BLUEPRINT 3.0

TOWARDS AN ADVANCED SOCIAL MARKET ECONOMY

SAMAGI JANA SANDANAYA

SAJITH PREMADASA

A WIN FOR ALL

The original Blueprint, tabled in Parliament on 12 August 2022, spelled out our thinking on how to stabilise the economy. Blueprint 2.0, published on 14 February 2023, described how to move beyond stabilisation towards sustainable and inclusive growth. Blueprint 3.0 expands this vision: it is a holistic economic plan for prosperity.
This is our economic Blueprint for Sri Lanka.[1]

[1]This blueprint was prepared by the Economics Unit of the SJB consisting of Harsha de Silva, Kabir Hashim and Eran Wickramaratna. Valuable contributions of many academics including Prof Prema-chandra Athukorala, Prof. Prasanna Perera and Prof. Aminda Methsila Perera are acknowledged. Special thanks to the dedicated team of analysts comprising of Chethana Ranatunga, Damintha Gunasekera, K D Vimanaga, Selyna Peiries, Venura Welagedera and Yasu-e Karunaratna. This document does not include in-depth views on reforms in critical areas such as education, health, justice or any other aspects.

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EXECUTIVE SUMMARY

Sri Lanka is still facing its most severe economic crisis to date, caused by heavy debt, poor policy decisions, and weak governance. While recent steps have helped by lowering inflation and boosting foreign reserves, the road to full recovery and becoming an advanced economy remains extremely challenging. The average Sri Lankan has been forced to bear the brunt of the crisis, struggling with high prices, and increased taxes and hopelessness.

Our Blueprint 3.0 provides a strategic plan to tackle these challenges, rebuild the economy through inclusive growth, and secure a prosperous future for all upon the principles of our social market economy model within our broad political ideology of a social democracy.

A key part of this plan is erasing corruption, a necessary but not a sufficient solution.

To achieve sustainable growth, we need a two-part approach: First, we must reform the economy to make it more competitive and globally connected. This will create wealth among the people. Second, we need to ensure economic justice and equity through a strong social safety net with targeted subsidies to protect the vulnerable.

Underlying all reforms and social protection linking government with citizens shall be a comprehensive digital platform.

The ***Samagi Jana Balawegaya (SJB)*** is committed to providing the leadership needed to foster prosperity among all citizens.

Notes: Suggested interventions are marked as either
short-term S : one year, medium-term M : three years , or long-term L : ten years.

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ECONOMIC BREAKDOWN AND THE ROAD TO RECOVERY

In the 76 years since our independence, Sri Lanka has made significant progress in human development, despite ongoing human rights issues and gaps in democratic governance. However, our economic performance has been uneven, with a severe crisis from 2021-2022 marking a low point in our history.

Causes of the Crisis: The crisis that peaked in 2022 was caused by decades of fiscal mismanagement, excessive external debt, and populist policies. The Covid-19 pandemic worsened the situation by hitting tourism and the domestic economy. The Gotabaya Rajapaksa government's tax cuts in 2019 and sudden ban on chemical fertilizers in 2021 further destabilized the economy. Poor monetary, trade, and exchange rate policies led to a severe foreign exchange crisis and a depletion of reserves, leading to a debt default in April 2022.

Recovery Efforts and the IMF Program: After initial resistance, the Sri Lankan government sought IMF support in May 2022. After extensive negotiations, they reached a staff-level agreement in September 2022, leading to a $3 billion Extended Fund Facility (EFF) being approved in March 2023. The four-year (2023-2027) program is now being implemented. It targets five key areas: (1) Tax reforms; (2) Monetary policy reforms, including Central Bank (CBSL) independence; (3) Cost-based pricing for utilities and fuel; (4) State-owned enterprise (SOE) reforms; and (5) Governance reforms.

Some Progress: Since starting the EFF program, the government has made some progress. It has increased tax revenues, improved the primary budget balance, and reduced inflation, though real interest rates remain high. The exchange rate has stabilized, with the rupee steadied by reduced imports and paused debt payments, although it remains weaker than pre-crisis levels. Debt restructuring has advanced, with agreements reached with some creditors. Additionally, the government has undertaken energy sector reforms, with new pricing mechanisms for fuel and electricity to reduce the government's financial burden.

Challenges Persist: Despite some progress, Sri Lanka faces significant challenges. While the crisis' acute phase has passed, our recovery is fragile. Poverty has doubled, now affecting 7 million people. SOE reforms have lagged, with no divestitures completed. Inflation has decreased, but prices are still 90% higher than in 2019. The economy remains weak, with GDP still far below 2019 levels: 2023 per capita GDP matched that of 2014. Additionally, brain drain has worsened as more skilled and professional youth leave, posing challenges for long-term recovery. Achieving debt sustainability is still a long road ahead. We have not regained access to international capital markets. The political landscape is calmer, but public trust in politicians and institutions is low.

Looking Ahead: This is a critical juncture. The challenge now is to reach lasting economic stability and transition to sustainable, inclusive growth. This requires not just meeting short-term fiscal targets but also implementing deep structural reforms to address long-standing issues. The SJB's Economic Blueprint offers a comprehensive plan for long-term growth by fixing these weaknesses. It charts a path toward resilience, innovation and inclusive development, ensuring that all segments of society benefit from recovery and future growth.

OUR APPROACH:

BUILDING A JUST AND PROSPEROUS SOCIAL MARKET ECONOMY

Within our political ideology of a social democracy, our economic model of a Social Market Economy fosters equitable and inclusive growth by harnessing the power of markets while ensuring economic justice and social protection for all.

Economic freedom fuels innovation and growth. That is why we advocate market-oriented policy reforms to promote competition and openness to international trade and investment. We believe that this freedom goes hand in hand with fiscal responsibility, a stable currency, price stability, and a flexible labour market.

The government must ensure a fair distribution of these benefits without compromising individual economic initiatives. Economic justice requires targeted policies that safeguard the vulnerable and ensure equitable distribution of resources. This includes efficient social safety nets that directly assist those in need, rather than solely relying on broad subsidies.

Achieving these goals requires combining economic reforms with a robust institutional framework. This includes transparent governance and independent regulatory bodies, particularly a central bank free from political influence. We envision a strong foundation of rule of law that protects property rights and contracts. Crucially, we advocate for an efficient State that focuses on its core functions effectively – a State that acts impartially, guided by clear rules rather than arbitrary discretionary power.

The Growth Challenge

Understanding Sri Lanka's long-term development trajectory and current economic challenges is crucial for effective growth diagnostics. After gaining independence, Sri Lanka initially benefited from the Korean War's impact on rubber, which provided a temporary economic boost. However, from the mid-1950s to 1977, centralization and inward-looking policies stifled export growth. Although liberalization in 1977 spurred initial investment and trade, the growth remained largely driven by imports. Efforts to address economic imbalances were undermined by the incomplete reform agenda, financial mismanagement, and civil conflict.

Despite these challenges, Sri Lanka achieved an average annual real GDP per capita growth of 4.2% from 1990 to 2009. Growth peaked above 7% from 2010 to 2012, driven by debt-fueled infrastructure projects, but then stabilized around 4%. The end of the conflict and global recession recovery initially boosted investor confidence, leading to such growth. However, growth slowed to 2.6% in early 2019 due to domestic issues, including the Easter Sunday attacks. The Covid-19 pandemic caused a record 4.6% contraction in the economy in 2020. Following the debt crisis, the economy contracted by 7.3% in 2022 and again by 2.3% in 2023.

As we move forward, our immediate goal is to recover from the contraction since 2019 and aim at achieving a full recovery from the crisis and placing the economy on a journey towards an advanced economy. If Sri Lanka can register an annual growth rate of 10% consecutively from 2029 (given the IMF and government agreed growth rate increasing only up to 3.1% by then), we could achieve high-income status by reaching an annual GNI per capita of approximately USD 23,000 by 2047.

Our growth strategy focuses on two main areas:

Breaking Walls and Building Bridges: We will foster collaboration and remove barriers to growth, connecting to global value chains and opening new opportunities for development.

Internal Efficiency Improvements: We will enhance administrative processes and leverage digitization to boost efficiency and productivity across all sectors.

A TEN POINT PLAN FOR INCLUSIVE AND SUSTAINABLE GROWTH

While Sri Lanka's economic situation is challenging, a path to recovery exists through targeted reforms in ten key areas, as detailed below.

The 10 pillars of reform:

01 Transparency and Accountability

02 Debt Crisis Management

03 Monetary and Exchange Rate Policy

04 Revenue Consolidation

05 Expenditure Control

06 Incentivise Growth

07 Public Sector Management and Digitalisation

08 Energy and Utilities Reform

09 Factor Market Reform

10 Stronger Social Safety Nets

01 TRANSPARENCY AND ACCOUNTABILITY

Sri Lanka ranked 115th out of 180 countries in the 2023 Corruption Perceptions Index, scoring 34 out of 100. Addressing corruption is critical for fiscal consolidation, inclusive growth, and social development. The 2023 IMF Diagnostic Assessment revealed widespread corruption across government, especially in revenue collection and public procurement. We agree with these findings. These weaknesses are magnified because accountability institutions lack the will and competence to address these issues. To combat this cancer of corruption, our government will implement all sixteen priority recommendations that will prioritize transparency, leverage technology, and introduce stronger laws. In fact, we will go further and create an independent public prosecutor to remove all possibilities for political interference to bring to justice those who have robbed. Enhancing transparency requires fixing structural issues and gaps in legal and regulatory frameworks.

1.1 THE RIGHT LEGAL FRAMEWORK TO ERADICATE CORRUPTION: STRENGTHENING CIABOC

Sri Lanka's Anti-Corruption Act, No. 9 of 2023, establishes an autonomous commission to investigate bribery, corruption, and related offenses. This commission can collaborate with both domestic and foreign agencies, enhancing its effectiveness. While the Commission to Investigate Allegations of Bribery or Corruption (CIABOC) has operated for over two decades, the new Act gives it significant new duties. These include developing anti-corruption strategies, preventing, investigating, and prosecuting corruption, and coordinating anti-corruption efforts across the government. To further promote transparency and fight corruption, we will implement additional legal measures.

Intervention	Time frame
Stronger CIABOC: Grant CIABOC the authority for independent investigations, collaborate with local and international counterparts for joint probes, conduct search and seizure operations, make warrantless arrests, and take other necessary actions against corruption.	S
Asset declaration: Implement legislation requiring that elected representatives and public officials declare assets and liability. ***Note:*** This is currently being implemented.	S
Unexplained Wealth Law: Create an Unexplained Wealth Law under which any citizen can report an individual suspected of acquiring wealth through dubious means according to the criteria specified in the Act to the public prosecutor's office.	S

1.2 AN INDEPENDENT PUBLIC PROSECUTOR'S OFFICE

Sri Lanka's Attorney General's (AG) Office has a conflict of interest in corruption litigation. On the one hand, the AG appears on behalf of the Government and its officials. On the other hand, the AG will be called in to prosecute the same officials if they are being charged for corruption. The current practice is that the AG's Office is frequently involved in such matters without any guidelines to safeguard independence and transparency. The AG also has sole discretion to discontinue criminal proceedings before a High Court in respect of a suspect.

Intervention	Time frame
Public Prosecutor's Office: Establish an Independent Office of the Public Prosecutor for Bribery or Corruption that is free from the influence of the AG; both factual and perceived. This requires only a simple legislative amendment, not a Constitutional amendment.	S
Expedite corruption cases: Refile all corruption charges withdrawn by the AG due to technical reasons and expedite cases that have been dragging.	S

1.3 MECHANISM FOR PUBLIC PROCUREMENT

Sri Lanka's expenditure on public procurement is very large. Therefore, even minor irregularities could lead to significant corruption. Lack of procurement planning, ignoring procurement procedures, inadequate competition and accepting unsolicited proposals for large infrastructure projects are a few of the major flaws in the system. Various ad-hoc changes have been made to procurement guidelines and a high degree of executive discretion in present in decision making. All these issues and more have led to massive corruption in procurement. We will address these flaws by enacting new laws and strengthening the institutional framework and transparency in public procurement.

Intervention	Time frame
Public Procurement Law: Enact legislation that reflect global best practices and ensure all public procurement is mandatorily covered by this new legislation. Establish the necessary institutional structure to implement the law.	S
E-procurement: Move all public procurement transactions to an e-Government Procurement Platform and publish all procurement with relevant details for public scrutiny.	M

1.4 NEW LAWS FOR ASSET RECOVERY

The current asset recovery laws have gaps that hinder efforts to tackle complex transnational financial crimes. The proposed Stolen Asset Recovery Act will address these issues, providing a strong legal framework to fight corruption and recover assets stolen by politicians and officials. We will include the following initiatives in the new law.

Intervention	Time frame
International frameworks:	
☎ Implement the G20 Nine Key Principles of Effective Asset Recovery to guide legislative efforts. This includes making asset recovery a policy priority, aligning resources to support policy, and empowering authorities to trace, seize, and confiscate stolen assets promptly.	S
☎ Ratify the United Nations Convention against Corruption (UNCAC) to enhance the legal framework for asset recovery and strengthen international cooperation.	M
Legal cases: Integrate asset recovery mechanisms into corruption case settlements.	S

1.5 TRANSPARENCY AND ACCOUNTABILITY IN PUBLIC FINANCIAL MANAGEMENT (PFM)

Fiscal transparency is crucial on two levels. First, the government should provide clear information on budget promises and obligations, including spending plans, program allocations, and debt management strategies. Second, tax administration must be transparent. As described in the IMF 2023 Diagnostic Assessment, corruption among revenue officers, including top management, is widespread. We propose new structures, systems, and technology to change this.

Intervention	Time frame
Parliamentary Budget Office (PBO): Fast-track the establishment of an independent PBO which will assess costs and benefits of each budget or cabinet approved expenditure proposal including every infrastructure project above a certain threshold and make its findings public. Encourage independent think tanks to work with the PBO to evaluate PFM measures.	S
Public accountability: Mandate publication of regular reviews assessing the effectiveness of all tax incentives and consider amendments as necessary. Mandate that all proposed tax incentives be evaluated, discussed and approved by the Committee on Public Finance prior to being debated by Parliament.	S
Local government budgets: Bring local government bodies and provincial councils within the scope of the Public Financial Management (PFM) Act and mandate submission of quarterly reports on revenue and expenditure.	M

The foundation for all these initiatives will be a 'Digital Public Infrastructure' (DPI) platform, which will promote transparency, accountability, and efficiency across the economy. More information on the features of this keystone project is in Section 7 (Public Sector Management and Digitalisation).

02 DEBT CRISIS MANAGEMENT

Sri Lanka's sovereign debt crisis remains a serious economic challenge. While there has been progress in debt restructuring negotiations, achieving debt sustainability is still a long road ahead. Many Sri Lankans fear another crisis due to delays and the potential for a 'bad deal'. The key solution is swift but fair negotiations leading to a final agreement.

2.1 CONTINUE DEBT RESTRUCTURING NEGOTIATIONS

The government has finalized bilateral debt agreements with the Official Creditor Committee (OCC), which includes Paris Club nations, India, and China (Exim Bank). Agreements with the Ad-Hoc group representing international sovereign bond (ISB) holders, and the China Development Bank are being assessed for comparability with the OCC and IMF's debt sustainability parameters.[2] The restructuring must be completed swiftly. We also advocate for equitable treatment of all creditors. If ISB holders benefit from better-than-expected economic performance as proposed by the Ad-Hoc group of ISB holders, we believe the EPF should also share in this upside via a 'claw back' condition included via an amendment to the debt restructure agreement between the government and the EPF.[3] Under an SJB government, we will rebuild trust and credibility among creditors and international financial markets by combining key economic aspects of debt restructuring with improved governance. We will actively manage our liabilities through a dedicated and competent treasury management entity under the active liability management legislation (2018).

Intervention	Time frame
Debt negotiations: If the external debt restructuring remains incomplete by the time of the election, we will immediately provide the political leadership required to negotiate the best possible deal for Sri Lanka with both the bilateral and commercial creditors.	S
Debt management: Create a public debt office and staff it with highly skilled, well-paid professionals who can manage Sri Lanka's debt dynamically in order to benefit from market movements. ***Note:*** Parliament passed the Public Debt Management Bill but has not yet established the public debt office. In 2018 Parliament enacted the Active Liability Management Act which provides the legal basis for a robust management of the nation's outstanding debt.	M

[2]The SJB strongly opposed the Ad-Hoc group's April 2024 proposal, arguing that the nominal 28% haircut under the GDP-linked bond (Macro Linked Bond) structure would effectively be only 7.3% by 2028 when the haircut would actually take place based on independent projections of GDP (in USD) by then. Our criticism, echoed by think tanks and other opposition parties, sent a clear message that the deal was unacceptable. This pressure helped the government negotiate an effective MLB of 14.96% in July 2024. The SJB has also sought clarification on a 'claw back clause' in the OCC agreement to ensure fair treatment between OCC and commercial creditors regarding the haircut and net present value of the new ISB series.While the deal is not perfect, it is a significant step toward economic recovery. We are pleased with our role in strengthening the government's negotiating position and securing a better outcome for Sri Lanka.

[3]We have informed the IMF of our stance.

2.2 ENGAGE WITH IMF TO AMEND CERTAIN TERMS OF THE EFF

An SJB government aims to amend the current EFF agreement to ensure "reform with relief" while staying within the agreed, and periodically updated, Debt Sustainability Analysis (DSA) parameters. We were the first (in 2020) to argue that an IMF program was essential to prevent a deep economic crisis in Sri Lanka and to restore stability and credibility in international financial markets. This EFF focuses on fiscal consolidation and better economic governance but does not sufficiently address the structural flaws that made the economy vulnerable to the sovereign debt crisis. From 2009 to 2014 in particular GDP growth was driven mainly by non-tradable sectors like construction, utilities, and services, primarily driven by public infrastructure projects. Over 70% of the increase in GDP during this period came from non-tradable production, reducing the share of tradable in GDP from over 30% to about 20% by 2020.

Restoring macroeconomic stability is important to emerge from the crisis with debt sustainability; but addressing the non-tradable bias in the economy is crucial for sustainable growth beyond stabilization. The IMF estimates that Sri Lanka will have over $62 billion in foreign debt by 2027. To manage this debt, we must generate surpluses in both the primary fiscal account and the current account balance. The SJB development strategy prioritizes "building bridges to the world" by fostering an export-oriented economy. We will incentivize tradable production (both export-oriented production and internationally competitive import-substitution production) over non-tradable sectors by addressing the anti-tradable bias through monetary, exchange rate, trade, and competition reforms. More information on this is in Section 6 (Incentivise Growth). Accordingly, we propose amending the IMF EFF agreement to address the incentive structure, within the broad contours of the program[4]. This will help build an outward-oriented, dynamic economy capable of sustained and equitable growth.

While ensuring adequate government revenue and controlling expenditure, it is also important to review the tax structure to minimise the negative impact on the middle class, and to maintain a well-targeted social safety net to protect the poor. This shall be the amendments for 'relief'. See Section 4 (Revenue Consolidation) and Section 10 (Stronger Social Safety Nets) for details.

Intervention	Time frame
EFF amendments: Agree with the IMF to amend the EFF agreement to meet the below objectives, while maintaining the agreed revenue-based fiscal consolidation targets and meeting the structural benchmarks within the agreed, and periodically updated, DSA parameters: ☎ Revised incentive structures to rejuvenate tradable production by removing the non-tradable bias in the economy. This would involve revising the corporate income tax regime for the tradable sector upon a thorough assessment. ☎ Revised slabs and rates for personal income taxes to ensure greater equity and fairness, particularly for the middle class. The loss of revenue shall be recovered by adjusting withholding taxes, excise taxes and taxes on gross gaming revenue on casinos and other such industries. Described in Section 4 (Revenue Consolidation) ☎ Revised social safety net criteria and recipient selection to ensure a better focused cash transfer program to protect the vulnerable groups as the current Aswesuma scheme is inappropriate.	S

[4]We have explained the need for this amendment in the program to the IMF. This will, in particular, involve reconsidering the incentive structure for the tradable sector.

2.3 ENSURE FINANCIAL SYSTEM STABILITY WHILE DEALING WITH THE NPL ISSUES

Sri Lanka's financial system stability has improved with reforms under the IMF EFF program. Domestic debt restructuring excluded banks due to purported asset quality issues,[5] and funds were allocated for recapitalizing state banks. The new Central Bank Act and better bank regulations have also improved financial system governance. However, vulnerabilities remain, with non-performing loans (NPLs) rising to 13.6% by Q3 2023 from 5.2% in 2019.[6] The government suspended the Parate law until December 15, 2024, to provide relief to micro, small and medium scale enterprises (MSMEs), preventing banks from auctioning collateral properties. About 60% of MSMEs have faced severe challenges.[7] However, there is no clear plan for MSMEs after the suspension ends. A further suspension needs re-evaluation to balance loan recovery and enterprise support. A clear roadmap is essential to protect depositors, and it is crucial to offer fair negotiation opportunities between creditors and debtors. Understanding the sectors most impacted by the Parate law will help tailor support measures and foster a resilient economy.

Sri Lanka must also create a more efficient and predictable system for dealing with corporate and individual insolvency. A well-designed bankruptcy system allows companies to adapt and recover from setbacks, fostering business stability and growth. An efficient insolvency process allows entrepreneurs to take calculated risks and creates a safety net that encourages innovation and experimentation, which are essential for economic growth.

Intervention	Time frame
Loan revival units: Mandate all banks to have a loan revival unit where advice will be given to restructure non-performing loans, such as by fully implementing the CBSL's March 2024 directive for licensed banks to reformulate Post Covid-19 Revival Units into Business Revival Units (BRUs) to support viable businesses and manage increased impaired assets.	S
Insolvency regime:	
☎ Prioritise establishment of a streamlined insolvency law specifically designed for MSMEs.	S
☎ Introduce a comprehensive Chapter 11 style bankruptcy law[8] which will provide a more flexible and efficient process for restructuring or resolving financial distress for larger businesses.	M

[5]Nothing is known about the true situation: the Asset Quality Review has not been shared even with the Public Finance Committee in Parliament.

[6]Central Bank of Sri Lanka

[7]https://sustainabledevelopment.un.org/content/documents/26277Report_The_Impact_of_COVID19_to_MSME_sector_in_Sri_Lanka.pdf#:~:text=URL%3A%20https%3A%2F%2Fsustainabledevelopment.un.org%2Fcontent%2Fdocuments%2F26277Report_The_Impact_of_COVID19_to_MSME_sector_in_Sri_Lanka.pdf%0AVisible%3A%200%25%20

[8]Chapter 11 type bankruptcy law refers to a legal framework that allows companies to undergo financial reorganisation while remaining operational. This process involves court supervision, debt restructuring, and the creation of a repayment plan. The specific details of Chapter 11 bankruptcy are unique to the United States, but many countries have similar laws.

03 MONETARY AND EXCHANGE RATE POLICY

Monetary policy must balance credible inflation control with economic stabilization. These efforts should be complemented by initiatives to restore price stability and rebuild foreign reserves, potentially through increased exchange rate flexibility.

3.1 STRENGTHEN THE INDEPENDENCE AND TRANSPARENCY OF THE CENTRAL BANK AND INTEREST RATES

A key milestone of the IMF program was the enactment of the Central Bank of Sri Lanka (CBSL) Act, No. 16 of 2023. This legislation boosts CBSL's independence and accountability, ensuring price stability through a new inflation targeting regime. The Act requires the Minister and Governor to set and publish inflation targets, while CBSL must release biannual reports on inflation trends, sources, projections, and risks. This independent mandate is crucial for economic stability and growth. Respecting CBSL's autonomy under this new law is vital for sustained macroeconomic stability in Sri Lanka.

From June 2023, CBSL adopted a more accommodative monetary policy, reducing policy interest rates by 700 basis points by July 2024. Lending rates are now at 9.25% and deposit rates at 8.25%. This, along with lower risk premiums on government securities, has reduced market lending rates. However, interest rates for MSMEs remain high due to perceived lending risks.

While recognizing the autonomy of the CBSL on interest rate policy, we expect the CBSL to support the general economic policy framework of the Government as provided for in the new legislation through the consultative process via the Coordination Council.

Intervention	Time frame
CBSL independence: Ensure CBSL's independence to stop discretionary money printing, combining its institutional independence with accountability to Parliament. ***Note:*** This was achieved by passing the Central Bank Act, No. 16 of 2023. We will resist political pressure to rescind this Act.	M
Manage inflation: Allow CBSL to adjust policy rates to balance controlling inflation and keeping credit costs manageable for investors and firms. This is a complex matter, and we believe that it is crucial that the CBSL is brought on board regarding the need for a tradable-biased economic model and international competitiveness, given the periodic inflation targets to be agreed with the government. There has to be strict fiscal and monetary discipline to ensure success.	S
Rates: Move towards obtaining weekly bill and bond funding requirements from the market at market-clearing rates. ***Note:*** Currently, much of the weekly requirement is met by the market, with CBSL still funding part of it.	S

3.2 EXCHANGE RATE POLICY

The strategy for exchange rate management includes identifying the market-determined level through a transitional floating phase and then stabilizing it through CBSL interventions to correct erratic deviations. This should be accompanied by lifting the foreign exchange restrictions imposed on current account transactions and removing quantitative import restrictions during the crisis, building adequate reserves, and regaining access to capital markets. The CBSL should avoid the temptation to intervene against market forces to manage the nominal exchange rate to control inflation (to maintain inflation targets) or to reduce external debt servicing costs. It is important to permit determination of the nominal exchange rate by market forces so that the real exchange rate (nominal exchange rate adjusted for our relative price differences with trading partners) plays its expected role of maintaining our international competitiveness.

We shall maintain controls over most speculative short-term capital inflows while lifting restrictions on foreign exchange transactions and foreign direct investment during the reform period. Short-term capital inflows can put unnecessary pressure on macroeconomic management during economic recovery.

Intervention	Time frame
Exchange equilibrium: Allow the exchange rate to reach its market equilibrium through transitional phasing, adjusting with domestic inflation to maintain international competitiveness. ***Note:*** CBSL has achieved some stability, though import restrictions remain. Currently, the exchange rate is appreciating.	S

04 REVENUE CONSOLIDATION

Government revenue has historically been low in Sri Lanka. The highest average ratio of revenue-to-GDP was recorded between 1989 and 1991, amounting to 23.3%. However, the decline that started in 2004 continued until 2014 with revenue falling to 11.2% in 2014 and then again rising to 12% in 2019 with the new Inland Revenue Act of 2018. This trend was reversed after major tax cuts in 2019, dropping to 8.4% of GDP in 2021. In contrast, the average government revenue-to-GDP in emerging and middle-income countries similar to Sri Lanka for 2019-2022 is 26%. It is clear we are an outlier. Government revenue must increase, and the current target of 15.4% by 2027-2029 is acceptable. Without such revenue it is impossible for the government to spend on critical infrastructure, be it economic, such as rail or road, or be it social, such as health or education.

However, a 2024 UNDP study shows that a majority of Sri Lankans are not at all happy with the current tax regime, albeit not being aware of the general concepts of taxation.[9] The study found most people were not registered for tax (did not have a TIN number) and were not eager to do so either (According to the IRD, only 743,000 people were registered for tax at end 2023; an increase from 246,000 in 2022 but still much less than the 1,431,000 registered in 2019). Most only paid indirect taxes. Yet, they were not satisfied with the services they received for their taxes. The vast majority believed that the current tax regime was unreasonable, and the government should cut expenditure to deal with the debt issue instead of raising taxes.

Sri Lanka's tax revenue mainly comes from three sources: The Inland Revenue Department (IRD), Sri Lanka Customs (SLC), and the Excise Department of Sri Lanka (EDSL). The IRD handles income and corporate taxes, SLC manages import taxes and duties, and EDSL deals with licenses for alcohol, tobacco and other such excise goods. However, these institutions always fail to meet their revenue targets. Ad-hoc policy changes, lack of administrative capacity and inefficiency, and technological constraints are key issues. Corruption in all three agencies was also called out in the IMF's 2023 Governance Diagnostic Assessment.[10]

The IRD has tried to improve this situation with the Revenue Administration Management Information System (RAMIS) since 2014, but its implementation has been slow and problematic – particularly in integrating RAMIS to key government departments. As of December 31, 2023, the IRD had over Rs. 1,000 billion in unpaid taxes. There are approximately 350 ongoing legal cases related to default taxes, and almost 5,000 appeals at the IRD and Tax Appeals Commission.[11]

Besides the above, numerous exemptions for certain sectors, and individual projects, have further complicated tax collection. Discretion enjoyed by politicians to hand out tax holidays for projects for as long as 25 years.

[9] UNDP and the Ceylon Chamber of Commerce, 2024.

[10] A major corruption issue was the "sugar scam." The government lost significant revenue when the Special Commodity Levy on sugar imports was suddenly reduced from Rs. 50/kg to Cents 25/kg in October 2020. The Auditor General reported that this led to a revenue forgone of over Rs. 16 billion. The conclusion was that the reduction mainly benefited a few importers (who seemed to have prior knowledge of this change) while consumers did not benefit. The most recent calculation of the revenue foregone until the SCL was brought back to Rs. 50/kg in November 2023 is Rs. 80 billion. This is just one example among many such cases.

[11] Ninth Parliament of the Democratic Socialist Republic of Sri Lanka – Fifth Session Second Report of the Committee on Ways and Means. Available at: 1712049750029698.pdf (parliament.lk).

introduced by 2008 the Strategic Development Project Act and more recently by the Port City Commission Act (less discretionary, yet long term tax relief) continue to a be significant drain on revenue. The government has simply increased all taxes (personal, corporate and VAT), introduced new ones (turnover tax, i.e. social security contribution levy) and reduced taxable thresholds for in 2023, without addressing these fundamental issues of revenue leakages.

With respect to direct taxes, a broader tax base is needed to avoid overburdening the working middle class, who cannot escape Pay-As-You-Earn (PAYE) taxes. As for indirect taxes, the current tax regime does not exclude even basic consumption and investment necessities. Only by implementing comprehensive tax reforms and innovative financial and technological strategies can we reach long-term fiscal stability and economic growth. This will allow for a fairer tax system and alleviate unfair pressure on individual taxpayers while fostering a more robust economy.

Challenges and Discrepancies in Personal Income Tax Collection A Closer Look at 2023 and 2024

In 2023, the sharp rise in personal income tax through PAYE amid high inflation heavily burdened many professionals, worsening the brain drain. Initially, PAYE revenue was projected at Rs. 68 billion, but later revised to Rs. 100 billion. However, the IRD collected Rs. 144 billion. For 2024 the estimate is Rs. 160 billion, but collection is projected to be Rs. 200 billion. This discrepancy indicates that the original estimate could have been met with lower rates or wider tax slabs, but the government decided to maximize collection as there was no escape from PAYE for employees. In contrast, the IRD expected Rs. 115 billion from non-PAYE component of Personal Income Tax (PIT) but only collected Rs. 48 billion. The estimate for 2024 is Rs. 80 billion, but projection is only Rs. 40 billion. This gap highlights low voluntary compliance. These outcomes suggest that revenue targets could certainly be met by even with lower PIT rates but improved compliance.

We will create a broad tax consultation mechanism with the formal and informal private sector and professionals to gather their input before finalizing our tax policy reforms within the overarching IMF EFF framework. Our key interventions are:

Intervention	Timeframe
Administrative reforms	
Unified revenue authority: Establish a Revenue Authority incorporating the IRD and subsequently Customs and Excise departments. In the medium term, such an entity will enhance professionalism and efficiency of revenue collection, and in due course it would become a separate government service with salary levels on par with the CBSL.	M
Modernization and digitalization: In the meantime, modernize the three departments, improve and strengthen the rewards and accountability schemes, and ensure existing technology platforms (i.e., RAMIS at IRD and ASYCUDA at Customs) are fully operational, while introducing a platform to Excise.	S
Registration of high-income earners: Undertake a nationwide campaign among all professional bodies to articulate the importance of paying taxes, and a logistics operation to register and provide a TIN. This would have two components: firstly, to open tax files for all persons with WHT obligations and public sector employees beyond the tax-free threshold; and secondly, to mandate that members of professional bodies open tax files with the IRD.	S M

Intervention	Timeframe
Ombudsman: Via legislation, establish an Ombudsman, i.e., an independent ruling authority to deal with the issue of tax appeals and long litigation. This Office will have binding authority over the Tax Appeals Commission and the IRD and inspire public trust and confidence and become an alternative to costly and lengthy legal battles.	S M
Public asset management: Create a taskforce to assess government assets and identify opportunities to increase non-tax revenue. Increase revenue on government owned assets, fees, and returns from government organisations. Ensure service quality is improved at the same time. Where agency-specific funds exist, flow through to Consolidated Fund.	S
Draft Tax Reforms	
As mentioned, we are fully cognizant of the need to stay within the EFF agreement with the IMF on revenue consolidation. Within this framework we propose to make the tax structure more equitable and remove the anti-tradable bias in the economy. We will establish a special unit incorporating all relevant stakeholders to serve as a secretariat to transparently arrive at a consensus on the best possible structure. ☎ **Middle class tax cut:** Our proposed 'middle class personal income tax adjustment' is to amend the marginal rates from 1% to 24% going up to a monthly income of approximately half a million rupees while keeping the current tax-free threshold as is. Thereafter the current marginal tax rates shall remain. We also intend to maintain the current slabs almost the same.[12] ☎ Our objective here is to ensure that the bulk of the mid-level executives; managers, professionals and academics who were subjected to severe difficulties in maintaining their living standards during the adjustment period are once again able to get back to some level of normalcy. The challenge, however, is to ensure compliance among taxpayers outside and beyond PAYE so that the unfair burden on the PAYE only taxpayers is removed. Our belief is that with affordable rates, ease of paying taxes by digitization and with increased citizen responsibility along with a stronger social contract we will be able to meet the targets agreed with the IMF. ☎ **Amendments to Corporate Income Tax (CIT):** The theme throughout our blueprint is to ensure strong, sustainable and equitable growth driven by the tradable sector in goods and services. The amendments shall be to enable such a reality while keeping to the overall targets. Given that we are not privy to internal disaggregated data for all line items by sector, it is prudent to await a comprehensive analysis before we announce a proposal on CIT (and other para tariffs), suffice it to say our objective is to remove the non-tradable bias in the economy. A significant downward adjustment for exporters perhaps upto 6%, shall be announced without disturbing total CIT.	S

[12] We have used latest available tax data and made certain assumptions. Upon taking office we will be able to confirm the assumptions and make modifications as required keeping the objectives in place.

Intervention	Timeframe
☎ **Amendments to VAT:** We plan to lower the VAT rate to 15% except for a selected list which shall stay at 18% as soon as soon as we are able to improve compliance through the proposed digitalization of tax collection and information sharing via the DPI. We shall either zero rate or apply a low rate of VAT on identified essential items included recently and on imported food, which is currently liable for Special Commodity Levy (SCL) to be removed as per IMF agreement. This list shall include items such as high protein food for infants, medical and educational equipment and input for animal feed (to lower the cost of production of high protein food), besides the SCL liable list.	S
☎ **Amendments to SVAT:** The original SVAT (Suspended VAT) was only applicable for genuine exporters but subsequently a revised SVAT (simplified VAT) was introduced to include several other categories. The government has announced the removal of SVAT by 1 January 2025. We are not convinced this is a positive move. Instead, we believe reverting to the original SVAT (Suspended VAT) for exporters and manufacturers supplying locally produced goods for exporters is a better solution. We shall discuss the pros and cons widely before arriving at a final decision.	S
☎ **Amendments to Withholding Tax (WHT):** To balance the losses in revenue to provide relief to the middle class WHT on interest shall be increased from the current level. A WHT-free threshold for deposits held by those above the age of 65 years shall be announced. While WHT is not an additional tax but only a tax collection mechanism and theoretically would only have a cash flow impact, it will be effective in bringing to the tax net those who are voluntarily supposed to pay but evade, improved compliance. To implement this scheme, the IRD refund mechanism must be perfected. Any delays in refunds on the part of the IRD beyond, for example 7 days, would be made liable to an interest to be paid to the taxpayer.	S
☎ **Amendments to Excise Tax:** Excise is a per unit tax, as opposed to an ad valorem or percentage tax. Thus, unless the tax level is periodically adjusted to equally reflect the increase in the selected price level, the tax per unit would fall. This has been the case over the years. In 2023, the government undertook with the IMF to automatically index excise tax for alcohol and tobacco at the beginning of 2024, but this has not happened. We plan to implement this, upon a comprehensive study of the market. There is a massive ongoing racket involving the collection of excise tax on alcohol, as the security (tax) sticker on the bottle is being counterfeited. Beyond taking action to collect lost revenue we propose to implement a two-signature tax sticker on alcohol bottles wherein counterfeiting will no longer be possible. ☎ Excise tax on motor vehicles (including electric vehicles) shall be reviewed in order to ensure both the nation moves towards EVs and revenue to the State is improved. The restrictions on import of vehicles shall be removed.	S

Intervention	Timeframe
Amendments to tax applicable to casinos: Currently casinos are taxed at 15% on its Gross Gaming Revenue (GGR) and 40% on profit based on their assessment. There are licence fees and other fees, but neither VAT nor SSCL is applicable. Also, given its nature of business is in cash no proper audits have been conducted. We believe it is better to have a simple consolidated tax on GGR that is comparable to most other jurisdictions. We shall establish a Gaming (Casino) Regulator as a matter of priority for the benefit of all stakeholders and for ensuring the correct amount of taxes are collected. **Replace the imputed rental income tax with a fair property tax:** We opposed the proposed imputed rental income tax, as it would have been detrimental to the average homeowner whose only house would also have been subjected to an unfair tax. Thus, we shall not impose the imputed rental income tax. A property tax levied on the property (not the house) would be more equitable. We plan to hold thorough discussions with all stakeholders on using technology (drone maps etc.) to determine the values of properties in identified blocks.	S M
Reintroduce the tax on sweetened beverages to the same level of 2017: This tax has been changed frequently. Beyond revenue, this will impact the fight against non-communicable diseases such as overweight and diabetes. We plan to have a public consultation on the WHO recommended tax rates to arrive at a suitable solution.	S
Adopt global best practices: Become signatory to Base Erosion and Profit Shifting (BEPS) Digital Economy frameworks. Introduce 15% global minimum alternative tax for multinational companies (OECD BEPS Pillar 2).	M
Consumption shall be the jurisdiction for taxes on services: Services produced and consumed locally are subjected to VAT while the same service produced overseas but consumed locally is not. A classic example is PickMe vs Uber. We will amend the legislation to bring both parties to the same tax treatment.	M
Import duties: - Revise the existing three-band customs import duty system, with rates of 0%, 10%, and 15%, to 0%, 15%, and 20%, respectively. - Continue the gradual phasing out of para-tariffs (first PAL, and then reduce CESS), aiming to eliminate them in 3-5 years. Appropriate trade adjustment package shall be introduced to ensure negative impact on domestic producers.	M L

All improvements to the revenue collection agencies are to be addressed in the background of the planned implementation of the Digital Public Infrastructure platform, described more fully in Chapter 7 (Public Sector Management and Digitalisation). We envisage all transactions between the revenue authorities and citizens would be completed on the DPI. Going beyond, we will relentlessly pursue the largest group of stakeholders to move away from cash transactions to digital payments.

It is also essential to improve efficiency of state-owned enterprises (SOE) in order to generate sustainable revenue through dividends. SOE reforms are addressed further in Section 5 (Expenditure Control).

05 EXPENDITURE CONTROL

The IMF EFF program overly focuses on increasing revenue while neglecting spending cuts, despite widespread concerns about wasteful government spending, waste, and corruption. Public dissatisfaction with reforms, especially tax changes, stems from the government's failure to address spending. Therefore, fiscal consolidation should also include spending cuts and reforms of SOEs. These measures can create fiscal space to strengthen social safety nets and boost spending on important services such as education and healthcare. According to a UNDP study (2024), only around 30% of respondents favoured increased taxes to deal with the debt issue, and 90% were of the view that the government should reduce spending and 80% believed that public sector employment should be reduced.

5.1 RATIONALISE PUBLIC EXPENDITURE

Persistent problems in managing public spending, alongside failure to raise revenue, have led to budget deficits, rising debt, and limited funds for infrastructure and social protection. The SJB is committed to rationalizing public expenditure, focusing on efficiency, transparency, and accountability in resource allocation. Additionally, we will conduct a management audit of public sector employment and freeze new hiring until the audit is complete, with streamlined processes for lower-level staff.

The new Public Finance Management Act (PFM) of 2024 prioritizes transparency and accountability in expenditure, replacing the old Fiscal Management (Responsibility) Act (FMRA) of 2003. This strengthens the foundation for fiscal responsibility. The FMRA set limits on fiscal deficits and government debt, aiming to keep the budget deficit below 5% of GDP by 2026 and debt below 60%, but these were consistently exceeded without consequences. Clear penalties for breaching targets and strict enforcement mechanisms are essential to ensure compliance and accountability, beyond just legislative frameworks. We will follow the objectives of the PFM law but with necessary amendments to ensure accountability. The arbitrary primary expenditure limit with no connection to revenue shall be replaced with a more logical condition based on revenue and the agreed upon medium term primary balance targets. Our goal is to use every public rupee strategically for maximum value to the people.

Intervention	Timeframe
Data-driven planning: Within the PFM framework, implement a robust Medium-Term Expenditure Framework (MTEF) using reliable forecasts and risk analyses to guide expenditure decisions based on sound data and future consideration. This analysis would reprioritise capital expenditure from the general budget on long-term projects such as roads and highways and remove all projects outside the National Physical Plan.	S M
Transparency and accountability in expenditure, to build public trust: Given the breakdown of the social contract and accusations of wastage and corruption, it is crucial we build back public trust in expenditure. This, combined with the MTEF can create a partnership between the government and the people on the direction and levels of expenditure. Specific initiatives include:	S M

Intervention	Timeframe
☎ Publishing transparent guidelines for all government spending including criteria for project approval. ☎ Involving relevant stakeholders, including the public, through consultations on significant expenditures. ☎ Establishing an online portal to publish all expenditure decisions and related documents in real-time, allowing for public access, scrutiny, and ongoing transparency. ☎ Conducting regular independent audits, with findings published publicly to ensure accountability and identify areas for improvement. ☎ Setting and adhering to strict timelines for each stage of the expenditure decision-making process to promote efficiency and reduce delays.	
Managing debt: As the largest component of recurrent expenditure will be interest even after the debt restructure, falling from 8.1% of GDP in 2024 to around 6.2% by 2029, debt management is critical. Discussion is in Section 2 (Managing the Sovereign Debt Crisis).	S M L
Expenditure reduction initiatives: We will consider every single line item in the budget to ensure they are needed. Those that can be removed shall be removed and others amended.	S M
☎ **Rationalizing the Cabinet of Ministers:** We shall arrive at a prudent structure for the new Cabinet by removing the misalignment and fragmentation of Cabinets in the recent past. Based on expenditure rationalisation and efficiency we will arrive at a reasonable number of ministers and ministries within the stipulations of the Constitution.	
☎ **Cash transfers:** Improve the mechanism to transfer cash to targeted households in a more objective and transparent manner. The current Aswesuma program does not properly target the vulnerable and the needy, resulting in a large leakage of funds. We shall improve targeting using the latest data from the on-going population census and improve efficiency and ease of administration using the DPI platform. This is fully described in Section 10 (Stronger Social Safety Nets) along with a more impactful poverty alleviation program, similar to the previous 'Janasaviya' program.	S M
☎ **Public infrastructure:** Reallocate economic infrastructure expenditure to facilitate the move from private to public transport. There is ample evidence to suggest expenditure on public transport such as rail and metro transport will generate significant benefits to society at the present compared to excessive spending for private transport. The Kandy highway shall be completed but expansion beyond that will be based on a comprehensive assessment on priority. Improving the dilapidated rural road network shall be a policy priority as an integral part of rejuvenating the rural/agrarian economy. Besides public transport, the priority would be on irrigation, water supply and housing.	S M L
☎ **Military spending:** Sri Lanka has the 10th largest active military personnel per 100 people in the world.[13] We shall allow natural attrition in the military based on sound planning on defence requirements into the future, and ensure adequate funds are allocated for the maintenance of a high-quality life of veterans, particularly disabled veterans. We will consider possible savings to be reallocated to increase salaries in the public sector, starting with teachers.	M L

[13] Fiscal Space for Social Protection. UNICEF Sri Lanka and Verite Research, 2023 .

Intervention	Timeframe
☎ **Vehicles:** A low hanging fruit is government vehicle expenditure. Wasteful spending on vehicles will be stopped. A proper needs assessment of the public service and audit on the available vehicle fleet will be conducted, as exact numbers are not known. Strict guidelines shall be enforced on usage from the President downwards.	S M
☎ **Maintenance of politicians:** There is a massive outcry that tax money should not be 'wasted' on elected officials and in some cases former elected officials. We shall undertake a comprehensive audit on expenses on politicians and rationalise the same based on assessed security risks on each individual.	S
New expenditure items: We plan to introduce several new expenditure items. Significant new line items are: **Increase in the Cost-of-Living allowance for public servants:** Our government shall increase the monthly cost of living allowance to all eligible public sector employees to Rs. 25,000 per month from current amount Rs 17,800. This is based on the report of the Cabinet appointed Expert Committee on Public Service Salary Disparities. ***Note:*** The government announced this exact figure after the date for election was announced.	S
Increase in basic salary for public servants: The minimum initial monthly salary for government service will increase by at least 24% (based on the current ratios for grades). This adjustment shall include any terms and conditions of various adjustments and allowances currently being enjoyed. Here again, the final amount shall be determined upon studying the fiscal data.	S
☎ The above two adjustments shall make the minimum gross salary in public service Rs. 57,500, including the cost-of-living allowance. ***Note:*** These figures (salary increment and COL increase) are strictly based on the interim report of the cabinet expert committee referred earlier to make recommendations on revising salaries across the public sector.	
☎ **Sakwala' smart classrooms:** Given top priority for building a Smart Sri Lanka, ensuring students' access to digital learning platforms in schools shall be prioritised. This shall involve a total overhaul of delivering content using digital technology across all schools. This program shall be extended to technical and vocational institutions and universities. In addition to budgetary allocations, an innovative financing structure shall be introduced on twinning programs with schools overseas.	S M L
☎ **'Husma' support for hospitals:** Our program to support hospitals across the country on life-saving medical equipment shall be streamlined into the health budget based on a complete assessment of need.	S M L
☎ **Maternity leave benefits (MLB):** Sri Lanka's female labour force participation has remained around low 30% for a long time. Further, almost 80% of unemployed females are in the age group of 20-40 years. Even though we committed to MLB in 1952 through the ILO, we are yet to provide any funding at all for this purpose. We shall fund MLB either in full or partially depending on ability. We believe this would be a major impetus to improve the number of women in the labour force.	S M
☎ **Menstrual equity:** Provision of subsidy (on a self-selected basis) for sanitary hygiene products for school-going girls. More on this is detailed in Section 10 (Stronger Social Safety Nets).	S M

5.2 STATE-OWNED ENTERPRISE REFORM

Capital expenditure on long term projects has been adjusted, but the government has not rationalised other recurrent expenditure or imposed budget constraints on SOEs. Examples include giving bonuses to employees of loss making SOEs and spending exorbitant amounts of public funds. Through the broad reforms and specific interventions described below, many SOEs can transform from being taxpayer burdens to revenue generators, helping build a stronger and more sustainable economy for Sri Lanka.

Establishing a SOE Holding Company is a key part of SOE reform, as this would remove SOEs from politicians' control, a practice which leads to waste and corruption. This SOE Holding Company will provide a centralised and strategic framework for managing SOE ownership, under a structure similar to Singapore's 'Temasek model'. This company's board will consist of the best available professionals appointed by the President with the concurrence of the Constitutional Council and will be managed by the best affordable talent available at a global level. It will consolidate selected SOEs, with ownership managed by the Secretary to the Treasury (ST).

The Holding Company will prepare consolidated financial statements, while each SOE will develop strategic plans and budgets for themselves. These plans will outline goals, resource use, and strategies for improving market share, productivity, and financial independence, with Key Performance Indicators (KPIs) approved by their boards. What shareholding the ST shall hold in each of the SOEs shall be determined based on multiple objectives of the various stakeholders, balancing national and security interests with international competitiveness and efficiency.

Intervention	Timeframe
SOE Holding Company: Legislate and implement the SOE Holding Company and place all selected SOEs under it, (a 'Temasek' type model), as described above. This naturally means some SOEs, based on criteria determined by the government, shall be outside the Holding company.	S M
Regulate SOEs not under the Holding Company: ☎ Impose hard budget constraints on SOEs not brought under the Holding Company. Begin to cease capital and current transfers to them. ☎ Via legislation, make it mandatory for SOEs not under the Holding Company to submit audited financial statements within the following financial year and shift all SOEs to accrual-based accounting. The objective is for these SOEs not to become a burden on the Treasury. ***Note:*** This has started but needs implementation and emphasis.	S M
Financing: Use risk-weighted lending by state banks for all SOEs until full transformation.	S
Liquidation: Liquidate insolvent SOEs by establishing an agency, structured as a trust or holding company, to take ownership of unviable SOEs. This agency will handle asset liquidation and settle creditors.	S
Liberalization: Liberalize markets by introducing policies that allow private players to enter areas currently monopolized by state-owned enterprises.	M
Airport management: Reform the management of airports to make them attractive for all airlines. Price ground handling services in a manner that makes the airport attractive to low-cost carriers. ***Note:*** The government is in the process of privatising airports.	M

06 INCENTIVISE GROWTH

Sri Lanka, once a model colony well-prepared for self-governance, initially benefited from a strategic location, a strong export sector, a robust education system, and developed infrastructure. For a time, it ranked among the most prosperous Asian nations. However, over the decades, its economic growth lagged rapidly developing East Asian economies. By 2007, Sri Lanka had transitioned from low-income to lower-middle-income status, and by 2019, to upper-middle-income status, only to revert shortly thereafter.

From the late 1960s, Sri Lanka's economic progress became less impressive due to slow growth. The economy faced periods of macroeconomic instability, leading to frequent IMF interventions. The Covid-19 pandemic precipitated an unprecedented sovereign debt crisis, with Sri Lanka becoming the only Asian country to default on foreign debt in the past fifty years.

Political regimes in Sri Lanka have alternated between free-market policies and state-led development strategies without a consistent, coherent national development approach. The market-oriented reforms initiated in 1977, though promising, were incomplete. The escalation of ethnic conflict from the early 1980s further hindered economic progress. Despite these challenges, the economy grew at an average rate of 4% during the two decades following the reforms, compared to 2.5% from 1960 to 1977. Manufacturing, particularly export-oriented, expanded, and foreign direct investment played a crucial role. However, these reforms were insufficient to place the economy on a sustainable growth path.

After the civil war ended in 2009, protectionist and interventionist policies gained momentum, marking a departure from previous liberal policies. Trade policies became highly interventionist, with import surcharges and politicized foreign investment approval processes. Large infrastructure projects, often deemed 'white elephants,' were prioritized, funded by domestic borrowing and money printing, which fueled inflation. This led to an 'anti-tradable bias,' favoring non-tradable production over tradable production (manufacturing and agriculture). As a result, tradable production's share in GDP shrank to less than 20% by 2019, and exports of goods and services as a percentage of GDP fell from about 30% in the early 2000s to about 15%. This imbalance, combined with massive debt accumulation, contributed to the sovereign debt crisis.

Unshackling Domestic Markets

Our government is committed to transforming Sri Lanka into a globally connected market economy, with private enterprise, both large and small, as the principal driver of growth. This transformation requires two key actions: enhancing global economic integration through trade liberalization and foreign direct investment, and unshackling domestic markets, including product and labor markets. Ensuring effective market signals will enable full private sector engagement in national development.

Government interventions, such as arbitrary price controls and licensing requirements, have impeded the efficient operation of the private sector in domestic trade and production. The SJB strategy involves gradually removing these interventions and limiting direct government involvement to areas where markets fail and where support is necessary for vulnerable populations.

Logistics infrastructure to connect small producers and traders to broader national markets will be enhanced through the development of rural road networks, public-private initiatives to improve supply-procurement networks, the establishment of climate-controlled-storage facilities for semi-perishable agricultural produce, and the expansion of digitally delivered services.

Addressing long-standing price supports and fertilizer subsidies in the agricultural sector is a complex issue in market-oriented reforms. We believe that the goal is to rationalize these direct interventions and redirect government expenditures more toward agricultural extension services, irrigation infrastructure, and research. However, considering the reliance of farmers on these supports we shall consider reforms to improve transparency, and ensure equitable distribution of benefits among recipients.

Sri Lanka's labour laws, including generous severance pay clauses, require reform to become globally competitive. The SJB aims to increase labor market flexibility and responsiveness to global opportunities. More information on our proposed labour market reforms is in Section 8 (Factor Market reforms).

Productivity Growth

Low or even negative productivity growth—measured as the growth in output after accounting for the growth of inputs such as capital, labour, and intermediate inputs—has been a persistent issue in the Sri Lankan economy.[14] In the long term, productivity growth is the key determinant of a country's economic growth; relying solely on increasing inputs has natural limits.

Productivity growth is an economy-wide phenomenon, making it impossible to design a specific program to achieve a set productivity target. The government's role in promoting productivity growth is to create a conducive environment that allows the private sector to maximize gains from the inputs used in production. The SJB policy package is specifically designed to facilitate this.

Trade liberalization enhances productivity in the domestic economy by exposing firms to international competition, allowing better exploitation of economies of scale through access to wider global markets, and enabling the use of superior technology embedded in imported inputs. Foreign companies that enter domestic manufacturing bring new technology, managerial practices, and forge new marketing links to penetrate global markets.

To support this natural process of productivity enhancement through trade and investment liberalization, we will emphasize human capital development as a core of our development strategy. This includes training and skill development programs in collaboration with private sector firms, as well as providing financial and institutional support to universities, technical colleges and other higher educational institutions to launch professional training programs.

[14]The most widely used indicator of productivity is 'labour productivity', which is measured as production (normally value added) per worker. The problem with this measure is that it spuriously captures capital per workers as a part of the measured productivity ('A man with a bulldozer can dig a ditch faster than one with only a shovel'). Here we use the concept of total factor productivity (TFP), growth in output for all (combined) inputs.

6.1 TRADE AND FOREIGN DIRECT INVESTMENT (FDI) POLICY

Excessive import restrictions hinders self-sustained growth by discouraging export production and hampering productivity in import-competing production by sheltering it from import competition. The domestic consumer has to bear the cost of inefficient domestic production. Our government will be committed to gradually reducing these restrictions.

First, we shall replace quantitative restrictions (QR) with reasonably high (WTO consistent) tariffs and then reduce tariffs towards uniform lower level as the balance of payments situation improves. It is necessary to combine the import duty regime with rationalising the import duty rebate schemes (including Board of Investment (BOI) provisions now coming under the Economic Commission) to facilitate duty free access of imported inputs for export production. Replacing QRs by tariffs has two important advantages: (a) it contributes to the government budget by increasing tariff revenue (under QRs, quota rent goes to importers) and (b) it prevents unscrupulous practices by import quota holders (who are basically cronies). It is also important to replace most (if not all) specific import duties (specific duties, meaning charged per unit) with ad valorem duties. Specie duties on consumer goods is anti-poor and also unnecessarily protect low quality domestic production.

In 2022, strict regulations aimed at boosting export receipts included mandatory remittance and conversion within 180 days and weekly sale of 25% of forex to the CBSL. These rules discouraged export repatriation and reduced bank liquidity, disrupting exchange rate stability. We agree that relaxing these regulations has increased foreign exchange inflow and stabilized the exchange rate.

Our government will supplement trade policy reforms with a top-level political effort to promote export-oriented foreign direct investment (FDI). Sri Lanka's experience under the liberalization reforms initiated in the late 1970s, particularly the second-wave reforms in the early 1990s, has clearly demonstrated the complementarity of trade and investment liberalization in the process of export-oriented industrialization.

Intervention	Timeframe
Economic Commission (EC) and incentive reform: Restoring the BOI, now the EC to its original 'one-stop-shop' status for promoting FDI is vital to link Sri Lanka's manufacturing industry to global production networks. As part of these reforms, it is necessary to rationalize, rather than eliminate, the fiscal incentives offered to export-oriented investors. The objective of offering incentives for promoting FDI is nullified if they are not made strictly time-bound and transparent.	S M
Re-establishment of the Investment Facilitation Centre (IFC) at the EC: To enhance effectiveness of Sri Lanka's export promotion strategies. This centre will serve as a one-stop-shop that consolidates various services under one roof, streamlining the investment approval process, improving efficiency, and enhancing interagency coordination.	S M
Tariff rationalisation: Undertake a critical review of both import and export levies to rationalise tariff structures. This aims to support local manufacturers and exporters by creating a trade regime that balances protective measures with the need to stay globally competitive. A roadmap for import duties is given in Section 4 (Revenue Consolidation).	S

Intervention	Timeframe
National Export Strategy (NES) update: Update the NES to meet global market standards and include sectors poised for growth like renewable energy and digital services. This involves integrating these sectors into the broader economic framework, ensuring they align with international best practices and contribute effectively to economic diversification.	S M
Treaty negotiation and renegotiation: To improve the investment climate, we shall make a concerted effort to review, negotiate, and renegotiate investment and tax treaties to align with international best practices and ensure a competitive, transparent, and secure regulatory environment conducive to attracting a significantly greater volume of FDI.	S M
Mutual Recognition Agreements (MRAs) and Free Trade Agreements (FTAs): Utilise MRAs to ensure that Sri Lankan standards are recognized internationally, enhancing market access and export attractiveness. This is a low hanging fruit, and it is inconceivable it has been dragging on for decades. We shall start with India and move to the other countries with which we already have FTAs. We shall ensure that every FTA we negotiate is done to maximize benefits to Sri Lanka.	S M
National Trade Facilitation Committee (NTFC): Trade facilitation (TF) is to simplify, streamline, and automate import and export procedures and make them more transparent. We have to undertake several reforms to lower the cost and time of processes to improve the competitiveness of our exporters. Our government shall prioritise and fast track the very much delayed implementation of World Trade Organisation (WTO) commitments on TF via the NTFC led by a very high-level political authority.	S M
National Single Window (NSW) System: Central to the trade policy reforms is the consolidation of various trade-related procedures into a single electronic platform; a National Single Window (NSW). It is also a legal obligation under the WTO to establish and maintain a NSW to submit documents and data required to be submitted to authorities for the purpose of trade; import, export, and transhipment. Sri Lanka ratified the TF Agreement in 2016 and implementation of the NSW was to be completed between 2017 and 2022. But the current implementation date, according to various government sources, who themselves are confused or unaware, has been pushed back to 2030. It is obvious that there is no political will to complete this electronic trade portal for reasons best known to those blocking the same. Our government will break through the opposition by vested interest and lacklustre enthusiasm by officials to prioritise the NSW. The PDI will be most useful in ensuring the success of the NSW to implement even with a limited number of agencies onboard.	S M
Trade-cost adjustments: It is critical we implement trade adjustment facilities to mitigate potential socioeconomic impacts, such as unemployment or the reallocation of resources, which are crucial for fostering an export-oriented economic structure. These facilities should focus on both private and public sector adjustment costs.	M

Intervention	Timeframe
Anti-Dumping and Countervailing Duties Act: We shall bring in legislation to protect Sri Lankan industries from unfair foreign competition in instances where goods are imported and sold at either below fair market price or subsidised in their home countries. It is not possible to incentivise exports and reorient the national economic model to be open to trade if we cannot ensure a level playing field for local businesses and promote fair trade practices.	M
Intellectual Property (IP) management and Madrid Protocol: Streamline domestic trademark registration and facilitate Sri Lanka's accession to the Madrid Protocol. These steps aim to boost the efficiency of the National Intellectual Property Office (NIPO) and expedite Sri Lanka's integration into the international trademark system, enhancing the competitiveness of Sri Lankan brands globally. Unless these policy-oriented reforms are done it would not be possible for startups and SME or even larger companies to expand into international markets.	M
Export Processing Zones Infrastructure modernization: Establishing and upgrading Industrial Parks and Export Processing Zones (IP&EZs) is crucial. Since the first EPZ was established in Katunayake in 1978, only 15 EPZs have been added in the last 46 years. For comparison purposes: Philippines has 460 EPZs, Vietnam 410 and India 615 and 92%, 89% and 74% respectively are privately owned whereas in Sri Lanka only 1 EPZ (MAS Fabric Park) is on a long lease from the government. Sri Lanka made several mistakes in developing EPZ infrastructure. Successive governments under-invested in both the amount and quality of EPZs; they exclusively relied on public resources to develop and manage EPZs and they did not establish appropriate regulations for their effective management. The government recently legislated the Economic Transformation Act which provides for a new framework for EPZs to be set up as private or PPP zones under a new entity called ZonesSL. While the move is positive in general the legislation needs further enhancement so that our EPZs can compete in the region. Our approach shall be threefold. One to enact separate, overarching legislation to govern EPZs. Second, enhance the quality of the EPZs by incorporating minimum standards and minimum criteria for selecting investors and third, preventing conflicts of interest by ensuring regulatory independence[15] These reforms we believe will attract high-tech and high-value-added industries by providing comprehensive facilities and support systems (such as enhanced waste and emission management and logistical services) that are key in helping investors decide where to plug and play. Our objective is to encourage EPZs in all districts and all Divisional Secretariat Divisions.	M

[15]Verite Research. Looking Beyond the Economic Transformation Bill: Three steps Sri Lanka can take to increase the supply of high-quality investment zones. July 2024

6.2 AGRICULTURE, FISHERIES AND LIVESTOCK: MULTI-DIMENSIONAL REFORMS

Modernizing agriculture via digitalization

Agriculture is crucial to Sri Lanka's economy, employing over 26% of the population and supporting two-thirds of the rural population. However, agricultural performance has been disappointing, with an average annual growth rate of only around 1% over the past four decades and much lower productivity relative to manufacturing and services Consequently, poverty is heavily concentrated in rural agricultural areas.

We must address challenges at multiple levels. Archaic laws need modernization. Reforms will unshackle agriculture markets through the Bim Saviya program, provide equitable water access via refurbished irrigation tanks, and offer access to finance and insurance. For the individual farmer, the entire value chain—from obtaining information on what, how much, and when to produce, to financing inputs and managing the cultivation cycle—needs improvement. Thereafter, post-harvest management in terms of storage to logistics to sale must be addressed.

We will implement a rapid, technology-driven agricultural modernization program to reduce rural poverty, increase productivity, and promote sector growth. This includes interventions – in paddy, vegetable, and plantation crops – from planting to sale, such as protected agriculture, drip irrigation, and perhaps even AI-assisted hydroponic farming.

The core of this modernization program will be the Govi Gnana Seva Program (GGS, meaning 'Farmer Knowledge Service') which shall become the comprehensive digital ecosystem for agriculture information and transacting, transforming current ad-hoc methods. GGS will not only remove the information asymmetry between the farmer and the by providing crucial data on spot and forward prices and on supply and demand for produce, weather patterns, soil conditions, and best practices as well as links to banks, insurance companies and logistics providers. Access to GGS will be on the ubiquitous mobile telephone. The GGS digital ecosystem will allow producers to sell future harvest contracts and provide financial stability through guaranteed prices. Smart contracts, powered by blockchain, will automate transactions and mitigate fraud risks, helping farmers become independent from loan sharks.

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This information system will link to a DPI based network of climate-controlled storage warehouses and transportation options. Collaborating with the private sector, we will build this network to reduce post-harvest losses, increase producer profits, and reduce retail costs, facilitating access to lucrative export markets. The entire process will run on the DPI. A nationwide awareness and training program will equip stakeholders with necessary skills.

How would the Govi Gnana Seva work?

The most common start-up feature would be to check live prices in various markets. Say, a farmer from Matale can use his smartphone to check current onion prices at the Dambulla market, helping him decide whether to transport or sell locally. GGS will connects farmers to irrigation schedules, seed dealers, fertilizer agents, weather updates.. It will also allow farmers to study future demand and enter in to forward sales agreements (FSA) with supermarket buyers to deliver at a later date. These FSAs can then be used as collateral to obtain a working capital loans from banks, freeing farmers from the clutches of the middlemen traders. The FSA will make it possible for insurance companies to determine premiums for crop insurance. Farmers can also find and enter into logistics agreements for transportation of produce in safely packed containers into a climate-controlled warehouses. The uses of the GGS will only be limited by imagination.

In total, the proposed technological transformation of Sri Lanka's agricultural, fisheries, and livestock sectors is expected to yield increased earnings for stakeholders., improved access to fresh, high-quality food for consumers, and enhanced economic prosperity in rural communities.

A more comprehensive discussion on agriculture will be provided in a separate agriculture policy document. From the point of view of fiscal support, we will provide investment relief for agriculture modernization and revise the VAT on agriculture machinery. A key support for small and medium scale farmers shall be the provision of fuel and fertilizer subsidies via a QR based cash transfer mechanism based on a means tested basis.

The Prabashwara Climate-Controlled Storage Solution, Dambulla

Sri Lanka's agricultural sector faces high post-harvest losses (estimated at 40%) and price volatility. To address this, the government started to build a 5,000 MT temperature and humidity-controlled warehouse in Dambulla (in 2019) to provide affordable storage solutions to stabilize prices, reduce losses, and support farmers. Named Prabashwara, this was a collaboration between the government, private sector, farming community, and the Indian government (which provided initial funding) and was to be proof of concept for the efficiency of modern climate controlled agri-logistics. It was to revolutionize the agricultural supply chain by minimizing post-harvest losses, enhancing farmer income, expanding market reach, stimulating private investment, and encouraging sustainable practices. Although the previous government halted construction from 2019 to 2022 and the new government since 2022 continued to ignore the project, our efforts from the opposition have nearly completed it. The next steps involve inviting operators to manage the warehouse and launching an awareness and training campaign to ensure farmers engage in good agricultural practices (GAP)-compliant produce for storage at Prabashwara.

Investing in fisheries

Sri Lanka's fisheries industry faces challenges such as price fluctuations, inconsistent quality, and supply chain difficulties but holds significant potential. Our strategy includes leveraging technology through an upgraded Dialog DEWN app with accurate, localized weather forecasts and expanding the GGS Program for real-time data on fish migration and market prices. We will invite private enterprise investments in cold chain infrastructure to ensure high-quality fish reaches both domestic and international markets, promoting sustainable practices to protect marine resources and responsible fishing methods.

Renewing the livestock sector

The livestock sector is crucial for food security, rural development, and environmental sustainability. Integrating this sector into the GGS Program will provide over 600,000 small-scale farmers with access to real-time information on animal health, best practices, and market prices, improving productivity and marketing. Targeted policies will promote sustainable animal husbandry, enhance feed production and distribution, and boost rural livelihoods through financial and technical support.

The All-Island Shakthi Rice Cooperative, Polonnaruwa

The government introduced 'Shakthi Rice' in March 2019 to support small and medium-scale (SME) rice millers and protect farmers and consumers. Structured as a cooperative of about 300 SME millers, the initiative provided a Rs 1 billion working capital fund, enabling millers to buy paddy at competitive prices, mill it in the hundreds of SME rice mills and sell rice affordably. This effort reopened closed SME mills, improved rice quality, and set a price ceiling, forcing large millers to lower their prices. Despite its success, the program was discontinued. Our government will reintroduce and expand the Shakthi model to cover as many millers as possible.

Breaking the rice miller oligopoly

One of the main reasons for the high prices for rice, the staple food of Sri Lankans, is the lack of competition in the rice milling industry. The market is being controlled by a handful of millers who manipulate the market for rice. This 'mafia' has to be broken. For years the government has tried to intervene in the market via the state-owned Paddy Marketing Board but failed miserably due to corruption, politicisation and lack of interest. Our solution lies in building a strong SME cooperative to fight the oligopoly. Our government will provide the necessary initial financial support via a rolling working capital facility by reintroducing the Shakthi rice cooperative scheme to ensure a sustained competition in this market.

Interventions	Timeframe
Increase access to land: Accelerate the Bim Saviya Program or replace it with an alternate to provide secure land titling and ownership. This would subsequently become a total land database which would be segmented by a land use plan based on a comprehensive and consultative process. This will enable farmers to gain autonomy to make decisions about their land and facilitate independent access to financial resources. Review existing legislation and introduce more private land ownership through the divestiture of surplus state-owned lands.Continue and expand the current Urumaya program to provide freehold titles.	M
Liberalization: Establish PPPs, encourage FDI, and ensure access to finance for farmers to collaborate. Multinational involvement opens market channels across the world and enables our farmers to international standards and export.	M

Interventions	Timeframe
Competitiveness: Amend regulations to improve competitiveness (e.g., liberalize planting material and seed imports, amend the Food Act and Fisheries Act to liberalize exports).	M
Modernization: Incentivize adoption of modern techniques to improve yields and reduce post-harvest losses while improving supply quality	M
Value enhancement: Incentivize transition to higher-value crops, livestock, and fisheries products and value-added options (example; canning, drying, organic production).	M
Plantation reforms: Enhance plantation efficiency, support smallholders, improve worker conditions, increase home ownership among plantation workers, and implement a national PPE program to divest regional plantation companies under a more equitable model.	L
Nationwide Implementation of the GGS Program: We envisage this platform, which would be integrated with the DPI, will completely revolutionize the entire agricultural ecosystem, from selection of what, how much and when to plant, growing to harvesting to storage and to sale of produce to the ultimate buyer, locally or overseas. GGS will also become the platform for market determined credit guarantee programs, crop insurance schemes, financing and legal agreements, as well as logistics support.	S M
Specialized agriculture cooperative: Restart the Island-wide Shakhti Rice Cooperative scheme. Given the success of the program in 2019, we shall organize the scheme, incorporating lessons learnt. Create regional cooperative dairy societies to strengthen market access, ensure fair pricing and reduce middlemen exploitation while promoting value addition.	S
Climate-controlled agricultural-produce warehouses: Implement the island-wide Prabashwara climate controlled agricultural produce warehouse network. We shall complete the construction (delayed by 4 years) of Sri Lanka's first ever 5,000 MT temperature and humidity-controlled produce warehouse in Dambulla and soon develop a network of such warehouses across the island. These warehouses will be specialised to meet area-based demand. These warehouses will be interconnected via a data network and be linked to the GSS platform to enable farmers to interact with banks and insurance companies, logistics operators and buyers.	S M

6.3 INDUSTRIAL DEVELOPMENT: CONNECTING TO GLOBAL VALUE CHAINS

Breaking walls and building bridges to the world

The global manufacturing landscape has changed dramatically over the past half-century with the expansion of global manufacturing value chains (GMVCs) or Global Production Networks (GPNs). Now, final products particularly in electronics, automotive, machinery, and precision goods industries, often consist of components produced in several countries. This phenomenon opens up opportunities for countries to engage in specific segment in the GMVC depending on their relative cost advantage, instead of producing a good from the beginning to end within its national boundaries. The bulk of manufacturing exports from the high performing East Asian economies take place within GMVCs.

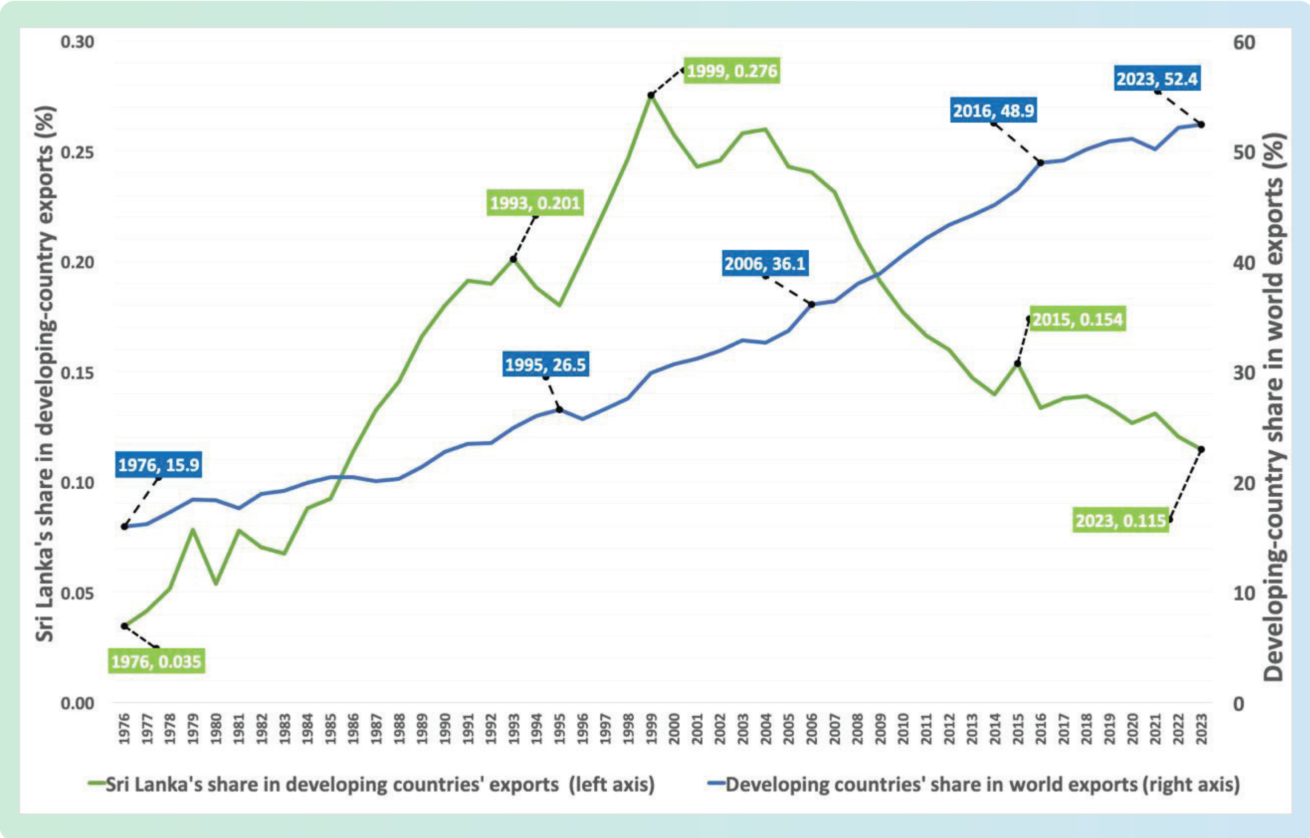
In apparels as we have experienced in Sri Lanka, local entrepreneurs have the opportunity to penetrate global markets through links forged with international buyers, with or without FDI involvement. But in GMVCs in electronics and electrical industries, production sharing takes place through intra-firm linkages, rather than in an arm's-length manner. Intra-firm linkages are vital for preserving technological secrecy and to ensure quality of parts and components produced in a given location, which is vital to maintain quality standards of the final product. Therefore, FDI plays a vital role in a country's participation in GMVCs in these industries and are usually referred to as producer driven GMVCs.

These processes are usually organized by multinational enterprises (MNEs) with subsidiaries or subcontractors across countries. Trade within GMVCs accounts for half to two-thirds of world merchandise trade and over two-thirds of manufacturing trade between developing and developed countries.

Given GMVCs operate based on each country's cost advantage, Sri Lanka, with its abundant trainable labor and strategic location, can engage strongly in labor-intensive tasks within GMVCs.

However, successful participation depends on the costs of 'service links'—arrangements for coordinating activities within GMVCs—being lower than the cost savings from production abroad. A conducive policy regime and investment climate are also crucial to mitigate 'country risks' like shipping delays, political disturbances, or labor disputes.

The below graph clearly depicts what our challenge is. While the developing countries' share in global exports, increased from about 17% in 1976 to over 50% by 2020, Sri Lanka's share went up from 0.02% to close to 0.3% in the mid-1990s only to fall to less than 0.15% by 2020 as the economy built in an anti-tradable (anti-export) bias. Our government's policy is to reverse this trend and incentivize the tradables (essentially exports) sector as more fully described in Chapter 6.1 (Trade and Foreign Direct Investment Policy).



The SJB's export-oriented industrialization strategy aims to integrate Sri Lanka into GMVCs by creating an attractive environment for global manufacturers. Key focuses include:

- Consistent policy environment focusing on the tradable sector and proving constitutional guarantees on property rights.
- Creating and maintaining a stable macro-economy with a favorable real exchange rate regime to ensure international competitiveness.
- Streamlining regulations to create a business-friendly environment, ensuring previously referred to trade facilitation and single window is established.
- Ensuring fair treatment in enforcing the law equally to all players and fast conclusion of commercial disputes through arbitration.
- Developing a significantly large pool of skilled and trainable labor and management to engage in specialized global manufacturing tasks.
- Building necessary infrastructure, including new high quality privately or PPP run Export Processing Zones (EPZs). We will focus on establishing EPZs in all districts and incentivize setting up products and facilities in as many DS divisions.
- Focus on attracting producer-driven technology based FDIs into the EPZs. Our government will engage at the highest level to promote Sri Lanka to investors using all available avenues. Bringing in one major player will encourage others to consider Sri Lanka.
- Providing essential services to promote exports and collaborations via a well-functioning Export Development Board that avails companies to engage with potential buyers at global marketing fairs and bilateral meetings.
- Providing competitive incentives.

Strengthening global economic ties and participating in shared value chains will boost our export potential, attract investments, and enhance global competitiveness. Additionally, these partnerships will facilitate knowledge transfer, technological collaboration, and the development of skilled human capital.

Integrating into the global electronics value chain

Following the liberalization reforms of the late 1970s, multinational enterprises saw Sri Lanka's potential in the global electronics value chain. Two major electronics multinationals, Motorola and Harris Corporation, set up operations in the Katunayake Export Processing Zone (KEPZ). However, both left in the early 1980s due to political instability. If these two MNEs were to operate successfully in KEPZ, other electronics multinationals would have followed suit given the well-know 'herd mentality' in site selection by multinational electronics firms. Despite this over 30 medium-scale export-oriented firms have successfully operated in Sri Lanka's electronics, electrical goods, and auto parts industries, employing over 20,000 workers and generating exports worth about $1 billion by the late 2010s. These firms produce a range of components and are fully or partially owned by companies from Japan, Germany, Sweden, Australia, and the USA. The availability of trainable labor and supervisory and managerial personnel has been a major attraction for these investors.[16]

Their success, even in a challenging environment, indicates Sri Lanka's potential to become an electronics hub with systematic policy reforms and investment promotion. Amid the US-China trade war and global chip shortage, Sri Lanka could be an attractive alternative manufacturing location, particularly as the global semiconductor market is projected to reach $1 trillion by 2030. Sri Lanka is well positioned to gain from the ongoing process of strategic realignment in GMVC in the context of global production as Vietnam and Cambodia, and more recently India have already been doing. Recently Foxconn, the major contract manufacturer for Apple, set up a plant in Chennai to assemble iPhones. This was part of Foxconn strategic move to reduce dependence on China as its assembly base, in response to the strained US-China relationship.

Further enhancing the success of the apparel sector

Following the liberalization reforms of the late 1970s, Sri Lanka's apparel industry evolved into a modern, competitive sector, thriving even after the 2004 abolition of quota protection under the Multi-Fibre Arrangement. It contributes over 5% to GDP and 40% of total merchandise exports, directly employing over 350,000 workers. Currently about 60% of fabric used in apparel production is produced domestically. Over the years, the industry developed a rich customer base at the upper end of the apparel value chain, and it has remarkably evolved from 'basic apparel' stitching standard men's shirts and trousers to 'fashion basic' where they design and develop and deliver articles such as lingerie and intimate wear which are variants of basic products that contain fashion elements. It is now moving to even more sophistication with wearable technology and more. In this process, large apparel firms have established their own design centres which work closely with design teams of brand owners. Most large companies engage in computer-aided manufacturing and electronic fitting. However, the industry faces significant challenges that require strong policy and leadership commitment is crucial for the continued growth and global competitiveness of Sri Lanka's apparel sector.

[16]Prema-chandra, Athokorale, "Rethinking Sri Lanka's Industrial Strategy" 2023.

Advanced Technology

The future we wish to create in Sri Lanka for our youth is one they would love to live in. A place where they can work or become entrepreneurs in exciting new fields, create wealth, enjoy life and do good. We will make all endeavours to help make this nation a centre of global technology and innovation. Our government will fully support our young tech entrepreneurs to transform Sri Lanka into the birthplace of the next Google, Samsung, or Tesla within the next five years.

We will focus on technology beyond IT into numerous other fields, be it agritech; the application of technology and AI to make farming more efficient, from field monitoring to the food supply chain, biotech; the use of biology to develop new products, methods and organisms intended to improve human health, nanotech; to design, produce, and use structures and devices by manipulating atoms and molecules at nanoscale, or wearable tech; to produce electronic devices that can be worn as accessories, embedded in clothing, implanted in the user's body, or even tattooed on the skin and many other areas of innovation. There are so many areas in which technology is being used to leverage productivity increases multiple fold.

Another exciting opportunity that we can exploit is in unlocking the potential of our graphite. Sri Lanka boasts the world's purest vein graphite, with purity levels of 99%. Historically a leading supplier, current production is less than 1% of the global market. This high-purity graphite is ideal for producing graphene, a material enhancing electronics, construction materials, paints, plastics, water purification, and lubricants. Graphene can also extend lithium-ion battery life and speed up charging times. Sri Lanka can capitalize on this by processing raw graphite into high-value graphene. The Sri Lanka Institute of Nano Technology (SLINTEC) is collaborating with a local startup on graphene technologies. Focusing on value-added processing, sustainable practices, and partnerships with major graphene consumers can open new markets and solidify Sri Lanka's position as a reliable supplier. Our government would fully support this transformation by enacting legislation on the use of supply critical material and promoting responsible practices.

Putting Sri Lanka on the map for autonomous transportation, aviation, and robotics.

"Over the past few years, we at Qbits have made significant advancements in research and development. Our cutting-edge system allows drones to make autonomous decisions using onboard cameras. These drones can navigate complex environments, such as weaving between trees and manoeuvring through narrow spaces, entirely on their own. Our next step is to enhance these drones to operate at high speeds with rapid acceleration and deceleration on rough terrains, making swift decisions. Additionally, if the drone encounters a deadlock path, it will reanalyse and change its course, even without prior knowledge of the terrain. Our algorithms handle critical functions, including visual odometry, sensor fusion, localization and mapping, obstacle detection, and path planning. These capabilities are essential for next-generation drones and robots equipped with onboard AI. Our system runs on a custom carrier board designed and developed by us. It boasts impressive onboard processing power, featuring 384 CUDA cores, 48 Tensor cores, a 6-core CPU, and 21 TOPs, operating at nearly 2 GHz." Dr Harsha Subasinghe, Tech entrepreneur. Founder of CodeGen, AiGrow, Vega, ChargeNet, Qbits etc. (Published with permission)

Interventions	Timeframe
Consistent trade and investment policy: ☎ Our vision is to integrate Sri Lanka's economy into global manufacturing networks with necessary safeguards. Thus, we will commit to this strategy and communicate consistent policies to encourage manufactured exports. This shall include a consultative process with all stakeholders before policies are amended. ☎ While we understand that tax incentives are not what principally drive investment decisions into a country, that for Sri Lanka to be competitive in the region, time bound and specific incentives are necessary. Our government shall ensure that an incentive package will be made available to attract FDI. Advance capital allowances, up to perhaps 300%, shall be made available. ☎ In a significant move away from the existing policy on 'value addition' we are considering the removal of the minimum (30%) value addition requirement and instead welcome fraction value addition. We cannot continue obsolete practices that hinder our entrepreneurs from integrating GMVCs. ☎ Taking into consideration the unique nature of the gem and jewellery industry, we shall arrive at a meaningful method of dealing with the import of rough stone and tax on profits. ☎ Our government will take immediate action to restore smooth functioning of the duty rebate facilities for speedy procurement of intermediate inputs for export manufacturers. ☎ 'Negative list' restrictions, and para-tariffs on construction material and related items needed for building and expanding factories will be removed on an announced plan. (Trade Policy is more fully described in Section 6.1)	M
Attracting FDI and capacity development of marketing staff ☎ We will place emphasis in the investment promotion campaign on attracting investors from around the world. Leverage on the geopolitical advantages and the emerging global political alignments. An 18-week online and on-the-ground (in the country mission is situated) program on 'Economic Diplomacy' for heads of Missions or senior most diplomats involved in promoting FDI into Sri Lanka and seeking markets in their host nations will be started at the Kennedy School at Harvard University with the collaboration of the foreign ministry, ministry of finance, commerce department (or the new Office for International Trade), Economic Commission and the Central Bank. (This program was initiated in 2017 but discontinued later.) ☎ A 'Golden Visa Program' will be introduced to make investing in Sri Lanka attractive for foreign investors: long-term residency visas up to 10-years subject to a minimum investment threshold.	S M L

Interventions	Timeframe
☎ A program will be developed to engage senior executives of successful foreign invested firms in Sri Lanka in the government's investment promotion campaign to build our image as a high-quality producer to promote GMVC investments ☎ A special unit shall be established at the highest possible political level to seek investments leaving China due to political reasons in order to invite them to establish in Sri Lanka.	
India and China Units at the Economic Commission ☎ Two exclusive units to seek FDI from India and China to integrate in GMVCs shall be set up at the EC. They will be given KPIs to meet on several areas, from establishing complete EPZs to integrating with existing production networks. Given South India is slated to grow at double digit levels for the next several years there is a significant potential to integrate with South India based GMVCs. The Hambantota Industrial Zone adjacent to the China Merchant Hambantota port is empty. The China unit will be given special authority to seek Chinese FDI into this zone.	S M
Port City, Colombo ☎ The Port City Economic Commission (PCEC) is now fully functional, and the PCEC Act is operational for the most part. However, FDI into Port City has been negligible. This must be turned around. For the same, besides the discussed trade and investment policy amendments, we will ensure the right staff are recruited to PCEC to undertake this challenging task. They will have to market the destination globally and without cannibalizing the existing business outside the Port City. ☎ We shall make necessary amendments to the PCECAct for the current bottlenecks to be removed. We envisage the Port City to become the Asian Regional Center for Technology as a special economic zone for service. **Participating in and hosting global investor events:** Only people with money would consider investing. Hence, we must regularly participate in events overseas and host events to bring together these would be investors to Sri Lanka. For example, the Global Wealth Conference held in London last May consisted of 250 Billionaires who ended up investing USD 18 billion. We plan to undertake similar events.	S M
Showcasing to the world Sri Lanka is ready and eager to do business: As the 'Ease of doing Business index' has been discontinued we will use this as an opportunity to leapfrog to a better position when it is replaced by a new index. Towards this we shall formulate a committee to be part of what is called the 'Global Entrepreneurship Monitor' which feeds the world bank with more accurate entrepreneurship data. This will give us better insights into entrepreneurship in Sri Lanka and this data will enrich policy making towards enhancing an entrepreneurial culture. This connected network will provide Sri Lankan entrepreneurs (especially the startups) opportunities to access international funds (Angel funds etc.,)	S M

Interventions	Timeframe
Trade Liberalization and Free Trade Agreements: Our focus shall be on unilateral liberalization of trade and investment policy. We believe they are superior to bilateral or multilateral free trade agreements (FTA). ☎ In the shorter term we will continue with the negotiations already started on several FTAs, but we will be firm and commit only if they would bring equitable mutual benefit to both sides. We will negotiate with larger countries on an asymmetric basis. Our government will engage the best possible resources to represent our interest at these negotiations. We are aware of the issues with the trained staff at the Commerce Department and we will make sure the available talent is absorbed and made use of at the OIT. ☎ We shall prepare for the loss of EU GSP+ and UK DCTS by starting negotiations for comprehensive trade agreements with the EU and UK. (More on trade liberalization in Section 6.1)	S M
Research and development: We are at the cusp of a new technological era, transitioning from the information age to the knowledge age. As the world moves from simple applications to intelligent bots, from static websites to dynamic, AI-driven interactions, and from conventional CPUs to specialized AI chips, every industry is poised for unprecedented transformation. Self-driving cars, EVTOLs, flying cars, and intelligent autonomous robots are no longer visions of the future but realities on the horizon. The advent of humanoids and advanced AI will further revolutionize our world. We shall fund universities and higher education institutions for manufacturing-related research and training. We shall provide institutional and well targeted incentives for research and innovation.	M
☎ SLINTEC model wherein public and private sectors collaborate on commercialising research we believe is a success, but it needs more support. We will undertake to provide further resources as required to make SLINTEC expand their portfolio of research and establish several more such hybrid institutions. ☎ Our plan is to develop a strong foundation for research and development for technology companies by providing up to 200% enhanced capital allowance for productive assets in research and development and also in identified skills training. We shall speed up accession to the Madrid Protocol for intellectual property rights, which is pivotal for the existing and emerging techindustry for promoting investment required for innovation and automation.. (The Madrid Protocol is a global mechanism for registering trademarks outside one's home country. It reduces the time, inconvenience and cost incurred by companies attempting to ensure international recognition and protection of trademarks.)	
Improve administration and coordination: We shall establish robust mechanisms to coordinate administrative procedures of relevant government departments and agencies, particularly the newly established Economic Commission (formerly BOI), Inland Revenue, Customs, and Export Development Board and others relating to the operation of the export manufacturing industry. Use digitalization to improve National Single Window at the earliest possible opportunity.	M L

Interventions	Timeframe
Liberalization of shipping. The debate on liberalizing the shipping industry has been going on for too long. A decision must be made, and we must move on. We will engage in one final round of discussion with all stakeholders in the shipping business on amending the Licensing of Shipping Agencies Act to permit over 50% of equity of shipping agency business to principals if they propose to invest stipulated minimum investment in agency and related business activities as provided for in the FDI entry policy. The objective is to create further efficiency for international trade without negatively impacting existing agency business. Further, we were opposed to amending the law to give authority to the Minister of Ports to regulate the tariff payable to shipping agencies. We will revise this legislation to bring in competition.	S

6.4 SERVICES: A KEY ECONOMIC DRIVER

Sri Lanka's services industry plays a pivotal role in the economy, encompassing diverse sectors like tourism, logistics, telecommunications, and IT. Among these, the IT/BPM sector has emerged as a leader in growth and innovation, contributing 7.4% to the nation's total exports in 2022. Despite this progress, Sri Lanka's technological infrastructure remains underdeveloped, presenting both a challenge and an opportunity.

An SJB government envisions transforming Sri Lanka's dynamic services industry into a global digital powerhouse. Imagine tourists effortlessly booking experiences through innovative online platforms, alongside a bustling online marketplace where local professionals connect with global clients. Web developers, graphic designers, data analysts, and other skilled workers will have opportunities to benefit from the global digital economy. This shift will not only create new employment opportunities, particularly for women, but also drive economic growth by integrating Sri Lanka into the global market. This vision can be realized by fostering a thriving ecosystem for digitally delivered services, integrating our natural and cultural assets with cutting edge technology.

Advancing IT and E-Commerce

We have proven over the last four years in opposition that IT is crucial to advance in life. This we did with our 'Sakwala' program where we contributed to 385 schools by way of establishing a smart classroom in each school. It goes without saying our commitment to equipping students with IT skills to successfully face the challenges in the global marketplace.

In terms of the economy, the introduction of the ubiquitous DPI will create enormous opportunities in e-commerce and IT. Thus far unavailable services will become possible. These will include hundreds of government-to-citizen services at all levels of government down to the local council and perhaps thousands of others between business and business and consumers. The limit shall only be the ability to dream.

From a policy perspective, simplifying regulations, lowering barriers for new entrants, and streamlining operations for businesses will create a more competitive landscape. By aligning with international norms, particularly in payment processing, Sri Lanka can integrate secure, globally recognized payment gateways, boosting consumer and merchant confidence.

Improving the national logistics network, including last-mile delivery services and international-standard warehousing, is essential for maintaining competitiveness. The development of e-commerce Export Hubs through public-private partnerships will create concentrated zones of activity with superior infrastructure, fostering innovation and efficiency. The 'Digital Export Champion Scheme' will train local businesses in digital marketing and international practices, helping them scale up and access global markets.

It is also important to foster a thriving IT/BPM startup ecosystem. Sri Lanka's IT-BPM sector has seen substantial and rapid growth, with revenues surpassing US$1.3 billion, employing over 80,000 individuals, and accounting for 12% of Sri Lanka's service export earnings.

Investing in education and training to equip the workforce with relevant skills, such as software development and data analytics, is also critical. Collaboration among startups, established companies, academic institutions, and government bodies will drive growth, positioning Sri Lanka as a leader in the global digital economy.

Intervention	Time frame
Encourage innovation and research and development in technology: Besides interventions foron Advanced Technology we shall provide generous support to leverage human resources to IT and e-commerce industry. Specifically, ☎ Help seek out talent and provide support to get started by launching national level competitions and challenges to scout for innovative ideas and solutions. ☎ Integrate entrepreneurship into academic institutions by setting up start-up centres and promoting student-led start-ups. We will redouble efforts to build collaborations between local and foreign universities to have short crash-courses on practical entrepreneurship programs that end with 'investor days' where student startups seek angel funding from investors. ☎ Provide comprehensive support for start-ups, from ideation to prototyping and beyond. ☎ Create technology business incubators to facilitate the transformation of innovations into viable businesses. ☎ Provide incentives to develop domestic software and already existing software companies, monitoring progress and renewing incentives accordingly.	S M

Transforming Sri Lanka into a Logistics Hub

Sri Lanka's strategic location, with deep-water ports in Colombo and Trincomalee, offers immense potential to become a logistics hub in the Indian Ocean, considering that over 50% of global trade volume travels within 12 nautical miles of our shores. However, the Port of Colombo is struggling to maintain its competitiveness globally: this requires significant technological transformation and strategic alliances.

Our vision is to transform Sri Lanka into a logistics powerhouse, driven by the Digital Port Initiative, which aims to streamline processes, reduce clearance times, and modernize port infrastructure. By automating key processes and integrating cutting-edge technologies, Sri Lankan ports can become more attractive to international shipping lines. Additionally, the natural deep-water harbour at Trincomalee holds significant potential for expansion, with plans to develop the Colombo-Trincomalee Economic Corridor (CTEC) as a vital artery connecting production centers with key ports and markets.

To attract major shipping alliances, Sri Lanka must build strategic partnerships and tailor its offerings to better integrate with global networks. We will prioritize collaboration with these alliances, understanding their needs and concerns, and streamlining crew and cargo movement through smart travel facilitation systems. The discussion on integrating with global value chains is relevant here as well.

Transforming Sri Lanka into a thriving logistics hub in the Indian Ocean will not only generate substantial revenue but also create high-paying jobs, boost our economy, and solidify Sri Lanka's position as a key player in the global maritime landscape.

Reinvigorating Tourism for Economic Growth

Tourism has historically been a cornerstone of Sri Lanka's economy, ranking as the third-largest foreign exchange earner. However, the Covid-19 pandemic and economic challenges caused a severe downturn in 2020, crippling the tourism supply chain. To revive tourism, Sri Lanka must differentiate itself through destination rebranding and digital transformation.

We will help the industry to leverage non-price-based strategies, such as highlighting its cultural heritage, natural beauty, and unique experiences. With this the country can carve out a distinctive identity and appeal to travellers seeking authentic and immersive experiences. This involves strategic marketing campaigns, storytelling, and experiential tourism offerings that resonate with target markets. By catering to specialty markets and developing niche tourism segments such as spiritual tourism, Ayurveda tourism, and wellness tourism, Sri Lanka can attract high-value travellers seeking unique and personalised experiences. With the entry of Sri Lanka's first integrated resort with a highly recognized international gaming brand the country can expect a further boom to the number of tourists to the country. However, it is our strong position that all casinos should be brough under a gaming regulator that must be legislated and implemented without delay.

Embracing digital transformation is essential for the tourism industry. This includes streamlining visa processes, border controls, and security measures through digital solutions. Additionally, developing smart destinations leveraging technologies like Internet of Things (IoT), Artificial Intelligence (AI), and blockchain will manage tourist flows, create personalized experiences, and ensure efficient resource management. Promoting widespread adoption of digital payment systems will enhance the tourist experience by eliminating the need for currency exchange and ATM fees. Investing in digital skills training programs for the workforce and supporting tourism-focused startups will foster innovation within the sector.

Sri Lanka's hotel infrastructure, with an average age of 15-20 years, faces challenges in competing with regional rivals like the Maldives and Thailand. Strategic investments are needed to modernize facilities and enhance competitiveness. Also, recognizing the global trend towards eco-tourism, Sri Lanka has the potential to become a leader in sustainable travel practices. By promoting eco-friendly tourism initiatives and ensuring responsible environmental practices, we aim to position Sri Lanka as a top destination for conscious travelers.

Intervention	Timeframe
Tourism sector reforms	
Regulations: Reform regulations to eliminate entry barriers for start-ups and technology-driven firms in the tourism industry, particularly the stringent requirements for business registration under the Sri Lanka Tourism Development Authority (SLTDA). Streamline licensing processes and digitising transactions to enhance transparency and accessibility.	S
Financial support: Given the high stage 3 loans in the tourism industry, we plan to provide some level of special consideration for this key foreign exchange generating sector when initiating debt moratoriums or Parate actions by banks. We also plan to amend legislation to enable debt to equity swaps in these properties.	S
Infrastructure investment: We will work towards enabling long term funds with longer repayment terms to be extended for refurbishment, accommodation upgrades in the tourism industry to ensure the provision of high-quality experiences.	M

6.5 MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISES (MSMEs) AND START-UPS

Micro, Small, and Medium-sized Enterprises (MSMEs) are vital to Sri Lanka's economy, comprising about 80% of enterprises, contributing 52% to GDP, and providing 45% of jobs. Despite their significance, the SME sector in Sri Lanka predominantly operates informally, and face various challenges that stifle growth and competitiveness. Our vision focuses on creating a vibrant MSME ecosystem that fosters innovation, growth, and job creation. This involves integrating MSMEs into value chains linked to the organized industrial sectors, enhancing market access, technology transfer, and capacity building.

To improve productivity and global competitiveness of MSMEs, we will revamp vocational education and training programs. This includes upgrading training facilities, collaborating with industry experts, and establishing partnerships for apprenticeship and on-the-job training. Despite women constituting over 50% of the population, they represent only 25% of entrepreneurs. Special initiatives will be introduced to support women and youth in MSMEs through capacity building, financial access, and networking opportunities.

Discussion on the financial issues being faced by the MSME sector and proposed solutions under an SJB government is in Section 2.3 (Ensuring financial stability while dealing with NPL crisis). The issue of 'development banking' for MSME as well as others is detailed in Section 9.3 (Capital: Boost inflows and strengthen the domestic debt market). Beyond the above we plan the following interventions:

☎ Extension of the suspension of Parate' executions

We plan to extend the suspension initially for 6 months from 15 December 2024. Thereafter, based on a balance of loan recovery and enterprise support, we shall work with the financial institutions and the treasury to arrive at a permanent solution to the crisis, encompassing legal and financial structures.

Creating a start-up revolution

In our future Government, fostering entrepreneurship will be central to driving economic growth and job creation. We plan to ignite a start-up revolution in Sri Lanka by focusing on two critical resources: talent and funding. To unlock funding, we will enhance access to early-stage investments like Angel funding and create policies to attract both capital and skilled entrepreneurs. We will develop a robust product and intellectual property (IP) ecosystem, improve IP and patenting laws, and establish a favourable tax and regulatory framework to draw foreign investment.

For overseas investors, we will enable them to leverage Double Taxation Avoidance Agreements (DTAA) for tax credits. Additionally, we will reform legislation to attract top professionals for managing VC funds by removing double taxation and categorizing carried interest as capital gains. This approach will position Sri Lanka as a thriving hub for startup investment and VC activity.

Intervention	Timeframe
Entrepreneurship Education: Introduce entrepreneurship curricula in vocational and higher education institutions. Partner with successful entrepreneurs and industry leaders to provide mentorship and guidance. Model initiatives after successful programs like Grameen Bank's Village Phone Program to enhance technological and financial literacy. **Unblock Finances:** We will look beyond traditional sources of financing and amend laws to create new funding sources.	M
☎ Work with financial institutions to create specialized loan products and equity financing options for small and medium enterprises (SMEs). ☎ To create a high-growth venture capital (VC) ecosystem (most countries with successful startups have such mechanisms), we plan to setup a special task force to advice the government on possible new structures including tax pass-throughs that allows VCs to deduct tax at source with the remaining balance returned to investors.	M
'Buy Local' Campaign: Launch a campaign to promote and support locally owned businesses, while helping make them internationally competitive.	S M
Incentives for Local Sourcing: Offer incentives and preferential procurement policies for government agencies and large corporations to source from local SMEs.	M
Financial Literacy Promotion: Conduct educational campaigns and workshops to improve financial literacy and responsible investing practices.	M
Local Stock Exchange: Establish within the Colombo Stock Exchange, a local exchanges to provide a platform for SMEs to raise equity capital, support innovation, and stimulate regional economic development. Simplify the listing process and set criteria for local ownership, fair wages, and sustainability standards.	M L
Improve Financial Access: Enhance access to finance for SMEs by addressing collateral requirements and high interest rates. Promote private investment under favourable conditions and implement a revised Microfinance Act to strengthen the sector to attract FDI.	M

6.6 GREEN GROWTH: A CLIMATE ACTION PROPOSAL

We envision a Sustainable Sri Lanka through our Green Prosperity initiative. At the core of our strategy is the National Adaptation Plan (NAP) for Climate Change Impacts. This plan emphasizes building robust adaptation and resilience to protect vulnerable communities and promote sustainable development.

Our approach integrates local communities and the private sector, utilizing blue carbon credits and international funding to support climate-resilient infrastructure. The NAP will focus on prioritizing renewable energy, optimizing resource allocation, and fostering inclusive growth, while also enhancing human capital through education and vocational training. By implementing same we aim to attract investments, create jobs, and ensure sustainable development.

Intervention	Timeframe
Enhanced Governance: Strengthen the Climate Change Secretariat as the National Focal Point for the NAP, developing mechanisms for sectoral and cross-cutting actions.	M L
Innovative Funding: Establish a public-private partnership trust fund to attract CSR funding for climate adaptation projects and leverage Blue Carbon Credits to support climate initiatives.	M L

07 PUBLIC SECTOR MANAGEMENT AND DIGITALISATION

7.1 PUBLIC SECTOR REFORM

Efficient and equitable public provision of health, education and social services is vital form economic development and civil security. Sri Lanka's public sector is responsible for providing these services. Yet although it is massive, with nearly 1.5 million employees, it is plagued by overlapping roles, redundancy, and underpayment. Decades of reform have failed to address corruption and accountability issues, from public procurement to service delivery. Political interference in recruitment, often driven by election promises, has led to mass employment, creating a sense of entitlement to public sector jobs, resulting in strikes and work to rule campaigns for sometimes totally unreasonable demands.

A complete overhaul of the public sector work culture is needed, starting with leadership. Streamlining the Cabinet and ministries to reduce fragmentation and redundancy is a first step. We propose a logical structuring of around 27 ministries. Eliminating duplications and needless bureaucratic linkages, and improving coordination between ministries and agencies, will improve efficiency and reduce expenditure and waste.

Expanding the Public Services Commission's scope to include administrative reforms and strengthening independent regulatory bodies is essential for oversight and management. SOE and pensions reforms will support this effort. Unfunded public sector pensions with very high pay-out ratios are no longer sustainable and must move towards funded pension schemes at the national scale, rather than for the public sector alone.

Intervention	Timeframe
Public sector recruitment: Undertake a comprehensive audit of personnel requirements across the state, armed forces, and SOEs. Any lower-level recruitment should prioritize hiring from the existing state worker cadre (green sheeting). Re-examine and reassess defence expenditure.	S
KPIs: Develop outcome-based KPIs for the public sector to measure success and drive performance improvements.	M
Capacity building: Engage in capacity building for retained public sector employees, particularly high-level staff, and establish mechanisms to hire mid-career professionals into public service roles.	M
Financial management: Gradually shift the public sector from cash-basis accounting to accrual-basis accounting.	L

7.2 THE DIGITAL PUBLIC SECTOR INITIATIVE

Digitalization will be the most significant disruptor of the status quo, enhancing efficiency, reducing corruption, and lowering service provision costs. These savings, combined with improved service delivery, can reduce the tax burden on citizens, fostering economic recovery and sustainable growth. Embracing digitalization is vital for fiscal responsibility and economic resilience, linking public sector reforms to create a more responsive, accountable, and efficient government.

The Digital Public Infrastructure (DPI) initiative is central to this transformation, aiming to create a set of open APIs called a 'Lanka Stack.' This interoperable platform will serve as a public good, allowing the public and private sectors to address various daily issues for citizens by 'stacking' of programs on top of each other.

The DPI will consist of three components: a unique verifiable identification of each individual; the ability to transfer and receive value (payment); and consented sharing of personal data.

The DPI will completely transform the public sector. Starting with the Registrar of Persons, the DPI platform will become the primary interface for every transaction between government, business and citizens. Early services will be implementation of an efficient social safety net distribution module with the Welfare Benefits Board for cash transfers for all types of government support to households, and a system to pay all types of government dues, be it taxes, rates, fines, levies etc. Instead of separate solutions for each problem, shared technological components will be reused across different applications.

Inspired by India's 'Aadhaar' program, we will first implement features to eliminate corruption in revenue collection, benefit transfers, and public procurement. Embracing DPI enables efficient, secure data handling, improves service delivery, and protects citizens' privacy through consent-driven data sharing. Prioritizing digitalisation aligns the public sector with cutting-edge technology, making governance in Sri Lanka more effective, transparent, and resilient against corruption.

DPI and the Lanka Stack will evolve into a consent-driven ecosystem for sharing personal data, ensuring privacy protection and enabling seamless financial interactions. Eventually, it will support a wide range of public and private transactions among millions of people daily; from paying for a vehicle registration while sitting in your home, to negotiating with a bank to purchase a TV before leaving the showroom.

By adopting DPI, we aim to transform Sri Lanka's public sector, improve service delivery, and create a transparent, accountable, and efficient governance system.

leveraging Artificial Intelligence (AI) is also important. A key feature of AI is its ability to recognize patterns and predict outcomes from large datasets. This allows governments to conduct more comprehensive analyses of public sector data, identify trends, anticipate results, and develop evidence-based policies. By providing real-time data and predictive analytics, AI can significantly enhance the effectiveness of public policy.

Digital Innovation in the Healthcare Sector - 1990 Suwa Seriya

1990 Suwa Seriya exemplifies the transformative power of digitalization in public services in Sri Lanka. Central to its success is the seamless integration of cutting-edge algorithms, which deploy the fastest available ambulance to emergencies, prioritizing speed and effectiveness over proximity. This approach has earned Suwa Seriya recognition from the World Bank as one of the most digitally advanced and fastest ambulance servicesglobally (Innovating for Better Health, Saving Lives: Sri Lanka's Ambulance Story, Martin Raiser, Vice President for South Asia, March 2024). The use of advanced location tracking technology via a dedicated app ensures precise identification of callers' locations, enabling rapid and accurate dispatch of emergency services.

Moreover, 1990 Suwa Seriya's commitment to operational readiness is evident through its meticulous attention to detail and proactive maintenance strategies. The introduction of AI and Mixed Reality technologies in the 'Connected Ambulance' pilot project further enhances emergency care. This innovation allows onboard Emergency Medical Technicians (EMTs) to deliver treatment to patients during transit, revolutionizing emergency medical care in Sri Lanka. Through these advanced technologies, 1990 Suwa Seriya has drastically improved operational efficiency and the delivery of emergency healthcare proving technology, if properly utilized, can help improve public service delivery in Sri Lanka. (Courtesy 1990 Suwa Seriya Foundation)

Intervention	Timeframe
DPI: Start the design, development and implementation the DPI project in stages by digitally transforming the already available records at the Registrar of Persons. Start implementation with the Welfare Benefits Board (WBB) and then move to revenue authorities and other services. Among the first new cash transfer projects shall be for the provision of fuel subsidy for selected persons based on income and or by sector; SME agriculture, fisheries etc. Over time the DPI will become the comprehensive economy wide for all manner of services via the 'Lanka Stack'	S
System approach: Contract out system-wide audit process reengineering and digitalization of the entire public sector, starting with the least resistant or most incentivized services.	M
Digitization: Utilize existing staff to digitize records, such as health and land records.	M
Digital verification: Introduce digitally signed QR codes on birth and marriage certificates to create high-trust, tamper-proof documents. This will allow immediate digital verification, reducing time and costs for citizens in official verification processes.	S
Citizen engagement platform: Develop a MyGov platform (similar to India) to serve as a citizen engagement tool, allowing the government to connect with citizens and solicit input on policies and programs. Ensure coherence in technology usage across government levels and policy areas to promote transparency and engagement with the public.	M

08 ENERGY AND UTILITIES REFORM

The failures of the existing system, especially in the electricity sector, present an opportunity for renewal. The root cause of the failure, in our view, was the incentives that encouraged unsolicited proposals over time, leading to systemic breakdown. These lucrative deals allowed politicians and officials to manipulate government policy, delay cost-effective projects, obstruct transparent procurement, and even influence engineering decisions.

8.1 EFFICIENT AND TRANSPARENT ENERGY MARKETS

Our approach in power and energy will focus on implementing transparent, automated systems that minimize individual discretion, close loopholes for manipulation, and eliminate the incentives for 'dealmakers' to push unsolicited proposals.

We believe the recently legislated CEB Act sets a foundation for reform in the electricity sector. However, while creating competition in generation and distribution is necessary, consumers and industries should not bear the burden of high energy costs due to monopoly power and inefficiency. We support cost-reflective electricity tariffs, but these costs must exclude corruption and inefficiency in power purchase agreements.

We will reassess the proposed structure in the new Act and recommend amendments to enhance the efficiency and cost-effectiveness of the reform process. Our priorities include establishing a fair electricity market, safeguarding consumer interests, improving accountability, and depoliticizing the industry. The regulator will also be empowered to prevent anti-competitive practices, monopolies, collusion, and abuses of dominant positions, following globally accepted methodologies to ensure a competitive electricity industry.

Intervention	Timeframe
Tariff setting in electricity ☎ Although some tariffs have been revised, there is a total lack of transparency in the methodology used. Pricing revisions should not be decided by politicians; the existing regulatory mechanism must be utilized with public consultations as per the law. ☎ Utility providers should be allowed to charge cost-reflective tariffs, free of wastage and corruption costs, to break even. ☎ Ensure targeted subsidies for those in need, provided as transparent line items in the budget. We plan to offer these targeted subsidies via direct cash transfers. ☎ Automatically revise tariffs on a six-monthly basis on the aforementioned transparent formula. PUCSL will validate all costs in the pricing formula and approve the end-user tariff schedule generated by the tariff formula. ☎ The government has deviated from the existing indexed and fully cost reflective fuel price formula consistently over the last few years. The market price has been above the formula price, indicating that a significant additional revenue could have accrued to the treasury. We will make the necessary adjustments.	S

Intervention	Timeframe
Fuel regulation: Bring all petroleum products under the regulation of the Public Utilities Commission of Sri Lanka (PUCSL) through legislation, entrusting price and quality regulation to PUCSL. The recent law amendment that shifted this to a new authority is incorrect. ☎ The government has deviated from the existing indexed and fully cost reflective fuel price formula consistently over the last few years. The market price has been above the formula price, indicating that a significant additional revenue could have accrued to the treasury. We will make the necessary adjustments.	M

8.2 RENEWABLE ENERGY

The SJB envisions not just meeting but exceeding the target for renewable energy generation by 2030, aiming to make Sri Lanka a regional renewable energy powerhouse. We plan to rapidly expand wind and solar capacity, leveraging natural resources and forming partnerships with global, regional, and local power producers. Our goal is to make Sri Lanka a net exporter of renewable energy, integrating with SAARC nations and beyond. To achieve this, we will implement a comprehensive energy policy that streamlines the sector and attracts investment through consistent regulations and macroeconomic stability. We will prioritize transparent and competitive procurement processes and invest in cutting-edge technologies and infrastructure. A crucial aspect of our vision is the potential for Sri Lanka to produce energy at significantly lower costs through this transition to renewables. With competitive energy costs, we can boost our industrial sector, attract energy-intensive industries, and enhance our overall economic competitiveness in the global market.

Intervention	Timeframe
Production: Aim to generate 70% of energy from renewable sources by 2030, focusing on wind and solar power based on feasibility studies already completed. Recent studies suggest huge potential for wind; 21 GW on shore and 56 GW offshore. We shall ensure the following: ☎ Land availability for on-shore projects and competitive approvals for offshore wind developments. ☎ Accelerate negotiations to clear blocks in installing ground mounted solar and installation of floating solar reservoirs across all feasible locations. ☎ Wind farms can have negative effects on local wildlife, especially the avian family and ecosystems. Thorough environmental assessments will be carried out and local communities engaged to addressing these concerns. ☎ Provide innovative financing mechanisms by collaborating with international partners to ease the upfront investments costs and reduce the long-term offtake risk in power purchase agreements (PPA). ☎ Improve grid infrastructure to accommodate intermittent energy via wind and solar.	S M L
Regulation: Establish consistent rules, regulations, and macroeconomic stability while strengthening institutional frameworks. Provide stronger guarantees to prevent defaults on power purchase contracts, thereby regaining investor confidence.	M

09 FACTOR MARKET REFORM

9.1 LABOUR: DEVELOPING A SKILLED AND COMPETITIVE WORKFORCE

Developing a skilled and competitive workforce is essential for Sri Lanka's long-term success. According to the World Bank, Sri Lankan children could achieve 60% higher productivity with better education and healthcare. While the country excels in health, its educational outcomes lag behind competitors like Vietnam. To compete globally, Sri Lanka needs a workforce equipped for the modern economy. Although Sri Lanka performs well in health and primary education compared to South Asia, higher education, training, and labor market efficiency need significant improvement. Work ethic, restrictive labor regulations, and workforce skills are key areas for reform.

Recognizing the importance of human capital development, our government will prioritize policies aimed at improving educational outcomes, developing job-relevant skills, and fostering innovation. Enhancing the quality and accessibility of education is crucial to building a competitive workforce. Programs will be implemented to ensure that Sri Lanka's workforce possesses the skills necessary for the jobs of tomorrow. Additionally, fostering an environment that drives innovation and entrepreneurship will be essential for economic growth.

Sri Lanka also faces a critical challenge with net outward migration, particularly among skilled professionals. In 2022, over 300,000 people left the country seeking foreign employment, causing a significant brain-drain that threatens the nation's productivity and tax base. To address this, we plan to develop a skilled workforce through comprehensive education and training programs, create attractive career opportunities by collaborating with the private sector to establish competitive salaries and career development paths, and engage the Sri Lankan diaspora by utilizing their expertise and networks for national development.

Sri Lanka's education system must adapt to prepare students for the future workforce. Successful models from countries like Finland, Singapore, and Vietnam demonstrate the importance of collaboration, relaxed learning environments, and meeting basic needs such as school meals and healthcare. We recognize the critical role teachers play in this process. We will empower teachers through comprehensive training and resources, attract top talent to the teaching profession with competitive salaries and incentives, and focus on retaining qualified teachers, particularly in underserved areas. It is also important to modernize the curriculum to foster critical thinking, innovation, and adaptability. Additionally, we will invest in early childhood development programs to provide a strong foundation for success.

As the next five years bring about technological, green, and supply-chain transformations, Sri Lanka must adapt its skills development programs to meet these emerging demands. The Future of Jobs Report (2023) identifies key areas for re-skilling, such as analytical skills, creative thinking, AI, big data, and leadership. These should be the focus on state-sponsored skills development programs. Improving the workforce's work ethic is also crucial for enhancing competitiveness.

During the ongoing economic crisis, , labour force participation has declined for both men and women . This is particularly concerning given the already low female participation rate of 30-35% over the past two decades despite high educational attainment among women. To address this issue, it is necessary to revise legislation based on the actual needs of current working women, implement mentoring and skills development programs for women in managerial roles, and explore flexible work arrangements to better attract and retain women in the labour force. Existing labour laws should be updated to support these flexible working options.

Intervention	Timeframe
Reforming and widening the labour market	
Revision of minimum wage: We propose to revise the minimum wage to Rs 25,000 per month upon discussions with all stakeholders based on necessary regulations to National Minimum Wage of Workers Act. Note: The government recently decided to increase the minimum wage to Rs 17,500 per month. This however is not an adequate living wage given the minimum expenditure requirement to stay above the poverty line.	S M
Labour reform: The key central issue relating to labour market reforms in line with private-sector centred development strategy is how to design a mechanism to gain the support of the workers whose cooperation is crucial for the policies to work. Immediate beneficiaries (at least in the eyes of the workers) are the employers and the gains for the workers and the populace at large (in terms of higher market determined wages and better job prospects) come with a significant time lag. Making the policy work, therefore, require designing a mechanism to guarantee that both parties – workers and employees – have a reasonable chance to share in the benefits. Our ideology of a 'social market Employers' places a high value on the dignity of the worker and thus we are confident of a win-win solution.	M
Immigration reform: Reforming the Immigrants and Emigrants Act No. 20 of 1948 to acquire inward talent. These reforms will support the growth of start-ups, particularly in the IT sector, by liberalizing the visa process. Key reforms include granting permanent resident visas to individuals of Sri Lankan origin and their families, introducing an investment visa similar to the United States EB-5 program, a skilled visa program akin to the H1B Visa, and extending resident visas for non-Sri Lankan workers to two years. A new fast-track program, similar to the French Tech Visa, will be introduced for international start-up founders, employees, and investors.	M
Women in the workforce: Promote women's participation in the labour force by improving maternity laws, introducing paternity laws, and implementing a national policy for day-care centres, including establishing day-cares at government institutions.	S
Expat contribution: Design policies to encourage Sri Lankan expatriates to contribute to the economy, providing incentives for skilled workers and improving their image as expatriates.	S
Human capital development and retention	
Curriculum reform: ☎ Design a national educational framework aligned with Education 4.0 principles to meet future employment demands, and current high-paying online jobs. This system will be crafted by a committee of local and international educational leaders, ensuring the respect and autonomy of teachers and reinforcing the teaching profession's noble status.	S M L

Intervention	Timeframe
☎ Start planning to introduce option for English language as medium of instruction at an early age and to provide all schools with STEM education. Globally accepted learning platforms shall be introduced for this purpose.	M L
Vocation and technical education: Promote vocational and technical education through apprenticeships and on-the-job training schemes in collaboration with the private sector, with a focus on the Industrial Revolution 4.0 and medium-term skills priorities.	M
Research & Development: Create incentives for research and development with a renewed focus on innovation. Offer monetary and non-monetary incentives to universities and research institutions and encourage private sector engagement through policy interventions. Facilitate the attraction of skilled labour into necessary sectors to support these initiatives.	L

9.2 LAND: IMPROVING PRODUCTIVITY AND SECURING RIGHTS

Despite the significant allocation of land to agriculture and the employment of 26.5% of the population in the sector, agriculture contributes only 7.5% to the GDP due to low productivity.

Our government is committed to implementing a national land reforms program aimed at improving land productivity and securing land rights. A key priority will be the creation of a digital land registry, completing the ongoing Bim Saviya program. This digital transformation will address critical issues that hinder the productive use of land in Sri Lanka. It will provide a secure platform for land-related transactions, benefiting citizens, businesses, and government agencies. A digital registry for state land will also enable authorities to effectively track unutilized and allocated land. One approach to digitization includes integrating land data into a cadastral map within the National Spatial Database Infrastructure, facilitated by the Information and Communication Technology Agency.

We will also continue the Urumaya land distribution program, which plays a vital role in improving livelihoods, promoting sustainable agricultural practices, enhancing food security, and expanding property rights in Sri Lanka. By identifying and allocating more land parcels, particularly in high-need areas, the government aims to increase the number of beneficiaries. Building on the strong foundation of the Urumaya program, the SJB government is dedicated to empowering families, boosting agricultural productivity, and contributing to the nation's overall prosperity.

Intervention	Timeframe
Digital land registry: Reform the Registration of Title Act No. 21 of 1998 (Bimsaviya Act) to introduce a digital data system, including GPS/GDS technology. This will create a comprehensive land inventory, identifying underutilized land for investment. The reform will also include establishing an online land bank and e-registry to streamline property title provision, boosting land market activity and investment.	S M
Land distribution: Expand the Urumaya land distribution program nationwide to enhance agricultural productivity and improve livelihoods.	S M L
Legal changes: Revise the Land Reform Act of 1972 to limit state intervention to public property, amend remove ceilings on agricultural land holdings to enable economies of scale, and establish a market-based value addition mechanism with the right to appeal in land acquisition cases.	M

9.3 CAPITAL: BOOST INFLOWS AND STRENGTHEN THE DOMESTIC MARKET

Our government will swiftly implement reforms to boost capital inflows and strengthen the domestic capital market. Key regulations will be reformed to enhance foreign direct investment (FDI) and stimulate economic growth. Revisions to the Foreign Exchange Act No. 12 of 2017 will amend foreign exchange controls, allowing citizens to invest through non-resident vehicles with the same guarantees as foreign investors. As discussed in Section 6.1 the EC (BOI) will be reformed to create a more open, attractive, and stable investment environment.

To support Sri Lanka's development, it is crucial to leverage long-term funding from pension and provident funds. Existing development and commercial banks should be utilized to channel these funds effectively. This approach can be supplemented by foreign donors, concessionary mechanisms, and a robust corporate debt market.

Intervention	Timeframe
Developing the corporate debt market and providing long term funds to banks for development Banking: Sri Lankan financial market, essentially commercial and specialized banks and finance and leasing companies lack long term funds to provide long term development oriented and project-based loans. We do not see establishing yet another 'development bank' as the answer to this question. We propose to create a sustained and robust mechanism to match long term fund surplus entities with long term fund deficit entities both via a true long term private debt market for direct intermediation as well as availing long-term funds to banks for on-lending. ☎ This shall be done by incentivizing as well as amending regulations to pension funds, provident fund, insurance funds and such to participate more actively in the segment of the market. Given the target of maintaining and increasing the surplus in the primary account of the budget, it will become more feasible to achieve this objective. ☎ Establish a permanent national credit guarantee institution to support SMEs and startups, providing crucial financial backing for innovation and growth. ***Note:*** Already we have had successful discussions with multilateral development agencies on this front.	M

10 STRONGER SOCIAL SAFETY NETS

GDP growth and the creation of wealth through reforms to enhance the market mechanism as explained previously is only one of two components in our plan to develop Sri Lanka. The other is the equitable distribution of that wealth, or economic justice. While Sri Lanka has not done well in growth it has done even worse in distribution.

Official data just prior to the economic crisis suggested that the top 1% of Sri Lankans enjoy 15% of national income while for the top 20%, it is 51%. Only 5% of national income accrues to the bottom 20%. A recent study by UNDP found that wealth inequality was much worse, that the top 1% holds 31% of total personal wealth and the bottom 50% only 4%. The unprecedented economic crisis further impacted the poor and vulnerable, making their protection and empowerment a key priority in our economic revival plan. According to the World Bank Development Update 2024 poverty has doubled from 13.1% in 2021 to 25.9% in 2023. In this light, Sri Lanka's social welfare programs remain totally inadequate in both scope and reach.

To deal with the immediate crisis the government introduced, in 2023, the Aswasuma social protection program to replace the cash transfer role of the (failed) Samurdhi scheme with the Welfare Benefit Board (WBB) overseeing its implementation. Aswasuma has three aims: to reduce inclusion and exclusion errors, increase administrative efficiency, and eliminate fragmentation in social protection. However, the government has failed to address the critical needs of the poor and the systemic issues within the social protection framework, and so has failed on all three counts.

A Jansaviya like new poverty alleviation program

Handing out cash for a period up to a few years will not alleviate poverty. Poverty itself must be properly understood. It is appropriate to consider multidimensional poverty, measured as outcomes in education, health standards, and standard of living to address the issues in a more holistic way.

Addressing the issues of income and wealth inequality is a very serious public policy matter. We believe fundamentally that social protection schemes should incentivize recipients to engage in income-generating activities. Only, then poverty alleviation schemes could help people graduate out of poverty in a specified period of time, not just doling out cash.

Thus, it is our position that we will in collaboration with the private sector, support welfare recipients in acquiring skills and qualifications for employment, matching them with available employment requirements and generally enabling them to lift themselves out of poverty in a job-creating economy. The support shall be time bound. It will be structured as a participatory model and will have a gender focus to promote the participation of women. Instead of just handing out money, recipients would be required to participate in local community development activity or in skills training to receive a given amount for consumption while the remainder shall be for future investment, saved on a compulsory basis.

Thus, we will completely revamp the current scheme to one that provides financial support to transform the social safety net scheme to one that will safeguard vulnerable people while facilitating upward social mobility.

Thus, we will completely revamp the current scheme to one that provides financial support to transform the social safety net scheme to one that will safeguard vulnerable people while facilitating upward social mobility.

Creating economic justice in subsidy distribution

Sri Lankans have for decades been heavily reliant on subsides as a method of social protection. Many governments have continued to increase the value of subsides in nominal terms without any limitation on duration or outcome. Subsidies are popular and win elections, but have severe drawbacks form a fiscal as well as from an equity perspective. Key among them is that general price subsides are not cost effective, they encourage overconsumption, and the larger quantum accrues mainly to the rich increasing inequality in welfare. In our case, we saw how the issue went beyond equity issues. Massive losses incurred by Ceylon Petroleum Corporation and the Ceylon Electricity Board due to such general untargeted subsidies contributed to huge debt accumulation that led to the financial viability of these utilities impacting the entire banking system. These losses contributed heavily to our inability to service debt.

While acknowledging the cost-based pricing mechanism for previously subsidised utilities and noting the total inadequacy of focus on the low income on ability to pay, our government will begin reforms in subsidy distribution to create greater equity and economic justice in the society, by targeting them towards the needy. In stages we will add various types of subsidies to targeted households as direct cash transfers. Targeting of households shall be based on means testing and the ongoing population census will be the starting point. Over time general subsidies should be replaced by well designed and cost effective strong social safety nets.

Population ageing and inclusive pension reform

Sri Lanka is already feeling the pressure of population aging. The old-age dependency ratio, or the share of the population over 60 (65) years over the share of working people, has increased from around 5% at the time of independence to about 18% today and is projected to exceed 50% by 2050. With rising health costs, senior citizens face a different consumption basket than what is reflected in the CCPI or NCPI, leading to a sharper drop in real incomes compared to the rest of the population. Additionally, over 50% of the elderly population lacks a monthly pension, highlighting the urgency of this issue.

In the short term, well-targeted cash benefits to the elderly poor and an interest subsidy to the middle-class elderly who rely on fixed deposit interest income are necessary. The current interest subsidy scheme for senior citizens is poorly targeted and includes the wealthiest individuals. Additionally, reducing the cost of essential geriatric medication is vital.

For long-term sustainability, we propose a comprehensive overhaul of Sri Lanka's pension system. This involves creating a universal, contributory pension scheme that is accessible to all citizens, including public service employees, private sector workers, and migrant workers. The existing model, where public servants receive pensions without contributing, is financially unsustainable and requires reform.

This pension system would offer retirees flexibility in how they receive their benefits, whether through lump sum payments, regular pension payments, or a combination of both. EPF contributors could be allowed to transfer part or all of their balances to the pension fund, facilitating sector mobility while retaining pension benefits. The scheme would also promote labor market flexibility and efficiency by reducing the appeal of government jobs and encouraging labor mobility across sectors and even internationally.

To support this transition, we will implement financial education programs to equip citizens with the knowledge needed for effective retirement planning and investment strategies. A gradual transition will be essential to protect those nearing retirement while introducing reforms for younger workers. Regular reviews will ensure the system's sustainability and effectiveness over time.

Addressing Period Poverty – A Proposal for Menstrual Equity in Sri Lanka

Period poverty, the inability to afford or access essential menstrual products, remains a significant issue in Sri Lanka, impacting the economic and educational outcomes of menstruating women. Nearly half of Sri Lanka's women require hygienic sanitary products, yet in 2019, about 43% of households with menstruating women still didn't report purchasing sanitary towels—a situation likely exacerbated by the pandemic and economic crisis.

To combat this, we propose a targeted initiative to provide monthly vouchers worth Rs 500 to 1.2m schoolgirls in grades 6 to 13 to purchase sanitary napkin. This initiative, costing an estimated Rs 7 billion annually will be structured as a self-targeting mechanism. The class teacher shall request the student (or parent) to register for the subsidy based on a QR code at the end of the school year (for the following year). This will allow the student or the parent to pay for the product monthly at selected outlets across the country. In extremely rural areas we shall utilize an appropriate distribution system

This proposal not only addresses the immediate needs of schoolgirls but also aims to enhance long-term economic and social benefits for Sri Lanka's broader community.

Stop the EPF being abused to provide better returns to members

The Employees Provident Fund has been misused by crooked elements over the years resulting in the return on the members retirement funds being syphoned off. The 2019 Presidential Commission of Inquiry on the activities of the bond market and the stock market found severe malpractices that took place in EPF investments both in bonds and stocks. While the CoI found massive losses to the EPF due to alleged fraudulent bond transactions, no one has been convicted of these financial crimes. Recently some prominent businesspeople compounded their 'pump and dump on EPF' transactions in the stock market after 13 years while the losses to the EPF were not recovered. Our government will ensure that all those responsible for violating the EPF shall be brought to book. Beyond that we will take action to put in place necessary legal and regulatory infrastructure to make sure the retirement funds of the members do receive the best return possible.

Intervention	Timeframe
Continue Aswesuma with increased welfare benefit payments until new programme implemented	S M
Rs 10,000/month (from Rs 5,000) for 960,000 'vulnerable and transitional poor'.	
Rs 10,000/month (from Rs 8,500) for 960,000 'poor'.	
No change in 'extremely poor'. Payment of Rs 15,000/month for 480,000 families.	
Continue increased benefits to differently abled persons, patients of chronic kidney disease of unknown etiology (CKDu), and elderly citizens	
Rs 10,000/month (from Rs 7,500) for 410,000 differently abled persons.	
Rs 10,000/month (from Rs 7,500) for 50,000 CKDu affected persons.	
Rs 5,000/month (from Rs 3,000) for 820,000 elderly citizens.	

Intervention	Timeframe
During the transition from Aswesuma to new program, strengthen existing welfare schemes, using digitization, enhance eligibility and increase capacity of the WBB - Consolidate all welfare schemes under the Welfare Benefit Board (WBB) and establish a unified beneficiary database using a Unique ID model (DPI and Lanka Stack). - Utilize the DPI to manage identified expenses of Aswasuma beneficiaries and their families. Extend system to provide food vouchers for families with infants under one year. - Review and update the existing eligibility criteria for Aswasuma to minimize inclusion and exclusion errors. The ongoing national census shall be the basis for the correction. Regularly assess the beneficiary list using electricity usage as a preliminary criterion. - Assign well trained WBB officers to every DS office, reporting directly to the WBB to ensure strong leadership and ownership. - Integrate WBIS with other government databases, drawing on expertise from countries with advanced social protection schemes and multilateral agencies.	S M
Consolidate direct cash transfers: Cash transfers shall be provided directly to bank accounts or mobile money accounts and be linked to the subsidy rationalising program across all programs. This will be enabled through the DPI system Lanka Stack. In the proposed model, a household shall receive a number of different cash transfers depending on need. Say, a subsidy for fuel, a subsidy for fertiliser, another one for sanitary pads for the menstruating schoolgirl in the family etc. We envision a mechanism of conditional spending to eliminate the subsidies being misused for, say alcohol.	S
A 'Janasaviya like' new poverty alleviation program. As described, begin structuring the new participatory program in consultation with the various stakeholders to create a win-win for all. Our proposal is for a Rs 20,000 per family for a 24-month term with an identified woman in the household (wife/mother/ daughter) being responsible.	S M
Empower people with disabilities: Provide online education opportunities and support work-from-home jobs for people with disabilities.	M L
Veterans Administration: We shall establish a special office for all veterans related matters. This office shall coordinate with all government agencies to ensure all war veterans are provided the support they need.	M
Creation of a universal contributory pension: We shall start developing a contributory scheme that is accessible to all citizens, including public service employees, private sector workers, and migrant workers.	M
Bring in new legislation to improve transparency in the EPF and introduce worker representation on the Board: We will amend the current legislation to ensure the safety of the retirement fund including mandating regular forensic audits of its investments and also to bring in worker representation in to management of the fund.	S M
Temporary interest subsidy to senior citizens: To help the most impacted senior citizens due to the fall in interest rates on their fixed deposits, we shall introduce a temporary interest subsidy linked to the prevailing rate. The eligibility will be strictly enforced.	S

CONCLUSION: A PATH TO SHARED PROSPERITY

The Blueprint 3.0 lays out the SJB's economic vision for Sri Lanka: that of a Social Market Economy in which the individual freedom to innovate and compete is balanced by the stabilizing power of social justice. We believe that this balance is the key to ensuring that Sri Lanka's gradual recovery from crisis turns into sustainable, equitable, inclusive growth.

Continuity and Change

We have already come some distance from the depths of the economic crisis in 2022, and we acknowledge the positive changes that have taken place. This includes the government's productive engagement with the IMF, progress on debt restructuring, and much-needed legislation on public finances, public debt, and monetary policy. The SJB will continue this path to recovery – and speed up areas of reform that are lagging, particularly on corruption which is continuing unabated – but will make essential targeted changes to ensure that Sri Lanka's economic recovery does not come at the expense of its people's survival.

The Engines of Growth

While maintaining macro-economic stability and increasing government revenue is essential for our recovery, we can no longer ignore the engines of growth. For long-term growth that permanently lifts Sri Lanka out of the cycle of crisis, we must incentivise export-oriented sectors and embrace outward-oriented policies. Through global integration, we free ourselves from the constraints of a small domestic market. Sri Lanka will finally benefit from its strategic global location, and Sri Lankans will see the benefit of belonging to a global marketplace. By "breaking walls and building bridges to the world," every sector – from agriculture, to industry, to services – will have the opportunity to thrive and grow.

Reforms for Sustained Change

This journey will not be easy. Many of Sri Lanka's structures and systems need to change for us to achieve our true potential. Curbing government expenditure – including politically difficult actions such as reforming the public sector and state-owned enterprises – is a must. Reforms in energy and utilities markets are likewise essential, as is liberalising the overly regulated factor markets of land, labour and capital. By leveraging digitization across all aspects of reform, we will boost efficiency and productivity across all sectors.

A Win For All Sri Lankans

Inclusive sustainable development demands that we empower all citizens to participate in the economy. However, we recognize that market economies generate income disparities. While some inequality is inevitable, we must implement targeted social safety nets alongside our market-oriented policies. Building a strong, transparent, and equitable social welfare system is vital to achieve shared growth and ensure difficult economic reforms are accepted. We advocate for direct consumer subsidies via cash transfers, ensuring resources reach those who need them most. Finally, to truly empower its citizens, the government must respect them: by shunning corruption, upholding good governance, and maintaining law and order.

This is our blueprint for a brighter future, for all Sri Lankans, today and for generations to come.

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