2017 2020 PUBLIC INVESTMENT PROGRAMME

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SRI LANKA

Contents

Contents

BOX ARTICLES

INTRODUCTION

Introduction

The Public Investment Programme (PIP) is prepared mainly for the purpose of estimating the amounts of investible resources that become available to the government during a given period and indicating how these are to be allocated to different sectors, sub sectors and various government agencies. Thus, it has a close connection to the annual budget of the government. However, unlike the government Budget, the PIP has a medium-term perspective and works with broad magnitudes and trends rather than detailed estimates. A proper management of a development programme requires a medium-term perspective, for the reason that capital expenditures, particularly those concerned with large projects usually extend over periods exceeding one year and their implementation plans may not fit into year-by- year treatment. The PIP can be helpful to the decision makers in this respect because, it in fact estimate capital budget estimates for several years in the future. In this sense, it can be regarded as a medium-term framework for the annual capital budget.

Preparation of PIP is to be carried out as an annual exercise by adopting a "Rolling Plan" approach. Under this approach, at the end of each year, the performance during the past period is reviewed and the plan period is extended by a further year keeping intact the medium-term perspective. This enables making necessary revisions to the plan while preserving the original goals and intentions.This approach reduces inherent rigidities associated with planning and enables modifications that take note of emerging circumstances in and out of the country.

Resource allocations outlined in the PIP are necessarily guided by the development priorities and policies of the Government in office. Accordingly, the PIP 2017-2020 has been drawn up to reflect closely, the socio –economic vision and strategy of the National Government of Consensus that came into office in August 2015. The current general policy environment is shaped by its overall vision of development placed before the people in the form of "The Five Point Plan: A New Country in 60 months". It involves the establishment of a clean administration free of corruption, restoration of democracy, strengthening of the economy and promoting investment and infrastructure development as a means of accelerating economic growth to take the country rapidly towards upper middle income status within a short time. The main thrust and direction of its economic strategy is clearly indicated in the "Socially Competitive Market" concept, under which the economic advantages of competition to promote efficiency in the use of resources are combined with action to promote social equity. The five goals of development enunciated by the Prime Minister in his November 5, 2015 Policy Statement are;

1. Generating one million employment opportunities
2. Enhancing income levels
3. Development of rural economies
4. Ensuring land ownership to rural and estate sectors, the middle class and government employees
5. Creating a wide and a strong middle class

It will be seen that all these goals are interlinked and mutually supportive. Their fulfillment also calls for several initiatives, some of which have already been placed before the people in the annual budget presented to the parliament in November 2015.

Reaching the five goals mentioned above calls for the introduction of essential policy reforms, promoting investment with a view to improving productivity in all sectors. The goals relating to the rural economy, land ownership and the creation of a wide and strong middle class collectively reflect the broader objective of 'Inclusive Development' under which all the benefits of development activities are shared by all sections of the population. It may be noted that all five goals also have a great deal in common with the "Sustainable Development Goals (SDG)" to which Sri Lanka has already shown an enthusiastic commitment.

The Five Policy Goals

The following chart (matrix) suggests how the strategy for achieving the five policy goals may be viewed as consisting of three distinct elements. Out of these, the present document "Public Investment 2017-2020" is mainly concerned with the investment strategy. However, the success of an investment strategy depends also on policy reforms, relevant institutional development and other initiatives to meet the emerging challenges. Therefore, reference will be made to the other two elements where appropriate.

In the following matrix, the connection runs from the row item to the column item. e.g. Policy reforms are needed to reach each of the five goals.

It is significant that the five policy goals have marked inter-linkages among themselves. If Sri

	One Million Employment	Enhanced Income	Develop Rural Economy	Widen Land Ownership	Strong Middle Class
Policy Reforms	√	√	√	√	√
Institutional Development	√	√	√		
Investment	√	√	√		

Lanka, a relatively small island nation is to achieve rapid economic advancement, the only option available is to integrate its economy closely with the world economy by adopting outward looking stance. This means liberalizing and strengthening its trade and financial relations with the rest of the world. The move towards this objective started with the far reaching economic reforms of 1977 which was instrumental in pulling the country out of economic stagnation, accelerating growth and raising the living standards of the people by substantial margins during a short period. However, due to a combination of events, all too well known, the momentum of economic reforms could not be maintained during the three decades that followed. In fact, some of the important reforms were reversed at certain instances to meet short-term political and other compulsions. Tariff and fiscal policies have moved increasingly in the direction of protectionism, thus weakening the incentives for improving productivity and competitiveness of domestic industries.

As a result, significant parts of the Sri Lankan economy remained inefficient and uncompetitive. In addition to misguided policies, management failures and corruption have also weakened the performance of many enterprises, particularly those of public sector enterprises including large public monopolies. As a result of that, the burden of maintaining these inefficient sectors fell on the more productive sectors and ultimately on the real incomes of the population at large. Given these circumstances, therefore, there is a clear need to initiate a new round of economic reforms. These need to be complemented by appropriate institutional arrangements. Mobilization of support to carry out a substantial reform depends on successful resolution of the wider national issues related to post-war reconciliation and devolution.

In the preparation of a public investment programme at the present juncture, the Government has found it necessary to work within a formidable resource constraint. This is a consequence of unusually low revenue out-turn and heavy recurrent expenditure commitment carried by the government – a result of wrong policies and poor management practices that prevailed during most of the past decade. Thus, there is a compelling need to put the available investible resources to optimal use. This means that all new capital expenditure proposals have to be carefully studied to ensure high returns - both social and / or economic, and their conformity with the development objectives as described earlier. In addition, the larger ongoing projects and programmes have to be kept in constant review with a view to making necessary modifications, to ensure adequate returns and avoid waste. In this context, the need to adopt the principles of "Project Cycle Management" will be kept in view as a medium term objective. Thus there may be a need to upgrade and strengthen the technical skills of the staff concerned for undertaking project preparation, appraisal and analysis.

In the past, there have been instances of failure to follow proper procedures in the inclusion of capital expenditure projects in the public investment programme. Such slippages can create conditions favourable to inefficient use of scarce resources as well as corrupt practices. Therefore, greater discipline in committing public funds for investment, is required. In the future, with a view to adopting proper approval procedures, necessary guidelines and criteria will be prepared by the relevant central ministries.