NEWS ROUND UP

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Budget 2018 mired on implementation

Budget 2018 has failed to deliver on transparency and implementation with only 8% of 38 major proposals worth Rs. 149 billion on target, with 33% categorised as either broken, neglected or undisclosed, think tank Verité Research said yesterday.

Releasing the latest 'Budget Promises: Beyond Parliament' update, Verité Research tracked 38 proposals, which were allocated above Rs. 1 billion in Budget 2018, for the first six months of 2018. Their research found there has been little improvement in implementation when compared with Budget 2017 and Budget 2018, with transparency actually declining for the latter. The bulk of new expenditure proposals in Budget 2018 were also categorised as lagging in implementation.

"While the Government's progress in implementing its Budget promises remains stagnant, its willingness to disclose information has declined. In the first half of 2018, information on progress for 74% of the tracked promises were either not available or obtained with difficulty," said Verité Research's Research Director Subhashini Abeysinghe.

Only three proposals were on track. They were a Rs. 17.5 billion project to provide 20,000 housing units under the Urban Regeneration Project by 2020 for the poor by the Megapolis and Western Development Ministry, a Rs. 2 billion skills development program by the National Youth Corp and a Rs. 1.7 billion fisheries habour development project by the Fisheries Ministry.

As much as 59% of the proposals were tagged as lagging. These include significant projects such as the Rs. 3 billion Aruwakkalu waste disposal site, Rs. 5.3 billion in concessional loans to agri companies to improve technology infusion, Rs. 3 billion for a contributory pension scheme for famers, Rs. 10 billion for the establishment of a development bank and Rs. 3 billion for building houses in the north and east. The Central Expressway project was also marked as lagging by Verité Research.

Among the undisclosed proposals, which amounted to Rs. 45 billion, were a slew of projects including Rs. 3.5 billion allocated for education reforms, Rs. 1.25 billion for medical faculties at the Wayamba, Sabaragamuwa and Moratuwa universities, Rs. 5 billion to expand the availability of technology degrees, Rs. 24 billion for urban regeneration projects and Rs. 2.5 billion to improve the rural road network.

Two promises were slotted into the neglected category accounting for Rs. 12.5 billion. These were the proposals to establish an EXIM Bank with Rs. 10 billion, which was included in Budget 2016, 2017 and 2018 as well as a plan to create an employment preparation fund.

In nearly 60% of the promises being tracked, Government institutions failed to provide the action plan or progress report in response to requests filed under the Right to Information (RTI) Act. Further, only 33% of progress reports could be compared against the action plans received, Verité Research said.

Even though a few Government agencies were cooperative, many others were less so, leaving the researchers dependent on few resources. The Irrigation and Water Resources Ministry, Fisheries Ministry and Housing Ministry were the three most transparent while the ministries of Agriculture, Education and Highways were the most opaque.

Verité highlighted the importance of one report released by the Department of Project Management and Monitoring, under the Youth Affairs and Project Management Ministry, to improve transparency.

“This does not cover all the Budget proposals but it was useful to make an assessment. The report gave us details on what happened in the first quarter of this year. Without this report the undisclosed component, which is currently at 26%, would have gone up to 42%. It underscores the fact that the public does not know when proposals are changed or not implemented. Where does the money go in such instances? Is the Government reluctant to tell us what it is doing? If the Government cannot implement a proposal that is fine but it needs to give reasons and explain to the public. It should not be kept hidden,” said Verité Research Economics Team Leader Vidya Nathaniel.

The researchers pointed out that the information requested from the Government agencies should be compiled under circulars issued by the National Budget Department under the Finance Ministry but even though the circular was released in January 2017 giving specific formats to be followed on the mode of submission and timelines, few agencies had complied.

“Of the 38 proposals that we were tracking only 50% had action plans or progress reports that were released by the relevant agencies. So this is a concern. Even of the action plans or progress reports we received only a third of their plans aligned, which means that the activities listed under the action plans actually aligned with the activities listed under the progress reports. In several instances it was very difficult to understand what the different documents were attempting to convey,” she added.

Verité emphasised that the level of openness of a particular agency could be linked to the level of project implementation. They opined that research suggested the higher the implementation level of proposals the more agencies were keen to share the information. If implementation was low transparency was also likely to be lower.

Sometimes these traits were displayed by the same entity. For example the Megapolis and Western Development Ministry, which was cooperative on one project of providing 20,000 houses, was nonetheless more restrained on five other major proposals, which accounted for over Rs. 24 billion.

"The transparency of agencies varies to a great extent and raises questions of whether the Finance Ministry is actually able to do its job of monitoring Budget proposals if they are not getting the information as necessary. We asked the National Budget Department what ministries have given documents as specified in their circular and we found out only two ministries, Buddha Sasana and Foreign Affairs, had done so. Only the Buddha Sasana Ministry had given a disbursement plan and none of the 59 Government agencies had a strategic plan for policy proposals," Nathaniel said.

"It is possible that the documents were given in different formats but the challenge for the monitoring process remains. Is the Finance Ministry doing its job? Part of the responsibility is to monitor physical and fiscal progress but in the RTI submitted to the Budget Department we were told that it does not monitor fiscal progress and asked us to find out details from the ministries ourselves, so then if they are not monitoring it who is? Why is there a circular for this information if they are not monitoring it?"

Verité Research recalled efforts last year by Finance Minister Mangala Samaraweera to establish a Budget Implementation Unit under the Ministry. Subsequently, the national Budget Department issued a circular saying that such a unit was formed to monitor capital projects including proposals but when information was requested by Verité the response stated no such unit was established under the department.

"We find this very surprising because under a separate RTI the same department told us to refer to the very same Budget monitoring unit. So you can see the contrast. The RTI responses were even signed by the same person. The reluctance to share information could cast doubt on the budgeting process as a whole and that makes the public lose confidence in the whole system." (Daily FT)

Major Chinese wholesale association wants SL produce

A top Chinese delegation plans to increase Sri Lankan agriculture exports to China giving the sector a chance to tap into the massive Chinese sector, the Industry and Commerce Ministry said in a statement yesterday.

"The visit of the China National Agriculture Wholesale Market Association (CAWA) delegation to Sri Lanka opens a huge export opportunity for the Sri Lankan agriculture and fresh produce sector.

We also warmly invite member associations of CAWA to invest as joint ventures in Sri Lanka, transfer the latest technology and partner our Sri Lankan suppliers," said Industry and Commerce Minister Rishad Bathiudeen.

Minister Bathiudeen was addressing the visiting CAWA delegation led by CAWA Chairman Zengjun Ma. CAWA is a national industry association approved by the Chinese Ministry of Civil Affairs. Minister Bathiudeen was joined by Sri Lanka Director General of Commerce Sonali Wijeratne and many other Department of Commerce (DoC) officials.

CAWA's International Commissioner Jingjie Kong said: "CAWA has members in all provinces and municipalities across China accounting for 70% of the national wholesale total, which means we have an even bigger presence in China's retail sector. All of the top 200 wholesale markets in China are members of CAWA. The CAWA managed annual wholesale turnover within China exceeds China Yuan 10 billion or $ 1.4 trillion, which is 70% of the national wholesale total."

"We are impressed with Sri Lankan fresh produce. As a result we are looking for trade and agriculture cooperation with Sri Lanka," said CAWA Chairman Ma.

"Not only is the taste of Sri Lankan produce better but also due to European Union standard compliance, the quality of Sri Lankan produce is very high. The Department of Commerce has shown us some fresh produce such as coconut water and kernel processing in Sri Lanka and we are impressed due to their in-depth reach. Many such processing activities taking place in China are not so in-depth nor multi-level. It is very clear that Sri Lankan agriculture and fresh produce supplies can clearly expand in the huge Chinese market due to the competitive pricing of Lankan products, features such as good taste, higher quality and uniqueness.

"We are also impressed by the DoC-organised supplier meetings within Colombo with such institutions as the Coconut Development Authority and Seafood Exporters' Association of Sri Lanka (SEASL). The Chinese consumer market is expanding in a big way and we suggest preparing a good, dynamic pricing strategy for Lankan suppliers to China to win in our market. We invite an official DoC delegation to China with Lankan suppliers for B2B matchmaking. China has high-level seafood processing technology that Sri Lanka can make use of."

Minister Bathiudeen thanked Chairman Ma for his interest in Sri Lankan supplies, adding: "We are also interested in a buyback system by Chinese buyers on our agri-produce. This will also enhance our exports and total trade with China."

According to DoC officials, Sri Lanka's total trade with China increased by 3% last year to $ 4.6 billion from 2016's $ 4.47 billion. For the first time, last year's Lankan exports to China too showed a huge jump – doubling for the first time. This is an increase of 108% to $ 415 million (in 2017) from 2016's $ 199 million.

This is the first time in a decade that Sri Lankan exports to China have doubled. Last year's leading Lankan exports to China were ships and boats, apparel, Ceylon Tea and vegetable textile fibres. Interestingly, no significant exports of Lankan fresh produce to China was seen for 2016 and 2017 - showing a huge untapped market awaiting in China for Lankan fresh produce. Imports from China to Sri Lanka declined by 2% in 2017 to $ 4.19 billion. This is the first decline in imports from China to Sri Lanka since 2011.

During the 15 October meeting, Minister Bathiudeen also instructed his DoC team to commence work on scheduling a strong Sri Lankan supplier delegation to meet CAWA members in China. (Daily FT)

President orders study to reduce imports

President Maithripala Sirisena yesterday instructed the Finance Ministry to study current imports and submit a report on which goods could be temporarily restricted as the Government attempts to reduce the decline of the rupee.

The President had issued these instructions at the 20th sessions of the National Economic Council (NEC), which was held at the Presidential Secretariat, the President's Office said in a statement.

"The NEC deliberated extensively on measures that Sri Lanka should take in the context of challenges arising due to the appreciation of the US dollar. Special attention was paid to restricting the import of non-essential goods as a temporary measure, while encouraging local substitutes," the statement said. Discussions focused on revising the measures currently in place to restrict the import of non-essential goods.

The President also highlighted the importance of restricting the importation of non-essential polythene products that yield significant environmental concerns and negatively impact local industries. He also pointed out that the country's prevailing negative balance of trade could be neutralised through prudent measures to revise the import of non-essential items when combined with a proper mechanism to collect the due levies at the point of Customs clearance.

The NEC also discussed the concerns of local manufacturers and traders. As such, the NEC listened to some of the issues raised by importers of sugar to Sri Lanka, who pointed out that they had to incur considerable losses when sugar was sold at the current maximum retail price. However, given the fact that global sugar prices have continuously decreased, the NEC advised the Ministry of Finance and Consumer Affairs Authority to use a proper mechanism to address the grievances of sugar importers.

Local manufacturers of fruit drinks, presenting their concerns to the NEC, sought relief on taxes that were imposed based on the amount of added sugar in fruit drinks. It was agreed that local fruit growers and manufacturers needed to be encouraged and prioritised. As such, it was advised for the NEC to appoint a committee to identify a proper mechanism to support the industry.

It was also proposed that a part of the Eppawala phosphate deposit be used for manufacturing single phosphate as a substitute for triphosphate imported for fertiliser. This measure, it was highlighted, would help Sri Lanka prevent the outflow of important foreign exchange in the future.

The NEC also reviewed Sri Lanka Customs' present screening system. The NEC emphasised the need to screen all containers instead of the present procedure of random screening at Sri Lanka Customs. The President requested an urgent report on the status of Sri Lanka Customs' screening capacity.

The Kalu Ganga basin flood control projects that aim to control the floods that mainly affect Ratnapura and Kalutara cities were taken up for discussion at the NEC. The President pointed out that this project for the resilience of the Kalu Ganga basin had been neglected for decades. He also highlighted the need to study the feasibility of transferring excess water from the Kalu Ganga to the North Western and the Northern provinces, to mitigate the adverse effects of climate change. The NEC advised to appoint a committee to carry out a feasibility study on this project.

Ministers Mangala Samaraweera, Rajitha Senarathna, Dr. Sarath Amunugama, Duminda Dissanayake, Mahinda Amaraweera, Mahinda Samarasinghe and Malik Samarawickrama, Secretary to the President Udaya R. Senaviratne, Chief Economist and NEC Secretary-General Prof. Lalith Samarakoon, Finance Ministry Secretary Dr. R.H.S. Samaratunga, Central Bank Senior Deputy Governor Dr. Nandalal Weerasinghe and other officers were present at the session. Local industrialists and traders had also been invited to the session. (Daily FT)

$ 1 b from China Development Bank in Sri Lanka today

The much-needed $ 1 billion concessionary and long-term loan from the China Development Bank (CDB) is scheduled to be remitted by today, Daily FT learns.

The eight-year facility has been pending for weeks but Daily FT can confirm that the funds will arrive today, offering a big boost to the country's reserves and defences against external-factor-led pressure on the rupee.

The Central Bank is likely to make a formal statement on the receipt of CDB funds today.

Recently Central Bank Governor Dr. Indrajit Coomaraswamy said that apart from the $ 1 billion CDB facility, the Government may consider $ 250 million each Panda and Samurai bonds as well as a $ 1 billion International Sovereign Bond issue to shore up the country's reserves to ward off the vagaries of pressure on the rupee and debt servicing in 2019. (Daily FT)

Sri Lanka price controls drive drugs off market as soft-pegged currency falls

Several drugs used to treat, blood pressure, cancer, osteoporosis, cancer and antibiotics have gone off the market as price controls originally proposed by a Marxist began to bite amid a steep fall in the currency.

Sri Lanka Chamber of Pharmaceutical Industry (SLCPI) said despite repeated appeals the price control agency, National Medicinal Regulatory Authority (NMRA) has not allowed increases prices, which were cut despite a falling rupee.

Over 85 percent of the drugs are imported to Sri Lanka but the health ministry and NMRA has not allowed prices to be raised, the industry body said.

Eleven drugs will "no longer be available in the market as it is not commercially viable to import them," the SLCPI said.

"The biggest setback would be for the patients who are adversely affected if the drug product that provided excellent therapeutic benefits and resulted in positive health outcomes is no longer available in the market."

The drugs going off the market include those made by Astra Zaneca, Roche and Novartis of Switzerland, MSD of UK and Italy, Eli Lilly of France and Sandoz Bangladesh.

Drug price controls were originally proposed by Senaka Bibile, a Marxist but were not implemented until the current administration came to power in 2015, when the NMRA was set up as a price control agency.

Since the new administration came to power the rupee has fallen from 131 to 176 to the US dollar, indicating an currency inflation of 34 percent, amid money printing and a real effective exchange rate targeting policy.

But only a 5 percent increase has been given since price controls slashed prices from previous levels. Price controls by the state creates a blackmarket and smuggling. But drugs produced by European firms in particular are exported to Sri Lanka at substantially lower prices than in the home market. When the price controls were first announced at prices below the then market, importers negotiated lower prices.

While a choice of drugs are available in Sri Lanka from multiple countries, patients and doctors through years of use have found particular brands are more effective and have less negative effects than others.

Generics do not undergo clinical trials and efficacy is not proven, though so-called bio-equivalence tests are performed for chemical properties. Price controls usually create a blackmarket. (Economy Next)

Sri Lanka President drops assassination bombshell, accuses India

Sri Lanka's President Maithripala Sirisena shocked his cabinet Tuesday by accusing neighbouring India of plotting to assassinate him on the eve of Prime Minister Ranil Wickremesinghe's visit to New Delhi, a ministerial source said.

A visibly upset Sirisena accused his senior coalition partner, the United National Party (UNP), of not taking an alleged conspiracy to kill him as well as former secretary to the ministry of defence, Gotabhaya Rajapaksa, seriously.

"The President said that RAW (India's external intelligence agency, Research and Analysis Wing) was behind the plot," a minister, who declined to be named, said.

Sirisena also said he was unhappy with the police Criminal Investigation Department (CID) inquiry into the plot and faulted the law and order minister for what he called the "very slow progress of the inquiry."

A ministerial source said the Prime Minister was unusually assertive at cabinet Tuesday and appeared to be irritated by Sirisena's barrage against his government. The premier had also retorted in annoyance, much to the surprise of some of the juniors in cabinet.

The alleged plot was disclosed by a paid employee of the presidential secretariat earlier last month. He had also worked as an informant of the police. Based on his testimony, the police have suspended a Deputy Inspector-General Nalaka Silva who is said to have been involved in the alleged assassination plot.

Weeks after the so called whistle blower identified as Namal Kumara went public about the plot to kill Sirisena and Rajapaksa, the president's office issued a statement denying he was in their pay and called for a separate investigation into his conduct.

However, media reports said the presidential secretariat had issued letters to Namal Kumara confirming his employment with an anti-narcotics task force directly under the president.

Official sources close to the investigation said they have not found any evidence to support Namal Kumara's claims of a plot, which also involved an Indian national who is residing in Sri Lanka pending an asylum application with the UN agency for refugees.

The ministerial source said the President did not give details of how India was involved in the plot and several cabinet ministers were aghast at his claim. "I think it was uncalled for (to accuse India) because he did not provide any evidence to support his claim," the source said.

"So far, what we have is the figment of someone's imagination of an assassination plot," the source said. "What can now be done is to look at the genesis of this story and how it came about."

The Presidential Secretariat scheduled a press conference at noon Tuesday to disclose what it called the details of the assassination plot, but cancelled it at the eleventh hour. The President's former Coordinating Officer and the current Senior Advisor Shiral Lakthilaka was to preside at the press conference.

In the meantime, Gotabhaya Rajapaksa has lodged a formal complaint with the police over media reports of the twin assassination plot. When he was asked if he suspected any credible plan to kill him, the former official had said he was making the complaint to have the media reports investigated.

-East Terminal-

The atmosphere in cabinet had been unpleasant when they were discussing the awarding of the East Terminal of the Colombo port to India, those at the cabinet said. Sirisena is opposed to granting India access to develop the terminal just next to the China-run Colombo International Container Terminal (CICT).

The CICT was at the centre of a diplomatic spat with India during the last year of the Rajapaksa administration when the then government allowed Chinese submarines to dock there without New Delhi being in the loop.

Wickremesinghe travels to New Delhi on Wednesday for talks with Prime Minister Narendra Modi to speed up Indian-backed projects in the island, including the East Terminal project.

On the cards is also the development of the currently unused oil tank farm at China Bay in Trincomalee. (Economy Next)

Coalition politics hurt Sri Lanka liberalization drive: Harsha

Sri Lanka's liberalization drive has been hit by policy conflicts due to clashing ideologies of the two main coalition partners, a minister representing Prime Minister Ranil Wickremesinghe's United National Party said.

"Coalition politics is not easy. It’s difficult," National Policies and Economic Affairs State Minister Harsha de Silva told forum at the Institute of Policy Studies, a Colombo-based think tank.

"We’re more liberal in our approach to economics. The UNP is and the UNP has always been more liberal," he said at an event held at the Institute of Policy Studies.

Sri Lanka Freedom Party (SLFP) of President Maithripala Sirisena had tended to protect businessmen, opposing the ending of monopolies and pushing up import taxes to push prices up for consumers.

"Our coalition partner has been inward looking, so there is certainly a policy conflict and we need to overcome that," de Silva said.

"Our coalition has not been positive towards liberalization."

The United National Party opened the economy in 1978, after it was closed in 1971 as the Bretton Woods system and President Nixon stopped giving gold at the soft-pegged rate of 35 dollars an ounce after printing money to push up economic activity.

Sri Lanka's central bank was not reformed significantly and monetary troubles continued into 1980s with currency depreciation and inflation.

Lion Brewery (Ceylon) Plc Chief Executive Suresh Shah, told the IPS forum that many politicians in government speak of the same issue with differing policy ideologies, hurting investor confidence.

He said it was publicly known that the ideologies of the two main parties were different.

"It was known upfront and managing that should have been one of the most crucial efforts of the coalition. As an outsider, from what I hear, that effort has not gone in."

Sri Lanka's 2015 budget also contained sweeping price controls and a number of new licenses including to import cars, going directly against UNP's 1978 strategy. There was no evidence to show that it was the making of the SLFP.

Under the new Finance Minister Managala Samaraweera however, a liberalization drive has been started, which has been questioned by some SLFP ministers.

Shah said that in business, there are joint ventures between companies with differing viewpoints, although what is heard in the end is the same voice.

"When there are partnerships between a Sri Lankan firm and a big global giant, there are problems in these partnerships, but we manage them," Shah said.

"The issues that we have don’t get spilled over. We speak with one voice."

Finance Minister Mangala Samaraweera had insisted last month that the coalition speaks with one voice after finalising a policy.

De Silva meanwhile said that indulging protectionist lobbies will hold the country back.

“If you leave it to the lobbies who say don’t open, then we are not going to make it. We better understand that,” he said.

“If vested interest is going is going to come up on top and not the national interest, we’re going to miss the bus once again.”

He said the UNP had done crucial free market reforms in 1977 but since then there has not been courage politically to continue the reform path.

Sri Lanka current liberalization plan has also been hit by the soft-peg troubles, with a number of trade controls being slapped by the UNP amid a run on the rupee. (Economy Next)

Sri Lanka President calls to expand Nixon shock as rupee falls

Sri Lanka's President Maithripala Sirisena has called for more trade controls and import substitution as the rupee fell amid policy errors in operating a soft-peg with the US dollar.

President Sirisena has asked a National Economic Commission to prepare a list of non-essential goods that can be stopped and had it over the Finance Ministry in a week, a statement from his office said.

The goods will be temporarily controlled and attention will be focused on producing import substitution products domestically, President Sirisena has said.

Sri Lanka operates a non-credible foreign reserve collecting soft-peg with the US dollar, involving a de facto external anchor with an undefined convertibility undertaking, which shifts suddenly to a floating rate with a domestic anchor made up of a wide near double digit inflation target with the unsterilized excess liquidity collected during the pegging period intact, sending the rupee crashing down.

This is called a 'flexible exchange rate'.

The finance ministry has already slapped controls on cars, footware and perfumes in recalling moves by President Richard Nixon as the US dollar's soft peg with gold failed in 1971, driving the dollar above 86 dollars an ounce from 35.

"I am taking one further step to protect the dollar, to improve our balance of payments, and to increase jobs for Americans," Nixon said at the time.

"As a temporary measure, I am today imposing an additional tax of 10 percent on goods imported into the United States. This is a better solution for international trade than direct controls on the amount of imports.

"This import tax is a temporary action. It isn't directed against any other country. It is an action to make certain that American products will not be at a disadvantage because of unfair exchange rates. When the unfair treatment is ended, the import tax will end as well."

The US dollar then floated.

Sri Lanka closed the entire economy at the time and people ate 'sakkara' for sugar, wore kerosene smelling cloth which were rationed and draconian exchange controls were also imposed.

However, when the economy was re-opened in 1978, no substantial reforms were done to the central bank, and the rupee continued to fall.

The finance ministry has already slapped controls on cars, footware and perfumes, opening a pandora's box for more controls, and leaving egg in the face of free trade advocates and the main free trade plank of the administration in tatters.

Analysts however had already warned that unless the central bank was reformed or at least it operating procedures overhauled free trade will not be possible. (Sri Lanka's central bank has to be restrained for free trade to succeed)

In addition liquidity injections will also make it impossible to service foreign debt leading to dollar sovereign default (Sri Lanka's Weimar Republic factor is inviting dollar sovereign default).

Sri Lanka's current troubles stem from the first quarter of 2018, when mopping up of dollar inflows suddenly stopped (sterilized foreign exchange purchases), according to analysts who closely study its operations.

There were calls to start issuing central bank securities to permanently mop up inflow purchases, but in the first quarter sterilization suddenly failed amid a series of failed term repo auctions.

Monetary policy is now more pro-rupee with overnight rates near ceiling 8.50 percent policy rate and not all outflows permanently filled with permanently printed money.(Economy Next)