

**Report of the  
Committee on Public Finance**

**On the Estimates for the Financial Year 2022  
in terms of the Standing Order 121(4) of Parliament**

(Including whether the allocation of money  
is in compliance with the policies of the Government)

## **COMMITTEE ON PUBLIC FINANCE**

Hon. Anura Priyadharshana Yapa (Chair)

Hon. (Dr.) Bandula Gunawardana

Hon. Keheliya Rambukwella

Hon. Susil Premajayantha

Hon. Vidura Wickramanayaka

Hon. (Dr.) Sarath Weerasekera

Hon. (Dr.) Nalaka Godahewa

Hon. Vijitha Herath

Hon. Dilan Perera

Hon. Kumara Welgama

Hon. (Dr.) Harsha de Silva

Hon. Manusha Nanayakkara

Hon. M. A. Sumanthiran

Hon. (Dr.) Kavinda Heshan Jayawardhana

Hon. Mujibur Rahuman

Hon. Isuru Dodangoda

Hon. Anupa Pasqual

Hon. Nalin Fernando

Hon. (Prof.) Ranjith Bandara

# **BUDGET 2022: ASSESSMENT OF GOVERNMENT POLICY PRIORITIES**

## **1. Introduction to the Report**

In terms of Standing Order 121(4) of Parliament, the Committee on Public Finance (COPF) is mandated to produce a report assessing whether the proposed budget is aligned with the national policy framework of the Government of Sri Lanka (GOSL). This report contributes to this effort by COPF. This assessment is based on Budget proposals for 2022 given in 1) Budget Speech presented in Parliament on 12<sup>th</sup> November 2021, 2) Appropriation Bill for financial years 2021 and 2022, and 3) information provided by the Ministry of Finance.

This report assesses whether the allocation of money for 2022 aligns with the policies of the GOSL as detailed in the National Policy Framework – Vistas and Prosperity and Splendour (VPS). The VPS is framed around 10 key policies. These are: 1) Priority to national security; 2) Friendly, non-aligned, foreign policy; 3) An administration free from corruption; 4) New constitution that fulfills the people's wishes; 5) Productive citizenry and a vibrant human resource; 6) People-centric economic development; 7) Technology-based society; 8) Development of physical resources; 9) Sustainable environmental management; and 10) Disciplined, law abiding and values-based society. Henceforth, these 10 policy priorities will be referred to as VPS-1, VPS-2, and so on. Gross Domestic Product (GDP) in 2022 is assumed to be LKR 18,511 billion, based on information provided by the Ministry of Finance in all calculations.

## **2. Macroeconomic management**

The economic fallout of the COVID-19 pandemic has posed several challenges in meeting these targets. As such, the Budget 2022 envisages an economic growth rate of 5%, an annual inflation rate in the range of 6-7%, and a fiscal deficit of 8.8% in 2022. Some key macroeconomic targets set out in the VPS include:

- Achieving an average rate of economic growth of 6.5% or higher.
- The rate of annual inflation not exceeding 5 %.
- Budget deficit at less than 4% of GDP.
- A single digit rate of interest.
- To maintain the exchange value of the rupee at a stable level.

### **Budget deficit**

The estimated budget deficit for 2022 rests largely on the assumption that revenue growth will be a robust 48%. This will be dependent not only on a strong economic recovery, but that the recovery will be broad-based. Given that tighter macroeconomic conditions are expected to prevail overall, revenue growth may fall short. However, there appears to be room left for adjustment of public investment spending from budgeted amounts (as practiced typically) to bridge the shortfall to some extent.

### **Inflation**

Inflationary pressures are rising in the Sri Lankan economy owing to a host of factors, both domestic and external. The domestic factors include heavy liquidity injection related to COVID-19 recovery, supply disruptions, and imported inflation from currency depreciation. External developments in the form of rising gas and oil prices will add to

these pressures. While annualized inflation can be expected to remain within single digit levels in 2022, the trend will continue to be upward.

### **Interest rates**

Substantial liquidity injections and yield control measures, amongst others, saw interest rates forced down through the COVID-19 crisis. In 2022, the current upward movement in interest rates can be expected to persist with large domestic deficit financing requirements (especially domestic bank borrowing) as set out in the Budget 2022 estimates. With the 364-day Treasury bill rate at 8.2% as of mid-November 2021, there is a strong possibility to exceed single digit interest rates.

### **Exchange rate**

The Sri Lankan rupee has been held at a fixed official rate to the USD (LKR 200), while market expectations are seeing a parallel grey market emerge. A substantively large stream of foreign capital inflows is required to pay off foreign debt liabilities and build up reserves (at USD 2.3 billion in October 2021 against annual projected foreign currency debt settlements in the range of USD 4.5 billion) to an adequate level. Until such outcomes materialize, maintaining a market-driven stable exchange rate will be extremely challenging.

### **Output growth**

As output levels return to pre-pandemic levels in 2021, reaching a growth target of 5% in 2022 will become more challenging. Rising interest rate threaten the forecasted growth and leave less space for investments to stimulate growth. Consumption too will have only a modest impact on driving growth as inflation eats into household disposable incomes. On balance of probabilities, if substantial FDI related investments in infrastructure and construction projects were to get underway, growth may lift, but impacts on revenues may remain limited (owing to narrow growth base, tax exemptions, etc.).

## **3. Distribution of Overall Expenditure Proposals Across GOSL Policy Priorities**

Tables 1, 2, and Table A4 in the appendix show how expenditure proposals are distributed across different policy priorities. The distribution of the expenditures across the policy priorities are uneven (see Figure 1). The largest share of the Budget (close to 65% of the total Budget, equivalent to 19% of GDP) is allocated for VPS-3 – an administration free from corruption. This is owing to the significant spending incurred on meeting interest payments on Sri Lanka's debt servicing costs. VPS-1 on national security is allocated the next highest share of the Budget (11% of the total, equal to 3.3 % of GDP). The only other policy area receiving more than 10 % of the total is VPS-1 on 'priority to national security'. However, 76% of the allocation for this priority is for recurrent expenditure.

While VPS-5 and VPS-8 also get close 10% of the total allocation. Given that the COVID-19 severely affected the social sector, more investments in this sector would have been welcome. However, only 9.8 % (or 2.9 % of GDP) was allocated for VPS-5, where most of the ministries working on social issues like health and education are situated. Even of

this allocation, nearly 85% is for recurrent expenditure. This is due to the large size of the public sector workforce in the ministries coming under this policy priority.

All other sectors got 3% or less of the total allocation. Given that the economic activities in the country are still subdued, more public investments in VPS-6 ('people centric economic development') could have expedited economic recovery. Similarly, while developing a technology-based society is a key policy priority of the GOSL, only a marginal budget is allocated for this policy area.

**Table 1: Distribution of 2022 expenditure proposals across government policy priorities (LKR billion)**

	<b>Recurrent</b>	<b>Capital</b>	<b>Total</b>
1. Priority to national security	466	148	614
2. Friendly, non-aligned foreign policy	13	0	13
3. An administration free from corruption	1,837	1,682	3,519
4. New Constitution that fulfills the people's wishes			
5. Productive citizenry and a vibrant human resource	451	82	533
6. People centric economic development	89	80	169
7. Technology based society	3	4	6
8. Development of physical resources	33	456	489
9. Sustainable environment management	5	8	14
10. Disciplined, law abiding and values-based society	45	17	62
<b>Total</b>	<b>2,943</b>	<b>2,477</b>	<b>5,420</b>

Source: IPS calculations based on data provided by Parliament.

Note: Annex 1 gives assumptions made in allocating expenditure proposals to different policy priorities

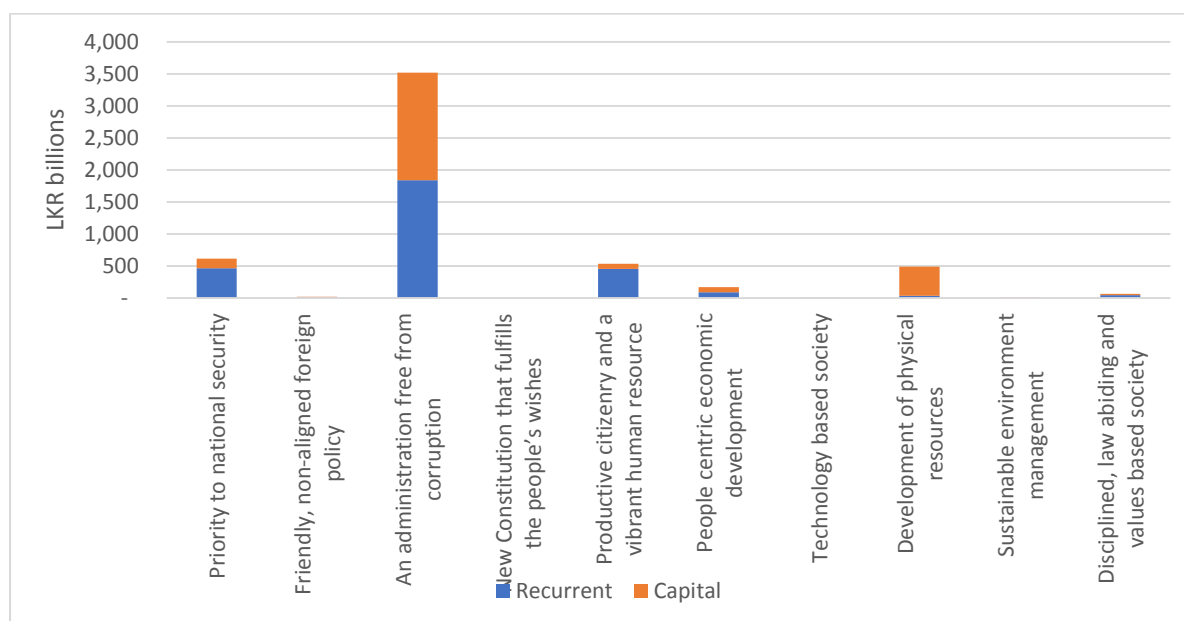
**Table 2: Distribution of expenditure including budget proposals across GOSL policy priorities**

	<b>LKR billion</b>	<b>Per cent distribution (%)</b>	<b>As a % of GDP 2022</b>
1. Priority to national security	614	11.3	3.3
2. Friendly, non-aligned foreign policy	13	0.2	0.1
3. An administration free from corruption	3,519	64.9	19.0
4. New Constitution that fulfills the people's wishes		-	-
5. Productive citizenry and a vibrant human resource	533	9.8	2.9
6. People centric economic development	169	3.1	0.9
7. Technology based society	6	0.1	0.0
8. Development of physical resources	489	9.0	2.6
9. Sustainable environment management	14	0.2	0.1
10. Disciplined, law abiding and values-based society	62	1.2	0.3
<b>Total</b>	<b>5,420</b>	<b>100.0</b>	<b>29.3</b>

Source: IPS calculations based on data provided by Parliament.

Note: Annex 1 gives assumptions made in allocating expenditure proposals to different policy priorities. Gross Domestic Product (GDP) in 2022 is assumed to be LKR 18,511 billion, based on information provided by the Ministry of Finance.

**Figure 1. Distribution of expenditure including budget proposals across GOSL policy priorities (%)**



Source: IPS calculations based on data provided by Parliament.

Table 3 shows distribution of government expenditure across functional classifications. As can be seen other than for the functions of education, economic services and agriculture and irrigation, expenditure as a share of GDP has decreased on all other functions from 2021 to 2022. This is mainly due to increase in interest payments from 2021 to 2022. This indicates that public investments are undermined by availability of fiscal space, indicating a strong need for reducing budget deficits through streamlining government expenditure and increasing revenue.

**Table 3: Distribution of government expenditure across functional classifications**

Item	2021 Revised Estimates		2022 Estimates		Change 2021 to 2022
	LKR million	% GDP	LKR million	% GDP	% GDP
Total Expenditure	4,015,045	24.37	3,888,100	21.00	-3.37
General Public Services	76,448	0.46	56,300	0.30	-0.16
<i>Civil Administration</i>	608,813	3.70	612,184	3.31	-0.39
Defence	379,526	2.30	370,696	2.00	-0.3
Police and Public Security	102,686	0.62	107,863	0.58	-0.04
Social Services	740	0.00	755	0.00	0
Education	165,913	1.01	193,315	1.04	0.03
Health	176,638	1.07	168,006	0.91	-0.16
<i>Welfare</i>	414,230	2.51	299,891	1.62	-0.89
Community Services	23,351	0.14	17,993	0.10	-0.04
Economic Services	43,565	0.26	49,343	0.27	0.01
Agriculture and Irrigation	104,923	0.64	124,349	0.67	0.03
Energy and Water Supply	108,051	0.66	51,205	0.28	-0.38

Transport and Communication	80,929	0.49	65,741	0.36	-0.13
Other	752,232	4.57	654,612	3.54	-1.03
o/w Interest Payments	977,000	5.93	1,115,847	6.03	0.1

Source: IPS calculations based on data provided by Ministry of Finance.

#### 4. Sectoral Allocations of Budget 2021 Against GOSL Policy Priorities

##### 4.1 Foreign policy – (VPS-2)

GOSL budget allocations for foreign policy are reserved for the Foreign Ministry and the State Ministry of Regional Cooperation. The Ministry of Regional Cooperation was created in 2020, and it functions under the policy guidance of the Foreign Ministry. The VPS identifies the need for fostering relations with the South Asian Association for Regional Cooperation (SAARC) and Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). The budget allocations for foreign policy-related ministries for the 2022 financial year with comparable allocations for 2021 shows that there is a 1.8% increase in the allocated funds to the Foreign Ministry and State Ministry of Regional Cooperation in 2022 compared to 2021. As a percentage of GDP, allocations for both ministries are less than in 2021 (Table 4). The two Ministries with foreign policy responsibilities are allocated 0.344% of the 2022 budget expenditure.

**Table 4: Budget allocation for foreign affairs, by ministry (LKR million)**

	2021			2022			2021	2022
	Recurrent	Capital	Total	Recurrent	Capital	Total	% of GDP	% of GDP
Foreign Ministry	12,363	487	12,850	12,668	460	13,128	0.078	0.071
State Ministry of Regional Cooperation	147	13	160	113	7	120	0.001	0.001

Source: Appropriation bills for 2021 and 2022

The relevance of Budget 2022 proposals to foreign policy is in the trade-foreign policy and investment-foreign policy nexus. The Budget Speech 2022 highlighted the importance of achieving a USD 6,000 million surplus in exports, tourism, and revenues from foreign employment by 2027. In addition, the importance of developing health and education sectors to provide services to foreign consumers was mentioned. The two ministries have crucial roles in promoting investment opportunities among the international community, seeking export opportunities, analyzing the trends and developments of the foreign countries that Sri Lanka can capitalize on, and facilitating trade integration through viable trade agreements. The Budget Speech 2022 also highlighted Sri Lanka's expanded diplomatic relations with the bilateral and multilateral agencies. The aim of expanded diplomatic relations is to ensure non-aligned and friendly international relations, aligned with the national policy framework. As stipulated in VPS, developing a solid trade relationship with Asian countries will help to increase exports.

As specific programmes and allocation of funds are not suggested, the assumption might be that the two ministries increase the efficiency of existing operations in achieving the related goals presented by the Budget. In addition, the Sri Lanka diplomatic missions abroad may witness increased demand for services due to the COVID-19 impact by Sri Lankan employees as well as potential tourists, increasing pressure on available resources. Overall, there is a marginal increase in the allocated funds to the Foreign Ministry and State Ministry of Regional Cooperation in 2022 compared to 2021. Nevertheless, as noted above, percentage of GDP wise, there is a slight reduction of the allocations that may call for increased operational efficiency to ensure outcome levels are not negatively affected.

#### 4.2 Productive citizenry (Health) – (VPS 5)

GOSL health sector spending is carried out by the Ministry of Health and three other state ministries, namely: 1) State Ministry of Indigenous Medicine Promotion, Rural and Ayurvedic Hospitals Development and Community Health, 2) State Ministry of Production, Supply and Regulation of Pharmaceuticals, and 3) State Ministry of Primary Health Care, Epidemics and COVID Disease Control. The budget allocation for the health sector is given in the Table 5. The total allocation for the health sector is LKR 239,738 million, amounting to 1.3% of GDP in 2022. This is a reduction compared with the respective value for 2021 (1.8 % of GDP).

The government’s total allocation for the health sector for 2022 amounts to 4.4% of the total expenditure by the government. In percentage terms, it is a reduction compared to the respective value for 2021 (2021 allocation on the health sector accounted for 5.7% of the total government expenditure).

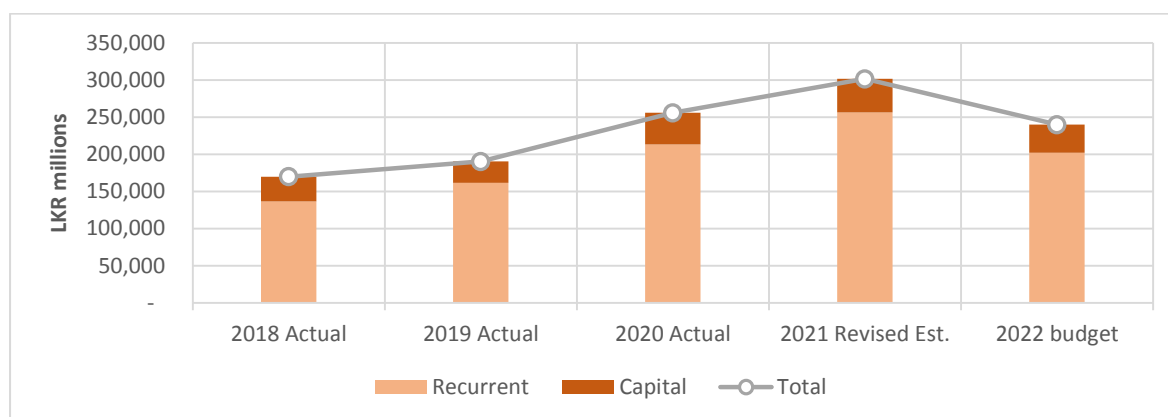
**Table 5: Health sector allocation across ministries – 2022 (LKR million)**

Ministry/ State Ministry	Recurrent	Capital	Total
Ministry of Health	121,529	37,000	158,529
State Ministry of Indigenous Medicine Promotion, Rural and Ayurvedic Hospitals Development and Community Health	2,179	100	2,279
State Ministry of- Production, Supply and Regulation of Pharmaceuticals	65,730	400	66,130
State Ministry of Primary Health Care, Epidemics and COVID Disease Control	12,650	150	12,800
Total	202,088	37,650	239,738

Source: Appropriation Bill for financial year, 2022 (amounts include Budget Proposals 2022)



**Figure 2: Health sector budget allocation – 2018-2022**



Sources: Approved Budget Estimates 2020, Budget Estimates (Draft) 2022, Appropriation Bill 2022 (2022 figures include the amounts allocated by the budget speech)

As shown in Figure 2, total allocation on the health sector has decreased by 20.5% from 2021 to 2022. The reduction can be observed both in recurrent and capital expenditure (a decline of 21% in recurrent expenditure and a decline of 16% in the capital expenditure).

### Health sector budget allocation based on GOSL policy

VPS recognizes health as one of the main pillars of human capital development and all dimensions of health (physical, mental, social wellbeing, and spiritual wellbeing). In line with the VPS, the Budget 2022 identifies the importance of having a healthy and intelligent human resource pool for the development of the country, especially in the context of challenges related to the COVID-19 pandemic. The Budget 2022 has proposed some of new programmes with the intention of meeting the objectives set by VPS (Table 6).

**Table 6: Health sector allocation, by policy priority and programme**

Policy priority	Allocations for new proposals
Development of health/indigenous medicine/ to address children’s issues and mental health development	Allocation of LKR 5,000 million in addition to the already allocated LKR32,650 million for the development of agencies that continue children’s and maternal clinics, rural hospitals, dispensaries, offices of Medical Officers of Health, Ayurvedic dispensaries, yoga, and clinics for mental health.
Maternal and child nutrition	Extending the provision of the nutrition basket for pregnant mothers which is valued at LKR 10,000 each, for a period of 24 months from the current 10 months. Accordingly, apart from the existing allocation for this programme, a further LKR 1,000 million is to be allocated.
Reducing district level disparities identified in health facilities	To provide required lands and tax concessions to encourage investors to establish a hospital in every district. However, further details on this initiative are not mentioned in the Budget Speech.

Source: Budget Speech, 2022.

### 4.3 Productive citizenry (Education) - (VPS 5)

GOSL education sector allocations are reserved for the Ministry of Education (MOE) and four other state ministries, namely: 1) Women and Child Development Pre-Schools and Primary Education, School Infrastructure and Education Services; 2) Skills Development, Vocational Education, Research and Innovation; 3) Dhamma Schools, Pirivenas and Bhikkhu Education; 4) Education Reforms, Open Universities and Distance Learning Promotion. The descriptive statistics of budget allocation across ministries are detailed in Table 7.

The total amount allocated to education (LKR 208,060 million) will amount to 1.1% of GDP in 2022. Further, the education sector budget accounts for almost 3.8% of the budget share, which is a little higher than the previous year's budget share (i.e. around 3.6% in 2021). Overall, the education sector allocation accounts for a 13% growth when compared to the allocations for 2021, whereas 24% growth is proposed under the line ministry MoE allocations (see Table 7). This increase mainly counts towards the additional allocation of LKR 30,000 million to eliminate the Teacher-Principal salary anomalies.

**Table 7: Education sector allocation, by ministry (LKR million)**

Ministry/State Ministry	2018	2019	2020	2021 RE	2022 E	2021-2022 % change
Ministry of Education	126,336	134,431	120,226	130,939	162,905	24
State Ministry of Women and Child Development Pre-Schools and Primary Education, School Infrastructure and Education Services	343	360	34,082	30,743	23,805	(23)
State Ministry of Skills Development, Vocational Education, Research and Innovation	-	-	2,149	3,293	2,115	(36)
State Ministry of Dhamma Schools, Pirivenas and Bhikkhu Education	2,077	2,058	12,174	13,878	14,360	3
State Ministry of Education Reforms, Open Universities and Distance Learning Promotion	-	-	4,529	4,931	4,875	(1)
Total	128,756	136,849	173,160	183,784	208,060	13

Note: RE - revised estimate, E- estimate.

Source: Updated Budget 2022 estimates submitted by MOF; Budget Estimates 2018-2021.

## Education sector allocation based on GOSL policy

Budget proposals for 2022, are aligned with the VPS policies in achieving ‘a knowledge-based economy through human resource development’. Accordingly, the Budget proposal includes additional allocations for several programmes to improve the education sector at different levels (see Table 8).

In line with the VPS policies, Budget 2022 has recognized the importance of reducing education sector disparities. Accordingly, the Budget proposes an additional allocation of LKR 5,300 million to accelerate the 1,000 National School programme and other developments in the education sector. This is a welcome allocation. Further, the Budget proposes to invest in providing fibre optic connections covering all schools; however, funding for this programme is not mentioned under the proposals. Intending to reduce disparities, the Budget proposes to provide required lands and tax concessions to encourage investors to establish international schools at the regional level. But, it is not clear how children from poor households will have access to better quality education facilities through international schools. Also, regulation would be needed to ensure that such international schools are meeting expected quality standards.

Achieving a skilled society requires quality vocational and technical training. The Budget proposals correctly identify the importance of improving the quality of technical and technological education in the country. It proposes additional allocation to provide facilities for technical education and city universities and improve the existing facilities for vocational training for school leavers. The policy towards a skilled society through improving the facilities for vocational and technical training is commendable; however, the allocated budget for achieving this objective is limited. For instance, the proposed budget allocation for the State Ministry of Skills Development is 36% less than the previous year’s allocation (see Table 8).

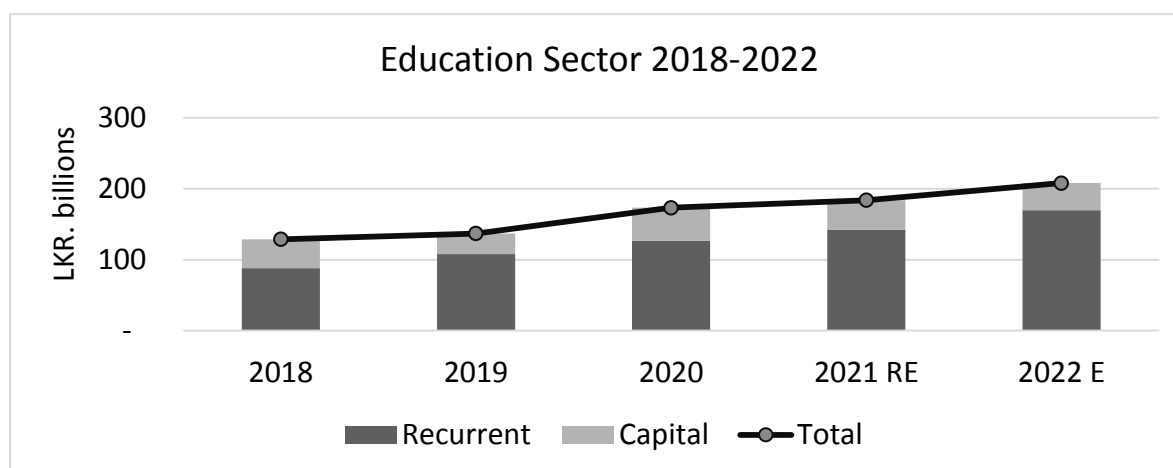
Given that additional allocations for the education sector are mostly allocated to the MOE under recurrent expenditure, the allocated funds are probably not sufficient to improve the required facilities of education. Moreover, the capital allocation for the education sector in 2022 is around LKR 38 billion. This is less than what was allocated in 2020 (LKR 46 billion) and 2021 (LKR 41 billion).

**Table 8: Education sector allocations, by programme and policy priority**

Policy priority	Allocation for new proposals
Re-awakening of school education	Development of 1,000 National Schools in DS divisions where there is no National School and upgrade the facilities of secondary schools – additional allocation LKR 5,300 million
	To provide fibre optic connections covering all schools.
Towards a skilled society	To provide facilities for technical and technological education and city universities and to improve the existing facilities for vocational and technical skills after school education -- LKR 2,000 million
Creation of energetic, healthy and disciplined nation	To develop sports facilities in villages and school playgrounds, and indoor sports facilities -- LKR 3,000 million

Source: Budget Speech 2022.

**Figure 3: Education sector budget allocation – 2018-2022**



Sources: IPS compilation based on updated Budget 2022 estimates submitted by MOF and Budget Estimates 2018-2021

**Table 9: Youth and Sports sector allocation, by ministry (LKR million)**

Ministry/State Ministry	2018	2019	2020	2021 RE	2022 E	2021-2022 % change
Ministry of Youth and Sports	5,962	4,397	5,939	11,764	8,574	(27)
State Ministry of Rural and School Sports Infrastructure Improvement	0	0	956	3,370	1,867	(45)
Total	5,962	4,397	6,895	15,134	10,440	(31)

Source: Updated Budget 2022 estimates submitted by MOF; Budget Estimates 2018-2021

The Budget proposes an additional allocation of Rs. 3,000 million to develop sports facilities in villages, school playgrounds and indoor sports facilities. This proposal is in line with the creation of an energetic, healthy and disciplined nation VPS policy. Nevertheless, the 2022 allocation is lower by about 30% when compared to the 2021 allocations (see Table 9).

#### 4.4 Economic development (Industry) – (VPS 6)

As shown in the Table 10, the industry sector funds are utilized by the Ministry of Industry, the State Ministry of Development of Minor Crops, Plantation including Sugarcane, Maize, Cashew, Pepper, Cinnamon, Cloves, Betel Related Industries and Export Promotion, State Ministry of Batik, Handloom and Local Apparel Products, State Ministry of Rattan, Brass, Pottery, Furniture and Rural Industrial Promotion, and State Ministry of Gem and Jewelry Related Industries and Ministry of Tourism. The total industry sector budget allocation is LKR 15,251 million which amounts to 0.082% of 2022 GDP. In 2021, the industry sector budget allocation as a percentage of GDP was 0.075%. This indicates a marginal increase in the year of 2022 as a percentage of GDP.

**Table 10: Industry sector budget allocation across Ministries (LKR million)**

Ministry/State Ministry	Recurrent	Capital	Total
Ministry of Industries	1,142	6,500	7,642
State Ministry of Development of Minor Crops Plantation including Sugarcane, Maize, Cashew, Pepper, Cinnamon, Cloves, Betel Related Industries and Export Promotion	1,246	1,400	2,646
State Ministry of Batik, Handloom and Local Apparel Products	535	1,225	1,760
State Ministry of Rattan, Brass, Pottery, Furniture and Rural Industrial Promotion	939	1,150	2,089
State Ministry of Gem and Jewellery Related Industries	161	30	191
Ministry of Tourism	678	244	923
Total	4,701	10,549	15,251

Source: Appropriation Bill for financial year, 2022

In 2022, the total budget allocation is LKR 15,251 million which indicates an increase of nearly 23% when compared to the previous year. In 2021, recurrent expenditure was 0.029% of GDP and capital expenditure was 0.046% of GDP. In 2022, these are expected to be 0.025% and 0.057%, respectively.

### Industry sector allocation based on GOSL policy

The Budget 2022 proposals have identified the importance of improving small and medium industries (SMIs) as envisaged in the VPS. There are two new proposals introduced, especially to develop the cottage and textile industries, including handloom and batik. LKR 5,000 million is allocated to develop SMI industry zones. To enhance the industry sector contribution to national production, the 2022 Budget proposes to develop infrastructure facilities for new product investment zones which is also a proposal included in the VPS.

**Table 11: Industry sector budget allocation, by policy priority and programme**

Policy priority	Allocations for new proposals
SMI with value addition	Development of cottage industries – LKR 1,000 million
	Development of textile industries including handloom and batik – LKR 1,000 million
	Small and medium scale industry zones – LKR 5,000 million
Create a conducive business environment for the business community	Infrastructure facilities for new product investment zones – LKR 5,000 million

Source: Budget Speech 2022.

## 4.5 Economic development (Agriculture) – (VPS 6)

Agriculture based sectors of crops, livestock, plantations, and fisheries are handled by multiple institutions. Budget allocations are distributed across several Ministries and State Ministries see (Table 12).<sup>1</sup> For ease of analysis, the sectors are grouped as follows: Crops and Livestock, Plantations and Fisheries. Crops refer to non-plantation crops since major export plantation crops such as tea, rubber and coconut are traditionally handled by separate ministries. These sectors fall under the GOSL policy area ‘people centric economic development’, which only received a 3.12% allocation in the Appropriation Bill.

**Table 12: Budget allocations to agriculture-based sectors 2022 (LKR millions)**

Sector	Ministry	Recurrent	Capital	Total
Agriculture (Crops & Livestock)	Ministry of Agriculture	16,248	23,557.1	33,395.1
	State Ministry of Domestic Animal Husbandry & Minor Economic Crop	233.3	292	525.3
	State Ministry of Paddy and Organic Fertilizer	43,582.22	2,216	45,798.22
	State Ministry of Livestock	973.1	1,800	2,773.1
Plantations	Ministry of Plantations	990	10,059	11,049
	State Ministry of Company Estate Reform	1,405	2,300	3,705
	State Ministry of Coconut	948	600	1,548
	State Ministry of Development of Minor Crops	1,246	1,400	2,646
Fisheries	Ministry of Fisheries	871.9	1,300	2,171.9
	State Ministry of Ornamental & Inland Fish	1,456.45	375	1,831.45
Total		62,698	41,001	103,700

Source: Appropriation Bill for financial year 2022.

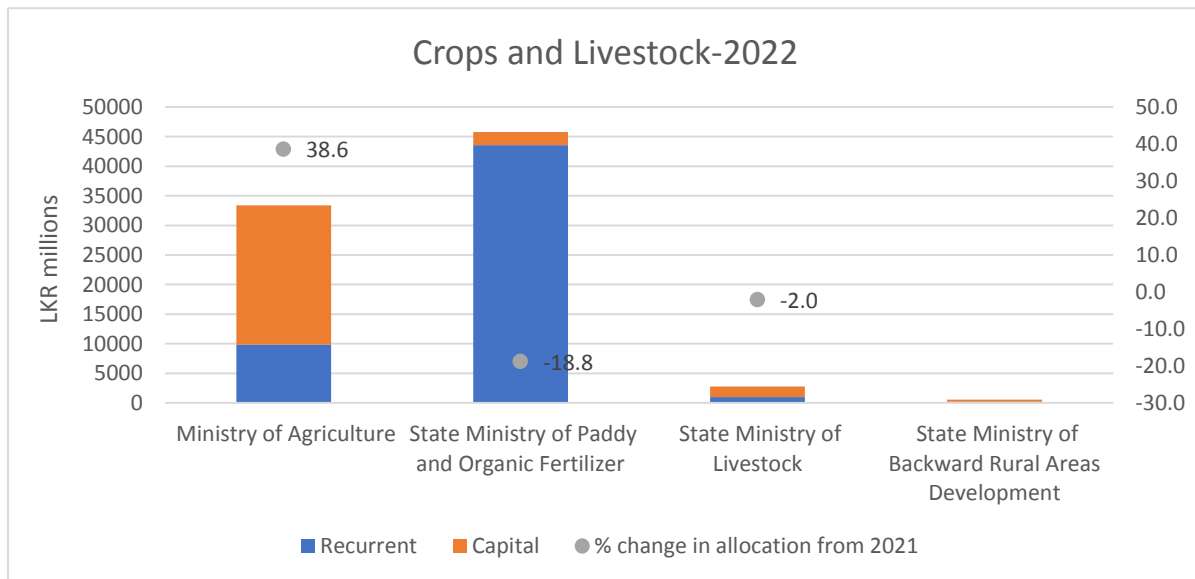
### 4.5.1 Agriculture Crops and Livestock

Budget allocations to this sector have experienced a slight improvement in 2022. Allocations to the Ministry and three State Ministries collectively have improved only by 1.7% from the 2020 budget allocations. Further, expenditure allocations to the State Ministry of Paddy and fertilizer and the State Ministry of Livestock have declined. Despite of the decline of recurrent expenditure allocation, overall expenditure allocations to the Agriculture Ministry has grown by 38.6% due to the significant growth in capital expenditure allocations. Also, 0.6% of the total agriculture crops and livestock expenditure budget has been allocated to the newly created State Ministry of Domestic Animal Husbandry & Minor Economic Crop.

<sup>1</sup> Comparative to the previous year, there is a slight change in the Ministerial structure with the State Ministry of Paddy and State Ministry of Fertilizer have been amalgamated and a new State Ministry has been created as State Ministry of Domestic Animal Husbandry & Minor Economic Crop.

Further, the 2022 Budget Speech mentions several proposals pertaining to the crop sub-sector such as Rs. 5,000/ha grant for using non-toxic weedicides and Rs. 5,000 million to introduce new technology. Also, there are further allocations of Rs. 35,000 million to provide start-up working capital to produce organic fertilizers and pesticides and Rs.17,005 million for new technology in the Appropriation Bill. Proposals have been made to further investment in the livestock sector with an expenditure allocation of Rs. 1,000 million. However, it is not clear whether the investments include provisions to cover the problem of quality breeds/ breeding methods and feed.

**Figure 4: Budget allocation for crop and livestock sector**



Source: Appropriation Bills financial years 2021 & 2022

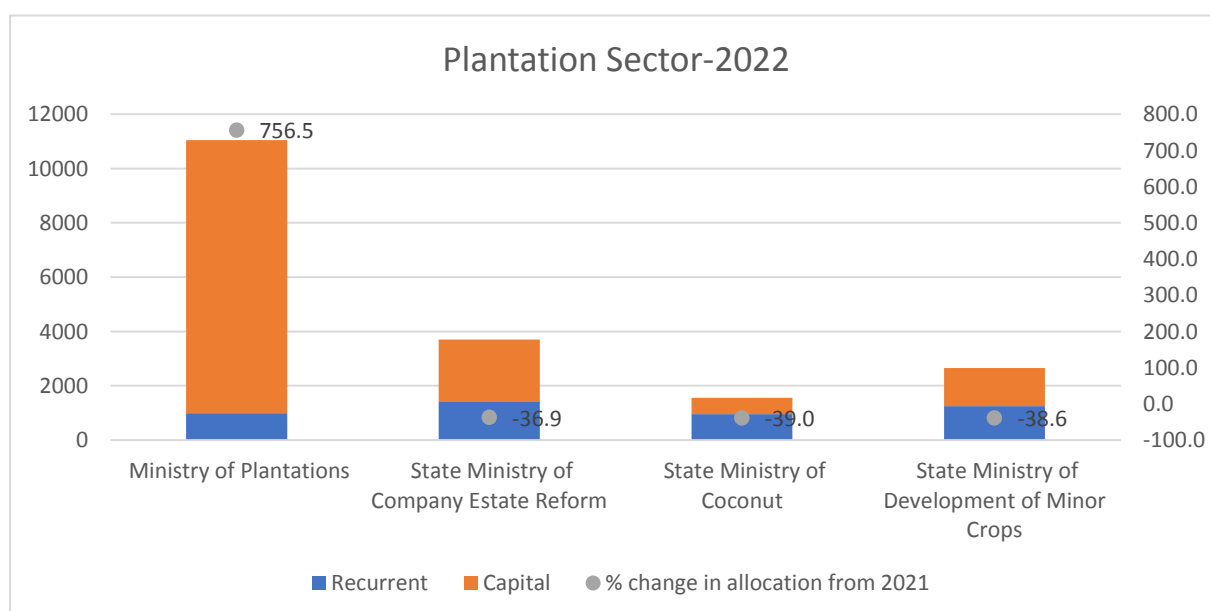
Budget proposals for 2022, are aligned with the VPS policy in guaranteeing the people’s right to safe and nutritious food through revolutionizing use of fertilizer and advanced technology. VPS policy direction was to accelerate the production of organic fertilizer to encourage entire Sri Lankan agriculture to use organic fertilizers during a period of ten years. Giving more prominence to organic fertilizer, weedicides, and pesticides production locally in the Budget proposals 2022 and allocating the largest share from the crop agriculture expenditure to the State Ministry of Paddy and Organic Fertilizer are understandable given the fast-tracked approach to ban chemical fertilizer and agro-chemicals recently.

Nevertheless, there are no provisions for R&D, extension, standards, and certification which are very important constituents of the organic agriculture promotion programme. Also, it does not specifically mention expenditure items in line with GOSL policy priorities and allocating expenditure items in the budget to specific crop agriculture activities and technologies have not taken place. Therefore, more focused policy attention is needed in this sector in promoting organic fertilizer as well as introducing technology. Also, issues faced by the sector during COVID-19 related lock downs and thereafter indicate the need for making improvements throughout the agriculture value-chain to address the issues such as poor access to quality seed, climate disasters, animal damages to crops, and marketing issues which haven’t been addressed sufficiently from the Budget 2022

#### 4.5.2 Plantations Sector

The plantations sector has also experienced a significant improvement of its budget allocations, which is significantly greater than the crop and livestock agriculture sector. The expenditure item allocated to this sector in the Budget is an additional allocation of Rs. 10,000 million for activities like replanting, gap filling, new plantations, increasing water supply, and encouraging private investment to increase foreign exchange earnings with the aim of modernizing plantation sector and providing relief for the sector. This is a great move given that this is a major export earner for the country and GOSL focus on reducing the trade deficit through exports that are less dependent on imports as specified in the VPS. Also, there is a proposal to introduce new laws on the usage of lands owned by plantation companies which has to be done with consultation of all the stakeholders to minimize the negative impact on the industry.

**Figure 5: Budget allocation for plantation sector**



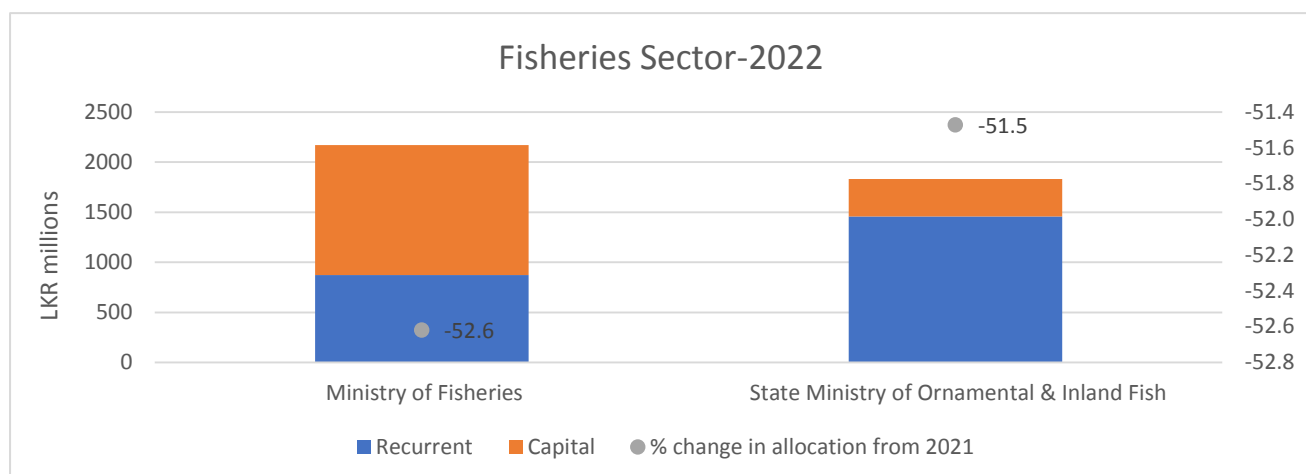
Source: Appropriation Bill for financial years 2021 & 2022.

#### 4.5.3 Fisheries Sector

Strengthening the fisheries sector to achieve nutrition for the people, food security, foreign exchange earnings, employment and livelihood opportunities, poverty alleviation, and large contribution to the national and the rural economy is a key priority in the GOSL as clearly articulated in VPS. However, allocations have declined by 50% from the previous year to the sector. The only allocation specified in the expenditure proposals is Rs. 1,000 million for fisheries and aquaculture development. This amount may be allocated to expand the facilities for marine fishing and releasing fingerlings into freshwater reservoirs to encourage the production of processed fish, dried fish, Maldivian fish, and canned fish as per the budget speech. Despite the decline in budget allocation to the sector, above proposals are inline with the VPS promises to introduce scientific methods to increase fish population and modernization of fishery harbours and fishing craft facilities.



**Figure 6: Budget allocation for fishery sector**



Source: Appropriation bills financial years 2020 & 2021

#### 4.6 Social Welfare/ Security/ Women and children – (VPS 5)

This section primarily analyses the budgets of the (1) State Ministry of Samurdhi, Household Economy, Micro Finance, Self- Employment and Business Development and the (2) State Ministry of Women and Child Development, Pre-schools and Primary Education, School Infrastructure and Education Services

##### 4.6.1 Social Welfare - State Ministry of Samurdhi

The GOSL's primary social welfare programme, Samurdhi, comes under the purview of the State Ministry of Samurdhi Household Economy, Micro-finance, Self-Employment and Business Development (hereinafter referred to as State Ministry of Samurdhi). The Ministry budget includes the budget of (i) the Department of Samurdhi that accounts for the largest share of the budget of this State Ministry. In addition, it includes the budget for (i) the State Minister of Samurdhi Household Economy, Micro Finance, Self-Employment and Business Development, which too covers a number of welfare programs including assistance for kidney patients, financial assistance and other support for low-income disabled persons as well as development programs like the Grama Shakthi programme.

**Table 13: Ministry of Samurdhi allocations from 2019 to 2022 (LKR million)**

	2019	2020 (Revised Budget)	2021 (Estimate)	2022 (as per AB)	YoY change (2021 - 2022)	Growth Rate
<i>Expenditure Summary</i>	58,674	113,756	84,717	75,029	(- 9,688)	-11.44%
<i>As a share of Government Budget</i>	1.44%	2.41%	1.68%	1.46%	-0.22%	-
<i>As a share of GDP</i>	0.39%	0.71%	0.51%	0.41%	-0.11%	-

Source: Budget Estimates 2021 and Appropriation Bill 2022

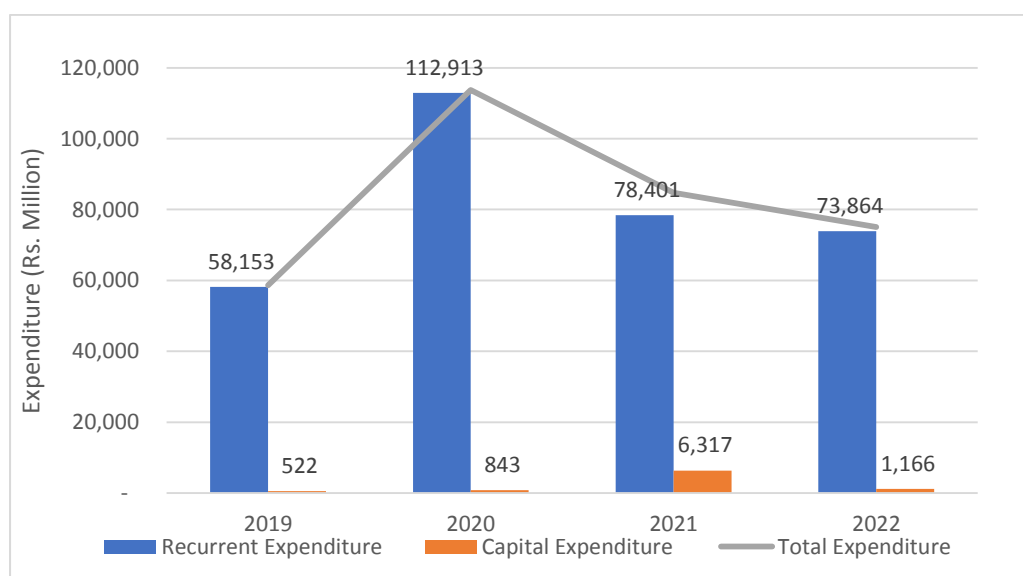
Note: Ministry of Samurdhi was formed only in 2020 and hence the 2019 budget here includes only the total budget of the Department of Samurdhi

## Budget Analysis

In 2022, the budget estimate for the State Ministry of Samurdhi is Rs 75,029 million. Of this Ministry's budget, a larger share is annually allocated to the Department of Samurdhi (As per the draft Budget Estimate 2022, this is estimated to be around 89% in 2022).

The total budget estimate of the State Ministry has shown a reduction of around 9.7 billion from its 2021 level (11.4% decline). A reduction is observed in both the recurrent and capital expenditure budget of the Ministry. In particular, the budget on capital expenditure has declined notably from Rs 6,317 million in 2021 estimate to Rs 1,166 million in 2022. This could largely be attributed to budget allocations/spending for the Saubagya National Villages Empowerment program in 2021 (and Empowerment of Integrated housing program for 200,000 Samurdhi beneficiary families in 2021<sup>2</sup>).

**Figure 7. Budget allocation for State Ministry of Samurdhi – 2019-2022**



Source: Budget Estimates 2021 and Appropriation Bill 2022

## Budget Proposals and Observations

The budget 2022 has proposed a number of reforms to the Samurdhi movement:

- (i) Without restricting the **Samurdhi movement** solely to a poor relief programme the budget 2022 proposes to transform it as a rural development movement that ensures economic revival and food security, while integrating with modern trends without just confining it to a poor-relief program.
- (ii) To select beneficiaries for social welfare and assistance programmes under a rational and scientific mechanism.
- (iii) To restructure the *Samurdhi* banking movement, budget 2022 has proposed to convert *Samurdhi* banks as one-stop shops that provide all services and facilities including financial facilities and financial advice for the development of micro and small enterprises.

<sup>2</sup> Draft Budget Estimate 2022

All these measures can be considered an important step to improve the Samurdhi program and enhance its benefits to low-income families. In particular, the proposal to select beneficiaries for the Samurdhi programme under a rational and scientific mechanism can help minimize the existing targeting errors of the Samurdhi cash assistance program and thereby bringing down its cost.

**However, the budget 2022 has not mentioned any budgetary allocations for the three reforms proposed for the Samurdhi Programme in the budget.**

**Table 14: Other budget proposals to improve welfare of the vulnerable groups including those affected by the pandemic**

Policy priority	Budget proposals	Budgetary allocation (LKR millions)
Support for Disabled persons + a society with respected senior citizens	Providing facilities for our senior citizens and persons with special needs	1,000
	Introduce an Act on the Rights of the Differently abled and launch a program for their skills and entrepreneurship development	No allocation in the budget proposal
Program of action to help poor people out of distress due to disasters (under People centric economy)	Provision of a relief basket to identified economically poor families at the GN level	15,000
Economic and Social contribution of women	Mini-supermarket program for women entrepreneurs at the GN level	15,000
Introduce nutrition programmes to address undernutrition	Extending the provision of nutrition basket for pregnant mothers for a period of 24 months from the current 10 months	1,000
Social protection – a new contributory pension scheme	to establish a <b>contributory pension scheme</b> for senior citizens who do not currently receive pensions.	No allocation in the budget proposal
Program of action to help poor people out of distress due to disasters (unemployment, loss of income) - Under People Centric Economy	Relief for micro, small and medium scale businessmen affected by the pandemic	5,000
	Relief for school van owners who lost income during the pandemic/lockdown	400
	Relief for Three Wheel owners who lost income during pandemic/ lockdown	600
	Relief for private bus owners who lost income during pandemic	1,500
	Relief to Weddings and Event Management sector affected by pandemic	500

Source: Budget Speech 2022

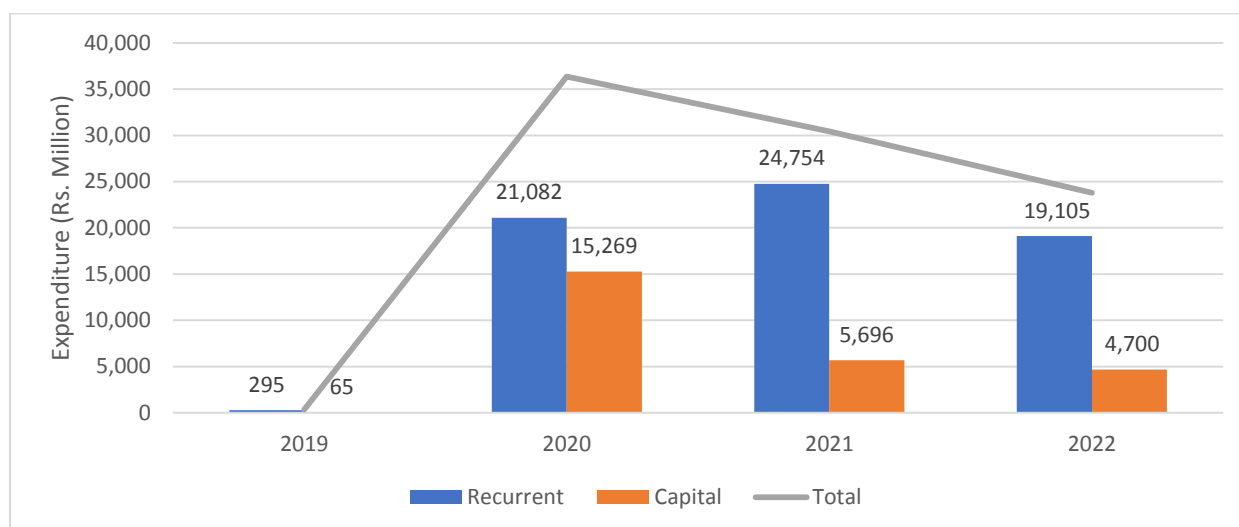
#### 4.6.2 Women and Children - State Ministry of Women and Child Development, Pre-schools and Primary Education, School Infrastructure and Education Services (hereinafter referred to as State Ministry of Women and Child Development)

**Table 15: State Ministry of Women and Child Development allocations from 2019 to 2022 (LKR million)**

	2019	2020 (Revised Budget)	2021 (Estimate)	2022 (as per AB)	YoY change (2021 - 2022)	Growth Rate
Expenditure Summary	360	36,352	30,450	23,805	(6,645)	(-21.82%)
As a share of Government Budget		0.77%	0.60%	0.46%	-0.14%	-
As a share of GDP	0.00%	0.23%	0.18%	0.13%	-0.06%	-

Source: Budget Estimates 2021 and Appropriation Bill 2022

**Figure 8. Budget allocation for State Ministry of Women and Child Development - 2019-2022**



Source: Budget Estimates 2021 and Appropriation Bill 2022

#### Budget proposals and analysis

In 2022, the budget estimate for the State Ministry of Women and Child Development is Rs 23,805 million, which is 21.6% reduction from the 2021 budget estimate of Rs 30,450 million. Both recurrent and Capital expenditure have shown a reduction since their respective levels in 2021. As per the draft Budget Estimates 2022 this decline can be attributed to the reduction in the allocations made for several welfare programs. These programs include the Morning Meal for Pre-School Children, Glass of Milk for School Children, School Uniforms and School Nutritional Food Program.

One of the key budget proposals is to extend the provision of the nutrition basket for pregnant mothers which is valued at Rs.10,000 each for a period of 24 months from the current 10 months. For this purpose, the budget 2022 proposes to allocate a further Rs 1,000 million in addition to the existing allocation for this program.

A proposal was made under Budget 2022 to introduce a program to focus on issues related to children and their mental health development; however an allocation has not been made in this regard.

#### 4.7 Technology based society - (VPS-7)

A ‘technology-based society’ is one of 10 policy priorities outlined in the VPS. It states that Sri Lanka should aim to become global innovation hub, have a citizen centric digital government, foster IT entrepreneurship and work towards a digitally inclusive Sri Lanka.

The annexures to the Budget 2022 list out the expenditure proposals along with the relevant allocations. The only allocation pertaining to the technology sector, which directly addresses the VPS policy priority of a technology-based society is the ‘digitalization of the public sector’ proposal which has been allocated an amount of LKR 500 million. Specifically, this expenditure proposal relates to the citizen centric digital government sub-priority which envisions ‘a process where people would not have to be inconvenienced – as at present, due to inefficiency, delays, and having to commute to many points of service delivery to obtain public services – when such services could be obtained via the internet.’ Further, at institutional level, the Ministry and State Ministry each covering the technological development mandate have received allocations in the Appropriation Bill 2022 (Table 16).

**Table 16: Allocations to the technology sector in Budget 2022**

Ministry	Recurrent LKR million	Capital LKR million	Total Allocation LKR million	Total Allocation % of GDP
Ministry of Technology	2,107	2,260	4,367	0.02%
State Ministry of Digital Technology and Enterprise Development	397	848	1,245	0.01%
Total	2,504	3,108	5,612	0.03%

Source: Appropriation Bill 2022 data provided by MOF

Technology is still a nascent sector with relatively small expenditure allocations in Budget 2022. The VPS-7 (‘technology-based society’) receives only 0.03% of GDP. It should be noted that in the previous Budget 2021, there were no proposals relating to the VPS priority on technology, as the relevant ministries were established newly in 2021. As such, there is potential for this sector to grow further and to receive larger budget allocations in future, in order to meet all related provisions specified in the VPS. Apart from the one technology related expenditure allocation made in Budget 2022 to digitalize the public sector, there are a few additional references to digitalization and

technology-based initiatives in the Budget Speech 2022, for which specific expenditure allocations have not been made. They are as follows:

- Conventional banks should transform themselves adopting technology matching the speed of change in new technologies. It is proposed to encourage banks to convert their branches into smart banking units using digitalization. The Central Bank is requested to introduce the required laws, regulatory framework including on capital requirements, licensing, etc.
- Proposal to install a country wide telecommunication network expeditiously covering all 10,155 schools in the country using fibre optic technology, for which the required financial and technological assistance is proposed to be provided to the Telecommunication Regulatory Commission.

The first proposal requires the Central bank to put in place the necessary legal frameworks for smart banks, but no specific expenditure allocation has been made. The second proposal states that necessary financial assistance will be provided to the TRC, although no specific allocation has been quoted.

#### **4.8 Development of Physical resources and Transport and communication – (VPS 8)**

The central government activities under the VPS 8 -- Development of Physical Resources -- focuses on a collection of activities along the plans to develop (i) Nine 'C' shaped Economic Corridors; (ii) Re-engineering Townships; (iii) Development of Cities; (iv) Comfortable Travel - Nature-Friendly Transportation Network; (v) Ports and Air Services; (vi) Transformation toward renewable energy; (vii) Water resource management; and (viii) Disaster management. The related activities are identified to be carried out by the following 15 Ministries and State Ministries: Ministry of Transport, Ministry of Highways, State Ministry of Rural Roads and other Infrastructure, State Ministry of Solar, Wind and Hydro Power Generation Projects Development, Ministry of Lands, Ministry of Urban Development and Housing, State Ministry of Urban Development, Waste Disposal and Community Cleanliness, State Ministry of Rural Housing, Construction and Building Material Industries, State Ministry of Estate Housing and Community Infrastructure, State Ministry of Coast Conservation & Low-Lying Lands Development, Ministry of Water Supply, State Ministry of Rural and Divisional Drinking Water Supply Projects Development, Ministry of Irrigation, State Ministry of Canals and Common Infrastructure Development in Settlements in Mahaweli Zones, State Ministry of Tanks, Reservoirs and Irrigation Development Related to Rural Paddy Fields.

**Table 17: Total Expenditures of Ministries as a Percentage of the Allocated Budget**

<b>Ministry/State Ministry</b>	<b>Allocation</b>	<b>% of total allocation</b>
Ministry of Transport	33,230	0.61
Ministry of Highways	270,191	4.99
State Ministry of Rural Roads and other Infrastructure	10,076	0.19
State Ministry of Solar, Wind and Hydro Power Generation Projects Development	533	0.01
Ministry of Lands	8,867	0.16
Ministry of Urban Development and Housing	16,305	0.30
State Ministry of Urban Development, Waste Disposal and Community Cleanliness	4,419	0.08
State Ministry of Rural Housing, Construction and Building Material Industries	13,001	0.24
State Ministry of Estate Housing and Community Infrastructure	2,971	0.05
State Ministry of Coast Conservation & Low-Lying Lands Development	2,782	0.05
Ministry of Water Supply	47,514	0.88
State Ministry of Rural and Divisional Drinking Water Supply Projects Development	2,140	0.04
Ministry of Irrigation	67,847	1.25
State Ministry of Canals and Common Infrastructure Development in Settlements in Mahaweli Zones	5,960	0.11
State Ministry of Tanks, Reservoirs and Irrigation Development Related to Rural Paddy Fields	3,077	0.06
<b>TOTAL of Selected ministries</b>	<b>488,913</b>	<b>9.02</b>

Source: Appropriation Bill 2022 data provided by MOF

This section examines the budgetary allocations made for 2022 against the policy priorities identified above under the theme of development of physical resources. Out of the total budget of LKR 5,419,570,000, the relevant ministries are allocated LKR 488,911,422,000. However, it is important to note that this allocation includes non-programme related activities, as well as include programs outside this VPS8, while some programs under VPS8 are considered under other ministries.

**Table 18: budget allocations for the GOSL policy priorities identified under VPS 8**

<b>Government Policy Priority under VPS 8 - Development of Physical Resources</b>	<b>Key Expectations in VPS</b>	<b>Allocations for Programs as per Budget Highlights</b>
Comfortable Travel - Nature-Friendly Transportation Network  Nine 'C' shaped Economic Corridors	To improve transport services, road network, and connectivity	Rs.2,000 million allocation for National Transport Commission, Department of Motor Traffic, Sri Lanka Transport Board and Sri Lanka Railways for modernizing and improving services.  An allocation of LKR 260,000 million for the year 2022 for the combined projects under Colombo Port Access Elevated Expressway. LKR 20,000 million will be allocated for 100,000 km of road. LKR 2000 allocated for Passenger transportation. LKR 7,000 million for urban development programmes.
Transformation toward renewable energy	Ensure that the country has access to low cost energy needed	LKR 500 million for the facilitation of encouraging private investment in Renewable Energy sector.
Water resource management	ensure 100% of the population is provided with clean and safe drinking and pipe-borne water	LKR 2,000 million to implement programmes including rehabilitation of small tanks, anicuts, canals, tank bunds and catchment areas under minor irrigation schemes.
Re-engineering Townships  Development of Cities  Nine 'C' shaped Economic Corridors	Addressing uneven urbanization and regional disparities between districts in the same province and between	LKR 2000 million for Development of urban houses. LKR 5000 million for Development of rural houses. LKR 500 million for Development of estate houses . LKR 7,000 million for Lakes and canals in flood-prone lowlands in Wattala, Jaela Katana, Gampaha and Kelaniya and also areas close to Hamilton canal will be developed in an eco-friendly manner. Also local and foreign investments will be sought.

Source: IPS compilation

Given the public investment focus in reviving the economy in under the new normal, infrastructure develop is one key area of public investment. Such investment is useful to create jobs, and could help with economic recovery.

Under the policy priority of 'water resource management', in terms of providing pipe borne water the Budget Speech indicates that "Clean drinking water is available only for 56 percent of the population". As such, the 2022, budget focuses on providing pipe-borne water connections to approximately 200,000 households and expand the community water projects, develop reservoirs and conserve water sources. At the same time the budget speech also indicates that 3,314,500 new water supply connections would be provided around the country. There appears to be lack of clarity about the number of water supply connections.



Connected to the policy priority on ‘transformation toward renewable energy’, the policy focus aims to fulfill 70% of the aggregate electricity demand through renewable energy by 2030. To achieve this ambitious target the sole allocation of LKR 500 million for the facilitation of encouraging private investment in renewable energy sector is insufficient. There needs to be greater complementary allocations provided to related areas given the high investment cost of renewable energy generation.

Housing is related to the policy priorities of ‘re-engineering townships and development of cities’. This component of the VPS is covered from all possible angles by focusing on urban, rural and estate housing as well as development of flood prone areas. Nevertheless, despite the budget speech identifying that estate sector housing as ‘pathetic’ and acknowledging the responsibility to uplift the standard of living of estate communities the allocation proposed is misleading. Specifically, for this purpose an allocation of LKR 500 million is made within the next three years to develop housing in the estate sector. As such, it is unclear how much out of this amount is allocated in 2022.

The allocation for expenditure for Development of Physical Resources is well laid out, within the scope of government policy on VPS. Compared to 2021, the total allocations made to the related 15 ministries are lower in 2022. Out of allocations for 2022 capital expenditure accounts for 93% of total expenditure. Out of total budget allocations across all ministries the group of 15 ministries focused under this VPS 8 was allocated the fourth highest component of 9%. This indicates that substantial funds are allocation towards achieving these policy priorities during the year 2022.

#### 4.9 Sustainable environmental management – (VPS-9)

The environment sector includes the Ministry of Environment, Ministry of Wildlife and Forest Conservation and, State Ministry of Wildlife Protection. The planned expenditure is LKR 13,351 million for 2022 which is a 45% increase compared to 2021 in nominal terms. The increase is mainly allocated to the Ministry of Environment and to the Ministry of Wildlife and Forest Conservation. As per the total budget estimate, the allocation is 0.25% which is a very slight increase with compared to the 2021 value of 0.19%. As a percentage of GDP, the allocation is nearly 0.07% for the year 2022.

**Table 19: Environment expenditure summary (LKR million)**

Ministry	Government Expenditure/Allocation		YoY change <sup>a</sup>
	2021 Revised (voted)	2022 Budget (including proposals)	2021-2022
Ministry of Environment	1,997	3,598	1,601 (80%)
Ministry of Wildlife and Forest Conservation	1,236	3,282	2,046 (166%)
State Ministry of Wildlife Protection	6,115	6651	536 (9%)
<b>Environment Sector total</b>	<b>9,348</b>	<b>13,531</b>	<b>4,183 (45%)</b>
As share of government budget	0.19%	0.25%	0.06%
As % of GDP	0.06%	0.07%	0.02%

Notes: a: % change in parenthesis.

Source: 2021 Draft Budget Estimate and Budget Speech, Appropriation bill 2022 including proposals

According to the government policy framework of VPS, a sustainable environment policy is identified as a key area for sustainable development. Hence, land, industries, waste management, biodiversity, settlements and cities, atmosphere, ocean resources and environmental education are covered under this key policy area. The Budget Speech identifies 2022 proposals as an extension of the concept of building a green economy. The following activities are additionally identified by budget 2022.

**Table 20: Environment sector budget allocation, by policy priority and programme**

Proposal	Allocation (LKR million)
Environment Conservation	Allocation of LKR 2,000 million. <ul style="list-style-type: none"> <li>▪ Urban forests and beautification including conservation of water, soil, noise management, solid waste management.</li> <li>▪ Conservation of 103 rivers and river valleys in the island in eco-friendly manner, conservation of eco-sensitive area of Muthurajawela as a Ramsar wetland.</li> </ul>
Forest Conservation	Allocation of LKR 2,000 million. <ul style="list-style-type: none"> <li>▪ Increase the forest cover by 30%.</li> <li>▪ Protect the catchment areas.</li> <li>▪ Removal of invasive plants and increase forest cover with beneficial plants.</li> </ul>
Wildlife Protection	Allocation of LKR 1,000 million. <ul style="list-style-type: none"> <li>▪ Small tanks are habitats are expected to be developed. While controlling the animals that damage agriculture, protecting wildlife is both our duty and responsibility.</li> </ul>

Source: Budget speech highlights, 2022

Estimated expenditure is distributed as described in Table 21. Around 61% of the allocation is for capital expenditure while the rest (39%) is allocated for recurrent expenditure. Nearly 25% of the budget allocation is for public expenditure. When compared with the total capital budgetary allocation of the country, government spends 0.33% for sustainable environment management. The public expenditure share is 0.51% of the total estimate of the country showing comparatively less engagement.

**Table 21: Environment expenditure estimates, including proposals**

Ministry/State Ministry	PE	Other	Recurrent	Capital	Total
Ministry of Environment	259	864	1,123	2,475	3,598
Ministry of Wildlife and Forest Conservation	78	129	207	3,075	3,282
State Ministry of Wildlife Protection	3,003	947	3,951	2,700	6,651
Total Environment	3,341	1,940.5	5,281.5	8,250	13,531
As a percentage of total environment expenditure	25%	14%	39%	61%	100%
Total Budget	652,444	2,290,182	2,942,626	2,476,944	5,419,570
As a percentage of the total budget	0.51%	0.08%	0.18%	0.33%	0.25%

Source: Appropriation Bill for financial year, 2022 (amounts include Budget Proposals 2022)

Budget 2022 has increased the allocation for sustainable environment management by 45% compared to the previous year in nominal terms, but it may not increase the capacity to enhance the planned activities given that the sector remains among the four areas which collectively receives less than 1% of the government budgetary allocation. Capital investment has shown a positive move expecting productive capital allocations for the sector.

As a share of GDP, the allocation is 0.06% in 2021 and estimate is 0.07% for 2022. In other countries, allocations remain relatively low; according to Eurostat, government allocations for EU countries for environmental protection varied from 0.2%-1.4% of GDP in 2019 while in India it was 0.1% of GDP in 2019. As countries grow, the allocation in quantity terms may increase.

The identified activities are aligned with the government policy framework and contribute to both conservation and environment management. Additional allocations for industries, non-solid waste management, atmosphere, ocean resources and environmental education are not visible on proposals. Some important aspects (timely) of land such as introducing scientific methods to improve sustainable agriculture, animal husbandry and plantation agriculture are also not discussed in proposals. However, recurring activities cover most of the missing aspects (marine resources, education and awareness, which continue from 2021).

## **Appreciation**

The Committee expresses its appreciation to all the Committee Members and Officials who assisted in completing this task.

## **Committee Members**

Hon. Anura Priyadharshana Yapa (Chair)

Hon. (Dr.) Bandula Gunawardana

Hon. Keheliya Rambukwella

Hon. Susil Premajayantha

Hon. Vidura Wickramanayaka

Hon. (Dr.) Sarath Weerasekera

Hon. (Dr.) Nalaka Godahewa

Hon. Vijitha Herath

Hon. Dilan Perera

Hon. Kumara Welgama

Hon. (Dr.) Harsha de Silva

Hon. Manusha Nanayakkara

Hon. M. A. Sumanthiran

Hon. (Dr.) Kavinda Heshan Jayawardhana

Hon. Mujibur Rahuman

Hon. Isuru Dodangoda  
Hon. Anupa Pasqual  
Hon. Nalin Fernando  
Hon. (Prof.) Ranjith Bandara

### **Officials Participated**

Mr. S.R. Attygalle, Secretary to the Treasury, Ministry of Finance  
Mr. Jude Nilukshan, Director General, Department of National Budget  
Ms. Anoma Nandani, Additional Director General, Department of National Budget  
Dr. Kapila Senanayake, Director General, Department of Fiscal Policy  
Ms. D. Kotinkaduwa, Director, Department of Fiscal Policy  
Mr. K.M. Kumarasiri, Deputy Director, Department of Fiscal Policy  
Mr. P. Kodippily, Assistant Director, Department of Fiscal Policy  
Dr. (Mrs) Dushni Weerakoon, Executive Director, Institute of Policy Studies of Sri Lanka  
Dr. (Mrs) Nisha Arunathilake, Director of Research, Institute of Policy Studies of Sri Lanka  
Mr. S.M.D.S.S. Rohitha, Deputy Auditor General, National Audit Office  
Mr. G.H.D. Dharmapala, Deputy Auditor General, National Audit Office  
Mr. D.A.A. Wanigasekara, Assistant Auditor General, National Audit Office

## ANNEX 1

**Table A1. Allocation of expenditure proposals (Annex IV of BS-2022) across GOSL policy priorities**

National Policy Framework	Allocating expenditure proposals across policy priorities
1. Priority to national security	36
2. Friendly, non-aligned, foreign policy	-
3. An administration free from corruption	18, 19, 44-47
4. New Constitution that fulfills the people's wishes	-
5. Productive citizenry and a vibrant human resource	22- 25, 29-31, 33, 39, 43, 45, 49
6. People centric economic development	1-9, 13, 20, 21, 40,41, 50
7. Technology based society	42
8. Development of physical resources	10-12, 14-17, 32,34,35,37,38,48
9. Sustainable environmental management	26, 27,28
10. Disciplined, law abiding and values-based society	-

Note: Numbers indicate expenditure lines (see Table A2 below).

**Table A2: Expenditure Proposals**

No.		Allocation (LKR million)
1.	Providing relief for Using organic herbicides	4,000
2.	Modernization of Agriculture	5,000
3.	Modernization of plantation sector and providing relief	10,000
4.	Fisheries and aquaculture development	1,000
5.	Livestock development	1,000
6.	Development of traditional cottage industries	1,000
7.	Development of textile industries including Handloom and Batik	1,000
8.	Infrastructure facilities for new product investment zones	5,000
9.	Small and Medium Scale Industry Zones	5,000
10.	Water for All programme	15,000
11.	<i>Vari Saubhagya</i>	20,000
12.	100,000 km roads (including estate sector roads)	20,000
13.	Development of renewable energy	500

14.	Development of Urban houses	2,000
15.	Development of rural houses	5,000
16.	Development of estate houses	500
17.	Rural Development Projects	42,063
18.	Development of local government divisions	19,668
19.	Decentralized budget	3,375
20.	Rural livelihood development	19,894
21.	Relief for Micro, Small and Medium Scale Entrepreneurs	5,000
22.	Relief for school van owners	400
23.	Relief for three-wheeler owners	600
24.	Relief for private bus owners	1,500
25.	Relief for areas of art and entertainment	500
26.	Environment conservation	2,000
27.	Forest conservation	2,000
28.	Wildlife protection	1,000
29.	Development of schools	5,300
30.	Health and indigenous medicine	5,000
31.	Development of sports facilities	3,000
32.	Minor irrigation	2,000
33.	Vocational and Technical Training	2,000
34.	Passenger Transport	2,000
35.	Court infrastructure facilities	5,000
36.	Public security, law and order	500
37.	Sanitary facilities for prisoners	200
38.	Facilities for elders and people with special needs	1,000
39.	Pregnant mothers	1,000
40.	Home economy	15,000
41.	Home shop	15,000
42.	Digitalization of the Public sector	500
43.	Motorcycles for government employees	500
44.	Removal of salary anomalies of teachers and principals	30,000
45.	Confirmation of graduate trainees	7,600
46.	Compensating the politically victimized	100
47.	Removal of anomalies of pensioners	500
48.	Maintenance of Buddhist temples	500
49.	Compensation for disappeared people	300
50.	Contribution for professional association	100
51.	Saving of expenditure	(30,000)

Source: Summary of the Budget 2021-2022, Annexure IV.

**Table A3: Assumptions made in distributing ministries across policy priorities**

<b>National policy framework</b>	<b>Distribution of ministries across policy priorities</b>
1. Priority to national security	Ministry of Defence; State Ministry of Home Affairs; State Ministry of National Security and Disaster Management; Ministry of Public Security; State Ministry of Community Police Services
2. Friendly, non-aligned, foreign policy	Foreign Minister; State Ministry of Regional Cooperation
3. An administration free from corruption	Head 1 - 25 Special Spending Units; Ministry of Finance; State Ministry of Money and Capital Market and State Enterprise Reforms; State Ministry of Vehicle Regulation, Bus Transport Services and Train Compartments and Motor Car Industry; Ministry of Public Services, Provincial Councils and Local Government; State Ministry of Provincial Councils and Local Government; State Ministry of Aviation and Export Zones Development
4. New Constitution that fulfills the people's wishes	
5. Productive citizenry and a vibrant human resource	State Ministry of Samurdhi Household Economy, Micro-finance, Self-Employment and Business Development; Ministry of Health State Ministry of Indigenous Medicine Promotion, Rural and Ayurvedic Hospitals Development and Community Health State Ministry of Production, Supply and Regulation of Pharmaceuticals; State Ministry of Primary Health Care, Epidemics and COVID Disease Control; Ministry of Education; State Ministry of Women and Child Development, Pre-Schools and Primary Education, School Infrastructure and Education Services; State Ministry of Education Reforms, Open Universities and Distance Learning Promotion; State Ministry of Skills Development, Vocational Education, Research and Innovation; State Ministry of Dhamma Schools, Pirivenas and Bhikkhu Education; Ministry of Youth and Sports State Ministry of Rural and School Sports Infrastructure Improvement
6. People centric economic development	Ministry of Economic Policies & Plan Implementation; Ministry of Energy; Ministry of Trade; State Ministry of Cooperative Services, Marketing Development and Consumer Protection; Ministry of Agriculture State Ministry of Backward Rural Areas Development and Promotion of Domestic Animal Husbandry & Minor Economic Crop Cultivation; State Ministry of Promoting the production & Regulating the supply of Organic Fertilizer, and Paddy & Grains, Organic Foods, Vegetables, Fruits, Chilies, Onion and Potato Cultivation Promoting, Seed Production and Advanced Technology Agriculture; State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries; Ministry of Power; Ministry of Plantation; State Ministry of Company Estate Reforms, Tea and Rubber Estates Related Crops

	<p>Cultivation and Factories Modernization and Tea and Rubber Export Promotion; State Ministry of Coconut, Kithul and Palmyrah Cultivation Promotion and Related Industrial Product Manufacturing and Export Diversification; State Ministry of Development of Minor Crops Plantation including Sugarcane, Maize, Cashew, Pepper, Cinnamon, Cloves, Betel Related Industries and Export Promotion; Ministry of Industries; State Ministry of Batik, Handloom and Local Apparel Products; State Ministry of Rattan, Brass, Pottery Furniture and Rural Industrial Promotion; State Ministry of Gem and Jeweler related Industries; Ministry of Fisheries; State Ministry of Ornamental Fish, Inland Fish and Prawn Farming, Fishery Harbour Development, Multiday Fishing Activities and Fish Exports; Ministry of Tourism</p> <p>Ministry of Development Co-ordination and Monitoring; Ministry of Ports and Shipping; State Ministry of Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development; Ministry of Labour; State Ministry of Foreign Employment Promotion and Market Diversification</p>
7. Technology based society	Ministry of Technology; State Ministry of Digital Technology and Enterprise Development
8. Development of physical resources	<p>Ministry of Transport; Ministry of Highways; State Ministry of Rural Roads and other Infrastructure; State Ministry of Solar, Wind and Hydro Power Generation Projects Development; Ministry of Lands</p> <p>Ministry of Urban Development and Housing</p> <p>State Ministry of Urban Development, Waste Disposal and Community Cleanliness; State Ministry of Rural Housing, Construction and Building Material Industries; State Ministry of Estate Housing and Community Infrastructure; State Ministry of Coast Conservation &amp; Low-Lying Lands Development; Ministry of Water Supply; State Ministry of Rural and Divisional Drinking Water Supply Projects Development; Ministry of Irrigation; State Ministry of Canals and Common Infrastructure Development in Settlements in Mahaweli Zones; State Ministry of Tanks, Reservoirs and Irrigation Development Related to Rural Paddy Fields</p>
9. Sustainable environmental management	Ministry of Environment; Ministry of Wildlife and Forest Conservation; State Ministry of Wildlife Protection, Adoption of Safety Measures Including the Construction of Electrical fences and Trenches and Reforestation and Forest Resource Development
10. Disciplined, law abiding and values-based society	Ministry of Buddha Sasana, Religious and Cultural Affairs; State Ministry of National Heritage, Performing Arts and Rural Arts Promotion; Ministry of Mass Media; Ministry of Justice; State Ministry of Prison Management and Prisoners' Rehabilitation

Source: IPS compilations



**Table A4. Distribution of 2022 expenditure proposals across government policy priorities (% of total)**

	<b>Recurrent</b>	<b>Capital</b>	<b>Total</b>
1. Priority to national security	15.8	6.0	11.3
2. Friendly, non-aligned foreign policy	0.4	0.0	0.2
3. An administration free from corruption	62.4	67.9	64.9
4. New Constitution that fulfills the people's wishes	0.0	0.0	0.0
5. Productive citizenry and a vibrant human resource	15.3	3.3	9.8
6. People centric economic development	3.0	3.2	3.1
7. Technology based society	0.1	0.1	0.1
8. Development of physical resources	1.1	18.4	9.0
9. Sustainable environment management	0.2	0.3	0.2
10. Disciplined, law abiding and values-based society	1.5	0.7	1.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: IPS calculations based on data provided by Parliament.

Note: Annex 1 gives assumptions made in allocating expenditure proposals to different policy priorities.