

2006 BUDGET SPEECH

1. Mr. Speaker, the Budget speech of the United Freedom People's Alliance Government for the year 2006 was presented to this august assembly by the then Minister of Finance on the 8th of last month. That Budget speech contained proposals which my Government is committed to implement. However, I realized the need to present a new Budget in line with the "Mahinda Chinthana" – my election manifesto which promised that my Government during its 6 year term of office will implement policies towards building a New Sri Lanka with rapid socio-economic development. As I explained to this house on the 25th November 2005 in my policy statement this manifesto now forms the basis for the next six year development framework in our country and my Government and I collectively and singularly remain committed towards a well sequenced implementation of this development programme.
2. At the launch of the "Mahinda Chinthana" I said that my vision has been based upon the proposals and suggestions of thousands of fellow citizens who have been closely associated with me over the past 37 years of my political carrier. This does not mean that I do not recognize the work already undertaken by others towards framing development policy strategies in recent years. I will always give due recognition to such positive contribution and value maximum consultations in preparing our policies. The National Council for Economic Development (NCED) which has become a forum since the UPFA Government was formed in 2004 for such a consultative process in economic issues, has contributed immensely towards identifying practical proposals. The Ministry of Finance and Planning has also benefited from the proposals sent by the general public, private sector organizations, trade unions, representatives of political parties, line ministry officials and Ministers. Therefore, the Budget that I am presenting now for 2006 is resourceful in its preparation and will reflect all such ideas within a financial framework that my Government considers it important in the pursuance of fulfilling the expectations of the general public, the majority of whom placed confidence in me at the last Presidential Election .
3. Mr. Speaker, the economic vision articulated in my manifesto is a further consolidation of the economic policy framework adopted by the UPFA Government last year in which both the private sector and the public sector co-exist in a complementary manner in a market friendly environment to promote a national economy. Some pundits attempted to inflict fear on the people that such policies involve a journey backward. It was projected that my

policies will lead to a high deficit and inflation. They preached that the only way forward is the neo-liberal economic policies. In fact Mr. Speaker, we must accept that many countries are reshaping their economic policies to empower themselves through home grown policies with considerable local ownership and accountability. Several countries such as India, Thailand, Vietnam have now adopted pro-poor, pro-growth strategies in a much wider scale than before. With such policies these countries are witnessing meaningful development with high economic growth. Our own country is now witnessing a near 6 percent growth. I am pleased that the latest data indicate a decline in year-on-year inflation to 9 percent.

4. However, Mr. Speaker, poverty is too high and it has been there for too long in our country. Despite a reasonably strong growth rate of around 5 percent in GDP and pursuance of a liberal economic policy regime for nearly 3 decades, the development is Colombo centered. There is hardly any growth in some provinces. A large percentage of the children in the country are subject to diarrhea and other disease annually, 30 percent of the population in the plantation sector and 25 percent in the rural sector are poor. Nearly 50 percent of the population has shown a high poverty incidence in 12 administrative districts of Matale, Galle, Matara, Hambantota, Kurunegala, Puttalam, Anuradhapura, Pollanaruwa, Baddulla, Monaragala, Ratnapura and Kegalle. Poverty in Northern and Eastern districts are equally bad or worse. About 500,000 people are living in temporary shelters due to natural and manmade disasters. The estate sector, Northern and Eastern provinces and several districts in other provinces lag behind the urban sector development concentrated in a few cities. Therefore, Mr. Speaker no leader can be insensitive to such socio economic trends. There is nothing wrong in presenting “an alternative way forward” to “failed neo-liberal economic policy”. As you will realize soon, the “Mahinda Chinthana” is to re-engineer our economy over the next 6 years to create economic opportunities for the people to move out of poverty. People have endorsed it despite an expensive and an extravagant campaign against it since they appreciate a pragmatic approach for development rather than being glued to mere economic theories and slogans. . We must make it a reality by implementing it with deep commitment.
5. Mr. Speaker, this is a decade that the United Nations have dedicated to achieving the Millennium Development Goals (MDGs), which include eradication of extreme hunger and poverty, achieving universal primary education, empowering women, eliminating gender disparities in primary and secondary schooling, reducing child mortality, improving maternal health, combating HIV/Aids, Malaria and other diseases, ensuring environmental stability and promoting global effort to mobilize development. Therefore, we as a nation

should now commit ourselves to rapid and equitable development in all our regions to realize MDGs before the end of this term of my office.

6. Mr. Speaker, diverse views are expressed on the promotion of a national economy. Therefore, within the first 6 months of next year a national development strategy will be formulated for agriculture, livestock, fisheries, SMEs, plantation, industries, tourism, banking, infrastructure, rural development, education, health, skills development, poverty alleviation, governance and foreign investment. This national development strategy will reflect short, medium and long-term considerations. I will invite representatives from opposition parties, professionals, trade unions, private sector, civil society and other stakeholders to accomplish this important task so that we need not change our development strategies frequently.

TOWARDS A NEW SRI LANKA

7. Mr. Speaker, the collective will of this nation to overcome adversity and foster a local economy, has contributed towards achieving a near 6 percent growth this year. Exports as well as overseas remittances have increased by over 12 percent. The official foreign reserves of the country have increased up to US\$3.8 billion as of October 2005. The overall growth in Government revenue in excess of 20 percent has contributed towards containing the budget deficit at around 8 percent of GDP despite the adverse impact of the Tsunami and the high cost of the petroleum subsidy. Year-on-year inflation has declined from 16 percent in January to 9 percent in November. We have for the first time been able to establish a combination of BB- (Fitch) and B+ (Standard and Poors) country rating. This places us at a respectable beginning with the universe of rated sovereigns. These positive developments will be further consolidated.
8. Mr. Speaker, the fundamental thrust of our economic policy framework is to build a new economy with social justice. The aim of our Government therefore, is to increase the income of the poor and the regions at a far more rapid pace than that achieved in the last several decades. Therefore, the Government is committed to raise the investment level to an average of 30 – 35 percent to accelerate economic growth towards 8 percent over the medium term based on domestic and foreign investment and market fundamentals. Towards this, we will promote modern infrastructure – at both national and rural levels, improve productivity and create marketable skills for employment in both Sri Lanka and overseas. We will mobilize the private sector, foreign investor community, co-operative sector, peoples' sector and the non-Governmental sector to achieve this economic transformation.

9. The economic policy framework recognizes “poverty eradication” as a key objective of our policy strategies. Empowering people at grass root level through ‘Gama Nagma’ is the way forward for poverty reduction through community participation. Mr. Speaker, through the expansion of “Jana Pubuduwa”, “Gami Pubuduwa” and “Gami Diriya” programmes at each divisional secretariat level, 100,000 community based infrastructure projects and other livelihood development activities will be targeted each year. Participating in such projects should help the “Samurdhi” beneficiaries to increase their monthly income level to well over Rs 5,000. For the first time in a Budget, the highest level of capital expenditure of Rs.3,000 million will be allocated in 2006 to transform Samurdhi into a mega rural development programme

10. Re-balancing the proper allocation of resources towards the development of less developed provinces in this country including the districts affected by manmade and natural disasters, is the other priority. In this context, the National Action Plan for Children, development of the plantation community, reconstruction in the conflict affected areas and the Tsunami affected coastal belt and the development of less advantaged districts in the rest of the country are given special recognition. The Government has already set up separate ministries dedicated to the development of children and estate infrastructure and community development. The Health Ministry will arrange the provision of nutritional meals together with maternity clinics and related services to expectant mothers particularly at rural hospitals while the Education Ministry will implement the free meals programme for school children in the less advantaged schools. In place of several organizations handling development in the disaster affected areas, Reconstruction and Development Authority directly functioning under the Nation Building and Development Ministry headed by me has been set up to accelerate the development in those areas. Regional development initiatives will be coordinated by the newly created Regional Development Ministry with the local level political authorities and provincial councils for efficient use of resources and to address local needs.

11. Housing is a basic need. Our Government will promote housing development through a variety of programmes. The “Jana Sevena” – the core programme will distribute 100,000 blocks of land with clear title, to promote house construction among the poor. The ownership of houses in Government housing schemes will be transferred to occupants. Housing needs of people living in temporary dwellings in Colombo and suburbs will be addressed as a matter of priority. The implementation of the owner-driven housing programme for the people living in transitional shelters in the Tsunami affected coastal belt

and in the Northern and Eastern provinces will be accelerated. The rehabilitation and redevelopment of about 200,000 estate houses will be undertaken over the next three years. New housing schemes will be launched to provide housing for public servants and those in the security forces.

12. As I explained in my policy statement, our Government believes in providing education for our people because no country can take a long-term view for its development unless it provides education to all. Therefore, we firmly remain committed to provide free education. We must position our country as a knowledge economy for future development. It involves using knowledge to increase the value of existing assets as well as developing entirely new products, services and technologies. Our country being located in the closest proximity to all emerging Asian and Middle Eastern growth centres, we must become quality service providers both within and outside our country. The skilled categories of about 150,000 people currently leaving for overseas employment should be diversified to serve in fields such as nursing, computer science, shipping and other vocational areas. In this background our education system should be further directed towards imparting knowledge of international languages and developing a close working partnership between educators, researchers and the business community. We propose to launch a national vocational classification for all skills so that both private sector as well as the public sector can plan their human resource development in a systematic manner. In order to accelerate English teaching in schools, an intensified teacher-training programme will be launched.
13. Mr. Speaker, agriculture is the backbone of our economy. We have not diverted adequate resources for its development in a scientific manner. It is necessary to rebuild this sector for the benefit of the majority of our people. Creating an environment to have attractive producer prices, provision of seeds and planting material, credit and fertilizer at affordable prices and storage and marketing arrangements and elevating the primary agriculture into a processing stage including high quality rice milling, will be given very high priority. In this regard the Government will increase the producer price for paddy to a range of Rs. 16.50 – 17.50 / kg for the “Maha” harvest. All arrangements are now being made to provide varieties of fertilizer at Rs. 350 / 50kg bag for paddy and vegetable cultivation. A similar scheme will also be extended systematically to other small holder farmers to provide fertilizer at an affordable price. Financial incentives will be given to encourage the use of organic fertilizer in fruits and vegetable cultivation. We will focus on internationally accepted tariff controls to provide a proper balance for our locally grown produce, as well as to keep the price levels acceptable to consumers.

14. We will encourage our food industry to move beyond rice milling. With grain processing, other associated technologies and advanced packaging methods now available, our manufacturers should make processed food products out of rice flour, giving our consumers healthy alternatives. We will be offering incentives to them in this Budget to invest in modern technology for food processing industries. In the same spirit, Mr. Speaker, we will implement a medium term program to attain self-sufficiency in our dairy needs, by encouraging local milk consumption instead of using imported milk powder. We will continue to increase the producer price of fresh milk towards Rs. 30/litre. within the next one to two years and provide high yielding cows and other incentives for the development of the local dairy industry.
15. Mr. Speaker, as an island nation our country is well poised to exploit marine resources as well as our maritime industry, to raise our GDP. In this context, priority will be given to equip our fishing vessel fleet with multi-day trawlers and to introduce modern technology, including harvesting equipment. Educational opportunities will be created through the expansion of Ocean University facilities to provide required skills. The large unutilized inland lakes and other water resources will be utilized to develop farms for inland fisheries. Shrimp farming will be developed in coastal areas in Kalpitiya and Batticaloa. Fish processing and canning factories will also be promoted in close proximity to fisheries harbours and anchorages.
16. Mr. Speaker, our focus is not only on the farm economy. We recognize the important contributions that can be made to our economy by other emerging sectors such as information technology. I am encouraged to note that our software industry is reaching the US\$100 million mark this year. It is growing rapidly and is expected to reach the billion US dollar export industry over the next 7 years. We propose to develop Kamburupitiya as an IT city. On a similar line of thinking, the printing and packaging industry will be promoted as an important integrated service to fast growing sectors such as apparel, food processing, marketing and professional services.
17. The SME bank will tie up with other banks to develop mortgage-free lending instruments such as credit guarantee schemes, refinance facilities and venture capital funding, to support a solid 500 SMEs in areas such as rice milling, printing, packaging, gem and jewellery, fruits and vegetables, handlooms, designer garments, software development, furniture manufacturing, professional services etc. to build strong value-added enterprises with Sri Lankan brands. Thus will be further supported with export credit to enter external markets. We propose to increase value addition in the apparel industry by providing all requirements

to do textile processing, packaging and branding locally and make it a US\$ 5 billion industry over the medium term. Two textile processing zones at Thulhiriya and Horana will be started to attract large scale textile processing mills. .

18. Mr. Speaker, our policy strategy recognizes the paramount importance of accelerated development of infrastructure – roads , electricity, irrigation, drinking water, telecommunications, industrial townships, urban infrastructure, transport and information technology to create economic opportunities for the entire Sri Lanka. In this regard, work of key infrastructure projects, particularly, the coal power plants and Upper Kotmale hydro power project will be given highest priority in order to provide low cost electricity to the people as early as possible. The electricity will be provided at half rate to the people living in the districts where new coal power plants are installed. Religious places in those districts will be given electricity free of charge. The Hambantota bunkering port complex, the Katunayake expressway, the Southern expressway, Kandy-Colombo highway, the outer circular road, the Katunayake - Colombo railway link, the second airport runway, second International Airport at Weeravile, the south harbour facility in the Colombo port, flyover bridges in the Colombo city, the highway from Kalutara to Jaffna along the Tsunami affected coastal belt, development of special tourist zones in Hambantota, Kalpitiya and Arugambe and the Performing Arts Theater in Colombo will commence immediately. The augmentation of the capacity of the CTB with 3,000 new busses together with the modernization of railway infrastructure, construction of new Kataragama coastal line, extension of Kalanivali Railway line to Hambantota via Embilipitiya and Kurunegala, Habarana new Railway line will be undertaken to provide an efficient commuter transport service.
19. Our Government will place equal importance on the development of infrastructure at provincial and rural level to create pro-rural development programmes. The “Dahasak Maha Wav” programme towards developing water resources in our rural economy will complete 2,000 such projects each year. Deduru Oya, Kirindi Oya, Uma Oya, Mahan Ala, Manik Ganga , Kumbukkan Oya, Yaan Oya and Kirama Oya multipurpose irrigation development activities in several neglected districts will be implemented during the next 2 years. The ‘Maga Nagma’ will target a further 5,000km of rural and estate sector roads in 2006. Provincial development projects such as ‘Pubudamu Wellassa’ ‘Rajarata Navodaya’ ‘Senkadagala Revival’, ‘Ruhuna Development’ and development initiatives in the Northern and Eastern provinces will aim at developing provincial infrastructure and livelihood activities.

20. The Legal and judicial reforms initiatives will be further expanded next year with the focus on human resource development, Court complex development, enhancement of usage of information technology and further legislative reforms towards reducing transaction costs to facilitate business development. It is important to create a secure environment for sustainable development by maintaining law and order, public safety and legal rights. Focus will be placed on reducing the crime rate, enhancing public access to the judiciary, combating drug abuse and prevention of terrorism. Already we have stopped granting liquor license altogether. The eradication of illicit liquor and drug trafficking programmes has been intensified and liquor sales outlets will be strictly regulated with the relocation of such outlets operating near schools and religious places.
21. The Government must become a friendly and an accountable service provider to the people and a facilitator to business development. Therefore, special attention will be paid, to simplifying Government rules, procedures and documentation systems in order to further reduce transaction costs, eliminate waste, abuse, inefficiency and corruption in the public service. However, we cannot afford to be Colombo centered. District Secretaries and divisional secretaries who are better placed to be responsive to the aspirations of the people will be strengthened. The pro-poor development strategy will require a decentralized level of implementation in order to create community ownership in developing their community needs. This will be addressed through Gama Nagma programme under which all services will be coordinated and effectively managed at the community level.
22. Mr. Speaker, the private sector is as important as the public sector in our development agenda to achieve best economic efficiency and welfare for our people. However, private sector development, is constrained due to compartmentalized operations by Government agencies, outdated systems and procedures, rigid laws and the lack of a coordinated approach in the investment decision making process. We will present legislation to this house early next year to streamline the investment decision making process to improve the investment climate in the country. The Ministry of Plan Implementation will establish an operations room to monitor all development activities in the country. The National Procurement Agency, Strategic Enterprises Management Agency and the Department of Budget Implementation and Foreign Aid Monitoring will become an integral parts of the Plan Implementation Ministry. Separate specialized divisions will be setup to monitor private sector development, NGOs, regional development and “Gama Nagma” programmes.
23. Mr. Speaker our Government does not believe that privatization is the only strategy for economic reforms. In fact we will not privatize state owned enterprises but will improve

their performance through management reforms. Our enterprise reform will be ownership neutral. All SOEs must perform at maximum output capacity and deliver services to the nation in an efficient manner. All SOEs should bring in dividend income. At the least they should not rely on the Treasury for funding. Therefore, all SOEs will be required to enter into performance contracts with the Treasury.

24. Mr. Speaker, no development will be sustainable unless we respect cultural and religious values in our society. Encouraging such a value systems among our children will contribute towards promoting a disciplined society. The intensified educational and awareness programmes will help our fight against the use of harmful drugs and alcohol. Assistance will be extended to rehabilitate temples, kovils, mosques and churches that have been destroyed or rundown due to lack of funds. Development of sports and promotion of physical training will be made an integral part of our development programmes. In this context, we will promote our sportsmen and sportswomen to participate in international events in a large scale.

25. Mr. Speaker having outlined our broad development strategy underpinning the Mahinda Chinthana, let me now turn to my proposals which will translate commitments into some concrete actions. I will not go into details of each proposal. They are given in Annexure I in great details. However, I will briefly mention the key proposals.

(i). Religious Development

- I propose to provide an annual book allowance of Rs. 2,000 to every religious / Dhamma school teachers to purchase teaching material and books.
- I propose to allocate Rs. 200 million for the promotion of religious education and support the conservation of selected temples, kovils, mosques and churches of historical and cultural recognition.

(ii). Art and Culture

- I propose to exempt Tower-Hall foundation and Central Cultural Fund from income taxes and VAT on services provide by the foundation.
- I recommend Rs. 50 million in 2006 to set up a Kala Nikethanaya in the Hill country for all artists to engage in creative work.
- Proposed national film academy and performing art theater in Colombo will be completed during the next 2 years.

- I recommend a special levy of Rs. 75,000 for each foreign tele-drama / film other than documentaries of educational interest telecast in Sri Lanka. The receipt form this measure will be used to assist local film and tele-drama industry.

(iii). Media Personnel

- I propose to provide a concessionary financing facility for media personnel to purchase computers and equipment relevant to their professional interest and purchase Motor-bicycles.
- I also propose to provide financial assistance to young journalists to develop their professional skills. Rs. 75 million will be allocated.

(iv). Mothers and Children

- I propose to provide a nutritional meal for expectant mothers together with medical advise and a monthly allowance of Rs.200 to purchase milk for new born child from next year through maternity and rural hospitals.
- I propose to implement a free mid-day meal programme for school children in less advantage schools from January 2006.
- Rs. 1,500 per month will be deposited in Senehasa savings account for every child who has lost their parents due to Tsunami or conflicts.

I propose to allocate Rs. 1,500 million for these programmes.

(v). Concession for Differently Able Persons

- I Propose to allocate Rs. 200 million for financial assistance to refurbish homes for Children, elderly and differently able persons and increase the allowance granted for such people. These houses will be exempted from 10 percent income tax on interest.
- Various appliances used by differently able persons will be exempted from all duties, taxes and fiscal levys
- “Rakawarana Niwasa” - will be established for differently able persons who do not have shelter to provide vocational training skills.

(vi). Quality Health service in less privilege areas

- In order to upgrade 17 hospitals located in less privileged areas as functional district base hospitals, I propose to allocate Rs. 300 million.
- I propose to provide official vehicles and residential facilities for specialist doctors attached to these hospitals

(vii). Samurdhi and Livelihood programme

- Mr. Speaker, I propose to increase Samurdhi allowance by 50 percent and to commence Island-wide community work programmes and livelihood support activities to provide opportunities for Samurdhi beneficiaries to earn extra income up to Rs.5,000.
- Allowance granted for child birth and death of Samurdhi families will be doubled.
- I propose an allocation of Rs.6,000 million for this mega rural development initiative.

(viii). Yovun Diriya

- I propose to intensify skills development programmes to provide 50,000 jobs for youth in 2006.
- 10,000 graduates will be recruited in 2006 to fill vacancies in various Government agencies.
- I also propose an accreditation of skills providers such as masonry, carpentry, plumbing, electrician and provide required tool and equipment as initial capital. I propose an allocation of Rs.1,000 million for this purpose.

(ix). Foreign Employment

- I propose to set up few Nursing schools to train nurses for foreign employment. Skills development for other jobs will also be undertaken.
- As an incentive to start business or self-employment activities, a special duty free allowance (non-baggage) up to US\$5,000 will be granted for those who return after one year of employment overseas.

(x). Estate Community Welfare

- I propose to allocate Rs.2,000 million for the rehabilitation of the estate roads and development of 50,000 housing units in the estate sector.
- A vocational training college will be set up in Nuwera-Eliya

(xi). Low Income Urban Housing Development

- I propose to allocate Rs.500 million to set up the Urban Housing Development Corporation to implement a 60,000 housing unit for shanty dwellers in Colombo and suburbs.

(xii). Agriculture

Fertilizer

- I propose to increase the budgetary allocation to Rs. 8,500 million to provide all varieties of fertilizer at Rs.350/50Kg bag for the cultivation of paddy and vegetable. Financial assistance will be provided for organic fertilizer users particularly in fruits and vegetable cultivation.

Seeds

- I propose to allocate Rs. 300 million to upgrade and modernize Government seed farms to provide quality seeds and planting material.

Credit

- I propose to amend the banking laws to make it mandatory that banking and financial institutions increase their lending to agriculture.

Paddy Marketing Board and guaranteed price

- Paddy Marketing Board and Food Commissioner's Department will be merged to provide storage facilities and marketing network for the purchase of paddy and rice. Rs. 2,000 million available with the Government Agents will be used as a revolving fund.
- The producer price of paddy will be raised to 16.50 – 17.50 /kg for the next Maha harvest

Dedicated agricultural product zones

- I propose to allocate Rs. 160 million for Corp zoning for special agricultural products such as pineapple, mangoostin, Dhurian etc. to promote their marketability and value addition.

Organic Agriculture

- I propose to allocate Rs. 415 million to implement a National Organic Standard and certification program to promote organic agriculture.

Tax Incentives

- Agriculture and agricultural processing will be exempted from tax.
- I also propose to remove 15 percent income tax on earnings from export income to promote export of fruits, vegetable and other agriculture produce.

(xiii). Plantation

- I propose to set up a Rs. 10 billion revolving fund in support of development activities in tea, rubber and coconut cultivation. Rs. 1,600 million available in the Stabilization Fund will be channeled for this purpose.
- I propose to increase re-planting and new-planting subsidies for tea, rubber and coconut cultivation by 25 percent.
- I propose a 20,000 hectare of rubber plantation in the Monaragala district and coconut cultivation in selected districts.
- Kantale and Hingurana sugar cultivations and processing will begin within 3 months.
- High yield seed clone gardens will be set up to promote cashew cultivation.
- New incentives will be provided to encourage cashew cultivation
- I propose to reduce Economic Service Charge from 1 percent 0.5 percent for tea, rubber and coconut processing factories.

An allocation of Rs. 700 million will be made for plantation crop development.

(xiv). Livestock

- I propose to exempt milk processing machinery from import duty and VAT.
- A special concessional credit scheme will be implemented to assist dairy farmers to purchase high yielding cows.
- I propose to raise the producer price of milk up to Rs. 25-30 / Itr. to provide remunerative prices to our farmers. Prevailing duty waiver on imported milk powder will be gradually reduced.

(xv). Mahaweli

- I propose to implement a special SME credit scheme for 500 SMEs in the Mahaweli area to promote agro processing industries including high quality rice milling.

- As a central hub city, I propose to give priority to the greater Dambulla township development programme. Rs. 200 million will be allocated for the initial development work.

(xvi). Fisheries

- I propose to set up a Fishing Promotion Fund with Rs. 700 million to promote the manufacturing of multi-day boats and fishing vessels, purchase of mother vessels and training facility for fishing for export markets. The Ocean University will be developed to train required skills.
- I propose to allocate Rs. 100 million for the promotion of prawn farming in Puttalam, and Batticaloa districts.
- I propose to develop a state of the art fish market complex at Paliyagoda in place of St John's fish market in Colombo. Rs. 500 million is proposed for this project.
- In order to promote ornamental fish projects I propose to allocate Rs. 50 million to set up an Ornamental Fish Exchange.

(xvii). Textile Processing Industry

- I propose to write-off the non-paid debt of the local textile manufactures that have registered for textile industry restructuring. Rs. 350 million will be allocated for this programme.
- In order to promote domestic value addition, I propose to set up dedicated textile zones at Thulhiriya and Horana to start large-scale textile factories with BOI incentives.
- A collage of textile and clothing will be set up in Thulhiriya with Rs. 250 million in 2006 to train professional managers, qualified services providers and skilled workers for apparel and textile industry.
- I propose to promote a new mega-shopping centre at Katunayake to promote a regional apparel hub.

(xviii). Kantha Diriya

- In order to promote small and medium handloom manufactures, a core-group of 250 enterprises manufacturing high quality giftware and handloom will be developed in order to create about 20,000 employment opportunities to rural women. Rs. 75 million will be allocated for this initiative.
- I propose to exempt the required machinery and technology for handloom from custom duty and VAT.

- I also propose yarn and dyes used by handloom industry be exempted from VAT.

(xix). Up-market Tourism

- I propose to allocate Rs. 100 million to develop Trincomalee, Habarana, Polonnaruwa areas as a dedicated natural tourism zone providing eco-tourism products.

(xx). Printing and Packaging industry.

- In order to reduce high cost of local printing and packaging services, 15 percent duty on all categories of imported paper has been reduced.
- Import duty on packaging material have also been reduced.

(xxi). Transport

- I propose to allocate Rs. 75 million to subsidize the cost of interest to provide a concessional credit scheme to assist private bus operators to replace their own buses.
- Excise duty of 5-15 percent for motor-bicycles have been removed to assist field level officers, Samurdhi Development Officials, media personnel etc. to purchase motor-bicycles at affordable prices.
- Import duty on tyres used in three wheelers is reduced from 25 percent to 15 percent to provide relief for three wheeler operators.

(xxii). Gama Nagma

- I propose to allocate Rs. 1,000 million to commence Gama Nagma programme aiming at empowering our village development programme through community participation.

(xxiii). Renewable Energy for Rural Electrification

- In order to provide electricity for 300,000 rural household within the next 3 years Rs. 500 million has been allocated to promote renewable energy sources.

(xxiv). Construction Industry

- I propose to implement a Credit Guarantee Scheme for construction company to import modern machinery and equipment on concessionary financial terms. Rs. 200 million is provided to subsidize interest costs.
- In order to reduce the upfront cost, construction machinery and equipment will be exempted from custom duty and VAT.
- To promote the domestic construction industry Lanka Putra – reconstruction and development Bank will be established.
- I propose to remove VAT on unprocessed timber logs to help local saw mill operators, construction industry, furniture manufactures and protect our natural forest.

(xxv). Research and Development

- Rs. 300 million will be allocated to the National Research Council to promote scientific research and innovation facilitation network with the University of Moratuwa.
- Rs. 75 million will be allocated for capacity building and policy research for economic and foreign relations to the Foreign Ministry.
- It is proposed to allocate Rs. 50 million to set up an academy to carry out studies relating to labour relations.
- Rs. 50 million is allocated to set up a Tax Academy to promote the quality of the knowledge of taxation.
- Import duty on computers and accessories have been removed to popularize the usage of computers and promote “Nana Sala” Programme.
- Special excise tax on mobile phones have been removed to reduce the cost of mobile phones.

(xxvi). Taxation

Mr. Speaker, all revenue proposals are enumerated in Annexure I to this speech. I will spell out some key proposals.

- VAT on financial services will be fixed at 20 percent as banking profits has grown up substantially – expected revenue is Rs. 2,700 million
- At present VAT collection is made on a 3 month interval. It is proposed to reduce this to one month to improve the cash flow operations. Expected improvement of revenue is Rs.1,500 million
- Company tax rate will be unified at 35 percent and the prevailing concessionary tax rate for quoted companies will be limited to 5 years from the date of listing. The revenue expected through this revision is Rs. 2,700 million.

- I propose certain changes to strengthen taxation and address complexities in the transfer pricing and thin capitalization. This will raise Rs.550 million
- The Social Responsibility Levy will be increased from 0.25 percent to 1 percent to generate Rs.1,000 million which will be earmarked for the National Action Plan for Children.
- Reintroduction of Stamp Duty in respect of instruments and documents other than those which are subject to the Port and Airport Development Levy, debit tax and share market transaction. This is estimated to generate Rs. 3,700 million.
- Economic Service Charge will be revised while providing relief to distributors and small tea factory owners. Expected revenue is Rs. 1,000 million.
- Betting and gaming levy will be raised - to Rs. 300,000 for live telecast centres and Rs. 50,000 for non-live telecast centres. Income tax rate applicable to income and profits from business of gaming and auto lotteries will be fixed at 40 percent. These centres will be relocated within 5 years in designated areas outside Colombo. A revenue of Rs. 300 million is expected from this measure.
- In order to reflecting a realistic trading margin, the mark-up on the CIF for charging VAT at customs is revised to 7 percent. Expected revenue from this change is Rs. 2,000 million
- Customs tariff and cess on certain commodities have been revised and the relevant gazettes specifying these changes have been gazetted. The expect net revenue is around Rs. 3,500 million
- The prevailing PAL of 1.5 percent on items other than goods imported for the use of exports is raised to 2.5 percent. Expected revenue is Rs.2,500 million from this measure.
- In addition to the increase of excise duty on the 8th of November 2005, I have further increased excise duty on liquor and cigarettes. Total revenue from these two revisions is Rs. 4,300 million. I also propose a 50 percent increase in the annual license fees on liquor sale outlets to raise Rs.400 million.
- I also propose to create a Rs. 500,000 tax slab for 30 percent tax rate and highest tax rate is fixed at 35 percent for personal income taxation to keep in line with the changes proposed for corporate income taxation. I have also incorporated certain adjustments for tax on employment income of non-citizens working in Sri Lanka. Expected revenue from these change is Rs. 450 million. Adjustments to taxation on non residents will yield Rs. 150 million.

- The additional revenue expected through various tax administrative measures mentioned in Annexure I is projected at Rs. 1,750 million.

(xxvii). Salaries of Public servants

- I propose to grant a Rs.1,000 monthly cost of living allowance to all public servants including the members of the Police and armed services from January 2006. This allowance will be adjusted every 6 months according to the cost of living index with adjustments of Rs.2.50 per unit change.
- I also propose a new salary structure recommended by National Council for Administration be implemented from January 2006. However, 50 percent of the increase will be paid in 2006 and the balance will be paid in 2007. These two measures will ensure a minimum salary increase of Rs. 1,300 from January 2006. The salary increase is shown in Table I to the Annexure I. Budgetary provision will be raised by Rs.9,600 million to meet salary expenses.
- I recommend public servants including the members of the Police and armed services be permitted to en-cash maximum of 30 days unutilized leave each year. Male public servants will be given 3 days special leave on the birth of their child.
- Housing loans provide for public servant through banking system will be extend to members of the police and armed forces and will be raised to 7 years of salary subject to a maximum of Rs.3 million. Vehicle loans will also be provided through banking system from 2006.
- I also propose to give concessionary duty of 25 percent for eligible public servants to purchase petrol vehicles with engine capacity below 1,500cc. In view of high subsidy and environment cost, diesel vehicles will be subject to 40 percent duty.

(xxviii). Pensioners

- I propose to grant Rs. 500 Cost of Living Allowance (COLA) to all pensioners and adjust it every 6 months as in the case of public servants .
- I propose 10 percent increase on the unreduced pensions from 1.1.2006 subject to a minimum of Rs. 500 and maximum of Rs. 1,250 per month. Therefore, all pensioners will get a minimum increase of Rs. 1,000 pr month from these changes.
- I propose to extend the benefits provided through P.A Circular 06/2004 to who retired before 01.01.1997. However, arrears will not be paid and 50 percent of

the increase will be paid in 2006 and the balance will be paid in 2007. An allocation of Rs. 4,500 million will be made to meet these expenses.

(xxix). Crime Prevention

- A special allocation of Rs. 900 million for the Police department is proposed to promote community policing and to install electronic surveillance system in Colombo and undertake sea surveillance mechanism to reduce drug trafficking.

(xxx). Disaster Risk Management

- In the context of increased natural disaster risk Rs. 200 million for National Council for Disaster Management and Rs. 400 million to develop Meteorological surveillance radar system are proposed.

(xxxi). Management of Public Funds

- A special management committees will be appointed to effectively monitor and ensure efficient use of such funds for specific development activities permitted under such funds

(xxxii). Agrahara Insurance Trust

- Mr. Speaker, a new insurance trust will be set up to manage the Insurance Schemes for public servants, pensioners and migrant workers. The insurance premium collected from public servants including members of the Police and the armed forces and pensioners will be credit to this fund.

26. Mr. Speaker, the Government has mobilized nearly US\$650 million for development in the North and East for the next 3 years. The Government itself provides about Rs. 4.5 billion in 2006 budget to improve living conditions of people in these areas. Most of the projects relate to the development of health and education facilities as well as the reconstruction of housing, roads and restoration of irrigation, electricity and transport in order to effectively enhance the livelihood conditions of the people in these areas. However, the progress achieved in these areas seems inadequate to provide peace dividend to the people. Therefore, I propose to accelerate the development work in the North and East with special interest.

27. Mr. Speaker, let me invite the attention of this house to some important incentives proposed in this Budget. In order to set up at least one industry in each divisional secretariat area and expand the industrialization outside Colombo and Gampaha, I propose 5 – 10 year tax

holidays and other incentives depending on the level of investment for any investor starting a new enterprise outside Colombo and Gampaha districts. These incentives will be available for relocation of industries as well. Further, as an incentive to promote SMEs, advance technology based industries can import plant and machinery free of duty. Agro based industries using locally cultivated grains and other industries involved in processing fruits and vegetable are given incentives including VAT exemption. The company tax rate for SMEs is reduced to 15 percent and co-operatives to 5 percent. Depreciation allowance will be increased to 1/3 on plant and machinery to assist industries such as health care, printing, gem cutting, polishing, packaging and rice milling to improve their technological advancement. The excise duty, on local car manufactures with 30 percent value addition has been removed to encourage local industries. Therefore, I invite the business community in this country to use these incentives and expand their investments to uplift our rural economy including the areas in the North East provinces and Tsunami affected coastal belt.

28. Mr. Speaker, this Budget also offers incentives for professionals in this country to encourage them in foreign currency earnings. Their income from such earnings has been made tax free. I also propose to issue foreign currency denominated Treasury bonds with maturity period of 3 to 5 years for professionals and Sri Lankan living overseas to invest their earnings for the benefit of our country. Therefore, I request all professionals and Sri Lankans living abroad to make use of these incentives and help my efforts towards building a new Sri Lanka.

29. Mr. Speaker, relief offered in this budget are essentially for those who deserve it. Fertilizer is offered to paddy and vegetable farmers who earn much lower income than other agriculture producers. Nutritional food and other relief are also targeted to the poorer segment of our society. Fuel subsidy will be given to three wheeler operators, public transport and fisheries sector in order to ensure Budgetary expenditure of Rs. 3,000 million on such subsidies will provide relief to low income groups only. My revenue proposals include some new measures, in addition to the proposals already announced on the 8th of November in this house, in order to meet those additional expenditure connected with the farming agriculture and new poverty alleviation initiatives particularly in respect of mothers and children in poorer districts. Further, the Treasury has observed over-provisions for some selected expenditure programmes due to capacity limits in implementation. Such expenditure which amounts to 6 percent of public investment will be frozen and remain as standby provisions. Therefore, the overall non-tsunami related budget deficit will be Rs 197.3 billion which is 7.3 percent of GDP as shown in annexure II. This deficit will be

reduced gradually to around 5 percent by 2008. Towards this Government revenue will be raised to 19 percent of GDP.

30. Mr. Speaker, we have embarked on a massive development programme towards building a new Sri Lanka – a nation fully committed to develop a national economy. In this context our special attention must be paid to accelerate the reconstruction work in the North and Eastern provinces as well as Tsunami affected coastal belt as the people in these areas have gone through immense hardships. Farmers, fisherman, SMEs, workers, industrialists, business community, civil society and all of us must commit ourselves for hard work and create a better future for our children.
31. Mr. Speaker, before I conclude my speech I thank the Secretary to the Treasury and all the officials in the Ministry of Finance and Planning for their untiring work with me in preparing this Budget.

I Thank you all

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Annexure 1

.1.1.1.1.1.1

.1.1.1.1.1.2

.1.1.1.1.1.3 BUDGET PROPOSALS

1. Religious Development

The highest priority of the Government will be given to create a virtues society by inculcating religious values among children. As such, it is necessary to enhance the teaching skills of teachers of religious/dhamma schools of all religions through residential training programs, so that their knowledge can be imparted to children more effectively. Many religious places particularly in remote districts have been neglected due to lack of funding and they need to be rehabilitated. Therefore the following incentives are offered;

- a. An annual book allowance of Rs.2,000 to every religious/dhamma school teacher to purchase teaching material.
- b. An allocation of Rs. 200 million for the conservation and rehabilitation of temples, kovils, mosques and churches of significance.

.1.1.1.1.2

2. Art and Culture

Having taken into consideration, the richness and diversity of the Sri Lankan cultural milieu, following assistance are proposed to further enrich art and culture as part of our development of the tradition of performing arts.

- a. Exempt the Tower-Hall Foundation from income taxes including withholding tax on interest income and VAT on services provided by the Foundation.
- b. Setting up a Kala Nikethanaya in the hill country to provide a venue for artists to engage in creative efforts and spend time on research and other academic work in an eco-friendly environment. For this purposes Rs. 50 million will be allocated.
- c. The construction of National Film Academy with assistance from the UNESCO.
- d. Completion of a modern Performing Arts Theater in Colombo with assistance from the Government of China.
- e. Imposition of a levy of Rs.75, 000 for each foreign tele-drama/ foreign film other than documentaries of educational interest, telecast by Sri Lankan television stations with a view to promote the local film and tele-drama industry. Receipt from this levy will be credit to a Fund dedicated for the development work of the local film and tele-drama industry.

.1.1.1.1.2.1.1.1

3. Incentives for Media Personals

Media personnel play a key role in the promotion of Sri Lankan values and best practices in areas of mass communication and journalism. In order to develop their capacity and carrier prospects in professional journalism, the following incentives are offered;

- a. Concessionary credit facilities to purchase computers, media equipments, motor bicycles, which will be made available free of custom duty and VAT.

- b. Financial assistance for young journalists to develop their professional skills in learning institutions.

In order to meet the expenses of above measures, Rs.75 million will be allocated to the Ministry of Information & Media.

4. Mothers and Children

The Government places a special thrust on mothers and children. Considering nutritional deficiencies prevalent among mothers and children, as well as among children affected by the Tsunami and conflicts, the following measures are proposed;

- a. Nutritional food free of charge together with medical advice and related services at rural hospitals, for expectant mothers.
- b. A monthly allowance of Rs.200 to purchase milk for children up to 5 years of age.
- c. School meal programme for children in less advantaged schools.
- d. A 'Senehasa' bank account to be opened for each child who has lost a parent consequent to the Tsunami or the conflict in the North and East and Rs. 1,500 to be credited monthly into each such account to be maintained either at bank of Ceylon or Peoples Bank.

The selection of relevant rural hospitals and schools will be made in accordance with the poverty index ranking of divisional secretary areas, maintained by the Department of Census and Statistics. Professionals in health and educational services are invited to design special childcare programmes for eligible children in such disadvantage areas. The Government proposes to allocate Rs. 1,500 million in addition to Rs.1,000 million already provided in 2006.

.1.1.1.1.2.1.1.2

5. Concessions for Homes for Children, Elderly and Differently Able Persons

Charitable organizations dedicated to important social services such as managing elderly homes, children's homes, homes for differently able persons etc. are providing a very useful service at least cost to society. It is proposed to provide the following incentives to such organizations;

- a. Financial aid to assist all such homes to be refurbished during the next year.

- b. Interest income of such homes will be exempt from income tax and as such banks will not deduct the 10 per cent withholding tax.
- c. 'Rakawarana Niwasa' - home will be established for physically disabled persons who do not have shelter, to provide vocational skills to ensure them better living standards.
- d. The allowance granted to differently able persons, will be suitably increased.
- e. Artificial limbs crutches, hearing aids, and other appliances used in the case of a disability, will be exempted from duties, taxes and other fiscal levies including Port and Airport levy.

An allocation of Rs.200 million will be provided for the above measures.

6. Quality Health System for the Less Privileged in the Country

The Health Cluster of the NCED has made a series of recommendations to streamline a high quality health care system, aimed at improving free and fair access to healthcare at all levels to less privileged people in our country. Towards this the Cluster has identified a series of legislation relating to mental health, blood transfusions, national drugs, medical research etc. and recommended the formulation of a school health policy and the recruitment of public health midwives. 17 hospitals in Kuliyaipitiya, Puttalam, Dambulla, Diyatalawa, Mahiyangana, Mannar, Kantale, Kalmunai, Point Pedro, Thellipalai, Avissawella, Homagama, Wathupitiwela, Horana, Panadura, IDH, Balapitiya and Embilipitiya are to be upgraded as functional district base hospitals. In order to attract specialized doctors into these hospitals, vehicles and residential facilities will be provided. An allocation of Rs. 300 million is recommended for this programme.

7. Livelihood Development through Samurdhi

As a part of our Government's commitment to reduce poverty and increase income of the poor, new livelihood generation activities such as dairy farming, out-grower arrangements for fruit and vegetable cultivation, sub-contracting arrangements for industrial work and micro credit schemes for self-employment will be created. Following measures are proposed to transform the 'Samurdhi' programme into a major rural development programme:

- a. On the basis of Rs. 10 million per Divisional Secretary area, the Government will allocate Rs. 3,000 million from January 2006 to enable 'Samurdhi' beneficiaries to

earn supplementary income up to Rs. 5,000 per month, by engaging them in self-employment and community based infrastructure projects.

- b. As an initiative to facilitate ‘Samurdhi’ Development Officers to become effective and extensive service providers, a concessionary loan will be provided to every such officer to purchase a motorcycle.
- c. ‘Samurdhi’ monthly allowance will be increased by 50 percent with effect from next year. An allocation of Rs.3,000 million is provided for this purpose.
- d. Death assistance will be increased from Rs. 5,000 to Rs. 10,000 and the child birth allowance will be increased from Rs. 2,500 to Rs.5,000.

In order to strengthen these social safety measures, the Samurdhi Sahana Arakshana Fund will be strengthened so that such measures will not become a burden to the annual budget.

8. Yovun Diriya

The ‘Yovun Diriya’ programme will aim at creating employment opportunities to 50,000 youth during 2006 and a further 50,000 during 2007. Vocational training institutes and skills development organizations will intensify skills enhancing programmes to improve the employability of such youth. The following measures are also proposed:

- a. 10,000 graduates will be recruited during 2006 to fill expected vacancies in skills categories in various Government organizations.
- b. A new scheme will be implemented to accredit skills providers in masonry, carpentry, electrical, plumbing and other technical fields. They will be provided the required tools and equipment, as initial capital. A separate directory will be compiled providing information of such accredited skills providers under the ‘Yovun Diriya’ programme.

A sum of Rs.1,000 million will be provided for this programme.

9. Foreign Employment

Overseas markets have become an employment sources for Sri Lankans. Earnings from overseas employment are around US\$1,500 million per annum. The Government proposes to secure 150,000 overseas employment opportunities in 2006 on the basis of agreements already entered into by the Foreign Employment Bureau. The possibility of entering into

more such agreements will be explored to increase overseas employment opportunities. In order to secure well-paid employment opportunities, special training programmes will be developed in areas such as nursing, shipping and computer science. Nursing collages will be setup to train nurses for foreign employment. As an incentive to startup self-employment business activities, returnees after two years of continuous employment abroad will be given an a special duty free allowance (non-baggage) up to US\$5,000, on the basis of the period of stay abroad. They will be entitled to utilize this allowance within 6 months from the date of their return to Sri Lanka to startup a self-employment project or a venture recognized under approved guidelines.

10. Estate Infrastructure Development and Community Welfare

As I explained earlier, consistent with the MDG strategies, the Government has prepared a 10-year development plan for the estate sector. Accordingly, the Plantation Development Trust will concentrate on water supply, pre-schools, child development and sports. All development work of estate sector hospitals and schools will be undertaken through relevant the Provincial Councils. In addition to the already earmarked Rs. 1,641 million in the annual budget estimates, a further Rs. 2,000 million will be allocated in order to give priority for the rehabilitation of estate roads and development of 50,000 housing units in the estate sector. A vocational training college will be setup next year in Nuwara Eliya and the feasibility of setting up a separate university is also being explored.

11. Low Income Urban Housing Development

Housing needs of low-income families in urban areas must be addressed as a matter of priority. There are about 60,000 shanty dwellers in Colombo and the suburbs alone, living in absolutely unsatisfactory sanitary and environmental conditions. In order to provide them decent housing facilities and improve their living standards, it is proposed to setup a new Urban Housing Development Corporation to implement a dedicated housing development programme for urban shanty dwellers. Rs 500 million will be allocated to commence this programme in 2006.

12. Agriculture

The provision of inputs such as credit, fertilizer, quality seeds and planting material at affordable prices and the channeling extension services are essential to promote the rural agricultural economy.

a. Fertilizer

Our Government has already decided to provide fertilizer of all varieties at Rs. 350/per 50kg bag. The fertilizer subsidy allocation will therefore be increased to Rs. 8,500 million from Rs. 6,200 million. This subsidy will be directed for paddy and vegetable cultivation to ensure that small farmers will benefit from such assistance. Additional incentives will be offered for organic fertilizer users. Testing facilities and quality control mechanisms will be setup at the Customs to prevent the importation of substandard chemicals.

b. Seeds

Horana, Seetha Eliya, Giranduru Kotte and Labuduwa seed farms and Maha-Illuppallama Field Crop Research Institute will be developed to provide quality seed and planting material suitable for specific geographical and climatic conditions. An allocation of Rs. 300 million will be made for this purpose.

c. Credit

Credit channeled by our banks to the rural agricultural sector is grossly inadequate. Despite increased savings deposits from the rural economy, the share of agricultural credit has declined from 6.3 percent in 1995 to 4.7 percent in 2004. Therefore, banking regulations will be amended to make it mandatory that credit extended for agriculture, including processing be increased to 10 percent of the total credit during the next three years.

d. Paddy Marketing Board and Guaranteed Prices

The Paddy Marketing Board (PMB) will be re-established with an initial capital of Rs. 2,000 million. Funds already with Government Agents will be utilized for this purpose. All Government storage facilities scattered all over the country will be assigned to the PMB. The guaranteed price of paddy will be raised to a range of Rs. 16.50 – 17.50/kg from the forthcoming ‘Maha’ harvest.

e. Dedicated Agricultural Product Zones

Sri Lankan tropical fruits such as Mangusteen, Orange, Durian, Papaya, Rambutan and Pineapple are concentrated in specific districts with unique environmental surroundings. Therefore Crop Zones will be established to ensure providing the required technical and extension facilities and improve the marketability of such products in export markets. It is proposed to allocate Rs. 160 million for this project.

f. Quality Improvements in Agriculture

Sri Lanka's image as one of the top 25 bio-diversity spots in the world needs to be protected and promoted. Therefore, an allocation of Rs. 415 million will be provided for the implementation of a National Organic Standards and Certification Programme to enhance organic agriculture and the establishment of an Irradiation Plant to ensure sterilization purposes to improve product quality and also to improve packaging methods and transportation for the reduction of post harvest losses.

13. **Plantation Agriculture**

A national plan for the development of the plantation sector, which has been formulated by the Plantation Ministry in consultation with the relevant stakeholders, will be implemented from next year. This plan envisages the development of plant nurseries, factory modernization for efficient processing, replanting and new planting programmes for tea, rubber, coconut and other crops and measures to promote crop diversification and soil conservation. Towards this, the following proposals are suggested;

- a. Setting up of a Rs. 10 billion revolving fund, which will be started with Rs. 1,600 million currently available in the stabilization fund. This fund will provide required funding for development activities in the plantation sector with special emphasis on smallholder plantations.
- b. Excess urban land and property owned by the Plantation Ministry will be developed on a commercial basis, to ensure a regular flow of funds to the revolving fund.
- c. Replanting and new planting subsidies will be increased by 25 percent for tea , rubber and coconut cultivation.
- d. Coconut cultivation will be developed in Mahaweli areas, Galle, Matara, Hambantota, Gampaha, Kurunegala and Puttalam districts.
- e. 20,000 hectares of rubber plantation will be developed in the Monaragala district.
- f. Economic Service Charge (ESC) on tea, rubber, and coconut processing factories will be reduced from 1 percent to 0.5 percent to encourage factory modernization.

- g. Development work of the Kantale sugar factory will be commenced immediately along with the sugar cultivation and such work pertaining to Hingurana will be commenced within the next 3 month to revive the livelihood of these areas.
- h. High yield seed clone gardens will be established in Maha Oya, Anuradapura and Monaragala to encourage Cashew cultivation and new Cashew auctions will be introduced in Puttalam and Vavuniya.

An allocation of Rs. 700 million will be made to facilitate these activities.

.1.2

14. Livestock Development

This industry has shown a remarkable revival after the UPFA Government implemented related new policy initiatives in 2004. At grass roots level the “Kiri Gammana” programme has shown considerable expansion. Large investments have also been undertaken by private sector entrepreneurs. In order to provide further incentives to increase local milk production and promote food security in the county, the following measures are proposed.

- a. Producer price of milk will be raised to Rs. 25-30/Lt. range to give a remunerative price for dairy farmers.
- b. A special concessionary credit scheme will be implemented in order to assist dairy farmers to purchase cows producing a high yield of milk.
- c. Milk processing machinery will be exempt from import duty and VAT.
- d. The prevailing duty waiver on imported milk powder will be gradually reduced so that local milk producers will get required protection from international competition.

15. The Mahaweli Economy

Our Government will remodel the Mahaweli economy to promote commercial ventures in high value added activities such as diary, inland fisheries, community tourism and new urban development programmes to increase its contribution to 3 percent of GDP from the present level of 1 percent of GDP and to ensure employment for the second generation of the Mahaweil population. A special SME credit scheme dedicated to 500 SMEs in the Mahaweli area will be implemented to create high-tech export oriented agro-processing industries including high quality rice milling. The creation of a Mahaweli economy requires a seed capital of Rs. 700 - 1,000 million over the next 3 years. Therefore, an allocation of

Rs. 200 million will be provided to commence initial work in 2006. This new economy will be linked to the greater Dambulla township development programme, to promote Dambulla as a central hub city.

.1.3

16. Fisheries Sector Development

There is an urgent need to restore our annual fish production, which badly suffered due to the Tsunami. There is also a capacity constraint in tapping deep-sea fishing due to inadequate multi-day boats and fishing vessels. Therefore a Fishing Promotion Fund will be established and Rs. 700 million will be allocated for the following measures;

- a. Develop the multi-day boat manufacturing industry and provide easy payment schemes for fishermen to purchase such boats and the operation of a mother vessel for offshore and deep-sea fishing.
- b. Provide training facilities for fishing for export markets.

Recognizing the need for enhanced customer care and hygienic standards, it is important that a state-of-the-art fish-market complex be developed in place of Central Colombo -St. John's Market. This complex will be setup in a 10-acre block of land at Peliyagoda. Rs. 500 million will be allocated as an initial capital investment.

In the fisheries sector, there is also a great potential to promote self-employment and high value added exports through ornamental fish projects. In order to promote and popularize this activity, an ornamental fish exchange will be set up. An allocation of Rs. 50 million is recommended for this project.

Prawn farming has been revived in the Puttalam district. The Dutch Canal rehabilitation project is being implemented to increase its farming tolerance level up to 60 percent, to restore shrimp farming. In addition to improve infrastructure in the Puttalam district, this industry can be expanded in the Batticaloa district Therefore Rs. 100 million will be allocated for shrimp farming projects, in 2006.

.1.3.1.1.1

17. Textile Processing Industry

Sri Lanka is a net importer of textiles to a value of over US\$ 1.5 billion a year. Since last year, Government has started to procure uniform material for school children and the armed forces from local manufactures. It is therefore necessary to revive the textile industry by

completing the ongoing textile industry debt-restructuring programme. It is expected that on a risk-sharing basis between the banks and the Government, this programme can be completed at a cost of approximately Rs. 350 million in 2006. The entire requirement of uniform material for school children and the armed forces will be procured from local manufacturers.

The local supply of fabrics to the apparel industry has increased from virtually zero level to around 30 per cent. If textile processing is further promoted locally, the overall value addition in the apparel industry can be increased substantially and also reduce the cost of imports. Textile mills require a ready supply of water, a stable supply of power and efficient effluent treatment plants. Therefore, Thulhiriya complex will be developed as a dedicated textile zone in addition to the Horana Textile Processing Zone. Establishment of more textile processing factories will also be encouraged. All BOI incentives currently available will be extended to these two zones.

.1.3.1.1.2

18. College of Textiles and Clothing

The next phase of the Textile and Apparel industry in Sri Lanka needs the contribution of professional managers, technically qualified service providers and skilled workers, to manufacture quality products. The absence of a proper institute to train such persons in the SAARC region provides good prospects for Sri Lanka to exploit the opportunity of becoming the regional training provider. Therefore, a “College of Textile and Clothing” will be established at Thulhiriya, which would link up with relevant international institutes to offer globally recognized degrees and diplomas. The estimated cost of this project is US\$ 7.5 million over a 3-year period. An allocation of Rs. 250 million will be provided in 2006, to commence initial work.

19. A Regional Apparel Hub

Sri Lanka’s locational advantage coupled with the strength of the apparel industry provides an excellent opportunity for it to become a viable apparel hub for the region. Furthermore, large investments can be encouraged in the new mega shopping malls, which are being setup by creating a positive environment for the apparel market. In the context of declared Government policy to promote the domestic industry to reach higher echelons, a new apparel hub will be set up in Katunayake to expand the domestic apparel market subject to the requirement of having to maintain the minimum export quantum and liable to VAT.

.1.4

20. ‘Kantha Diriya’– Giftware and Handloom Industry

Hand-woven fabric products as well as giftware items are fast becoming popular among up-market consumers. A national strategy focusing on training, product designing, market promotion and organizing buyer-seller markets for the handloom industry has been designed to make it a Rs.1 billion industry and provide over 20,000 employment opportunities. Small and medium handloom manufactures scattered around Colombo, Ampara, Kurunegala, Kegalle and Kandy will be clustered under “Kantha Diriya” self-employment programme to link them with well established manufactures to train weavers and designers and harness local raw material. A core group of 250 small and medium scale enterprises manufacturing high quality giftware will be promoted to popularize a Sri Lankan traditional giftware collection among tourists. Rs. 75 million will be provided for this initiative. The required machinery and technology will be provided duty and VAT free under the advanced technology package. Yarn and dyes will be exempt from VAT in order to support the handloom industry.

.1.5

21. Up-market Tourism

In the quest for up-market tourism, our country will require high-end niche products that will attract travelers. Natural tourism such as bird watching, trekking, agro tourism, exploring wild life and whale watching could be added into the eco tourism product list. The establishment of elephant observation facilities in the Trincomalee, Habarana and Polonnaruwa areas can be operated in tandem with whale watching facilities at Trincomalee. Greater Dambulla Development and the New Mahaweli Economy will move hand in hand with this project. Rs. 100 million will be allocated from the cess to promote this venture.

.1.5.1.1.1

22. Printing and Packaging Industry

The Sri Lankan printing and packaging industry should be promoted to maximize full benefits form emerging demands for high quality products. Therefore, the following incentives are proposed;

- a. Removal of the prevailing 15 per cent duty on all categories of imported paper to reduce the high cost of local printing and packaging.
- b. Establishment of a packaging development center that will be equipped with a testing laboratory aimed at enhancing value addition.
- c. Removal of prevailing anomalies of import duties by reducing the duty on raw material to a low rate band.

- d. Reduction of the duty of imported cans to 6 percent to enable local manufactures to be price competitive.

23. Private Bus Operators

There is an urgent need to assist local private bus operators to re-fleet their buses, since 40 percent of the bus fleet daily entering Colombo city is over 25 years old. Therefore, a concessionary credit scheme will be implemented to assist private bus operators to replace their old buses with new buses. This re-fleeting arrangement will improve the service quality and also reduce the maintenance cost. A sum of Rs. 75 million will be allocated to subsidize the cost of interest of this new scheme.

.1.5.1.1.2

24. Gama Nagma – Community Based Development

‘Gama Nagma’ programme aims at providing all basic infrastructure such as electricity, telecommunication, water supplies, feeder roads, health centres, pre-school facilities, marketing facilities, community facilities such as cemeteries, playgrounds and children’s parks to all villages in Sri Lanka, to improve their access to development. The provision of such facilities by local authorities has also been neglected. Therefore our Government will fund these projects to meet such requirements. While seeking external assistance on concessionary terms for this purpose, ‘Gama Nagma’ programme will coordinate with local authorities and promote active participation of the community to develop such facilities. An allocation of Rs. 1,000 million will be made to begin this programme from next year.

.1.6

25. Renewable Energy for Rural Electrification

Today there is a vibrant renewable energy sector, which has resulted in 74MW of grid connected renewable power generation. 75,000 households obtain electricity from solar systems alone. In order to promote these energy services to provide electricity at least to an additional 300,000 households within the next three years, the Government will provide a Rs. 10,000 subsidy in respect of each new renewable energy connection provided to rural households. Rs. 500 million has been allocated for this purpose. Further, a “Renewable Energy Support Bond” for Rs. 2 billion will be floated in 2006 through a development financing institution to provide financing to support rural electrification through such energy sources.

.1.7

26. Modernization of the Construction Industry

The revival of the local construction industry should be one of the major priorities in the context of our commitment to build our nation. In addition to strengthening the Construction Industry Guaranteed Fund, the construction industry should be equipped with modern machinery and equipment to ensure efficiency. Therefore, the following assistance is offered;

- a. Implementation of a Credit Guarantee Scheme to assist construction companies to import modern machinery and equipment on concessionary financing terms. Rs. 200 million will be allocated to subsidize the related interest cost.
- b. Large construction machinery and equipment imported, including those imported for crushing, will be exempt from customs duty and VAT during the next two years.

27. “Lanka Putra” Bank for Reconstruction and Development

A new bank will be setup to promote the financing of reconstruction and development programmes of small and medium infrastructure projects undertaken by Sri Lankan construction companies. US\$ 75 million currently available with the Private Sector Infrastructure Development Company will be absorbed into this new bank.

28. Innovation Facilitation and Research and Development Network

Government believes that facilitating innovation and generation of new ideas and transforming such ideas into commercial products is key to nation’s development. In line with the special request made by the former President to link Sri Lankan inventors and innovators to assist in the economic growth of the country, it is proposed to setup an Innovation Facilitation Network, which will be linked to the Inventors Commission and the University of Moratuwa. An allocation of Rs. 300 million will also be provided to the National Research Council to promote scientific research and develop a network with other research institutions.

.1.7.1.1.1

29. Institution for International Relations and Strategic Studies

There is fresh emphasis on the economic dimension of our foreign relations in a rapidly globalizing world of technology and knowledge economy. In this regard, capacity building and policy research are of high priority. Sri Lanka must use its economic and foreign relations to foster its own niche markets. For this purpose, a new institution is being created

to focus on international relations and strategic economic issues. Rs. 75 million will be allocated for this initiative.

.1.8

30. Academy of Labour Relations

The promotion of harmonious labour relations in work places is essential in order to promote productivity and industrial peace. In this context a tripartite partnership needs to be established to motivate all stakeholders in development. As such, an academy to carry out studies and conduct seminars and workshops on labour related issues would be established. This academy will work closely with the National Productivity Secretariat, Trade Unions and the Trade Chambers through a consultative process. It is proposed to allocate Rs. 50 million for this purpose.

.1.9 TAXATION ISSUES

.1.9.1.1

31. Tax Exemption for “Under 19 World Cup 2006”

Sri Lanka has been chosen from among many cricketing nations as the venue for this event, in which 16 countries including Sri Lanka will participate. It will be held in Sri Lanka from 31st January to 21st February 2006 and is expected to draw a large gathering of fans. All such international events will be exempt from tax in order to promote such events being held in Sri Lanka.

.1.9.1.2 Income Tax

32. Corporate Income Tax

In view of the emphasis of the Government on rural and agricultural sector development and Small and Medium Enterprise development, and also taking into consideration the revenue needs of the Government, the following changes are proposed with effect from April 2006;

- a. Reduction of corporate tax rate on Cooperative Societies from 20 percent to 5 percent.
- b. Reduction of tax rate on SMEs of which taxable income does not exceed Rs. 5 million, from 20 percent to 15 percent.

- c. The tax rate applicable to companies of which taxable income exceeds Rs. 5 million to be increased to 35 per cent. However, as an incentive for capital market development, the tax rate for newly quoted companies will be 33 1/3 for the first 5 years following the quoting. Tax Contribution to the Human Resources Endowment Fund will be incorporated into the corporate tax rate.
- d. Tax rate applicable to income and profit from the businesses of gaming and auto lotteries will be fixed at 40 percent.

Rs.2,700 million is projected as additional revenue from this revision.

33. Personal Income tax

- i. In line with the corporate income tax revision, a new slab of Rs. 500,000 will be created for the 30 percent rate band and the balance income will be taxed at 35 percent under personal income tax. The proposal will improve the progressiveness of our tax system.
- ii. In 1970s, when our country lacked relevant expertise, a 15 percent concessionary tax was introduced for non-citizens employees, employed in Sri Lankan companies. The situation has since changed and local expertise are now available in almost all disciplines. The following amendments are therefore proposed:
 - a. To retain the 15 percent tax rate for the first 5 years in the case where the employer is a flagship company and for the first 3 years in the case of other companies.
 - b. Thereafter, where the employer is a flagship company such tax rate will be raised to 20 percent for the next 5 years or for the period up to the end of the tax holiday applicable to the company whichever is earlier and in the case of other companies the rate will be 20 percent for the next two years.

A sum of Rs.450 million is projected from this proposal.

34. Social Responsibility Levy (SRL)

A 0.25 percent cess on all taxes (other than VAT, PAL, Debit Tax and withholding tax on interest and dividend) has been imposed under the Finance Act to fund the National Action Plan for Children. Since the Government is giving highest priority for the betterment of

children, it is proposed to raise an additional Rs. 1,000 million so that a larger number of children could benefit. It is therefore, proposed to raise this cess to 1 percent.

35. Tax Incentives for Agriculture

As our Government is committed to encourage more investment in agriculture including processing activities, further incentives are proposed to cover profits from processing primary produce. As such, the following are proposed;

- a. In addition to the exemption given to agricultural income as provided for in the 2005 Budget, profits from processing primary produce will also exempt from income tax in order to promote the processing of fruits and vegetable.
- b. Removal of the present 15 percent tax on income from exporting agricultural produces such as fruits, vegetable, rice, cut flowers, foliage plants and organic agricultural produce.

.1.9.1.1.3

36. Development of Less Developed Provinces

Wealth creating economic activities is at present concentrated mostly in the Colombo and Gampaha districts, thus leading to economic disparities. In order to reduce such disparities, 300 industries will be setup all over Sri Lanka with at least one industry for each divisional secretary area. With the new opportunities now available from Free Trade Agreements with India and Pakistan and the market access to the European Union for over 7,000 products, marketing the products of such industries will not encounter problems. Therefore, the following incentives will be given to any company setting up a new industry in any district other than Colombo and Gampaha with a capital investment of not less than Rs.30 Million, invested within 2 years from April 2006 in plant, machinery and buildings and also providing direct employment to not less than 200 persons;

- a. Income from such investment will be exempt from income tax up to a minimum period of 5 years and a maximum period of 10 years, depending on the value of the investment.
- b. Relief from income tax on the sums so invested.
- c. Interest income derived by any lending institution arising from any credit facility granted to companies for such investments will be exempt from tax.
- d. Any new plant and machinery imported for the use in such undertaking will be exempt from any duties and VAT.

Any undertaking at present operating in Colombo or Gampaha districts, if relocated in any other district, will in addition to these incentives be permitted to claim the cost of relocation as a deduction for tax purposes, provided there is no reduction in the number of people already in employment. To ensure speedy implementation, Divisional Secretaries will be assigned to provide land for these industries.

37. Incentives for Advanced Technology Based Industries

There are certain industries such as health care, printing, gem cutting and polishing, packaging and rice milling requiring to keep pace with rapidly changing technological advancements if they are to remain competitive. Therefore in respect of these industries the depreciation allowance will be increased to 33 1/3 percent on their plant and machinery. As a further boost to these industries, import duty on such machinery will be exempt under the supervision of the relevant Ministries and Agencies. The scheme providing Small and Medium Enterprises to acquire advanced technology and improve the quality of their products will be extended until December 2007. In order to assist a larger number of SMEs, the applicable investment limits will be reduced from Rs. 5 million to Rs.2 million.

38. Exemption of Annuities Tax for Senior Citizens

All statutory retirement funding plans currently available to private sector employees make lump sum payments to employees at their retirement, with no provision for a lifetime income. Most individuals do not have the expertise to convert such lump sum receipts at retirement into secured incomes for life. With the growing proportion of senior citizens in our society, there is a need to encourage savings among the elderly. Therefore it is proposed to exempt from income tax, the totality of any annuity purchased in order to promote income plans for retirees. Banking and financial institution should use this incentive to promote such products and encourage savings in our country.

.1.10

39. Incentives for Professionals

The existing policy is that foreign currency earnings of individuals and partnerships from professional activities, carried on outside Sri Lanka are exempt from income tax while such income earned within Sri Lanka is subject to tax at 10 percent provided that the foreign currency earned is brought into Sri Lanka through the banking system. As our professionals are fast emerging as global professional service providers, I propose that all professional services extended by Sri Lankan professionals in or outside Sri Lanka for foreign currency

to a person or partnership outside Sri Lanka be exempted from income tax. Companies offering such services in Sri Lanka for foreign currency which are currently liable at standard rate will be liable to a 15 percent tax inline with tax on export earnings while income earned outside Sri Lanka will continue to enjoy the tax exemption.

40. Treasury Bonds Denominated in Foreign Currency

It is propose to issue medium term Treasury Bonds denominated in foreign currency with a maturity period of 3-5 years and provide incentives to professionals to invest in such bonds, their foreign currency earnings that will be exempt from income tax. The incentive will take the form of an entitlement to import a vehicle of the professional's choice at a concessionary all-inclusive duty and tax rate of 25 percent on condition that the value of the vehicle cannot exceed 1/5th of the Bond value. The entitlement will become available as soon as the initial investment in made.

This entitlement will also be available to Sri Lankans living overseas, willing to invest their foreign currency holdings in such Bonds. A scheme will be developed to help professionals in the public service to engage in short term foreign assignments with a view to enabling them also to take advantage of this incentive.

.1.11

41. Shipping

Non-resident shipping companies are exempt from income tax in respect of their profits from transshipment activities while Shipping Agents in Sri Lanka are taxable at the standard rate in respect of the profits from their role in transshipment activities. This is unfair and as such shipping agents approved by the Director of Merchant of Shipping, will be taxed at 15 percent - the rate applicable to exports - in respect of profits attributable to transshipment agency fees, received in foreign currency.

At present there is no incentive for ships to be registered under the Sri Lanka flag as VAT is imposed treating the registration as importation. It is a standard international practice to exempt ships from all levies to encourage international transportation. It is proposed to exempt ships registered under the Sri Lanka flag from VAT in order to remove this disincentive.

.1.11.1.1

42. Transfer Pricing & Thin Capitalization

Transfer pricing is a mechanism adopted in relation to transactions between two related entities, so as to minimize the overall tax liability of the group of companies of which the two entities are members. The existing provisions of in the Inland Revenue Act are inadequate to apply the “arm length” principle that neutralizes the adverse effect of transfer pricing. It is therefore, proposed to incorporate in the tax statute, a legal basis to enforce the “arms length” principle. Thin Capitalization is another method adopted by a group of companies to minimize the overall tax burden of the group. It is proposed to discourage this practice through an adjustment to the interest paid by one member to another in a group of companies. Debt equity ratio of 2:1 in case the of manufacturing companies and of 3:1 in the case of others will be fixed for such adjustments. Additional revenue of Rs. 550 million is expected from removing this loophole in our tax law.

43. Taxation of Certain Non Residents

Section 77 of the Inland Revenue Act provides for the computation of profit of certain nonresidents carrying on business in Sri Lanka on a fair percentage of the turnover in circumstances where profit cannot be readily ascertained. Lack of clarity in the definition of the circumstances and latitude in the choice of the fair percentage clouds the desired transparency in tax administration. I therefore propose to further clarify this section by authorizing Commissioner General of Inland Revenue to ascertain relevant profit on the basis of an agreement entered into in advance between him and the relevant party, provided that the relevant party makes a declaration of his inability to disclose the relevant information. Once profits are ascertained in terms of such agreement, the profit should not be less than 6 per cent of the turnover in relation to activities connected with operations in Sri Lanka. Additional revenue of Rs. 150 million is expected from this measure.

44. Taxation of Interest from Banks and Financial Institutions

There have been many complaints from the financial sector that the requirements imposed on them in terms of existing statutory provisions are too complicated. Therefore, in order to help financial institutions and also to improve compliance, the mechanism will be modified as follows:

- a. Deductions of tax will not be made only if the depositor makes a declaration that his total income from interest does not exceed Rs. 9,000/- per month or Rs. 108,000/- per annum. Deduction of tax will not be made if the total interest from a bank branch does not exceed Rs. 1,000/- per month or Rs. 12,000/- per annum.

- b. Interest from which a deduction has been made at 10 percent, will not form part of the assessable income of an individual. The tax deducted will be considered as the final tax.

45. Corporate Debt Securities

While interest derived from banks and financial institutions is taxed at a flat rate of 10%, interest from corporate debt securities is taxed at the standard marginal tax rates ranging from 5% to 30%. In order to remove this discrimination against debt securities, interest from corporate debt securities will also be treated similarly to interest from banks.

46. Introduction of Stamp Duty

Stamp Duty was generating over Rs. 8,500 million revenue at the time it was abolished in 2002, and possessed a number of attractive features as a source of revenue. The imposition of duty compels the parties to execute a document or instrument to formalize the underlying transaction, thereby making the transaction verifiable in an audit. The duty is self-policing and the revenue yield is immediate. Therefore, Stamp Duty will be re-introduced in respect of instruments and documents other than Letters of Credit and those, which are subject to Debit Tax, Port and Airport Development Levy and share market transactions. This measure is estimated to generate Rs. 3,700 million.

47. The Economic Service Charge (ESC)

The ESC introduced last year has performed well. However, the following changes are proposed to make it simple and also to provide relief for some industries, which find it difficult to comply with the requirements in its present form.

- a. The ceiling of Rs. 50 million that had been placed on the total ESC payable by any entity will be raised to Rs. 60 million and the threshold for liable turnover will be brought down to Rs. 40 million.
- b. Under the present law, the base of the ESC for any year is the liable turnover for the previous year. The base will be changed to the liable turnover of the current year.
- c. ESC paid can now be setoff only against the income tax attributable to profits from the liable turnover. In the future, the setoff will be permitted against any income tax.
- d. Institutions referred to in Section 8(b) of the Inland Revenue Act, will be exempt.

- e. The liable turnover will be reduced to provide relief to distributors, cutting and polishing of diamonds, small tea-factory owners etc. The expected revenue through this revision is Rs. 1,000 million.

48. Betting and Gaming Levy

In keeping with Government's commitment to make law enforcement more effective, sweeping changes have been introduced to over 80 relevant statutes in 2005. This has not only helped enforcement, but has also generated over Rs.500 million revenue through fines. However, most of the Betting and Gaming institutions still evade payment due to a variety of loopholes in the tax and regulatory framework. New Betting and Gaming centres are proliferating with no tax benefits to the Government. Therefore, the levy will be raised requiring live telecast centres to pay Rs. 300,000 each and non- live telecast centers to pay Rs. 50,000 each. Gaming centers will be relocated in designated areas outside Colombo within a period of 5 years. Additional revenue of Rs. 300 million is expected from this measure.

49. VAT

The existing provisions of the VAT Act entitle exporters to receive their refunds within a period of 30 days. This period will be reduced to 15 days, in relation to those who back their refund claims either with a bank guarantee or an insurance bond, to cover the full amount of the refund. This period in relation to others will be extended to 45 days in view of the risks involved in processing claims. In order to facilitate the refund mechanism, a dedicated account will be maintained with the Central Bank to which 10 percent of the VAT collected on imports will be regularly credited, to ensure the smooth flow of funds for refunds by the Department.

Currently in Sri Lanka, VAT is included in the price of most goods and services. In recognition of the basic principle of not imposing VAT on consumption outside Sri Lanka, it is proposed to establish a "VAT Refund Office" at the Bandaranaike International Airport for the convenience of the departing passengers. Such refunds will be made only if the claim is in excess of US\$100.

The following changes are proposed to the VAT system;

- a. VAT rate on financial services will be revised from 15 percent to 20 percent. Expected revenue is Rs.2,700 million.

- b. VAT rate on locally manufactured medicated soft drinks such as Ginger Beer, Peyawa, Nelli etc. will be reduced from 20 percent to 15 percent to promote the usage of local agricultural produce.
- c. VAT on Computers and accessories will be removed to popularize computer usage.
- d. The importation of unprocessed timber logs will be exempt from VAT to help local sawmill operators, the construction industry, and furniture manufacturers and to protect our natural forests.
- e. Reflecting a realistic trading margin, the markup on the CIF for charging VAT at Customs will be revised to 7 percent. Expected revenue from this change is Rs. 2,000 million.
- f. In order to minimize the cascading effect on essential food items classified in the 5 percent rate band, such items will be liable for VAT only at the point of Customs and not at subsequent sales. This should reduce the prices of sugar , dhal, potatoes, dried fish, chilies and onions.
- g. All registered persons will be required to pay VAT on a monthly basis subject to the final adjustment being made with the return at the end of the relevant taxable period since actual payment due from registered person is the net tax payable after setting off of the VAT paid by that person. This is expected to improve VAT collection by Rs.1,500 million and also help Treasury operations.
- h. Exemption of VAT on high protein and high energy agro food manufactured in Sri Lanka out of grain cultivated in Sri Lanka, provided the procurement of such grain with backward integration from out growers is undertaken.

.1.11.1.1.1 TAX ADMINISTRATION

50. Delegation of Authority

In terms of the rationalization of the administration of the Departments of Inland Revenue and Customs, increased cadres have been provided for senior officials to strengthen management level supervision and decision-making. Therefore both Customs and Inland Revenue laws will be amended to limit the delegation of authority to senior cadre officials of these two departments. The provisions in the VAT Act relating to official secrecy are far

less effective as opposed to those in the Inland Revenue Act. I therefore propose to amend the relevant provisions in the VAT Act to bring it in line with the Inland Revenue Act. The provisions in the VAT Act relating to official secrecy will also be amended to bring it in line with the Inland Revenue Act.

.1.11.1.1.2

51. Time Bar on Income Tax

Time-Bar provision in our tax statute was fixed virtually 3 decades ago at a time when modern technology was not available. It is therefore necessary to reduce the time-bar given to file returns to 6 months and the time bar permitted for the making of an assessment to 18 months from the end of the tax year. In respect of cases where no returns have been filed, the time bar will be reduced to 3 years.

52. Acknowledgement of Appeals

The current law requires that an appeal against any assessment, be finalized at the level of the Inland Revenue Department, within a period of two years, commencing from the date the Assessor acknowledged the appeal. However, there is a considerable delay in the issue of the letter of acknowledgement. Time has come to introduce legislation to curb such inefficient practices by providing that where the letter of acknowledgement is not issued, within 30 days of making the appeal, then the appeal will be deemed to have been acknowledged from the date of in the appeal subject to proof of such date by the appellant. This will apply to both income tax and value added tax and a ruling is required to be issued within 12 months by an officer in the rank of a Commissioner or above and counter signed by the Commissioner General himself.

53. Tax Compliance

Sri Lanka opted for the self-assessment scheme of taxation in 1972. The most significant aspect of this self-compliance is that every tax-liable person computes his tax liability, pays it to a nominated bank and furnishes the tax return without the intervention of the tax department. It is distressing to note that Sri Lanka has not made much headway in self-compliance. Last year a number of proposals were introduced to improve compliance by strengthening the tax administration as well as giving recognition to the best taxpayers. Further incentives will be accorded to good tax payers to encourage compliance, to consolidate this process.

(a) Acceptance of Return

- (i). If an individual enters into the tax system by opening a tax file voluntarily, his/her tax return will be accepted without insisting on a statement of accounts, if the income of such individual is less than Rs. 1 million. This measure is proposed to encourage smaller taxpayers to enter the tax system without having to go through cumbersome administrative procedures.
- (ii). Where any individual, in relation to the year 2005/06 or any subsequent year of assessment furnishes a return, that return will be accepted and no further assessment will be made by the Department provided that;
- He/she has complied with the return and payment requirements for 3 preceding years, and
 - Pays as tax any sum not less than 120 per cent of the tax or declares an assessable income of not less than 125 per cent of that for the immediately preceding year and furnishes the return accordingly and makes an affidavit that there is no fraud or willful default committed in relation to the tax payable for that year.

(b) Incentives for Good Tax Payers

Delayed tax payments are now subject to penalties ranging from 10% to 50% of the amount unpaid, depending on the period of the delay. It is fair to concede a discount to those individuals who pay the full tax on time. Therefore, where the full amount of tax due from an individual for any year of assessment is paid one month before the due date, it is proposed to allow a discount of 10 percent of the tax due for that year.

(c) Rewarding Compliant Taxpayers

Where an individual for any year of assessment has paid income tax of an amount not less than Rs.250,000 and has maintained this position over a period of 5 years commencing from 2003, that person will be given a concession of 25 percent of all duties and taxes payable to import a vehicle of his choice provided that the engine capacity of the vehicle does not exceed 1,500cc. if it is a car. No engine limit will apply on vehicles such as vans, trucks and motor-bicycles and utility vehicles

54. A New Inland Revenue Act

The Inland Revenue Act brought out in 2000 has now become complicated consequent to amendments. It is proposed to introduce a new Act having taken away all provisions, which

have no relevance as of April 2006, while also incorporating the proposals now being made. The new Bill will be presented to the Parliament before 31st March 2006.

55. Tax Academy

It is the general perception among taxpayers and tax practitioners that the depth and quality of the knowledge on taxation has eroded considerably in recent years. In order to arrest this trend and to create an enlightened tax culture, a Tax Academy will be established. Rs. 50 million will be allocated for this purpose.

From all these administrative measures together with the ongoing reforms, additional revenue of Rs. 1,750 million is expected from Income Tax, VAT, tax on interest and customs duties.

.1.11.1.1.3

56. Creation of a Domestically Sourced Export Industry

The recognition and encouragement of local producers of input and intermediate goods required for the creation of a domestically sourced export oriented industry, was commenced with the 2005 Budget by suspending output VAT on supplies made to apparel manufacturers. It is now possible to bring other export-oriented industries also into this system. Accordingly, I propose that input and intermediate goods manufacturers supplying to nontraditional export oriented companies including apparel manufacturers registered with the Textile Quota Board / EDB be brought under the suspended VAT scheme with a facility to import raw material as well as capital goods on a deferred VAT basis. Capital goods received by exporters will also be subject to the deferment of VAT at the point of import. This arrangement will relieve such manufacturers from a cash flow burden.

With the removal of global textile and apparel quotas, the preference of buyers is to place orders with companies which able to provide them total solutions including design, product development and service packages. Due to the high cost of investment involved, most of the small and medium scale factories in Sri Lanka are not in a position to transform themselves into total solution providers. Therefore, it is proposed that income of a registered apparel manufacturer arising from any subcontracting arrangement entailing sewing and assembly of garments and/or the provision of services resulting in the improvement of either the quality or character or the value of the garments to be exported be treated as exports, provided such income is received in convertible foreign currency from the company which is exporting the final product.

.1.12

57. Custom Tariff

The Government is committed to keep duty on basic raw material at the lowest tariff band and apply middle and upper rates to intermediate and finished goods to facilitate industrial development. Therefore, several intermediate and basic raw materials will be classified under the lower rate band. The following changes will also be made:

- a. Customs duty on items such as packaging and printing material, have been reduced or removed to facilitate rapid expansion of such industries.
- b. In order to facilitate musical education, import duty on musical instruments has been reduced from 28 percent to 15 percent.
- c. As a measure of relief to nearly 200,000 three-wheeler operators, import duty on tyres used for three-wheelers has been reduced from 28 percent to 15 percent.
- d. In respect of certain items such as palm oil, fans and parts, which are liable for considerable valuation complexities, have been made liable to specific duties.
- e. In order to discourage substandard vehicles from being imported into Sri Lanka, an export inspection certificate will be a requirement when importing used vehicles.
- f. To promote export-oriented enterprises, the cess rates applicable to certain commodities have been revised and the relevant gazette pertaining these items has been published.
- g. The prevailing 10 percent surcharge will continue.

The new revenue protection order (RPO) giving effect to these changes has been already implemented. The expected net revenue from changes to customs duty and cess is Rs. 3,500 million.

.1.13

58. Port and Airport Development Levy (PAL)

Port and Airport Development Levy will be increased from 1.5 percent on items other than imports used for exports to 2.5 percent from January next year. The 0.25 levy on imports used for exports will be removed to encourage exports. Rs.2,500 million is expected from this measure.

59. Excise Taxes

Tax alcohol and tobacco should be increased regularly to discourage consumption. It is also necessary to tighten combating operations to eradicate the usage of illicit drugs and manufacturing of illicit liquor. The Department of Police has already intensified combating operations in the Western Provinces. Government has also imposed an embargo on granting new liquor licenses. In this background the following measures will also be introduced:

- a. In addition to the recent increase a further increase of excise duty on hard liquor by Rs.15 / proof Ltr. and Rs. 5/Ltr. for soft liquor as well as excise special provision duty on cigarettes by cents 50/cigarette has been gazetted. Total revenue of Rs. 4,300 million is expected from this measure.
- b. 50 percent increase in the annual license fee applicable to retail trade of liquor at all outlets. Expected revenue is Rs. 400 million.

60. Excise (Special Provision) Tax

- a. The prevailing 10 percent excise duty on mobile phones has been removed to curtail smuggling of substandard phones and to reduce the cost of quality of mobile phones.
- b. In order to reduce the price of motor-bicycles to improve the mobility of field level officers, Grama Niladharies, extension officers, Samurdhi Development Officers, Journalists etc. by encouraging the purchasing of motor-bicycles at affordable prices, the special excise duty of 5-15 percent for motorbicycles has also been removed.
- c. In order to promote domestic value addition, locally assembled new motor vehicles, which will qualify under FTA arrangements and ensure 30 percent domestic value addition will be exempt from Excise special duty.

61. Salaries of Public Servants

Mr. Speaker, a 40 percent increase in basic salaries subject to a minimum of Rs. 3,250 per month and maximum of Rs. 9,000 per month was proposed in the 2005 Budget and the Government granted Rs. 2,500 or 50 percent of the increase whichever is higher. The balance is due in 2006. The National Council for Administration (NCA) has now formulated a new salary structure incorporating interim allowances, provision of a cost of living allowance, and placing the minimum salary of an employee in the public service at Rs.11,630 per month . This new structure provides more than the salary increases recommended in the last Budget and corrects prevailing anomalies. However, since this

transformation cannot be implemented in one single year, the recommended salary proposal will be implemented as follows:

- a. A payment of Rs.1,000 COLA to all Government employees including members of the Police and armed forces. This will be adjusted on the basis of the cost of living index in end June and end December each year, with a Rs. 2.50 per unit change.
- b. A payment of 50 percent of the difference of the present salary and the recommended new salary, to be made in 2006 and the balance 50 percent in 2007. These changes will ensure a minimum pay increase of Rs. 1,300 per month (inclusive of COLA) in 2006 - The new salary guide is given in Table I.
- c. Public servants including members of the Police and armed forces will be permitted to en-cash a maximum of 30 days of un-availed leave each year, based on the salary drawn as at 31st December of that year. However, all employees will be required to take 7 continuous days of leave every year.
- d. Every male public servant will be granted 3 days special leave in the event his spouse gives birth to a child.
- e. Introduction of a Risk Insurance Scheme for specific categories of employees in identified sectors such as Health, Forest Conservation, Wild Life Conservation, Railways etc, to mitigate risk factors.
- f. A public Sector Occupational Classification will be formulated by the National Council for Administration (NCA) to move towards a streamlined wage structure and a scheme of career development in the public sector.
- g. Dedicated wards will be set up in Government hospitals for public servants and pensioners to provide medical benefits under the 'Agrahara' insurance scheme.
- h. Housing loans available to public servants through the banking system will be extended to members of the Police and armed forces as well from 2006. The loan amount will be raised to 7 years of the salary, subject to a maximum of Rs. 3 million.
- i. A Public servants' vehicle loan scheme will be implemented through the banking system to ensure an efficiently managed vehicle loan scheme to public servants.

- j. Concessionary duty of 25 percent (40 percent in the case of diesel) will be introduced next year for eligible public servants to purchase vehicles with engine capacity up to 1,500cc. The eligibility criteria and operational details will be finalized in January and the Treasury will issue appropriate Circular instructions.

As budget estimates have already provided for the increase proposed last year, a further Rs. 9,600 million will be provided for this proposal.

62. Pensions

In line with proposed changes of the public service salary adjustments, the following changes will be introduced to pensions.

- a. Payment of a Cost of Living Allowance (COLA) to Pensioners, with the base value being fixed at Rs.500 per month. This allowance will be adjusted to the cost of living index every six month with Rs. 2.50 per unit changed.
- b. The Interim Allowances being paid to pensioners will be consolidated and they will be granted a 10 percent increase on their unreduced pension with effect from 01.01.2006 subject to a minimum of Rs 500 and a maximum of Rs 1,250 per month. Employees retiring between 01.12.2004 and 31. 12. 2005 inclusive of the two days will not be entitled to this increase. As such, pensioners will get a minimum increase of Rs. 1,000 from the changes referred to at a & b.
- c. The benefits provided through P.A.Circular 06/2004 will be extended to those who have retired before 01.01.1997, providing them the opportunity to enjoy the salary increase granted by P.A. Circular No. 2/97. This will be implemented with effect from 01.01.2006 without the payment of arrears for the period prior to this date and 50 percent of the increase will be granted from January 2006 and the balance from January 2007.
- d. The relevant amendments to the W & OP Act will be placed before Parliament permitting widows who wish to remarry to continue to be eligible to receive their W & OP allowance.

An additional allocation of Rs. 4,500 million is provided to meet the expenses of these proposals.

63. Crime Prevention

During the past 18 months, substantial progress has been made in reducing violent crime. Intensified Police surveillance in combating illicit liquor in the western province has also contributed towards improving Government revenue. The aim of this crime prevention programme is to make our cities, streets and neighborhoods safer places to live. This will improve the investment climate as well. Under this programme community policing is promoted with the newly recruited graduates being assigned such responsibilities. New police stations with sophisticated communication equipment and mobile facilities will also be built near commercial centres. An electronic surveillance system will be installed in Colombo and a sea surveillance mechanism will be undertaken to reduce drug trafficking along the Puttalam - Colombo coastal belt. It is also proposed to install an automated finger printing system to address commercial cyber crime. Therefore a special allocation of Rs. 900 million for these projects will be made to the Police Department in 2006.

.1.14

64. Integrated Disaster Risk Management Programme

In the context of the recent experience with the Tsunami, an integrated disaster management strategy has become essential. The Parliamentary Select Committee appointed in this regard has also emphasized the need for such a programme. Therefore, Rs.250 million will be allocated to the National Council of Disaster Management to organize an integrated disaster management programme with the assistance of other relevant agencies. As substantial funding will be required for this project, donor assistance has been requested through the UNDP. In Sri Lanka, weather related natural disasters such as floods, droughts, landslides and lightning strikes are on the increase. At present no meteorological surveillance radar systems are available. Rs. 600 million is provided to develop such facilities.

65. Management of Public Funds

Several Ministries and Government agencies maintain specific funds such as ‘Samurdhi Sahana Arakshana’ Fund, Overseas Employment Fund, etc. In order to effectively monitor and use such funds only for the specific development activities permitted under such funds, Management Committees consisting of the Secretary to the relevant line ministry, heads of related institutions, nominees of the Ministry of Finance and Planning and the Ministry of Plan Implementation, other professionals and members of the civil society will be appointed appropriately. Disbursement of moneys from these funds will be made only under the surveillance of such committees and under specific guidelines to be approved by the Ministry of Finance and Planning.

66. Agrahara Insurance Trust (AIT)

An insurance trust will be set up to manage the health insurance scheme for public servants and pensioners. This fund will not engage in vehicles and commercial insurance activities.

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23. Salary Structure Proposed by Budget 2006 For Government Servants

The lowest basic salary of a Government Servant currently is Rs. 7,150/- per month. (Rs. 9,350/- including the interim allowances of Rs.2,200).

The salary payable by 1.1.2006 with the increases proposed by the Budget proposals 2005 and the P.A. Circular No. 9/2004 will be Rs. 7,900/- Rs. 10,100/- including the interim allowances).

The proposals of the National Council for Administration included in this Budget ensure an upward revision of the lowest basic salary, inclusive of the interim allowances, to Rs. 11,630/- per month. Accordingly, the lowest basic salary per month will be increased by Rs. 2,280/-, 50% of which will be paid with effect from 1.1.2006 and the balance 50% with effect from 1.1.2007. Thus, the lowest monthly basic salary of a Government Servant on 1.1.2006 will be Rs. 10,490/- and Rs. 11,630/- on 1.1.2007 .

Levels of the Public Sector		Initials monthly salary & Allowance as at 31.12.2005			Due salary & allowances as at 01.01.2006			Payment on 01.01.2006	Proposed salary as at 01.01.2007	Monthly increase [▫]
		Salary	All.	Total	Salary	All.	Total			
Primary level (Ex. labour grades)	(iii)	7,150	2,200	9,350	7,900	2,200	10,100	10,490	11,630	2,280
	(ii)	7,390	2,200	9,590	8,140	2,200	10,340	11,165	12,740	4,600
	(i)	7,515	2,200	9,715	8,265	2,200	10,465	11,782.5	13,850	4,135
Secondary level (Ex. Mgt. Asst. Service MAS)	(iii)	8,290	2,200	10,490	9,040	2,200	11,240	12,005	13,520	3,030
	(II)	9,060	2,200	11,260	9,810	2,200	12,010	13,060	14,860	3,600
	(I)	9,775	2,200	11,975	10,525	2,252.5	12,777.5	13,347.5	16,470	4,475
Office Admin. level (Ex. Supra Grade of MAS)		11,260	2,326	13,586	12,265	2,426.5	14,691.5	16,088	18,590	5,004
Executive level (Ex. All Island Services)	II/II	11,875	2,387.5	14,262.5	13,125	2,512.5	15,637.5	17,471.25	20,680	6,417.5
	II/I	15,354	2,735.4	18,089.4	17,915	2,991.5	20,186.5	22,079.7	26,070	7,980.6
	I	19,752	3,175.2	22,927.2	23,045	3,504.5	26,549.5	27,786.6	32,650	9,722.8
Senior Executive (Ex. Addl. Secy)		24,684	3,668.4	28,352.4	28,800	4,080	32,880	33,781.2	39,210	10,857.6

[▫] 50 percent of this will be granted in 2006 and the balance in 2007

TABLE II**23. Revenue Measures**

	.1.1	Rs. million
Corporate Income Tax		2,700
Social Responsibility Levy		1,000
Transfer pricing and Thin Capitalization		550
Taxation of certain non-residents		150
Tax on personal income		450
Stamp duty		3,700
Economic Service Charge		1,000
Betting and Gaming levy		300
VAT on financial services		2,700
VAT rate changes		2,000
Advancement of VAT payment (one-off revenue)		1,500
Taxation on interest income		--
Custom Tariff & Cess		3,500
Port and Airport levy		2,500
Excise Tax		4,700
Tax administration		1,750

23. Expenditure Proposals

	.1	.2 Rs. Million
Religious Development		200
Art and Culture		50
Media Personnel		75
Nutritional meal Programme for Mothers and Children		1,500
Concessions for Home for Children/elderly and differently able persons		200
Quality health Service		300
Livelihood Development through Samurdhi		6,000
Yovun Diriya		1,000
Estate infrastructure		2,000
Urban Housing Development		500
Agricultural		
• Fertilizer		2,300
• Seeds		300
• Paddy Marketing Board (Revolving Fund)		2,000
• Dedicated Agricultural product zone		160
• Quality improvement in agriculture		415
Plantation Agriculture		
• Stabilization fund		1,600
• others		700
The Mahaweli Economy		200
Fisheries sector		1,350
Textile Processing		350
College of Textile and Clothing		250
Kantha Diriya - Handloom Industry & Giftware Industry		75
Up-market Tourism		100
Private Bus Operators		75

Gama Nagma	1,000
Modernization of Construction industry	200
Innovations and Research	300
Institution for International Relation and strategic	75
Academy of labour relations	50
Tax academy	50
Public Sector Salaries	9,600
Pension Adjustments	4,500
Crime prevention – Police Department	900
Disaster risk management Programme	600

23. ANNEXURE II

.1 Summery of the 2006 Budget

	2004	2005	2005	2006
		Bud	Revised	Proj
Total Revenue	311,473	389,492	385,722	484,376
Tax Revenue	281,552	351,119	345,387	435,292
Income Tax	41,372	55,361	55,911	75,560
Taxes on Goods and Services	191,525	229,515	224,692	279,494
Taxes on External Trade	48,655	66,243	64,784	80,238
Non Tax Revenue	29,921	38,373	40,335	49,084
Total Expenditure (excluding Post Tsunami reconstruction Expenditure)	476,905	560,638	554,269	681,642
Recurrent	389,679	418,988	437,280	506,856
Salaries and Wages	106,187	140,517	140,517	168,570
Interest	119,782	128,001	119,409	151,259
Subsidies and Transfers	105,367	91,534	115,379	117,238
Other Goods and Services	58,343	58,936	61,975	69,789
Public Investments	97,630	144,440	118,879	178,295
Other	(10,404)	(2,790)	(1,890)	(3,510)
-	-	-	-	-
Revenue surplus/Deficit(-)	(78,206)	(29,496)	(51,558)	(22,480)
Budget Deficit	(165,432)	(171,146)	(168,547)	(197,266)

-	-	-	-	-
Total Financing	165,432	171,145	168,547	197,266
Total Foreign Financing	45,752	58,884	52,463	76,783
Net Foreign Borrowings	37,071	48,684	45,063	66,383
Foreign Borrowings	70,112	91,000	66,379	118,573
Debt Repayments	33,041	42,316	21,316	52,190
Foreign Grants	8,681	10,200	7,400	10,400
Total Domestic Financing	117,243	104,761	115,259	120,483
Non-Bank Borrowings	69,274	104,761	108,584	120,483
Bank Borrowings	43,289		6,675	
Other	4,680			
Capital Revenue	2,437	7,500	825	-
-	-	-	-	-
Revenue/GDP (%)	15.3	17.1	16.4	17.8
Tax/GDP (%)	13.9	15.4	14.7	16.0
Non Tax/GDP (%)	1.5	1.7	1.7	1.8
Expenditure/GDP (%)	23.5	24.6	23.5	25.1
Current Expenditure/GDP (%)	19.2	18.4	18.5	18.6
Public Investment/GDP (%)	4.8	6.3	5.0	6.6
Revenue Account/GDP (%)	(3.9)	(1.3)	(2.2)	(0.8)
Budget Deficit/GDP (%)	(8.2)	(7.5)	(7.1)	(7.3)
Foreign Aid/GDP (%)	2.3	2.6	2.2	2.8
Domestic Financing/GDP (%)	5.8	4.6	4.9	4.4
Non Bank Financing/GDP (%)	3.4	4.6	4.6	4.4
Bank Financing/GDP (%)	2.1	-	0.3	-
MEMO: Tsunami related expenditure			32,418	50,000
Current expenditure			16,692	3,000
Capital expenditure			15,726	47,000
Financing			32,418	50,000
Foreign Grants			21,592	31,840
Foreign Borrowing			3,826	15,600
Domestic Financing			7,000	2,560

Tsunami expenditure / GDP (%)			1.4	1.8
Public Investment with Post-Tsunami				
Reconstruction Expenditure / GDP (%)			5.7	8.3
Budget Deficit with Post-Tsunami Expenditure / GDP (%)			8.5	9.1

Annexure III

**Overall Expected Foreign Aid Disbursements-2006
by Donor and Sector**

US\$ Mn.

Donor	Housing & Township	Roads & Bridges	Water & Sanitation	Port Development	Rural Dev.	Education	Health	Agriculture & Irrigation	Fisheries	Private Sec Dev	Power & Energy	SME & Livelihood Support	Transport	Environment	Disaster Mgt.	Plantation	IT	Institutional support	Tourism	Other	Total
ADB	6.5	65.4	29	3	46.1	23		4	39		16	48		11		7		5.3		2	305
World Bank	53.6	32	9		10.2	6	12				25	14.8					14	5.9		7.2	190
Japan	9	93.5	68.5	14		11	8	19.5	6.8		81.5	24.5		9		1	2.9		1	2.8	354
China									12		12										24
Korea	4.5	12	8			1															25.5
Denmark			39	17																	56
Finland											30										30
Germany	7		27							30	11	4								5	84
India		1					3						35							23.8	62.8
Austria		10																			10
Australia			24																		24

Donor	Housing & Township	Roads & Bridges	Water & Sanitation	Port Development	Rural Dev.	Education	Health	Agriculture & Irrigation	Fisheries	Private Sec Dev	Power & Energy	SME & Livelihood Support	Transport	Environment	Disaster Mgt.	Plantation	IT	Institutional support	Tourism	Other	Total
Saudi Fund		9.9					10														19.9
Kuwait	5	3				8		0.7													16.7
Norway			4.9						4			9								0.3	18.2
EIB												20									20
France	6	11	2							1.5	0.6				1						22.1
Netherlands									4												4
Iceland									1											1	2
USA	0.2	5	1			3			2			3		0.1						5	19.3
UNDP					1						1			1	1						4
UK		6																			6
WFP								23.2													23.2
FAO								1	7												8
Switzerland	3					1															4
Spain		5	2				2														9
Sweden		6	12								7	1				2					28
IFAD					4							3.8									7.8
UNICEF			11			9	12.5													6.1	38.6
UNFPA						0.1	4.1													0.11	4.31
UNESCO															1						1
EU		10										6.5									16.5

Donor	Housing & Township	Roads & Bridges	Water & Sanitation	Port Development	Rural Dev.	Education	Health	Agriculture & Irrigation	Fisheries	Private Sec Dev	Power & Energy	SME & Livelihood Support	Transport	Environment	Disaster Mgt.	Plantation	IT	Institutional support	Tourism	Other	Total
Total Expected Disbursements	94.8	269.8	237	34	61.3	62.1	51.6	48.4	76	30	185	135.2	35	21	3	10	16.9	11.2	1	53.31	1438
Total commitments (2004-2008)	410	1253	864	328	349	353	166	219	190	26	1061.4	535.5	100	119	3	87	115	84.4	22	186.8	6472

North East Development Projects

Expected Disbursements for Development Projects in the North & East (other than Post Tsunami Recovery)
- 2006 by Donor and Sector

US\$ Mn.

Donor	Housing & Township	Roads & Bridges	Water Supply & Sanitation	Health	Rehabilitation & Rural Development	Education	Fisheries	Agriculture	SME & Livelihood Support	Power & Energy	Total
ADB			3.5		42.1		12.7		6.5		64.8
World Bank	23.6		5.0						14.0		42.6
Japan		15.5		3.0				3.0	0.5	3.3	25.3
Australia			5.0								5.0
WFP					25.0						25.0
Saudi Fund		5.4									5.4
Korea						1.0					1.0
FAO								0.7			0.7
Norway			4.9						9.0		13.9
UNDP					2.0						2.0
UK		6									6.0
Total Expected Disbursement	23.6	11.4	18.4	3.0	69.1	1.0	12.7	0.7	30.0	3.3	191.7
Total Commitment (2004-2008)	75	36	103.9	3	252	2.3	29	66.4	40	11.9	619.5

Tsunami Related Donor Assistance

Tsunami related Foreign Aid Funded Projects- Disbursements - 2006 by Donor and Sector

US\$ Mn.

Donor	Housing & Township	Roads & Bridges	Water & Sanitation	Education	Health	.1.1.1.1.1 Agriculture	Fisheries	Power & Energy	SME & Livelihood Support	Environment	Disaster Management	O
ADB	2.5	20	2.5				4		10			
World Bank	30	15			4							
Japan	9	28	13.5	11		1.5	6.8	18.2	10			
China							12					
India		1			3							
Korea	4	6										
Denmark			3									
France	6	12	2					1.5	0.6		1	
Germany	7		10									
Switzerland	3			1								
Spain		5	2		2							
Kuwait	5			8								
Netherlands							4					
Sweden		6										
Iceland							1					
USA	0.2	5	1	3			2		3	0.1		
UNDP								1		1	1	
FAO						1	7					
UNICEF			11	9	7.5							
UNFPA					3							
UNESCO											1	
EU		10										
EIB									20			
Total	66.7	108	45	32	19.5	2.5	36.8	20.7	43.6	1.1	3	2
Total Commitments (2005-2008)	209.3	261.2	91.4	123.2	60.1	3.1	97.0	325.5	166.6	1.1	3.0	1
Total Pledges (2005- 2008)	217.6	284.5	154.4	123.2	157.2		97	325.9	256.6	1.1	3	

Expected Disbursements for Foreign Aid Funded Development Projects other than for North & East and Post Tsunami Recovery, By Donor and Sector - 2006

Donor	Housing & Township	Roads & Bridges	Water & Sanitation	Port Development	Rural Dev.	Education	Health	Agriculture & Irrigation	Fisheries	Private Sec Dev	Power & Energy	SME & Livelihood Support	Transport	Environment	Disaster Mgt.	Plantation	Tourism	IT	Institutional support	Other	Total
ADB	4	45.4	23	3	4	23		4	22		16	31.5		11		7			5.3		198.9
World Bank		17	4		10	6	8				25	0.8						14	5.9	7	98.1
Japan		50	55	14			5	15			60	14		9		1	1	2.9			226.9
China											12										12
Korea	0.5	6	8																		14.5
Denmark			36	17																	53
Finland											30										30
Germany			17							30	11	4									62
India													35							22	56.8
Austria		10																			10
Australia			19																		19
Saudi Fund		4.5					10														14.5
Kuwait		3						0.7													3.7
Norway									4											0	4.3
Sweden			12								7	1				2					22
IFAD					2							3.8									5.6
UNICEF							5														5
UNFPA						0.1	1.1													0	1.26
EU												6.5									6.5
Expected Disbursements for Foreign Funded Projects For the Year 2006 (Excluding North & East)	4.5	136	174	34	16	29	29	20	26	30	161	61.6	35	20	3	10	1	17	11.2	27	844.1
Total Commitment (2004-2008)	126	956	669	328	97	227	103	149	64	26	724	328.9	100	118	3	87	22	115	84.4	21	4348

ANNEXURE IV

Gross Borrowing Requirement – 2006	Rs. billion
	519
23. Total receipts other than government Borrowings	
Total Payments	1,065
Total Gross Borrowing Requirements to be recorded in government accounts	546
Total Debt Repayment	308
