

# PUBLIC REPORT ON THE 2021 BUDGET

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

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



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# SECTION I: Introduction to the Report

# Background

The 2021 budget was presented to parliament on 17 November 2020 and sets out the government's proposals for raising public funds through taxation and proposals for expenditure during the year. These proposals form the key components of the executive's management of public finance. Therefore, it is important to assess that the allocations and taxation policies in the budget are in line with the government's policy priorities.

This is a public report compiled by Verité Research, which engages a similar mandate to that of the parliamentary Committee on Public Finance (COPF). The first report published in December 2020 provides an assessment and analysis of the fiscal, financial and economic assumptions and estimates applied in the budget. This is the second public report on the Budget 2021, which provides assessment on whether the expenditure allocations and taxation policies are in line with the government's policy.

This assessment is based mainly on the Draft Budget Estimates for 2021 presented to the Parliament on 17 November 2020 and additional allocations made in the Budget speech proposals.

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

# Constraints and Qualifications

At the outset, the Committee makes note of some of the constraints and qualifications that are 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 contain the details of how the budget is allocated between different policy priorities of the government. Therefore, the analysis cannot be made on the basis of the Appropriation Bill alone.

Second, the detailed Draft Budget Estimates provided to Parliament at the time of the second reading of the Appropriation Bill differ significantly from the corresponding Budget Speech numbers. However, as the Draft 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, both because expenditure is not reported by sectoral classifications but only by ministerial portfolios, and because those portfolios in Sri Lanka have been excessively fluid and subject to re-organisation with change in the composition of cabinet.

The remit of the present report, therefore, has been shaped by these constraints. As far as possible, the authors of this report have presented the past sectoral and ministerial expenditures that are most relevant; however, some adjustments may understate or overstate the numbers in certain expenditure heads due to the unavailability of reliable figures.

# Overview

The debate and adoption of the annual budget is a pivotal process in public finance management. For the government, it is perhaps the most important occasion to announce new policies and the measures that it plans to take in steering the development of the country. However, almost every such plan will have an implication on public finance. Therefore, what is set out in a budget, which is finally adopted, is of critical importance to the country. In a well-functioning democracy, there must be robust public engagement in the process and outcomes of the management of public finance.

This report will assist the public and other stakeholders in understanding the adequacy, credibility and prioritisation of the government's expenditure allocations and taxation policies and the extent to which these are in line with the government's 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 the necessary change.

Section I provides an overview of the report, making note of the constraints and qualifications that are pertinent to its assessment, and presents a summary of findings. The substantive analysis of the present report is set out in Sections II and Section III. It is followed by an Annex that provides additional information.

In Section II, the report identifies eight sectors that are relevant to key policy priorities of the government and assesses whether the 2021 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 Splendour" published on the website of the Ministry of Finance.



The following sectors are analysed in this report:

- 1.** Health
- 2.** Defence
- 3.** Infrastructure
- 4.** Trade and Industry
- 5.** Environment
- 6.** Education
- 7.** Agriculture, Irrigation and Fisheries
- 8.** Social Empowerment and Protection

This report observes the trend in government expenditure and tax policies in each sector and provides analyses and observations based on the data, discussing past experiences where relevant and noting any peculiarities.

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

Data from the 2021 Draft Budget Estimates, 2021 Budget Speech, previous budget estimates, and annual reports, are used in the preparation of this report.

# SECTION II: Sectoral Allocations and Tax Policies

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

Furthermore, the sectoral classification of budget information is not available for the 2020 or 2021 budget, despite the information being available in the 2019 Budget. The task of reporting on whether money is well laid out within the limits of government policy requires to approximate the sector allocation through the selection of various expenditure streams within ministerial portfolios, in the accounting classification. This is an imperfect method that is likely to result in some limitations in the aggregates discussed in this section.

Ministry of Finance GDP estimates are used for the calculation of expenditure as a share of GDP. Accordingly, the real GDP growth is positive 1.5 percent for 2020 and positive 5.5 percent for 2021. Inflation is assumed to be 5 percent in both the years, in line with the government's expectation of a mid-single digit value.

# 1. Health Sector

The Health Sector allocations covered in this section only consist of the Central Government health spending carried out by the Ministry of Health. The Ministry of Health consists of two state ministries: (1) State Ministry of Indigenous Medicine Promotion, Rural and Ayurvedic Hospitals Development and Community Health, and (2) State Ministry of Production, Supply and Regulation of Pharmaceuticals. The descriptive statistics on how spending has been allocated across the Ministry of Health, the two state ministries and new budget proposals, is set out in Exhibit 1.1.

## Health sector allocation (proportional to government expenditure) marginally lower than 2019

Exhibit 1.1: Health Sector Expenditure Summary (Values in LKR Billions)

| Ministry/State Ministry/Department  | Govt. Expenditure/Allocation |                  |                  | Y-o-Y change |
|---|------------------------------|------------------|------------------|--------------|
|   | 2019<br>Actual               | 2020<br>Revised  | 2021<br>Budget   | 2020-2021    |
| <b>Health Sector</b>  | 190                          | 227              | 235              | <b>3.2%</b>  |
| <i>Share of Government Expenditure</i>  | 6.43%                        | 6.41%            | 6.20%            |              |
| <i>Share of GDP</i>   | 1.3%                         | 1.4%             | 1.3%             |              |
| Ministry of Health  | 188.6<br>(6.37%)             | 159.6<br>(4.49%) | 159.5<br>(4.21%) | -0.06%       |
| Department of Social Services   | 0.6<br>(0.02%)               | 0.6<br>(0.02%)   | 0.7<br>(0.02%)   | 15.8%        |
| State Ministry of Indigenous Medicine Promotion, Rural and Ayurvedic Hospitals Development and Community Health | 1.7<br>(0.06%)               | 2.0<br>(0.06%)   | 2.6<br>(0.07%)   | 35.6%        |

| Ministry/State Ministry/Department                                     | Govt. Expenditure/Allocation |                 |                 | Y-o-Y change |
|--|------------------------------|-----------------|-----------------|--------------|
|  | 2019<br>Actual               | 2020<br>Revised | 2021<br>Budget  | 2020-2021    |
| Department of Ayurveda   | 1.7<br>(0.06%)               | 1.8<br>(0.05%)  | 2.2<br>(0.06%)  | 24.3%        |
| State Ministry of Production, Supply and Regulation of Pharmaceuticals | N/A                          | 65.9<br>(1.86%) | 61.2<br>(1.61%) | -7.2%        |
| Specific Additional Proposals in Budget Speech 2021                    | N/A                          | N/A             | 11.5<br>(0.30%) | N/A          |

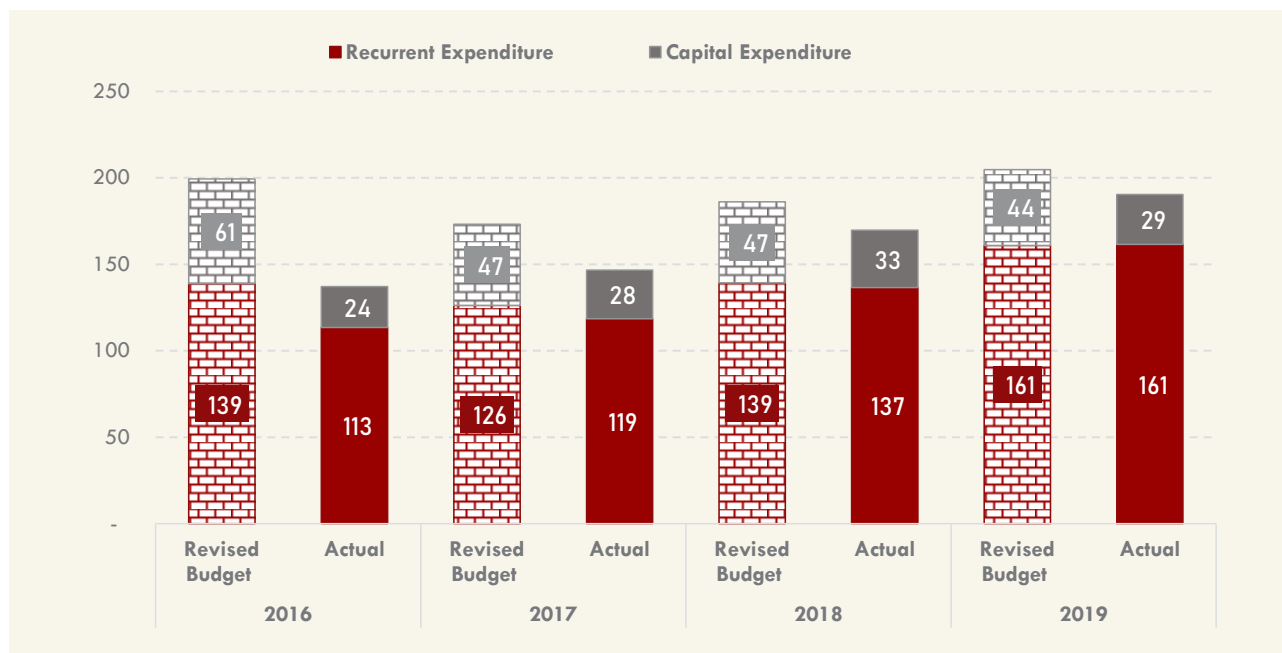
\*figures in brackets indicate value as a share of government expenditure.

Note: Implemented Budget Proposals for 2019 actual expenditure and 2020 revised estimates are already incorporated in government agency expenditure. Budget Proposals for 2021 includes allocations for people-centric health service (LKR 10 billion), and infants and pregnant mothers (LKR 1.5 billion).

Sources: Draft Budget Estimate (2021) and Budget Speech (2021).

## Poor utilisation of capital expenditure in the past

Exhibit 1.2: Health Sector Spending, in LKR Billions, 2015-2019



Sources: Budget Estimates (various years)

## Allocations to the Health Sector are less likely to be spent; worse with Ayurveda

**Exhibit 1.3: Past Experiences, 2015-2019**

| Department/Ministry           | Average Growth<br>(in Actual Spending) | Average Shortfall<br>(of Actual Spending<br>against Estimates) |
|-------------------------------|--|--|
| <b>Health Sector</b>          | 9.8%                                   | 15.7%  |
| Department of Ayurveda        | 4.0%                                   | 21.2%  |
| Department of Social Services | 5.0%                                   | 9.9%   |
| Other ministerial allocations | 9.9%                                   | 15.6%  |

Source: Budget Estimates (Various Years).

### ANALYSIS

In 2021, the health sector allocation for the central government is LKR 235 billion. This is equivalent to 6.43 percent of government expenditure and 1.3 percent of GDP.

Compared to the previous year, the health allocations increased only marginally, by 3.2 percent, whereas historical average growth for the last five years was 9.8 percent. However, compared to 2019 actual expenditure, the 2020 allocation has increased by nearly 19.5 percent. The health sector allocations as a share of the government expenditure have marginally reduced compared to 2019 levels.

However, in the past, the government has had a poor track record in spending the Ministry of Health allocations. The largest deviation in spending has occurred in the capital expenditure compared to recurrent expenditure. The annual average shortfall in spending is 15.7 percent of the estimate, with the largest under expenditure in the Department of Ayurveda.

### Budget Expectations Based on Government Policy

Overall, allocations have been made for all policies of the government mentioned in the official policy document "National Policy Framework, Vistas of Prosperity and Splendour". However, in a few cases the allocations are inadequate. The specific policy priorities relating to the health sector and the related observations from the budget are set out in Exhibit 1.4 below.

**Exhibit 1.4: Government Health Policy Framework against Budget 2021**

| #   | Government Policy Priority   | Summary of Observation   |
|-----|--|--|
| 1   | Improving healthcare development facilities  | <p><b>Adequate allocations have been made for most major policy proposals under healthcare development. However, the allocations are inadequate in a few cases.</b></p> <p>Together with the budget proposal, LKR 30,312 Mn is allocated for Hospital Development Projects in 2021. This is LKR 971 million higher than the revised budget estimate for 2020 and LKR 16,635 million higher than the 2019 actual expenditure.</p> |
| 1.1 | Upgrade NHSL to international level and all hospitals in each district to NHSL level.  | <p>LKR 510 million is allocated for upgrading NHSL to international level. However, <b>the total expected cost of the project is LKR 14,600 million.</b> LKR 250 Million is allocated for upgrading all hospitals in each district to NHSL level and the <b>entire amount is allocated to be spent on one hospital in the Badulla district.</b></p>  |
| 1.2 | Upgrade all hospitals by providing necessary facilities, physical as well as human resources. All out-patient services allocated to these hospitals while introducing a referral system. | <p>Government has allocated in total LKR 7,945 million for this activity in 2021. Allocations for some subcategories have increased compared to the 2020 revised estimates but are lower than 2019 actual allocations.</p>   |
| 1.3 | Introduce modern diagnosis and treatment facilities i.e., E-Health, Telemedicine.  | <p><b>The coverage of allocation does not always match the ambition of the policy.</b> For example, LKR 100 million is allocated for the implementation of electronic medical records in Sri Lankan Government Hospitals through ICTA. However, there is no mention of allocations for other modern diagnosis/treatment facilities.</p>  |
| 1.4 | Establish an adequately equipped WHO standard quality control laboratory to ensure the quality of drugs.   | <p><b>No allocations</b> have been made to establish an adequately equipped WHO standard quality control laboratory.</p>   |
| 2   | Improve facilities to retain doctors in the country.   | <p><b>The allocations for 2021 are lower than 2019 but higher than 2020.</b> The 2021 budget allocates LKR 1,579 Bn for improving the facilities of doctors and professionals in the medical field while LKR 1,182 was allocated for 2020 and LKR 1,831 Bn for 2019.</p>   |
| 3   | Maintain compulsory safe stock levels of essential drugs and supplies.   | <p><b>Expenditure for Medical Supplies Division has decreased from LKR 65,914 million in 2020 to LKR 61,118 million in 2021.</b> However, the allocation in 2021 is higher than the 2019 actual expenditure of LKR 54,595.</p>   |
| 4   | Implement a "New Nutrition Aid Programme" to address the nutritional needs of pregnant women and infants.  | <p>The expenditure allocation <b>in 2021 has increased by 85 percent</b> from LKR 2,275 Mn in 2019 to LKR 4200 Mn in 2021. This is including the LKR 1.5 bn allocated in the budget speech. However, the allocation for 2020 was only LKR 1,638 million.</p>   |

| # | Government Policy Priority   | Summary of Observation   |
|---|--|--|
| 5 | <p>Increase annual allocation for the indigenous medicine sector including:</p> <ul style="list-style-type: none"> <li>- provide necessary facilities to improve Ayurveda hospitals to a standard level</li> <li>- provide preventive care facilities</li> <li>- provide facilities to Ayurveda physicians</li> <li>- encourage research on indigenous drugs and treatment facilities</li> <li>- provide facilities to cultivate all medicinal plants, herbal gardens and provide facilities to manufacture and export herbal cosmetic products</li> </ul> | <p>Total expenditure allocated to the State Ministry of Indigenous Medicine Promotion, Rural and Ayurvedic Hospitals Development and Community Health amounts to <b>LKR 2,649 million for 2021. This is an increase of 36 percent</b> compared to the revised estimate in 2020 and 54 percent increase compared to 2019 actual expenditure.</p> <p>Allocations for specific policies for indigenous medicine have also increased compared to past years.</p> |

## 2. Defence Sector

Allocations to the Defence Sector include specific expenditure heads under the Ministry of Defence. These comprise the Sri Lanka Army, Sri Lanka Navy, Sri Lanka Air Force, Department of Civil Security, Department of Sri Lanka Coast Guard and other defence ministry allocations. Expenditure heads that are not related to the defence function such as the Department of Archaeology, Department of Multipurpose Task Force, Administration and Establishment Services (Law & Order), Special Task Force and National Media Centre have been excluded. In addition to the Budget Estimate values, the Budget speech allocations for the defence sector are also included in the 2021 estimate.

### **Defence allocations increase by LKR 46 billion for 2021**

**Exhibit 2.1: Defence Sector Expenditure Summary (Values in LKR Billions)**

| Ministry/State Ministry/Department     | Govt. Expenditure/Allocation |                  |                  | Y-o-Y change |
|--|------------------------------|------------------|------------------|--------------|
|  | 2019<br>Actual               | 2020<br>Revised  | 2021<br>Budget   | 2020-2021    |
| <b>Defence Sector</b>                  | <b>295.6</b>                 | <b>303.0</b>     | <b>348.4</b>     | <b>15.0%</b> |
| <i>Share of Government Expenditure</i> | 9.99%                        | 8.53%            | 9.20%            |              |
| <i>Share of GDP</i>                    | 1.97%                        | 1.89%            | 1.98%            |              |
| Ministry of Defence*                   | 295.6<br>(9.99%)             | 303.0<br>(8.53%) | 327.7<br>(8.65%) | <b>8.2%</b>  |
| Sri Lanka Army                         | 155.3<br>(5.25%)             | 164.6<br>(4.64%) | 169.8<br>(4.48%) | <b>3.2%</b>  |
| Sri Lanka Navy                         | 56.4<br>(1.91%)              | 56.4<br>(1.59%)  | 61.6<br>(1.62%)  | <b>9.2%</b>  |
| Sri Lanka Air Force                    | 39.6<br>(1.34%)              | 44.2<br>(1.25%)  | 51.6<br>(1.36%)  | <b>16.7%</b> |

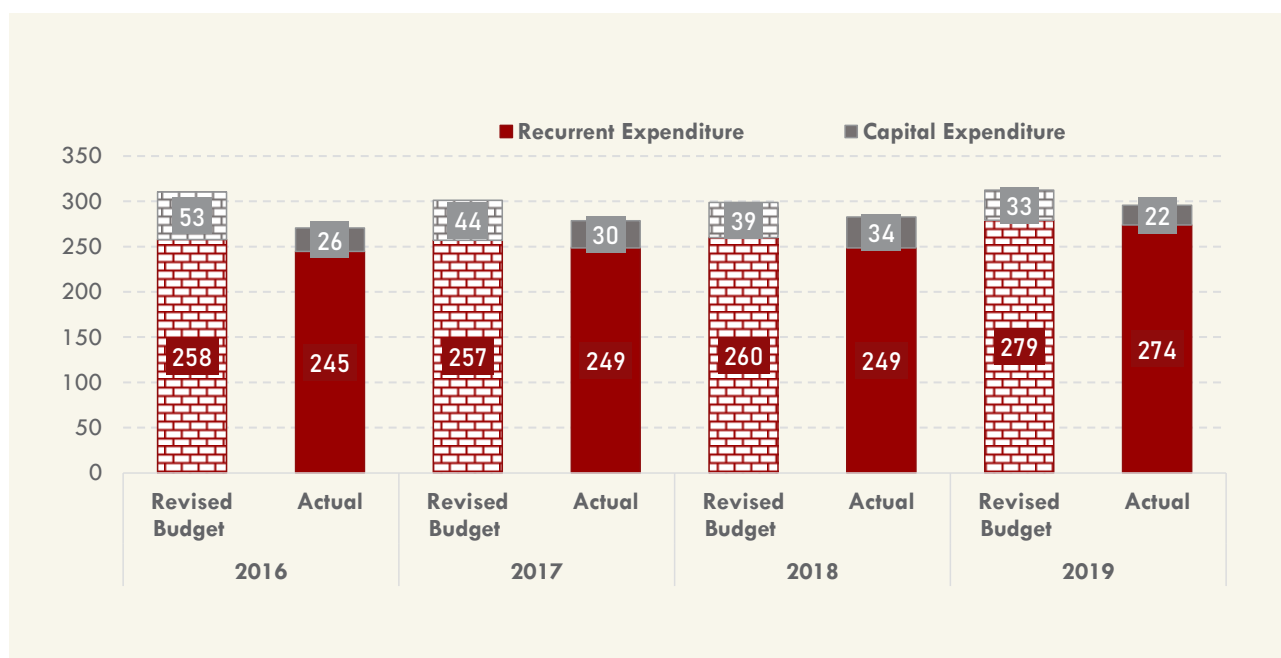


| Ministry/State Ministry/Department                  | Govt. Expenditure/Allocation |                 |                 | Y-o-Y change |
|---|------------------------------|-----------------|-----------------|--------------|
|   | 2019                         | 2020            | 2021            | 2020-2021    |
|   | Actual                       | Revised         | Budget          |              |
| Department of Civil Security                        | 16.8<br>(0.57%)              | 19.2<br>(0.54%) | 19.3<br>(0.51%) | <b>8.6%</b>  |
| Department of Sri Lanka Coast Guard                 | 0.3<br>(0.01%)               | 0.2<br>(0.01%)  | 0.3<br>(0.01%)  | <b>27.5%</b> |
| Specific Additional Proposals in Budget Speech 2021 | N/A                          | N/A             | 20.8<br>(0.55%) | N/A          |

Note: Implemented Budget Proposals for 2019 actual expenditure and 2020 revised estimates are already incorporated in government agency expenditure. Budget Proposals for 2021 includes allocations for National Security (LKR 20,000 million) and Programmes for War heroes (LKR 750 million). Sources: Draft Budget Estimate (2021) and Budget Speech (2021).

**Defence expenditure has remained largely consistent except for a 4.6% growth in 2019**

**Exhibit 2.2:** Defence Sector Spending, in LKR billion, 2015-2019



## Actual expenditure is largely in line with allocations except for Department of Coast Guard

Exhibit 2.3: Past Experiences, 2015-2019

| Department/Ministry                 | Annual Average Growth (in Actual Spending) | Average Shortfall (Actual Spending Share of Estimates) |
|-------------------------------------|--|--|
| <b>Defence Sector</b>               | <b>0.04%</b>                               | <b>6.02%</b>   |
| Sri Lanka Army                      | -0.39%                                     | 4.86%  |
| Sri Lanka Navy                      | -0.13%                                     | 4.16%  |
| Sri Lanka Air Force                 | -4.17%                                     | 8.49%  |
| Department of Civil Security        | -0.69%                                     | 4.26%  |
| Department of Sri Lanka Coast Guard | 106.90%                                    | 17.96%   |

### ANALYSIS

In 2021, the Defence sector allocation for the central government is LKR 348 billion. This is equivalent to 9.55 percent of the government expenditure and 1.98 percent of GDP.

In 2021, the Defence allocation has increased by 15 percent compared to the 2020 revised estimate. The 2021 allocation is the largest increase in Defence allocations in the last five-year period. The annual average growth in Defence allocations during 2015 to 2019 has been 0.04 percent, largely due to a 8.8 percent cut in allocations in 2016.

## Budget Expectations Based on Government Policy

Adequate allocations have been made for all policies which require the funding of the government as mentioned in the official policy document “National Policy Framework, Vistas of Prosperity and Splendour”. The specific policy priorities relating to the Defence sector and the related observations from the budget are set out in Exhibit 2.4 below.

Exhibit 2.4: Government Defence Policy Framework against Budget 2021

| #   | Government Policy Priorities                          | Observations   |
|-----|---|--|
| 1   | Strengthen intelligence agencies.                     | <b>All budget allocations are well in line with this policy.</b> Total expenditure for State Intelligence Service has increased from LKR 1,779 Mn in 2020 to LKR 1,994 Mn in 2021 – a 12 percent increase. |
| 1.1 | Provision of modern training both locally and abroad. | The <b>Staff training budget has increased</b> to LKR 2.5 Mn from LKR 0.74 Mn in 2020 and LKR 1.7 Mn in 2019.  |
| 1.2 | Equipping personnel to use modern ICT.                | The <b>budget for capital assets, mainly equipment, has increased</b> to LKR 55 Mn in 2021 from LKR 8 Mn in 2019 and LKR 36 Mn in 2020.  |

| # | Government Policy Priorities  | Observations  |
|---|---|---|
| 2 | Rectifying anomalies in salaries, allowances, and promotional issues and compensating armed force personnel in active service prior to 2009 for delays in promotions.           | It is unclear from the budget estimates whether the salary anomalies have been rectified. However, the <b>Personal Emolument expenditure category has increased to LKR 290 Bn in 2021</b> from LKR 282 Bn in 2020 and LKR 265 Bn in 2019. |
| 3 | Provide barrack and lodging facilities as well as concessionary housing loans to all serving, disabled armed personnel and the spouses or children of deceased armed personnel. | Total allocation for the Acquisition of Building and Structures has increased to LKR 13,582 Mn in 2021 from LKR 7,812 Mn in 2020 and LKR 7,345 Mn in 2019. <b>The allocation has increased by 74 percent in 2021.</b>                     |

# 3. Infrastructure Sector

## Transport Sector

Allocations for the Transport Sector include expenditures under the Ministry of Transport, Ministry of Highways, Ministry of Ports and Shipping, and State Ministries under the respective ministries.

**Allocations for Roads and Highways is on the rise whilst the allocation for Transport declines**

**Exhibit 3.1.1: Transport Sector Expenditure Summary**

Values in LKR Billions

| Ministry/State Ministry/Department   | Govt. Expenditure/Allocation |                 |                | Y-o-Y change                 |
|--|------------------------------|-----------------|----------------|------------------------------|
|  | 2019<br>Actual               | 2020<br>Revised | 2021<br>Budget | 2020 Revised<br>-2021 Budget |
| <b>Transport Sector</b>  | <b>218.7</b>                 | <b>341.0</b>    | <b>437.2</b>   | <b>28.2%</b>                 |
| <i>Share of Government Expenditure</i>   | 7.39%                        | 9.60%           | 11.54%         |                              |
| <i>Share of GDP</i>  | 1.46%                        | 2.13%           | 2.49%          |                              |
| Ministry of Transport  | 56.8<br>(1.9%)               | 64.5<br>(1.8%)  | 41.4<br>(1.1%) | <b>-35.8%</b>                |
| Department of Sri Lanka Railways   | 35.9<br>(1.2%)               | 49.4<br>(1.4%)  | 34.5<br>(0.9%) | <b>-30.3%</b>                |
| State Ministry of Vehicle Regulation,<br>Bus Transport Services and Train Com-<br>partments and Motor Car Industry | 3.3<br>(0.1%)                | 21.8<br>(0.6%)  | 17.7<br>(0.5%) | <b>-18.8%</b>                |

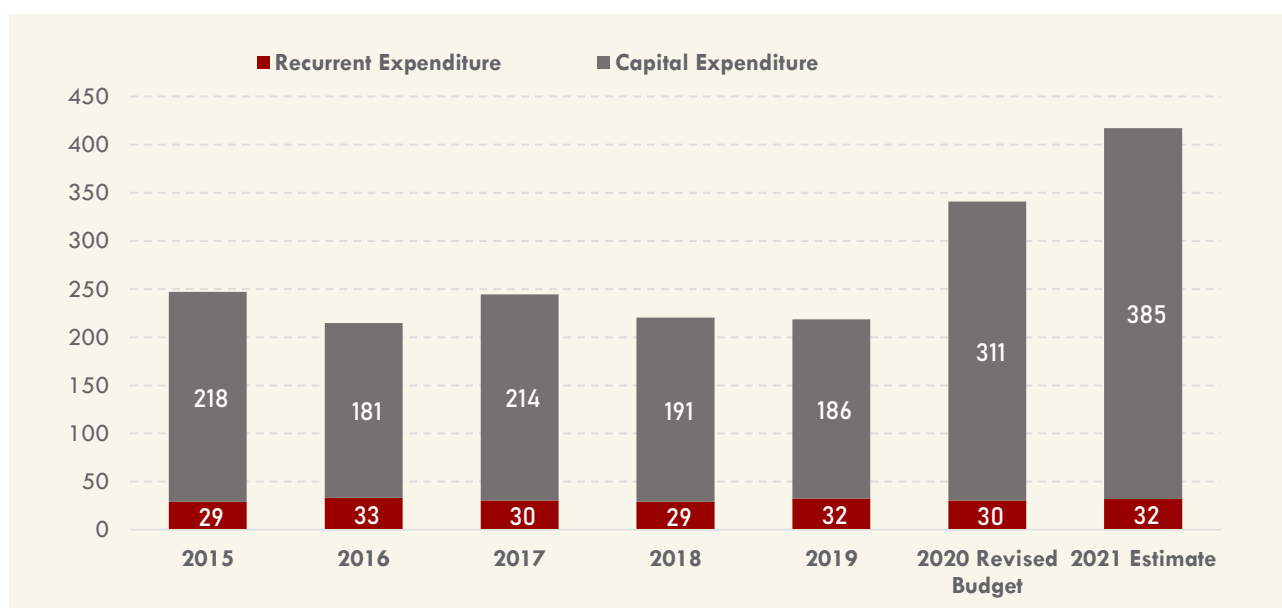
| Ministry/State Ministry/Department  | Govt. Expenditure/Allocation |                 |                 | Y-o-Y change                 |
|---|------------------------------|-----------------|-----------------|------------------------------|
|   | 2019                         | 2020            | 2021            | 2020 Revised<br>-2021 Budget |
|   | Actual                       | Revised         | Budget          |                              |
| Department of Motor Traffic   | 3.3<br>(0.1%)                | 2.7<br>(0.1%)   | 3.3<br>(0.1%)   | <b>23.4%</b>                 |
| Ministry of Highways  | 156.7<br>(5.3%)              | 245.0<br>(6.9%) | 330.2<br>(8.7%) | <b>34.8%</b>                 |
| State Ministry of Rural Roads and Other Infrastructure  | N/A                          | 6.2<br>(0.2%)   | 25.1<br>(0.7%)  | <b>304.3%</b>                |
| Ministry of Ports and Shipping  | 1.9<br>(0.1%)                | 1.0<br>(0.0%)   | 1.6<br>(0.0%)   | <b>62.7%</b>                 |
| State Ministry of Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development | 0.0<br>(0.0%)                | 2.5<br>(0.1%)   | 1.3<br>(0.0%)   | <b>-50.8%</b>                |
| Specific Additional Proposals in Budget Speech 2021   | N/A                          | N/A             | 20.0<br>(0.5%)  | N/A                          |

Note: Implemented Budget Proposals for 2019 actual expenditure and 2020 revised estimates are already incorporated in government agency expenditure. Budget Proposals for 2021 includes allocations for 100,000 KM road programme (LKR 20 billion) \*State Ministry of Aviation and Export development is excluded as no allocations relating to aviation have been allocated under this state ministry.

Sources: Draft Budget Estimate (2021) and Budget Speech (2021)

## Transport expenditure remained largely unchanged in the past

Exhibit 3.1.2: Transport Sector Spending, in LKR billion, 2015-2021



### ANALYSIS

In 2021, the Transport sector allocation for the central government is LKR 437 billion. This is equivalent to 12 percent of the government expenditure and 2.5 percent of GDP.

The transport sector has the largest increase in allocation in absolute terms in the 2021 Budget. Total sector allocation has increased by LKR 96 billion (or 28%) in 2021 compared to the 2020 revised estimate. In comparison to the 2019 actual expenditure, the allocation for 2021 has doubled with an increase of LKR 218 billion. As a share of the government budget, the allocation has increased from 7.4 percent in 2019 to 12 percent in 2021.

The increase in allocation is mainly due to the increase in the allocation for the Ministry of Highways. In 2019, the allocation was LKR 157 billion and it increased by LKR 173 billion to LKR 330 billion in 2021. There has also been a substantial increase of LKR 19 billion for the State Ministry of Rural Roads and Other Infrastructure and a budget proposal amounting to LKR 20 billion for constructing 100,000 Kms of rural roads.

## Budget Expectations Based on Government Policy

Significant allocations have been made for all policies under road development which require funding of the government as mentioned in the official policy document “National Policy Framework, Vistas of Prosperity and Splendour”. However, there are some policies relating to trains, buses, ports and airports, which lack funding. The specific policy priorities relating to the Transport sector and the related observations from the budget are set out in Exhibit 3.1.3 below.

**Exhibit 3.1.3: Government Transport Policy Framework against Budget 2021**

| #   | Government Policy Priorities   | Observations  |
|-----|--|---|
| 1   | Integrated Road Networks   | <p><b>Allocations for Ministry of Highways has increased</b> significantly to LKR 330 billion in 2021 from LKR 245 billion in 2020 and LKR 156.7 billion in 2019.</p> <p><b>Allocations for State Ministry of Rural Roads and Other Infrastructure has also increased</b> to LKR 25 billion from nil in 2019.</p>   |
| 1.1 | Colombo-Kandy Expressway, the Port city elevated highway project, Northern and Ratnapura expressway will be extended and finished while feasibility studies will be conducted for a highway connecting Kandy and Nuwara Eliya. | <p><b>Total allocations for the Expressway Development have dropped from LKR 134 Bn in 2020 to LKR 69 Bn in 2021.</b> This is largely due to no allocation being made for the extension of the Southern Expressway and the Outer Circular Expressway; for these two projects, LKR 92 Bn was allocated in 2020.</p> <p>Allocations have also been made for the other expressways in 2021 as follows:</p> <ol style="list-style-type: none"> <li>1. Central expressway from Colombo to Kandy: LKR 35 Bn</li> <li>2. Colombo – Ratnapura – Pelmadulla Expressway: LKR 40 Mn</li> <li>3. Elevated Highway from New Kelani Bridge to Athurugiriya: LKR 14 Bn</li> <li>4. Port Access Elevated Highway Project: LKR 20 Bn</li> </ol>  |
| 1.2 | Incorporate overtaking lanes, modernize 120,000 km of roads, and develop a 100,000km alternative road system   | <p>Allocations for <b>Highway development have increased from LKR 81 Bn in 2020 to 218 Bn</b> in 2021. Of which the largest increases were:</p> <ol style="list-style-type: none"> <li>1. <b>Development of 100,000 km of Alternative Roads</b> to Access Main Roads and Expressways – LKR 5 Bn in 2020 to LKR 93 Bn in 2021. (The government has allocated a further LKR 20 Bn in the Budget Speech)</li> <li>2. I Road Project (GOSL-ADB) – LKR 27 Bn in 2020, LKR 42 Bn in 2021</li> <li>3. Gap financing of RDA commitments – LKR 13 Bn in 2020 to LKR 31 Bn in 2021</li> </ol> <p>Allocation for the Construction of Bridges and Flyovers has increased from LKR 13.5 Bn in 2020 to LKR 27 Bn in 2021.</p> <p>Further, LKR 25 Bn has been allocated to the State Ministry of Rural Roads and Other Infrastructure for rural road and bridge development.</p> |
| 2   | Train and Bus Transport Services   | The <b>allocation for the Ministry of Transport has reduced</b> to LKR 41.4 billion in 2021 compared to 64.5 billion in 2020 and LKR 56.8 billion in 2019.  |
| 2.1 | Colombo-Panadura-Veyangoda, Ragama-Katunayake-Negombo, and Maradana-Homagama rail lines will be converted into electric train routes; all key train stations will be developed and an e-ticketing system will be introduced.   | LKR 3.4 Bn has been allocated for the Colombo Suburban Railway Efficiency Improvement Project (GOSL/ADB) for the development of the mentioned rail route in the policy and for introducing a smart ticketing system. LKR 1.9 bn has been allocated for the Transport Project Preparatory Facilities.  |

| #   | Government Policy Priorities  | Observations  |
|-----|---|---|
| 2.2 | Upgrade all train compartments and rail tracks. Provide assistance to import required locomotives and establish a method to build locally trailers that are needed for cargo transportation.  | <p><b>Overall allocation for the Development of Rail Fleet, Track &amp; Signalling System has reduced</b> to LKR 24,290 million in 2021 from LKR 39,495 million in 2020 and LKR 25,633 million in 2019.</p> <p><b>LKR 4,060 million has been allocated for Rehabilitation and Improvement of Vehicles</b> including repairs to 200 passenger coaches.</p> <p><b>No funds have been allocated for the purchase of locomotives in 2021.</b> However, from 2022 onwards, LKR 3 billion is expected to be spent annually for the Procurement of 12 locomotives (GOSL/Canada).</p> |
| 2.3 | Modernize the Ceylon Transport Board by re-fleeting the current bus stock, adopting the 'Green Transport Concept', linking train and bus routes, developing existing canals and a park-and-ride system, and introducing a single transport e-ticket system. | <p>The allocation for the State Ministry of Vehicle Regulation, Bus Transport Services and Train Compartments and Motor Car Industry has <b>reduced from LKR 19 Bn in 2020 to LKR 14 Bn in 2021.</b></p> <p>In 2020, LKR 6 billion has been allocated for the purchase of 200 buses for Sri Lanka Transport Board. In 2021 and 2022, the government has allocated LKR 895 Mn and LKR 2,910 Mn to purchase 500 buses through the Indian Line of Credit.</p>  |
| 3   | Ports and Air Services  | <p><b>Allocations for Ministry of Ports and Shipping has increased to LKR 1.6 billion</b> in 2021 from LKR 1.0 billion in 2020 and decreased from LKR 1.9 billion in 2019.</p> <p>Further, allocations have also been made for State Ministry of Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development amounting to LKR 1.3 billion, a reduction from LKR 2.5 billion in 2020.</p>  |
| 3.1 | Colombo Port: Construct the east terminal and west container terminal.  | <b>No allocations</b> were made for the East and West container terminal in the Budget.   |
| 3.2 | Feasibility studies will be carried out to construct a new cross-berth terminal between the East Container Terminal and SACT.   | <b>LKR 380 Bn has been allocated</b> for the feasibility study of the Colombo North Port.   |
| 3.3 | Hambantota Port: Provide services such as ship maintenance, repair, and chandelling while developing all physical infrastructure requirement of the Hambantota Free Trade Zone.   | <b>No allocations have been made.</b>   |
| 3.4 | Develop Galle, Kankesanthurai and Trincomalee ports.  | LKR 1.1 Bn is allocated only for the rehabilitation of the Kankesanthurai Harbour.  |
| 3.5 | The second runway and passenger terminal will be developed for the Colombo airport, upgrading facilities while adding a new Taxiway and Cargo Terminal to the Mattala airport, and developing all other domestic airports and passenger terminals.          | <b>No allocations</b> have been made through the National Budget for any airport development projects.  |



## Urban Development and Housing Sector

Allocations for the Urban Development and Housing sub-sector include expenditures under the Ministry of Urban Development and Housing and the State Ministries under the Ministry.

**Allocations have increased for the sector in 2021 but are not as high as 2019 levels.**

**Exhibit 3.2.1: Urban Development and Housing Expenditure Summary**

Values in LKR Billions

| Ministry/State Ministry/Department  | Govt. Expenditure/Allocation |                  |                  | Y-o-Y change  |
|---|------------------------------|------------------|------------------|---------------|
|   | 2019<br>Actual               | 2020<br>Revised  | 2021<br>Budget   | 2020-2021     |
| <b>Urban Development and Housing Sector</b>   | <b>62.1</b>                  | <b>51.9</b>      | <b>59.5</b>      | <b>14.7%</b>  |
| Share of Government Expenditure   | 2.1%                         | 1.5%             | 1.6%             |               |
| Share of GDP  | 0.41%                        | 0.32%            | 0.34%            |               |
| Ministry of Urban Development and Housing*  | 58.3<br>(2.0%)               | 20.5<br>(0.58%)  | 23.5<br>(0.62%)  | <b>14.7%</b>  |
| Department of National Physical Planning  | 0.19<br>(0.006%)             | 0.18<br>(0.005%) | 0.40<br>(0.011%) | <b>127%</b>   |
| State Ministry of Urban Development, Coast Conservation, Waste Disposal and Community Cleanliness** | N/A                          | 23.2<br>(0.65%)  | 12.6<br>(0.33%)  | <b>-45.6%</b> |
| State Ministry of Rural Housing, Construction and Building Material Industries                      | 0.7<br>(0.02%)               | 6.4<br>(0.18%)   | 18.6<br>(0.49%)  | <b>189.0%</b> |
| State Ministry of Estate Housing and Community Infrastructure***                                    | 3.0<br>(0.10%)               | 1.8<br>(0.05%)   | 2.8<br>(0.07%)   | <b>55.5%</b>  |
| Department of Buildings   | 0.46<br>(0.016%)             | 0.45<br>(0.013%) | 0.59<br>(0.016%) | <b>31.6%</b>  |
| Government Factory  | 0.28<br>(0.009%)             | 0.27<br>(0.008%) | 0.24<br>(0.006%) | <b>-11.6%</b> |
| Specific Additional Proposals in Budget Speech 2021   | N/A                          | N/A              | 2.0<br>(0.053%)  | N/A           |

Note: \*Ministry of Urban Housing & Development also includes the discontinued spending head, Minister of Megapolis and Western Development in 2019

\*\*Department of Coast Conservation and Coastal Resources Management is excluded

\*\*\*State Ministry of Estate Housing and Community Infrastructure also includes the discontinued spending head Ministry of Community

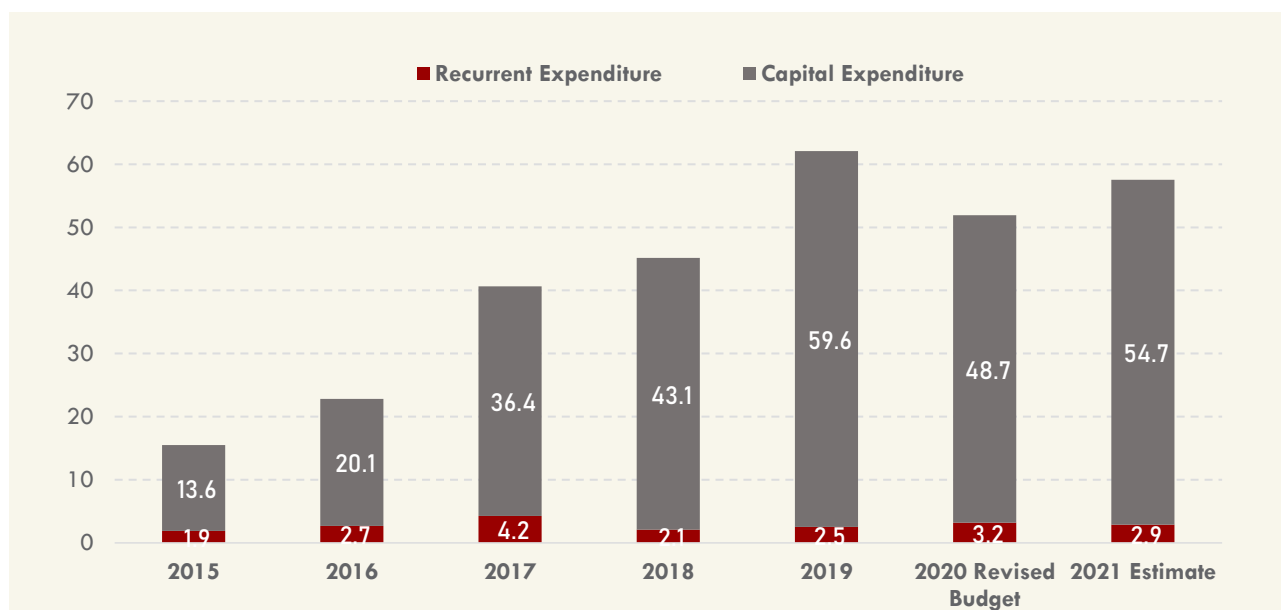
Empowerment & Estate Infrastructure in 2019

Budget Proposals for 2021 includes allocations for “Developing walking tracks & common amenities in Municipal and Urban Council areas” (LKR 2 billion)

Sources: Draft Budget Estimate (2021) and Budget Speech (2021)

**In the past, there has been a significant increase in spending for this sector, which has moderated in 2020 and 2021.**

**Exhibit 3.2.2: Urban Development and Housing Sector Spending, in LKR billion, 2015-2021**



**ANALYSIS**

In 2021, the Urban Development and Housing sector allocation for the central government is LKR 59.5 billion. This is equivalent to 1.6 percent of government expenditure and 0.34 percent of GDP.

The allocations to this sector have dropped in both 2020 and 2021 compared to 2019 actual expenditure. This is primarily due to the discontinuation of the Ministry of Megapolis and Western Development. However, some projects that were under this ministry have been transferred to the Ministry of Urban Development and Housing.

**Budget Expectations Based on Government Policy**

Allocations have been made only for few policies under Urban Development and Housing as mentioned in the official policy document “National Policy Framework, Vistas of Prosperity and Splendour”. The specific policy priorities relating to the Urban Development and Housing sector and the related observations from the budget are set out in Exhibit 3.2.3 below.

**Exhibit 3.2.3: Government Urban Development and Housing Policy Framework against Budget 2021**

| #        | Government Policy Priorities   | Observations   |
|----------|--|--|
| <b>1</b> | <b>City Development</b>  |  |
| 1.1      | Nine 'C' shaped Economic Corridors will be developed integrating Colombo port and Katunayake Airport, Hambantota port and Mattala airport, Kankesanthurai port and airport.  | An <b>allocation of LKR 3,423 Million</b> has been made for town development projects in nine provinces. It is not possible to determine whether these are related to the economic corridors.  |
| 1.2      | Four Multi-dimensional Commercial Cities (Colombo, Hambantota, Jaffna, and Trincomalee) and the development of national, connecting, and cluster Cities.   | <b>No additional new projects have been introduced</b> in the budget for the development of the Multi-dimensional Commercial Cities or for integrating the economic corridors. Yet, there is an allocation of LKR 1 billion for the Jaffna Strategic city development project. |
| 1.3      | Develop the New Colombo-Commercial and Financial Hub through a Light Rail Transit system, Radial and Circular road system, while adding sky bridges, vertical parking lots and flyovers in key areas.  | <b>No allocations</b> have been made for the Light Rail Transit system.  |
| 1.4      | New Colombo beautification project inclusive of an efficient waste management and water purification system.   | <b>Allocations have been made for the Metro Colombo Urban Development Project</b> (LKR 5.7Bn in 2021)  |
| <b>2</b> | <b>Housing</b>   |  |
| 2.1      | Special housing projects under public-private partnership arrangements will be implemented to enable young couples to purchase a house in an urban area on long-term easy payment plans.   | <b>No allocations have been made.</b>  |
| 2.2      | A multistorey housing complex scheme will be introduced under a public-private partnership for those who require temporary accommodation at a reasonable rent.   | <b>No allocations have been made</b> for the building of multistorey housing complexes under public private partnership.   |
| 2.3      | New multi-storey housing complexes will be built island-wide to replace old blocks of flats that are beyond repair.  | <b>LKR 100 million is allocated</b> for the renovation of housing schemes.   |
| 2.4      | Provide houses from housing schemes for displaced persons and those living in shanties.  | <b>LKR 8 Bn is allocated</b> for the construction of new houses for low-income families, which is the same as 2019.  |
| 2.5      | Housing schemes with all facilities will be constructed in rural agricultural areas thereby protecting the land available for agriculture.   | No specific allocations have been made for housing schemes in rural agricultural areas.  |
| 2.6      | Housing for families affected by the war will be provided.   | Allocations for Traditional Brick and Mortar Type Permanent Housing Programme for Conflict Affected Families in Northern and Eastern Provinces has <b>increased from LKR 1.5 Bn in 2019 to LKR 5 Bn in 2021.</b>   |
| 2.7      | Low rise housing projects will be introduced that will not harm the plantations. These housing schemes will have fully fledged health care centres, pre-schools and community centres. Provide housing for every estate family within these schemes. | <b>Allocations of LKR 1 billion for estate housing programmes and 0.5 billion</b> for Indian grant assisted housing programmes have been made in 2021.   |

## Power, Energy and Water Supply Sector

Allocations to the Power, Energy and Water Supply Sector include expenditures under the Ministry of Energy, Ministry of Power, Ministry of Water Supply, and State Ministries under the respective ministries.

### Increased allocation for Water Supply, but a cut in allocation for the Ministry of Power

#### Exhibit 3.3.1: Power, Energy and Water Supply Sector Expenditure Summary

Values in LKR Billions

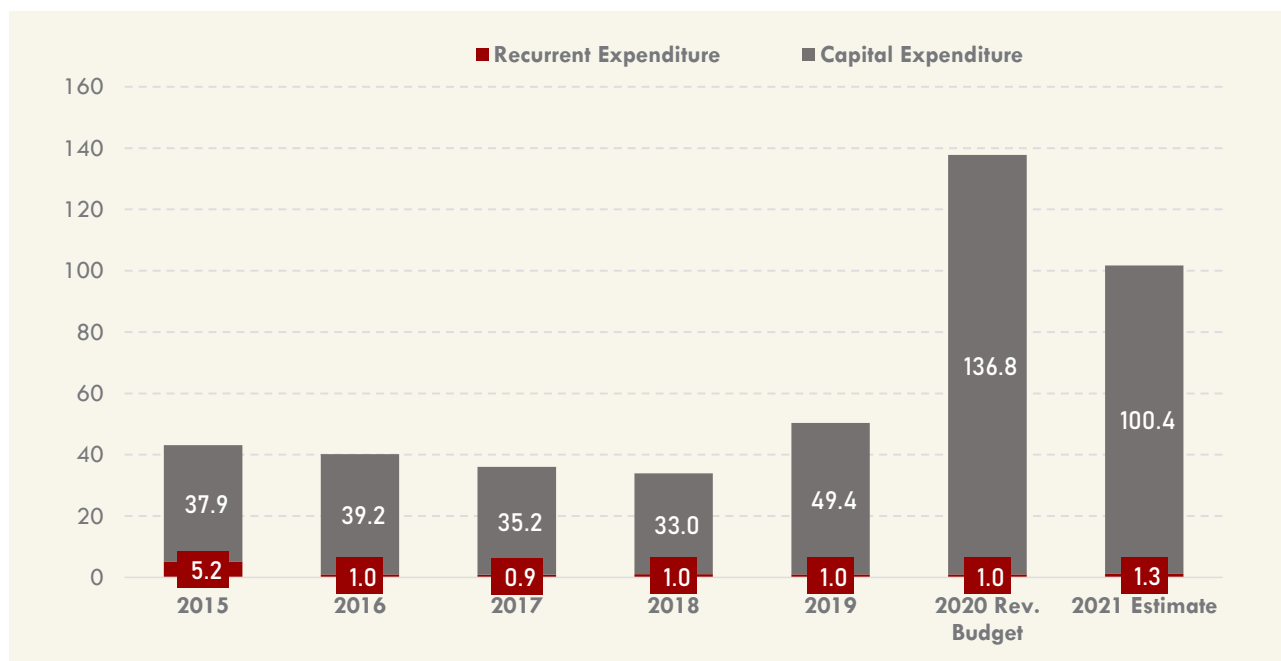
| Ministry/State Ministry/Department  | Govt. Expenditure/Allocation |                 |                 | Y-o-Y change  |
|---|------------------------------|-----------------|-----------------|---------------|
|   | 2019<br>Actual               | 2020<br>Revised | 2021<br>Budget  | 2020-2021     |
| <b>Power, Energy &amp; Water Supply Sector</b>                                    | <b>50.0</b>                  | <b>137.7</b>    | <b>107.5</b>    | <b>-22.0%</b> |
| <i>Share of Government Expenditure</i>  | 1.70%                        | 3.88%           | 2.84%           |               |
| <i>Share of GDP</i>   | 0.33%                        | 0.92%           | 0.72%           |               |
| Ministry of Energy  | 0.0<br>(0.01%)               | 0.2<br>(0.00%)  | 0.3<br>(0.01%)  | <b>52.3%</b>  |
| Ministry of Power   | 0.8<br>(0.03%)               | 58.3<br>(1.64%) | 0.3<br>(0.01%)  | <b>-99.5%</b> |
| State Ministry of Solar, Wind and Hydro Power Generation Projects Development     | 0.0<br>(0.00%)               | 0.7<br>(0.02%)  | 0.7<br>(0.02%)  | <b>-1.0%</b>  |
| Ministry of Water Supply  | 48.8<br>(1.65%)              | 75.8<br>(2.13%) | 96.1<br>(2.54%) | <b>26.8%</b>  |
| State Ministry of Rural and Divisional Drinking Water Supply Projects Development | 0.4<br>(0.02%)               | 2.8<br>(0.09%)  | 4.3<br>(0.15%)  | <b>56.3%</b>  |
| Department of National Community Water Supply                                     | 0.4<br>(0.02%)               | 1.5<br>(0.05%)  | 2.9<br>(0.10%)  | <b>93.8%</b>  |
| Specific Additional Proposals in Budget Speech 2021                               | N/A                          | N/A             | 5.8<br>(0.15%)  | N/A           |

Note: \* Implemented Budget Proposals for 2019 actual expenditure and 2020 revised estimates are already incorporated in government agency expenditure. Budget Proposals for 2021 includes allocations for the "Water for All" Programme (LKR 5 billion) and solar energy and rural electricity generation schemes (LKR 750 Million)

Sources: Draft Budget Estimate (2021) and Budget Speech

**Allocations have declined in the past but have been increasing after 2018**

**Exhibit 3.3.2: Power, Energy & Water Supply Sector Spending, in LKR billion, 2015-2019**



**ANALYSIS**

In 2021, the Power, Energy & Water Supply Sector allocation for the Central Government is LKR 107.5 billion. This is equivalent to 2.84 percent of government expenditure and 0.72 percent of GDP.

In 2021, the total sector allocations have decreased by 22 percent compared to the 2020 revised estimate. This is primarily due to increased expenditure in 2020 by the Ministry of Power for settling a loan of the CEB. However, the allocation for this sector has dramatically increased compared to the period prior to 2019.

**Budget Expectations Based on Government Policy**

Most of the government policy priorities mentioned in the “National Policy Framework, Vistas of Prosperity and Splendour” have not been addressed through the budget for the power, energy and water supply sector. The specific policy priorities relating to the power, energy and water supply sector and the related observations from the budget are set out in Exhibit 3.3.3 below.

**Exhibit 3.3.3: Government Power, Energy and Water Supply Policy Framework compared to Budget 2021 allocations**

| #        | Government Policy Priorities   | Observations   |
|----------|--|--|
| <b>1</b> | <b>Energy</b>  | The total allocation for the Ministry of Energy has increased by 52%, from LKR 166 Mn in 2020 to LKR 253 Mn in 2021. The large increase is mainly due to increased allocation for the Petroleum Resource Development Secretariat.                          |
| 1.1      | Expedite the exploration of natural gas identified in the three zones of the geological survey.  | <b>No allocations have been made.</b>  |
| 1.2      | Modernise the Kolonnawa oil refinery. Reconstruct the oil storage tanks in Trincomalee.  | <b>No allocations have been made.</b>  |
| <b>2</b> | <b>Power</b>   | Allocations to the Ministry of Power have increased from LKR 58 Bn in 2020 to LKR 313 Mn in 2021. This is mainly due to a foreign loan disbursement in 2020 to the CEB amounting to LKR 58 Bn.   |
| 2.1      | Convert the fuel-powered plants located around the Colombo area to natural gas turbine plants within the next year.  | <b>No allocations have been made.</b>  |
| 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. | <b>No allocations have been made.</b>  |
| 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.     | <b>No allocations have been made.</b>  |
| 2.4      | Rooftop solar systems will be encouraged through bank loans with low/concessional interest rates and the private sector will be incentivised to invest in renewable projects.                      | Rooftop solar power loans for low income households are proposed in the budget Speech. Further, the Budget Speech provides for a Tax proposal to allow a tax holiday of 7 years for all renewable energy projects.   |
| <b>3</b> | <b>Water Supply</b>  | The <b>Ministry of Water Supply allocation for 2021 has increased by 27%</b> , from LKR 76Bn in 2020 to LKR 96 Bn in 2021.   |
| 3.1      | The current projects carried out by Sri Lanka Water Board and Community Water Projects will be expanded.   | A Water for All programme, which allocates for the first time LKR 25 Bn in the budget estimates. The budget speech also allocates an additional LKR 5 Bn for same program.   |
| 3.2      | Low interest loans and tax relief will be provided for adopting methods to efficiently utilize agricultural resources.   | The Budget Speech mentions a proposal to provide capital grants of LKR 150,000 to 10,000 SMEs to install solar power-operated water pumps. However, no allocations have been made for this proposal in the Budget Speech Annex or in the Budget Estimates. |

| #   | Government Policy Priorities   | Observations                          |
|-----|--|---------------------------------------|
| 3.3 | Remove pesticides and other chemicals from water bodies and introduce water storage mechanisms for the efficient use of groundwater. | <b>No allocations have been made.</b> |
| 3.4 | Developing a flood control mechanism with prevention and forewarning systems and water storage and pumping methods                   | <b>No allocations have been made.</b> |

# 4. Trade and Industry Sector

Allocations for the Trade and Industry Sector include expenditures under the Ministry of Industries, Ministry of Trade, Ministry of Tourism, State Ministries under the respective ministries and specific departments related to Trade and Industry from other ministries.

## Trade and Investment sector allocations increase by LKR 5Bn in 2021.

### Exhibit 4.1: Trade and Industry Sector Expenditure Summary

Values in LKR Billions

| Ministry/State Ministry/Department   | Govt. Expenditure/Allocation |                  |                  | Y-o-Y change  |
|--|------------------------------|------------------|------------------|---------------|
|  | 2019<br>Actual               | 2020<br>Revised  | 2021<br>Budget   | 2020-2021     |
| <b>Trade &amp; Industry Sector</b>   | <b>7.2</b>                   | <b>12.2</b>      | <b>17.0</b>      | <b>39.8%</b>  |
| <i>Share of Government Expenditure</i>   | <i>0.24%</i>                 | <i>0.34%</i>     | <i>0.45%</i>     |               |
| <i>Share of GDP</i>  | <i>0.05%</i>                 | <i>0.08%</i>     | <i>0.10%</i>     |               |
| Ministry of Industries*  | 4.9<br>(0.16%)               | 3.5<br>(0.10%)   | 3.6<br>(0.09%)   | <b>1.4%</b>   |
| State Ministry of Batik, Handloom and Local Apparel Products                       | 0.1<br>(0.00%)               | 0.5<br>(0.01%)   | 1.1<br>(0.03%)   | <b>146.3%</b> |
| Department of Textile Industries   | 0.12<br>(0.00%)              | 0.21<br>(0.006%) | 0.17<br>(0.005%) | <b>-15.8%</b> |
| State Ministry of Rattan, Brass, Pottery, Furniture and Rural Industrial Promotion | N/A                          | 0.8<br>(0.02%)   | 1.2<br>(0.03%)   | <b>61.2%</b>  |



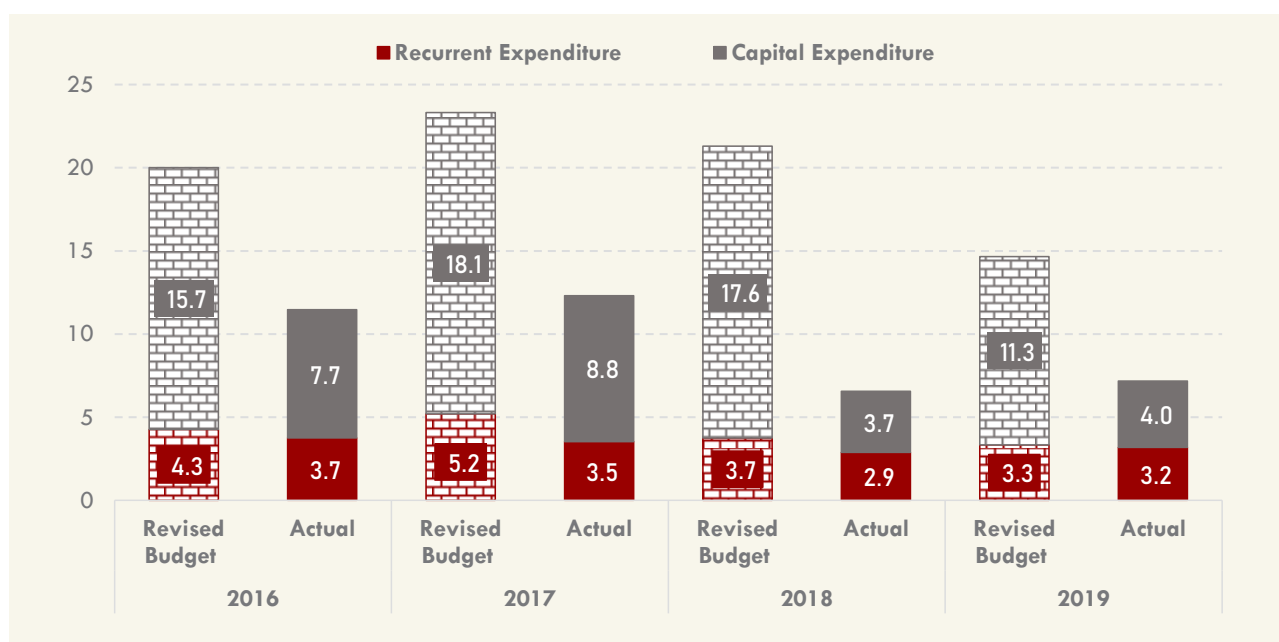
| Ministry/State Ministry/Department  | Govt. Expenditure/Allocation |                  |                  | Y-o-Y change  |
|---|------------------------------|------------------|------------------|---------------|
|   | 2019<br>Actual               | 2020<br>Revised  | 2021<br>Budget   | 2020-2021     |
| State Minister of Gem and Jewellery related Industries                                | N/A                          | 0.1<br>(0.004%)  | 0.3<br>(0.008%)  | <b>127.0%</b> |
| Ministry of Trade*  | N/A                          | 4.5<br>(0.13%)   | 5.6<br>(0.15%)   | <b>23.2%</b>  |
| Department of Measurement Units, Standards and Services                               | 0.13<br>(0.00%)              | 0.15<br>(0.00%)  | 0.18<br>(0.00%)  | <b>19.2%</b>  |
| National Intellectual Property of Sri Lanka   | 0.04<br>(0.00%)              | 0.05<br>(0.00%)  | 0.06<br>(0.00%)  | <b>24.8%</b>  |
| Department of Food Commissioner   | 0.37<br>(0.01%)              | 0.88<br>(0.025%) | 0.57<br>(0.015%) | <b>-35.0%</b> |
| State Ministry of Cooperative Services, Marketing Development and Consumer Protection | 0.1<br>(0.00%)               | 0.7<br>(0.02%)   | 1.0<br>(0.03%)   | <b>48.0%</b>  |
| Department of Co-operative Development (Registrar of Co-operative Societies)          | 0.10<br>(0.00%)              | 0.09<br>(0.002%) | 0.19<br>(0.005%) | <b>120.3%</b> |
| Co-operative Employees Commission   | 0.018<br>(0.00%)             | 0.019<br>(0.00%) | 0.024<br>(0.00%) | <b>26.8%</b>  |
| Ministry of Tourism*  | 0.2<br>(0.01%)               | 0.2<br>(0.01%)   | 0.5<br>(0.01%)   | <b>139.5%</b> |
| Other   | 1.9<br>(0.06%)               | 1.9<br>0.05%     | 3.7<br>0.10%     | <b>96.5%</b>  |
| Department of Import & Export Control   | 0.07<br>(0.00%)              | 0.08<br>(0.00%)  | 0.10<br>(0.00%)  | <b>21.6%</b>  |
| Department of the Registrar of Companies  | 0.07<br>(0.00%)              | 0.07<br>(0.00%)  | 0.08<br>(0.00%)  | <b>14.6%</b>  |

| Ministry/State Ministry/Department                  | Govt. Expenditure/Allocation |                 |                 | Y-o-Y change |
|---|------------------------------|-----------------|-----------------|--------------|
|   | 2019                         | 2020            | 2021            | 2020-2021    |
|   | Actual                       | Revised         | Budget          |              |
| Department of Commerce                              | 0.15<br>(0.00%)              | 0.14<br>(0.00%) | 0.16<br>(0.00%) | <b>10.8%</b> |
| Department of Export Agriculture                    | 1.07<br>(0.04%)              | 1.37<br>(0.04%) | 1.49<br>(0.04%) | <b>8.1%</b>  |
| Specific Additional Proposals in Budget Speech 2021 | N/A                          | N/A             |                 | N/A          |

Note: \*Ministry of Industries was adjusted in 2019 to remove allocations for resettlement and other areas irrelevant to trade and industry. Ministry of Trade is adjusted in 2020 & 2021 to remove the allocation for Southern Development. Ministry of Tourism was adjusted over 2019-21 to remove the Dept. of National Botanical Gardens and other areas irrelevant to trade and industry  
Sources: Draft Budget Estimate (2021).

## Capital expenditure is largely underspent in the Trade and Industry sector

Exhibit 4.2: Trade and Industry Sector Spending, in LKR billion, 2015-2019



## The Trade and Industry sector allocation has been underspent by almost 50 percent in the past

Exhibit 4.3: Past Experiences, 2015-2019

| Department/Ministry  | Average Growth<br>(in Actual Spending) | Average Shortfall<br>(of Actual Spending against Estimates) |
|--|--|---|
| <b>Trade &amp; Industry Sector</b>   | <b>11.1%</b>                           | <b>45.8%</b>  |
| Department of Commerce   | 7.9%                                   | 5.0%  |
| Department of Registrar of Companies   | 8.8%                                   | 2.2%  |
| Department of Measurement Units, Standards and Services                      | -16.3%                                 | 17.3%   |
| National Intellectual Property Office of Sri Lanka                           | 9.5%                                   | 0.0%  |
| Department of Food Commissioner  | 46.4%                                  | 17.0%   |
| Department of Co-operative Development (Registrar of Co-operative Societies) | 7.3%                                   | 8.0%  |
| Co-operative Employees Commission  | 6.5%                                   | 5.6%  |
| Department of Textile Industries   | 12.1%                                  | 9.6%  |
| Department of Import and Export Control                                      | 4.2%                                   | 6.4%  |
| Department of Export Agriculture   | 2.6%                                   | 11.1%   |

### ANALYSIS

In 2021, the Trade and Industry sector allocation for the Central Government is LKR 17 billion. This is equivalent to 0.47 percent of the government expenditure and 0.1 percent of GDP.

In 2021, the total sector allocations increased by 40 percent compared to the 2020 revised estimates, mainly due to several new state ministries being formed in 2020 and a significant increase in allocations to the Ministry of Trade. Previously, this sector was growing at an annual average growth of 11.1 percent, though spending declined in 2018 and 2019.

In the past, allocations to this sector have been poorly utilised, with an annual average shortfall in expenditure of 45.8 percent.

### Budget Expectations Based on Government Policy

Tax exemptions and allocations have been made for most policies under Trade and Industry mentioned in the official policy document “National Policy Framework, Vistas of Prosperity and Splendour”. The specific policy priorities relating to the Trade and Industry sector and the related observations from the budget are set out in Exhibit 4.4 below.

**Exhibit 4.4: Trade and Industry Policy Framework compared to Budget 2021 allocations**

| #        | Government Policy Priorities   | Observations  |
|----------|--|---|
| <b>1</b> | <b>Export Promotion</b>  | The allocation to the <b>External Trade Development Programme has increased</b> from LKR 610 Mn in 2020 to LKR 1,010 Mn in 2021.  |
| 1.1      | Set up Industrial Cities/ Free Trade Zones, Free Ports covering all Provinces.   | An allocation of LKR 1,900 Mn is provided under the Development of Industrial Zones head.   |
| 1.2      | A single unified machinery process will be set up to facilitate export import processes and to eliminate the waste of time. in this process  | <b>No allocations have been made.</b>   |
| <b>2</b> | <b>Gem and Jewellery</b><br>Import of modern high-tech instruments used in jewellery industry will be made duty free   | <b>Tax exemption has been proposed</b> in the budget speech for importation of machinery with modern technology.  |
| <b>3</b> | <b>Tourism Industry</b>  | <b>Allocations to the Ministry of Tourism has increased</b> in 2021 by 140 %. This is largely due to an additional allocation of LKR 266 million for constructing accommodation in Madhu, Mannar. |
| 3.1      | Immigration and emigration process in Colombo and Hambantota airports will be made more efficient, 2 terminals for domestic travel will be created and internal airports will be modernised.   | <b>No allocations</b> are provided for the modernisation of airports under the State Ministry of Aviation and Export Development.   |
| 3.2      | Establishment of tourist service centres at road junctions, install a single booking software system and electronic gate systems in places providing tourist accommodation, and incentivise the set-up of high-quality tourist hotels. | <b>No allocations have been made.</b>   |
| 3.3      | Establish tourism training schools in tourist cities and increase the numbers employed in the tourism industry to 1 million workers.   | <b>LKR 45 Mn is allocated for skills development courses.</b>   |
| 3.4      | Special programmes will be created to develop household-related and community-based tourism.   | <b>LKR 10 Mn is allocated for community-based tourism.</b>  |
| <b>4</b> | <b>Apparel Industry</b>  | There has been a 61% increase in the allocation for the <i>State Ministry of Batik, Handloom, and Local Apparel Products in 2021.</i>   |
| 4.1      | Allocate 200 acres of land belonging to the Commission in Eravur area for the development of a garments town as planned by BOI and LRC revisions for unjustifiable taxes.  | <b>A new tariff system has been proposed</b> for the importation of materials. However, no additional details on the tax system have been provided.   |
| 4.2      | Facilities will be provided to large-scale businesses to commence production of various high technology products.  | <b>Several tax exemptions were given</b> in the budget speech for large scale investments and importation of modern machinery.  |

**Exhibit 4.5: List of taxation changes related to the Trade and Industry Sector**

| Policies         | Taxation Changes   |
|------------------|--|
| General          | Investments exceeding USD 10 million with potential to change the landscape of the economy, in the areas of export industries, dairy, fabric, tourism, agricultural products, processing and information technology will be provided with concessions up to a maximum of 10 years under the Strategic Development Law. |
| General          | Exemption of import tax on imports of machinery with modern technologies   |
| General          | To impose CESS to provide the required protection on the imports and exports of domestic production  |
| General          | To remove import taxes on the raw materials not available in the country, machineries and equipment with modern technology, to boost exports, and also to encourage domestic industries to produce value added goods   |
| Export Promotion | Earnings from both domestic and foreign sources by those engaged in businesses in Information Technology and enabling services and also their earnings when made while being resident or non-resident will also be exempted from income taxes.   |
| Export Promotion | In order to promote the Colombo and Hambanthota ports as commodity trading hubs in international trading, and to encourage investments in bonded warehouses and warehouses related to offshore business, it is proposed to exempt such investments from all taxes.   |
| Export Promotion | Provide concessions on customs duties for cold room facilities   |
| Export Promotion | Reduced import taxes levied on vehicle spare parts required for new production sectors   |
| Export Promotion | To develop the latent industries such as mineral sand, phosphate, fertilizer and graphite as high value export industries, it is proposed to exempt from taxes local entrepreneurs involved with the Institute of Nanotechnology in order to reduce the expenditure on research and development'                       |
| Apparel          | To ban the importation of batik products under national sub headings in order to develop batik and related fashions as a national industry.  |
| Apparel          | In order to develop the local garment industry as a local and international garment manufacturing hub with high quality garment and leather products demanded by foreigners and tourists, relax imports and implement a new tariff system  |
| Tourism          | Simplify the taxes and fees levied by the Local Government Institutions on tourism with an upper cap   |

# 5. Environment Sector

Allocations for the Environment Sector include the Ministry of Environment, Ministry of Wildlife and Forest Conservation, the State Ministry of Wildlife Protection, the Adoption of Safety Measures including the Construction of Electrical Fences and Trenches, and Reforestation and Forest Resource Development. In addition, it includes the expenditure of the Department of Coast Conservation and Coastal Resources Management and the Department of National Botanical Gardens.<sup>1</sup>

## Allocation for the Environment sector doubles in 2021 on the back of proposals in the Budget Speech

Exhibit 5.1: Environment Sector Expenditure Summary

Values in LKR Billions

| Ministry/State Ministry/Department           | Govt. Expenditure/Allocation |                 |                | Y-o-Y change  |
|--|------------------------------|-----------------|----------------|---------------|
|  | 2019<br>Actual               | 2020<br>Revised | 2021<br>Budget | 2020-2021     |
| <b>Environment Sector</b>                    | <b>9.14</b>                  | <b>8.94</b>     | <b>18.30</b>   | <b>105%</b>   |
| <i>Share of Government Expenditure</i>       | 0.31%                        | 0.25%           | 0.48%          |               |
| <i>Share of GDP</i>                          | 0.06%                        | 0.06%           | 0.10%          |               |
| Ministry of Environment                      | 2.49<br>0.1%                 | 1.28<br>0.0%    | 2.00<br>0.1%   | <b>55.8%</b>  |
| Ministry of Wildlife and Forest Conservation | N/A                          | 1.46<br>0.04%   | 1.24<br>0.03%  | <b>-15.1%</b> |

<sup>1</sup> The Department of Coast Conservation and Coastal Resources Management is subsumed under the State Ministry of Urban Development, Coast Conservation, Waste Disposal and Community Cleanliness. The Department of National Botanical Gardens is under the purview of the Ministry of Tourism.

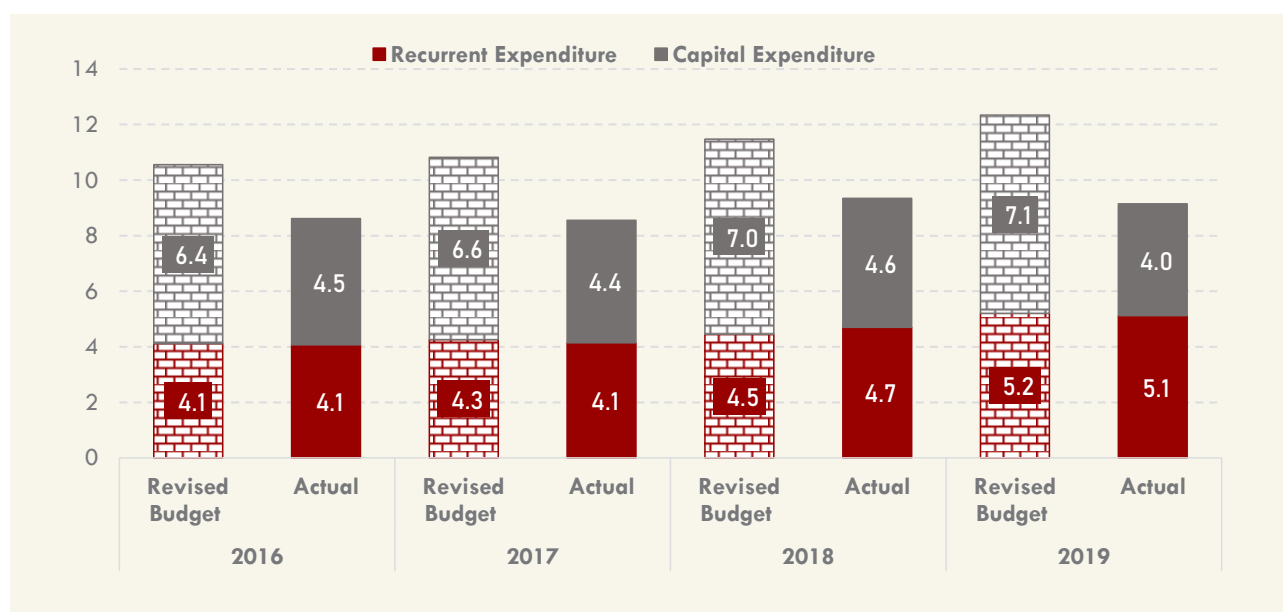
| Ministry/State Ministry/Department   | Govt. Expenditure/Allocation |                 |                | Y-o-Y change |
|--|------------------------------|-----------------|----------------|--------------|
|  | 2019<br>Actual               | 2020<br>Revised | 2021<br>Budget | 2020-2021    |
| State Ministry of Wildlife Protection, Adoption of Safety Measures including the Construction of Electrical Fences and Trenches, and Reforestation and Forest Resource Development | 4.86<br>0.16%                | 4.80<br>0.14%   | 6.11<br>0.17%  | <b>27.4%</b> |
| Department of Forest   | 2.24<br>0.08%                | 2.08<br>0.06%   | 2.54<br>0.07%  | <b>22.3%</b> |
| Department of Wildlife Conservation  | 1.70<br>0.06%                | 1.77<br>0.05%   | 2.16<br>0.06%  | <b>21.9%</b> |
| Department of National Zoological Gardens  | 0.92<br>0.03%                | 0.91<br>0.03%   | 1.29<br>0.04%  | <b>41.5%</b> |
| Other  | 1.79<br>0.06%                | 1.4<br>0.04%    | 2.26<br>0.06%  | <b>60.7%</b> |
| Department of Coast Conservation and Coastal Resources Management  | 0.63<br>0.02%                | 0.72<br>0.02%   | 1.14<br>0.03%  | <b>58.0%</b> |
| Department of National Botanical Gardens   | 0.89<br>0.03%                | 0.68<br>0.02%   | 1.12<br>0.03%  | <b>63.4%</b> |
| Specific Additional Proposals in Budget Speech 2021  | N/A                          | N/A             | 6.7<br>0.18%   | N/A          |

Note: Implemented Budget Proposals for 2019 actual expenditure and 2020 revised estimates are already incorporated in government agency expenditure. Budget Proposals for 2021 includes allocations for the Surakimu Ganga project (LKR 200 million), Forest conservation (LKR 3,500 million) and Human elephant conflict (LKR 3,000 million).

Sources: Draft Budget Estimate (2021) and Budget Speech (2021).

## Capital Expenditure under the environment sector has been underutilised in the past

Exhibit 5.2: Environment Sector Spending, in LKR billion, 2015-2019



## Subdued growth in expenditure together with a significant shortfall in spending in some departments

Exhibit 5.3: Past Experiences, 2015-2019

| Department/Ministry   | Average Growth<br>(in Actual Spending) | Average Shortfall<br>(of Actual Spending against Estimates) |
|---|--|---|
| <b>Environment Sector</b>   | <b>2.9%</b>                            | <b>19.5%</b>  |
| Department of Forest  | 2.5%                                   | 2.3%  |
| Department of Wildlife Conservation                                       | 2.9%                                   | 9.1%  |
| Department of National Zoological Gardens                                 | 2.6%                                   | 15.0%   |
| Department of Coast Conservation and Coastal Resource Management (Actual) | -19.3%                                 | 32.4%   |
| Department of National Botanical Gardens (Actual)                         | 7.2%                                   | 2.9%  |
| Other ministerial allocations   | 7.4%                                   | 39.6%   |



## ANALYSIS

The Environment Sector allocation in 2021 is LKR 18.3 billion. This is equivalent to 0.48 percent of the government expenditure and 0.1 percent of GDP.

Allocations for the environment sector have doubled in 2021 compared to the 2020 revised estimates. This is primarily due to the proposals introduced in the Budget Speech 2021 relating to forest conservation and mitigation of the human elephant conflict. All ministries and departments analysed as per Exhibit 5.1 have also seen increased allocations, with the exception of the Ministry of Wildlife and Forest Conservation.

In addition, past experience shows underspending in this sector, with an average shortfall of 19.5% between actual expenditure and amounts allocated.

## Budget Expectations Based on Government Policy

Allocations have been made for almost all policies under Environment Sector mentioned in the official policy document “National Policy Framework, Vistas of Prosperity and Splendour”. The specific policy priorities relating to the Environment sector and the related observations from the budget are set out in Exhibit 5.4 below.

**Exhibit 5.4: Government Environment Policy Framework compared to Budget 2021 allocations**

| #        | Government Policy Priorities  | Observations   |
|----------|---|--|
| <b>1</b> | <b>Waste Disposal</b>   |  |
| 1.1      | Targeted programmes will be planned and implemented to increase awareness and active engagement of communities.   | <b>The Ministry of Environment allocates LKR 131 million towards a range of environmental education programmes.</b> Many of these programmes have seen expenditure reduce in 2020 before increasing in 2021.   |
| 1.2      | Proper waste collection systems and modern techniques and improved incinerators will be introduced to dispose of hospital waste and industrial (chemical) waste.  | <b>The Budget Estimates 2021 do not provide</b> any specific information regarding the allocations for disposal of hospital and industrial waste.  |
| <b>2</b> | <b>Forests</b>  |  |
| 2.1      | Introduce scientific methods to improve sustainable agriculture, animal husbandry and plantation agriculture and convert barren/abandoned land into agricultural and forest lands.  | <b>The State Ministry of Wildlife Protection allocates LKR 5 million</b> towards the establishment of forest plantations in abandoned barren lands.  |
| 2.2      | Industrial establishments will be encouraged to establish urban forests, green paths, green roofs and agroforestry systems and the use of fossil fuels will be discouraged and decarbonization will be encouraged especially in transportation, industries and building construction. | <b>The Budget speech proposes to facilitate private entrepreneurs</b> at rural level to install solar power plants and LKR 750 million is allocated for this. However, there are <b>no other tax concessions or budgetary funds</b> allocated to achieve the other activities mentioned. |

| #        | Government Policy Priorities  | Observations  |
|----------|---|---|
| 2.3      | Definitive measures will be taken to identify suitable areas for reforestation including establishing parks in urban and semi-urban areas, developing urban vegetation by establishing tree lines along expressways and implementing tree planting programmes in industrial premises. | <p>The Ministry of Wildlife and Forest Conservation <b>allocates LKR 10 million</b> for introducing forest plantations unique to schools, universities, hospitals and government institutions.</p> <p>In addition, the State Ministry of Wildlife Protection allocates LKR 121 million for the conservation of forest and mangrove systems and LKR 545 million for new forest cultivation.</p>  |
| <b>3</b> | <b>Coast Conservation</b>   |   |
| 3.1      | Immediate action will be taken to mitigate the coastal erosion occurring in various parts of the island.  | State Ministry of Urban Development, Coast Conservation, Waste Disposal and Community Cleanliness <b>allocates LKR 518 million towards coast conservation</b> and coastal resources management.   |
| 3.2      | The Suwa Divimaga Programme - Creating a healthy environment by preventing pollution of air, water and soil through the development of a sustainable environment policy.  | <p>The Ministry of Environment <b>allocates LKR 97 million towards the broader function of environmental pollution</b> prevention and sustainable environmental policy. Of these, the two largest projects amounting to LKR 50 million and LKR 12 million have been newly introduced this year.</p> <p>State Ministry of Urban Development, Coast Conservation, Waste Disposal and Community Cleanliness also allocates LKR 563 million towards projects aimed at preventing coastal pollution.</p> |

# 6. Education Sector

Allocations for the Education Sector include the expenditure of the following ministries:<sup>2</sup> **General Education** - Ministry of Education (expenditure related to general education), State Ministry of Women and Child Development, Preschools and Primary Education, School Infrastructure and Education Services (under the State Ministry of Women and Child Development); **Higher Education**<sup>3</sup> - Ministry of Education (expenditure related to higher education), State Ministry of Education Reforms, Open Universities and Distance Learning Promotion; **Technical and Vocational Education – TVET**<sup>4</sup> (under the State Ministry of Skills Development, Vocational Education, Research and Innovation); **Other** - State Ministry of Dhamma Schools, Pirivenas and Bhikkhu Education, National Education Commission.

## Expenditure on Education has remained largely unchanged except for university education

**Exhibit 6.1:** Education Sector Expenditure Summary

Values in LKR Billions

| Ministry/State Ministry/Department     | Govt. Expenditure/Allocation |                 |                | Y-o-Y change |
|--|------------------------------|-----------------|----------------|--------------|
|  | 2019<br>Actual               | 2020<br>Revised | 2021<br>Budget | 2020-2021    |
| <b>Education Sector</b>                | <b>158.9</b>                 | <b>162.0</b>    | <b>175.2</b>   | <b>8.1%</b>  |
| <i>Share of Government Expenditure</i> | 5.4%                         | 4.6%            | 4.6%           |              |
| <i>Share of GDP</i>                    | 1.1%                         | 1.0%            | 1.0%           |              |
| General Education                      | 78.07                        | 79.14           | 78.28          | <b>-1.1%</b> |
|  | 2.6%                         | 2.2%            | 2.1%           |              |

2 Expenditure allocations of the ministries have been adjusted to exclude expenditure heads which are unrelated to the education sector.

3. For 2019, this segment included the relevant allocations of the Ministry of City Planning, Water Supply and Higher Education.

4. For 2019, this segment included the allocations of the Skills Development division of the Ministry of Industry & Commerce, Resettlement of Protracted Displaced Persons, Co-operative Development and Vocational Training & Skills Development.

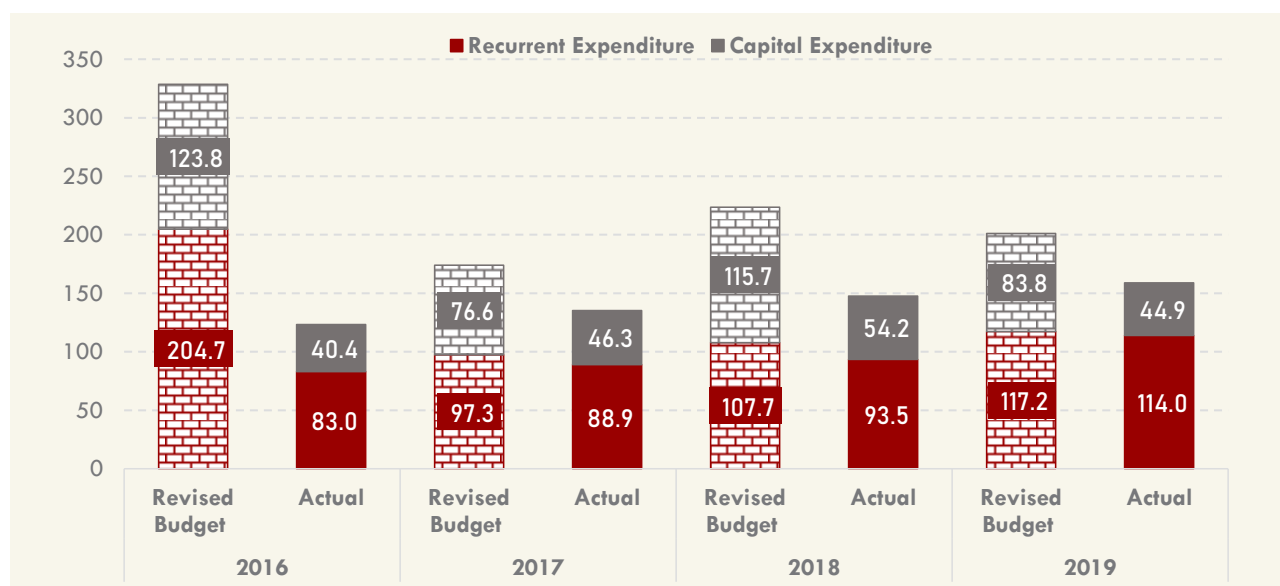
| Ministry/State Ministry/Department                  | Govt. Expenditure/Allocation |               |               | Y-o-Y change |
|---|------------------------------|---------------|---------------|--------------|
|   | 2019                         | 2020          | 2021          | 2020-2021    |
|   | Actual                       | Revised       | Budget        |              |
| University Education                                | 71.05<br>2.4%                | 73.00<br>2.1% | 76.79<br>2.1% | <b>5.2%</b>  |
| TVET  | 9.73<br>0.3%                 | 9.82<br>0.3%  | 10.07<br>0.3% | <b>2.6%</b>  |
| Other   | 0.04<br>0.0%                 | 0.04<br>0.0%  | 0.05<br>0.0%  | <b>5.9%</b>  |
| Specific Additional Proposals in Budget Speech 2021 | N/A                          | N/A           | 10.0<br>0.3%  | N/A          |

Note: Implemented Budget Proposals for 2019 actual expenditure and 2020 revised estimates are already incorporated in government agency expenditure. Budget Proposals for 2021 includes allocations for distance education (LKR 3,000 million), vocational education (LKR 3,000 million), development of rural schools (LKR 3,000 million) and university infrastructure facilities (LKR 1,000 million).

Sources: Draft Budget Estimate (2021) and Budget Speech (2021).

## Actual Capital expenditure on education is significantly lower than the budgeted allocation

Exhibit 6.2: Education Sector Spending, in LKR billion, 2015-2019



## Significant shortfall in spending for General Education in the past

Exhibit 6.3: Past Experiences, 2015-2019

| Department/Ministry     | Average Growth<br>(in Actual Spending) | Average Shortfall<br>(of Actual Spending<br>against Estimates) |
|-------------------------|--|--|
| <b>Education Sector</b> | <b>9.2%</b>                            | <b>26.3%</b>   |
| General Education       | 7.6%                                   | 32.0%  |
| University Education    | 13.4%                                  | 12.1%  |
| TVET                    | 5.1%                                   | 21.7%  |
| Other                   | 9.5%                                   | 16.4%  |

### ANALYSIS

Allocations to the Education Sector have remained constant at approximately 1% of GDP from 2019 to 2021 and at 4.6% in 2020 and 2021.

In absolute terms, expenditure on this sector has increased by LKR 13.2 billion in 2021 when compared to the previous year. However, allocations towards this sector have been declining when considered as a proportion of the government's total budget. Expenditure on education reduced from 5.4% to 4.6% in 2020 and has remained at this level in 2021.

Allocations towards general education and TVET are lower than expenditure on university education. In 2021, spending on general education declined by 1.1% while expenditure on TVET increased minimally by 2.6%. These two segments have also historically shown low rates of growth and higher levels of under-spending than allocations made towards university education.

## Budget Expectations Based on Government Policy

Allocations have been made for majority of the policies under Education mentioned in the official policy document "National Policy Framework, 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 6.4 below.

Exhibit 6.4: Government Environment Policy Framework compared to Budget 2021 allocations

| #        | Government Policy Priorities   | Observations   |
|----------|--|--|
| <b>1</b> | <b>General education</b>   |  |
| 1.1      | Allocate adequate funds from the Annual budget to implement the free education policy. | <b>The allocations for General Education have not increased.</b> In fact, compared to 2020, the 2021 allocation is LKR 0.86 billion lower. Compared to 2019, the allocations have remained the same. |

| #   | Government Policy Priorities   | Observations  |
|-----|--|---|
| 1.2 | Provision of infrastructure facilities and modern technology to needy schools and an extra stipend for teachers located in difficult and remote areas. | XThere is no specific allocation made to schools in need. However, the total allocations for overall development of infrastructure facilities are covered under the headings of Improvement of School Facilities and General Education Development Project. The total allocation for these two heads amount to LKR 4,496 in 2021, a reduction from LKR 13,491 in 2020.  |
| 1.3 | Three (03) schools per Divisional Secretariat and all provincial schools will be upgraded to the level of national schools.                            | <p><b>New allocations have been made</b> under the State Ministry of Minister of Women and Child Development, Preschools and Primary Education, School Infrastructure and Education Services for establishing National schools.</p> <p>LKR 950 Million is allocated for the establishment of National schools in Divisional secretariat divisions where there are no national schools.</p> <p>LKR 1,000 million is allocated for upgrading the facilities of secondary schools to 1000 National schools. Further, LKR 500 million is allocated for establishing trilingual national schools in every district.</p> <p>The Budget Speech 2021 allocated an additional LKR 3,000 million towards the development of rural schools and the 1,000 National Schools Development Programme.</p> |
| 1.4 | There will be compulsory teacher training after which the teachers are eligible to receive a government salary.  | The overall expenditure on teacher development by the Ministry of Education has fallen in 2021, from LKR 3,604 million to LKR 3,271 million. However, the <b>State Ministry of Education Reforms allocates a further LKR 1,200 million in 2021 towards teacher training and professional development.</b> This is almost 60% of the ministry's 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 State Ministry of Women and Child Development <b>allocates roughly 3% of its budget towards initiatives relating to pre-school education</b> (LKR 967 million). The largest allocation within this (LKR 500 million) is for the establishment of one pre-school in each GN division, and LKR 20 million for the development of day care centres and community centres.  |
| 1.6 | Primary schools will be developed into 'Child-Friendly schools' and 50,000 Teacher Assistants will be recruited.                                       | State Ministry of Women and Child Development <b>has allocated LKR 400 million in 2021 for the development of child friendly schools.</b> Expenditure on salaries & wages by the three main ministries of this sector amounts to LKR 30.9 billion in 2021. This is a slight reduction in the allocation compared to 2020 (LKR 31.4 billion), hence, does not support the policy of hiring 50,000 Teacher Assistants.  |
| 1.7 | Subsidised price vouchers to be distributed among school children in need to buy school uniforms, footwear, and school bags.                           | <b>LKR 4,200 million in total has been allocated</b> by the State Ministry of Women and Child Development for providing uniforms and shoes. The same amount was allocated in 2020. In 2019, expenditure was approximately LKR 4,429 million.  |

| #        | Government Policy Priorities  | Observations   |
|----------|---|--|
| 1.8      | A programme will be implemented to improve children's nutrition by providing a nutritious food ration in school.  | <b>LKR 5,936 million is also allocated towards providing meals</b> for pre-school children, primary and secondary school children.   |
| <b>2</b> | <b>Higher Education</b>   |  |
| 2.1      | Convert the existing eighteen (18) National Colleges of Education to university faculties.  | <p>The <b>Budget Estimates 2021 do not provide any specific information</b> regarding the allocations for these proposals.</p> <p>However, Capital expenditure in the education sector has declined from LKR 23.7 billion in 2019 to 20.9 billion in 2020 and then remained stagnant as per the estimates for 2021 at LKR 20.7<sup>5</sup> billion. Overall, this represents a drop of 13% since 2019.</p>                                       |
| 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.  | <b>The allocations for the Mahapola scholarship remain the same</b> as previous years. Allocations for 2021 are LKR 2,000 compared to LKR 2,125 million in 2020 and LKR 1,964 million in 2019.   |
| <b>3</b> | <b>TVET</b>   |  |
| 3.1      | Rationalize the existing vocational training institutes by introducing 'One TVET' Concept and establish properly scattered technical university colleges.                     | <p>The State Ministry of Skills Development, Vocational Education, Research and Innovation has allocated <b>LKR 5 million in 2021 for initiatives relating to the 'One TVET'</b> concept.</p> <p>In addition, the Budget Speech 2021 introduces a proposal for providing a tax holiday for private sector institutions standardized under the 'One TVET' concept if these institutions double their student intake upto a minimum of 50,000.</p> |
|          |   |  |
| 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 <b>Budget Estimates 2021 do not provide any specific information</b> regarding the allocations for this proposal.  |

5 For 2019, this sector included expenditure relating to Mahaweli development which was then reported under the Ministry of Environment.

# 7. Agriculture, Irrigation and Fisheries sector

Allocations for the Agriculture Sector consider the following areas and their respective ministries and departments:<sup>6</sup>

- **Agriculture and rural economy** – Ministry of Agriculture; State Ministry of Paddy and Grains; Organic Food, Vegetables, Fruits, Chilies, Onion and Potato Cultivation Promotion, Seed Production, and Advanced Technology Agriculture; State Ministry of Production and Supply of Fertilizer and Regulation of Chemical Fertilizer and Insecticide Use; 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 Promotion<sup>7</sup>.
- **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.

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6 ????

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



## Sectoral expenditures have increased significantly

**Exhibit 7.1: Agriculture Sector Expenditure Summary**

Values in LKR Billions

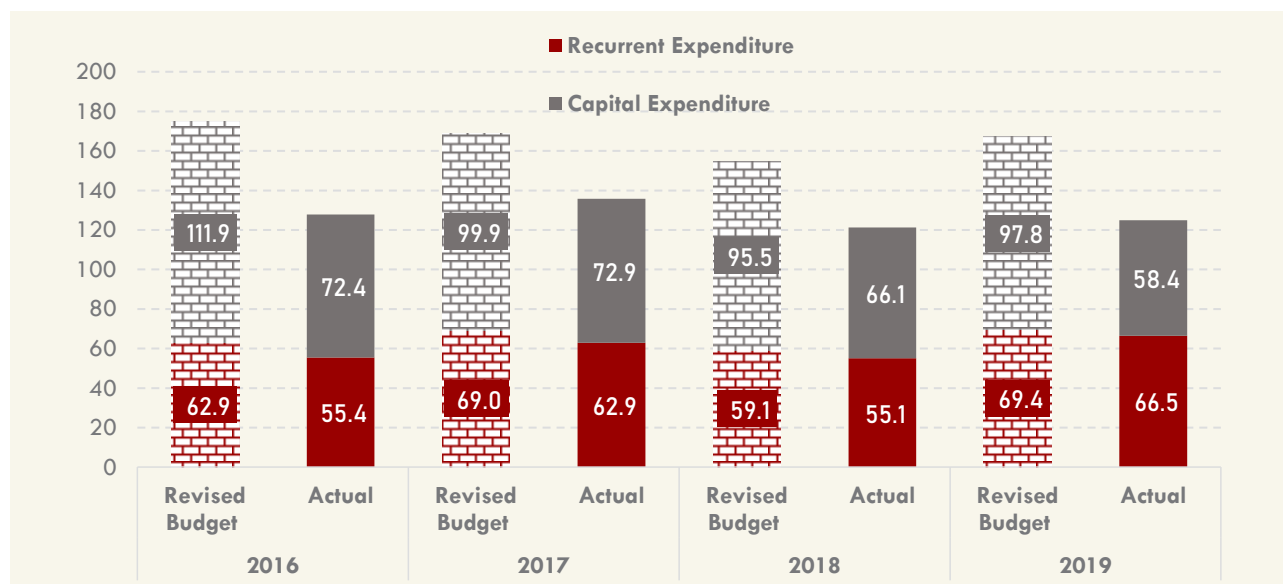
| Ministry/State Ministry/Department   | Govt. Expenditure/Allocation |                 |                | Y-o-Y change  |
|--|------------------------------|-----------------|----------------|---------------|
|  | 2019<br>Actual               | 2020<br>Revised | 2021<br>Budget | 2020-2021     |
| <b>Agriculture and Fisheries Sector</b>  | <b>124.9</b>                 | <b>137.8</b>    | <b>164.5</b>   | <b>19.4%</b>  |
| Share of Government Expenditure  | 4.22%                        | 3.88%           | 4.34%          |               |
| Share of GDP   | 0.83%                        | 0.86%           | 0.94%          |               |
| Ministry of Agriculture  | 71.1<br>2.40%                | 16.4<br>0.46%   | 24.1<br>0.64%  | <b>47.2%</b>  |
| Department of Agriculture  | 6.3<br>0.21%                 | 5.9<br>0.17%    | 7.2<br>0.19%   | <b>21.2%</b>  |
| State Ministry of Paddy and Grains, Organic Food, Vegetables, Fruits, Chilies, Onion and Potato Cultivation Promotion, Seed Production and Advanced Technology Agriculture | 9.0<br>0.30%                 | 13.5<br>0.38%   | 18.7<br>0.49%  | <b>38.2%</b>  |
| Department of Agrarian Development   | 9.0<br>0.30%                 | 9.5<br>0.27%    | 10.0<br>0.26%  | <b>5.4%</b>   |
| State Ministry of Production and Supply of Fertilizer and Regulation of Chemical Fertilizer and Insecticide Use  | N/A                          | 35.1<br>0.99%   | 35.7<br>0.94%  | <b>1.8%</b>   |
| State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries   | 1.4<br>0.05%                 | 1.8<br>0.05%    | 2.8<br>0.07%   | <b>61.6%</b>  |
| Department of Animal Production and Health   | 1.4<br>0.05%                 | 1.3<br>0.04%    | 1.4<br>0.04%   | <b>14.6%</b>  |
| Ministry of Fisheries  | 0.75<br>0.03%                | 1.36<br>0.04%   | 4.58<br>0.12%  | <b>237%</b>   |
| Department of Fisheries and Aquatic Resources  | 0.75<br>0.03%                | 0.85<br>0.02%   | 0.76<br>0.02%  | <b>-11.0%</b> |

| Ministry/State Ministry/Department  | Govt. Expenditure/Allocation |               |               | Y-o-Y change   |
|---|------------------------------|---------------|---------------|----------------|
|   | 2019                         | 2020          | 2021          | 2020-2021      |
|   | Actual                       | Revised       | Budget        |                |
| State Minister of Ornamental Fish, Inland Fish and Prawn Farming, Fishery Harbour Development, Multiday Fishing Activities and Fish Exports                         | N/A                          | 4.2<br>0.12%  | 3.8<br>0.10%  | <b>-10.9%</b>  |
| Ministry of Plantations   | 6.5<br>0.22%                 | 1.4<br>0.04%  | 1.3<br>0.03%  | <b>-9.3%</b>   |
| State Ministry of Company Estate Reforms, Tea and Rubber Estates Related Crops Cultivation and Factories Modernization and Tea and Rubber Export Promotion          | 0.96<br>0.03%                | 5.44<br>0.15% | 5.87<br>0.15% | <b>7.9%</b>    |
| Department of Rubber Development  | 0.96<br>0.03%                | 1.41<br>0.04% | 1.33<br>0.04% | <b>-5.7%</b>   |
| State Ministry of Coconut, Kithul and Palmyrah Cultivation Promotion and Related Industrial Product Manufacturing and Export Diversification                        | N/A                          | 2.2<br>0.06%  | 2.5<br>0.07%  | <b>17.8%</b>   |
| State Ministry of Development of Minor Crops Plantation including Sugarcane, Maize, Cashew, Pepper, Cinnamon, Cloves, Betel Related Industries and Export Promotion | N/A                          | 2.3<br>0.07%  | 2.8<br>0.07%  | <b>20.2%</b>   |
| Ministry of Irrigation  | 12.2<br>0.41%                | 50.4<br>1.42% | 46.6<br>1.23% | <b>-7.6%</b>   |
| Department of Irrigation  | 12.2<br>0.41%                | 11.6<br>0.33% | 14.7<br>0.39% | <b>26.3%</b>   |
| State Ministry of Canals and Common Infrastructure Development in Settlements in Mahaweli Zones   | N/A                          | 3.5<br>0.10%  | 7.3<br>0.19%  | <b>104.8%</b>  |
| State Ministry of Tanks, Reservoirs and Irrigation Development Related to Rural Paddy Fields  | N/A                          | 0.1<br>0.00%  | 3.1<br>0.08%  | <b>2563.8%</b> |
| Other*  | 23.1<br>0.78%                | 0.0<br>0.00%  | 0.0<br>0.00%  | <b>0.0%</b>    |
| Specific Additional Proposals in Budget Speech 2021   | N/A                          | N/A           | 5.4<br>0.14%  | N/A            |

Note: Implemented Budget Proposals for 2019 actual expenditure and 2020 revised estimates are already incorporated in government agency expenditure. Budget Proposals for 2021 includes allocations for plantations (LKR 2,000 million), drip irrigation (LKR 1,500 million), tank rehabilitation (LKR 1,000 million), Fisheries corporation (LKR 500 million), fish farm development (LKR 200 million) and inland fishing (LKR 150 million).

Sources: Draft Budget Estimate (2021) and Budget Speech (2021).

**Exhibit 7.2 : Agriculture & Fisheries Sector Spending, in LKR billion, 2015-2019**



**Exhibit 7.3: Past Experiences, 2015-2019**

| Department/Ministry                           | Average Growth<br>(in Actual Spending) | Average Shortfall<br>(of Actual Spending<br>against Estimates) |
|---|--|--|
| <b>Agriculture and Fisheries Sector</b>       | <b>-3.9%</b>                           | <b>18.3%</b>   |
| Department of Agrarian Development            | 3.6%                                   | 9.6%   |
| Department of Agriculture                     | 2.3%                                   | 19.8%  |
| Department of Rubber Development              | -19.2%                                 | 29.6%  |
| Department of Fisheries and Aquatic Resources | -17.2%                                 | 32.4%  |
| Department of Animal Production and Health    | 9.4%                                   | 15.3%  |
| Department of Irrigation                      | -1.7%                                  | 17.5%  |
| Other ministerial allocations                 | -4.5%                                  | 19.2%  |

### ANALYSIS

Allocations towards this sector have increased significantly in 2021, by 19.4% compared to the previous year. Expenditure on the sector has also been on an upward trend as a percentage of GDP. However, as a percentage of the overall budget, spending has decreased from 4.2% to 3.9% in 2020, before returning to 4.3% in 2021.

The increased sector allocation for 2021 is primarily due to increased allocations for the Ministry of Agriculture and the State Ministry of Paddy and Grains, Organic Food, Vegetables, Fruits, Chillies, Onion and Potato Cultivation Promotion, Seed Production and Advanced Technology Agriculture. In addition, the irrigation and fisheries segments have also seen moderate increases in their allocations for 2021.

## Budget Expectations Based on Government Policy

Allocations are lacking for many policies under Agriculture mentioned in the official policy document “National Policy Framework, Vistas of Prosperity and Splendour”. In some cases, where there are allocation, the amount has been reduced compared to past. The specific policy priorities relating to the Agriculture sector and the related observations from the budget are set out in Exhibit 6.4 below.

**Exhibit 7.4: Government Agriculture Policy Framework compared to Budget 2021 allocations**

|          | Government Policy Priorities   | Observations  |
|----------|--|---|
| <b>1</b> | <b>General Agriculture</b>   |   |
| 1.1      | 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 <b>farmers pension scheme and crop insurance scheme have been allocated LKR 4,000 million and LKR 1,000 million</b> respectively. This is 21% of the budget of the Ministry of Agriculture. <b>However, expenditure on the crop insurance scheme has reduced over time</b> , from LKR 1,988 million in 2019, and LKR 1,514 million in 2020. |
| 1.2      | Finish the disbursement of compensation payments to the farming community for past cultivation losses.   | The Budget Estimates for 2021 <b>do not provide information</b> on these specific proposals.  |
| 1.3      | Introduce a methodology to convert unprofitable land to productive land.   | The State Ministry of Paddy and Grains has <b>allocated LKR 1,000 million for recultivation of abandoned paddy lands</b> in 2021. The allocation has <b>reduced</b> from LKR 1,177 million in 2019 and 1,343 million in 2020.   |
| 1.4      | Popularise greenhouse, hydroponics and aquaponics agriculture and introduce import tariff benefits and low interest loan schemes to promote the youth to take up these agri-business activities.   | <b>LKR 2,500 million is allocated for providing loans and grants</b> to farmers as part of its efforts to promote youth entrepreneurs.<br><br><b>LKR 500 million is allocated for providing knowledge and financial support for 1,000 youth</b> entrepreneurs in agriculture.   |
| 1.5      | Modern agro-technological 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. | In total the government has dedicated 12% of the agriculture budget towards these initiatives in 2021. <b>The Budget Speech for 2021 also proposes</b> that individuals and companies engaged in farming, (including agriculture, fisheries and livestock farming) will be <b>exempt from taxes</b> in the next 5 years.                        |
| 1.6      | Promote cultivation of dried chillies, maize, soya, green grams and cowpea, onions and potatoes.   | The State Ministry of Paddy and Grains is <b>allocated LKR 6,538 for programmes</b> aimed at the promotion of various local crops. This is one of the primary functions of this ministry, and the allocation represents 35% of the ministry's total budget.   |

|          | Government Policy Priorities  | Observations   |
|----------|---|--|
| 1.7      | A cooperative farm production methodology will be developed at the regional level, providing technical assistance, infrastructure and investment facilities.  | The Budget Estimates 2021 <b>do not provide</b> any specific information regarding the allocations for this proposal.  |
| 1.8      | The Suwa Divimaga programme:<br><ul style="list-style-type: none"> <li>- Promote healthy meal free of agro-chemicals and additives</li> <li>- Promote production of organic food</li> <li>- Promote proper eating habits at all ages</li> </ul>   | <b>LKR 250 million is allocated</b> to Ministry of Agriculture for programmes relating to <b>non-toxic food production</b> . Further, LKR 70 million is also allocated to the State Ministry of Paddy and Grains for programmes relating to non-toxic food production.   |
| 1.9      | Implement an “Agricultural Institute” to impart agricultural research knowledge and modern technical knowhow.   | The Budget Estimates 2021 <b>do not provide</b> any specific information regarding the allocations for this proposal.  |
| <b>2</b> | <b>Dairy and Poultry</b>  |  |
| 2.1      | Promote the production of consumer goods such as milk, eggs, animal and fish products, vegetables and fruits in the Northern Province.<br>Promote milk production in the Northern Province and provide mechanized milking equipment to milk farmers and cooperatives at subsidized prices and easy payment conditions.  | State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries <b>allocates LKR 1,667 million (59% of budget) towards increasing milk production</b> . The largest initiative relates to a newly introduced programme regarding the promotion of small and medium scale dairy farmers (LKR 450 million). However, the Budget Estimates 2021 <b>did not make specific reference</b> to the implementation of <b>programmes in the Northern Province</b> . |
| 2.3      | Reduce tariffs on quality cattle feed.  | <b>No tariff reductions have been made</b>   |
| 2.4      | Introduce small-scale solar-powered refrigeration facilities to increase the milk storage facilities.   | <b>No allocations have been made.</b>  |
| 2.5      | 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.   | <b>No allocations have been made.</b>  |
| 2.6      | Meat and eggs for export:<br><ul style="list-style-type: none"> <li>- Expand production of chicken and eggs, promote small and medium producers, and encourage large scale producers to export.</li> </ul> Provide financial and technical support to commence organic meat production at the household level.<br>Introduce international standards and effective monitoring systems to animal farms and production facilities. | <b>LKR 129 million is allocated</b> by the State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries <b>for programmes relating to the promotion of livestock related products</b> . As a majority of the allocation of the ministry goes towards increasing domestic milk production, initiatives on livestock amount to approximately 5% of the ministry's budget.  |
| 2.7      | Introduce systems to economise the use of water – e.g. drip irrigation and sprinkler systems.   | The Budget Speech 2021 introduces a proposal with an allocation of <b>LKR 1,500 for drip irrigation systems and water conservation</b> .   |

|          | Government Policy Priorities  | Observations  |
|----------|---|---|
| <b>3</b> | <b>Fisheries</b>  |   |
| 3.1      | <p>Fishing vessels</p> <ul style="list-style-type: none"> <li>- 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</li> <li>- Develop facilities to construct and maintain large multi day fishing craft in Trincomalee.</li> </ul> | The Budget Estimates 2021 do not provide any specific information regarding the allocations for this proposal.  |
| 3.2      | Develop a programme to involve women in fishery related household industry.   | The Budget Estimates 2021 <b>do not provide</b> any specific information regarding the allocations for this proposal.   |
| 3.3      | 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.  | The Ministry of Fisheries allocates <b>LKR 2,650 million towards maintenance, improvement and new constructions of fishery harbours and anchorages</b> . The largest allocation of LKR 1,590 million for the Gandara fishery harbour, has significantly increased from its 2019 allocation of LKR 640 million and 2020 allocation of LKR 927 million. |
| 3.4      | Build-up of all fishery harbours, anchorages and landing sites with modern communication facilities, refrigeration, fuel supply and sanitation facilities.  | The Ministry of Fisheries allocates <b>LKR 545 million towards modernising fishery harbours</b> and anchorages.   |
| 3.5      | Enable domestic fishing companies to expand fishing in international seas.  | The Ministry of Fisheries <b>allocates LKR 56 million</b> on two programmes for this purpose (international conferences and coordination, and the provision of satellite technology).   |
| 3.6      | <p>Financial assistance:</p> <ul style="list-style-type: none"> <li>- Provision of low interest loans, tax benefits, insurance, consultancy and market coordination assistance to develop inland and aquaculture fisheries.</li> <li>- Interest free loan scheme for innovations to improve the quality of fish through the value chain</li> </ul>  | The Budget Estimates 2021 <b>do not provide</b> any specific information regarding the allocations for this proposal.   |
| 3.7      | <p>Plantations:</p> <ul style="list-style-type: none"> <li>- Use unused estate land to develop horticulture and organic products</li> <li>- Establish an industrial zone covering the whole estate sector and analyze the viability of re-opening factories that have been closed down.</li> </ul>  | The Budget Estimates 2021 <b>do not provide</b> any specific information regarding the allocations for these proposals.   |
| 3.8      | Capital infusion for replanting and fertilization together with streamlined management processes for government-owned estates to increase productivity.   | The Budget Estimates 2021 <b>do not provide</b> any specific information regarding the allocations for this proposal.   |

# 8. Social Empowerment Sector

Allocations for the Social Empowerment Sector include the State Ministry of Women and Child Development, Preschools and Primary Education, School Infrastructure and Education Services<sup>8</sup>, State Ministry of Samurdhi, Household Economy, Micro Finance, Self Employment and Business Development, and the Ministry of Public Services, Provincial Councils and Local Government.<sup>9</sup>

## Budget cuts for Samurdhi leads to an overall fall in budget allocation for the Social Empowerment Sector in 2021 compared to 2020

Exhibit 8.1: Social Empowerment Sector Expenditure Summary

Values in LKR Billions

| Ministry/State Ministry/Department  | Govt. Expenditure/Allocation |                 |                | Y-o-Y change  |
|---|------------------------------|-----------------|----------------|---------------|
|   | 2019<br>Actual               | 2020<br>Revised | 2021<br>Budget | 2020-2021     |
| <b>Social Empowerment Sector</b>  | <b>357.5</b>                 | <b>408.6</b>    | <b>393.8</b>   | <b>-1.12%</b> |
| <i>Share of Government Expenditure</i>  | 12.1%                        | 11.5%           | 10.4%          |               |
| <i>Share of GDP</i>   | 2.38%                        | 2.56%           | 2.24%          |               |
| State Ministry of Women and Child Development, Preschools and Primary Education, School Infrastructure and Education Services | 0.4<br>0.0%                  | 8.0<br>0.2%     | 8.3<br>0.2%    | <b>0.00%</b>  |
| Department of Probation and Child Care Services   | 0.4<br>0.0%                  | 0.4<br>0.0%     | 0.4<br>0.0%    | <b>0.00%</b>  |
| State Ministry of Samurdhi, Household Economy, Micro Finance, Self Employment and Business Development                        | 58.7<br>2.0%                 | 113.8<br>3.2%   | 84.7<br>2.2%   | <b>-0.97%</b> |

8 The expenditure of this Ministry has been adjusted to include only expenditure relevant to social empowerment.

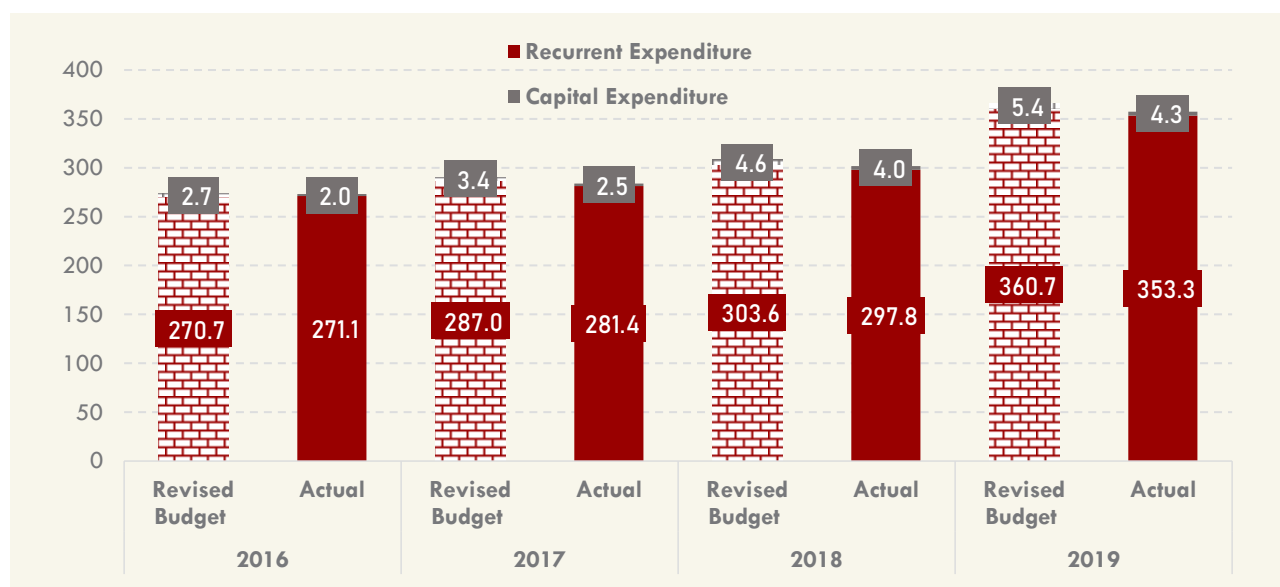
9 For 2019 this sector included the relevant expenditure included under the Ministry of Primary Industries and Social Empowerment and the Minister of Women & Child Affairs and Social Security.

| Ministry/State Ministry/Department                                     | Govt. Expenditure/Allocation |                 |                | Y-o-Y change  |
|--|------------------------------|-----------------|----------------|---------------|
|  | 2019<br>Actual               | 2020<br>Revised | 2021<br>Budget | 2020-2021     |
| Department of Samurdhi Development                                     | 58.7<br>2.0%                 | 106.4<br>3.0%   | 71.6<br>1.9%   | <b>-1.11%</b> |
| Ministry of Public Services, Provincial Councils and Local Government* | 273.0<br>9.2%                | 286.9<br>8.1%   | 289.8<br>7.6%  | <b>-0.43%</b> |
| Department of Pensions   | 273.0<br>9.2%                | 286.9<br>8.1%   | 289.8<br>7.6%  | <b>-0.43%</b> |
| Other**  | 25.5<br>0.9%                 | N/A             | N/A            | N/A           |
| Specific Additional Proposals in Budget Speech 2021                    | N/A                          | N/A             | 11.0<br>0.29%  | N/A           |

Note: Implemented Budget Proposals for 2019 actual expenditure and 2020 revised estimates are already incorporated in government agency expenditure. Budget Proposals for 2021 includes allocations for the empowerment of Samurdhi families (LKR 10,000 million) and for young women entrepreneurs (LKR 1,000 million).

Sources: Draft Budget Estimate (2021) and Budget Speech (2021).

**Exhibit 8.2: Social Empowerment Sector Spending, in LKR billion, 2015-2019**





**Exhibit 8.3: Past Experiences, 2015-2019**

| Department/Ministry                             | Average Growth<br>(in Actual Spending) | Average Shortfall<br>(of Actual Spending against Estimates) |
|---|--|---|
| <b>Social Protection Sector</b>                 | <b>7.9%</b>                            | <b>-0.7%</b>  |
| Department of Probation and Child Care Services | 4.2%                                   | 2.9%  |
| Department of Samurdhi Development              | 3.0%                                   | 4.1%  |
| Department of Pensions                          | 11.1%                                  | -3.1%   |
| Other   | -2.7%                                  | 6.5%  |

**ANALYSIS**

The Social Empowerment Sector accounts for a large proportion of the government's budget, as it includes pensions and payments made to Samurdhi recipients. Hence, expenditure in this sector consists almost entirely of recurrent spending. This sector amounts to 10.4 percent of the government expenditure and 2.2 percent of GDP.

Expenditure on social empowerment increased significantly in 2020 to LKR 408.6 Billion from LKR 358 billion in 2019. The increase is mainly due to funds spent on COVID-19 relief programmes amounting to LKR 38,500 million. For 2021, the expenditure is reduced to LKR 394 billion, mainly due to the exclusion of funds allocated for Covid -19 relief in 2020.

**Budget Expectations Based on Government Policy**

|   | Government Policy Priorities  | Observations  |
|---|---|---|
| 1 | <p>"Gami Liyata Rate Saviya"</p> <ul style="list-style-type: none"> <li>- Devise a programme to get women entrepreneurs involved in SMEs and value-added production.</li> <li>- Provide relief to victims of unregulated micro finance schemes charging exorbitant interest rates.</li> </ul> | <p>The total allocation of The State Ministry of Women and Child Development for <b>the initiatives relating to the development of women is LKR 129 million</b> (only 0.42% of the budget of the ministry). Of this allocation, LKR 90 million is for entrepreneurship development among women.</p> <p>The Budget Speech 2021 also introduced a proposal to provide tax deductions to local entrepreneurs who contribute to establish Samurdhi women's shops. The government further allocates LKR 1,000 million to provide credit facilities and insurance for these shops.</p> <p>However, the Budget Estimates <b>do not specify an allocation</b> towards the provision of <b>relief to women who fall victim to unregulated micro finance schemes.</b></p> |
| 2 | Tamil-Muslim Brotherhood - The "Punarjeevana Fund" will be launched.  | The Budget Estimates 2021 <b>do not provide any specific information</b> regarding the allocations for this proposal.   |

|   | Government Policy Priorities   | Observations  |
|---|--|---|
| 3 | <p>Differently abled people</p> <ul style="list-style-type: none"> <li>- Provide special skills/ professional training programmes for differently abled people.</li> <li>- Establish call centres for supporting differently abled people.</li> </ul>  | <p>The State Ministry of Samurdhi allocates LKR 4,370 million (5% of the budget of the ministry) towards programmes targeting differently abled people. However, this is a continuing expenditure. <b>There have been no new allocations</b> for the mentioned programmes.</p>  |
| 4 | <p>Elder care</p> <ul style="list-style-type: none"> <li>- Implement the five-year plan to overcome challenges during old age effectively.</li> <li>- Add Rs.100/- deducted from the elderly assistance programme back to the existing Rs. 2,000/and increase the monthly allowance to Rs. 2,500/-.</li> <li>- Introduce a subsidy scheme for senior citizens above 65 years of age to purchase prescribed medicines and provide free health check-up in each six months.</li> </ul> | <ul style="list-style-type: none"> <li>- The Budget Estimates <b>do not make specific reference</b> to these proposals.</li> <li>- The primary form of social security provided to elders are pension payments. Approximately LKR 250 billion in pension payments have been allocated in 2021.</li> </ul>   |
|   | <p>Social Protection and Welfare</p> <ul style="list-style-type: none"> <li>- Restart and revitalize the Divineguma programme.</li> <li>- Set up new contributory pension scheme for people who are not receiving pension at present.</li> <li>- Increase monthly allowances currently provided for fatal diseases.</li> <li>- Provide a monthly allowance for single-parent families with kids below 12 years of age and without any income sources.</li> </ul>                     | <ul style="list-style-type: none"> <li>- The <b>Budget Estimates for 2021 do not make specific reference</b> to the Divineguma programme.</li> <li>- Recurrent expenditure of the Sri Lanka Social Security Board has increased by 11% in 2021, from LKR 125.5 million to LKR 140 million.</li> <li>- <b>Financial assistance for kidney patients has increased by 32%</b> in 2021 (LKR 2,349 million to LKR 1,785 million).</li> <li>- The Grama Shakthi programme and programme on self-employment for single-parent families (combined allocations LKR 338 million) has been replaced with the <b>“Sundara Gama” rural economy upliftment programme (allocated LKR 5,300 million in 2021)</b>.</li> </ul>  |
|   | <p>Samurdhi recipients</p> <ul style="list-style-type: none"> <li>- Provide professional training opportunities to youth in Samurdhi families.</li> <li>- Increase all existing Samurdhi benefits provided to low-income families.</li> </ul>  | <ul style="list-style-type: none"> <li>- <b>Expenditure on Samurdhi relief is estimated to be LKR 53,000 million for 2021.</b> This is the main expenditure allocation of the Ministry of Samurdhi (63% of total expenditure). This is on par with Samurdhi relief allocations in 2020 (LKR 52,688 million) and an increase of 19% when compared with 2019.</li> <li>- In 2020, the Department of Samurdhi Development has also utilised funds of LKR 38,500 million for COVID relief.</li> <li>- LKR 600 million in capital expenditure is also allocated towards the Samurdhi Beneficiary Empowerment Programme. Spending on this programme was cut significantly in 2020, from LKR 505 million to LKR 195 million, before being increased in the 2021 allocation.</li> <li>- The Budget Speech 2021 also allocates a further LKR 10,000 million for the empowerment of Samurdhi families.</li> </ul> |

|  | Government Policy Priorities   | Observations  |
|--|--|---|
|  | <p>Samurdhi administration</p> <ul style="list-style-type: none"> <li>- Restructure all the Samurdhi using modern technology.</li> <li>- Resolve issues with regard to salaries, allowances, promotions and pensions of employees in the Samurdhi Development Department.</li> </ul> | <ul style="list-style-type: none"> <li>- The Budget Estimates <b>do not provide specific information</b> on restructuring Samurdhi using modern technology. However, expenditure on the acquisition and improvement of capital assets have increased marginally, by just 7%.</li> <li>- The <b>Budget Speech 2021 introduces a proposal to open a Samurdhi Life Savings Account</b> for each Samurdhi beneficiary, and for the Samurdhi benefits to be credited to these accounts and be reinvested in government securities.</li> <li>- <b>Personal emoluments paid to employees of the Department of Samurdhi Development have been increased by 19%</b> in 2021 (From LKR 14,278 million to LKR 17,019 million). This is higher than the increase of 11% in 2020.</li> </ul> |

# SECTION III: Informational Standards and Due Diligence

This section of the report sets out concerns with regard to the standards adopted in the provision of budget information. In the past, the Committee on Public Finance has highlighted several concerns in a series of reports produced each year on the Budget. Some of these concerns were addressed in the subsequent budgets but a majority still remain unaddressed.

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

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

# 1. Informational Concerns

## 1.1 Lack of an appropriate sector classification of the Budget

The COPF report on Budget 2018 first highlighted the issue of not providing a functional/sector classification of the budgetary expenditures. The MoF subsequently provided the sector classification in the 2019 Budget. However, this positive step of the MoF has been removed from the 2020 and 2021 Budget Estimates.

## 1.2 Lack of explanations on the major changes in the Budget

The COPF report on the Budget 2018 recommended that the MoF reports on the Major changes in allocations in the budget estimates. "Major changes" was defined as budget-items for which allocation are estimated to grow by more than 20% from the current year or fall by more than 10%. This would provide better visibility on substantial shifts in expenditure. However, in the 2021 Budget, only very few items had an explanation and the majority of significant changes did not have an explanation. The task of identifying the changes in the expenditure was made even more challenging with the changes in the ministry portfolios.

# 2. Other Concerns

## 2.1 Sugar tax

The COPF report on the 2019 Budget raised concerns on the reduction of the Sugar Tax on sweetened beverages from 50 cents per gram to 40 cents per gram. Further, the 2019 budget also proposed exemptions for sugar content below 4 grams per 100ml for carbonated drinks and 8 grams per 100 ml for fruit-based beverages. However, the Ministry of Health only recommends a exemption level of 2 grams per 100ml for carbonated beverages. The COPF report proposed the exemption level to be set as recommended by the Ministry of Health and to keep the tax at 50 cents per gram as this policy has both a positive social impact and fiscal impact.

However, the tax rates proposed in the 2019 Budget were implemented through an Extraordinary Gazette Notification No. 2113/9 dated March 05, 2019, ignoring the concerns raised by the COPF.

Compounding the issue, the government on 12 October 2020, through Extraordinary Gazette No. 2197/3, further reduced the sugar tax from 40 cents to 30 cents per gram. The exemption on carbonated drinks was raised from 4 grams per 100ml to 6 grams per 100ml.

## 2.2 Betting and Gaming Levy

The casino entrance fee was reduced in 2019 Budget from USD 100 to USD 50 and the License fee for casinos was increased from LKR 200 Mn to LKR 400 Mn and Rujino games which was LKR 200 Mn was reduced to LKR 1Mn. The COPF raised concerns on the reduction of the levy while misrepresenting it as revised. However, there appears to have been no action taken. No gazettes or official public documents have been released to notify the changes in the levy. The IRD website still provides the 2015 update on the levy.

## 2.3 Indexation of Cigarette tax

In the 2019 Budget it was proposed that “Excise duty on cigarettes will now be based on indexation with a minimum annual duty increase capturing annual inflation and GDP growth”.

However, the current budget did not make any changes to the taxes on cigarettes in line with the 2020 and 2021 inflation and GDP expectations. In fact, the 2021 budget did not raise duties on cigarettes or alcohol at all. It has instead proposed a GST on a range of products including cigarettes and alcohol. However, no rates have been indicated and therefore it is not possible to discern whether the new GST will result in an increase or a decrease in the effective tax rate. The GST had not been implemented at the time of publication.

# 3. Sri Lanka’s Budget Weaknesses Compared to Peer Countries

The Open Budget Survey (OBS) is an international study of a country’s budget process on three aspects: budget transparency, budget oversight and public participation. The latest round of the survey was published in 2019 and covered 117 countries.

The Open Budget Index (OBI) is a scoring of each country’s level of budget transparency, and is the main component of the OBS. In 2019 Sri Lanka’s OBI score was 41 out of 100, below the minimum score of 61 which is considered a sufficient level of information. While Sri Lanka’s OBI score has been on an upward trend over the past three rounds of the survey, improvement has been slow.

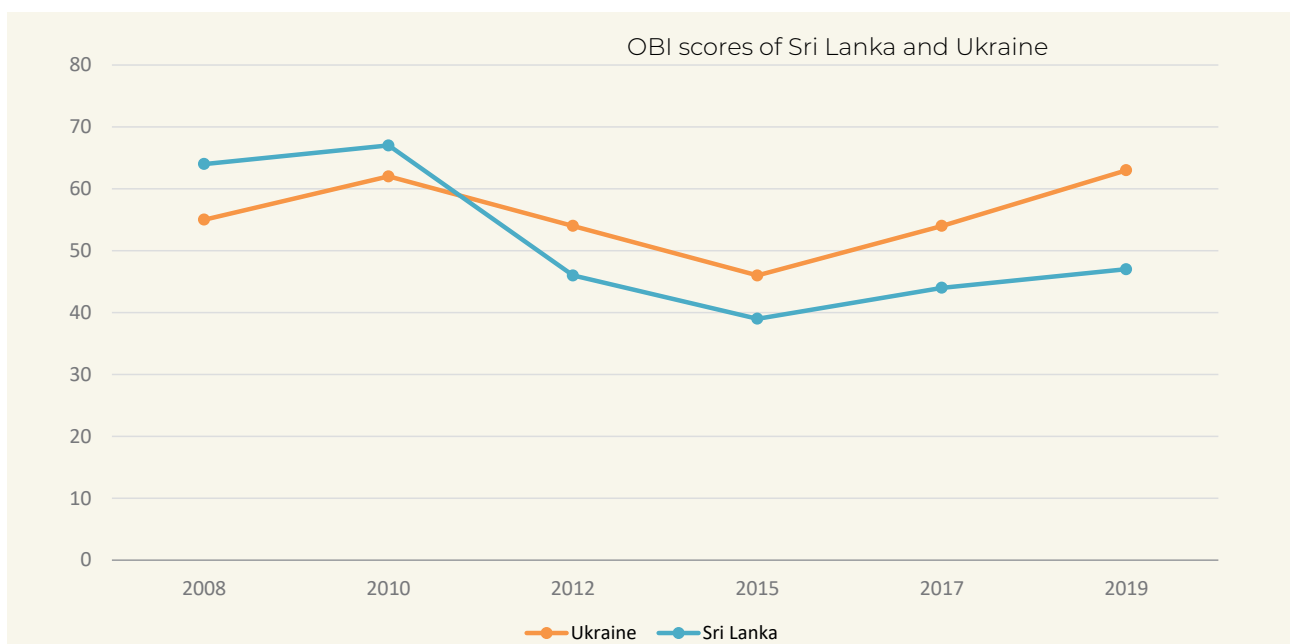
In the OBS 2019, Sri Lanka published 6 of the 8 budget documents tracked by the survey. However, it performed poorly on its OBI score due to poor information disclosure in these documents. In particular, the Citizens Budget, In-Year Reports and Audit Report score poorly on their degree of comprehensiveness. The Budget Estimates themselves received a moderate score of 60, slightly below the minimum score of 61.

As highlighted through this report, there remains significant scope for improvement in information disclosure in the Budget Estimates. The Open Budget Survey 2019 highlights the following missing information in the Budget Estimates when compared with global best practices.

1. Functional classification of expenditure.
2. Total composition of debt outstanding at the end of the year (including interest rates, maturity profile, whether it is domestic or external).
3. Sensitivity analysis of macroeconomic assumptions on the budget.
4. Information on extra-budgetary funds.
5. Consolidated central government finances (both budgetary and extra-budgetary).

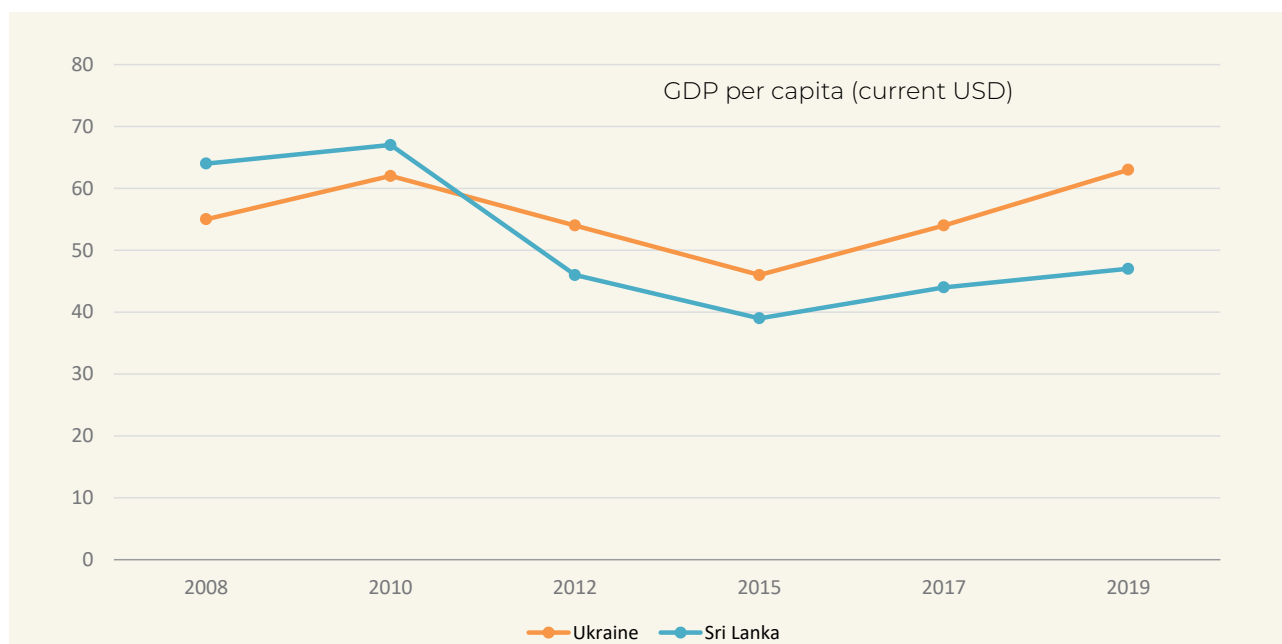
6. Alternative displays of expenditure (such as by gender, age, income, or region) to illustrate the financial impact of policies on different population groups.
7. Financial and non-financial assets of the government.
8. Expenditure arrears for the budget year.
9. Assessment of the government's future liabilities and the sustainability of its finances over the longer term.
10. Estimates of earmarked revenue.

**Case Study: Open Budget Index (OBI) scores of Ukraine and Sri Lanka**



In the 2010 OBS, both Sri Lanka and Ukraine were able to score above the minimum level of 61 on the survey. However, as global information standards continued to improve in subsequent years, both countries fell behind their peers.

In 2019, Sri Lanka still did not disclose sufficient levels of information on its budget process, as indicated by its OBI score of 47. In contrast, Ukraine has made significant progress, seeing its OBI score improve rapidly over the past three rounds of the survey. In 2019, Ukraine's OBI score passed the sufficiency threshold of 61. These improvements to Ukraine's budget transparency occurred despite the country's GDP per capita lagging behind Sri Lanka's during the period in which these changes occurred.



Source: World Bank Open Data

Ukraine’s improvements in budget disclosure can be attributed to comprehensive reforms in public finance introduced by the government of the country.<sup>10</sup> The Public Finance Management System Reform Strategy 2017-2020 presented by Ukraine’s Ministry of Finance targeted a number of areas, one of which was the improvement of transparency and accountability. Other components of the reform strategy included measures aimed at fiscal discipline, efficient allocation of resources and budget execution.<sup>11</sup>

This case study illustrates the potential for improvement in public finances through a comprehensive effort by the government. The COPF in its reports have highlighted deficiencies in all areas addressed by a public finance reform strategy such as that of Ukraine. However, similar to the changes seen in Sri Lanka’s OBI score over past years, progress on Sri Lanka’s public finance reforms have been slow

<sup>10</sup> [https://www.internationalbudget.org/sites/default/files/2020-04/2019\\_Report\\_EN.pdf](https://www.internationalbudget.org/sites/default/files/2020-04/2019_Report_EN.pdf)

<sup>11</sup> <https://www.mof.gov.ua/storage/files/f0c37541b6bc06ccae09b784d802dc9d.pdf>



