

**CREATING OUR FUTURE.
BUILDING OUR NATION.**



A new economic order for a strong national economy
THE ECONOMIC POLICY FRAMEWORK OF THE GOVERNMENT OF SRI LANKA

// The strength of this nation
lies uniquely within.
The policies we develop
will take advantage of
our competitive strengths and
proactively plan the development path
based on our culture, resources and
regional dynamics.
It is time to look ahead and
convert strategies into action and
make genuine progress towards
sustainability for the benefit of society,
the environment and
creation of wealth in Sri Lanka. //

CONTENTS

Legacy	3
Real Stakeholders of the Economy: The Present Reality	4
Creating Our Future	8
National Development Strategy	9
Policy Briefs for Key Areas and Sectors	12
• Public Enterprise Management	12
• The Public Service	13
• Scientific Research and Information Technology	14
• Agriculture	14
• Livestock	15
• Fisheries	16
• Exports	16
• Textile and Apparel Industry	17
• Small and Medium Scale Industries	17
• Industrial Restructuring	19
• Tourism	19
• Construction Industry	20
• Housing	21
• Public Transport	21
• Infrastructure	22
• International Trade Policy	23
• Corporate Sector Economy	23
• Legal and Regulatory Structure	24
• Financial Sector	24
• Macro Economic Policy	25
• Budgetary and Fiscal Policy	26
• Government Revenue	26
• Public Expenditure	27
• Medium Term Deficit Reduction Framework	27
• Public Investment and Effective Use of Resources	28
• Education	28
• Health Care	30
• The North East Rehabilitation and Reconstruction	31
• Social Welfare and Empowering the Poor	31
• Employment, Skills Development and Labour Relations	32
• Cost of Living	32
• Policy Formulation and Implementation	33
Conclusion	34



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MINISTRY OF FINANCE
Government of Sri Lanka

Legacy

The post-1977 open-economy has produced an annual average growth of around 5 percent with the per capita income rising from about US\$ 300 in 1977 to about US\$ 950 in 2003.

Despite what appears to be a tripling of the per capita income levels in the country, a majority of the nation has only experienced an increase in the cost of living, as the rising per-capita income figure is largely a Western province benefactor driven statistic. Whilst income is highly concentrated among the top 20 percent of the population with the Western province accounting for over 50 percent of the Gross Domestic Product (GDP), growth of income has stagnated for the lower 40 percent.

It is pertinent to note that 70 percent of the nation resides in the rural areas. The Southern and Central provinces together generate 18 percent of GDP, whilst the Eastern, Uva, North Central and the Northern provinces produce less than 5 percent of GDP each.

The appalling lack of an efficient nationwide road network and public passenger transportation service to cater to the increased rural population further exacerbated the economic gap, as the provincial population had no convenient means of accessing and participating in the economic opportunities concentrated in the Western province.

Although Sri Lanka still scores high on the Human Development Index (HDI) at 0.730, several provinces, particularly the North, East, South, Uva and North Central are poor HDI performers, reflecting a clear distortion in the development benefits. The country's proud achievement of high HDI, reflecting high literacy and life expectancy, attained through long years of state funded education, health and a variety of community services at rural and national levels, is now threatened. Resources channeled to education and health have declined from 6.6 percent of GDP in 1960 to 3.6 percent of GDP in 2003. This is yet another contributory factor to the widening gap between the Western province and the rest of the nation.

According to the latest UNDP commissioned independent report, poverty is still a major issue in rural areas, which shows that the ratio of the poor in the rural sector at 77 percent, is well in excess of the proportionate rural share of 70 percent in the total population of the country. 45 percent of the nation is still below the US\$2 income poverty line.

Real Stakeholders of the Economy: The Present Reality

It is the intention of the present Government to provide policy support to those sectors that can effectively create new capacity and to channel development assistance to domestic capacity builders in the most appropriate and timely manner that will lead to expansion and growth of the economy.

At present, the bulk of the nation's foreign exchange earnings are generated by the export income of the apparel and tea industries, and the inward remittances of the overseas based Sri Lankan expatriates. It is important to realize from a social perspective, that in all these three sectors, the females dominate the workforce.

On a sectoral basis, it is evident that the small and medium enterprises (SME's) contribute 50 percent to the country's GDP. This is after over 50 percent of the SME entrepreneurs were forced out of domestic industries due to unfair import competition. For example, at present:

- The small-holders in the plantation industry account for 65 percent of total tea production of the country
- Similarly, 50 percent of the nation's apparel and garment manufacturing is handled by individual entrepreneurs
- Over 70 percent of the public bus transportation sector is dominated by individually owned bus and lorry operators
- 80 percent of domestic trade activities is done by sole proprietorships and partnerships
- 45 percent of tourism and recreation services is handled by family entrepreneurs
- 50 percent of the local construction industry is supported by small and medium enterprises

The Government recognizes that these SME contributors who make a tangible difference to the nation's economic development must be offered protection from being displaced by unfair import competition from nations that subsidize their own producers. They also warrant protection from unfair international trade practices, and also from local importers. Domestic industrialists are further undermined by subverting the tariff regime, either by under invoicing or resorting to underhand practices to avoid payment of legitimate levies and duties, and thus selling the imported products below the local market producer's cost.

Unlike their international counterparts, local SME's also face low tariff, high borrowing costs, and are severely handicapped and disadvantaged because of the absence of development assistance by way of credit, technology, infrastructure, and institutional support from government agencies. The absence of access to reliable physical infrastructure and dependable institutional support, have stifled the best laid growth plans of struggling small companies. Public holidays and other productivity impairing factors have further affected them.

Although Sri Lanka has the capacity and capability to attain self-sufficiency in milk, sugar and vegetable production in addition to rice, due to the misaligned trade and tariff regime, the domestic resource based activities are unable to compete with imports (i.e. lower import duty on milk powder, sugar, wheat flour etc.). Liberalization and deregulation have displaced domestic based production and other economic activities, particularly agriculture.

Fisheries and livestock sectors and the traditional crop sectors like spices and coconuts have not been modernized for many years and the majority of the farmers have not got out of subsistence farming. Agricultural sector continues to remain vulnerable to the vagaries of weather with no financial instruments to hedge the risk.

The economy-environment linkage is strategically very important for Sri Lanka. The nation is predominantly a weather dependent economy, with both the agriculture sector and the hydropower based power supply sector being dependent on a substantial quantum of annual rainfall. The vast network of irrigation tanks and canals are the silent engines of our economy. Rehabilitation and restoration of these valuable irrigation and power generation assets will be made a priority, as their neglect have caused loss to the country.

Rural and suburban Sri Lanka is facing a drinking water problem due to the erosion of water resources consequent to deforestation and the pollution of our waters. This has resulted in farmers having less and less quality soil for agriculture, and less water for irrigation. The over use of chemical fertilizers has raised phosphate levels in the waters and similarly, the 1.8 million vehicles on the roads that produce fuel emissions are threatening the environment and health standards. The full economic cost and social impact of this will be felt by the nation in the future.

The traditional tourism sector is still reliant on low-spending charter group tourists from Europe, instead of concentrating on the lucrative, high-spending, up-scale, eco-resort seeking holidaymakers. Alternative health and ecology based tourist activities and facilities are inadequately developed in Sri Lanka, despite its rich heritage and environment. The hospitality sector, as it is currently structured

is a marginal player and an under performer in the national economy, disproportionate to the vast inputs provided by the state in terms of airports, roads, and other public infrastructure improvements made to facilitate tourist access.

Similarly, the export industry that is fighting for market access overseas has not made distinctive claims about the local identity based on environment attributes, and socially responsible corporate and individual citizen behavior standards.

The quality of available managerial and human resources in the public sector has deteriorated. Public service delivery mechanism has broken down due to lack of resources and political interference at all levels of operation. The relentless pursuit of privatization of Government assets and downsizing has resulted in the neglect of public services to improve, and lack of focus to institutionalize measures to improve State efficiency. It is not the inability of the public servants to deliver productivity levels commensurate with private sector efficiency, but rather the absence of confidence and will of political masters to make them a proud team of dedicated nation builders. The UNF administration neglected the public sector and brought in “consultants” from outside and undermined the mandate of the public servants.

Sri Lanka has continued to live with excessively high budget deficits. Arguably, a deficit based spending spree, if managed prudently, should have provided for an increase in Government revenue from an expanded economy. Surprisingly the revenue of the Government did not increase in proportionate terms. Instead, it decreased from 22 percent of GDP prior to 1977 to 16 percent of GDP by 2003. Public investments have declined from 15 percent of GDP in 1980s to 5 percent of GDP in 2003. Expenditure on education has declined to 2.3 percent of GDP in 2003 from 4.4 percent in 1960 while that on health has dropped to 1.6 percent from 2.3 percent. Waste, corruption, inefficiency, and cronyism led to a further erosion of the national income. Income tax concessions, and other revenue amnesties further deprived revenue to the Treasury.

The UNF Government’s “Regaining Sri Lanka” strategy which focused on deficit reduction as its first and foremost priority failed to deliver on that stated objective. Instead, the lasting legacy that the UNF Government left with, was an increased public debt from 103 percent of GDP in 2001 to 106 percent of GDP in 2003. This debt was incurred without undertaking any tangible public investment programme. Further the unemployment levels have risen to 8.1 per cent in 2003 from 7.9 per cent in 2001.

The luxury of adopting deficit financing is not an option today. There is no fiscal room left. The need of the hour is to reduce debt. This is why the Government

needs to be creative in restoring its revenue base back up to 20 percent of GDP from the current 16 percent of GDP and reduce the deficit below 5 percent in near term.

The Regaining Sri Lanka strategy failed to provide durable solutions to the economic challenges facing the nation, and instead deliberately pursued a neo-liberal economic policy of encouraging urbanization and the willful neglect of the rural economy. If this trend continued, with income earning opportunities only restricted to the urban rich and political cronies in the provinces, soon the nation would have become a ghetto. If the UNF policy of marginalizing the rural economy in order to force the rural poor to migrate to the urban areas to seek employment in menial support service jobs was allowed to continue, Sri Lanka would have created an ugly slum culture around Colombo, and the nation would have before long experienced destabilizing social unrest.

Creating Our Future

The strength of this nation lies uniquely within, and thus we need to architect the economy around our raw materials, natural resources, manpower skills, and the geographic location. We must develop policies that take advantage of our competitive strengths and proactively plan the development path based on a set of principles suitable for our culture, resources and our regional dynamics.

It is time to look ahead for opportunities to transform strategies into actions and make genuine progress towards sustainability for the benefit of the society, the environment and wealth creation in Sri Lanka. The country on a case by case basis must identify the best practices from around the world, and the cutting-edge technologies associated with each, and then make a determination, on a prioritized basis, with proper sequencing, which resources should be exploited, and which should be preserved for future use.

The strengthening of the social fabric, through the promotion of health care, income security, employment opportunities, food security and financial stability are means through which a government expresses its commitment to the well being of its nation. In the wake of declining performances of the well-being indices, this has become a necessity.

As a predominately agricultural, natural raw material and resource based economy, the future of this island is inextricably linked to its ecology and the use of its resources. Therefore, this Government will place all sectors on a sustainable footing as the concept serves the whole society—be it agriculture, export industry, tourism or power generation.

National Development Strategy

The economy, as enunciated in the Freedom Alliance manifesto will be built up through the complementary participation of a strong socially responsible private sector and a strong public sector. The policy framework will be based on market friendly, export oriented strategies supported by a strong regulatory and legal framework. The Government will be pro active in promoting socio-economic development and in particular rural development, environment protection and poverty reduction.

The objective of architecting the national economic policy is to provide the nation with an overall sense of the economic vision of the Freedom Alliance Government that it wishes the nation to adopt. Translating the Freedom Alliance manifesto in to constituent policies, the macro picture can be summarized as:

- "Pro poor-pro growth" income improvement and redistribution policy
- Government led investment to ensure an infrastructure and social development spending policy with primary emphasis on rural development
- Emphasis on food self sufficiency and modernization of agriculture for output maximization and post harvest processing
- SME focused stimulus package to boost domestic raw material based industries and local entrepreneur development
- Priority to create a 21st century workforce through educational reforms, human resources and skills development and to improve national productivity with a new work ethic towards performance excellence and innovation
- Promoting professional conduct in the state sector that can match and exceed private sector efficiency and to operate transparently, and free from political interference
- Elimination and reduction of waste, abuse, inefficiencies, negligence & corruption with full and equal force of the law to make the Government productive, accountable and people friendly
- Improving collection of taxes, fines, duties and other Government levies through the widening of the net and modern management and technological reforms of the overall revenue collection system
- Phasing out defence expenditure by establishing permanent peace and unity in the country amongst all groups on the basis of equality

- Increasing income generation and employment creation through the opening of hitherto untapped domestic market opportunities, and the targeted creation of value-added local raw material and resource based export industries that maximize Sri Lanka's competitive advantage
- Repositioning Sri Lanka as an eco-friendly, ecological wisdom conscious, pollution-free destination to tap lucrative, high-spending travellers thus ensuring a transition from quantity to quality orientation
- Improving the overall quality of life and social stability from rationalized redistribution initiatives and social safety net mechanisms that are fair and equitable
- Maintaining international credibility and domestic stability through prudent use of monetary and fiscal policies with timely assessments using advance performance measurements
- Monitoring and co-ordinating the government policy formulation and implementation mechanism to ensure timely and effective results

In economic development, thrust will be placed on domestic resource based economic activities with increased emphasis on agriculture, livestock, fisheries, industries and tourism. An island-wide infrastructure development programme and a social safety net to protect vulnerable groups (elderly, disabled, women and children) will get underway. Community managed social security programmes will be encouraged to promote participatory development.

Small and medium enterprise sector, as well as micro enterprises will be made the nerve center of economic development. Backward and forward linkages between the SME sector and large industries will be promoted through the development of appropriate physical and institutional infrastructure, infusion of technology and cutting-edge research, access to best management practices and marketing know-how, and provision of financial and other incentives. The small and medium enterprise sector, as well as micro enterprises will be made the nerve center of economic development. The venture capital industry will be developed to create a mentoring culture between investors and SME entrepreneurs.

The Government will be vigilant against any private sector monopolies, and will foster competition in the market. Equally, the Government will also maintain a balanced approach to protect domestic producers whilst also safeguarding the consumer interest. While promoting global trade relations, adequate safeguards will be put in place to protect the domestic economy from unfair import competition.

Public sector will play a lead role in the provision of education and health while promoting private sector participation in selected activities under regulatory supervision.

Sound financial management practices will be introduced to the public sector. Independent monitoring committees consisting of retired public servants, judges and retired private sector representatives will be appointed to spending agencies to undertake periodic performance assessments to ensure that public funds are used properly in the best interest of the society and also to promote public accountability. At grass root level, 'senior citizen committees' including also religious representatives will be formed, to identify development priorities at community level and to monitor village level socio development projects.

Foreign investments beneficial to such development activities and technological advancement as well as public-private partnerships in domestic resource based industries and development of infrastructure services such as rural telecommunications, electricity, water supply schemes, township development and urban garbage disposal facilities etc. will be encouraged.

Policy Briefs for Key Areas and Sectors

Public Enterprise Management

Sri Lanka is a victim of poor public sector performance in recent years. Realizable profits are dissipated in poor productivity, over manning, excessive wastage, soft budget constraints, and generally poor public sector management. This Government does not think that privatization is the sole answer to reverse this outcome. Thus the Government will take the challenge of making public enterprises generate bankable profit flows greater than the cash value that could be generated through privatization. Therefore, Bank of Ceylon, People's Bank, National Savings Bank, Electricity Board, Ports Authority, Railways, the regional bus companies, postal services, Water Supplies and Drainage Board and Petroleum Corporation which are recognized as to be strategic state enterprises, will not be privatized.

The Government will encourage competition by inviting private sector entry into these sectors to promote healthy private public competition. Immediate priority will be placed on the re-engineering of the Ceylon Electricity Board (CEB) with the restructuring of its balance sheet, the operation of independent business units within the CEB and implementing a long-term power generation plan to meet country's growing demand. People's Bank will be restructured to make it a viable financial institution. Regional bus companies and railways will be modernized to improve the transport system, which have been neglected for many years.

To spearhead efficient management, a Strategic Enterprise Management Agency (SEMA) has been set up. SEMA will be responsible for the overall supervision of strategic enterprises free from political interference ensuring freedom for commercial pricing, human resource management and procurement decisions. These enterprises will be required to obtain a market rating from a reputed credit rating agency to establish their performance strength. Non-strategic enterprises will be fully restructured in order to make them commercially viable, free from budgetary support.

By virtue of retaining state ownership of public enterprises, it is the duty of all state employees individually and collectively to generate significant positive market value for the enterprises, and to turn the loss makers into cash flow generators. All state enterprises will be required to pay profits and dividends to the national budget to improve government revenue.

The Public Service

Sri Lanka is blessed with educated and healthy manpower resources that have talent, expertise, indigenous knowledge and ambition to excel in a globalized environment. Exploiting these strengths the public service will be made efficient, transparent, accountable and people friendly. Even the non-profit, social service oriented government departments need to run efficiently and without waste, with higher productivity levels than private sector companies.

The state depends entirely on public money to run government organizations, and thus the public servants must be more responsible and efficient. Therefore, time based targets will be specified to turn around the government efficiency, and if those targets are met, public servants will be given incentives, both in cash and kind.

In the order of priority, departments of Inland Revenue, Customs and Excise will be modernized, managerial skills will be enhanced and autonomy to function as independent agencies free from political interferences will be strengthened in order to increase government revenue. Equally, vital institutions such as Department of Motor Traffic, Department of Immigration and Emigration, the Companies Registry, the Land Registry and the Department of Agriculture will be modernized with technology and human resources and made effective and customer oriented.

Redundant and outlived departments and agencies will be phased out. In addition to reducing government expenditure, this move will also release lot of urban space to be used for productive purposes. Existing regulatory agencies will be strengthened, and where necessary, new regulatory agencies will be created for effective governance.

About 27,000 graduate trainees to be recruited shortly, will be made "Change-Agents" in the state sector, after a comprehensive management training programme, to instill a new work ethic and culture. These Change Agents will be provided with training in languages like Tamil and English, and information technology, software usage, and a variety of skills improvement programmes so as to building an efficient and modern public service culture.

The Government has already set up an interim commission on administration to advise the Government on the public sector wage policy including the correction of prevailing anomalies, assessment of public service carder requirements in the context of the changing economic and social environment and to undertake preparatory work towards setting up a permanent commission on administration. Public service salary revisions will be effected following the recommendations of the interim commission on administration.

Scientific Research and Information Technology

Priority will be given to expand scientific research and access to information technology in order to strengthen the national economy. During the last two years, not only the expenditure on research and development has been curtailed, but the total neglect of such vital public institutions have thrown years of domestic research led economic activities to come to a standstill.

The Government proposes to strengthen all existing research and development agencies in agriculture, fisheries, pharmaceuticals, minerals, power generation, transport technologies, software, and industrial production of local raw material. Increased investments on scientific research will be complemented with linkages to tertiary educational institutions and skills training of researchers.

Popularization of information technology at school level, which was started in 1995 under our new education policy, will be given the highest priority, with emphasis to on-line research and collaboration. The Malabe Information Technology Training Center and other training initiatives will be further strengthened. The expansion of information technology and enabling services at agricultural and fisheries villages will be a major component of our production oriented economic policy.

Agriculture

The key economic objective of the Government is to assist our agricultural sector to attain self-sufficiency in food production and food security.

Tea, coconut and paddy as well as medicinal and aromatic plants and a large number of spices which are our national crops are largely smallholder activities and provide an ideal ownership structure for growth with equity. Development assistance by way of new technology, subsidized inputs such as fertilizer, seed and planting material, storage and credit facilities will be expanded to promote their production, value addition and exports.

Cultivation zones will be established for strategic food crops (potato, onion, vegetable etc.) fruits and horticulture development, particularly using organic fertilizer. These zones will be equipped and developed with storage and marketing infrastructure, distribution centers for supply of quality seeds and planting material for high value produce, nucleus and satellite farms linking small farmers through out-grower arrangements, technology centers to provide drip irrigation, green houses, dedicated banking and financial centers etc.

It is proposed to create organic farmer and sustainable development action groups comprising of farmers, soil experts, irrigation experts, ecologists,

environmentalists, nutritionists, community development workers, nutritional nurses, medical students, agricultural students, and media representatives to travel to remote areas to assist farmers and any displaced farming communities in the North and East.

The domestic private sector engaged in commercial agriculture, particularly in plantation crops and export agriculture will be encouraged for value addition. Similar action is being taken to promote sugar cane cultivation to reach self-sufficiency target in sugar production.

Intercropping arrangements in coconut lands and off-farm activities will be promoted to increase agricultural incomes through increased development assistance by way of grants and long-term loans.

The network of agricultural training and research institutions will be modernized and developed as agricultural technology training centers linked to provincial universities to transfer technology. Best performing farmers will be given regular off-farm and on-farm training through these centers.

Existing irrigation facilities will be rehabilitated and drought resistance technologies will be popularized to minimize the adverse impact of periodic droughts. The national revival of 10,000 village tanks, canals, and irrigation assets promised in the Freedom Alliance manifesto is perhaps a bigger project than the Mahaweli itself, in terms of its net benefits to the farmers, and indeed to the national economy. This mammoth task will not only hedge the potential threats to the economy from droughts that results in high food import bills but will also save on power generation costs.

Livestock

An organic livestock production system that will dramatically improve profit margins of farmers and also open up new export markets for them. This will also promote livestock development on a national scale enabling the achievement of milk self-sufficiency thus improving the health of our people.

Outsourcing arrangements will be encouraged to establish production and marketing links between small time producers and corporate sector producers. Government owned livestock farms will be developed as commercially run livestock development centers, each dedicated to a core activity and converted to a nucleus to assist small time farmers.

To reach self-sufficiency in milk production over the next 7 year period (currently only 20% of the local requirement is produced), SME's will be promoted in Ampara, Batticaloa, Hambantota, Kurunegala, Polonnaruwa, Mannar and Jaffna

districts. Incentives will be offered to promote dairy production as a household activity. Towards this, modern milk collection and processing centers will be setup and a national disease control programme will be introduced.

Dairy products complying with international quality standards will be developed and consumption of fresh milk will be popularized to reduce excessive reliance on the use of imported milk powder.

Fisheries

Fisheries sector development programme will consist of the modernization of existing harbour facilities, promoting multi-day fishing, developing coastal aquaculture, stocking reservoirs for inland fisheries, introducing new fishing technologies, improving storage facilities, setting up prawn farming zones with modern infrastructure and disease control systems, ornamental fish farming, setting up of wholesale and retail marketing outlets and uplifting the socio-economic conditions of the fisher folk.

Encouragement will be given to use fish waste from aquaculture and other fisheries activities to make by-products. Steps will be introduced to develop stocking of fingerlings in inland waters to provide gainful employment to fishermen in rural areas. Development of inland fisheries will also provide a cheap source of animal protein to the rural population. Local industries will be encouraged to manufacture fishing gear and boats.

Exports

Sri Lanka needs to consolidate its export competitiveness based on country's unique advantages. Incentives will be designed not only to encourage high ecological based production standards, but also to enable optimum value-addition to domestic raw material and resources. Marginal value-addition will be discouraged and premium value-addition will be promoted for domestic resource based agricultural and industrial products. A strong domestic raw material based export oriented economy will be built with a view to saving foreign exchange as well as earning a higher quantum of foreign exchange.

The Government will ban the export of local minerals in its raw form and encourage the establishment of processing and conversion plants to upgrade the industry towards a value-added finished goods export base. The Government will similarly steer other commodity exporters of natural resources and native skills based products, to seek the highest value addition possible.

The agricultural produce exporters will be motivated to move away from bulk to packaged exports. We should aim at tapping the international market at a “premium” price for Sri Lankan goods, by leveraging the national “ecology” position and the “sustainable” production practice reputation.

As much as the country could adopt modern manufacturing technology and management practices, introduce state-of-the-art packaging and brand name marketing to make international consumers reap full “value-added” products, this country should also aim at positioning itself as a “socially responsible civic and corporate citizen” and an “environment friendly manufacturer”, to gain a competitive global market advantage.

Textile and Apparel Industry

The apparel industry occupies a pivotal position in the national economy as a lead export industry and a major employment provider. The Government will provide maximum assistance to consolidate its lead role in the national economy and position the industry on a stronger footing to perform efficiently during the post 2005 era when it has to perform in a quota free regime.

The Government will promote global market access, in keeping with the policy strategy adopted by the previous People’s Alliance administration to establish bilateral arrangements with the EU markets. Similar arrangements will be exploited with other markets.

Special assistance will be extended to meet needs of buyers such as product designing, brand name promotions, opening of promotion offices, trade lobbying and business development in global markets and to comply with relevant standards in respect of labour, environment, corporate governance and socially responsible corporate behaviour to consolidate their markets.

The Government will take a special interest in assisting garment industry to leverage Sri Lanka as an apparel producer that is the only socially responsible business practitioner in Asia totally dedicated to “environmental and ecological sustainability” as well as an industry committed to eliminate human rights violations and child labour abuses.

Small and Medium Scale Industries

To spearhead the domestic industrial output, SME entrepreneurs will be promoted by the Government, through the establishment of multi-prong support mechanism consisting of the following common elements:

- Streamlining of bureaucratic procedures and regulations, value added tax administration, customs regulations and export procedures affecting small business operations
- Increasing training to SME's including assistance for SME associations to launch training schemes and specialist entrepreneur development courses at universities and technical institutes
- Comprehensive technical support for SME's in the areas of quality management, productivity improvement, other technical services and Internet access. Grants for SME's to obtain ISO 9000/14000 certification, creating productivity centres for SME's and re-organizing public technology institutions to provide better services for SME's
- Access to venture capital equity funds and SME development finance at competitive interest rates, with training for bank staff in assessing SME lending risks, micro-finance and specialist soft loans for SME's
- Programmes to foster the emergence and deepening of a few, selected industrial clusters in line with comparative advantage. Appropriate measures will include the provision of training, technical support and finance for selected industries and geographical locations
- An efficient and cost-competitive infrastructure for enterprise development with respect to air and sea cargo, telecommunications, internet infrastructure and electricity. Special infrastructure schemes for SME's (e.g. industrial estates and reduced internet charges) to be encouraged depending on local conditions

The Government will actively canvas for the involvement of other international and local players who can bring externalities and synergies and contribute to future SME success in an integrated world economy. Donors also have a supportive role to play in the development of national SME competitiveness strategy by providing access to best practice knowledge, upgrading the capacity of SME associations in sourcing high quality technical assistance and committing significant financial resources to SME competitiveness programmes.

An effective system of monitoring and evaluation will be formulated to ensure that SME competitiveness strategies in the country are sustainable in the medium-term. This may require the collection of new information on SME manufacturing capabilities and exports (e.g. benchmarking SME's) and the development of new methods to evaluate the outcome of SME strategies.

SME Zones and Townships will also be developed to promote thrust industries (light engineering, rubber, coconut based products, wooden furniture and leather) based on domestic resources. Manufacturers dedicated to the promotion of nature friendly products will be identified and linked with the SME sector to

position them on a new footing. Venture capital funding, product development research and market development assistance will also be provided.

Industrial Restructuring

Presently, Sri Lanka lacks an effective institutional mechanism to facilitate the restructuring of financially troubled enterprises. The Government proposes to introduce a legislative framework to fill this lacuna. A dedicated agency consisting of experts from both private and public sectors will be created to assist and co-ordinate the restructuring of industries that could be turned into financially viable enterprises.

This framework will provide for a moratorium on debt payable without interest on such debt, repositioning of the workforce during restructuring, speedy reorganization and formulation of business structures, systematic focusing on core business activities and an efficient liquidation process for non viable business entities. Financial institutions will be encouraged to play a proactive role in this process.

Tourism

The Government's aim is to position Sri Lanka as an "Ecological Paradise," by unifying an overall national asset development theme based on our unique competitive advantage of environmental sustainability and indigenous practices.

The Government recognizes the need to refocus the tourism sector towards building small, high quality up-market resorts, instead of the large, resource dominating mass market resorts. A shift from a quantity to a quality focus through targeted support for the smaller niche local players who are better equipped to provide the personalized service for up market travellers and identify a unique branding proposition that appeals to contemporary needs.

The integration of the village and the environment form one seamless hospitality industry hosting community will be developed to widen the economic linkages of the tourism industry.

The development of local crafts, indigenous practices, and local produce supply opportunities will be an inevitable benefit when the up-market niche is catered to by small boutique hotels run by individual entrepreneurs. This strategy will enable a greater dispersion of income from tourism to the more interior parts of the country, where the countryside and valuable local attractions, and local eco based activities, will spur growth.

Temple based meditation sessions, native medicine based spa treatments, organic paddy farm work stays, and ecology attraction study groups and other specialty interest alternative holiday seekers will be promoted.

Sri Lanka, as a destination is blessed with a variety of attractions to cater to the diverse interests of up market visitors. Affluent tourists from Western Europe, India and the Far East will be tapped with innovative programmes, including the development of regional land and water based airports for private aircraft and ocean berthing facilities for sailing yachts and internal sightseeing through alternative modes of travel such as ballooning and river cruises. Inland lakes and plantation sights will be promoted as eco-protected zones for eco-tourists.

The protection of the vast ecological assets of Sri Lanka, and the archeological assets, and the prime property assets will be a top priority whilst encouraging tourist patronage and the necessary infrastructure development.

The Government will be vigilant and act swiftly against any negative impact to the environment and local social values that may arise from irresponsible tourism development. The hoteliers and guesthouse owners will be made stakeholders of this process with the local authorities being in charge of maintaining safe and clean areas with modern common amenities, given the economic benefits accruing to all.

Construction Industry

The construction industry is constrained by foreign competition, the lack of long-term capital sources, and an inadequate public investment programme. In order to provide funding facilities the previous PA regime established a Construction Industry Guarantee Fund. This will be further developed to assist the industry to raise required financing.

System failures in procurement procedures and practices of the Government will be corrected to assist the local construction industry. Maximum opportunities for the participation of local contractors in foreign funded projects will be explored with assistance to upgrade managerial and technological capabilities of the local construction industry.

Presently, the construction industry relies on a wide variety of imported inputs, from light fittings, to bathroom fittings. This causes the nation to incur a heavy foreign exchange bill, while leading to the demise of local resource based raw material producers. The sourcing and the manufacture of construction industry materials based on local raw material will be actively encouraged, with research and development assistance provided to develop unique building material suitable for local and export market needs.

Technologically advanced construction techniques, and the development of high-tech fixtures built from local raw material will be supported with credit to attain self-sufficiency in input needs.

Regulatory arrangements in the construction industry will be streamlined and strengthened to prevent unfair business practices, and most importantly in the standardization of components and raw material to ensure uniform quality standards and to minimize excessive usage of material.

Housing

Housing is another simmering problem for the growing urban population in the emerging urban centres. The previous efforts to eradicate the housing needs of the poor and the lower middle class need to be revived to arrest the growing problem of habitat development. The slum dwellers in the city need to be relocated and housed, along with improvements for estate sector worker accommodation facilities. The large garment industry worker population is similarly without proper and adequate accommodation facilities. The townships that have grown are inadequately serviced with sewerage treatment, drinking water and other important amenities. Schools, and other vital infrastructure support mechanisms need to be put in place.

The Government will also embark on a housing development programmes for urban shanty dwellers through the Real Estate Exchange programmes and encourage the banking system, the provident funds, savings banks and the private sector to participate in the development of low cost housing construction projects for public servants, migrant workers, service personnel, plantation workers, rural population and new settlements in the conflict affected areas using the local construction industry. Altogether, it is proposed to target building 300,000 housing units islandwide.

Public Transport

The public transport system needs serious attention. Regional bus companies and the railways need to be redeveloped as efficient transport agencies responsive to the needs of commuters.

The State will increase the operational bus fleet of the regional bus companies and improve route diversity, off-peak hour and peak-hour schedule frequency, and foster a healthy private–public bus service that conforms to timetables, and a mix of adequate profitable and mandatory non-profitable route allocations to each bus owner. The present corrupt practices, harassments, and administrative bottlenecks preventing efficient operations will be removed by proper law enforcement and streamlined administration.

The efficient co-existence of private and government bus companies will be ensured and fair competition and commuter friendly service at all times will be promoted.

The railways will be modernized with an increase in the rolling stock and through the repair of neglected carriages, and public station facilities. Train passenger usage will be increased through service reliability and a move towards a frequency based timetable instead of the current schedule based timetable that does not foster convenience. A modern technology based train networks built using local raw material and resources and the electrification will be explored in co-operation with friendly nations.

A fare structure, based on an agreed Internal Rate of Return (IRR), considering the operational costs and social responsibilities of the state will be put in place, and implemented under regulatory supervision, free from political interference.

Local industries will be encouraged to manufacture a wide range of products needed for the operation of the bus fleet and railway services.

Infrastructure

The national infrastructure, be it the vast ancient irrigation assets so vital for our agriculture, or the national road and rail network that facilitate transport, or the power generation capacity that supports our industries, or regional port facilities that support our exports, or the development of hospitals and medical facilities so vital for our people's health, or the extension of tertiary education facilities and research institutes so vital for our progressive knowledge, are at its worst levels of upkeep. The serious cut backs in investments into these vital areas has weakened our nation's competitiveness and placed growth impediments. The slow attrition of facilities is stifling the nation's fast growth. The country cannot rely on the private sector to build these vital areas, as it is the duty and responsibility of the Government. The Government recognizes this important gap in the development model, and will be placing it as its highest priority since poverty reduction and balance regional development require a well-developed road network transport services, electricity and other infrastructure facilities.

The expansion of the expressway network through the early completion of Colombo-Matara and Colombo-Katunayake highways with Colombo outer circular road and other access roads will be a priority. Equal emphasis will also be placed on expanding the road network linking the Northern and Eastern areas as well as the up country areas, to increase greater mobility.

The implementation of the country's already behind schedule power generation plan which includes identified hydro power projects as well as the proposed coal

power projects will be made the highest national priority in order to shift from the currently high power cost structure to a least cost power generation arrangement from 2008. However, in implementing all large infrastructure projects, maximum consultation with concern groups will be encouraged to minimize social and environmental cost of such development activities.

The Colombo South Port development programme, Galle Port, airport terminal facility and Air Cargo Village will be the immediate development priorities in the ports sector while promoting regional ports in the North and East over the medium term.

The Government's infrastructure development strategy which is primarily designed to reduce regional income and wealth disparities and promote several provincial growth centers will also include the expansion of dedicated economic centers, storage facilities, recreation and leisure facilities, community infrastructure, urban and rural water supply schemes and technology parks to fill important gaps in provincial infrastructure facilities.

International Trade Policy

The trade policy will be based on the promotion of a well-diversified (product as well as markets) export economy, competitive domestic production using local resources to reduce imports and a mutually beneficial bilateral trade and investment treaties to promote trade and investment.

Duty on all agricultural commodities will be maintained at the high duty range of 25-35 percent or such other appropriate specific rates to insulate pressure on domestic agriculture from distorted trade policies of other countries and to encourage domestic production of all major agricultural crops and improve food security. A moderate tariff for manufactured goods with local value addition and a lower tariff for machinery, equipment and raw material, will be the structure of industrial tariff.

A review of the prevailing multiple tariff rate structure and the trade policy would be undertaken with a view to provide justifiable support for viable domestic industries and to safeguard them against unfair trade practices. All imports and local purchases for the manufacturing of export goods will be made duty and tax free to promote exports. Local producers catering to export industries (indirect exporters) will also be given similar incentives.

Corporate Sector Economy

The corporate sector which is engaged in fairly diversified economic activities such as the large plantation, manufacturing industries, tourism, health services,

banking and finance and a large number of foreign investors who are well established particularly in telecommunications, power generation, petroleum products, banking and insurance and manufacturing will be encouraged and supported through the removal of impediments to smoothen business activities and through the introduction of an investor friendly and a honest, efficient and transparent administration.

The corporate sector, which enjoys strong balance sheets with well-diversified business portfolios, is encouraged to adopt best practices and innovations in value creation. This would deepen the development of the equity market as well as the corporate debt market, which are vital in raising investments. Regulatory agencies such as the Securities and Exchange Commission and Registrar of Companies will be strengthened with a view to promoting corporate governance and stability.

In promoting foreign investments, Sri Lanka will be positioned as the Ethical Investment Capital of the world, and built as a nation dedicated to the principles of environmental friendly development. Special focus will be given to promote mutually beneficial foreign investment in building a strong national economy. The corporate sector will be encouraged to adopt socially responsible, environmentally safe business practices. Incentives to investors will be targeted at environment friendly, zero-pollution, low-energy consuming and innovative products beneficial to the overall value addition in the country.

Legal and Regulatory Structure

The modernization of country's legal and regulatory framework is essential for the promotion of the business environment and to reduce transaction cost of business operations. This Government will place a significant emphasis on commercial law reforms, capacity building in the judicial and legal profession through specialized training, modernization of physical infrastructure and technology to improve efficiency and quality of judicial and legal services. Commercial and financial statutes will be reviewed and new legislations addressing institutional aspects and their transactions will be introduced. The Company Registry will be modernized and a new Companies Act will be introduced with a view to providing a business friendly governance structure.

Financial Sector

At present the nation is enjoying a low interest rate regime. This position should be consolidated in order to create new economic growth areas and promote SME led economic activities. Towards this end the Government will not only commit itself to a systematic reduction in the budget deficit, but also to maintain a proper

balance in foreign and domestic borrowings in order to avoid undue pressure on interest rates and the exchange rate.

However, despite the overall reduction in interest rates in recent years, the gap between deposit rates and the rate at which lending is made in the banking and financial sector remains at the same level as during the high interest rate regime in the past. Although state banks are blamed for this, it is a common phenomenon in the country's financial system. Regulatory surveillance needs to be strengthened to reduce this high intermediate cost and intensify market competition.

Regulatory framework in the banking, financial and insurance industry needs to be strengthened to foster competition and encourage all financial institutions to divert more funds to develop production sectors and rural development and move away from the traditional bias towards trade financing. A single regulatory arrangement for the non-bank financial sector will be considered in order to rationalize the operation of multiple regulatory agencies.

The state banks will be strengthened as strategic state enterprises to improve their financial viability and compete aggressively and effectively in the financial sector and remove market imperfections. The banking and financial institutions are encouraged to expand their institutional network with technology to less developed areas in the country to make them effective partners in rural development. Financial sector reforms will give a new focus to encourage banking and financial institutions to increase their portfolio towards medium and long term lending through the development of new financial instruments.

In order to deepen the corporate bond market, a comprehensive legislation on debt securitization will be introduced. Regulatory reforms are required to remove market imperfections in the long-term debt market, which is often influenced by speculative actions in the short-term money market.

The Central Bank autonomy in conducting the monetary policy, regulatory responsibilities and consolidating its core activities will be strengthened and legislations relating to money laundering, electronic transactions and computer crimes will be introduced early.

Macro Economic Policy

The macro economic policy vision is to position Sri Lanka as a modern economy free from corruption and political interferences, with equal opportunities to every citizen and to emerge as an environment friendly development center in the region. A GDP growth of 6 - 8 per cent generated primarily from diversified domestic resource based activities scattered throughout the country, backed by

modern infrastructure to ensure a balance regional development and reduction of poverty, will be the key target. Acceleration of rehabilitation and reconstruction work in conflict affected areas, implementation of islandwide infrastructure development and domestic resource based value addition are expected to provide a further impetus to the growth process.

The Government will maintain a liberal foreign exchange policy environment with regulatory safeguards to promote a stable foreign exchange market. While preserving external reserves, the Central Bank will intervene to promote an active market and to dampen any unwarranted market fluctuation in the exchange rate. Large capital flows will be closely monitored by the Central Bank to maintain stability in the market.

The monetary policy would be primarily designed to prevent demand fuelled inflationary pressures in the economy. Monetary policy will also promote a proper balance between savings and investments by ensuring real positive rate of return to savers. Central Bank will closely examine commercial banks to ensure that spreads between deposit rates and lending rates would be maintained at levels comparables within the region and in line with a justifiable return on investment.

Budgetary and Fiscal Policy

The immediate priority of the Government is to reverse the prevailing adverse trends in fiscal development on a sustainable basis to facilitate economic growth and macro economic stability. The recent strategy to compress capital expenditure to keep the budget deficit target should be stopped since it adversely affects long-term economic growth. The major weaknesses in the country's fiscal system are directly associated with the weakening revenue effort of the Government.

Government Revenue

Government revenue in relation to GDP has declined from over 20 percent in 1990 to below 16 percent in 2003 due to application of tax amnesties, many exemptions, generous concessions, weakening performance of public enterprises which make inadequate or no return on investment and the rundown tax administration. The current level of taxation is grossly inadequate given the level of per capita income. Stagnation of non-tax revenue in relation to GDP should also be stopped.

The overall medium term revenue strategy of the Government will include the introduction of an efficient and modern tax administration, mobilization of maximum yield from the present tax structure and improving the financial performance of public enterprises to enhance non-tax revenue flows. In the

pursuit of this goal, prevailing tax loopholes arising from tax amnesty laws as well as from other concessions, leakages and abuses will be eliminated. Enabling legislations with regard to 2003 and 2004 budget proposals will be placed before Parliament soon in order to regularize various administrative actions taken in respect of budget proposals.

A new organizational structure for the Department of Inland Revenue that will establish inter revenue departmental co-ordination, IT facilities, an effective enforcement mechanism and tax audit will come into force shortly. The new Strategic Enterprise Management Agency (SEMA) is expected to commercialize important state enterprises to generate required return on investment as their contribution to the Budget. The Government aims at moving towards 20 percent revenue/GDP target to contain fiscal deficit below 5 percent of GDP over the medium term keeping in line with the provisions of the Fiscal Management (Responsibility) Act of 2002, while accommodating Government's public investment objectives.

Public Expenditure

A policy based, sector oriented budgeting within a medium term budget framework will be the basis of national budgeted preparation. The 2005 budget will be made within this framework in order to incorporate the aforementioned development strategy of the Government. Line ministries will be empowered to operate within their sector ceilings in budget preparation and implementation. Public investments will be protected to ensure that planned development in infrastructure, human resources and rural development is realized. Wasteful expenditure will be eliminated through strict financial controls, audit and constant reviews. The new procurement laws and regulations are expected to reduce transaction costs considerably.

An equally important aspect in public expenditure policy is the prudent management of public debt since cost of interest accounts for 7 percent of GDP and absorb a solid 45 percent of Government revenue. The Government will maintain its balance in selecting a proper mix of domestic and foreign financing, having regard to exchange risks and other vulnerabilities.

Financial discipline and prudent financial management in the public sector will be given highest priority in order to promote financial stability. Financial imbalances in the public sector particularly in the large public enterprises will be eliminated to reduce potential fiscal risks and to prevent foreign borrowings.

Medium Term Deficit Reduction Framework

The Government is committed to a phase reduction of the budget deficit within a medium term budget framework to ensure an orderly correction of structural

weaknesses. As a beginning, the Government will contain this year's deficit below 8 percent of GDP with an appropriate balance between foreign financing and domestic borrowings in order to consolidate the current low interest rate regime, which is essential to provide a growth stimulus. A further consolidation of the fiscal position will be made during a three-year period commencing from 2005, with a view to reducing the deficit to about 5 percent of GDP that would accommodate a higher public investment level in excess of 7 percent of GDP.

Public Investment and Effective Use of Resources

The success of the next 6-years of development will depend primarily on the quality and direction of public investments. Therefore, the major budgetary focus is to shift government spending away from low-priority areas towards high-priority areas. Only government spending can promote the needed improvements in rural infrastructure, health and education while private spending can promote the needed improvements in productive enterprises.

Sri Lanka has also been fortunate to be able to mobilize larger aid flows for infrastructure development. A concerted effort will be made to expeditiously use unutilized foreign aid commitments of over US\$3,000 million in addition to the productive use of domestically available rupee resources worth a further US\$ 1,500 million. A National Procurement Agency (NPA) is being set up to formulate and implement a rational procurement system that will not impede implementation. The NPA will also closely collaborate with donor commitments to formulate harmonized procurement procedures and guidelines to facilitate effective use of committed funds in an accountable and transparent manner. Implementation capacity at all levels will also be improved. The aim of the Government is to raise public investment from the current low level of 5 percent of GDP to 8 percent of GDP over the medium term to support a regionally balance economic growth process in Sri Lanka.

Education

Education is central to economic growth and poverty reduction. Hence, achieving excellence in education with equity was the hallmark of the vision of the Education Reforms that were initiated in the primary, secondary and tertiary sectors since 1998. The intention was to transform and modernize the education system so that our children will be equipped with the requisite knowledge, skills and attitudes suited to face the rapid changes occurring in the socio-economic and global landscape of the 21st century. Fundamental to this comprehensive education development programme is improving access to education by eliminating disparities and ensuring equity.

This Government will ensure that these changes will be implemented in accordance with the plans of the Education Reforms. The teacher training programmes through the National Colleges of Education and in-service teacher training at zonal and divisional level will be made comprehensive and implemented in a systematic manner. Restructuring the public examinations and the School Based Assessment system in accordance with the nature of the new curricula will be implemented. In addition, new programmes will be developed to train principals and teachers, empowering them to be leaders and managers through the School Based Management (SBM) programme.

The rural school development programme upgrading selected schools in each Divisional Secretariat Division – the “Navodaya” project will be accelerated to cover all the districts in the country. Similarly, reviving the Central schools, developing the schools in the plantation sector and those in the North & East will be implemented expeditiously.

Strengthening national integration at school level through the Amity Class Room initiative will be expedited. Through this initiative, children of all communities will be able to study together. The comprehensive programme developed for introduction of Information Technology into the secondary school curriculum will be put into operation.

The wide range of welfare measures that were introduced during the PA administration like nutrition intervention at Grade 1, counselling and guidance for senior school students, scholarship schemes for the disadvantaged and streamlining the distribution of free books and uniforms, will be further expanded and implemented effectively.

Initiatives taken to strengthen English language teaching at all grades will be implemented with new teacher training programmes and by making available all the required books. A dedicated institute for teacher training in English will be established. In addition partnerships will be developed with recognized institutes in India for the same purpose. The National Colleges of Education and the Technical College will include English teacher training into its curricula and syllabuses.

The key focus in university education and the technical and vocational education sector would be to develop and strengthen the existing university system, so that the student placements could be increased and the quality of teaching enhanced. The capital and recurrent expenditure allocation for each university will be increased and steps will be taken to attract the best lecturers into the system.

A more meaningful match between vocational education and training and the rapidly changing labour market demands need to be achieved. The mission and mandate of the Sri Lanka Institute of Advanced Technical Education (SLIATE), the Tertiary & Vocational Education Commission (TVEC), National Institute of Technical Education, Vocational Training Authority will be re-designed so that they could be incorporated within a broad framework encompassing the technical and vocational sectors.

The existing, free, state education system of the primary, secondary, tertiary sectors will be preserved, strengthened and developed.

Health Care

This government believes in providing equitable health care service to the people of this country with compassion and care. It will take note of the emerging demographic trends and other changes that have caused a distinctive shift in patterns affecting our population. Thereby non-communicable diseases such as cancer, diabetes, cardiovascular and respiratory diseases have emerged as the most frequently diagnosed conditions leading to high morbidity and mortality.

Special measures will be taken to address the systems of overcrowding of state hospitals, long waiting lists for surgeries, ineffective referral systems and the lack of necessary facilities for basic health care. High priority community health needs will be addressed to ensure that all district and base hospitals and the primary health care centers all over the country will deliver an effective service to the poor. Mobile health clinics will be introduced to address the concerns of those in very rural areas with no access to hospitals. A special policy will be developed to make freely available, good quality pharmaceuticals to state hospitals and at reasonable price via the private sector.

The nutrition status of children and pregnant mothers will be improved through cost-effective nutrition intervention programmes at school and at field level through maternal and child health clinics. The incidence of non-communicable diseases will be kept low through extensive health education programmes and primary prevention measures. Special attention will be paid to free the nation of diseases such as malaria and dengue hemorrhagic fever, and the expanded immunization programme which boasts of much success, will be strengthened and developed.

Expanding opportunities for practicing indigenous medicine, promoting herbal medicine through research and development work in this area and promoting private and public sector Ayurvedic health care facilities will be expedited. Maximum care will be provided for disadvantaged groups such as those with

mental and physical handicaps, the fast increasing geriatric population, and children through specialized and advanced centers in pediatrics.

Innovative programmes for developing secondary and tertiary, private hospitals in all parts of the country will be formulated by encouraging private sector investments of high quality and good reputation. Regulatory systems and standards maintenance for all private sector generated health care methods will be initiated. A high quality private and public mix, in health care delivery, with cross-subsidizing schemes (i.e. two-tier systems) are to be established with carefully designed national health insurance programmes.

The North East Rehabilitation and Reconstruction

The Government believes that the relief and rehabilitation effort in the North and East is an area of common agreement for all stakeholders in the peace process. Accordingly the Government seeks speedy implementation of the existing RRR framework and meeting the needs identified in the Needs Assessment Survey. Priority will be given to projects and programmes for poverty reductions and reconstruction in order to strengthen the peace process on the ground. The Government hopes to implement an accelerated fast track programme of relief and rehabilitation implemented primarily through the North-East Provincial Council (NEPC) and the District Secretariats (GAs). Moreover, the Ministry of Relief, Rehabilitation and Reconciliation would be the apex co-ordinating and policy formulating body coming directly under the President. The Ministry would also act as implementers of the last resort.

Social Welfare and Empowering the Poor

Empowering the poor and lower income segment including those living in conflict-affected areas is a primary responsibility of the Government. There is an urgent need to increase social welfare spending on the victims of conflicts, the disabled, orphans, destitute children and the elderly poor. Community based solutions to provide assistance for such disadvantage and vulnerable groups will be adopted. A wide range of community driven initiatives will be launched to empower poor communities to engineer themselves out of poverty. The financial assistance provided by the Government through Samurdhi and such other programmes will be better focused to ensure that the truly needy people will benefit. Productive opportunities by way of providing access to credit, land, markets etc. will be provided to the deserving poor to engage them in gainful income earning activities.

Employment, Skills Development and Labour Relations

The Creation of employment at all levels through a countrywide production drive will be the key objective of aforementioned sector policy strategies. A major production drive using synergies of both the private sector and the public sector with emphasis to the SME's and micro enterprises will be launched. The priority sectors identified for the production drive are agricultural, livestock, fisheries, tourism, and infrastructure development and small and medium industries.

The creation of productive employment opportunities for the youth requires government intervention through the provision of on- the- job training and skills development programmes undertaken by both government and private sector organizations. Already the Government has embarked on this task despite many economic constraints. All vocational and training institutes will be utilized to implement accelerated skills development programmes to enable country's labour force to be more productive in wealth creation. It is the responsibility of the Government to make use of their talents productively and provide a conduit for them to enter into gainful employment. Private sector will be encouraged to share this responsibility by providing increased employment opportunities as well as skills development programmes to the youth. Donor support will also be mobilized towards this task.

The Government is committed to ensure welfare of the working population in the country. Social security and health insurance schemes, housing facilities and skills development programmes will be promoted. The Government will promote a dialogue with trade unions and private sector to improve labour relations and to streamline disputes settlement procedures and encourage collective agreements to ensure worker welfare and productivity improvements.

Cost of Living

The prices of essential commodities are high due to inadequate production, irregular supply conditions, the absence of proper transport system to take production to markets, poor post harvest practices, breakdown in the Government intervention mechanism such as the running down of country's storage network and existence of monopolistic practices by key food product importers and producers.

In order to provide essential items at affordable, market-competitive prices, incentives will be provided to improve food production efficiency, popularize post harvest processing and packaging technologies and end-consumer delivery mechanisms. In addition to the acceleration of local production, marketing channels will be improved to cater to the poor and low-income families.

A regular price surveillance mechanism will be introduced to ensure competitive prices for essential food items, including the introduction of profit percentage caps through an Internal Rate of Return (IRR) index. The IRR index will be extended to non-food items like public transport and other services. Consumer societies will be formed to protect consumers from unfair market manipulations and the use of production methods that have negative health effects.

Policy Formulation and Implementation

The recent practice of relying on committee systems to formulate and implement policies has reduced the efficiency of the government due to lack of ownership and involvement by relevant implementing agencies. There is also no effective co-ordinating body to ensure speedy implementation. The Government has already set up the National Council for Economic Development (NCED) - a permanent secretariat, which will be managed by a team of well qualified professionals drawn from both public and private sectors to improve policy formulation and implementation in a well co-ordinated framework.

Line ministries and agencies will be empowered to perform their day-to-day activities efficiently and respond to the needs of the people in a timely manner. The NCED will be responsible for the formulation of national policies involving all stakeholders and monitoring and implementation of such policies through the relevant line ministries and agencies. The NCED is organized in terms of key economic and social sectors to ensure better coordination in policy formulation and implementation. The NCED will also coordinate donor activities and provide a forum for the private sector to take up their concerns and any unresolved issues. It will also promote private- public partnerships in policy formulation and provide a conduit for the private sector and other stakeholders for a regular dialog with the Government.

Conclusion

The present Government aims at achieving a regionally balanced economic development with a GDP growth in the range of 6-8 percent over the medium term. The Government considers that an economic policy framework in which both private sector and public sector play proactive roles is best suited to achieve the above objective in a sustainable manner and develop a strong national economy in our country. The gradual increase in both public investment and private investment is necessary to support the growth stimulus. Public sector will aim at mobilizing revenue not only from a higher tax effort, but also from raising profits and dividends of state enterprises to meet its development expenditure without pre-empting available funds to private sector led economic activities.

The Government will provide policy support to those sectors, which can create new capacity in the economy. The main thrust in this development effort will be placed on domestic resource based economic activities with increased emphasis to agriculture, livestock, fisheries, SME's and tourism. An islandwide infrastructure development programme will get under way to provide greater access to markets. The social safety net will focus vulnerable segment of our population. Community managed social security programmes will be encouraged to provide welfare to the needy people.

The Government will be vigilant against any private sector monopolies and will foster competition. Public enterprises will not be privatized and private sector will be encouraged to compete with public enterprises. Public procurement system will be rationalized in order improve the efficiency and transparency of Government transactions. Overall policy formulation and implementation will be co-ordinated to ensure timely action and results. National Council for Economic Development together with the Department of National Planning and Ministry of Finance will engage in a dialogue with line ministries, trade unions, the private sector, the civil society and the donor community, to formulate detailed action plans consistent with this broad policy framework and to make the Freedom Alliance manifesto a reality.

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