

State of The Budget Report 2022

Assessment on whether the expenditure allocations and taxation policies are in line with the government's policy

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March 2022

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Verité Research has contributed to the Committee on Public Finance's Budget Reports in the past with an objective of assessing whether expenditure allocations and taxation policies are in line with government policy. To maintain consistency in the analysis, the same structure has been used as much as possible.

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Contents

Glossary of Terms	5
Section I: Introduction to the Report	6
1.1 Background.....	6
1.2 Constraints and Qualifications.....	6
1.3 Overview.....	6
Section II: Sri Lanka’s Fiscal Position	9
2.1 Revenue.....	9
2.2 Expenditure.....	16
2.3 Debt.....	20
Section III: Budgetary Practices by the Sri Lankan Government	24
3.1 Budgetary Practices.....	24
3.2 Poor Fund Allocation and Management of Large-Scale Development Projects.....	26
3.3 Discretionary Budget.....	29
3.4 Supplementary Estimates.....	35
Section IV: Sectoral Allocations	37
4.1 Health Sector.....	37
4.2 Education Sector.....	45
4.3 Power and Energy Sector.....	50
4.4 Agriculture, Irrigation and Fisheries Sector.....	54

Glossary of Terms

Appropriation Act: Contains all the proposals of the Appropriation Bill and Budget Speech and is voted on and passed by Parliament. This contains the final approved version of the expected government expenditure for the upcoming year.

Appropriation Bill: Contains the bulk of expected government expenditure and is presented to Parliament typically a month ahead of the Budget Speech reading in Parliament. Presentation of the bill in Parliament is also known as the first reading of the budget for the upcoming year.

Budget Estimates: Provides the most detailed breakdown of government expenditure through a project/programme breakdown by department and special spending unit.

Budget Speech: Contains the Finance Minister's new expenditure and revenue proposals which are not included in the Appropriation Bill. Also known as the second reading of the budget for the upcoming year.

Committee on Public Finance (COPF): One of three parliamentary legislative committees that evaluates external audit reports and other public finance information. COPF is mandated to analyse public finance policy over the course of the year, assessing budget concerns regarding revenue collection, expenditure through the Consolidated Fund, public debt servicing and other aspects of public finance.

Fiscal Management Report: Provides information on the macro indicators, local and global markets, fiscal developments, and performance of State-Owned Enterprises. Information is typically provided till August of each fiscal year for most indicators. It further contains the Medium-Term Fiscal Strategy and the basis used for the preparation of the annual budget.

Ministry of Finance Annual Report: Provides information on macro fiscal indicators, domestic and global markets, government revenue, government expenditure, cash flow management, deficit financing and debt, performance of State-Owned Enterprises, public finance management, and development finance for the fiscal year.

National Budget Department (NBD): A department under the Ministry of Finance, the formulation of the National Budget comes under the NBD's purview which is conducted in consultation with spending agencies and related public expenditure management. The NBD is responsible for ensuring that the Budget objectives are met through effective coordination with line ministries and such other agencies.

Parliament: Constitutionally granted total control over public finance. It is primarily involved in the approval and oversight stages of the budget.

**SECTION 1:
INTRODUCTION TO THE
REPORT**

1.1. Background

The 2022 budget, presented to Parliament on 12 November 2021, outlines the government's taxation and expenditure proposals for the upcoming year. As the key framework for the executive management of public finance for the year, it is in the public interest to review these budget proposals objectively and critically.

This State of the Budget Report 2022 aims to provide an overview of the state of public finance in Sri Lanka. The report analyses key issues pertaining to government revenue, expenditure, public debt, and public finance management practices.

In addition to informing the public and other stakeholders, including the executive and Parliament, this assessment contributes to improving access to crucial information and professionalising the process by which budget estimates are constructed. In the medium term, this is expected to result in better-formulated budgets and improved public finance outcomes in Sri Lanka.

1.2. Constraints and Qualifications

At the outset, the report makes note of the following constraints and qualifications pertinent to this assessment. These constraints have prevailed in the previous year as well.

First, the Appropriation Bill tabled in Parliament (i.e., the first reading of the budget), which is expected to serve as a base document for this report, does not detail how the budget is allocated between the government's different policy priorities. Therefore, the analysis cannot be made on the basis of the Appropriation Bill alone.

Second, the detailed Approved Budget Estimates compiled after the third reading of the Appropriation Bill differ significantly from the corresponding Budget Speech numbers. However, as the Approved Budget Estimates is the only document that gives a detailed expenditure of all ministries and expenditure heads, it is used in the analysis.

Third, tracking expenditure in relation to specific sectors is uniquely challenging. Expenditure is reported only by ministerial portfolios and not by sectoral classifications. Further, ministerial portfolios in Sri Lanka have been excessively fluid and subject to re-organisation with changes in the composition of cabinet.

The remit of this report, therefore, has been shaped by these constraints and qualifications. The authors of this report have presented the past sectoral and ministerial expenditures that are most relevant to the extent possible. However, some adjustments may understate or overstate the numbers for certain expenditure heads due to the unavailability of reliable figures.

1.3. Overview

The adoption of and debate on the annual budget is an important process in the management of public finance. For the government, it is also an important occasion to announce new measures and policies that it plans to implement to steer the country forward. In a well-functioning democracy, a robust involvement of the public in the outcome and process of public finance management is crucial. The ability of the public to understand and engage in the budget process hinges on the quality of information, estimates, and assumptions that underpin the proposals.

In past years, many approved budget proposals have later been shelved or significantly altered, because the estimates and assumptions upon which they were formulated were found to have been defective. Such course corrections are costly, and are, in essence, failures of public finance management. Such failures can be minimised if there is public demand for improvements in public finance management and more robust Parliamentary debates during the budget process. However, perhaps the greatest impediment to nuanced public demand and more reasoned and rigorous debate in Parliament is the paucity of information and analysis available to the public and to members of Parliament.

This report was compiled by Verité Research and will be hosted on Sri Lanka's online platform, PublicFinance.lk. Through it, PublicFinance.lk will assist the public and other stakeholders in understanding the adequacy, credibility and priority of the government's expenditure allocation and taxation policies. In doing so, this assessment also allows these stakeholders, including Parliament, to understand where improvements can be made, and engage the executive arm of government to achieve necessary changes.

This section (Section I) provides an overview of the report including the objective and rationale for the report, along with constraints and qualifications. The substantive analysis of this report is set out in Sections II, III and IV.

Section II of the report highlights Sri Lanka's fiscal position and the issues surrounding government revenue, public expenditure, and debt.

Section III of the report analyses budgetary practices by the Sri Lankan government. This section focuses on oversight, transparency, allocation and utilisation of public funds.

Section IV of the report identifies four sectors relevant to the government's key policy priorities and assesses whether the 2022 Budget proposed to the Parliament is in accordance with the stated priorities. Policy priorities of each sector are identified using the official national policy framework summary "Vistas of Prosperity and Splendor" published on the Ministry of Finance website.¹

1 National Policy Framework Vistas of Prosperity and Splendour, Department of Commerce at <http://www.doc.gov.lk/images/pdf/NationalPolicyframeworkEN/FinalDovVer02-English.pdf>.

The following sectors are analysed in this report:

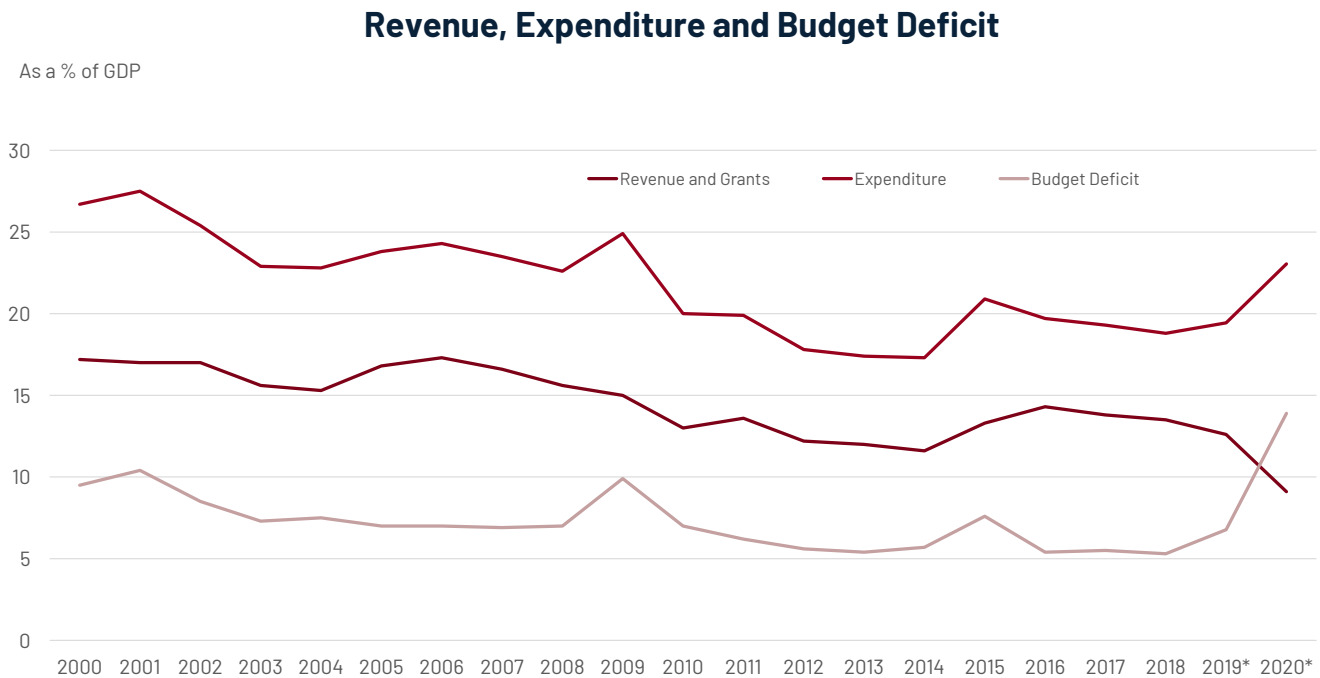
1. Health
2. Education
3. Power and Energy
4. Agriculture, Irrigation and Fisheries

This report observes the trend in government expenditure and tax policies in each sector, providing analysis and observations based on the data. It also discusses past experiences and notes any anomalies, where relevant.

**SECTION 2:
SRI LANKA'S FISCAL
POSITION**

The following section evaluates Sri Lanka's fiscal position and explores issues surrounding government revenue, public expenditure and debt.

Exhibit 2.1: Revenue, Expenditure and Budget Deficit as a % of GDP



Sources: Central Bank of Sri Lanka, VR Calculations*

2019 and 2020 budget deficit and expenditure figures reported in the CBSL Annual Report are inconsistent with the previous years and cannot be used for comparison across years.

Sri Lanka's fiscal position has been problematic for most of its post-independence history. Budget deficits have been persistent, caused by low tax collection and high levels of non-discretionary expenditure. Whilst Sri Lanka's government revenue is well below its regional and income peer averages, public expenditure is not exceptionally high by global standards. However, the government has not allocated expenditures wisely, with continued underspending in areas such as education, healthcare, and social protection.

As at end 2020, Sri Lanka's fiscal position deteriorated sharply (see Exhibit 2.1). Revenue and grants as a percentage of GDP in 2020 stood at 9.1%, its lowest level since 1950 using available data. The fall in revenue coupled with expenditure increases resulted in the budget deficit amounting close to 14% in 2020. Perpetual and now increasing budget deficits resulted in the government taking on even more debt. As a result, debt levels in the country have also increased to unsustainable levels.

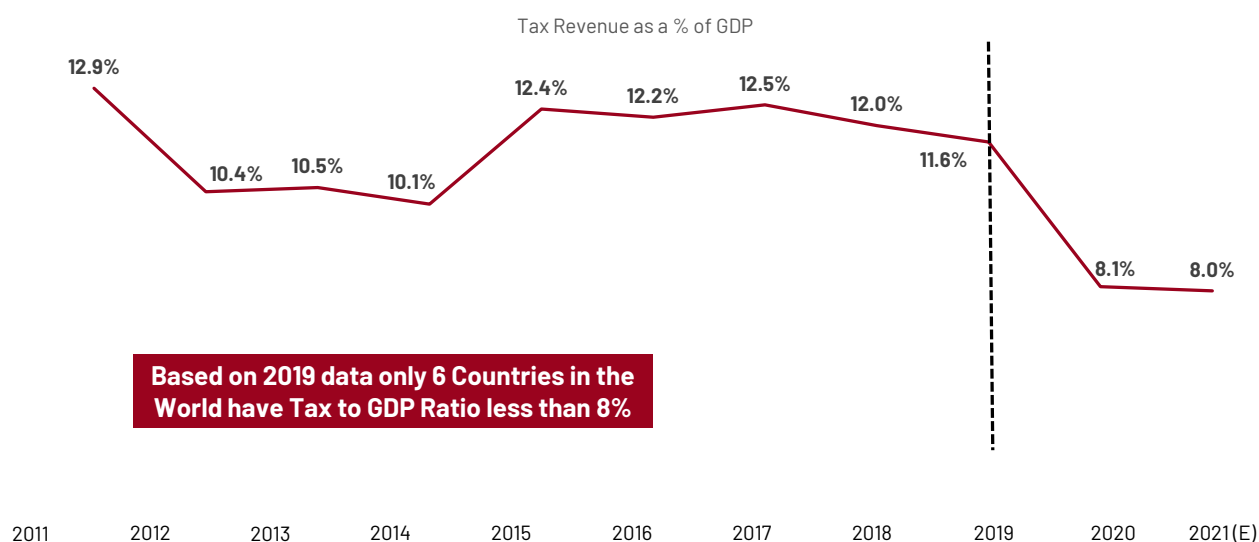
The following sections will explore issues surrounding revenue, expenditure, and debt.

2.1. Revenue

As mentioned in the introduction, this section will explore the reasons behind Sri Lanka's diminishing tax revenue. Based on 2019 data, only six countries in the world had a lower tax to GDP ratio in comparison to Sri Lanka.

Exhibit 2.1.1: Tax revenue as % of GDP

Sri Lanka Has Experienced A Sharp Decline In Tax Revenue From 2019 Onwards



Source: Annual Reports, Ministry of Finance from 2013 - 2020 | 2022 Budget speech

Government tax revenue as a percentage of GDP declined from 11.6% in 2019 to 8.1% in 2020 (see Exhibit 2.1.1). According to the World Bank, only six other countries have a tax revenue to GDP ratio less than 8%: Myanmar, Iran, Saudi Arabia, Sudan, Qatar, and Kuwait.² Many of these are oil rich countries, which rely on royalties and other forms of non-tax revenue not available to Sri Lanka.

The change in tax policies at the end of 2019 implemented with the change in the government was the primary factor behind the recent sharp decline in tax revenue. These policy changes are set forth in Exhibit 2.1.2 below.

² World Bank Database.

Exhibit 2.1.2: Major fiscal policy changes in 2019 and 2020

Major Fiscal Policy Changes		
Date	Tax	Change
01 January 2020	Value Added Tax (VAT)	Threshold for registration of VAT increased from LKR 12 million per annum to LKR 300 million per annum VAT rate reduced from 15% to 8%
01 January 2020	Pay As You Earn (PAYE) Tax	PAYE tax on any employment receipts to any resident or non-resident person eliminated
01 January 2020	Personal Income Tax	Tax-free threshold for personal income tax increased from LKR 0.5 million to LKR 3 million
01 January 2020	Withholding Tax (WHT)	WHT on any payments made to any resident person was eliminated except for the following: WHT at the rate of 14% on the amounts paid as winnings from lottery, reward, betting, or gambling WHT at the rate of 2.5% on sale of any gem at an auction conducted by the National Gem and Jewellery Authority WHT on payments made to any non-resident person under Sections 84 and 85 of the Inland Revenue Act No. 24 of 2017
01 January 2020	Economic Service Charge (ESC)	ESC eliminated with effect from 01 January 2020 (Economic Service Charge (Amendment) Act, No. 4 of 2020)
01 December 2019	Nation Building Tax (NBT)	NBT eliminated with effect from 01 December 2019
01 January 2020	Corporate income tax rates	Standard corporate income tax rate reduced from 28% to 24% Corporate income tax rate applicable to the construction industry reduced from 28% to 14% Corporate income tax rate applicable to the manufacturing industry revised to 18% Corporate income tax rate applicable to betting and gaming, liquor and tobacco remained unchanged at 40% Corporate income taxes on IT and Enabled Services and Agro - Farming reduced to 0%

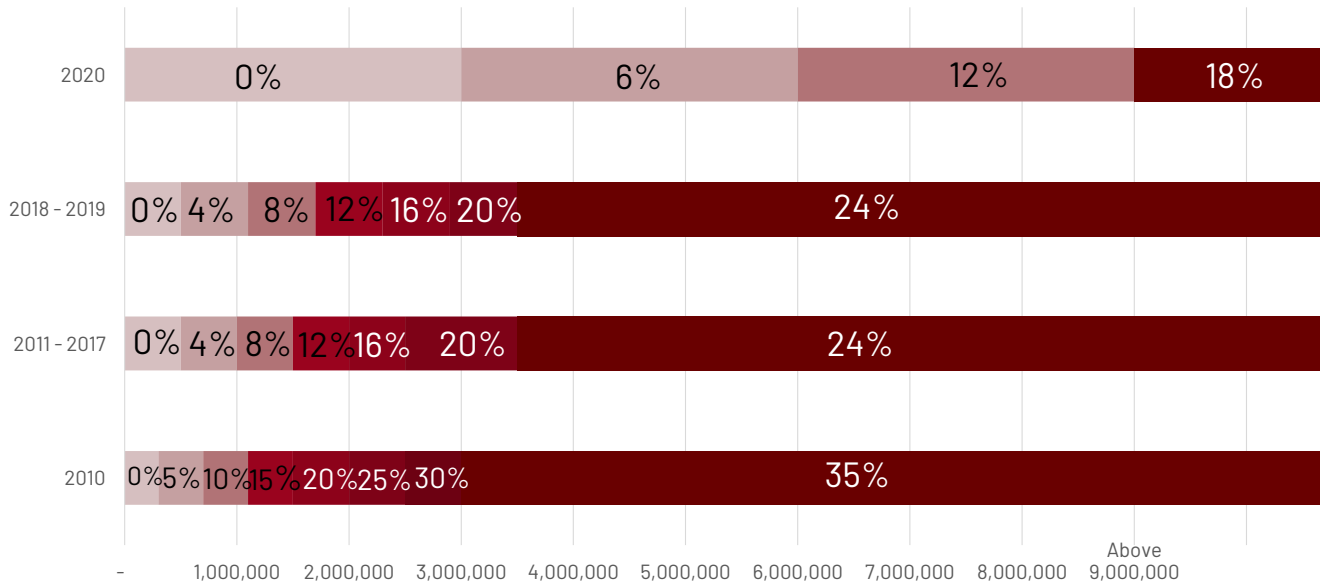
Source: Central Bank of Sri Lanka

Key highlights based on the fiscal policy changes indicated above include the increase in thresholds and reduction in rates for VAT, reduction in tax rates and increase in tax-free thresholds for personal income taxes, and the abolition of tax collection methods such as the PAYE tax.³ These changes are further illustrated in the infographic below.

³ Public Finance Platform: Income Tax Threshold Changes. Available at <https://publicfinance.lk/en/topics/income-tax-threshold-changes-1636353731>.

Exhibit 2.1.3: Revision of personal income taxes

Personal Income Taxes Were Revised 4 Times From 2010 – 2020 & The Tax-free Allowance Has Increased By 10x

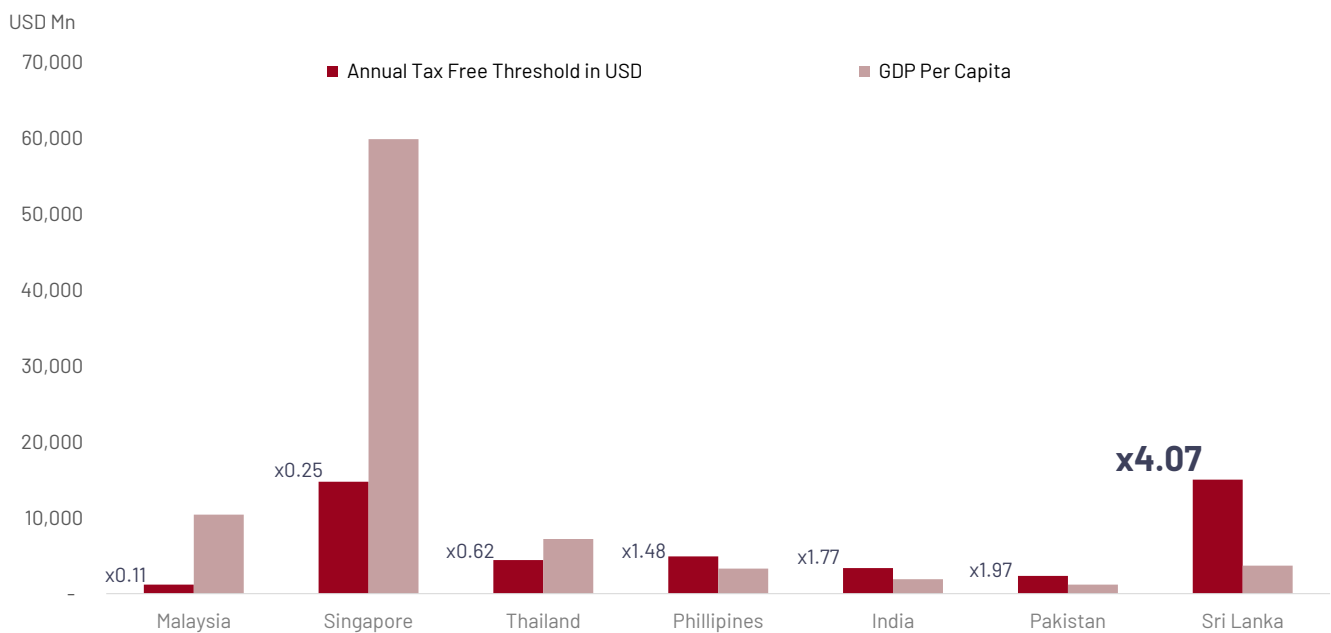


Income Tax

The increase in tax-free thresholds to LKR 3,000,000 per annum is equivalent to 4.07 times Sri Lanka's GDP per capita (based on 2020-21 data). This is significantly higher than regional peers as shown in Exhibit 2.1.4 below.⁴

Exhibit 2.1.4: Regional comparison of individual income tax-free thresholds

Regional Comparison Of Individual Income Tax Free Threshold

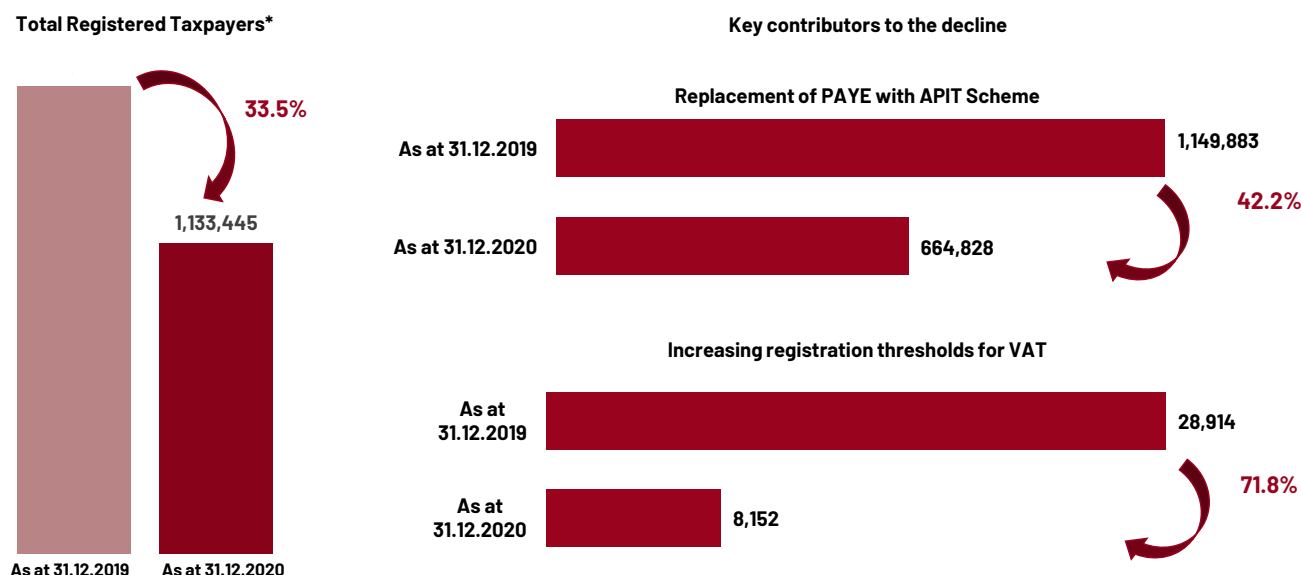


⁴ Public Finance Platform: Income Tax Threshold Changes. Available at <https://publicfinance.lk/en/topics/income-tax-threshold-changes-1636353731>.

Furthermore, the substantial increase in the tax-free thresholds for VAT and abolition of PAYE, significantly eroded the tax base. Reintegrating some of these entities back into the tax base may prove challenging.

Exhibit 2.1.5: Erosion of the tax base

Erosion Of The Tax Base : A 33.5% Decline In Registered Taxpayers From 2019 To 2020



As shown in Exhibit 2.1.5 above, Sri Lanka's total registered taxpayers fell from 1.7 million to 1.13 million, a 33.5% decline. It should also be noted that the discontinued PAYE tax that was mandatory on any employment receipts for both residents and non-residents was replaced by the Advanced Personal Income Tax (APIT) which, unlike PAYE, is an optional scheme.⁵ Whilst there has been an increase of 11,607 in the individual income tax files from 2019 to 2020 as individuals may have switched from PAYE to self-declaration, this is insignificant compared to the loss of 485,055 taxpayers under the PAYE/APIT tax scheme in the same time period.

Piketty and Qian (2009) draw a comparison between India and China to highlight how stability in a tax system ensures gradual improvement in the fiscal space.⁶ In China, the tax exemption threshold was fixed in nominal terms, and nominal income brackets and marginal tax rates saw minimal changes since the inception of the tax system in 1980, resulting in an increase of population subject to income tax from less than 0.1% in 1986 to around 20% in 2008. In India, by contrast, constant revisions of tax exemptions and brackets have resulted in the proportion of income taxpayers remaining stagnant at around 2-3% of the population.⁷

Sri Lanka's constantly changing tax system is more similar to India's than to China's. Although it may be the case that other socio-political factors in China that are absent in Sri Lanka contribute to the Chinese tax policy success, the percentage of the population in Sri Lanka subject to income tax from 2010 has been negligible. The tax base can therefore be improved by reverting to a tax-free threshold similar to the pre-2019 levels and ensuring stability and consistency of the tax structure over time.

Corporate Income Tax

Sri Lanka's corporate tax structure has played a significant role in the decline in overall tax revenue.

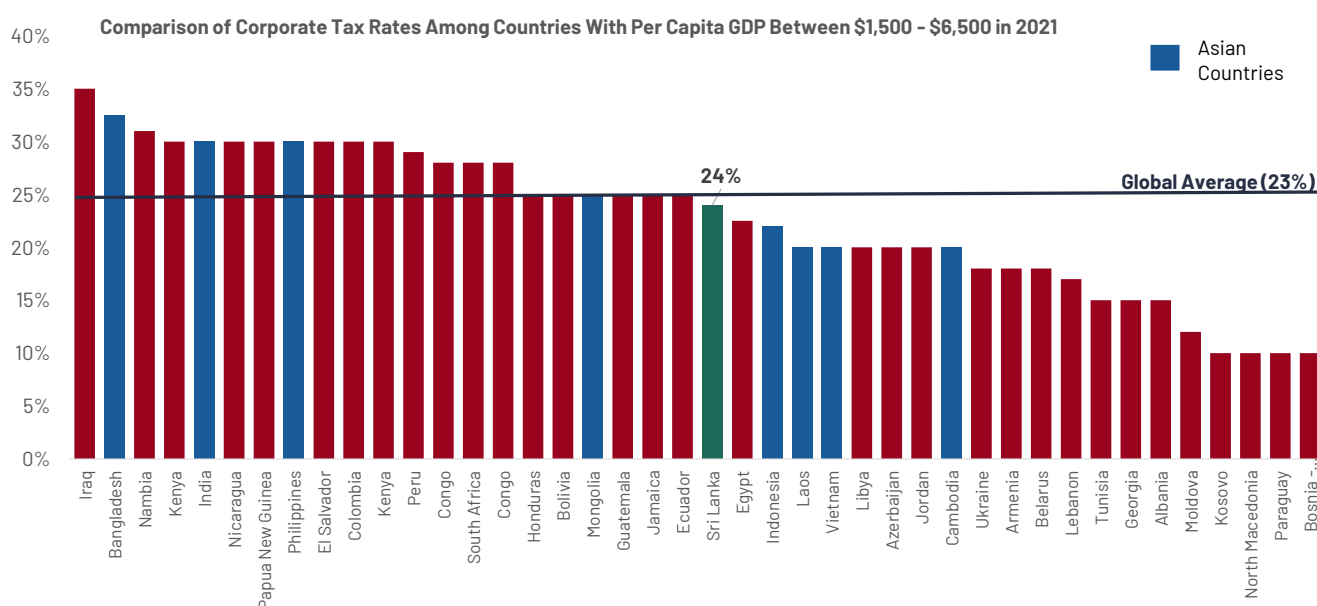
5 Public Finance Platform: Erosion of the Tax Base: A 33.5% decline in registered Taxpayers from 2019 to 2020. Available at <https://publicfinance.lk/en/topics/erosion-of-the-tax-base-a-33-5-decline-in-registered-taxpayers-from-2019-to-2020-1638797962>.

6 Piketty, T. and Qian, N., 2009. Income Inequality and Progressive Income Taxation in China and India, 1986–2015. *American Economic Journal: Applied Economics*, 1(2), pp.53-63.

7 Ibid.

Exhibit 2.1.6: Sri Lanka's corporate tax rate with income peers

How does Sri Lanka's Corporate Tax Rate Compare with its Income Peers in 2021



The standard corporate tax rate was revised from 28% to 24% in 2020. Additional sectors such as Manufacturing (18%), Construction (14%), Agro Processing (14%), and Healthcare (14%) were included in the concessionary tax rates (see Exhibit 2.1.7).⁸ Some sectors, including Agriculture, Fisheries, Livestock, IT and IT Enabled Services, were fully exempt from income taxes.⁹

Exhibit 2.1.7: Sector wise corporate tax changes

Sector	Tax Rate Prior to Tax Change ¹⁰	Tax Rate Post-Tax Change
Manufacturing	28%	18%
Construction	28%	14%
Agro Processing	14%	14%
HealthCare	28%	14%

Therefore, whilst Sri Lanka's standard corporate tax rate is on par with peer countries as shown in Exhibit 2.1.6, large components of the Sri Lankan economy (including all SMEs) pay significantly less than this standard rate. Regional peers such as India, Bangladesh, and Philippines levy corporate taxes in excess of 30%.¹¹ In 2020, Sri Lanka collected 15% of its tax revenue through corporate taxes, far lower than its income peers.¹²

The above-mentioned changes to the tax regime contributed to the rapid decline in government revenue. With the decline in revenue, interest costs alone account for 72% of government revenue, the highest such ratio in the world in 2020.¹³ It should be noted that while Sri Lanka's interest cost to revenue ratio stands at 72%, countries with higher debt to GDP ratios often pay less in interest costs. (see Exhibit 2.1.8). For example, Japan paid 8.2% of its revenue as its interest cost despite having a higher debt to GDP ratio than Sri Lanka.¹⁴

⁸ Public Finance Platform: How does Sri Lanka's Corporate Taxes Compare With Other Countries? Available at <https://publicfinance.lk/en/topics/How-does-Sri-Lanka%E2%80%99s-Corporate-Taxes-Compare-With-Other-Countries-1626265872>.

⁹ Ibid.

¹⁰ Ministry of Finance, Fiscal Management Report (2019) and PwC, World Tax Summary Sri Lanka

<https://taxsummaries.pwc.com/sri-lanka/corporate/taxes-on-corporate-income>.

¹¹ Ibid.

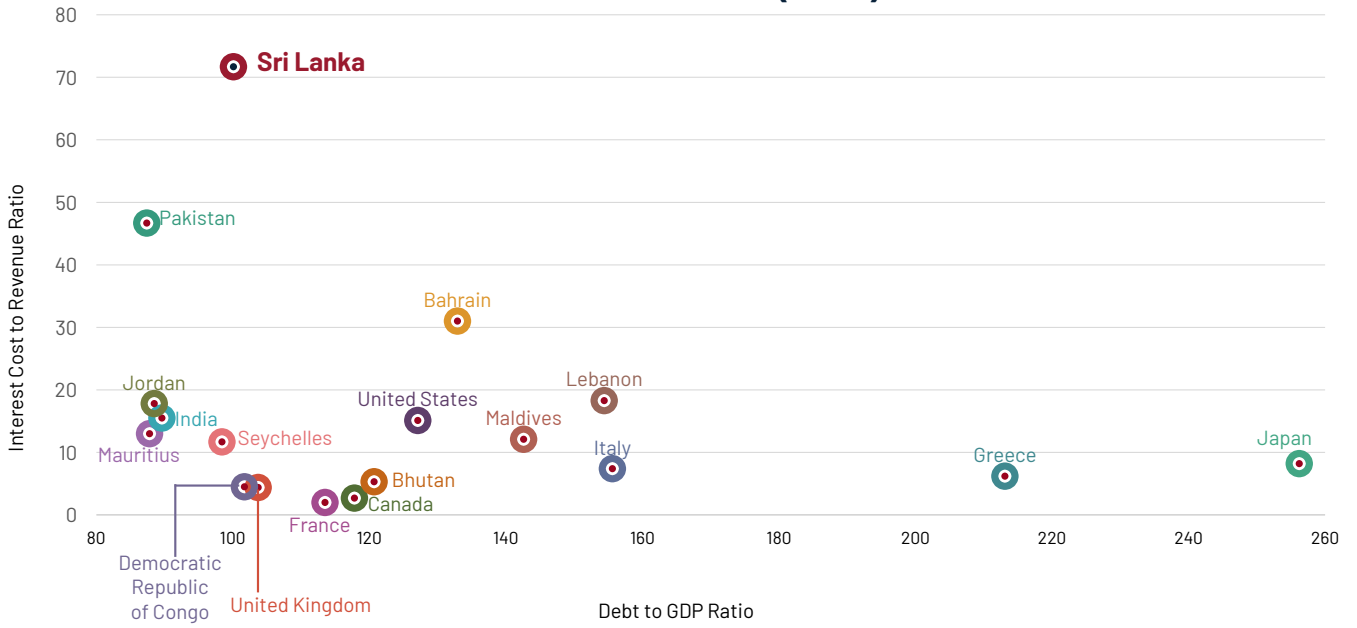
¹² Ibid.

¹³ Public Finance Platform: Sri Lanka Pays the Largest Proportion of Its Revenue as Interest Payment (2021) <https://publicfinance.lk/en/topics/sri-lanka-pays-the-largest-proportion-of-its-revenue-as-interest-payment-1630990058>.

¹⁴ Ibid.

Exhibit 2.1.8: Interest cost to revenue ratio

Due to the collapse in revenue Sri Lanka's Interest Cost Alone Accounted for 72% of Government Revenue (2020)



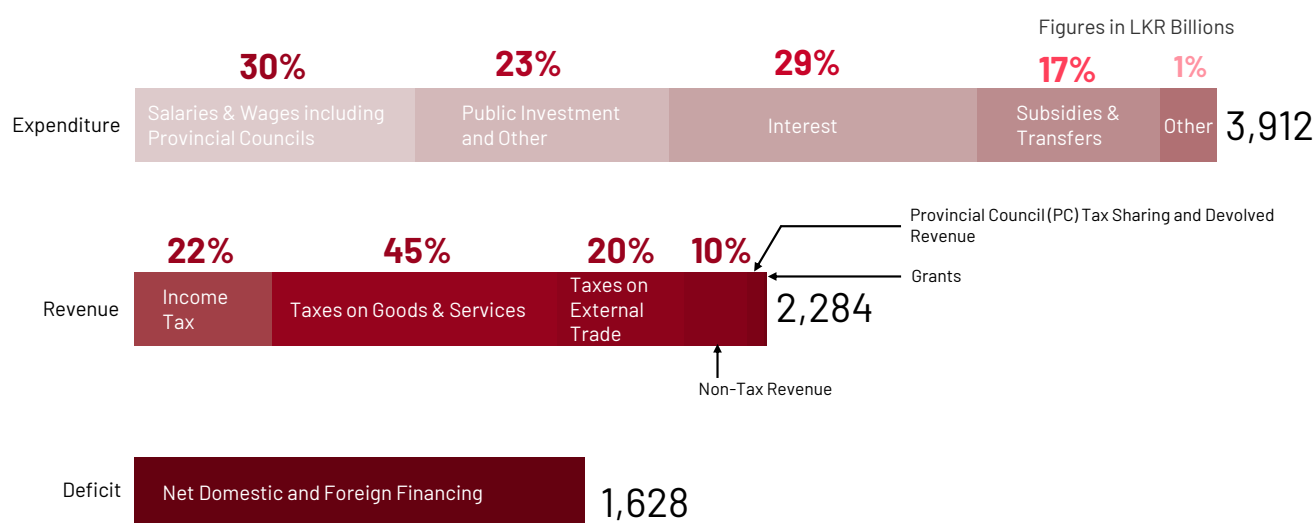
2.2. Expenditure

This section deals with Sri Lanka's fiscal expenditure.

Sri Lanka's non-discretionary expenditure is extremely high, leaving scant room for significant reductions in expenditure (see Exhibit 2.2.1).

Exhibit 2.2.1: Sri Lanka's public spending (2022 budget)

Non-discretionary Expenditure Dominates SL Public Spending – Leaves Limited Room For Significant Reductions (2022 Budget)



Source: Budget speech 2022

In the 2022 budget, the estimated cost of public sector salaries and interest payments alone (LKR 2,308 billion) exceeded budgeted government revenue (LKR 2,284 billion – itself also likely overestimated).

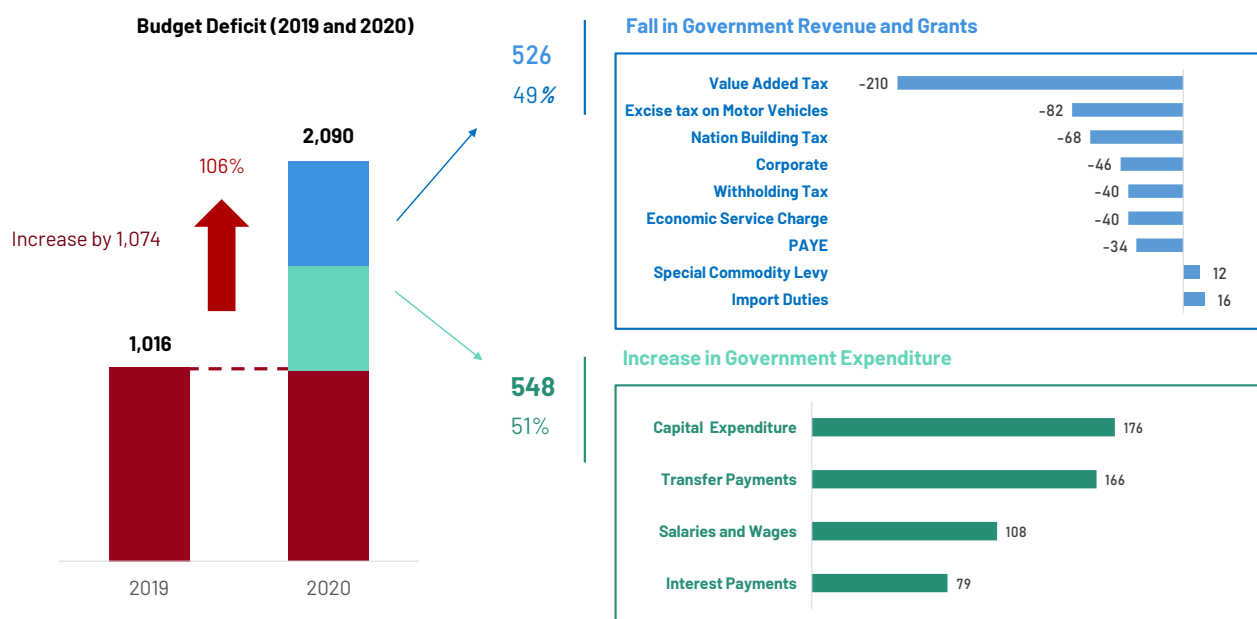
In 2020, the budget deficit was LKR 2,090 billion, an increase of 106% from the 2019 budget deficit of LKR 1,016 billion. This increase can be attributed to both the decline in revenue of LKR 526 billion and increase in expenditure of LKR 548 billion (see Exhibit 2.2.2).

A key characteristic of Sri Lanka's public expenditure has been weakness in allocation. Spending patterns during the pandemic are an illustration of this. During an emergency situation like a pandemic, the government may expect that revenue would fall significantly and critical claims on expenditure by sectors such as health and social protection would be prioritized.

Exhibit 2.2.2: Budget deficit in 2020

Why did the Budget Deficit Increase in 2020?

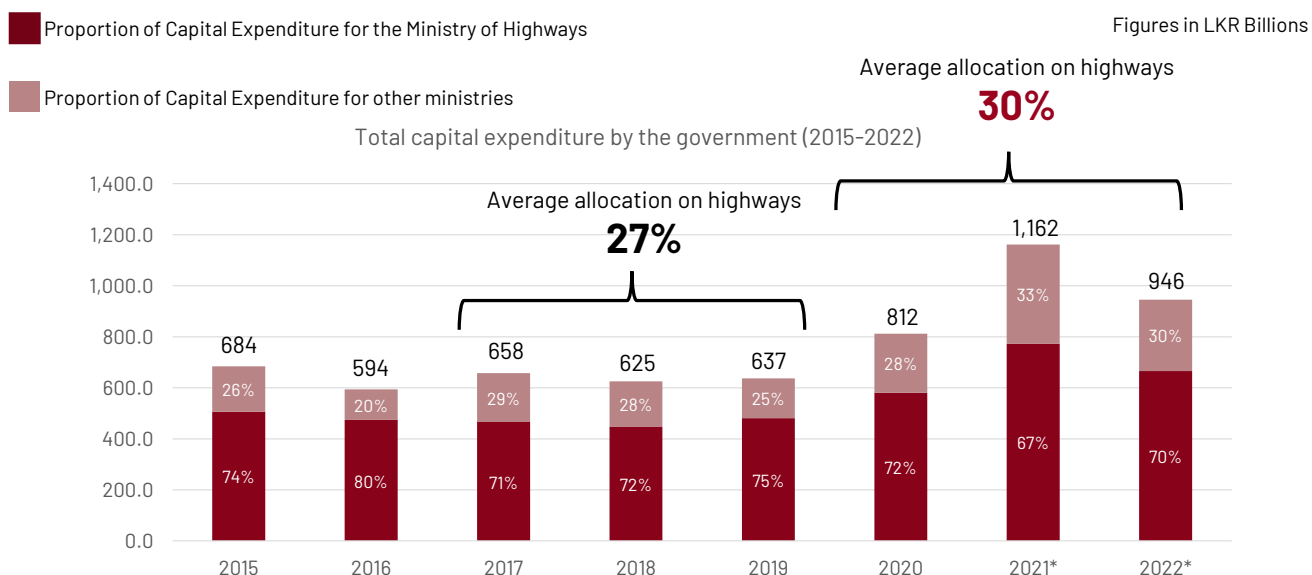
Figures in LKR Billion



In such a situation it would be prudent to focus expenditure on these critical sectors and postpone non-essential expenditure so as to maintain a reasonable budget deficit. However, in Sri Lanka's case, capital expenditure saw the largest increase during the period in question. This is a clear illustration of misplaced priorities during an emergency situation, contributing to the budget deficit ballooning into double digit levels.

Exhibit 2.2.3: Proportion of capital expenditure on highways 2015-2022

The Proportion Of Capital Expenditure The Government Spends On Highways Has Increased Amidst The COVID - 19 Pandemic



A closer examination of the nature of capital spending undertaken by the government indicates that considerable expenditure has been directed towards the building of highways (see Exhibit 2.2.3) Indeed, despite the adverse fiscal and economic impacts of the pandemic, highway spending has significantly increased both in absolute terms and as a percentage of the budget. These funds could have instead been directed towards investing in healthcare requirements,

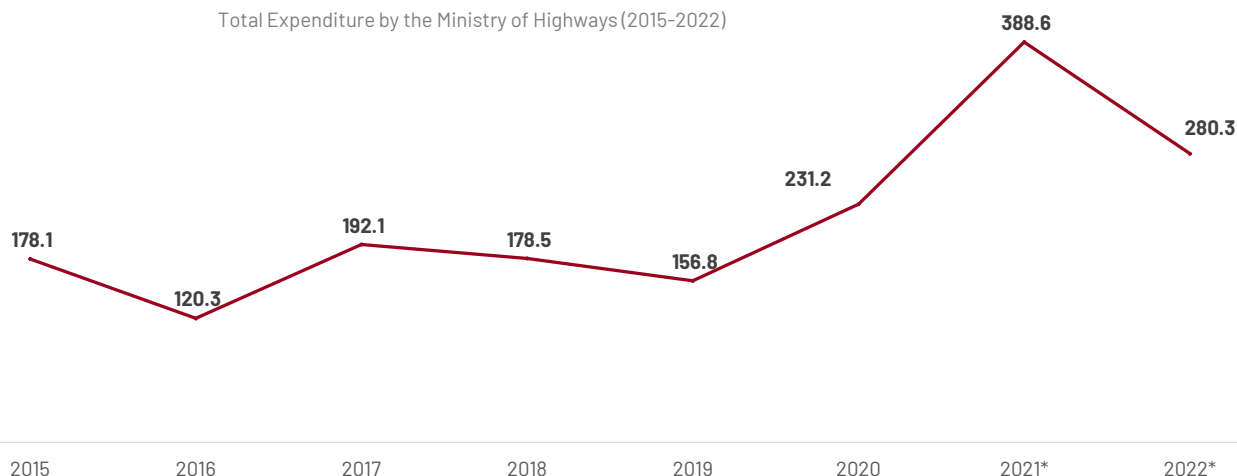
online learning mechanisms for students, and social protection payments for citizens who have been adversely affected due to the pandemic. From January to August 2021, the government of Sri Lanka spent approximately LKR 143 billion on COVID-19 related expenditure. The same year revised allocations for the Ministry of Highways were LKR 388.6 billion.

Exhibit 2.2.4: Expenditure allocation on road development 2015-2022

Expenditure Allocations on Road Development Grew by 79% in 2022 when Compared to 2019

Figures in LKR Billions

Total Expenditure by the Ministry of Highways (2015-2022)

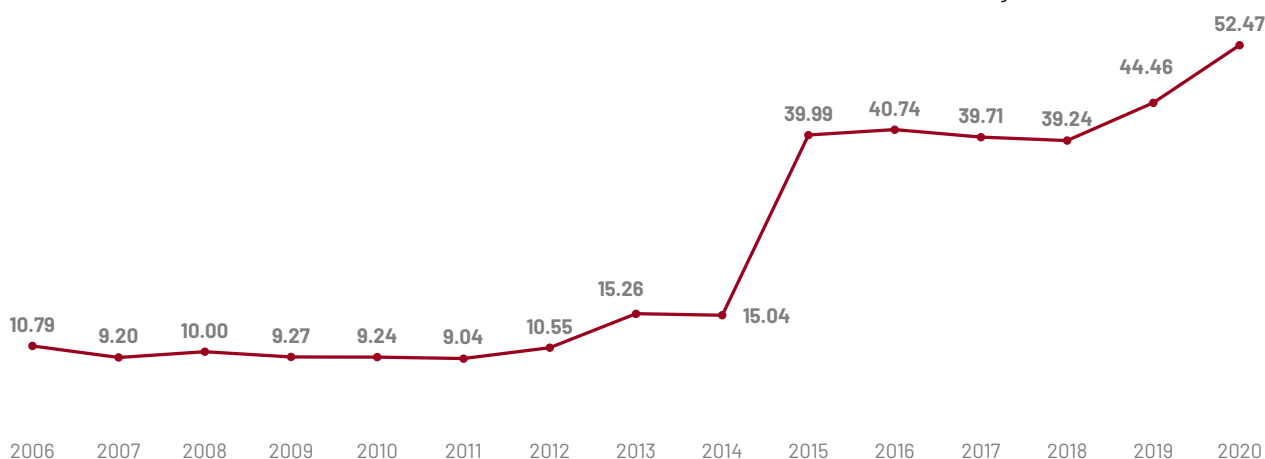


As shown in Exhibit 2.2.4, the government allocated approximately LKR 669 billion on road development for the years 2021 and 2022. For the same two years the total allocation for the health sector at a central government level is LKR 546 billion while for the central government education sector the allocation is LKR 370.6 billion.

Exhibit 2.2.5: Government expenditure on the Samurdhi program (2006-2020)

Government Expenditure on Samurdhi Programme (2006-2020)

Figures in LKR Billions



Likewise, the Samurdhi program, despite being the country's biggest welfare program, is allocated far less than what is allocated for highways. As shown in the infographic above, the Samurdhi allocation for 2020 was LKR 52.47 billion, amounting to around 0.3% of GDP.

2.3. Debt

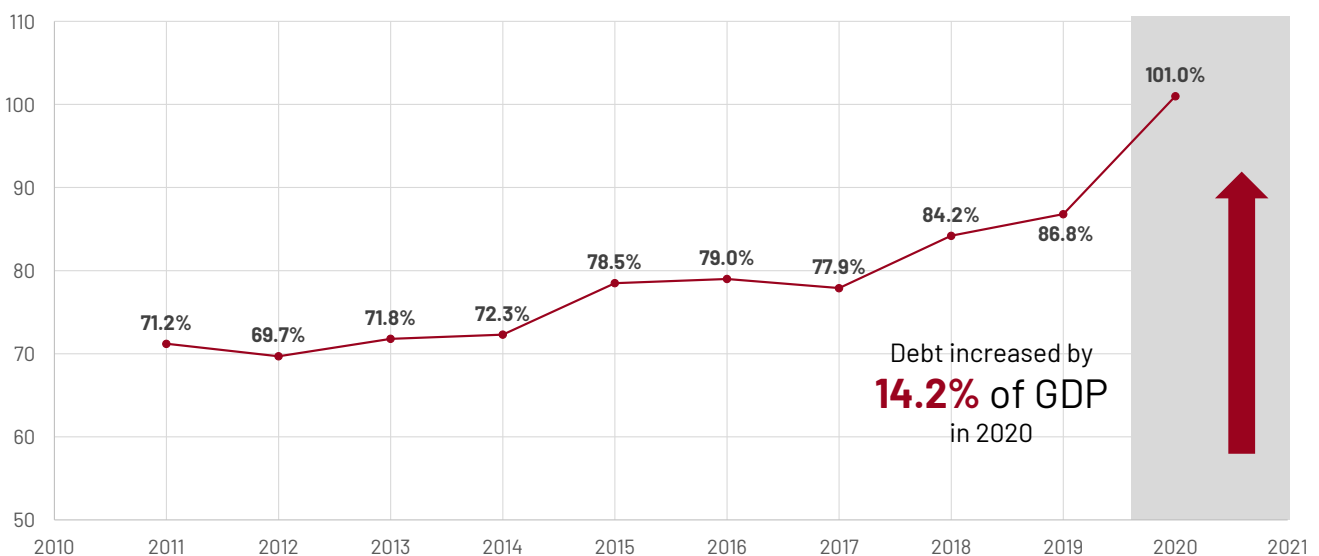
As discussed earlier, persistent budget deficits over time resulted in the perpetual requirement to borrow and finance the deficit. This in turn has resulted in Sri Lanka's debt levels increasing, often outpacing its GDP growth levels as illustrated in the infographic below.

Exhibit 2.3.1: Government debt 2011-2020

From the end of 2009 to the end of 2014, Sri Lanka's debt (in 2019 LKR values) grew from LKR 5,483 billion to LKR 9,953 billion, an 83.4% increase in the total debt stock.¹⁵ Paying interest on outstanding accumulated debt at the end of 2009 (accounting for 50.8% of the total increase) and funding government expenditure (accounting for 49.2% of the total increase) were the two primary drivers of the increased borrowing. This trend is illustrated in Exhibit 2.3.2 below.

Government Debt has Surpassed 100% of GDP

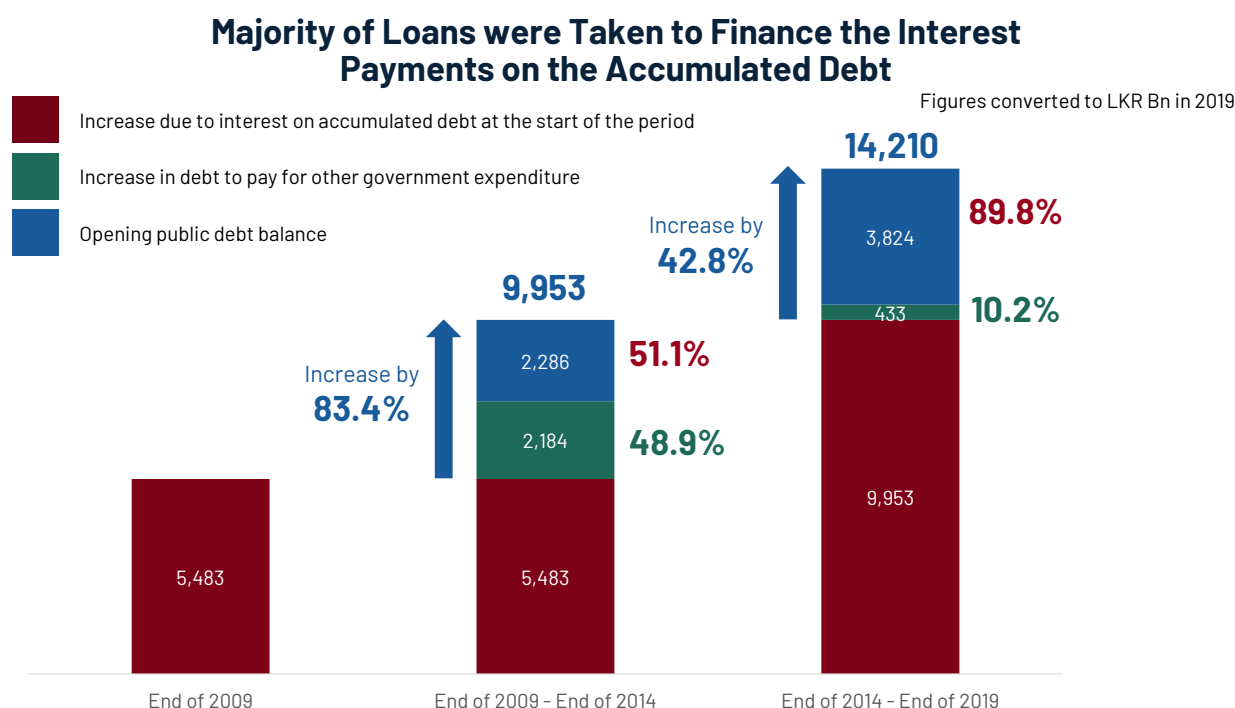
Central Government Debt as a share of GDP (2011 - 2020)



15 Public Finance Platform: Demystifying the increase in Sri Lanka's debt (2022). Found in <https://publicfinance.lk/en/topics/de-mystifying-the-increase-in-sri-lanka-s-debt-1640696520>

Verité Research (2022). De-mystifying the Increase in Sri Lanka's Debt. Colombo: Verité Research. Available at https://www.veriteresearch.org/wp-content/uploads/2022/03/VR_ENG_Insights_Feb2022_Demystifying-the-increase-in-Sri-Lankas-debt.pdf

Exhibit 2.3.2: Financing of interest payments on accumulated debt



Source: Public Finance Platform

From 2014 to 2019, Sri Lanka's debt stock increased by 42.8%. This increase is less than that of the preceding five-year period both in percentage terms and in absolute terms (debt stock increased by LKR 4,525 billion from 2009 to 2014 compared to LKR 4,257 billion from 2014 to 2019). Further, the burden of interest cost on the past accumulated debt was much higher in the latter period, with interest cost accounting for 89.8% of the increase in debt during that period compared to 50.8% in the 2009 to 2014 period. The increase in debt to pay for government expenditure accounted for 10.2% of the increase in debt during the 2014 to 2019 period, compared to 49.2% in the preceding period.

There are also issues with regard to the reporting of Sri Lanka's debt value. Three main problems in debt reporting in Sri Lanka include:^{16,17}

- Poor visibility on ownership of debt
- Understating public debt
- Displacement of debt

Poor visibility on ownership of debt: Although central government debt is the primary data point reported on government debt, public debt, which provides a broader definition, is a more accurate indicator of sovereign indebtedness. According to the IMF, a country's public debt accounts for central government debt, debt of the central bank and the debt of public sector corporations.¹⁸ For example, the Central Bank of Sri Lanka data indicates that the debt owed to China is USD 3.4 billion (equivalent to 10% of Sri Lanka's total central government debt).¹⁹ However, this fails to account for debt amounting to USD 2 billion owed by State-Owned Enterprises (SOEs) to Chinese entities. This represents a 60% increase in overall debt owed to China by the Sri Lankan government. Thus, focusing on just central government debt provides a distorted view of the overall debt burden.

16 Verité Research (2021). Navigating Sri Lanka's Debt: Better reporting can help – a case study on China debt. Colombo: Verité Research. Available at https://www.veriteresearch.org/wp-content/uploads/2021/03/VeriteResearch_ResearchBrief_NavigatingSriLankasDebt_March2021.pdf.

17 Public Finance Platform: 3 Problems on Debt Numbers (2021). <https://publicfinance.lk/en/topics/3-problems-on-debt-numbers-1620490980>.

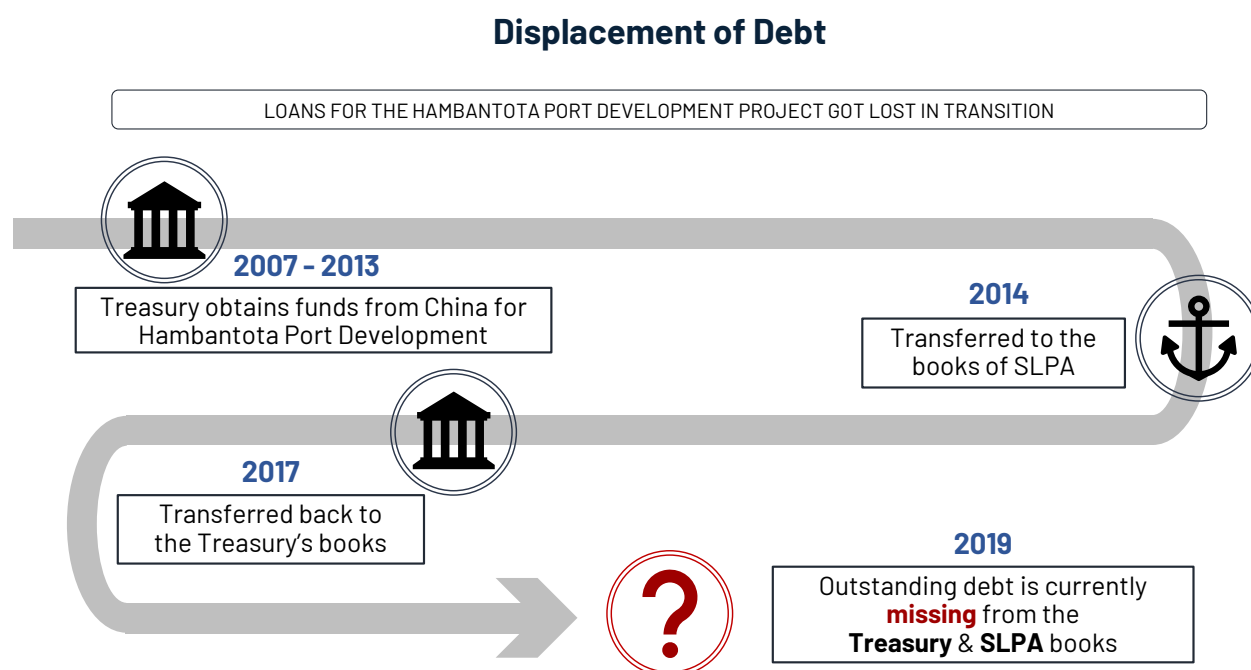
18 IMF, 'External Debt Statistics – Guide for compilers and users', 2014, Available at: <http://tffs.org/pdf/edsg/ft2014.pdf>.

19 Verité Research (2021). Navigating Sri Lanka's Debt: Better reporting can help – a case study on China debt. Colombo: Verité Research. Available at https://www.veriteresearch.org/wp-content/uploads/2021/03/VeriteResearch_ResearchBrief_NavigatingSriLankasDebt_March2021.pdf.

Understating public debt: The reporting of loans taken for the Puttalam Coal Power Plant, Hambantota Port Development project and the Mattala Rajapaksa International Airport showcase the informational problems that arise when shifting debt from central government to SOEs and vice versa.²⁰ In 2014, the outstanding balances of these loans, originally recognized as central government debt, were transferred from the central government books to the Ceylon Electricity Board (CEB), the Sri Lanka Ports Authority (SLPA) and the Airport and Aviation Services (AAS) through an unorthodox accounting practice. Therefore, although central government debt through this method was stated at a lower value, public debt as a whole was unchanged. This is one reason why it is more prudent to use public debt than central government debt in analyses of the overall debt situation.

Displacement of debt: The factors highlighted above further tie into the third problem in debt reporting, which is the displacement of debt illustrated in Exhibit 2.3.3 below.²¹

Exhibit 2.3.3: Displacement of debt



Source: Public Finance Platform

The loan taken for the Hambantota Port Development Project in 2007-2013 was one that was transferred to the books of an SOE (in 2014), the SLPA. However, this was transferred back to the Treasury's books in 2017. In 2019, this loan could not be found in either the books of the Treasury or the SLPA and as a result is displaced.

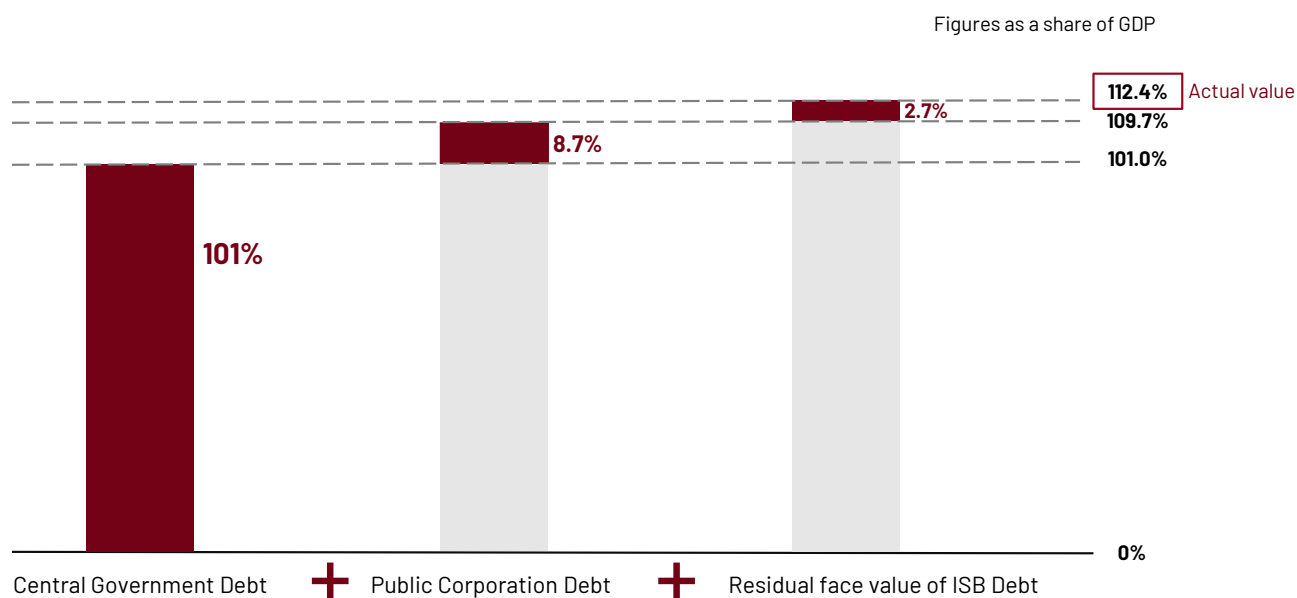
The issues surrounding the reporting of Sri Lanka's debt have also resulted in under-reporting of Sri Lanka's actual liabilities. This is illustrated in Exhibit 2.3.4:

20 Verité Research (2021). Navigating Sri Lanka's Debt: Better reporting can help – a case study on China debt. Colombo: Verité Research. Available at https://www.veriteresearch.org/wp-content/uploads/2021/03/VeriteResearch_ResearchBrief_NavigatingSriLankasDebt_March2021.pdf.

21 Ibid.

Exhibit 2.3.4: Actual debt vs reported debt

Actual Debt of the Government Is More Than the Reported Debt Value



The above infographic represents Sri Lanka's reported debt as of 2020. central government debt is reported as accounting for 101% of Sri Lanka's GDP in 2020. However, as previously discussed, the actual liability of the government should include debt owed by public corporations as well.²²

Furthermore in 2020, the valuation of International Sovereign Bond (ISB) debt is another factor that understates the overall debt figure. In 2020, CBSL recorded the debt incurred through ISBs in the form of its market value i.e., the value of debt changes based on the price of ISBs in the market. Given the significant decline in ISB prices in 2020 in the face of credit rating downgrades, the reported debt was understated and misleading. It should be noted that when this debt is repaid at the end of its maturity period, it is the face value of debt that is repaid and not the market valuation. That is unless the government buys back the ISB at the market prices, which is not feasible given the limited reserves and limited sources of financing. The residual value of the ISB debt (difference between market value and face value) accounts for LKR 408 billion (equivalent to 2.7% of GDP in 2020) as depicted in Exhibit 2.3.4.

Due to the above-mentioned factors, when the debt owed by public corporations (8.7% of GDP) and ISB residual debt (2.7%), is added to the central government debt level of 101%, the actual liability of the government is equal to 112.4% of GDP.

²² Public Finance Platform: Actual Liability of the Government is more than the reported debt (2022). <https://publicfinance.lk/en/topics/actual-liability-of-the-government-is-more-than-the-reported-debt-value-1625574321>.

**SECTION 3: BUDGETARY
PRACTICES BY THE
SRI LANKAN GOVERNMENT**

3.1. Budgetary Practices

This section deals with aspects of Sri Lanka's budgetary practices that highlight the lack of effective public finance management.

This section focuses on oversight, transparency, allocation, and utilization of public funds in the first half of 2021 pertaining to Budget Proposals read out in the Budget Speech. Budget Promises: Beyond Parliament is a platform managed by Verité Research that tracks the government's performance in delivering on its budget promises.²³ The latest assessments were conducted for 31 expenditure proposals that exceeded a threshold of LKR 1,000 million in the 2021 budget. The proposals were assessed on two key indicators: progress and openness. The total allocation of all proposals assessed amounted to LKR 284,000 million.

The progress and openness of the promises are listed below.

Exhibit 3.1.1: Results of the 2021 Mid-Year Assessments

Progress of Promises		Openness of Promises	
Undisclosed	61%	Closed	35%
Broken	0%	Restricted	26%
Neglected	13%	Uncooperative	10%
Lagging	23%	Responsive	16%
Progressing	3%	Open	13%

Source: Information received based on responses to RTI application filed under the RTI Act No.12 of 2016. Results are available on the Budget Promises: Beyond Parliament platform.

These findings indicate that there is limited visibility on the expenditure of public funds, meaning there is no way of tracking the utilization of funds. As indicated in Exhibit 3.1.1, 61% of the proposals, amounting to LKR 117,500, were undisclosed. This means that for 19 out of the 31 proposals considered, no information was available, or the information received was insufficient to determine progress. Notably, ministries with large allocations such as the Ministry of Highways (10% of total allocation considered - LKR 27,000 million) and the Ministry of Technology (12% of total allocation considered - LKR 33,000 million),²⁴ were unresponsive and provided no information on the status of the funds.

Openness remains abysmal with only 13% of assessed proposals proactively disclosing information online.

²³ Verité Research - Public Finance Platform: Budget Promises: Beyond Parliament. Found at <https://dashboards.publicfinance.lk/budget-promises/>.

²⁴ Ministry of Finance, Budget Speech 2021

Key issues identified

Lack of central management of funds is a serious concern as it makes it difficult even to identify the responsible government authority in order to track the funds. Since 2019, budget speeches have failed to clearly identify the respective ministries that the budget proposals fall under.

One of the responsibilities of the National Budget Department (NBD) is the allocation of financial resources required for new Programs/Projects, proposed by the Hon. Minister of Finance under budget proposals.²⁵ Therefore, a Right to Information application (RTI) was filed with the NBD to identify responsible government authorities for selected expenditure proposals. However, 58% of the RTI applications filed with the government agencies were transferred at least once before the correct responsible authority was identified. This implies that there is a lack of clarity on ownership of funds, raising the question of how the funds are being disbursed if even the NBD is unable to correctly identify the implementing agency.

Informational concerns: intensification of a closed culture among government agencies This has been an issue consistently noted in Budget Promises assessments. Government institutions failing to state what they are doing and not providing any justification for deviating from their promises create a question of what exactly happens to the funds.

The following case studies on lack of transparency raise a serious concern of utilization of funds.

Case Study 1

Project Name: Rural Hospital Development

Allocation: LKR 5,000 million

Responsible Authority: Ministry of Health (MoH)

The response to the RTI application from the Ministry of Health (MoH), dated 2nd December 2021, simply stated that at the time of the request the funds had not been received by the ministry. However, the government authorities failed to provide any justification for why the funds had not been received. This raises serious concerns on the location of funds since the promise was made in the 2021 Budget speech read out in November 2020. Despite a year passing by, funds are yet to be received by the implementing agency.

Case Study 2

Project Name: People Centered Health Service

Allocation: LKR 10,000 million

Responsible Authority: Unknown

The NBD identified the MoH as the responsible authority. However, the final response letter from the MoH stated that the proposal does not fall under the purview of the ministry and failed to provide any indication of the implementing agency. In such cases not only is the public unaware of the progress of funds, but there is also uncertainty about ownership.

²⁵ Ministry of Finance, Economic Stabilization and National Policies. <https://www.treasury.gov.lk/web/department-of-national-budget/section/responsibilities>.

3.2. Poor Fund Allocation and Management of Large-Scale Development Projects

A key issue that was identified in the Budget Promises: Beyond Parliament assessment of 2021 was related to a multi-year project titled Water for All. The project, which is being carried out by the Ministry of Water Supply accounts for 44% of the allocation tracked by Budget Promises in 2021.

Case Study: (Water for All)

Project Description: Invest in 1,000 community water projects, 171 major projects aimed at enhancing production capacity, new water supply schemes and expedite ongoing projects with the objective of ensuring access to drinking water for the entire population.

Original implementation period: 2021-2024

Original allocation: LKR 1,000 billion

Original allocation for 2021: LKR 125 billion

Project goals for 2021: Implement 263 community water projects, enhance the usage of current water supply through 171 projects and commence 40 new projects.

The government's policy document, *Vistas of Prosperity and Splendour*, highlighted ensuring water for all as a key policy priority.²⁶ Currently, just 56% of the population has access to clean drinking water.²⁷ The government pledged to provide clean drinking water to all citizens, directly benefiting 4.7 million families.²⁸

Despite this, within one year of commitment, the project has been drastically revised, calling to question the feasibility of the government's initial pledge.

Exhibit 3.2.1: Revisions to the implementation of Water for all project

	Original	Revised
Total allocation (LKR Millions)	1,000,000	614,478
Implementation timeline	2021-2024	2021-2030
Allocation for 2021(LKR Millions)	125,000	27,657

Sources: Budget Speech 2021, Ministry of Water Supply progress report

²⁶ National Policy Framework Vistas of Prosperity and Splendour, Department of Commerce at <http://www.doc.gov.lk/images/pdf/NationalPolicyframeworkEN/FinalDovVer02-English.pdf>.

²⁷ Ministry of Finance, Budget Speech 2022 (p.45).

²⁸ Ibid.

As detailed in Exhibit 3.2.1, the original allocation has been revised downwards by 39%, and the project timeline extended by an additional 6 years. The allocation for 2021 itself has been decreased by 78%.

Disregarding revisions made to the allocations, the revision to the timeline in itself suggests that the government will not achieve its pledge of clean drinking water to all citizens by 2025.

Despite these changes, at the World Water Day celebrations held on March 22 2022, President Gotabaya Rajapaksa and Prime Minister Mahinda Rajapaksa reiterated that *Water for All* will be achieved by 2025.²⁹ This statement appears at odds with reality when considering the actual implementation of the project in 2021. Information regarding the implementation of *Water for All* up to the third quarter of 2021 was received via an RTI request as reflected in Exhibit 3.2.2.

Exhibit 3.2.2: Water for All Expenditure 2021

	in LKR millions
Original allocation for 2021	125,000
Revised allocation for 2021	27,657
Expenditure* until Q3	1,688
Projected expenditure	2,250

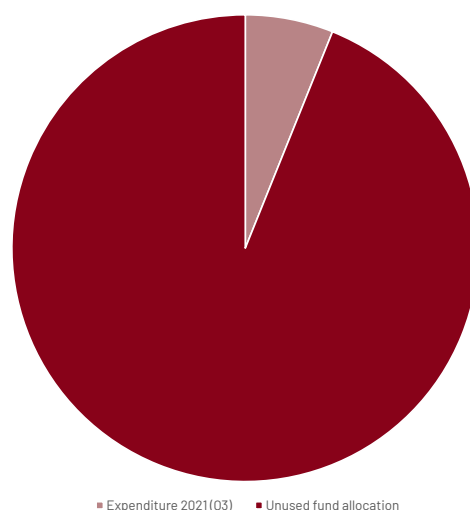
Source: Budget Speech 2021, Ministry of Water Supply progress report *

Figure for funds received. Considered as proxy for expenditure.

Under *Water for All*, 145 individual sub-projects were scheduled for implementation in 2021, of which the physical progress of 107 sub-projects fell below the targets set in the Action Plan. Just 14% of individual sub-projects were on or ahead of schedule.

Up to to the 3rd quarter of 2021, just 1,688 million LKR had been utilized towards the implementation of *Water for All*. As illustrated in in Exhibit 3.2.3, this is just 6% of the revised allocation for the year, and just 1.3% of the original allocation.

Exhibit 3.2.3: Utilization of funds allocated to the expenditure proposal Water for all till the third quarter of 2021



Source: Ministry of Water Supply progress report 2021

Assuming the same rate of financial progress as achieved in the first three quarters of 2021, Verité estimates

29 Clean drinking water for all by 2025 – PM, Daily News. <https://www.dailynews.lk/2022/03/24/local/275534/clean-drinking-water-all-2025-%E2%80%93-93-pm>.

that the total expenditure on the *Water for All* project for 2021 was LKR 2,250 million. This is 8.1% of the revised allocation, leaving 91.9% of funds unutilized. This is particularly problematic at a time when there is significant funds requirement for other priority sectors as the country faces a pandemic. Tying up and underutilizing funds in such projects undermine efforts to allocate funds to priority sectors.

The 2022 Budget allocates 17,000 million LKR for the purpose of implementing *Water for All*. Assuming the project is expected to proceed at a similar rate as 2021, this is a gross over-allocation. However, assuming that this is not the case, Exhibit 3.2.4 calculates the average yearly spending that must be achieved in order to fulfill the complete allocation and achieve 100% drinking water access by 2030.

Exhibit 3.2.4: Projected utilization of funds

Year	Yearly expenditure (LKR Millions)	Remainder of total allocation (LKR Millions)
2021	2,251	612,227
2022	17,000	595,227
2023	74,403	520,824
2024	74,403	446,421
2025	74,403	372,018
2026	74,403	297,615
2027	74,403	223,212
2028	74,403	148,809
2029	74,403	74,406
2030	74,403	3
	614,478	

Sources: Ministry of Water Supply progress report 2021, 2022 approved Budget Estimates

Figures in LKR millions

Under the assumption that in 2022 the funds allocated towards *Water for All* are utilized fully, in the government must expend LKR 74,403 million annually during 2023-30 in order to achieve universal access to clean water. If the original commitment of achieving clean drinking water by 2025 is to be met, a yearly expenditure of LKR 198,409 million is required in the period 2023-2025. Neither figure is realistic given the poor track record of public funds utilization and implementation of the project in 2021.

The lack of analytical foresight displayed by the government with regards to this project, especially given its scale, calls into question the overall management of public funds towards development projects.

3.3. Discretionary Budget

Section 6(1) of the Appropriation Act No. 30 of 2021 allows for funds placed under the development activities of the Department of the National Budget (NBD) to be transferred to any other head in the schedule subject to the order of the Secretary to the Treasury, Deputy Secretary to the Treasury or the Director General of the NBD. Parliamentary approval for such transfers is not required, and Parliament will only be notified via a submission of a report within two months of such transfers.³⁰ In this manner, the law allows the government to expend funds under the development activities of the NBD in a discretionary manner. Therefore, this allocation can be considered as a discretionary budget.

The allocations made for this budget head increased significantly from 2014 to 2018 as is evident in Exhibit 3.3.1.

Exhibit 3.3.1: Department of National Budget Development Activities

Figures in LKR Million

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Expenditure Under Development Activities	61,812	457,639	623,646	488,078	313,307	176,107	59,741	165,030	70,801
Supplementary Support Services and Contingent Liabilities	-	-	-	-	-	80,107	59,741	49,880	59,876
Budget Proposals	-	-	-	-	-	96,000	-	115,150	10,925
As a % of Total Expenditure	3.44%	19.98%	26.72%	18.97%	11.63%	5.28%	1.72%	4.36%	1.82%

Source: Ministry of Finance, Approved Budget Estimates Various Years, 2018 and 2019 COPF report

Note: The total expenditure figures 2021 and 2022 are estimates.

*There were no allocations for budget proposals in 2020 due to the absence of a comprehensive budget speech.

Up until 2018, there was only one budget head titled Supplementary Support Services and Contingent Liabilities under the development activities of the NBD. This included budget proposals read out in the budget speech and certain welfare schemes. From 2019 onwards, a new budget head titled Budget Proposals was created in addition to the existing budget head and included in the budget proposals. Welfare schemes were no longer included under NBD but were included under respective ministries.

The 2019 and 2018 Committee on Public Finance (COPF) reports cover how this loophole has been used to manipulate the budgetary process and use funds for purposes other than what it is stated for. To ensure minimum

³⁰ Parliament Of the Democratic Socialist Republic of Sri Lanka Appropriation Act No. 30 of 2021. Available at http://documents.gov.lk/files/act/2021/12/30-2021_E.pdf.

abuse of this discretionary fund, the COPF reports made a number of recommendations, and the Ministry of Finance's action in response to such recommendations are noted in Exhibit 3.3.2.

Exhibit 3.3.2: 2018 and 2019 COPF Report Recommendations to Address Concerns in Increase in Discretionary Budgeting

#	Recommendation	Response/ Actions Taken
1	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.	Overall development activities under the NBD have accounted for less than 5% of total expenditure since 2019 and allocation under the supplementary support services and contingent liabilities category have been less than 3% of total expenditure from 2019 onwards. As such, it can be concluded that the recommendation was adhered to. (See Exhibit 4.3.1)
2	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.	<p>The approved budget estimates for 2022 lists the following as acceptable circumstances in which funds can be drawn from "Supplementary Support Services and Contingent Liabilities"</p> <p>Provisions for uncertain expenses, incurred in emergency situations such as natural disasters, COVID -19 and national security</p> <p>Provisions to incur expenditure in case no allocation was made due to the exact amount being unclear or confusion on the financial requirement</p> <p>Provisions for additional expenditure and responsibilities, incurred due to changes in assumptions for the formulation of the Budget</p> <p>Provisions for expenses such as damages, write offs and compensation</p> <p>Provisions for external financing to settle shortfalls of Development Programmes and to implement these programmes and for the settlement of funds for other expenses</p> <p>Provisions required to fulfil any commitment under an Agreement in which the Government is one party, or which shall be fulfilled by a court order and provisions for commitments to be fulfilled under government guarantees</p> <p>Provisions, required for contingency liabilities of state enterprises in decline and for the rehabilitation of such enterprises</p> <p>Purchases to be made under the direct responsibility of the Secretary to the Treasury in exceptional cases, which are not included in Budget Estimate.</p> <p>Provisions for shortfall of provisions of salaries and related payments of the Public Service</p> <p>Provision for Budget Proposals</p>
3	Create a new budget-head with the title "Proposals of the Finance Minister."	A separate budget head for budget proposals was created in 2019.

Sources: Committee on Public Finance Reports 2018/19

Did the Actions Taken by the MoF align with the Initial Objective of the Recommendations?

The following section will focus on recommendation three above.

A key point to note is that discretionary funds include the allocations for the budget proposals read out by the Minister of Finance in the Budget Speech. As such, according to Section 6(1) of the Appropriation Act,³¹ funds that are supposedly allocated for the minister's budget proposals can be used for purposes other than what they are committed for. Recommendation three in Exhibit 3.3.2 has the potential to eliminate this loophole, and in response, in 2019, the MoF created a budget head titled 'Budget Proposals'.

However, the 2019 Budget Estimates also stated the following:

"the allocations pertaining to the budget proposals are presented under Head No 240 Programme 2 project 3. Subsequent to a proper study and specific identification of spending agencies related to each budget proposal, such provisions will be released to respective spending agencies at the earliest."

Therefore, despite a separate budget head being created, the budget head still falls under the development activities of the NBD, and by section 6(1) of the Appropriation Act, the funds allocated for budget proposals can still be utilized for purposes that may not have Parliamentary approval. Given this structure, there is still room for funds to be diverted from the intended purpose.

Decline in Allocation of the Discretionary Fund, is this a Positive Step?

In 2021, the initial allocations for supplementary support services and contingent liabilities and budget proposals were LKR 49,880 million and LKR 115,150 million respectively, representing a drop in the allocation for the discretionary fund from 2020. However as per the 2022 approved budget estimates the allocations for 2021 have been revised to LKR 83,417 million and LKR 44,901 million respectively, representing a 67% increase for the supplementary fund and 61% decrease in the allocation for budget proposals. (See Exhibit 3.3.3)

Exhibit 3.3.3: Revision in Allocation for 2021

Values in LKR million

Year	2021	2021 Revised Budget	% Change
Total Expenditure Under Development Activities	165,030	128,319	-22%
Supplementary Support Services and Contingent Liabilities	49,880	83,417	67%
Budget Proposals	115,150	44,902	-61%
As a % of Total Expenditure	4.36%	3.21%	N/A

Despite the overall allocation for development activities of the NBD falling, a reduction in the discretionary budget, this revision is problematic for the following reasons. First, the drop in allocation stems from lower allocation for the budget proposals, further reducing the government's already weak credibility as it implies that the government is reneging on its promises. Second, there is no justification provided for the increase in allocation for supplementary support services as well as no indication of how the increased funds will be utilized.

31 Parliament of the Democratic Socialist Republic of Sri Lanka: Appropriation Act No. 30 of 2021. Available at http://documents.gov.lk/files/act/2021/12/30-2021_E.pdf.

Allocation in 2022

Exhibit 3.3.4: Allocation for Development Activities under NBD for 2022

Year	2022 (In LKR Millions)
Total Expenditure Under Development Activities	70,801
Supplementary Support Services and Contingent Liabilities	59,876
Budget Proposals	10,925
As a % of Total Expenditure	1.82%

The 2022 allocation represents a further drop with the discretionary budget accounting only for 1.82% of total approved expenditure.

However, in the 2022 Budget Speech, the budget proposals had an allocation of LKR 261,100 million in Annexure IV.³² This is due to a deviation in the reporting format where the budget proposals have been allocated under the respective ministries with the exception of a few proposals. (i.e., 4% of the 261 billion was included under the development activity of the NBD).

Exhibit 3.3.4: Allocation for Development Activities under NBD with all other Budget Proposals for 2022

Year	2022 (In LKR Millions)
Total Expenditure Under Development Activities	70,801
Budget Proposal Allocations under different ministries (excluding those which is already included under NBD)	250,175
Total Discretionary Budget Expenditure	320,976
As a % of Total Expenditure	8.3%

If the entire allocation for budget proposals had been included under the development activities of the NBD as in previous years, the discretionary budget would have accounted for 8.3% of total approved expenditure in 2022.

The MoF has taken action to ensure that the relevant proposals fall under their respective ministries. However, the manner in which the 2022 budget proposals are recorded under the NBD are less transparent in comparison to previous years. Except for the 2022 Approved Budget Estimates, all previous budget estimates had explicitly noted down the budget proposals and their values under the NBD. These corresponded to the budget proposals and their respective values in the annexure in the budget speech in earlier years.

However, in 2022, there is no distinction between which proposals are included under the NBD and which proposals have been included under relevant ministries. Further, budget documents do not specify under which ministry the said budget proposals fall under, making it difficult to track the funds.

Vague Budget Proposals that allow further room for discretionary use of funds

In addition to the existence of a legal framework that allows funds to be fungible, the budget proposals read out in the speech inherently create room for discretionary spending due to its vague descriptions. Considering the budget speeches from 2019 onwards, Exhibit 3.3.5. highlights proposals that were identified as leaving room for discretionary spending using direct extracts from the relevant Budget Speeches.

32 Ministry of Finance (2021): Budget Speech 2022 - Annexures (Annexure IV). Found at <https://www.treasury.gov.lk/api/file/0c3639d9-cb0a-4f9d-b4f9-5571c2d16a8b>

Exhibit 3.3.5: Budget Proposals

Figures in LKR Million

Budget Speech 2019		
Gamperaliya - Range of rural development activities allocated for various purposes	An Allocation of LKR 300Mn per electorate. The 2022 Budget Speech Annexures specifies the scope of the programme that spans from infrastructure of roads, bridges, playgrounds, rehabilitation of temples, kovils etc.	48,000
Palmyrah Fund - The funds will be routed through the Government Agents for development activities in the war affected areas	We invite well-wishers, philanthropists, especially in the Diaspora, to also contribute to this Fund, which will be administered by the Treasury. The funds will be routed through the Government Agents for development activities in the war affected areas. In addition to these development activities, the fund will also channel resources towards programs that addresses alcoholism, drug abuse, youth unemployment, civil society-initiated counseling, and support programs.	2,500
Total Allocation		50,950
Allocations as a % of total funds for budget proposals in 2019		53%
Allocation as a % of total expenditure		2%
Budget Speech 2022		
Rural Development Projects	LKR 3 million for each GN Division. The Chief Incumbent of the village temple, clergy of the Kovil, Church, Mosque, rural community leaders and all the villagers can actively engage themselves in this process. Rural requirements can be identified by a forum of government officials and rural political leaders.	42,063
Development of Local Government Divisions	Budgetary allocations have been made separately for each local government division. One division is provided with LKR 4 million.	19,668
Decentralized Budget	Increase budgetary allocations provided to all Members of Parliament for development activities for their respective divisions by LKR 5 million. Every member of the Parliament will be provided an allocation in 2022 of LKR 15 million of development budgetary allocations.	3,375

Rural Livelihood Development Programmes.	Strengthen the rural economy, raise the income level of rural families, liberate them from the subsistence mentality, integrate their economic activities to the mainstream, increase Gross Domestic Product and minimize the income disparity. Accomplished via a three-pronged approach: Regaining the lost income sources, Development of available revenue streams and Creation of new revenue generation sources.	19,894
Total Allocation		85,000
Allocations as a % of total funds for budget proposals in 2022		33%
Allocation as a % of total approved expenditure		2%

The allocation for the proposals in the 2022 budget speech falls under the “Gama Samaga Pilisandara” (Discussion with the Village) – Rural Development Programme and accounts for 33% of the allocation for the expenditure proposals in 2022 and 2% of total approved expenditure. By allocating funds to GNs and local government officials and giving complete autonomy of the fund utilization, control of public finance is effectively being taken away from Parliament.

3.4. Supplementary Estimates

In light of any unforeseen or urgent expenditure for which the budget has not accounted for, Article 151 of the Constitution permits Parliament to create a contingency fund to finance such expenditure. The Minister of Finance, if satisfied that there is a need for such an expenditure and no such provisions exist, can authorize provisions to be made through advances from the contingency fund. As soon as possible after every such advance, a Supplementary Estimate (SE) should be presented to Parliament to replace the amount advanced.³³

As per the Finance Minister's proposal in paragraph 5.4.4 of the 2022 Budget Speech, the Appropriation Act was amended such that Section 6 of the Appropriation Act No. 30 of 2021 now prevents any government departments or institutions from making requests for supplementary allocations for the financial year 2022 to implement new programs or projects.

Exhibit 3.4.1: Supplementary Estimates (SEs) from 2016-2021.

	2016	2017	2018	2019	2020	2021
SE (LKR Millions)	648	53,000	30,000	352,939	-	200,000
BD as a % of GDP with SE	5.34%	5.50%	5.32%	6.77%	13.96%	15.04%
BD as a % of GDP without SE	5.33%	5.11%	5.11%	4.42%	13.96%	13.83%
SE as a % of Total Expenditure	0.03%	2.06%	1.11%	12.11%	0.00%	5.00%

Source: Ministry of Finance Annual Reports 2016-2020, Order paper of Parliament for June 23rd, 2021, Approved Budget Estimates 2022 and Central Bank of Sri Lanka.

On average, SEs from 2016-2021 have accounted for 3% of total expenditure. As the SEs increase expenditure, they contribute to a wider budget deficit. As is evident in Exhibit 3.4.1, in the years of comparison, 2019 witnessed the largest SE of LKR 353 billion, which increased the budget deficit by 2.35 percentage points.

The reasons for requests of such SEs across each year are provided below.

Exhibit 3.4.2: Reasons for request of SEs

Year	Reasons for requesting of a SE
2016	The SE was requested for financing the expenditure of newly established ministries in 2015 and 2016. LKR 55 million was drawn to settle the advances made to finance the 11 new ministries established in 2015. Further LKR 593 million was requested to establish the Ministry of Regional Development, which was created after the budgetary formulation stage for 2016.
2017	The SE was requested by the Ministry of Highways and Higher Education to settle bills submitted by contractors for foreign funded projects.

33 Article 51 of the Constitution of the Democratic Social Republic of Sri Lanka Available at <https://www.parliament.lk/files/pdf/constitution.pdf>.

2018	The SE was requested by the Ministry of Highways and Higher Education for settlement of the bills of foreign-funded projects, payment of mobilization advances and repayment of loan instalments of local loans.
2019	Certain expenditure heads under the Ministry of Internal and Home Affairs and Provincials and Local Government and Ministry of Megapolis and Western Development were defeated in the third reading of the Appropriation Bill in 2019. Therefore, SE of LKR 288 billion was passed to facilitate the financing of the above expenditure heads. In addition, the Ministry of Highways and Road Development requested a SE of LKR 65 billion for the settlement of bills of foreign-funded projects, payment of mobilization advances and repayment of loan instalments of local loans.
2020 ³⁴	No requests for SE
2021 ³⁵	The SE was requested for COVID-19 related expenditure

Source: MoF Annual report 2016-2020. Parliamentary Hansard for the 23rd of June 2021

The Ses for 2019 was mainly due to the defeat of certain expenditure heads at the third stage of the reading of the 2019 Appropriation Bill. In 2019, the SE was in addition to the Vote on Account approved by the Ministry of Finance for the financing of the four months of expenditure following the constitutional crisis in October of 2018.

It should also be noted that the Ministry of Highways and Road Development has consistently requested for Ses since 2016, for the settlement of foreign bills and local loan instalments. However, such expenditure does not represent unforeseen or unexpected expenditure as the said ministry should ideally be aware of impending loan payments.

In January 2022, despite action taken to restrict such spending, subsequent to the approval of the appropriation bill with the clause preventing requests for SE, the cabinet approved a relief package worth LKR 229 billion, which was not accounted for in the 2022 budget.³⁶ Therefore it is highly likely that the financing of such a proposal would occur through a SE.

Under extreme circumstances, such as ensuring sufficient funds to combat a pandemic, the use of SE is justifiable. However, continuous abuse of the SE disrupts financial discipline in the broader public finance system. Therefore, provided that the clause in the Appropriation Act is adhered to, it would be an ideal steppingstone to ensure greater fiscal discipline.

34 Article 51 of the Constitution of the Democratic Social Republic of Sri Lanka Available

35 <https://www.parliament.lk/files/pdf/constitution.pdf>.

36 New Year heralds Rs. 229 b relief package for people. 04 January 2022. Available at <<https://www.ft.lk/top-story/New-Year-heralds-Rs-229-b-relief-package-for-people/26-728643>>.

SECTION 4:SECTORAL ALLOCATIONS

4.1. Health Sector

The budget estimates tabled before Parliament do not provide the level of granularity that allows the Parliament to know the full sectoral allocation/spending. This is because for expenditure undertaken by the Provincial Councils (PCs) (and other sub-national governments), Parliament is informed mainly of the aggregate transfers being made from the Central Government and not the full sectoral break down of those allocations.

Furthermore, the sectoral classification of budget information is not available for the 2020 or 2021 budgets, despite the information being available in the 2019 Budget. To estimate the sectoral classification, one must analyse various expenditure streams within ministerial portfolios in the accounting classification. This is an imperfect method that is likely to result in some incompleteness in the aggregates discussed in this section.

For GDP estimates used for the calculation of expenditure as a share of GDP, as mentioned in Verité Research's first report on the 2022 Budget, the nominal GDP of Sri Lanka for 2022 is expected to grow by 10.8%.³⁷

The Health Sector allocations covered in this section consist only of the central government health spending carried out by the Ministry of Health. The Ministry of Health consists of three state ministries: (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 (3) State Ministry of Primary Health Care, Epidemics and COVID Disease Control.

The descriptive statistics on how spending has been allocated across the Ministry of Health, the three state ministries and new budget proposals, are set out in Exhibit 4.1.1.

Health Sector Allocation has dropped by 18.8% in comparison to 2021

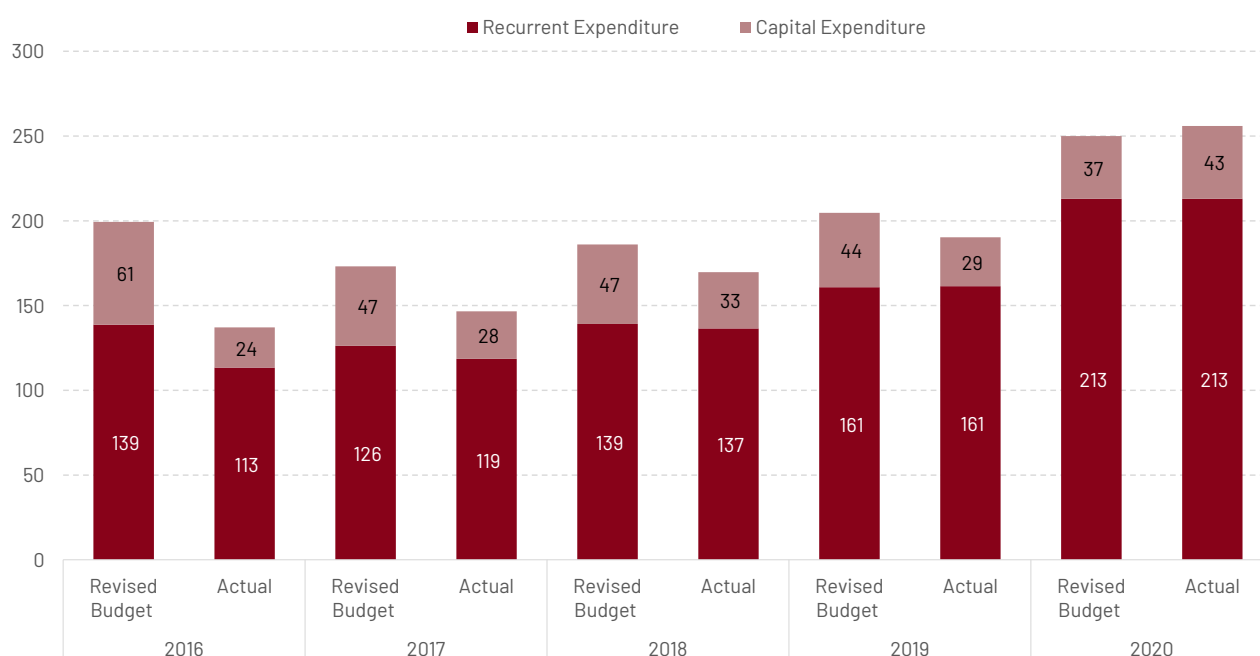
Exhibit 4.1.1: Health Sector Expenditure Summary (Values in LKR billions)

Ministry/State Ministry/Department	Govt. Expenditure/Allocation		Y-o-Y change	
	2020 Actual	2021 Revised	2022 Budget	2021-2022
Health Sector	255.8	301.4	244.7	-18.8%
Share of Government	7.32%	7.53%	6.29%	
	1.71%	1.83%	1.32%	
Ministry of Health	169.1	165.8	158.5	-4.41%
	4.84%	4.14%	4.08%	

³⁷ Verité Research (2021). Public Report on the 2022 Budget: Assessment of the Fiscal, Financial and Economic Assumptions used in the Budget Estimates. Colombo: Verité Research. Available at <https://publicfinance.lk/en/topics/public-report-on-the-2022-budget-assessment-of-the-fiscal-financial-and-economic-assumptions-used-in-the-budget-estimates-1638955142>.

State Ministry of Indigenous Medicine Promotion, Rural and Ayurvedic Hospitals Development and Community Health	1.9 0.05%	3.2 0.08%	2.3 0.06%	-28.1%
Department of Ayurveda	1.7 0.05%	2.8 0.07%	1.8 0.05%	-34.0%
State Ministry of Production, Supply and Regulation of Pharmaceuticals	84.3 2.41%	119.8 2.99%	66.1 1.70%	-44.8%
State Ministry of Primary Health Care, Epidemics and COVID Disease Control	0.6 0.02%	12.6 0.31%	12.8 0.33%	1.7%
Department of Social Services	0.6 0.02%	0.7 0.02%	0.8 0.02%	2.0%
Specific Additional Proposals in Budget Speech 2022	N/A	N/A	5.0 0.13%	N/A

Exhibit 4.1.2: Health Sector Spending, in LKR billions, 2016-2020



Source: Budget Estimates (Various years)

Allocations to Health Sector are not fully utilised

Exhibit 4.1.3: Past Experiences, 2016-2020

Department/Ministry	Average Growth (in Actual Spending)	Average Shortfall (of Actual Spending against Estimates)
Health Sector	14.7%	12.1%
Department of Ayurveda	3.4%	17.7%
Department of Social Services	3.1%	8.6%
Other ministerial allocations	14.9%	12.0%

Source: Budget Estimates (Various Years).

Analysis

In 2022, the Health Sector allocation for the central government is LKR 245 billion. This is equivalent to 6.29% of government expenditure and 1.32% of GDP. Since 2016 the allocation for the Health Sector has been increasing on a YoY basis with an average annual growth rate of 14.7%. However, the 2022 allocation breaks from this trend, with a 18.8 % decline with respect to the 2021 allocations and the lowest nominal allocation since 2014. The State Ministry of Production, Supply and Regulation of Pharmaceuticals witnessed the largest drop of 45% in comparison to the 2021 allocation. This drop stemmed from a reduction in allocation for the development activity titled “strengthening medical supplies”. The State Ministry of Primary Healthcare, Epidemics and Covid Disease Control established in November 2020 was the only unit that experienced an increase in its allocation (by 2%) in comparison to 2021. However, the increase was due primarily for recurrent expenditures on personal emoluments and supplies.

Total recurrent and capital expenditure decreased to 202 billion and 38 billion, respectively, from 256 billion and 45 billion in 2021 and 213 billion and 43 billion in 2020.

Hospital operations, hospital development projects and supply of pharmaceuticals and consumables are the top three activities that have consistently received the highest allocation in the Health Sector. The allocations for hospital operations account for 41.8% of total Health Sector allocation and 84% of that allocation is spent on personal emoluments. Supply of pharmaceuticals and consumables account for 27.4% of total Health Sector allocations with 68% of this allocation being used to purchase medical supplies under the COVID Programme. Hospital development projects account for 13.6% of total Health Sector allocation, of which 63% of the allocation is financed via foreign sources.

Historically, the Health Sector has had a lower utilization of funds with an average shortfall of 14.7%. The deviation from allocation is noticeable in capital expenditure, where the average shortfall from 2015-2019 is 38% with the largest deviation occurring in 2016 with a shortfall of 61%. However, in 2020 actual spending exceeded the allocated amount due to an increase in capital expenditure for hospital development projects falling under the purview of the Ministry of Health.

Budget Expectations Based on Government Policy

Allocations have been made for a majority of the policies outlined in the government’s official policy document “Vistas of Prosperity and Splendour” The specific policy priorities relating to the Health Sector and the related observations from the budget are set out below.

Exhibit 4.1.4: Government Health Policy Framework against Budget 2022

#	Government Policy Priority	Summary of Observations
1	Improving healthcare development facilities	<p>The government’s main policy priority as stated in “Vistas of Prosperity and Splendour”³⁸ was to increase annual investment in healthcare, which it has failed to achieve as the 2022 allocation for the Health Sector has declined in nominal terms for the first time since 2014.</p> <p>LKR 32,631 million is allocated for the Hospital Development Project in 2022. This is LKR 2,503 million higher than the revised budget estimate for 2021 but LKR 2,376 million lower than 2020 actual spending. However, considering the allocation as a percentage of total allocation for the Health Sector, the 2022 estimated figures allocate 13.61% of total Health Sector allocation for hospital development projects, whereas in 2020 and 2021 the allocations were 9.3% and 10% respectively.</p>

38 National Policy Framework Vistas of Prosperity and Splendour, Department of Commerce at <http://www.doc.gov.lk/images/pdf/NationalPolicyframeworkEN/FinalDovVer02-English.pdf>.

1.1	Upgrade National Hospital of Sri Lanka (NHSL) to international level	<p>LKR 312 million is allocated for upgrading NHSL to international standards. The allocation is LKR 598 million lower than the 2021 revised budgeted figure and LKR 66 million lower than the 2020 actual figure.</p> <p>The allocation for 2022 is divided between two projects: (1) adding the state-of-the-art OPD facility to the NHSL with an allocation of LKR 12 million and (2) establishing the national heart centre with an allocation of LKR 312 million.</p> <p>Setting up the OPD is a foreign funded project by China with a timeline of 2017-2021 and a total estimated cost of RMB 489.1 million (approximately LKR 15,500 million³⁹). However, cumulative spending up until August 31st, 2021, amounts to LKR 1,894 million and only LKR 12 million has been allocated in 2022. Thereby cumulative spending as of 2022 would only be LKR 1,904 million, which is a minute fraction of the total allocation.</p>
1.2	Equip and upgrade a hospital in each district to NHSL level	LKR 4,399 million is allocated for this purpose and is LKR 1,481 million lower than the 2021 revised budgeted figure and 11,680 million lower than 2020. Allocations for a majority of the subcategories have decreased compared to the 2021 revised estimate and 2020 actual spending.
1.3	Upgrade all hospitals by providing necessary facilities, physical as well as human resources and establish a referral system to forward the patients to relevant hospitals	LKR 6,565 million is allocated for this purpose and is LKR 5,535 lower than 2021 forecasted figure but is LKR 506 million higher than the 2020 actual figure. The allocation provided for Medical Equipment and Lab Apparatus shows the largest cut in allocation, indicating a decline of LKR 1,510 million from 2021 to 2022.
1.4	Introduce modern diagnosis and treatment facilities i.e., E-Health, Telemedicine	No allocations made to achieve modern diagnosis facilities in 2022.
1.5	Establish an adequately equipped WHO standard quality control laboratory to ensure the quality of drugs	No allocations have been made to establish an adequately equipped WHO standard quality control laboratory.
2	Enhancing life expectancy of people qualitatively by preventing communicable and non-communicable diseases and building a health service aimed at maintaining the country with a minimum infant and maternal mortality rate	<p>The allocations under the Ministry of Health for preventing and controlling communicable diseases, developing healthcare services aimed at minimum infant and maternal mortality rates and enhancing life expectancy and allocations to the State Ministry of Primary Healthcare, Epidemics and COVID Disease Control have been considered as the total allocation for this policy priority.</p> <p>The total allocation for 2022 accounts to LKR 19,894 million with the state ministry receiving an allocation 64% of this allocation. The total allocation is LKR 1,455 million lower than the 2021 revised budgeted figure but LKR 11,450 million higher than the 2020 figure. However, the main reason for the 2022 allocation to exceed the 2020 figure by a large margin is due to the establishment of the state ministry in November 2020.</p> <p>An allocation of LKR 3,184 million has been received for the prevention and controlling of communicable and non-communicable diseases, which is LKR 1,011 million higher than the 2020 actual and LKR 144 million higher than the 2021 revised budgeted figure. The increase is driven by the recurrent expenditure for the Thripasha programme, despite Thripasha production no longer falling under the purview of the Ministry of Health.</p> <p>The development of healthcare services for maternal and child healthcare received an allocation of LKR 3,910 million which is significantly lower than the 2021 and 2020 allocations.</p>

39 Based on the Central Bank of Sri Lanka's Indicative exchange rate as at 15th January 2022.

3	Formulating a methodology to regulate private medical and laboratory services within the framework of a national policy and delivering of a systematic service	No allocations have been made in 2022.
4	Improve facilities to retain doctors in the country	Allocation of LKR 859 million was a set aside in 2022. The total allocation and allocation for all subcategories decreased in comparison to the 2020 and 2021 forecasted figure.
5	Maintain compulsory safe stock levels of essential drugs and supplies	The allocations for the line items titled "medical supplies purchased through the state pharmaceutical corporation (SPC)", "medical supplies purchased from the State Pharmaceutical Manufacturing Corporation and purchasing of oxygen, consumables etc." have been considered for this policy priority. In 2022, an allocation of LKR 65,000 million has been received out of which 69% is devoted to purchase medical supplies under the COVID-19 programme. The entire allocation for the policy priority is LKR 39,852 million and LKR 17,028 million lower than the 2021 and 2020 allocations, respectively. However, the allocation for purchasing medical supplies under the COVID programme is LKR 10,000 million higher than 2021.
6	<p>Increase annual allocation for Indigenous medicine sector including</p> <ul style="list-style-type: none"> - provide necessary facilities to improve Ayurveda hospitals to a standard level provide preventive care facilities - provide facilities to Ayurveda physicians - Encourage research on indigenous drugs and treatment facilities - Provide facilities to cultivate all medicinal plants, herbal gardens and provide facilities to manufacture and export herbal cosmetic products - Establish a national indigenous medical council and Sri Lanka Medical Ayurveda council and develop a system to register traditional healers as indigenous doctors - Upgrade institute of medicine to a level of an Ayurveda University - Steps taken to update Ayurveda Pharmacopoeia. - Develop a mechanism to cater to tourists for Ayurveda, Siddha, homeopathy and other traditional treatment methods 	<p>Under the assumption that the budget proposal of LKR 5,000 million titled "Health and Indigenous Medicine" falls under the purview of the State Ministry of Indigenous Medicine Promotion, Rural and Ayurvedic Hospitals Development and Community Health state ministry, the total expenditure allocated to the state ministry amounts to LKR 7,279 million for 2022. Representing an increase of LKR 4,108 million in comparison to the 2021 revised budgeted figure and LKR 5,402 million increase in comparison to 2020 actual figure. Excluding the allocation under the budget proposal the State Ministry receives an allocation of LKR 2,279 million.</p> <p>Not all policy actions listed have received allocations. For providing preventative care facilities LKR 25 million has been allocated in 2022, which is 23 million less than the 2021 budgeted figure. For research, education, and training purposes LKR 329 million has been allocated. LKR 14 million has been allocated for the promotion of medicinal herbs cultivation locally for Ayurvedic drug production. No allocations have been made for setting up an indigenous medical council and upgrading the said institute of medicine to the level of an Ayurveda university.</p>
7	Expansion of adult health care facilities targeting low-income earners in rural, backward, and urban areas	Allocation of LKR 9,880 million was set aside in 2022. The decline in comparison to 2021 and 2020 is negligible.

COVID- 19 Expenditure

The economic impact of COVID-19 impinges on all sectors. Therefore, expenditure on combatting COVID-19 cannot be restricted only to the Health Sector. As such, based on data availability spending has been disaggregated into spending under Health Sector and overall spending to combat COVID-19.

Exhibit 4.1.5.: COVID-19 Expenditure under the Health Sector

Description (Figures in LKR million)	2020	2021 Forecast	2022 Estimate
Vaccination Programme		65,000	20,000
Medical Supplies, Equipment and Cost of Treatment centres	31,492	34,100	25,105
Deployment Cost of Health Staff	8,401	15,000	3,000
Other Service Requirements	9,256	7,400	7,645
Spending on Covid-19 from Health Sector	49,149	121,500	55,750

Source: Ministry of Finance Fiscal Management Report 2022.

*Note: The above includes allocation under the Ministry of Health, its State Ministries, and provincial councils

The 2021 forecasted figure indicates that Covid-19 related spending accounts for 40% of the total Health Sector allocation where spending on vaccination programmes accounts for half of the said allocation.. In 2022, COVID-19 related expenditure is estimated to account for 23% of total Health Sector allocation. The allocation for each of the key activities in 2022 have declined, with the spending on vaccination programmes recording the largest drop of 69.2%. Sri Lanka is expected to obtain 44 million doses of COVID vaccines during 2021-2022, out of which 36% (16 million doses) are donations and 64% (28 million) are expected to be acquired by the government.⁴⁰ As of June 2021, 5% of the vaccine doses have been received. Donations expected from the COVAX facility account for more than half of the donations. Based on the cost per dose of vaccine of USD 5.2541 and an estimated shipping cost of USD 4.50⁴² the total estimated cost for the vaccines amount to USD 278 million (approximately LKR 55,969 million). Therefore, despite the drop in allocation for the vaccination programme funds allocated appear to be sufficient.

Total COVID-19 Related Expenditure

According to the Ministry of Finance, Sri Lanka has incurred a total of LKR 117,500 million in 2020⁴³ and LKR 142,755⁴⁴ million during January to August of 2021 as expenses on the country's COVID-19 response. As such, a total of LKR 260,255 million has been spent on COVID-19 as at the end of August in 2021. The breakdown of the spending from Jan – Aug of 2021 is as follows,

Exhibit 4.1.6.: Breakdown of the Covid expenditure from Jan – Aug 2021

Jan - Aug	
In LKR Million	2021
Providing allowance of Rs. 5000 for the people affected by the COVID pandemic	18,590
Quarantine, Health Infrastructure, Medical Supplies services, etc.	111,768
Facilities provided by the District Secretariats and Divisional Secretariats for the people affected by the COVID pandemic	12,397
Total	142,755

Source: Fiscal Management Report 2022

The LKR 5,000 allowance was provided for senior citizens, disabled persons, kidney patients, farmers, and displaced daily workers from April – December of 2020.

40 Responsive COVID-19 Vaccines for Recovery Project under the Asia Pacific Vaccine Access Facility: Report and Recommendation of the President , June 2021. ADB Available at: <https://www.adb.org/projects/documents/sri-55085-001-rrp>.

41 Second Additional Financing for Sri Lanka COVID-19 Emergency Response and Health Systems Preparedness Project, April 2021. World Bank.

Available at: <https://documents1.worldbank.org/curated/en/537141622653830760/pdf/Sri-Lanka-COVID-19-Emergency-Response-and-Health-Systems-Preparedness-Project-Second-Additional-Financing.pdf>.

42 Ibid.

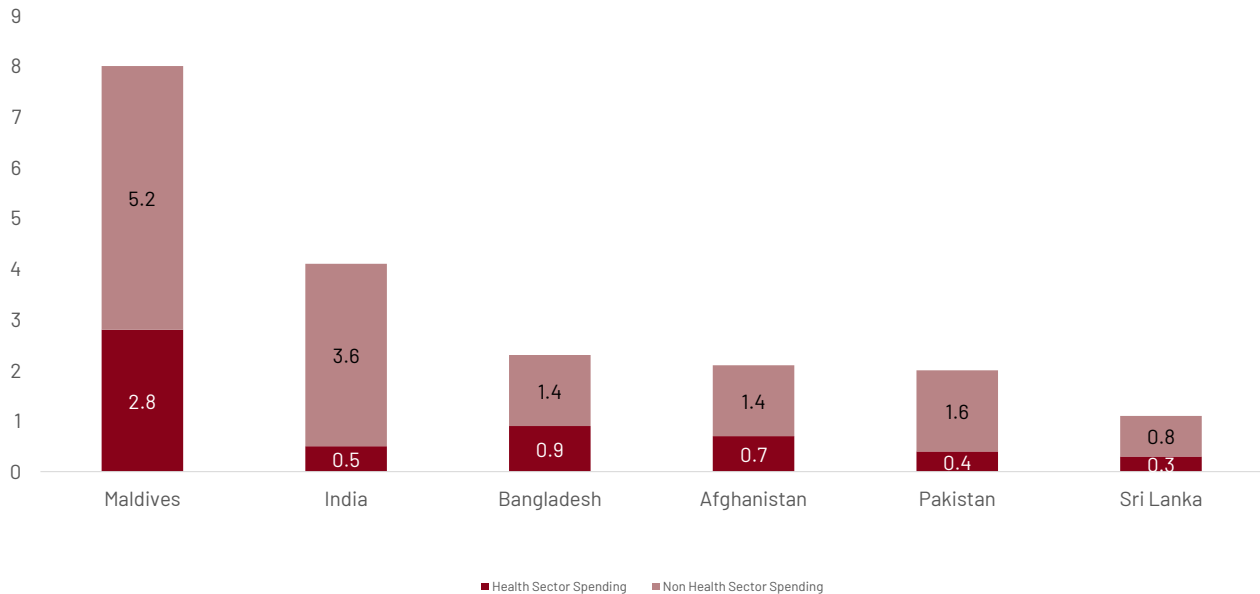
43 Ministry of Finance Annual Report 2020.

44 Ministry of Finance – Fiscal Management Report 2022.

An important initiative was floated to fund COVID-19 related expenditure, through the establishment of the 'Itukama' COVID – 19 Healthcare and Social Security Fund that sought donations from the private sector and individuals. The fund was established with LKR 100 million and as of September 2021 the funds collected stood at LKR 1,864 million.⁴⁵ However, the utilization of the fund is extremely low with only 10.6% (LKR 197.5 million) being used, out of which 34% (LKR 67.5 million) is reported as being spent on advocacy programmes.⁴⁶

Regional Comparison of Expenditure on COVID-19

Govt. Expenditure on Covid-19 as % of GDP (Jan 2020- Sep 2021)



Source: International Monetary Fund

In comparison to its regional peers, Sri Lanka has spent the lowest proportion of its GDP on Covid-19 related expenditures despite having a death rate of 2.1% that is second only to Afghanistan as at the end of September 2021. On the positive side, Sri Lanka has been able to successfully vaccinate 76% of its population, which is the highest vaccination rate in the region as of end January 2022.⁴⁷

⁴⁵ Public Finance Platform: The Government Spent Only 10.6% of The Itukama COVID-19 Fund Balance. Available at <https://publicfinance.lk/en/topics/the-government-spent-only-10-6-of-the-itukama-covid-19-fund-balance-1641814589>.

⁴⁶ Ibid.

⁴⁷ Our World in Data. Available at <https://ourworldindata.org/covid-vaccinations>.

4.2. Education Sector

Allocations for the education sector include the expenditure of the following ministries:

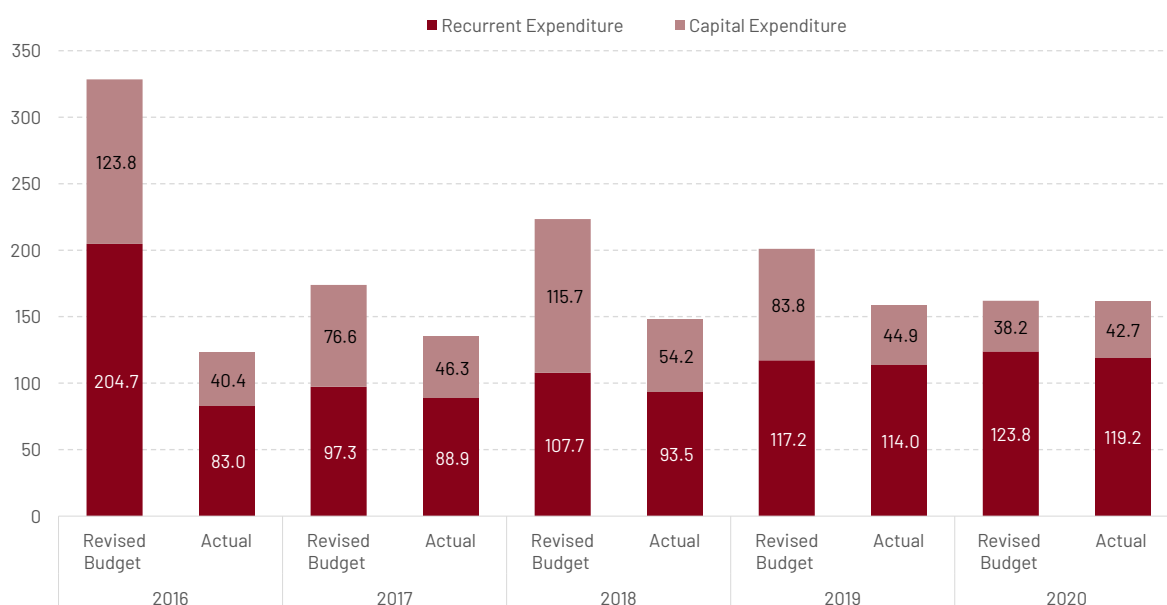
- **General Education-** Ministry of Education (expenditure related to general education), State Ministry of Women and Child Development, Preschools and Primary Education, Schools' Infrastructure and Education Services (under State Ministry of Women and Child Development) and State Ministry of Dhamma Schools, Pirivenas and Bhikkhu Education.
- **Higher Education-** Ministry of Education (expenditure related to higher education), State Ministry of Education Reforms, Open Universities and Distance Learning Promotion.
- **Technical and Vocational Education (TVET) -** (Under the State Ministry of Skill Development, Vocational Education, Research and Innovation) other- National Education Commission.

Exhibit 4.2.1: Education Sector Expenditure Summary (Values in LKR billions)

Ministry/State Ministry/ Department	Govt. Expenditure/ Allocation 2020 Actual	Y-o-Y change 2021 Revised	2022 Budget	2021-2022
Education Sector Share of Government Expenditure	161.9 4.6%	172.8 4.3%	197.8 5.1%	14.5%
Share of GDP	1.1%	1.0%	1.1%	
General Education	76.53	80.43	105.55	31.2%
% Of Total Expenditure	2.19%	2.01%	2.71%	0.71%
University Education	76.23	80.63	79.54	-1.3%
% Of Total Expenditure	2.18%	2.01%	2.05%	0.03%
TVET	9.09	11.70	12.64	8.0%
% Of Total Expenditure	0.26%	0.29%	0.32%	0.03%
Other	0.04	0.06	0.07	21.4%
% Of Total Expenditure	0.00%	0.00%	0.00%	0.00%

2020 had the lowest divergence between revised and actual allocations in the Education Sector.

Exhibit 4.2.2: Education Sector Spending, in LKR billion, 2016-2020



Significant shortfall in spending for general and vocational education in the past

Exhibit 4.2.3: Past Experiences, 2016-2020

Department/Ministry	Average Growth (in Actual Spending)	Average Shortfall (of Actual Spending against Estimates)
Education Sector	7.7%	25.5%
General Education	5.7%	32.2%
University Education	13.4%	9.3%
TVET	2.7%	18.8%
Other	5.3%	12.6%

Analysis

Allocation to the education sector has remained constant at approximately 1% of GDP from 2020 to 2022. However, the education sector allocation as a percentage of government expenditure has increased marginally in 2022 at 5.1% in comparison to 2021 (4.3%) and 2020 (4.6%).

In absolute terms, the allocation for the education sector has increased by LKR 24.6 billion in 2022 when compared with the revised estimate of 2021. The highest difference was identified from the general education sector which had an allocation of LKR 80.43 billion in 2021 and an allocation of LKR 105.55 billion in 2022, a year-on-year increase of 32.2%.

In terms of average growth rates over a five-year period (2016-2020), the expenditure on higher education is the greatest with an average growth rate of 13%. Higher education also has the lowest average shortfall from approved budget estimates (9%) from 2016-2020. Higher education was the only education sector with increased spending in 2020, while all the other education sectors reported reduced spending.

Budget Expectations Based on Government Policy

Allocations have been made for a majority of the policies under education outlined in the government's official policy document "Vistas of Prosperity and Splendour". The specific policy priorities relating to the education sector and the related observations from the budget are set out in Exhibit 4.2.5 below.

Exhibit 4.2.5: Government Education Policy Framework against Budget 2022

#	Government Policy Priorities	Observations
1	General Education	
1.1	Allocate adequate funds from the Annual Budget to implement the free education policy.	Allocation for general education has increased significantly. There has been a 30.7% increase in allocation from the revised budget of last year. In absolute terms, this translates to an increase in LKR 25 billion.
1.2	Provide infrastructure facilities and modern technology to needy schools and an extra stipend for teachers located in difficult and remote areas.	There is no specific allocation made to schools in need. However, the total allocations for overall development of infrastructure facilities are covered under the heading "General Education Development Project". The total allocation for this head amounts to LKR 8,572 million in 2022, an increase of LKR 3,391 million from 2021.
1.3	Teachers will be eligible to receive a government salary only after compulsory teacher training is completed.	Overall expenditure on teacher development by the Ministry of Education has fallen in 2022, from LKR 3,350 million in 2021 to LKR 3,062 million in 2022, a decline of 8.6%. However, the State Ministry of Education Reforms has allocated a further LKR 1,105 million in 2022 towards teacher training and professional development. This is an increase of 15% in comparison to last year.
1.4	Three (03) schools per Divisional Secretariat and all provincial schools will be upgraded to the level of national schools.	The only allocation for this has been under the State Ministry of Women and Child Development, Preschools and Primary Education, School Infrastructure and Education Services. LKR 2,200 million has been allocated to upgrade facilities of secondary schools to establish 1000 national schools. This is an increase of 120% from 2021. However, there are no further allocations for this proposal in the 2022 budget.
1.5	Establish one preschool and one day care centre, under the monitoring mechanism of the central government, in each Grama Seva Niladhari division	The Budget Estimate for 2022 does not provide any specific information regarding the allocation for this policy.
1.6	Primary schools will be developed into 'Child-Friendly schools' and 50,000 Teacher Assistants will be recruited.	The State Ministry of Women and Child Development has allocated LKR 500 million in 2022 for the development of child-friendly schools. This is an increase of 25% from 2021 where the allocation was LKR 400 million.
1.7	A programme will be implemented to improve children's nutrition by providing a nutritious food ration in school.	LKR 2,486 million is allocated towards providing meals for pre-school, primary and secondary children in 2022. This is a decrease of LKR 2,143 million or 46% from 2021 revised estimates.
1.8	Subsidised price vouchers to be distributed among school children in need to buy school uniforms, footwear, and school bags.	LKR 3,400 million in total has been allocated by the State Ministry of Women and Child Development for providing shoes and uniforms. This is a decrease of 19% from 2021. However, in 2020 the expenditure was approximately LKR 3,370 million.

2	Higher Education	
2.1	Convert the existing eighteen (18) National Colleges of Education to university faculties.	Budget Estimates for 2022 does not provide any specific information regarding the allocations for 2.1 and 2.3. However, there is an allocation of LKR 3,560 in 2022 for 2.2. This is an increase of 6.5% from the revised allocation of 2021. Capital expenditure in the higher education sector has declined from LKR 24.2 billion in 2020 to LKR 23.4 billion in 2021 and further decreased in 2022 to LKR 19.2 billion. In total, capital expenditure has declined by 21% since 2020.
2.2	Provide all infrastructure facilities needed to upgrade and develop universities to meet the demands of the 21st Century by converting them into Smart Learning Universities.	
2.3	An aviation university, a nautical university, and 10 'university colleges' affiliated to existing aesthetic universities will be established.	
2.4	The student's Mahapola financial assistance programme will be adequately enhanced.	
3	TVET	
3.1	Rationalize the existing vocational training institutes by introducing 'One TVET' Concept and establish properly scattered technical university colleges.	The Budget Estimate for 2022 does not provide any specific information regarding the allocation for this policy.
3.2	Establish a fully-fledged Tamil Medium Teacher Training College and a branch of the Sri Lanka Open University in Hatton for vocational education.	The Budget Estimate for 2022 does not provide any specific information regarding the allocation for this policy. However, under the State Ministry of Estate Housing and Community Infrastructure, there is an allocation of LKR 95 million for Upgrading Vocational Training Centers in Hatton.

4.3. Power and Energy Sector

Allocations for the Power and Energy sector include expenditures under the following ministries: Ministry of Energy, Ministry of Power and State Ministry of Solar, Wind and Hydro Power Generation Projects Development.

Allocations for the Power and Energy sector have declined in the last budget cycle, with allocations for the Power sector, in particular, falling significantly.

Exhibit 4.3.1: Power and Energy Sector Expenditure Summary

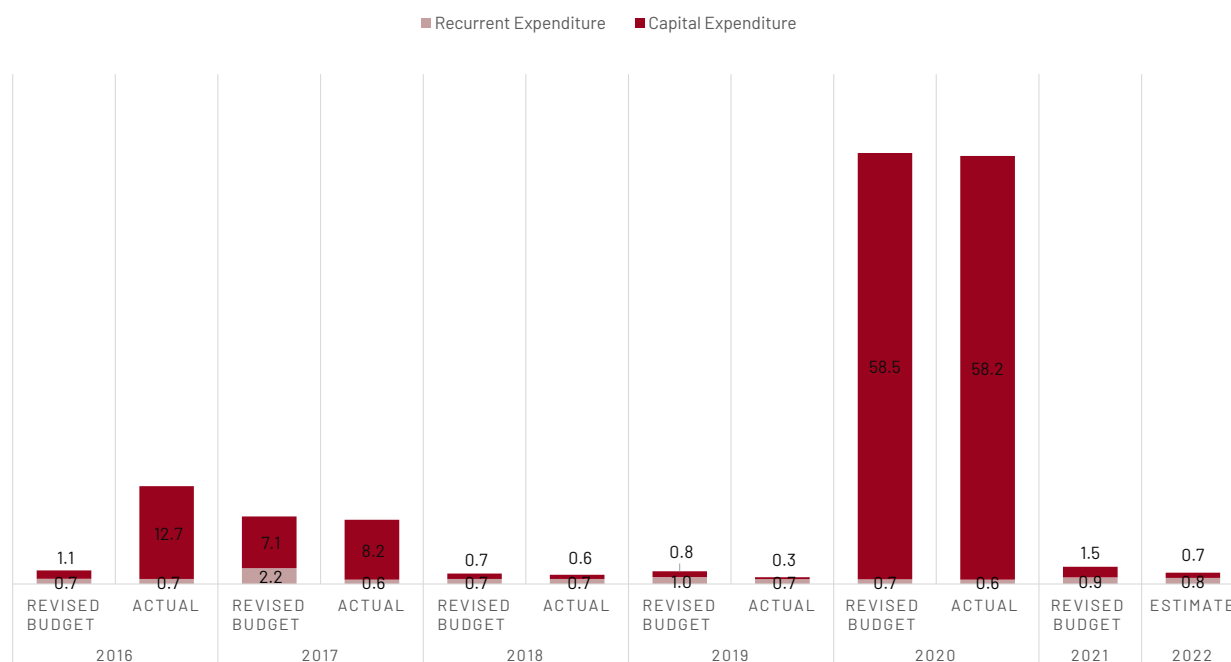
Values in LKR billions

Ministry/ State Ministry/ Department	Govt. Expenditure/Allocation			Y-o-Y change
	2020 Actual	2021 Revised	2022 Budget	2021 - 2022
Power and Energy Sector	58.8	2.4	1.6	-34.6%
Share of Government Expenditure	1.68%	0.06%	0.04%	
Share of GDP	0.39%	0.01%	0.01%	
Ministry of Energy	0.2 (0.00%)	0.3 (0.01%)	0.3 (0.01%)	-8.0%
Ministry of Power	58.1 (1.66%)	1.4 (0.03%)	0.8 (0.02%)	-43.4%
State Ministry of Solar, Wind and Hydro Power Generation Projects Development	0.5 (0.02%)	0.7 (0.02%)	0.5 (0.01%)	-28.16%

Sources: Approved Budget Estimate (2022) and Budget Speeches

This decline is in keeping with recent trends. Allocations to the Power and Energy sector have consistently declined since 2016, except the year in 2020.

Exhibit 4.3.2: Power and Energy Sector Spending, in LKR billions, 2016-2022



Analysis

The Central Government allocation to the Power and Energy sector in 2022 is LKR 1.6 billion. This is equivalent to only 0.04% of total government expenditure and 0.01% of GDP.

Total allocations to the Power and Energy sector have decreased by 34.6 percent in 2022 compared to the 2021 revised estimate. This is mainly driven by a significant reduction in allocations to the ministries in the power sector: a 43.4% reduction in allocation to the Ministry of Power and a 28.16% reduction in allocation to the State Ministry of Solar, Wind and Hydro Power Generation Projects Development. The Ministry of Energy, the only ministry directly falling under the energy sector, also recorded an 8% reduction in allocation in 2022 compared to 2021. Thus, all the ministries in the Power and Energy sector experienced declines in allocation in 2022.

The main contribution to this reduction in allocations for 2022 compared to the 2021 revised estimates is the decreased allocation in overall capital expenditure for the Power and Energy sector. Whilst the recurrent expenditure allocation has fallen by 9%, capital expenditure allocations fell by 50% from LKR 1.45 billion to LKR 0.72 billion.

The expenditure of the Power and Energy sector in 2020, LKR 58.8 billion, was exceptionally high compared to the other periods as shown in Exhibit 4.3.2. This was mainly due to increased expenditure in 2020 by the Ministry of Power for settling a loan of the CEB, which alone was over LKR 57.9 billion. As a result of this, we will not be analysing the average growth and shortfall over the past five years given that the figures would be distorted based on this outlier event.

Budget Expectations Based on Government Policy

The government has not addressed most of the policy priorities set out in the “National Policy Framework, Vistas of Prosperity and Splendour” for the Power and Energy sector through budgetary allocations. The specific policy priorities relating to the Power and Energy sector and the related observations from the budget are set out in Exhibit 4.3.3. below.

Exhibit 4.3.3: Government Power and Energy Policy Framework compared to Budget 2022 allocations

#	Government Policy Priorities	Observations
1	Energy	The budgetary allocation for the Ministry of Energy has decreased by 8% as mentioned above, from LKR 274 million in 2021 to LKR 252 million in 2022. The decrease in allocation is primarily due to a capital expenditure cut of around LKR 14 million towards the rehabilitation and improvement of capital assets falling under the Minister's Office.
1.1	Expedite the exploration of natural gas identified in the three zones of the geological survey.	A budgetary allocation of LKR 99 million has been made towards expediting the exploration of natural gas. The funds will be primarily utilized towards the acceleration of M2 and North-East Exploration in the Mannar Basin.
1.2	Modernise the Kolonnawa oil refinery. Reconstruct the oil storage tanks in Trincomalee.	No budgetary allocations have been made.
1.3	Enhance the contribution of hydro and renewable energy to 80 percent of the overall energy mix by 2030.	Insufficient or no budgetary allocations have been made. An allocation of 48,237 million in the budget estimates and a further allocation of 20,000 million through the budget speech have been made to the "Vari Saubhagya" programme. One of the four main objectives of this programme is to help achieve the targets of national renewable energy. It is not clear how much of these funds have been channelled towards achieving renewable energy targets. However, considering that the total budgetary allocations for the Ministry of Energy itself is only LKR 252 million rupees, of which only 34 million is for capital expenditure, it seems apparent that insufficient resources have been deployed towards achieving national renewable energy targets.
2	Power	Total budgetary allocations to the Ministry of Power have decreased from LKR 1,355 million in 2021 to LKR 766 million in 2022. Similarly, the allocation to the State Ministry of Solar, Wind and Hydro Power Generation Projects Development also has decreased from LKR 741 million in 2021 to LKR 533 million in 2022. As mentioned earlier, this is primarily due to capital expenditure reductions.
2.1	Generate 70 percent of the aggregate electricity demand through renewable energy by 2030.	An allocation of 500 million has been made for the facilitation of encouraging private investment in the Renewable Energy sector.
2.1	Convert the fuel-powered plants located around the Colombo area to natural gas turbine plants within the next year.	No budgetary allocations have been made.
2.2	Develop a Smart Grid and add 230 MW of power to the national grid by installing the Broadland hydropower station by 2020, Uma Oya by 2021, Moragolla by 2023, Talapitigala and Seethawaka by 2024.	No budgetary allocations have been made. An allocation of LKR 29,329 million has been made through the investments of the Ceylon Electricity Board towards developing a Smart Grid to ensure maximum efficiency and utility of the power generated.
2.3	Add 100 MW of wind energy in Mannar by 2021 A wind and solar power project will be executed around the country, and an energy generation programme using industrial waste will be introduced.	No budgetary allocations have been made. An allocation of LKR 1,079 million has been made through the investments of the Sri Lanka Sustainable Energy Authority towards the implementation of power generation plan based on long term needs, which includes developing Hydro Power and Wind power plant projects. Of this amount, LKR 37 million has been allocated towards Phase II of Mannar's Wind Power project.

2.4	Encourage the use of solar power systems set up at roofs to ensure the availability of low-cost energy for households and small enterprises.	<p>No budgetary allocations or policy proposals have been made in 2022.</p> <p>An allocation of LKR 828 million has been made through the investments of the Sri Lanka Sustainable Energy Authority towards encouraging the use of a solar power system to ensure the availability of low-cost energy for households, offices, and factories. Examples include providing credit facilities for solar projects in Sri Lanka, promoting and facilitating Solar PV Rooftop Power Generation, developing the Hambantota Solar Energy Park and developing the Siyambalanduwa 100 MW solar park.</p>
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4.4. Agriculture, Irrigation and Fisheries Sector

Allocations for the Agriculture sector include the following areas and their respective ministries and departments:

Agriculture and rural economy - 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 Food, Vegetables, Fruits, Chillies, Onion and Potato Cultivation Promotion, Seed Production and Advanced Technology Agriculture; State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries

Plantation and crop cultivation - Ministry of Plantations; State Ministry of Company Estate Reforms, Tea and Rubber Estates Related Crops 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 Promotion⁴⁸

Fisheries - Ministry of Fisheries; State Ministry of Ornamental Fish, Inland Fish and Prawn Farming, Fishery Harbour Development, Multiday Fishing Activities and Fish Exports

Irrigation - 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

Exhibit 4.4.1: Agriculture Sector Expenditure Summary

Values in LKR billions

Ministry/ State Ministry/ Department	Govt. Expenditure/Allocation			Y-o-Y change
	2020 Actual	2021 Revised	2022 Budget	2021-2022
Agriculture and Fisheries Sector	124.4	156.6	204.4	30.5%
Share of Government Expenditure	3.56%	3.91%	4.89%	
Share of GDP	0.83%	0.95%	1.10%	
Ministry of Agriculture	15.9	24.0	33.4	39.1%
	0.46%	0.60%	0.80%	

⁴⁸ The Department of Export Agriculture has been excluded from the expenditure calculations for this sector.

Sectoral Allocations

Department of Agriculture	5.8 0.17%	7.2 0.18%	6.4 0.15%	-11.6%
State Ministry of Backward Rural Areas Development and Promotion of Domestic Animal Husbandry & Minor Economic Crop Cultivation	0.2 0.00%	0.7 0.02%	0.5 0.01%	-23.8%
State Ministry of Promoting the Production & Regulating the Supply of Organic Fertilizer, and Paddy & Grains, Organic Food, Vegetables, Fruits, Chilies, Onion and Potato Cultivation Promotion, Seed Production and Advanced Technology Agriculture	46.1 1.32%	45.6 1.14%	45.8 1.10%	0.5%
Department of Agrarian Development	9.2 0.26%	10.0 0.25%	9.5 0.23%	-4.8%
State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries	1.6 0.05%	2.8 0.07%	2.8 0.07%	-2.3%
Department of Animal Production and Health	1.1 0.03%	1.4 0.04%	1.2 0.03%	-19.0%
Ministry of Fisheries	1.34 0.04%	4.97 0.12%	2.17 0.05%	-56%
Department of Fisheries and Aquatic Resources	0.82 0.02%	0.79 0.02%	0.67 0.02%	-15.6%
State Ministry of Ornamental Fish, Inland Fish and Prawn Farming, Fishery Harbour Development, Multiday Fishing Activities and Fish Exports	3.8 0.11%	4.2 0.10%	1.8 0.04%	-56.2%
Ministry of Plantations	1.4 0.04%	1.5 0.04%	11.0 0.26%	615.6%
State Ministry of Company Estate Reforms, Tea and Rubber Estates Related Crops Cultivation and Factories Modernization and Tea and Rubber Export Promotion	4.70 0.13%	6.85 0.17%	3.71 0.09%	-45.9%
Department of Rubber Development	1.20 0.03%	1.33 0.03%	1.08 0.03%	-18.4%

Sectoral Allocations

State Ministry of Coconut, Kithul and Palmyrah Cultivation Promotion and Related Industrial Product Manufacturing and Export Diversification	2.1 0.06%	3.6 0.09%	1.5 0.04%	-56.4%
State Ministry of Development of Minor Crops Plantation including Sugarcane, Maize, Cashew, Pepper, Cinnamon, Cloves, Betel Related Industries and Export Promotion	2.7 0.08%	4.2 0.10%	1.6 0.04%	-61.1%
Ministry of Irrigation	41.1 1.17%	47.8 1.19%	67.8 1.62%	42.0%
Department of Irrigation	11.6 0.33%	14.7 0.37%	12.8 0.31%	-12.5%
State Ministry of Canals and Common Infrastructure Development in Settlements in Mahaweli Zones	3.5 0.10%	7.3 0.18%	6.0 0.14%	-17.8%
State Ministry of Tanks, Reservoirs and Irrigation Development Related to Rural Paddy Fields	0.1 0.00%	3.1 0.08%	3.1 0.07%	-1.2%
Other*	0.0 0.00%	0.0 0.00%	0.0 0.00%	0.0%
Specific Additional Proposals in Budget Speech 2021	N/A	N/A	23.0	N/A

Sources: *Approved Budget Estimates (2022) and Budget Speech (2022)*

Note: Implemented Budget Proposals for 2020 actual expenditure and 2021 revised estimates are already incorporated in government agency expenditure. Budget Proposals for 2022 includes allocations for: 1. Providing relief for using organic herbicides (LKR 4000 million), 2. Modernization of Agriculture (LKR 5000 million), 3. Modernization of Plantation Sector and providing relief (LKR 10000 million), 4. Fisheries and Aquaculture development (LKR 1000 million), 5. Livestock development (LKR 1000 million) and 6. Minor irrigation (LKR 2000 million)

Exhibit 4.4.2: Agriculture Sector Spending in LKR billions 2015 – 2020

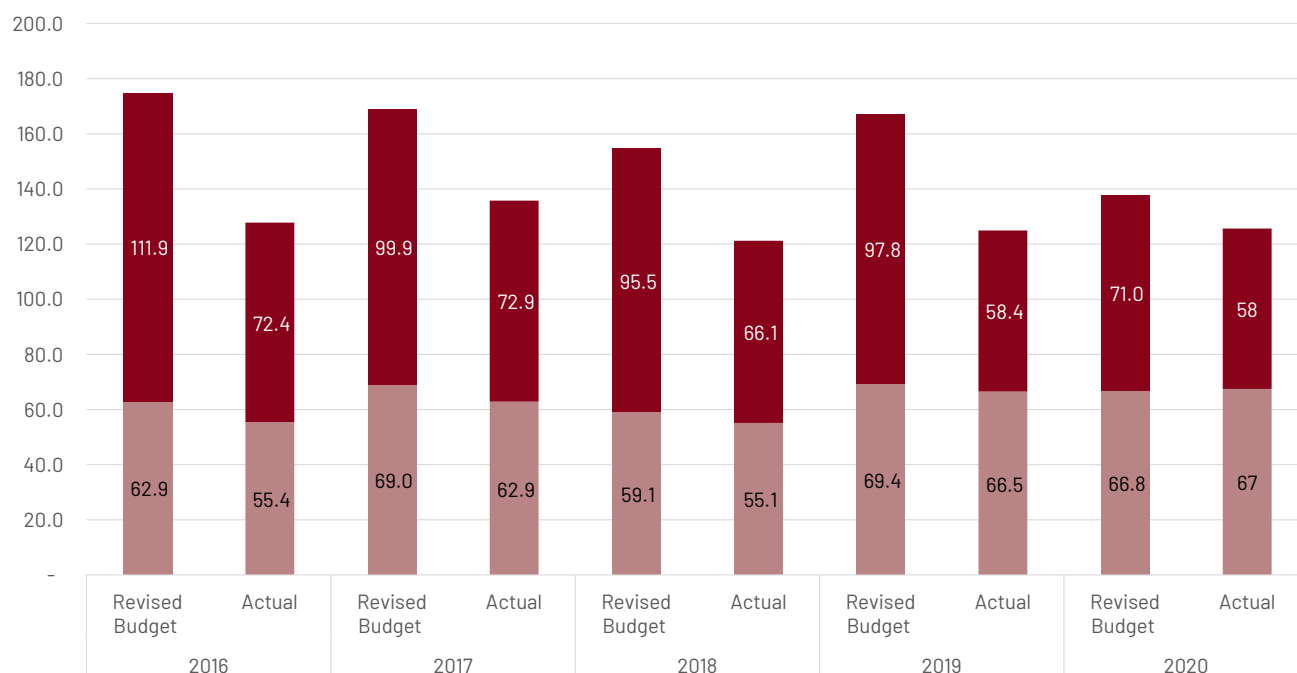


Exhibit 4.4.3: Past Experiences, 2015 – 2020

Department/Ministry	Average Growth (in Actual Spending)	Average Shortfall (of Actual Spending against Estimates)
Agriculture, Irrigation and Fisheries Sector	-3.0%	18.3%
Department of Agrarian Development	3.5%	8.5%
Department of Agriculture	0.3%	8.2%
Department of Rubber Development	-10.3%	19.0%
Department of Fisheries and Aquatic Resources	-12.0%	25.4%
Department of Animal Production and Health	3.5%	14.8%
Department of Irrigation	-2.3%	14.6%
Other ministerial allocations	-3.3%	17.7%

Analysis

Allocations towards this sector have increased significantly in 2022. Allocations increased 47.8 billion LKR, a 30% rise from the previous year. Expenditure on the sector has also trended upward in the period between 2020 and 2022, both as a share of GDP and as a share of government expenditure. From 2021 to 2022, agriculture sector expenditure as a share of government expenditure increased by almost 1 percentage point, increasing from 3.91% to 4.89% of total government expenditure. The increase in expenditure as a share of GDP however, is only marginal.

The increase in allocation to the sector has largely been driven by increased allocations for the Ministry of Plantation (615% increase) and to a lesser extent, the Ministry of Irrigation and Ministry of Agriculture. The 2022 allocations noted an overall decrease in allocations to state ministries in contrast to the cabinet ministries within the relevant sectors.

Since 2015, the agriculture, irrigation and fisheries sector has recorded an average shortfall of 18.3% for actual spending against the budget spending. Additionally, the majority of allocations within the sector have recorded an average decrease in actual spending within the same period.

Exhibit 4.4.4.: Budget Expectations Based on Government Policy

	Government Policy Priorities	Observations
1	General Agriculture	
11	Introduce an agricultural insurance scheme, pension scheme, a low interest agricultural credit scheme, a crop insurance scheme, soil fertility management system, an agricultural crop management system, and a soil fertility management system.	The farmers pension scheme and crop insurance scheme have been allocated a combined LKR 4,210 million for expansion purposes of the program. This is a slight decrease in allocation from the previous year's combined total of LKR 4540 million.
12	Finish the disbursement of compensation payments to the farming community for past cultivation losses.	The Budget Estimates for 2022 do not provide information on these specific proposals.
13	Introduce a methodology to convert unprofitable land to productive land.	The Budget Estimates for 2022 allocate LKR 980 million to continue re-cultivation of 18,700 Acres of abandoned paddy land.
14	Popularise greenhouse, hydroponics and aquaponics agriculture and introduce import tariff benefits and low interest loan schemes to promote youth to take up these agri-business activities.	The Budget Estimates for 2022 do not provide information on these specific proposals.
15	Modern agrotechnological knowledge, knowledge in methods of farming, methods of stabilising agricultural incomes, marketing strategies, easy credit facilities and tax benefits will be made available to promote a youthful class of agricultural entrepreneurs.	LKR 610 million has been allocated to provide modern agro-technology to farmers, students and youth. An additional LKR 5000 million was allocated via the 2022 Budget Speech for the same purpose of introducing new agro-technologies. LKR 2525 million has also been allocated to encourage youth entrepreneurship in the agriculture sector.
16	Promote cultivation of dried chillies, maize, soya, green grams and cowpea, onions and potatoes.	The State Ministry of Promoting the Production & Regulating the Supply of Organic Fertilizer, and Paddy & Grains, Organic Food, Vegetables, Fruits, Chillies, Onion and Potato Cultivation Promotion, Seed Production and Advanced Technology Agriculture is allocated LKR 1495 million to minimize importation of food through increasing the local production of food crops with diversifications. There has been a significant reduction to this allocation from 2021, where the program was allocated LKR 6538 million.
17	A cooperative farm production methodology will be developed at the regional level, providing technical assistance, infrastructure and investment facilities.	The Budget Estimates 2021 do not provide any specific information regarding the allocations for this proposal.
18	The Suwa Divimaga programme: - Promote healthy meal free of agro-chemicals and additives - Promote production of organic food - Promote proper eating habits at all ages	The Ministry of Agriculture has been allocated LKR 4,075 million to promote non-toxic food production. Additionally, in line with the government's move to promote organic fertilizer, LKR 4000 million was allocated via the Budget Speech 2022 to promote the usage of alternative weedicides.
19	Implement an "Agricultural Institute" to impart agricultural research knowledge and modern technical knowhow.	The Budget Estimates 2021 do not provide any specific information regarding the allocations for this proposal.

2	Dairy and Poultry	
21	<p>Promote the production of consumer goods such as milk, eggs, animal and fish products, vegetables and fruits in the Northern Province. Promote milk production in the Northern Province and provide mechanized milking equipment to milk farmers and cooperatives at subsidized prices and easy payment conditions.</p>	<p>Although there is no explicit mention of programmes targeted at the Northern Province, the Ministry of Agriculture has been allocated LKR 1,025 million to increase local milk production.</p> <p>Additionally, the State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries has been allocated LKR 55 million and LKR 1,315 million to increase dairy cattle population and expand opportunities for establishing small and medium scale animal farms respectively. These two initiatives account for 50% of the total budget of the State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries.</p>
22	Reduce tariffs on quality cattle feed.	No tariff reductions have been made.
23	Introduce small-scale solar-powered refrigeration facilities to increase the milk storage facilities.	No allocations have been made.
24	Introduce a “vertical cattle shed system” to maintain a larger number of cattle in smaller areas and provide land and investment facilities needed to build up medium and large-scale cattle farms.	No allocations have been made.
25	<p>Meat and eggs for export:</p> <ul style="list-style-type: none"> - Expand production of chicken and eggs, promote small and medium producers, and encourage large scale producers to export. <p>Provide financial and technical support to commence organic meat production at the household level. Introduce international standards and effective monitoring systems to animal farms and production facilities.</p>	LKR 40 million has been allocated to the State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries for programmes relating to the promotion of livestock related products. This is a sizeable decrease in allocation from the previous year’s LKR 129 million.
26	Introduce systems to economise the use of water – e.g. drip irrigation and sprinkler systems.	The Budget Speech 2022 introduces a proposal with an allocation of LKR 2,000 million for minor irrigation.
3	Fisheries	
31	Fishing vessels- Acquire a number of advanced multi-day fishing boats equipped with modern technical and operational facilities, develop refrigeration systems using sea water and encourage the use of solar power in such equipment- Develop facilities to construct and maintain large multi day fishing craft in Trincomalee.	The Budget Estimates 2022 do not provide any specific information regarding the allocations for this proposal.
32	Develop a programme to involve women in fishery related household industry.	The Budget Estimates 2022 do not provide any specific information regarding the allocations for this proposal.
33	Modernise existing fishery harbours, including the one at Oluvil, and construct new ones if needed, to enable entry for large-scale and multi-day fishing craft.	<p>The State Ministry of Ornamental Fish, Inland Fish and Prawn Farming, Fishery Harbour Development, Multiday Fishing Activities and Fish Exports has been allocated LKR 276 million in order to rehabilitate and maintain fishery harbours and anchorages.</p> <p>Additionally, the Ministry of Fisheries was allocated LKR 165 million for capital expenditure in order to improve and develop the fishery harbours and anchorages. The combined allocation is still significantly smaller than 2021’s allocation of LKR 2,650 million.</p>
34	Build-up of all fishery harbours, anchorages and landing sites with modern communication facilities, refrigeration, fuel supply and sanitation facilities.	The Budget Estimates 2022 do not provide any specific information regarding the allocations for this proposal.

35	Enable domestic fishing companies to expand fishing in international seas.	The Budget Estimates 2022 do not provide any specific information regarding the allocations for this proposal.
36	Financial assistance: - Provision of low interest loans, tax benefits, insurance, consultancy and market coordination assistance to develop inland and aquaculture fisheries. - Interest free loan scheme for innovations to improve the quality of fish through the value chain.	The Budget Estimates 2022 do not provide any specific information regarding the allocations for this proposal.
37	Plantations: - Use unused estate land to develop horticulture and organic products. - Establish an industrial zone covering the whole estate sector and analyze the viability of re-opening factories that have been closed down.	The State Ministry of Company Estate Reforms, Tea and Rubber Estates Related Crops Cultivation and Factories Modernization and Tea and Rubber Export Promotion has been allocated LKR 50 million to formulate and implement a plan for the proper utilization of lands in the plantation sector.
38	Capital infusion for replanting and fertilization together with streamlined management processes for government-owned estates to increase productivity.	The Budget Estimates 2021 do not provide any specific information regarding the allocations for this proposal.

