

# Strengthening The Nation



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Basil Rajapaksa is the strategist and considered to be the mover and shaker of the present regime. Rajapaksa who has been in active politics for two decades contested the general elections in 1977 for Mulkirigila for the Sri Lanka Freedom Party (SLFP). He later became the General Secretary of the breakaway faction led by SLFP's then Deputy Leader, Maithreepala Senanayake (Maithree faction). Rajapaksa was recently appointed as a Member of Parliament.

In the following interview with Business Today, Rajapaksa, considered a top government strategist, describes the government's attempts to develop the nation in addition to countering allegations of inefficiency and bureaucracy holding back critical infrastructure projects.

By Keith Bernard

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**You played a key role as a front line strategist during the last presidential election and secured victory for your brother, President Mahinda Rajapaksa. Since then, until very recently you performed a central role within the government as Presidential Advisor and figured in strategising and running the government. Having been involved in articulating the Mahinda Chinthana since the presidential election and having performed a key role in the government, in your view do you think the administration has moved in line with the original vision?**

Yes, we have been 100% in line with the Mahinda Chinthana and have not diverted or done anything against it. We acknowledge there are areas in the Mahinda Chinthana that have not been implemented as yet, but we remain committed to its full implementation within the four years remaining of the six-year-plan time frame. Economic policies of past governments have never been in synch with their election manifestos, whereas the Mahinda Chinthana was built into the election manifesto as well as into our development plans including the development plans we presented at the Donor Conference.

Since 1977, governments have been increasingly dependent on foreign countries for aid, assistance and investments, leading to a state of Vijathi Keranaye or external reliance. But in the Mahinda Chinthana we are fostering conditions of self-reliance and are reviving institutions that were almost bankrupt. For

example, take the CTB. In the Mahinda Chinthana we clearly said that within three years we would give 3,000 new buses to the CTB. Out of those 3,000 buses, we have given 2,200 buses so far. The railway, after 20 years, will be receiving the biggest investment both this and next year - which is a huge investment.

When leaving our shores, we should be proud to see the Sri Lankan national flag on our ships and on our planes. It is ironic though that we have a shipping corporation without ships, and a national airline that doesn't belong to Sri Lanka; Even Ethiopia has an airline that belongs to that country. We are probably the only country in the world that doesn't own a single plane.

"We Must Educate The People Of The Implications Of Our Policies. Lord Buddha Once Said That 'Before You Teach A Person You Should Ask Him If He's Hungry.' And If He Is, Feed Him First And Then Teach Him The Dhamma."

Also look at milk food. In the Mahinda Chinthana we didn't say that we would subsidise milk food. What we said was that we would not subsidise imported milk foods, but would instead increase the capacity of the local dairy farmers; if we do not have enough cattle then we should either increase the amount of cattle or increase the capacity of our high breed cattle. And that is what Mahinda Chinthana has set out to do. These are only a few examples that explain how we plan to regain our national pride and achieve long-term economic prosperity within the Mahinda Chinthana framework.

### **Are you saying this is the first time Sri Lanka is having a national centric development policy?**

I can't say Sri Lanka never had one. During various periods we've had a real nationalistic policy but unfortunately during those periods we didn't have the required safety nets in place. In implementing the policy the public may face economic challenges, so we have to have some safety nets.

For example, we planned to increase paddy cultivation, and for the first time in 12 years farmers did not have to go after millers to sell their produce - millers came to the farmers to buy the paddy. We calculated a two-month stock gap before the next season in January after having established the availability of a one-month stock in hand. In November and December we suspect a slight shortage of paddy stocks, and so the possibility of a price increase. To avert a shortage and to keep the price level in check we will import rice, and that is our safety net.

We must educate the people of the implications of our policies. Lord Buddha once said that 'before you teach a person you should ask him if he's hungry.' And if he is, feed him first and then teach him the Dhamma. This is a principle we practice. The Mahinda Chinthana clearly says that we will discourage dumping of imports that threaten our farmers. We will import only if necessary and promote and support local production.

**What about the recent import of onions from India that angered local producers?**

The government is seriously considering whether we should import onions because onions are not an essential item. If we import farmers may not grow them. But if the farmers are able to fetch a good price and a satisfactory margin, everyone will move into onion cultivation in the next season and a consequent glut in the market will drive the prices down. So my point is that we have to be mindful of the demand-supply conditions. In some categories of product we allow the open market system to operate, but we closely monitor and regulate the market for essential items. When it comes to big onions the government shouldn't import. This is my personal opinion and I have conveyed this to the honourable minister in charge of the subject. In the case of rice I believe we should import when necessary, because the price of flour also has gone up in the world market.

**Stability of the government has been a contentious issue. This is not healthy from a development perspective, and measures taken to keep the present government afloat have manifested in challenges to the government, businesses and the people. What is the plan of the government to bring about some stability and infuse confidence in the minds of the general public, potential investors, the business community, and other stakeholders?**

The root cause of this issue can be traced back to 1978 when the executive presidential system was introduced by then President J R Jayawardena. The executive presidency was claimed to be necessary for a stable government. I think we have had more stable governments before the executive presidency was introduced, and to make a bad situation worse, President Jayawardena also introduced other complexities such as the preferential representation system.

**Which in your view is the bigger flaw, the preferential representation**

## **system or the executive presidency?**

There can't be two systems working together. Our Sri Lankan constitution is like a pickle - it's a mix of various things. We don't have an executive system or a parliamentary system. The legislation has to be stable for a government to function normally. When President Rajapaksa assumed office, the government couldn't even have the speaker of its choice, and this was with the JVP supporting the President, because the government didn't have a clear majority.

## **Does the government today have the majority it needs, and how does the JVP figure in the overall count?**

Now the President has a majority. The JVP left the government before President Rajapaksa took over as President. After the tsunami council, the JVP left the government and took its place in the opposition but chose to remain as an independent group. Now the government has 119 members, and only a few previous governments have had the luxury of such a majority. The opposition main party always had at least 50 to 60 MPs, this is the first time I think the UNP has only 43 MPs. Today there isn't a clear cut strong opposition. Under the President's leadership we have 119 MPs and on the other side the largest is a group of 43 MPs. So what do you think is easier, to go from 43 to a size that constitutes a majority or to build on a strong position of 119?

"There Is No Country In The World That Has Not Increased Its Oil Price. Even The Oil Producing Countries Have Increased Their Prices. Oil Is An Energy Source And Everything Revolves Around Energy. So When The Oil Price Goes Up So Does Coal, Natural Gas, Diesel And The General Price Level Of All Goods And Services."

## **With such a position of strength as you claim why then is there still political uncertainty?**

That is a misconception limited to Colombo and created by the media. For instance, we conducted a survey in the last three days on the no-confidence motion against Milinda Moragoda. Out of 50 people asked at the village level , 47 asked who Milinda Moragoda is?

Then consider the Colombo Municipal Council election results. President Rajapaksa's party lost and that again without the UNP and without the elephant symbol. The independent party with the spectacles symbol won. Ranil

Wickramasinghe, did not make a single statement, but Sirisena Cooray placed a paper advertisement appealing to vote for the spectacles symbol. My belief is that Colombo is not representative of the general thinking of the country.

**There is rising dissent among the public towards the government emanating from the escalating cost of living that appears to be out of control, and a high inflation rate of 17% plus. The government's chorus response is the rising oil prices and the defence expenditure. What have you to say?**

The main issue is of course the high oil price. There is no country in the world that has not increased its oil price. Even the oil producing countries have increased their prices. Oil is an energy source and everything revolves around energy. So when the oil price goes up so does coal, natural gas, diesel and the general price level of all goods and services.

In 2002 we imported about 300,000 barrels of oil at a cost of about US\$ 785 million. In 2006, we spent for the same quantity an amount of US\$ 2,200 million. Despite the rising oil bills we increased our foreign deposits by 4.5% in 2005 - 2006. In monetary terms this increase in foreign reserve translates to around US\$ 120 million. This month too we have increased our foreign reserves in comparison to that of 2005/2006.

In 2006 we recorded a high GDP growth rate of 7.4%, the highest in 30 years. On FDIs the average foreign investment flowing into the country has been around US\$ 250 million, but in 2006 the inflow was US\$ 550 million, and so far this year we have received US\$ 700 million. The increasing FDI is a clear reflection of the confidence of the foreign investing community in the government.

“Recently When Standard And Poors Issued Sri Lanka A Healthy Country Rating They Commented On Both The Positive And Negative Indices Of The Economy, Obviously The Positive Outweighing The Negative, But A Part Of The Media Chose To Highlight The Negatives Thereby Distorting And Undermining The Overall Record Of The Economy.”

And look at our record as a government on reducing the unemployment rate? It is at its lowest. Normally the rate of unemployment has been around 14%, and in most countries it's more than 10%. But we have brought it down to 6.3%, which is

an all time low. The space occupied by advertisements for employment in local newspapers is proof of the employment opportunities available, and these opportunities cut across all levels of employment, top to bottom. In the plantation sector they say that there is a problem with finding labour. In the garment industries we have a large number of vacancies, as in the computer and many other sectors.

Take the key economic indicators - the per capita income - which was earlier less than US\$ 1,000, and in 2006 exceeded US\$ 1,000. This year we will with certainty exceed US\$ 1,500.

Recently when Standard and Poors issued Sri Lanka a healthy country rating they commented on both the positive and negative indices of the economy, obviously the positive outweighing the negative, but a part of the media chose to highlight the negatives thereby distorting and undermining the overall record of the economy. Notwithstanding such negative reporting, having received a good rating is a commendable achievement on the part of the government.

In 1978 too there was huge growth in the country with the introduction of the open market system and a significant level of investment in the Mahaveli development program. But what happened? Inflation shot up. In my view when money flows into the economy and significant development activity is taking place, long-term benefits accrue, albeit with unavoidable inflation.

On a separate but related matter, I've got a Tamil friend that I haven't met. After my recent speech in Parliament in an email he said victory will cost and it doesn't come cheap but defeat is even costlier. And defeat is for now whereas victory will remain for future generations. So people must realise that under conditions of conflict there needs to be sacrifice and it will cost us. Even in sport, to be a good sportsman you have to make sacrifices.

**You expounded the correlation between the movement in fuel costs and the general price levels and as a universal phenomenon its indifferent effect on a global scale. By implication shouldn't we then admit that most other countries have managed their economies better by controlling inflation and recording higher GDP growth rates. India and China are examples of countries with larger economies and higher energy**

## **consumption, but they have managed inflation and recorded high growth rates?**

India and China started the process a long time ago but we started this only two years ago.

For example, for many years since the Kukul Ganga project, there haven't been large scale power generating plants built in Sri Lanka although the demand for power has been steadily rising. We must start coal power to balance off the slowing hydro-power capacity. The Upper Kotmale project was not commissioned for 20 years but we commenced that. In the power sector alone we are investing US\$1 billion on developing Norachchulai, Kerawalapitiya and Sampur - Sampur with India, Norachchulai with China and Kerawalapitiya with Japan.

How about the other sectors such as the harbour? For how many years have we said that we have to develop the southern port? The Colombo port is not adequate for large vessels to call over. Ships are getting bigger. Bigger ships mean cheaper costs because of larger economies of scale. A 50,000 tonne container carrier ship cannot call over at Sri Lanka. So for example when India exports tea they transport it in a 50,000 tonne ship, and so for them the transport cost is cheaper. Our exporters on the other hand have to ship the tea in smaller vessels and that becomes expensive.

No one addressed this problem, but under the direction of President Rajapaksa the tender is open to undertake construction work. We obtained the required capital without any conditions.

Also, not just countries affected by war, but any country having international relations and trade should have at least two international airports. Sri Lanka is an island nation, hence more of a reason to have more than a single international airport. If one airport for any reason becomes inoperable there should be another that can be used to ensure minimum disruption to the free flow of people and cargo by air. That decision also was not taken but is receiving the attention of the present regime.

At present 60 main bridges are being constructed including Arugumbay and Verugal, and these are big bridges. Some places didn't have bridges, instead ferries had been deployed. Most bridges built by the British have a maximum life of 80 years, but they have lasted more than 120 years. A bridge with splendid



architecture is being built by the Koreans in Matara, and this kind of infrastructure development cannot be completed in one year. It takes longer than that.

The same could be said about electricity to the villages. You make a decision today and if you have coils and wires you can set up the distribution grids soon but power generation takes a long time. The railway tracks from Kanthale junction to Baticaloa have not been upgraded for many years. An aerial view of the track between these two points can be likened to a scene from the movie Indiana Jones in that only some parts of the iron rail are visible. The speed of the train, because of the dilapidated condition of the tracks between these two points, is limited to 5 km/hour.

Concrete roads in villages was given by this government. These things happen at the village level and 80% of people are from the village.

“This Is The Only Government That Has Concentrated And Invested On Village And Estate Roads, Although Usually It’s The Plantation Companies That Invest In The Estate Roads. We Have Secured Foreign Funds And Have Started Constructing The Estate Roads. We Are Also Building Village Roads Under The Maga Neguma Program.” **Speaking of the railway, there is criticism that some of the recently imported railway carriages don’t conform to the accepted local specifications. Your comment?**

The new carriages may not be used on the winding upcountry lines because of the physical length of the carriages. The carriages are mainly to be used on high traffic routes, and that constitutes almost 70% - 75% of the laid tracks. The Canadian engines, the blue coloured locomotives, when first introduced in Sri Lanka received heavy criticism for being too powerful and large and not suitable for Sri Lanka. Today they are probably the best performing machines used by the Sri Lanka railway.

**On development of infrastructure you mentioned the importance of new and expanded seaports and airports. But what use would these ports be of unless they are linked to the economic centres through an efficient road network, which is seriously lacking?**

This is the first time a government in Sri Lanka is making large investments in roads. We have three types of roads. The main A and B class roads are built and maintained by the central government. According to my recollection about 11,000

km of such roads fall under the purview of the RDA. Almost all these roads will be repaired.

The second type is the village road built and maintained by the Provincial Councils and these are the C and D class roads. The third type are village roads. This is the only government that has concentrated and invested on village and estate roads, although usually it's the plantation companies that invest in the estate roads. We have secured foreign funds and have started constructing the estate roads. We are also building village roads under the Maga Neguma program. The roads under the control of the Provincial Council are the ones which are in bad condition. The main reason is the lack of funding available to the Provincial Councils to invest in road development. The Provincial Council roads have not been built for use by heavy vehicles, but unfortunately with development, bigger and heavy vehicles are used and that contributes to a fast deterioration of these roads, they have to be upgraded but that cannot be done with local funds allocated at present.

The aim now is to get donor funds for the roads maintained by the Provincial Councils and the Municipal Councils.

The flip side of the coin is that if provincial councils want power, they also have to take on the responsibilities. We are looking for more funds and are negotiating with donors.

### **What is the status with the Southern Highway and the Katunayake Express Way?**

The southern highway is far behind schedule and that is due to no fault of the present government. The work on this highway is however now underway and we hope it will be completed in 2009. Though we are not happy about the time lag we are making progress. But the same cannot be said about the Katunayake Express Way. New investors are required to expedite the work on that Express Way.

**Although politics is not the focus of this interview, in Sri Lanka it is perhaps difficult to discuss macro policy without reference to the political realm. The JVP played a critical role in the victory of President Rajapaksa and in the formation of the present government, but subsequently chose to disassociate itself from government citing many issues, chiefly among**

**them the inclusion of a group of UNP MPs into the government fold. Mr Rajapaksa, you have the reputation of being an astute and politically savvy strategist and are identified as the chief architect and executor of the plan to increase the government strength in Parliament. What is your view on the stand taken by the JVP?**

As I mentioned earlier the JVP was not with the government during the presidential election. We signed an agreement with them to support the Presidential election which they did, but they didn't take part in the government. There are some issues on which there have not been an exact meeting of minds between the JVP and us, hence they generally support us, and at times oppose us but only on selected issues. We have a cordial relationship with them and we hope that continues.

“In The Overall Context Though, Compared To All Other Parties, The JVP Is Easier To Work With Because Their Interest Is Not In Individual Agendas Or Opinions But On Collective Positions On Given Issues. “

**But if you have not swayed away from the Mahinda Chinthana which received the JVP endorsement and support, it should not be a problem for the government to get them fully on board?**

The President actually challenged them to point to any condition or single sentence or letter in the Chinthana of which we are in violation. In the overall context though, compared to all other parties, the JVP is easier to work with because their interest is not in individual agendas or opinions but on collective positions on given issues.

**What is the government doing to improve the public sector efficiency?**

I have a list of the institutes that had been closed down by the time we took over and of the many that were incurring losses. The Electricity Board is the biggest loss maker, next the railways, the CTB, the postal service etc. The State Engineering Corporation, which almost closed down is now profitable and is hiring new employees. Plantations which were in the red are now slowly recovering. When I once visited a village, plantation workers there offered to sacrifice a day's wages to mitigate the costs of fertiliser in the hope of better yields and more future income for them. They actually sacrificed a day's wages for the purpose. We will be investing in the fertilisation of government owned plantations commencing the new season. We didn't take the privatisation route on all loss incurring public institutions, but acknowledged that in some areas we may

not make profits but we expect efficiency, the CTB is a case in point.

With the CTB, we are improving depot by depot. We selected one depot from each district and now they are efficient and clean - they are making a profit on every mile. Similarly in Batticaloa some factories that were closed down have recommenced operations. The Thulhiriya textile processing factory workers were compensated and the factory is now in better shape than any time before. These didn't happen in one day.

We had many textile processing factories, but not a single survived. Cotton was grown, but that industry was neglected. I know in Hambantota, during one season paddy was grown and in the next cotton was grown. With planned cultivation water was available in the tanks, but now with attempts to cultivate paddy across both seasons there is a problem with water. This system has failed and even under the Mahinda Chinthana it's difficult to make a quick turnaround.

A single mistake could have long-term implications. Earlier, in every village we had a small school that set the foundation for a good education. From the village level school, students progressed to the Maha Vidhyalaya, then to university. The conduit was broken with the sudden neglect of the small village school. The government gave all resources to national schools and the competition to enter these schools intensified. This has contributed towards more expensive infrastructure demand and maintenance because the traffic, need for transportation, road maintenance etc has increased, and along with that the higher fuel consumption, pressure on foreign exchange has created a vicious cycle.

With the recent military operations in the east the Internally Displaced Persons (IDPs) were moved from Echalampatuwa to Batticaloa and children of these families attended the town schools temporarily. Now we are resettling the IDPs but some don't want to return because they prefer their children to continue in the town schools. Every family spends on their children's education and that is an investment the Chinthana encourages.

**Now that you are part of the legislature, would you contemplate carving for yourself a firm role in the present or a future government?**

I don't think there will be any change on my part. I lost most of my freedom when

my brother became the President. I used to travel with my family, enjoy movies, visit friends and relations, but now I can't do any of that as much as I used to. Very rarely do I go out because the security measures are unpleasant to me and to the public. Being part of the legislature has not changed my role in government but placed on me more responsibility.

"The Electricity Board Is The Biggest Loss Maker, Next To The Railways, The CTB, The Postal Service Etc. The State Engineering Corporation, Which Almost Closed Down Is Now Profitable And Is Hiring New Employees. Plantations Which Were In The Red Are Now Slowly Recovering."

**What about your future in politics?**

I can say that I like politics. Politics for me thus far though has mainly been about helping others, especially my brother, and I prefer for it to remain so. In Parliament I will help the government under the leadership of the Prime Minister and others. I don't think I'll pursue politics for very long - only for as long as my brother is in it.

**Immediately upon your entry to Parliament through the National List you were appointed to the Public Accounts Committee (PAC) and the Committee of Public Enterprise (COPE), a committee that has drawn considerable attention of late. As a key government figure your appointment can be construed as a threat to the purpose and workings of COPE. How would you respond and what would you do to strengthen COPE?**

I will do my best to strengthen COPE. There are a lot of advantages to the government and me being part of COPE and the PAC. The COPE majority representation is with the government and that majority has been increased with the committee members representing the opposition now in government.

The advantage of being in COPE is the opportunity to learn and understand more about the workings of the various government organisations. When my role was confined to the Presidential Secretariat, my association with the various organisations was limited to ensuring that entities were in accord with the Mahinda Chinthana and government direction, I had very little opportunity to get to the micro level detail or add value at the organisation level. Serving on COPE therefore gives me the opportunity to help and act promptly when so needed. I met a UNP MP with the leader of the opposition, and he thought it was a good idea that I was in COPE so that I am in a position to delve into the detail and

speed up necessary follow-up action in the interest of the various institutions.

**Wouldn't the independence of COPE be compromised with representation from the executive level in government?**

I am also a normal member with the same privileges and responsibilities as others in the committee. These are misconceptions reported by the media, but my inclusion in COPE will be advantageous for the government and the people. I was at a meeting of the Public Accounts Committee and in that meeting, one of the two departments taken up for discussion was losing a lot of government revenue. I was immediately able to take up the matter with the Secretary of the Finance Ministry and the relevant minister, so I think my involvement infuses added efficiency and strength to the Committees.

**Isn't the Public Accounts Committee mandated to report and highlight issues and findings irrespective of the committee composition?**

Yes it reports, it goes to the Parliament but the problem is that because of procedure, sometimes the action is of no consequence because of the long time lag. Prevention and cure are different; you can either go to hospital and be cured or you can take preventive measures to protect against illnesses. A person may be punished or imprisoned for crime but that doesn't prevented the crime from taking place, but through programs such as Mathata Thitha, the Mahinda Chinthana arrests the issues prior to them leading to crime.

How is the Mathata Thitha program fairing?

It is well received and it's going very well. The program receives great support from the Hela Urumaya and the Buddhist clergy. The President wants to extend and expand these policies especially in the estate sector. Earlier anybody could have smoked or consumed alcohol in public, and without a legal ban in effect they could have not been charged for doing so. The headline in a mainstream newspaper recently read '5000 fined for drinking in public.' The alcohol consuming population hasn't actually increased, but such a headline could be easily interpreted as the number of people consuming alcohol has increased from a few to many. It's just that people were not previously fined but now they are.

The media can be faulted for irresponsible and misleading reports. A recent newspaper headline said milk powder prices are to go up in December. The report

obviously prompted stockists to hold back milk powder stocks with the intent of profiting from the speculated price revision, when really there was no policy change as regards milk powder prices discussed in government.

**What corrective action is the government taking to allay the public fear of further price escalations?**

As a government we are fighting terrorists. What I'm saying is that everybody must act responsibly. Newspapers, the opposition, the government, trade unions, students should all adopt a sense of social responsibility.

For instance, the noise made against the bond issue to raise US\$ 500 million on the international open market is baseless and irresponsible. As much as anyone or any institution ranging from a Samurdhi recipient borrowing from a local bank to a large private company raising capital or borrowings through the use of financial instruments, the government has recourse to various financing methods, and one such method is to raise funds on the international open market through a bond issue.

“As A Government We Are Fighting Terrorists. What I'm Saying Is That Everybody Must Act Responsibly. Newspapers, The Opposition, The Government, Trade Unions, Students Should All Adopt A Sense Of Social Responsibility.”

**Since you brought up the topic of the bond issues, may I ask why the government thinks it fit to borrow at high costs with a bullet repayment condition when you have access to other cheaper and long term sources? And what is the rationale to borrow short and invest long, and that again bypassing Parliament approval?**

For all major projects, yes, we can tap the traditional sources, but now that our country has reached middle-income status we don't get loans on hitherto attractive concessionary terms. But still they are cheaper than the open market will offer to lend at. For road development projects the World Bank or ADB funding is available. It must be noted though that under ADB facilities, the government must come up with a matching contribution of 40% as the ADB contribution is generally limited to 60% of the project cost.

With regard to the road development program the Japanese are helping build the outer circle road. The land has to be provided by the government and that is not covered by the loan. You asked about the southern highway. Land acquisition was the main obstacle to progress with the Southern Highway construction work. To

overcome the obstacle huge compensation claims were met to free 26 blocks of land that was in the way. As a condition the donors stipulate that the land acquisition must precede the work of the contractors. Such acquisition costs are part of the government's contribution and that needs to be financed.

Another issue is with regard to the timing of disbursements by donors such as ADB. Funding is usually provided on the basis of reimbursements based on claim submission, not upfront advancing of funds. If suppliers of services are settled under extended credit terms they levy a finance cost, and that can be saved if money could be released on time upon satisfactory completion of work or service. So if you supply today and get the bill tomorrow then you can save that money.

For these reasons we need to raise money, or else the liquidity trap will frustrate the implementation of all development plans which are critical for our future progress as a nation.

**The sudden infusion of dollars in to the system may temporarily stabilise the external value of the rupee, but pressures due to high debt and servicing costs will force a high depreciation of the rupee and consequent inflationary conditions due to heavy import bills. What is your safety net for such a risk?**

We want to stabilise the rupee for at least six months to one year, keep it at current levels, and not also allow it to significantly appreciate so that our export competitiveness is not adversely affected. We will hold the dollars in the Central Bank and issue the equivalent in rupees through open market operations. The increase in money supply in the process we expect would reduce interest rates.

**A concern expressed by the opposition is that unlike with borrowings through established long-term lenders, the disregard or at best lax monitoring by open market sources of the proper use monies lent, reduces accountability of the government?**

That's the difference in policies with the Mahinda Chinthana. We are a sovereign country and we have the right to manage our affairs in a manner that we think best suits us. Most established lenders tie their lending to strict conditions that serve their selfish needs. Usually a large part of the lending is wasted on unnecessary consultants mandated by the loan contracts. You know, there are consultants here to dig a well in Morawava. In effect we are spending about Rs 500,000 on something that we could have got done for Rs 50,000. This was also a



common feature in most of the Tsunami assistance that we received.

We are accountable to Parliament and the people of this country. The laws of the country can be used to hold us accountable. Under the Mahinda Chinthana we will not lend ourselves to be subservient to any external agencies or pressures.

“We Are Accountable To Parliament And The People Of This Country. The Laws Of The Country Can Be Used To Hold Us Accountable. Under The Mahinda Chinthana We Will Not Lend Ourselves To Be Subservient To Any External Agencies Or Pressures. “

**Returning to the issue of improving the service sector efficiency, the CEB is one of the largest loss making institutions in the country but successive governments have not been able to do anything about it. With a high level of dependency on thermal power because of inaction over the years to build capacity to match the rising demand, the CEB is today haemorrhaging. And with conditions in the contracts with the suppliers of electricity that holds the government liable to compensate the suppliers for fuel price hikes does not help when world crude oil prices are on the rise. How will the Mahinda Chinthana go about finding a solution?**

Yes, the CEB is a serious problem and conditions that force the government to absorb increases in fuel costs by the suppliers of power places a big burden. Tomorrow we can reduce the price of petrol by Rs 10 if the petroleum corporation doesn't have to subsidise to the Ceylon Electricity Board. This year alone the loss incurred by the CEB is Rs 51 billion loss, and that is a lot for the government to bear. Purchase of electricity from private companies contributes to the loss in large measures. The Kelani Thissa power station uses naphtha and fuel in equal proportion to generate power, but we use naphtha produced only by the petroleum corporation. We don't have naphtha here so we use the fuel and that loss is about Rs 4.8 billion.

**Didn't the government plan to increase naphtha production?**

We produce but that is enough only to run half of our requirements. But if we import the balance requirement of naphtha, we can save about Rs 2 billion, but there is opposition for this. If we can stop the loss at the Electricity Board we would be able to control all other areas.

**Do you think you can get there?**

We have to do it. By 2011 we plan to have two or three coal power plants in

operation. The coal prices too will go up when oil prices rise. But the differential costs will help keep the prices in check compared to fuel.

**The 2008 budget is being watched, curiously though, not from a perspective of reading the government's policy direction, but as a test of the government's strength in Parliament. What is your reading on the situation?**

Having the budget passed in Parliament is one thing, but stability of the government I must say depends on the people. The people are with us, the government. The Parliament is a representation of the people's mandate, and so if the majority in Parliament are representatives of the incumbent government, stability of the government will prevail.

**There is speculation of changes within government after the budget is passed. Would you like to shed some light?**

That is just lies. I don't think there is a need like that immediately.

**You are closely associated with Nation Building through the Gama Neguma and the Negenahira Navodhaya programs launched by the government. Any comments?**

Nation building is a ministry created by the President with the aim of uplifting areas like the north, the east and the rural. Most of the development at present is concentrated in the Western Province and around the metropolitan cities. To make development more equitable we started the Gama Neguma programme which covers 4000 villages. The Nagenahira Navodhaya concentrates on the east, with some activities extended to the north.

**You have been given the task of developing and implementing the Nagenahira Navodhaya program undertaken by the government to reconstruct and develop the east after its liberation. Could you please describe the abstract plan, timeframe, proposed resource commitment and expected benefits of this project?**

We have huge plans. The east is a very important province covering about 996 sq km in geographical extent. Starting from the south Hambantota district, covering Kurunegala, Badulla, Matale, Polonnaruwa, Anuradhapura, Vavuniya and ending in Mullativu. It is 286 km long and covers 420 km of the costal area - which amounts to 26% of the Sri Lankan coastal region. And also a third of the rivers flow from the Eastern Province including the Mahaveli. It has the best beaches in

the country like Arugambay, Pasikuda and the best harbour in the whole of south Asia; at the natural harbour at Trincomalee even a submarine can enter without coming above the water.

Then look at the mineral resources - the minerals from Pulmude, and the wild life and the bird sanctuary in Kumane. 21.5% of our irrigated tanks are in the Eastern Province covering about 120,000 hectares. And in fisheries the Eastern Province has potential in abundance. It is unique that in the east the Sinhala, Tamil and Muslim populations are equally represented.

Despite the vast resource the Eastern Province has always been backward. Even during the British rule, the Eastern Province was relatively deprived in terms of infrastructure such as roads, bridges etc. The British even built bridges connecting islands in the north but in the east to go from Arugambay to Pilmuday ferries have to be used. There is no bridge in Muttur and in Verugal. On education, the British introduced the education system and they started very good schools in Colombo, Jaffna, Galle, Kurunegala and Kandy etc, but very few in the Eastern Province. The east was also the biggest victim of some of the largest natural disasters such as the tsunami, cyclones and was affected by the ongoing civil conflict. The displaced population was also high in the Eastern Province.

Now that the east is completely under government control as part of the Negenahira Navodhaya the priority is to install a good security plan without which reconstruction and development is not possible. What happened in Yala recently is something that should not take place if reconstruction and development is to commence - that requires good security.

Secondly, civil administration will be established and towards this end we have a plan of 108 days, starting on July 19 when the President announced his plan for the east. The establishment of civil administration in the east is carried out under the supervision of Karu Jayasuriya. Mr Jayasuriya visits every district, and area division. We have 45 area divisions in the province. Every area division will have a mobile office with 11 ministries. 23 ministries will come under Karu Jayasuriya, and these offices will start issuing birth certificates, identity cards, driving licenses etc. We will start co-operatives and the AG office which have not been functional in all areas. The building of infrastructure in the east such as roads, electricity and water tanks etc will happen under the supervision of Mr Fernandopulle. Some of this work has already started and we have provided

electricity to some reas.

In Muttur, Kinya and Trincomalee busses are already running. The French Government has offered to build four bridges. We have given electricity to Ichalanpathu. Then we are starting work on the Mahaoya - Chekalanchi road. We have opened this road that connects the Badulla and Batticaloa districts after almost 25 years. It is an important route for the transport of fish and paddy.

**Are you confident that the government can achieve an 8% growth rate in the next six years and the higher target of 10% thereafter as stated in its 10-year development plan based on the Mahinda Chinthana, especially within the current economic context?**

I think we can achieve it because with all set backs in the first year we achieved 7.4%. As explained, with the development in the Eastern Province we can sustain high growth rates. Normally it is extremely difficult for any country to record a consistent growth rate in excess of 6% for a consecutive three years, but we believe in setting for ourselves ambitious targets.

**Do you think the outlook and conditions favour foreign investment flows?**

Yes. I think we can attract investors. Investors don't look at only a single issue, but a multitude of factors. We have a good environment to invest and the investment momentum will continue.

**Do you think the government is in a position to realise its stated ambitious plans in the Mahinda Chinthanaya and provide economic prosperity and peace to the people who voted this government in?**

Yes, definitely. We are very confident that we will deliver economic prosperity and honourable peace. After the end of the Second World War, the Americans and Japanese signed a peace treaty, in which the Japanese conceded and surrendered. We prefer honourable peace that guarantees all citizens equality of status. Whilst pursuing honourable peace we have not neglected development. Mahinda Chintanaya is about self-reliance and that is the base we will build upon.