Committee on Public Finance Report on the Budget 2019

Report on the 2019 Budget Estimates as Pertaining to
Government Policy Priorities

Committee on Public Finance Report on the Budget 2019

Report on the 2019 Budget Estimates as Pertaining to Government Policy Priorities

Committee Members: Hon. M. A. Sumanthiran (Chair); Hon. A. D. Susil Premajayantha; Hon. Bandula Gunawardana; Hon. Keheliya Rambukwella; Hon. Susantha Punchinilame; Hon. Bimal Rathnayake; Hon. Lakshman Ananda Wijemanne; Hon. Mylvaganam Thilakarajah; Hon. Mayantha Dissanayake; Hon. Mujibur Rahuman; Hon. Wijepala Hettiarachchi; Hon. (Prof.) Ashu Marasinghe; Hon. (Dr.) S. M. Mohamed Ismail.

Committee Secretary: Mr. Dhammika Dasanayake

Section I: Introduction to the Report

Background

The Committee on Public Finance (COPF) is mandated with the task of tabling a report on the budget estimates, including whether the money is well laid out within the limits of Government policy, as per the Standing Orders of the Parliament (Para. 121 (4)). This report is written in fulfilment of this mandate, after the 2019 Budget was presented to Parliament on 5 March 2019.

This assessment is based on three sources: (1) Draft Budget Estimates for 2019 provided to the Parliament on 5 March 2019; (2) the numbers provided in the 2019 Budget Speech presented in Parliament on 5 March 2019; and (3) Revised Estimates (in accounting format), yet unpublished, and further documents provided by the Ministry of Finance to the COPF.

The Committee works with the macro-economic framework (relating to debt management, inflation, interest rates, exchange rates, fiscal deficits, and GDP growth) and economic assumptions of the government, where those assumptions have been stated. All numbers in the assessment are set out in current value terms.

The Committee's work has been supported by external consultants, including the Sri Lankan Think Tank Verité Research. The Committee thanks them for their valuable input and assistance.

Constraints and Qualifications

At the outset, the Committee makes note of some of the constraints and qualifications that are pertinent to this assessment. These prevailed in the previous year as well.

In order to facilitate the work of the committee, recalling that the task of accessing the requisite information has been onerous, the COPF wrote to the Ministry of Finance (MOF), on 12 February 2019 reiterating the following:

> "We write in order to request the input of the MOF in writing, pertaining to the assumptions, information and analysis that have formed the bases of formulating the budget estimates for 2019. Please note that all information and documents relating to analysis and calculations must be provided to the COPF and anything that is not provided will be deemed non-existent with the resulting allocations being considered arbitrary and accordingly, the COPF will be compelled to point out any such deficiencies, in the reports."

Annex 1 of this report provides the complete list of information provided by the MOF to the COPF. Information provided was piecemeal and insufficient, requiring several iterations of information provision. Additional annexes accompanying this report are limited to the information provided by the MOF that is pertinent to this analysis.

The COPF has faced several constraints in accessing the requisite information.

First, the Appropriation Bill tabled in Parliament (i.e. the first reading of the budget), which is expected to serve as a base document for this report, does not contain the details of how the budget is allocated between different policy priorities of government. Therefore, the analysis cannot be made on the basis of the Appropriation Bill alone. Second, the Committee notes that the detailed Draft Budget Estimates provided to Parliament at the time of the second reading of the Appropriation Bill differs significantly from the corresponding Budget Speech. Third, tracking expenditure in relation to specific sectors is uniquely challenging: both because expenditure is not reported by sectoral classifications, but only by ministerial portfolios, and because those portfolios in Sri Lanka have been excessively fluid, subject to re-organisation with change in the composition of cabinet. However, the MOF has committed to providing a sector classification of the budget from 2020 onwards (Section III).

The remit of the present report, therefore, has been somewhat tailored to the constraints. The report reviews the key fiscal measures proposed by the 2019 Budget as against the government's stated policies. This case study approach allows the Committee to identify important aspects of the government Budget that can be addressed during the time-frame of budget debates and thereafter.

The COPF in presenting this report is operating under the challenging context of conducting the assessment with issues of data and/or information availability and a short timeline. These problems have been described in some detail in previous budget reports of the Committee as well. Any errors or omissions that may arise due to these constraints are sincerely regretted.

Overview

The debate and adoption of the Annual Budget is a pivotal period in the parliamentary calendar. For the government, it is perhaps the most important occasion to announce new policies and measures that it plans to take, in steering the development of the country. However, almost every such plan will have an implication on public finance. Article 148 of the Constitution reposes with Parliament the ultimate power and responsibility with regard to the control of public finance. Therefore, what is set out in a budget, which is finally adopted, is not only of critical importance to the country, it is amongst the most serious business of Parliament.

It is hardly necessary to reiterate, therefore, that this work of understanding, fashioning and adopting a budget is foundationally dependent on the quality of information that is provided to Parliament. However, perhaps the greatest impediment to more reasoned and rigorous debate on the policy alignment of public finance in Parliament is the paucity of information and analysis that is available to the Members of Parliament. In the longer term, this informational problem faced by Parliament should be overcome with a fully-fledged independent budget office that serves Parliament.

In the interim the COPF seeks to support Parliament through its reports. With this report, the Committee assists Parliament in assessing whether the allocation of money in the 2019 Budget aligns with the policies of the government. The substantive analysis of the present report is set out in Section II and Section III. It is followed by an Annex that provides additional information.

Section II of the report, on "Sectoral Allocations" examines the 2019 budget allocations for two sectors of significant public interest – the health sector and the education sector. The allocations are examined against stated government policy priorities as indicated by "Vision 2025" which was released by the coalition government in September 2017.

Section III of the report sets out concerns and recommendations of COPF on "Informational Standards and Due Diligence" in budget information and disclosures. These add to the concerns that the COPF identified in its first report on the 2019 Budget, under the same heading. The section is in two parts (1) Review of previous budget concerns of the COPF, (2) Sri Lanka's budget weakness compared to peer countries.

Section II: Sectoral Allocations

The COPF is mandated with the task of tabling a report on the budget estimates, including whether the money is well laid out within the limits of government policy.

The budget estimates tabled before Parliament are not able to provide the level of granularity that allows Parliament to know the full sectoral allocation/spending. This is because with regard to expenditure undertaken by the Provincial Councils (and other sub-national governments), Parliament is informed mainly of the aggregate transfers being made from the Central Government, and not the full sectoral break-down of those allocations (Annex 2 sets out the relative magnitudes of public sector spending, including of PCs, as identified by the Central Bank of Sri Lanka against sector allocations in Draft/Approved Budget Estimates as identified by the COPF during the 2016-2019 Budget).

Furthermore, the Parliament and the COPF does not receive the sectoral classification of budget information.[1] The task of reporting on whether money is well laid out within the limits of government policy requires the COPF to approximate the sector allocation through the selection of various expenditure streams, within ministerial portfolios, in the accounting classification. This is an imperfect method, that is likely to result in some incompleteness in the aggregates discussed in this section.

In evaluating the question of allocations being well laid out within government policy, the COPF has drawn on the policy statement of the government titled "Vision 2025". This document was released by the government in September 2017.

Health Sector

Central Government health spending is carried out by the Ministry of Health, Nutrition and Indigenous Medicine (MOH). The ministry has two budget heads: (1) Minister of Health, Nutrition and Indigenous Medicine, (2) Department of Ayurveda. The descriptive statistics on how spending has been allocated across these two budgets and new budget proposals, is set out in Table 1 and Figure 1 below.

Table 1: Health Sector Expenditure Summary

Values in Rs. Millions

Ministry/Department	Govt. Expenditure/Allocation			Y-o-Y change
	2017 Actual	2018 Revised	2019 Budget	2018-2019
Health Sector	**146,073**	**187,853**	**188,182**	**+329 (+0.20%)**
- Minister of Health, Nutrition and Indigenous Medicine	144,296	185,611	185,338	-273 (-0.15%)
- Department of Ayurveda	1,777	2,242	2,144	-98 (-4.37%)
- Specific Additional Proposals in Budget Speech 2019	N/A	N/A	700	N/A

[1] The MOF has committed to providing the Committee a sectoral classification of the budget from 2020 (Section III).

Values as a share of government budget

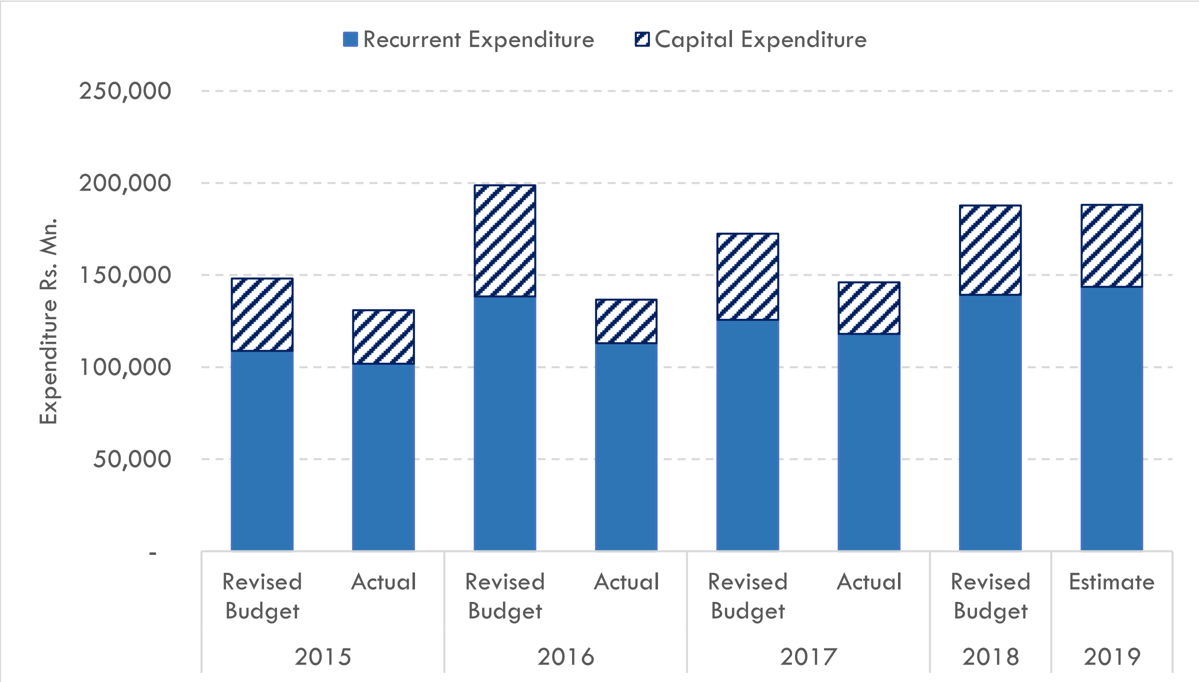
Ministry/Department	Govt. Expenditure/Allocation			Y-o-Y change
	2017 Actual	2018 Revised	2019 Budget	2018-2019
Health Sector	**5.61%**	**6.13%**	**5.63%**	**-0.50%**
- Minister of Health, Nutrition and Indigenous Medicine	5.54%	6.06%	5.55%	-0.52%
- Department of Ayurveda	0.07%	0.07%	0.06%	-0.01 %
- Specific Additional Proposals in Budget Speech 2019	N/A	N/A	0.02%	N/A

Values as a share of GDP

Ministry/Department	Govt. Expenditure/Allocation			Y-o-Y change
	2017 Actual	2018 Revised	2019 Budget	2018-2019
Health Sector	**1.09%**	**1.30%**	**1.21%**	**-0.09%**

Note: Implemented Budget Proposals for 2017 actual expenditure and 2018 revised estimates are already incorporated in government agency expenditure.
Sources: Draft Budget Estimate (2019) and Budget Speech (2019).

Figure 1: Health Sector Spending, 2015-2019 Budget



Sources: Draft Budget Estimate (2019) and Budget Speech (2019).

Budget Expectations Based on Government Policy

In evaluating the question of allocations being well laid out within government policy, as noted earlier, the COPF has drawn on the policy statement of the government titled "Vision 2025" (September 2017). The specific policy priorities for the health sector as reflected in "Vision 2025", and the related expectations from the budget (as discerned by the COPF) are set out in Table 2 below.

Table 2: Government Health Policy Framework against Budget 2019

Government Policy Priority	Key Expectations in Spending/Budgets	Summary of COPF Observation
Government plans to prioritize capital expenditure outlays for development with a comprehensive Public Investment Programme (PIP).	Increase in capital expenditure/allocation to the sector.	Satisfied, but with concerns based on past record of underspending.
Government encourages Public-Private Partnerships (PPPs) in the provision of social services, including in healthcare	N/A	N/A
The Government will strengthen the curative and preventive primary healthcare delivery system to treat NCDs.	Increase in allocations to primary health care delivery systems.	Reduction in 2 of 3 related central govt. allocations need explanation. But expenditure is mostly at provincial level.
Government will support programmes combatting Chronic Kidney Disease (CKDu)	There needs to be allocations dedicated to combatting CKDu in the budget.	Not satisfied. Allocation is lower than the 2018 revised estimates, without an explanation.
Government will review excise taxation policies	Allocation will reflect reviewed policies.	Evaluation will be subject to receipt of specific information. COPF is not aware of any recent revision in the excise taxation policies on Alcohol
Government will lay the foundation for electronic medical information management systems.	Specific allocations, or information on budget heads that will be directed to this outcome.	Evaluation will be subject to receipt of specific information.
Government will ensure that Sri Lankans have access to emergency pre-hospital medical care, with basic and advanced life- support.	Specific allocations, or information on budget heads that will be directed to this outcome. e.g. implementation of ambulance type services.	Evaluation will be subject to receipt of specific information.
Government will encourage the Build-Operate-Transfer model in small to medium scale infrastructure projects across the country, including in healthcare.	N/A	N/A

Note: Investment in Ayurveda care has been excluded from the above considerations.
Source: Vision 2025 (2017).

Analysis

In 2019, Central Government direct allocations to the health sector is Rs. 188 billion and accounts for 5.63% of the budget and 1.21% of nominal GDP. Since 2013, the expenditure has grown at an average rate of almost 11.8% a year. At the same time, estimates have been over-optimistic, and the actual health expenditure has fallen short of allocations by about 13% on average during 2013-2017.

Table 3: Past Experiences, 2013-2017

Department/Ministry	Average Growth (in Actual Spending)	Average Shortfall (of Actual Spending against Estimates)
Health Sector	**11.8%**	**13.1%**
- Minister of Health, Nutrition and Indigenous Medicine	11.8%	12.9%
- Department of Ayurveda	15.0%	23%

Note: Average growth range considered beginning from 2013. Budget proposals related to the health sector (specifically to the line ministry) are included in the 2019 allocation.
Source: Draft & Approved Budget Estimates (Various Years).

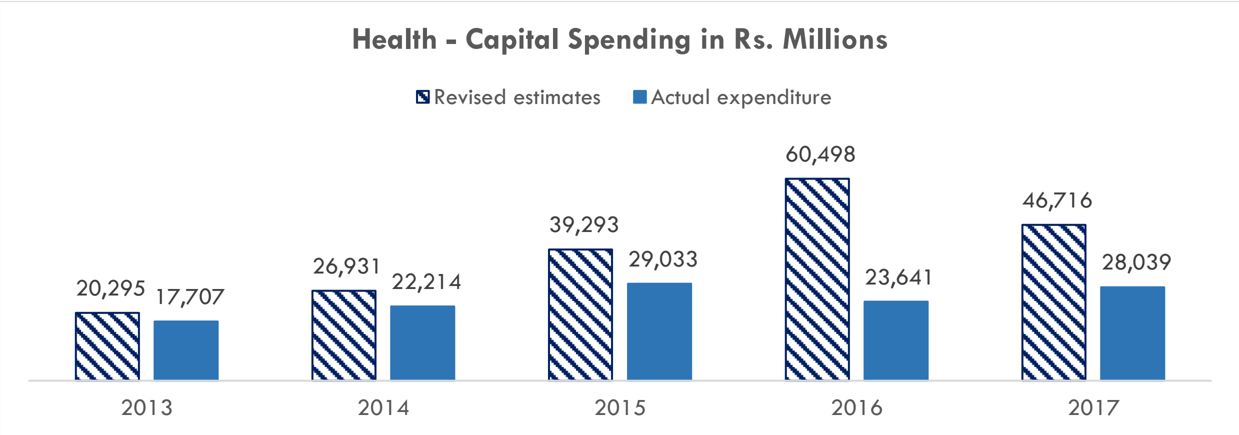
This report will analyse in further detail the following key expectations: (1) Increase of capital expenditure (2) Maintaining allocations to preventive and curative services related to combatting non-communicable diseases (NCDs), and (3) Maintaining allocations to combatting Chronic Kidney Disease of undetermined causes (CKDu).

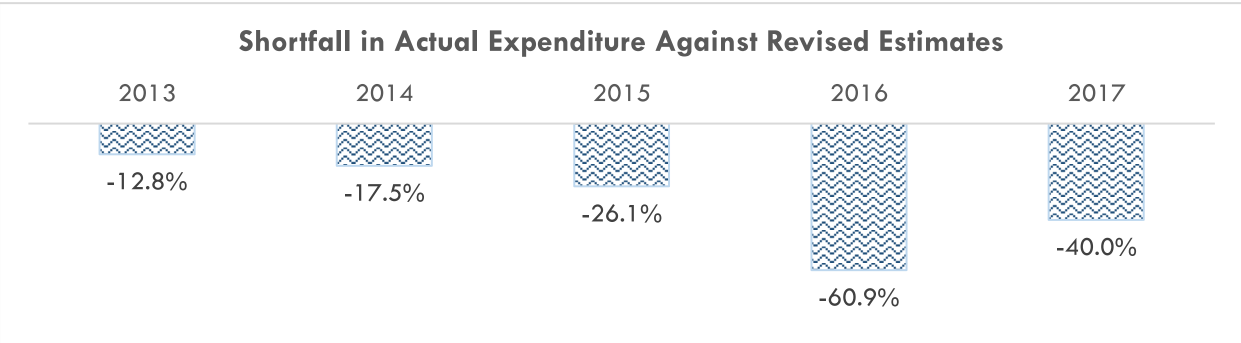
Policy: Prioritize capital expenditure

Capital expenditure in health has the same pattern as total expenditure: average annual growth in spending has exceeded nominal GDP growth. At the same time, however, the capital expenditure has fallen significantly short of the budgeted allocations.

Capital allocation for the health sector, in the 2019 Budget,[2] is Rs. 44,656 million. This is an 8.2% reduction relative to the 2018 revised estimates. This is a little less than what was allocated in 2017, but almost 60% more than what was actually spent in 2017 (Figure 2).

Figure 2: Capital Expenditure on Health, 2013-2017





[2] Including Budget Speech Proposals.

Source: Approved Budget Estimates (Various Years).

Observation: The COPF is satisfied that the allocation of capital expenditure for health is well laid out, within the scope of government policy. It observes, however, a pattern from the past, where the expectations set in the budget estimates are generally not complied with in the implementation of the budget.

Policy: Strengthen the curative and preventive primary healthcare to treat NCDs

The COPF was able to identify three budgets that might be central with regard to meeting this expectation. (i) Health Promotion and Disease Prevention. (ii) Control of Communicable and Non-Communicable Diseases (NCDs) (iii) National Nutritional Programme. These budgets generally account for less than 5% of the total health budget; and for that reason, their fluctuations can directly reflect priorities as they hardly impact on budget constraints. Table 4 below sets out the spending under these budgets since 2013.

Table 4: Selected Budgets under the MOH, 2013-2019 Budget

Values in Rs. Millions

Year	Control of Communicable and Non-Communicable Diseases		Health Promotion and Disease Prevention		National Nutrition Programme	
	Value (% HB)	Y-o-Y increase	Value (% HB)	Y-o-Y increase	Value (% HB)	Y-o-Y increase
2013	674 (0.7%)	Excl.	1,762 (1.9%)	Excl.	1,463 (1.6%)	Excl.
2014	1,312 (1.2%)	94.5%	1,576 (1.4%)	-10.5%	1,833 (1.6%)	25.3%
2015	2,343 (1.8%)	78.6%	1,154 (0.9%)	-26.8%	2,200 (1.7%)	20.0%
2016	2,207 (1.6%)	-5.8%	1,062 (0.8%)	-7.9%	1,550 (1.1%)	-29.5%
2017	3,428 (2.3%)	55.3%	1,518 (1.0%)	42.9%	1,796 (1.2%)	15.9%
2018 RE	4,582 (2.4%)	33.7%	2,761 (1.5%)	81.9%	2,435 (1.3%)	35.5%
2019 B	2,590 (1.4%)	-43.5%	2,159 (1.1%)	-21.8%	3,226 (1.7%)	32.5%

Note: HB – health budget, RE – revised estimates, DB – draft budget estimates. These values exclude budget proposal allocations.
Source: Draft & Approved Budget Estimates (Various Years).

Observation: There is a 32.5% increase in the budget for the *National Nutrition Programme*, which is in-keeping with the expectations of government policy. There is, however, a drastic unexplained reduction of 43.5% in the 2019 Allocation for the *Control of Communicable and Non-Communicable Diseases*, and of 21.8% for *Health Promotion and Disease Prevention*. These reductions also run directly counter to the policies laid out by the government.

Case Study: Excise tax on sugar content in sweetened beverages

In evaluating the budget estimates being well laid out in relation to the policies of the government, the Committee notes the relevance of revenue policies as well, as the incidence and methods of taxation are directed by government policy with regard to sectors, while they may also be directed by the need to raise additional revenue.

Excise taxes have been used in Sri Lanka as a policy mechanism to curb consumption of goods for which there are significant health concerns. Cigarettes and alcohol are two such examples of goods subject to excise taxes. A recent addition has been the sugar tax on beverages containing added sugar, first launched with the presentation of the 2018 Budget in November 2017. This public health concern with regard to sugar is consistent with the research findings and emerging policies on sugar in international contexts as well.

The COPF notes that the 2019 Budget has, however, moved in a policy direction precisely the opposite to the direction in the 2018 Budget; by making large reductions in the sugar tax on beverages containing sugar. These reductions in tax proposed in 2019 are set out in Table 5 below.

Table 5: Proposed Excise (Special Provisions) Duty Revisions on Sugar Tax on Sweetened Beverages

	November 2017 Implemented Policy	**Proposed in the 2019 Budget** [March 2019]
Excise duty on sweetened beverages	Excise duty based on the quantum of sugar contained will be introduced for the beverages with added sugar. This duty applicable for beverages classified under HS Code 22.02. The rate will be 50 cts per gram of sugar	The exempt quantum of sugar contained in beverages will be revised as follows: (a) Carbonated beverages – 4 grams per 100 ml (b) Fruit based beverages – 8 grams per 100 ml
		Duty rate will be revised to 40 cents per grams of sugar in excess of the exempt quantity.

Source: Budget Speech (2018 and 2019).

As a response to the COPF's request of an explanation of this policy measure that has a negative fiscal impact, the MOF provided the COPF with a letter from the Ministry of Health, Nutrition and Indigenous Medicine (MOH) that sets out the following policy direction.

> The Ministry of Health is bringing forward a revised traffic light colour coding system for all food and beverages and based on those cut off levels if the tax levels are defined it will compliment both interventions. The **sugar level as being acceptable or low is 2gr/100 ml while the high level has been redefined as 8gr/100ml.** Based on these values, the ministry recommends a 2gr/100ml of sugar be exempted from the sugar tax for all beverages. The tax-exempt level for **fresh fruit juices** be identified as 8gr.

The COPF notes that the MOF action to reduce taxes, contradicts the direction provided by the MOH in two ways. First, it doubles the exemption on carbonated drinks from 2gr to 4grs. Second, it reduces the tax per additional gram from 50 cents to 40 cents. In further explanations provided by the MOF, it is asserted by the MOF that it is following international best practice in choosing a criterion for exemption that is different to the one proposed by the MOH. But there is no corroborating confirmation from the MOH on this claim.

The COPF notes that the decision relating to best practices in health policy (including the health related criteria for applying consumption incentives/disincentives) should be determined primarily by the MOH; and that the MOF's views on appropriate health policy should not trump the views of the MOH, especially when the MOH criteria/position has a more positive fiscal impact as well.

The COPF notes that an illegitimate decision to reduce the sugar tax was announced on 3 December 2018, during the short period in which a new Prime Minister, that did not enjoy a majority in Parliament, had been appointed. As the present government has disassociated itself from the executive actions taken during that period, the COPF comparisons refer to the policies that were passed in the 2018 Budget.

The COPF takes serious note of budget proposals that have a positive fiscal and social impact, such as this, not being implemented by the MOF, alongside attempts at reversing those proposals later without due disclosure to Parliament. The COPF takes the view that Parliament should not be misled by making policy declarations in the budget, if there is no commitment of the Government to carry out those policies that are announced therein.

Education Sector

Central Government education spending is mainly carried out by three ministries.[3] This section examines three types of education spending undertaken by the Central Government for:

1. General (primary and secondary) education, vested under the Ministry of Education,
2. University education, vested under the Ministry of City Planning, Water Planning and Higher Education (Higher Education section),
3. Technical and Vocational Education and Training (TVET) sector, vested under the Ministry of National Policies, Economic Affairs, Resettlement & Rehabilitation, Northern Development, Vocational Training & Skills Development and Youth Affairs (Vocational Training & Skills Development section).

The descriptive statistics on how spending has been allocated across these three budgets, is set out in Table 6 below.

Table 6: Education Sector Expenditure Summary

Values in Rs. Millions

Ministry/Department	**Govt. Expenditure/Allocation**			**YoY change**
	2017 Actual	**2018 Revised**	**2019 Budget**	**2018-2019**
Education Sector	**135,275**	**188,449**	**197,888**	**+ 9,439 (+ 5.01%)**
- General Education	79,516	104,796	105,000	+ 2,040 (+0.19%)
- University Education	47,516	72,446	79,320	+ 6,874 (+ 9.49%)
- TVET	8,243	11,207	11,268	+ 61 (+ 0.54%)
- Specific Additional Proposals in Budget Speech 2019	N/A	N/A	2,300	N/A

Values as a share of government budget

Ministry/Department	**Govt. Expenditure/Allocation**			**YoY change**
	2017 Actual	**2018 Revised**	**2019 Budget**	**2018-2019**
Education Sector	**5.20%**	**6.16%**	**5.92%**	**-0.23%**
- General Education	3.05%	3.42%	3.14%	-0.28%
- University Education	1.83%	2.37%	2.37%	0.01%
- TVET	0.32%	0.37%	0.34%	-0.03%
- Specific Additional Proposals in Budget Speech 2019	N/A	N/A	0.07%	N/A

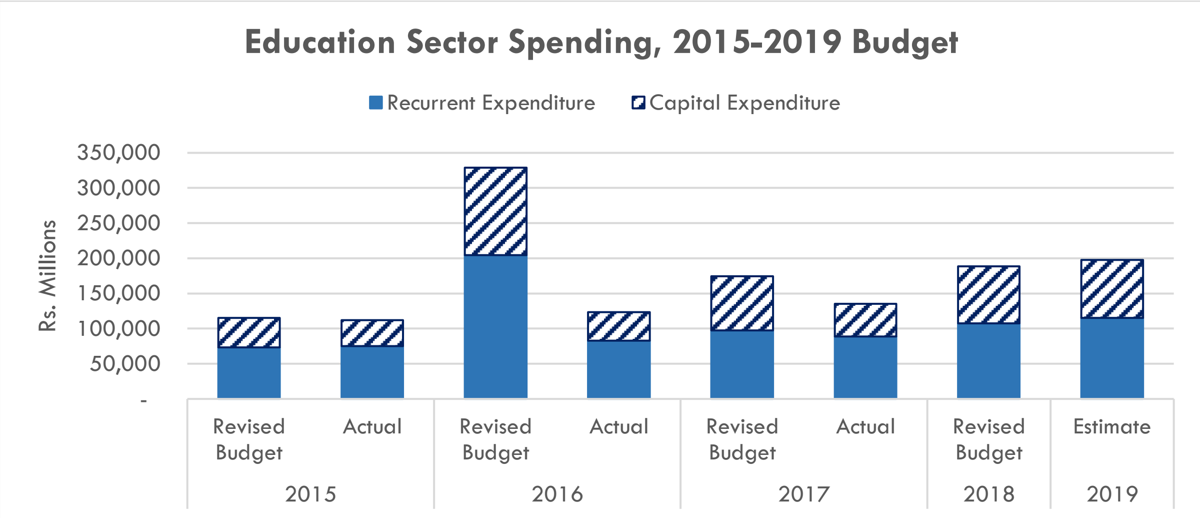
[3] Education facilities provided by other line ministries and Provincial Councils, such as the Ministry of Defence, is excluded from this analysis.

Values as a share of GDP

Ministry/Department	Govt. Expenditure/Allocation			YoY change
	2017 Actual	2018 Revised	2019 Budget	2018-2019
Education Sector	**1.02%**	**1.30%**	**1.27%**	**-0.04%**

Note: Implemented Budget Proposals for 2017 actual expenditure and 2018 revised estimates are already incorporated in government agency expenditure.
Source: Draft Budget Estimate (2019) and Budget Speech (2019).

Figure 3: Education Sector Spending, 2015 – 2019 Budget



Note: Health sector allocation for 2019 includes allocations to budget proposals.
Source: Draft & Approved Budget Estimates (Various Years).

Table 7: Annual Student Intake and Enrolment, 2014-2017

Annual Student Intake, 2014-2017

	2014	2015	2016	2017
Schools (new admissions)	349,182	334,877	317,895	322,135
University	25,200	25,676	29,083	30,062
Technical colleges	22,863	19,864	26,591	33,650

Note: University – annual student intake only comprises of new students attending universities under the University Grants Commission.

O/L & A/L Qualified or Unqualified Students 2014-2017

	2014	2015	2016	2017
Students who sat for O/L	277,414	290,929	286,251	312,464
- Qualified	184,619	195,359	200,204	221,943
- Not Qualified	92,795	95,570	86,047	90,521
Students who sat for A/L	207,304	210,340	211,865	206,630
- Qualified	126,971	131,137	134,238	136,421
- Not Qualified	80,333	79,203	77,627	70,209
Students not qualified for O/L and A/L	173,128	174,773	163,674	160,730

Note: Only considered school candidates.

Annual Student Population (Enrolment), 2014-2017

	2014	2015	2016	2017
Student (school) population	4,273,065	4,330,368	4,345,740	4,367,493
University students (undergraduates)	81,153	87,085	87,741	91,905
Technical colleges	29,428	26,186	32,990	39,910

Note: University students only comprise undergraduates attending universities under the University Grants Commission. *Source: Draft Budget Estimates (2019) and CBSL Economic & Social Statistics (2018).*

Budget Expectations Based on Government Policy

In evaluating the question of allocations being well laid out within government policy, as noted earlier, the COPF has drawn on the policy statement of the government titled "Vision 2025" (September 2017). The specific policy priorities for the education sector as reflected in "Vision 2025", and the related expectations for the budget (as discerned by the COPF) are set out in Table 8 below.

Table 8: Government Education Policy Framework against Budget 2019

Government Policy Priority	Key Expectations in Spending/Budgets	Summary of COPF Observation
Government plans to prioritize capital expenditure outlays for development with a comprehensive Public Investment Programme (PIP).	Capital expenditure/allocation to the sector needs to increase.	Satisfied, but with concerns based on past record of underspending.
Government encourages Public-Private Partnerships (PPPs) in the provision of social services, including in education	N/A	N/A
Government will make 13 years of education available to all.	Allocation to secondary education needs to improve to cater to a larger student population.	Not satisfied, since the allocations to general education are contracting in real terms, and therefore the COPF lacks information on how the expansion in commitments will be supported
Access to tertiary education will be increased.	Allocations to university education and TVET education needs to increase.	University education Satisfied, but with concerns based on past record of underspending. TVET Not satisfied. Allocations have reduced in real terms, contrary to the expectations set by govt. policy.
Government will expand opportunities for vocational training with private sector support.		
Government will focus skill development programmes on sectors likely to create employment opportunities.		
Government will empower youth to contribute to the economy by strengthening their entrepreneurial capabilities.	There needs to be budget allocations to restructuring curricula to reflect global standards.	Not evaluated. The COPF is unable to isolate budget allocations dedicated for this purpose.
Government will actively promote private sector investment in digital technology. Government will incentivise private sector investment in the ICT industry. Government will integrate ICT literacy into school curricula.	There needs to be allocations to facilitate digitalization of education or technological advancements in students/education facilities.	Not evaluated.COPF is unable to isolate budget allocations for this purpose.

Government Policy Priority	Key Expectations in Spending/Budgets	Summary of COPF Observation
Government will encourage the Build-Operate-Transfer model in small to medium scale infrastructure projects across the country, including in education	N/A	N/A
Government will improve access to public services, education, and employment opportunities for the differently abled.	There needs to be allocations dedicated to education targeted towards persons with disabilities, to facilitate the learning process and enable active participation in economic activities.	Not satisfied. Total allocation to special education is contracting in real terms, and the COPF lacks information on how the policy focus will be supported through budget allocations.

Source: Vision 2025 (2017).

Analysis

In 2019, Central Government direct allocations to the education sector is almost Rs. 198 billion and accounts for 5.92% of the budget and 1.27% of nominal GDP. During 2013-2017, the expenditure has grown at an average rate of 19%.

While the education sector allocation in 2018 and 2019 range between Rs. 188 -198 billion, considering that actual sector spending in 2017 was less than Rs. 137 billion, the COPF is not able to determine if the budget has been adequately expended in 2018 or if it will be in 2019. This concern is supported by past experiences. Actual education spending of the Central Government has fallen short of allocations by over 21% on average during 2013-2017 (Table 9).

Table 9: Past Experiences, 2013-2017

Department/Ministry	Average Growth (in Actual Spending)	Average Shortfall (of Actual Spending against Estimates)
Education Sector	**19.0%**	**21.1%**
- General Education	20.5%	21.3%
- University Education	17.2%	8.3%
- TVET	23.3%	30.9%

Note: Average growth range considered beginning from 2013. Education sector allocation for 2019 includes allocations to budget proposals.
Source: Draft & Approved Budget Estimates (Various Years).

The report will analyse in further detail, the following key expectations: (1) Increase in capital expenditure, (2) Increase in allocation to general education, (3) Increase in allocation to university education, (4) Increase in allocation to TVET sector, and (5) Improve access to education facilities for persons with disabilities

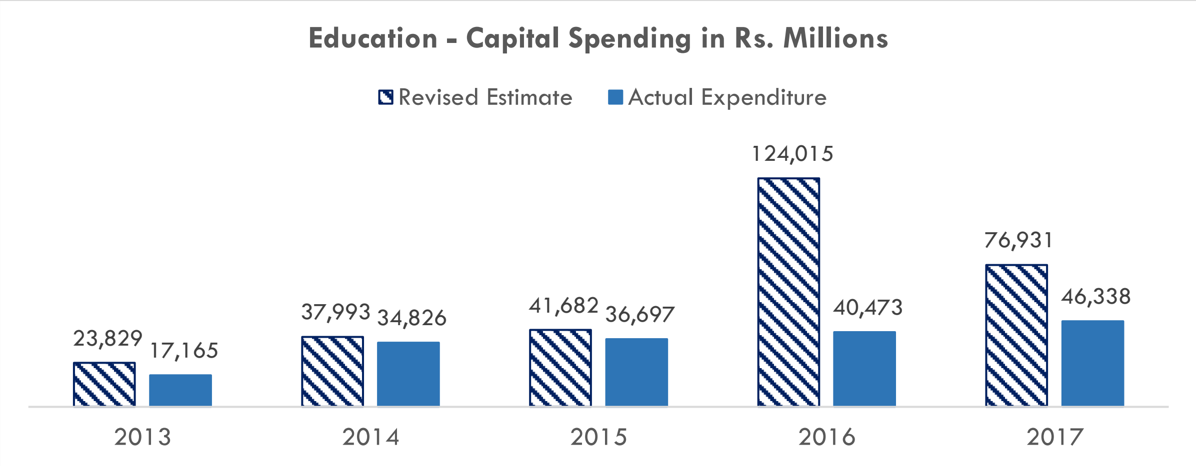
Policy: Prioritize capital expenditure

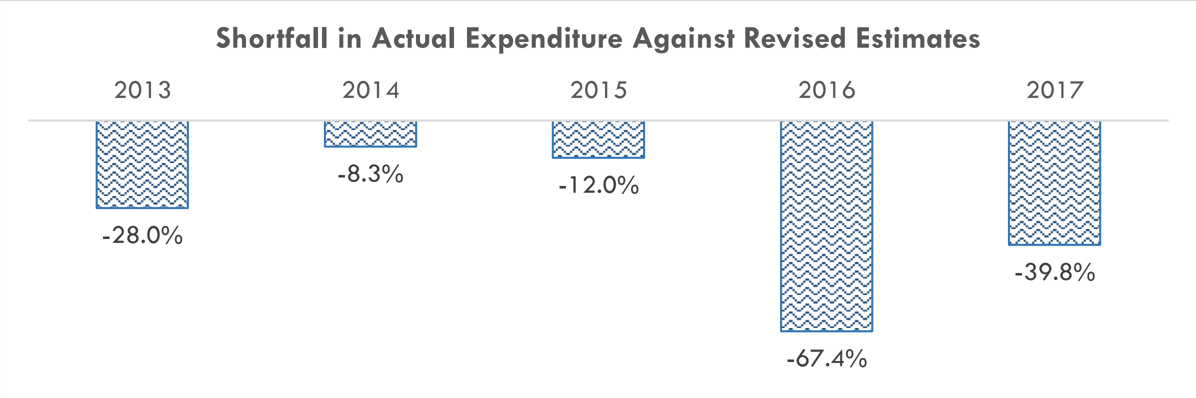
Average annual growth in capital expenditure is 33.3% during 2013-2017. This was driven by a doubling of capital expenditure in 2013-2014 from Rs. 17.2 billion to Rs. 34.8 billion; during 2015-2017, average growth was only about 10%.

At the same time, actual capital expenditure has fallen significantly short of the budget allocations – at an average shortfall of 31.1% during 2013-2017. Like in the health sector, the shortfall in actual spending against revised estimates is the highest in 2016, with 67.4% of the allocated capital budget not being spent.

Capital allocation on education, in the 2019 Budget[4], is Rs. 82.7 billion. This is a 178.6% increase from the 2017 actual capital spending and a 2.3% increase from the 2018 revised estimate (Figure 4).

Figure 4: Capital Expenditure on Education, 2013-2017





Source: Approved Budget Estimates (various years).

Observation: The COPF is satisfied that the allocation to capital expenditure for education is well laid out, within the scope of government policy. It observes, however, a pattern from the past, like in the health sector, where the expectations of the budget estimates are generally not complied with in the implementation of the budget.

Policy: Increase allocations to general education

Expenditure on General education, covering primary and secondary education as well, is carried out by the Ministry of Education (MOE) and the Provincial Councils (PCs). In the 2019 Budget, almost Rs. 240 billion is dedicated to general education (Table 10).

The Central Government has made a policy commitment to achieving '13 years of education' for all. The proposed spending in 2019 for this initiative is Rs. 6 billion directed to implementing this policy in 416 schools, conducting capacity development programs for teachers, implementing school supervision, rehabilitating and constructing buildings and purchasing equipment. In addition, the Draft Budget Estimates contains large allocations dedicated to improving general education. These include: (i) upgrade facilities of 3,577 primary schools (Rs. 4,500 million), (ii) upgrade facilities of 1,000 secondary schools (Rs. 4,750 million), (iii) elevate plantation schools to secondary schools (Rs. 200 million).

[4] Including *Budget Speech* proposals.

The Draft Budget Estimates also provide a breakdown of the direct spending by the MOE (separately from the Provincial Councils), on primary and secondary education (Table 1).

Overall, there are important commitments in the education budget, for 13 years of education, as well as for improving education facilities. However, simultaneously the total allocated budget (especially the recurrent spending) has been reduced in real terms from the revised estimates for 2018. The nominal increase in the allocation for provincial councils, at only 3.4%, is lower than inflation; and all other expenditure by the MOE has an even smaller increase, while allocations for primary and secondary education, at the central level are reducing in nominal terms as well, primarily through reduced recurrent expenditure.

Table 10: Public Spending in General Education, 2015-2019 Budget

Direct Allocations to General Education by MOE and Central Govt. Transfers to PCs, 2015-2019 Budget

Values in Rs. Millions

	2015	2016	2017	2018 RE	2019 B
General Education Sector (including PCs)	**176,916**	**185,684 (+5.0%)**	**201,160 (+8.3%)**	**235,081 (+16.9%)**	**239,835 (+2.0%)**
- MOE	59,263	63,643	79,516	104,731	105,000
- Central Govt. allocation to PCs	117,653	122,041	121,644	130,350	134,835

Sources: Draft Budget Estimates (2019) and Govt. Communicated Data.

Distribution of Development Activities Budget between 2 MOE Budget Heads - Primary Education and Secondary Education, 2017-2019 Budget

	Values (Rs. Millions)			**Share of Education Sector Budget (Excl. PCs)**		
	2017	2018 RE	2019 B	2017	2018 RE	2019 B
Primary Education	4,522	5,004	4,699	3.3%	2.7%	2.4%
Secondary Education	24,312	33,425	31,167	18.0%	17.7%	15.7%

Source: Draft Budget Estimates (2019).

Observation: The COPF is not satisfied that the recurrent expenditure budget allocations for general education (especially secondary education) are well laid out. The COPF has not received information to explain the real and nominal reductions in allocations, discussed above, despite the expansions in education related commitments set out in the budget.

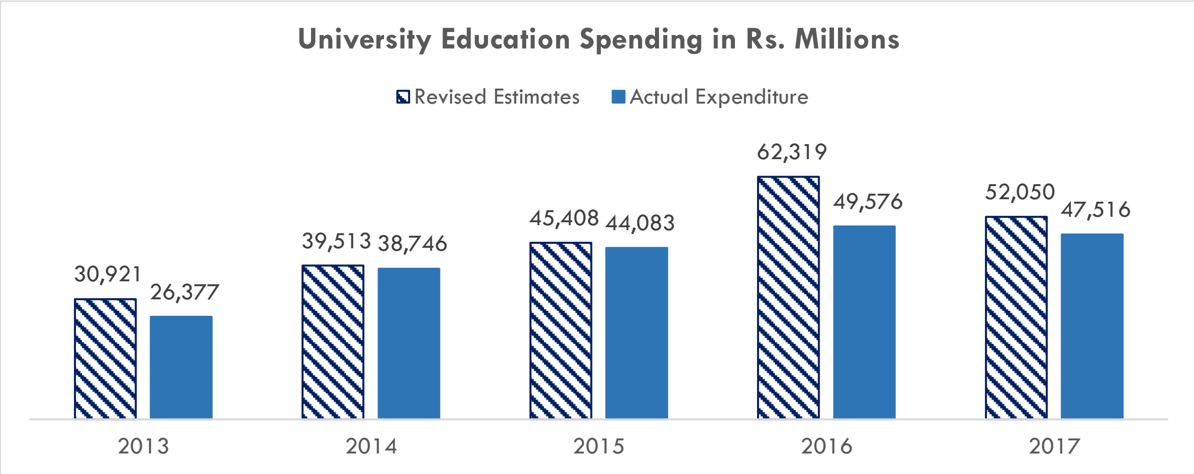
Policy: Increase allocation to university education

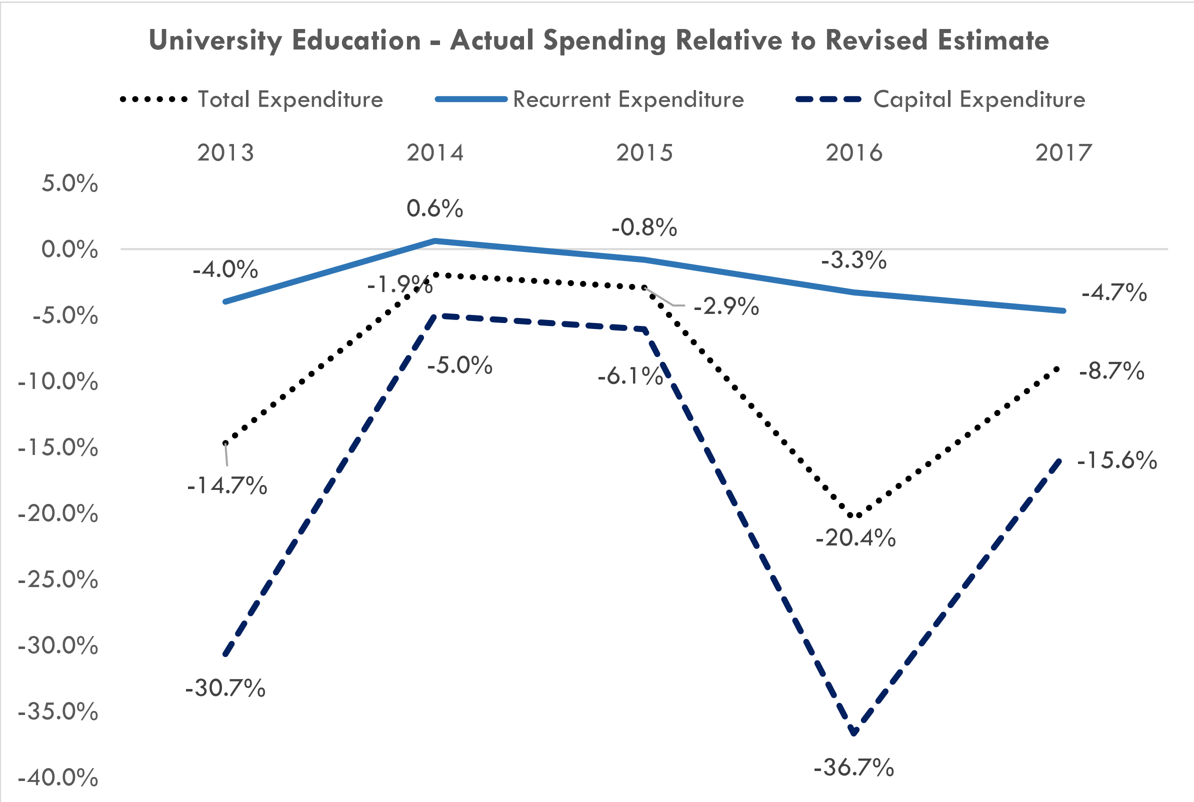
The stated policy of the government is to expand access to tertiary education, which includes university education. During 2013-2017, the annual student intake of universities under the University Grant Commission is only 19-22% of the students who passed the qualifying A/L examination.

As noted previously, the Central Govt. allocation to university education in 2019 is Rs. 79.3 billion, a 9.5% increase from the 2018 revised estimates. This is a 52.4% increase from the actual spending in 2017.

The past record, however, does raise a concern with regard to implementation. Figure 5 provides the actual expenditures, as well as the deviations from the budgeted amounts. Historically the expansion in budget allocations are driven by capital expenditure allocations (increasing by 24.2% from 2013-2017) but being underspent by an average of 18.8% during the same period. The short-fall in actual vs. allocated has been in excess of 30% in 2013 and 2016, and more than 15% even in 2017.

Figure 5: Public Expenditure on University Education, 2013-2017





Sources: Approved Budget Estimates (Various Years).

Observation: COPF is satisfied that the allocation of university education is well laid out, within the scope of government policy. It observes, however, a pattern from the past experiences where the expectations of the budget estimates are generally not complied with in the implementation of the budget.

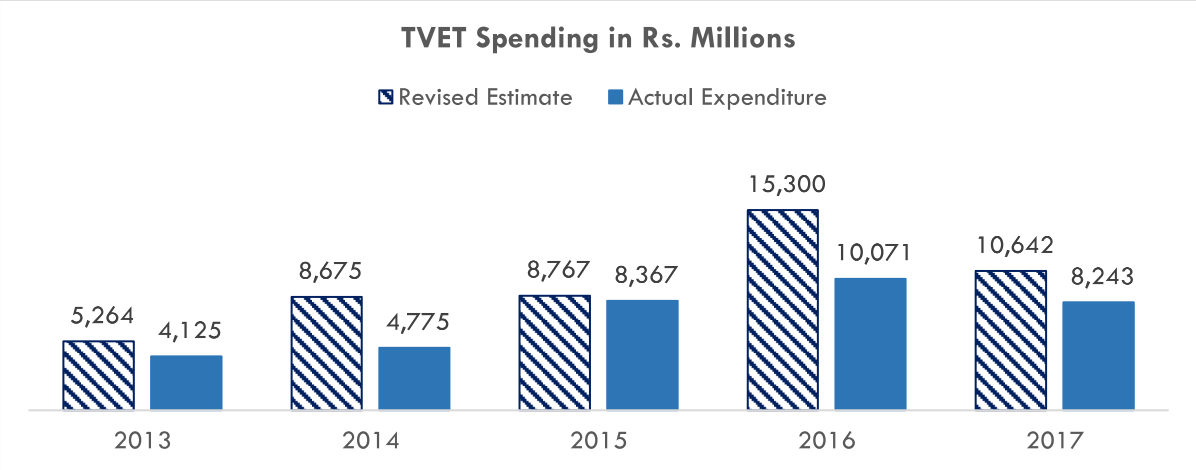
<u>Policy: Increase in allocation to TVET</u>

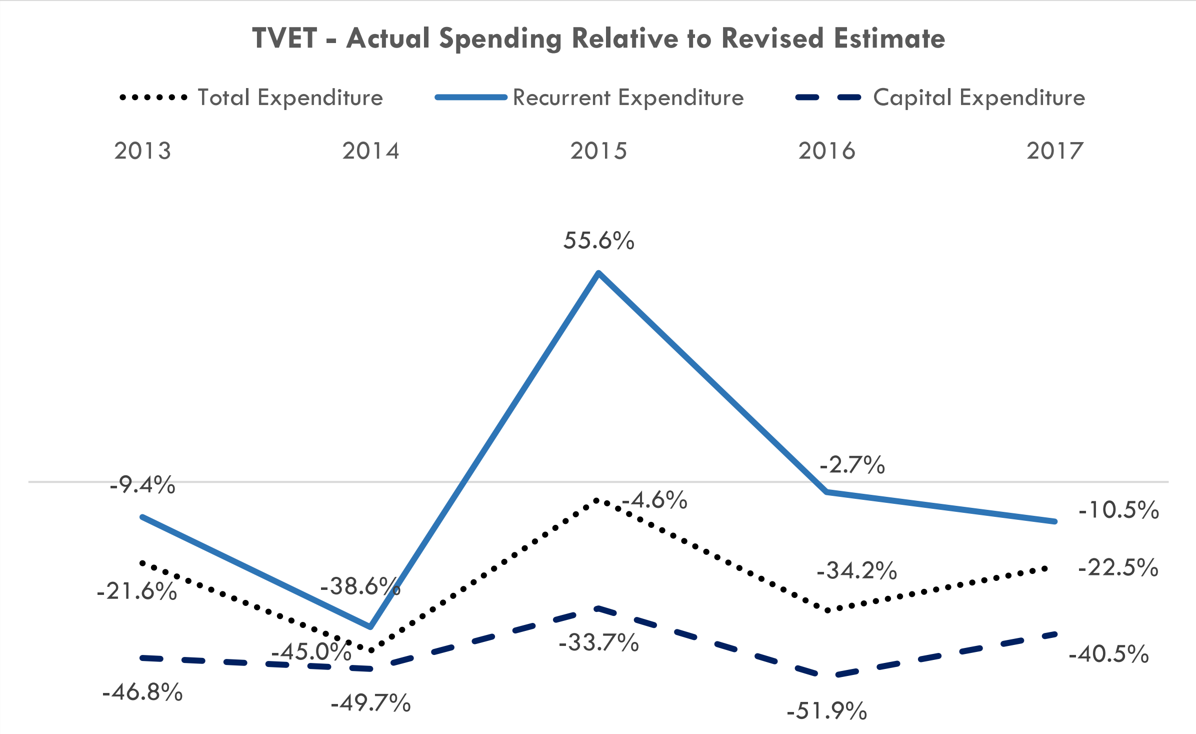
The stated policy of the government is to expand access to tertiary education, which includes post-secondary technical and vocational education and training (TVET), which can be a viable/preferred tertiary alternative to university education. In 2017, 160,730 students failed to pass either the O/L or A/L examinations, but the annual student intake of technical colleges that year was only 39,910. Therefore, there is much room for expansion of TVET, as envisaged by the government.

As noted previously, the Central Government allocation to TVET in 2019 is Rs. 11,268 million. This is a slight nominal increase from Rs. 11,207 million in 2018 revised estimate, and a decrease in real terms. It is notable that the 2019 allocation to TVET is 36.8% more than the equivalent actual spending in 2017. But in 2017, the actual spending on the sector was 18.2% less than the 2016 expenditure, due to a shortfall in capital expenditure by 46.1%. The allocation in 2019 is, therefore, only a 11.9% increase from actual spending in 2016 (Figure 6).

The 2013-2017 annual average growth in TVET expenditure was 23.3% and in relevant capital expenditure was 50.8%. At the same time, the TVET budget was underspent by 25.6% - with underspending of the relevant capital budget as much as 44.5%.

Figure 6: Public Expenditure on TVET, 2013-2017





Sources: Approved Budget Estimates (Various Years).

Observation: The COPF is not satisfied that the allocation to TVET is well laid out and within the scope of policy. Allocations have reduced in real terms, contrary to the expectations set by government policy. This concern is amplified by a pattern from the past where the expectations of the budget estimates are frequently not complied with, by a large margin, in the implementation of the budget.

Policy: Improving access to education for persons with disabilities

The stated policy of the government is to improve access to education for persons with disabilities/special needs. Usually, the term “special education facilities” denotes such provisioning. According to the 2019 Draft Budget Estimates, there are 105 schools providing special education facilities, and the student population in these schools was 136,802 in 2017.

The MOE has a dedicated budget head for “Special Education”. The recurrent expenditure under this budget head has increased by 4.5% (kept constant in real terms). The capital expenditure allocation has been reduced by Rs. 100 million (Table 11). In what seems a confusion of terminology, the allocations under the “special education” budget-head has not been limited to the education needs of persons with disabilities/special-needs; but includes also, for instance, the allocations to pirivena education, girl-guides and scouts associations as well.

Table 11: MOE Allocation to Special Education, 2017-2019 Budget

Values in Rs. Millions

	2017	**2018 RE**	**2019 B**	**Y-o-Y increase (2018-2019)**
Recurrent Expenditure	5,350	5,389	5,634	+245 (4.5%)
Capital Expenditure	218	670	570	-100 (-14.9%)
Total Expenditure	5,568	6,059	6,204	+145 (2.4%)

Source: Draft Budget Estimates (2019).

Increasing access to education for persons with disabilities would normally require increases in capital expenditure – for facilities for the access/participation of persons with disabilities – as well as increases in recurrent expenditure – for teachers and materials that assist special needs students. The stagnation of the recurrent budget in real terms, and the reduction in the capital budget, does not indicate a plan to follow through on the policy commitments.

Observation: The COPF is not satisfied that the budget allocations for special education is well laid out. The COPF has not received information from the MOF to understand how the policy commitments can be taken forward alongside a stagnating recurrent budget and a reduced allocation for capital expenditure.

Section III: Informational Standards and Due Diligence

This section of the report sets out concerns of the COPF with regard to the standards adopted in the provision of budget information. One set of concerns under this heading was published in the first report submitted to Parliament on the 2019 Budget. The present section sets out further concerns.

Informational Standards and Due Diligence: refers to serious concerns with regard to the internal consistency of data provided and/or with the professionalism and accuracy with regard to providing information on the allocations, the changes in allocations and the adequacy of information provided.

The section is in two parts (1) Review of previous budget concerns of the COPF, (2) Sri Lanka's budget weakness compared to peer countries.

Review of Previous Budget Concerns of the COPF

The COPF has had various correspondence and engagements with the MOF to improve the quality and decipherability of the information that is provided to Parliament. As a means of documenting progress (and sometimes lack of) in addressing those concerns, this section sets them out in three parts. The first is an enumeration of the formal undertakings provided to the COPF by the MOF, in writing, on improving the budget information and due diligence. The second is on an entrenched problem of information provision on expenditure of vehicles. The third is on a puzzling phenomenon of the MOF providing egregiously incorrect budget estimates on the interest cost of foreign loans.

Formal Undertakings Provided to the COPF by the MOF

This section sets out in a structured form, the undertakings received from the MOF on some of the recommendations of the COPF, with regard to four types of concerns highlighted in past COPF reports and correspondence (Table 12).[5] These areas of concern are: (1) Lack of an appropriate sector classification of the Budget; (2) Lack of visibility and decipherability on large/multi-year expenditures; (3) Lack of explanations on the major changes in the Budget; (4) Increase in discretionary budgeting.

[5] The primary sources for undertakings of the MOF are written information submissions: (a) response to the COPF Report II on the 2018 Budget, sent to the Committee on 19 September 2018, (b) response to COPF information requests related to the 2019 Budget, sent to the Committee on 27 February 2019.

Table 12: Undertakings of the Ministry of Finance

Key Concerns	Request/Recommendation made by the COPF	Response received from the MOF	MOF undertaking to the COPF, in the response received
1. Lack of an appropriate sector classification of the Budget	1a. Develop a set of categories to classify budget items by their function.	The formats are mostly from an accounting perspective rather than economic classifications, in accordance with the regulations. **Follow up by the COPF** provided in 1b of this Table.	**The MOF will take steps to introduce sector classification with the 2020 Budget.**
	1b. Even if a sectoral categorization of the budget is not possible due to the current configuration of spending agencies, an alternate classification procedure needs to be adopted, such as providing sector classification codes for budget heads or selected expenditures to allow for sector analysis.	It is agreed that a sector classification is becoming increasingly intricate due to the allocation of institutions and subjects of the expenditure heads being more heterogeneous. However, the Department will make its best efforts to meet the expectation of the CoPF. As of now, the printing of budget estimates 2019 has already on its halfway mark and that it will not be possible to implement the prescribed way forward to include sector classification for the 2019 estimates which the Department views as an exercise demanding a significant time and effort. It may be noted that certain projects which are larger in scale may cut across more than one sector causing difficulties for the Department of National Budget to assign specific sectors. It is also expected that CoPF will recognize the complexity of the task. Therefore, the Department will, in consultation with the spending agencies and the Department of National Planning, take steps to introduce a strategy for sector classification for 2020 budget in order to meet the expectations of the CoPF. After obtaining Parliamentary approval for 2019 budget, Annual Budget Estimate will be printed including final figures. **As the first step, sector categorization summary of certain sectors will be included as a separate schedule in the Approved Budget Estimate Book 2019.**	

Key Concerns	Request/Recommendation made by the COPF	Response received from the MOF	MOF undertaking to the COPF, in the response received
2. Lack of visibility and decipherability on large/multi-year expenditures	2a. Revise and expand the "major projects" tables.	Budget Estimates are prepared within a limited period of time. So, including all the details pointed out is a tough ask without a good and able support from the other spending agencies. It may be noted that even the currently available project list was included due to the commitment of the staff but with enormous difficulty. **Follow up by the COPF** provided in 2b of this Table.	**The MOF will revise the 'major projects' table to be included with the 2020 Budget.**
	2b. Despite the difficulty in preparing the tables related to "major projects", the Committee finds this a crucial task, as if not, a proper evaluation on spending cannot be made. The Ministry needs to formulate a mechanism to obtain the requisite information from the relevant spending agencies and include this information.	The effort of the General Treasury was to demonstrate the expenditure for major projects for the financial year for which the budget estimate has been prepared. In order to meet the requirement outlined by the CoPF, major project list will be revised accommodating the said information in budget estimates of 2020. It may be noted that the replacement of information pages is not possible as the 2019 budget estimate is being printed.	
3. Lack of explanations on the major changes in the Budget	3a. Provide explanations for major changes.	Budget Estimates are open for discussions in Parliament during the committee stage. This can be requested from each Ministry /spending agency during that time. **Follow up by the COPF** is provided in 3c of this Table.	**The MOF commits to provide explanations on major changes through footnotes in the budget.**
	3b. Explain changes in individual budget items that constitute more than half of total allocation for the respective ministry and department.		
	3c. The COPF strongly urges that the MoF identifies and collates explanations resulting in major changes to budget allocations. The MoF formulates and manages the national budget and if there have been major changes in allocations, the Ministry needs to be aware of this. Hence, the ministry should be able to provide to COPF, explanations for these deviations, since the task of formulating the budget is vested in the Department of National Budget under the MoF.	Budgetary provisions are provided based on the available resources, government priorities, and the actual fund requirement of projects in each year. Therefore, it is highly likely that a similar allocation of resources will not be required or allocated for consecutive years. However, it has been noted to include footnotes in the future if a significant change of allocations takes place. **Current status:** It can be seen in the 2019 Budget that explanations for *some* major changes were provided in footnotes of the Draft Budget Estimates.	

<table>
<tr><th>Key Concerns</th><th>Request/Recommendation made by the COPF</th><th>Response received from the MOF</th><th>MOF undertaking to the COPF, in the response received</th></tr>
<tr><td rowspan="3">4. Increase in discretionary budgeting</td><td>4a. Restrict the amount of money allocated to the Supplementary Support Services and Contingent Liabilities category of the Department of National Budget to a maximum of 5% of the total expenditure.</td><td rowspan="2">Allocation provided under this vote excluding welfare and Budget Proposals are less than 2%. Hence, the comment is positively accepted.
By moving welfare programmes from this budget head to be under relevant institutions, “such provisions in Treasury Miscellaneous Account has been reduced to 2% of total expenditure.
Current status: The MOF has moved welfare programmes to be under relevant institutions as per the commitment made. Based on the 2019 Draft Budget Estimates, the relevant budget head has an allocation of Rs. 80,253,533,000, which is 2.5% of the budget (excl. public debt repayments).</td><td rowspan="3">The budget head ‘Supplementary Support Services and Contingent Liabilities’ will be restricted to 2% of the budget from 2019 Budget onwards. A separate budget head for Budget Proposals is created.</td></tr>
<tr><td>4b. Use the Supplementary Support Services and Contingent Liabilities category of the Department of National Budget only for liabilities that will arise in an unanticipated manner.</td></tr>
<tr><td>4c. Create a new budget-head with the title “Proposals of the Finance Minister.”</td><td>A separate project will be created in 2019 as Budget Proposals.
Current status: The Draft Budget Estimates 2019 states “Since the allocation of the provisions related to the budget proposals, allocating those under respective Ministries at the committee stage of the budget is practically challenging. Therefore, such provisions will be allocated under Head No 240 Programme 2 project 3. Subsequent to a proper study and specific identification of spending agencies related to each budget proposal, such provisions will be released to respective spending agencies later.”</td></tr>
</table>

Source: MOF communications with COPF (on 19 September 2018 and 27 February 2019).

Entrenched Problems of Information (the case of Vehicles Expenditure)

An entrenched set of problems in informational standards and due diligence highlighted in this section can best be illustrated through the COPF's own past experience in evaluating the budget, in this case, the line item on vehicle acquisition expenditure. The COPF Report II on the 2018 Budget noted that

> "capital expenditure for the acquisition of vehicles purchases has also increased dramatically in the current year [2017], and for the following year as well. The outlay for acquisition was about 1.4 billion a year in 2015 and 2016, and it has increased to over 16 billion in 2017 – an increase of 12 times. This is despite the increase in expenditure on the Operational Leasing Method as well."

This constituted a perturbing increase in what was allocated to the acquisition of vehicles. When the COPF noted this anomaly, and asked for a response, the MOF provided explanations for the inordinate increase to this particular budget line.

The explanations were as follows: One, that in 2017 and 2018 a "large number of utility vehicles were procured, mainly for the defence and railway sector"[6]; Two, that the treatment of costs was affected by the exemption and reinstatement of excise duties on vehicles procured through the Consolidated Fund. These explanations themselves help to illustrate one of the entrenched problems of budget information provided to Parliament. Through engaging in oversight on this large variation, the COPF has been able to identify two important improvements needed with regard to the informational standards and due diligence in budgeting.

1. Ensuring intelligibly summarized and explained expenditure estimates.
2. Eliminate the misuse of the discretionary budget head.

Problem 1: Expenditure estimates are not intelligibly summarized or explained.

The first explanation for the 12 times multiple in the cost of vehicle acquisition came in the form of information provided to the COPF to corroborate the claim that the budget variance was based on extraordinary purchases of utility vehicles. This information is set out in Table 13.

Table 13: Breakdown of Cost of Vehicle Acquisition in 2017 and in 2018

In Rs. Millions

Year	Vehicle Type	Cost of Vehicle Acquisition
2017	Ambulance	1,233
	Defence (boats and vessels)	4,253
	Locomotives / compartments	7,600
	Police & STF	100
	Disaster management (water bowsers and boats)	615
	Other	2,585
	Total	*16,386*
2018	Defence vehicles (Navy)	2,672
	Locomotives / compartments	6,100
	Health sector	200
	Police & STF	53
	Parliament (bus)	28
	Total	*9,053*

Source: MOF Communication with COPF (19 September 2018).

[6] This is based on MOF written communications to the COPF on the 19 September 2018, which were a response to COPF Report II on the 2018 Budget.

Need for Sensible Aggregation/Categorisation

The line item “other” in Table 13 captures the vehicle acquisition expenditure budgeted for administrative purposes. This amount is in line with past trends. The very large deviation occurred due to the vehicle acquisition for public services (health care and public transport) and for security purposes (police and military), being added and aggregated with the acquisition of vehicles for administrative purposes.

It took the COPF significant time and effort to receive the information that was needed to make sense of these budgetary estimates and allay concerns about the extraordinary variations. This problem would not have arisen, however, if the MOF exercised due diligence in ensuring that the summary estimates are broken-down/aggregated in a more intelligible manner, and reported/aggregated in sensible categories that enable Parliament to make better decisions, in order that the consent of Parliament to the budget allocation is properly informed, rather than consent based on being poorly informed, or being uninformed.

Need to Explain large variations, and Costing Changes

Together with sensible aggregation/categorisation, the simple and important practice of proactively explaining large variations in any spending category could also ensure that Parliament is able to make better sense of the budget. The importance of such proactive explanations is highlighted by another disclosure made by the MOF when explaining the large variations in vehicle acquisition costs.

The MOF explained that budgeted estimates had also varied because: during the period 25.10.2014, - 21.11.2015 vehicles procured by the government, utilizing the Consolidated Fund, were exempted from excise duty. This was another reason for the drop of vehicle purchasing cost in 2015 and 2016 (Table 14). The fact that the government is able to engage in such ‘gimmicks’ to change what Parliament observes in terms of changes in costs, makes it all the more important that the MOF follows higher standards of disclosure, so that Parliament is not misled with regard to the meaning/implications of the budget allocations that it approves.

Table 14: Changes in Expenditure/Allocation Under Object Code 2101 – Acquisition of Vehicles, 2013-2019 Budget

Values in Rs. Millions

Year	Central Govt.		Of which, Ministry of Defence		Of which, Department of Railways	
	Value	% of Vehicle Exp.	Value	% of Vehicle Exp.	Value	% of Vehicle Exp.
2013	5,403	43.8%	145	1.3%	1,698	14.8%
2014	9,753	54.4%	226	1.3%	5,443	30.3%
2015	1,523	9.7%	374	2.4%	419	2.7%
2016	1,309	7.6%	63	0.4%	43	0.3%
2017	**11,057**	**42.9%**	**3,379**	**13.1%**	**4,948**	**19.2%**
2018 RE	16,011	46.9%	5,982	17.5%	6,681	19.6%
2019 B	17,437	50.5%	3,789	11.0%	10,994	31.9%

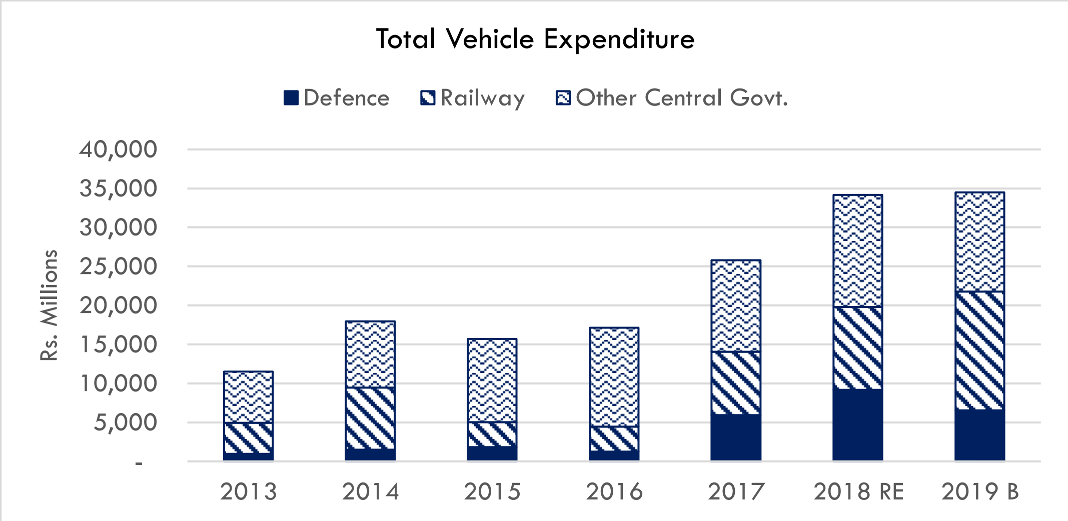
Source: Draft & Approved Budget Estimates (various years).

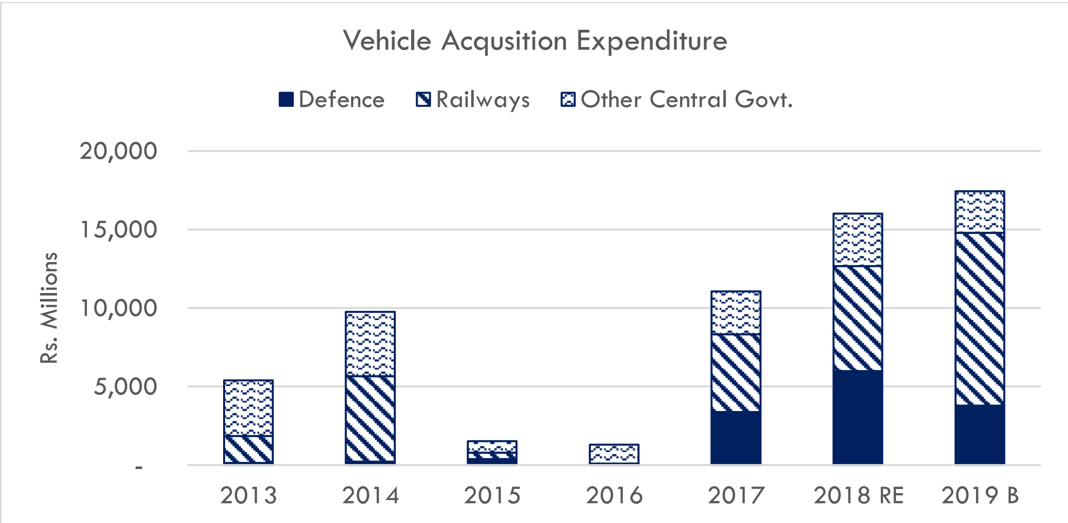
Need for better information to make allocative priorities

The additional explanations and data provided to the COPF, with regard to the expenditure on vehicle acquisition (now set out in Table 14), has changed the focus of the question and evaluation before the Committee. Prior to having such information, the question was about the increasing expenditure on acquiring vehicles for administrative purposes. However, the additional information has clarified to the COPF that what now needs explanation, rather, is the decision of government to prioritise extraordinary allocations for the purchase of military vehicles, in the context of multiple constraints on public finance.

The numbers provided by the MOF shows an exponential increase in budget allocations towards the acquisition of vehicles for the military. This allocation has increased from an average expenditure of Rs. 0.2 billion over 4 years (2013 to 2016) to Rs. 3.4 billion in 2017 (a multiple of 16 times) and almost Rs. 6 billion in 2018 (a multiple of 29 times). The present budget requests a continuation of these very high allocations for a third year running at 3.8 billion (a multiple of 18 times) (Figure 7 and Annex 3).

Figure 7: Central Govt. Vehicle Expenditure, 2013-2019 Budget





Source: Draft and Approved Budget Estimates (Various Years).

These large extra allocations for military vehicles are particularly puzzling as they are taking place in a peace-time context, and at a time when the public finances of the government is facing challenges on many fronts with low growth, debt increases, high interest costs and lack of budgetary space for developmental activities.

Therefore, the value of improved informational standards and due diligence is also that it would allow Parliament to probe such allocative decisions in terms of **budget priorities**. Would such financing be better allocated in improving the buses used for public transport, for instance? The opportunity to ask such questions and improve budget allocations has been missed in the previous years due to the relevant information being difficult to access within the overall reporting on the budget.

Problem 2: Misuse of Discretionary Budgeting

The COPF, in Report II on the 2018 Budget, found that the "government submitted supplementary budget estimates with regard to the purchase of vehicles in 2017 that were not disclosed transparently in the budget estimates provided to Parliament in November 2016.".

The concern is heightened by the fact that allocations to be used under such circumstances are placed under a budget subheading called, 'Supplementary Support Services and Contingent Liabilities' which is in Section 6 of the Appropriation Bill, under the budget head of Development Activities of the National Budget Department, which is explicitly authorised to be expended in a discretionary manner by the government (with very wide scope), regardless of the original stated purpose of the allocation.

The rules under which this budget head has been defined allow transfers from it to be made to "any other Programme under any other Head," with the authorization of the Treasury Secretary, a Treasury Deputy Secretary, or the National Budget Director General. The only condition is that Parliament must be notified of the transfer, its amount, and its reasons *after* the fact, within two months of the date of transfer. This allows for abuse of the budgeting process, which has taken place in the past.

The MOF has accepted that drawing from this budget head has been the standard practice for funding the purchase of vehicles and explained to the COPF the reasoning as follow:

> "In the preamble of the budget estimates 2017 that was submitted to Parliament in November 2016, it has been clearly mentioned that budgetary provisions for the procurement of vehicles has not been included under the budget estimates of each spending unit and therefore such allocation would be provided on requirement from the 'Supplementary Support Services and Contingent Liabilities' project under the national budget."[7]

The MOF has also asserted that the practice is beneficial for better management of public finances, explaining, *inter-alia*, that:

> "It is also observed that providing allocation for procurement of vehicles on case by case basis, is more transparent as the details of such allocations provided by Supplementary Support Services and Contingent Liabilities and the purposes of procurements paid off using such allocations are submitted to Parliament within 2 months of the provision of allocations. After submission the reports to Parliament, as a practice, matters related to the allocations get exposed to media and become subjects of wide discussions."[8]

The Committee appreciates the transparency value of "matters related to the allocations [of vehicles] get[ing] exposed to media and becom[ing] subjects of wide discussions" However, it rejects the claim that providing wide discretion to MOF officials, which is not subject to the approval of Parliament (but only requires Parliament to be informed 2 months after the fact) can be a basis for such greater transparency and accountability, as opposed to providing Parliament the power to scrutinize and pre-approve such expenditure in advance, as is the case with normal budgeting discipline.

The COPF in its previous year's report highlighted the problematic practice of using the discretionary budget - *Supplementary Support Services and Contingent Liabilities* head under

[7] This is based on MOF written communications to the COPF on the 19 September 2018, which were a response to COPF Report II on the 2018 Budget.

[8] This is based on MOF written communications to the COPF on the 19 September 2018, which were a response to COPF Report II on the 2018 Budget.

the Department of National Budget, to purchase large volumes of vehicles without the approval of Parliament.

The COPF recognizes the need for issuing Supplementary Appropriation Bills (Supplementary Estimates) for unanticipated expenditure requirements. Utilization of such a measure should be under exceptional circumstances, and not as a standard practice – it should be the rare exception, and not the planned norm for any category of spending.

The investigations on the expenditure on vehicles has revealed to the COPF a serious issue with regard to the misuse of discretionary budgeting, where the oversight function of Parliament is also partially subverted. Tightening the rules around the use of discretionary budgeting will be an important step in improving the informational standards and due diligence of budgeting in Sri Lanka.

Egregious Misestimation of Foreign Loan Interest Cost

The estimates provided in the budget on foreign interest payments (i.e. interest payments on foreign loans) have been egregiously incorrect, over many years. Table 15 shows that, even in the last few years, since the COPF has drawn attention to the problem in its first report, the actuals have been under-estimated by 61.2% and 33.8% in 2016 and 2017 respectively.

Table 15: Foreign Interest Payments, 2012-2017

Foreign Interest Payments	Average annual growth rate	Average **excess** from approved budget estimations	**Under**-estimated by
(2013- 2017)	13.4%	41.8%	33.8% (in 2017)
(2012-2016)	8.1%	52.8%	61.2% (in 2016)

Source: CBSL Annual Report (Various Years).

The report submitted by the COPF to Parliament on the previous budget (Budget 2018), noted that "Such large discrepancies need a valid explanation as foreign debt and interest payment commitments are large, known in advance, the bulk of it accrued over decades, and easily calculated." It also noted that "the MoF explanation provided was that this is a result of unexpected level of treasury bond purchases after the budget estimates are prepared, that count as foreign debt" and that "this explanation lacks credibility" because "it requires the COPF to accept that interest payments on foreign debt built up over decades, which is about 35% of GDP at present, are hugely overshadowed by the unexpected changes in interest payments on very short-term foreign debt taken and paid within a single year."

The first report submitted by the COPF on Budget 2018 went on to state that "the very large and systematic error in projecting foreign interest payment also deserves a written explanation that is tabled in parliament." **Such a written explanation has not been received to-date**.

This year, to guard against such repeated errors in estimates, the COPF has requested the MOF to share with the COPF the schedule that it maintains on foreign debt and interest payments. It is only in May 2020, after the Central Bank Annual Report is published for 2019, that the COPF will be in a position to make a fresh assessment about the integrity of the information that has been provided in the current budget cycle. COPF also notes in Annex 4 that in two out of the last 5 years, the MOF financial reports deviated by a large margin from the Central Bank in the foreign interest payments reported. This too requires an explanation.

This simple case study on the huge discrepancies in estimates provided to Parliament, against actual outcomes, reflects the very serious failure by the MOF to adhere to reasonable standards in the provision of information, and lack of due diligence in responding to the issues highlighted through COPF reports.

Sri Lanka's Budget Weaknesses Compared to Peer Countries

The importance of improving Informational standards and due diligence is underscored by two further observations, which are being set out in this section.

The first observation is that Sri Lanka's performance is weak, in the international Open Budget Index (OBI). This index is a simple measure of due diligence in the provision of information. The second observation is a case study comparing Sri Lanka's informational due diligence with Uganda (which has less than one sixth of Sri Lanka's per capita GDP). It illustrates fundamental gaps in Sri Lanka's informational due diligence.

Sri Lanka's Performance on Open Budget Index

The Open Budget Index (OBI) is one of three pillars of public budget accountability in the Open Budget Survey (OBS): a comparative assessment designed and launched by the International Budget Partnership. The OBI assesses the transparency of central government budgets. The countries are assigned a score on a 100-point scale for transparency, based on the availability of the eight key budget documents during the budget cycle and the timeliness of the information. Budget openness in Sri Lanka has been assessed since the launch of the index in 2006.

When comparing Sri Lanka's OBI score to peer countries (with a per capita GDP between US$ 3,500 to US$ 4,500 in 2017) there are only 3 countries that have a lower score than Sri Lanka (Azerbaijan, Angola and Algeria). Furthermore, among the countries tracked by OBS there are 18 countries with a GDP lower than Sri Lanka, but with a higher score (Table 16).

Table 16: GDP per Capita and OBI Score of Selected Economies, 2017

Country	2017 GDP per Capita (US$)	OBI Score (out of 100)
Georgia	4,057	82
Philippines	2,989	67
Indonesia	3,847	64
Jordan	4,130	63
Guatemala	4,471	61
Uganda	606	60
Moldova	2,290	58
Kyrgyz Republic	1,220	55
Ukraine	2,640	54
Honduras	2,480	54
Nepal	849	52
Senegal	1,329	51
Papua New Guinea	2,489	50
Ghana	2,046	50
Afghanistan	550	49
India	1,942	48
Mongolia	3,717	46
Kenya	1,595	45
El Salvador	3,889	45
Morocco	3,007	45
Sri Lanka	**4,074**	**44**
Azerbaijan	4,132	34
Angola	4,100	25
Algeria	4,055	3

Sources: The World Bank Development Indicators (2017) and International Budget Partnership - OBS (2017).

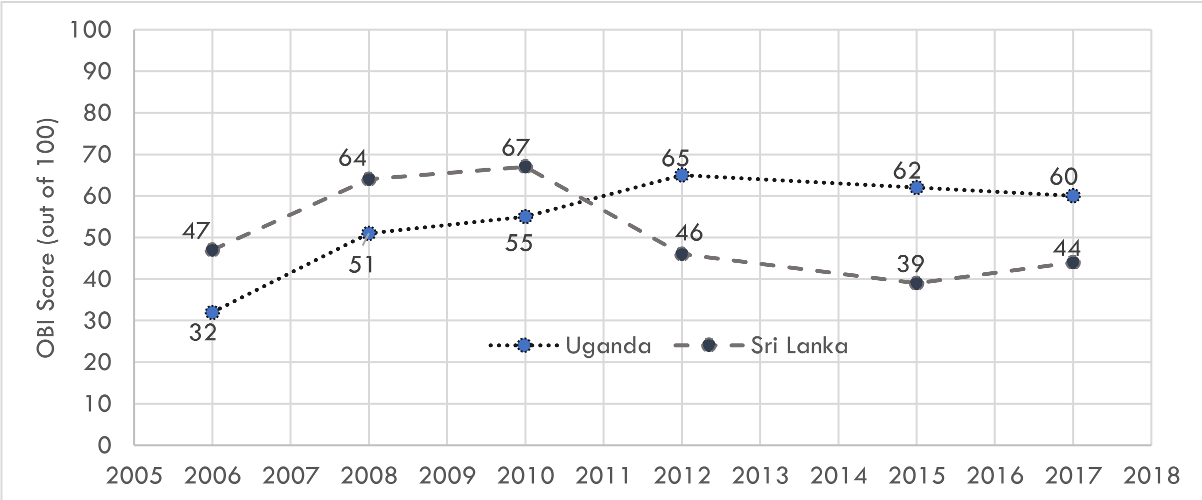
Case Study: Sri Lanka and Uganda Comparison

The COPF has chosen to compare Sri Lanka's information due diligence against that of Uganda, to illustrate that the concerns of the COPF with regard to improving reporting standards are well within what is achievable, even in resource constrained economies.

In 2017, Uganda reported a per capita GDP of US$ 606, as against Sri Lanka's US$ 4,074. Uganda is classified as a low income country, whereas Sri Lanka is considered better off as a lower-middle income country. Nevertheless, a comparison of the budget reporting practices reveals that the finance bureaucracy of Uganda performs better than the bureaucracy of Sri Lanka in their compliance with information standards and due diligence. This case study is based on information available through the OBS initiative.

The OBI score for Sri Lanka has been declining over the years whereas Uganda, which had a lower OBI score than Sri Lanka in 2006, has been improving over time (Figure 8). This suggests that Sri Lanka is following a path of decreasing due diligence, while other countries, that have started behind, are improving and overtaking Sri Lanka.

Figure 8: Open Budget Index (out of 100) for Sri Lanka and Uganda, 2006-2017



Note: There was a substantial change in scoring methodology in 2015, which resulted in the standards becoming even more stringent.
Source: International Budget Partnership – OBS (Various Years).

The OBS initiative conducts a deeper enumeration of the available budget information in the countries that are surveyed for the OBI. This enumeration reveals a negative comparison between Sri Lanka and Uganda, where **budget information that is not provided or limited in Sri Lanka, is available in full in Uganda.**

This section illustrates two types of negative information gap between Sri Lanka and her peers. The first is with respect to information that is simply not provided to Parliament and not published. The second is with respect to information provided in a partial and inadequate form. Examples under each type are set out below.

Budget information not provided in Sri Lanka and provided in Uganda

1. Details of expenditure estimates by functional/sectoral classification,
2. Impact of different macroeconomic assumptions,
3. Information on extrabudgetary funds,
4. Information on financial assets held by the government and estimates of expenditure arrears.

Budget information which is partial or inadequate in Sri Lanka and provided fully in Uganda

5. Estimates of sources of donor assistance,
6. Information on the link between the proposed budget to government's policy goals
7. Non-financial data on results

Additional shortcomings of Sri Lanka's financial reporting, compared to Uganda

8. A timely and full Mid-Year Fiscal Review is not published by Sri Lanka. It publishes a mid-year report, in line with the Fiscal Management (Responsibility) Act, No. 3 of 2003 and its amendments which provides only a review of the first four months. Sri Lanka publishes an additional report, the Fiscal Management Report, covering the first eight months, but this report becomes available only in November, with the release of the new budget for the upcoming year. However, Uganda adopts a standard, which is also used globally by OBS, to publish a review of the first six months within eight months into the corresponding fiscal year.

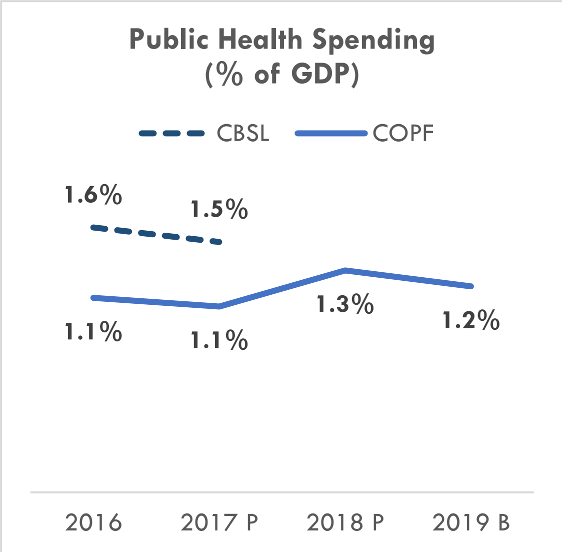
The need of an independent budget office that serves Parliament is reinforced when comparing budget reporting in the two countries. In Uganda, unlike in Sri Lanka, a Parliamentary Budget Office (PBO) is already in place since 2001. This was established with the purpose of creating technical capacity to support Parliament and its Committees in interpreting national budget and economic data and in producing objective, timely and independent analysis needed for legislative oversight over public finance. The establishment of a similar independent body attached to Parliament of Sri Lanka will enhance the Legislature's oversight functions over public finance. This has become increasingly necessary, considering the need for informed consent of Parliament in decision-making, especially in the interests of the public.

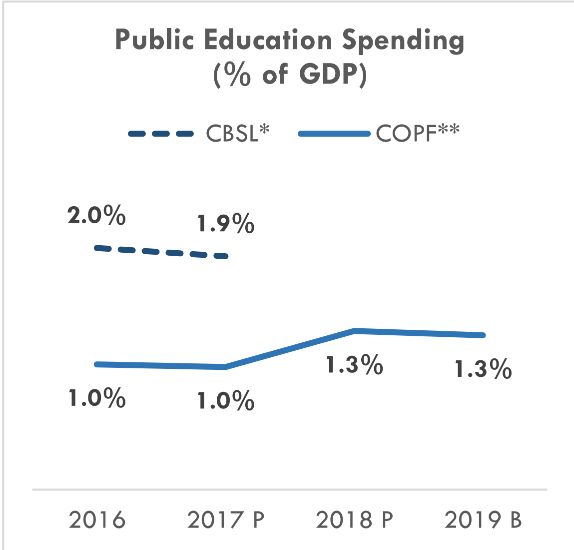
Annexes

Annex 1: Documents Provided by the MOF to the COPF

Date	Document Title
22.02.2019	Contingent Liabilities
	Vehicle Database
26.02.2019	Fuel Pricing Formula
27.02.2019	Debt Repayment Schedule
	Contingent Liabilities
06.03.2019	Macro-Economic Assumptions
	Updated Budget Estimates Revenue
	Updated Budget Estimates Expenditure
	Information on Fiscal Rules
	Government Decisions
08.03.2019	Expected and Actual Revenue from Ministry of Finance
	Monthly Debt Servicing (Interest) Forecast -2019 from Ministry of Finance
11.03.2019	New Revenue Proposals
	Actual Revenue in line with the Budget Proposals
	Underline Basis and Revenue Implication on Betting and Gaming
	Underline Basis for Excise Tax on Liquor
	Underline Basis and Revenue Implications on Cigarettes
	Projected Excise Duty Revenue from Cigarettes
	Cigarette Tax Mechanism
	Maternity Leave Benefits Calculation
	Letter from Ministry of Health on Tax on sugar content in sweetened beverages
	Commentary from the Ministry of Finance on the revisions made to the tax on sugar content in sweetened beverages

Annex 2: Comparison in Estimates of Sector Allocations by the CBSL and the COPF





Note: * CBSL estimate on education expenditure is defined as including general and higher education only in the CBSL Annual Report; ** COPF estimate comprises of direct expenditures of the Central Govt. on general education, university education and TVET.

Sources: CBSL Annual Report (various years), COPF Report 2 on 2018 Budget, Draft Budget Estimates (2019), Department of Census and Statistics of Sri Lanka – National Accounts (updated 19 March 2019).

Annex 3: Central Government Expenditure on Vehicles, 2013-2019 Budget

Values in Rs. Millions

Object Code	Expenditure Category	2013	2014	2015	2016	2017	2018	2019
		Actual	Actual	Actual	Actual	Actual	Revised Estimate	Budget
Central Government								
1301	Maintenance of Vehicles	2,524	3,146	3,165	3,271	3,461	3,812	3,824
1406	Interest Payment for Leased Vehicles	671	891	2,244	2,223	1,446	1,597	572
1408	Lease Rental for Vehicles Procured Under Operational Leasing	-	-	-	-	372	1,263	1,068
2003	Rehabilitation and Improvement of Vehicles	3,274	3,914	3,945	4,548	4,746	5,986	6,074
2101	Acquisition of Vehicles	5,043	9,763	1,523	1,309	11,057	16,011	17,437
2108	Capital Payments for Leased Vehicles	-	242	4,800	5,793	4,708	5,492	5,535
	Total	**11,511**	**17,956**	**15,677**	**17,143**	**25,788**	**34,161**	**34,511**
Ministry of Defence								
1301	Maintenance of Vehicles	625	918	1065	895	1,285	1,388	1,559
1406	Interest Payment for Leased Vehicles					92	37	1
1408	Lease Rental for Vehicles Procured Under Operational Leasing					130	566	303
2003	Rehabilitation and Improvement of Vehicles	213	342	369	296	736	821	843
2101	Acquisition of Vehicles	145	226	374	63	3,379	5,982	3,789
2108	Capital Payments for Leased Vehicles					324	374	53
	Total	**983**	**1,486**	**1,808**	**1,254**	**5,946**	**9,168**	**6,548**
	Share of Total Vehicle Expenditure	*9%*	*8%*	*12%*	*7%*	*23%*	*27%*	*19%*
Department of Railways								
1301	Maintenance of Vehicles	20	19	20	25	29	36	31
1406	Interest Payment for Leased Vehicles							
1408	Lease Rental for Vehicles Procured Under Operational Leasing							
2003	Rehabilitation and Improvement of Vehicles	2,247	2,520	2,779	3,119	3,131	3,916	4,214
2101	Acquisition of Vehicles	1,698	5,443	419	43	4,948	6,681	10,994
2108	Capital Payments for Leased Vehicles							
	Total	**3,965**	**7,982**	**3,218**	**3,187**	**8,108**	**10,633**	**15,239**
	Share of Total Vehicle Expenditure	*34%*	*45%*	*21%*	*19%*	*31%*	*31%*	*44%*
Expenditure on Vehicles Excluding for Defence and Railways		**6,563**	**8,488**	**10,651**	**12,702**	**11,734**	**14,360**	**12,724**
Share of Total Vehicle Expenditure		*57%*	*47%*	*68%*	*74%*	*46%*	*42%*	*37%*

Sources: Draft and Approved Budget Estimates (Various Years).

Annex 4: Deviations in Foreign Interest Payments Across Reports

Values in Rs. Millions

	(1) Budget Estimates	(2) MOF Annual Report (Deviation from (1))	(3) CBSL Annual Report (Deviation from (1))
2013	63,043	100,985 (60.2%)	100,985 (60.2%)
2014	69,930	108,461 (55.1%)	108,461 (55.1%)
2015	77,174	77,174 (0.0%)	115,386 (49.5%)
2016	101,076	101,076 (0.0%)	127,713 (26.4%)
2017	138,546	164,942 (19.1%)	164,942 (19.1%)

Note: Budget estimates publish actual interest expenses of previous years.
Sources As Given.