



**BUDGET SPEECH 2004**  
**Parts I - III**

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Hon. Speaker, it gives me both pleasure and honour to present to this House, and to the People of Sri Lanka, the Budget 2004 of the United National Front Government.

## **PART I THE PRESENT STATE OF THE ECONOMY**

### **Economic Performance 2003**

I will commence by placing before this House the progress of the economy this year, 2003.

In my last two Budget Speeches, I emphasised the importance this Government attaches to having consistency in its budgetary and fiscal policies so as to ensure well-planned and sustained economic development, and the confidence that the continuity of policies brings with it. This strategy we commenced in our first year in Government, namely 2002, and continued through the Budget of 2003. The strategy has yielded results and benefited almost every sector of our economy. Simultaneously, it has identified a few areas which require strengthening. I will therefore commence my Speech by placing before this House an overview of the economy as it stands at the conclusion of the first 10 months of this year, and thereafter indicate how we propose to further in 2004, the progress made in 2002 and 2003.

Overall, I could state objectively and with conviction that we now have in place an economy which is on the upward march. The collective determination of all Members of the United National Front Government under the stewardship of Prime Minister, Ranil Wickremesinghe, to establish peace and rejuvenate our country's economy, backed by the ready support received from all right-thinking citizens of Sri Lanka and the public service, has enabled the Government to

retrieve our economy from the state of total collapse we found it when this Government assumed office two years ago.

### **Growth**

Our sustained effort has enabled us to achieve a growth rate of 5.6% in the first six months of this year, and earn for Sri Lanka the confidence of nations. This Government has therefore turned a negative growth of 1.5% under the previous regime in 2001 to an appreciably higher rate of growth. A growth of 5.6% is considered very satisfactory for an emerging economy, such as ours.

### **Sectoral Performance**

The services sector is safely estimated to achieve a growth of 6.8% for 2003, with banking and financial services, tourism and telecommunication being the principal contributors. The industrial sector has recorded a growth of 5.8%. These two sectors together make-up 80% of the economy.

The country has had two unprecedented paddy harvests this year. The Treasury has advanced to the cooperatives through the Divisional Secretaries the aggregate sum of Rs. 900 Million to enable the purchase of paddy at Rs. 13.50 per Kg., thereby giving the farmer the guaranteed price.

Nevertheless, the agriculture sector growth remains low at 1.7% and

requires particular attention to improve quality and productivity.

A notable development has been the entry of the private sector in developing non-traditional vegetable and fruit cultivation for export, and in the training of out-growers to improve quality and productivity.

### **Revenue**

A drop in tax revenue collection has occurred. I shall later explain the reasons for this, and what remedial measures have been put in place and are proposed in this Budget to arrest the decline.

### **The Budget Deficit**

The budget deficit was reduced from 10.8% in 2001, to 8.9% during 2002, our first year in office. For this year, despite the adverse effects of certain international occurrences and the floods in May last, we have curtailed the budget deficit at 7.8% of GDP.

### **The Public Debt**

We have repeatedly emphasised the need to bring down our public debt which had reached unsustainable levels and in the Fiscal Management Responsibility Act indicated the planned reduction in the public debt. We have been successful in reducing the public debt from 103% of GDP in 2001 to 100% this year. The external debt service ratio has been reduced to 9.2%

### **Exports**

Despite the war in Iraq and the general international economic slow-down, export earnings made a strong recovery and are 10% higher in Dollar

terms than last year. This was primarily due to the strong performance of industrial exports which grew by 12%.

### **External Assets**

The total external assets of the country has increased to approximately U.S. Dollars 2.9 billion up to date, and is expected to be U.S. Dollars 3 billion by the year end. This is sufficient to cover the cost of 5.2 months of imports, the highest level achieved in the past six years.

### **Foreign Direct Investment**

Foreign direct investment has increased from U.S. Dollars 82 million in 2001 to almost U.S. Dollars 230 million this year, demonstrating confidence in our progress. This inflow will contribute significantly to enhance industrial production and thereby provide greater employment opportunities. The country will also benefit by the transfer of technology and skills.

### **Stability of the Rupee**

A notable development during the past year was the appreciation of the Sri Lankan Rupee in the international currency market. The independently floating exchange rate backed by the revival of our economy, and the decline of the US dollar against other currencies, have conjoined to result in a stronger Rupee. Sri Lankans had over the past decade accepted with complacency and resignation the concept of a weak Rupee rate prevailing indefinitely. We have shaken this complacency by achieving for our currency an enhanced value, and

the financial strength and dignity which goes with it. We must look at this new achievement positively rather than in a negative and self-serving way, as some are apt to do. We must deploy it in furthering the interests of our people as a whole, rather than moving to protect sectoral interests. Whilst I appreciate the need to protect certain sectors, particularly the export sector, we shall move in a careful manner. The overall beneficial impact on the economy remains steadfastly in my mind. I see in this development the opportunity to further reduce inflation. In a country so heavily dependent on imports, the rupee appreciation could be used to reduce the cost of imported goods, and thereby the cost of living. Both the local and export industries could benefit by reduction in the cost of imported inputs used in production of finished goods. Confidence could be further built in the eyes of potential direct foreign investors. No purpose is served by freely floating the rupee, and nevertheless using artificial means to prevent its finding its true international market level. The Government sincerely hopes that the recent political events will not have a negative impact on this achievement.

### **Inflation**

Inflation which took a favourable downward trend from 14.2% in 2001 to approximately 9.6% in 2002 has further declined to 7.2% by October 2003. The declining trend in inflation will have far reaching beneficial effects across the economy. It has resulted in lower interest rates which will encourage investment and thereby enhance future growth. Increases in the cost of living will also be eased. This Government is proud to state

that its commitment to fiscal prudence has in a large measure helped to bring down inflationary pressure.

### **Interest Rates**

Market stability and the curtailment of inflationary tendencies enabled the Central Bank to reduce its policy interest rates four times during the first ten months of 2003, resulting in a consequential reduction in commercial rates in the market. This has benefited business and industry. The prime lending rate has reduced from 12% at the beginning of this year to 9.3% in September. This records a significant achievement, in as much as the rate was as high as 22.4% in January 2001.

Government borrowing has been reduced, resulting in less crowding-out of private sector borrowers in the commercial banking sector. If you would remember when the Government assumed office the Government had an overdraft with the two State Banks amounting to almost Rs.40 billion which not only cost the Budget a substantial amount by way of interest payment but also created instability in the money market. In my first Budget Speech, I gave the assurance that this overdraft will be dealt with and in fulfilment of this assurance the overdraft has been reduced to almost zero.

The reduction in interest rates is a sign of a healthy economy. Hardships that may be caused to certain sectors such as pensioners are being addressed and remedied later on in this Budget.

However, an area of concern is that commercial bank lending rates, albeit reduced by the banks, is in my view

still not commensurate with the overall benefits and profits made by the banking sector consequent upon our revival of the economy. A concerted effort is being made to secure greater concessions to the private sector in bank lending rates. The banking sector has partly responded to the Government's call. Certain difficulties faced by them have been identified and are being addressed by the Government to bring about more relief to borrowers. This is a social duty owed by this important and profitable sector of our economy.

### **The Stock Market**

The Stock Market achieved record levels in the All-share Price Index and turnover, and earned recognition internationally as the second best performing stock exchange in the world. This reflects strong investor confidence and corporate sector profitability. A notable and salutary feature was the presence of small investors in the market, who invested in particular in shares of privatised ventures. Two regional exchanges have also been opened so as to facilitate investment by the smaller investors and those resident outside the metropolis.

### **Treasury Bonds**

An unprecedented response has caused each issue of Treasury Bonds this year to be over-subscribed. During the latter part of the regime of the previous Administration, Treasury Bonds even though issued at interest rates as high as 13% and for maturity periods of 5 to 6 years, did not sell because of the lack of public confidence in the then management of the economy. In stark contrast, the public took up Rs. 36 billion in 10, 15

and 20 year Treasury Bonds with interest rates as low as 6.9% during the period January to October 2003. The Government has utilised the proceeds to refinance a fair portion of the public debt at lower rates of interest.

### **Privatisation**

The Government continued its programme of divestiture of commercial public enterprises to the private sector. The Public Enterprise Reform Commission is in charge of the programme, under the control of the Cabinet. The Stock Exchange is used to ensure maximum sale prices and transparency. The Government's entire holding in the Insurance Corporation of Sri Lanka and a further 15% of its holding in Sri Lanka Telecom were sold at a profit to the Government. In the period from November 2002 to end August 2003, receipts from privatisation yielded Rs. 10 billion.

The petroleum sector was liberalised with the sale of one-third of the retail network of the Ceylon Petroleum Corporation to a foreign Company. This Company has made a large investment and is already active in the market. The process to bring in a third player has commenced. The multi-sector Regulator will protect the public interest.

The privatisation of the Regional Transport Boards is a matter of the highest priority and urgency. These Boards are making considerable inroads into revenue on a monthly basis to pay wages and remain operative by purchase of essential spares. They are burdened with brought forward losses. Unfortunately, trade union activity by Court

proceedings has stayed the privatisation of six of those companies through the stock exchange. Apart from the saving of the constant drain on the public revenue, we consider it beneficial to commuters to place the operation of these companies in private hands. We are pursuing this programme in the national interests.

### **Overall Assessment**

Overall, judging from these statistics, there has been a broad-based and commendable economic recovery in 2003. This has resulted in winning local and international investor confidence as demonstrated by the Stock Market activity. The country's success at the Tokyo/Sri Lanka Donor Conference held in June 2003 and the increased foreign private capital inflows further demonstrated the confidence the international investor community has in Sri Lanka. The Donor Conference attracted representatives from 74 countries and international agencies, who expressed much satisfaction at the Government's progress in forwarding both peace and economic development. Recognition has also come from the World Bank, which for the first time gave us a Poverty Reduction Support Credit (PRSC). The International Monetary Fund granted Sri Lanka loan facilities at concessionary terms under its Poverty Reduction and Growth Facility (PRGF). The rate of interest is 0.5% per annum and the facility is repayable in 10 years, with a grace period of 5 1/2 years.

Financial sector reforms were continued on a sustained basis by the Ministry of Finance in collaboration with the Ministry of Policy Development and Implementation and the Central Bank, so as to strengthen

the macro economic framework. Amongst other measures, amendments to the Banking Act, a new Asset Management Law, and a Foreign Exchange Management Law to replace the outdated Exchange Control Act are ready for enactment. An Economic Management Law is being drafted so as to strengthen financial discipline in the public sector. These new Laws increase the efficiency of the management of the economy and also create governmental accountability to the People through Parliament.

The Central Bank has also taken certain innovative measures. A Real Time Gross Settlement System, a Scripless Securities Settlement System, and the automation of the Central Bank's General Ledger have been affected.

Wasteful recurrent expenditure in Ministries and Government Departments and Institutions is being constantly pruned. The saving achieved by this measure is channelled to capital expenditure.

There has been a reduction in the rate of increase of the cost of living since April this year. A reduction in the inflation rate over the last two years to a single digit i.e. approximately 6-7%, and a further reduction which is reasonably anticipated together with the stability of the Rupee and the drop in interest rates will hold down price increases in the future. Several essential consumer items are exempted from VAT and customs levies.

The average annual income per person has increased to approximately Rs. 93,000.

Greater employment opportunities are available, reflected by the increase in the number of new E.P.F. registrations by about 187,000 up to August this year.

The strengthening and improvement of our economy over the first two years has not been an easy task. In particular, the Treasury has been constantly confronted with fall-outs of the mismanagement of the economy during the period 1994 – 2001. Apart from having to surmount the colossal debts that had already been incurred, constant inroads are made upon revenue by certain public corporations, due to past mismanagement. Consequently, our two years in office could not see considerable direct financial benefits being handed down by the Government to our people as a whole, though they have enjoyed many indirect benefits.

We made no promise of rice from the moon or bread at below cost of production prices, as others were apt to do so. Unostentatiously, we are concentrating on strengthening the basics of our economy. Our progress is thus being built on a bed-rock foundation. No politically motivated misinformation campaign can shake it.

We took the people into our confidence and indicated that hard though politically unpopular decisions would have to be made within the first two years, with an eye to a better future. We told then the process of nation re-building would take time. They placed their confidence in us, and co-operated. With this Budget they will receive the benefit of their patience. Employment generation, increased wages, and tax relief for the lower and middle-income levels will be

their immediate benefits, with a determined thrust by the Government to bring about further reduction in prices of consumer goods in the market. The main theme of this year's budget proposals will be the promotion of their interests.

As I have said, the rebuilding of our economy and bringing it to its present satisfactory all-round level has been a difficult task, considering the state of the economy we inherited from the People's Alliance. What is also vital is that we have re-established both local investor and foreign investor confidence. This is an essential necessity in the building of a nation's economy. The confidence that had been lost in 1994 – 2001, had been regained. Unfortunately this has been badly shaken by the events of the first week of November. The uncertainty created has resulted in a decline and greater fluctuations in the Colombo Stock Exchange and also in the exchange rates. Then again, the confidence placed in the Government's policies by the international community at the Tokyo Donor Conference will also be eroded by the political turmoil that has been created. We ran the Government for two years without the need for an emergency. We had back on our streets the unfortunate spectrum of the armed forces and the police. This by itself detracts both local and foreign confidence with adverse effects on investors and private sector development. A prospective highly successful tourist season has been placed in jeopardy.

The establishment of a dialogue with the LTTE and the successful achievement of a ceasefire by the Government after 20 years had contributed significantly towards the

resuscitation of the economy. The present inability to proceed with the process is in itself another negative factor. The precipitate action taken in the absence of the Prime Minister on an official visit abroad has dealt the economy a severe blow and reversal. We are now compelled to say halt to the momentum gathered over the last two years and instead divert on a course of damage control. The Government shall, however, not be deterred. We shall overcome the crisis placed in our path and proceed to implement the Regaining Sri Lanka Medium Term Development Programme.

## **PART II IMPLEMENTATION OF PREVIOUS BUDGETARY PROPOSALS**

Mr. Speaker, I will now proceed to review briefly the present status of implementation of the proposals contained in the last Budget, ie. the Budget 2003.

### **Reducing the Interest Cost of the Public Debt**

The Treasury has reduced the cost of the existing public debt by replacing high cost short-term bank borrowings with long-term bonds issued at lower interest rates. Of the outstanding letters of credit due to the state-owned banks of Rs. 14 billion, Rs.13.2 billion, has been settled, reducing the annual interest cost appreciably.

Further, the unauthorised off budget overdraft facility of Rs 40 billion that the previous regime had incurred at high interest rates from the state-owned banks has now been brought under Parliamentary authority, and has also been reduced by substituting long term Government Bonds at lower interest rates.

Rupee loans with high rates of interest in excess of 13% have been converted to Treasury Bonds carrying interest at 7% to 8% with maturity in 10 to 20 years. Rs. 22.4 billion of loans had been so converted as at end September, and a further Rs. 11 billion will be retired before the end of this year. We will continue this policy in 2004 so as to further reduce interest costs.

The Public Debt Management Office has been set up.

### **Cost Savings**

As at the end of September 2003, idle assets of Ministries amounting to Rs. 95 million have been disposed. In order to speed up the balance process, the function is being outsourced to the private sector.

### **Tax Reform**

All of the proposals announced in the last budget to change tax rates and to expand the tax base have been implemented, save the proposal to extend VAT to the retail and wholesale sectors, which we have deferred. The tax amnesty, which was widened with immunity being granted under several related laws, was the most extensive and successful tax amnesty ever offered in Sri Lanka and over 51,000 declarations were received. The beneficial reasons which motivated the Government to do so were fully explained by me to this House when I introduced the Law.

The establishment of the Revenue Authority has been actively pursued. The draft Bill is being finalised for presentation to Parliament. The creation of this Authority is essential to improve revenue collection and widen the tax collection base. The re-organisation of the three main revenue-collecting organs will result in less bureaucracy, greater efficiency, and prompt collection of revenue.

### **Tariff Policy**

The tariff provisions of the Indo-Sri Lanka Agreement came into force from March 1<sup>st</sup> 2003. Recommendations of the Tariff Advisory Council regarding anomalies were implemented through a Gazette notification in

November 2002. Other tariff anomalies have also been corrected during the year.

The budget proposal for the imposition of low import duties from 2% to 10% on imports, which were previously exempt (except for crude oil, pharmaceuticals and wheat) was implemented in November 2002.

### **Excise Tax**

Excise duties on cigarettes, imported liquor, and arrack were raised in the course of the year. The tree tax on Kitul was introduced so as to legalise toddy tapping.

### **Ports and Airport Development Levy**

The Ports and Airports Development Levy was reduced on January 1, 2003, from 0.75% to 0.50% for imports solely used in goods manufactured for export.

### **Road Fund**

The proposal was that a Road Fund be set-up for the maintenance of public roads, which would be funded from levies on vehicles. However, a levy on fuel was imposed for this purpose from August 2003.

### **Decentralised Budget**

The proposal to increase to Rs.5 million the decentralised budget to be utilised for development activities by Members of Parliament in their electorates was implemented.

### **Governance**

In 2003, all departments and public corporations were required, for the

first time in 50 years, to adhere to strict deadlines for the submission of performance reports and annual accounts to the Ministry of Finance. Around 90% of these entities have met these deadlines.

### **Capital**

The new Law to establish an Asset Management Company to take over the recovery of large non-performing loans of banks is ready. Current estimates disclose approximately 225 non-performing loans, aggregating to as large a figure as Rs.30 billion. It is envisaged that the bad loan portfolio of People's Bank would be placed in the Company. The transfer of non-performing loans should lead to the lowering of interest rates by the relevant institutions.

### **Pension Reforms**

A contributory pension scheme for new recruits into the public service has been commenced from January 1, 2003. This scheme will reduce future increases in the unfunded pension liability of the Government, which was at Rs.550 billion as at the end of 2002.

### **Labour**

To promote the mobility of labour and encourage the private sector to enhance employment, the Termination of Employment of Workmen's Act and the Industrial Disputes Act were amended during 2003.

The standardised compensation formula and the unemployment benefit scheme have been formulated in consultation with Employers' Organisations and Trade Unions. They will be implemented next year.

Further enhancements to the benefits to migrant workers are being considered for implementation.

#### **Fiscal Management (Responsibility) Law**

The first Mid-Year Report under this Law was presented to Parliament in June by me. The Fiscal Strategy Statement and the Budget Economic and Fiscal Position Report required by the Law are tabled in the House today.

#### **Welfare Benefit Law**

This Law was enacted to ensure that welfare schemes are better managed and targeted to reach the poor. The Board of Management has been appointed by me and new admission criteria are being tested in a pilot project involving 40,000 persons.

#### **Agro Enterprise Development Fund**

The Fund was established this year and is funding the areas of dairy farming and drip irrigation.

#### **Human Resource Endowment Fund**

The Bill for the establishment of this Fund is ready for approval by the Cabinet. This Fund will finance training to upgrade the skills of the work force, and provide tertiary education and vocational training for students and unemployed youth. The Fund will be managed as a public private partnership. The manner of capital accumulation by the Fund was explained in my last Budget Speech.

#### **Infrastructure and Corporate Restructuring Fund**

This fund has not been set up as yet. However, progress has been made on the transfer of the assets of the Private Sector Infrastructure Development Corporation (PSIDC) to the proposed Fund. The valuation of the Corporation's assets has been completed.

#### **Affordable Housing Finance for Low and Middle Income Households**

In November 2002, the Government introduced the "Affordable Housing Finance Scheme" through the Housing Development Finance Corporation to finance the construction of houses for low and middle income families at an interest rate of 9.5%. Approximately 15 banks are participating in the scheme and about 3,000 housing loans have been granted.

Certain commercial banks and state owned banks have also embarked on middle-class housing loan programmes at affordable interest rates.

#### **Information Communication and Telecommunication Development**

The initiative E Sri Lanka was launched in November 2002, to enhance the use of information and communication technology by the private sector and the government, for economic development. The Information and Communication Technology Agency (ICTA) was set up in July 2003, to implement the E Sri Lanka road-map. Information technology will also be used for government databases, registries and procurement, thereby improving services provided to the public.

### **Enabling Environment for Promoting Growth**

In order to widen the scope of private sector investment, the Monetary Law and the Securities and Exchange Commission Law were amended. Amendments to the Banking Act have been gazetted and are now before Parliament. The proposals relating to lifting of exchange control restrictions were implemented in January 2003. The new Foreign Exchange Management Law which is ready to be introduced in Parliament will relax exchange control restrictions on capital and international transactions.

### **Development of the Rural Economy**

Three Regional Economic Boards under the BOI are operative in the Wayamba, Central, and Southern Provinces. They are concentrating on assisting small and medium enterprises with capital and technical know-how.

The Rural Economy Resuscitation Fund has been established and was allocated Rs.200 million in 2003 to support rural industries. Two programmes were carried out by the Ministry of Rural Economy through the Fund – the One Village One Product Programme and the Village Development Programme. By the end of September, sixty-two villages were covered by these programmes and over Rs.150 million had been disbursed. Eighty villages will be covered by the end of the year, utilizing the entire allocation. Four strategic economic centres have been established outside the Metropolis of Colombo by the Ministry of Rural Economy. These centres are active and are a considerable benefit

to rural agricultural and cottage industries to market their products at fair prices. Six more centres are under construction, and a total of 15 such centres will become operative in all the Provinces next year.

A handicraft village at Sigiriya, and three Export Development villages were also set up in 2003. The Turu Sevana scheme that assists producers to set up sales outlets to market environment friendly products was also commenced by the Ministry.

The Youth Corp has trained 830 Youth Range Leaders at four residential centres, and 12 Divisional Centres are currently being established. These centres will be operative from December this year.

### **Tea Sector and Plantations Development**

The new Tea Sector Association with stake-holder representation of tea exporters, brokers, factory owners and planters commenced operations in May 2003. Hitherto, each component of the industry had been functioning separately. The Association will move towards self regulation, functions which were hitherto managed by the public sector, and create a standard brand "Ceylon Tea" to differentiate our teas and to add value through branding.

### **Tourism**

The additional levy of \$5 on airline tickets to and from Sri Lanka came into force in August 2003 and will be used for promotional activities of the Tourism Development Council, as a public-private partnership.

A levy of 1 percent on the turnover of

all Tourist Board licensed institutions also came into effect from August 2003.

The cease-fire has increased the influx of tourists to the highest level in the past decade, with tourist hotels being able to make operating profits, and ancillary businesses reviving.

### **Garment Forum**

The Forum is conducting training programmes with monies allocated by Government. Other steps to meet the 2005 international transition are also under way.

### **Women's Development**

The Ministry of Women's Affairs has prepared a set of guidelines on allocation and disbursement of funds to women under the various sector development projects. Ministries are allocating 10% of expenditure in their budgets, towards programmes for improving the status of women.

### **Re-positioning the Gem and Jewellery Industry**

As it would take time to establish the Gem & Jewellery Trade Promotional Council by statute, an interim arrangement was made in July 2003 to recognise the existing Sri Lanka Gem & Jewellery Association as the apex agency, with responsibility to undertake promotional activities. A proportion of the cess (service levy) is being provided to them for this purpose.



### **PART III THREE YEAR DEVELOPMENT PROGRAMME**

#### **Introduction**

“Regaining Sri Lanka” sets out the Government’s strategy for increasing economic growth and employment. In doing this, we will attach the highest priority to the poorest regions and the most disadvantaged in our society.

The Government has developed a comprehensive ten-year plan that represents an integrated approach to developing the physical infrastructure that will be essential if the economy is to further improve. Too often in the past, investment in our infrastructure has been done on a piecemeal basis. As a result, the whole has been rather less than the sum of its parts. We intend to change that, and as an initial step we will invite discussion of the Physical Infrastructure Development Programme with international agencies and all other stakeholders, including the LTTE in the case of programmes for development of the North-East.

Mr Speaker, highlights of the 3 year development programme that I will now proceed to elaborate upon, draws

Transport (primarily for roads)	Rs. 14,700 million
Power and energy	Rs. 9,800 million
Housing and water supply	Rs. 14,000 million
Education and health	Rs. 16,200 million
Decentralised expenditure (primarily for rural roads, education, health)	Rs. 7,600 million
Agriculture, irrigation, fisheries	Rs. 9,000 million
Rehabilitation and resettlement (excluding expenditure through line Ministries)	Rs. 6,000 million
On lending to SMEs	Rs. 11,000 million
Funding to supplement foreign aided projects	Rs. 9,600 million

#### **Power Generation and Rural Electrification**

on the 10 year infrastructure development plan for the relevant sectors. I will also review some of the key elements of the other sectors. The 3 year programme will involve an investment of Rs. 400,000 million over the period.

Any reference in this section to expenditure to be incurred or, with regard to physical targets to be achieved are, unless otherwise stated, in relation to programmes to be launched or progressed over the 3 year period 2004 to 2006. In the case of programmes which extend over a 6 year period, we have estimated the achievements over the next 3 years.

Rs. 110,000 million has been provided for capital expenditure in the budget for 2004. This is the largest amount allocated for any one year over the last decade. This includes the following:

The Government will embark on an accelerated rural electrification programme during this period to provide

some 285,000 households with electricity. The target is to provide electricity to over 70% of the population by the end of 2004, from the present 65%, and to 80% of the population by the end of 2006. In spite of the high costs involved, the Government is committed to fast tracking the rural electrification programme.

Contracts have been awarded or proposals have been invited for the building of a number of thermal power plants, including pre-qualification of bidders for a 300 MW coal fired thermal power plant.

The budgetary allocation for electricity generation, transmission and distribution, including rural electrification, is Rs. 35,000 million.

### **Road Development**

The construction of the national highway network and the proper maintenance and rehabilitation of existing roads are essential to reduce transaction costs in the economy to improve its capacity to generate growth, employment and higher incomes.

A series of high-speed expressways will be constructed to connect the major urban centres of the country. Specific projects include:

- The construction of the Southern Expressway from Colombo to Matara on which work has commenced. The expressway will be the catalyst that opens up the southern region for major commercial activity.
- An MOU was signed recently with the Malaysian Government to undertake the feasibility study and design for the Colombo to Kandy

Alternate Highway. Construction will begin in the next 3 years.

- The contract for the Colombo to Katunayake Expressway will be awarded shortly.

There are several on-going programmes for the improvement, rehabilitation and upgrading of all classes of existing roads. Allocations will be made as follows:

- Rs. 9,000 million to rehabilitate 300 kilometres of the main Class A and Class B roads.
- Rs. 6,500 million to upgrade 1,200 kilometres of Class C and D roads in all the provinces.
- Rs. 4, 000 million for the rehabilitation of 8,000 kms of the unclassified rural road network inclusive of the farm-to-market roads maintained by local authorities.

The following institutional policy reforms are also to be given effect to during this period.

- Current legislation is being reviewed to expedite land acquisition for development projects and to provide for full compensation to, and resettlement of, affected persons.
- The Road Fund, which is funded by the fuel levy, will be incorporated as a company limited by guarantee, to be operational by 2004. The Fund will maintain core public roads.

### **Water and Sanitation**

The provision of safe drinking water and access to basic sanitation are key elements in the Government's efforts to improve living standards

As insufficient resources are available for the Government to undertake the

much needed investment in this sector, the Water Service Reform Bill is now before Parliament to provide for the regulation of the water and sanitation sector by the Public Utilities Commission, to allow for public-private sector partnerships.

In addition to the ongoing programmes of water supply development, the Government has recently commenced the following programmes.

- A programme to construct two water networks for Batticaloa and Muttur and to extend two existing water networks to Hambantota and Polonnaruwa. Another component is a rural water scheme for 150,000 people in Polonnaruwa and Anuradhapura. These programmes will provide about 40,000 new safe drinking water connections, and the construction of 25,000 latrines to provide access to safe sanitation for 35% of urban and 30% of the rural households in the project areas.
- The Kandy Water Supply Scheme will provide 50,000 new connections, servicing approximately 200,000 people. It will also upgrade existing services for 300,000 persons in Kandy and the surrounding areas.
- Projects funded by the international donors are under way in the Southern Province.

Rs 8,000 million will be allocated for these programmes.

A project will also be implemented for urgent repairs and upgrading of the sewerage network system in the Greater Colombo metropolitan area at a cost of Rs. 2,500 million.

### **Industry and Enterprise**

### **Development**

The Government is opening up new business opportunities through a series of bilateral trade arrangements. To benefit from these unprecedented opportunities, Sri Lankan enterprises of all sizes must enhance productivity and significantly improve their ability to compete. In order to facilitate this change the Government will launch the Regaining Sri Lanka Transitional Programme for Industrial Renewal, which will have 3 elements:

- The Technology Initiative for Small and Medium Industry.
- The Industrial Partnership Programme.
- The Small Scale Industry Financial and Accounting Advisory Programme.

Rs. 35,000 million will be allocated for on lending, through the Banks to small and medium enterprises. With the steep reduction in interest rates we expect interest rates to the end borrowers to be at around 9 – 12%.

It is encouraging that the local garment sector has already mobilised itself to prepare to meet these new challenges. In taking action to help themselves they have set an example for other sectors to follow.

### **Education and Training**

In addition to the ongoing programmes in education, other key initiatives will be implemented through a series of programmes that are designed to equip the people with the right skills and to increase employment. These include the following:

- A Distance Education Participant Programme will provide curriculum training and multimedia services

through more than 100 national centres, both public and private. Around 4,500 unemployed university and A level students will qualify annually to receive needs based stipends under this programme. A sum of Rs.3,000 million has been allocated for this programme.

- There are about 25,000 Grama Seva village divisions in Sri Lanka. It is our intention to train 25,000 unemployed youth, who have passed all subjects in the GCE A-Level Examination, to act as facilitators of rural development in these divisions. Unemployed youth would be eligible for selection. We plan initially to recruit 5,000 trainees in batches for this purpose.

### **Agriculture**

Mr Speaker, our agricultural sector is characterised by low productivity and low incomes. Support for the supply chains between producers and consumers and markets is required if producers are to share equitably in the benefits of economic growth and development. The major investments in rural roads, rural electrification and other infrastructure will help. Programmes to introduce modern technology and improve quality and productivity will be implemented to further improve the sector.

We will allocate Rs.3,000 million to these programmes.

### **Plantations**

We will implement a programme for the plantation sector which includes the following components:

- The construction of 2,400 new workers' houses and re-roofing of

4,400 line rooms.

- Provision of financing for replanting and infilling 2,000 ha of tea, replanting 5,000 ha of rubber, consolidating 14 tea factories, and rehabilitating 8 mini hydro schemes.

A sum of Rs. 2,500 million will be allocated towards the programme.

### **Tourism Development**

We have already experienced a handsome peace dividend in the tourism sector. Today, there are considerable new opportunities for Sri Lanka to emerge as a key tourist destination within Asia. The sector is gearing up for arrivals of 750,000 and to increase the average daily spending per tourist to \$100 by 2006. This will require further investment to upgrade and raise the current 14,000 room capacity to an estimated 20,000 good quality rooms. This process will be aided by the Government.

We propose to facilitate the development of Maskeliya and Puttalam lagoon as major new resort areas and also the further expansion of the Bentota resort area.

### **North East Rehabilitation and Reconstruction**

The conflict in Sri Lanka has been a major constraint to growth and poverty reduction. It has not only caused extensive suffering and dislocation in the North and East but has also sharply reduced the economic contribution of the region to national development. In addition to the existing programmes, 3 major programmes will be ongoing over this period.

- Under the first programme, about 200 kms of the primary road

network will be rehabilitated and 4 districts will have access to electricity. The Vavuniya–Kilinochchi transmission system will be rehabilitated. A comprehensive water study for Jaffna will be completed and 800 schools will be rehabilitated.

- The North-East Coastal Community Development Project will provide infrastructure for a large number of coastal households.
- About 84,000 Internally Displaced Persons now in India are expected to be resettled next year. Their livelihoods will be secured by providing them needed community and social infrastructure.

The details of the three year North-East rehabilitation programme is being worked out in consultation with international aid donors and other stakeholders. Rs. 8,000 million has been allocated towards the above programmes.

### **Special Projects**

#### Southern Province Development Programme

The Southern Expressway will be extended to Hambantota and Wellawaya. Our infrastructure development plan also envisages the development of a port and the establishment of a coal power plant and an oil refinery, in Hambantota.

An initial study has revealed that the setting up of an airport in Kuda Oya would be financially viable and would facilitate increased tourism in the region. Preliminary steps that have been taken in this regard are the site survey, a feasibility study and the identification of sources of finance.

#### Second Export Processing Zone at Biyagama

With the renewed interest of investors in setting up manufacturing enterprises in Sri Lanka, the Board of Investment is faced with a shortage of readily available industrial land and property to be offered to prospective investors. A 300 acre location at Keragala in the Biyagama area has been identified to establish the first Export Promotion Zone of the United National Front government. The estimated cost of this new EPZ will be Rs. 3,000 million. This programme will be partly funded by the BOI divesting of properties within existing zones that are currently being leased to investors.

A further zone will be set up in Pannala.

#### Housing Programme

The Government will continue to attach priority to its “home ownership” campaign, which will not only promote more home ownership, but also generate significant activity in the construction sector throughout the country. The Housing Programmes will have four components, based on the levels of affordability of different categories of persons.

- I have already described the progress we have made in implementing the “Affordable Housing Finance Programme” introduced in my last budget, which would cater to those requiring houses costing Rs. 100,000 to Rs. 500,000.
- We have also allocated Rs. 800 million in 2004 for housing for the low income families who desire houses that cost less than Rs. 100,000.

- We will establish a programme for the construction of houses for middle-income families, at prices ranging from Rs. 500,000 to Rs.1.5 million. This will entail the construction of low rise apartment complexes with a maximum floor area of 1,100 sq. ft. The Government will provide land and basic amenities. Private developers will construct the apartments according to specifications set out by the Government. A loan scheme will be established by the Government to facilitate the purchase of these apartments.
- The Government will launch a self aided programme with an allocation of 26 corrugated sheets and 3 plain sheets per family to the poorest of families, who will contribute their own labour, towards improving their housing. The programme provides for 820 selected families in each electorate, and we expect to cover 125,000 households in the year 2004.

#### City of Colombo

The city has fast outgrown its existing infrastructure facilities. Their expansion and strengthening are therefore planned on a priority basis.

The large extent of land at Chalmer's Granary will be made available to the private sector for commercial development.