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Committee on Public Finance Report on the Budget 2018: A Report on estimates pertaining to the allocation of money within the limits of government policy

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Abstract (not more than 250-300 words):
The Committee on Public Finance (COPF) is mandated with the task of providing within six weeks of tabling a report on the budget estimates, including whether the money is well laid out within the limits of Government policy. This report is written in fulfilment of this mandate, after the 2018 Budget was presented to Parliament on 9 November 2017. The report is structured as follows. Section 1 provides an overview of the report, making note of constraints and qualifications that are pertinent to its assessment and presenting a summary of findings. In Section 2, the report identifies eight sectors that are relevant to key policy priorities of the government and assesses whether the 2018 Budget proposed to the Parliament is in accordance with the stated priorities. The sectors analysed are agriculture, defence, education, environment, fisheries, health, transport, and social development. In Section 3, the report discusses in detail two specific items: 1) a large upward leap in the expenditure allocations for vehicle procurement, and also the large overall budget with regard to travel expenditure of the government, and 2) the flawed placement/categorization of a large proportion of expenditure (including all of the budget proposals) under a uniquely 'discretionary' budget-head that is also misleadingly labelled as "Development Activities" of the Department of National Budget.

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Section 1. Overview

1.1. Introduction

The Committee on Public Finance (COPF) is mandated with the task of providing within six weeks of tabling a report on the budget estimates, including whether the money is well laid out within the limits of Government policy. This report is written in fulfilment of this mandate, after the 2018 Budget was presented to Parliament on 9 November 2017.

The report is structured as follows. Section 1 provides an overview of the report, making note of constraints and qualifications that are pertinent to its assessment and presenting a summary of findings. In Section 2, the report identifies eight sectors that are relevant to key policy priorities of the government and assesses whether the 2018 Budget proposed to the Parliament is in accordance with the stated priorities. Following sectors are analysed:

- Agriculture
- Defence
- Education
- Environment
- Fisheries
- Health
- Transport
- Social Development

For each sector, the report identifies government priorities presented in the 2018 Budget Speech, manifestos of two ruling parties (UNPA and UPFA), and the 2017-2020 Public Investment Programme (PIP) report. Relying on data from the 2018 Draft Budget Estimates, 2018 Budget Speech, and previous budget estimates, the report observes the trend in government expenditure in the sector and provides analyses and observations based on the data, discussing past experiences where relevant and noting any peculiarities.

In Section 3, the report discusses in detail two specific items: 1) a large upward leap in the expenditure allocations for vehicle procurement, and also the large overall budget with regard to travel expenditure of the government, and 2) the flawed placement/categorization of a large proportion of expenditure (including all of the budget proposals) under a uniquely 'discretionary' budget-head that is also misleadingly labelled as "Development Activities" of the Department of National Budget. Both items were previously discussed in the first report submitted by the COPF. Section 3 follows up and elaborates on that discussion.

1.2. Constraints and Qualifications

The COPF accepts the macroeconomic assumptions and framework outlined by the government, unless otherwise indicated. It also accepts the economic outlook of the government.

At the outset of the budget analyses, the COPF would like to note the following:

- All numbers in the assessment are set out in current value terms.
- The analysis in this report is centred around three distinct figures which describe the realised and planned expenditure of the current government. They are: (1) the actual spending for 2016; (2) revised estimates of spending for 2017; and (3) new allocation for 2018 as described in both the Budget Speech 2018 and the Draft Budget Estimates 2018.
- This report also quantifies past experiences using the period 2012-2016 as a reference. This allows a comparison with planned expenditure for 2018 in order to determine whether the new allocations are realistic and reflect policy priorities. For this purpose, the average growth rate is calculated by using compound average growth rate of actual expenditure, and the average 'shortfall' is calculated by using five-year simple average of percentage difference between actual expenditure and revised estimates.
- Sectoral expenditure is generally vested with several different ministries and/or departments. The budget estimates lack the economic classification (such as total health expenditure) that citizens are keen on. Hence, this report categorises ministries and/or departments based on relevance to a sector and available data. There are several Ministries which play a role across different sectors (e.g., Ministry of Higher Education and Highways) or only a small part of which falls under a specific sector (e.g., Ministry of Power and Renewable Energy). For these Ministries, the report excludes departments or programmes unrelated to the sector and

assigns only the expenditure identifiable as relevant. For example, although the Social and Regional Development sector includes Ministry of Prisons Reform, Rehabilitation, Resettlement and Hindu Religious Affairs, it does not take into account expenses related to prisons reform and Hindu religious affairs under the Ministry.

- While the report takes into account most of expenditure that are relevant to each sector, specific programmes might have been omitted due to unavailability of detailed data or of sufficient information.
- Ministry portfolios have changed over time but budget documents do not provide sufficient information on this discontinuity. The Committee notes that as it has not been able to qualify these changes to obtain data that are fully comparable, historical analyses may have minor deviations from actual sectoral spending.

The COPF would also like to note following concerns about data that are available:

- 2018 Draft Estimate is used as a source of data, but the expenses given there differ from total expenditure provided to the Parliament in the Budget Speech. While the first report done by the Committee used the Budget Speech as the basis of analysis, this report uses the Draft Budget Estimates as its basis since the former does not contain the detailed breakdown available in the latter.
- This report treats the expenditure estimates provided by the Ministry of Finance (MoF) for 2017 as reliable. However, the COPF would like to note that there are significant deviations between the revised estimates for 2016, provided in November 2016 (along with the previous Budget) and the actual expenditure for 2016 as presently recorded; There exists a general pattern of such shortfall in actual spending over the past five years, as noted throughout Section 2. This raises two concerns; one, that proposed allocation increases in many sectors may not be backed up by actual plans, and two, that Parliament may be once again being misled, by the numbers provided along with the budget in 2017, about the government's actual spending in 2017.
- The government does not provide a sensitivity analysis around its projections around any changes to the assumptions – even though it places large amounts of funds under a 'contingency' budget. The

COPF requests that the MoF provide an analytical justification of the amounts that are placed under the contingency line item of the "Supplementary Support Services and Contingent Liabilities" under the National Budget Department's Development Activities (see Section 3.2), so that this line item is not subject to abuse.

The COPF in presenting this report is operating under the challenging context of conducting the assessment despite significant variations and inconsistencies between data sources provided and issues with data and/or information availability. These problems have been described in some detail in its first report to parliament after the 2017 budget. Any errors or omissions that may arise due to these constraints are sincerely regretted.

This report should be used mainly to inform Parliament, improve access to relevant information, and improve the process by which budget estimates are formulated and delivered to Parliament. Most of all, the Committee hopes that the report will help improve the government's credibility in aligning its spending with its policy priorities and carrying out its budget promises.

The Committee's work has been assisted by external consultants and the committee thanks them for their valuable input and assistance.

1.3 Summary of Findings

Table 1.3. Observations on 2018 Sectoral Allocations

Ministry/ Department	2018 Budget (Rs. Million and % Total)	COPF Observation
Agriculture	99,572 (3.40%)	Unsatisfactory: Total allocation for the sector will be reduced in 2018 and past experiences suggest that the mismatch between budget promises and actual spending has been quite high.
Defence	274,876 (9.38%)	Satisfactory: Defence spending as share of total expenditure and gross domestic product (GDP) will fall, while share spent on personal emoluments will increase, in 2018.

Ministry/ Department	2018 Budget (Rs. Million and % Total)	COPF Observation
Education	179,947 (6.14%)	Unsatisfactory: The objective of increasing spending on education is not met. In addition, decrease in scholarship funding is against government priorities.
Environment	12,754 (0.44%)	Satisfactory, with caution: Sectoral allocation will increase both in absolute terms and as share of total expenditure, but there are allocation increases that, at the moment, seem not justifiable or credible.
Fisheries	9,893 (0.34%)	Satisfactory, with caution: Sectoral allocation will increase both in absolute terms and as share of total expenditure, but peculiarities regarding capital expenditure in this sector presents a possibility of this increase not being realised.
Health	181,150 (6.18%)	Satisfactory: Sectoral allocation will increase both in absolute terms and as a share of total expenditure.
Transport	190,453 (6.50%)	Unsatisfactory: Sectoral allocation will decrease in 2018 compared to the previous two years. Given the critical policy objectives and targets, the allocation is not adequate.
Social Development	123,094 (4.20%)	See sub-sector observations below.
Social Empowerment	83,798 (2.80%)	Satisfactory with caution: Allocation will increase both in absolute terms and as a share of total expenditure. However, target group of the Samurdhi relief assistance requires a reassessment.

Ministry/ Department	2018 Budget (Rs. Million and % Total)	COPF Observation
Rural and Estate Development	23,376 (0.80%)	Satisfactory with caution: Allocation will increase both in absolute terms and as a share of total expenditure. However, allocation to the Hill Country New Villages Ministry is significantly misaligned to the government's policy objectives.
Post-conflict Development and Reconciliation	15,920 (0.54%)	Unsatisfactory: Allocation will decrease in 2018. The allocation for the Ministry of Prisons Reform, Rehabilitation, Resettlement and Hindu Religious Affairs is cut significantly amidst the serious mismatch between estimated and actual expenditure in the past years.

Section 2. Sector Analyses

In 2016, latest year for which actual data are available, the government spent Rs. 2.4 trillion or 20% of GDP. In 2018, total government expenditure is estimated to amount to roughly Rs. 3 trillion or 21% of GDP.

Together, the eight sectors analysed in this section represent less than 40% of total expenditure (see Figure 2.1 and Table 2.1). This report assesses ministries/departments that are deemed clearly relevant to programmatic priorities of the current government. As a result, it excludes in its analysis some of the largest ministries which carry out basic government operations, such as: Ministry of Finance and Mass Media (excluding relevant expenditure recorded under the National Budget Department's "Development Activities"), which constitutes 33%, Ministry of Public Administration and Management, which constitutes 8%, and Ministry of Provincial Councils and Local Government, which constitutes another 8%.

Figure 2.1. Breakdown of Government Budget, 2018

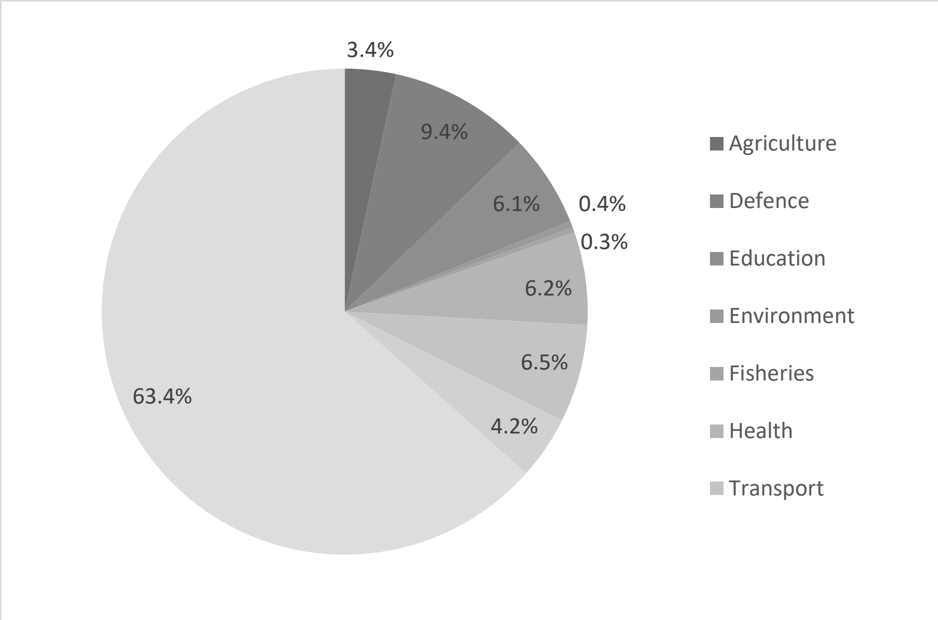


Table 2.1. Sector Expenditure Summary

Sector	Govt. Expenditure/Allocation			YoY change
	2016 Actual	2017 Revised	2018 Budget	2017-2018
Values in Rs. Millions				
Agriculture	76,409	105,460	99,572	-5,888 (-5.6%)
Defence	257,379	273,951	274,876	926 (+0.3%)
Education	123,632	174,284	179,947	5,663 (+3.3%)
Environment	8,856	11,319	12,753	1,434 (+12.7%)
Fisheries	5,670	7,977	9,893	1,917 (+24.0%)
Health	136,632	172,430	181,150	8720 (+5.1%)
Transport	213,925	270,177	190,453	-79,724 (-29.5%)
Social Development	106,716	118,849	123,094	4,245 (+3.6%)
As share of government budget				
Agriculture	3.23%	3.60%	3.40%	-0.20%
Defence	10.88%	9.34%	9.38%	+0.04%
Education	5.22%	5.94%	6.14%	+0.20%
Environment	0.37%	0.39%	0.44%	+0.05%
Fisheries	0.24%	0.27%	0.34%	+0.07%
Health	5.78%	5.88%	6.18%	+0.30%
Transport	9.05%	9.22%	6.50%	-2.72%
Social Development	4.51%	4.05%	4.20%	+0.15%
As share of GDP				
Agriculture	0.65%	0.81%	0.70%	-0.11%
Defence	2.17%	2.11%	1.94%	-0.17%
Education	1.04%	1.34%	1.27%	-0.07%
Environment	0.07%	0.09%	0.09%	>0.00%
Fisheries	0.05%	0.06%	0.07%	+0.01%
Health	1.15%	1.33%	1.28%	-0.05%
Transport	1.81%	2.08%	1.34%	-0.74%
Social Development	0.90%	0.91%	0.87%	-0.05%

2.1. Agriculture

Agriculture sector analysed here includes Ministry of Agriculture, Ministry of Plantation Industries, Ministry of Primary Industries, and Ministry of Irrigation and Water Resources Management.[1]

Table 2.1.1. Agriculture Expenditure Summary

Ministry/Department	Govt. Expenditure/Allocation			YoY change
	2016 Actual	2017 Revised	2018 Budget	2017-2018
Values in Rs. Millions				
Ministry of Agriculture	47,768	66,318	27,815	-6,503 (-9.8%)
Expenditure under Development Activities of the National Budget Department	n/a	n/a	32,000	
Ministry of Plantation Industries	8,540	10,871	8,995	-376 (-3.5%)
Expenditure under Development Activities of the National Budget Department	n/a	n/a	1,500	
Ministry of Primary Industries	1,285	3,187	3,511	324 (+10.2%)
Ministry of Irrigation and Water Resources Management	18,816	25,085	25,751	666 (+2.7%)
Agriculture Sector	**76,409**	**105,460**	**99,572**	**5,888 (-5.6%)**
As share of government budget				

[1] Ministry of Primary Industries aims to enhance production of minor crops and includes the Department of Export Agriculture; while it administers some programmes related to the fishery sector, those constitute a very small part of total ministry allocations. A key function of the Ministry of Irrigation and Water Resources Management is to make available water for agricultural purposes. Hence, these two ministries are included in the agriculture sector. Ministry of Rural Economic Affairs is included in the social development sector rather than the agriculture sector, as its stated outcome focuses on social benefits and growth.

Ministry of Agriculture	2.02%	2.26%	2.04%	-0.22%
Ministry of Plantation Industries	0.36%	0.37%	0.36%	-0.01%
Ministry of Primary Industries	0.05%	0.11%	0.12%	+0.01%
Ministry of Irrigation and Water Resources Management	0.80%	0.86%	0.88%	+0.02%
Agriculture Sector	3.23%	3.60%	3.40%	-0.20%
Addendum: Agriculture expenditure as % of GDP	*0.65%*	*0.81%*	*0.70%*	*-0.11%*

Source: 2018 Draft Budget Estimate and Budget Speech

Policy Priorities

- The agriculture sector remains a vital industry to Sri Lanka, contributing 7.5% to its GDP and generating 27.6% of export earnings from trade in goods.[2]
- Accordingly, the government has expressed its commitment to the sector and has identified key priorities, which include:
  - Achieving food security and self-sufficiency
  - Establishing agricultural zones
  - Promoting export crops
  - Developing technology and infrastructure
    - Establish new irrigation schemes and develop existing ones to ensure continuous water supply for agriculture (UNP)
    - Use hi-tech irrigation methods (PIP)
    - Commercialize the sector with eco-friendly innovative technologies (PIP)
    - Upgrade and improve Agricultural Research and Development (PIP)
  - Providing support for farmers

[2] GDP figure from the Department of Census and Statistics; export figure from the Central Bank of Sri Lanka. Both reflect first nine months data of 2017.

- Provide farmers with new equipment, technology, and loan facilities (UNP)
- Continue the concessions for fertilisers (UPFA)

Analysis

Table 2.1.2. Agriculture Past Experiences, 2012-2016

Department/Ministry	Average growth (in actual spending)	Average shortfall (in actual against estimates)
Ministry of Agriculture	4.7%	6.6%
Fertilizer Subsidy	*-1.4%*	*9.4%*
Ministry of Plantation Industries	18.9%	14.3%
Ministry of Primary Industries	12.6%	27.3%
Ministry of Irrigation and Water Resources Management	1.1%	24.2%
Agriculture Sector	**4.9%**	**15.2%**

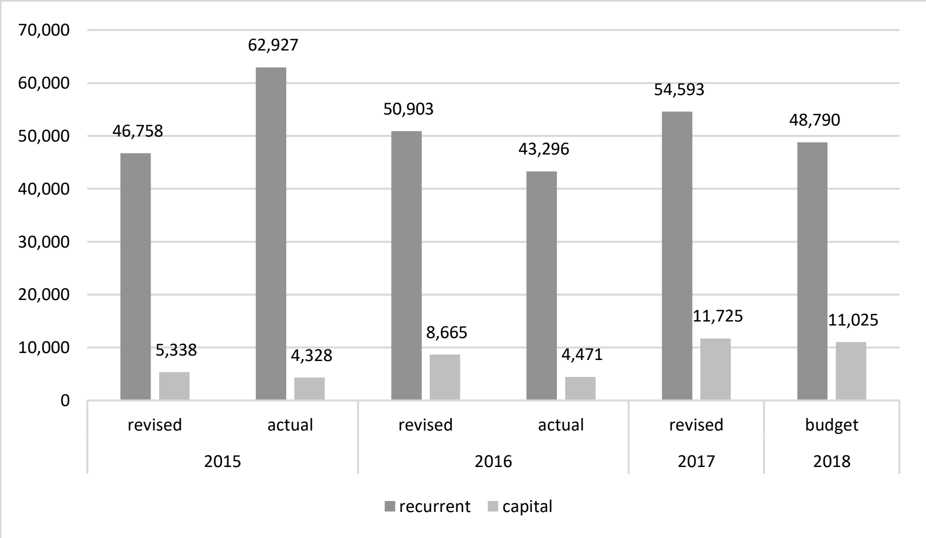
Note: For some of the past years, Ministry of Agriculture includes Minister of Agrarian Services and Wildlife (which implemented the Fertilizer Act) and Department of Agrarian Development; Ministry of Plantation Industries includes Coconut Development Activities under the Ministry of Coconut Development and Janatha Estate Development; and Ministry of Primary Industries is replaced by Ministry of Minor Export Crop Promotion to get comparable data.

Source: Past Budget Estimates

- Government spending in this sector will represent 3.4% of total expenditure and 0.7% of GDP in 2018. While this is an improvement from 2016, Agriculture expenditure has taken up on average 4.0% of total expenditure and 0.8% of GDP over the past five years.
- After accounting for the fertilizer subsidy and new budget proposals directed at the agriculture sector, total allocation to this sector decreases by about Rs. 6 billion or by 5.6% in 2018; over the past five years, however, the sector has grown at an average rate of 4.9%.

- Although an additional Rs. 1.5 billion of fertilizer subsidy for smallholders of plantation sectors has become available from 2017, fertilizer subsidy as a share of total expenditure or GDP is estimated to be lower in 2018 than its average over the past five years. As a share of government budget, it will drop from an average of 1.7% to 1.1%; as a share of GDP, it will drop from 0.3% to 0.2%.

Figure 2.1.1. Ministry of Agriculture, 2015-2018 (in Rs. Millions)



Note: 2018 figure includes relevant expenditure recorded under the National Budget Department, both from welfare programmes and budget proposals.

- Ministry of Agriculture faces the largest cut of more than Rs. 6 billion (9.8% of its budget).
- There is a Rs. 4 billion of transfers through welfare programmes within the Minister of Agriculture that is found only for 2017. Transfers through Fertilizer Subsidy will also be reduced by Rs. 3 billion or 8.6%. As a result, recurrent expenditure will drop by almost Rs. 6 billion or 10.6% (see Figure 2.1.1).
- Capital expenditure will stay relatively flat after taking into account relevant budget proposals, such as introducing contributory insurance scheme for farmers. Excluding budget proposals, however, capital expenditure under the Agriculture Ministry will drop by almost Rs. 5 billion or 40.3%.
- Notable reductions in capital expenditure include: a Rs. 2 billion cut in restoration, rehabilitation and desilting of small tanks (after taking into

account new allocation of Rs. 1 billion from the budget proposal to desilt small and medium tanks), Rs. 120 million cut in furniture acquisition for the Minister, Rs. 300 million in Research and Development (R&D) expenditure for Agriculture Development Programmes, and another Rs. 20 million in R&D for crop diversification.

- There is some increase in R&D under the Department of Agriculture from new programmes in climate resilient technology, good agriculture practices, and plant protection. This increase helps offset other R&D cuts within the ministry, bringing the net cut to just over Rs. 10 million.

- Ministry of Plantation Industries is also expected to reduce by Rs. 376 million (3.5%) in 2018. This reduction is primarily due to the large, temporary expenses for flood and landslide recovery incurred by the ministry in 2017, amounting to about Rs. 670 million.

- Ministry of Primary Industries and Ministry of Irrigation and Water Resources Management will each get a 10.2% and 2.7% increase.

- These increases are entirely from capital expenditure; recurrent expenditure for both ministries will be reduced, albeit by a small amount for the Ministry of Primary Industries (see Figures 2.1.2 and 2.1.3).
- In particular, there is an increase in development assistance for a modernization project under the Minister of Primary Industries, from Rs. 750 million in 2017 to Rs. 1.2 billion in 2018, although there is also a decrease of Rs. 100 million in assistance for farmers for export crops development.
- Three budget proposals directed at the Ministry of Irrigation and Water Resources Management amounting Rs. 1.1 billion contribute to the increase in its capital expenditure. Another notable increase is in Research and Development expenses for the ministry. In particular, allocation for a pilot project for ground water monitoring will increase from Rs. 200 million in 2017 to Rs. 1.2 billion in 2018. These large increases offset the reduction in asset acquisition expenses, including a Rs. 1.7 billion cut in land and land improvements.
- The reduction in recurrent expenditure for the Ministry of Irrigation and Water Resources Management is mostly due to that in personal emoluments.

Figure 2.1.2. Ministry of Primary Industries, 2015-2018 (in Rs. Million)

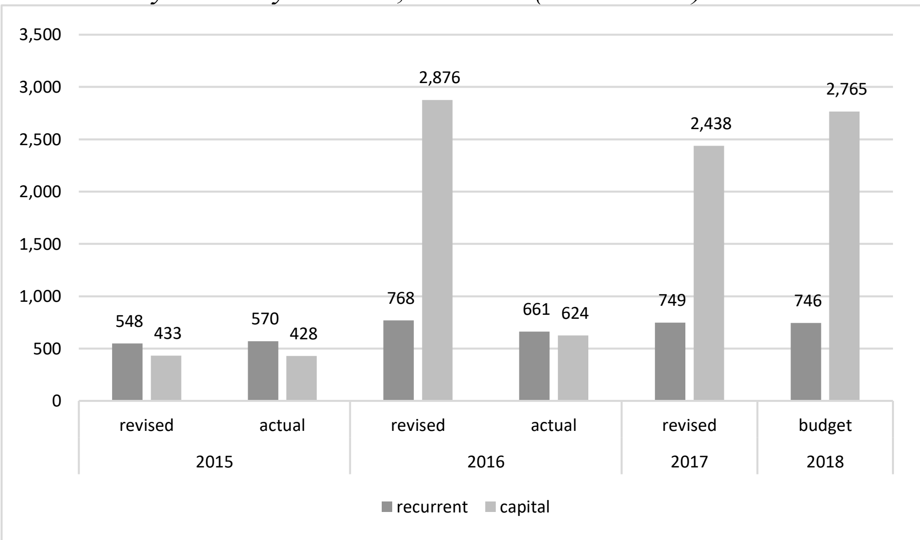
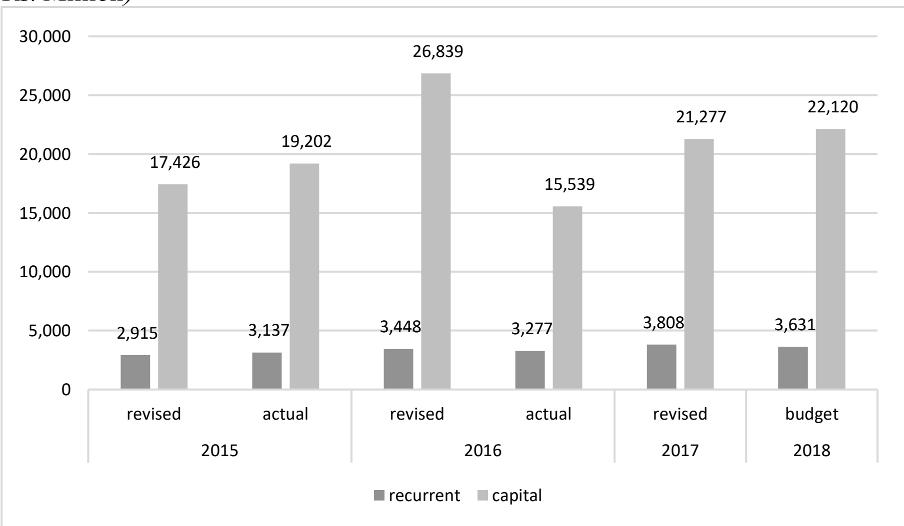


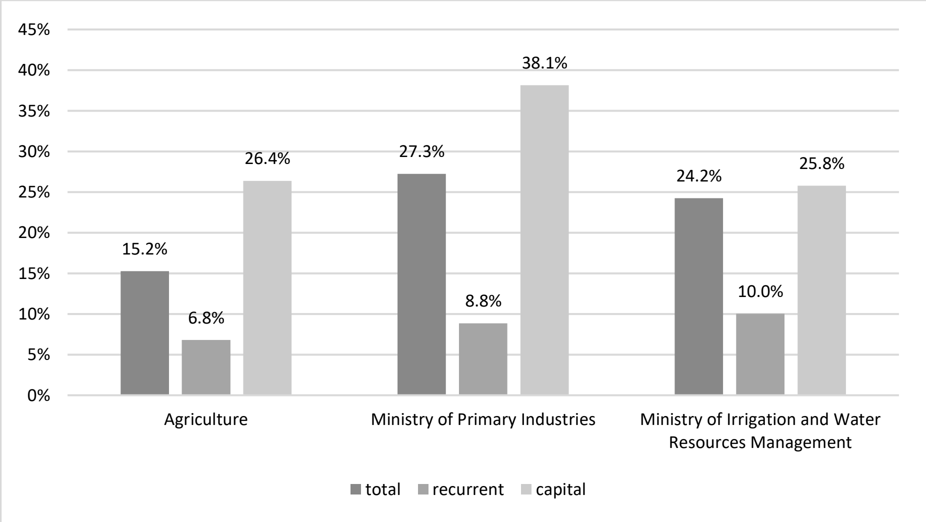
Figure 2.1.3. Ministry of Irrigation and Water Resources Management, 2015-2018 (in Rs. Million)



Note: 2018 figure includes relevant expenditure from budget proposals.

- But average shortfall (in the actual spending compared to the estimated figures) for these ministries has been high over the past five years, especially in capital expenditure (see Figure 2.1.4).

Figure 2.1.4. Average Shortfall Over 2012-2016 in Total, Recurrent, and Capital Expenditure for Agriculture Sector and Selected Ministries



Observation

- While there is some improvement in irrigation and export agriculture, significant deviations from actual and estimated expenditure cast doubts on the increases in the respective ministries being realised.

- Fertilizer subsidy, which is the single largest expenditure in this sector, is recorded under the National Budget Department as "Supplementary Support Services and Contingent Liabilities." The expenditure is accounted for under the Ministry of Agriculture and Ministry of Plantation Industries only *after* disbursement. This report includes what is under the National Budget Department as part of the sectoral expenditure, since its exclusion leads to significant underestimation of spending for the year (see Table 2.1.1). This practice of 'discretionary' budgeting is an unsatisfactory way to report the budget to Parliament, particularly because the fertilizer subsidy is a recurrent expenditure, and the COPF recommends this be rectified at the earliest since it is misleading as well as inappropriate. This issue will be further discussed in Section 3.

- The mismatch between allocations and actual spending in this sector has been high, averaging at 15.2% but amounting to more than 25% for several years over the period 2012-2016. For three of the past five years, government spending in this sector has ranged from Rs. 64 billion to Rs. 81 billion, although budget estimates promised around Rs. 100 billion. In particular, the *idealised* ratio of capital expenditure was almost always higher than the *realised* ratio (see Table 2.1.3). The government should pay particular attention to carrying out on its budget promises, especially in its long-term investment, in this sector.

	2012	2013	2014	2015	2016
Sectoral allocations according to revised estimates	86,524	95,040	104,166	89,520	104,534
Share of Capital Expenditure	43.5%	47.5%	51.3%	30.6%	44.2%
Actual sectoral spending	81,000	64,405	74,277	105,606	76,409
Share of Capital Expenditure	41.5%	50.5%	36.6%	25.8%	34.3%

Table 2.1.3. Agriculture Past Experiences Details, 2012-2016 (in Rs. Millions)
Source: Past Budget Estimates

- Even though some cuts seem justifiable, cuts including that in fertilizer subsidy are prima facie not consistent with the stated policy priorities of the government. A net cut in R&D expenditure under the Ministry of Agriculture is another example where the budget allocations seem to run counter to the policy emphasis of the government – in this case with regard to modernization of the sector.

- In the end, agriculture spending as whole will be reduced in 2018 and, as a share of both total expenditure and GDP, will fall below its five-year average. Such reduction goes against the policy objectives and the government's professed commitment to the sector.

2.2. Defence

In order to get comparable data for up to 2008[3], this analysis restricts the definition of defence spending to 5 relevant departments: Sri Lanka Army, Sri Lanka Navy, Sri Lanka Air Force, Department of Civil Security, and Department of Sri Lanka Coast Guard. Together, they constitute 95% of total allocations for the Ministry of Defence in 2018.

Table 2.2.1. Defence Expenditure Summary

Ministry/Department	Govt. Expenditure/Allocation			YoY change
	2016 Actual	2017 Revised	2018 Budget	2017-2018
Values in Rs. Millions				
Sri Lanka Army	148,126	158,166	156,524	-1,642 (-1.0%)
Sri Lanka Navy	56,735	56,931	57,478	546 (+1.0%)
Sri Lanka Air Force	35,460	41,526	43,200	1,675 (+4.0%)
Department of Civil Security	16,988	17,001	17,583	582 (+3.4%)
Department of Coast Guard	70	327	91	-236 (-72.0%)
Defence Sector	**257,379**	**273,951**	**274,876**	**926 (+0.3%)**
As share of government budget				
Sri Lanka Army	6.26%	5.39%	5.34%	-0.05%
Sri Lanka Navy	2.40%	1.94%	1.96%	+0.02%
Sri Lanka Air Force	1.50%	1.42%	1.47%	+0.05%
Department of Civil Security	0.72%	0.58%	0.60%	+0.02%
Department of Coast Guard	0.00%	0.01%	0.00%	-0.01%
Defence Sector	**10.88%**	**9.34%**	**9.38%**	**+0.04%**

[3] That is, expenditures under the Minister of Defence – which was combined with the Minister of Urban Development in several past years – and under the Departments of Immigration and Emigration, Police, and Registration of Persons – which used to fall under the Ministry of Defence – are not taken into account. It is difficult to separate the former and the report deems the latter to serve non-defence purpose; the sector analyses spending in national and civil security, not in maintenance of law and order.

Addendum: Defence expenditure as % of GDP	2.17%	2.11%	1.94%	*-0.17%*

Source: 2018 Draft Budget Estimate and Budget Speech

Policy Priorities

- As the war has ended and the country continues to work on recovery and reconciliation, defence spending is expected to decrease in favour of other investment.
- The government has however pledged to bolster its support and increase salary for military officers (UNP and UPFA). Hence, the share of salaries in defence spending, can justifiability be expected to increase.

Analysis

Table 2.2.2. Defence Expenditure by Spending Type

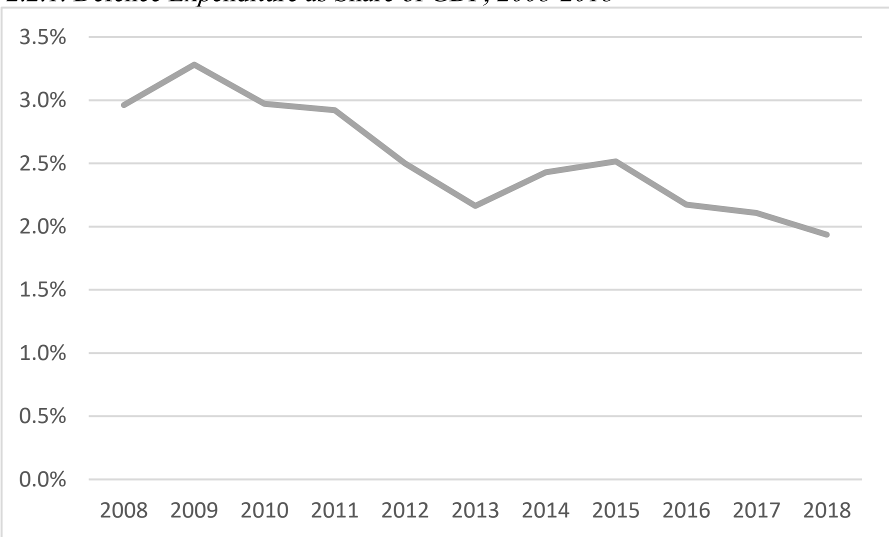
Type/Category	Govt. Expenditure/Allocation			YoY change
	2016 Actual	2017 Revised	2018 Budget	2017-2018
Values in Rs. Millions				
Personal Emoluments	195,307	197,316	203,252	5,936 (+3.0%)
Other Recurrent Expenditure	43,662	47,373	50,472	3,099 (+6.5%)
Capital Expenditure	18,410	29,262	21,152	-8,110 (-27.7%)
Defence Sector	**257,379**	**273,951**	**274,876**	**926 (+0.3%)**
As share of total sector budget				
Personal Emoluments	75.88%	72.03%	73.94%	+1.92%
Other Recurrent Expenditure	16.96%	17.29%	18.36%	+1.07%
Capital Expenditure	7.15%	10.68%	7.70%	-2.99%

Source: Draft Budget Estimate 2018

- While total allocation for the Ministry of Defence is to decrease by almost Rs. 10 billion, this is mostly due to a substantial reduction in operational activities under the Minister. In particular, there is a large cut in capital expenditure due to a one-time cost of purchasing land for a teaching hospital in 2017. There is also a temporary pension payment to differently abled soldiers incurred by the ministry in 2017. But this analysis, as previously noted, excludes the budget-head 103 – Minister of Defence.

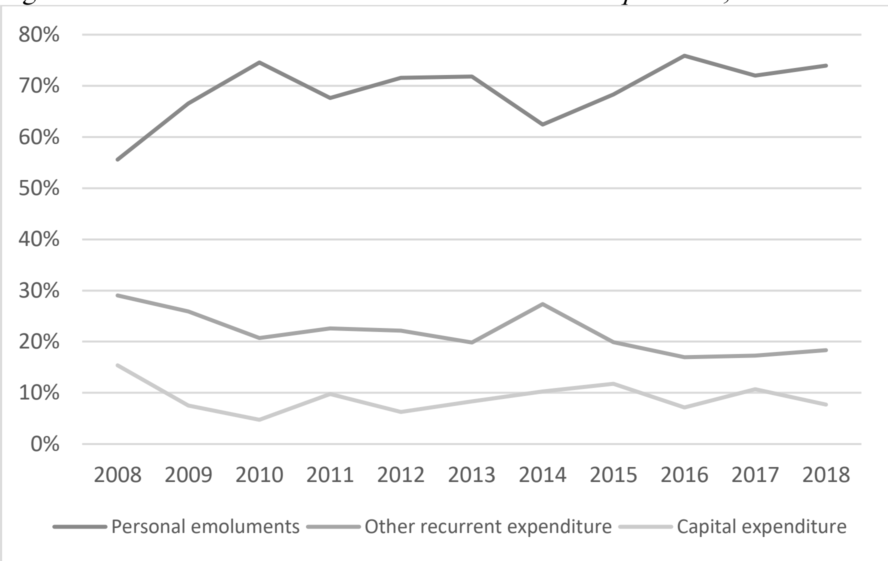
- While the total allocation for the 5 selected departments will increase only by Rs. 926 million or 0.3% in 2018, the allocation for personal emoluments is set to increase by Rs. 6 billion or 3% (see Table 2.2.2).
  - Air Force will get the largest boost in allocation, in both total department and personal emoluments expenditure.
  - While total expenditure allocations for Army and Coast Guard will be reduced, both departments will see an increase in personal emolument spending.
  - Other recurrent expenditure will increase by Rs. 3 billion or 6.5%. This includes a Rs. 2.5 billion allocation increase in diets and uniforms for Army and Air Force.
  - Capital expenditure within the five departments will be reduced by Rs. 8 billion or 27.7%. This almost entirely offsets the boost in recurrent expenditure and brings down the net increase in total sectoral allocation to less than Rs. 1 billion. But the reduction is largely due to allocation for UN peace keeping missions (down from Rs. 4.8 billion for Army and Rs. 1.4 billion for Air Force in 2017 to zero in 2018).

Figure 2.2.1. Defence Expenditure as Share of GDP, 2008-2018



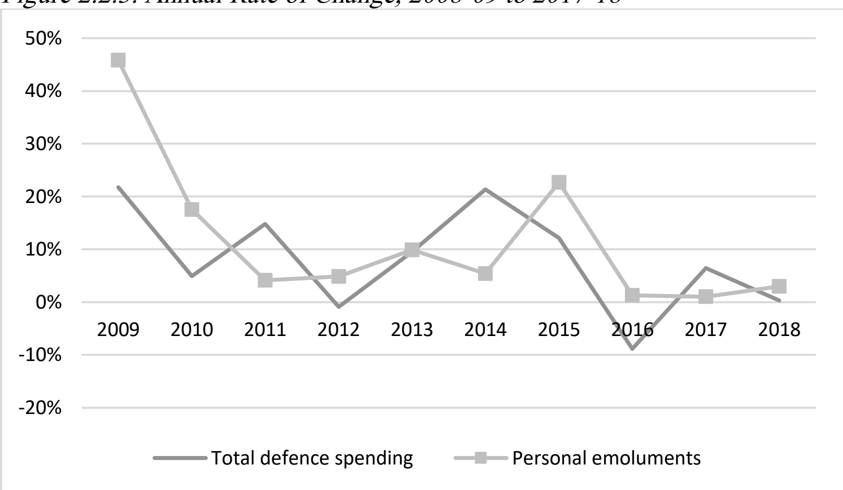
- Defence spending as a share of GDP has generally fallen since the end of the war in 2009. In 2018, expenditure on selected departments will represent 1.9% of GDP, about one-third below the comparable figure from ten years ago (see Figure 2.2.1).

Figure 2.2.2. Personal Emolument as Share of Defence Expenditure, 2008-2018



- For the 5 selected departments, the share of expenditure spent on personal emoluments has increased from 55.4% in 2008 to the highest of 75.9% in 2016. The figure is to drop slightly to 72.0% in 2017, and then increase to 73.9% in 2018 (see Figure 2.2.2). Share on other recurrent expenditure – including expenses for travelling and supplies – has fallen from 29.0% in 2008 and stayed relatively constant at around 20% since 2010, except in 2014 when the Army and Navy saw abnormally large increases in supplies and services. Share on capital expenditure has fluctuated more, ranging from less than 5% to 11%, but has stayed below the 2008 figure and will be 7.7% in 2018.

Figure 2.2.3. Annual Rate of Change, 2008-09 to 2017-18



- With the exceptions of 3 years when other defence expenditure – particularly in capital expenditure for Air Force – saw remarkable growth, spending on personal emoluments has grown at a higher rate than total spending has in this sector (see Figure 2.2.3).

Observation

- Defence spending as a share of GDP has generally fallen since the end of the war, and is expected to fall further from 2.1% in 2017 to 1.9% in 2018.
- In 2018, 73.9% of total defence spending is estimated to be spent on personal emoluments. This is higher than both the historical average of 70.1% (from 2009 to 2016) and the comparable 2008 figure of 55.4%.
- Estimates suggest that spending in this sector has aligned with priorities of the government and changing political contexts.

2.3. Education

The three-main education sub-sectors analysed here are;

1. Primary and secondary education sector, vested under the Ministry of Education
2. Tertiary education in the university sector, vested under the Ministry of Higher Education and Highways (Higher Education section)
3. Tertiary education in the vocational training sector, vested under the Ministry of Skills Development and Vocational Training.

Note that the Departments of Archaeology and National Archives, which are part of the Ministry of Education, are excluded from this analysis as they do not directly contribute to the education sector as specified above.

Table 2.3.1. Education Expenditure Summary

Ministry/Department	Govt. Expenditure/Allocation			YoY change
	2016 Actual	2017 Revised	2018 Budget	2017-2018
Values in Rs. Millions				
Ministry of Education	63,826	111,592	105,211	-5,986 (-5.4%)
Expenditure under Development Activities of the National Budget Department	n/a	n/a	395	
Ministry of Higher Education and Highways (Higher Education Section)	49,576	52,050	61,484	11,334 (+21.8%)
Expenditure under Development Activities of the National Budget Department	n/a	n/a	1,900	
Ministry of Skills Development and Vocational Training	10,071	10,642	10,957	315 (+3.0%)
Education Sector	**123,632**	**174,284**	**179,947**	**5,663 (+3.3%)**
As share of government budget				
Ministry of Education	2.70%	3.81%	3.60%	-0.20%

Ministry of Higher Education and Highways (Higher Education Section)	2.10%	1.78%	2.16%	+0.39%
Ministry of Skills Development and Vocational Training	0.43%	0.36%	0.37%	+0.01%
Education Sector	**5.22%**	**5.94%**	**6.14%**	**+0.20%**
Addendum: Education expenditure as % of GDP	*1.04%*	*1.34%*	*1.27%*	*-0.07%*

Source: 2018 Draft Budget Estimate and Budget Speech

Policy Priorities

Sri Lanka aims to become a knowledge-driven economy, and to achieve this goal the knowledge and competencies in the country has to be improved. As such, the current government emphasizes the need of increasing total investment in education to 6% of GDP (UNP & PIP), which is expected to lead to the following sector outcomes.

- Improve the standard of education
- Allow increasing the level of education achieved by increasing facilities for higher education
- Enhance equitable access by introducing cash support to vulnerable students and strengthening special education
- Increase digitalization and technological applications in the sector
- Improve the health and nutrition of students

Analysis

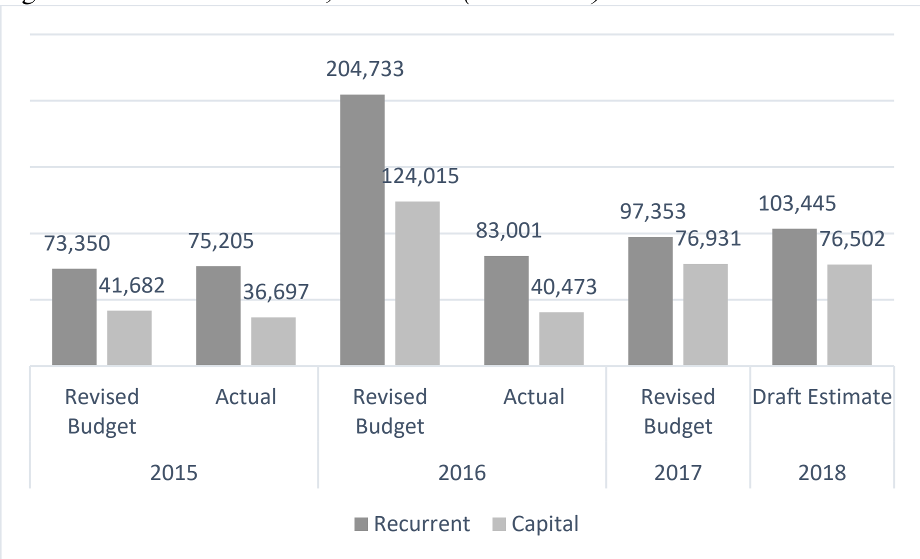
Table 2.3.2. Education Past Experiences (2012-2016)

Department/Ministry	Average growth (in actual spending)	Average shortfall (in actual against estimates)
Ministry of Education	15.5%	13.1%
Ministry of Higher Education and Highways (Higher Education Section)	21.2%	10.2%
Ministry of Skills Development and Vocational Training	n/a	n/a

Note: Figures for Ministry of Skills Development and Vocational Training are not provided as functions of this Ministry were fragmented among different Ministries, thus not trackable before 2015.

Source: Past Budget Estimates

Figure 2.3.1. Education Sector, 2015-2018 (Rs. Million)



- After including the expenditure from the National Budget Department and budget proposals directed at the education sector, the allocation to the sector are to increase by about Rs. 5,663 million (3.3%) compared to 2017. The expenditure on education as percentage of total government expenditure will be increased by 0.2% but as a percentage of GDP the expenditure allocated will be reduced by 0.07%.

<u>Ministry of Education</u>

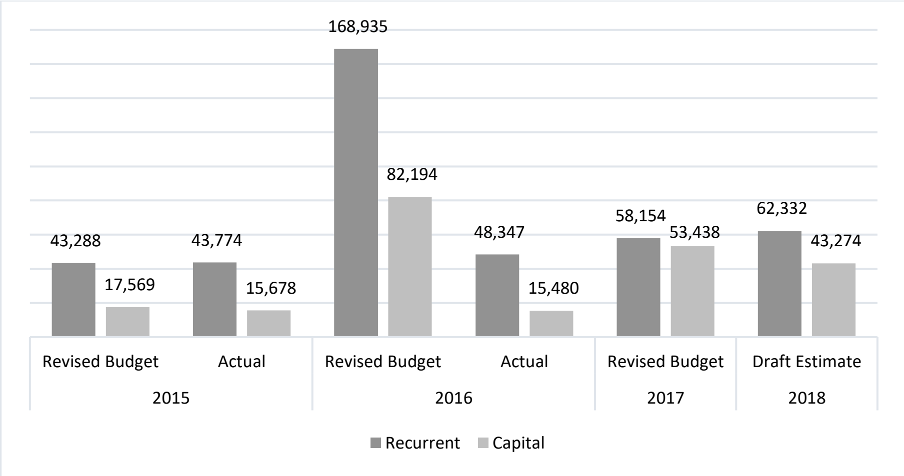


Figure 2.3.2. Ministry of Education, 2015-2018 (Rs. Million)

- The 2018 allocation for the Ministry of Education has reduced by approximately Rs. 6 billion compared to 2017.
- Capital expenditure for Ministry of Education has dropped by Rs. 10.1 billion (19%). This decline is mainly attributed to a Rs. 6 billion reductions in Acquisition of Furniture and Office equipment, a Rs. 4 billion reductions in Building and Structures, and a Rs. 3 billion reductions in Infrastructure spending. In fact, the total allocation for Ministry of Education was higher in 2017 by 74.8% compared to the previous year's actual spending. Similarly, the expenditure allocated on capital expenditure such as Acquisition of Furniture and Office equipment and Building and Structures were much higher in 2017 than the previous years.
- Rs. 3.6 billion was added to the capital expenditure from the budget proposals.

Note: The expenditure for 2018 include expenditure which is relevant to the ministry but mentioned under the National Budget Department's Supplementary Support Services and Contingent Liabilities.

Ministry of Higher Education

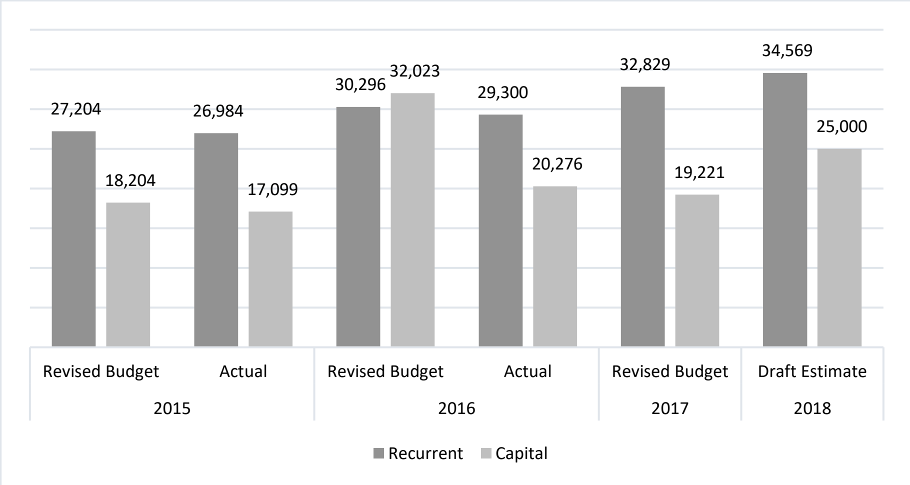


Figure 2.3.3. Ministry of Higher Education, 2015-2018 (Rs. Million)

- The expenditure on higher education has increased by 21.8% or Rs. 11 billion in 2018. This is mainly attributed to the increase in capital investment for different higher education development projects.
- However, there has also been several critical reductions in expenditure on development subsidies, such as Scholarships and Loan Schemes, for students amounting to Rs. 882 million (61% reduction). The details of the expenditure are given in table 2.3.3.

Note: The expenditure for 2018 include expenditure which is relevant to the ministry but mentioned under the National Budget Department's Supplementary Support Services and Contingent Liabilities.

Table 2.3.3. Detailed Expenditure on Scholarships and Subsidies under Ministry of Higher Education, 2016-2018 (Rs. Million)

Item Description	2016	2017	2018	Change from 2017-2018
Scholarships Education Programmes with Other Countries - Other	49	44	25	-19
Scholarship scheme to best performing undergraduates of the state universities to enter in to top universities around the world - Development Subsidies	0	500	100	-400
Loan Scheme for the students who are unable to get into the state universities	-	300	135	-165
Interest subsidy for loan of Rs.1.5 million for the graduate of state universities to encourage business startups - Development Subsidies	-	150	23	-127
Loan scheme to 5,000 students to follow Bachelor of Education Degrees at non-state UGC approved institutes - Development Subsidies	-	100	25	-75
Interest subsidy for Laptops and WiFi facilities of University Students - Staff Training	37	346	250	-96
Total	**86**	**1,440**	**558**	**-882**

Source: 2018 Draft Budget Estimates

Ministry of Skills Development and Vocational Training

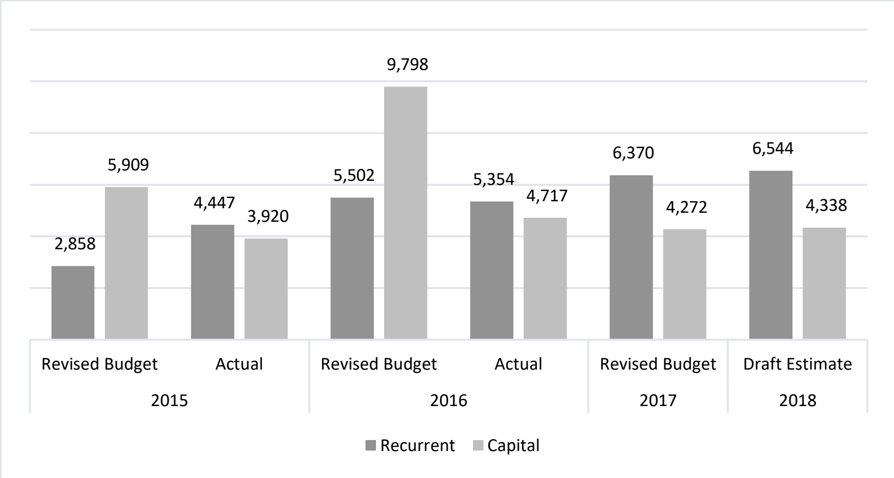


Figure 2.3.4. Ministry of Skills Development and Vocational Training, 2015-2018

- Expenditure for the Ministry of Skills Development and Vocational Training has increased by Rs. 315 million (3.0%) in 2018.
- Major changes in expenditure include a Rs. 300 million rise in the expenditure on Personal Emoluments and Rs. 768 million drop in expenditure on welfare programmes such as Scholarships and Training stipends.

Observation

- The Ministry of Education and Ministry of Higher Education allocations are understated in the budget estimate because of the way of recording certain welfare expenditure in the budget estimate. A total of Rs. 2.3 billion in scholarships and Bursary is recorded under the National Budget Department as "Supplementary Support Services and Contingent Liabilities" (see Table 2.3.1). These expenses are included in the Ministry's budget in the past. Though it is only a very small proportion of the respective Ministry's budget, this practice of 'discretionary' budgeting is an unsatisfactory way to report the budget to Parliament, as it is highly misleading and inappropriate. COPF recommends it be rectified at the earliest. This issue will be further discussed in Section 3.

- The much campaigned for 6% of GDP for education is a difficult target when the total expenditure is at 20.6% of the GDP. However, the government has committed to increasing spending from the very low levels it had reached with less than 1.5% of GDP being allocated for it. Therefore it should be expected in present and future budgets that the expenditure allocated for this sector will increase gradually every year. The reduction in the expenditure as a percentage of GDP is entirely against the policy objective.

- Even though the allocation for Ministry of Education in 2018 is higher than the actual spending in 2016, it is lower compared to the last two year's allocation. Certainly, the government has a tendency to deviate from the estimate and the shortfall in budgeted estimate vs the actual figure was 13.1% in the past five years. Consequently, if this shortfall in actual spending prevail, there would be much lower spending for education in 2018. Therefore, it would be advisable for the government to increase allocation for primary and secondary education through the Ministry of Education or make sure that the allocation is actually realised with little or no deviation from the estimate.
- Given the lower levels of enrolment rate on tertiary education (19.8% in 2015[4]), it is important for an increase in the budgetary spending on higher education and the government has well allocated the funds to improve facilities and expand the education programs. However, the reduction in development subsidies to students, both through the Ministry of Higher Education and Highways and Ministry of Skills Development and Vocational Training, are against the policy of the government. This deserves to be rectified immediately.

[4] World Bank, World Development Indicators

2.4. Environment

Environment sector analyses the expenditure of selected ministries, departments, public institutions and/or programmes that directly contribute to environment conservation goals of the country. These are: (1) programmes under the Ministry of Power and Renewable Energy that promote sustainable and renewable energy projects; (2) programmes under the Ministry of Mahaweli Development and Environment that focus on environmental management and protection; and (3) the Ministry of Sustainable Development and Wildlife.

Table 2.4.1. Environment Expenditure Summary

Ministry/Department	Govt. Expenditure/Allocation			YoY change
	2016 Actual	2017 Revised	2018 Budget	2017-2018
Values in Rs. Millions				
Ministry of Power and Renewable Energy	242	499	207	-293 (-58.6%)
Sustainable Energy Authority	143	174	180	6 (+3.4%)
Other Sustainable and Clean Energy Projects	99	325	27	-299 (-91.8%)
Ministry of Mahaweli Development and Environment	5,126	7,118	7,513	395 (+5.5%)
Environmental Protection	851	2,792	2,855	62 (+2.2%)
Central Environmental Authority	607	615	607	-8 (-1.4%)
Marine Environment Protection Authority	203	198	218	20 (+10.1%)
Department of Forest	2,135	2,225	2,239	14 (+0.6%)
Department of Coast Conservation and Coastal Resource Management	1,330	1,286	1,594	307 (+23.9%)
Ministry of Sustainable Development and Wildlife	3,488	3,702	5,034	1,332 (+36.0%)
Environment Sector	**8,856**	**11,319**	**12,753**	**1,434 (+12.7%)**
As share of government budget				

Ministry of Power and Renewable Energy	0.01%	0.02%	0.01%	-0.01%
Ministry of Mahaweli Development and Environment	0.22%	0.24%	0.26%	+0.02%
Ministry of Sustainable Development and Wildlife	0.15%	0.13%	0.17%	+0.04%
Environment Sector	**0.37%**	**0.39%**	**0.44%**	**+0.05%**
Addendum: Environment expenditure as % of GDP	*0.07%*	*0.09%*	*0.09%*	*0.00%*

Source: 2018 Draft Budget Estimate and Budget Speech

Policy Priorities

- The 2018 Budget Speech, also called the "blue-green economy" budget, emphasized the government's commitment to sustainable development and environmental protection. This theme was consistent with the election manifestos of the two main parties and the 2017-2020 PIP report. Specific goals or actions offered as part of this vision include: promoting environmentally friendly agriculture (UNP), preserving the forests and introducing laws to protect coastal area (UPFA).
- The government has also expressed its commitment to reducing or eradicating pollution by encouraging alternative and renewable energy development:
    - Work towards becoming the least polluting country within the UN standards (UNP)
    - Encourage alternative energies to oil and provide special aid to generate air, water, natural gas, and solar energy (UNP)
    - Enact a national policy to eradicate air, water, soil, noise and visual pollution (UPFA)
    - Increase contribution of renewable energy to national grid up to 20% by 2020 (PIP)
- Developing better waste management practices was another common priority. Both main parties have vowed to introduce some system for waste management, and the PIP report targets a country with no waste issue by 2018.
- Another priority in this sector has been addressing human-wildlife conflict and pursuing coexistence. The PIP report, for example, proposes to build and maintain electric fence in addition to the live fence to eliminate human-elephant conflict by 2025.

Analysis

Table 2.4.2. Environment Past Experiences, 2012-2016

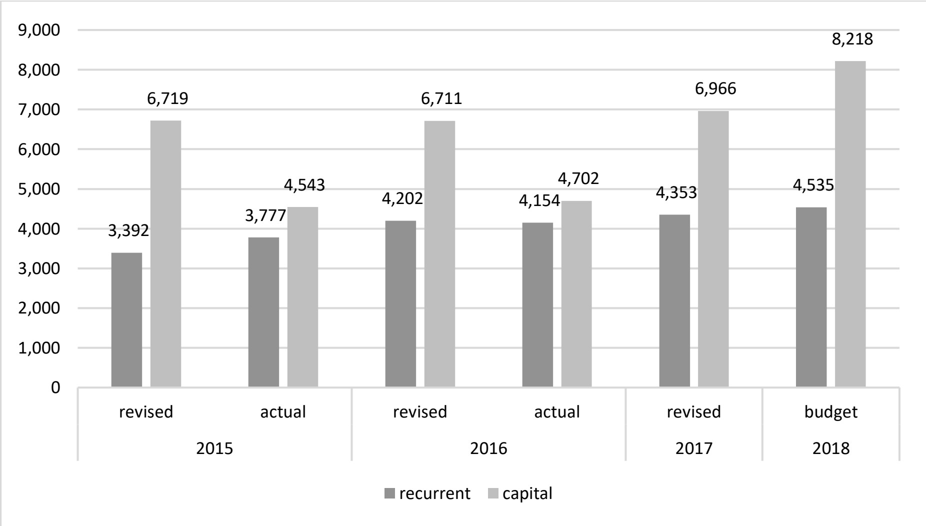
Department/Ministry	**Average growth (in actual spending)**	**Average shortfall (in actual against estimates)**
Ministry of Power and Renewable Energy	-28.8%*	44.4%
Sustainable Energy Authority	*-35.9%**	*30.6%*
Other Clean Energy Projects	*n/a*	*n/a*
Ministry of Mahaweli Development and Environment	13.9%	25.9%
Environmental Protection	*1.7%*	*52.1%*
Central Environmental Authority	*15.5%*	*2.1%*
Marine Environment Protection Authority	*28.9%*	*9.6%*
Department of Forest	*12.7%*	*1.8%*
Department of Coast Conservation and Coastal Resource Management	*29.6%*	*31.8%*
Ministry of Sustainable Development and Wildlife	17.0%	15.5%
Environment Sector	**9.6%***	**23.6%**

** Figures affected by a large influx of capital to the Sustainable Energy Authority in 2011, which led to a 93% cut to the agency in 2012. The annual average growth over the past four years is 26.6% for the ministry, 11.1% for the Sustainable Energy Authority, and 17.2% for the sector.*

Note: For some of the past years, Ministry of Sustainable Development and Wildlife is replaced by both Ministry of Botanical Gardens and Public Recreation and Ministry of Wildlife Resources Conservation (or the respective departments) to get comparable data. Figures for Other Clean Energy Projects are not provided as this set of programmes was initiated only in 2014.

Source: Past Budget Estimates

Figure 2.4.1. Environment Sector, 2015-2018 (Rs. Millions)



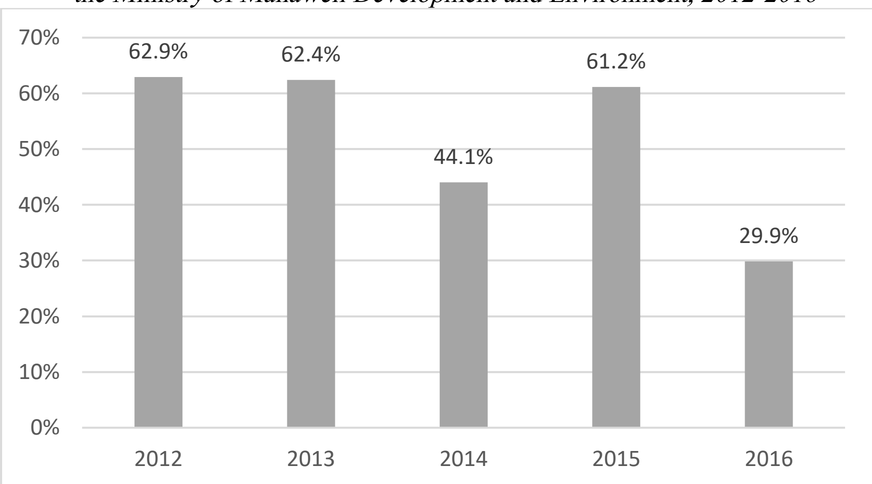
Note: 2018 figure includes relevant expenditure from budget proposals.

- After accounting for budget proposals on environmental protection and conservation efforts, spending in this sector is to increase by more than Rs. 1 billion, or 12.7%, in 2018 (see Table 2.4.1).
    - While this is higher than the average annual growth rate of 9.6% over the past five years, it lags behind slightly the four-year average rate of 17.2%, which eliminates the impact of abnormally large reduction of more than 90% in the Sri Lanka Sustainable Energy Authority in 2012, following a temporary influx of capital in 2011 (see Table 2.4.2).
    - Almost 90% of the increase in environment spending in the 2018 Budget is allocated to capital expenditure (see Figure 2.4.1).
    - However, shortfall in this sector has been high; in the period 2012-2016, the average shortfall in total spending was 23.6%. For capital spending, it was 36.2%. That is, the government has paid less than two-thirds of long-term capital investment towards this sector that they originally set out to do.
- Government expenditure in the environment sector has shown improvement in recent years. Its share of total expenditure has increased from 0.29% in 2012 to 0.37% in 2016. This figure is estimated to increase to 0.44% in 2018.
- Allocations for selected programmes under the Ministry of Power and Renewable Energy are to be reduced by a significant 58.6%. But this is

largely due to the cut in on-lending capital to Clean Energy and Network Efficiency Improvement Project, led by the Asian Development Bank, which began in 2015.

- Budget allocations towards selected programmes under the Ministry of Mahaweli Development and Environment, on the other hand, are to increase.
- Major environment budget proposals are directed at Department of Coast Conservation and Coastal Resource Management, which will receive for example an allocation of Rs. 400 million for beach replenishment.
- The budget also proposes a funding increase for development activities in environmental protection. For example, more than Rs. 1 billion in infrastructure development is allocated for construction of solid waste disposal facilities in both 2017 and 2018. Yet, shortfall over the past five years has been consistently high for this set of programmes (see Figure 2.4.2).
- There are cuts in allocation towards other relevant programmes within the ministry, such as: approximately Rs. 70 million in acquisition costs of building under the Department of Forest, Rs. 90 million in those of machinery and equipment under the Department of Coast Conservation and Coastal Management, and Rs. 30 million in UNDP programme under environmental protection activities.

Figure 2.4.2. Shortfall for Development Activities in Environmental Protection under the Ministry of Mahaweli Development and Environment, 2012-2016



- Allocations for the Ministry of Sustainable Development and Wildlife are to increase by Rs. 1.3 billion, contributing to the overall sector growth.

- There are several budget proposals directed at the Ministry, including the implementation of animal-friendly concepts at the national zoo and elephant orphanage. Allocations for these are smaller than increases in other budget-heads in this sector, at a total of Rs. 255 million.
- On the other hand, there is a remarkable increase in capital expenditure on vehicle acquisition for the budget-head 161 – Minister of Sustainable Development and Wildlife. In 2018, this specific line item would increase to Rs. 500 million, which would be more than 7 times the current year spending (which is already more than double of the 2016 figure). There is a cut of Rs. 43 million in vehicle acquisition under the Minister's Office, but this reduction is too small to offset the large increase in procurement that fall under the Administration and Establishment Services, which is to multiply by 20 times, from Rs. 25 million to Rs. 500 million.
- There is also a new allocation of Rs. 250 million for the convention on international trade in endangered species.
- As a result of these two increases in capital expenditure, total expenditure for this budget-head increases by almost three-fold from Rs. 278 million in 2017 to more than Rs. 1 billion in 2018.
- The increases in other departments within the Ministry seem reasonable relative to the increase in the Minister's budget-head. Departments of Wildlife Conservation, National Zoological Gardens, and National Botanical Gardens will increase respectively by 2.9%, 13.7%, and 20.4%.
- Within the Department of Wildlife Conservation, there is a funding increase of Rs. 200 million for construction of electric fences; but capital expenditure for habitat enrichment and human-elephant conflict mitigation projects will be reduced by Rs. 65 million and Rs. 59 million respectively.

Observation

- Environment sector as whole has grown in terms of government expenditure over recent years, and estimates suggest that it will continue to improve in 2018. Yet, a closer look at data reveals that this increase should be viewed with scepticism.
- For example, the improvement in environmental protection programmes suggests new investment in infrastructure for waste management, which indicates continued interest in one area of this sector and alignment with the government's stated priorities. Yet, high average shortfall over the past five years raises concern that these priorities may not be realised. The

government should note that it is not the allocation alone, but also utilisation of its budget that counts for outcomes, and pay attention in terms of budgetary due diligence to the implementation of proposals promised in the budget.

- In addition, the allocation increase for vehicle acquisition under the Ministry of Sustainable Development and Wildlife, which is largely responsible for the increase in total sector spending, is very high. The budget does not provide sufficient information to justify this increase. COPF requests that MoF provide an explanation for such large upward leap in the expenditure allocations for vehicle procurement, which is an issue across the budget. This will be highlighted in Section 3.

2.5. Fisheries

Fisheries sector includes the entire Ministry of Fisheries and Aquatic Resources Development.

Table 2.5.1. Fisheries Expenditure Summary

Ministry/Department	Govt. Expenditure/Allocation			YoY change
	2016 Actual	2017 Revised	2018 Budget	2017-2018
Values in Rs. Millions				
Fisheries Sector (i.e., Ministry of Fisheries and Aquatic Resources Development)	5,670	7,977	9,893	1,917 (+24.0%)
As share of government budget				
Fisheries Sector	0.24%	0.27%	0.34%	+0.07%
Addendum: Fisheries expenditure as % of GDP	*0.05%*	*0.06%*	*0.07%*	*+0.01%*

Source: 2018 Draft Budget Estimate and Budget Speech

Policy Priorities

- The fisheries sector employs 4% of the work force, contributes 1.4% to the GDP and accounts for 2% of merchandise exports *(*PIP and Central Bank of Sri Lanka*)*. With the lifting of the fisheries ban to the EU and the regaining of the EU GSP Plus – from which Sri Lanka gains considerable concessions for fish exports to the large EU market – Sri Lanka's fisheries sector has the potential to grow exponentially.
- The government has thus made several commitments to nurture this vital industry, including plans to enact a fisheries development plan (UPFA),

modernize facilities and infrastructure to meet international standards (UNP), support the increase in fish exports by facilitating new storage and harbour expansion (UPFA), and generate 500,000 new jobs in the sector (UPFA).

Analysis

Table 2.5.2. Fisheries Past Experiences, 2012-2016

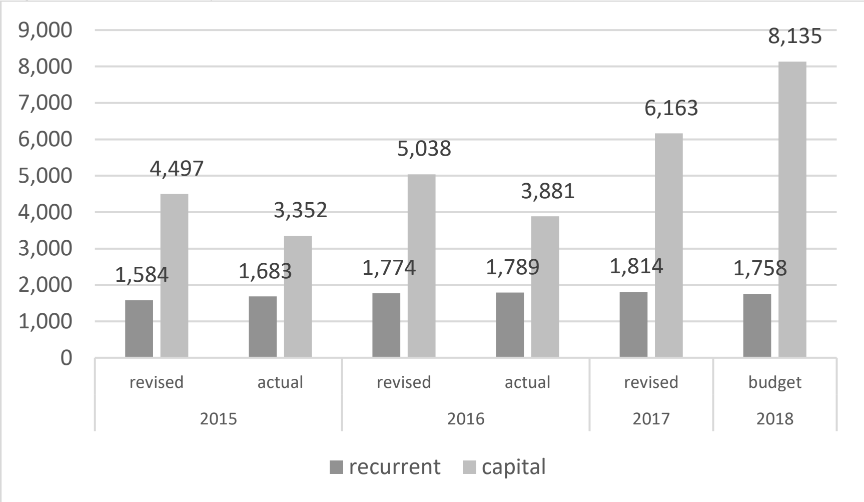
Department/Ministry	Average growth (in actual spending)	Average shortfall (in actual against estimates)
Ministry of Fisheries and Aquatic Resources Development	16.4%	19.5%

Source: Past Budget Estimates

- Allocations in the fisheries sector are to increase by almost Rs. 2 billion, or 24.0%, in 2018. The sector will represent 0.34% of total expenditure and 0.07% of GDP (see Table 2.5.1).
  - This represents a significant improvement from both 2012 (0.19% of expenditure and 0.04% of GDP) and 2016 (0.24% of expenditure and 0.05% of GDP).
  - While it represents a substantial drop from the recent peak in 2014, the year 2014 was an anomaly for this sector, as there was a huge temporary boost of Rs. 4 billion in development subsidies.
- Budget estimates suggest that capital expenditure would increase by 58.8% from 2016 to 2017, and then by another 32.0% from 2017 to 2018; recurrent expenditure, on the other hand, will be reduced by 3.1% in 2018 (see Figure 2.5.1).
- Infrastructure development spending of more than Rs. 4 billion each year is largely responsible for the increases in capital expenditure for both 2017 and 2018.
- The increase in 2018 is almost entirely due to new capital investment of Rs. 2.1 billion from budget proposals directed at this sector. Specific projects include cleaning lagoons and developing harbours.
- Acquisition costs of buildings and structures under the Minister will increase by more than 22 times, from Rs. 30 million in 2017 to Rs. 702 million in 2018. Department of Fisheries and Aquatic Resources will also see a boost of Rs. 125 million in the same budget item.

- There are few reductions that partly offset such large increases. For example, allocation for improvement of fishery villages in 10 districts will fall by Rs. 1 billion from 2017 to 2018. Allocation for development of modern technology for small and medium fishing industry, which saw a large investment in 2016, will also decrease by approximately Rs. 300 million.

Figure 2.5.1. Fishery Sector, 2015-2018 (Rs. Millions)



Note: 2018 figure includes relevant expenditure from budget proposals.

- Average shortfall in capital expenditure over the past five years, however, has been high at 30.8% in this sector – much higher than the shortfall in total expenditure of 19.5%. Additionally, average annual growth rate over the same period in capital expenditure was 15.7%, lower than the average growth in total spending and the expected growth in 2018 (see Table 2.5.2).

Observation

- Overall, the allocation to the fisheries sector for 2018 shows an improvement from the recent past. That is, the budget is better aligned with the policy objectives of expanding the industry. Yet, peculiar fluctuations in capital expenditure and past experiences – which have shown a rate of annual growth that is much lower than the expected and high shortfall in capital expenditure – create uncertainty about whether this improvement is limited only to the budget numbers provided, in contrast to what will be implemented.

2.6. Health

The health sector includes the Ministry of Health, Nutrition and Indigenous Medicine, of which the funding is provided under two components; (1) Minister of Health, Nutrition and Indigenous Medicine, (2) Department of Ayurveda.

Table 2.6.1. Health Expenditure Summary

Ministry/Department	Govt. Expenditure/Allocation			YoY change
	2016 Actual	2017 Revised	2018 Budget	2017-2018
Values in Rs. Millions				
Minister of Health, Nutrition and Indigenous Medicine	134,780	170,089	179,143	9,054 (+5.3%)
Department of Ayurveda	1,852	2,341	2,007	-334 (-14.3%)
Health Sector	**136,632**	**172,430**	**181,150**	**8720 (+5.1%)**
As share of government budget				
Minister of Health, Nutrition and Indigenous Medicine	5.70%	5.80%	6.11%	+0.31%
Department of Ayurveda	0.08%	0.08%	0.07%	-0.01%
Health Sector	**5.78%**	**5.88%**	**6.18%**	**+0.30%**
Addendum: Health expenditure as % of GDP	*1.15%*	*1.33%*	*1.28%*	*-0.05%*

Source: 2018 Draft Budget Estimate and Budget Speech

Policy Priorities

The Sri Lankan government wishes to enhance the quality of healthcare in Sri Lanka for a healthier and longer living population in the country by prioritizing the following actions and outcomes:

- Improve the standard of healthcare by way of various operational and regulatory bodies;
- Improve equitable access by increasing healthcare facilities and introducing insurance;

- Increase and modernize facilities and services related to the treatment of communicable and non-communicable diseases;
- Enhance specialized healthcare services such as for maternal and childcare services;
- Promote alternative and indigenous medical field;
- Increase investment in the health sector.

Analysis

Table 2.6.2. Health Past Experiences (2012-2016)

Department/Ministry	Average growth (in actual spending)	Average shortfall (in actual against estimates)
Minister of Health, Nutrition and Indigenous Medicine	16.3%	14.6%
Department of Ayurveda	25.6%	22.4%
Health Sector	16.4%	14.7%

Source: Past Budget Estimates

Figure 2.6.1. Health Sector, 2015-2018 (Rs. Millions)

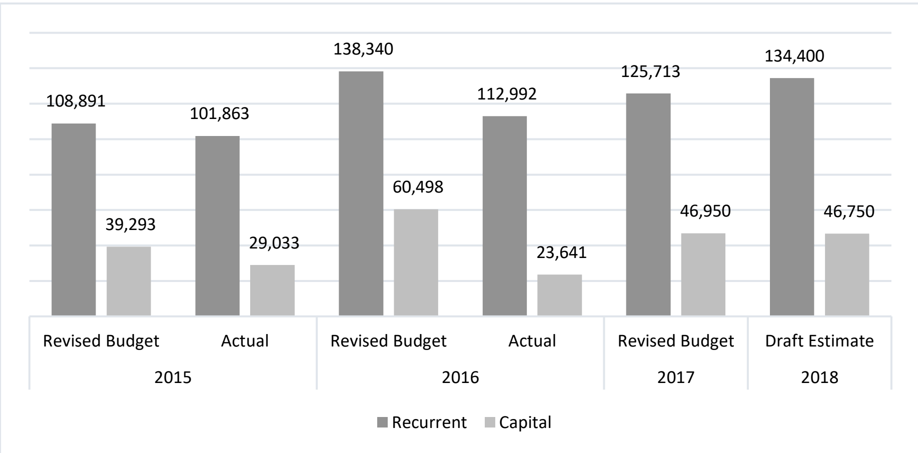


Figure 2.6.2. Minister of Health, 2015-2018 (Rs. Millions)

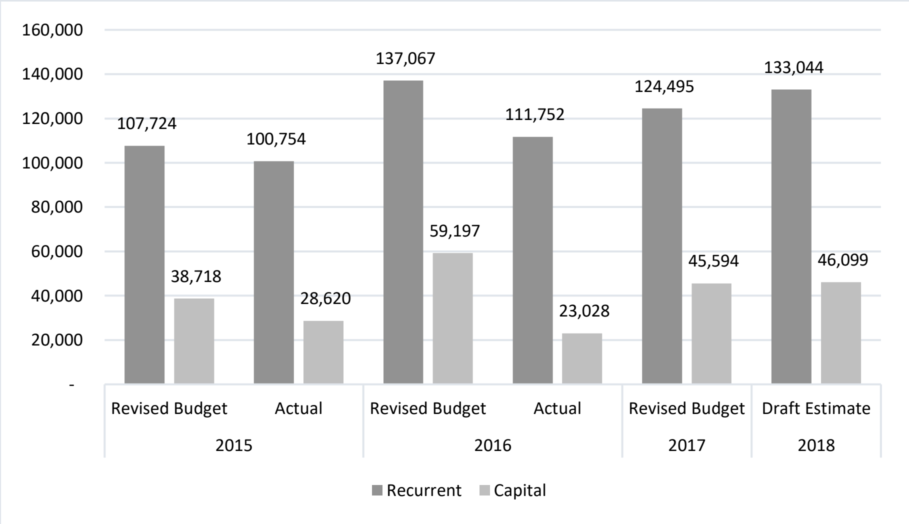
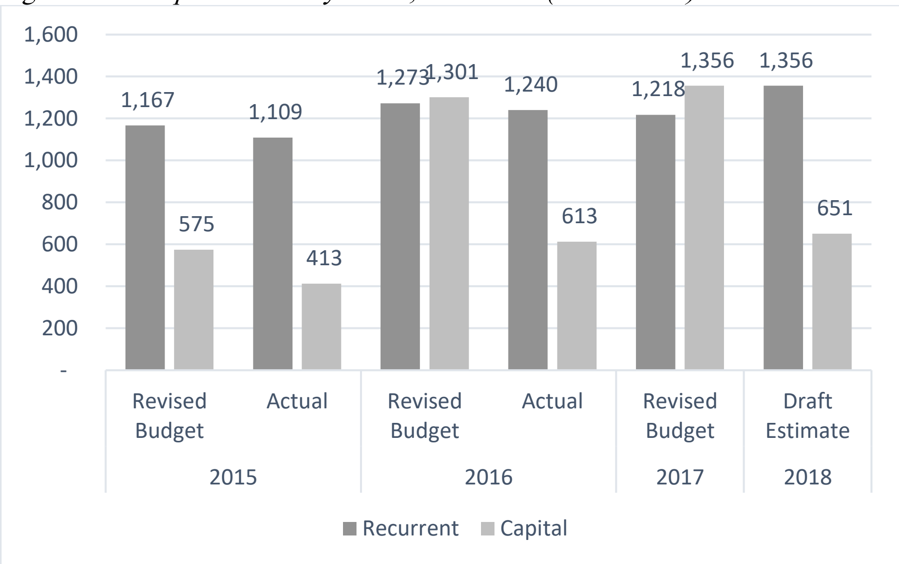


Figure 2.6.3. Department of Ayurveda, 2015-2018 (Rs. Millions)



- In 2018, the budget allocated to the health sector is Rs. 181 billion in 2018 (i.e., 6.18% of the total government budget) and accounted for 1.28% of the nominal GDP.
- During the period from 2012 to 2016, the expenditure on health has been at an average of 5.7% of the total expenditure, with a peak at 8% during 2013.
- The average shortfall in expenditure actually spent compared to the estimate is high and the shortfall has increased significantly during the last

two years, by 11.7% in 2015 and by 31.3% in 2016. It is also important to note that there was a slow-down in the growth of health spending during 2015 and 2016, the average growth in that period was 9.6% whereas during 2012-2014, the average growth was 21.4%.

- The expenditure on the health sector has increased by roughly Rs. 9 billion (5.1%) in 2018 compared to the previous year. The capital expenditure has been maintained at the same level and allocation on recurrent expenditure has increased.
- Majority of the increase in recurrent expenditure is attributable for Rs. 5.5 billion surges in the Personal Emolument.
- Expenditure for the Department of Ayurveda has reduced by 14.3% in 2018 compared to 2017. This decline is attributed to a completion of the construction of a Building complex for the National Ayurvedic Hospital.

Table 2.6.3. Key Health Indicators

Indicator	2010	2015	Change (%)
Expectation of Life at Birth, Years	74	75	+1.4%
Infant Mortality per 1,000 Live Births	9.9	9.2[5]	-7.1%
	2013	2016	Change (%)
No. of Public Hospitals	603	598	-0.8%
No. of Hospital Beds	74,636	76,829	+2.9%
Total Population	20,585,000	21,203,000	+3.0%
Hospital beds per 1000 people	3.63	3.62	<0.0%

Source: Economic and Social Statistics of Sri Lanka 2017 and 2011, Central Bank of Sri Lanka

Observations

- During the period of 2012–2016, there has been a healthy growth in the expenditure on health. In 2018, the government has increased the allocation to health moderately, expanding the fiscal budget share of health expenditure from 5.88% in 2017 to 6.18%.
- From 2013 to 2016, even though the number of public hospitals has reduced, there has been a constant growth in the number of beds available and this has been consistent with the population growth.

[5] Source: Health Facility Survey 2015, Ministry of Health

2.7. Transport

The scope of the transport sector is confined to the analysis of expenditure associated with facilitating private transportation by improving the road conditions, developing public transport sector (i.e., bus and rail) and improving access and quality to civil aviation services. For this purpose, the spending incurred by the following entities and programmes are considered: (1) Ministry of Transport & Civil Aviation; (2) activities related to highways and road development vested under the Ministry of Higher Education and Highways; and (3) programmes related to urban transport vested under the Ministry of Megapolis and Western Development.

Table 2.7.1. Transport Expenditure Summary

Ministry/Department	Govt. Expenditure/Allocation			YoY change
	2016 Actual	2017 Revised	2018 Budget	2017-2018
Values in Rs. Millions				
Ministry of Transport and Civil Aviation	67,416	65,500	42,662	-12,338 (-18.8%)
Expenditure under Development Activities of the National Budget Department	n/a	n/a	10,500	
Ministry of Higher Education and Highways (Highways section)	145,984	203,902	131,448	-72,454 (-35.5%)
Ministry of Megapolis and Western Development (Urban Development projects related to transport)	525	775	5,843	5,068 (+653.9%)
Transport Sector	**213,925**	**270,177**	**190,453**	**-79,724 (-29.5%)**
As share of government budget				
Ministry of Transport and Civil Aviation	2.9%	2.2%	1.81%	-0.42%

Ministry of Higher Education and Highways (Highways section)	6.17%	6.95%	4.49%	-2.47%
Ministry of Megapolis and Western Development (Urban Development projects related to transport)	0.02%	0.03%	0.20%	+0.17%
Transport Sector	**9.05%**	**9.22%**	**6.50%**	**-2.72%**
Addendum: Transport expenditure as % of GDP	*1.81%*	*2.08%*	*1.34%*	*-0.74%*

Source: 2018 Draft Budget Estimate and Budget Speech

Policy Priorities

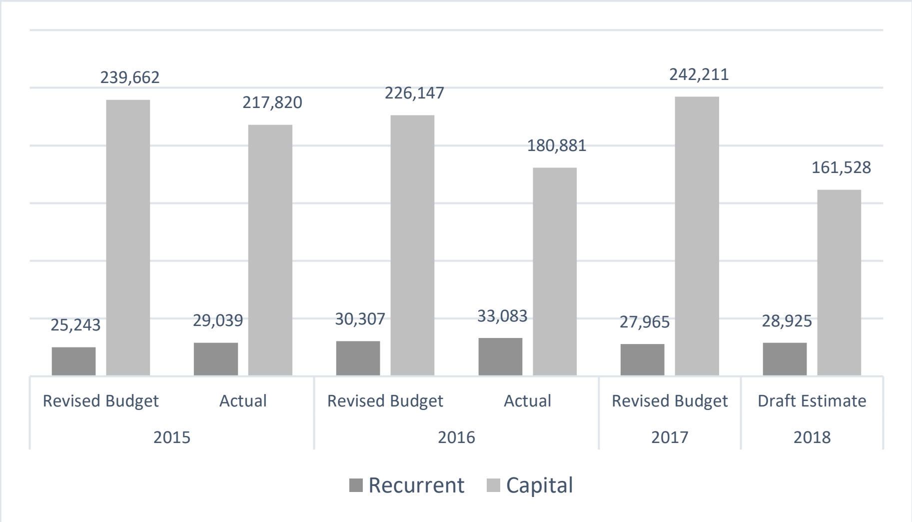
The government's policy is directed at meeting the present and future passenger and goods transport demand by ensuring quality, safety and affordability together with the improvement of the road network. As such the government expects the following outcomes:

- Develop mass transport modes and public transport sector
- Enhance traffic management systems
- Reduce road accidents and ensure adequate compensation for victims
- Increase the efficiency and quality of the transport system
- Invest in increasing capacity of the current road network
- Modernize intra-city road connectivity, such as by constricting an elevated road network in the Colombo Metropolitan Area.
- Develop an efficient road network connecting major and emerging city centre
- Reduce environmental pollution on road
- In order to achieve this the government has set the following goals through its public investment programme report:
- Increase public transport contribution for passenger movement from the present level of 58% to 65% by 2020
- Increase the share of railway passenger transport to 10% by 2020 from 5% in 2015
- Increase freight transport share of railway from 1% to 5% to 2020

- Redefine bus route with particular attention to urban bus services and the introduction of a luxury bus service consisting of modern low floor buses with the assistance of the private sector in Colombo city area by 2017
- Reduce private vehicle entry to 28% by 2018 from the current level of 33%
- Construction of the Central Expressway, Ruwanpura Expressway and elevated road in Colombo city
- Rehabilitation of 2,400 km national highways
- Improve connectivity to 2,500 village by rehabilitation and improvement of the road network

Analysis

Figure 2.7.1. Transport Sector, 2015-2018 (Rs. Millions)



- The amount allocated to the transport sector has reduced immensely by Rs. 88 billion (or 32.7%) in 2018 compared to the previous year. The 2018 estimate is even lower than the actual expenditure in 2015 and 2016.
- This sector is more focussed towards capital expenditure as a larger chunk of the expenses comes from construction of the road and rail network in the country.

Ministry of Transport

Table 2.7.2. Ministry of Transport Past Experiences (2012-2016)

Department/Ministry	Average growth (in actual spending)	Average shortfall (in actual against estimates)
Ministry of Transport and Civil Aviation	6.8%	10.0%
Minister of Transport and Aviation	44.6%	19.7%
Department of Sri Lanka Railways	-6.0%	7.4%
Department of Motor Traffic	3.0%	5.3%

Figure 2.7.2. Ministry of Transport and Civil Aviation, 2015-2018 (Rs. Millions)

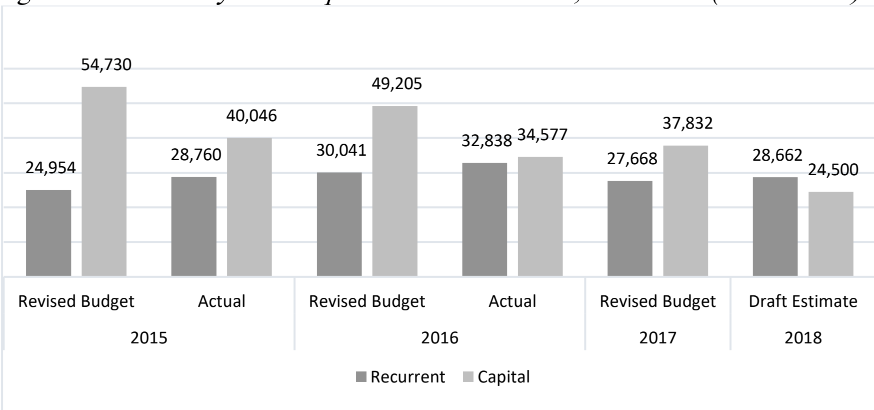
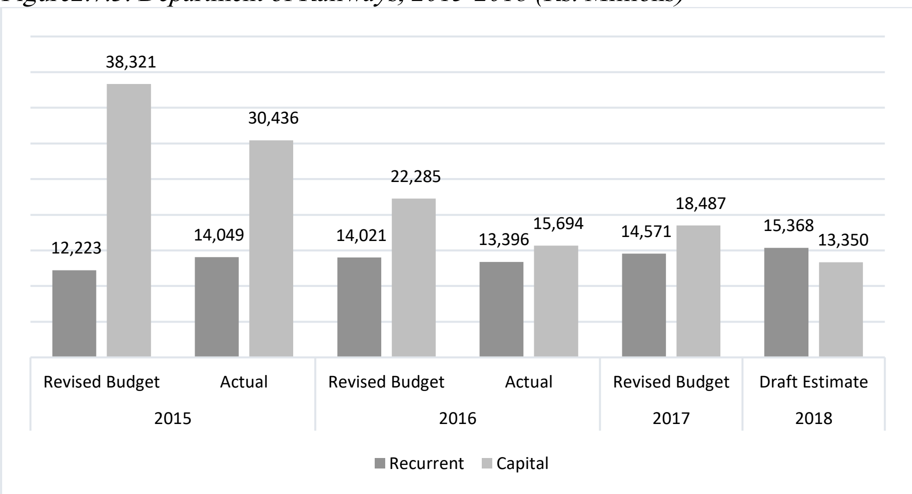


Figure2.7.3. Department of Railways, 2015-2018 (Rs. Millions)



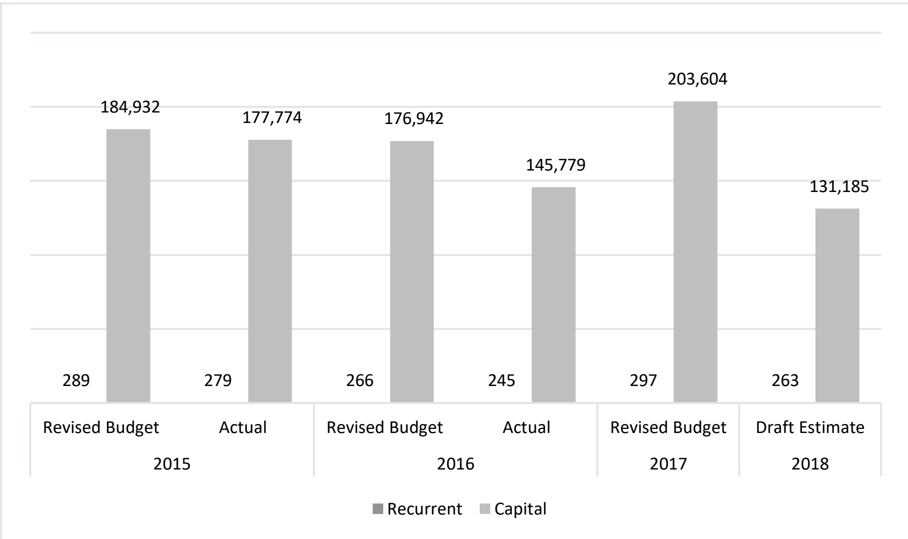
- The expenditure for the Ministry of Transport and Civil Aviation has reduced every year from 2012 except 2014 (where the growth was at

73.5%) and this was the same for Sri Lanka railways also, which is under the Ministry of Transport and Civil Aviation.

- After including transfers to the Sri Lanka Central Transport Board (SLCTB) and budget proposals directed at the Transport sector, the allocations in this sector decreases by Rs. 12.3 billion (18.8%).
- The large decline in expenditure is the result of lower allocation to the acquisition of building and structure -a reduction of Rs. 5.9 billion from Rs. 12.4 billion in 2017 to Rs.6.5 billion in 2018 and an additional decline in the allocation for the New Railway Line from Matara to Kataragama amounting to Rs. 6.6 billion.
- Further, there is a decline in the budget for the Department of Sri Lanka Railways amounting to Rs. 4.3 billion and this is mainly attributable to the reduction in funding for the capital expenditure incurred for the completion of the northern railway line.

Ministry of Higher Education and Highways (Highways section)

Figure 2.7.4. Ministry of High Education and Highways (Highways section), 2015-2018 (Rs. Millions)



- In 2018, the decline in the expenditure on Highways is Rs. 70 billion. Major changes are Rs. 48 billion and Rs. 8 billion decreases in funding for the southern and outer circular expressway respectively. Expenditure on other road development activities have also reduced contributing to the decline in the allocation of the ministry.

Ministry of Megapolis and Western Development

- In 2018, allocations for transport related projects from the Ministry of Megapolis and Western Development has increased significantly. The increase in the expenditure comes from the implementation of megapolis plan for urban areas in 2018 and it includes: Light Rail Transit system project and Promotion of Public Transport.

Observation

- The Ministry of Transport and Civil Aviation allocations are understated in the budget estimate because of the way of recording certain welfare expenditure in the budget estimate. A total of Rs. 10.5 billion in transfers to the SLCTB, which include subsidy for school and higher education season tickets, Armed forces – bus passes and grants to SLTB operating on unremunerative routes, are recorded under the National Budget Department as "Supplementary Support Services and Contingent Liabilities" (see Table 2.7.1) and these expenses were included in the Ministry's budget in the past. Allocations recorded under this budget-head of the National Budget Department represent nearly one-fifth of total allocations for the Transport Ministry. This practice of 'discretionary' budgeting is an unsatisfactory way to report the budget to Parliament, as it is highly misleading and inappropriate, and COPF recommends it be rectified at the earliest. This issue will be further discussed in Section 3.

- The boost in allocations under Ministry of Megapolis and Western Development aligns with the stated priorities of improving and encouraging the use of public transport; but it does not offset the large cuts in Ministry of Transport and Aviation and Ministry of Higher Education and Highways. While cuts are mainly in capital expenditure or due to completed projects, it is not clear how the budget is aligned to the policy priorities of the Transport sector as whole. The budget needs be clearer with regard to the reasons for any large changes in allocations, and how these fluctuations are tied to perhaps the different stages of particular projects, and how they are in turn tied to government policy priorities of the government.

2.8. Social Development

Social Development sector analysed here comprises three subsectors, namely; Social Empowerment, Rural and Estate Development, and Post Conflict Development and Reconciliation.

The expenditure heads under the Social Empowerment include; Ministry of Women and Child Affairs, and Ministry of Social Empowerment, Welfare and Kandyan Heritage. The Rural and Estate Development subsector includes; Ministry of Hill Country New Villages, Infrastructure and Community Development, Ministry Regional Development, Ministry of Rural Economic Affairs, Ministry of Housing and Construction (excluding activities related to construction) as the major functions of these ministries are aimed at enhancing the lives of the people in rural and estate sector. Finally, the Post Conflict Development and Reconciliation subsector include; Ministry of Prisons Reform, Rehabilitation, Resettlement and Hindu religious affairs (excluding Department of Hindu Religious Affairs and Department of Prisons), and Ministry of National Integration and Reconciliation.

Table 2.8.1. Social Development Expenditure Summary

Ministry/Department	Govt. Expenditure/Allocation			YoY change
	2016 Actual	2017 Revised	2018 Budget	2017-2018
Values in Rs. Millions				
Social Empowerment	74,525	80,209	83,798	3,589 (4.5%)
Rural and Estate Development	16,943	22,112	23,376	1,264 (5.7%)
Post Conflict Development and Reconciliation	15,248	16,528	15,920	(608) (-3.7%)
Social Development Sector	**106,716**	**118,849**	**123,094**	**4,245 (+3.6%)**
As share of government budget				
Social Empowerment	3.15%	2.74%	2.86%	0.12%
Rural and Estate Development	0.72%	0.75%	0.80%	0.04%
Post Conflict Development and Reconciliation	0.64%	0.56%	0.54%	-0.02%
Social Development Sector	**4.51%**	**4.05%**	**4.20%**	**+0.15%**
Addendum: Social and	*0.90%*	*0.91%*	*0.87%*	*-0.05%*

Regional Development expenditure as % of GDP				

Source: 2018 Draft Budget Estimate and Budget Speech

2.8.1. Social Empowerment

Table 2.8.1.1. Social Empowerment Expenditure Summary

Ministry/Department	**Govt. Expenditure/Allocation**			**YoY change**
	2016 Actual	**2017 Revised**	**2018 Budget**	**2017-2018**
Values in Rs. Millions				
Ministry of Women and Child Affairs	7,773	8,602	3,009	217 (+2.5%)
Expenditure under Development Activities of the National Budget Department	n/a	n/a	5,810	
Ministry of Social Empowerment, Welfare and Kandyan Heritage	66,752	71,607	18,579	3,372 (+4.7%)
Expenditure under Development Activities of the National Budget Department	n/a	n/a	56,400	
Social Empowerment	**74,525**	**80,209**	**83,798**	**3,589 (4.5%)**
As share of government budget				
Ministry of Women and Child affairs	0.33%	0.29%	0.30%	+0.01%
Ministry of Social Empowerment, Welfare and Kandyan Heritage	2.82%	2.44%	2.56%	+0.12%
Social Empowerment	**3.15%**	**2.74%**	**2.86%**	**+0.12%**
Addendum: Social Empowerment expenditure as % of GDP	***0.63%***	***0.62%***	***0.59%***	***-0.03%***

Source: 2018 Draft Budget Estimate and Budget Speech

Policy priorities of the government

- Improved child development – childcare networks and allowances (UNP and UPFA)
- Creating employment opportunities to woman (UNP and UPFA)

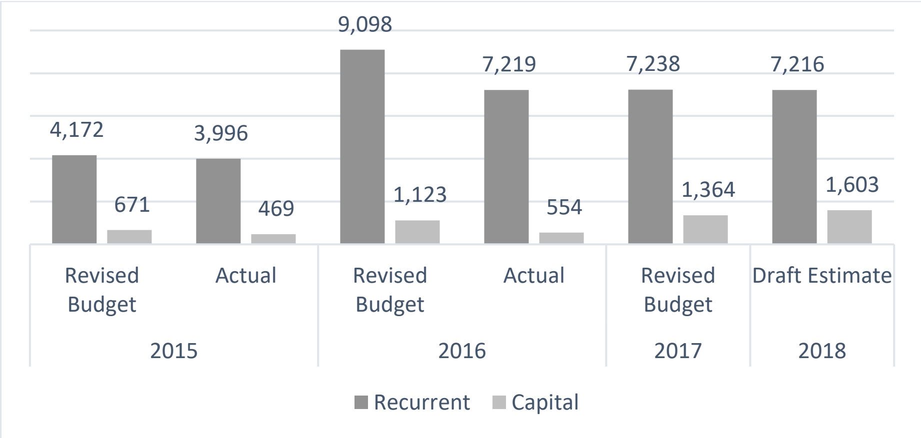
- Ensure a quality life for senior citizens (UNP and UPFA)
- Expansion of the Samurdhi network (UNP and UPFA)
- Encourage women participation in the labour force (PIP)
- Special programs for women headed households and vulnerable women(PIP)
- Ensure every child's preschool enrolment and reduce malnutrition (PIP)

Analysis

<u>Ministry of Women and Child affairs</u>

The outcome of the Ministry is a society free from women violence and child abuse.

Figure 2.8.1.1. Ministry of Women and Child Affairs, 2015-2018 (in Rs. Millions)



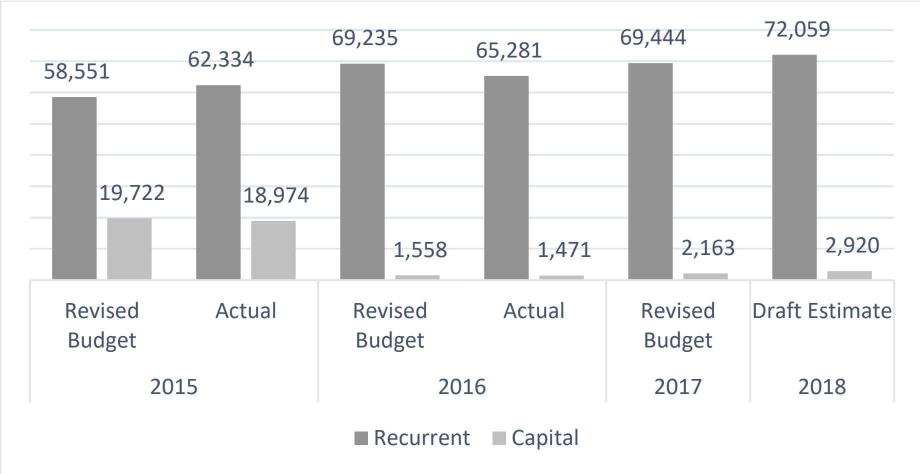
Note: The expenditure for 2018 include expenditure which is relevant to the ministry but mentioned under the National Budget Department's Supplementary Support Services and Contingent Liabilities.

- Including welfare programmes and budget proposals directed at the Ministry of Women and Child Affairs, allocations in this ministry are to increase by Rs. 217 million.
- This increase is attributed to a surge in allocation on women and early childhood development programmes, including an upsurge in allocation for Gender based violence programme from less than Rs. 1 million in 2017 to more than Rs. 20 million in 2018 and a new allocation of Rs. 20 million for "Self-Employment Opportunities for Women Headed Households."

Ministry of Social Empowerment, Welfare and Kandyan Heritage

The outcome of the Ministry is Empowered Socially & Economically Protected Nation.

Figure 2.8.1.2. Ministry of Social Empowerment, Welfare and Kandyan Heritage, 2015-2018 (in Rs. Millions)



Note: The expenditure for 2018 include expenditure which is relevant to the ministry but mentioned under the National Budget Department's Supplementary Support Services and Contingent Liabilities.

- Including welfare programmes, allocations in the Ministry of Social Empowerment, Welfare and Kandyan Heritage are to increase by Rs. 3.4 billion (4.7%).
- This increase is mainly attributed to a rise in the Personal Emoluments for the Department of Samurdhi Development amounting to Rs. 1.4 billion. This increase could be attributed to the increase in the number of grade B employees to the department as the number of employees in this category has increased to 2,581 in 2018 compared to 36 in 2017.
- Additionally, there is an increase in the Capital expenditure on Empowering Samurdhi Beneficiaries amounting to Rs. 800 million and increases in other welfare programmes in 2018 budget. The value of the Samurdhi relief assistance remained at Rs. 44 billion.

Observation

- Allocations for the Ministry of Women and Child Affairs and the Ministry of Social Empowerment, Welfare and Kandyan Heritage are understated in the budget estimate because of the way of recording certain welfare expenditure in the budget estimate. A total of Rs. 5.8 billion in welfare programmes under the Ministry of Women and Child Affairs, representing more than one-third of total ministry allocations, and Rs. 56.4 billion under the Ministry of Social Empowerment, Welfare and Kandyan Heritage, representing three-fourth, are recorded under the National Budget Department as "Supplementary Support Services and Contingent Liabilities." This practice of 'discretionary' budgeting is an unsatisfactory way to report the budget to Parliament, as it is highly misleading and inappropriate, and COPF recommends it be rectified at the earliest. This issue will be further discussed in Section 3.

- Given the government policies on women and child improvement, the funds allocated to the Ministry of Women and Child affairs are targeted towards the goals. For example, the program to ensure self-employment for women headed households has been newly introduced and allocation for nutrition of children remaining in line with previous expenses.
- A 4.7% increase in the expenditure for the Ministry of Social Empowerment, Welfare and Kandyan Heritage is a positive change. However, nearly half of the rise in the expenditure arises from an increase in the Personal Emoluments.
- The total allocation for the Samurdhi Relief Assistance has increased significantly in 2015. The program currently covers 1.4 million beneficiaries. The allocative efficiency of expenditure on Samurdhi Relief Assistance should be a cause for concern. Samurdhi payments are meant for those living in poverty, but they reach one fourth of the country's population[6] but the official poverty headcount ratio in 2016 was only 4.1%, as reported by the Department of Census and Statistics.

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[6] Taking the average household size of 3.9 and multiplying it by 1.4 million families that benefit. Average household size, from 2016 Household Income and Expenditure Survey by the Department of Census and Statistics

2.8.2. Rural and Estate Development

Table 2.8.2.1. Rural and Estate Development Expenditure Summary

Ministry/Department	Govt. Expenditure/Allocation			YoY change
	2016 Actual	2017 Revised	2018 Budget	2017-2018
Values in Rs. Millions				
Ministry of Rural Economic Affairs	7,866	9,728	7,239	-2,489 (-25.6%)
Ministry Regional Development	658	659	973	314 (+47.6%)
Ministry of Hill Country New Villages, Infrastructure and Community Development	1,284	4,368	3,748	620 (-14.2%)
Ministry of Housing and Construction	7,135	7,357	11,416	4,059 (+55.2%)
Rural and Estate Development	**16,943**	**22,112**	**23,376**	**1,264 (5.7%)**
As share of government budget				
Ministry of Rural Economic Affairs	0.33%	0.33%	0.25%	-0.08%
Ministry Regional Development	0.03%	0.02%	0.03%	+0.01%
Ministry of Hill Country New Villages, Infrastructure and Community Development	0.05%	0.15%	0.13%	-0.02%
Ministry of Housing and Construction[1]	0.30%	0.25%	0.39%	+0.14%
Rural and Estate Development	**0.72%**	**0.75%**	**0.80%**	**0.04%**
Addendum: Rural and Estate Development expenditure as % of GDP	0.14%	0.17%	0.16%	*-0.01%*

Source: 2018 Draft Budget Estimate and Budget Speech

Policy priorities of the government

- Estate sector to have a house with a piece of land (UNP and UPFA)
- Middle class housing development (UNP)
- Low interest loan schemes for housing (UPFA)
- Allocation of funds to the village committee and set up economic centres (UNP)
- Improve 50,000 rural substandard housing units annually (PIP)

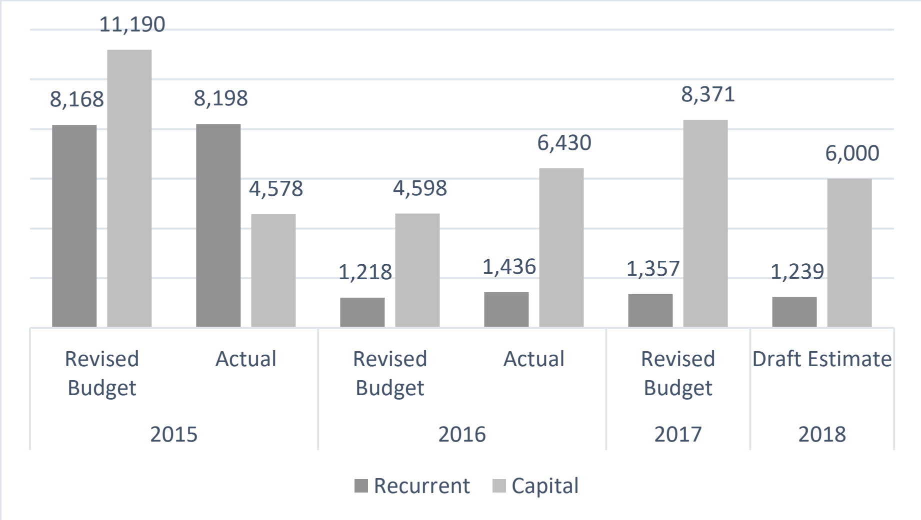
- Fulfil 65% of estate housing requirement by 2020 (PIP)

Analysis

Ministry of Rural Economic Affairs

The outcome of the Ministry is to ensure social benefits to the rural people and sustainable economic growth in the country.

Figure 2.8.2.1. Ministry of Rural Economic Affairs, 2015-2018 (in Rs. Millions)

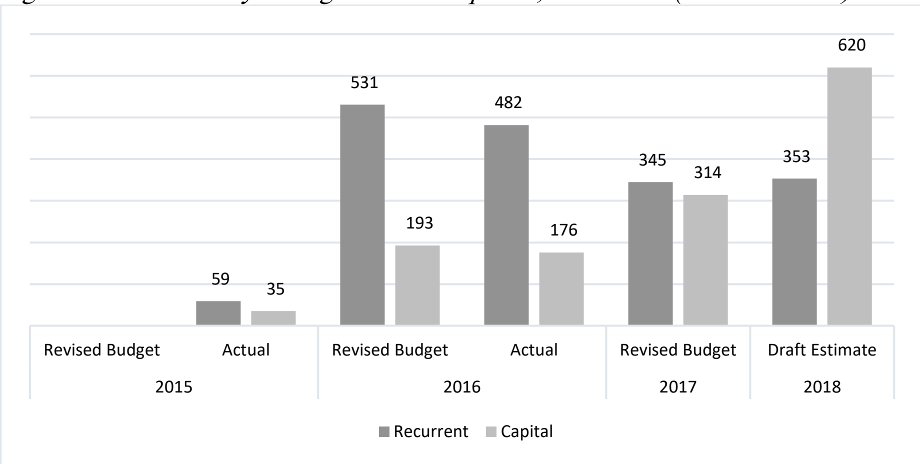


- The total expenditure allocated for 2018 has decreased by Rs. 2.5 billion (25.6%) compared to the 2017 revised budget.
- The one-off increase in expenditure on importation of diary animals amounting to Rs. 2.1 billion in 2017 has been largely the reason for the decline in allocation in 2018.
- The capital projects which were completed in 2017 were offset by the introduction of new projects in 2018.
- Another notable rise in capital expenditure is the increase in investment from Rs. 571 million to Rs. 1 billion for Research and Development under The Department of Animal Heath and Production.
- Further, in 2018 under recurrent expenditure there is no allocation for the Purchasing of Paddy, while Rs. 180 million, Rs. 242 million and Rs. 7.5 billion was spent in 2017, 2016 and 2015 respectively. The Capital allocation to Paddy Marketing board has also reduced from Rs. 390 million in 2017 to Rs. 207 million in 2018.

Ministry of Regional Development

The outcome of the ministry is improved livelihood of the communities while minimizing the regional disparities of the country.

Figure 2.8.2.2. Ministry of Regional Development, 2015-2018 (in Rs. Millions)

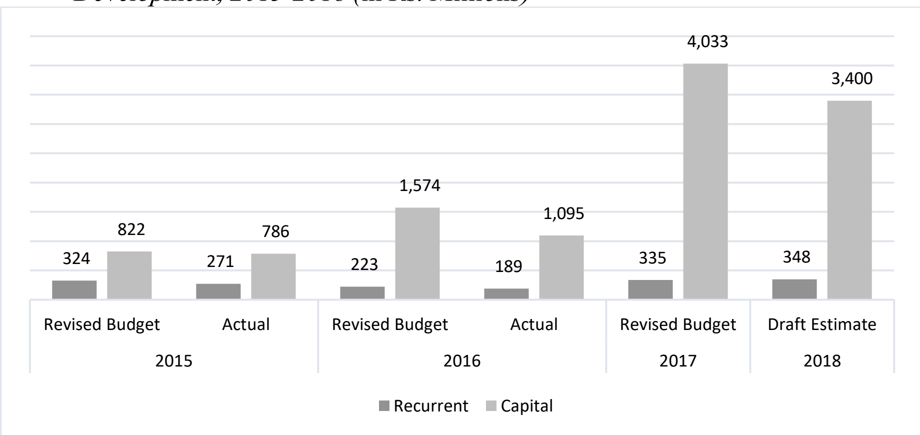


- In 2018, the total expenditure allocated for the Ministry has increased by Rs. 314 million (47.6%) to Rs. 973 million.
- The funds allocated under capital expenditure for "Regional Development" has increased from Rs. 100 million in 2017 to Rs. 500 million in 2018.

Ministry of Hill Country New Villages, Infrastructure and Community Development

The outcome of this Ministry is to empowered communities of the country including the Plantation Communities.

Figure 2.8.2.3. Ministry of Hill Country New Villages, Infrastructure and Community Development, 2015-2018 (in Rs. Millions)

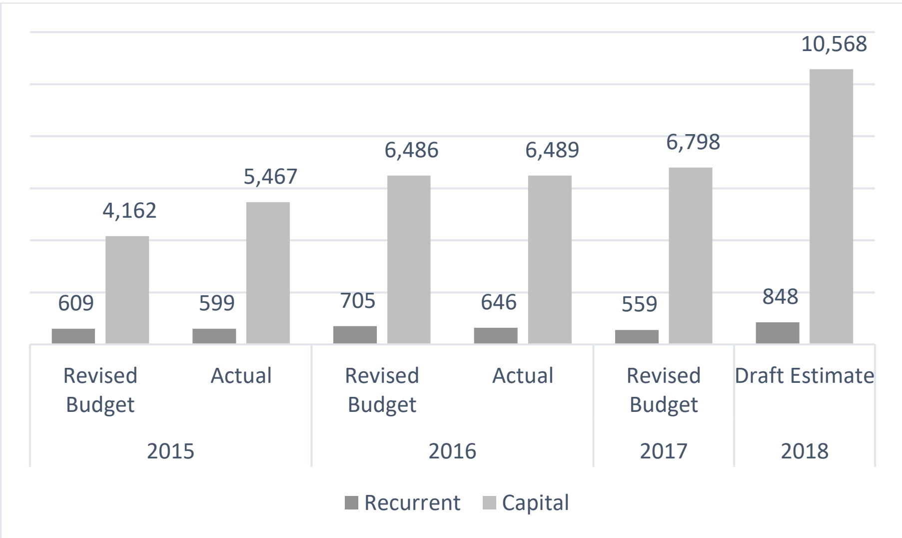


- The total expenditure allocated to the ministry has increased significantly in 2017 as a result of two new housing projects, namely, Indian Grant Assisted Housing Programme and Estate Housing program.
- In 2018, total allocation for the Ministry has dropped by Rs. 620 million (14.2%).
- The total expenditure allocated for Housing projects in the estate sector amounts Rs. 2.7 billion, lower by Rs. 600 million compared to 2017. The decline in the spending arises due to the reduction in the "Indian Grant Assisted Housing Programme."

Ministry of Housing and Construction

The outcome of the Ministry is to provide decent housing facilities for every family with the aim of ensuring the quality of life of all citizens. Under this ministry only expenses related to Housing are considered; the figures under Development of Construction industry, Department of Buildings and Government Factory are excluded.

Figure 2.8.2.4. Ministry of Housing and Construction, 2015-2018 (in Rs. Millions)



- The average growth in the total expenditure of the ministry was 10.1% over 2015-2017.
- The government has also well spent the allocated budget with an average excess of 15.1% in 2015 and 2016.
- In 2018, the expenditure for the Ministry has risen by roughly Rs. 4 billion (55.2%).

- The increase is mainly attributed to a surge in the spending on housing projects; Rs. 2 billion increase to Rs. 3 billion for North and East housing project and further increases in low income housing projects.

Observation

- The Ministry of Rural Economic Affairs has been active in its expenditure allocations as there are several new projects which are to be introduced in the 2018 budget and they seem to be aligned with the government policy, for example the increase in allocation for the Research and Development. Also, the reduction in total ministry allocation is mainly a result of a one-off expenditure.
- We note that the expenditure allocated to the Ministry of Regional Development has increased significantly under the Regional Development category and the definition is too broad for further conclusions.
- The expenditure of the Ministry of Housing and Construction has been on an upward trend throughout the last 3 years and even larger amount is allocated in 2018. This could suggest a positive effort by the government to better target the rural and low-income families.

- The money allocated for the housing development in the estate sector is inadequate because in 2016 people living in line houses and temporary sheds amount to 156,966 units. Although this figure has reduced from 159,764 in 2013, the government has set a major policy to provide a house with a piece of land for estate communities and fulfil 65% of the requirement by 2020.
- With the funds allocated through 2018 budget (Rs. 2.7 billion) only 3,077 houses can be built (assuming that each house costs Rs. 650,000 – according to the Ministry's cost estimate). The budget estimates project the same numbers for the next 3 years. Therefore, only 9,230 houses can be built. This is in contrast with the government's stated objective of building 103,000 (65 %of the current requirement) units of houses by 2020.
- Further, the National Plan of Action 2016-2020 of the Ministry of Hill Country New Villages, Infrastructure and Community Development commits itself to complete 50% of the housing requirement by 2018, that is 78,483 units of houses. The National plan of Action also estimates Rs. 82 billion is required throughout 2016 to 2020 for the construction of houses. To fulfil this requirement the government should at least allocate Rs. 26 billion each year for the next three years.

- The mismatch in the stated policies and commitments of the government, as against what is anticipated by the allocations in the budget is a cause for serious concern.

2.8.3. Post Conflict Development and Reconciliation

Table 2.8.3.1. Post Conflict Development and Reconciliation Expenditure Summary

Ministry/Department	Govt. Expenditure/Allocation			YoY change
	2016 Actual	2017 Revised	2018 Budget	2017-2018
Values in Rs. Millions				
Ministry of Prisons Reform, Rehabilitation, Resettlement and Hindu religious affairs	14,883	12,997	8,610	-4,387 (-33.8 %)
Ministry of National Integration and Reconciliation	365	3,531	7,310	3,779 (+107.0%)
Post Conflict Development and Reconciliation	**15,248**	**16,528**	**15,920**	**(608) (-3.7%)**
As share of government budget				
Ministry of Prisons Reform, Rehabilitation, Resettlement and Hindu religious affairs[1]	0.63%	0.44%	0.29%	-0.15%
Ministry of National Integration and Reconciliation	0.02%	0.12%	0.25%	+0.13%
Post Conflict Development and Reconciliation	**0.64%**	**0.56%**	**0.54%**	**-0.02%**
Addendum: Post conflict Development and Reconciliation expenditure as % of GDP	**0.13%**	**0.13%**	**0.11%**	**-0.02%**

Source: 2018 Draft Budget Estimate and Budget Speech

Policy Priorities

- Strengthen the resettlement programme with infrastructure and basic facilities for Internally Displaced Persons or IDPs (PIP)

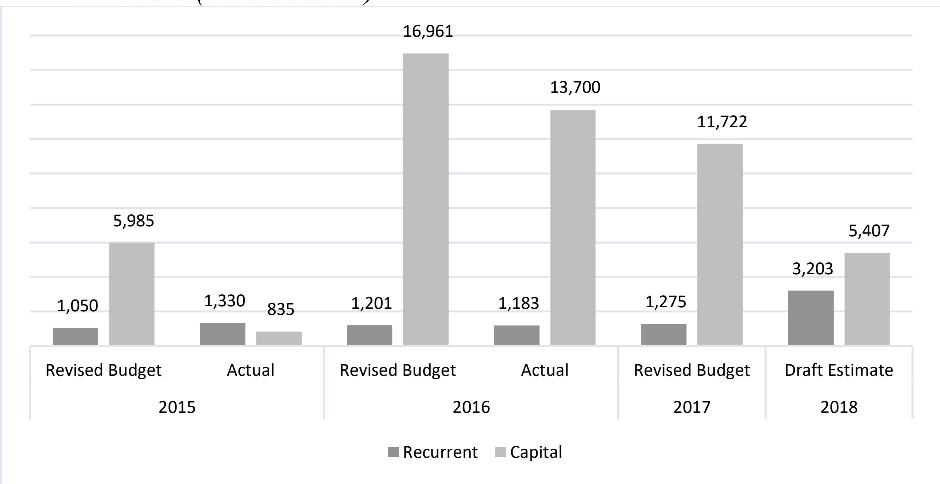
- Provide livelihood support to enhance standards of living for resettled IDPs (PIP)
- Accelerate the Resettlement Programme to fulfil housing requirements of conflict affected people (PIP)
- Provide a fully durable solution for IDPs including housing, infrastructure and livelihood by 2020 (PIP)
- Completion of all housing requirements of resettled community by 2020 (PIP)

Analysis

Ministry of Prisons Reform, Rehabilitation, Resettlement and Hindu Religious Affairs

The outcome of this ministry is creating a satisfied community through safe custody, care and gainful correction. Under this Ministry only expenses related to Rehabilitation and Resettlement are considered; Department of Hindu religious and Cultural Affairs and Department of Prisons are excluded from the Ministry total.

Figure 2.8.3.1. Ministry of Prisons Reform, Rehabilitation, Resettlement and Hindu Religious Affairs (excluding Hindu Religious affair and Prisons Reform), 2015-2018 (in Rs. Millions)

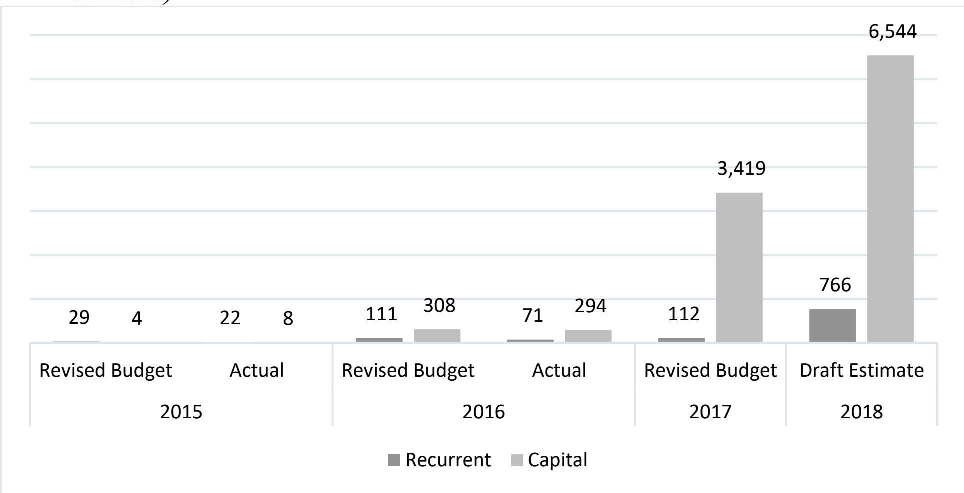


- The allocation to the ministry has been reduced in 2017 and 2018 compared to 2016.
- The shortfall in the actual expenditure compared to the estimate for 2015 and 2016 amounts to 43.1% on average.
- Total expenditure in 2018 is Rs. 8.6 billion, a reduction of more than Rs. 4 billion (33.8%).

- Major changes in the Ministry's expenditures are:
- Funds allocated for "Acceleration of Re-settlement Activities in Northern and Eastern Provinces" has dropped from Rs. 9 billion in 2017 to less than one billion in 2018.
- Allocation for "Resettlement of Protracted IDPs in Northern Province as recommended by the Task Force" has also dropped by one billion.
- As of 30th June 2017, there are 13,123 more IDP families to be resettled. Total resettled as of the same date amounts to 255,943 families.[7] However, even as of 31st July 2016 there were 13,670 IDP families to be resettled according to the Ministry.
- Further, Rs. 3 billion for North and East Housing was allocated through Ministry of Housing and Construction and another Rs. 750 million was allocated through Ministry of National Integration and Reconciliation.

Ministry of National Integration and Reconciliation

Figure 2.8.3.2. Ministry of National Integration and Reconciliation, 2015-2018 (in Rs. Millions)



- The expenses to the ministry have been at minimal during 2015 and 2016.
- Recently from 2017 onwards, there are several programs implemented to enhance reconciliation and economic development of the people and it will be continued as the 2018 Budget proposes several welfare programs.
- Total expenditure in 2018 has increased by Rs. 3.8 billion (107%) to Rs. 7.3 billion.

[7] Source: Budget Estimates 2018, Volume 2, Pg:358

- The 2018 Budget Speech proposes Rs. 4.5 billion of new allocations under this ministry. Rs. 1.4 billion has been allocated for the establishment of the Office of the Missing Persons and the rest on Socio-economic development of the North and East region.

Observation

- The government has steadily reduced expenditure for the Ministry of Prisons Reform, Rehabilitation, Resettlement and Hindu Religious Affairs throughout the last few years. There has also been a shortfall of 43.1% between allocations and expenditures. There is an indication here, without explanation, of the government having reduced its focus and interest on the work done by this Ministry.
- This year budget also shows the same declining trend with a reduction of 33.8% in expenditure allocated to the Ministry of Prisons Reform, Rehabilitation, Resettlement and Hindu Religious Affairs.
- Alongside the above reductions, the budget has some offsetting increases in allocation for the Ministry of National Integration and Reconciliation and an additional Rs. 3 billion is allocated under Ministry of Housing and Construction for housing projects in the North and East.

3. Asset Rationalization

3.1. Case Study of Vehicle Expenditure

The COPF is concerned with the possible wastage in public sector expenditure on travel and vehicles. These concerns are discussed further below:

- 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. These supplementary estimates exploited the loophole in the budgeting process that is discussed in section 3.2.
- The total recurrent and capital outlay by the government on travel and vehicles amounts to over 60 billion rupees. In 2014 it was over 70 billion. It dropped to around 50 billion in 2015 and 2016; and has increased to over 60 billion for the current year and the next (see Table 3.1.1).
- The draft budget estimates explain (both in 2016 and 2017) that the government has floated a new scheme to reduce cost of vehicle maintenance. This is called the Operational Leasing method of sourcing vehicles However, in this period, vehicle maintenance cost has remained at 3.3. billion over that time, while the expenditure on the Operational Leasing method of sourcing has increased by 3.3. billion. Therefore, it is apparent that the total nominal cost has doubled, through a policy that was designed to significantly reduce the total cost.
- At the same time capital expenditure for the acquisition of vehicles purchases has also increased dramatically in the current year, 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 (see Table 3.1.1). This is despite the increase in expenditure on the Operational Leasing Method as well.
- The projections for the next five years are also inexplicably high, with an increase of between 6 times to 18 times more than what was spent in 2015. It is projected that vehicle acquisition cost will be Rs. 28.8 billion in 2020.
- A historical analysis of the purchase of vehicles shows that a majority of vehicles purchased has been four-wheeled passenger vehicles (i.e., cars, jeeps, and double cabs). This is evident as the number of such vehicles purchased over 2012-2016 has always been higher than or around 50% of the total number of vehicles except 2014, when the government has purchased a large number of motorcycles for police officials (see Tables 3.1.2 and 3.1.3).

- The share of commercial vehicles (i.e., van, bus, and lorry) purchased has been increasing over the same period, from 12% to more than 20%.
- The data from the vehicle database of the Department of Management Audit also show that the number of vehicles purchased through lease has increased from 57 vehicles in 2014 to 210 vehicles in 2015; as a share of total procurement, it has increased from 3% to 25%. Out of the total leased vehicles almost all were four-wheeled vehicles.
- Budget estimates seem to align with the number of vehicles purchased. Vehicle acquisition costs almost doubled from Rs. 5 billion in 2013 to almost Rs. 9.8 billion in 2014. The amount spent on Capital payments for leased vehicles has increased from 2015 onwards, soaring from Rs. 242 million in 2014 to Rs. 4.8 billion in 2015.
- Still, on average, more than 2.5% of total government budget has been spent on travel and vehicle costs over the period 2014-2016. This figure is estimated to stay at 2.2% in 2018, without taking into account supplementary allocations that may be incurred later by ministries. Considering that only 0.3% of the budget is allocated for the entire fishery sector, this figure is quite remarkable and raises concern.

COPF discussions with officials and preliminary investigations suggest that these very high costs incurred every year on transport, vehicle procurement and travel related costs, is also possibly a point of high leakage and wastage of public funds. COPF would like to draw the attention of parliament to the importance of taking corrective action to reducing this leakage of public funds by improving the systems and processes around decision making and expenditure on this category of costs.

Table 3.1.1. Recurrent and Capital Expenditure on Vehicles, 2014-2018
Values in Rs. Millions

	2014	2015	2016	2017 Estimate	2017 Projected	2018 Estimate
Total Vehicle/Travel related Expenditure	**71,264** (100%)	**49,509** (100%)	**49,426** (100%)	**60,336** (100%)	**66,402** (100%)	**63,986** (100%)
Recurrent Expenditure	**57,344** (80%)	**39,241** (79%)	**37,776** (76%)	**38,751** (64%)	**40,089** (60%)	**44,103** (69%)

Travelling Expenses (Domestic)	11,481 (16%)	11,979 (24%)	12,063 (24%)	12,328 (20%)	12,476 (19%)	12,541 (20%)
Travelling Expenses (Foreign)	1,979 (3%)	1,514 (3%)	1,981 (4%)	1,542 (3%)	2,166 (3%)	2,063 (3%)
Fuel	37,302 (52%)	16,228 (33%)	14,268 (29%)	15,496 (26%)	15,407 (23%)	16,526 (26%)
Maintenance Expenditure	3,146 (4%)	3,165 (6%)	3,271 (7%)	3,179 (5%)	3,325 (5%)	3,389 (5%)
Transport Services	2,545 (4%)	4,111 (8%)	3,967 (8%)	4,031 (7%)	4,370 (7%)	4,596 (7%)
Interest Payment for Leased Vehicles	891 (1%)	2,244 (5%)	2,223 (4%)	1,748 (3%)	1,748 (3%)	1,692 (3%)
Lease Rental for Vehicles Procured Under Operational Leasing	n/a	n/a	3 (0.01%)	427 (1%)	597 (1%)	3,296 (5%)
Capital Expenditure	**13,919** (20%)	**10,268** (21%)	**11,650** (24%)	**21,585** (36%)	**26,312** (40%)	**19,883** (31%)
Rehabilitation and Improvement of Vehicles	3,914 (5%)	3,945 (8%)	4,548 (9%)	4,493 (7%)	4,583 (7%)	4,822 (8%)
Acquisition of Vehicles	9,763 (14%)	1,523 (3%)	1,309 (3%)	11,817 (20%)	16,386 (25%)	9,561 (15%)
Capital Payments for Leased Vehicles	242 (0.3%)	4,800 (10%)	5,793 (12%)	5,275 (9%)	5,344 (8%)	5,499 (9%)

Source: Budget Estimates (various years)

Table 3.1.2. No. of Vehicles purchased for Government Bodies, 2012-2016

	2012	**2013**	**2014**	**2015**	**2016**
Passenger Vehicles	1,112 (87.8%)	383 (83.6%)	1,728 (93.6%)	649 (79.4%)	128 (70.3%)
2-wheels	366	79	1,409	19	15
3-wheels	14	50	11	16	4

4-wheels	732 (57.8%)	254 (55.5%)	308 (16.7%)	614 (75.2%)	109 (59.9%)
Cars	344	114	159	224	52
Jeep	69	109	36	57	12
Single cab	18	3	13	53	
Double cab	282	22	92	251	27
Crew cab	2	3	6	13	16
Dual purpose	17	3	2	16	2
Commercial vehicles	153 (12.1%)	62 (13.5%)	98 (5.3%)	164 (20.1%)	41 (22.5%)
van/microbus	59	33	25	100	17
coach/bus	24	1	26	11	2
lorry/trailer	56	19	24	37	7
tractor/forklift	13	8	20	15	2
bowser/tanker	1	1	3	1	13
Special purpose	- (0.0%)	11 (2.4%)	19 (1.0%)	4 (0.5%)	13 (7.1%)
ambulance	-	-	2	1	-
fire engine	-	-	5	-	-
beach rover	-	-	1	-	-
water cannel	-	-	10	-	-
cash carrier	-	8	-	2	3
airport equipment	-	3	1	-	-
crane	-	-	-	1	1
excavator	-	-	-	-	9
Unidentified	1	2	1	-	-
Total	**1,266**	**458**	**1,846**	**817**	**182**

Table 3.1.3. Type of Vehicles purchased for Government Bodies, 2014-2016

2014		2015		2016	
Cab	**13**	**Cab**	**53**	**Double Cab**	**24**
MITSHUBISHI DOUBLE CAB	3	Mitsubishi	50	-	2
Mitsubishi	10	Toyota	3	Mitsubishi	5
Car	**4**	**Car**	**2**	Mitsubishi	1
Micro sanoyong	1	Nissan Sunny	1	Mitsubishi L200	5
Nissan Sylphy	1	Nissan-Sylphy	1	Mitsubishi L200	2
Toyota Axio	2	**Double Cab**	**251**	Nissan	2
Double Cab	**92**	-	1	Tata Xenon	1
Ford Ranger	1	Isuzu	1	Toyota	1
Ford Ranger	1	KB7TNDMMR	1	Toyota Hilux	5
Isuzu	2	Mitshubishi	7	Double Cab	3
Isuzu TEHS54H	1	Mitsubishi	67	Mitsubishi	2
KE4TGJNXZR	1	Mitsubishi	1	Toyota Hilux	1
Micro Sport	1	Mitsubishi	6	**Jeep**	**12**
Mitsubishi	40	Mitsubishi L200	3	Land Rover Defender 110	1
Mitsubishi K34, TJUNTSR	1	Mitsubishi KB4	1	Land Rover Discovery 4	1
Mitsubishi KB4TGJNXZR	1	Mitsubishi KB4 Tgjnxzr	4	Mitsubishi Montero	1
Mitsubishi KB7TNJNMR	3	Mitsubishi KB4TGINXZR	2	Montero Jeep	1
Mitsubishi L200	5	Mitsubishi KB4TGJNXZR	22	Nissan	2
Mitsubishi L200 Spotero	3	Mitsubishi KB4TNJNMR	6	Nissan Petrol	1
Nissan Navara	5	Mitsubishi KB4TOJNXZR	3	Nissan X-Trail	1
Nissan Nawara	4	Mitsubishi KB7TNJNMR	1	Toyota Land Cruiser	1
Toyota	2	Mitsubishi L 200	4	Toyota Land Cruiser Prado	2
Toyota Hilux	19	Mitsubishi L200	66	Toyota Land Cruiser Wagon	1
(blank)	2	Mitsubishi L200 Sportero	1	Motor Car	51
Jeep	**36**	Mitsubishi L200 Sportero	1	BMW	2
Ford Everest	1	Mitsubishi L200 Spotero	1	Maruti Suzuki A-Star	1
Ford Ranger	1	Mitsubishi Sport Ro	12	Maruti Zen Estilo VXI	1
Hyundai Santafe	2	Nissan	10	Mercedez Benz	1
KIA Sorento	1	Nissan 4WD	3	Mitshubishi	1

2014		2015		2016	
Land Rover Defender 110 Station Wagon	1	Toyota	7	Nissan	10
Land Rover Discovery	3	Toyota Hilux	8	Nissan Sedan	1
Land Rover Discovery 4	2	Toyota KUN25RPRM DH Hilux	2	Nissan Slphy	3
Mercedes Benz	1	(blank)	10	Nissan Sunny	15
Mitsubiishi	1	**Jeep**	**57**	Nissan Sunny Sedan	6
Mitsubishi V93WLRXVQR Montero	3	Honda CRV	12	Nissan Sylphy	3
Mitsubishi Montero	1	Hyundai Santafe	1	Nissan Sylpy	2
Mitsubishi Montero	1	Land Rover Defender	1	Soluna	1
Mitsubishi Pajero	1	Land Rover Defender	1	Toyota Corolla	1
Nissan X-Trail	2	Land Rover Defender 130	1	Toyota Crown	1
Porshe Cayene	1	Land Rover Outlander	1	Toyota Prius	2
Prado	1	Landrover Defender	1	**Other Vehicles**	**224**
Toyota Fortuner	3	Mazda	1		
Toyota Hilux	1	Mitsubishi	2		
Toyota Land Cruiser	7	Mitsubishi Montero	3		
Toyota Land Cruiser V8	1	Mitsubshi Montero	1		
Toyota	1	Nissan Petrol	2		
Motor Car	**153**	SsangyongRex ton	1		
520 D	1	Toyota	7		
BMW	3	Toyota Fortuner	9		
BMW 520 D	1	Toyota Land Cruiser	7		
BMW 730 L i	1	Toyota Land Cruiser	1		
BMW 730D	1	Toyota Land Cruiser Prado	3		
BMW X3D	1	Toyota Prado	1		
Ford Focus	1	(blank)	1		
Honda Vessel	1	Motor Car	222		
Hyundai Elantra	1	Alto 800 VXI	1		
Hyundai Santa-fe	1	Benz Hybrid Blue Tech	1		

2014		2015		2016	
Isuzu	1	BMW	1		
Mercedes Benz	1	BMW 730D	1		
Mercedes Benz E200	1	Chevrolet	1		
Mercedes Benz S400 Hybrid	1	Chrysler	2		
Mitsubishi	1	Honda	1		
Mitsubishi Lancer	2	Honda Vessel	1		
Nissan	3	Honda Vezel	7		
Nissan X-Trail (Jeep)	1	Mazda	1		
Nissan N16	1	Mazda GNR7 RAE	1		
Nissan N17	1	Mercedes Benz	1		
Nissan Shilpy	1	Micro MX7 Mark 11	1		
Nissan Slyphy	1	Mitsubishi	1		
Nissan Sunny	13	Nissan	7		
Nissan Sunny N17	9	Nissan N17	6		
Nissan Sunny Zedan	4	Nissan Sedan	2		
Nissan Sylphy	21	Nissan Shilphy	1		
Nissan Sypthy	1	Nissan Sunny	78		
Nissan Teana	9	Nissan Sunny	3		
Nissan Tiana	6	Nissan Sunny B17	1		
Nissan Tiyana	2	Nissan Sunny N17	5		
Nissan X Trail	1	Nissan Sunny Sedan	3		
Peugeot	1	Nissan Sunny Super Saloon	1		
Shlphy	1	Nissan Suuny	1		
Sylphy	9	Nissan Sylphy	18		
Teana	2	Nissan Sylphy	1		
Toyota	1	Nissan Sylphy B 17	1		
Toyota 141	1	Suzuki	1		
Toyota Corolla	9	Suzuki Vagan R	2		
Toyota Corolla 141	6	Sylphy	1		
Toyota Corolla ZRE141R	3	TATA	1		
Toyota Corolla ZRF 141 R	1	Toyota	4		
Toyota Premio	1	Toyota Axio	2		
Toyota Prius	2	Toyota Camry	1		

2014		2015		2016	
Toyota Vios	1	Toyota Camry Hybrid	7		
Toyota Yaris	2	Toyota Corolla	4		
Toyota ZRE141	2	Toyota Corolla 121	1		
Zre141 Corolla	1	Toyota EL50R Aemds	1		
(blank)	17	Toyota Prius	3		
Other Vehicles	**1548**	Toyota Prius C	6		
		Toyota Sprinter	1		
		Toyota Tercel	1		
		Toyota Yar13	1		
		Toyota Yaris	3		
		(blank)	33		
		Pickup	8		
		Isuzu	4		
		Toyota 2WD	4		
		Other Vehicles	**92**		
Total	**1846**	**Total**	**817**	**Total**	**182**

3.2. Discretionary Budgeting

Section 6 of the appropriation bill allows what is placed under Development Activities of the National Budget Department to be used as a discretionary fund by the government (with very wide scope), regardless of the stated purpose of the allocation.

The transfer can be made to "any other Programme under any other Head," and through 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.

This budget-head has a misleading label. In presentation it appears to be a commitment to National Development Activities, which would generally receive strong public approval. But in actual fact this Budget-Head has been designed precisely to avoid commitment, as a fungible fund from which exigencies and contingencies can be met.

It is therefore ironic that under the current budgetary practices, all the budget proposals that are solemnly read out in the speech of the Finance Minister implying a serious commitment to the Nation are twice misplaced within the budget. First they are misplaced within this budget head which is 'discretionary' – implying that the commitment might easily be reversed. And second, within that budget-head they are misplaced within the subheading titled 'contingency' – as if the government were treating the implementation of the Minister's proposals as a matter of chance occurrence. COPF believes that this is an unfortunate mistake in the budgeting procedures that should be rectified at the earliest. It proposes that a new budget-head be created with the title "Proposals of the Finance Minister" in which the budget speech commitments can be embedded with the due recognition and seriousness that they deserve; and until then that the Operational Activities heading of the National Budget Department be considered, as items placed in this head are not discretionary.

Recent developments indicate that this loophole has been increasingly exploited. In 2013 and 2014, allocations placed under this budget-head represented less than 5% of total expenditure. This figure jumped to more than 17% in 2015, and to more than 20% in 2016 (see Table 3.3.1).

Table 3.3.1. Department of National Budget Development Activities, 2010-2018
Values in Rs. Millions

	2010[a]	2011[a]	2012[a]	2013[b]	2014[b]	2015[b]	2016[b]	2017[b]	2018[c]
Recurrent	10,000	12,430	55,000	45,900	27,300	237,627	44,444	193,593	140,962
Capital	17,700	10,850	23,000	28,750	34,512	220,012	579,202	294,485	104,279
Total	27,700	23,280	78,000	74,650	61,812	457,639	623,646	488,078	245,241
as % total expenditure	*2.09%*	*1.58%*	*4.73%*	*4.10%*	*3.08%*	*17.84%*	*20.45%*	*17.26%*	*8.37%*
as % GDP	*0.49%*	*0.36%*	*1.03%*	*0.78%*	*0.60%*	*4.18%*	*5.27%*	*3.75%*	*1.73%*

a) Draft Estimates b) Approved Estimates (with budget proposals) c) Draft Estimates plus new allocations from budget proposals as provided by the 2018 Budget Speech

Draft estimates suggest that in 2018, discretionary fund would take up about 8% of total expenditure. While this share is much smaller than comparable figures over the past three years, the COPF would like to note that the 2015 budget had initially provided Rs. 90 billion, or 4% of total expenditure, under this budget-head; the amount more than quadrupled after the tabling of amendments. Similarly, draft budget Estimates for 2016 had placed Rs. 58 billion, or only 2% of total expenditure; approved estimates later showed an increase of almost tenfold. Although the 2018 figures take into account new allocations from budget proposals, it seems possible that approved estimates which are not available at the moment may show a bigger discretionary fund.

In addition to the budget proposals, much of the government's welfare promises are placed in this section as well. Several welfare programmes, including the two biggest which are Samurdhi Relief Assistance and Fertilizer Subsidy, have only recently started to be placed under the National Budget Department. Largely as a result, recurrent expenditure placed under this budget-head has increased from less than Rs. 50 billion in 2016 to about 190 billion in 2017 and 140 billion in 2018 (see Table 3.3.2). It is rather alarming that allocations for these programmes, which are meant to provide support to the disadvantaged, may be transferred to cover just about anything.

Table 3.3.2. Recurrent Expenditure Under the Budget-Head 240-02-02 "Supplementary Support Services and Contingency Liabilities," 2016-2018

Values in Rs. Millions

Ministry (in 2018)	Programmes	2016 Estimate	2017 Estimate	2018 Estimate
Ministry of Agriculture	Fertilizer Subsidy	35,000*	35,000	32,000
Ministry of Plantation Industries	Fertilizer Subsidy for Smallholders of Tea, Rubber and Coconuts Sector	n/a	1,500	1,500
Ministry of Education	Subhaga Scholarship Scheme	n/a	budget proposal	33
	Scholarships - Grade 5	363	363	362
Ministry of Higher Education and Highways	Mahapola & Bursary	908*	2,000	1,900
Ministry of Buddhasasana, Ministry of Prison Reforms, Rehabilitation, Re-settlement & Hindu Religious Affairs, and	Dhamma Schools Welfare Programmes/Facilities	880	955	1,015
	Uniforms to Dhamma School Teachers	*n/a*	*167*	*189*
	Dhamma School Text Books	*n/a*	*196*	*220*

Ministry of Toursim Development & Christian Religious Affairs	*Dehemi Diriya and Allowances for Dhamma Schools*	*n/a*	*592*	*606*
Ministry of Women and Child Affairs	Fresh Milk/Morning Meal for Pre-School Children	300	300	300
	Lama Diriya Programme - Allowances for Pre-school Teachers	30*	30	10
	Nutritional Food Package for Expectant Mothers	7,500*	5,411	5,500
Ministry of Social Empowerment, Welfare and Kandyan Heritage	Samurdhi Relief Assistance	43,950*	43,950	43,950
	Financial Support for Elderly over 70 years	9,266*	9,266	10,000
	Support for Low Income Disable Persons	1,038*	1,104	1,152
	Financial Support for Kidney Patients	707*	707	1,298
Ministry of Finance and Mass Media (Department of Development Finance)	Interest Subsidy for the Loan Scheme of Media Personnel and Artists	100*	100	100
	Granting price subsidy to domestic milk powder manufactures	1,000	650	900
	Granting interest subsidy for fixed deposits of senior citizens through Licensed Finance Companies	1,500	8,000	19,000
Ministry of Finance and Mass Media (Department of National Budget)	Lump sum payment for July strikers	500	100	60
Ministry of Disaster Management	Flood & Drought Relief	250	241	100
Ministry of Transport and Civil Aviation	Sri Lanka Central Transport Board Welfare Programmes	7,506	10,393	10,493
	School and Higher Education Season Tickets	*2,206*	*4,954*	*5,000*
	Armed Forces - Bus Passes	*300*	*439*	*489*

	SLTB unremunerated routes	*5,000*	*5,000*	*5,004*
Other Welfare Programmes Under 240-02-02		3,390	13,174	
Total: Welfare Programmes Under 240-02-02		**15,689**	**133,244**	**129,673**
Other Recurrent Expenditure (Including Budget Proposals) Under 240-02-02		*28,755*	*60,349*	*11,289*
Total Recurrent Expenditure Under 240-02-02		*44,444*	*193,593*	*140,962*

* Recorded under the respective ministry and not included in total.

Overall, this means that the allocations made here, which have at their highest taken up to 20% of total expenditure and 5% of GDP, can be utilised for very different purposes than those stated. Apart from the allocations that are genuinely meant for contingency or other exogenous purposes, such as a disaster support fund, this practice of 'discretionary' budgeting is not only misleading but also inappropriate. The lack of oversight and proper safeguard also creates room for corruption.

This budget heading has previously been referred to as a "slush fund" that is concealed within Sri Lanka's budget. This 'discretionary' process was only created in 2002 by an amendment to the Appropriations Act. And as previously noted, it has ballooned in size with the passing of time. The COPF recommends that steps are taken by the present parliament to further amend the Appropriations Act and sew up this unfortunate loophole in the budget process.

Section 4. Further Recommendations

Having conducted a sectoral assessment of the budget, the Committee would like to make following additional recommendations to the MoF, in addition to the observations already made within the first three sections of this document, with regard to the preparation and submission of budget documents to parliament:

- **Develop a set of categories to classify budget items by their function.** The Committee noted in Section 1 that the budget estimates lack economic classification of budget items that the public may find useful, especially when assessing whether the Budget reflects and aligns with the government's stated priorities. The Committee believes that it will be of the government's interest to develop and utilize a methodology to categorise allocations by sector or function. The Annual Report submitted by the Central Bank, for example, provides functional classification of expenditure. Major categories are: general public services (including defence and civil administration), social services (including education, health, and welfare), and economic services (including transport and communication and agriculture and irrigation). Similar classification of budget estimates provided at the time of tabling will facilitate better understanding and evaluation by parliament and the public. The committee also noted in its first report submitted on the 2018 Budget that there were significant discrepancies and categorization inconsistencies in the data presented to the committee by the MoF. At the very least, these inconsistencies need to be rectified as a matter of urgency – so there is a at least one full set of the relevant data in a single format.

- **Revise and expand the "major projects" tables.** These tables at their current state generally provide the title, allocation for the budget year, and targets or key performance indicators for selected projects. The format differs by ministry – certain ministries, including the Ministry of Defence, also provide information on project duration and total estimated cost. While helpful, these tables in their current format do not provide sufficient information. The Committee recommends that each ministry provide a list of projects that

(1) have completed and will not be funded by the ministry in the budget year,

(2) are ongoing but are near completion or will be reduced in budget,

(3) are ongoing and will require an allocation increase, and

(4) are new and will be funded for the first time in the budget year.

▪ Such list could be particularly useful for those who want to comprehend fluctuations in capital expenditure. For example, there tend to be large non-repeating projects that take place in Agriculture, Environment and Infrastructure – and the budget needs to be comprehensible in terms of the completion or initiation of such programmes. Without the above information, this comprehensibility is not possible.

▪ **Provide explanations for major changes.** In Section 2, the Committee made a note of several allocation reductions and increases that stand out in the 2018 Budget. Some of these are project-based expenditure, but others are not. The Committee advises each ministry and department to also provide explanation for these other major changes.

▪ "Major changes" can be defined as budget-items for which allocation is estimated to grow by more than 20% from the current year level or fall by more than 10%. This is based on the expectation that inflation will be around 5%. In other words, we suggest that a real change in expenditure exceeding +/- 15% should be considered a major change, and warrant explanation in the budget.

▪ Currently, budget estimates do not provide any justification for almost all of the major variances. When they do, it is inadequate.

▪ As an example: the Ministry of Health, Nutrition and Indigenous Medicine explains that a total of Rs. 3.1 billion allocated for Triposha programme in 2018 is to produce 28 million packets. This is a welcome explanation. However, the explanation could also be more complete, as the Triposha programme is an ongoing activity, and the budget anticipates an increase from Rs. 2.8 billion in 2017. The reasons for the increase are not noted in this explanation. The Ministry also notes under "hospital operations" that Rs. 325 million is allocated for uniform allowances of hospital staff, but does not specify whether this is a new allocation. If it were, it would account for much of the increase in Ministry budget from 2017; but presently, this information is opaque.

▪ Major increases in 2018 which would require an explanation include: a 967% increase in capital expenditure for acquisition of buildings and structures under the Ministry of Fisheries and Aquatic Resources Development, a 600% increase in recurrent expenditure for the Sri Lanka Council for Agricultural Research Policy under the Ministry of Agriculture, a 248% increase in transfers to Rehabilitation of Persons, Properties and

Industrial Authority under the Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs, and a 230% increase in subscription and contribution fee under the Ministry of Education.

- Major reductions in 2018 which would require an explanation include: a 100% reduction in paddy purchasing costs and a 47% reduction in capital expenditure for the Paddy Marketing Board under the Ministry of Rural Economic Affairs, a 99% reduction in acquisition of buildings and structures under the Minister of Agriculture, a 86% reduction in "other transfers" under the Minister of Plantation Industries, and a 56% reduction in acquisition of plant, machinery and equipment under the Ministry of Education.

- The above-mentioned items are only few highlights that need an explanation. There are many other budget items that would require justifications, which are currently not available.

- **Explain changes in individual budget items that constitute more than half of total allocation for the respective ministry and department**. This will account for large programmes that are of interest to the public but may show smaller percentage changes. In 2018 Budget, line-items that fall under this category include: a Rs. 3 billion or 9% cut in fertilizer subsidies under the Ministry of Agriculture and a Rs. 138 million or 19% increase in "other capital expenditure" under the Department of Coast Conservation and Coastal Resource Management.

- **Provide proactive explanations when there are inconsistencies in the way the budget items are recorded.** A change in the way budget estimates are recorded or a change in ministerial configuration can affect how allocation changes are perceived. For example, the new State Minister's Office (budget-head 165-01-11) likely accounts for what *seems* to be a massive cut in recurrent expenditure under the National Integration and Reconciliation Minister's Office (budget-head 165-01-01). Similarly, a Rs. 2 billion surge in transport and travelling costs under the Army's general administration and establishment services (budget-head 222-01-01) is offset by a reduction of similar magnitude under logistics (budget-head 222-01-02). In order to deduce these possible explanations, it is now necessary for parliamentarians to expend a herculean effort, as they are not explained and clarified anywhere in the budget documents. It would be important for the MoF to present a budget that was less opaque and provides as much proactive explanations of these changes as possible. ***It should not be the***

case that budget allocations are impossible to rationalise for those who need to understand, improve, and approve the budget.

- **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**. This change is required to ensure that available funds are only enough to be used for genuine requirements of contingency spending. It would prevent the exploitation of this budget-head as loophole for bypassing the privileges and obligations of parliament with regard to the budget. Furthermore, a high level of allocations under the contingency/discretionary head may indicate an undesirable level of uncertainty, and lack of technical competency surrounding the budget estimates provided by the treasury.

- **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.** As such all other expenditures such as welfare programmes and budget proposals which are currently included must be recorded under their due headings, as they cannot reasonably be seen as contingent liabilities. This budget head is also being abused with regard to the purchase of vehicles. Therefore, restricting the total value of vehicles that can be purchased through the contingency funds category to a defined low-level could be a first step improving the budgetary practices and reducing wastage in public expenditure.

- **Create a new budget-head with the title "Proposals of the Finance Minister."** The budget speech commitments can be embedded in this category, to manage the practical difficulty of budget proposals being crystallised in the eleventh hour. Such a budget head, which is not defined as a discretionary spending, can provide the due recognition and seriousness that budget proposals deserve.

Observations of the Ministry of Finance and Mass Media on the report of the Committee on Public Finance submitted on the Budget Estimates of 2018

1. Introduction

At its meeting on 6th September 2018, the Committee on Public Finance instructed to provide written observations on the report prepared by them on the Budget Estimates 2018

This document provides observations of the Department of National Budget, Ministry of Finance and Mass Media on the findings and comments of the above report.

2. Comments on Sector Analyses

2.1. Agriculture

Observations on 2018 sectoral allocations indicate the allocation for the agriculture sector as 'unsatisfactory'. The detailed description indicates a reduction of allocation in 2018, as opposed to 2017. It should be noted that there is an increase in the 2018 allocation in comparison with the actual expenditure of 2017.

In the analysis in page 8, it is indicated that the fertilizer subsidy, as a share of total expenditure or GDP, is estimated to be lower in 2018 than its average over the past five years. It is observed that in order to portray a more realistic picture of the impact of spending on fertilizer subsidy, the amount allocated should have been analyzed in relation to the total agricultural production. It is noted that any impact due to a change of subsidies should be taken as a measure of changes in the production rather than in absolute value terms or as a percentage of GDP.

The analysis further indicates that the Ministry of Agriculture faces the largest cut in allocations of more than Rs. 6 billion in 2018. This fact needs to be considered in relation to the reduction of the total capital budget of the government in 2018 as opposed to that of 2017, as proportional cuts in individual Ministries are reflections of the reduction in the overall capital budget.

The Rs. 4 billion of transfers through welfare programmes within this Ministry, which can be found only in the year 2017, was so provided to compensate for the damages and losses caused by the two natural disasters, floods and drought, which occurred in 2017.

The ‘notable reduction in capital expenditure including a Rs 2 billion cut in restoration, rehabilitation and desilting of small tanks’, as reported in the analysis, has not occurred in reality. As per the practice, this activity, which had been a budget proposal in 2017, was expected to be completed within 2017. An allocation had not been made for 2018 due to this reason. However, since it was observed that this activity needs more time for completion, an allocation of Rs. 1 billion had been made through a budget proposal in the budget speech 2018.

The analysis also mentions a Rs. 1.7 billion cut in land and land improvements for the Ministry of Irrigation and Water Resources Management. This reduction largely owes to the reduction of allocation for land and land improvements in the Yan Oya project, where nearly 95% of the dam has already been completed, and the right bank is scheduled to be completed within this year.

2.2. Defense

Observations are not submitted as this sector is rated satisfactory

2.3. Education

In Table 1.3 of the analyses, it is indicated that the sectoral allocation of education sector as “unsatisfactory” and also the objective of increasing the expenditure on education has not been met. This observation is not soundly based as the total allocation for the education sector has been increased by Rs. 10 billion in 2018 in comparison with that of 2017.

Although the analysis on education at page 17 of the report recognizes three main sub sectors of education, in fact there are four main sub-areas/ sectors to be considered when analyzing the allocations for education Sector under the Budget Estimates together with a fifth component of “other Ministries”.

1. Primary and Secondary Education, vested under the Ministry of Education and Provincial Councils

2. Tertiary Education in the University sector, vested under the Ministry of Higher Education and Highways

3. Tertiary Education in the vocational training/ youth development, vested under the Ministry of Skills Development and Vocational Training and Ministry of National Policies and Economic Affairs

4. Youth development vested under the Ministry of National Policies and Economic Affairs

5. Education related activities undertaken by other Ministries

Table 2.3.1: Education Expenditure Summary

Ministry /Department	Govt. Expenditure/Allocation			YoY Change
	2016 Actual	2017 Revised	2018 Budget	2017-2018
Ministry of Education	63,044	111,145	104,378	-6.09%
Expenditure for education under Development Activities of the National Budget Department	-	-	*395*	
Ministry of Higher Education & Highways (Higher Education Section)	49,576	52,050	63,384	21.78%
Expenditure for education under Development Activities of the National Budget Department			*1,900*	
Provincial Councils	122,401	120,824	126,668	4.84%
Ministry of Skills Development and Vocational Training	10,071	10,642	10,957	2.96%
Youth Development	3,166	8,159	6,593	-19.19%
Related Expenditure of other Ministries *	6,111	10,958	11,307	3.18%
Education Sector (Total)	**254,369**	**313,778**	**323,287**	**3.03%**

** 2017 Revised includes 2017 end figures*

If the Departments of Archeology and National Archives, which are parts of the Ministry of Education, are excluded from the analysis, the project, namely, "126-2-8: Propagation of National Heritage" under the Ministry of Education should also be excluded as it does not directly relate to the education sector.

Policy Priorities

As indicated in V2025, the government expects to transform Sri Lanka into a knowledge hub of the Indian Ocean, with a knowledge-based, highly skilled, competitive social market economy. Accordingly, the investment in the education sector has been annually increased targeting to achieve the investment of 6% of GDP both from the government as well as the private sector.

Ministry of Education

Visibly, the allocations for the Ministry of Education have been reduced in 2018 in comparison with that of 2017, for which the reasons are as follows.

1. Rs 1,000 mn was reduced from the purchase of Laptops as Principals and Teachers were covered by the allocations provided in 2017.

2. Allocations for World Bank funded TSEP project was reduced as the said project is scheduled to be completed in 2018.

3. Adjustment of allocations in 2018 for the projects coming under the "Nearest School is the Best School Program" was based on the actual expenditure of 2016 and that by June 2017.

4. The allocations for "Education Reforms" has been reduced as the Ministry of Education has planned to implement the introduction of vocational education subjects in a phased out manner.

However, it may be noted that, in an overall perspective, the budgetary allocations in 2018 have been increased in comparison with the actual expenditure of 2017.

In the year 2017, Rs. 7,000 billion was allocated to purchase furniture for school children. Therefore, the allocation under the object code "Acquisition of Furniture and Office Equipment" was reduced by an equal amount in 2018.

Ministry of Higher Education

Figure 2.3.3 of the report indicates that Rs 25,000 Mn has been allocated under the 2018 draft estimate as capital investment whilst the actual allocation was Rs 28,615 million.

It is admitted that the allocations for Mahapola/Bursary scholarships are shown under the Department of National Budget. This was done with the aim of rationalization of welfare expenditure.

The report highlights that the allocations for development subsidies such as scholarships and loan schemes for university students have been reduced by 61%. It is important to mention that under normal circumstances, when the budget estimate is prepared, Department of National Budget considers the actual expenditure of the previous year and the six months actual expenditure of the current year to forecasting the budget of the next year as the Treasury cannot afford to have underutilized allocations on certain heads while the most needed aspects may require additional allocations.

Therefore, the allocations were reduced considering the actual utilization of those scholarships/ loan schemes. Comparing the allocation of 2017 against the 2018 budget may not show an accurate picture and instead, it is noted that the comparison needs to be done in the framework of the actual expenditure of 2017 with the budgetary allocations of 2018. Further, it is vital to mention that the reduction of the allocations has not deprived/ badly affected any student. Following table displays a vivid picture of the aforesaid scenario.

Table 2.3.2: Comparison of 2017 actual expenditure against the 2018 estimates
Rs. Mn

Description	2017 Estimate	2017 Actual	2018 Estimate
Scholarships Programmes with other countries	44	21.4	25
Scholarship scheme to best-performing undergraduates of the state universities to enter into top universities around the world	25	0	100
Loan Scheme for the students who are unable to get into the state universities	200	2.3	135
Provide full interest subsidy for the loan of Rs.1.5 million to at least 1,000 graduate of state universities to encourage their engagement in business startups	150	0	23

Description	2017 Estimate	2017 Actual	2018 Estimate
Loan scheme to 5,000 students to follow Bachelor of Education courses at non-state UGC approved institutes	100	2.0	25
Loan Interest for Laptop (University Students) & Wi-Fi facilities	346	164.4	250
Total	865	190.1	558

2.4. Environment

The report indicates reductions in allocation for the acquisition of buildings under the Department of Forest, for machinery and equipment of the Department of Coast Conservation and Coastal Management, as well as for UNDP programmes under environmental protection activities. This observation, while being oblivious of the context, does not reflect what has actually caused these superficial decreases in the said important activities. According to a decision taken by the Cabinet Committee on Economic Management, the construction of new buildings was curtailed in 2017. Therefore, only the continuations of those buildings that had already been started received allocations in the budget estimate of 2018. This policy decision of the government caused the visible reduction in the allocation for buildings/ acquisitions in the Department of Forest. The Department of Coast Conservation and Coastal Management had purchased machinery (excavators) in 2017, for which, a sufficient allocation was made available. Since the purchasing was complete in 2017 itself, with no such purchasing planned for 2018, the allocation for 2018 also has been reduced accordingly.

UNDP programmes under the environmental protection activities are conducted according to the prior Agreements between the UNDP and the Government of Sri Lanka, during a pre-determined period of time. Budgetary allocations reflect the amounts that are disbursed by the UNDP in line with such Agreements. During the period of this report, four projects out of the six UNDP funded projects ended. As a result, parallel to the reduction of UNDP disbursements, allocations were also reduced.

2.5. Fisheries

Observations are not submitted as this sector is rated satisfactory.

2.6. Health

Observations are not submitted as this sector is rated satisfactory.

2.7. Transport

As was mentioned above as well, the true picture of any reduction of allocations cannot be visible unless for a scrutiny of budget estimates of the next year juxtaposed with the actual expenditure of the previous year and that by June of the current year. The same scenario applies in the case of the Ministry of Transport and Civil Aviation as well. Following table further explains the said situation.

Table 2.7.1: Allocation/Expenditure Summary related to the Ministry of Transport and Civil Aviation from 2016 to 2018

Rs.Mn

Year	Estimate	Actual Expenditure
2016	79,245	67,416
2017	65,500	52,159
2018	54,318	-

Although the original estimate is rightly recognized in the report as Rs.42,662 Mn plus Rs.10,500 Mn from the development activities of the Department of National Budget, injection of Rs. 525 Mn though budget proposals has gone unnoticed. Thereby, the total allocation for the Ministry amounts to Rs. 54,318 Mn for the year 2018.

Following foreign funded projects were scheduled to be completed during the period of year 2012 -2017. During the formulation stage of year 2018 Budget, it was recorded as all projects will be completed before the end of the year. Therefore, following provisions were not included in the 2018 budget.

Table 2.7.1: Excluded Projects for the year 2018 due to completion
Rs.Mn

Project	2016	2017
Replacing Omanthai – Pallai Line (GOSL/India)	2,280	360
Replacing of Madawachichiya – Madu Line (GOSL/India)	921	210
Replacing of Madu – Talaimannar Line (GOSL/India)	3,080	830
Replacing of Pallai - KKS Line (GOSL/India)	3,830	390
Total	10,111	1,790

Further, considering the available total budgetary provisions and implementing capacity of the Railway Department, allocations have been included for the two main ongoing projects as follows.

Table 2.7.1: Allocations for two major projects for projects of Sri Lanka Railways
Rs.Mn

Project	2016 Actual	2017 Revise	2017 Actual	2018
New Rail Line to Matara – Beliatta Kataragama project (China)	6,460	11,710	3,218	5,100
Railway Development project under USD 318Mn Credit Line(GOSL/India)	-	6,100	4,691	2,100

Ministry of Higher Education and Highways (Highways Division) and Ministry of Megapolis and Western Development

It is observed that the allocations provided by the 2018 budget for Highways was Rs. 125,263 Mn. which was topped up by budget proposals up to Rs. 136,263 Mn. Accordingly, the total decrease of the allocations in 2018 in comparison with that of 2017 was Rs. 67,639 Mn. Thereby, the year on year decline is 33.1%. At the resource allocation stage in the process of budget formulation, the sectors such as human resource development, health, law and order, housing, public administration and urban development were identified as high priority sectors and therefore, the resources had to be channelled more to the said sectors. Hence, the allocations for highways development sector had to be reduced due to the demand of the situation. The increase of allocations for urban development, as manifested in the budget of the Ministry of

Megapolis and Western Development, has not become coterminous to the reduction of that of the highways sector due to the aforesaid resource allocation requirement. On the other hand, 14 other government agencies i.e. Ministries and Departments are engaged in the development of road infrastructure in the country where a significant allocation is devoted.

2.8. Social Development

2.8.1.

Observations related to this segment are covered in Discretionary Budgeting and further recommendations.

2.8.2.

Observations related to this segment are covered in Discretionary Budgeting and further recommendations.

2.8.3. Post – Conflict Development and Reconciliation

According to the observations on 2018 sectoral allocations, it was reported that the allocation for the Ministry of Prison, Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs (Now Ministry of Resettlement, Rehabilitation, Northern Development and Hindu Religious Affairs) were significantly reduced in the year 2018.As indicated in this report, there is a decrease of the allocation provided to the Ministry of Resettlement, Rehabilitation, Northern Development and Hindu Religious Affairs in the year 2018, for resettlement activities compared to the years 2016, 2017. This is mainly due to the Treasury decision to decentralize the allocation related to the development of North and East to the various other line Ministries.

Table 2.8.3.1. Allocation for Ministry of Resettlement, Rehabilitation, Northern Development and Hindu Religious Affairs for Resettlement activities in Northern and Eastern provinces

Year	Allocation (Rs Mn)
2016	14,000
2017	9,000
2018	750

However, the Treasury has allocated substantial amount of allocation to the development of North and East in the year 2018 especially for Post - Conflict Development and Reconciliation which covers the areas of Housing, Roads, Water Facilities, Electricity and Livestock etc. through other line agencies.

Table 2.8.3.2. Funds allocated for the major Strategic Development Projects in Northern and Eastern Provinces for 2015-2018 period

Province	Funds Provided (Rs Mn)			
	2015	2016	2017	2018 (est.)
North	33,680	31,301	19,728	18,368
East	4,501	8,556	7,779	8,409
Total	38,181	39,857	27,507	26,778

Therefore, it is clear that the apparent reduction of allocations for the Resettlement activities to the Ministry of Re- Settlement, Rehabilitation, Northern Development and Hindu Religious Affairs in the year 2018, does not clearly manifest the true picture of allocations towards resettlement. As a whole Treasury has allocated approximately Rs 27000 Mn for the Post Conflict Development and Reconciliation in North and East in 2018.

3. <u>Comments on Asset Rationalization</u>

3.1. Case Study of expenditure on vehicles

In general, the National Budget department agrees with the findings of this section of the report. Following clarifications and comments are provided for a better understanding of the reasons for the given propensities.

Point highlighted	Clarifications and comments
Estimates for procurement of vehicles is not disclosed transparently in	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

Budget estimates in 2017	requirement from the "*Supplementary Support Services and Contingent Liabilities"* project under the national budget. Refer annexure (1). 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. Further, over the last decade, there are ample evidence for repeated application of this practice and not only in year 2017 but also over the last decade. It has been proved to the Department of National Budget over the years that this practice has helped to control expenditure on purchasing vehicles as the NBD can scrutinize the requirement of the procurement before granting approval and release of allocations.
Cost of Travel and vehicle purchasing was over 70 billion in 2014. Then reduced in 2015 and 2016 and again increased over 60 billion in 2017.	In 2014, the fuel price was Rs.150/- petrol and Rs.111/- diesel which dropped down to Rs.117/- and Rs.95/- respectively in January, 2015. Simultaneously, the government expenditure for fuel decreased from Rs.37 billion to Rs.16 billion in 2015 and to Rs.14 billion in 2016.This situation has had a significant impact towards the decrease of travelling cost in 2015 and 2016. Further, in December 2014 more than 1,690 vehicles (473 Cars, 1000 Cabs, 2000 Vans and 17 Jeeps) were imported under the financial leasing method by the General Treasury. These vehicles were distributed among the spending agencies in year 2015 and year 2016. Procurement of vehicles was limited to a few numbers, such as vehicles for newly appointed Ministers and utility vehicles. Further, during the time of 25.10.2014, - 21.11.2015 vehicle procured by the

	government, utilizing the Consolidated Fund, were exempted from Excise Duty. These were the reasons for the drop of vehicle purchasing cost in 2015 and 2016. In 2017 and 2018 large number of utility vehicles were procured and the details are as follows. The breakdown of the cost of vehicles procured in 2017. Ambulance Rs 1,233 mn Defense (Boats and vessels) Rs. 4,253 mn Locomotives/compartments Rs. 7,600 mn Police &STF Rs. 100 mn Disaster Mgt(Water bowsers & Boats) - Rs. 615 mn Other - Rs. 2,585 mn Allocation provided in year 2018 is for the following Vehicles. Defense vehicle -Navy - Rs 2,672 mn Locomotives/compartments - Rs. 6,100 mn Health sector - Rs. 200 mn Police &STF - Rs. 53 mn Parliament (BUS) - Rs. 28 mn Further, the impact of removal of exemption of Excise Duty was clearly exposed in years 2017 and 2018, as the vehicle imports in 2015 and 2016 were limited.
Total nominal cost of maintenance of vehicles has not decreased as expected by introducing the policy of procuring vehicles under operational leasing	Procurement of vehicles under operational leasing method was introduced in the latter part of 2016. Only a limited number of vehicles was procured in year 2016 and 2017. The Government Ministries already have a fleet of more than 43,000 vehicles and only around 1000 vehicles were replaced in year 2016 and 2017 under operational leasing method. So the effect of the policy was not significant due to the high maintenance cost of the existing old fleet of vehicles.

Capital expenditure for the procurement of vehicles has gone up in 2017 and 2018	In year 2017 cost of acquisition of vehicles has increased up to 16 billion. The breakdown of the cost of vehicles procured in 2017 are as follows. Ambulance - Rs 1,233 mn Defense (Boats and vessels) - Rs. 4,253 mn Locomotives/compartments - Rs. 7,600 mn Police &STF - Rs. 100 mn Disaster Mgt(Water bowsers & Boats) - Rs. 615 mn Other - Rs. 2,585 mn Allocation has been provided in year 2018 for the following Vehicles. Defense vehicle -Navy - Rs 2,672 mn Locomotives/compartments - Rs. 6,100 mn Health sector - Rs. 200 mn Police &STF - Rs. 53 mn Parliament (Bus) - Rs. 28 mn
The projection for the next five years is inexplicably high Majority of the vehicles purchased has been passenger vehicles except 2014 when government purchased a large number of motorcycles.	Forecasted figures for the year 2019 and 2020 are based on the already committed agreements. The amounts earmarked are almost covered by the following items *Rs billion* *2019* *2020* Purchase of trains under Indian line of credit 10.50 23.00 Purchase of 9 number of Diesel power sets 4.96 4.96 Majority of the vehicles purchased for the Government represent the official vehicles assigned to the eligible categories such as Ministers, their staff, and high ranking officials. Hence, the number of vehicles purchased under passenger vehicles is always high. It

	should be noted that the cost of vehicles consists of mass transport or utility vehicles which amounts for a larger percentage of the total value. Providing motorcycles for the field officials was a government policy decision then.
Share of commercial vehicles (Van, Bus and lorry) also increased	Approval for the procurement of vehicles are granted having scrutinized the requirement of such vehicles. As the requirement of commercial vehicles increased over time, the share of such vehicle has also increased.
As per the database of the Management Audit Department number of vehicle procured through lease has increased	Agree with the observation. As the government decided to procure vehicles under operational leasing method in 2015, Approval for vehicle procuring therein after was granted under the same method.
Vehicle acquisition cost has increased in 2014 Capital payment for leased vehicle has increased from 2015 onwards	Vehicle acquisition cost had increased in 2014 due to the following procurements. Purchase 3 power sets (For Railway Dept.) Rs.5,400 mn Providing vehicles for foreign missions Rs.625 mn Purchase of motor cycles for the police officers Rs. 1,637 mn Vehicles procured for President's Office Rs.300 mn Vehicles procured for Provincial councils Rs.414 mn Vehicles procured for Health Ministry Rs. 625 mn In 2014 December more than 1,690 vehicles were imported under the financial leasing method by the Treasury in order to fulfill the vehicle requirement of the Government agencies. (Government also received 41 vehicles as a free lot) The vehicles were received in 2015 and capital payment of those vehicles were started from 2015. This will continue up to 2020.

Government has been spent around 2.5% for travel and vehicle cost while spending only 0.3% for fisheries sector.	As per the above explanations vehicle cost is included mass transport vehicles, defense vehicles, health sector vehicles etc. Hence, the cost of vehicle does not totally related to providing travel facilities for the government officials and political authorities. If a particular sector requires more financing that will have to be directed by the government's policy mandate. Comparison of expenditure on sectors such as travel which includes mass mode travel for general public and fisheries does not seem very logical.

3.2. Discretionary Budgeting

Comment is accepted. It should be noted that in year 2019 allocations for welfare programmes were included under the relevant institutions as such provisions in Treasury Miscellaneous Account has been reduced to 2% of the total expenditure.

Action will be taken to create a separate project under the title of "Budget Proposals" to manifest allocations provided for institutions under budget proposals from 2019.

4. Further Recommendations

Point highlighted	Observation/comment
Develop set of categories to classify budget items by their function.	Printed Budget estimates are prepared according to the guidelines stipulated in financial regulations. Further, those estimates are to be used for the purpose of accounting the expenditure. So the formats are mostly in accounting perspective rather than economic classifications. Hence, budget estimates cannot be compared with the format and composition of Central Bank Annual Report. However, previously the Department adopted a sectoral perspective in Budget Estimates. Nevertheless, as of now it has become impossible to continue as the functions and subjects of the Ministries are heterogeneous and do not fall in line with such a sectoral perspective.

Point highlighted	Observation/comment
Revise and expand the "Major Projects" table	Including a "Major Projects" list in the budget estimates was never a mandatory requirement. But the Treasury incorporated the said list to the Budget estimates in order to improve the comprehensiveness of the estimates. 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.
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.
Restrict the amount of money allocated to the supplementary support services and contingent liabilities project	Allocation provided under this vote excluding welfare and Budget Proposals are less than 2%. Hence, the comment is positively accepted.
Use the above vote allocation only for liabilities that will arise in an unanticipated manner.	Comment accepted. In 2019, it is limited to only for 2% of the expenditure.
Create a new Budget Head with the title "Proposals of the Finance minister"	A separate project will be created in 2019 as Budget Proposals.

Summary of COPF – Report on Budget Estimates 2018 & Observations of MOF

Analysis of Sectoral Allocations & Travel expenditure of the Government	Categorisation under a discretionary budget-head	Further Recommendations
• It is an area of concern that there is a disparity between data in 2018 Draft Estimates & total expenditure provided to Parliament in the budget speech • General pattern of shortfall in actual spending over the past 5 years – concerns that proposed allocation increases may not be backed by actual plans • Analysis of Sectoral allocations based on programmatic priorities of the government Agriculture (3.40% of the total budget). It is a reduction of 5.6% from 2017. The Ministry of Agriculture faces the largest cut in allocations of more than Rs.6bn. Fertilizer subsidy (the single largest expenditure in the sector) is recorded under the NBD as Supplementary Support Services and Contingent Liabilities. This leads to significant underestimation of spending for the year and is inappropriate as it is a recurring expense. Also, high mismatch between allocation and actual	• This budget-head has a misleading label – it appears to be a commitment to National Development Activities, but is designed precisely to avoid commitment • In 2013 & 2014 this budget-head represented less than 5% of total expenditure but in 2015 it jumped to more than 17% and in 2016 to more than 20% of total expenditure. • This is despite the fact that the 2015 budget initially provided for only 4% and 2016 budget for only 2%. However, after the tabling of amendments these amounts increased dramatically. • Even though the observations of MOF indicate that they have corrected these for 2019, the practice of the	• Develop a set of categories to classify budget items by their function. This would assist the public in assessing whether the Budget reflects and aligns with the government's stated priorities (Ex – like the Annual Report of CBSL) MOF states that previously a sectoral perspective was adopted but now impossible. • Revise and expand the 'major projects' tables – the current format differs according to ministry & information provided. This would assist in comprehending fluctuations in capital expenditure. • Provide explanations for major changes

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spending, averaging at 15.2%. Government should carry out its budget promises, especially in its long-term investment in this sector. Education (6.14% of total budget).It is an increase of 3.3% from 2017. Unsatisfactory, especially as the govt. has been campaigning for 6% of GDP to be allocated for education, but in 2018 it was only 1.27% of the GDP which was a reduction of 0.07% from 2017. Also, a total of Rs.2.3bn in scholarships & bursary is recorded under NBD as a contingent expense. Transport (6.50% of the total budget). It is a reduction of 29.5%. The amount allocated has reduced by Rs.88bn from the previous year. The Ministry allocations are understated because Rs.10.5bn transfers to SLCTB which include subsidy for school & higher education season tickets, Armed forces bus passes and grants to SLTB operating on unremunerative routes are recorded under NBD discretionary budget.	previous years must not be repeated. • Much of the government's welfare promises are placed in this section (Samurdhi relief and fertilizer subsidy). • Recurrent expenditure placed under this has increased from less than Rs.50bn in 2016 to about 140bn in 2018. This means that allocations for these programmes which are meant to provide support for the disadvantaged, may be transferred to cover just about anything and can be utilised for purposes very different to what has been stated.	MOF says these can be requested from each Ministry at the Committee stage • Provide proper explanations when there are inconsistencies in the way the budget items are recorded • Use the Supplementary Support Services and Contingent Liabilities category of the NBD only for liabilities that will arise in an unanticipated manner <u>MOF accepts comment and states it will be limited to 2% in 2019 but does not state that it will be limited to unanticipated expenses.</u> • Create a new budget head with the title "Proposals of the Finance Minister" – the budget

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While cuts are mainly due to completed projects, it is not clear how the budget is aligned to policy priorities of the transport sector as a whole. Budget needs to be clearer wrt reasons for any major changes and how they are tied to different stages of projects. Social Development (4.20% of the total budget). Govt. has steadily reduced allocation for the Ministry of Prison Reforms, Rehabilitation, Re-settlement & Hindu Religious Affairs through the last few years. There was also a shortfall of 43.1% between allocations and expenditure, demonstrating reduced focus and interest on the work done by this Ministry. MOF on page 9 of their observations stated that the reason for this reduction is because the Treasury has allocated a substantial amount for the development of the north & east, but that too is a reduction from Rs.38bn in 2015 to Rs.27bn in 2018.		speech commitments can be embedded in this category. MOF states that a separate project will be created in 2019 as Budget Proposals

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• There is possible wastage in public sector expenditure on travel & vehicles ▪ The draft budget estimates explain that the govt. has floated a new scheme to reduce cost of vehicle maintenance i.e. the operational leasing method of sourcing vehicles. However, maintenance cost has remained at 3.3bn while the expenditure on the OL method has increased by Rs.3.3bn, thereby doubling the total nominal cost. ▪ The capital expenditure for the acquisition of vehicle purchases has increased dramatically from Rs.1.4bn in 2015 & 2016 to over 16bn in 2017, despite the increase in expenditure on the OL method. ▪ Projections for the next 5 years are also extremely high		