

## Budget 2019: Tracking the implementation of policy proposals

### MOTIVATION

Verité Research launched *budgetpromises.org* in 2017, a pioneering online platform that tracks the Sri Lankan government's performance in delivering on its expenditure proposals presented by the Minister of Finance in his annual budget speech and the openness of institutions in disclosing this information.

Each year, in addition to the expenditure proposals, the Budget Speech presented by the Minister of Finance also includes policy proposals that the government commits to implement as part of its development programme for that year. This includes policy proposals on public expenditure and revenue, as well as changes to legislation, regulations, and other policy reforms. After the reading of the Budget Speech, there is limited transparency on progress of the implementation of these proposals. This limited transparency results in low scope for holding the government accountable for the 'promises' made to its citizens, allowing for poor progress to go unchecked.

To address this gap, in 2019 *budgetpromises.org* expanded its scope to include progress made in implementation of a selected set of such policy proposals. Although they do not require direct expenditure, these proposed reforms are critical in influencing the functioning of businesses and individuals, and in contributing to the finances of the government.

### METHODOLOGY

#### **The criterion used to select the proposals for tracking:**

The proposals that required a legislative enactment or regulatory notification (gazettes) to be considered "implemented" were selected. This criterion was selected in the interests of practicality and transparency – it is easier to objectively track proposals that require official documentation to be implemented. There were 22 such proposals announced in the 2019 budget speech.

#### **Assessment**

The progress made in implementing the proposals were assessed using publicly available information as gazette notifications, government circulars, and Department of Government Information communiques on cabinet decisions. When no public information on the policy was available, ministries were directly contacted for information via letters, phone calls, and emails.

Based on the assessment, the proposals were categorised into four categories; "Implemented", "Partially Implemented", "Not Implemented", and "Undisclosed".

**Implemented:** The policy proposal has been fully implemented. The legislative enactment or regulatory notification (gazette) required has been published for the full scope of the proposal and no further action is required.

**Partially Implemented:** The required legislative enactment or regulatory notification (gazette) has been published for some but not all parts of the proposal.

**Not Implemented:** The required legislative enactment or regulatory notification (gazette) has not been published for any part of the proposal. This has been confirmed in writing by the relevant ministry/ government institution.

**Undisclosed:** No information is available to determine the status of the proposal or available information is insufficient/unusable.

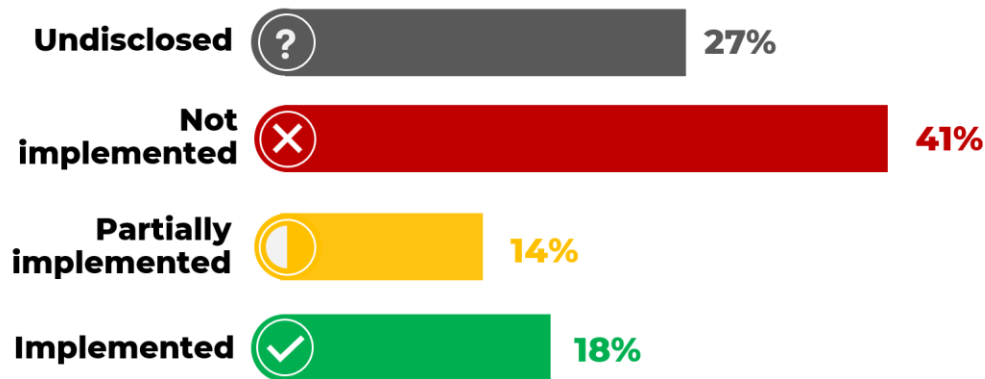
## FINDINGS

### Of the 22 policy proposals announced in the 2019 budget speech

- 4 proposals have successfully been implemented.
- 3 proposals have been partially implemented.
- 9 proposals have not been implemented.
- 6 proposals are undisclosed.

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## PROGRESS OF POLICIES APR - DEC 2019



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Para No.	Policy Proposal	Status	Action taken*
66	Reduce the Ports and Airport Development Levy (PAL) for machinery and equipment items (HS Code Chapters 84 and 85) to a maximum of 2.5%.	Implemented	Minister of Finance issued two extraordinary gazettes, on 31 May 2019 and 24 September 2019, that amended the PAL for machinery and equipment items to a concessionary rate of 2.5%.
84	Remove the Nation Building Tax (NBT) on foreign currency receipts by hotels registered under the Sri Lanka Tourism Development Authority (SLTDA).	Implemented	On 31 October 2019, the Nations Building Tax Amendment Act, No. 20 of 2019 was implemented. Part 2, subsection (b) achieves this.
89	Reduce economic Service Charge (ESC) from 0.5% to 0.25% for export sectors which are subject to Corporate Income Tax of 14%.	Implemented	ESC was abolished completely with effect from 1 January 2020. The Inland Revenue Department published an official notice on 1 January 2020.

94	Remove Nations Building Tax (NBT) on the main construction contractor.	Implemented	On 31 October 2019, the Nations Building Tax Amendment Act, No. 20 of 2019 was implemented. Part 2, subsection (a) achieves this.
83	Reduce the PAL and Customs Duty on the importation of machinery used in lapidaries and the PAL on un-cut gems imported from 7.5% to 2.5%.	Partially Implemented	Extraordinary Gazette issued by Minister of Finance on 24 September 2019 reduces PAL on many machines used in lapidaries (example – H.S Headings 84.60). However, PAL has not been reduced on un-cut gems.
61	Remove the International Telecommunications Levy.	Partially Implemented	The International Telecommunications Levy has been removed from Internet Services and reduced from 15% to 11.5% on all other Telecommunications services. This was effective from the 1 December 2019. A public notice was published by the Telecommunications Regulatory Commission of Sri Lanka.
65	Phase out cess on all HS codes with an import Cess over a five-year period.	Partially Implemented	Gazettes to reduce and remove cess from certain items have been issued, namely Extraordinary Gazettes No. 2113/3 and No. 2158/1.
50	Amend labour laws to allow part-time, flexible hours, and home-working, etc. to facilitate more women becoming active participants in our economy.	Not Implemented	The Department of Labour has confirmed that this has not been initiated yet.
77	Remove the minimum employment requirement imposed on companies engaged in IT services to be eligible for the special additional deduction of 35% on the salary expenses incurred.	Not Implemented	The Department of Fiscal Policy of the Ministry of Finance confirmed that this has not been initiated.
173	Make it mandatory for all entities manufacturing or importing single use plastics (as defined by the Central Environment Authority) to register with the Ministry of Industry and Commerce before 1 September 2019.	Not Implemented	The Ministry of Industries and Supply Chain Management confirmed that this has not been initiated.
48	Allow a deduction on corporate tax worth 50% of the salary cost of the mandatory 3 months maternity leave granted to mothers. <sup>1</sup>	Not Implemented	The Department of Fiscal Policy of the Ministry of Finance confirmed that this has not been initiated.
30	Revisit and simplify the licensing mechanism for the processing of desiccated coconut, coconut chips,	Not Implemented	The Coconut Development Authority confirmed that both they and the Coconut Cultivation Board reviewed the regulations.

	charcoal, etc.		Mechanisms are in the process of being simplified.
104	Introduce a legal framework for regulation and governance of pre-school education in Sri Lanka.	Not Implemented	The National Policy on Pre-School education was released in September 2019 by the National Education Commission. However, no legislative enactments have been put in place yet.
158	Amend the Fiscal Management (Responsibility) Act No.3 of 2003 to strengthen Fiscal Rules with 1) Legally binding Fiscal Targets, 2) A clearly defined escape clause, and 3) Correction mechanisms, in case of a target breach.	Not Implemented	On 15 October 2019 the Cabinet approved the Finance Minister's request to strengthen the Financial Management Act. However, the Act has not been amended yet.
73	Make amendments to the Inland Revenue Act - including WHT adjustments, incentives for existing businesses, and interest income exemptions.	Not Implemented	On 5 November 2019 Cabinet approval was received to publish the Inland Revenue (Amendment) Bill. However, the bill has not been enacted yet.
47	Issue the necessary guidelines and regulations for the establishment and operation of Child-Care Centers, After-School & Vacation-Care Centers, and similar facilities.	Not Implemented	The NCPA confirmed that 2 sub-proposals have been cabinet approved. The remaining two are ready to be submitted for cabinet approval. <sup>ii</sup>
79	Draft the new Customs Act.	Undisclosed	Inadequate information on action taken.
79	Introduce key amendments to the Customs Act that are relevant to improving trade facilitation. <sup>iii</sup>	Undisclosed	Inadequate information on action taken.
66	Introduce an accelerated Cess reduction program for intermediate goods that drive up costs. This is to apply to sectors such as, the Construction Sector, Tourism, and Manufacturing. This is to be enacted over a three-year period.	Undisclosed	Inadequate information on action taken.
72	Introduce an incentive package to attract high value investment. This would apply to capital allowances of up to 150% of investment value. Remove up-front taxes for investments over USD 50 Mn, USD 100 Mn & USD 1,000 Mn.	Undisclosed	Inadequate information on action taken.
70	Introduce legislation for Limited Liability Partnership structures.	Undisclosed	Inadequate information on action taken.
88	Remove Customs Import Duty (CID) and Cess on Go Karts and the tyres	Undisclosed	Inadequate information on action taken.

used in Go Karts.		
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\*Sources of information: Information was obtained from publicly available information such as gazette and extraordinary gazette notifications, government circulars, and Department of Government Information communiques on cabinet decisions. When no public information on the policy was available, ministries were directly contacted via letters, phone calls, and emails. Information was collected and updated during the period of February to early April 2020.

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<sup>i</sup> This policy is subject to a maximum of Rs. 20,000 per employee per month. If four months of maternity leave are granted, the company will receive a deduction in tax worth 100% of the employee's salary. This would apply for a five year period.

<sup>ii</sup> Guidelines on Establishment of Day Care Centers and minimum standards in Sri Lanka, and the National Policy on Child Protection have been Cabinet approved. The National Policy on Day Care Centers, and the Guidelines for Childcare Development Centers Minimum Standards are both ready to be submitted for Cabinet approval.

<sup>iii</sup> Some of the key amendments will be relevant to improving trade facilitation by enhancing transparency and consultation, and developing appeals process and risk management. In the spirit of consultation that is espoused among these amendments, the proposed amendments will be subject to stake-holders consultation, prior to implementation.