

# Highlights of Budget Proposals – 2009 for Economic, Social and other Reforms

The budget proposals for 2009 are mainly based on the liberation of the East and the North and the emerging opportunity to implement a development strategy to bridge the North and South. Emphasis is placed on achieving sustainable peace with development of the country and increased welfare of the people. The development strategy of the Mahinda Chinthana is to promote domestic production whilst utilising foreign investment productively.

## Protection of Domestic Production and Development of Local Industry

Accordingly with a view to protect domestic production and develop local industry and to achieve self sufficiency in the longer term several concessions have been proposed to local farmers and local industry by increasing import duty, special commodity levies and imposing CESS on imports of items that could be locally manufactured. CESS had also been considered to maximize domestic usage of crops such as tea and rubber.

The proposed increases in duties, special commodity levies and CESS to be imposed together with concessions granted to local manufacturers are as follows:

- Import duty on wheat grain to be increased from 6% to 10%
- Imposition of a 5% CESS on wheat flour and a 15% CESS on imports of black gram, kurakkan, cowpea and sesame seed and similar imports

*It is envisaged that the above measures will increase local production of paddy and other grains.*

- Special Commodity Levy on milk powder imports from Rs 5/- to Rs 15/- per Kg.

*Collections from the levy imposed to be used to develop the local dairy industry on a scientific basis increasing milk production.*

- Special Commodity Levy on imported sugar will be increased from Rs 14/- to Rs 16/- per Kg.

*This measure will also promote the Palmyrah industry in the North and the Kithul industry in the South.*

- Imposition of a CESS of Rs 25/- per Kg. on rubber latex and Rs 4/- per Kg. of tea
- A 25% CESS will be imposed on imported maize and animal feed

including imports of such items by importers in the BOI regime.

- Imposition of a 5% CESS on on paper imports to maintain commercial viability of the revived Ambilipitiya and Valachchenai paper factories.
- CESS of 15% on all imports of household and office furniture
- Imposition of a CESS of Rs 200/- per Kg on imprted foot-wear, hand bags, belts and other leather products and exemption from import duty and VAT the raw material required to produce such products
- Increase in CESS of polythene and plastic from 1% to 5% to discourage usage
- CESS on ayurvedic medicine imports to be increased to prevent competition to indigenous medicine industry
- Increase in existing CESS of all imports of fruits and vegetables
- CESS on sarees, sarongs, ready made garments and material imported to be increased by 50%
- Increase of 50% CESS on import of fridges, fans and ceramic-ware.
- CESS on chocolates, biscuits and sweets to increase by 50% and implementation of regulatory standards on such products imported
- Incentives for local manufacturers of motor vehicles and bicycles
- Imposition of CESS on all related substitute imports for the handicraft industry
- Exemption from import duty and VAT raw material imported for the handicraft industry such as copper and silver
- Imposition of a CESS of Rs 10/- PER Kg of salt imported

## Milk Subsidy for Children in Low Income Families

To reduce the cost of living of the low income families and to promote milk consumption among children of such families an allocation of Rs 900/- million will be made and a monthly allowance of Rs 200/- will be given to children between the ages of one to five in Samurdhi and low

income families by the issue of stamps from January 2009.

## Environmental Preservation, Nourishment and Care for Fauna and Flora

An allocation of Rs 150 million to set up plant nurseries, avail plants and to provide required facilities for growing trees alongside roads, temples, kovils, mosques, church and office premises and protect and nourish fauna and flora on river banks.

## Preservation of Native Habitats

Proposal to allocate Rs 50 million for preserving the natural habitat of Dambana, Rathugala, Pollabadda, Henanigala and Dalukana.

## Preservation of Elephants and Human Life Protection from Elephants

Special priority to be given to construct protective electric fences at an estimated cost of Rs 950/- million within two years to address the human elephant conflict.

## Popularisation of Co-op City Outlets

Allocation of Rs 300 million to popularize Co-op City outlets in rural areas and to setup around 1000 mini Co-op City outlets at village level.

## Appointment of a Task Force to Simplify the Administrative Processes, Systems and Procedures in Public Administration

The appointment of a task force to ensure village level development officers and agricultural officers render services through *Jana Sabha Secretariats* proposed to be set up to enable provision of services to rural people under one roof. An allocation of Rs 150 million had been made for such purpose.

## Training to Facilitate Working Knowledge of National Languages

Allocation of Rs 50 million to conduct training programs for a working knowledge of national languages among public servants by the National Language Institute.

## Elimination of Drug Menace and Protection of Milking Cows

Consolidation of the work carried out by the Excise Department, religious places of worship, schools and voluntary organizations to eliminate the drug menace and to eradicate the slaughter of milking

cows by allocation of Rs 100 million to be given as assistance to such religious places of worship, schools and voluntary organizations.

#### **Facilities for Rural Sportsmen**

Proposal to allocate Rs 300 million for training rural youth in international sports and upgrading facilities to widen opportunities for youth with exceptional talent to take part in international events.

#### **Compensation for Land Acquired for Development of Roads**

Arrangements to settle compensation due on land acquired for road development by the Government, by direct payment of cash for compensation less than Rs 1 million and the issue of 1-2 year term Treasury Bonds of the Central Bank of Sri Lanka with 17% interest per annum redeemable at the two year period for compensation due in excess of Rs 1 million. An allocation of Rs 100 billion is proposed for the issue of such Treasury Bonds.

#### **Presidential Task Forces to Coordinate Development Activities and Small Scale Hydro Projects**

A Presidential Task Force comprising representatives of Provincial Council and the Nation Building Ministries, Finance Commission, Provincial Councils and other relevant state institutions will be set up to coordinate and implement road development, water supply, electricity and minor irrigation projects at village and national level.

Another Presidential Task Force will be set up to assist in resolving issues in relation to implementing around 600 small scale hydro power projects identified as capable of adding approximately 300 MW of power to the national grid.

#### **Mihin Lanka Airline and Weerawila Airport**

Allocation of Rs 6,000 million in budget estimates as capital required for the revival of Mihin Lanka Airline for which long term financing have been obtained for acquisition of aircrafts.

Proposal to allocate Rs 500 million, as Government contribution in the year 2009, for construction of Weerawila International Airport by the Airport and Aviation Authority.

#### **Improved Facilities for University Education**

To improve hostel accommodation, lecture hall facilities for students, develop curricula for greater numbers to enter universities, and to immediately fill vacancies in the academic staff and to

provide foreign post graduate opportunities to staff of Rajarata, Wayamba, Sabaragamuwa, Uva Wellassa, Northern, South Eastern and Jaffna Universities an allocation of Rs 900 million is proposed.

#### **Commemoration Programmes of Universities**

In order to conduct programmes planned for the 50 year commemoration of the Vidyodaya and Vidyalkara Universities since establishment an allocation of Rs 100 million is proposed.

#### **Expansion of Knowledge of English and Information Technology through E-villages**

Allocation of Rs 100 million to broaden the scope of the programme enabling online connectivity between villages, schools and state and public institutions through the 500 *Nana Sala* Centres established by the previous budget.

#### **Concession to Encourage a Knowledge Economy**

Income tax payable by any Sri Lankan professional serving a company or a partnership based in Sri Lanka, providing international services and earning in foreign currency to be confined to 20%.

This proposal is to encourage provision of services by professionals to other economies using locally gained knowledge which is internationally acclaimed.

#### **Promotion of Scientific Research**

To improve scientific research into agriculture, new products, national security, history and culture an allocation of Rs 300 million will be made to the National research Council for work steered by them.

#### **Development and Improvement of Existing Health Services**

An allocation of Rs 350 million will be made to improve quality of health services available in remote areas, such as to developing Akkaraipattu and Moneragala base hospitals, installation of cancer treatment unit at Batticaloa teaching hospital and modernizing the estate hospitals in Kandy, Kegalle, Ratnapura, Nuwara-Eliya and Badulla districts.

#### **Research on Indigenous Medicine**

With a view to preserve and disseminate indigenous medicine an allocation of Rs 100 million to be made for research related to such medicine at the request of indigenous doctors.

#### **Concessions for Revival of Arts**

Continuation of tax concessions to the local film and tele-drama industry for a further period of two years and provision of income tax concessions to producers, authors, singers, musicians and stage drama artists on income arising from their creations and performance.

Amendments are also proposed to the Intellectual Properties Act to make it mandatory to provide financial benefits for creators of songs which are transmitted via radio and television.

#### **Identification and Development of Crops by Provinces ( One Village - One Crop)**

Allocation of Rs 300 million for a program to identify conventional crops for each Province and successful cultivation of such crops in the respective Provinces with provision of extension services, high quality seeds, fertilizer, financial assistance, storage facilities, preservation mechanisms and post harvest management and transport facilities.

#### **Program to Export High Quality Value Added Agri Products**

Selected products such as Palmyrah products, cinnamon, ginger, vanilla and drinking water produced with high quality standard will be exported through a programme proposed by the Export Development Board for which an allocation of Rs 500 million is made.

#### **Establishment of Community Tourism Villages and Development of Galle as a World Heritage City**

Under the "Gama Naguma" programme an allocation of Rs 100 million will be made to develop selected villages in each province as tourism villages.

An allocation of Rs 100 million will be made to develop the Galle city alongside the port development project.

#### **Increase in the Monthly Allowance paid to Soldiers engaged in Action**

As a salutation to the soldiers engaged in humanitarian operations in the North combating terrorism it is proposed to increase their monthly allowance from Rs 3,000/- to Rs 5,000/- , for which an allocation of Rs 4,500 million is made.

#### **Continuation of the "Ranaviru Gammana" Program**

An allocation of Rs 3,500 million is proposed to commence construction of few more *Ranaviru Gammanas* with all facilities during 2009.

## National Tax Policy

A people friendly tax system that caters to the needs of the country will be introduced using international experience. A link will be made between tax administration and other institutions that promote investments with the assistance of a Presidential task Force from the year 2010.

## Fuel Subsidies and Price Revision

Based on the volatilities of the global market prices it is proposed to reduce price of:

Diesel by Rs 30/- per Litre

Petrol by Rs 15/- per Litre

Kerosene by Rs 20/- per Litre

Furnace oil by Rs 45/- per Litre

The above reduction in price will result in reduced bus and railway fares benefit motorcycle users and provide savings to three wheeler and vehicle owners. It is expected that the three wheeler, taxi and school van fares will reduce by at least 20% due to reduction in fuel prices.

Price of fish will also reduce due to the expected reduction in costs to fishery boat owners and benefits will also be realized.

The loss of Ceylon Electricity Board could also be mitigated with reduction in furnace oil prices used to generate power the benefit of which will be passed on to certain sectors.

## Public Servants Welfare

The following are proposed as public sector employee welfare measures in a backdrop of a global economic crisis and increased cost of living experienced:

- Increase in cost of living allowance to Rs 4,500/- per month with a minimum increase of Rs 1,000/- per month effective 1 January 2009, with a budget allocation of Rs 12,000 million
- Allocation of Rs 3,000 million for removal of salary anomalies in the judicial services teachers' services and principals' services.
- Festival advance of public servants to increase from Rs 3,000/- to Rs 5,000/-
- School books purchase advance given to public servants to increase from Rs 1,000/- to Rs 2,500/-.
- Increase in allocation for distress loans from Rs 5,500/- to Rs 7,500/- with the distress loan facility being limited to a maximum of Rs 250,000/-

- The SLT/ Mobitel public service Upahaara package will be extended to clergy, indigenous doctors and workers in the Co-operative services

## Pensions

With effect from 1 January 2009, the cost of living allowance of pensioners is proposed to be increased to Rs 2,000/- with a monthly increase of Rs 560/-

A monthly incentive of Rs 500/- will be paid to those who retire prior to becoming entitled to receive a pension for which an allocation of Rs 3,000 million has been made.

## Fertilizer for Paddy Cultivation

Provision of 3 bags of fertilizer per acre will be made to farmers who use organic fertilizer and material such as hay, during the forthcoming Maha season, based on a guarantee issued by farmer societies. The harvested paddy of these farmers will be given to Government Agents on account of fertilizer obtained. The programme will enable the farmers to obtain fertilizer on an advance basis relieving them of a cash burden.

## Jathika Saviya - Gama Naguma

An allocation of Rs 13,515/- had been made for 2009 to expand activities of the *Maga Naguma*, rural electrification, water, small irrigation, credit, housing schemes, Nana sala centres and community development projects.

## Uthuru Wasanthaya

To commence construction of the rail track and highways connecting the North and the South and to renovate and modernize schools, hospitals and Government Offices in the North an additional allocation of Rs 3,000 million is proposed.

A further allocation of Rs 500 million will also be made to the Ministry of Resettlement for resettlement programmes in the North.

## Incentives for Foreign Exchange Earnings

In order to counter the setbacks suffered by traditional and non-traditional foreign exchange earners also providing employment to several people, due to the major financial crisis experienced by the global economy, the following have been proposed:

- Fuel adjustment levy to be reduced to 15% for a period of one year, for tourist hotels and industries
- Price of furnace oil used for the above purpose to be reduced to Rs 55/- per litre

- Deferring of loan repayments of industries earning foreign exchange and retaining employees by six months through concessions given to commercial banks by the Central Bank

- Allocation of Rs 1,000 million to provide incentives and assistance to exporters

- Reduction of fuel and electricity prices to export industries such as garment, porcelain, leather and the tourism industry

## Ensuring Sustainable Development in the Tea Industry

In order to sustain the development of the tea industry the following are proposed:

- Reduction of the price of a 50Kg bag of fertilizer for tea smallholders to Rs 1,000/-
- Introduction of a CESS of Rs 4/- per Kg of tea imported
- Exempt tea packets and tea bags from import CESS
- Reduction in the income tax on revenue from export of tea packets which weigh less than 1 Kg to 15%
- Intervention in the Colombo tea auction by a full state owned company with share ownership by Tea Board, Tea Smallholder Authority and Export Development Board
- Treasury guarantees for tea exported on short term credit to tea importers in friendly countries

## System for Remittances by Overseas Employees

Led by the People's Bank, Bank of Ceylon and National Savings Bank with the participation of other commercial banks who wish to join a system is proposed to be introduced whereby local agents will be appointed in the respective countries of employment facilitating remittances to Sri Lanka by those employed overseas currently experiencing difficulties in remitting monies to Sri Lanka.

The economic social and other reforms proposed by the budget for 2009 is to provide relief to a majority of the Society and to empower the rural economy whilst reducing the cost of living by the proposed measures. Benefits to all sectors have been considered.

Source :PricewaterhouseCoopers