



Finance Commission of Sri Lanka

Annual Report 2015

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VISION

“Balanced and equitable socio-economic development in all provinces”

MISSION

To formulate policies and guidelines, provide planning and planning support, apportion resources, monitor and evaluate development endeavors, coordinate national and provincial agencies and make appropriate recommendations to the government for reduction of inter and intra disparities in a fair and equitable manner to achieve balanced regional development in provinces.

THRUST AREAS

- Ensure formulation and communication of principles on allocation and apportionment of financial resources to the provinces.
- Ensure fair distribution of resources among the provinces.
- Reduce regional disparities and promote human development.
- Ensure effective utilization of resources in the provinces.
- Enhance generation of revenue at provincial and local levels.
- Strengthen institutional development of provincial and local institutions of governance.
- Achieve effective coordination between the national level and the provinces.
- Promote entrepreneurship through public private partnership.
- Develop human and institutional capacity of the Finance Commission.

Commission Members - 2015

Mr. Ariyaratne Hewage
Chairman (up to 17th November, 2015)

Mr. U.H. Palihakkara
Chairman (from 18th November, 2015)

Mr. Arjuna Mahendran
Ex- Officio Member

Dr. R.H.S. Samaratunga
Ex- Officio Member

Mr. S. Amirthalingam
Member (up to 17th November, 2015)

Mr. M.N. Junaid
Member (up to 17th November, 2015)

Mr. V. Kanagasabapathy
Member

Prof. H.M. Zafrullah
Member

Secretary

Mr. W.H. Munasinghe

Senior Officers

Mr. P. Sumanapala	- Senior Director
Mr. A.T.M.U.D.B. Tennakoon	- Director
Ms. U.P. Wijayahewa	- Deputy Director
Mr. M.L.A. Chandradasa	- Deputy Director (Actg.)
Ms. D.P.L.E.N. Gunasekera	- Assistant Director
Mr. P.R.N. Sujeewa	- Assistant Director
Ms. T. Abeysekera	- Assistant Director

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Chairman's Statement

On behalf of the Finance Commission of Sri Lanka I have great pleasure in presenting the 7th annual report, which reviews the efforts made and results achieved by the Commission in 2015.

The New Building Project of the Commission in the offing deserves special reference. It gives us reasons to celebrate, and the approval of the government funding is a major milestone in the 28 year old Finance Commission.

This is a time of transformational change and an exciting future for Sri Lanka is unfolding. I am privileged and honoured to join the Finance Commission of Sri Lanka (FC) at a time when empowerment of the local government bodies are being duly recognized. Carrying out its mission amidst the changing landscape, staying focused and forging ahead with renewed momentum makes unconfident that we will continue to generate value for Sri Lanka's economy – supporting Provincial administration, communities and the livelihoods of all Sri Lankans.

We remain committed to its primary target of “reducing regional disparity” and Sri Lanka's march towards greater prosperity. There is no doubt that FC faces continued challenges to cope with the increasing demand for better allocation of financial resources in the provinces in terms of quality of service. We hope to formulate a comprehensive Corporate Plan with realistic and transparent KPIs targeting better organizational performance for creating value and enriching the lives of people.

I would like to acknowledge the ongoing dedication of the Board, whose contribution to the strategic direction of the Commission has placed us in good stead to continue our role as a lead agency in provincial economic development. I commend the fellow commission members and the staff for their unstinted support and commitment to performance, excellence and innovation.

On behalf of the Finance Commission, I wish to thank HE the President, the Prime Minister and the Constitution Council for their ongoing support and advocacy Finally, I would like to take this opportunity to thank the Commission Members, both current and the past, for their valuable support in steering the Commission. I also thank the staff of the Commission for their continued dedication and efforts.



U. H. Palihakkara
Chairman
Finance Commission
August, 2016

Secretary's Review

The role and the functions of the Finance Commission are performed with the objective of achieving balanced regional development in the country. The 13th Amendment to the Constitution and the Provincial Council Act No. 42 of 1987 has laid the foundation for establishing the Finance Commission and the Provincial Council System in Sri Lanka. The assessment of provincial needs is a prerequisite in the process of allocating and apportioning funds between the provinces and among sectors which is the constitutional mandate of the Finance Commission.

From the beginning the Finance Commission has made every effort to facilitate and promote provincial and local level development process to accomplish achieve the main constitutional direction of the Commission, i.e. "the objective of achieving balanced regional development in the country." Introduction of the Results Based Management (RBM) Approach in all provinces with a view to moving away from the traditional input-output based approach is a remarkable step in this regard.

The Annual Report - 2015 explains the functioning of the Finance Commission for the period from January 2015 to December 2015. It emphasizes main tasks of the Commission covering areas of resource allocation, fund transfers and assessment of Provincial performance.

I take this opportunity to extend my appreciation to the officers of the Finance Commission for their commitment and dedication in performing their responsibilities to produce this Annual Report. Further, I extend my gratitude to Mr. S.A.Karunaratna, former Director General of the Department of National Planning for editing the report.



W.H.Munasinghe
Secretary
Finance Commission
August, 2016

The Finance Commission

The Finance Commission was established, by the 13th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka in 1987 with the objective of achieving balanced regional development in the country and facilitating the process of transfer of funds to the provinces for provincial development. The main functions and responsibilities of the Finance Commission as indicated in Article 154 R (3), (4) and (5) of the 13th Amendment to the Constitution are as follows:

1. “The government shall, on the recommendation of, and in consultation with, the Commission, allocate from the Annual Budget, such funds as are adequate for the purpose of meeting the needs of the provinces.
2. It shall be the duty of the Commission to make recommendation to the President as to:
 - a) the principles on which such funds as are granted annually by the Government for the use of provinces, should be apportioned between the various provinces; and
 - b) any other matter referred to the Commission by the President relating to Provincial finance.
 - c) the Commission shall formulate such principles with the objective of achieving balanced regional development in the country, and shall accordingly take into account the population of each Province, per capita income of each Province, the need progressively to reduce social and economic disparities and the need progressively to reduce the difference between the per capita income of each Province and the highest per capita income among the Provinces”.

As per the Article 154 R (7) of the Constitution “The President shall cause every recommendation made by the Finance Commission under the above article to be laid before Parliament and shall notify Parliament as to the action taken thereon”.

Within the context of constitutional mandate, the Finance Commission is responsible for the following functions in respect of provincial development.

- Issue guidelines to the provinces on preparation of needs assessment for capital and recurrent requirements.
- Assess provincial needs on both capital and recurrent expenditure and recommend to the
- General Treasury on bulk amounts annually needed for the provinces.
- Apportion bulk amount of funds between the provinces using suitable criteria for capital and recurrent needs and inform the Provinces.

- Issue guidelines and circulars to the provinces on preparation of Annual Provincial Development Plans.
- Assess the Provincial Development Plans and grant concurrence for their implementation, using relevant criteria particularly, on feasibility, policy coherence, regional potentials and comparative advantages.
- Submit recommendations to the President on principles with regard to apportionment of funds between the provinces, and appropriate measures to be taken for minimization of inter and intra - regional disparities in development.
- Provide guidance to the provinces on preparation, implementation, monitoring and evaluation of development plans.
- Collaborate with the relevant stakeholders in the assessment of optimal cadre requirements at sub national level with a view to improving productivity and efficiency of the agencies.
- Facilitate proper coordination between the line ministries and provinces on national and sector policies and strategies in order to reduce unnecessary duplication of work and avoid policy contradictions.
- Guide provinces to improve their revenue through devolved sources for reducing heavy dependence on government funds.
- Lead provinces to adopt alternative financing mechanisms in meeting the cost of the capital projects.
- Direct provincial authorities to adhere to government financial regulations for promoting accountability, transparency and governance particularly, on procurement activities.
- Conduct studies on current issues for facilitating the formulation of policies and strategies for development at sub-national level.

The Nineteenth Amendment to the Constitution and Establishment of the Constitutional Council

The Constitutional Council (CC) established by the 19th Amendment to the Constitution was certified on 15th May, 2015 by the Speaker of Parliament.

The main objective of introducing the CC is to re-establish the Independent Commissions, limiting the powers of the President on appointing the members of such Commissions. Accordingly, the CC has

given its recommendations on the names of the members of Independent Commissions to the President. The nine Independent Commissions are as follows;

- | | |
|--|--|
| i. The Election Commission | vi. The Human Rights Commission |
| ii. The Public Service Commission | vii. The Commission to Investigate Allegations of Bribery and Corruption |
| iii. The National Police Commission | viii. The Finance Commission |
| iv. The Audit Service Commission | ix. The Delimitation Commission |
| v. The National Procurement Commission | |

The Constitutional Council consists of ten Members as explained below.

- | | |
|--|--|
| a. The Prime Minister. | f. One member of Parliament nominated by agreement of the majority of the Members of Parliament belonging to political parties or independent groups, other than the respective political parties or independent groups to which the Prime Minister and the Leader of the Opposition belong, and appointed by the President. |
| b. The Speaker. | |
| c. The Leader of the opposition of Parliament. | |
| d. One Member of Parliament appointed by the President. | |
| e. Two Members of Parliament appointed by the President from the nomination of both the Prime Minister and the Leader of the opposition. | g. Three eminent Persons who have distinguished themselves in public or professional lives. |

Chapter 1
An Overview
of Sri Lankan
Economy

Sri Lanka is a lower middle – income country in terms of the World Bank classification. In 2015, the per-capita income of the country was US \$ 3,924. In Rupee terms, this was equal to Rs. 533,398.

In 2015, the total GDP of the country at market price was Rs.11,183 billion and during the past five years the country has been able to maintain an average annual growth rate of 5%. As far as the composition of GDP is concerned, 56% came from the service sector. The share of the agriculture and industry sectors were 8% and 26% respectively. The Western Province contributed 43% to the country's GDP.

In 2015, the investment ratio was 32% and the domestic savings ratio was 24%. The national savings ratio was estimated at 29 %. The Resource Gap or Savings-Investment Gap amounted to 8%, the reason being the amount of foreign funds required to meet the investment needs of the country.

Sri Lanka's international trade in 2015 resulted in a trade deficit of US\$ 8 bn. The terms of trade which indicates the relative movements of export prices and import prices, deteriorated by 2.2 percentage points. The value of total export earnings was US\$ 10.5 bn. of which 74% was on account of industrial exports-mainly textiles and garments. The import expenditure in 2015 was US\$ 18.9 bn. nearly 20% of this was on consumer goods. The share of investment goods was 21%.

The current account deficit in 2015 amounted to 2.4% of GDP. It was the steady inflow of remittances sent in by the Sri Lankans employed abroad which helped to offset the high trade deficit and maintain the current account at a satisfactory level. The deficit of the BOP is mainly financed from foreign long-term and short-term borrowings and foreign direct investments.

The budget deficit of the country in 2015 was 7.4% of the GDP. This high deficit is caused by high recurrent expenditure and low revenue outturn. Recurrent expenditure accounts for nearly 75% of the government's total expenditure. In the case of the Provinces this percentage is even higher amounting to about 80%. The lion's share of recurrent expenditure consists of salary and pension bill of the public employees and interest on loans. This structural weakness has sets a limit to the capital expenditure which has a direct impact on development of the country. The share of the capital expenditure or public investments of the GDP is around 7% and this mainly goes into infrastructure development like roads, airports, water supply and energy. The budget or fiscal deficit is financed mainly from domestic borrowings and it has a negative impact on credit availability for the private sector for engaging in productive economic activities. This crowding out effect leads to slow down of the economic growth rate in the medium -

term.

The socio – economic development of the country shows progressive signs in terms of internationally accepted indices. This is mainly attributed to the “Welfare State” policy adopted by the successive governments after the independence of Sri Lanka. Free education and health, subsidized transport, safety net programmes and other public assistance programmes have made a considerable impact on the quality of life of the people due to increased real income. The socio–economic impact of such egalitarian policies is evident from the indicators like literacy rate, mortality rate, morbidity rate, life expectancy at birth, poverty headcount ratio and per capita income. In terms of these indicators, the country is almost on par with developed countries.

The poverty alleviation programmes and livelihood development programmes implemented by the successive governments have made a positive impact on poverty reduction and employment. The country has now been able to reduce the poverty ratio to 6.2 which is ahead of the Millennium Development Goals (MDG) target. However, the unemployment rate which was 4.3% in 2014 has now increased to 4.6% perhaps due to certain short term factors.

Although there is a significant development in the socio-economic development in the country, in terms of the accepted indicators, disparities at sub-national level can be observed. In this context, provincial governments should play an active role in reducing the regional disparities in development by designing and implementing viable projects with the support of private sector which also has a role in discharging social responsibility.

The vision of the “National Government of Consensus” is to graduate the economy to a upper-middle income status by 2020. To realize this vision, the government adopts an economic strategy based on “Social-Market”, concept which involves the twin objectives of achieving higher growth and promoting social equity. Developing regional and rural economies through strong small and medium enterprises is given a prominent place in the current government policy.

Table - 1 National Accounts and some Selected Indicators 2012 -2015

Indicator	2012	2013	2014	2015@
(1) Global Aggregates at Current Market prices (Rs. Million)				
Gross Domestic Product (GDP)	8,732,463	9,592,125	10,448,479	11,183,220
Three Major Economic Activities of GDP (Value Added)				
Agriculture	650,510	735,382	833,889	901,579
Industry	2,630,766	2,797,328	2,986,199	3,190,006
Services	4,858,292	5,406,544	5,924,433	6,295,853
(2) Global Aggregates at Constant) Prices (2010 (Rs. Million)				
Gross Domestic Product (GDP)	7,588,517	7,846,202	8,228,986	8,622,825
Three Major Economic activities of GDP (Value Added)				
Agriculture	592,443	611,676	641,493	676,899
Industry	2,035,601	2,119,080	2,194,167	2,259,223
Services	4,245,461	4,405,644	4,634,805	4,881,273
As a Share of GDP %				
Agriculture	7.8	7.8	7.8	7.9
Industry	26.8	27.0	26.7	26.2
Services	55.9	56.2	56.3	56.6
(3) Per-capita GDP				
At Current Prices (Rs.)	427,559	466,112	503,032	533,398
At Current Prices (US\$)	3,351	3,610	3,853	3,925
At Constant (2010) Prices (Rs.)	371,549	381,272	396,177	411,277
Mid-Year Population (000')	20,424	20,579	20,771	20,966
Unemployment Rate	4.0	4.4	4.3	4.6
Real GDP Growth	9.1	3.4	4.9	4.8
Annual Average of Inflation	7.6	6.9	3.3	0.9

Note : @ - Provisional

Source: Department of Census and Statistics, Central Bank of Sri Lanka

Table 1 provides basic information on National Accounts at current and constant prices, Mid- Year Population, Unemployment Rate, Growth Rate and Average Inflation Rate during the period 2012-2015.

According to the table, the unemployment rate and growth rate have not changed remarkably while the inflation rate has fallen sharply from 7.6% to 0.9% during the period.

Chapter 2
Activities and
Achievements in 2015

This chapter provides an outline of the main activities and achievements of the Finance Commission in 2015.

2.1 Workshop for the Political Leadership and Senior Public Officials at National and Provincial Level

A workshop on National and Provincial Level Coordination was organized by the Presidential Secretariat in collaboration with the Finance Commission under the distinguished patronage of H.E. the President on Monday 15th June 2015. Hon. Prime Minister, Hon. Ministers of Public Administration Local Government & Democratic Governance, Health, Finance and Education, Hon. Governors, Hon. Chief Ministers and Hon. Ministers of all provinces participated at this workshop. In addition, Secretaries of relevant Line Ministries, Chief Secretaries, Additional Secretaries, Secretaries of Provincial Ministries and Deputy Chief Secretaries (Planning & Finance) also participated.

The main purpose of the workshop was to provide an opportunity to provincial representatives to discuss the issues relating to coordination between the national and provincial levels and make necessary recommendations to improve the center-periphery relations.

Making concluding remarks, H.E. the President directed the Secretary to the President and the Chairman of the Finance Commission to prepare a report on the outcome of the workshop containing an activity plan. The report was prepared and submitted to the Secretary to the President on 15th July 2015.



Highlights of the views of H.E. the President

- Review the achievement of objectives of establishing the Provincial Councils. (PCs)
- Evaluate the results of the PCs system with a view to making it efficient.
- Ensure sound financial discipline in provinces.
- Direct the provinces to spend money according to a plan.
- Strengthen the coordination between the government and PCs.
- Work towards a common objective of ensuring well-being of the people by the government and PCs.
- All political parties should work hand in hand in line with the National Government Consensus
- Promote food production and control of drug menace.
- Make service delivery mechanism efficient by strengthening the LAs.
- The existing powers of the PCs should be executed in efficient and effective manner.
- A mechanism should be developed to resolve problems and issues through meetings process attended by both government and provincial authorities bi-annually.
- Quarterly meetings should be organized at provincial level with the participation of political leadership and officials to ensure effective implementation of policies and strategies.
- Chief Ministers to attend the meetings of Cabinet of Ministers periodically.

Highlights of the Views of Hon. Prime Minister

- It is imperative to get people involved in administrative functions (people's participation)
- The necessity of deviating from the practice of depending mainly on Treasury Funds for personal emoluments and construction work.
- The process of granting contracts should be streamlined to ensure transparency and accountability. In order to achieve this, Guidelines and Circulars issued by the government should be adopted.
- Immediate attention should be paid to resolve issues and problems on power sharing in the education sector.
- Spending money at provincial level should be subject to proper monitoring by the relevant authorities. For this purpose, introduction of a new Act of Parliament is proposed. It is also necessary to control irrational recruitments by provinces and such matters should be brought to the notice of the Governor of the Province.

- In the implementation of development programmes / projects at provincial level by the line ministries / agencies, relevant provincial authorities need to be involved and consulted.
- Control the use of provincial funds for foreign travel.
- The executive power of local authorities should be vested with the Executive Committee and not with the Mayor or the Chairman.
- Adequate resources should be channelled to the provinces after assessing the real development needs.
- A mechanism should be developed to involve the Pradesiya Sabhas for provincial development.
- It is essential to avoid duplication of work at different administrative levels.

Highlights of the Views of Hon. Minister of Public Administration, Local Government and Democratic Governance

- Make service delivery more efficient through sharing the power clearly.
- Minimize duplication of work at different levels.
- Maintain sound financial discipline at different administrative levels.
- Proper division of work between Provincial Councils and Local Authorities.
- Functions of the Local Authorities should be performed through committee system (At least 07 Committees).

2.2 Construction of Office Building for the Finance Commission

The Cabinet approval was obtained to construct the office complex for the Finance Commission, at a cost of Rs.300 mn, at Sarana Mawatha, Rajagiriya. In this regard, a Cabinet Appointed Procurement Committee (CAPC) and a Technical Evaluation Committee (TEC) have been appointed by the Cabinet and the General Treasury respectively. Approval for the building plan was obtained from the Urban Development Authority and the Municipal Council of Sri-Jayawardhanapura, Kotte.

2.3 District Based Resource Allocation Formula

The Resource Allocation Formula adopted hitherto was revised in 2015 with the technical assistance of the Department Census and Statistics. The novel feature of this formula is the apportionment of funds to provinces on district basis in 2016. The objective of this formula was to address the intra- provincial socio- economic disparities in order that allocation could be made in a rational manner.

2.4 Study Visit of the Officials of Kunming Municipal Bureau of Finance in China



A delegation from Yunann Province, Kunming Municipal Bureau of Finance of People's Republic of China visited the Finance Commission in September, 2015 to familiarize with the devolved fiscal management system in Sri Lanka. The team included six officers headed by Mr. He Lichuan, Director General of Kunming Municipal Bureau of Finance. The objective of

this visit was to study on the overall Financial Supervision and Taxation system in Sri Lanka and Provincial Practices of Revenue Collection and Expenditure Management.

2.5 Appointment of New Commission Members

H.E. the President appointed new members of the Finance Commission on the basis of the recommendations of the Constitutional Council, in November 2015. Mr. U.H.Palihakkara has been appointed as the Chairman of the Finance Commission. Mr. V. Kanagasabapathy and Prof. M.M.Zafrullah have been appointed as the members who represent other major communities. Ex-officio members of the Commission consist of Mr. Arjun Mahendran, Governor of the Central Bank, Dr. R.H.S.Samaratunga, Secretary to the Treasury.

2.6 Measures taken by the Finance Commission under Thrust Areas

The measures taken by the Finance Commission in 2015 under each Thrust Area are given below.

- **Ensure formulation and communication of principles on allocation and apportionment of financial resources to the provinces**

The Guidelines in relation to needs assessment on recurrent and capital expenditure for 2016 were issued to provinces in March 2015. Provincial needs assessments, after scrutiny, were submitted to the General Treasury for its consideration. Once the General Treasury informed the Commission of the bulk amount of allocation for the Provinces for 2016 it was apportioned between the Provinces and sectors, and Provinces were advised to prepare their Annual Development Plans accordingly. In addition, the apportionment of funds at Provincial level and the principles on which such funds were apportioned have been submitted to H.E. the President.

- **Ensure fair distribution of resources among the provinces**

As the apex body entrusted with the responsibility of reducing regional disparities, the Finance Commission is expected to recommend adequate funds to the Provinces for implementation their development plans while providing required technical support taking into account the appropriate approaches and concepts.

The capital needs of the Provinces are assessed by the Commission paying due attention to the government policies, provincial medium- term development plans and potentials. In this task, a comprehensive statistical methodology is used so as to avoid unnecessary interventions of pressure groups. This methodology is based on an allocation formula which takes into account some identified variables and indices which reflect the apparent socio-economic disparities at sub-national levels. This allocation mechanism is pivoted on the principle of good governance free of biases associated with personal judgments. Views of the senior officials of the provinces have also been obtained through open discussions in order to make it pragmatic. The allocations of capital expenditure are categorized into Province Specific Development Grant (PSDG) and Criteria Based Grant (CBG).

For the first time in 2016, the Finance Commission has introduced a new mechanism to allocate capital funds between the provinces on district basis with the objective of ensuring fair distribution of such funds

for development in the Provinces. At the request of the Finance Commission, the Department of Census and Statistics provided technical assistance to develop a statistical formula for this purpose. In developing the formula, the following socio-economic variables have been considered.

The Commission has taken steps to improve the statistical formula incorporating appropriate additional variables.

Table - 2. Factors and Variables Incorporated in Formula

Factor	Variable (Indicator)
Economic	Poverty Head Count Ratio (%)
Health	No. of Hospital Beds per 1000 people
Education	Computer Literacy Rate (%)
	Percentage of difficult schools out of total provincial schools (%)
Infrastructure	Percentage of the length of roads to be developed out of total provincial road length (%)
Agriculture	Paddy cultivated extent per square kilometer (Acer/Km ²)
	Average paddy yield (Bushels per acre)

- **Reduce regional disparities and promote human development**

It is observed that there were severe inter and intra-regional disparities in development in the fringe areas that had been neglected in formulating development plans and projects in the past. Considering the magnitude of this problem, the Finance Commission has taken measures to introduce special line items for “backward and isolated village development” for every Province. In the guidelines on needs assessment, the criteria for selecting such villages were spelt out in detail. The provincial authorities were directed to select the villages based on real needs of the people by applying suitable indicators at divisional level. In designing the projects, the project proponents were expected to adopt an integrated approach which takes into account the requirements of different sectors, not limiting to any particular sector with narrow objectives priority attention for the creation of small scale infrastructure projects namely bridges, culverts, access roads, drinking water supply schemes, anicuts and electricity schemes was required in the formulation of integrated village development projects. The need for paying attention to providing technical know-how to the target groups was emphasized. People’s participation has been identified as one of the important principles in formulating the projects in order to ensure that the projects are demand – driven and sustainable in the longrun.

The Finance Commission, on the advice of the government, has increased allocations to health and

education sectors so as to improve the quality of human development. Accordingly allocations for the health and education sectors have increased to 53% of the total allocations in 2016.

A special budget line titled “Guidance and facilitation of vocational training for school – dropouts from formal education” has been introduced under the education sector with a view to developing skills of unemployed youth. Similarly, in the health sector, two budget lines have been introduced under the themes of “Purchasing medical equipment and machinery and preventing and control of diseases” with the objective of controlling Non – Communicable Diseases and epidemics which have a direct impact on the quality of the labour force.

- **Ensure effective utilization of resources in the provinces**

Even though Results Based Management Approach was introduced at provincial level with a view to improving the utilization of resources, it has been observed that the utilization of resources in all provinces has not improved considerably. During the recent past, the provincial utilization rate of capital expenditure was in the range of 75%-80%.

The guidelines on Budget for 2016, sent to all provinces emphasized that projects identified in the Annual Plans should be completed within the targeted period, avoiding possible cost overruns. Further, instructions were given to provincial authorities to adhere to the principles of Zero-Based Budgeting Approach (ZBB) in preparing Annual Plans and financial statements, paying particular attention to completion of projects as targeted, within planning period.

The Finance Commission instructed all provinces to carry out a proper budget monitoring, using specimen formats developed by the Department of National Budget in line with the National Budget Circular No 06/2015. Further, provinces were instructed to prepare Activity Plans for every project based on the RBM Approach, as they can be used in filling the formats relating monitoring of financial and physical performance under ZBB as well.

All provinces have been directed to undertake effective monitoring of the Annual Development Plans using the formats developed by the Finance Commission in tangent with the RBM approach.

The Commission worked closely with the National Pay Commission and the Department of Management Services to ensure maintenance of optimal cadre at provincial and local levels.

- **Enhance generation of revenue at sub-national level**

Devolved revenue sources of the provinces are clearly spelt out in Sections 36:1 to 36:20 of the Ninth Schedule of the Thirteenth Amendment to the Constitution. These include turnover tax, license fees, stamp duties, court fines, regulatory charges and levies under different Acts and Statutes. However, it is commonly accepted that all Provincial Councils and Local Authorities have not been effective and efficient in making use of these sources. In this scenario, they are highly dependent on public funds allocated by the General Treasury, particularly in meeting their recurrent cost which mainly includes salaries of the employees, and the allowances of the members.

Against this backdrop, a workshop was organized by the Finance Commission in 2014 to discuss this issue in detail and find pragmatic solutions with respect to increase in devolved revenue at sub-national level. The report prepared by the Finance Commission along with an action plan based on the findings of the workshop was shared with the provinces for implementation. The actions to be taken by the Provincial Councils and Local Authorities for enhancing their assigned revenues are enumerated below.

- Improve the revenue collection machinery using the state of the art technology.
- Make use of Revenue Officers at provincial level to suggest innovative revenue sources and collect arrears within a given period of time.
- Repeal any outdated laws and enact new laws enabling the Provincial Councils and Local Authorities to enhance their revenue base imposing new taxes / levies within the given statutory mandate.
- Undertake comprehensive studies on availability of resources at sub-national level and promote value added industries which will result in enhanced tax base.
- Promote regular updating of valuation of real assets paving the way to enhancing the revenue generation.
- Work with relevant national level agencies and Provincial Councils to share their legitimate income (tax & levies) with sub-national level entities. (e.g.:- court fines) in a more equitable manner.
- Capture the emerging profit making business ventures to the tax net at sub-national level.

It is observed that some provinces have deposited unspent money in interest earning bank accounts without using the funds for earmarked purposes. Therefore, the Finance Commission has advised the provinces to refrain from such action and make use of funds for intended purposes.

- **Strengthen institutional development of provincial and local institutions of governance**

Recognizing the urgent necessity of strengthening the institutional capacity of Provincial Councils and Local Authorities for effective service delivery, the Finance Commission has taken several measures to improve their capacity on planning, budgeting, monitoring and good governance.

1. As already stated a workshop on “Improvement of Development Process through Better Coordination at National and Provincial Levels” was held on 15th June, 2015, to strengthen centre-periphery relations. At this workshop, the following aspects relating to institutional development were emphasized.

- Make clear demarcation between the subjects assigned to national and provincial agencies.
- Deploy public officials on rational basis in order to minimize the duplication of work at national and provincial levels.
- Involve provincial political leadership and officials in the implementation of projects by line agencies, particularly in relation to foreign funded projects.
- Ensure better coordination among provinces, districts and divisions in relation to planning and implementation of projects.
- Avoid duplication of work at national and sub-national levels and minimize wastage of resources.
- Conduct proper cadre assessment at the sub-national level to improve productivity and efficiency of manpower.
- Assign adequate responsibility to the provinces in relation to development work under the Provincial List.
- Conduct review meetings periodically at all levels to maintain better vertical and horizontal coordination.

2. The Finance Commission has taken measures to strengthen the application of Results Based Management (RBM) approach at provincial level by integrating RBM principles with Zero-Based Budgeting principles. In this regard, the relevant staff of the Provinces and Finance Commission was given an exposure and the guidelines were issued to Provinces. Provincial administration should closely work with the National Pay Commission and the Department of Management Services to ensure maintenance of optimal cadre at provincial and local levels.

3. A special allocation was made to some Municipal Councils (MCs) to improve their capacity on service delivery to the public, through introduction of Geographical Information System, municipal bonds, system for addressing public grievances within a short time period of time and new techniques for assessment of properties and making speedy payments.
4. Steps were taken to allocate adequate financial resources at sub-national level for training of manpower in the relevant fields. The provincial authorities were advised to ensure participation of the officials in the training courses conducted by the accepted agencies.

- **Achieve effective coordination between the national level and the provinces**

Effective coordination between national and provincial levels is of paramount importance to reduce duplication of work and waste of resources while ensuring the vertical policy- adherence at each level. Having deliberated the importance of coordination, the Finance Commission has emphasized the provincial authorities to adhere to the national and sector policies in formulating provincial plans and projects. Measures have been taken to spell out national policies and strategies in the guidelines of preparation of Needs Assessment, Annual Plans and Annual Financial Statements at provincial level.

As discussed, at the workshop held on 15th June, 2015, the improvement of better coordination between center and periphery was highly emphasized. The following matters were emphasized at this workshop

1. Conduct progress review meetings on quarterly basis, with the Chairmanship of Secretary to the President and participation of Secretaries of the line ministries, Chief Secretaries and the relevant officials of the Finance Commission at national level.
2. Strengthen the existing Development Committees at district and divisional levels in order to improve of coordination of their development activities.
3. Conduct annual coordinating meetings with the leadership of H.E. the President in order to strengthen the policy coordination at Centre and periphery levels

It was also decided to have review meetings with the participation of the political leadership and senior officers at both national and provincial levels with respect to main devolved subjects such as health, education and agriculture on bi-annual basis.

The Finance Commission has formulated an Activity Plan with the objective of implementing its mandated tasks and it is now being executed. Based on the findings and suggestions of the workshop, a report containing an Action Plan with assigned responsibilities of the Provincial Councils has been prepared and circulated among the provinces for necessary action. The Presidential Secretariat has been informed to organize high level coordinating meetings with the patronage of H.E. the President and Chairmanship of the Secretary to the President, as agreed upon at the workshop.

- **Promote entrepreneurship through public private partnership**

Since all provinces are in need of adequate financial resources to undertake their development projects they should plan out to mobilize additional resources to supplement the public funds provided by the General Treasury. In this context, participation of the private sector in financing development projects should be encouraged.

Accordingly, the Finance Commission has taken measures to promote PPP approach by issuing guidelines to the provinces on working with the private sector to attract private funds for commercially viable ventures at sub national level. Some provinces have taken initiatives to get the private parties involved in small scale ventures. In most such cases, creation of assets has been made by the public sector agencies while the management is vested with private parties. In running such business ventures, some Local Authorities have also been involved.

Chapter 3
**Good Governance
and Compliance**

3.1 Introduction

It is widely accepted that good governance is a critical factor in the achievement of economic and social development of a country. The principle of good governance mainly depends on four pillars namely accountability, transparency, predictability and participation. During the last few decades, the role of the government has changed from a major provider of goods and services to a facilitator and regulator of economic activities and a policy formulator. In this process, effective public sector reforms and devolved governance systems have become important features while private sector and civil society have emerged as socio-economic activists and whistle blowers. In the Sri Lankan context, strategies towards strengthening the effective good governance require some forward looking steps. These include,

- Make the private sector more socially responsible.
- Introduce reforms in the public service in line with the economic reforms based on “Social –Market” approach
- Strengthen provincial governance through enacting statutes and making relevant regulations with regard to devolved subjects.
- Make local authorities more effective by giving them more fiscal autonomy in their spheres of activity.
- Develop optimal resource allocation systems at sub-national level in order to address the real needs of the people.
- Strengthen the community participation at local level giving greater opportunities to people to participate in the decision making and planning.
- Re-structure the Finance Commission to provide the technical support required by the provinces in planning, budgeting and monitoring functions.

3.2 Good Governance in the Provincial Council System

Devolution of power from the centre to the periphery, introduced by the Thirteenth Amendment to the Constitution in 1987 was a major turning point in political and administrative system of Sri Lanka. The Provincial Council System paved the way for devolved governance and reduction of regional disparities in socio-economic development.

The Provincial Council System, has brought greater social justice through devolution of power in decision making, fair allocation and utilization of resources. However, it is necessary to ensure smooth functioning of a devolved political structure while providing for greater accountability to the people at sub national

level. Similarly, it is required that the public service at all levels be reoriented with a view to minimizing procedural delays and structural in-efficiencies, and increasing customer expectations on quality service. The Constitutional Council which was established in 2015, under the 19th Amendment to the Constitution. It is a progressive step in the practice of the good governance since, among other things; it prevents the concentration of power on making appointment of members of Independent Commissions in the hand of one person.

3.3 Compliance with Laws and Regulations

The Finance Commission has created a conducive environment for their officers to closely work with the relevant stakeholders namely the Presidential Secretariat, the Constitutional Council, the General Treasury, Line Ministries, Provincial Councils and Local Authorities with regard to subject matters. An officer of the Finance Commission is responsible for provincial matters pertaining to planning, budgeting and monitoring.

In line with the e-governance policy all officers have been provided with required facilities to carry out their assigned tasks in relation to provincial planning, budgeting and monitoring.

At provincial level, there are officers who represent the Finance Commission and they are expected to facilitate the official transactions between the provinces and the Commission. The officers of the Commission are expected to establish a good rapport with the officers who are attached to the provinces to ensure smooth functional relationship between the national and provincial levels.

Steps have been taken to improve awareness and knowledge of the officers of the Finance Commission on recent developments in the fields of planning and development. In this regard, the officers of the Commission have been provided opportunities to have better exposure through training facilities at local and international levels. Officers who participate in training programmes share their knowledge with the fellow staff. Such knowledge and training is used in institutional development. Guidance of the experts and agencies have been obtained where necessary.

Effective coordination with the officers at national and sub-national levels has been promoted for smooth implementation of the mandated functions of the Commission.

In discharging its functions, the Commission has always maintained transparency and accountability

adhering to principles of good governance, giving due consideration to Financial Regulations, Establishment Code, Government Circulars and other relevant Guidelines.

An Annual Board of Survey has been conducted in accordance with the Financial Regulations as an essential part of proper assets management. This enabled the Commission to take sound decisions on procurement of new capital items and disposal of unusable items.

In preparing financial statements, accepted accounting principles have been adopted.

The Commission encourages its staff to adopt a “Team Sprit” approach with the objective of improving productivity and efficiency. This culture has helped the Commission to maintain cohesiveness among the staff.

Staff meetings have been held on regular basis for open discussions on day to day activities of the Commission ensuring smoothness of its functions. Emphasis was made on follow-up actions in order that targets of the Action Plan are met.

3.4 Commission Meetings - 2015

Eight Commission meetings were held during the year. The following matrix provides information on attendance of the Commission members.

Table - 3. Commission meetings held in 2015

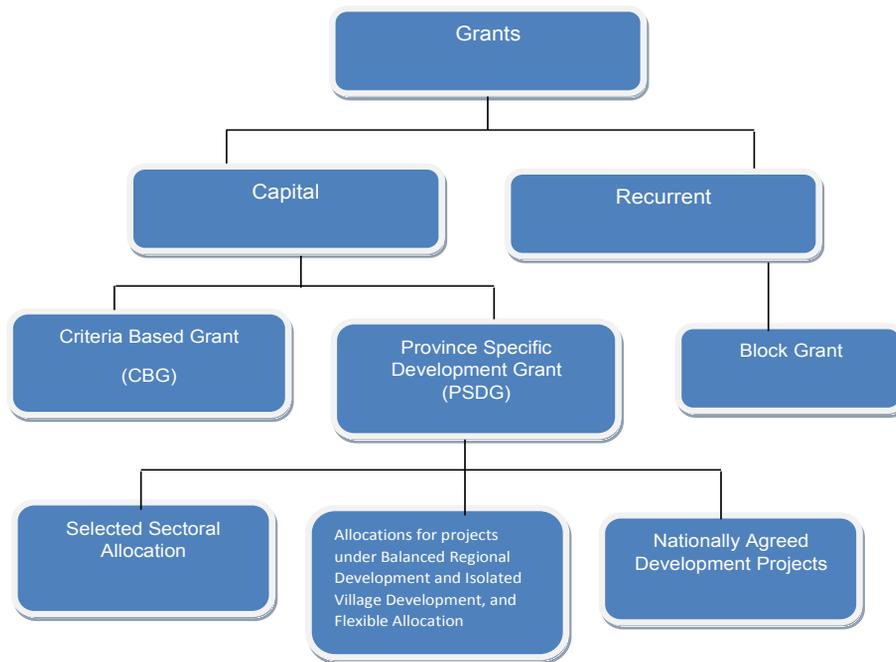
Date	Chairman FC Mr. Ariyaratne Hewage	Secretary to the Treasury Dr.R.H.S. Samaratunga	Governor Central Bank of Sri Lanka Mr. Arjun Mehendran	Member Mr. M. N. Junaid	Member Mr. S. Amirthalingam
12th February 2015	√	√	√	√	√
30th March 2015	√	√	√	√	√
17th July 2015	√	√	√	√	√
14th August 2015	√	√	√	√	√
08th October 2015	√	√	√	√	√
12th November 2015	√	√	√	√	√
Date	Chairman FC Mr. Uditha H. Paliakkara	Secretary to the Treasury Dr.R.H.S. Samaratunga	Governor Central Bank of Sri Lanka Mr. Arjun Mehendran	Member Prof. H.M.Zafrullah	Member Mr. V. Kanagasabapathy
17th December 2015	√	√	Official Engagement- Overseas	√	√
31st December 2015	√	√	Official Engagement- Overseas	√	√

Chapter 4

**Apportionment of
Funds to the Provinces
and Expenditure**

The Finance Commission is the apex body responsible for operationalizing the devolved governance by providing adequate resources and guiding the provinces in sound development planning.

Chart - 1. Financial Resources Allocation



4.1 Capital Funds

The capital needs of the Provinces are assessed by the Commission paying due attention to government policies, Provincial Medium-Term Development Plans and resource potential at sub national level. The capital needs are assessed by the Commission and submitted to the General Treasury for the inclusion of the annual budget. In the apportionment of capital funds allocated by the Treasury in bulk, the Commission adopts a statistical formula with a view to ensuring equity. This formula takes into account several identified variables which reflect the regional disparities in socio-economic development. This allocation methodology is consistent with the principle of good governance since it leads to an allocation of resources objectively, dissuading unnecessary spending. However, views of the senior officials of all Provinces have been taken into account through open discussions in order to adopt a pragmatic approach to the resource allocation in 2015.

The statistical methodology used for apportionment of capital funds consist of two categories namely

PSDG and CBG. The following section describes the resource allocation formula adopted for PSDG and CBG in 2016.

The Finance Commission in 2015 has initiated to allocate capital funds between the Provinces on district basis with the objective of promoting fair distribution of funds for development in the provinces. In this exercise, the Department of Census and Statistics provided technical assistance considering the following socio-economic factors subject to funds directly granted for local and foreign funded projects.

- Economic
- Health
- Education
- Infrastructure
- Agriculture

The CBG funds provided by the General Treasury have also been apportioned among the provinces using the above formula, but these funds have not been apportioned on district basis. A separate allocation of Rs. 2.5 mn. per member of the Provincial Council under CBG has been provided for development purposes to be used at member's discretion. The balance amount has been allocated for discretionary development projects at provincial level.

The apportionment of capital funds between the provinces made in 2015 for the ensuing year (2016) is given in Table 4 below. This includes development projects funded by some foreign and local sources at national level as well. The Finance Commission apportions only PSDG and CBG.

In addition to PSDG and CBG provided through the Finance Commission, the provinces receive some other capital grants from line ministries and foreign funded projects not stated above. Furthermore, revenue generated by the provinces through devolved sources and interest income of their bank deposits are also used for in programs and projects even though they are not included in Provincial Annual Development Plans submitted to the Finance Commission.

Table - 4. Apportionment of Capital Funds – 2016

Rs.Mn

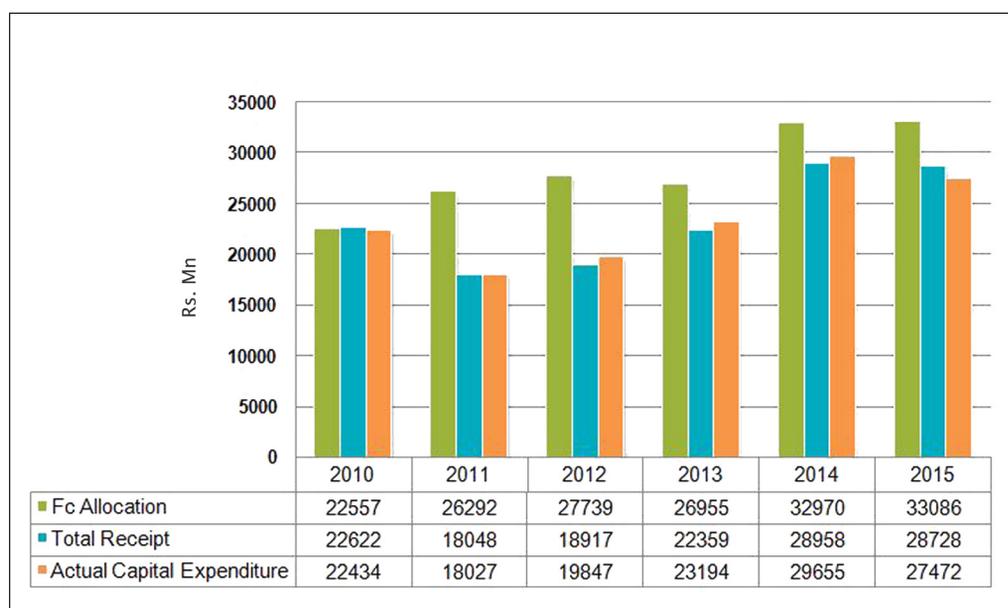
Province	CBG	PSDG	Sub Total	% of Provincial Share	Special Projects	Foreign Assisted Projects	Total	% of Provincial Share
Western	460.00	2,894.10	3,354.10	10.81	-	746.10	4,100.20	9.11
Central	423.00	3,684.30	4,107.30	13.24	-	1,067.04	5,174.34	11.50
Southern	413.00	2,246.30	2,659.30	8.57	1,000.00	730.00	4,389.30	9.75
Northern	475.00	3,199.30	3,674.30	11.84	150.00	4,993.70	8,818.00	19.59
North Western	375.00	3,216.30	3,591.30	11.58	-	1,118.10	4,709.40	10.46
North Central	400.00	2,838.30	3,238.30	10.44	-	1,226.92	4,465.22	9.92
Uva	475.00	2,736.30	3,211.30	10.35	-	833.66	4,044.96	8.99
Sabaragamuwa.	514.00	2,913.30	3,427.30	11.05	-	1,148.00	4,575.30	10.17
Eastern	465.00	3,297.30	3,762.30	12.13	-	969.75	4,732.05	10.51
Total	4,000.00	27,025.50	31,025.50	100.00	1,150.00	12,833.27	45,008.77	100.00

Source: Finance Commission

Note- *Includes WB funded HSDP, TSEP, UNICEF program , JICA funded PIBSS, ADB funded NRCP, IFDA funded IIDP and ADB funded Killinochchi WSSP.

The Chart 2. given below provides information on total receipts, through different sources of revenue to the provinces and the actual expenditure for the period from 2010 to 2015.

Chart 2. Details of Provincial Capital Expenditure 2010-2015



Source- Provincial Expenditure Reports

Note- * Includes PSDG, CBG and FA projects mentioned in the Chart above

** Includes funds released by the General Treasury and the Provincial Fund

As shown in the above Chart, the total receipts of the provinces have increased from Rs. 22,622 mn. to Rs. 28,728 mn. during the period. However, it is observed that in some provinces actual expenditure has exceeded the total receipts owing to supplementary provisions and internal funds. This situation underlines the necessity of carrying out proper needs assessment and monitoring at provincial level.

4.2 Recurrent Funds

The assessment of provincial recurrent needs is also a major task of the Finance Commission. In assessing the recurrent needs submitted by the provinces, the Finance Commission takes into account approved cadre, actual living cadre, vacancies, new appointments to provincial councils assigned by the line ministries, personnel emoluments (PE), salary arrears, estimates of other recurrent expenditure (ORE) including maintenance of capital assets, allowances for elected members and transfers to local authorities and other agencies. In recommending Block Grant allocations for the provinces to the General Treasury, revenue targets of each province are reckoned by the Finance Commission. The gap between the assessed recurrent needs and the estimated revenue of the provinces is met by the Block Grant.

The Table 5 shows the apportionment of Rs. 166,418.226 mn. among the provinces as Block Grant in 2016.

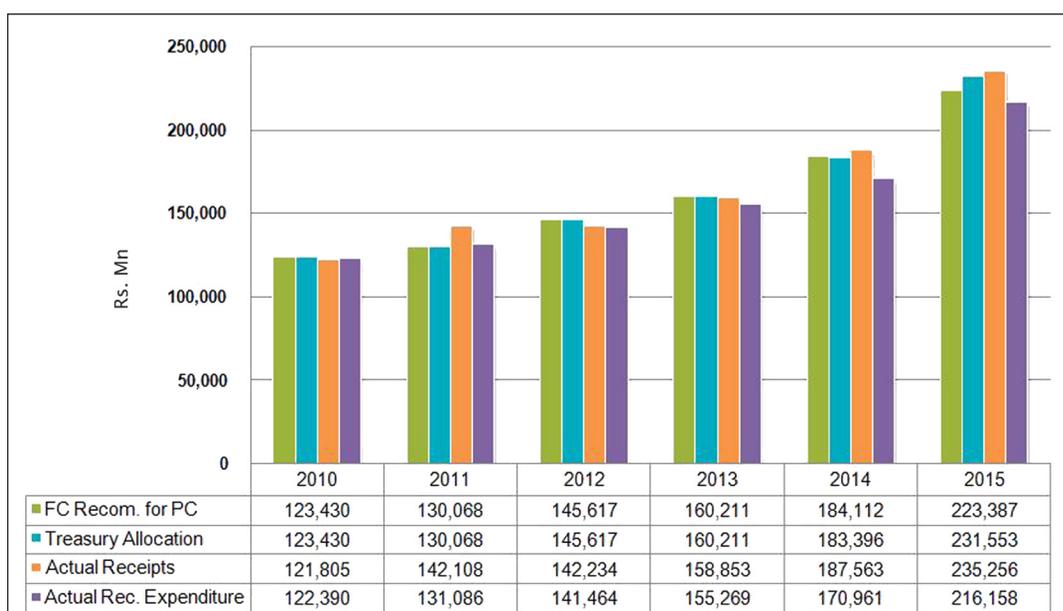
Table - 5. Apportionment of Block Grant – 2016 (Rs.Mn)

No.	Province	Block Grant
1	Western	21,743.786
2	Central	23,374.869
3	Southern	20,507.843
4	Northern	16,174.251
5	North Western	20,797.898
6	North Central	12,838.982
7	Uva	16,249.859
8	Sabaragamuwa	18,219.223
9	Eastern	16,511.515
Total		166,418.226

Source: Finance Commission

The Chart 3 reflects the trend of financing and utilization of Block Grant over the 06 year period from 2010 to 2015. It may be noted that the actual recurrent expenditure in all provinces is less than the total receipts during the period and this could have resulted in some financial savings.

Chart - 3. Details on Provincial Recurrent Expenditure 2010 - 2015



Chapter 5

Provincial Revenue

Provincial revenue originates from two main sources viz. Transfers from the government revenue and revenue collected from devolved sources.

Transfer of Government Revenue

As per the Fiscal Policy Circular No. 01/ 2010 issued by the Secretary to the Treasury, the revenue collected under the specific heads is transferred to the provinces at the following rates.

- 33 1/3% of the Nation Building Tax (NBT)
- 100% of Stamp Duty
- 70% of Vehicle Registration Fees

Nation Building Tax, Stamp Duty and Vehicle Registration fees collected by the relevant agencies are shared among the provinces fortnightly using dedicated bank accounts on the following percentages. These are re-fixed periodically by the General Treasury with the concurrence of the Finance Commission.

Table - 6. Percentage of Transferring Gov. Revenue

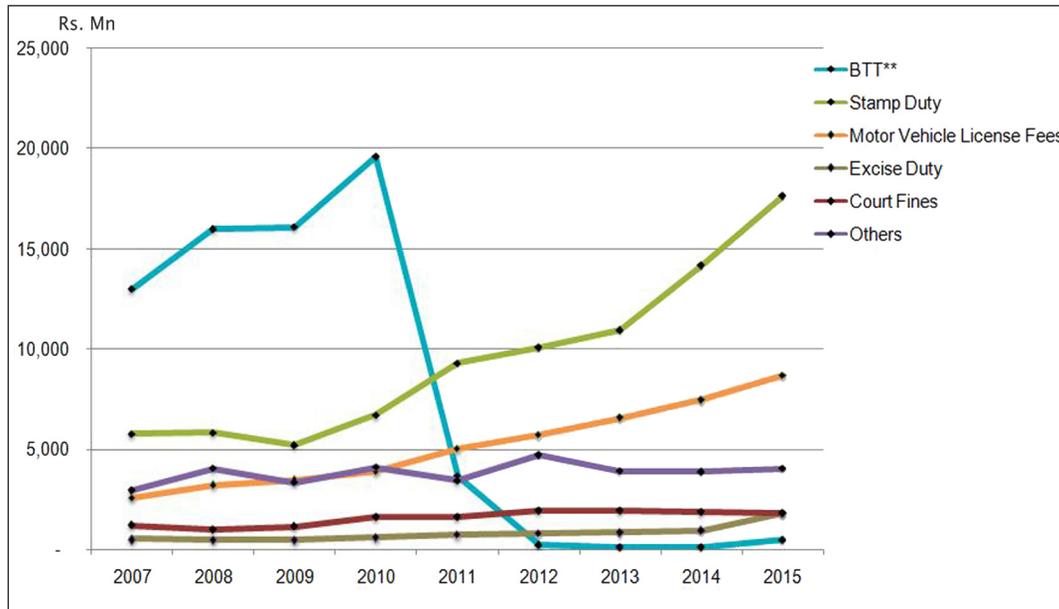
Province	Ratio
Western	48%
Central	9%
Southern	9%
North Western	9%
Sabaragamuwa	5%
North Central	5%
Uva	5%
Eastern	5%
Northern	5%

5.1 Revenue Collected from Devolved Sources

Provincial revenue sources have been identified in the Section 36.1 to 36.20 of the Ninth Schedule of Thirteenth Amendment to the Constitution (Annex i). Provincial revenue consists of tax revenues and non-tax revenues. Excise Duty, Dealership license taxes on drugs and other chemicals, Fees charged under the Medical Ordinance, Motor Vehicle License Fees, Fees under the Fauna and Flora Protection Ordinance, Rent, Interest, Examination Fees, Business Name Registration, Stamp Duty and Court Fines are some of the main sources of provincial revenue. Stamp Duty and Court Fines collected by provinces

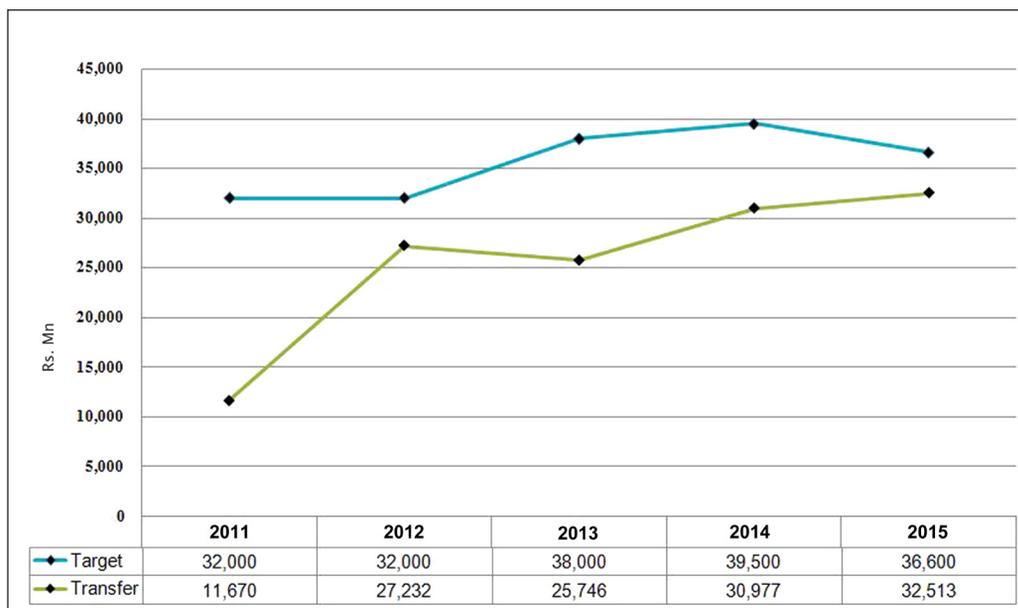
are annually transferred to the Local Authorities. Stamp Duty makes the highest contribution among all the revenue sources. The following chart shows the revenue collections from different sources during the period 2007 to 2015. The relevant data is given in the Annex iv.

Chart - 4. Provincial Revenue Collection by Devolved Sources 2007 - 2015



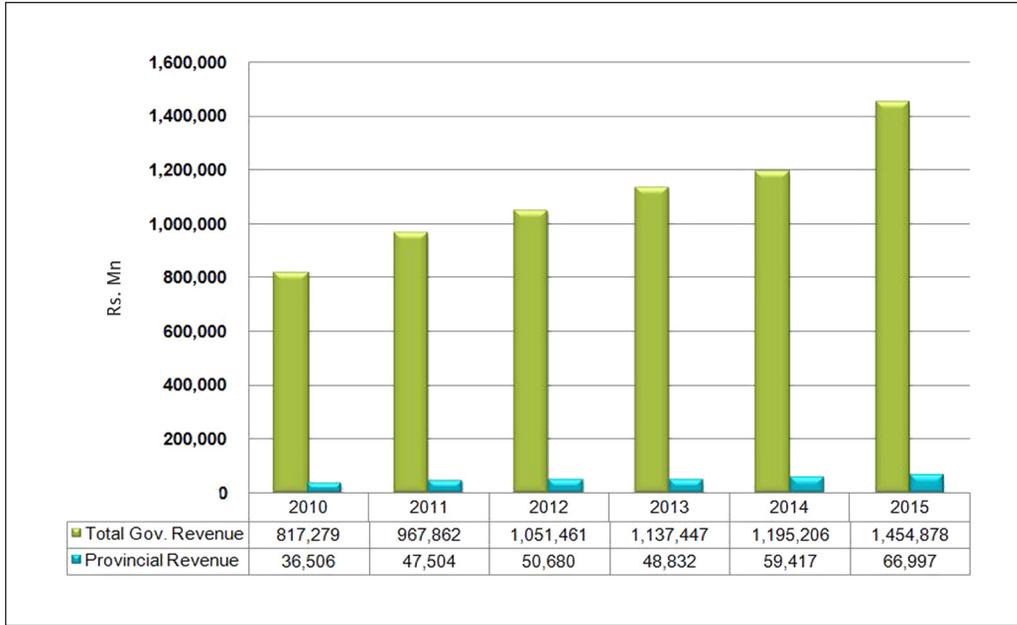
It is noted that with the abolition of BTT in 2010, stamp duty and motor vehicle license fees have increased significantly. The other revenue sources have been more or less stagnant.

Chart - 5. Transfer of Government Revenue 2011 – 2015



The Chart 5 shows the difference between the target and the actual transfer of government revenue from 2011 to 2015. It is observed that the difference has decreased during the period.

Chart - 6. Revenue Collection at National and Provincial Level 2010 -2015



It is observed that the revenue at national level has increased over the years while provincial revenue has remained static around 5%.

Chapter 6
Socio-Economic
Variations at Provincial
and District Level

This chapter reviews the behavioral pattern of selected key socio- economic indicators at provincial level which include Gross Domestic Product, Poverty, Income Distribution, Economic Infrastructure and Social Infrastructure

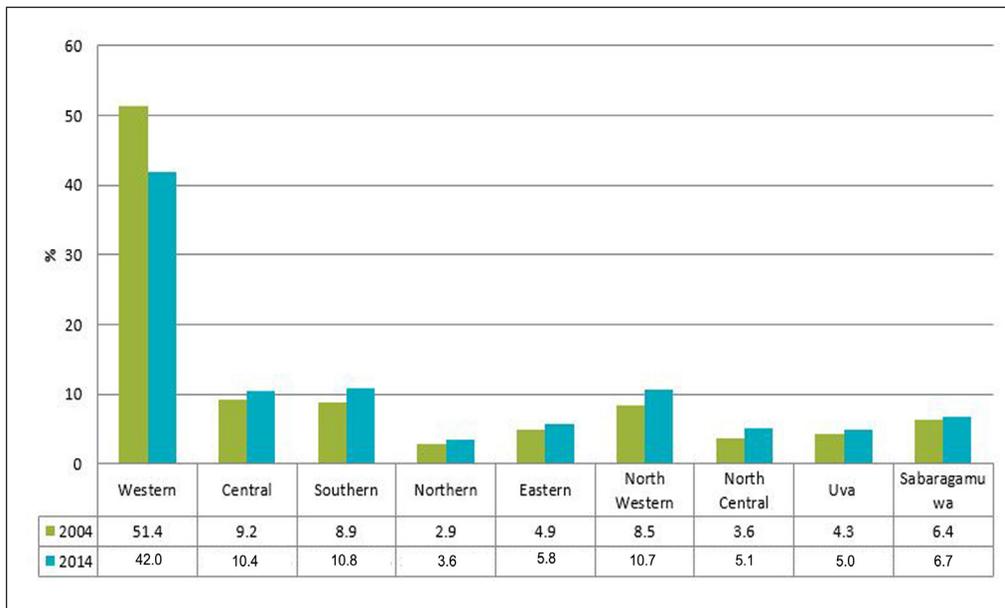
6.1 Provincial Contribution to Gross Domestic Product

As shown in Chart 7, the GDP contribution of the Western Province has declined from 51.4% to 42.0% during the period 2004 to 2014. However, the share of the Western province still remained remarkably high when compared to other provinces. As

The Gross Domestic Product (GDP) is the broadest quantitative measure of a nation’s total economic activities. More specifically, GDP represents the monetary value of all goods and services produced within a nation’s geographic border, over a specified period, usually one year

far as the other provinces are concerned, there is a slight increase in their contribution to GDP. The higher percentage of provincial GDP in the Western province is attributable to the fact that a large number of economic and service related activities are concentrated in and around the city of Colombo.

Chart - 7. Percentage share of Provincial GDP 2004- 2014



Source: Central Bank of Sri Lanka

Table 7 displays contribution of Agriculture, Industry and Services sector to the GDP by Province in 2013 and 2014.

A significant contribution of the agriculture sector to the provincial GDP is recorded in the Uva, Southern, Northern and North-Central provinces while the least contribution is by the Western province.

In every province, the services sector is prominent and it is similar to the position of the county. The services sector contribution to the GDP at national level is 61.7% in 2014.

Table - 7. Provincial GDP by Sector

Province	2013			2014		
	Agriculture	Industry	Service	Agriculture	Industry	Service
Western	2.3	38.8	58.9	2.1	37.1	60.9
Central	10.0	24.9	65.1	11.3	22.9	65.9
Southern	12.5	27.3	60.3	13.9	26.0	60.1
Northern	15.3	17.5	67.3	13.5	19.6	67.0
Eastern	13.0	33.2	53.9	12.6	32.3	55.2
North Western	11.8	28.9	59.3	11.3	29.0	59.7
North Central	13.3	23.7	63.0	13.8	21.3	64.8
Uva	17.7	22.1	60.2	17.2	22.1	60.6
Sabaragamuwa	12.4	21.9	65.7	11.4	21.8	66.8
Total	8.2	31.3	60.5	8.3	30.1	61.7

Source: Central Bank of Sri Lanka

6.2 Poverty

The term “poverty” is associated with two broad concepts namely absolute poverty and relative poverty. Absolute poverty is defined as severe deprivation of basic human needs which include food, safe drinking water, sanitation, health, shelter, education and information. Relative poverty refers to the economic status of other members of the society and enjoying a certain minimum level of living standards determined by a particular authority, mainly a government. These both concepts focus on income and consumption but not on non-material aspects like freedom of living and free access to information.

The Department of Census and Statistics takes into account the concept of “absolute poverty” in measuring poverty incidence in Sri Lanka. Accordingly Poverty Head Count Index (PHCI) is calculated. The PHCI is defined as a number of people who are below the poverty line which is the monthly income per person, required to meet minimum basic needs.

Chart 8 shows Poverty Head Count Index (PHI) and Poor Household Percentages (PHP).

The PHI and PHP at national level have recorded as 6.7% and 5.3% in 2013 respectively. The highest 28.9% of PHI and 25% of PHP recorded in the Mullaitivu district in 2013 while Monaragala and Mannar

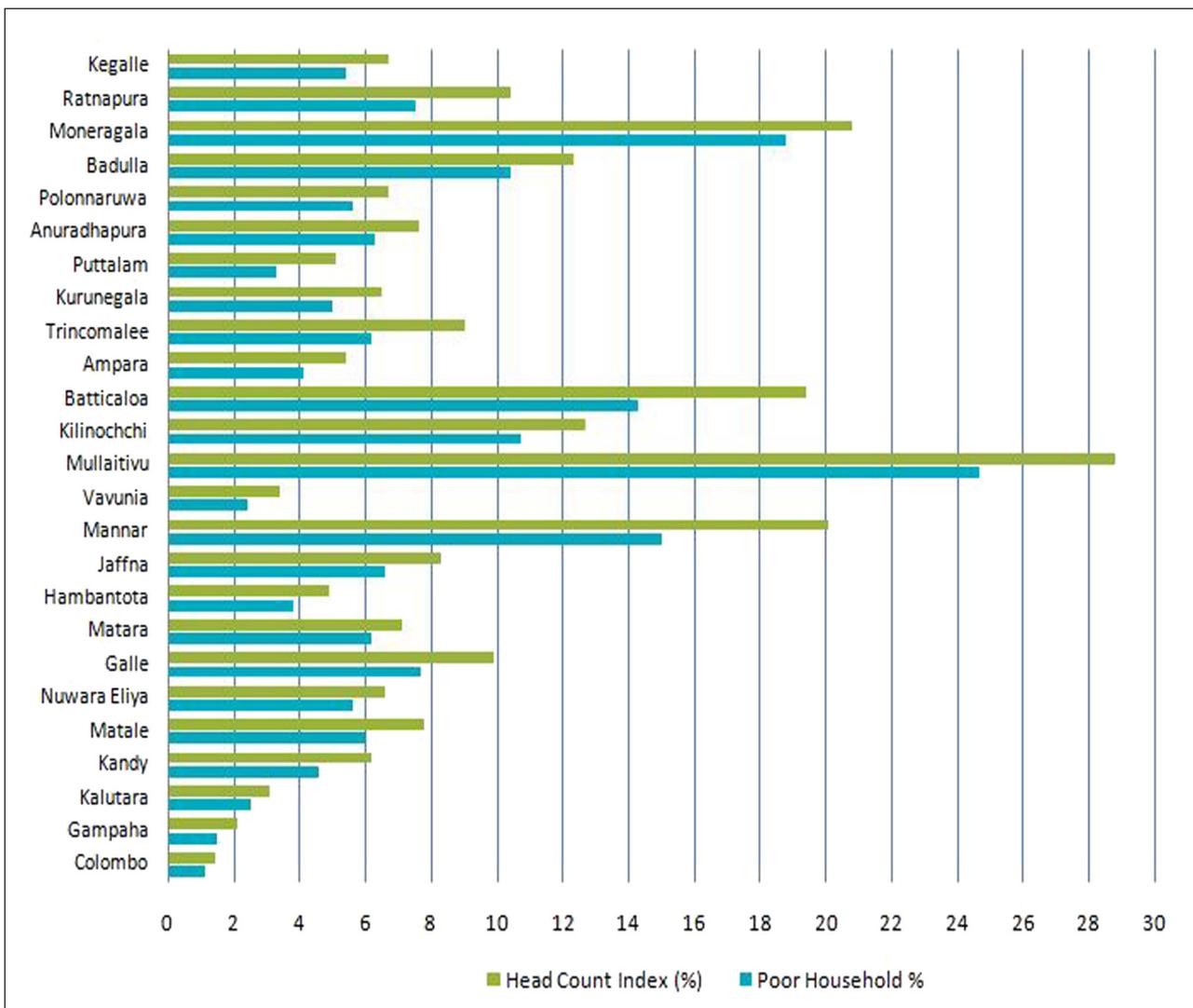
districts recorded the second and third highest. The lowest rates of both indicators can be seen in the Western province.

Mullaitivu, Mannar, Kilinochchi, Batticola, Monaragala, Badulla and Galle Districts show high poverty compared to other districts.

Colombo, Gampaha, Kalutara, and Vaunia districts recorded the lower percentages of both indicators.

(District Official Poverty Lines - 2015 are given in Annex ii)

Chart -8. Poverty Head Count Ratio and Poor Household Percentage by District - 2013



Source: Department of Census and Statistics

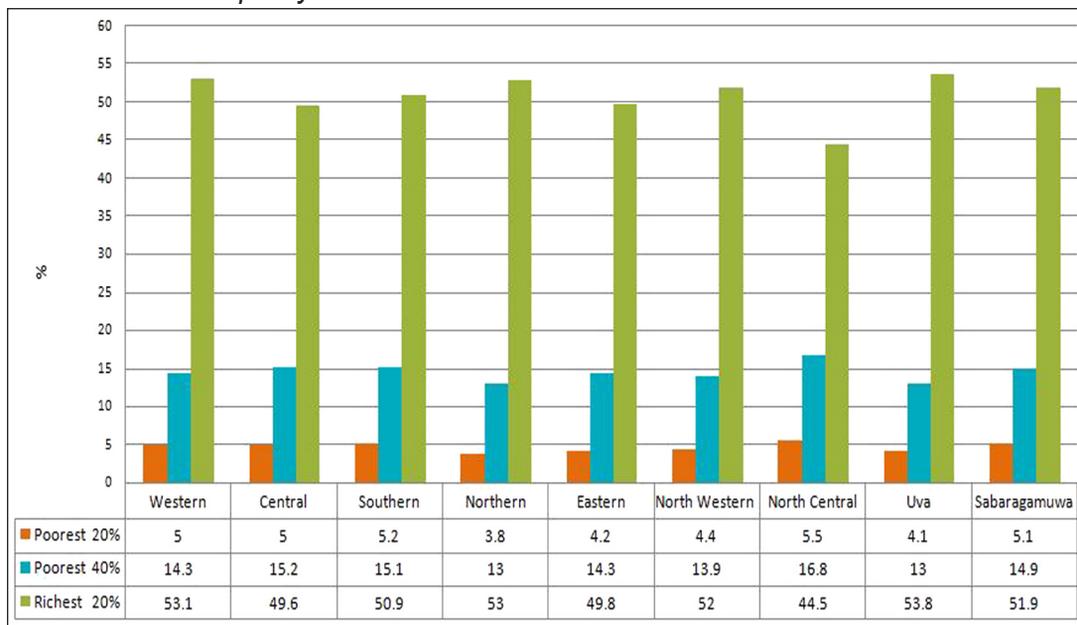
6.3 Income Distribution

Income distribution in a country gives a clear idea about how national income is divided among groups, individuals, households and social groups etc. It is generally accepted that only growth is meaningless, if there is no fair income distribution among different social strata. Therefore, when measuring the level of development, the aspect of income distribution is given particular attention by development economists and planners.

The Gini coefficient is a widely used indicator in measuring the pattern of income distribution. If the Gini coefficient is closer to unity, then it shows a high degree of inequality and is thus unfavorable to poor groups.

Chart 9 shows the percentages of total income received by the poorest and the richest income groups of the country by Province in 2012/13. It is observed that in all provinces the richest 20% earns almost half of the provincial income. The poorest 20% gets almost 5% of the income. The income earned by the poor group is almost similar in all provinces during the year. The richest group enjoys well over 50% of the total income in the Western, Northern and Uva provinces. The least percentage of high income receivers is seen in the North Central Province.

Chart - 9. Percentage of Income Earned by Poorest and Richest Income Groups by Province - 2013



Source: Department of Census and Statistics

6.4 Pattern of Household Expenditure

The pattern of household expenditure among people in a country is a crucial indicator of their living standards. The empirical studies show that when income is higher, the percentage spent on food consumption is lower and the portion incurred on durable goods is higher.

The household expenditure on food can be defined as expenditure on food items such as cereals, meat,

fish, milk, beverages, confectionery etc. Non-food items mainly consists of housing, transport, communication, fuel and lighting, health, education etc.

Table 8 depicts the changes of average household income and ratios of food and non-food expenditure by province from 1990/91 to 2012/13, (Northern and Eastern Provinces do not have the data for 1990/91).

It appears that household nominal income in all provinces has increased almost by ten times during the period from 1990 to 2013, whereas the percentage expenditure incurred on food items has decreased by 26.8 %. The expenditure on non-food items has increased significantly in all the provinces.

Table - 8 Average Monthly Household Income and Expenditure 1990/1991 and 2012/13 by Province.

Province	1990/91			2012/13		
	Average Monthly Income (Rs)	Food Expenditure %	Non Food Expenditure %	Average Monthly Income (Rs)	Food Expenditure %	Non Food Expenditure %
Western	5,011	58.0	42.0	58,298	31.1	68.9
Central	3,454	68.6	31.4	38,988	39.8	60.2
Southern	3,587	68.8	31.2	36,429	39.1	60.9
Northern	NA	NA	NA	34,562	47.6	52.4
Eastern	NA	NA	NA	30,885	53.6	46.4
North Western	3,259	70.2	29.8	37,664	40.0	60.0
North Central	3,327	67.0	33.0	33,935	39.2	60.8
Uva	3,304	68.5	31.5	28,866	44.5	55.5
Sabaragamuwa	3,555	67.9	32.1	32,373	42.1	57.9
Total	3,905	64.6	35.4	41,444	37.8	62.2

Source: Department of Census and Statistics

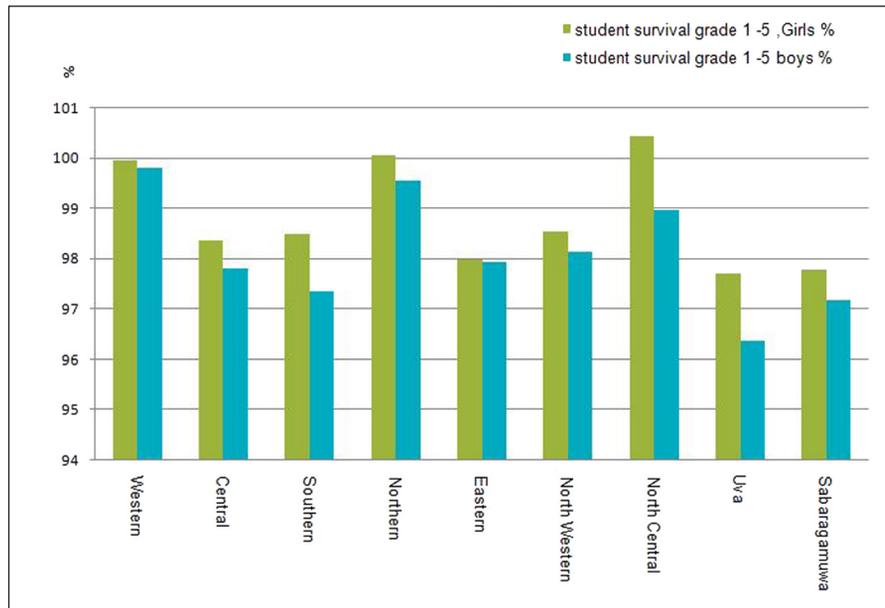
6.5 Education

It is possible to assess regional disparities in education by referring to indices of student survival ratio, computer literacy and education levels of population.

Among the Developing Countries, Sri Lanka has achieved a high standard in education due to the free education policy, adopted since in the early 1940s. The MDG targets on education were achieved by 2015. However, there are regional variations within the country. It is noteworthy that resources for education at provincial level will to be enhanced, as the government has given priority to creating a knowledge economy in its development agenda. At present, there is a high demand for the education services offered by private higher education institutions.

Chart 10 depicts the School Survival Ratio by Gender, Provinces in 2014. In all provinces, Student Survival Ratio of Grade 1-5 records high level of achievement exceeding 95%. It may be noted that the Survival Ratio among the boys is less than that of girls in every province. The Uva province recorded the lowest boys survival ratio in 2014.

Chart - 10. School Survival Ratios by Gender, Province - 2014



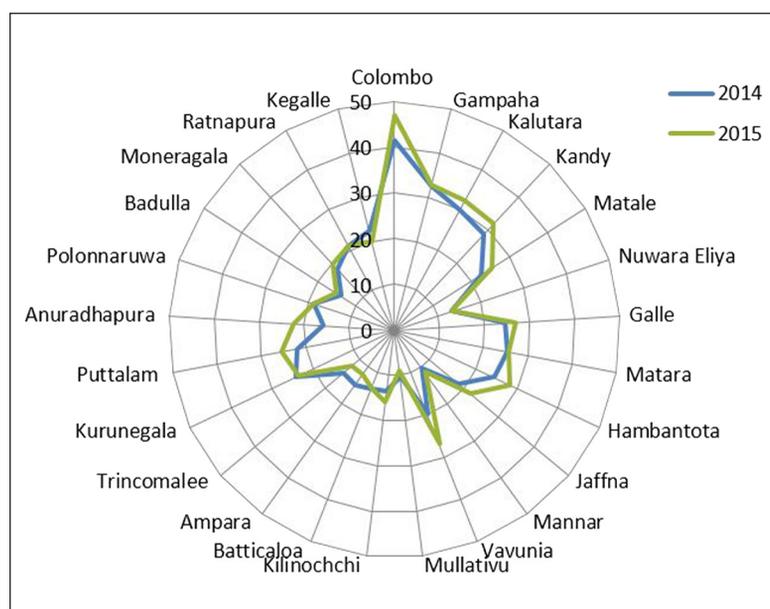
Source: Ministry of Education (2014)

Computer literacy rate has been defined as the computer literate population expressed as a percentage to the total population. Computer literate person is a person if that person could use a computer on his or her own. Computer literacy is an essential skill required to engage in productive employment in the current labour market. The country has given due recognition to improve computer literacy at all levels.

Chart 11 depicts the computer literacy rates in 2014 and 2015 by District. The Computer Literacy in the country reported in 2014 and 2015 is 25.1%, and 25.8% respectively. Highest computer literacy rates recorded in the districts of Western Province while the Hambantota district (Southern Province) and Vavunia district (Northern province) occupy the second and third positions. All districts of the Western, North-Western and Southern provinces stand out in terms of Computer Skills. Meanwhile, Nuwareliya, Badulla, Mannar and Mulativu Districts show lower levels compared to other districts.

Table 9 displays the level of education of population by district 2012/13. The majority of the population has achieved education up to G.C.E. Ordinary Level (O/L). The district-wise variation of education up to O/L is in the range of 39.4%- 55.7%. The percentage of population which has secured education up to Grade 5 varies from 16.9% to 36.4%. According to the above chart, the highest level of education is recorded in the Colombo district, representing 22.3% of population who passed G.C.E. Advance Level (A/L) and above. The districts of Gampaha, Kalutara and Kandy exhibit comparatively high levels of education while the Mullative, Kilinochchi and Batticola Districts record low levels of educational attainment.

Chart - 11. Computer Literacy by District 2014-2015



Source: Department of Census and Statistics

Table - 9. Level of Education-Aged 5 years and above by District - 2013

District	No schooling	Up to grade 5	Passed grade 6-10	Passed G.C.E. O/L	Passed G.C.E. A/L & above
Colombo	2.0	16.9	40.5	18.2	22.3
Gampaha	2.2	17.8	42.0	22.1	15.8
Kalutara	2.8	21.7	42.3	17.0	16.1
Kandy	3.8	23.0	42.0	15.9	15.2
Matale	4.0	27.0	45.8	14.2	8.9
Nuwara Eliya	8.5	34.7	42.0	8.9	5.9
Galle	3.1	24.4	45.3	15.9	11.2
Matara	4.1	25.4	39.4	16.3	14.7
Hambantota	5.5	27.0	44.3	14.3	8.7
Jaffna	1.5	25.1	46.9	16.3	10.2
Mannar	2.2	29.6	50.4	9.3	8.4
Vavunia	3.0	29.0	41.9	14.2	11.9
Mullaitivu	3.1	30.1	55.7	6.5	4.6
Kilinochchi	3.1	30.2	51.8	10.2	4.8
Batticaloa	5.7	36.4	40.6	10.8	6.5
Ampara	4.6	32.6	39.4	13.9	9.5
Trincomalee	2.3	32.0	42.9	15.0	7.7
Kurunegala	3.4	23.5	45.2	16.1	11.9
Puttalam	3.8	28.7	48.9	10.4	8.2
Anuradhapura	3.3	28.0	47.4	13.9	7.3
Polonnaruwa	4.1	28.9	46.8	12.2	7.8
Badulla	6.6	30.6	44.8	10.2	7.8
Moneragala	5.7	28.0	46.7	12.0	7.6
Ratnapura	5.9	26.6	45.3	13.6	8.5
Kegalle	2.7	24.6	44.6	15.9	12.2
Sri Lanka	3.7	24.7	43.6	15.5	12.4

Source: Department of Census and Statistics

6.6 Health

Table 10 displays data on the occurrence low birth weight and proportion of under-weight Children by Province during 2013. The percentage of infants with low birth weight of the country was 13.3% in 2013. Four provinces namely Sabaragamuwa, Uva, Central and North-Central recorded high percentages of low birth weight compared to the national average.

The health related indicators of the country are satisfactory compared to those of the other countries in the region. This is attributable to the adoption of free universal health service policy since independence. All successive governments have allocated large amount of resources to improve the health conditions of the people. However, at present, the private sector involvement in providing health services is on the rise.

In Sri Lanka, the proportion of moderately under-weight children in the age-group of 2 to 5 years was 19.5%. In Four Provinces, namely North-Central, Uva, Sabaragamuwa and Southern have recorded high percentages of under-weight pre-school children compared with the national average. The Western and North-Western provinces showed percentages significantly lower than the national average.

The percentage of pre-school children who are severely under-weight in the country is 3.8%. This is relatively high in the Central, Eastern and Uva provinces. The other notable factor is that the percentage of severely affected under-weight pre-school children found in Western, Sabaragamuwa, North-Western, Northern and Southern provinces is lower than the country average.

Facilities for pregnant mothers are of vital importance in reducing maternal mortality.

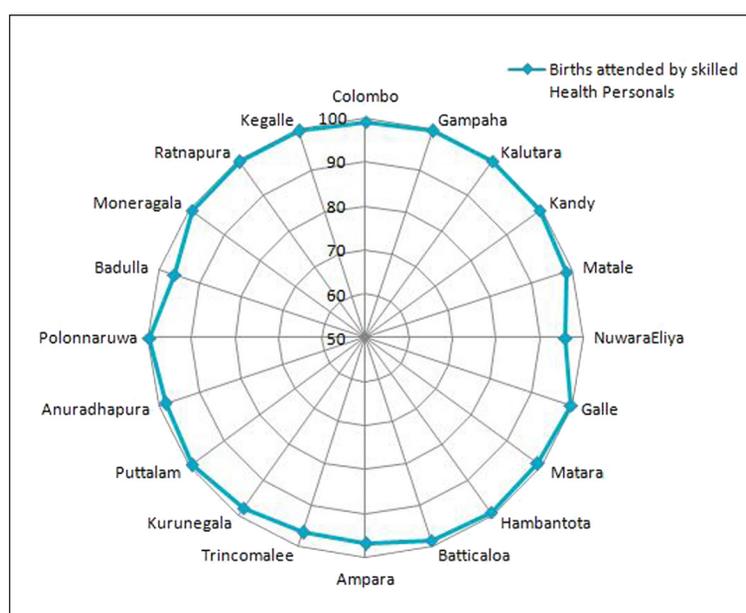
Table - 10. Low Birth Weight & Underweight Children By Province -2013

Province	Low Birth Weight %	Underweight pre-school children age 2 -5years %	
		Moderately	Severely
Western	12.2	13.4	3.1
Central	15.6	19.4	4.7
Southern	11.5	23.6	3.6
Northern	11.0	19.1	3.4
Eastern	12.3	19.1	4.2
North Western	11.7	17.0	3.4
North Central	13.9	22.8	3.9
Uva	16.0	23.8	4.6
Sabaragamuwa	16.6	22.4	3.3
Sri Lanka	13.3	19.5	3.8

Source: Ministry of Health and Indigenous Medicine -Annual Health Bulletin 2013

Chart 12 displays data on percentages of births attended to by skilled health personnel in 2013. On average, most districts show satisfactory performance in terms of availability of skilled personnel. However, the situation seems relatively unsatisfactory in the plantation districts of Badulla and Nuwara Eliya as well as in the districts of Ampara and Trincomalee.

Chart - 12. Proportion of Birth Attended by the Skilled Health Personnels by district - 2013



Source: Ministry of Health and Indigenous Medicine-Annual Health Bulletin 2013

Table 11 shows the provincial distribution of notifiable diseases in the country in 2013. Dengue is one such notifiable diseases. The highest dengue cases were recorded in the Western province and the lowest was recorded in Uva province. It may be observed that incidence of other notifiable diseases vary across the nine provinces. Their incidence could be related to factors such as the population and environmental pollution.

Table - 11. Percentage Distributions of Cases of Selected Notifiable Diseases by Province – 2013

Province	Dengue	Dysentery	Encephalitis	Food poisoning	Leptospirosis	Viral Hepatitis
Western	56.8	16.5	24.6	10.1	32.8	25.1
Central	8.7	11.8	8.2	20.0	5.9	17.8
Southern	6.1	8.0	16.0	12.5	17.9	21.2
Northern	4.0	18.7	13.7	18.6	3.5	2.0
Eastern	5.2	22.6	4.7	17.4	4.6	3.1
North-Western	12.7	8.0	20.3	5.3	12.7	6.0
North-Central	3.7	5.8	7.8	11.9	15.0	5.3
Uva	2.8	8.6	4.7	4.1	7.7	19.4
Sabaragamuwa	10.2	13.8	39.5	3.3	21.1	69.0
Sri Lanka	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Health and Indigenous Medicine-Annual Health Bulletin 2013

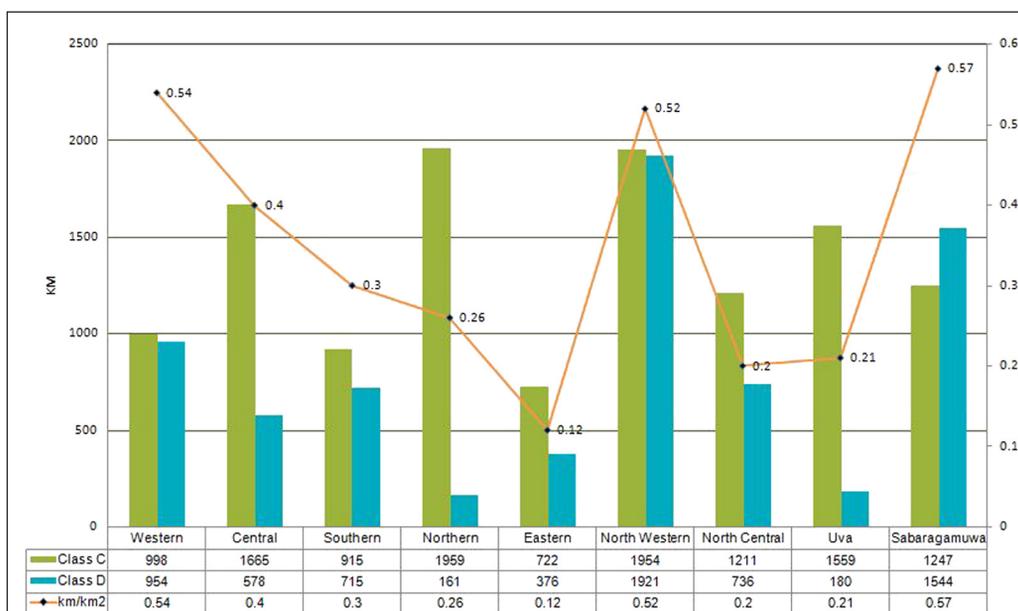
6.7 Economic and Social Infrastructure

The availability of economic and social infrastructure facilities directly relates to the day today life of the people and determine their quality of life. In this section, roads, transport, drinking water and sanitation are considered.

Chart 13 provides information on length and density of C and D roads.

The longest C road network is in the Northern Province whereas the lowest is in the Eastern Province. The North-Western, Central and Uva provinces rank in descending order after the Northern Province. The longest length of D roads network is in the North-Western Province. The Northern and Uva provinces are placed last. The highest road density is recorded in the Sabaragamuwa province followed by the Western and North Western Provinces. The lowest road density is recorded in the Eastern Province.

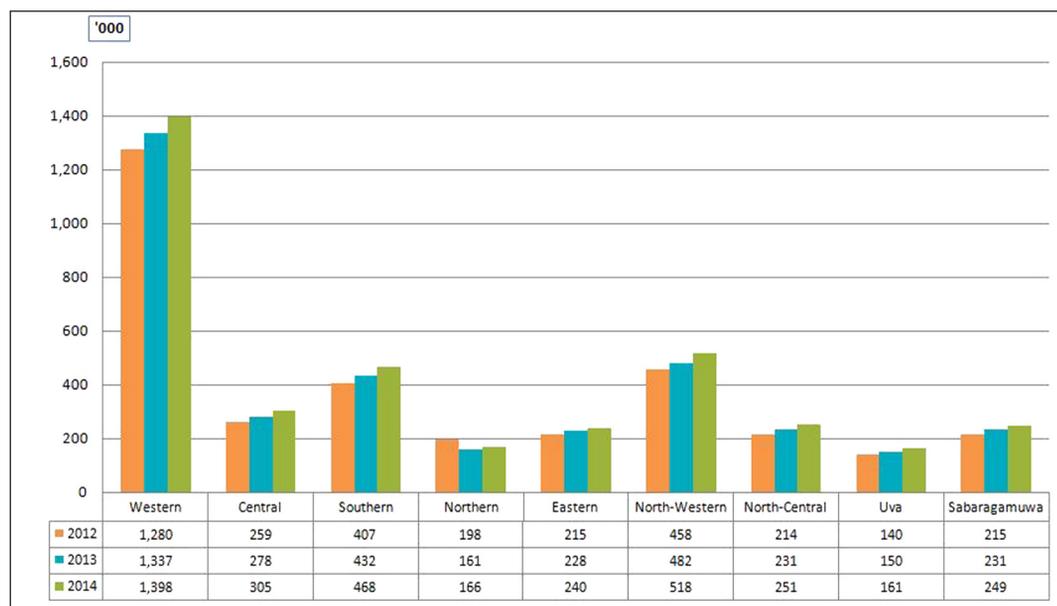
Chart - 13. Provincial Roads by Province - 2014



Source: Central Bank of Sri Lanka

Chart 14 shows the number of registered motor vehicles in the provinces during the period 2012-2014. The highest number of motor vehicles is observed in the Western province which is 1.4 mn in number in 2014. The North-Western and Southern provinces are in the second and third ranks. The Uva province shows the lowest number of motor vehicles. It is observed that in all provinces except the Northern Province, number of registered motor vehicles has shown an increasing trend during the period from 2012 to 2014.

Chart - 14. Motor Vehicles by Province 2012-2014



Source: Central Bank of Sri Lanka

6.8 Water and Sanitation

Safe drinking water is defined as drinking water obtained from protected wells, pipe borne water, water supplied from village water schemes, tube wells, water bowser and Bottled water.

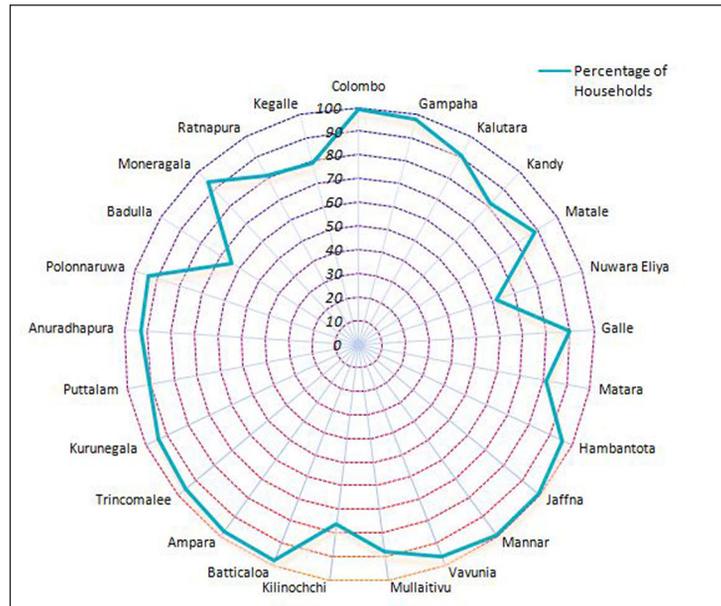
Access to water and sanitation is and it a basic need, is crucial in the improvement of health standards of people. The government allocates substantial amounts of financial resources annually to improve water and sanitation facilities.

Chart 15, shows percentages of households with access to safe drinking water facilities by District in 2013.

Only 40% of Sri Lankan population has access to organized (pipe borne) water and 59.4% depends on other sources such as wells, tube wells, streams and rivers etc. About 10% depends on water from unprotected sources.

According to the Chart 15 the percentage of households in the Districts of Nuwara Eliya, Badulla, Kilinochchi and Kegalle having access to safe drinking water, is low compared to other districts of the country.

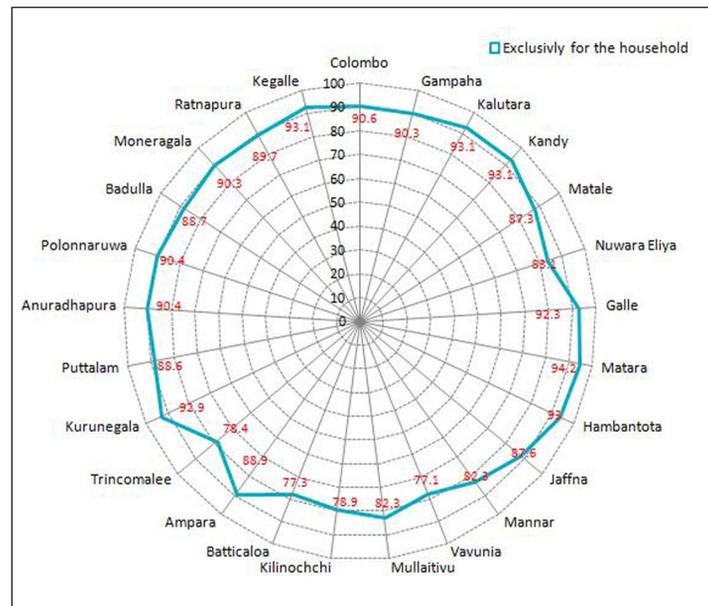
Chart - 15. Safe Drinking Water Facilities by districts - 2013



Source: Department of Census and Statistics

Chart 16 depicts the percentage of households with own toilets used exclusively by the members of households during the year 2013. More than 90% of households in the districts of Western, Southern and North Central provinces have their own toilet facilities. The lowest percentage of households with own toilet facilities is recorded in the Trincomalle District. All districts of Northern and Eastern provinces recorded low percentages compared to other districts.

Chart - 16. Toilet Facilities by District - 2013



Source: Department of Census and Statistics

Chapter 7

Highlights of the Provincial Audit Reports- 2014

Audit of financial statements of the Provincial Councils are carried out in terms of the provisions in Article 154 (1) of the Constitution of Democratic Socialist Republic of Sri Lanka and Section 23 (1) of the Provincial Councils Act. No .42 of 1987. Audit Observation Reports of Provincial Councils are referred to the Governors of the respective Provincial Councils. The Governor submits the above report to the Provincial Council and as per the financial regulations, the report needs to be directed to the Provincial Public Accounts Committee (PPAC). After reviewing the report, the PPAC gives directions for necessary action. A copy of the audit report, addressed to the Governor of the Province is also sent to the Finance Commission.

After analyzing provincial audit reports, the Finance Commission sends its observations and directions to the Chief Secretaries of the Provinces.

Some important issues raised in the Audit Reports for Financial Year 2014 are given below

Non-compliance with the Provisions of Laws, Rules and Financial Regulations

- Privileges were misused by appointing excessive numbers of persons to the personal staff of the Members of the Provincial Councils, violating the provisions of the Provincial Council Act of 1987.
- The Chairpersons of the Authorities in Provincial Councils have entered into agreements with parties who have not been registered under the Public Contracts Act No.03 of 1987.
- Salaries have been paid by some provincial authorities to labourers without making due contributions to EPF and ETF.

Revenue Management

- Arrears of income to the Municipal Councils, Urban Councils and Pradeshiya Sabhas from the major sources of income such as rates, taxes, rents and leasing have been retained by provincial councils without transferring to the respective Local Authorities.
- Actions have not been taken to recover the outstanding taxes and annual leases on land from private institutions.

Operating Inefficiencies

- Some equipment for the use of disabled persons have been purchased during the year without adopting proper procedures. They remain lying unused in the stores, as at 31 December 2014.
- Payments for roads construction have been made ignoring the recommendations of the inspection reports and verifying compliance with accepted standards. It has been observed that nearly 80% of the surface of the roads has been cracked. In spite of this situation, the full amount was paid to the contractor, without re-checking physical progress.
- Essential building repairs, purchasing and repairing bio-medical and clinical equipment have not been undertaken in some district hospitals. (as stated in the Development Plan-2014)

Underutilization of Funds

- The Department of Health Services has obtained funds from the Second Health Sector Development Project to carry out some activities in 2014. However, these funds were kept in Deposit Accounts without being utilized.
- Moneys received from the Provincial Fund were not used for the intended purposes even by the end of the year 2014. Instead these were kept in Bank Accounts.
- PSDG funds provided in 2014 to complete a partially built sports complex have not been used for the said purpose and it has been deposited in a FD account.

Delayed projects

- Although all PSDG funded projects had commenced, only a few of them had been completed, as planned. A similar situation was also observed under the “One work per Village” programme.
- There have been considerable delays in implementation of projects by Provincial Ministries and Departments due to land clearance issues, delays in commencement, and procedural lapses such as releasing funds without receiving goods and services.

Idle and Underutilization of Assets

- Mahindodaya laboratories constructed in selected schools under the World Bank funded “Transforming School Education as the Foundation of Knowledge Hub Project” have not been commissioned for the benefit of the students.
- Electronic, medical and office equipment in the institutions under some Regional Director of Health Services, have not been properly used due to irrelevant distribution.
- Some vehicles remained idle due to lack of servicing or non-purchase of required accessories for servicing.

Uneconomic Transactions

- Money had been spent on newspaper advertisements on political events which were not linked to the objectives of some provincial agencies.
- Expenditure had been incurred unnecessarily by provincial authorities for printing of greeting cards, envelopes, diaries and time tables.
- Even though a compost fragmentation machine had been given by the Provincial Department under the Promotion of Carbonic Fertilizer Usage Programme, it had not been utilized by the recipient by 13th February 2015.

Management Inefficiencies

- The ownership of lands belonging to many provincial institutions had not been properly established hampering development activities.
- A number of capital projects proposed to be implemented during the year had not been completed leading to cost and time overruns.
- Purchasing raw food in a base hospital violating the provincial financial rules 137(2) and 156 (7).

Lack of Evidence for Audit

- The balance of 18 assets and 16 liabilities in a Province could not be satisfactorily verified due to non-availability of required documentary evidence.
- Details of beneficiaries to whom sarongs, towels, bed sheets and exercise books distributed by a provincial ministry during the year had not been rendered to Audit.
- There were instances where approval has not been obtained for major repairs of vehicles.
- Daily running charts and monthly summaries of some office vehicles had not been furnished to audit.

Irregular Transactions

- Officers in some provinces had traveled overseas several times for purposes which have no relevance to provincial development, using public funds.
- In terms of Supplement 22 of the Procurement Manual dated 9th March 2011, when awarding a direct contract for Community Based Organizations, the limit should not exceed Rs.02 Million. However, some provinces have failed to comply with this requirement.

Excess and Shortage of Provincial Staff

- There were instances where actual cadre had exceeded approved cadre.
- Inappropriate assignment of duties leading to duplication of work among officers has been observed.
- Officers belonging to professional categories and teachers had not been properly deployed according to vacancies available.

No Action Plans and Procurement Plans

- In terms of circular No .PF/R/2/2/3/5(4) dated 10th March 2010 of the Director General of Public Finance, action plans had not been prepared by some provincial agencies.
- In terms of National Budget Circular No.128 of 24 March 2006, procurement plan had not been prepared by some provincial ministries, departments and other institutions.

Absence of Internal Audit Units

- The main functions of the Provincial Internal Audit are the prevention of irregularities and frauds of the ministries, departments and other institutions. However, Internal Audit units had not been established in some provinces.
- Matters raised in internal audit queries have not been properly attended to in most of the provincial institutions. Internal audit programs had also not been prepared.

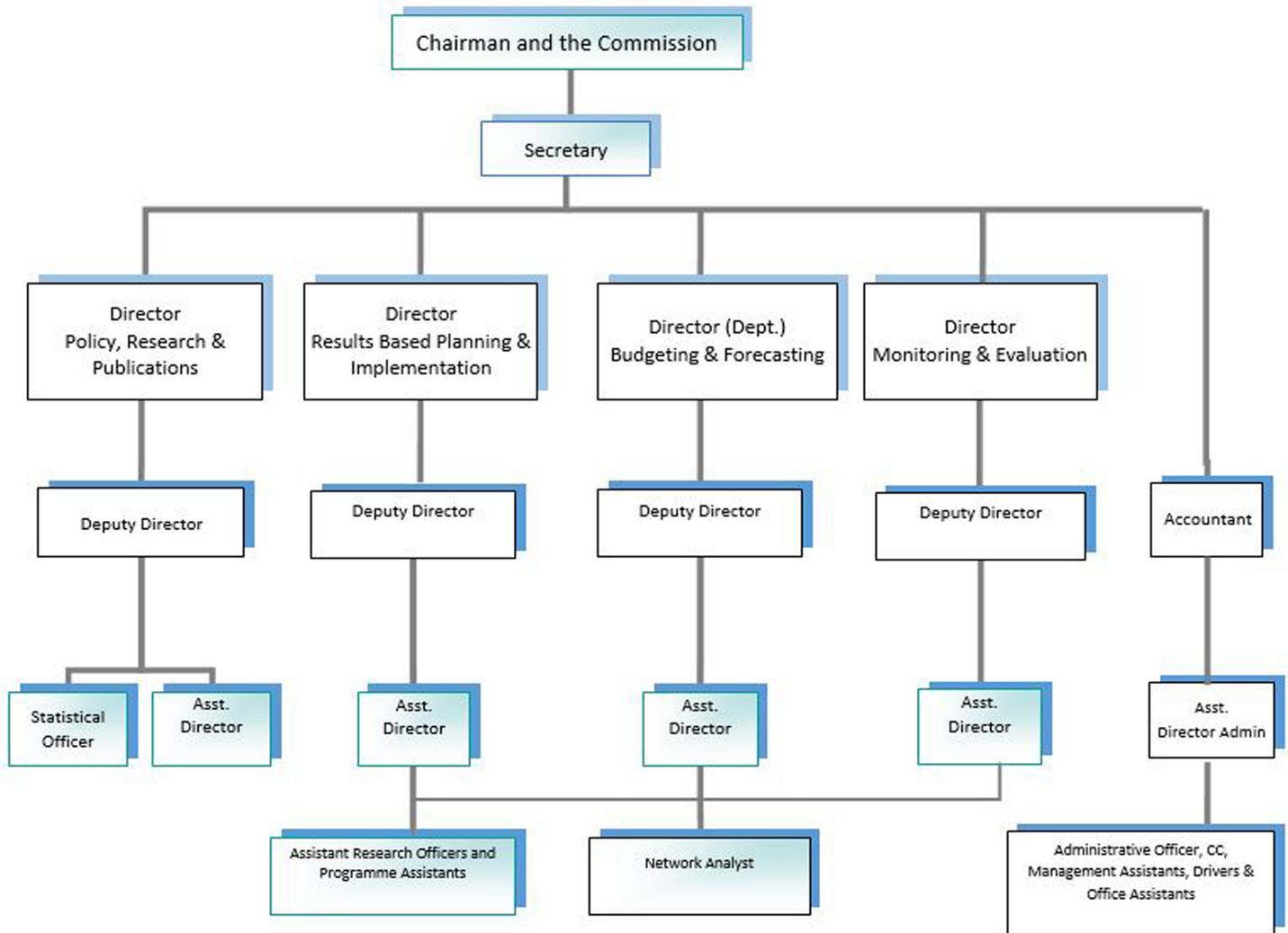
Chapter 8

Human Resources of the Finance Commission

The total approved cadre of the Finance Commission is 76. The following chart provides the breakdown.

Organization Chart

Chart - 17. Organization Chart of the Finance Commission - 2015



8.1 Staff of the Finance Commission

Chart - 18. Staff of the Finance Commission

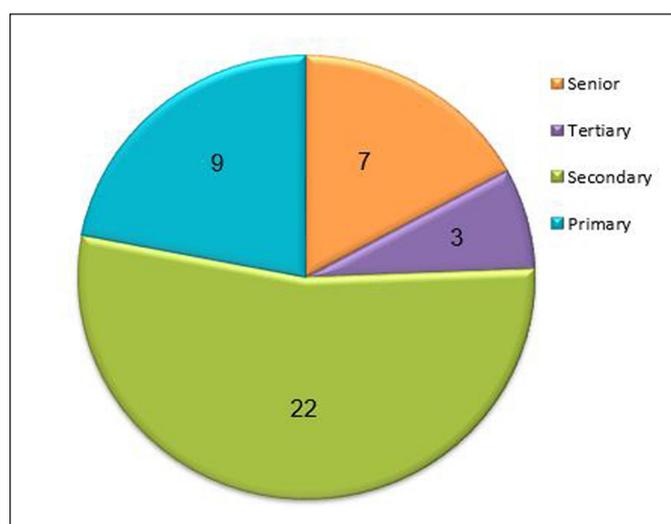


Table - 12. Approved Cadre of the Finance Commission

Category	Approved Cadre	Living Cadre
Senior Level	16	07
Tertiary Level	03	03
Secondary Level	44	22
Primary Level	13	09
Total	76	41

Education qualifications of Functional Staff -2015

Table - 13. Educational Qualifications of Functional Staff - 2015

	Functional Staff			
	Basic Degree	Post Graduate	Diploma	Other
Staff Grade	6	5	0	1
Non Staff Grade	7	5	1	1

8.2 Capacity Development of the Officers

The Finance Commission provides opportunities to build capacities of the staff at local and foreign training institutes. The following three officers participated in foreign training programs in 2015.

Table - 14. Participants of the Foreign Training Programmes - 2015

Name	Programme	Duration	Agency
Mr.M.L.A.Chandradasa (Deputy Director)	Inclusive Growth & Sustainable Poverty Reduction in Asian Countries	2015.08.03 - 2015.08.17	School of Public Policy and Management (SPPM)- Tsinghua University, China
Ms.S. Bashini Samarasekara (Programme Asst.)	Inclusive Growth & Sustainable Poverty Reduction in Asian Countries	2015.08.03 - 2015.08.17	School of Public Policy and Management (SPPM)- Tsinghua University, China
Ms.K.A.S.D. Nilanthi (Assistant Research Officer)	Regional Development Co-operation Policy	2015.10.12 - 2015.11.01	KOICA, South Korea

Foreign Training

Training on “Inclusive Growth & Sustainable Poverty Reduction in Asian Countries”- China

The objective of this seminar was to meet the demand of Asian developing countries with respect to optimizing economic growth and achieving coordination of national economic and social development. The participants have been selected from developing countries. The participants were given a knowledge on establishing inclusive growth and narrowing disparities among industries, regions and groups while ensuring sustainable poverty reduction.

Training on “Regional Development Co-operation Policy” South Korea

This program was coordinated by the Korean International Cooperation Agency (KOICA). The main objective of the course was to provide an exposure on “Korea Saemaul Undong,” based rural development policy and system, and the ways of implementing such policies. This training program consisted of lectures, field visits and study visits, to share practical knowledge among participants.

Local Training

The following officers were provided local training opportunities on selected fields.

Table - 15. Participants of the Local Trainings - 2015

Name	Programme	Duration	Institution
Mr. NishantaSujeewa	Zero Based Budgeting	2015.10.29	Sri Lanka Institute of Development Administration
Ms. Bhashini Samarasekara	Zero Based Budgeting	2015.10.29	Sri Lanka Institute of Development Administration
Ms. Sepalika Priyadarshani	Zero Based Budgeting	2015.10.29	Sri Lanka Institute of Development Administration
Mr. Sarathchandra Kumara	Zero Based Budgeting	2015.10.29	Sri Lanka Institute of Development Administration
Mr. RavindraJagath Kumara	Training for Office Employee Assistant	2015.03.30	National Institute of Labour Studies
Mr. RavindraJagath Kumara	Training for Office Employee Assistant	2015.10.19	National Institute of Labour Studies
Miss. Isuri Ayesha	Training for Office Employee Assistant	2015.10.19	National Institute of Labour Studies

Chapter 9

Financial Highlights of the Finance Commission

Finance Division

The Finance Division is responsible for securing financial operations of the Commission and ensuring proper management of finances.

In 2015, the Finance Commission was allocated Rs. 38.5 mn. and Rs. 4.5 mn. for recurrent and capital expenditure respectively.

The utilization rate of the recurrent expenditure was 94% and utilization of capital expenditure was at a lower level of 45%. The utilization of capital expenditure was low due to most of office equipment and furniture had been purchased recently.

As per the P.A. Circular 245/2015, appropriation and all other accounts of the Finance Commission have been submitted to the Department of State Accounts and the Department of Auditor General before the due dates. The details on financial provisions, expenditure and financial performance of the Finance Commission for 2015 are given below.

Table - 16. Financial Provisions, Expenditure and Financial Performance – 2015

Object Code	Description	Provision Rs.(000)	Transfers for FR Rs.(000)	Net Grant Rs.(000)	Expenditure Rs.(000)	Financial Performance %
Recurrent						
1001-1003	Personal Emoluments	20950.0	1600.0	22550.0	21148.3	93.8
1101-1102	Traveling Expenses	600.0	-250.0	350.0	127.7	36.5
1201-1205	Supplies	2300.0	-585.0	1715.0	1612.3	94.0
1301-1303	Maintenance	2650.0	250.0	2900.0	2819.0	97.2
1401-1405	Services	11200.0	-865.0	10235.0	9727.1	95.0
1506	Transfers	800.0	-50.0	750.0	602.6	80.4
Total		38500.0	100.0	38500.0	36037.0	93.6
Capital						
2002-2003	Plant, Machinery and Equipment	1000.0	0.0	1000.0	440.8	44.1
2102-2103	Furniture and Office Equipment	2000.0	-835.0	1165.0	239.7	20.6
2401	Training and Capacity Building	1500.0	-	1500.0	669.8	44.7
2001	Buildings and Structures	-	835.0	835.0	668.2	80.0
Total		4,500.00	0.00	4,500.00	2,018.59	44.9
Grand Total		43000.00	100.00	43000.00	38055.59	88.50

Table - 17 Advance Account Activities

Description	Rs.		
	Maximum limit to Expenditure	Minimum limit of Receipts	Maximum limit of Debit Balance
Provision	3,210,000.00	1,010,000.00	12,000,000.00
Actual (After making adjustment under the FR 505 (1))	2,306,361.00	3,899,392.00	4,776,323.00

Chapter 10

Challenges Ahead

Under the Thirteenth Amendment to the Constitution, the Finance Commission has been assigned the mandate of reducing regional disparities in the country through directing and facilitating the provinces to take appropriate actions for realizing the above mandate. In this context, the Commission is mainly responsible for apportioning funds between the provinces in a rational manner and providing the necessary technical support in the preparation and monitoring of the provincial development plans. In carrying out this task, the Commission is confronted with the following challenges.

1. The 13th Amendment does not stipulate the role and functions of the Finance Commission. Therefore, the Commission experiences some difficulties in performing its constitutional mandate. Accordingly, it is essential to enact legislations under an Act of Parliament to define the role and functions of the Commission.
2. The provinces adopt the Results Based Management (RBM) approach in preparing and monitoring their annual development plans. However, in practice, it is observed that the existing provincial monitoring system is not effective and efficient. In this background, the intervention of the Finance Commission has become vitally important to ensure effective execution of capital projects.
3. The Government has directed all line ministries and provincial councils to adhere to Zero-Based Budgeting (ZBB) approach in the preparation of their annual budget and monitoring them since 2016. The General Treasury expects the Commission to facilitate the implementation of ZBB at provincial level.
4. A better coordination between the Commission and the provinces is strongly felt. In this regard it is felt that an introduction of a sound Management Information System (MIS) will be useful. One step in this effort will be the stationing of liaison officers of the Finance Commission in every province.
5. Some capital projects and almost all the salaries and wages of Local Authorities are funded under PSDG and Block Grant respectively. It is also noted that the Local Authorities have the potential of enhancing their revenue. To facilitate the revenue enhancing process of the LAs the overseeing function of the Commission should be strengthened.
6. It is well known that the Provinces are highly dependent on limited government funds for financing their annual plans. To overcome the problem of shortage of funds, promotion of Public Private Partnership (PPP), has been proposed. However, no progress has been achieved so far. In this task, the Finance Commission has a crucial role to facilitate the process.

7. The Finance Commission has a strong relationship with the General Treasury and the Central Bank. This is evident from the fact that the Secretary to the Treasury and the Governor of the Central Bank are ex-officio members of the Commission. It is also necessary to strengthen the functional relationship between the Presidential Secretariat and the Finance Commission.
8. All provinces have not been able to manage their cadre in an optimal manner and this has created high burden on provincial recurrent budget thus limiting the capital budget which can be used for development purposes. The role of the Finance Commission in managing the provincial cadre in a rational manner is somewhat limited due to weaknesses of the prevailing system of deploying staff recruited by the line ministries at provincial level.
9. The quality and strength of human resources available to the Commission does not meet the present day needs of the provincial development. The Commission does not have sufficient technically sound officers who have specialized knowledge in the areas of regional development, finance, economics, taxation, law, strategic planning etc. This requires urgent attention.
10. The Commission needs to adhere to the National Language Policy of the government under which all documents produced by the Commission need to be in Sinhala, Tamil and English. This involves translating of documents which is costly and time consuming.
11. The non-existence of a Research Unit is a major bottleneck in carrying out the functions assigned to the Commission. Such a unit is important in fulfilling the expected functions of the Commission.

Chapter 11

The Way Forward

The establishment of the Provincial Council System in 1987 was aimed at achieving two kinds of objectives; political and developmental. In the political sphere, it was expected to devolve the power of decision making from the centre to the sub national level subject to some reservation. From a development point of view, the intention was to reduce regional social and economic disparities progressively through sound development planning. However, experiences during the last three decades indicate the dissatisfaction of over functioning of the provincial council system. It is observed that the inter and intra-regional disparities have not been properly addressed to-date. This is attributed, among other things to non-availability of adequate funds from the government, limitations on revenue generation from devolved sources, wastage and corruption and failure to follow principles of good governance. These issues have been highlighted at the workshop on “Improving the Provincial Development Process by Strengthening Better Coordination at National and Provincial Levels” held in Colombo on 15th June 2015.

Under the above circumstances, the following suggestions are presented to the relevant authorities for early action.

- Power sharing system of the government and the provincial councils by way of implementing three lists namely, “Provincial” “Reserved” and “Concurrent” should be reviewed. It is very important to demarcate devolved and reserved subjects clearly.
- Establishment of a proper coordination mechanism between the centre and the provinces through organizing quarterly and bi-annual review meetings at national and provincial levels.
- It is imperative that the provinces be directed to improve their revenue generation by tapping the devolved sources in an optimal manner. In this regard, it is required to have a dialogue between the relevant agencies at the national level like the General Treasury and the Department of Inland Revenue and the provinces.
- It is vital that provincial authorities be mindful of important anchor projects (eg: harbour, airport, expressway etc.) at national level, through designing development activities.
- Provinces should exploit the potentials available at the provincial level in developing small and medium scale enterprises with a view to promoting for regional development

- It is very important to review the Thrust Areas, Goals and KPIs contained in the Provincial Medium Development Plans in line with policies and strategies of the government.
- The ZBB Approach introduced by the General Treasury needs to be incorporated in the Annual Development Plans of the provinces, thus facilitating the monitoring process under the ZBB approach.
- Under the existing government system, the Local Authorities have become the third tier, under the supervision of Provincial Councils. Since the major share of recurrent and capital budgets of Local Authorities is met by the Block Grant and PSDG, a strong vertical and horizontal relationship and coordination should be maintained at three levels namely national, provincial and local. This will reduce unnecessary duplication of work and wastage of public funds, particularly at sub-national level.
- The internal auditing mechanism of the provinces should be strengthened without delay since some malpractices and abuse of resources are reported repeatedly at provincial level. It is recommended that provincial authorities are summoned before the Committee on Public Accounts (COPA).
- A fresh approach needs to be adopted in the provincial system of governance to widen the resource base and implement commercially viable projects by way of joint-ventures.

The role of the Finance Commission in the promotion of balanced regional development in the country should be revisited and institutionalized by an Act of Parliament and thereby the legitimacy of the Commission should be established in order to strengthen regional development process of the country.

The needs assessments at provincial level should be carried out in a effective manner with a view to identifying the “real needs” of the people. Therefore, the methodology used by the provinces for assessing the needs must be re-visited and a proper cost-benefit analysis for projects should be adopted. In the process of evaluating the provincial needs, all relevant factors, namely resource availability, comparative advantages, key elements of the government policy and private sector participation must be given due attention.

At present, the Finance Commission is housed in a private premises on rental basis. The working environment is not conducive to good performance by the staff. Therefore, it is imperative that the construction of the proposed office building be expedited

Annexures

Annexure i

Provincial Revenue Sources as per the 13th Amendment to the Constitution

No.	Source of Revenue
36.02	Betting taxes, and taxes on prize competitions and lotteries, other than National lotteries and lotteries organized by the Government of Sri Lanka ;
36.03	License taxes, arrack, toddy rents, tapping license fees, and liquor license fees ;
36.04	Motor vehicle license fees within such limits and subject to such exemptions as may be prescribed by law made by Parliament ;
36.05	Dealership license taxes on drugs and other chemicals ;
36.06	Stamp duties on transfer of properties such as lands and motor cars ;
36.07	Tool collections ;
36.08	Fees imposed by courts ;
36.09	Fees charged under the Medical Ordinance ;
36.10	Fees charged under the Motor Traffic Act ;
36.11	Department fees in respect of any of the matters specified in this list ;
36.12	Fees under the Fauna and Flora Protection Ordinance ;
36.13	Fees on lands alienated under the Land Development Ordinance and Crown Lands Ordinance
36.14	Court fees, including stamp fees on documents produced in court ;
36.15	Regulatory Charges under Weights and Measures Ordinance ;
36.16	Land revenue, including assessment and collection of revenue, and survey and maintenance of land records for revenue purposes ;
36.17	Taxes on land and buildings, including the property of the state to the extent permitted by law made by Parliament ;
36.18	Taxes on mineral rights within such limits and subject to such exemptions as may be prescribed by law made by Parliament ;
36.19	Licensing fees on the possession, transport, purchase and sale of intoxicating liquors ;
36.20	Other taxation within the Province in order to raise revenue for Provincial purposes to the extent permitted by or under a law made by Parliament ;

Annexure ii

District Official Poverty Lines - 2015 - (Figures in Rupees)

Base Year	2015 Apr.	2015 May	2015 June	2015 July	2015 Aug.	2015 Sep	2015 Oct.	2015 Nov.	2015 Dec.
Colombo	3975	4003	4044	4070	4050	4039	4055	4113	4124
Gampaha	3969	3998	4038	4065	4045	4034	4050	4107	4118
Kalutara	3871	3899	3938	3964	3944	3934	3949	4005	4016
Kandy	3817	3845	3883	3909	3890	3879	3894	3950	3960
Matale	3840	3868	3907	3933	3913	3902	3918	3973	3984
Nuwaraeliya	3857	3885	3924	3950	3930	3920	3935	3991	4002
Galle	3696	3723	3760	3785	3767	3756	3771	3825	3835
Matara	3673	3700	3737	3762	3743	3733	3747	3801	3811
Hambantota	3522	3547	3583	3606	3589	3579	3593	3644	3654
Jaffna	3769	3797	3835	3860	3841	3831	3846	3900	3911
Mannar	3949	3978	4018	4044	4024	4013	4029	4086	4097
Vaunia	3907	3936	3975	4001	3982	3971	3986	4043	4054
Mullative	3782	3809	3847	3873	3854	3843	3858	3913	3924
Kilinochchi	3877	3905	3944	3970	3950	3940	3955	4011	4022
Batticola	3871	3899	3938	3964	3944	3933	3949	4005	4016
Tricomalle	3794	3822	3860	3886	3866	3856	3871	3926	3937
Trincomalee	3824	3852	3890	3916	3897	3886	3901	3957	3967
Kurunegala	3694	3721	3758	3783	3764	3754	3768	3822	3832
Puttalam	3819	3847	3886	3912	3892	3882	3897	3952	3963
Anuradhapura	3617	3644	3680	3704	3686	3676	3690	3743	3753
Polonnaruwa	3771	3799	3837	3862	3843	3832	3847	3902	3913
Badulla	3665	3692	3729	3753	3735	3725	3739	3792	3803
Moneragala	3475	3500	3535	3558	3541	3531	3545	3595	3605
Rathnapura	3715	3742	3780	3805	3786	3776	3790	3844	3855
Kegalle	3860	3888	3927	3953	3934	3923	3938	3994	4005
National	3823	3851	3890	3916	3896	3886	3901	3956	3967

Source : Department of Census and Statistics

Annexure iii

Transfer of Government Revenue 2011 - 2015

(Rs. Mn.)

Province	2011			2012			2013			2014			2015		
	Target	Transfer	% of Transf.												
Western	15,360	12073*	79	15,360	13,043	85	18,240	11,947	66	18,960	14,999	79	17,568	15,785	90
Central	2,880	2,210	77	2,880	2,458	85	3,420	2,251	66	3,555	2,837	80	3,294	2,997	91
Southern	2,880	1,677	58	2,880	2,456	85	3,420	2,252	66	3,555	2,755	77	3,294	2,883	88
Northern	1,600	1,187	74	1,600	1,257	79	1,900	1,218	64	1,975	1,532	78	1,830	1,592	87
North Western	2,880	2,101	73	2,880	2,579	90	3,420	2,222	65	3,555	2,884	81	3,294	3,035	92
North Central	1,600	1,179	74	1,600	1,416	88	1,900	1,412	74	1,975	1,538	78	1,830	1,618	88
Uva	1,600	1,115	70	1,600	1,377	86	1,900	1,742	92	1,975	1,554	79	1,830	1,645	90
Sabaragamuwa	1,600	1,180	74	1,600	1,356	85	1,900	1,297	68	1,975	1,453	74	1,830	1,314	72
Eastern	1,600	1,021	64	1,600	1,290	81	1,900	1,406	74	1,975	1,425	72	1,830	1,643	90
Total	32,000	23,743	74	32,000	27,232	85	38,000	25,746	68	39,500	30,977	78	36,600	32,513	89

Note: *Rs. 1,000 million of supplementary allocation is included

Source: Finance Commission

Annexure iv

Provincial Revenue Collection by devolved Source 2007 - 2015*

(Rs. Mn.)

Revenue Source	2007	2008	2009	2010	2011	2012	2013	2014	2015
BTT**	12,970	15,971	16,079	19,584	3,652	197	101	93	448
%	49.94	52.26	54.04	53.65	15.37	0.84	0.41	0.33	1.30
Stamp Duty	5,767	5,837	5,225	6,714	9,304	10,096	10,951	14,192	17,669
%	22.21	19.10	17.56	18.39	39.15	43.06	45.05	49.90	51.24
Motor Vehicle License Fees	2,583	3,237	3,495	3,911	5,040	5,726	6,588	7,480	8,712
%	9.95	10.59	11.75	10.71	21.21	24.42	27.10	26.30	25.26
Excise Duty	497	481	463	591	732	794	835	942	1,820
%	1.91	1.57	1.56	1.62	3.08	3.39	3.43	3.31	5.28
Court Fines	1,195	990	1,132	1,588	1,591	1,907	1,910	1,841	1,777
%	4.60	3.24	3.80	4.35	6.70	8.13	7.86	6.47	5.15
Others	2,958	4,045	3,362	4,117	3,443	4,728	3,922	3,891	4,058
%	11.39	13.23	11.30	11.28	14.49	20.16	16.14	13.68	11.77
Total	25,970	30,561	29,756	36,505	23,762	23,448	24,306	28,440	34,484

Note: 1. * Government Transfers are not Included

2. ** Collection of due BTT from 2010 onwards

Source: Finance Commission

Annexure v

Revenue Collection at National and Provincial Level 2010 -2015

(Rs. Mn.)

Description	2010	2011	2012	2013	2014	2015
Total Government Revenue	817,279	967,862	1,051,461	1,137,447	1,195,206*	1,454,878
Provincial Revenue	36,506	47,504	50,680	48,832	59,417	66,997
Provincial Revenue as a % of Total Government Revenue	4.47	4.91	4.82	4.29	4.97	4.61

Note: 1. *Provisional

2. From 2011, Provincial Revenue is Including the Government Transfers

Source: Finance Commission and Central Bank Report -2015

Annexure vi

*Actual Collection of Stamp Duty and Court Fines 2010-2015**(Rs. Mn.)*

Province/ Source	2007	2008	2009	2010	2011	2012	2013	2014	2015
Western									
Stamp Duty	4,087	4,096	3,636	4,550	6,354	6,913	7,341	9,927	12,172
Court Fines	532	439	479	596	571	687	761	735	747
Central									
Stamp Duty	436	426	404	482	608	836	860	1,091	1,358
Court Fines	55	52	67	68	68	71	70	86	73
Southern									
Stamp Duty	381	408	350	502	828	902	750	1,203	1,500
Court Fines	152	142	180	171	166	257	175	201	21
Northern									
Stamp Duty	-	-	-	-	-	-	-	4	192
Court Fines	-	-	-	-	-	-	-	-	24
North Western									
Stamp Duty	584	610	562	671	899	899	894	1,152	1,402
Court Fines	202	156	178	319	309	404	316	324	358
North Central									
Stamp Duty	28	26	29	41	50	54	54	83	117
Court Fines	93	71	90	184	193	188	180	144	192
Uva									
Stamp Duty	71	71	63	96	126	129	100	203	226
Court Fines	57	56	52	82	96	103	75	91	71
Sabaragamuwa									
Stamp Duty	180	200	181	263	305	362	300	266	569
Court Fines	104	75	86	99	112	125	121	129	127
Eastern									
Stamp Duty	-	-	0.3	110	133	0.5	260.0	265	319
Court Fines	-	-	-	69	74	72	75	130	163
Total									
Stamp Duty	5,767	5,837	5,225	6,714	9,304	10,096	10,559	14,188	17,854
Court Fines	1,195	991	1,132	1,588	1,591	1,907	1,774	1,841	1,777

Source: Finance Commission

Annexure vii

Provincial Revenue 2011 - 2015

(Rs. Mn.)

Province	2011*			2012*			2013*			2014*			2015		
	Target	Actual Revenue Collected	% of Collec.	Target	Actual Revenue Collected	% of Collec.	Target	Actual Revenue Collected	% of Collec.	Target	Actual Revenue Collected	% of Collec.	Target	Actual Revenue Collected	% of Collec.
Western	23,481	24,958	106	25,731	26,353	102	28,690	25,522	89	32,860	31,092	95	32,635	34,809	107
Central	3,650	4,192	115	5,040	4,203	83	5,261	4,344	83	5,630	5,229	93	5,645	6,027	107
Southern	3,505	3,837	109	4,681	4,671	100	5,279	4,479	85	5,895	5,274	89	5,927	5,914	100
Northern	-	1,268		1,772	1,556	88	2,088	1,529	73	2,375	1,866	79	2,323	2,232	96
North Western	3,738	4,371	117	4,968	4,882	98	5,593	4,699	84	6,110	5,720	94	6,175	6,384	103
North Central	1,418	2,087	147	2,237	2,510	112	2,601	2,326	89	2,930	2,596	89	2,935	2,818	96
Uva	1,236	1,779	144	2,136	2,169	102	2,489	2,109	85	2,605	2,437	94	2,605	2,727	105
Sabaragamuwa	1,982	2,300	116	2,507	2,616	104	2,840	2,474	87	3,185	2,834	89	3,040	3,381	111
Eastern	1,059	1,713	162	2,236	1,721	77	2,571	2,205	86	2,735	2,368	87	2,715	2,705	100
Total	40,069	46,505	116	51,308	50,681	99	57,412	49,686	87	64,325	59,417	92	64,000	66,997	105

Note:* Including the Government Transfers

Source: Finance Commission

Achievement of Millennium development Goals by Province

Base year →	Target year	Achieved					Almost Achieved			On Track			Off Track			
		INDICATOR	WEST	CEN	SOUTH	NORTH	EAST	NW	NC	UVA	SAB	SRI LANKA				
Eradicate extreme poverty and hunger	Poverty Head Count Ratio															
	1990/91-2012/13	19.1 → 2.0	30.7 → 6.6	30.2 → 7.7	NA-10.9	NA-11	25.6 → 6.0	24.5 → 7.5	31.9 → 15.4	31 → 8.8	26.1 → 6.7					
Eradicate extreme poverty and hunger	Poverty Gap Index															
	1990/91-2012/13	4.1 → 0.4	6.7 → 1.0	6.3 → 1.4	NA → 2.3	NA → 2.1	5.3 → 1.1	4.3 → 1	6.8 → 2.6	7 → 1.5	5.6 → 1.2					
Eradicate extreme poverty and hunger	Percentage share of income received by the poorest 20%															
	2006/07-2012/13	4.8 → 5	4.3 → 5	5.4 → 5.2	NA → 3.8	4.9 → 4.2	4.5 → 4.4	4.9 → 5.5	4.6 → 4.1	5 → 5.1	4.6 → 4.5					
Achieve universal primary education	Percentage of Children Aged 6-14 Attending School															
	2012/13	94.1	94.7	94.1	93.9	96.2	95.0	93.5	94.0	94.2	94.4					
Achieve universal primary education	Literacy rate of 15-24 year old women and men															
	2001-2012	96.2 → 99.1	94.9 → 98.9	96.0 → 98.9	NA → 99.1	NA → 97.1	93.4 → 98.6	95.8 → 97.2	94.1 → 96.9	94.8 → 98.4	95.6 → 98.5					
Promote gender equality and empower women	Proportion of Pupils Starting Grade 1 who Reach Grade five -2013															
	Male	100.0	98.4	98.48	100.06	98	98.5	100	97.7	97.77	98.86					
Promote gender equality and empower women	Female	99.8	97.8	97.34	99.55	97.9	98.1	99	96.37	97.16	98.27					
	percentage share of employed women in non-agricultural sector															
1993-2012	30.8 → 23.4	29.9 → 22.5	35 → 21.8	NA → 18	NA → 14.5	26.7 → 20.2	39.5 → 18.9	27.2 → 20.5	29.2 → 20.4	30.8 → 21.4						
Reduce child mortality	Infant Mortality Rate															
	1990-2009	20.7 → 10.7	24.9 → 11.6	15.1 → 9.0	8.5 → 16.2	9.3 → 7.9	19.2 → 8.5	16.6 → 10.9	11.9 → 5.8	19.8 → 6.7	17.7 → 9.7					
Reduce child mortality	Under five Mortality Rate															
	1990-2009	24.4 → 12.9	31.3 → 13.6	18.5 → 10.9	11.5 → 29.9	15.5 → 10.5	23.7 → 9.8	20.8 → 13.2	17.3 → 7.7	24.2 → 7.2	22.2 → 12.1					
Improve Maternal Health	Maternal Mortality Ratio															
	1990-2009	24.4 → 12.9	31.3 → 13.6	18.5 → 10.9	11.5 → 29.9	15.5 → 10.5	23.7 → 9.8	20.8 → 13.2	17.3 → 7.7	24.2 → 7.2	22.2 → 12.1					
Ensure environmental sustainability	Proportion of the population using solid fuel															
	2006/07-2012/13	56.9 → 53.0	87.1 → 84.3	86.4 → 85.3	NA → 87.3	73.1 → 77.5	92.4 → 92.5	93.6 → 94.8	94.8 → 95.2	93.3 → 91.6	79.5 → 78.5					
Develop a global partnership for development	Percentage of Households with access to improved Drinking Water															
	1994 -2012/13	83.7 → 97.1	74.1 → 77.6	63.9 → 88.2	NA → 95.1	NA → 97.2	75.4 → 929	69.3 → 93.4	57.9 → 74.8	54.1 → 80.3	72 → 89.7					
Develop a global partnership for development	Percentage of computer owned households															
	2004 -2015	8.4 → 38.7	3.3 → 23	2.1 → 20	1.9 → 19	1.3 → 12.8	3.1 → 21.7	1.3 → 20.3	0.4 → 10.9	2 → 18.1	3.8 → 24.6					

Note: Categorization based on Data Published by the Department of census and Statistics, Ministry of Health and Indigenous Medicine and Ministry of Education.

Annexure ix

Allocation and Release of Funds for Block Grant - 2008 – 2015

(Rs. Mn.)

Province	2008		2009		2010		2011		2012		2013		2014		2015	
	Allocation	Release														
Western	6,500	6,020	2,923	2,749	6,100	6,100	7,170	8,979	9,011	8,894	8,502	9,691	11,699	11,699	18,842	18,842
Central	12,950	11,937	12,526	12,487	13,000	13,000	13,270	13,697	13,763	13,049	14,864	15,687	17,917	17,917	23,542	23,542
Southern	10,200	9,607	10,299	10,085	10,500	10,500	11,172	11,760	11,803	11,907	12,908	13,586	15,785	15,785	21,459	21,459
Northern	8,100	7,517	8,349	7,963	8,400	8,700	9,153	9,318	8,557	8,500	10,075	10,795	12,642	12,642	16,267	16,268
North	12,500	11,500	12,294	11,868	12,300	12,299	12,656	13,018	12,651	11,921	14,118	14,846	16,413	16,413	21,705	21,634
Western	6,500	6,068	6,550	6,513	7,300	7,300	7,366	7,596	7,005	6,776	7,346	7,765	10,595	10,595	13,616	13,616
North Central	8,250	7,684	7,907	7,807	8,300	8,300	8,948	8,948	9,459	9,032	10,263	10,758	12,500	12,500	16,237	16,237
Uva	9,000	8,336	8,893	8,493	9,000	9,000	9,823	10,335	11,243	10,737	13,088	13,606	14,809	14,809	18,410	18,410
Sabaragamuwa	8,500	8,103	9,891	9,421	10,100	10,100	10,473	10,952	11,385	10,737	11,635	12,066	13,786	13,786	17,475	17,474
Eastern	82,500	76,772	79,632	77,386	85,000	85,299	90,031	94,603	94,877	91,553	102,799	108,800	126,146	128,146	167,553	167,482
Total																

Note : Including supplementary allocation

Source : Annual Reports – 2013 – Finance Commission

Source : Impress Release for provincial Council - 2015

Recommendation of Funds for Block Grant- 2008 – 2015

(Rs. Mn.)

Province	2008		2009		2010		2011		2012		2013		2014		2015	
	FC Rec.	Gov. Allo.	FC Rec.	Gov. Allo.	FC Rec.	Gov. Allo.	FC Rec.	Gov. Allo.								
Western	6,500	6,500	1,923	1,923	6,100	6,100	7,170	7,170	9,011	9,011	8,502	8,502	11,234	11,590	15,993	18,842
Central	12,950	12,950	12,176	12,176	13,000	13,000	13,270	13,270	13,763	13,763	14,864	14,864	17,628	17,752	22,304	23,542
Southern	10,200	10,200	10,298	10,298	10,500	10,500	11,172	11,172	11,803	11,803	12,908	12,908	15,511	15,641	20,333	21,459
Northern	8,100	8,100	8,349	8,349	8,400	8,400	9,153	9,153	8,557	8,557	10,075	10,075	12,552	12,058	15,598	16,267
North Western	12,500	12,500	12,294	12,294	12,300	12,300	12,656	12,656	12,651	12,651	14,118	14,118	13,595	16,253	21,302	21,705
North Central	6,500	6,500	6,270	6,270	7,300	7,300	7,386	7,386	7,005	7,005	7,346	7,346	16,413	10,456	13,262	13,616
Uva	8,250	8,250	7,907	7,907	8,300	8,300	8,897	8,897	9,459	9,459	10,263	10,263	10,436	11,698	15,503	16,237
Sabaragamuwa	9,500	9,000	8,893	8,893	9,000	9,000	9,823	9,823	11,243	11,243	13,088	13,088	12,312	14,660	18,196	18,410
Eastern	8,500	8,500	9,891	9,891	10,100	10,100	10,473	10,473	11,385	11,385	11,635	11,635	14,606	13,463	16,896	17,475
Total	83,000	82,500	78,001	78,001	85,000	85,000	90,000	90,000	94,877	94,877	102,799	102,799	124,287	123,571	159,387	167,553

Note : Including supplementary allocation

Source : Annual Reports – 2013 – Finance Commission

Source : 2015 FC Recommended to H/E Annex 01

Source : Impress Release for provincial Council - 2015

Annexure xi

Total Cadre of Provinces - 2008 - 2015

Province	2008	2009	2010	2011	2012	2013	2014	2015
Western	52,037	51,979	52,402	52,133	53,288	56,067	54,074	55,962
Central	40,281	40,745	39,910	41,311	39,849	39,284	39,775	41,494
Southern	36,908	35,398	35,365	35,509	35,390	34,785	35,950	38,936
Northern	16,453	23,599	23,607	24,146	23,679	24,485	27,061	26,631
North western	39,114	38,370	38,370	38,499	38,269	41,031	38,740	39,481
North Central	23,816	22,689	23,214	21,613	21,316	20,483	21,316	22,934
Uva	24,690	25,104	28,287	27,940	27,354	26,926	27,133	26,176
Sabaragamuwa	27,505	29,271	27,166	27,723	28,068	29,038	31,239	30,364
Estern	29,358	29,559	29,341	29,906	29,559	29,534	28,884	30,125
Total	290,162	296,714	297,662	298,780	296,772	301,633	304,172	312,103

Source : Provincial budget estimate and Finance Commission

Note : Excluding vacant cadre

Annexure xii

DMS Approved Cadre of Provinces

Province	2013.01.31	2015.05.26
Western	60658	60994
Central	44888	45372
Southern	41841	42769
Northern	28101	29515
North western	42944	47558
North Central	26783	27211
Uva	29170	32102
Sabaragamuwa	31178	33318
Estern	30927	32336
Total	336490	351175

Source: DMS Cadre review books

Annexure xiii

Criteria Based Grant 2008-2015

(Rs. Mn.)

	2008						2009					
	Recom.	%	Actual Expen.	%	Actual Release	%	Recom.	%	Actual Expen.	%	Actual Release	%
Western	930.00	22.22	2,906.18	51.61	126.59	5.50	509.69	14.36	3,551.29	44.12	375.00	16.48
Central	570.10	13.62	422.88	7.51	335.23	14.55	446.42	12.58	559.21	6.95	306.35	13.46
Southern	610.10	14.58	559.39	9.93	309.62	13.44	425.99	12.00	375.00	4.66	230.00	10.11
Northern	260.40	6.22	250.18	4.44	185.00	8.03	331.62	9.34	277.46	3.45	240.78	10.58
North western	488.30	11.67	396.28	7.04	301.46	13.09	369.63	10.41	287.58	3.57	272.10	11.96
North Central	259.50	6.20	252.44	4.48	202.46	8.79	296.84	8.36	314.61	3.91	136.60	6.00
Uva	271.60	6.49	190.11	3.38	185.00	8.03	372.63	10.50	2,071.26	25.73	206.30	9.07
Sabaragamuwa	451.10	10.78	340.07	6.04	317.26	13.77	415.63	11.71	368.72	4.58	311.49	13.69
Eastern	344.10	8.22	313.62	5.57	340.88	14.80	381.50	10.75	244.44	3.04	197.00	8.66
Total	4,185.20	100.00	5,631.15	100.00	2,303.50	100.00	3,549.95	100.00	8,049.57	100.00	2,275.62	100.00

Criteria Based Grant 2008-2015

(Cont;)

(Rs. Mn.)

	2010						2011					
	Recom.	%	Actual Expen.	%	Actual Release	%	Recom.	%	Actual Expen.	%	Actual Release	%
Western	450.00	14.63	3,120.04	40.29	382.50	14.65	700.00	16.83	2,939.94	42.60	660.00	17.12
Central	410.00	13.33	579.64	7.48	307.50	11.77	375.00	9.01	439.70	6.37	337.30	8.75
Southern	350.00	11.38	1,272.27	16.43	297.50	11.39	325.00	7.81	727.00	10.53	292.00	7.57
Northern	300.00	9.76	299.43	3.87	255.00	9.76	275.00	6.61	261.80	3.79	247.33	6.42
North western	300.00	9.76	279.78	3.61	255.00	9.76	300.00	7.21	287.38	4.16	270.00	7.00
North Central	260.00	8.46	402.71	5.20	260.00	9.96	1,300.00	31.25	1,338.70	19.40	1,277.00	33.13
Uva	300.00	9.76	1,156.95	14.94	255.00	9.76	300.00	7.21	356.80	5.17	240.00	6.23
Sabaragamuwa	380.00	12.36	366.81	4.74	323.00	12.37	335.00	8.05	321.41	4.66	301.33	7.82
Eastern	325.00	10.57	266.59	3.44	276.25	10.58	250.00	6.01	229.33	3.32	230.00	5.97
Total	3,075.00	100.00	7,744.22	100.00	2,611.75	100.00	4,160.00	100.00	6,902.06	100.00	3,854.96	100.00

Criteria Based Grant 2008-2015

(Cont;)

(Rs. Mn.)

	2012						2013					
	Recom.	%	Actual Expen.	%	Actual Release	%	Recom.	%	Actual Expen.	%	Actual Release	%
Western	427.00	14.12	5,465.52	54.41	180.41	6.31	370.00	15.48	5,055.00	62.18	370.00	16.34
Central	400.00	13.22	359.27	3.58	218.40	7.64	321.00	13.43	314.00	3.86	192.60	8.51
Southern	347.00	11.47	687.79	6.85	189.46	6.63	295.00	12.34	479.00	5.89	177.00	7.82
Northern	294.00	9.72	208.92	2.08	160.52	5.61	195.00	8.16	194.00	2.39	195.00	8.61
North western	320.00	10.58	180.61	1.80	174.72	6.11	270.00	11.30	246.00	3.03	162.00	7.16
North Central	293.00	9.69	272.84	2.72	1,420.00	49.67	230.00	9.62	1,011.00	12.44	742.00	32.77
Uva	320.00	10.58	2,227.09	22.17	174.72	6.11	240.00	10.04	416.00	5.12	144.00	6.36
abaragamuwa	357.00	11.80	291.96	2.91	194.92	6.82	252.00	10.54	239.00	2.94	151.20	6.68
Eastern	267.00	8.83	350.89	3.49	145.78	5.10	217.00	9.08	175.00	2.15	130.20	5.75
Total	3,025.00	100.00	10,044.87	100.00	2,858.93	100.00	2,390.00	100.00	8,129.00	100.00	2,264.00	100.00

Criteria Based Grant 2008-2015 (Cont;)

(Rs. Mn.)

	2014						2015			
	Recom.	%	Actual Expen.	%	Actual Release	%	Recom.	%	Actual Expen.	%
Western	925.00	23.87	5,857.00	56.76	292.50	13.42	525.00	13.87	314.51	6.90
Central	430.00	11.10	382.00	3.70	129.00	5.92	500.00	13.21	382.00	8.38
Southern	380.00	9.81	1,046.00	10.14	255.00	11.70	385.00	10.17	766.17	16.80
Northern	280.00	7.23	391.00	3.79	280.00	12.84	400.00	10.57	379.23	8.32
North western	504.50	13.02	506.00	4.90	290.00	13.30	425.00	11.23	158.06	3.47
North Central	350.00	9.03	867.00	8.40	192.50	8.83	375.00	9.91	1,056.27	23.16
Uva	330.00	8.52	410.00	3.97	179.00	8.21	375.00	9.91	463.80	10.17
Sabaragamuwa	335.00	8.65	534.00	5.18	335.00	15.37	400.00	10.57	686.00	15.04
Eastern	340.00	8.78	325.00	3.15	227.00	10.41	400.00	10.57	354.12	7.77
Total	3,874.50	100.00	10,318.00	100.00	2,180.00	100.00	3,785.00	100.00	4,560.16	100.00

Note: Data on actual released by the General Treasury are not available in 2015.

Source: Finance Commission

Annexure xiv

Allocation Under Provincial Specific Development Grant (PSDG) - 2015

(Rs. Mn.)

No.	Sector	WP	CP	SP	NP	EP	NWP	NCP	Uva	Sab.	Total
1	Roads										
	1.1 Provincial Roads	405	291	240	136	70	286	187	232	251	2,098
	1.2 Estate Roads	22	32	25	-	-	-	-	34	23	136
2	Transport	27	24	22	21	26	14	12	18	19	183
3	Land	5	5	5	5	5	5	5	5	5	45
4	Education	212	201	181	278	208	212	184	229	226	1,931
5	Western Medicine	194	190	170	278	208	165	149	182	196	1,732
6	Indigenous Medicine	26	23	35	39	38	33	36	35	32	297
7	Sports	16	17	14	19	18	14	14	18	18	148
8	Local Government										
	8.1 Local Authority Roads	155	139	170	74	69	107	82	101	104	1,001
	8.2 Weekly Fairs	15	14	14	23	16	20	16	14	16	148
	8.3 Community Water Supply	8	14	9	15	10	12	10	9	10	97
	8.4 Crematoriums	15	15	15	15	15	15	15	15	15	135
	8.5 Waste Management	40	24	25	22	18	17	18	18	18	200
	8.6 Capacity Building of Municipalities	1	1	1	1	1	1	1	1	1	9
9	Probation and Childcare	17	14	19	28	20	23	17	18	18	174
10	Social Services	11	12	25	22	19	14	12	12	12	139
11	Housing	5	5	5	5	5	5	5	5	5	45
12	Cultural and Religious Affairs	5	5	5	6	5	5	5	5	5	46
13	Agriculture	36	60	54	83	78	63	68	65	60	567
14	Livestock	21	32	26	42	54	35	30	35	31	306
15	Inland Fisheries	6	7	11	21	18	20	14	12	6	115
16	Irrigation	22	24	32	42	48	46	103	40	25	382
17	Rural Development	16	22	23	35	19	23	27	26	25	216
18	Small Industries	14	16	13	14	12	14	11	12	14	120
19	Rural Electrification	10	15	11	6	6	8	5	9	9	79
20	Co-operative	5	5	4	6	5	5	5	5	5	45
21	Tourism	23	32	40	36	48	23	30	32	35	299
22	Special Projects for Balanced Regional Development	55	70	40	83	76	70	45	80	95	614
23	Projects for Backward and Isolated Village Development	50	66	56	70	60	55	69	68	71	565
24	Projects under Flexible Amount	15	15	15	15	15	15	15	15	15	135
	Total	1,452	1,390	1,305	1,440	1,190	1,325	1,190	1,350	1,365	12,007

Source: Finance Commission