The Ninth Parliament of the Democratic Socialist Republic of Sri Lanka

(Fifth Session)

Third Report of the Committee on Ways and Means

Presented to Parliament
by
Hon. Patali Champika Ranawaka
Chair of the Committee on Ways and Means
on
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COMPOSITION OF THE COMMITTEE ON WAYS AND MEANS
(Fifth Session of Ninth Parliament)

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COMMITTEE REPORTS

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1. BACKGROUND

The Committee on Ways and Means was established as a Special Purposes Committee during the Fourth Session of the Ninth Parliament with amendments brought to the Standing Orders of Parliament in November 2022. As per Standing Order No. 124, the Committee originally comprised of sixteen (16) Members of Parliament who are not members of the Cabinet of Ministers. However, in the Fifth Session of the Ninth Parliament, a motion approved by Parliament on 09 February 2024 expanded the Committee to include seventeen (17) members, deviating from the original provision of Standing Order 124. The Committee of Selection nominated the Members of the Committee, and their names were announced to Parliament on 09 February 2024, 06 March 2024, 20 March 2024, and 01 April 2024.

As a Committee which oversees the financial matters of the country, the Committee on Ways and Means has the power to examine all matters related to taxation, tariff and other revenue enhancing measures of the government, propose changes to the existing policies on taxation and tariffs as and when necessary.

With the prorogation of Parliament on 26 January 2024 the Committee on Ways and Means lapsed. The first meeting of the Committee for the Fifth Session of the Ninth Parliament was held on 20 March 2024 and the Hon. Patali Champika Ranawaka was re-elected as the Chair of the Committee. The Committee on Ways and Means conducted ten (10) meetings and made a visit to observe the Ambathale and St. Sebastian North Lock Storm Water Pumping Stations and the Kalu Palama Flood Regulatory Gates. The first report of the Committee was presented to Parliament on 6 September 2023 and the Second Report of the Committee was presented to Parliament on 1 April 2024.

Subsequently, the Committee focused its attention on very critical issues such as increasing prices of essential food commodities especially big onions, recovery of default taxes of the three main revenue-generating institutions of the country that contribute to 99% of the government revenue and development of Digital Public Infrastructure. Moreover, the Committee examined revenue enhancement strategies used by the three main revenue-generating institutions and the achievement of revenue targets set by the

Budget 2024. The observations and recommendations made by the Committee during its meetings held from 02 April 2024 to 07 August 2024 are included in this report.

2. COMMITTEE MEETINGS HELD

First meeting held on 20.03.2024

The first meeting of the Committee for the Fifth Session of the Ninth Parliament was convened on 20 March 2024 to elect a Chair for the Committee. Accordingly, the Hon. Patali Champika Ranawaka was declared elected as the Chair of the Committee unanimously having proposed and seconded his name by the Hon. Wasantha Yapabandara and the Hon. Lasantha Alagiyawanna respectively.

At this meeting, the approval of the Committee was granted to present the second report of the Committee to Parliament.

Second meeting held on 02.04.2024

The second meeting of the Committee was convened on 2 April 2024. Initially the Committee reviewed the progress of the recommendation given by the Committee to conduct a forensic audit by the Auditor General on the irregularities occurred in granting permits to Sri Lankans employed abroad to import electric vehicles with the participation of the officials from the National Audit Office.

Next, the Committee examined the collection of default taxes of the Inland Revenue Department and the officials from the Ministry of Finance, Economic Stabilization and National Policies and the Inland Revenue Department attended the meeting.

Finally, the Committee discussed on the disparity between the market price and the imported price of essential food items with special focus on increasing prices of big onions. The officials from the Sri Lanka Customs, Department of Imports and Exports Control, Department of Census and Statistics, Consumer Affairs Authority, Central Bank of Sri Lanka and Hector Kobbekaduwa Agrarian Research and Training Institute attended the meeting.

Third meeting held on 24.04.2024

A meeting of the Committee was held on 24 April 2024 to review the progress of implementing the following recommendations given to the EDSL by the Committee with the participation of the officials from the Excise Department of Sri Lanka:

- Developing an effective payment plan to recover default taxes from all liquor manufactories.
- Progress of introducing a homogenous, foolproof security tax stamp system for all liquor manufacturers
- Progress of developing the IT application named 'Revenue Administration System for Excise Department (RASED)'
- Progress of the investigation carried out by the Criminal Investigation Department (CID) regarding the criminal offence of placing fake security tax stamps in liquor bottles
- Progress of installing CCTV cameras to monitor each liquor manufactory by the Commissioner General of Excise
- Progress of introducing legal amendments to the Excise Ordinance No. 08 of 1912 to the effect that a security deposit be made when a new liquor license is issued or the existing license is renewed

In addition to these, the process of issuing new liquor licenses from 01.10.2023 to 31.03.2024 was also reviewed by the Committee.

At this meeting, the Committee recommended the Commissioner General of Excise to take action to recover the full amount of outstanding taxes due for the year 2023 amounting to Rs. 1.1 billion from the relevant liquor manufactories on or before 30 June 2024.

During the second session of the meeting, the Committee discussed the issue of increasing prices of big onions with the participation of the officials from Consumer Affairs Authority.

Fourth meeting held on 08.05.2024

During the first session of the meeting the Committee held on 08.05.2024 the proposed National Tariff Policy was considered and the Director General of Department of Trade and Investment Policy, Ministry of Finance delivered a

presentation on the proposed National Tariff Policy drafted by the Stakeholders' Technical Committee. The officials representing the Ministry of Finance, Economic Stabilization and National Policies and the Stakeholders' Technical Committee attended the meeting. The presentation was delivered to the members of the Committee with the objective of obtaining their comments and observations.

During the second session of the meeting two experts delivered a presentation on 'Essential Commodities Commission' which outlined how the importation, procurement and selling processes can be integrated into an electronic interface. Mr. Hasitha Abeywardena and Mr. Nalinda Jayawardena submitted the proposal. The officials from the Ministry of Finance, Economic Stabilization and National Policies, Sri Lanka Customs, Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government, Consumer Affairs Authority, Central Bank of Sri Lanka and Presidential Secretariat, representatives from the Importers' Association, an expert from the Colombo Stock Exchange and a group of experts in the field attended the meeting.

Fifth meeting held on 14.05.2024

A meeting of the Committee was held on 14 May 2024 to discuss the progress of the following social welfare programmes being implemented in the country:

- Aswesuma Welfare Benefit Scheme
- Samurdhi Benefit Scheme
- Elders' monthly allowance
- Monthly allowance for CKDU (Kidney patients)
- Programme to provide free meals to school children

The officials representing the Ministry of Women, Child Affairs and Social Empowerment, Ministry of Education, National Secretariat for Elders, National Secretariat for Persons with Disabilities, Department of Social Services, Department of Samurdhi Development and Welfare Benefits Board attended the meeting.

Sixth meeting held on 05.06.2024

On 5 June 2024, a meeting of the Committee was convened to discuss the following:

- Mis-invoicing in international trade and the progress of implementing the recommendations given by the Committee related to mis-invoicing
- Special Audit Report on Management/Administration of various funds in Sri Lanka Customs published on 9 April 2024
- Discussion on the flood situation triggered in Colombo and several other districts due to the recent adverse weather conditions

During the first session of the meeting, an official from Sri Lanka Customs made a presentation on 'Trade mis-invoicing' which is a global issue. Also the Committee discussed the Special Audit Report issued by the Auditor General on Management/Administration of various funds in Sri Lanka Customs. The officials from Ministry of Finance, Economic Stabilization and National Policies, Sri Lanka Customs and Inland Revenue Department attended the meeting.

During the second session of the meeting, the Committee held discussions on the flood situation triggered in Colombo and several other districts resulting from torrential rains during the period from 1 to 5 June 2024, after effects of the disaster, the emergency measures deployed to rescue people, restore essential services to the affected areas and to examine measures that should be improved and taken to mitigate the impact of such disasters in the future. The officials from the Ministry of Defence, Department of Irrigation, Mahaweli Authority, Colombo Municipal Council and Sri Lanka Land Development Corporation attended the meeting.

Seventh meeting held on 20.06.2024

At the first session of the meeting held on 20 June 2024 a research analyst from Verité Research delivered a presentation on the Report titled 'State of the Budget 2024' compiled by the Verité Research. The report comprises of four main sections namely deficiencies in the Budget, analysis of revenue estimates, analysis of expenditure allocations and other concerns.

During the second session of the meeting, the Committee examined a petition received from Seethawakapura Jana Sahana Sabhawa regarding the supply of water mixed with mud by the National Water Supply and Drainage Board (NWSDB) with the participation of the officials from the NWSDB.

Eighth meeting held on 10.07.2024

At the meeting of the Committee held on 10 July 2024 the progress of implementing the recommendation given by the Committee on 24 April 2024 to recover the full amount of outstanding taxes due for the year 2023 amounting to Rs. 1.1. billion from the relevant liquor manufacturers on or before 30 June 2024 to the Excise Department of Sri Lanka was reviewed during the first session of the Committee. The officials of the Excise Department of Sri Lanka and Ministry of Finance, Economic Stabilization and National Policies participated this meeting.

During the second session of the meeting the Committee discussed the inundation of the Kandy Railway station. The officials from the Kandy Municipal Council, Road Development Authority, Urban Development Authority, Kandy Multimodal Transport Terminal Development Project attended the meeting. Also the Members of Parliament representing the Kandy District were also invited for the meeting.

Next, the petition submitted by the Seethawakapura Jana Sahana Sabhawa regarding the supply of water mixed with mud was further examined with the participation of the officials from the National Water Supply and Drainage Board, Department of Irrigation, Central Environmental Authority and representatives of Seethawakapura Jana Sahana Sabhawa. During the previous meeting held on 20 June 2024, it was revealed that the primary cause of drinking water contamination with mud is illegal gem mining in Getahethi Oya. As a result, the National Gem and Jewellery Authority was summoned. However, despite being properly notified by the Committee Secretariat, the National Gem and Jewellery Authority did not attend the meeting

Ninth meeting held on 24.07.2024

At the meeting of the Committee held on 24 July 2024, the development of Digital Public Infrastructure (DPI) with the participation of the officials from

the Ministry of Technology, Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government was discussed during the first session. The representatives of the United Nations Development Programme (UNDP) Sri Lanka attended the meeting on the invitation of the Committee. Mr. Fadhil Bakeer Markar, Policy Specialist and Team Leader of UNDP Sri Lanka delivered a presentation on the 'Digital Public Infrastructure (DPI): Inclusive and Rights-based Digital Transformation'.

During the second session of the meeting, a request sent by the Government Engineering Service Union was examined with the participation of the officials from the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government and the representatives of the Government Engineering Service Union.

Tenth meeting held on 07.08.2024

At the meeting of the Committee held on 7 August 2024, the officials from the Ministry of Finance, Economic Stabilization and National Policies for the first session of the meeting to review the performance of the three main revenue-generating institutions of the government mainly Inland Revenue Department, Sri Lanka Customs and Excise Department of Sri Lanka for the period from 01.01.2024 to 30.06.2024. At this meeting the Committee commended Sri Lanka Customs for providing import data of essential food items weekly beginning from April first week 2024 enabling the Consumer Affairs Authority to monitor and issue indicative prices resulted in keeping the prices of essential food items controlled.

During the second session, two requests sent by Road Development Authority Engineers' Association and Ceylon Federation of Micro, Small and Medium Enterprises were examined with the participation of the officials from the Ministry of Finance, Economic Stabilization and National Policies.

3. FIELD VISITS OF OBESERVATION

The Committee made a site visit on 10 June 2024, to the Ambathale and St. Sebastian North Lock Storm Water Pumping Stations and the Kalu Palama Flood Regulatory Gates. The purpose of these visits was to observe the functioning of the storm water pumps and the monitoring mechanisms used to mitigate urban flooding in the Colombo District following the floods caused by heavy torrential rains prevailed from June 1 to 5, 2024. Officials from the Sri Lanka Land Development Corporation (SLLDC) conducted the site visit for the members of the Committee, with officials from the Disaster Management Center (DMC) also present. In addition to members of the Committee, the Hon. Madhura Withanage and the Hon. Sarath Weerasekara, the Members of Parliament representing the Colombo district, joined the site visit.

The officials of SLLDC made a presentation on Urban Flood and Drainage Management in Colombo and its suburbs at the Ambathale Storm Water Pumping Station. It was brought to the notice of the Committee that three government institutions are responsible for the mitigation and management of floods in the Colombo Metropolitan Area: the SLLDC, the Department of Irrigation, and the Colombo Municipal Council.

Following the visit to the Ambathale Storm Water Pumping Station, the members of the Committee and the Members of Parliament visited the Kalu Palama Flood Regulatory Gates and the St. Sebastian North Lock Storm Water Pumping Station. They observed the functioning of two-storm water pumps installed at the station and discussed the issues pertaining to the operations of the Pumping Stations.

4. COLLECTION OF GOVERNMENT REVENUE

4.1. Background

Tax revenue is a key component of fiscal policy of Sri Lanka forming the backbone of its efforts to raise public funds. In the year 2024, country's fiscal policy should aim at enhancing the country's economic stability and addressing its ongoing debt challenges. The Budget for 2024, presented to Parliament in November 2023, is a critical component of this strategy, outlining the proposals of the government for raising public funds through taxation and proposed expenditures for the year.

The Budget for the year 2024 proposes a total revenue target of Rs. 4,164 billion. Out of this, the forecasted tax revenue is Rs. 3,819 billion. The tax revenue is primarily collected by three main institutions namely Inland Revenue Department (IRD), Sri Lanka Customs (SLC) and Excise Department of Sri Lanka (EDSL). The breakdown of the forecasted tax revenue for the year 2024 is as follows:

No	Institution	Forecasted tax revenue for the year 2024 (Rs. Billion)	Percentage (%)
01	Inland Revenue Department	2024	53
02	Sri Lanka Customs	1533	40
03	Excise Department of Sri Lanka	232	6
Sub Total		3789	99
04	Other government institutions	30	1
Total		3819	100

Source: Department of Fiscal Policy, Ministry of Finance, Economic Stabilization and National Policies

The collected tax revenue for the period from 01.01.2024 to 30.06.2024 is amounted to Rs. 1709 billion whereas the forecasted tax revenue for the above period stands at Rs. 1775 billion.

In light of this, this report examines whether the three main revenue collecting institutions met their revenue targets during the first quarter (01.01.2024 to 31.03.2024) and during the second quarter (01.04.2024 to 30.06.2024).

No	Institution	Forecasted revenue for the first quarter of 2024 (Rs. Bn)	Revenue collected for the first quarter of 2024 (Rs. Bn)	Forecasted revenue for the second quarter of 2024 (Rs. Bn)	Revenue collected for the second quarter of 2024 (Rs. Bn)	Percentage (%)
1	Inland Revenue Department	380.5	429.5	445.7	473.1	109
2	Sri Lanka Customs	352.8	353	350.7	319.6	96
3	Excise Department of Sri Lanka	52.2	51.2	57.2	53.8	96

Source: Statistics of Inland Revenue Department, Sri Lanka Customs and Excise Department of Sri Lanka

Historically, Sri Lanka has struggled to meet the revenue targets set by the Annual Budget each year. When actual revenue falls short of expectations, it leads to higher budget deficits and increased debt levels. A large share of government expenditure accounted for salaries of public servants, interest payments and social welfare. The inability to meet revenue projections often necessitates borrowing to cover the gap, which in turn elevates the national debt. This cycle of missed targets and rising debt creates a strain on the economy, as more resources are directed towards debt servicing rather than critical development initiatives. The persistent budget deficits limit the government's ability to invest in infrastructure, social programs, and other essential services, further impeding economic growth and development.

4.2. Observations

The Committee observed that:

4.2.1.Inland Revenue Department

4.2.1.1. The Inland Revenue Department has requested an additional time to provide details of outstanding taxes as at 30 June 2024. The Sri Lanka Customs has outstanding taxes amounting to Rs. 57.8 billion whilst Excise Department of Sri Lanka has outstanding taxes totaling Rs. 7.9 billion as at 30.06.2024.

4.2.1.2. The reporting of the progress on the actions taken in response to the recommendations given by the Committee to the Ministry of Finance, Economic Stabilization, and National Policy is minimal.

4.2.1.3. As of 30 June, 2024, the IRD had collectable default taxes amounting to Rs. 188 billion. Out of this amount, Rs. 47 billion was collected in cash, and Rs. 57 billion was recovered through the deduction of arrears. Consequently, Rs. 104 billion had been subtracted from the total of Rs. 188 billion.

4.2.1.4. The Inland Revenue Department has default taxes amounting to Rs. 29 billion from government institutions.

4.2.1.5. The revenue forecasted and collected by the IRD during the period of 01.01.2024 to 30.06.2024 is as follows:

Tax Type	Forecasted revenue (Rs. Million)	Collected revenue (Rs. Million)
Corporate and Non-corporate Income Tax	210,558	237,483
Individual / Personal Income Tax	23,683	20,759
Value Added Tax	334,660	353,465
Advance Personal Income Tax (APIT) / Pay As You Earn (PAYE)	82,369	100,554

Social Security Contribution Levy	93,151	91,187
Withholding Tax	76,636	87,093
Capital Gain Tax	1,500	1,138
Other Tax	3,707	10,943
Total	826,264	902,622

4.2.1.6. The forecasted revenue and collected revenue of Individual Income Tax and APIT/PAYE Tax are as follows:

Tax Type	Forecasted Revenue (Rs. million)	Collected Revenue (Rs. million)
Individual/Personal Income Tax	23,683	20,759
APIT / PAYE Tax	82,369	100,554

This indicates that the revenue collected from the APIT/PAYE tax exceeded its forecasted target, whereas the revenue from Individual/Personal Income Tax fell short of its expected target.

4.2.1.7. From 1 January 2024 to 30 June 2024, the Inland Revenue Department has opened 255,194 new tax files, bringing the total number of tax files to 1,132,598 as of 31 May 2024.

4.2.1.8. Five million individuals over the age of 18 were registered and issued a Tax Identification Number (TIN), while information of another eight million more individuals is still pending registration.

4.2.1.9. The five million individuals were registered, and their National Identity Card Numbers and addresses were obtained by the IRD.

4.2.1.10. There is no apparent connection between the National Identity Card (NIC) number and the TIN. The NIC number consists of 12 digits and includes the individual's birth year, following the Julian calendar. In contrast, the TIN is a 9-digit number that does not incorporate such information.

4.2.1.11. Tax appeal process is a cumbersome and time-consuming process where taxpayers mostly go to courts with regard to the ambiguities in interpreting clauses.

4.2.1.12. A small amount of tax appeal cases were under the jurisdiction of appellate courts whilst a significant number of tax appeal cases were in the Tax Appeal Commission and subject to Administrative Review by the IRD.

4.2.1.13. IRD had sent 900 bank accounts freezing notices to recover default taxes. Some tax payers have responded to bank accounts freezing notices and they were offered a payment plan spanning no more than six months to settle default taxes. Court proceedings have been initiated for those who do not respond to the bank accounts freezing notices.

4.2.1.14. Value Added Tax (VAT) is levied on goods and services at the point of purchase and is included in the price of goods and services. However a substantial portion of default taxes comprises of VAT.

4.2.1.15. The majority (65%) of importers bringing in essential food items possesses temporary VAT registration or fall under the casual stream of 2525. Regarding the importation of big onions in 2023, 93% of importers were part of the 2525 stream.

4.2.1.16. Traders falling under the 2525 stream possess temporary VAT registration valid for a three-month period. In contrast commercial traders in the 7000 stream hold permanent VAT number with the IRD maintaining VAT files for them and they are required to disclose their income to the IRD.

4.2.1.17. Value Added Tax threshold stands at Rs. 60 million. The Ministry of Finance, Economic Stabilization and National Policies issued a circular mandating the registration of all importers engaged in commercial activities irrespective of the threshold. However, under

the provisions of the Inland Revenue Act No 24 of 2017, IRD lacks the authority to register importers falling below the threshold.

4.2.1.18. In the year 2023, the agreement with the Singaporean company for the maintenance of Revenue Administration and Management Information System (RAMIS) was extended for an additional three years. Rs. 8 billion is paid annually to the Singaporean company for the maintenance of RAMIS.

4.2.2.Sri Lanka Customs

4.2.2.1. The revenue forecasted and collected by the Sri Lanka Customs for the period from 01.01.2024, to 30.06.2024 is as follows:

No	Description	Forecasted revenue (Rs. Millions)	Collected revenue (Rs. Millions)
01	Import duty	68,528	47,001
02	Export Duty	16	14
03	Ports and Airports Development Levy	88,514	83,517
04	Import CESS Levy	33,749	35,507
05	Export CESS Levy	969	1045
06	Special Commodity Levy	51,065	43,086
07	Excise Duty - Cigarettes	71,475	53,082
08	Liquor	-	-
09	Petroleum	39,163	93,839
10	Motor vehicle	17,609	29,499
11	Others	2,110	2,957
12	Vehicle Entitlement Levy	76	62
13	Sales of Garment	60	67
14	Fines and forfeitures	750	2,816
Customs Revenue Total		374,084	392,492
15	Luxury Vehicle Tax	1,000	741
16	Value Added Tax - Import	299,256	254,561
17	Nation Building Tax	13	3
18	Social Security Contribution Levy	28,960	24,467
19	Economic Service Charge	6	202
20	Sundries	196	141
21	Other receipts	106	67
Other Revenue Total		329,537	280,182
Grand Total		703,621	672,674

4.2.2.2. In the year 2023, Sri Lanka Customs collected Rs. 974 billion. The targeted collection for Special Commodity Levy was Rs. 70 billion; however, Sri Lanka Customs collected Rs. 63.71 billion by

31.12.2023. The targeted collection of Special Commodity Levy in 2024 is set at Rs. 95 billion.

4.2.2.3. Sri Lanka Customs utilizes three methods for tax collection:

- Composite duty - This method allows for a more flexible approach to taxation, as it takes into account both the quantity and the value of the imported goods.
- Specific Duty – It is a fixed amount of tax levied on a unit quantity of goods, regardless of their value.
- Ad valorem rate – It is a tax calculated as a percentage of the value of the imported goods and it varies according to changes in the price or value of the goods.

4.2.2.4. If we consider the total collection of Special Commodity Levy as a proportion of the overall revenue collected in a given year, it amounted to 9% in 2018, increased to 10% in 2019, peaked at 13% in 2022, and a significant decrease to 7.39% in 2023.

4.2.2.5. Sri Lanka Customs has identified 15 essential goods based on the amount of Special Commodity Levy collected, ranked from highest to lowest. Those goods are coconut oil, potatoes, maize (corn), chilies, crude palm oil, cane sugar, apples, big onions, sprats, edible preparations of fats, garlic, dates, fresh grapes, dried grapes and mackerel.

4.2.2.6. Mis-invoicing has emerged as a major issue in import-export trade. The Global Financial Integrity Report highlights an annual leakage of Rs. 4 billion in the country due to mis-invoicing. With the country's balance of payments around Rs. 3 billion, cutting mis-invoicing leakage by at least 50% would provide significant economic benefits for the country.

4.2.2.7. SLC generates income via invoice value and IRD also earn indirect taxes related to invoicing.

4.2.2.8. Three forms of mis-invoicing are as follows:

- Under-Invoicing: Deliberately declaring a lower value for goods than their actual market value to reduce customs duties and tariffs.
- Over-Invoicing: Inflating the value of goods on invoices for potential money laundering, tax evasion, or securing higher financing.
- Ghost Invoicing: Creating fictitious transactions with non-existent goods or services, thereby manipulating trade data without corresponding physical movement of goods.

4.2.2.9. In the recent past, the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka has reported cases related to four banks where ghost invoicing has occurred for a value of up to Rs 8 billion. The individuals involved in these ghost invoicing cases have not registered with the SLC or the IRD as exporters.

4.2.2.10. Impact of mis-invoicing can be many,

- Revenue Loss: Significant loss of revenue for the government.
- Distorted Trade Statistics: Affects the accuracy of economic indicators.
- Unfair Competition: Provides unfair advantages in the marketplace.

4.2.2.11. Transfer pricing is also an issue that involves the mis-pricing of goods, services, or intangible assets between related entities within multinational companies, leading to profit shifting to jurisdictions with lower tax rates. Such practices account for around 65% of world trade, although the specific percentage for Sri Lanka is yet to be identified.

4.2.2.12. Transactions between Multinational Enterprises (MNEs) are a high-risk area, and there is an increasing trend in related party transactions. Transfer pricing policies of such companies do not take customs valuation fundamentals into account.

4.2.2.13. SLC is in the process of obtaining data related to the import volume by MNEs in collaboration with the IRD since the invoice data by MNEs are incomparable as the imports are branded and the service charges for the imports are quite high. It was also noted that MNEs were among the top 50 importers of the country.

4.2.2.14. Invoice data sharing is possible only with countries that have mutual trade agreements with Sri Lanka, such as India and Australia. However, China, being one of the major importers to the country, has no such mechanism to share invoice data.

4.2.2.15. IRD has introduced transfer-pricing regulations and a Transfer-pricing Unit has been established to address this issue.

4.2.2.16. Tax authorities are guided by OECD guidelines (Organization for Economic Cooperation and Development), and customs authorities adhere to transfer pricing and customs regulations issued by the World Customs Organization. The "Arm's Length Principle," based on the market value of goods and services, is applied to address transfer pricing issues.

4.2.2.17. There is currently no mechanism to obtain original invoice data for imports of Multi National Enterprises, and such data is typically discovered during audits conducted after imports have taken place.

4.2.2.18. In the year 2023, large-scale importers, who account for nearly 3% of the total number of traders, contributed to nearly 80% of the CIF value, of which nearly 7% are from the informal trade sector.

4.2.2.19. In contrast, small-scale importers, who account for nearly 90%, contribute to only about 7% of the Cost, Insurance, Freight value, with the majority of small-scale importers being from the informal trade sector.

4.2.2.20. However, the tax contribution of large-scale importers is about 75% of the total amount, whereas small-scale importers contribute only about 10% of the total tax. Out of the total number of registered traders, 65% are from group 7000 and 35% are from group 2525, also known as the informal trade sector.

4.2.2.21. Mechanisms adopted by Sri Lanka Customs to prevent or to mitigate mis-invoicing in foreign trade:

- Use of Automated Risk Management System
- Updated Valuation data base
- Trader Risk Management

4.2.2.22. At present there are 8,157 HS codes in use for importation of goods to the country, and out of those, a composite duty is applied to 1,264 HS codes.

4.2.2.23. The tax imposed on casinos is not integrated into the Inland Revenue Department's RAMIS system, and it has been noted that casinos are a significant avenue for large-scale money laundering.

4.2.2.24. According to the Special Audit Report on the Management/Administration of various funds in Sri Lanka Customs issued by the Auditor General, stated that from 2017 to 2023, in 17 cases, the total penalty value imposed for illegal importations was Rs. 7,611,652,834. However, due to the exercise of discretion vested in the Director General of Customs, this amount had decreased to Rs. 481,694,078, which is only 6.33% of the total penalty value, causing a massive loss of state revenue.

4.2.2.25. The Committee has also, on numerous occasions, directed the imposition of duty at 100% of the value and, this year, directed the imposition of the maximum value of 300%. However, the penalty was significantly reduced at the discretion of the Director General of Customs, causing a massive loss of revenue.

4.2.2.26. The provisions set in the Customs Ordinance were imposed and, in many cases, the penalty of 300% was not imposed to safeguard businesses, which otherwise would go bankrupt according to Sri Lanka Customs.

4.2.2.27. Recently, 10 gold traders in the country have been raided, investigations on 6 traders have been completed, and Rs. 1.2 billion have been collected as fines for not having accurate information

about the channel through which the gold was imported. Investigations on the other 4 traders are in process.

4.2.2.28. According to Tax Expenditure Statement issued by the Department of Fiscal Policy, Ministry of Finance, Economic Stabilization and National Policies published on 31 March 2024, the total tax expenditure according to the statement is approximately Rs. 978 billion; however, the value is not completely accurate and is not pure revenue as most calculations are based on assumptions since there are no defined taxation standards and benchmarks developed in the country.

4.2.2.29. The tax exemptions given to the IT sector are completely removed, and at present, only a few sectors like pharmaceuticals and electricity supply enjoy the benefit of tax exemptions.

4.2.2.30. The tax expenditure in the Board of Investment (BOI) sector excludes the deferments given to imports, which would be collected as refunds at the time of exports.

4.2.2.31. This Tax Expenditure Statement was prepared prior to the recent policy changes, and as of present, after the application of new policies, many exemptions given to the BOI and Non-BOI sectors are removed, making them tax liable.

4.2.2.32. Sri Lanka levies four types of border taxes: Customs Import Duty, CESS Levy, Ports and Airports Development Levy (PAL), and Special Commodity Levy (SCL), along with four internal taxes: Value Added Tax (VAT), Social Security Contribution Levy, Excise (Special Provision) Duty, and Excise (Ordinance) Levy.

4.2.2.33. Comparing Sri Lanka and Vietnam, in 2001, Sri Lanka's global market share of exports per $10,000 was $8, whereas Vietnam's was $23. By 2021, Sri Lanka had decreased to $5, while Vietnam soared to $122, underlining Vietnam's possession of a national tariff policy.

4.2.2.34. Analyzing peer countries, goods were categorized as consumption, intermediate, and capital. While most peer countries impose below 8% taxes on intermediate and capital goods, Sri Lanka levies 14% and 11%, respectively. This suggests the need for a policy framework to rationalize tariffs.

4.2.2.35. Examining the correlation between exports, imports, and a nation's economic growth reveals that both imports and exports have risen concurrently with sustained economic growth.

4.2.2.36. Analyzing the connection between Gross Domestic Production (GDP) and trade openness, a positive correlation has been observed from 1977 to the present. Sri Lanka has predominantly invested in non-tradable goods. Despite growth in GDP, there has not been a proportional increase in trade. Consequently, Sri Lanka is relying on revenue generated from tourism and remittances from workers in the Middle East, rather than earning through exporting goods.

4.2.2.37. Assessing the correlation between revenue from international trade and trade openness, Sri Lanka previously exhibited higher trade openness. However, since 2000, there has been a policy shift towards decreased trade openness, accompanied by increased revenue generation. Consequently, the country has been accruing revenue at the expense of economic growth.

4.2.2.38. The findings of a World Bank Study revealed that Sri Lanka had failed to get benefit of US $ 10 billion from its potential capacity of merchandise exports annually. If this untapped export potential is tapped, it could bring additional tax revenue of US $ 280 million.

4.2.2.39. Due to the “Anti-Export Biasness” of the existing tariff regime, when the Free on Board (f.o.b.) price is lower than the domestic market price, Sri Lanka is not incentivized to exports.

4.2.3.Excise Department of Sri Lanka

4.2.3.1. The revenue forecasted and collected by the Excise Department of Sri Lanka (EDSL) for the period from 01.01.2024 to 30.06.2024 is as follows:

	Forecasted Revenue (Rs. Millions)		Collected Revenue (Rs. Millions)	
	Excise Tax	Tobacco Tax	Excise Tax	Tobacco Tax
First Quarter	51,724.20	478.80	50,974.01	267.13
Sub Total	52,203.00		51,241.14	
Second Quarter	56,521.00	743.30	53,594.99	273.87
Sub Total	57,264.30		53,868.86	
Total	109,467.30		105,110.00	

4.2.3.2. The EDSL has outstanding taxes amounting to Rs. 7.9 billion as at 30.06.2024 and out of this, Rs. 1.1. billion is attributed to the year 2023.

4.2.3.3. At the meeting of the Committee held on 24.04.2024, the Committee recommended the Commissioner General of Excise to recover the full amount of outstanding tax arrears due for the year 2023 amounting to Rs. 1.1 billion from the relevant liquor manufactories on or before 30 June 2024 or else to revoke the licenses of the said liquor manufacturers until the payments are settled.

4.2.3.4. However, the EDSL had entered into agreements on 28 February 2024 with certain liquor manufacturers as follows:

- With W. M. Mendis and Company to settle the default taxes and penalty of Rs. 1659 million by 29.11.2024
- With Higurana Distilleries to settle the default taxes and penalty of Rs. 102 million by 15.05.2024
- With Synergy Distilleries to settle the default taxes and penalty of Rs. 38 million by 26.07.2024
- With Royal Ceylon Distilleries to settle the default taxes and penalty of Rs. 79 million by 26.06.2024

4.2.3.5. By the time the Committee recommended EDSL to recover full amount of outstanding taxes for the year 2023 on 24.04.2024, the EDSL had already entered into agreements for payment plans with liquor manufactories by 28.02.2024. According to that the EDSL will be able to recover outstanding taxes for the year 2023 by 30 November 2024.

4.2.3.6. The EDSL sought advice from the Ministry of Finance, Economic Stabilization, and National Policies regarding a contradiction between the recommendation of the Committee to recover default taxes for 2023 on or before 30.06.2024, and the agreements made with liquor manufactories to recover these taxes by 30.11.2024. However, by the time of the Committee meeting on 10 July 2024, the Ministry had not provided any advice on the matter.

4.2.3.7. As a result, the EDSL did not renegotiate with the liquor manufactories to settle the outstanding taxes by 30 June 2024, and instead continued with the payment plans agreed upon on 28 February 2024.

4.2.3.8. The default taxes of liquor manufacturers before the year 2023 are as follows:

- W. M. Mendis and Company – Rs. 3,447,109,832.59
- Wayamba Distilleries / Royal Ceylon Distilleries – Rs. 560,723,437.37
- Wayamba Spirit – Rs. 281,860,838.52
- Globe Blenders – Rs. 1,148,140,413.91
- McCallum Brewery – Rs. 619,964,802.42
- Kalutara Co-operative Distilleries – Rs. 17,878,752.50

4.2.3.9. Out of the above mentioned companies, only Wayamba Distilleries has secured a court order preventing the payment of the defaulted taxes

4.2.3.10. There are three (3) categories liquor manufacturing companies namely fully automated, semi-automated, and manual.

4.2.3.11. Distilleries Company of Sri Lanka (DCSL) and Lion Breweries Ltd are the fully automated companies and all three types of liquor manufacturing companies can utilize the paper-based security tax stamp.

4.2.3.12. New machinery would be installed at the DCSL and Lion Breweries Ltd and they will be operated from 1 June 2024. These machines will be capable of producing digital emblems with clear QR codes.

4.2.3.13. The Cabinet of Ministers approved the cabinet paper on establishment of 'Revenue Administration System for Excise Department (RASED)' on 22 May 2024 and accordingly a Technical Evaluation Committee (TEC) will be appointed to call for bids.

4.2.3.14. The EDSL had requested the Government Analyst to check whether fake security tax stamp is printed in the same paper used by the M/S Madras Security Printers Private Limited. The report of the Government Analyst has been received but it does not include the opinion of the Government Analyst on the similarity of the paper.

4.2.3.15. The Excise Department of Sri Lanka (EDSL) plans to integrate AI technology into the installation of CCTV cameras to monitor each liquor and toddy manufactory under the supervision of the Commissioner General of Excise. Additionally, they intend to establish a unified data platform for all liquor manufactories.

4.2.3.16. A Gazette notification had been issued stipulating a Rs. 20 million security deposit for obtaining a new liquor license to manufacture liquor. However, the Committee was of the view that this amount is not sufficient, as the purpose of the security deposit is to cover unpaid taxes in case of tax evasion by the manufacturer. Therefore, the security deposit should be proportionate to the liquor manufacturer's manufacturing capacity.

4.3. Recommendations

4.3.1.Inland Revenue Department

4.3.1.1. It is recommended developing a methodology to separately track revenue from each tax category, with particular emphasis on addressing the IRD's shortfall in achieving the forecasted revenue for individual/personal income tax, while the revenue from APIT/PAYE tax surpasses the forecasted amount.

4.3.1.2. It is recommended recovering outstanding taxes owed by government institutions following an examination of the Mid-Year Fiscal Report which highlights the government institutions that have reported profits this year.

4.3.1.3. It is recommended that a methodology be devised to inform individuals who are being involuntarily registered in the tax system of their Tax Identification Number (TIN). These individuals should then be classified and labeled according to their respective Grama Sevaka divisions.

4.3.1.4. It is recommended reconciling Tax Identification Number (TIN) and the National Identity Card Number (NIC) by incorporating some digits of the NIC into the TIN

4.3.1.5. It is recommended assigning one unique identification number for Sri Lanka Customs, Inland Revenue Department and Excise Department of Sri Lanka in order to facilitate data sharing within the Digital Public Infrastructure (DPI).

4.3.1.6. It is recommended that legal amendments be proposed to expedite the tax appeal process and to finalize the appeals process within a timeframe of three (3) years.

4.3.1.7. It is recommended initiating a Public-Private Partnership model (PPP) for the maintenance of Revenue Administration and

Management Information System (RAMIS) through an open tender procedure.

4.3.1.8. It is recommended creating a digital platform integrating data of individuals who earn a monthly income of more than Rs. 100,000 instead of opening tax files for individuals aged 18 and above.

4.3.1.9. It is recommended that the super gain tax and other applicable taxes be imposed on the undue profit accrued by the importers of essential food items during the period from 2018 – 2023 in accordance with the provisions of the Inland Revenue Act No. 24 of 2017.

4.3.2.Sri Lanka Customs

4.3.2.1. It is recommended phasing out temporary Value Added Tax (VAT) registration for importers by the end of year 2024 distinguishing between those who import for personal use and those who import for commercial purposes.

4.3.2.2. It is recommended that payment systems of banks, ASYCUDA and Cusdec systems of the SLC be integrated in real-time to update payments to prevent incidents of ghost invoicing and ensuring that all transactions are accurately reflected and verified.

4.3.2.3. It is recommended that regulations requiring banks to verify the actualization of imports against Letters of Credit (LC) before releasing payments be developed and enforced and to establish a robust monitoring and reporting mechanism that allows for immediate detection of discrepancies between invoiced amounts and actual imports.

4.3.2.4. It is recommended that SLC must have a mechanism to ensure seamless invoice data sharing between trade partner countries to mitigate mis-invoicing since nearly 30% of trade in Sri Lanka is affected by mis-invoicing.

4.3.2.5. It is recommended that the Ministry of Finance, Economic Stabilization and National Policies should take a decisive action regarding default taxes owed to Sri Lanka Customs as the majority of these defaulted taxes of are owed by government institutions.

4.3.2.6. It is recommended making use of POS (Point of Sale) machine mandatory for VAT registered individuals and institutions in collaboration with the Consumer Affairs Authority and to control the prices of essential food items by enforcing indicative pricing through the Consumer Affairs Authority.

4.3.2.7. It is recommended introducing a mixed or composite duty on specific goods identified by the Sri Lanka Customs, as these goods are imported in varying qualities. Additionally, the SLC and the IRD are currently sharing audit and invoice data to improve coordination between the two agencies, thereby strengthening tax collection efforts of the country.

4.3.2.8. It is recommended that the Ministry of Finance, Economic Stabilization and National Policies should work collaboratively as a Ministry for the country's benefit rather than operating as isolated Departments ensuring proper coordination between the Departments of the Ministry.

4.3.3.Excise Department of Sri Lanka

4.3.3.1. It is recommended that the Excise Department of Sri Lanka should take action for recovering the current taxes and non- current taxes accumulated over the years stressing that taxes are levied based on production and the public do not purchase liquor on credit.

4.3.3.2. It is recommended that all liquor manufacturers should adhere to one type of security tax stamp whether it is a paper-based security tax stamp or a digital emblem highlighting the necessity for uniformity within all liquor manufacturers. A homogenous foolproof security tax stamp whether paper-based or digital, should include following components:

- Authenticity identification for the EDSL
- Ability of the consumer to verify the authenticity through a QR app
- Automatic taxation at the moment of placing it
- Indicating the date, place of manufacturing and all other relevant information

4.3.3.3. It is recommended that the implementation of the 'Revenue Administration System for Excise Department (RASED)' be expedited by including following components:

- to automatically cancel the liquor license of the liquor manufacturer if any offence is committed (non-payment of taxes or manufacturing of liquor bottles with fake security tax stamps etc)
- to renew liquor license online
- integrate it with IT applications of other relevant institutions
- use of National Identity Card Number as the unique identification number
- Public Private Partnership model (PPP model) to manage and operate the IT application

4.3.3.4. It is recommended that the Commissioner General of Excise should be able to daily monitor each liquor and toddy manufactory and its

production volume using CCTV cameras installed in each liquor and toddy manufactory.

4.3.3.5. It is recommended that the Excise Notification No 03/2024 be amended to require liquor manufacturers to make a deposit equivalent to six months' production capacity when new liquor licenses are issued or existing licenses are renewed.

4.3.3.6. It is recommended that a dashboard with benchmarks and achievements for each unit of Sri Lanka Customs, Inland Revenue Department and Excise Department of Sri Lanka be maintained and an appraisal system similar to the balanced scorecard system to evaluate the officers of SLC, IRD and EDSL be introduced.

5. DEVELOPMENT OF DIGITAL PUBLIC INFRASTRUCTURE (DPI)

5.1. Background

Digital transformation offers a promising avenue for Sri Lanka to address its economic challenges and drive sustainable growth. Defined at the G20 summit in India as 'creating a world in which digital is an empowering force for people and the planet,' digital transformation is essential for building a resilient and inclusive economy capable of meeting the demands of the modern global landscape and addressing the new economic challenges the country faces at this juncture.

Digital Public Infrastructure (DPI) is pivotal in driving an inclusive and rights-based digital transformation in the country. DPI can streamline government operations, reduce redundancies, and enhance transparency. The government has the central role in developing both physical and digital public infrastructures, which, when effectively implemented, can enhance public welfare and stimulate private sector growth. This development requires deliberate government investment, strategic policy-making, and careful coordination. The Prime Minister's Office and the Ministry of Technology are collaborating closely with the United Nations Development Programme (UNDP) and Citra Social Innovation Lab to advance this initiative in the country. DPI, comprising digital public goods—open, customizable, and often free applications—supports achieving Sustainable Development Goals (SDGs) by ensuring digital transformation is centered on people and their rights.

DPI consists of digital building blocks with the three main components being

- Unique Digital Identity
- Digital Payments
- Data Exchange.

DPI is based on promoting interoperability and standardization of data sharing and seamless access to services across various platforms. These elements facilitate the integration of services across government institutions, reducing silos, duplication, and inefficiencies while promoting transparency and accountability.

Effective implementation of DPI would include both the implementation of Foundational DPIs and Sectoral DPIs:

- Foundational DPI: Constitutes the backbone of a country's digital infrastructure. It spans multiple sectors to facilitate both public and private service delivery, enabling an open and inclusive ecosystem that generates substantial value.
- Sectoral DPI: Focuses on enabling a specific sector and does not cut across multiple sectors like foundational DPIs. They are designed to help countries achieve the Sustainable Development Goals (SDGs).

In implementing a DPI in the country, the challenges to address include

- establishing an exclusive agency responsible for the operation, maintenance, and funding of the DPI
- the transition from physical to trusted Digital IDs
- enabling authenticated digital payments
- balancing government ownership with a certain degree of openness in data sharing

DPI in Global Perspective

Several countries in the region, some with a comparatively lower per capita income and literacy rate than Sri Lanka, have successfully implemented Digital Public Infrastructure (DPI) using their own funds. These DPIs have been established to facilitate the seamless discharge of various government functions, such as enabling e-banking and e-currency, ensuring data protection and exchange, and supporting social protection programs.

- India has adopted DPI and other digitalization processes to register citizens for government welfare schemes and to digitalize all transactions of higher currency denominations within the country.
- Pakistan is in the process of implementing the 'National Database and Registration Authority (NADRA)' for e-governance and secure documentation. NADRA aims to achieve multiple goals, including mitigating identity theft, safeguarding clients' interests, and facilitating public services.

- Bangladesh has licensed 10 fully digital banks and utilizes DPI for QR-enabled payments via smartphone transactions and to monitor all foreign remittances through an e-wallet system.

DPI in Sri Lanka

At present in Sri Lanka, the Ministry of Technology is taking the lead in the implementation of DPI.

- Sri Lanka is a fellow participating nation in 50-in-5 initiative which is committed to implement a Foundational DPI within the next 5 years.
- Sri Lanka is the 8th nation to commit to the initiative making Sri Lanka one of the fore candidates.
- The Ministry of Technology together with the UNDP is currently collaborating with the Prime Minister's Office and several key government institutions to capture all vital information of citizens to create and update the Civil Registration and Vital Statistics (CRVS) system and to digitalize all civil certifications such as birth certificates and marriage certificates
- An e-population registry is being created as the foundation of the Foundational ID to build the Sri Lanka Unique Digital Identification (SLUDI).
- The UNDP is working to increase awareness and understanding of DPI among public officials through the DPI in Action initiative, encouraging the use of digital public goods and avoiding the creation of siloed systems within institutions.
- Ministry of Technology along with the UNDP is working with the following local and global organizations collaboratively to implement DPI and to convene development sector partners and donor community to mobilize resources around DPI in the country;
    - UNDP Chief Digital Office
    - Bill and Melinda Gates Foundation
    - President Support Unit supported by the Gates Foundation
    - Connect to Care

5.2. Previous Recommendations of the Committee on Digitalization

As the Committee is mandated to examine and provide recommendations on all matters related to taxation, tariffs, and other revenue-enhancing measures, it has investigated and provided recommendations on various aspects of the digitalization of the economy and related services to government institutions, including the Central Bank of Sri Lanka (CBSL) and the three main revenue collection agencies of the country.

However, despite the recommendations given by the Committee, many of these recommendations have not been implemented. As a result, opportunities to enhance government revenue have been overlooked.

- Sri Lanka Customs has reported a loss of approximately USD 4 billion due to mis-invoicing in import-export foreign trade, which is significantly greater than the country's balance of payments crisis, amounting to about USD 3 billion. The Committee, in its first report, recommended incorporating AI (Artificial Intelligence) into its systems to prevent these leakages and to enable the seamless electronic exchange of trade-related data and documents by fully digitalizing trade processes. However, this recommendation has not been implemented to date.

- The Committee's first report reinforced the recommendation made by the Committee on Public Accounts (COPA) to implement the "Integrated Revenue Management System" which involves incorporating 13 key government institutions. It also recommended linking state and private banks, international schools, and law firms to the said system to regulate tax collection processes. However, this recommendation has not been adhered to date.

- In its second report, the Committee recommended that the Information and Communication Technology Agency (ICTA) create a mechanism using blockchain technology to integrate the digital systems of Sri Lanka's three main revenue agencies: Sri Lanka Customs (SLC), Inland Revenue Department (IRD), and Excise Department of Sri Lanka (EDSL) by the end of the year 2023.

Currently, these agencies operate in silos: Sri Lanka Customs employs ASYCUDA, the Inland Revenue Department employs RAMIS, and the Excise Department of Sri Lanka employs no system at all, resulting in significant tax collection defaults. However, this recommendation has not been implemented to date.

- The second report of the Committee recommended transitioning all routine government payments—including salary disbursements, EPF and ETF payments, welfare payments (such as those under the Aswesuma benefit scheme, elder's allowance, allowance for the disabled, and CKDU allowance), as well as incentives and subsidies like the fertilizer subsidy and the collection of fines and government levies—into a digitized wallet. This would enable the monitoring and tracking of all transactions to ensure that the payments achieve their intended purpose. However, this recommendation has not been adhered to date.

- The Committee recommended the Central Bank of Sri Lanka (CBSL) to adapt and implement the Unified Payment Interface (UPI) to capture all transactions within the country, a system which was adopted in India in 2016. The CBSL, although it has a target of achieving e-rupee in the next 5 years, has made no positive progress in adopting the UPI. It was brought to the attention of the Committee by an expert in the field that the government revenue could be doubled by the implementation of UPI without having the need to increase taxes at a vast social cost to the people stricken by poverty.

5.3. Observations

The Committee observed that:

5.3.1. By abrogating the QR codes issued to the 6 million vehicle owners the country missed an opportunity to create a DPI conveniently. The QR codes issued for vehicle owners to obtain their fuel quota had been monetized, which not only could have increased revenue but also helped uncover many malpractices.

5.3.2. The LankaPay platform introduced by the Central Bank of Sri Lanka, which is similar to Unified Payment Interface and uses QR codes for transactions, is not widely adopted due to the differing incentives provided for various card payment systems and the LankaPay system. The incentives offered to merchants for promoting card payments have made them more popular among consumers.

5.3.3. The Department for Registration of Persons is working in isolation to develop an e-NIC and is currently in the process of procuring fingerprint readers. In contrast, the Ministry of Technology is pursuing a more comprehensive biometric verification system that includes fingerprint, iris print, and face recognition. This initiative is supported by nearly Rs 18 billion in financial aid from the Indian government and aims to implement a unique digital identification similar to the Modular Open Source Identity Platform (MOSIP) system.

5.3.4. The Inland Revenue Department opposes the implementation of a common Sri Lanka Unique Digital Identity (SLUDI) because it has already implemented its own Tax Identification Number for tax purposes. This number bears no logical relationship to the current National Identity Card number or the proposed SLUDI.

5.3.5. A pilot project is currently underway, having collected vital information from 1.3 million individuals and 330,000 households in the Kalutara district. According to the Personal Data Protection Act, this information could be shared within the next three months.

However, the Ministry of Finance, Economic Stabilization, and National Policies has imposed certain constraints on the sharing of this data.

5.3.6. The Ministry of Technology is working closely with technical experts from the Indian government to implement the National Data Exchange proposal. This proposal is expected to be submitted to the Ministry of Finance, Economic Stabilization, and National Policies for approval in the near future.

5.3.7. Many systems currently in use in several government institutions cannot be integrated due to their development timelines and varying technologies. It is necessary to study the existing systems, identify gaps, assess stakeholders, review the infrastructure and available web technologies, and then build middleware to integrate these systems for interoperability.

5.4. Recommendations

5.4.1. It is recommended creating a **Food Exchange Interface** to provide a transparent platform where consumers can access information on import prices, relevant taxes, wholesale prices, and indicative retail prices, by the Consumer Affairs Authority in collaboration with other relevant institutions.

5.4.2. It is recommended creating an **e-Procurement Platform** for major imports such as coal, fuel, medicinal drugs, and fertilizer. This platform would ensure transparency in import prices, relevant taxes, and final selling prices, helping to prevent third parties from inflating prices.

5.4.3. It is recommended implementing **DPI initially with the three revenue-generating agencies of the country** and to complete the integration of all government agencies by implementing SLUDI within the next 12 months.

5.4.4. It is recommended **integrating POS (Point-of-Sales) machines in the retail market**, especially in supermarkets, to regulate product prices and monitor transactions for better tax collection.

5.4.5. It is recommended that a mechanism be proposed to reconcile the TIN (Tax Identification Number) issued by the Inland Revenue Department (IRD) with the NIC (National Identity Card) number, to establish a logical relationship between them.

5.4.6. It is recommended establishing an efficient system that allows citizens to easily access the services of obtaining licenses and paying fines without any discrimination by integrating all government agencies to streamline the payment process for licenses and fines.

6. EMERGENCY RELIEF MEASURES

6.1. Background

Natural disasters such as torrential rains, floods, and landslides can cause widespread devastation, impacting infrastructure, displacing populations, and posing significant risks to human life. Effective emergency relief measures are essential to mitigate the effects of these disasters and provide immediate assistance to affected communities. Early warning systems, preparedness measures, and immediate response actions are critical to saving lives, reducing suffering and damages, and accelerating recovery. The institutional framework for providing emergency relief primarily involves the co-ordination of multiple government institutions. With well-coordinated emergency relief efforts, the impact of these disasters can be mitigated. Continuous improvement and investment in disaster management capabilities are essential to enhance resilience against future natural calamities.

The Committee on Ways and Means investigated three main disaster management and mitigation issues and the provision of emergency relief measures, and has provided its observations and recommendations for improvement.

The Committee observed significant issues in the functioning of storm water pumps and the monitoring mechanisms used to mitigate urban flooding in Colombo, following the heavy torrential rains from June 1 to 5, 2024. The country faced floods resulting from torrential rains in the said period, causing urban flooding, mudslides, and falling trees. The South-East Monsoon rains, combined with La Niña conditions in the Pacific Ocean and the dipole condition in the Indian Ocean, caused heavy rain in the country. This led to flooding, inundation, and rising water levels in major rivers, affecting several districts and forcing the evacuation of thousands of people.

The Committee examined the longstanding issue of muddy water supply affecting Avissawella residents, due to irregular gem mining operations contaminating the water source, upon the receipt of a petition from Seethwakapura Jana Sahana Sabhawa. This issue has been affecting the residents of the Avissawella area for over 27 years. The Seethawaka River, a

tributary of the Kelani River, flows through Avissawella town and is fed by another tributary called Getahathi Oya. It is reported that the drinking water supplied by the Seethawaka Water Pumping Station of the National Water Supply and Drainage Board (NWSDB), which is treated and distributed to the residents of Avissawella, is currently unfit for consumption. This is due to the extremely muddy water being released into the Getahathi Oya from irregular gem mining operations in the Marabe area, located on lands adjacent to the Getahathi Oya. Approximately 33,000 people utilizing 8,752 water connections are impacted by this problem.

The Committee noted that the Kandy Railway Station experienced significant inundation due to overflow from the Dunumadalawa Forest Reserve and blocked waterways during heavy rainfall. Kandy, being an important religious center for Buddhists and a major tourist attraction in Sri Lanka, is the home of the Tooth Relic of Lord Buddha. However, Kandy is at risk of losing its attractiveness due to outdated and damaged infrastructure, environmental pollution, and unregulated construction that blocks the city's unique mountain view. Kandy City receives water inflow from three directions: from the direction of Trinity College via underground tunnels, from Kandy Lake, and from the direction of Dunumadalawa Forest Reserve. The Committee discussed the inundation of the Kandy Railway Station, as the water from Dunumadalawa Forest Reserve, which flows towards Deiyannwala, overflows near the Bogambara grounds by the Kandy city roundabout. The Kandy Railway Station was inundated for the first time due to the overflow of Hume pipes near the Bogambara grounds, and the second inundation was due to the accumulation of surface water, as the waterways were blocked when the rainfall exceeded 250 mm.

By addressing the above observed issues and implementing the recommended measures, Sri Lanka can better mitigate the effects of natural disasters and provide more effective emergency relief to affected communities.

6.2. Observations

The Committee observed that:

6.2.1. The statistics related to the flood and inundation for the period from June 1 to June 5, 2024, obtained from the Disaster Management Centre (DMC), are as follows:

- Number of Affected Districts: 13
- Number of Affected Divisional Secretariats: 118
- Total Number of Affected Families: 65,777
- Total Number of Affected People: 247,406
- Total Number of Deaths: 21
- Total Number of Injuries: 13
- Total Number of Disappearances: 1 (in Kalutara district, and search missions were underway as of 05.06.2024)
- Number of Houses Fully Damaged: 11
- Number of Houses Partially Damaged: 3,887
- Number of Safety Centers Established: 151
- Number of Displaced Families Residing in Safety Centers: 2,591
- Number of Displaced People Residing in Safety Centers: 10,820
- Number of Displaced Families Residing with Relatives: 4,162
- Number of Displaced People Residing with Relatives: 15,735
- Two choppers of the Sri Lanka Air Force carried out two rescue missions.
- Aerial reconnaissance (air recce) missions were conducted, and as of 04.06.2024, four air recce missions had been conducted.
- Gampaha town and Malwana Divisional Secretariat were submerged as of 05.06.2024 due to the overflowing of Attanagalu Oya.
- The bund of the Nilwala River at Attudawa, Matara had breached nearly 5 meters, and Sri Lankan Army personnel carried out the repair.
- Three deaths were reported due to landslides as of 05.06.2024

6.2.2. Three government institutions are responsible for the mitigation and management of floods in the Colombo Metropolitan Area: the Sri

Lanka Land Development Corporation (SLLDC), the Department of Irrigation, and the Colombo Municipal Council.

6.2.3. Floods within the Colombo Metropolitan Area are mainly due to three factors:

- River flooding of the Kelani River: Department of Irrigation
- Floods due to overtopping of banks of the Kelani River: SLLDC
- Localized flooding due to blockages in drains: Colombo Municipal Council and local authorities

6.2.4. SLLDC is responsible for the maintenance of the main canal system of the Colombo Metropolitan Area and mitigation of urban flooding within Metro Colombo Catchment. The main canal system consists of 43 km long open canals that outfall to the Kelani River and the sea.

6.2.5. SLLDC operates the flood management facilities in the Colombo Metropolitan Area, namely Ambathale Storm Water Pumping Station, St. Sebastian North Lock Gates and Pumping Station, St. Sebastian South Lock Pumping Station in Metro Colombo, Flood Regulatory Gates in Kalu Palama, Gothatuwa, Kimbulawala, Thalangama, and the tunnels in Torrington and New Mutwal.

6.2.6. SLLDC employs the Integrated Flood Management System (IFMS), to monitor rainfall and water levels of the area under their purview in real time, and operates the flood control facilities as per the instructions received from the system.

6.2.7. The Annual Budget has allocated only Rs 600 million for the operation and development costs of the SLLDC. In situations such as floods, when the pumping stations have to operate continuously for several days, the overhead costs exceed the estimates, and the SLLDC faces issues in covering the costs.

6.2.8. SLLDC has a dire shortage of plant operators to operate the storm water pumps. These plant operators are recruited only on a contract

basis, and they leave for better prospects after obtaining the training, due to a lack of job security.

6.2.9. In the event of an electricity failure to Ambathale Storm Water Pumping Station, the pumping station has the generator capacity to activate only 2 out of the total 5 pumps in an emergency situation.

6.2.10. The Department of Meteorology, although able to predict the rainfall, has no facility to accurately quantify the rainfall due to the lack of a Doppler Weather Radar, which would help to accurately predict the timing within 1.5 – 2 hours with intensity of the rainfall.

6.2.11. The Doppler Weather Radar machine installed at Deniyaya is 17 years old and was determined to be a failed project in the investigations carried out by the Committee on Public Accounts (COPA).

6.2.12. National Building Research Organization (NBRO) is in charge of 315 automated rain gates in landslide-prone areas.

6.2.13. The Department of Irrigation and the NBRO have their own separate systems to monitor rain and flood levels in the areas under their purview and disseminate early warning messages through the Disaster Management Center (DMC).

6.2.14. However, despite the issuance of early warning messages, people do not evacuate the flood and landslide-prone areas due to the danger of theft of their valuables, for which at times the Sri Lanka Police are deployed to forcibly evacuate in extreme danger situations.

6.2.15. The Colombo Municipal Council (CMC) has identified 47 secondary and tertiary canals under its purview and is in the process of implementing a programme to maintain the canals with community support on a contract basis.

6.2.16. The CMC has identified several canals with more than 6 meters in width which do not come under the purview of either the CMC or the SLLDC, and the CMC does not own the necessary machinery to maintain these canals.

6.2.17. The CMC has identified 20 main flooding points post major flooding in 2017, in Colombo city that need to be addressed immediately to prevent urban flooding. Ten projects are underway with CMC funds for 10 of these flooding points. However, the other 10 projects are halted due to a lack of funds.

6.2.18. The Department of Irrigation reports that the Harvard Bund of the Kelani river is stable, and a few minor leakages are being addressed by the Department.

6.2.19. In 2017, the Department of Irrigation proposed constructing a continuous bund from Hanwella to Modara to prevent the Kelani River from overflowing. A pre-feasibility study was also conducted on the proposal; however, the proposal was abandoned due to a lack of funds.

6.2.20. The Multi-Purpose Development Project integrating the three river basins of the Kelani River, Kalu River, and Attanagalu Oya to mitigate flooding in Colombo, Rathnapura and Gampaha has also been abandoned due to a lack of funds.

6.2.21. The Department of Irrigation reports that the salinity barrier built in Nilwala river is also a reason for the overflowing of the Nilwala River and flooding in Matara. However, the National Water Supply and Drainage Board differ in opinion.

6.2.22. Several canals were blocked temporarily to facilitate the construction of the Matara - Akuressa Highway, and a post-investigation of the clearing of these canals was not conducted.

6.2.23. There is a severe shortage of engineers in the Department of Irrigation and a technical staff shortage of 48% exists in the Mahaweli Authority of Sri Lanka.

6.2.24. The CMC has conducted a survey on old and decayed trees in Colombo city and identified 227 decayed trees. Out of these, 79 trees were removed, and 136 trees were trimmed. The CMC has recommended another 92 trees be removed by the State Timber Corporation.

6.2.25. Water from Dunumadalawa Forest Reserve, which flows towards Deiyannwala, Kandy overflows near the Bogambara grounds at the Kandy city roundabout due to smaller canals leading to the mid-canal system being obstructed by unauthorized constructions over the past decade. This water is channeled into the mid-canal system via Hume pipes near the Bogambara grounds.

6.2.26. Professor S. B. Weerakone of the University of Peradeniya conducted a study on the inundation of Kandy City and the Kandy Railway Station. He suggested that this water should be diverted from flowing to the center of the city to prevent severe destruction during heavy rainfall.

6.2.27. The drainage system of the Kandy Railway Station, which is connected to the mid-canal system of the city, is blocked and has not been cleaned for years, resulting in the inundation of the Kandy Railway Station.

6.2.28. The Kandy Multimodal Transport Terminal (KMTT) structure will be built on the mid-canal system of Kandy City. Prior to the construction of the KMTT, the entire mid-canal system within the KMTT project boundary will be reconstructed. This reconstruction will also renovate the canal belonging to Sri Lanka Railways, which is at the boundary of the land allocated to KMTT.

6.2.29. Regarding the upgradation project in Dunumadalawa, only the water supply from Dunumadalawa was upgraded, but not the overflow boundaries.

6.2.30. Kandy Lake does not overflow often, and the Hume pipes installed at present are not sufficient to mitigate flooding caused by the overflow of nearly 40,000 cubic meters of water per hour. However, for rainfall within 250 mm, the current canal system is durable.

6.2.31. A visit was conducted by the officials of the Kandy Municipal Council to the Kandy Railway Station to inspect the drains within the station. It was noted that the capacity of these drains was insufficient to manage the water overflow to the station.

6.2.32. As a measure to address this excessive water overflow during heavy rainfall, the Hume pipes are being replaced with box culvert pipes with a grant of Rs 33 million allocated by the Disaster Management Centre. The funds necessary to complete the remaining part, approximately Rs 30 million, are expected from the Provincial Road Development Authority.

6.2.33. Four drains within the Kandy Railway Station are quite old brick arch-type drains, and nearly 80% of the drains are currently blocked, with only one drain functioning to some extent.

6.2.34. Legal action has been taken against all unauthorized constructions, and they are in progress in courts.

6.2.35. The drainage system in the Kandy Hospital was renovated through the Japan International Cooperation Agency (JICA) – Kandy City Wastewater Management Project (Sewerage Project). The said project was carried out in three stages:

- First stage – Water Treatment to treat and release the wastewater of the Kandy Hospital, which is completed and the treated water is released to the Mahaweli River in a location further down the drinking water intake facility to the Kandy City.

- Second stage – To install the main drains in the Kandy City.
- Third Stage – To connect 10,000 houses to the drainage system.

6.2.36. The third stage was terminated due to an issue that arose with the contractor. At present, the Kandy Municipal Council is carrying out the remaining part of the third stage since the first and second stages were fully completed.

6.2.37. In the third stage of the Kandy City Wastewater Management Project, out of the proposed 10,000 connections to the drainage system, 4,000 connections were completed by the project. At present, the Kandy Municipal Council is carrying out the remainder by charging a fee from households. Around another 300 connections were provided for a fee.

6.2.38. Many residents are reluctant to connect to the said system as a fee is charged at the initial connection and a monthly levy is collected for maintenance.

6.2.39. Heavy rainfall could pose severe damage due to the unauthorized constructions in Kandy City, which have not been regulated by the Kandy Municipal Council.

6.2.40. The KMTT project is scheduled to be completed in March 2027. However, since the construction of the canal system will be completed prior to the inception of KMTT, the mid-canal system will be reconstructed within the upcoming 6 months.

6.2.41. Drinking water distributed by the National Water Supply and Drainage Board (NWSDB) to Avissawella has been mixed with mud for several years due to unauthorized gem mining and irregular authorized gem mining in the upper catchment area of the Getahethi Oya, Seethawaka River.

6.2.42. The NWSDB's water intake is located near Seethawaka School, where extensive mining occurs upstream. The intake well and filter

media were constructed 50 years ago and are now aging. The filter media is positioned within the river. Water is transported to the intake well through a perforated pipe, where it undergoes purification. Subsequently, chlorination is applied to the water in the intake well before distribution.

6.2.43. Prolonged unauthorized mining in the river has led to damage to the filter media placed in the river, making it challenging to conduct the entire purification process effectively.

6.2.44. Since 2002, the NWSDB has filed complaints with the National Gem and Jewellery Authority, Central Environmental Authority, and Sri Lanka Police regarding the mining in the river, but no stakeholders have intervened to regulate gem mining in the area.

6.2.45. Gem mining in the Seethawaka River is extensively conducted using backhoes, prompting the NWSDB to conduct field inspections as directed by the District Coordinating Committee (DCC).

6.2.46. The NWSDB believes that without effective regulation of authorized but unregulated gem mining and unauthorized gem mining in the Seethawaka River, it is impossible to cease these activities. Therefore, the existing purification plant is inadequate.

6.2.47. Consequently, the NWSDB has developed plans for a new treatment plant in Avissawella, which has received approval from the Department of National Planning and is now in the tender stage. The project is estimated to cost approximately Rs. 1,600 million and aims to be completed within 18 to 24 months.

6.2.48. Gem mining in the Seethawaka River spans several acres, often violating environmental protection laws. The permits for gem mining in the area are frequently issued to well-known individuals, complicating efforts to halt these activities.

6.2.49. The filter media of the existing plant is located within the river, while the proposed treatment plant's filter media is designed to be outside the river, allowing it to purify water mixed with mud more effectively. Additionally, the proposed treatment plant aims to increase capacity due to the rapid development of Avissawella City, boosting capacity from 3,000 cubic meters to 5,000 cubic meters.

6.2.50. The NWSDB supplies water to Avissawella using two treatment plants: the Seethawaka River treatment plant and the Penrith Estate treatment plant. It is not feasible to provide water to the entire Avissawella area using only the Penrith Estate treatment plant.

6.2.51. According to stipulated regulations, the National Gem and Jewellery Authority must obtain recommendations from the Central Environmental Authority (CEA) and the Department of Irrigation before issuing mining licenses for gem mines in environmentally sensitive areas. However, the National Gem and Jewellery Authority has not complied with this requirement, leaving the CEA without the authority to take legal action against these mines.

6.2.52. There are nearly 40 mines in the area, with severe environmental damage caused by six mines that use backhoe machines. Officials are reluctant to take action on this issue due to severe political interference and threats.

6.2.53. Getahethi Oya is a natural gem belt, and the reserve and buffer zone of Getahethi Oya have been severely damaged by these mining activities.

6.2.54. Gem miners have not systematically built mud filters or sludge settling tanks for the removal of tailings in the mines.

6.2.55. Although the National Gem and Jewellery Authority had included positive conditions, no effort has been made to implement them. Despite violations and resulting environmental damage, the licenses of the gem miners have not been canceled. Additionally, the National

Gem and Jewellery Authority is working to extend the expired licenses of gem miners in the Getahethi Oya.

6.2.56. Due to the lack of formal oversight and follow-up on licenses granted by the National Gem and Jewellery Authority for gem mining near Getahethi Oya, informal mining has taken place.

6.3. Recommendations

6.3.1. It is recommended initiating an integrated dashboard system to monitor rainfall data, water levels at major flood gates, and disseminate flood warnings in collaboration with the Sri Lanka Land Development Corporation (SLLDC) and the Department of Irrigation to the Disaster Management Centre (DMC).

6.3.2. It is recommended obtaining a direct alternative electricity line from the Ceylon Electricity Board (CEB) and augment the generator capacity of pumping stations to ensure the operation of all stormwater pumps as necessary during emergencies for the Sri Lanka Land Development Corporation (SLLDC).

6.3.3. It is recommended establishing an internal unit at the Colombo Municipal Council (CMC) to conduct regular clean-ups of blockages in the major canals of Colombo city, in collaboration with the SLLDC and the Ministry of Defence.

6.3.4. It is recommended implementing the Three River Basin Multi-Purpose Development Project (integrating the Kelani river, Kalu river, and Attanagalu oya) and develop the bund of the Kelani River from Hanwella to Modara, with funding from the World Bank or the Asian Development Bank, by the Department of Irrigation.

6.3.5. It is recommended clearing blockages in canals caused during highway construction and oversee and assist the CMC in clearing and maintaining the major canals of Colombo City, as directed by the Ministry of Defence.

6.3.6. It is recommended that the necessary technical staff be recruited to the Mahaweli Authority of Sri Lanka and plant operators to the Sri Lanka Land Development Corporation (SLLDC) under a permanent cadre, facilitated by the Presidential Secretariat and the Management Services Department, Ministry of Finance, Economic Stabilization, and National Policies.

6.3.7. It is recommended expediting the process of clearing decayed trees in Colombo city as recommended by the Colombo Municipal Council (CMC) through the State Timber Corporation.

6.3.8. It is recommended that all unauthorized encroachments on lands belonging to Sri Lanka Railways be removed, a new drainage system be built, and the project currently in progress to open the encased canals by the Kandy Municipal Council be expedited as a measure to prevent the inundation of the Kandy Railway Station.

6.3.9. It is recommended cleaning the Kandy Railway Station premises, including the road leading to the staff quarters, and clearing any blockages in the drainage system to ensure proper rainwater flow within the premises.

6.3.10. It is recommended that necessary financial allocations be provided for the Provincial Council of Central Province (approximately Rs. 30 million) to maintain the drainage system and culverts around Baladaksha Mawatha and Keppetipola Road, Kandy. This allocation should be based on a study by the Provincial Road Development Authority to determine the appropriate length and width of the drains to ensure they do not overflow.

6.3.11. It is recommended addressing the issue of the drainage system of the Kandy Railway Station not being connected to Meda Ela and the blockages in between and finding a solution to mitigate this problem through discussions with the Subject Ministry and the World Bank.

6.3.12. It is recommended that the construction of box culverts be completed by replacing hume pipes in the proposed area around Baladaksha Mawatha and William Gopallawa Mawatha to prevent the inundation of the Kandy railway station.

6.3.13. It is recommended that the water intake for the proposed new treatment plant in the Seethawaka River be relocated. The Committee suggested positioning the intake upstream of the gem mining

activities and strategically placing it above the confluence of Getahethi Oya and the Seethawaka River.

6.3.14. It is recommended that a pre-feasibility study be conducted on the approximate cost of installing the new intake pump for the proposed treatment plant at the upstream of the confluence of Getahethi Oya and the Seethawaka River and the approximate cost and feasibility of obtaining a temporary water line from the Penrith Estate water line until the proposed treatment plant is implemented.

6.3.15. It is recommended expediting the procurement process for the proposed treatment plant at the Seethawaka River in Avissawella by adhering to the proper procedures.

6.3.16. It is recommended that the issuance of new licenses and the renewal of existing licenses for gem miners at mining sites near Getahethi Oya be suspended by the National Gem and Jewellery Authority.

6.3.17. It is recommended that a field inspection be conducted by involving all relevant stakeholders at least once every three months for follow-up, by the National Gem and Jewellery Authority.