic construction industry for their performance in the last decade. This industry has now matured adequately to explore opportunities overseas and our government is committed to partner the industry in similar ventures. As such, I propose the construction companies who seek overseas markets to be granted the opportunity to continue with the tax exemption on the income generated outside Sri Lanka. Further, any foreign contractor entering Sri Lanka to undertake construction work should enter into a joint venture agreement with a local contractor.
235. I propose to remove the Construction Industry Guarantee Fund Levy, to encourage small and medium scale contractors and to create an improved level playing field. The proposed

National Housing Bank will provide the necessary guarantees together with a dedicated and focused operation that will support the construction industry.

236. Honourable Speaker, the construction industry faces severe issues in recovering their dues on time. This has had a debilitating impact on their very existence. As such, I propose to introduce a Payment Guarantee Security Act which will provide adequate cover in recovering their payments.
237. Construction sector is faced with the lack of building materials such as sand. To encourage private sector to import machinery necessary for purifying sea sand in the deep sea, which could be used for construction, I propose cost of such imports be considered as a double deduction, for tax purpose.
238. To address the short supply and high prices of building materials such as steel, tiles and sanitary ware, import related duties will be revised downwards. Further, I propose to remove tiles, ceramic, and sanitary ware, from the negative list of the BOI. The import duties on cranes and concrete mixers will be removed. Also the age limit applicable for imports of heavy equipment machinery used in the construction industry will be extended to 10 years from the present 7 years.
239. I propose to increase the mobilization advance granted to small and medium scale contractors for government contracts of a value of less than Rs. 50 million to 30% with the objective of improving their cash flows.
240. Honourable Speaker, as there is a demand for skilled labour in Building and Construction industry, I propose to introduce a PPP program with the private sector for practical training and an allowance of Rs 10,000 will be paid monthly to the trainees by the government during the training period limited to 3 months. It is envisaged that at least 7,500 youth will be trained in masonry, carpentry, plumbing, electrical, aluminum extrusion etc. on a quarterly basis. I propose to allocate Rs. 500 million for this purpose.

### **Tourism**

241. Honourable Speaker, tourism remains a vibrant sector with tourist arrivals topping 1.5 million during the first 10 months of 2015 which is almost a 18 percent increase over the

same period in 2014. However, I regret to note that we have not branded our country adequately to expand the industry.

242. In this regard, during the last few years we have coined many tag lines yet nothing has stuck. Given the competition in the region, branding Sri Lanka is of extreme importance, if the country is to stand out as the most preferred destination. As such, I propose that a vibrant promotional campaign be undertaken by the Sri Lanka Tourism Promotional Bureau to explore new markets, particularly in the far Eastern countries.
243. Honourable Speaker, as you are aware there is a dearth of skilled personnel in this industry. As such to address this issue I propose to provide training to youth keen to join the hospitality industry in collaboration with the private sector. For a 3-month standard training course, 50 percent of the course fee subject to a maximum of 15,000/- will be borne by the Government, and it is targeted to train a minimum of 3,000 youth every quarter. I propose to allocate a sum of Rs.100 million for this purpose.
244. Further, as a source of encouragement for the private sector hotels willing to establish training schools on their own, I propose to provide tax benefits in line with the triple deduction made available for skilled development.
245. To encourage "Meetings Incentives Conferencing and Exhibitions" or "MICE" as it is called, it is proposed to establish the necessary infrastructure to create a MICE Triangle consisting of the BMICH, Nelum Pokuna Theatre and the New Town Hall. A convention hall with state of the art facilities will be built adjacent to the Town hall. The proposed facility will have a seating capacity of at least 7,000 and will be built in collaboration with the private sector. As such to encourage such investments, I propose to grant a 50 per cent tax holiday for 5 years for companies incorporated specifically to engage in "MICE" activities. I also propose to allocate Rs.3,000 million for this purpose.
246. To encourage spending by the tourists and to evolve into the shopping paradise of the region, I propose to revise import taxes on garments, shoes, electronic and electrical items and other accessories.
247. **Money Changers** - I also propose to liberalize the foreign currency changing business, subject to a license fees and guidelines issued by the Central Bank.

248. Sri Lanka has an immense potential to attract cultural, religious, environmental and medical health care tourists. Steps will be taken to transform and upgrade the cultural triangle sites, Eastern province beaches, Nuwara Eliya, Badulla and upcountry sites as sought after tourist attractions. Special emphasis will be placed on developing Bentota, Dedduwa, Mirissa, and Colombo Fort locality as tourist zones with the participation of the private sector. Further, Galle will be developed as a heritage city while preserving the Galle Fort in its age old splendor. I propose to allocate Rs. 500 million for these endeavors.
249. Honourable Speaker, medical/healthcare tourism especially our traditional medicinal practices has the capacity to gain traction internationally. However, it is important that we maintain the highest standards in medical/healthcare tourism and do not allow unacceptable practices tarnishing the image of the country. As such, I propose to introduce appropriate legislation to regulate this industry immediately.
250. Considering the dilapidated condition due to poor maintenance and management of the government-owned rest houses and circuit bungalows, I propose to allocate these units under a management company, where all stakeholders will be partners. These institutions will be operated by professionals in order to upgrade such facilities enabling an affordable service coupled with comfort.
251. We will also construct an exhibition centre near the Parliament through a PPP.
252. I also encourage theme parks to be established in lagging regions for which I propose to provide state lands and half tax holidays for 10 years. This will have the benefit of expanding the economic activities of such regions through expansion of the leisure activities and tourism.
253. I am aware that almost 60 percent of the hotels operating in the country are not registered. This has caused many issues in terms of maintaining proper standards in the hospitality industry in the country. As such, I propose that all hotels be mandatorily registered under the Tourism Development Authority by 1 June 2016. Strict action should be initiated by the Tourism Development Authority against hotels that are not registered.

254. Given the above requirements, I encourage the hotel industry to adopt star classifications, administered by the Trade Chambers of the hotels registered with the Federation of Chambers.
255. I also propose to remove import duties on the caravan carriages, yachts, surfing equipment, speed boats and mini cruise boats.

## **Banking and Finance**

### **Colombo International Financial Centre (CIFC)**

256. Honourable Speaker, we have been waxing eloquent for many years of a financial centre in Sri Lanka to no avail. Our geographical location in the SAARC region which is home to almost one fourth of the world population certainly provide us with the scope and scale such ventures require. Financial centres have the capacity to provide the impetus to enhanced growth in economies. Such endeavors certainly require an investment on our part which include special physical and digital infrastructure, human capital, regulatory and the legal infrastructure. This government believes in investing funds where feasible. It is in this background that we will establish a "Colombo International Financial Centre".
257. A specific zone will be built on the lines of the Dubai International Financial Centre and such other off-shore centres around the world. The zone will cover a demarcated area in D R Wijewardena Mawatha, where a 300,000 square feet facility will be constructed. The proposed financial center will have an own commercial court for resolution of commercial disputes in a quick and equitable manner keeping in line with the financial centre regulatory requirements. We expect that this initiative will convert the infamous casino proposal of the former government into a robust venture of a financial centre which will be creating a number of new employment opportunities. We invite domestic and international banks to operate in Sri Lanka and be part of the proposed centre. This operation will be ready to commence by 1 April, 2016.

### **Commercial Banking**

258. Honourable Speaker, we have 32 banks and 47 Finance Companies registered with the Central Bank of Sri Lanka. The Sri Lankan Banking sector penetration has increased significantly with the Banks themselves most often expanding horizontally. Our Banks today offer ATMs, e-banking facilities, and other innovative facilities that has extended banking to the door step of the customer. While I congratulate the banking sector for their expansions,

I also note that our banks have confined themselves to collateral based lending and have shown a marked reluctance to engage in "business model" based lending. This approach has become an impediment to the development of the SME sector and the business startup culture in Sri Lanka.

- Honourable Speaker, given that our Banking sector comprises a few large systemically important banks and a few smaller banks, we encourage the voluntary mergers of banks that will result in stronger balance sheets, which in turn will enable better ratings and wider access to markets both domestic and foreign. I reiterate that such mergers should be carried out while ensuring the job security of all related staff.
  - Honourable Speaker, I also propose to merge the HDFC Bank and State Mortgage and Investment Bank (SMIB) to create a much stronger and larger "National Housing Bank", Lankaputhra Development Bank (LDB) to be merged with Regional Development Bank (RDB) to create the "Lanka Enterprise Development Bank", and also Sri Lanka Savings Bank to be merged with National Savings Bank.
  - The Divinaguma Bank has a deposit portfolio of around Rs 59 billion. The bank lacks the capacity to manage a fund of this magnitude and it is incumbent upon us to protect this fund given that the stakeholders are some of the most vulnerable in our society. As such, I propose to link the Divinaguma Bank to the National Savings Bank for the protection of the fund ensuring professional management.
259. Honourable Speaker, I propose that licensed banks should concentrate on their core banking activities. The Leasing business, has become a distraction to core banking functions and as such Banks should cease in engaging in leasing business from 01 June, 2016.
260. Today banks are not keen to lend to certain important sectors of the economy, which has hampered the growth of these sectors. In this background, I propose that all the banks should lend at least 10 percent of their loan portfolio to Agriculture, 5 percent to SME and 5 percent to Women and Youth. Given the impact the international gold prices has had on the local banks specially with large pawning portfolios, I urge the banking sector to limit their pawning business to a maximum of 5 percent of their loan portfolios. Further, I encourage Banks to lend to customers who are engaging in stock market activities.

261. I also propose to amend the Pawnbrokers Ordinance to increase the registration fee for pawnbrokers to Rs.25,000.
262. The National Payment Council which is the decision making body for all payments and settlements in the country has been revived as a part of the government strategy to improve and enhance the development of the financial systems of the country. This will also facilitate the establishment of a financial centre in Colombo.
263. Issuing cheques without sufficient funds in bank accounts and returning of cheques has become a serious issue in the banking system which is also a fraudulent way of carrying out business. In order to inculcate a credible business culture and to safeguard the customers, I propose to consider the situations where cheques are returned as a criminal offence and enforce stringent legal action against such offences.
264. Honourable Speaker, I wish to lay emphasis on the fact that apart from 2 banks, no other local bank has expanded their operations internationally. But the opportunities are numerous. I am also confident that our local banks have the capacity to tap such opportunities. As such, I propose to encourage the banks to expand their operations overseas, by making use of the existing tax incentives for such expansions.
265. Further, local companies are encouraged to borrow internationally for their business expansion activities based on their balance sheets. The borrowing company should bear the exchange risk, while the borrowing rate of interest should be broadly consistent with the prevailing competitive market rates. Repatriation of monies as interest payments, will be monitored by the Central Bank to avoid any malpractices.
266. Honourable Speaker, I encourage the banks to expand their off-shore activities and deposit such foreign exchange with the Central Bank. This way, the process will not only strengthen the gross official reserves but will also avail the banks to have additional local currency for their business operations.
267. Honourable Speaker I propose to revise the exposure on Government securities for non-residents from 12.5 per cent to 10 per cent of the total outstanding stock of Treasury Bills and Bonds. This will provide more space for local investors to invest in Government securities and also to mitigate fluctuations in exchange rate due to sudden withdrawal of

funds by non-residents as witnessed in the recent past creating an undue strain on the reserves.

268. We are moving into a sophisticated cash management system. To discourage cash transportation in line with security considerations, I propose to impose following charges on cash withdrawals.
- i. Less than 1 million : No charge
  - ii. Between 1 million and 10 million : 2 percent
  - iii. Above 10 million : 3 percent
269. I also propose that the fee on bank drafts should not exceed Rs.150 per draft.
270. For the same reason, I propose all employers to instruct their employees to open bank accounts for the purpose of remitting the salaries.
271. Honourable Speaker, to keep a better track of all statutory payments, I propose each Company to maintain a dedicated Bank account for direct debit purposes.
272. Charges on valuation certificates of vehicles to obtain finance facilities will be revised with effect from 01 January 2016. Accordingly, I propose the charges applicable for motor cycles and three wheelers to be Rs. 2,500 while valuations on all other vehicles, including motor cars, will be Rs. 15,000.
273. Honourable Speaker, you will no doubt agree that there's over banking in urban areas and under banking in regions creating an imbalance in the accessibility to finance. As such so as to address this imbalance, while enhancing economic activities, it is proposed to require all banks to expand their branch network by 15 percent by opening branches in lagging regions. Each of these branches will have to employ at least 6 employees.
274. Honourable Speaker, Credit Information Bureaus increases access to credit, enable risk based pricing in credit lending, promotes financial discipline, and creates competition across financial institutions all of which help the financial sector to be better developed. Already the country has the Credit Information Bureau (CRIB) which is a Private Public Partnership. However, given the envisaged expansion in the financial sector, I encourage the private sector also to establish private Credit Information Bureaus with the Central Bank of Sri Lanka being a stakeholder with cross industry participation, including, financial institutions,



insurance companies, utility providers, etc. I propose to amend the necessary legislation for this purpose. Similarly, I encourage to open a private CRIB for the insurance industry as well.

275. At the same time I propose that the monies lying in dormant accounts of commercial banks to be remitted to the Consolidated Fund, by 1 January, 2016.

### **Finance Companies**

276. Honourable Speaker, as you may remember the last decade witnessed many financial companies in crisis. The impact of this crisis was felt in every corner of the society and our financial sector stability was strained. Depositors were badly let down. The Central Bank of Sri Lanka which was entrusted with the supervisory function had failed in its role as the independent regulator through the compromise of its legendary independence due to politicization.

277. Honourable Speaker, finance companies have been most vulnerable and as you know the government had to provide relief to the Golden Key Depositors at a heavy cost. To find a long standing solution for this issue, a Financial Institution Restructuring Agency (FIRA) on the lines of the Resolution Trust Corporation in the United States of America will be established shortly to help failing finance companies to be recapitalized and their troubled assets to be taken over by this agency for purposes of restructuring. A wide differential between the deposit and lending rates is seen in the low efficiency financial sector which has caused high cost of intermediation to the public and businesses in Sri Lanka. The government will provide initial capital of Rs.10 million as equity and also issue a Treasury bond to the value of Rs. 25 billion with a tenure of 5 years for the FIRA. The Central Bank will be entrusted to undertake strict supervision on this restructured finance companies. However, as a prelude to the above proposal in order to provide the depositors with a sense of comfort and security, the Central Bank of Sri Lanka will give a 100 percent guarantee on all deposits of all the registered finance companies by end January 2016.

278. Honourable Speaker, to prevent undue concentration of deposits in the non-bank financial sector, I propose to impose a cap on the interest rates offered by the Finance Companies. Further, we will protect the public who have got into difficulties in the payment of the high rates of interest and penalty charges levied by financial institutions on credit cards and other personal lifestyle loans. To ensure this process, the Central Bank will, in association with all

other banks operating in Sri Lanka, expand the credit counselling activities. We expect the Central Bank to issue directions that will restrict the ability of financial institutions to grant unlimited amounts of expensive credit to unsuspecting borrowers.

### **Fixed Deposits of Senior Citizens**

279. At present the 15 percent interest rate offered to senior citizens is limited to Rs.1 million and only to citizens above 60 years. I propose to expand this benefit to citizens above 55 years of age and the 15 percent interest rate to be applicable to deposits up to Rs.1.5 million. This facility will be granted through Licensed Finance Companies where an interest subsidy of 1.5 percent will be granted by the Government. I propose to allocate Rs. 1,500 million for this purpose. I note that Central Bank guarantee of deposits should increase the confidence of the depositors.

### **Creating a Savings Culture**

280. Honourable Speaker, given the importance of enhancing the national savings of the country, the creation of a savings culture has become important. In this background, I request all banks to open a child savings account for every child attending school by depositing a minimum of Rs. 250 per child per year. The Bankers' Association has kindly come forward to support the government's policy and I encourage the Banking community for the initiatives and support provided to this laudable act. This will commence from 1 January 2016.

### **Capital Market to Stimulate Growth**

281. Honourable Speaker, capital markets remain an untapped resource in Sri Lanka. Developed capital markets offer businesses better access to low cost long term financing which is vital for expansion and growth of businesses. Our capital markets are marred by the limited use of technology and a lack of adequate benchmarks of good governance. Honourable Speaker, you will no doubt be aware that the Securities and Exchange Commission (SEC) has been under fire in the last 10 years due to the inability to infuse a sense of discipline into the market participants of the stock exchange. Our government is keen to arrest this situation and I believe the sentiments of the investor community has certainly improved in the last few months. It is in this background, given the government's commitment to good governance and reforms, that reforms of the capital market will follow.

282. Honourable Speaker, the Colombo Stock Exchange (CSE) is still a member-owned entity and a not for profit entity. If one looks at Stock Exchanges of the world that has performed well, they are demutualized.
283. Demutualization ensures that the exchange actually looks into the issues of the market participants rather than satisfying financial intermediaries. This will also ensure greater transparency, better use of technology to ensure transparency and lower trading costs. As such, since the government is dedicated to creating a fair and efficient environment that benefits its participants, it is proposed to conclude the demutualization process of the CSE during 2016.
284. Honourable Speaker, this government is committed to creating the enabling environment in which the stock market can operate efficiently and effectively. A proper regulatory framework is the key in facilitating growth in the stock market. As such, it is proposed that Securities and Exchange Act be revised to address the regulatory deficiencies in the market.
285. Honourable Speaker, it is important that businesses be privy to low cost capital with longer tenures, if expansion of their activities are to be promoted. The corporate debt securities market in Sri Lanka has been active in raising almost Rs. 50 billion in 2014 which is a fourfold increase over 2012. As such, to facilitate the expansion of the corporate debt securities market, it is proposed to waive the income tax and withholding tax applicable to those activities into 2016.
286. Honourable Speaker, we do not have a trading platform for the trading of government securities. As such, it is proposed to set up a Bond Clearing House primarily for transactions in government securities which could then be extended to other instruments including the corporate debt securities known as debt exchanges. The Bond Clearing house will be established by the Central Bank. Once the Bond Clearing House is fully operationalized, it is proposed to be governed by an independent Board of Directors. I propose to allocate Rs.500 million from the Consolidated Fund to establish the trading platform under the supervision of the Central Bank.
287. At the same time, the Share Transaction Levy which charges 0.3 percent from the buyer and seller on each share transaction will be removed with a view of encouraging activities in the

share market so as to boost the sagging movement of share transactions. Further, as an additional measure, the stamp duty on share certificates will also be removed.

288. Honourable Speaker, volatility in the stock market has resulted in many of the stock brokers facing significant issues. It would appear that the sustainability of stock brokers themselves is important in ensuring the long term development of the Capital markets. As such, I encourage the Stock Brokers to merge to strengthen their capacities and capabilities.
289. Honourable Speaker, in the commercial and financial markets the integrity of the data is key to ensuring an efficient operation of the market. Accounting and auditing standards play a key role in ensuring credibility of the information provided. Among the institutions which will be strengthened, is the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB), engaged in preparing Sri Lanka Accounting and Auditing Standards which are used by all specified business entities in the country, both listed and unlisted. Honourable Speaker, the work of the SLAASMB however, is constrained by inadequate technical and financial resources. Previous regimes have neglected the needs of the SLAASMB. We will also review and amend the relevant Act to expand its scope and coverage. Therefore, it is proposed to allocate Rs.100 million to the SLSAMB to strengthen and develop the institution.
290. Honourable Speaker, in order to provide capital to real estate and infrastructure development and to enable small investors to directly benefit from the growth of the real estate sector, it is proposed to introduce Listed Real Estate Trusts (REITs). Transfer of real estate assets to a REIT structure that distributes 90 percent or more of income to REIT unit holders will be exempted from Stamp Duty.
291. Moreover, with the change in demographics, it would also be best to consider the introduction of "Reverse Mortgages".
292. Honorable Speaker, at present Sri Lanka has been raising only USD denominated bonds in the international market. I propose that going forward, we should examine nontraditional bond markets including the Chinese Yuan and Sukuk bonds with the aim of reducing our cost of borrowings.

293. Honourable Speaker, SMEs find it difficult to list in the stock exchange given their inability to comply with the Stock Exchange's regulatory requirements. As such, it hampers the SME's access to long term relatively cheap finance. Thus, to expand the options available for SMEs' access to finance, it is proposed to create a new SME board on the Colombo Stock Exchange with less stringent compliance requirements for SME listings. This will also provide a comfortable exit strategy for the Venture Capital firms that have invested in SMEs.
294. I propose CSE to play an active role to attract foreign companies to be listed in the Exchange. Local companies listing in the CSE will receive tax concessions for 2 years while the concessions will be extended to 3 years if listed in a foreign stock exchange such as, London, Singapore, Hong Kong, Mumbai. At the same time I encourage foreign companies to list in the CSE (dollar listing).
295. Market capitalisation at present is Rs. 28 billion. With all the measures proposed we expect the market capitalisation to reach Rs. 50 billion.

#### **Commodities exchange**

296. Honourable Speaker, in spite of the fact that tea, rubber, coconut and a whole host of commodities are a significant part of our export economy, we do not have a commodities market. I believe that it is now the time to implement a commodity exchange regulated by the Securities and Exchange Commission.

#### **Vibrant Labour Market with Opportunities for All**

297. Honourable Speaker, the composition of our labour force is fast changing given the demographics that tilt towards an ageing population. We have two choices, either we increase the number of workers or improve the output per worker. In my consultations with the industry, it was obvious that both issues need to be addressed.
298. Considering the current low level of unemployment and labor force participation prevalent in the country together with ageing population, it is appropriate to create a part time job culture to attract the services of skilled labour force who are willing to work less than 40 hours per week which is mandatory for a permanent job. Therefore, I propose that the enabling environment be created to introduce a part-time job culture in the country to

enable the private and public sector to absorb skilled labour and improve their productivity and competitiveness.

299. Honourable Speaker, I am aware that while the government is keen to attract Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) into the country, the archaic labour laws has become a hindrance. It is time that we address these issues, and in doing so our government will introduce necessary legislations.
300. This would also help to increase female labour force participation which is considerably low around 35 percent against the 65 per cent of male labour force participation in the country.
301. I am also aware that at present, contract employees should be made permanent on completion of after six months of continuous employment. This has led to many employers being reluctant to hire contract employees most of whom are young people and thus depriving them of earning capacity. As such, it is proposed to introduce necessary legislations to extend the time period for making such employees permanent to 1 year from present 6 months.
302. I encourage the private sector to adopt a 5-day week work culture. This will also allow employees to have more leisure time and spend more time with their families. A 5-day week initiative would help companies to reduce their administrative cost that they incur for 45 hours per week.
303. Honourable Speaker, you are aware that the public sector employees were paid an additional allowance of Rs.10,000 per month by our government. We strongly believe the private sector employees should also be compensated. I urge the private sector employers to increase the monthly salary by at least Rs.2,500 per month of which Rs.1,500 per month could be given in 2015 and the balance Rs.1,000 per month in 2016. This was agreed by the Employers Federation Council and necessary legislations will be brought in to implement this.
304. In order to ensure a minimum wage for the working population, an Employment Council will be established, which will be managed by members from the Civil Society and Chambers of Commerce.

## **Education**

305. Honourable Speaker, public investment in education in the last decade has been woefully inadequate. This has resulted in most of our schools lacking basic facilities including modern classrooms, water sanitation, , laboratories, play grounds, etc. It is no secret that we do not have a proper policy of teacher mobilization and deployment resulting in some schools facing a dearth of teachers especially in Mathematics, Science and English for years. Our strategy in education is driven by three strong pillars being improvements to the quality of teaching, to development of infrastructure facilities of the schools and students, and a practical school curriculum.
306. Quality of teaching is vital in improving the quality of education. I commend our teachers for performing under difficult circumstances. I propose that the National Institute of Education (NIE) to formulate a programme where all teachers will be able to undergo continuous teacher training. I also propose that all teachers recruited to Government and Government supported schools must successfully complete a 2 year fulltime teacher training programme within 5 years of recruitment. For this purpose, I propose to allocate Rs.1,000 million. Our Government is also keen to ensure regular training of teachers so as to improve their skills.
307. The Ministry of Education will also prepare an action plan with a specific timeframe to ensure proper deployment of teachers particularly in Science, Mathematics, IT and English specially into the regional and rural schools. To facilitate the deployment of teachers to such schools, I propose to provide the rural and regional schools with teacher quarters, rest rooms etc for which I propose to allocate Rs.2,000 million.
308. It is evident that many of our Primary and Secondary schools lack proper sanitary facilities. I propose that by end of 2016 all schools be provided with proper sanitary and water facilities. For this purpose, I propose to allocate Rs.4,000 million.
309. I also propose that schools without electricity to be provided with electricity either through the national grid or through solar power for which I propose to allocate Rs.2,000 million.
310. I propose to allocate a sum of Rs.10,000 million to upgrade 3,577 primary schools in the country with the required facilities within the medium term action plan.

311. At the same time, 1,000 secondary schools will also be provided with other facilities such as activity rooms, laboratories, multimedia facilities, libraries with e-library facility for which I propose to allocate Rs.15,000 million.
312. Honourable Speaker, there are about 1,360 schools which have been neglected during the recent past without any assistance from government. As such, I propose to allocate a sum of Rs.30,000 million to implement a project to improve the facilities and the quality of such neglected schools.
313. Further, resources will be allocated to upgrade 25 schools in the plantation sector to secondary level for which I propose to allocate Rs.250 million.
314. With a view to improving science education in schools which has no permanent laboratories, I propose to allocate Rs.450 million.
315. With a view to facilitating dental health facilities in schools, I propose to allocate Rs.250 million to rehabilitate and upgrade the relevant equipment.
316. The import duties on printed books, magazines and journals will be exempted.
317. Honourable Speaker, most of our schools have land that is unutilized. I propose to allow such schools to utilize such lands for cultivation partnering with the private sector provided that the schools themselves will be made a partner in sharing the revenue generated. Such funds are to be utilized by the schools to upgrade and maintain their educational and infrastructure facilities subject to the necessary approvals being granted by the Ministry of Education.
318. Honourable Speaker with this unprecedented expenditure on education, we will make it compulsory that all students should follow an educational process that will go on for 13 years, either in schools or vocational / training institutions.
319. To create a better environment in schools and better interaction between teachers and students, it is also planned to restrict the number of children in a classroom to 35.



320. Honourable Speaker, I propose that each school to be regarded as a separate Cost Centre. I am confident that this will facilitate better use of resources and accountability in financial management with appropriate action by the Ministry of Education with Treasury directives.
321. Honourable Speaker, the school uniform system which was introduced by late President JR Jayawerdene has now deteriorated due to political interference. As such, I propose to introduce a voucher system to provide school uniforms. However so as to ensure that all children will be able to benefit from this scheme during 2016, where the vouchers are not issued school uniform material will be provided as an interim measure.

### **Benchmarking Universities**

322. Honourable Speaker, I am pleased to inform this house that we have increased the total budgetary allocation to improve Higher Education by almost 30 percent in comparison to 2015. It is time that the country embarks on a higher education development revolution.
323. I am pleased to note that in 2016, our universities will be absorbing the first batch of our students who have successfully passed their Advanced Level examination in the Technology Stream. I propose that the relevant universities should create the required Faculties of Technology to offer Bachelor of Technology and that they be strengthened with the necessary human resources, infrastructure and equipment.
324. Hostel and housing facilities have been a key issue that both the students and the faculties have been faced with. I therefore propose that by 2018 all students will be provided with hostel facilities for the entire tenure of their university education. The faculty also will be provided with accommodation facilities so that universities could attract and retain academic staff.
325. Honourable Speaker, while our universities cater to the crème de la crème of our country, many debate about how relevant and linked the local universities are to the private sector employability. In this context, I note that some of our universities have taken the lead to introduce new courses into their curricula such as Data Science, Actuarial Science, Bio Informatics, Business Analytics, Quantity Surveying etc. To encourage such initiatives I propose to provide such universities with the necessary infrastructure facilities. These will include the provision of facilities such as buildings, laboratories, equipment etc.

326. The house will no doubt agree that attracting and retaining top notch faculty into our universities has been a cause for concern. Many global universities have addressed this issue through endowed chairs or distinguished professorships. The endowments allow such faculty the freedom to engage in research that adds value to the economy. Therefore, to encourage private individuals and companies to be part of the country's higher education revolution, I propose that the expenditure incurred for the endowments be allowed to be deducted for tax purpose granted to our national universities as well.
327. In a bid to attract foreign students, specially for post graduate courses offered by the local universities, such institutions are encouraged to seek accreditation with professional bodies of international repute with a view to grant professional qualifications and I propose to extend financial assistance to such initiatives.
328. **Mahapola University** - Honourable Speaker, it would be remiss of me if I do not mention the late Honourable Lalith Athulathmudali who as the Trade Minister and our incumbent Prime Minister during his tenure as Education Minister of our nation, rendered a service that is unparalleled in our history. The Mahapola Scholarship scheme has enabled generations of university students to successfully complete their education and go on to be academic or professionals serving both in Sri Lanka and overseas. As such to honour this great statesmen, I am sure that this house will agree to establish a university named Mahapola University located at Malabe. This university will focus on teaching subjects such as ICT, Business Studies, English, Management and other new market oriented subjects. As such I propose to allocate a sum of Rs.3,000 million for this purpose.
329. Honourable Speaker, in line with our government's commitment to expanding the opportunities for education in our society, I propose to establish an Engineering faculty in Kilinochchi and an Agriculture faculty in Vavuniya.
330. The Post Graduate Institute of Pali and Buddhist Studies will be provided with the necessary infrastructure including a new building. I propose to allocate a sum of Rs. 500 million for this purpose.
331. It is also proposed to provide laptops for university students on an interest free 3 year loan. Also free wi-fi zones will be provided for all universities. I propose to allocate Rs. 300 million for this purpose

332. Honourable Speaker, it is also proposed to extend the same methodology adopted in giving extra points to those who excel in sports, for those students who have invented a new product or service, created a startup, participated in international competitions such as Math Olympiad etc when considered for university admission.
333. Honourable Speaker, much foreign exchange has been flowing out to finance the foreign education of our students for a long time. The flow of foreign exchange must be reversed. In fact given our capacities in the sector we should now encourage foreign students to study in Sri Lanka and thereby attract foreign exchange. Sri Lanka has the potential to become an educational hub. In this regard the last government's decision to allow private universities to operate in Sri Lanka is in the correct direction. Our government also is of the view that private universities should be allowed to operate and offer courses except in medicine. Such universities, should be monitored by the University Grants Commission (UGC) to ensure quality and at least 10 percent of the total placements should also be awarded free of charge to students who have successfully completed the local advanced level examination. Local counterparts of such ventures will be provided with tax incentives. Let me assure this house that our government will at no point compromise free education that is prevailing at present.
334. I understand that the university academic staff are not entitled to various payments made when travelling overseas for official work including presenting papers etc. I therefore propose to extend the same facilities offered to executive officials of all services in Government to the faculty of universities as well.
335. Government will continue to absorb graduates to government service through competitive examination process. With our government's new initiatives, the government sector employees' capacities should be enhanced and developed to meet the modern day challenges. Therefore, I urge the universities to gear up and focus their degree courses to suit the present day employment market requirements.
336. Honourable Speaker, I propose to allocate an additional sum of Rs.6,000 million to execute the proposed actions stated above.

### **Vocational Training and Technical Education – Diversion for Opportunities**

337. Honourable Speaker, during the Budget preparation process, I interacted with various industry chambers in the country. One issue that was highlighted by the relevant chambers was the lack of skilled workers for primary and middle level employment in the country.
338. I am aware that there are more than 400 units of government institutions in the country to provide vocational training and skills development. But it appears that there is lack of coordination among such entities, as well as, less linkages including a requirement to interface with the private sector. Honourable Speaker, I therefore propose to strengthen the Industry Sector Councils for various industries to advise the line Ministry/ Tertiary and Vocational Education Commission so that the vocational training strategy of the country will be attuned to the needs of the private sector.
339. Honourable Speaker, with the establishment of UNIVOTEC and Ocean University, there is an alternate path for those who are exiting out of the school system to progressively acquire certification, diplomas and degrees. Therefore, to enhance and improve the curricular, I propose to introduce new degree courses in Marine Biology, Marine Recreation and Sea Port, Boat/ Ship building, Integrated Coastal Resource Management etc. by the Ocean University.
340. Honourable Speaker, with the aim of increasing skilled labour force in the country, five university colleges has been established and one more to be commenced within the near future at Batangala. As such, I propose to develop the curricular of these university colleges to include courses in Polymer Technology, Renewable Energy Technology, Plantation Crop Technology, Journalism etc. and also to upgrade the Colleges of Technology to the status of university colleges to produce middle level technicians. Further, I propose to introduce new courses by the UNIVOTEC to allow the students who have passed out from the university colleges with NVQ 5 and 6, to continue their studies upto NVQ 7 which is equivalent to a degree.
341. We will also establish techno-based campuses and vocational training institutions alongside current universities with special focus on establishing universities in lagging regions. We also propose to introduce a voucher system to talented students from low-income categories to enter into these techno-based campuses and vocational training institutions.

342. To strengthen the technical and vocational education further, I propose to increase the intake of Ceylon German Technical Training Institute (CGTTI) by 200 students within a period of two years. The Killinochchi Vocational Training Centre, funded by the GIZ, is nearing completion. Therefore, I propose to develop this training center as an Independent Training Institute similar to the CGTTI.
343. Honourable Speaker, this government extends special attention to generate a skilled labour force to fulfill the demands of the labour market, particularly, Building and Construction, Hotel and Tourism, Light Engineering and Manufacturing sectors. I propose to introduce a PPP program for providing of training courses and a NVQ accredited certificate will be awarded to those who successfully complete the training.
344. Honourable Speaker, it is common knowledge that the Small and Medium Enterprises (SME) in the country lack personnel with the necessary skills to prepare financial statements, business plans etc. As such, I encourage the registered audit firms to conduct 3-month courses to train those already engaged in SME sector. Government will reimburse the audit firms Rs.2,000 per trainee per month. It is expected that 2,500 youth will be trained per every quarter. I propose to allocate a sum of Rs.30 million for this purpose.
345. Further, it is noted that development of soft skills and proficiency in English language are vital to compete in the employment market. It is therefore proposed to establish a dedicated program to train the master trainers' abroad to educate students in the TVET sector on soft skills and English language. Further, we encourage private institutions to provide standardized English language courses.
346. Honourable Speaker, I propose to allocate an additional sum of Rs 3,000 million to execute the actions stated above.

### **Empowering Youth through the Youth Corp**

347. Honourable Speaker, the Youth in our country is our gateway to the future. This government is committed to ensure that the youth of our country is granted suitable opportunities allowing them to exploit their full potential. In this context, we propose to revive and strengthen the National Youth Corp.

348. In order to provide more opportunities for ordinary and advanced level drop outs, I propose the National Youth Corp to provide youth with career guidance, personal development through leadership training, discipline etc. and channel them to Vocational Training Institutes for technical education. Thus, I propose that the Sri Lanka Vocational Training Authority and other entities engaged in the sphere of vocational training be linked to the National Youth Corp.
349. I therefore propose to allocate an additional sum of Rs 3,000 million to execute these actions.
350. Honourable Speaker, it is time that we encourage our youth to fork out a future of their own using their collective capacities and entrepreneurial spirits. In this context, I propose to introduce a mechanism where the commercial banks will engage in group lending to youth who have created a unit consisting of at least 50 members to engage in projects such as mushroom farming, furniture industry, vehicle electricity-charging stations, food industry, ornamental fish farming, dairy industry, bee honey industry etc. The commercial banks will finance such projects at a concessionary interest rate and should such ventures expand, they will be eligible for better access to finance and resources. Depending on the size of the project, state land also will be provided for these projects. It is expected at least 300,000 youth from 6,000 villages would be mobilized island wide for this purpose, for which I invite the National Savings Bank to devise a loan scheme dedicated for this purpose as a Corporate Social Responsibility (CSR)Project.

### **Health – Modern Healthcare**

351. Honourable Speaker, this government fully recognizes the requirement to invest in the health sector. We are committed to providing free health services to our citizens. In this respect our strategy is multi-pronged whereby investments will be in capacity development of personnel, soft and hard infrastructure development and research and development.
352. Honourable Speaker, this house has had many debates and discussions on the CKDU issue that is prevailing in the country. This has reached proportions of an unimaginable magnitude levels and inaction is not an option. As such, I propose to immediately establish 1,000 kidney dialysis centres in CKDU prevalent areas at a cost of Rs.6,500 million.

353. I also propose the construction of a hospital specializing in kidney disease management in Minneriya for which I propose to allocate a sum of Rs.2,000 million.
354. I propose to allocate Rs.3,000 million to be utilised for the construction of 3 cancer hospitals in Nallur, Kandy and Matara.
355. To improve better access to quality health care, I also propose to upgrade the Anuradhapura, Kurunegala and Jaffna Hospitals with the state of the art buildings, equipment and other facilities. I propose to allocate Rs. 3,000 million for this purpose.
356. Honorable Speaker, with the aim of widening the reach of health care facilities in the country improving better accessibility and shortening the time of response to an emergency, the concept of mobile hospitals will be developed. As such I propose to allocate a sum of Rs.200 million for this purpose.
357. Honourable Speaker, given the increasingly high challenge of non-communicable diseases that effects children and adults alike, the government in the next 3 years will allocate resources to train specialist doctors in Pathology, emergency medicine, geriatrics, paediatrics and also geriatric nurses, and para medical staff. I propose to allocate Rs.250 million for this purpose.
358. Honourable Speaker, we have a large number of base and divisional hospitals. These hospitals lack basic healthcare facilities such as bed strength, diagnosis equipment, consumables, etc. I am also aware that these hospitals find it difficult to retain doctors as they lack proper facilities for the resident doctors such as suitable accommodation etc. In this background, I propose to fulfil the basic accommodation requirements of doctors and other medical staff in rural areas within a period of 2 years. I encourage private public partnerships where the private sector will construct and maintain the facility for which government will provide rent.
359. It is also proposed to build and equip 10 district-based stroke centres attached to tertiary care hospitals within the next 2 years and also it is proposed to strengthen the accident and emergency care services in the hospitals. As such I propose to allocate a sum of Rs.5,000 million for this purpose.

360. Honourable Speaker, research and development is an important element of our health sector strategy. Our health sector professionals do engage in R&D and innovation with little or no support from the Government. In fact, I commend the gold medallists of the International Exhibition of Inventions in Geneva 2015, Dr. Thusitha Kahaduwa for the invention of the device “Footie”, Dr. Anupa Herath for the invention of the peripheral nerve stimulator needle and Dr. Anura Wickramasinghe who was awarded the World Federation of Societies of Anaesthesiologists (WFSA) Innovation award for his creation of a new low cost video laryngoscope. I am sure that these three young doctors have followed the footsteps of many other doctors who have invented such innovative devices and practices that has nurtured and uplifted the quality of the health sector in the country. I commend and felicitate them for their enterprise.
361. Having recognised the importance of Research and Development in the health sector, I also propose to allocate Rs.250 million to the National Science Foundation (NSF) to support and assist research in Diabetes, Dengue, CKDU and Cancer.
362. Honourable Speaker, Sri Jayawardenapura hospital will be refurbished and expanded to be able to compete with the private sector. As such I propose to allocate Rs. 1,500 million. At the same time given that qualified nurses are in great demand both in the local and overseas market, the infrastructure facilities required to train 2,000 nurses per annum at the Nursing school affiliated to the Jayawardenapura hospital needs to be improved, for which I propose to allocate a sum of Rs. 2,500 million.
363. To monitor the effective use of funds I also propose the establishment of an oversight unit in every hospital which will ensure value for money concept is practiced.
364. To curtail draining out of foreign exchange from the country I invite private sector to venture into establishing Pharmaceutical Zones as PPPs. The government will also contribute by providing land. A buy-back arrangement will be agreed upon to purchase the government requirement of the respective pharmaceutical items manufactured and they will also be encouraged to access markets on their own.



### **Encouraging Indigenous Medicine**

365. Honourable Speaker our traditional medicinal and healing systems has been passed down from generation to generation and has sustained the nation until the introduction of Western Medicine which has overtaken the indigenous medication and healthcare.
366. However, traditional healing never lost its ground fully. The revival of interest from the west has rejuvenated the indigenous medicinal systems of the country. So much so that today Sri Lanka has become an internationally renowned destination for ayurvedic tourism.
367. While the indigenous system has many issues, one key factor is the scarcity of herbal medicines. As such, to encourage the cultivation of short term herbs such as Katuwelbatu, Vishnukranthi etc., I propose to allocate government land to 2,000 farmers and also to make available concessional funding for this purpose.
368. In order to maintain the world class reputation of the industry and maintain the integrity of the systems, I propose to introduce a regulatory mechanism to regulate all ayurvedic hospitals and spas that are set up all over the country.

### **Research and Development for an Innovations led Economy**

369. Honourable Speaker, our investment in Science, Technology and Innovation has failed to keep up with the growth in GDP. Its impact is evident in the low percentage of high tech value addition to our manufactured exports (0.9 percent in Sri Lanka compared to 50-75 percent in developed industrialized countries) poor contribution of patents and research based service industry to our economy. This has to change rapidly if our economy is to be led by innovation. We expect high tech manufactured exports constitute at least 10 percent of our exports by 2020.
370. To expedite this process, I propose to set up an Innovation Accelerator, a platform that will combine the National Innovation Programmes (NIPs) of the Coordinating Secretariat for Science Technology and Innovation (COSTI) and the National Thematic Research Programme (NTRP) and the technology support schemes of the National Science Foundation (NSF), with clear deliverables directed towards three pillars of sustainability; economic development, social justice and the environmental quality.

371. Honourable Speaker, in order to execute the above, I propose to set up a National Innovation Centre in the Ministry of Science, Technology and Research which will manage the Innovation Accelerator Fund set up as a revolving fund. It is proposed to allocate Rs 100 million as seed capital to this Centre while another Rs.3,000 million will also be provided within a period of 3 years.
372. We are keen to ensure that these innovations are ultimately transferred into commercial successes. COSTI has identified 25 such projects that have the potential to succeed commercially. Some of these innovations include GoviNena, a mobile application to support efficient agricultural commodity production, Energy storage systems etc. Such innovations have a direct impact on the industry concerned as well as contributing to the sustainability of target sectors. High end equipment acquisition supported with accelerated depreciation etc. will be made available to any Company that will partner these innovations to be monetized. The government will also facilitate these ventures by providing land or any other resource based on the type of project.
373. I propose that the Nenasala's be upgraded to be Public Innovation Centers for entrepreneurship. As such Nenasala centers should be upgraded to include a 3 D printer, laser cutters and engravers, and other power tools which are vital for a typical fabrication lab. As such I propose to allocate Rs. 100 million to upgrade selected Nenasala centers in 2016. These upgraded centres in addition to their usual task of facilitating ICT empowerment will also drive local entrepreneurship and provide technology support to SMEs.
374. For Sri Lanka to develop high margin, value added, branded export products, registering trademarks overseas has become a necessity. To expedite the registration process and to reduce the cost of registration, it is proposed that Sri Lanka become a member of the Madrid System for international registration of trademarks, a body administered by the International Bureau of the World Intellectual Property Organization (WIPO). This was a request made by the industry. As such, I propose to allocate a sum of Rs.100 million to the Intellectual Property Office so that it can facilitate the accession to the Madrid system by amending the trade mark law and upgrading of physical and human capital.
375. I propose to entrust the Sri Lanka Inventors Commission (SIC) to formulate a strategy for promoting patent applications worldwide by promoting awareness among inventors on

benefits of international patent rights and identify prospective inventions to obtain international patent rights and make arrangements to provide financial and technical support to facilitate obtaining international patent rights. In this regard, I propose that the cost incurred by the inventors to be borne by the government up to a maximum of USD 100,000.

### **Protecting the Ageing Population**

376. Honourable Speaker, it is expected that the elderly population in Sri Lanka will be almost 20 percent of the total population in year 2020 vis a vis just 9.3 percent in 2000. It is widely recognized that the ageing population will have far reaching implications for the society and for the economy given the unique challenges that an ageing population will create including the significant additional demands for more organized aged care systems and the associated financing and delivery of services for needy elders. Honourable Speaker, we do not currently have a good understanding of the implications of the growing diversity among the older Sri Lankans and the demand for these services. The aged care market in Sri Lanka has not developed to the level of other middle income countries despite there being a growing demand for such services in existence. Thus a multi-pronged strategy which consists of the following are proposed:

- National Council for Elders will create a national policy on elders having discussed with all stakeholders. I propose to allocate a sum of Rs.10 million from the Consolidated Fund for this purpose.
- Honourable Speaker, you will also appreciate that skilled geriatric care professionals are in high demand globally as well as domestically. As such, to encourage national universities and private sector academic entities to offer courses and training programmes aimed at Geriatric care, any private academic entity that will offer internationally accredited courses aimed at geriatric care will be given 50 per cent tax reduction for a period of 5 years.
- Housing for the elderly also is in high demand, but critically weak in supply in the country. Half tax holidays will be allowed to private individuals and companies who engage in construction housing facilities especially focused for the elderly. As this is a worthy cause government will support such ventures by providing government land.

- I understand that Insurance Companies do not issue medical insurance covers to senior citizens, which appears to be a discriminatory for a segment of our society. Therefore, I compell all Insurance Companies to issue medical insurance covers to all citizens up to 75 years.
- Honourable Speaker, all citizens above the age of 65 years will be able to enjoy public transport, free of charge when the National Digital Identity (NDI) is issued.

### **Protecting the Children, Our Future**

377. Children are the foundation of sustainable development. The early years of life are important not only for individual health and physical development, but also for cognitive, social and emotional development. It is with this in mind that the government has now entered into an agreement with the World Bank on Early Childhood Development (ECD) project at a cost of USD 50 million or Rs.7,000 million.

378. Honourable Speaker, with the change in the structural transformation of the family - from extended families to nuclear families - along with the increasingly large number of working parents, the lack of reliable and good quality childcare has given rise to many complex issues. It is noted that often the childcare centers in operation also are not suitable for children with such centers lacking the required physical infrastructure to care for children properly and also caregivers not being formally trained for the job. I encourage the private sector to start childcare centers which will be regulated by the National Childcare and Protection Authority. I propose to allow such expenditure as qualifying payment.

379. Honourable Speaker, in the last few months alone we have heard heartbreaking news about young children being abducted, molested, raped and killed. I cannot reiterate the depth of the government's commitment to protecting children. None of these issues of childcare can be looked in isolation. Given the ramifications for the future, the following are proposed:

- The National Child Protection Authority (NCPA) will be mandated to create a governing regulatory framework to safeguard the needs of families and the children, an early Childhood Learning Framework and the National Legal and Quality Framework with the aim to provide quality, safe and caring childcare facilities and caregivers to the society. It is noted that the NCPA also will be strengthened as I believe their role has expanded tremendously in the recent past. For this purpose it is proposed to allocate Rs. 100 million from the Consolidated Fund.

- The country lacks skilled child caregivers. This in turn has had a detrimental impact on the society as a whole. The Sri Lanka Vocational Training Authority together with the NCPA will be allocated Rs.50 million to formulate accredited child caregiver training as a beginning.

380. At the same time should any private entity desirous of offering accredited courses on childcare, double tax benefits will be made available.

### **Postal Services**

381. Honourable Speaker, postal services around the world are faced with significant issues given the advent of email, internet marketing etc. Our postal service today too is faced with the same challenges. As such, to overcome such challenges, I propose to encourage the postal department to convert their businesses to provide courier services. Further, I encourage sub post offices that are uncompetitive, to diversify their operations to other businesses such as collecting of savings on behalf of Banks and to provide other ancillary services that would generate additional income to make them profitable units. However, I wish to reiterate that the government will continue the payments due under the present system to sub post offices.

### **Public Order and Safety**

382. Honourable Speaker, in order to improve the security, law and order at village level, I propose to increase the number of police stations to 600 from the existing 428 stations in consultation with the Minister of Law and Order and the Inspector General of Police (IGP) which will relate to an additional allocation of Rs. 1,000 million.

383. Honourable Speaker, our police officers offer their services under excruciating circumstances. They are often the first respondents in emergencies and provide numerous other services to our citizens. It is certainly required that they be provided continuous training in core policing sectors including modern traffic management systems, both domestically and internationally. In this regard I propose to strengthen the National Police Training Academy in the country. I propose to allocate Rs. 100 million for this purpose.

384. I note that the deployment of networked communications have become a strategic asset on which Police can coordinate its emergency responses and enhance communication between

state agencies and citizens. For the implementation of this I propose to allocate Rs.250 million.

385. Our government certainly recognizes the services rendered by the police and will undertake to address the salary issues in the police service within a period of 2 years. For this purpose I propose to allocate a sum of Rs.3,000 million for 50% of the due payments.
386. Further, each police station will be regarded as a separate cost centre which will result in better financial discipline.

### **State Owned Enterprises**

387. State Owned Enterprises (SOEs) remain a very significant part of the government economic strategy in so far they have monopolistic control or a significant control in key sectors such as power and energy, ports and airports, airlines, water supply etc. The government reiterates that no SOE will be privatized simply as a means to increase revenue. Instead, the government is keen to follow a more strategic approach, where the SOEs will be strengthened and made independent.
388. As such, initially all SOEs will be brought under a Government owned holding company formed similar to that of the Temasek Holdings of Singapore. This public company would be operated based on sound financial principles and market economics. The shares of these enterprises will be passed onto a Public Wealth Trust (PWT), where the Secretary to the Treasury and the Governor of the Central Bank will be the custodians. This Trust will be managed by a Board comprising of members from civil societies, trade chambers, and trade unions, who will be nominated by the Constitutional Council. The PWT is answerable to Parliament. A new Public Enterprise Act will be enacted to provide the necessary legal framework to this effect.
389. The Boards of SOEs will be strengthened with the appointment of professionals. Key SOEs will be allowed to operate and be evaluated based on Key Performance Indicators (KPIs). Key SOEs will also be encouraged to adopt a rating mechanism which will also facilitate the entities to access the domestic and foreign capital markets through various instruments for their capital requirements.

390. Having recognized that a robust regulatory mechanism is vital in developing self-reliant SOEs, Government will also provide legislative backing to broaden and strengthen the Public Utilities Commission of Sri Lanka (PUCSL) to include the National Water Supply and Drainage Board (NWSDB) and the Ceylon Petroleum Corporation (CPC) enabling a more cost reflective transparent pricing mechanism.
391. It is noted that the government's policy in SOEs will be driven by the strategic placement of its investments in relation to the economy. The portfolio of investments of the government includes not only SOEs engaged in maintaining and controlling key strategic infrastructure in power generation, transmission, ports, airports, water supply etc., but also investments in hotels, condominiums, etc. that are non-strategic. As such, as stated by the Honourable Prime Minister in his address on this floor, the government is keen to streamline its portfolio of investments and will therefore exit partially or fully from those non-strategic investments in Lanka Hospitals, Hotel Developers PLC (Colombo Hilton), Hyatt Residencies, Waters Edge, Grand Oriental Hotel, Ceylinco Hospital and Mobitel by listing such investments in the Colombo Stock Exchange during 2016. The monies generated through such listings will be used to retire high cost debt accrued by the Rajapaksa regime. I note that the strategy of this government is not one sided in so far that while the government will not hesitate to exit from non-strategic assets, nevertheless the government will monitor the market and will also not hesitate to invest in strategic assets locally and internationally should it align with the economic policy of the country.
392. Honourable Speaker, I note that the Lak Sathosa which could have been an effective price stabilizer is today operating with an accumulated debt of Rs.8 billion, incurred mostly through unwise political decisions such as the import of rice from Bangladesh at Rs.75 per kilogram and selling it at Rs.50 per kilogram. Lak Sathosa must be used as a conduit to ease the cost of living of our people. As such, as a part of the strategy of revitalizing Lak Sathosa, its debt will be restructured. At the same time distribution network will be expanded with increasing the number of outlets upto 500 for which I propose to allocate a sum of Rs.1,000 million.
393. Honourable Speaker, I propose to establish, a Special Purpose Vehicle (SPV) for the Southern Expressway and the Katunayake Expressway. Private investors will be invited to investment into the SPV for which the government will guarantee a minimum return. The

funds generated from the investments in the SPV will be utilized to clear the debt that our country is saddled with.

394. I also propose to establish a SPV for the Norochcholai coal fired power plant to be securitized. I emphasize that the ownership structure of power plant will not change but the CEBs liquidity position will improve and thus enable its expansion activities.
395. The Ceylon Petroleum Corporation will collaborate with investors to form a company that will manage the oil tank farm in Trincomalee which at presently under-utilized. This facility will be operated as a bonding warehouse.
396. Honourable Speaker, His Excellency the President and the Honorable Prime Minister has instructed that salaries and allowances paid to all Chairmen's and Directors on the Boards of SOE's to be specified. I note that instructions to this effect have been issued before, but was breached. However, from 01 January, 2016, regulations issued by the Treasury should be strictly adhered to.

#### **Aviation Sector**

397. Government will pursue an open sky policy with restriction free traffic and I invite the international airlines to make Sri Lanka a preferred destination.
398. To improve the domestic air transportation, three new domestic airports will be established at Digana, Badulla and Puttlam through a PPP arrangement.
399. Honourable Speaker, there is considerable travel between Africa and East Asia and it is estimated to grow substantially in the next 10 years. As such, I propose to the Sri Lanka Tourism Promotional Bureau, together with the international Airlines to create strategies to attract these tourists and entice them to stopover in Sri Lanka in their travel from East to West.
400. With a view to promoting domestic tourism in the country, I propose to exempt airlines using domestic airports from ground handling charges and other fees. They will be liable to pay only a license fee of Rs.1.5 million per annum.



401. Honourable Speaker, I propose to increase the over flying charges of commercial planes by 20 percent from 01, January 2016.

### **SriLankan Airlines**

402. Honourable Speaker, the SriLankan Airlines has been badly managed since the management was taken back from Emirates. Their total debt stands at Rs.158 billion, of which 72 percent relates to the last 3 years of the previous regime. This could be mainly due to corruption, cronyism and poor management. To point blankly state so is an injustice to the tax payers of this country and also an understatement. This accumulated loss could have financed 45,000 buses, 25 fully fledged universities, 40 fully equipped modern hospitals and 48,000 houses. Unfortunately the revival process of Sri Lankan Airlines also has been pedestrian.
403. Honourable Speaker, we will restructure and reposition SriLankan Airlines, with professional management inclusive of local and foreign experts to be a regional airline focused on profitable destinations.
404. I assure this august house that there will not be any political interference at SriLankan Airlines and that we will turn around this entity towards making it a regional leader and successful profit making national airline. The government will fully commit to this revival process and will honour all the obligations however, unpalatable they are.
405. Ground handling and catering operations which at present are profitable will be managed as separate institutions serving all airlines. They will operate as independent entities running as common service provider to all airlines.

### **Mihin Lanka**

406. Honourable Speaker, Mihin Lanka is also another relic of the Rajapakse regime that has become a drain on the state coffers. We have already initiated a restructuring plan where, Mihin Lanka will be positioned as a “no frills” budget airline. Mihin will concentrate its operations mainly on domestic routes and will limit its operations to selected international routes.

### **Mattala Airport**

407. Honourable Speaker, the Mattala Airport has become a white elephant. The country has become indebted due to the loans taken for the construction of the Airport. Our

government is keen to turn around Mattala through a private public partnership, where the airport will be utilized for pilot training, logistic aero warehouse activities, cargo services etc.

408. I also propose to utilize the Mattala airport as a cargo hub, especially for air freight. In order to encourage these activities, I propose the throughput charges to be fixed at USD four (04) cents per kilogramme. I invite integrated courier companies to utilise Mattala airport for their hub operations.

409. I propose to encourage the private sector to set up flying training school and Maintenance, Repairs and Overhaul (MRO) facilities within the Mattala Airport.

### **Effective Social Security Networks**

410. Honourable Speaker, this government is committed to ensuring strong social protection and safety network mechanism in the country to protect the most vulnerable in the society from various contingencies. The household transfers are ever ballooning; a case point being in 2015 the total budget allocation amounting to Rs.383 billion while in 2016 the proposed allocation has increased to Rs.420 billion. These household transfers include social security schemes such as Samurdhi, fertilizer subsidy, pensions, etc. However, you will no doubt agree that these schemes are riddled with issues of inefficiency and sub optimal effectiveness in reaching those who actually require assistance. The irregular identification of beneficiaries has led to rising malpractices. Coverage of these social safety networks is restricted only to a limited number of contingencies that are faced by the population.

411. I believe that its time that we review these schemes. Honourable Speaker, the two key issues I believe which ails social protection schemes are the proper identification and seamless transfer of benefits which can be addressed within the ambit of the Welfare Benefits Act. To strengthen this mechanism I also propose that our social networks consisting of senior citizens and dignitaries together with the Grama Niladaris be included to assist the government to identify those who actually needs to be included in our social protection schemes. I also propose to effect all such payments through the banking system which has significant branch outreach in the country. This method which is fairly transparent will allow a seamless transfer of benefits without interference, leakages and corruption.

412. Our Government believes that all social security schemes be monitored under one entity under the Ministry of Home Affairs.
413. I am confident that this rationalization of schemes will allow us to ensure more benefits to those vulnerable groups of our society covering not only the traditional aspects of assistance for the differently-abled, healthcare, support for education and elderly benefits, but will allow expansion of our social safety network to cover the contingencies arising from issues such as loss of employment as well.

### **Public Finance**

414. Honourable Speaker, we will enforce strict regulations with respect to all state purchases. As per the Policy Statement made by the Prime Minister, a Central Procurement Secretariat will be established which will oversee the awarding of tenders and will handle all purchases over a specific value.
415. Last few years, most of the projects were carried out through unsolicited proposals without adhering to transparent and competitive procurement procedures. Due to this, the country had to pay colossal sums of money for certain projects. There would be a committee appointed to educate and guide companies and contractors on the method that should be followed in applying for state tenders.
416. Honourable Speaker, I wish to reiterate that no company or state owned enterprise, fully or partly owned by the Secretary to the Treasury will be allowed to make investments in subsidiaries and associates without the written approval of the Secretary to the Treasury. At the same time, no Ministry or Department will be allowed invest in any company without the written approval of the Secretary to the Treasury.
417. Honourable Speaker, I also propose changes in the fees applicable for tender related submissions.
418. Honourable Speaker, Brass, Copper and Steel unused items lying idle in the form of scrap at Ministries and Departments should be offered for sale through a transparent tendering or auctioning process. It is estimated that proceeds from the aforementioned will be around Rs. 1,500 million from sale of brass and Rs. 1,000 million from the sale of steel.

419. I propose all the Chief Accounting Officers and Accounting Officers including Revenue Accounting Officers in the public sector entities to review fees and charges levied by different government entities every three years.
420. The Honourable Speaker, the truth is that the government assets have been mismanaged. I therefore propose that a National Asset Register be maintained at the Department of Public Finance.
421. Honourable Speaker, I am aware that budget implementation needs to be improved. As such I urge all Ministries to monitor the budget implementation from the beginning of January 2016 and ensure that commitments exceeding allocations are not made and that every Rupee allocated is stretched to the maximum so as to provide a better service to our people.
422. Honourable Speaker, I propose to increase the guarantee limit under the Fiscal Management (Responsibility) Act (FMRA) from current 7 percent of GDP to 10 percent of GDP, and to enable the issuance of guarantees to Public Private Partnerships in which the government holding is less than 50 percent, at a fee. Regulations will be issued enabling the issuance of Treasury Guarantees on a fee basis.

### **Improving Treasury Operations**

423. Honourable Speaker, we are committed to enhancing revenue in the country. In this context we will be establishing a Revenue Efficiency and Investigation Unit at the Treasury, to investigate all revenue related matters Customs, Excise, Inland Revenue and Valuation.
424. Inland Revenue Department (IRD) finds it difficult to function efficiently with the expansion of their activities due to the lack of space in the present building. A new state of the art building which can house the Inland Revenue Department, Excise Department, Postal Department and the National Lotteries Board will be constructed at the Tripoli market. I propose to allocate a sum of Rupees 2,000 million for this purpose.
425. Honourable Speaker, as per Article 148 of the constitution the Parliament shall have full control over public finance. While all matters relating to public finance should be reported to Parliament, I note that there are several non-statutory Funds that have been established under several Ministries/Departments and SOEs outside the Consolidated Fund that are

managed by individual agencies with no direct control over receipts and expenditure by Parliament.

426. In order to ensure that all public funds are under the control of the Parliament adhering to established procedures, it is proposed to review all statutory and non-statutory funds which amount to almost Rs.80 billion. Such review will enable us to understand whether the existence of such funds, are justified in the current context. Further, wherever their existence is warranted, statutes of such funds will be amended to reflect present day requirements. Accordingly, the proceeds and expenditure of all funds will be brought under the Parliamentary control, for which necessary legislation will be introduced.
427. Honourable Speaker, outstanding dues and unsettled claims on various goods, works and services procured extending to over several years, up to 31st of December 2014, by the Government institutions for infrastructure development projects ranging from mega scale constructions to small scale constructions have accumulated from years as far back as 2011. To establish the validity of these claims, I propose to appoint a committee comprising of retired Secretaries to the Ministries to make recommendations in respect of outstanding contract commitments.
428. Honourable Speaker, utilization of foreign funds delay due to various factors. It consumes a period of around 5-6 months for the process to be completed. In this background to strengthen to the Ministry of Finance, I request the Honourable Attorney General to release three officials on secondment basis to the Treasury.
429. Honourable Speaker, the task of public sector financial management is becoming increasingly complex in Sri Lanka. Competent Public financial management has become a requirement of utmost priority to the Government. An entity to train officials of the public financial sector has been absent in the past. Therefore, no mechanism is available in the country to award professional qualifications in the sphere of public financial management presently. Consequently, state sector financial management officials are compelled to obtain their professional qualifications from the professional institutions which are mainly focused on private sector financial management.

430. In this context, I would like to propose to establish an Institute under the Ministry of Finance to provide professional qualifications to public sector Accountants. As such I propose to allocate a sum of Rs.50 million for this purpose.
431. Honourable Speaker, the activities of the Treasury has now expanded. They require specialist departments to make effective contribution. As such, we will be establishing two departments i.e. Financial and Capital Markets Department and Private Enterprise Affairs Department to deal with capital market activities and another to be the conduit between the government and the private sector.
432. Honourable Speaker, we do not have a proper space management policy in the country. As a result, public sector delivery has become severely compromised. Hence, I propose to create a Space Management Unit to ensure better space management in government offices.

### **Public Administration**

433. Honourable Speaker, this government promised to ensure that the independence and the dignity of the public servants of this country will be protected and we delivered. An Independent Public Service Commission has been appointed. Politicization of the public sector is an occurrence of the past.
434. We promised all public sector servants the highest ever increase in their salaries by Rs.10,000 per month. I wish to reiterate that we have delivered as promised. It is now time for the public sector to also to deliver. The aspirations of our people must be fulfilled. I regret to note that public sector delivery has remained below par. It must be corrected. Productivity remains a serious issue hampering overall economic growth in the country. Proactive bureaucracy needs to be the way forward.
435. I propose to create a pool of public servants drawing from government entities with an excess and redeploying them into public entities that has deficit of personnel.
436. Honourable Speaker, the government spends a considerable sum on the purchase and maintenance of vehicles due to high cost and inefficiencies involved. As such, I propose not to purchase vehicles but instead obtain vehicles on an 'operational lease' where the lessor bears all the maintenance expenditure including insurance premiums and other fees related to vehicles. However, officers who wish to use their own vehicles will be granted a

maximum allowance of Rs. 50,000 per month in addition to the fuel allowance. This new methodology will yield saving of at least Rs. 10,000 million per annum.

437. Honourable Speaker, I note that public sector delivery has been mediocre. Official letters go unanswered for months. As such, I propose that all correspondence be acknowledged at least within a period of 5 working days which will be monitored by the Ministry of Public Administration and Management.

438. Our missions overseas should be strengthened. In this context I propose to provide those serving in these missions with extensive training. At the same time as at present the government bears 75 percent of the cost of the education provided to children of the officials of missions while the balance 25 percent is borne by the parents. The government will bear the total cost of the secondary school education for the 1<sup>st</sup> child and from the second child onwards the government will bear 80 percent of the cost. For this purpose I propose to allocate a sum of Rs.150 million.

439. I note that the public sector cadres do not reflect and are not fully geared to face the many challenges presented in the modern world we live in. As such our government is of the view that the public sector cadres should be reviewed every 5 years.

440. Honourable Speaker, I also wish to state that all public servants who have made a payment towards the purchase of a Motor Cycle will be ensured that their requests will be granted.

441. Honourable Speaker, I propose to make a lump sum payment per person of Rs. 250,000/- to July strikers. I allocate Rs. 500 million for this purpose.

## **Justice**

442. Honourable Speaker, our Courts are overflowed with cases been heard for many years. This is prevalent in almost all the courts with verdicts being delayed. I note that "justice delayed is justice denied". Hence it is imperative that we expedite the process at the commercial courts as it will have a significant impact in improving the investment climate. I urge the commercial courts to expedite the process and resolve cases at least within 6 months. Hence, to improve the court administration and automated case management systems utilising audio recording, I propose to allocate Rs.500 million for this purpose.

443. Honourable Speaker, at present our courts do not have a system of two shift per day. Introduction of such a two shift system will ensure that cases could get resolved expeditiously.
444. I also urge the Ministry of Justice to examine the existing laws and propose amendments where ever necessary. For the purpose of legal reforms, I propose to allocate a further sum of Rs.500 million.
445. I also propose to allocate a sum of Rs.500 million to strengthen the capacity of the Judicial Training Institute, increase the number of judicial officers and capacity building of the office of the Attorney General, Legal Draftsman and the Government Analyst's Department.
446. I believe that the necessary infrastructure to make Sri Lanka an arbitration centre is in existence. In this regard, I urge the authorities to expedite the necessary processes to utilise this infrastructure to commence dispute settlement and arbitration.

### **Superannuation Funds**

447. We as a government must ensure that the retired workforce live in a happy environment on retirement considering the contribution they have made to the country's development during their active working period. There were 156 Approved Provident Funds and Contributory Pension Schemes (APPF) with 168,900 members in 2014. The total assets and investments of these APPFs were Rs.151 billion and Rs. 117 billion, respectively, at the end of 2014.
448. The existing regulation and supervision of APPFs by the Commissioner General of Labour is weak, and therefore, the savings of members in such funds could be at risk. Hence, there is a need for a new regulatory and supervisory system with prudential and governance standards to ensure the safety of member funds. Therefore, I propose to entrust the regulation of these pension funds to a regulatory body of Sri Lanka. I also propose to introduce legislation on the regulation of superannuation funds.
449. Honourable Speaker, the cost of providing pensions under the present unfunded pension system of the government has expanded significantly over the years. The rapid aging of our population and related developments have aggravated this issue. Thus, re-evaluation of current pension has become a priority, while undertaking that the government will continue



with the existing pension scheme for the government employees, a new contributory pension system will be introduced to new recruits to the public sector from 01 January 2016 which would ensure a pension at their retirement. The contributions will be directed to a Public Pension Fund.

450. Honourable Speaker, as indicated the Honourable Prime Minister's economic policy statement made reference to the amalgamation of the EPF and ETF, I wish to inform this house that such strategy will only be pursued once a consensus has been reached between the government and the trade unions.

451. I also propose to provide a health insurance scheme covering accidents, critical illness and surgeries up to a maximum of Rs.150,000 per child, to the children (up to the age of 18 years) of the members of EPF, at a nominal contribution of Rs.100 per month, per active member.

### **Women Empowerment**

452. Honourable Speaker, women constitute more than half of our population and are engaged in the key sectors of our economy, ranging from tea to garments and extending to foreign employment. Yet their representation in the legislative bodies of our country is minimal. Therefore, our government proposes to increase the representation of women in elected political institutions to 25 per cent.

### **Optimizing Potential in Business Process Management (BPM)**

453. Honourable Speaker, it is estimated that the BPM sector will generate export revenues of USD 1 billion and 100,000 employment opportunities by 2016 and by 2020, this industry is estimated to be able to generate USD 5 billion of export earnings. AT Kearney has ranked Sri Lanka among the top 25 destinations in their global ranking in relation to the final three consecutive rankings carried out. Gartner has ranked Sri Lanka among its top 30 global locations for BPMs.

454. In achieving the aforementioned the country will need a considerable number of skilled IT professionals. As such, I invite internationally recognized IT educational entities including IT Universities into the country and propose to continue the tax concessions that such companies are privy to at present. These universities will be established as a PPP

arrangement and government contribution could be by way of land or other infrastructure facilities.

455. Honourable Speaker, to say that the Sri Lankan IT, BPM industry has been operating below the radar is an understatement. It is time to make a statement to the world that the country is in business, and showcase the true potential in the industry. As such, to create the enabling environment to facilitate the takeoff in the IT industry, it is proposed that the country undertakes an international promotional and bench marking exercise for which the government, through the Export Development Board (EDB), will provide 50 percent or Rs.100 million out of the total budgeted cost of the benchmarking and promotional activity while the Sri Lanka Association for Software and Services Companies (SLASSCOM) will match the effort by infusing another Rs.100 million. An oversight Committee consisting of SLASSCOM officials and government officials will engage in overseeing this activity.
456. **Business Start-ups** – Honourable Speaker, growth cannot be achieved without innovation and entrepreneurship. Our young graduates who are the cream of the crop possess innovative ideas but since accessing capital in Sri Lanka is a difficult task, majority of such entrepreneurial ideas do not get translated into a commercial venture. Therefore to address the issue of lack of capital and encourage university graduates to build their own companies, it is proposed to initiate a loan scheme through the state banks that provides loans up to a maximum of Rs1.5 million per viable idea per person with a tenure of 3 years. The facility to be made available to at least 1,000 graduates. These advances will be granted based purely on the business plans and will not require any collateral. The proposed business plans will be evaluated by a committee consisting of university professors, industry professionals and government officials operating under the EDB. The loans will be fully guaranteed by the government. It is hoped that we will be able to create at least 100 business start-ups per annum.
457. It is noted that the government is keen to stimulate the start up eco system. As such, local and foreign companies with a domestic presence, angel investors, who also partner startup companies of graduates and any other potential startup entrepreneur by providing funding, coaching and mentoring will also be considered for investment concessions.
458. Honourable Speaker, you will no doubt appreciate that not often does the government actively partner the industry in this manner, but this is a good example that the government

is actually "walking the talk" in facilitating the private sector to be the "engine of growth" in the country.

### **Proposed Legislative Amendments**

459. Honourable Speaker, today, purpose of attainment, speed and efficiency and accurate decision making are crucial and indispensable to attain economic development and social justice. Our Government is committed to review our Laws and Legal Systems in order to make such reforms as necessary to establish a system that will administer justice in practice and efficiently manage the resolution of disputes and litigations in weeks if not months, but certainly not extending up to years. We expect that the improvements in the efficiency of our Legal Systems will be a considerable boost to the National Economy and a significant aid to the fulfillment of our development goals.
460. My Ministry has already initiated a process to review laws within the purview of or connected with our functions. These include Exchange Control, Taxation, Customs, Excise, EPF and ETF, Land (Restriction on Alienation) Act, Revival of Underperforming Enterprises and Underutilized Act, Welfare Benefits Act and the Public Contracts Act. I also wish to note that we do not have formal regulations in respect of PPP. Therefore I propose to issue guidelines in the interim until proper legislation be enacted to facilitate an accepted legal environment for PPPs. Further, the Government incurs considerable expenses when compelled to have recourse to or is forced into international arbitration. Such Arbitrations often cost in excess of Rs. 100 million. We support the establishment of an International Arbitration Centre in Sri Lanka as advocated by the Ministry of Justice. We are already providing the necessary resources for its establishment and will in the future provide instructions to Government institutions to avoid international arbitration wherever possible.

### **Transport Sector**

461. Honourable Speaker, the transport sector needs urgent revamping. Our roads are congested with traffic, with no formal traffic management options being adopted. The regulatory mechanism has not kept up with the developments of the sector.
462. In this respect, I propose to introduce legislative amendments to expand the scope of the National Transport Commission (NTC) Act to include the regulation of three wheelers, taxis, school vans and cargo transportation vehicles.

## **Road Transportation**

463. Honourable Speaker, at present the Sri Lanka Transport Board (SLTB) spends at least Rs. 4.5 million on the purchase of a bus. However, the old chassis of SLTB are presently sold as scrap which could be used to manufacture buses which I understand could be done at a fraction of the cost spent otherwise on purchasing buses, thus generating savings. Therefore, I urge the SLTB to explore the possibility of partnering with local companies that has the capacity to build road worthy buses. This process will save around Rs. 1.5 million per bus and we expect to save Rs. 10,000 million per annum.
464. I also propose that the all state sector agencies dispose of their unutilized dilapidated vehicles through the tendering system to ensure that public assets are not wasted.
465. Honourable Speaker, almost every day we hear of accidents involving three wheelers. Three wheelers have contributed to improving mobility in the country, but I believe that it is time that we also encourage upgrading the vehicles to four wheelers with 280 cc capacity.
466. Honourable Speaker, to save energy and minimize environmental pollution, I encourage the three wheeler owners to convert their vehicles from fuel to electricity. Therefore, I propose to make available a concessional loan of Rs 150,000 for the conversion purpose, for fare-metered three wheelers. I propose to allocate Rs. 50 million for this purpose.
467. I also propose to install a traffic encoder free of charge into every registered vehicle in the country. This will help better management of traffic, deter theft and improve security. As such I propose to allocate a sum of Rs.500 million for this purpose.

## **Railways**

468. Honourable Speaker, we have 1,567 km of railway lines in the country. Of this on a considerable length of railways during a day, only a few trains will travel for the entire day. As such, it is proposed to allow railway track sharing with the private sector to use the railway tracks at a fee for the purpose of transporting goods and for tourism. The revenue generated from this will be utilized to strengthen the management of railways and upgrade its infrastructure. Honourable Speaker, the Railways is endowed with a significant amount of assets that are not optimally utilized. As such, I propose to establish a "Railways Development Council" comprising of 5 members appointed by the Government to identify strategies to improve the yield of the underutilized assets.

469. I propose Sri Lanka Railways too to follow the same procedure that SLTB adopts for reusing of bus-chassis, for its old railway carriages. The rolling stocks savings from conversion of condemned scrap to carriages amount almost Rs. 6,000 million per annum. Further, this will save foreign currency as this will be an import substitution and also create a new local industry.
470. Considering the demographics, the Kelani Valley line will be modernized where the speed and the carrying capacity will be increased for which I propose to allocate a sum of Rs.1,500 million.
471. Honourable Speaker, "Park and Ride" facilities attached to both railway stations and bus stations will enable better traffic management and also facilitate the commuters in the country in terms of comfort and cost. As such I propose to allocate Rs. 1,000 million to the Ministry of Transport to engage in the improvement of the railways, bus transport in selected towns such as Jaala, Avissawella, Panadura, Kadawatha and Piliyandala. When the concept of "Park and Ride" is established the vehicles coming to the city will be required to carry a minimum of 4 passengers and any vehicle that does not will be imposed a fee. This mechanism will be implemented before the end of September 2016.
472. At the same time we encourage freight transport by railways which will reduce the cost of transport.
473. Honourable Speaker, I also propose to improve the speed of the Jaffna Railway line from Maho to Vavuniya for which I propose to allocate a sum of Rs. 200 million.
474. **Monorail** - I also propose to encourage the public sector to partner the private sector to build and operate monorail projects connecting Negombo- Katunayake- Colombo and Colombo- Kaduwela.

### **Transportation on Waterways**

475. Honourable Speaker, given the availability of waterways specially in Colombo, I invite the private sector to initiate transportation options utilizing such resources.
476. Given that the necessity to diversify and supplement activities for tourists, the private sector is encouraged to introduce hovercrafts and other water based sports options into the

country. Such crafts could be operated from Chilaw to Colombo, Colombo to Galle and tanks such as Parakrama Samudraya.

477. To improve water transport in the country, I propose to allocate Rs. 250 million.

### **Shipping**

478. Honourable Speaker, given Sri Lanka's geographical location is in close proximity to the key shipping routes that connect the East to the West, and as such the potential to create a Maritime Hub is enormous.

479. In that context, it is important that we augment into the global value chain and a maritime hub offers greater opportunities. In this regard, it will be important to create the enabling environment to attract ship owners into the country and in a manner to build a maritime economy.

480. The business of trans-shipment and non container related shipping has to be increased to maintain a major trans-shipment hub. Hence, we need to set a realistic target to be within the top 20 trans-shipment ports in the world by 2025.

481. The terminal operators will be dependent on the ship owners for this purpose and the country will need the business to grow to recover the investments made in the sector through public investments. The government will also encourage ship financing, ship repairing, ship registry status, bunkering, arbitration and allied services which would be governed by modern laws. The competition for such business is increasing in the region.

482. Honourable Speaker, considering the country's geographical location, there is immense potential to engage in sea marshalling activities. In this regard, I encourage the private sector to venture into suitable collaborations with Sri Lanka Navy.

### **Logistics**

483. Government will remove restrictions on Global Logistics Companies, which have the scale, capacity, capital and knowledge to expand services using Sri Lanka as the hub, they should be able to invest, acquire and operate within a reasonable tax regime where new capital, business and employment is generated to the local economy via global trade. Also,

regulation will be issued to stipulate designated areas for logistics hub and these areas will be strictly outside the BOI zones.

### **Freight Forwarding**

484. Entry into international freight forwarding will be liberalized so that foreign participation could extend up to a maximum of 75 percent with a minimum investment of USD 5 million. But such companies should have at least 90 percent of local employment. Also I propose the freight forwarding activities to be expanded to sea ports as well and to operate jointly with the Sri Lanka Ports Authority. To encourage skills development and training in shipping related activities, I propose to grant tax concessions on training and related equipment.
485. Honourable Speaker, I propose to allocate Rs.50 million to strengthen the activities of Indian Ocean Marine Affairs Cooperation.
486. Honourable Speaker, it has been brought to my notice that the container vehicles entering the Sri Lanka Ports Authority premises are subject to bureaucratic red tape. I therefore propose to liberalize the vehicle movement activities and introduce a license fee of Rs.100,000/- per vehicle per year.

### **Industrial Estates and Parks**

487. Honourable Speaker, we have 27 industrial estates in the country. The facilities in these estates have not been upgraded thus hampering the activities of the industrialists. Hence, we will introduce necessary measures to rehabilitate and upgrade these estates. In addition, we will establish Industrial Development Zones (IDZs), in Hambantota, Raigama, Mahaoya and Trincomalee along with Information and Agricultural Technology Zones (IATZs) in Kandy. I propose therefore to allocate Rs.500 million to rehabilitate and improve the facilities in these estates.

### **Water Supply**

488. Honourable Speaker, I note that access to pipe borne water is only about 44 percent in the country. Our policy is to enhance access to pipe borne water to 60 percent by 2020. Government has undertaken 29 large scale water supply projects all over the country at a cost of Rs 94 billion. At the same, time 5 major sewerage projects are also being implemented in the country to improve related facilities.

489. Honourable Speaker, as part of the accelerated programme to prevent the spread of CKDu in the country, RO Plants (Reverse Osmosis Plants) will be issued to those areas where pipe borne water is unavailable.

### **Roads Network**

490. Honourable Speaker, you are aware that the Honourable Prime Minister laid the foundation stone for the construction of the Central Highway in early this year. Work on all 4 sections of the highway will start simultaneously with one section being allocated to local contractors.
491. Honourable Speaker, I propose to allocate Rs. 15,000 million for the expansion of the road network which includes the expansion of the Ruwanpura Expressway, extension of Marine drive up to Panadura, extension of the Pamankada-Ratmalana Road, new bridge construction over the Kelani River, reconstruction of 25 bridges and 3 flyovers etc.
492. We also plan to construct an elevated road from Cotta Road to Kaduwela on BOT basis. I also wish to commit a sum of Rs.10,000 million to be the government contribution.
493. We will be constructing a new access road from the Kelani Bridge to the Colombo Fort improving access to Fort. I wish to allocate a sum of Rs.4,000 million to be utilized within a period of 2 years.

### **Connecting the Country –North East Expressway**

494. Honourable Speaker, we will expand the Central Expressway to connect Dambulla, Polonnaruwa, Mullaitivu and Jaffna under a public private partnership, "Infrastructure Development Authority" (IDA).
495. Honourable Speaker, growth requires an integrated approach. As such, it is also planned that industrial parks be created along the proposed expressways, thereby adding value to the expressway. Accordingly, it is proposed to set up a Bio Technology Park which will house pharmaceutical companies, a product design engineering manufacturing park and an IT park and also agro and aqua culture parks along the expressway.
496. It is a known fact that tolls alone will not make expressways commercially viable. It needs to provide the backbone or be the artery for significant economic activities. As such, the expressway will not simply be a road from Colombo to Kandy and Jaffana. Instead the



expressways will have to be evaluated from a multiple view point together with the proposed commercial parks as well. In fact, this expressway will be an expressway of entrepreneurship and innovation.

497. It is proposed to allocate Rs.1,000 million in 2016 as seed capital of the proposed IDA. It is also proposed to provide guarantees to the IDA, should the company be engaged in raising debt finance domestically or internationally.

### **Irrigation Projects**

498. Honourable Speaker, we recognize that irrigation and water resource management is crucial in our policy to ensure self-sufficiency in food. As such, while I have already allocated Rs. 2,000 million for the rehabilitation and improvement of small scale tanks and canals, I propose to allocate a further Rs.1,000 million to expedite the Yaan Oya irrigation project..

### **Power and Energy**

499. Honourable Speaker, the electricity sector remains a vibrant investment segment of the economy. As such, investments into generation activities will be allowed without any restrictions.
500. Honourable Speaker, given the extremely high potential that exist in Non-Conventional Renewable Energy projects (NCRE), specially wind and solar power generation in the country, I encourage the CEB to partner with the private sector to harness such sources not only to meet the domestic requirements but also to export the excess. It is expected that such endeavors will enable the country to be less dependent on oil as well as providing cheaper electricity to the consumer.
501. I also propose that Letters of Intent issued by the CEB for Non-Conventional Renewable Energy projects (NCRE) that has already been issued but unutilized for more than 1 year as at 31. December, 2015 will cease to be operational.

### **Megapolis and Urban Development**

502. Honourable Speaker, haphazard planning in urban and township development has been a key feature of this country. It is in this context that the Honourable Prime Minister introduced the concept of transforming the Western province into a Megapolis showcasing Colombo as a model city. In this regard, government will introduce comprehensive

legislation on Megapolis development. A Master Plan relating to the Megapolis project is scheduled to be completed in 2016 and most of the projects will be implemented on Public Private Partnership (PPP) basis. I propose to allocate a sum of Rs.10,000 million for projects such as township development, urban solid waste management, etc.

503. **Urban Development** - Further, so as to improve access to clean water, provision of sewerage, and urban development, I propose to allocate Rs.2,500 million to the Ministry of City Planning and Water Supply.

### **Southern Development**

504. Honourable Speaker, the contribution to the economy from the Southern province is only about 15 per cent. However, I believe that there is much scope for improvement. As such, our efforts in Southern Development will be concentrated mainly on developing seaport and airport logistic support services, agro based industries, agriculture support services improvement, urban facility improvement, rural sanitation facility etc. For this purpose, I propose to allocate Rs.1,000 million.

### **Wayamba Development**

505. Honourable Speaker, I propose to allocate Rs.2,500 million for the implementation of drinking water projects, improvement of irrigation facilities, fisheries development etc. in the North Western Province.

### **"Pubudamu Polonnaruwa"**

506. Honourable Speaker, Pubudamu Polonnaruwa is an initiative of His Excellency the President. This is a comprehensive rejuvenating programme encompassing all sectors. This programme will cover the expansion of access to clean water, development of health care facilities, rehabilitation of tanks, improvement of school infrastructure and better sports facilities. It is also planned to integrate the Kaduruwela, Hospital Town, New Town and the Polonnaruwa ancient City into an integrated modern city. In addition to the Rs.2,000 million allocated for the proposed Kidney Treatment hospital in Minneriya, I propose to allocate a further sum of Rs.10,000 million.

### **North and East Development**

507. Honourable Speaker, our government is extremely cognizant of the grievances of the people in the war affected areas. The people of the North East has been requesting the government

to provide them with basic facilities during the last several years. While the government has committed to a significant amount of funds for the development of the war affected areas, we also plan to convene a Donor Conference in 2016, to generate support from bilateral and multilateral agencies to enhance the rehabilitation of the North and the East.

508. We are also committed to ensuring that the issues of the internally displaced people are addressed immediately. In this regard, we will initiate a rapid large scale resettlement programme for the internally displaced people and provide basic needs and livelihood opportunities to the already resettled families. In this respect, we will be building 20,000 houses especially in the Districts of Mannar and Mulativu, with proper sanitation facilities, access to clean water and electricity. Further, improvement of the construction of the Delft Jetty, renovation of roads from Velanai to Kayts, establishment of clinical waste management system etc., also will be accommodated. As such I propose to allocate a sum of Rs. 14,000 million for this purpose.

509. I also propose to establish through a PPP, a Red clay factory in Oddusuddan enhancing livelihood development in the area.

#### **Estate Infrastructure**

510. Honourable Speaker, over 160,000 plantation worker families still reside in the age old line rooms. Our Government will undertake housing programmes to build low cost houses and amenities for the plantation community for which I propose to allocate Rs.1,000 million.

#### **Strengthening Local Government authorities**

511. Honourable Speaker, I propose to allocate Rs.1,500 million for local government authorities to be utilized for the upgrading of infrastructure facilities.

#### **Special Projects**

512. Honourable Speaker, I allocate Rs.150 million to the recently instituted Ministry of Special Assignments.

513. Honourable Speaker, His Excellency the President and the Prime Minister were of the view that the Members of the Parliament should also be actively involved in the governance mechanism more so specially since this is a National Unity government. They were keen to

increase the decentralized budget to Rs.15 million per Parliamentarian. As such, I propose to allocate a sum of Rs. 3,375 million for this purpose.

### **Culture and Arts**

514. Honourable Speaker, we are committed to protecting our cultural and heritage sites for our future generations. At the same time our government is committed to promoting local arts and crafts and facilitates the showcasing of such talent internationally.

515. I also note that our artists including singers, composers and artists etc., who bring such joy and colour into our lives are often living in distressed conditions especially in their old age. I encourage the Association of Artists to initiate a mechanism for a contributory pension scheme for which I propose to allocate Rs. 15 million as the government's contribution.

### **Sports**

516. Honourable Speaker, our performance in international sports competitions has deteriorated gradually. Today, our sports bodies and associations have become inactive with politics seeping into the system. We are committed to changing this culture which has hindered the development of sports in our country.

517. Honourable Speaker, although we are a small country our young men and women have immense talents to excel in sports. However, it is unfortunate that we do not have a proper mechanism to identify talented sports men and women from a young age. We must introduce a culture of talent scouting or identifying such talent to be harnessed so that we will be able to produce sportsmen who will raise our national flag at international games of the future. I urge relevant stakeholders to rally together and commence work to fulfill this noble task. In these efforts, I propose that the total cost incurred by all national track and field athletes, and the sportsmen and women of a few other chosen fields and their coaches who will participate at reputed international competitions to be borne by the government.

518. I also encourage the private sector to set up training facilities including coaching in lagging regions for which I propose to allocate government land and concessionary credit facilities.

519. Given our commitment to developing sports, I also propose to discuss with foreign governments to engage foreign coaches to train our sportsmen and women to reach international standards.

520. I therefore propose to allocate Rs.1,000 million for the above proposals while removing import taxes applicable on sports goods.

### **Foreign Employment**

521. Honourable Speaker, we envisage an employment boom in the economy in the next 2 years. As such, I encourage the Sri Lanka Foreign Employment Bureau to engage with foreign countries who are desirous of employing our labour to agree to a minimum monthly wage of at least USD 300 for unskilled and semi-skilled migrant workers.

522. I note that while there's considerable demand for Sri Lankan workers, we are able to only meet 20 percent of the demand due to shortages in semi-skilled and skilled workers. As such, I encourage our youth to enroll in vocational training facilities to upgrade their skills which will enable them to be eligible for better paid jobs both internationally and domestically.

523. I also propose to increase the agent fee per worker collected by the Sri Lanka Foreign Employment Bureau to Rs. 15,000 per worker. All the migrant workers prior to departure should possess a bank account, insurance cover and information with regard to contact details.

524. I also propose to adopt a transparent and competitive bidding process to select the insurance agents who provide insurance coverage to migrant employees.

525. In order to appreciate Middle Eastern migrant workers' contribution to the country, I propose to operate two dedicated immigration / emigration counters at the Bandaranaike International Airport with "Commercially Important Persons" (CIP) status, for the Middle Eastern traffic.

### **A Strong Regulatory Framework for Sustainable Growth**

526. Honourable Speaker, while we are committed to promoting trade. I note that we are mindful of the requirement to protect domestic entrepreneurs and consumers from unfair trade practices and low quality goods and services. As such, we will expedite the enactment of the necessary regulation for Anti-dumping and countervailing.

527. Honourable Speaker, at present imported cosmetics and cosmetics manufactured and/or marketed in Sri Lanka are not regulated by any authority in the country. Hence, the general consumer is at a serious threat of using harmful cosmetics that may be imported from various countries and may be even produced by unscrupulous manufacturers in the country. Therefore, I propose to introduce legislations to regulate cosmetics and devices. In the interim, Consumer Affairs Authority will gazette regulations to make it mandatory for all cosmetic products to include total ingredients list using International Nomenclature Cosmetics Ingredients (INCI) at least in English language on all labels, including Ayurveda Cosmetics.
528. In order to ensure the quality of imported products such as milk powder, cosmetics, toiletries, shampoos etc., I propose that Sri Lanka Standards Institute, Industrial Technological Institute and Pharmaceuticals Research Laboratory be strengthened by increasing the technical cadre and the laboratory facilities for which I allocate Rs.200 million.
529. Honourable Speaker, I propose to establish a Competition Authority to regulate the market for anti-competitive behavior of businesses which includes unfair monopolies, dumping, exclusive dealings, price fixing, etc.

#### **Satellite Space of Sri Lanka**

530. Honourable Speaker, our satellite space which has not been used will be tendered internationally through a transparent procedure.

#### **Apparel Mall**

531. Honourable Speaker, the Sri Lankan apparel industry on their own has commenced the brand journey with a few companies entering into the arena of branding. In order to take the brand journey forward a need has arisen to operate a permanent exhibition centre where manufacturers will have their own stall with required facilities to offer only Sri Lankan branded goods made in Sri Lanka of comparable quality with labels and a complete range of products from head to toe.
532. The centre will offer a meeting place for domestic and foreign buyers for on the spot purchase or placing orders for the domestic market. Therefore, I propose to assist this brand journey by establishing a wholesale and retail mall exclusively for domestic apparel brands as a Public Private Partnership at a cost of Rs. 2,500 million where the Government

would offer a plot of leased land for the construction of a mall with a floor area of at least 400,000 square feet.

### **Insurance against Natural Disasters**

533. Honorable Speaker, during the last 12 months alone we have had natural disasters from storms to floods to earth slips. The loss of human life and damages to property has been significant. The government has incurred over Rs.500 million on average per year in compensating such losses and supporting the rebuilding efforts. However, there are still issues in this mechanism that has resulted in the victims of disasters not realizing their due compensation, delays in the processes etc. As such to overcome such issues I propose the entire country be protected against natural disasters, such as Cyclones, Storm, Tempest, Flood, Landslide, Hurricane, Earthquake, Tsunami and any other natural peril. . This natural disaster insurance will totally cover damages up to a maximum of Rs. 10,000 million with individual covers up to a maximum of Rs. 2.5 million and also Rs. 1 million life insurance. Search and rescue operations for the fishermen will also be covered by this scheme. I propose to allocate Rs. 300 million as insurance premium.

### **Maintaining Price Stability**

534. Honourable Speaker, since assuming office, on the 9th. January 2015, we managed to introduce concessions and benefits of hither to be unheard of proportions paving the way for a multitude of oppressed people to receive a fresh lease of life. The prices of thirteen essential food items were brought down including Milk Powder, Bread, Flour, Sugar etc. The prices of fuel reduced including the duties of small family vehicles, somewhat glutting the roadways with traffic but moreover providing an opportunity for Sri Lankan families to own a vehicle. LP gas prices were brought down by Rs.300 and increases in public sector salaries the highest historically, Samurdhi payments and other numerous concessions granted, drastically improved the disburseable income of the average Sri Lankan. Government was elected in order to reduce the cost of living.

535. As a responsible Government, I propose to reduce the price of 11 selected essential commodities as promised.

- Hon Speaker, the market prices of many food items will reach its maximum level during November to December compared to the other months in each year. Since the previous Government has not implemented any remedial action in order to manage such price fluctuations, the price of essential food commodities in the market have

increased rapidly today. By managing such fluctuations in order to provide consumers with a reasonable price for the food items while protecting the local farmers, I propose to reduce the Special Commodity Levy (SCL) of potatoes by Rs 25/- per kilogram. Accordingly, it is expected to provide a price ranging from Rs 75/- to 85/- for a kilogram of potatoes for the consumers. I also propose to reduce the SCL for big onions by Rs 25/- and to provide consumers with a price ranging from Rs 85/- to 95/- per a kilogram of big onions.

- As I have stated before, I also propose to reduce the price of a 400 gram packet of locally manufactured milk powder which is another main commodity to Rs 295/- and in order to cover the loss incurred by the local milk powder manufacturer, the Government will provide a subsidy of Rs 30/-. Considering the significance of the nutritional requirement of infants, I also propose to reduce price of infant milk powder by Rs 100/- per kilo.
- Hon Speaker, I also propose to reduce the price of a canned fish tin of 425 grams to Rs 125/-. Accordingly, I propose to provide a subsidy of Rs 15/- for a canned fish tin of 425 grams.
- Hon. Speaker, the consumer has to bear a high price for sprats which is another essential food item. The retail price of sprats oscillates varies considerably in the market. When Lanka Sathosa sells a kilo of sprats at a price of Rs 380/-, the retail sellers sells at a high price of Rs 800/- I propose to limit the maximum retail price of Sprats to Rs 410/- per kilogram. As a result of the intermediaries being prevented by accruing unnecessarily large profits, the consumers will be able to benefit significantly.
- The consumers have to pay a high price for Dhal, which is another main public food commodity since the intermediate sellers keep a high profit margin. Though the cost of importation is around Rs 130/- per kilo of dhal, the selling price of dhal in the open market is as high as Rs 220/- per kilo. Accordingly, I propose to implement a maximum retail price of Rs 169/- per kilo of dhal in order to provide a reasonable price for the consumers. To do so, I will completely remove the SCL imposed on dhal.
- Honourable Speaker, I also propose to impose a maximum retail price of Rs 1,100/- for a kilo of “Katta” which is the most consumer demanded dried fish variety and to



impose a maximum retail price of Rs 425/- for a dried fish kilo of “Salaya”. By doing so, I expect to protect the local dried fish producers and to provide consumers with a reasonable price for dried fish.

- Although the selling price of chick pea in the open market is high as Rs 220/- per kilo, the cost of importation per kilo of chick pea is as low as Rs 160/-. Accordingly, I propose to impose a maximum retail price of Rs 169/- for a kilo of chick pea in order to provide relief for the consumers.
- In addition, I also propose to reduce the price of a 12.5 Kg gas cylinder by Rs 150/- with immediate effect and to reduce the price of 1 liter of kerosene by Rs 10/- in order to provide relief for the poor. Stern legal action will be taken against the sale of kerosene oil mixed with other oil in order to prevent discrepancies faced by the poor.
- Hon Speaker, I propose to allocate a sum of Rs.3,000 million for the provision of these concessions. At the same time to ensure that the benefits envisaged from the reduction of taxes and the imposition of a price limit are passed on to the consumer as expected the effective and efficient functioning Consumer Affairs Authority (CAA) is crucial.

536. Honourable Speaker, I am sure you will agree that the increase in prices of imported commodities especially essential food items, is mainly due to the lack of proper supply chain management and unscrupulous middlemen. To overcome this issue I propose the CWE wholesale to collaborate with the private sector to be a wholesale importer of such essential items providing buffer stock food security to the nation. Private sector will procure from CWE for sale. CWE will give the critical mass to make it a viable proposition especially given that it has the required warehouse capacities. I am confident, that this endeavor will result in the prices of essential goods decreasing by almost 20 percent.

### **Project Monitoring**

537. I also wish to allocate Rs.200 million to the Ministry of National Policies and Economic Affairs to enhance the policy formulation and policy analysis mechanism of the country to enable better design and monitoring of development policies.
538. All branding activities that is undertaken as private public partnerships will be coordinated by the Ministry of National Policies and Economic Affairs.

### **Allowances**

539. Honourable Speaker, the allowance of Rs.10,000 per month that has been made available to the public sector employees as a promise of our government. This allowance and the previously granted two interim allowances will be considered for the pension payment at the time of retirement.

### **Corruption-free Country**

540. Honourable Speaker, as you know we now have a new Bribery Commission. Strengthening of the Commission to Investigate allegations of Bribery or Corruption is a key objective of our administration given our strong commitment to eradicate corruption from our country. As such I propose to allocate a sum of Rs. 500 million for this purpose.

### **Parliamentary Affairs**

541. Honourable Speaker, as you know our administration is committed to strengthening the parliamentary system especially through measures such as the strengthening of the oversight committees. For this purpose I propose to allocate a sum of Rs. 250 million.
542. I also propose to allocate a sum of Rs.50 million to the J R Jayawardene Centre to be utilized to strengthen the capacities of the members of the parliament.

### **Tax Policy and Tax Administration**

543. Honourable Speaker, we have now come to the most important sections of our maiden budget that is the strategy to find required revenue to finance many of the proposals I made so far in my speech. Honourable Speaker, as you are well aware, our tax system is outdated, complicated, complex and it is unattractive to investment and business development. It neither generate the required revenue nor encourage the people to save. Plethora of taxes coupled with a multiple band structure has complicated the tax system, tax administration and discouraged the taxpayers' voluntary compliance. Developments in the government revenue in past years show a rapid decrease, from 20 percent of GDP in early 1990s to 11.3 per cent of GDP by 2014. The urgent necessity to increase this ratio has been clearly identified by the government and we aim to achieve a revenue target of 17 percent of GDP by 2018. Hence, this government has recognized that a complete transformation in the system is necessary.

## **Simplification of Tax System**

544. At present, tax revenue is collected from around 35 types of different taxes and levies which has complicated the tax system. Hence, I propose the amalgamation of certain taxes which have failed to generate the expected revenue and to improve the revenue collection of the country. I also propose the elimination of certain non relevant nuisance taxes that prevail in the system which would benefit the tax payer as well as the business community. Accordingly, with a view to simplify the tax system, I propose to remove following taxes.

- Share Transaction Levy
- Construction Industry Guarantee Fund Levy
- Luxury & Semi-Luxury Motor Vehicle Tax
- Tourism Development Levy (TDL)

## **Income Tax**

### ***Corporate Income Tax***

545. Application of different rates on various sources and institutional source based exemptions for different sectors have become an issue for transfer pricing, tax planning and matters for interpretation due to ambiguities. In this background, I propose to restructure the present corporate income tax rate structure to a two rate band system with a higher rate of 30 percent and a standard rate of 15 percent. Higher rate will be applicable for the profit and income of betting and gaming, liquor, tobacco and banking and financial services, including insurance and leasing industry and the trading activities. All the other sectors will be subject to the standard rate of 15 percent. The identified long term concessions such as institutional, miscellaneous and other exemptions granted without having any policy rationale will be revisited.

546. In order to ensure that shareholders get a reasonable dividend for their investment, the minimum amount of dividend to be distributed by quoted companies will be increased to 15 percent of the distributable profits.

### ***Surtax on Tobacco, Liquor and Casinos***

547. Honourable Speaker, to avoid any undue benefit by tobacco, liquor and casino industries from corporate tax revisions and keeping in line with government policy of creating a society free of tobacco, liquor and betting and gaming, I propose to impose a surtax at the rate of 25 percent of income tax liability.

### ***Personal Income Tax***

548. Honourable Speaker, at present, employees whose annual income is over Rs.750,000/- is liable for PAYE tax which is a progressive tax. The maximum tax rate is 16 per cent. With a view to further simplifying the PAYE tax system and to ensure better compliance, I propose to amend the law applicable to the PAYE tax to ensure equal treatment to all employees. In order to provide concessions to employees, I also propose to increase the tax free annual threshold to Rs.2.4 million. The PAYE tax over and above this limit to be charged at a uniform 15 percent and the taxable income will be inclusive of all the earnings by the employee with no exemptions. This method and rate will also be applied for individual income earners instead of the present progressive rate of up to 24 percent. Further, any income from secondary employment will also be taxed at the same rate without any exemptions. Honourable Speaker, by applying prudent monetary and fiscal policies, Government has been able to maintain low interest rates during this year. This has immensely helped the public to obtain loans at low interest rates for investing in businesses enabling better returns. As a result, the interest earnings of long term depositors of cash suffered as the interest income has reduced. Hence, I propose to abolish applying 2.5 percent withholding tax on deposits with effect from 01 January, 2016.

### **Economic Service Charge (ESC)**

549. ESC is imposed as a levy for usage of infrastructure facility provided by Government. Presently, ESC is imposed only for loss making businesses or exempt businesses. In order to strengthen the collection of the charge and also considering the rationale of the imposition of ESC, the present exclusion of profit making businesses and the minimum threshold of payment of Rs 120 million per year will be removed and the applicable rate will be increased to 0.5 per cent. In addition, the period of carried forward balances will be limited to 3 years.

### **Value Added Tax (VAT)**

550. The VAT system in Sri Lanka is severely distorted due to the ad hoc policies adopted in time to time over the past few years. Under-invoicing of imports, leakages in the value chain and long list of exemptions resulted low revenue below expectation. Hon. Speaker, I propose to remove certain exemptions with the view to increase revenue. The present single rate will be revised to 3 bands 0%, standard rate of 8% and 12.5% higher rate for service sector and the minimum threshold for the liability for VAT will be Rs.12 million per annum. The wholesale and retail trade will be excluded from VAT.

### **Nation Building Tax (NBT)**

551. Hon. Speaker I propose to reduce the NBT threshold in line with VAT and the rate will be increased to 4% and certain exemptions will be removed. Revenue generated from the increase of rate will be transferred to the Consolidated Fund.

### **Betting and Gaming**

552. The casino entrance fee imposed in the last budget will be removed and the annual levy imposed on the business of gaming other than rujino, will be increased to Rs.400 million.
553. I also propose to amend the Finance Act to make directors and shareholders personally liable for non-payment or any act which is taken to avoid payment of Casino Industry Levy introduced in Interim Budget.

### **Tax Incentive Regime**

554. The government would also like to propose to do away with ad-hoc and unproductive tax concessions offered by different agencies as it has led to the existence of different tax regimes in the system, which has created un-competitiveness among the entrepreneurs. It has also created an environment where the tax regime is not compatible with the overall fiscal policy of the government. Thus, I propose that the concessions granted for any investment should be strictly under the supervision and monitoring of the Ministry of Finance which would be governed by regulations issued by the Ministry.

### **Revisions to Motor Vehicle Taxes**

555. Honourable Speaker, it is reported that there are over 6 million vehicles in service in the country. Road accidents are also on the rise. Hence, we must care about safety of passengers as well as environment concern about vehicles. Considering above facts, I propose following with regard to motor vehicles.

#### ***Unit Rate on Excise for Vehicles***

556. Honourable Speaker, due to the reports on revenue leakages from the under valuation of motor vehicles for tax purposes, a new valuation system was introduced recently taking full option manufactures price as the tax base. To further strengthen this process of collecting the duly payable taxes, I propose to introduce a simple unit rate of excise duty for the vehicles on the basis of cubic centimeters. Duties on the percentage basis on certain vehicles will also be revised.

### ***Tax Incentives for Environment Friendly Vehicles***

557. Government is taking measures to improve a cleaner environment in the country. For encouraging the use of environment friendly vehicles with reduced emission, I propose to reduce Excise duty to 2.5 percent for the vehicles which are run entirely on Solar, Hydrogen or Helium.

### ***Motor Vehicle Entitlement Certificate***

558. Honourable Speaker, in the interim budget presented on 29 January, this year, I proposed to introduce motor vehicles import registration license fee for importers who import motor vehicles for business purposes. However, it being a uniform fee, large scale vehicle importers would have gained an undue advantage from this measure. In view of this, instead of the said license fee, I propose to introduce a vehicle import fee to obtain a Vehicle Entitlement Certificate for each vehicle. This certificate will be issued by the Department of Inland Revenue and the certificate will be necessary for opening of Letter of Credit for importing a vehicle. I propose a Vehicle Entitlement Certificate fee of Rs. 2,000 per Motor Cycle and Three Wheeler, Rs.15,000/- for a Motor Car and Rs.10,000/- per vehicle for all other vehicles.

### ***Revenue License and Emission Test***

559. Periodically, revenue license fee should have to be reviewed in accordance with road maintenance costs and environment costs with the view of enhancing Provincial Council revenue. Accordingly, I propose to revise revenue license fee for motor vehicles. A fee charged on the certificate of emission test will be enhanced to Rs. 5,000. Issuance of vehicle emission certificates will be liberalized and opened up for competition by allowing more players to come in.

### **Registration of Vehicles**

560. It has been brought to our notice that some of the vehicles which are being assembled in the country have not been registered with the Department of Motor Traffic Department due to various reasons. I urge the owners of such vehicles to register their vehicles by 31 March 2016, by paying a fee of Rs. 750,000 for commercial vehicles and Rs. 1 million for motor cars.
561. To earn foreign exchange as well as to reduce the used vehicle fleet in the country, I propose to export such vehicles after being reconditioned. This will enhance the motor mechanics related activities creating new employment opportunities as well. For every 20

vehicles exported by the same exporter under this scheme, a 50 percent tax credit will be given for the importation of one motor car. Also, I encourage the private sector to seek possibilities of importing used cars and export after reconditioning.

562. I propose to introduce a unique vehicle number plate system which could be auctioned.

### **Concessionary Permit Schemes**

563. Honourable Speaker, the vehicle permit schemes have been politicized and misused and have created a huge revenue loss over Rs. 40 billion a year to the government. I propose to abolish all the vehicle permits granted under different schemes, including to Parliamentarians. However, I ensure all government officers will be financially compensated for the benefit foregone. Further, all the vehicles purchased to the Government will be subject to all applicable taxes and necessary allocations will be provided in the budget.

### **Stamp Duty Reduction on Credit Cards**

564. Presently stamp duty is levied at 1.5 percent for purchases using a credit card. I propose to remove stamp duty on credit cards for local purchases and stamp duty for foreign purchases will be increased to 2.5 percent.

### **Mansion Tax**

565. Provisions in relation to Mansion Tax which was introduced in the interim budget will continue to be applicable except for condominium units.

### **Rationalization of Customs Duty Structure**

566. Presently 4 tariff bands are applied for customs duty i.e. exempt, 7.5 percent, 15 percent, 25 percent and a fixed higher rate. Out of around 7,000 HS codes, nearly 50 percent of the items are at 0 percent. Only 2 percent of items are in 7.5 percent band. To simplify the tariff bands further, I propose to remove the 7.5 percent band and increase the 25 percent band to 30 percent. Accordingly, Sri Lanka will have a 3-band structure of exempt, 15 percent and 30 percent.

### **Ports and Airports Development Levy (PAL)**

567. I propose to increase the PAL from 5 percent to 7.5 percent, other than plant and machineries used for construction, dairy and agricultural industries which will be exempted.

## **Taxes on Liquor**

568. Honourable Speaker, the revenue collection from liquor is about Rs.100 billion in 2015. I believe that a similar amount of revenue is eroded due to illicit and illegal liquor and due to shortcomings in excise revenue measures. I am pleased to state that we have succeeded in overcoming this trend in 2015 to some extent. If we are able to curtail such illicit liquor circulation we can focus on the collection of another Rs. 100 billion. For this purpose, I propose following measures:

### ***Fool-proof Sticker***

569. Honourable Speaker, I propose that every tax-paid liquor bottle must be labeled with a fool-proof sticker. This provides a visual identification for the excise officers in identifying the tax paid liquor bottles. The manufacturer of this sticker will be selected in a transparent manner through international competitive bidding applying government procurement procedures. The enforcement of this transparent measure will help stop unregulated liquor being made available to consumer.

### ***Increasing Liquor Manufacturing License Fee***

570. I propose to increase the annual manufacturing license fee for a distillery to Rs.150 million. Further, I propose to impose a single fee of Rs.150 million for liquor manufacturers as an annual licence fee instead of the present complicated per bottle license fee system. Excise Duty on liquor will be revised from mid night today.

### ***Simplification of Licensing Scheme***

571. The complicated licensing scheme will be simplified and certain time restrictions applicable on the sale will be removed.

### ***Minimum Excise Duty Payable***

572. Necessary amendments to the Excise Ordinance will be introduced to make provisions to collect a minimum Excise Duty of Rs.250 million per month from liquor manufacturers who are having distilleries and Rs.50 million per month from persons engaged only in liquor manufacturing based on the minimum quantity of liquor required to be manufactured.

### ***Increasing Import Duty on Liquor***

573. In line with the Government policy to discourage liquor consumption, the tax on imported foreign liquor must also be increased. Hence, I propose that tax on all types of foreign liquor and imported ethanol be increased on par with locally produced liquor-price increase.



### ***Imported Foreign Liquor License***

574. At present, permission is granted to transport only 10 bulk litres of locally manufactured liquor and there are no restrictions in place on the transportation of imported liquor. Therefore, I propose to apply the same procedure applicable on locally produced liquor to imported liquor as well.

### **Customs Duty on Beedi Leaves**

575. Honourable Speaker, in the early 1990s the annual domestic cigarette consumption was over 5,500 million sticks. However, due to the fact that cigarettes price increases from time to time and increased public awareness of the health hazards, now the annual cigarette consumption has declined to 3,000 million sticks. On the contrary, importation of beedi leaves has led to growing trends in beedi production. Although cigarettes prices were increased every year, beedi price has not been increased. In view of discouraging the consumption of tobacco and establishing a minimum price, I propose to increase Customs Duty on beedi leaves. Further, beedi manufacturing licence fee also to be increased from Rs.1500/- to Rs.5,000/-. I also propose to discourage the importation of beedi as a finished product, by increasing Customs Duty. This will be an indirect benefit for the beedi manufactures.

### **Increase of Embarkation Levy**

576. Honourable Speaker, I propose to increase the Embarkation Levy from USD 25/- to USD 30/-. This will be applied for both ship and air passengers. I also propose to increase the contribution to the Consolidated Fund from the Embarkation Levy from present one third to two thirds of the total collection through this levy.

### **Passport Fee**

577. Passport fee has not been revised recently. Meanwhile, the cost of printing of passports has increased. Accordingly, I propose to increase one day service of passports from Rs.7,500/- to Rs.10,000/- per application. Further, I propose to increase application fee for dual citizenship from 250,000 to Rs.300,000/- per application and SAARC Visa fee to USD 20/- per application.

### **Introduction of Residence Visa**

578. To encourage foreign investment, I propose to introduce a fee of USD 250,000 for residence visa for a three year period and USD 5 million for a permanent residence visa for foreigners, with the approval of the Cabinet of Ministers.

### **Tax on Telecommunication industry**

579. Hon. Speaker, International Telecommunication Operator Levy (ITOL) was charged on incoming international calls on per minute basis by USD Cents 9 per minute. Out of the amount, only USD Cents 3 per minute is credited to the Consolidated Fund by operators. In addition to I propose to increase ITOL from USD Cents 9 to USD Cents 12 and total increase to be credited to the Consolidated Fund. The TRCSL has requested that the transit tariff revenue be exempted from the gross turnover for the purpose of cess payment in order to increase the competitiveness for international transit traffic and thus increasing the inflow of foreign revenue. Considering the negative environmental impact, I also like to propose an annual fee of Rs.50,000/- per tower.

### **Sale in the Domestic Market by Export Oriented Companies**

580. Export oriented BOI companies will be permitted to supply to the local market only 5 percent of its products.

### **Introduction of an Annual Registration Fee on Companies**

581. It has been noted that most of the registered companies are not functioning. In order to make such companies activated, I propose to impose an annual fee on all the registered companies collectible by the Registrar of Companies. Further in order to discourage voluntary registration, I propose to charge Rs. 500,000/- on voluntary liquidation of companies.

582. With effect from January 01, 2016, all business entities should be registered with their respective local councils at a nominal fee of Rs. 100 per year. For new business entities, this registration would be a pre requisite to obtain the electricity and water connections, and loan facilities from Banks.

## **Teledrama Levy**

583. English being a link language in Sri Lanka, levies currently exempted on Tamil teledramas, films and advertisements will also be extended to English teledramas, films and advertisements as well.

## **Reforms in Tax Administration**

### **Inland Revenue Department**

584. Given the current status of the tax administration in the country, the tax administration reforms are required in modernization of systems and procedures to simplify the system in line with tax policy reforms. In this context, the first phase of the Revenue Administration Management Information System (RAMIS), to enable the automated services for filing of returns, payment of taxes, etc., will be effective from 1 January 2016.
585. I also propose the mandatory inclusion of the Taxpayer Identification Number (TIN) or the Business Registration Number (BRN) in all transactions in capturing all business transactions, leading to increased tax collection.
586. The recommendations of the Taxation Commission will be reviewed and simplification of procedures, application of lower tax rates targeting broader tax base will be at utmost importance.
587. With the increased number of cross border transactions, the government faces the challenge of protecting the legitimate revenue to the country due to the base erosion and profit shifting (BEPS). Transfer pricing unit of the IRD will be well equipped with trained staff, databases and other necessities to address the transfer pricing issues. Administration of domestic transfer pricing will be simplified to avoid unnecessary associated costs involved.
588. Steps will be initiated to ensure the revenue collection at Divisional Secretariat level.
589. Personal taxpayers who pay more than Rs. 25 million per year will be granted with special privileges such as VIP counter at the airport, priority treatment at government institutions and hospitals, special invitations for state functions, once a year felicitation meeting with the His Excellency the President and Honourable Prime Minister. Consultation services to the tax payers will be provided by the IRD and an effective help desk with competent officers will be allocated.

590. The income tax return will be simplified into a one-page document, which would be more tax-payer friendly and would lead to higher compliance.
591. Provisions will be incorporated in relevant tax statutes to avoid the misuse and manipulation of tax provisions.
- Management fees will be defined especially for insurance industry and management fees paid to related parties will be disregarded.
  - The present structure of penal provisions of the Inland Revenue Act will be re-visited and where necessary, changes will be brought in, to strengthen the tax collection and compliance of taxpayers and tax practitioners.
  - The triple deduction of Research and Development expenses will be allowed only if there is a technology advancement and yield development.
  - The exemption of the interest on foreign loans will be restricted on the interest on loans taken from foreign banks or financial institutions.
  - Certain exemptions on dividends, after the completion of the tax holiday period, will be removed.
  - If any refund claim has been made for any year of assessment, that should be finalized by the Inland Revenue Department within 3 years. If not, that amount would be allowed to be set off against future tax payable.

### **Redrafting Tax Laws**

592. Existing tax laws in the country are cumbersome, complex and based on traditional British concepts. The complexity of the tax laws has been identified as an impediment for the effective implementation of tax policy in Sri Lanka. It has led to various complications thereby hampering the effective implementation of the tax policy. Therefore, we need to redraft the tax laws to bring about necessary improvements to the legal framework to ensure clarity, consistency and simplicity towards reflecting the features of modern tax systems which will help taxpayers to understand the system easily and eliminate loopholes that have been created by the ambiguities in laws while strengthening tax administration. For this

purpose, we will receive technical assistance from IMF and I propose to complete the project/process by end 2016.

### **Tax Appeals Commission**

593. Steps will be taken to ensure the independency of the tax appeals commission and the appellate procedure, adhering to the principles of natural justice.

### **Sri Lanka Customs (SLC)**

594. Honourable Speaker, as you are aware, Sri Lanka Customs collects almost 60 percent of the Government revenue. Hence, it is of paramount importance that we strengthen the activities of the SLC. Also, the SLC plays a pivotal role in facilitating international trade. In this background, we have already introduced 24x7 operations at SLC.

595. Approximately 80 percent of our imports are inputs for local and export oriented industries. Considering the diverse issues investors are facing at the time of importation of materials, equipment and other goods, it has been decided to establish a "one-stop-shop" at Sri Lanka Customs, which provides all the necessary permissions, clearances and approvals at a single window platform. To fast-track this process, authorized officers from relevant government agencies, including Department of Import and Export Control, Sri Lanka Standards Institution, Consumer Affairs Authority, Inland Revenue Department, Department of Commerce, Department of Registrar of Companies Department of Agriculture, Department of Animal Production and Health etc., will be housed at the "one-stop shop".

596. Further, in order to eliminate the leakages and improve the efficiency of clearing of goods, new scanning machines will be installed at all the clearing points at the Sri Lanka Customs. This will no doubt enhance the confidence on Sri Lanka Customs as well.

597. With a view of controlling human intervention in Customs activities, and enhancing trade facilitation, submission of Import Customs Declarations electronically will be implemented by June 2016. The government agencies which provide authorization will be linked online to the SLC by 1 January 2016.

598. To monitor unaccompanied baggage related activities, CCTV systems will be operated in every customs bonding areas, ensuring transparency and elimination of waste and corruption. These apparatus will be linked to the SLC headquarters. Any new bonding

warehouses that come into operation after 1 April 2016 should have a minimum floor area of 50,000 square feet. Further, the existing warehouses should also be expanded to meet this floor area requirement.

599. A new valuation system will be introduced to curb under invoicing of motor spare parts, tiles, tires etc with effect from January 01, 2016.
600. To avoid Sri Lanka being a dumping ground, the importation of used washing machines, used TVs and used mobile phones will be banned with effect from January 01, 2016.
601. In order to streamline the Customs activities and as a revenue protection measure, all the regular importers should be registered with the SLC from January 01, 2016.
602. In future, duty free shops at Ports and Airports should be operated on joint venture basis with local or foreign counterparts. Accordingly, any local operator who intends to enter into this business should have a foreign counterpart and vice versa.
603. In order to encourage safe, speedy and orderly export and trans-shipment facilities, I request from the customs authorities of regional countries to send their officials to work hand in hand with our customs officials. With their presence, exports and transshipments bound to respective countries could be cleared expeditiously.
604. To suit the present day requirements in international trade activities, a new Customs Law in place of existing Customs Ordinance will be presented to the Parliament.

#### **Charges for Road Accidents**

605. Road discipline is much to be desired. Loss of human life and damage to property is considerable and cost to the nation is billions of rupees, which is unwarranted. In this background, I propose to impose a fine of Rs. 10,000/- in addition to the damages to the public property, in case of a road accident.

#### **Incentives for Thrust Industries**

606. His Excellency the President has already announced that Sri Lanka would be free of Asbestos by 2018. In this background, we have to find environment friendly roofing

materials by 2018. To encourage the manufacturing of red clay tiles, the red clay industry will be granted a half tax holiday on income tax for a period of 3 years.

#### **Import Taxes on Garments and Footwear**

607. In order to achieve a balance between the accesses to branded products and to protect the local industries, a uniform rate will be applicable for garments and footwear imported or manufactured and supplied to local market by export oriented companies.

#### **Special Commodity Levy**

608. In order to protect the local confectionery industry the Special Commodity Levy applicable on vegetable fat will be reduced.

#### **Multi-tasking Officers**

609. Graduates attached to the Divisional Secretariats (DS) will be deployed as Multi-Tasking Officers. They will be assigned with special tasks, to ensure the government revenue collection at DS level.

#### **Borrowing Limit**

610. The underlying fiscal framework is presented in Annex IV. The relevant amendments to borrowing limits for the 2015 Appropriation Bill for the financial year 2016 is presented in Annex III.

#### **Conclusion**

611. The maiden budget speech of the consensual unity government of Sri Lanka has revealed a new dimension in national economic policy within the framework of good governance and transparency. Our objectives are based on futuristic policies to create an Upper Middle income economy guaranteeing economic resurgence thus upgrading Sri Lanka to a higher plateau. I am sure that the goodness of the proposals will cascade through benefitting all Sri Lankans rather than a chosen few. The saga of the "100 Day Revolution" presented on 29th. January, will continue adding further laurels and creating significant milestones.
612. Let us bury the history and let bygones be bygones. Let us start afresh, with a new outlook, dedicated to build our nation to be second to none. We have the vision to do so. The nation building mission is on, united and undivided.

613. Our endeavour is focused on providing a better tomorrow and I wish to convey my profound gratitude to His Excellency the President Honourable Maitripala Sirisena, Honourable Prime Minister Ranil Wickramasinghe, my Cabinet colleagues, Finance Ministry Secretary Dr. R.H.S. Samaratunga and his officials, and all others who contributed in the compilation of this budget proposals, which could be termed as " an unprecedentedly innovative set of proposals encompassing benefits and opportunities for all strata of the society". We have incorporated many of the valuable proposals forwarded by numerous individuals and organizations in this effort and I am positively overwhelmed by the responses. Now we need to ensure that the proposals are implemented and we look forward to the cooperation and commitment of all concerned.
614. I also wish to thank the His Excellency the President, Honourable Prime Minister, Honourable Speaker, my Cabinet colleagues and the Leader of the Opposition, and Honourable Members of the Parliament for their presence at this august chamber today.

**May the blessings of the Triple Gem be with our motherland.**

**May god bless our motherland with the choicest of blessings.**



## Revenue Proposals -2016

Proposals		Rs.Million
1	Abolition Share Transaction Levy	(2,500)
2	Abolition of Construction Guarantee Fund Levy	(1,800)
3	Revision of PAYE and Individual	(4,000)
4	Revision of Corporate Tax	(6,000)
5	Removing Withholding Tax on Interest	(8,000)
6	Revisions of Stamp Duty	(3,500)
7	Revision of VAT	(25,000)
8	Revision of NBT	90,000
9	Revising/Introducing Fees and Charges	75,000
10	Abolition of Luxury and Semi- Luxury Vehicle Tax	(1,500)
11	Revision of PAL	30,000
12	Revision of Customs Duty and Cess	10,300
13	Revision of Liquor manufacturing Licence Fees	3,000
14	Introducing Unit Rate of Excise Duty for Motor Cars	20,000
15	Revision of Embarkation Levy	2,000
16	Revision of Telecom Levy	4,000
17	PAL Deduction for Electrical, Electronic Goods and Machinery	(2,000)
18	Introduction of Emission Fee for Motor Vehicles	18,000
19	25% Surtax on Liquor, Tobacco and Casinos	2,000
20	Revision of ESC	7,000
21	Excise Duty Revisions on Liquor	16,000
<b>Total</b>		<b>223,000</b>

Compiled by Department of Fiscal Policy

## Expenditure Proposals -2016

Proposals		Rs.Million
1	Improving Seed Production	1,000
2	Rehabilitating Small Tanks and Irrigation Canals	2,000
3	Building Warehouses	1,000
4	Construction of Cold Stores	2,000
5	Expansion of Fisheries Harbours	750
6	Agro Livestock and Fish Processing Park	100
7	Facilitating Local Milk Powder Manufacturers	1,000
8	Building of Aquaculture Parks	100
9	Enhancement of Fish Breeding Facilities	100
10	Distribute Canned Fish at Concessionary Price through LakSathosa	300
11	Implementation of Rubber Master Plan	100
12	Rehabilitation of Coconut Cultivation	250
13	Strengthening Tea, Rubber and Coconut Research Institutions	200
14	Strengthening Sugar and Palmyrah Research Institutions	100
15	Branding of Spices	150
16	Cinnamon Research Unit	50
17	Cinnamon Development Authority	50
18	Cinnamon Training School	50
19	National Science Foundation	50
20	2500 Cluster Villages Programme (including Decentralized Budget Allocation for Parliamentary Members)	21,000
21	Establishment of Economic Zones	200
22	National Environment Conservation Programme	2,000
23	Wild Life Conservation	1,000
24	Micro, Small and Medium Enterprises (MSME) Credit Guarantee Fund	500
25	Primary Industries	2,000
26	Digitalization of the Economy	10,000
27	Land Bank	500
28	Rural Housing	4,500
29	Construction Industry Skills Development	500
30	Tourism Skilled Development	100
31	MICE Convention Hall	3,000
32	Development of Galle Fort as Heritage City	500
33	Equity Capital for Financial Institution Restructuring Agency	10
34	Interest Subsidy for Senior Citizens	1,500
35	Strengthening Sri Lanka Accounting and Auditing Standards Monetary Board	100
36	Setting up of a Bond Clearing House	500
37	Teacher Training Programme	1,000
38	Teacher Development	2,000
39	Sanitary Facilities for Schools	4,000
40	Electricity for Schools	2,000
41	Upgrading Primary Schools	10,000
42	Providing Facilities to 1,000 Secondary Schools	15,000
43	Basic Facilities for 1360 Schools	30,000
44	Upgrading 25 Plantation Schools	250
45	Improving Science Education in Schools	450
46	Improving Dental Health Facilities	250
47	Establishment of Mahapola University	3,000
48	Providing Wi-Fi Facilities and Support of Purchase of Laptops	300
49	Postgraduate Institute of Pali and Buddhist	500
50	University Infrastructure Development	6,000
51	Skilled Development in Auditing	30
52	Vocational Training and Technical Education	3,000
53	Empowering Youth	3,000
54	Dialysis Centres	6,500
55	Kidney Hospital - Polonnaruwa	2,000
56	Establishment of 3 Cancer Hospitals	3,000
57	Upgrading Anuradhapura, Jaffna, Kurunegala Hospitals	3,000
58	Training of Health Staff	250
59	Refurbishment of Sri Jayawardanapura Hospital	1,500
60	Improving Nursing School at Sri Jayawardanapura Hospital	2,500
61	Building of Stroke Centres	5,000

	<b>Proposals</b>	<b>Rs.Million</b>
62	Research on Dengue, CKDU and Cancer	250
63	Setting up of Innovation Accelerator	100
64	Upgrading NenasalaCentres	100
65	Intellectual Property Rights	100
66	National Council for Elders	10
67	National Child Protection Authority	100
68	Accreditation of Child Caregiver Training	50
69	Establishment of Police Stations	1,000
70	Training for Traffic Police	100
71	Rectification of Salary Anomalies of Sri Lanka Police	3,000
72	Network Communications for Sri Lanka Police	250
73	Improvement of LakSathosa Distribution Network	1,000
74	New Building for Inland Revenue, Excise, Postal Departments and National Lotteries Board	2,000
75	Providing Professional Qualifications to Public Sector Accountants	50
76	Allocation for Ministry of Special Assignments	150
77	Facilitating Education of Children of Employees' of Foreign Missions	150
78	Lump Sum Payment for July Strikers	500
79	Improvement of Court Administration	500
80	Legal Reforms	500
81	Strengthening Judicial Training Institutions	500
82	IT Branding Programme	100
83	Interest Subsidy for Conversion of Three Wheelers from Fuel to Electricity	50
84	Introduction of Traffic Encoder	500
85	Kelani Valley Railway Line	1,500
86	Augmenting Railways and Bus Transport	1,000
87	Improving Jaffna Railway Line	200
88	Indian Ocean Marine Affairs Corporation	50
89	Upgrading Industrial Estates and Agriculture Technology	500
90	Developing Road Network	15,000
91	Elevated Road from Cotta Road to Kaduwela	10,000
92	Fort Access Road	4,000
93	North-East Highway	1,000
94	Water Transport	250
95	Yan Oya Project	1,000
96	Mega polis and Western Province Development	10,000
97	Urban Development	2,500
98	Southern Development	1,000
99	Wayamba Development	2,500
100	PubudamuPolonnaruwa Programme	10,000
101	North and East Development	14,000
102	Estate Infrastructure Development	1,000
103	Strengthening Local Government Authority	1,500
104	Seed Capital for Contributory Pension Scheme for Artists	25
105	Seed Capital for Exim Bank	50
106	Development of Sports	1,000
107	Strengthening Sri Lanka Standards Institute and Industrial Technological Institute	200
108	Insurance against Natural Disaster	300
109	Policy Formulation and Analysis	200
110	Facilitation for Bribery Commission	500
111	Development of Industrial Zones	700
112	Mobile Hospitals	200
113	MP Capacity Development- J.R. Jayawardena Centre	50
114	Restructuring of Parliamentary Affairs	250
	<b>TOTAL</b>	<b>253,325</b>

Compiled by Department of National Budget

**Gross Borrowings Requirement -2016  
(Provisioning for Accounting Transactions)**

Item	Rs. Billion
Total Revenue Receipts and Grants	2,005
Total Payments, including Repayments	3,389
Provision for Advance Account Operations	5
Risk Provision on Account of Variation in Receipts and Payments	80
Issue of Bonds for Balance Sheet Restructuring for SOEs	120
Contingent Liability	30
Adjustments for book/Cash Value of Government Securities	80
Total Gross Borrowings Requirement to be Recorded in Government Accounts	1,699
of which, Total Debt Repayments	649

*Compiled by the Department of National Budget and Department of Treasury Operations*

Summary of the Budget (2012-2016)<sup>1,2</sup>

Rs. Billion

Item	2012	2013	2014	2015	2016 Budget
<b>Total Revenue and Grants</b>	<b>1,118</b>	<b>1,204</b>	<b>1,264</b>	<b>1,478</b>	<b>2,047</b>
<b>Total Revenue</b>	<b>1,102</b>	<b>1,188</b>	<b>1,254</b>	<b>1,468</b>	<b>2,032</b>
<b>Tax Revenue</b>	<b>909</b>	<b>1,006</b>	<b>1,050</b>	<b>1,284</b>	<b>1,584</b>
Income Tax	173	206	198	249	233
Taxes on Goods and Services	520	572	616	786	993
Taxes on External Trade	217	228	236	248	358
<b>Non Tax Revenue</b>	<b>143</b>	<b>132</b>	<b>145</b>	<b>126</b>	<b>378</b>
<b>Provincial Councils Tax Sharing and Devolved Revenue</b>	<b>50</b>	<b>51</b>	<b>59</b>	<b>58</b>	<b>70</b>
<b>Grants</b>	<b>16</b>	<b>16</b>	<b>9</b>	<b>10</b>	<b>15</b>
<b>Total Expenditure</b>	<b>1,607</b>	<b>1,720</b>	<b>1,855</b>	<b>2,153</b>	<b>2,787</b>
<b>Recurrent</b>	<b>1,181</b>	<b>1,256</b>	<b>1,382</b>	<b>1,648</b>	<b>1,928</b>
Salaries and Wages including Provincial Councils	386	432	486	615	658
Other Goods and Services including Provincial Councils	135	104	141	163	313
Interest	408	444	436	492	520
Subsidies and Transfers	251	276	318	378	437
<b>Public Investment</b>	<b>444</b>	<b>481</b>	<b>487</b>	<b>517</b>	<b>868</b>
Education and Health	46	56	78	98	210
Infrastructure	398	425	408	419	658
Other	-18	-17	-14	-12	-9
<b>Revenue Surplus (+)/Deficit(-)</b>	<b>-80</b>	<b>-68</b>	<b>-128</b>	<b>-180</b>	<b>104</b>
<b>Primary Surplus (+)/Deficit (-)</b>	<b>-80</b>	<b>-72</b>	<b>-155</b>	<b>-183</b>	<b>-220</b>
<b>Budget Surplus (+)/Deficit(-)</b>	<b>-489</b>	<b>-516</b>	<b>-591</b>	<b>-675</b>	<b>-740</b>
<b>Total Financing</b>	<b>489</b>	<b>516</b>	<b>591</b>	<b>675</b>	<b>740</b>
<b>Total Foreign Financing</b>	<b>181</b>	<b>68</b>	<b>212</b>	<b>156</b>	<b>183</b>
<b>Foreign Borrowings-Gross</b>	<b>365</b>	<b>179</b>	<b>329</b>	<b>453</b>	<b>519</b>
Project and Programme Loans	235	187	246	258	309
Foreign Commercial	130	-8	83	195	210
Debt Repayment	-184	-111	-118	-297	-336
<b>Total Domestic Financing</b>	<b>308</b>	<b>448</b>	<b>380</b>	<b>519</b>	<b>557</b>
Non-Bank Borrowings	71	95	252	110	275
Foreign Investments in T-Bills and T-Bonds	106	56	1	90	100
Bank Borrowings	132	297	127	319	182
<b>Revenue and Grants/GDP (%)</b>	<b>12.8</b>	<b>12.6</b>	<b>12.3</b>	<b>13.1</b>	<b>16.4</b>
<b>Total Revenue/GDP (%)</b>	<b>12.6</b>	<b>12.4</b>	<b>12.2</b>	<b>13.0</b>	<b>16.3</b>
Tax Revenue/GDP (%)	10.4	10.5	10.2	11.4	12.7
Non Tax Revenue/GDP (%)	1.6	1.4	1.4	1.1	3.0
PC Tax Sharing and Devolved Revenue/GDP (%)	0.6	0.5	0.6	0.5	0.6
<b>Grants/GDP (%)</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>Total Expenditure/GDP (%)</b>	<b>18.4</b>	<b>17.9</b>	<b>18.0</b>	<b>19.1</b>	<b>22.3</b>
Recurrent Expenditure/GDP (%)	13.5	13.1	13.4	14.6	15.4
Non Interest/ GDP (%)	8.8	8.5	9.2	10.2	11.3
Interest/ GDP (%)	4.7	4.6	4.2	4.4	4.2
Public Investment/GDP (%)	5.1	5.0	4.7	4.6	6.9
Revenue Surplus (+)/Deficit (-)/GDP (%)	-0.9	-0.7	-1.2	-1.6	0.8
Primary Surplus (+)/Deficit (-)/GDP (%)	-0.9	-0.8	-1.5	-1.6	-1.8
<b>Budget Surplus (+)/Deficit (-)/GDP (%)</b>	<b>-5.6</b>	<b>-5.4</b>	<b>-5.7</b>	<b>-6.0</b>	<b>-5.9</b>

Compiled by Department of Fiscal Policy

<sup>1</sup> Including revenue and expenditure transfers to Provincial Councils<sup>2</sup> Including notional revenue and expenditure

## Technical Notes

### Budget Proposals 2016 – Taxation

#### 1 Income Tax (Amendments to the Inland Revenue Act No.10 of 2006)

##### 1.1 Tax Concessions

##### 1.1.1 Agriculture

###### 1.1.1.1 Development of seeds and planting materials by a company :

A reduction of 50% of the tax payable on the profits from the locally developed seeds and planting materials for a period of 5 years.

*[ Section 16B will be amended]*

###### 1.1.1.2 Drip irrigation, greenhouse technology and high yielding seeds:

A reduction of 50% of the tax payable on the profits from agriculture by a company using drip irrigation method, **greenhouse technology** and **high yielding seeds** for a period of 5 years.

For this purpose **greenhouse technology, drip irrigation** and **high yielding seeds** will be defined.

*[Relevant provisions of the Inland Revenue Act will be amended]*

###### 1.1.1.3 Fruit and Vegetable Industry :

The cost of acquisition of any machinery used for canning fruits and vegetables will be treated as a qualifying payment in addition to the depreciation allowance claimable on such machinery.

*[Sections 25 and 34 will be amended]*

##### 1.1.2 Development of Micro and SME Sector

1.1.2.1 Tax payable by Private Equity Funds or Venture Capital companies on the profits earned by providing funds to upgrade SMEs registered with the SME Board of CSE up to the trading level, will be reduced by 50% for a period of 5 years.

1.1.2.2 SMEs, creating incubators for SMEs (not by splitting or reconstruction of an existing SME) by investing in designated areas will be entitled to 50% reduction of the tax payable on profits of such activity for a period of 3 years.

For this purpose ‘SME’ and the ‘identification of activities of Venture capital companies and Equity Funds’ will be specified.

1.1.3 **Incentive for Thrust Industries:** A reduction of 50% of the tax payable on the profits from the locally manufacturing of red clay tiles for a period of 3 years.

## **1.1.4 Concessions to other sectors**

**1.1.4.1** A reduction of 50% of the tax payable for a period of 5 years on the profit from the following activities carried out by any person:

- (i) being an academic entity which offer internationally accredited courses or training programmes aimed at geriatric care or child care;
- (ii) engage in building housing facilities for the elderly persons;
- (iii) construction and sale of housing units in collaboration with the Government, to officers of the government sector.

**1.1.4.2** A reduction of 50% of the tax payable for a period of 5 years from the commencement of the commercial operations by any company specifically incorporated for MICE (Meeting, Incentives, Conferences and Exhibitions) on the profits from such activities.

**1.1.4.3** The profits generated by a company which is attributable to the expansion carried out by modernization of existing factories which is considered based on the employment generation within a period of one year commencing from April 1,2016, will be subject to half tax rate of the applicable rate for 3 years.

For this purpose the necessary criteria will be specified.

**1.1.4.4** To encourage persons to be part of the country's higher education revolution through endowments given to our National Universities to engage in research, the triple tax deductions available for R&D activities be extended to accommodate endowments given to our National Universities.

**1.1.4.5 Construction Industry:** The cost of acquisition of machinery necessary for purifying sea sand will be treated as a qualifying payment in addition to the depreciation allowance claimable on such machinery.

## **1.2 Investment promotion**

### **1.2.1 New Foreign Exchange Management Act ( FEME) :**

A new Act named '**Foreign Exchange Management Act**' will be introduced to facilitate foreign investments. The Inland Revenue Act will also be amended to accommodate such investments (where necessary) and to exempt income tax on foreign currency inflows.

**1.2.2** Income from dividends on investment made by non- citizens or foreign companies in listed shares through inward remittance will be exempted from income tax.

### **1.2.3 Concession on investment in lagging region :**

In lieu of the present concessions introduced in 2015, the following new concession will be introduced:

50% reduction of the tax payable by a new company (not by splitting or reconstruction of an existing company) set up in any lagging region with a minimum investment of US\$ 10 Mn or 500 new employment (with new EPF Nos) for manufacturing (other than liquor or tobacco) or provision of services, for a period of 5 years from the commencement of commercial operation.

The period will be expanded to 8 years, if the new employment exceeds 800 and to 10 years if the investment is for theme park.

*[The concessions under section 59I, 59J and 59K will be removed which are redundant due to rate revision].*

### **1.2.4 The 50% rate reduction available under the IR Act, for listing in CSE will be extended by expanding the present deadline of April 1, 2017 for further :**

- (i) 2 years for listing in CSE ; or
- (ii) 3 years for listing in any foreign Stock Exchanges *[Section 59D will be amended]*

### **1.2.5 The profits and income from the cultivation of tea or rubber by any plantation company, of which the Government shareholding is in existence, will be exempted for a period of 2 years commencing from April 1, 2016.**

### **1.2.6 Tax holidays and exemptions**

- (i) The Strategic Development Act will continue to be effective for existing companies that have availed the concessions under that Act. For new investments, instead of Strategic Development Act, the "New investment" Act will be enacted.
- (ii) The granting of tax concessions for any investment should be strictly under the supervision and monitoring of the Ministry of Finance which would be governed by regulations issued by the Minister. BOI or IRD will not grant any new tax holidays other than facilitation and implementation of the concessions.

## **1.3 Other Changes / amendments:**

### **1.3.1 Management fee will be defined for insurance industry ;**

### **1.3.2 The triple deduction for Research and Development expenses will be allowed only if a technology advancement and yield development is proved.**

*[Sections 25 and 92 will be amended]*

### **1.3.3 The exemption on the interest income on foreign loans will be restricted on**



- the interest on loans taken from foreign banks or financial institutions.  
*[ Section 9 will be amended]*
- 1.3.4** Certain exemption on dividends after the completion of the tax holiday period will be removed.  
*[ Section 10 will be amended]*
- 1.3.5** The refund claim for any year of assessment commencing on or after April, 2016, should be finalized within three years from the claim of such refund (with the Return). If not finalized, the refund would be allowed to be set off against future tax liability of the same.  
*[Relevant provisions of the Act will be amended]*
- 1.3.6** The penal provisions will be:
- amended to strengthen the tax collection and compliance by tax payers and tax practitioners; and
  - introduced to ensure proper implementation of ‘transfer pricing’.
- 1.3.7** Relevant amendments will be incorporated (where necessary) for the implementation of RAMIS.
- 1.3.8** The expansion of the term ‘‘Approved Accountant’’ for the purposes of section 107 by adding AAT member, will be revisited by restricting the area of audits to the turnover limit not exceeding Rs 100 million and making provision to grant approval by the Commissioner General of Inland Revenue having satisfied that the respective individual has acquired necessary competencies to perform the required work under the Inland Revenue Act, in conformity with an appropriate regulatory mechanism in place.  
*[ Section 107 will be amended]*
- 1.3.9** Administration of the transfer pricing on domestic transactions will be simplified and the areas will be specified limiting the scope considering the associated cost involved.  
*[ Section 104 and 104A will be amended and relevant Gazette will be published ]*
- 1.3.10** Individual Taxpayers who pay Rs 25 million or more will be granted special privileges and such privileges will be regularized through a Gazette Notification by incorporating the relevant provisions to the Act.
- 1.3.11** The qualifying payment relief introduced on the expenditure associated with cost of acquisition or merger of banks or financial companies under the Banking and Financial institutions consolidation process will be removed considering the deduction already available as a cost.  
*[section 34 will be amended retrospectively]*

## **1.4 Simplification of Income Taxation**

The following measures will be taken to simplify the Income Tax Structure

- (i) Rate structure will be limited only to two tax rates as the standard rate of 15% with the higher rate of 30%.
  - (a) The higher rate (30%) is applicable for the profits and income of :

- Betting & Gaming
- Liquor
- Tobacco
- Banking and Finance including insurance, leasing and related activities etc.
- Trading activities other than manufacturing or providing of services

All the other sectors will be liable to the standard rate of 15% ;

- (b) The progressive tax rates applicable to individuals will be removed by increasing the tax free allowance to Rs 2.4 million per year [( Rs 2,00,000/- per month) and any balance will be liable at the standard rate of 15%.( flat rate);
- (c) The above tax treatment will be applicable to both employees subject to PAYE and self-employees.
- (d) Deductions from the total statutory income and the assessable income will be removed considering the tax free allowance entitled to be deducted by individuals, charitable institutions etc. except the losses incurred from trade, business, profession or vocation( deductible subject to the limitations);
- (e) The exemption on profit from employment referred to in section 8 of the Act will be removed other than the following:
- Retiring benefits and pension paid out of the consolidated fund to Government employees ;
  - Earnings in foreign currency on employment out of the country , if such earnings are remitted to Sri Lanka;
  - Exemptions for diplomatic missions and diplomatic personnel ;
  - Release of the provident fund balance at the time of retirement;
  - Compensation for loss of office subject to conditions

All the other cash and non-cash benefits (treated as benefit from employment) are liable to tax, if exceed the tax free threshold.

- (f) The employees who are employed under more than one employer will be liable to tax at the rate of 15%.
- (g) Tax on partnership will also be adjusted accordingly.
- (h) The present Withholding Tax deductible by Bank or Financial institutions on interest from deposits at the rate of 2.5% will be removed and such income will be considered as part of the total statutory income.
- (i) The exemption of income from interest on money deposited in banks or financial institutions by senior citizens (over 60 years of

age) will remain unchanged.

- (j) Deduction of Withholding tax on interest income arising to individual out of Sri Lanka under section 95 of the Act, will be at 15% subject to the rate specified under any Double Taxation Avoidance agreement entered into with the Government of Sri Lanka.

*[ Relevant provisions and the Rate Schedules will be amended]*

- (ii) Tax exemptions granted to certain organizations under section 7 or miscellaneous exemptions under section 13 will be removed.

(a) **Removal of Institutional exemptions:**

- The exemption on the profits and income of the International Institutions will be restricted to any profits and income other than profit and income from sources generated by charging any fee or contribution from the public in any other manner;
- The present exemption applicable to local institutions will be removed other than any Government Department, Foreign Government, University, Co-operative Society, Central Bank including Monetary Board, charitable institution (subject to conditions) or Government assisted school;

*[ Section 7 will be amended]*

(b) **Removal of Miscellaneous exemptions:**

The following exemptions will be removed:

- the profits and income arising or accruing to any person from any undertaking for the construction of any Port in Sri Lanka.
- the profits and income arising or accruing to any person from the administration of any sports ground, stadium or sports complex.
- the profits and income arising or accruing to any company, partnership or body of persons in a country outside Sri Lanka, from any payment made for the use of any computer software, by Sri Lankan Air Lines Ltd or Mihin Lanka (Pvt) Ltd, as a special requirement of such Airlines, if a Double Taxation Avoidance Agreement providing relief for double taxation of such profits and income is not in force between Sri Lanka and that country or tax is not payable in such country on such profits and income.
- the profits and income from any service rendered by any person or partnership in any port in Sri Lanka in the course of

any business carried on within such port.

- the profits and income arising or accruing to any person from any undertaking for the operation of any port terminal in Sri Lanka;

*[ Section 13 will be amended]*

## **2 Value Added Tax (VAT) [ Amendments to VAT Act No 14 of 2002]**

**2.1** The present single rate will be revised to 3 bands.0%, standard rate of 8% and higher rate of 12.5%

- 0% for export of goods and provision of services for payment in foreign currency outside Sri Lanka
- Services sector – 12.5%
- Manufacturing or import of goods – 8% ( with the limitation of input tax )

**2.2** The present exemptions on the Import or supply of telecom equipment or machinery, high-tech equipment including copper cables for telecom industry will be removed.

**2.3** The wholesale and retail trade (other than by a manufacturer or importer) will be excluded from VAT

**2.4** The present threshold will be revised to Rs 3 million per quarter or Rs 12 million per year.

## **3 Nation Building Tax (NBT) [Amendmentsto NBT Act No.9 of 2009]**

**3.1** The present rate of NBT will be revised to 4%.

**3.2** The present exemptions on the following articles or services will be removed:

- Telecommunication service
- Supply of electricity
- Lubricants

**3.3** The present threshold will be revised to Rs 3 million per quarter and the threshold of Rs 25 million per quarter will be removed except for any locally procured agricultural produce in the preparation for sale.

## **4 Share Transaction Levy (STL) [ Amendment to PART II of the Finance Act No 5 of 2005]**

STL will be removed with effect from January 1, 2016.

## **5 Construction Industry Guarantee Fund Levy(CIGFL ) [ Amendment to PART III of the Finance Act No. 5 of 2005]**

CIGFL will be removed with effect from January 1, 2016.

## **6 Luxury & Semi-Luxury Motor Vehicle Tax[Amendment of PART II of the Finance Act No. 16 of 1995]**

Luxury & Semi-Luxury Motor Vehicle Tax will be removed with effect from April 1,

2016.

**7 Betting and Gaming Levy (Amendments to Betting and Gaming Levy Act No.40 of 1988)**

- (i) The present entry fee of US\$ 100 per person who enters Casino entertainment will be removed.
- (ii) The present annual levy of Rs 200 million for carrying on the business of playingrudjino will be reduced to Rs. 5 million per year.
- (iii) The present annual levy of Rs 200 million for carrying on the business of Casino will be increased to Rs. 400 million per year.
- (iv) Directors and shareholders will be personally liable for non-payment or any act which is done to avoid payment of Casino Industry Levy (one off levy) introduced in the interim budget

**8 Economic Service Charge ( ESC) [Amendments to ESC Act No 13 of 2006]**

- (i) The present exclusion of profit making businesses will be removed.
- (ii) The present maximum liability of Rs 120 million per year will be removed.
- (iii) The rate is increased from 0.25% to 0.5%.
- (iv) The period for carried forward of ESC to be set off against income tax payable for any period commencing from April 1, 2016, is reduced from 5 years to 3 years.

*[ Relevant provisions of the ESC Act will amended]*

**9 Excise Duty:**

The liquor manufacturing License fee and duty rates will be revised.

**10 Excise (Special Provisions) Duty:**

The concessions and rates will be revised.

**11 Customs Duty**

- (i) The present 4 band tariff structure of exempt, 7.5%, 15% and 25% will be changed as exempt, 15% and 30%.
- (ii) Custom Duty will be revised on following items:
  - Beedi leaves, Beedi, Garments, Foot-wear, Beer, Wine, Whisky, and Ethanol
  - Agriculture machinery and equipment, dairy industry machinery and equipment and fishing nets
  - Sports equipment and Musical instruments
  - yachts , caravan carriages, surfing equipment and mini cruise boats identified under specified HS Code No
- (iii) Certain items in the negative list ( tiles, ceramic and sanitary ware) will be removed

- (iv) Sri Lanka will complete its commitments on Tariff Liberalization (Phase I) of the South Asian Free Trade Area effective from November 21, 2015.
- (v) Sri Lanka will fulfill its December 2015 target of commitments on the Tariff Liberalization (Phase II) of the South Asian Free Trade Area effective from November 21, 2015.

*[ Relevant Gazette will be issued specifying the rate change with effect from November 20, 2016]*

**12 Ports and Airports Development Levy (PAL)[Amendments to PAL Act No 18 of 2011]**

- (i) PAL will be increased from 5% to 7.5%
- (ii) To encourage spending by tourists rate will be reduced from 5% to 2.5% on certain electronic and electrical items
- (iii) The present rate of 5% on certain machinery will be removed.

*[ Relevant Gazette will be issued specifying the rate change]*

**13 Tourism Development Levy will be removed.**

**14 Special Commodity Levy (SCL)**

- (i) In order to promote local industry SCL will be increased on import of fish and fish related products.
- (ii) Rate will be revised on certain commodities

*[ Relevant Gazette will be issued specifying the rate changes]*

**15 Cess**

- (i) **Removal of Cess:** To encourage export of value added products ‘export Cess’ will be removed on pepper, cloves and nutmeg.
- (ii) **Impose of Cess:** To encourage local industry Cess at the rate of 10% will be imposed on import of jewellery.

**16 Land (Restriction on Alienation) Act**

- (i) Restriction on transfer will be removed for certain identified investments
  - (ii) Tax on leasing of lands will be removed
- [the relevant provisions of the Land (Restriction on Alienation) Act No 38 of 2014 will be amended]

**17 Stamp Duty [Stamp Duty( Special Provisions) Act No 12 of 2007]**

- (i) Present Stamp Duty of 1.5% (every Rs. 1000 or part thereof Rs 15/-) levied on Credit Card usage will be removed with regards to local usage of credit cards.
- (ii) Usage of credit card for foreign purchases will be increased to 2.5% ( on every Rs 1000 or part thereof Rs25/-)

- (iii) “Share Certificate” will be exempted from with effect from January 1, 2016.

*[ Relevant rate change will be Gazetted and applicable on transactions entered into on or after January 1, 2016]*

## **18 Mansion Tax [ PART VIII of the Finance Act No 10 of 2015]**

- (i) The mansion tax applicable on condominium units will be removed; and
- (ii) The first installment of the Mansion tax is payable on or before March 31, 2016.

*[PART VIII of the Finance Act No 10 of 2015 will be amended ]*

## **20 Telecommunication Levies**

- (i) International Telecommunication Operators Levy (ITOL) on incoming calls will be increased US\$ Cents 9 to US\$ Cents 12.
- (ii) **Environmental Fee** will be charged per tower at the rate of Rs.50, 000/- per annum.
- (iii) **Cess** levied at 2% for international transit traffic will be exempted

with effect from January 1, 2016.

## **21 Other Levies and Charges**

- (i) Beedi manufacturing Licence fee will be increased from Rs 1,500/- to Rs 5,000/-
- (ii) Embarkation Levy will be increased from US\$ 25 to US\$ 30
- (iii) Passport Fee will be revised as follows :
  - One Day Service – Adult Rs. 10,000
  - One Day Services – Child Rs. 5,000
  - Normal Services – Adult Rs. 3,000
  - Normal Services – Child Rs. 2,000with effect from January 1, 2016
- (iv) Application fee for dual citizenship from Rs 250,000 to Rs 300,000/- and SAARC Visa from US\$ 10 to US\$ 20.
- (v) New Residence Visa fee for foreigners will be introduced to encourage foreign investments :
  - US\$ 01 million for residence visa for a period of 3 years; and
  - US\$ 05 million for residence visa for permanent residence.
- (vi) **Company Registration Fee** : Every company registered with the Registrar of Companies will be subjected to an Annual License fee of:
  - Private Companies Rs 60, 000
  - Public Quoted Companies Rs 500,000
  - Other Rs 100,000(Including companies non - functioning) and payable to the Registrar of Companies.

- (vii) **Company Registration Fees:** The present rates will be revised with effect from January 1, 2016.
- (viii) Voluntary liquidation of a company: Rs 250,000/- will be **charged on liquidation.**
- (ix) All business entities should be registered with their respective local councils at a nominal fee of Rs 100/- per year.
- (x) **Surtax:** Surtax will be imposed with effect from any Year of Assessment commencing from April 1, 2016, at the rate of 25% of the income tax liability of profit on business of Tobacco, Liquor and Betting and Gaming which were earlier subject to income tax at 40%.
- (xi) **Fine on Road Accidents:** A fine of Rs 10,000/- will be imposed on person who is responsible on road accidents payable in case of road accidents. In addition the **cost** to the government property damage (if any) is also payable.
- (xii) **Vehicle Valuation Certificate Fee:** A fee on valuation certificates obtainable for finance facilities will be charged:
- Three wheeler/Motor Cycle - Rs.5,000/-
  - All other vehicles - Rs.25,000/-
- with effect from January 1, 2016.
- (xiii) **Unregistered vehicles to be registered before 31/03/2016:** Such vehicles could be registered by paying the following fee to RMV:
- Cars/ Vans - Rs.01 Mn
  - Other vehicles - Rs.0.75 Mn
- (xiv) **Vehicle Entitlement fee:** A fee will be imposed in lieu of 'Motor Vehicle Importers Registration fee' with effect from January 1, 2016, payable to the Commissioner General of Inland Revenue before the opening of LCs at the following rates:
- | Type                        | Rate per vehicle |
|-----------------------------|------------------|
| Motor Cycle/three wheelers- | Rs.2,000/-       |
| Motor Cars -                | Rs.15,000/-      |
- (xv) **Auctioning of Number Plate** – Unique lifetime Number will be subjected to an Onetime fee of Rs.2.50Mn
- (xvi) **Emission Levy** –  
The levy is payable to the Divisional Secretariat at the point of renewal of annual licence on every motor vehicle which is over 03 years at the rate of Rs 5,000/- per year.
- (xvii) **Motor Vehicle Licence Fee** will be revised with effect from **January 1, 2016.**
- (xviii) **Import taxes on Garments and Footwear :**
- (i) The present composite tax imposed on (at the Custom point) sale of garments to the local market by export oriented companies [refers to in section 22(1) of the VAT Act] will be increased to Rs200 /- per piece.
  - (ii) The same rate will be extended to sale of footwear to the local market



by export oriented companies.

(iii) The applicable rate for sale of fabric and cut pieces remains the same.

(iv) The sale of export quality products to the local market by export oriented BOI companies will be restricted to 5% of the total turnover and will be subjected to the tax at the rate specified above.

(xix) A charge will be imposed on Airlines on the sale of international tickets at US\$ 2.00 per passenger.

## **22. Technical Rectifications and Administrative provisions**

Necessary amendments will be made to the respective provisions of the Inland Revenue Act No 10 of 2006, Value Added Tax Act No.14 of 2002, Nation Building Tax Act No 9 of 2009, Economic Service Charge Act No 13 of 2006, Finance Acts and Finance (Amendment) Acts, Betting and Gaming Levy Act No.40 of 1988, Default Tax (Special Provisions) Act No 16 of 2010, Telecommunication Levy Act No 21 of 2011, Ports and Airports Development Levy Act No 18 of 2011, Tax Appeals Commission Act No 23 of 2011, Imports and Exports (Control) Act No. 1 of 1969, Land ( Restriction on Alienation) Act No 38 of 2014 and Strategic Development Projects Act No.14 of 2008 in order to streamline the revenue administration and to rectify certain ambiguities and unintended effects (including differences in translations).

## **23. Effective Dates of Proposals**

Unless stated otherwise, the proposals in relation to:-

- (i) Income Tax and ESC will take effect commencing from April 1, 2016,
- (ii) Value Added Tax ,Nation Building Tax, **Betting and Gaming Levy** and Land ( Restriction on Alienation) Act will be implemented with effect from January 1, 2016,
- (iii) Cess, Ports and Airport Development Levy, Custom Duty, Excise (Special Provisions) and Special Commodity Levy will take effect immediately.

National Digital Identity & Transaction Framework

