

## **Economy - the legacy and the challenge !**

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The highest judiciary of the country made several damning, grave and serious findings, against the very person, who had to lead by example, the financial discipline in the public service, and hence, he necessarily had to go. Though somewhat belatedly, perhaps even reluctantly, the action by H.E the President, puts to shame the corporate leaders and the business community, who hold out that they are indeed 'decision makers' and not '*pussy footing*' procrastinators ! In a civilized democracy, what would have been the consequences of law enforcement by now ?

Perhaps, this might precipitate a turning point in the plummeting economy, with the cost of living spiraling ! There is much analysis and hype on the state of the economy regularly in the media by several economists and the Central Bank! Leaving the economic jargon aside, which is beyond the comprehension of laymen, given below are the pure and simple rudimentary data, revealing the realities, which demand that hard 'commonsensical' strategies be evolved, which any '*hard-nosed*' businessman, with '*horse-sense*', would know !

Perusing the Central Bank Report 2007 released in March 2008, and the Budget presented in November 2007 for 2008, the following revelations, would, no doubt, be of concern to anyone, who has the national and public interest at heart ! The legacy left behind and the challenges to be faced are well revealed !

- As per the Budget for 2008, the revenue for 2007 estimated was Rs. 605 Bn. However, as per the Central Bank Report 2007 Table 6.2, the provisional revenue for 2007 is estimated at Rs. 565 Bn., whilst at Table 95 of the same Report the provisional revenue for 2007 is estimated at Rs. 583 Bn. Whichever figure is right, the revenue for 2007 is below the estimate of Rs. 605 Bn.
- Notwithstanding the foregoing, as per the Budget for 2008, revenue estimated for 2008, is Rs. 750 Bn., confirmed by Table 6.2 of the Central Bank Report 2007. However at Table 95 of the same Report, revenue for 2008 is estimated at Rs. 771 Bn. ! Reviewing the 2007 revenue figures, one can not expect the revenue reaching Rs. 700 Bn. this year – 2008.
- In fact, as per the undated Mid-Year Fiscal Position Report 2008 Table 1.2, it is revealed that the revenue for the 5 months upto May 2008 has been Rs. 261.4 Bn., which prorated for 12 months would amount to Rs. 626 Bn., even with increases in the revenue levels expected in the second half of 2008, one wonders, whether the revenue of 2008 would reach Rs. 700 Bn., as against the budgeted Revenue of Rs. 750 Bn !
- As per the Central Bank Report Table 6.8, the debt service for 2008 is a staggering Rs. 602 Bn., including Rs. 209 Bn., as interest. Hence only about Rs. 100 Bn. of the Revenue will be left for expenditure, even if a revenue level of Rs. 700 Bn. is reached in 2008 !
- Against the above, one has to reckon the expenditure estimated for 2008 in the Budget 2008 of Rs. 1044 Bn., which as per the Central Bank Report 2007 Table 96 is estimated to be Rs. 1486 Bn.
- Hence, would not the borrowings for 2008 have to be in the range of Rs. 1350 Bn. to Rs. 1400 Bn. - i.e. almost double the revenue for 2008 ?

- As per the Central Bank Report 2007 Tables 6.7 and 107, the total debt level of the Government as at December 2007 was Rs. 3070 Bn., of which the foreign debt was Rs. 1355 Bn. (i.e. 44 %). However, as per Table 5.11 of the same Report the external debt is given as Rs. 1,5050 Bn., and with Bank Liabilities as Rs. 1,821 Bn. As per the Mid-Year Fiscal Position Report 2008, the estimated foreign debt service for 2008 is US \$ 995 Mn. !
- It is revealed that the country is running on the ‘remittances’ of the ‘poor workers toiling the middle-east’. In 2007 they remitted US \$ 2502 Mn. As per the Mid-Year Fiscal Position Report 2008, in the first 4 months of 2008, they have remitted US \$ 975 Mn.
- During the last 10-years, these ‘worker remittances’, as per the Central bank Reports, have amounted to US \$ 15,000 Mn. If 50% of it did not come, what would have been the consequent ‘dire straits’ of the economy ? Most of this money is converted into local currency, thereby distributing revenue in the hands of the poor rural people, which has been lubricating the economy.
- As against this, a voluntary survey done for the 3<sup>rd</sup> quarter of 2004, where only 50% of the exporters responded, they on their own volition admitted that US \$ 125 Mn. had been spent abroad by them from the exports proceeds of that quarter alone – hence prorated for 100% of the exporters, the export proceeds leakage for that quarter would have been over US \$ 250 Mn. Against such admitted factual revelations, the economists at the Central Bank have chosen to ‘turn a blind eye’ !

Apart from *ad-hoc* short-term borrowings (including 10% discount given on payment of tax one month before the due date i.e. *discounting revenue at 120 % p.a.* !), what are the mid-term and long-term strategies to resolve the foregoing critical situation ? What are the answers, if any ?

There has been a plethora of multiplicity of taxes, which have been introduced in an *ad hoc* manner perhaps out of desperation ! The cost of administration of tax collection appears not to have been taken into reckoning ! The World Bank website ‘Doing Business in Sri Lanka’ discloses that a medium size company has to make 62 payments in a year, by way of various statutory payments and taxes ! Would this not be an impediment to the very profit creating companies causing loss of unproductive time and effort ?

There are two categories of persons, one who have to and do pay taxes, and two, persons who are exempted from paying taxes having obtained concessions from the Board of Investments, where such extra-ordinary concessions are granted, sometimes by administrative and executive action, by a mere officer. On the other hand, politicians, who consume public revenue very lavishly, are questionably outside the tax net, and thereby shielded from being reported for bribery, where suspected, in terms of the provisions of the Inland Revenue Act.

The accountability to public, from whom taxes are being collected has completely eroded, as disclosed by the former Auditor General, S.C. Mayadunne’s Report, as Project Director, to the Public Accounts Committee and COPE last September - *viz* the Rs. 220.2 billion of discretionary payments made by the Secretary to the Treasury, in terms of Section 5 (Rs. 54.2 billion) and Section 6 (Rs. 166 billion) of the Appropriation Act No. 39 of 2005, raises the question whether it tantamounts to a partial abdication of the powers of full control over public finance vested in Parliament by Article 148 of the Constitution. Notwithstanding the Supreme Court direction, the details of these payments, for which there had been no Supplementary Estimates transparently submitted to Parliament, have not been disclosed.

Even the Mid-Term and Final Annual Reports published in terms of the Fiscal Management (Responsibility) Act No. 3 of 2003, which came into operation in June 2003, do not disclose as statutorily mandated the information that is required to be disclosed to the public, in the manner stipulated in the said Act. There is a provision for secrecy, where it concerns national security and defence expenditure, but there is no room for any secrecy in relation to any other expenditure, where public finances are being consumed, particularly by politicians *sans* any accountability.

The Supreme Court Judgment reveals only one instance of pillage and plunder of public resources by the socio-politically influential and privileged. Such practice has resulted in the 'complete erosion' of public confidence in developing a liberalized economy ! When compared to Singapore, who were well behind us economically at the time of independence, have we not now lagged far behind, having been economically mismanaged since that time ? Singapore achieved this by strictly enforcing the 'rule of law', regardless of personalities concerned !

There are 'two types' of terrorists in the world. One type are 'economic terrorists', and other 'armed terrorists' ! It is the view of many, that 'economic terrorism', the pillage and plunder of the wealth of the poor, impoverishing them, leads to disillusionment, social unrest, social injustice, insurrection, and finally 'armed terrorism' ! Combating 'economic terrorism', the 'root cause', would be of the highest priority !

Pertinent '*extracts*' from the Annual Report 2005, published in 2006, by the Ministry of Finance & Planning are given below:

"The establishment of the National Procurement Agency (NPA) as an independent regulatory body to oversee procurement monitoring, capacity building and policy related matters is a strategy policy taken by the government to address public procurement issues."

"Procurement policy reforms includes - Government procurement guidelines - Harmonization provisions Procurement guidelines for emergency procurement - Development of procurement manuals Development of NPA website - Procurement appeal board Development of standard functional specifications - Development of standard bidding documents (SBD) and Requests for Proposals (RFP)"

"Public Enterprises Reform Commission (PERC) is to restructure the identified non strategic enterprises and concentrate post privatisation issues on already privatises enterprises."

"The Department of Public Enterprises of the Treasury works closely with SEMA and PERC to co-ordinate their activities in terms of the governments economic policy framework. In addition, a code of Best Practice in Corporate Governance for Public Enterprises and a set of Implementation Guidelines were published by the Department of Public Enterprises"

Ironically, in the very next year 2007, both the National Procurement Agency and the Public Enterprise Reform Commission were questionably and mysteriously closed, thereby rendering the foregoing to be mere 'fallacies' ! PERC alone had nearly 50 post-privatisation issues and post-privatisation litigations to have been pursued and resolved ! All the files have been dumped in a Store, possibly with the fervent hope, that revealing documentations will either rot, or be misplaced or stolen, thereby jeopardising any future 'probes' into 'malpractices' and fraud on the people.

The foregoing are the challenges, which the new Secretary, Ministry of Finance & Planning / Secretary to the Treasury, Sumith Abeysinghe, a soft-spoken and a man known to be honourable, would have to face ! The fact that he had been a 'ranker' in the Treasury, from as far back as 1977, and has now reached the 'pinnacle' is alone a tribute ! Having been partially involved in the public sector and thus having known him since 1977, I am aware that he is well exposed to, as to how the Ministry of Finance and the Treasury was strictly managed at that time, devoid of personal patronage and politicised compromise, and from where money could not be siphoned, without disclosure to and approval from Parliament, constitutionally vested with full control over public finance !