



FINANCE COMMISSION OF SRI LANKA

**ANNUAL REPORT
2013**

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Reality in Reducing Regional Disparities

As required by the 13th Amendment to the Constitution, the major objective included in the mandate of the Finance Commission is to ensure the achievement of balanced regional development in the country. Balancing of development should be done within the province (Intra Provincial) and among the provinces (Inter Provincial). It is imperative to reduce regional disparities to achieve balanced development.

The Finance Commission is required to formulate principles on which government funds are apportioned between the provinces. In formulating such principles, the objective of reducing regional disparities should be given due consideration. Therefore, a set of criteria is adopted by the Finance Commission, using a few key indicators in apportioning funds between the provinces. These indicators include, the population of the each province, the per-capita income of each province, the poverty head count ratio and infant and maternal mortality rates. In addition the availability of facilities in the provinces with regard to key subject areas such as Education, Health, Agriculture and Roads will also be taken into account in the process of apportioning funds. Lack of facilities in the key subject areas is considered in this process to ensure allocating more funds to lagging areas.

Although the Finance Commission intimates to the provincial authorities the need of adherence to its guidelines on allocation of funds, it has been observed over the past few years that more funds have been allocated to the areas where adequate facilities are available compared with lagging areas. Often more funds for main subject areas have been allocated to the district where the provincial council complex is situated. Sometimes larger amounts of funds have been allocated to the areas where powerful politicians are represented. A classic example has been observed with regard to allocation of funds for the provision of basic facilities earmarked for isolated villages in a leading province. These funds have been allocated to an urban area where the question of basic facilities was not an issue.

It is therefore, evident that proper identification of people's needs should be carried out before preparation of development plans. The political leadership as well as the key officers involved in the process of implementation should develop a pragmatic methodology to identify the needs of the people living in the province when they prepare the plans. It is necessary to prioritize identified needs when allocating funds. An essential step to be adopted in this process is to consider equal and fair distribution of funds by the provincial authorities with fullest dedication to reducing regional disparities.

It is my fervent hope that provincial authorities would pay highest attention to the important task of resource utilization to march towards balanced regional development in the country, particularly to reduce disparities within the province.

I take this opportunity to put on record the unstinted cooperation extended to me by the members of the Commission. I also appreciate with great pleasure the dedicated and committed support extended by all staff members of the Finance Commission in achieving its objectives at all times.



Ariyaratne Hewage
Chairman
Finance Commission

Achieving Minimum Wellbeing for All

This is the fourth annual report published after the release of first report in 2004. This Annual Report provides a brief account of the performance achieved by the nine provinces and the Finance Commission.

The Commission is fully cognizant of the status accorded to it by the Thirteenth Amendment to the Constitution as an Independent Commission. A major responsibility of the Finance Commission is to take appropriate measures to reduce regional disparities in the country through apportionment of resources between the provinces in a rational manner. In this process, the Commission has been using a statistical formula for the apportionment of funds among the provinces while taking into consideration some practical aspects such as funding through the foreign projects and the existing location related disadvantages.

The Finance Commission takes measures to obtain the needs for capital expenditure every year from the provinces. For capital and recurrent needs, two different types of formats have been introduced by the Commission. Once the needs are submitted by provinces, they will be evaluated carefully and subsequently the Commission will make recommendations to the General Treasury. In the process of evaluation of capital needs, the adherence to the government policy, previous annual allocations and past performance will be taken into account as criteria and yardsticks for allocation of funds. When reviewing the recurrent needs, criteria such as approved and living cadre positions, number of cadre to be recruited by line ministries for provinces, increases in salary and allowances and revenue estimates of the provinces will be given due consideration.

Achieving Balanced Regional Development is given high priority for resource allocation to the provinces and this report explains the Finance Commission's interventions towards achieving regional growth and development.

I am pleased to acknowledge the contribution made by the staff to accomplish this task and the continuous commitment and dedication of all senior officers and staff in programming, and the support services division in carrying out their responsibilities in producing the Annual Report for the year 2013.



W. H. Munasinghe
Secretary
Finance Commission

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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 endeavours, 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 the human and institutional capacity of the Finance Commission

1

The Finance Commission of Sri Lanka

The Finance Commission was formed in 1987 as the chief institution in the process of devolution of power to the provinces in terms of the 13th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka. Its purpose is to regulate the system of devolution of power to the provinces by recommending to the President and the Treasury the resources to be allocated to the sub national level and reviewing the process of utilization of the resources so allocated with a view towards achieving balanced regional development.

1.1 The Jurisdiction and Status of the Finance Commission

Background: Although power was concentrated and exercised centrally, at the national level, in actual practice it was delegated partly to the sub national levels for the convenience of the central administration. Several attempts at decentralization had been made before power was constitutionally devolved by the 13th Amendment.

Initially some functions of the national level administration were delegated to the Government Agents (GAs) who represented the national government at the district level. The District Revenue Officers (DROs) functioned under the GAs at the divisional

level while the Headmen who covered several villages functioned under the DROs. This system of administration continued to prevail even after independence in 1948 until the District Political Authority (DPA) was introduced in 1973. The DPA who was a Member of Parliament from the district functioned administratively above the GA under this decentralized system of power and authority. About this time a new practice in budgeting called “decentralized budget” was introduced where MPs from the district were allocated specific amounts from the national budget to be spent in their electorates for small capital projects/works.

Under the Development Councils Act of 1980 District Development Councils (DDCs) were set up to ensure the participation of the people in the area in the development process.

Devolution of Power: Administrative power that was hitherto exercised at the national level was partially devolved to the provinces by the 13th Amendment to the Constitution in 1987. The objective was to give autonomy to the sub national level by devolving some powers to the institutions that are close to the people. Nine provincial councils (PCs) were established for this purpose functioning within a unitary system of government. The subjects included in

the 13th Amendment were categorized in three lists, the Provincial Councils List, the Concurrent List and the Reserved List. One of the subjects included in the Reserved List is “formulation of national policies with regard to all functions and subjects of the government”. This means that all PCs should adhere to national policies.

The main functions and responsibilities ascribed to the Commission are as follows:

- a. Article 154 R (3) of the 13th. Amendment specifies that the government shall, on the recommendation of and, in consultation with the Commission, allocate from the national budget “such funds as are adequate for the purpose of meeting the needs of the provinces”.
- b. In terms of Article 154 R (4) the Commission is expected to submit its recommendations to the President based on
 1. “the principles on which such funds are granted annually by the government for the use of the provinces that should be apportioned between the various provinces and
 2. any other matter referred to the Commission by the President relating to provincial finance”.
- c. Article 154 R (5) requires the Commission to “formulate such principles with the objective of achieving balanced regional development in the country”. Further the Commission should take into account the following matters when formulating the principles:
 1. the population of each province
 2. the per capita income
 3. the need to reduce progressively socioeconomic disparities
 4. the need to reduce progressively differences between per capita income of each province and the highest per capita income among provinces.

d. In terms of Article R (7) “the President shall cause every recommendation made by the Commission under this article to be laid before Parliament and shall notify Parliament as to the action taken”.

1.1.1 Establishment of the Finance Commission

The Finance Commission was established in terms of the Article 154 R (1) of the 13th Amendment to the Constitution. The Finance Commission consists of five members appointed by the President including two ex-officio members, namely the Governor of the Central Bank and the Secretary to the Treasury. The other three members are appointed to represent the three major communities and they will be persons who have established themselves in the fields of finance, law, administration, business or learning. Names of members of the Commission since its establishment in 1988 are indicated in Box 1.1.

The 18th Amendment to the Constitution enacted in September 2010 introduced an amendment to the method of appointment to the seven Commissions under Schedule 1 of Article 41 A (1) in which the Finance Commission is listed. In terms of the amendment the President appoints the Chairman and members of the Commission. In making these appointments the President takes into consideration the observations made by the Parliamentary Council established under the same Article.

The Chairman presides at the meetings of the Commission and oversees the functioning of the Secretariat of the Commission. He is expected to ensure that the policy decisions made by the Commission are effectively executed by the staff and to perform the functions related to development of the provinces as required by the 13th Amendment to the Constitution, the Provincial Councils Act and the Provincial Finance Rules.

Box1.1: Chairmen and Secretaries of the Finance Commission

Chairmen

1. Mr. A.M. de S. Jayaratne	- 1988	- 1996
2. Mr. Asoka S. Gunawardena	- 1996	- 1998
3. Mr. Dixon Nilaweera	- March 1998	- October 1998
4. Mr. Siripala Jayaweera	- October 1998	- November 1999
5. Mr. Dixon Nilaweera	- November 1999	- June 2000
6. Mr. Asoka S. Gunawardena	- July 2000	- July 2009
7. Mr. Ariyaratne Hewage	- November 2009	- to date

Members

1. Mr. M. Sivanandan
2. Mr. Faiz Musthapha
3. Mr. K. Gunaratnam
4. Mr. T. Sundaralingam
5. Prof. M.T.A. Furkhan
6. Mr. K. Neelakandan
7. Prof. M.T.M. Jiffry
8. Dr. A. Shakthevale
9. Mr. C.P.E. Gunasingham
10. Mr. M.N. Junaid

Ex-Officio Members

1. Dr. W. Rasaputra
2. Mr. C. Chanmugam
3. Mr. R. Paskaralingam
4. Dr. H.N.S. Karunathilleke
5. Mr. A.S. Jayawardena
6. Mr. H.B. Dissanayake
7. Mr. B.C. Perera
8. Dr. P.B. Jayasundera
9. Mr. Charitha Ratwatte
10. Mr. Sunil Mendis
11. Mr. Ajith Nivard Cabraal

Secretaries

1. Mr. Tissa Jayakody (Part-time)	- June 1988	- November 1989
2. Mr. R. Abeyratne (Part-time)	- November 1989	- May 1996
3. Mr. D. Wijesinghe (Both Full-time and Part-time)	- May 1996	- June 1998
4. Mr. T.G. Jayasinghe	- June 1998	- January 2007
5. Mr. H.W.S. Ariyasena (Acting)	- February 2007	- February 2008
6. Mr. M.L.S. Fernando (Acting)	- March 2008	- March 2009
7. Mr. W.M.S.S.L. Fernando (Acting)	- April 2009	- February 2010
8. Mr. W.H. Munasinghe	- March 2010	- To date

1.1.2 The Secretariat of the Finance Commission

The Secretariat is headed by the Secretary as the Chief Operating Officer and Chief Accounting Officer. It has four divisions, each headed by a Director to facilitate the functioning of the Commission. The 4 divisions are,

1. Policy, Research and Publications Division
2. Results Based Planning and Implementation Division
3. Budget and Forecasting Division
4. Monitoring and Evaluation Division

The four Directors are assisted by Deputy and Assistant Directors, Assistant Research Officers and Programme Assistants. In addition, there are two supporting units, Administration and Finance functioning directly under the Secretary. Box 1.2 indicates the names and the executive level positions of the Secretariat in 2013. Diagram 1.1 indicates the Organization structure of the Commission.

1.2 The Role and Functions of the Finance Commission

Article 154 R (6) defines the role and functions of the Commission as being the achievement of balanced regional development of the country.

1.2.1 Recommendations of the Finance Commission to the President

A major function of the Commission in terms of Article 154 R (4) is to make recommendations to the President on the principles underpinning the apportionment of funds among the provinces. The key elements that are included in the recommendations are:

1. Assessment of needs of each province.
2. Apportionment of the annual grants among provinces.
3. Division of the total amount allocated to each province between recurrent and capital needs.

Box 1.2: Current Secretary and Executive Officers of the Finance Commission

Current Secretary

1. Mr. W.H. Munasinghe - March 2010 - To date

Current Executive Officers

1. Mr.P.Sumanapala – Senior Director – Results Based Planning and Implementation
2. Mr.A.T.M.U.D.B.Tennakoon – Director – Policy Research and Publications
3. Ms.U.P.Wijayahewa – Deputy Director – Finance
4. Mr.M.L.A.Chandrasa – Deputy Director (Actg.) – Budgeting and Forecasting
5. Ms.A.P.L.D.D.N.Fernando – Assistant Director - Budgeting and Forecasting

4. Distribution of capital funds between Province Specific Development Grants (PSDG) and Criteria Based Grants (CBG).
5. Breakdown of PSDG among identified development sectors.
6. Formulation of principles and guidelines in order to achieve balanced regional development through proper utilization of funds.

The President presents the annual recommendations submitted by the Commission to the Cabinet of Ministers for its approval and thereafter to Parliament. Action taken thereon is notified to Parliament by the President. The Commission then takes action to implement the procedures included in the recommendations submitted to the President during the course of the financial year.

1.2.2 Assessment of Provincial Needs

An assessment of annual needs is a prerequisite in the process of allocating and apportioning funds for both recurrent and capital needs. When assessing the recurrent expenditure needs the Commission takes into consideration the amounts needed for remuneration of existing staff and new staff, (almost 50% of the recurrent expenses) so as to ensure quality service delivery as well as productivity. The amounts required for other items of recurrent expenditure such as allowances, overtime, travelling, office requisites are related to the staff numbers. In the case of capital expenditure needs of the provinces the Commission takes into account the Medium Term Agency Results Framework (MTARF) and the Annual Development Plans submitted by the provinces keeping in view the development expenditure of the national government and the allocations under the “decentralized budget” as well. On this matter it needs to be added that the Commission is engaged in

developing, updating and upgrading formats, guidelines and instructions to be issued to the provinces.

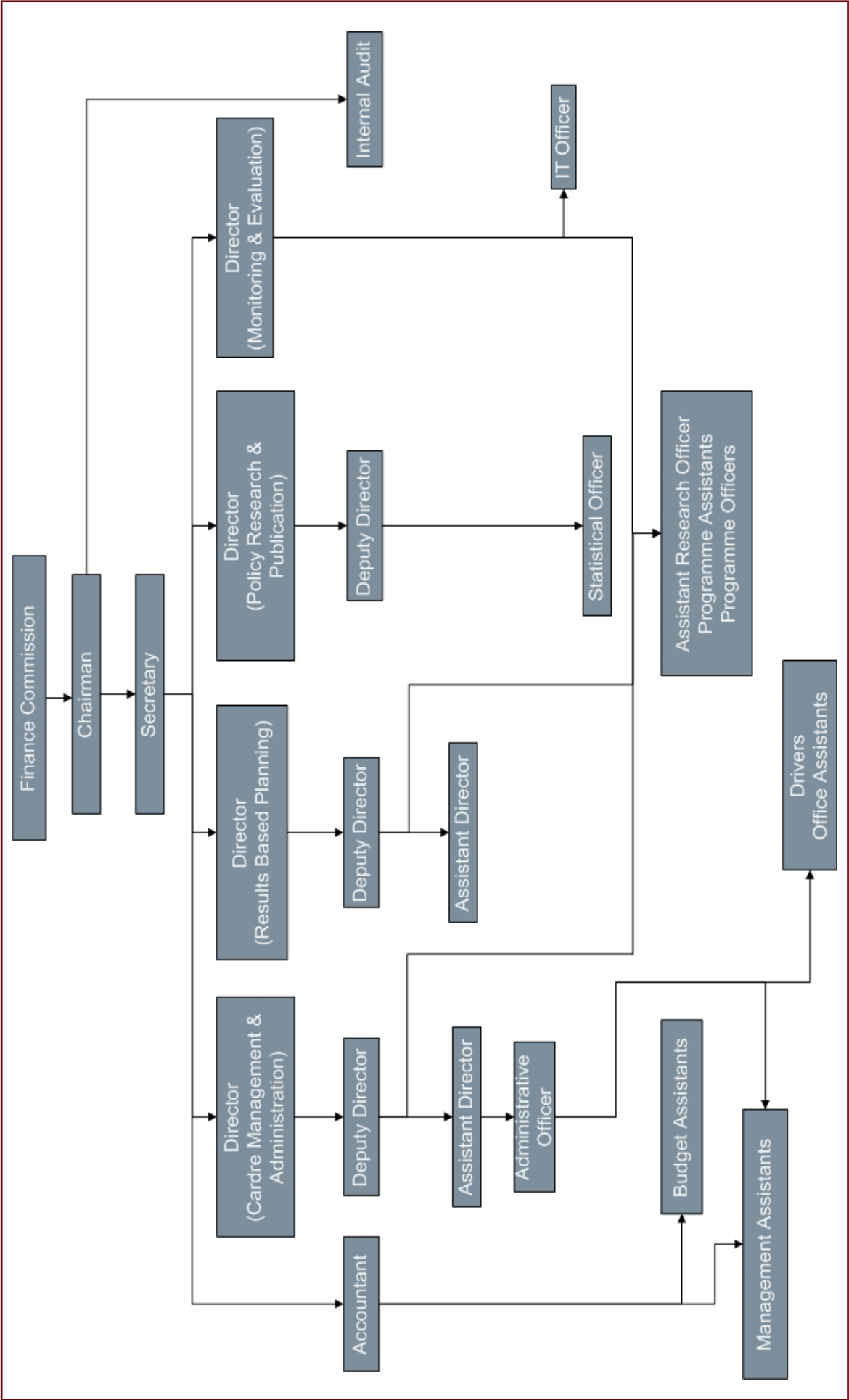
1.2.3 Negotiating on Provincial Needs with the Government

The Commission analyses the annual requirements submitted by the provinces to ensure that they are in line with the Medium Term Agency Results Framework for the province prepared according to the National Development Policy Framework of the government. It also takes into account the annual allocations made in previous years and the progress in the utilization of funds and implementation. Based on this analysis the Commission prepares the total budgetary requirements of all the provinces and negotiates with the Department of National Budget on the annual bulk provincial allocation.

In this process the requirements of the Constitutional provision Article 154 R (5) already referred to are kept in view. The Commission and the Department of National Budget endeavor to reach a consensus on the total allocation and the basis to be used for the apportionment of funds among the provinces and the sectors. The main steps followed in this process are:

1. Reviewing the current basis used for allocation of funds and agreeing on the criteria for assessing needs.
2. Agreeing on the number of cadre to be recruited by the line ministries of the provinces.
3. Recommendations for the approval of new cadre positions of the provinces.
4. Estimation of foreign funded capital flows to provinces in respect of provincial subjects.

Diagram 1.1: Organizational Structure of the Finance Commission



2

Provincial Councils and Local Authorities

The roles and functions of the two systems of government at the sub national level vary in terms of their magnitude and mandate. They are discussed below. The 13th Amendment to the Constitution describes the devolved powers with respect to the legislative, executive and financial functions to be exercised and administered by the provincial councils. Powers devolved from the national to the provincial level are specified in the provincial list, while powers shared between the national and provincial levels are specified in the concurrent list and the powers reserved for the national level are stated in the reserved list. The changes effected by this Amendment demarcate the areas of government into three tiers.

1. Government
2. Provincial Councils in the nine provinces
3. Local Authorities consisting of Municipal Councils, Urban Councils and Pradeshya Sabhas functioning under the supervision of the provincial councils in their respective jurisdictions

The formulation of national policies on all subjects is the responsibility of the government in terms of the Reserved List.

2.1 Provincial Councils

The provincial council system was introduced in 1987 with the aim of devolving political and administrative power to the provinces in order to address the ethnic issue that prevailed then and to strengthen inclusiveness by passing down the benefits of development programs to the village level. The political and administrative structures were changed to accommodate the transfer of power. Provincial councils are autonomous institutions. They derive their power and authority from the Constitution and Acts of Parliament.

The 13th Amendment to the Constitution has laid down provisions for the following institutional features.

1. Establishment of Provincial Councils
2. Appointment of the Governors of each province
3. Membership and tenure of each council
4. Appointment of the Board of Ministers and their powers
5. Legislative powers of the Councils
6. Alternative arrangements in case of failures in the system
7. Establishment of High Courts in the provinces
8. Establishment of the Finance Commission

The geographical boundaries of the nine provinces had been established according to demarcations laid down during the colonial period before 1948. The 8th Schedule of the 13th Amendment to the Constitution of 1987 lists the nine provinces as follows.

- Western Province
- North Western Province
- Uva Province
- Sabaragamuwa Province
- Central Province
- Eastern Province
- Southern Province
- North Central Province
- Northern Province

The Provincial Councils Act No. 42 of 1987 describes the procedure to be followed by the Provincial Councils with respect to the following matters.

- i. The membership of councils
- ii. Meetings and other business conducted in the councils
- iii. The financial procedures to be followed by the councils
- iv. Establishment of the Provincial Public Service Commission

The organization structure of the provincial administrative system which is the same in each province consists of the following members/officers:

- i. Governor
- ii. Members of the Council
- iii. The Chief Minister
- iv. Five Provincial Ministers including the Chief Minister
- v. Members of the Provincial Public Service Commission
- vi. Chief Secretary

The Governor is vested with executive powers derived from the Constitution. He can carry out his functions either directly or through the Board of Ministers or through the officers subordinate to him. He has the authority to appoint the members of the Board of Ministers including the Chief Minister to assist him in performing his functions and to be answerable and accountable to the Council. The Chief Secretary is appointed by the President with the concurrence of the Chief Minister. The Chief Secretary is the chief executive officer as well as the chief accounting officer of the province.

Members of the Council are elected for a five year period. The 9th Schedule of the 13th Amendment to the Constitution includes three lists namely,

- List i – Provincial Council List
- List ii – Reserved List
- List iii – Concurrent List

The roles and functions retained with the Government are included in the Reserved List. The functions of the Provincial Councils are specified in the Provincial Council List and Concurrent List. In terms of the List i, the Provincial Councils have the power to make statutes. The Provincial Council List also contains the sources of revenue necessary to finance the expenditure in order to discharge the functions and responsibilities of the Council.

a. Provincial Council List

The Provincial Council List shows the subjects/ functions in respect of which the provincial councils have the power to make statutes. The key subjects areas under the provincial council list are as follows;

- i. Planning - implementation of provincial economic plans
- ii. Education
- iii. Local government
- iv. Housing and construction

- v. Roads
- vi. Social services and rehabilitation
- vii. Agriculture and agrarian services
- viii. Rural development
- ix. Health and indigenous medicine
- x. Land
- xi. Irrigation
- xii. Probation and child care
- xiii. Livestock
- xiv. Transport

- xi. River and waterways
- xii. Immigration, emigration, and citizenship
- xiii. Elections
- xiv. Census and statistics
- xv. Professional occupations and training
- xvi. National archives
- xvii. All other subjects and functions not specified in the provincial council list and the concurrent list

The provincial list also contains the sources of revenue to finance the expenditure on the assigned responsibilities of the provincial council. The Constitution requires the government to apportion funds adequately from the annual budget in order for the provinces meet their needs.

b. Reserved List

All the functions listed in the reserved list are under the control of the national Government. Particularly, the formulation of national policies and planning with regard to the following areas are the responsibility of the Government as given in the Constitution.

- i. National policy on all subjects and functions
- ii. Defense and national security
- iii. Foreign affairs
- iv. Posts and telecommunications
- v. Justice in so far as it relates to the judiciary and the courts structure
- vi. Finance in relation to national revenue
- vii. Foreign trade
- viii. Ports and harbors
- ix. Aviation and airports
- x. National transport

Provincial Councils are expected to assess their social and economic needs, formulate effective programs of development and implement them efficiently with a view to minimizing inter and intra-regional disparities at both provincial and local levels. These development programs are expected to harmonize with the development activities falling within the scope of the National Development Policy Framework which are implemented by agencies of the national government.

In respect of the Concurrent List the subjects specified therein are shared between the national government and the provincial councils such that both can make statutes in agreement with both levels. Subjects included in this list are as follows:

c. Concurrent List

The content of the subjects listed in the concurrent list are the shared subjects/ functions where the provincial councils and the Government can make statutes with the approval of Parliament. The listed functions are as follows:

- i. Planning
- ii. Higher education
- iii. National housing and construction
- iv. Acquisition and requisitioning of property

- v. Social services and rehabilitation
- vi. Agricultural and agrarian services
- vii. Health
- viii. Co-operatives
- ix. Irrigation
- x. Fisheries
- xi. Employment
- xii. Tourism
- xiii. Trade and commerce
- xiv. Price control
- xv. Drug and poisons
- xvi. Protection of the environment
- xi. Minerals and mines
- xii. Immigration and emigration, and citizenship
- xiii. Elections including presidential, parliamentary, provincial councils and local authorities
- xiv. Census and statistics
- xv. Professional occupations and training
- xvi. National archives; archeological activities and sites and antiques declared by or under any law made by Parliament to be of national importance
- xvii. All subjects and functions not specified in list I or list III

The subjects and functions specified in the Reserved List are not relevant to the functioning of Provincial Councils and Local Government Authorities. Yet they need to be taken cognizance of in order to pre-empt any intrusion into the laws, functions and powers of the national government. The subjects under the Reserved List are as follows:

- i. National policy on all subjects and functions
- ii. Defence and national security
- iii. Foreign affairs
- iv. Posts and telecommunication
- v. Finance in relation to national revenue, monetary policy and external resources; customs
- vi. Foreign trade; inter-province trade and commerce
- vii. Ports and harbours
- viii. Aviation and airports
- ix. National transport
- x. Rivers and waterways; shipping and navigation

2.1.1 Planning and Approval Procedure of Provincial Plans

The 13th Amendment to the Constitution and the Provincial Council Act No. 42 of 1987 direct that the governor of a province shall, in respect of every financial year, and at least three months before the commencement of such financial year, cause to be laid before the provincial council of that province, a statement of the estimated receipts and expenditure of the province for that year. This is called the Annual Financial Statement.

Detailed financial rules have been framed and approved by the Governors of all nine provincial councils, which govern the planning and budgeting process of the respective provincial councils. According to the approved rules, all activities of the provincial council shall be pre-determined and set out in their plans and programmes.

The Annual Financial Statement for a particular financial year is the financial expression of a provincial council's policies and programmes of activity during that year. The formulation of the Annual Financial Statement is therefore, a matter of crucial

importance requiring sound coordination and attention.

The Provincial Treasury having regard to the revenue, the grant from the Government, provincial and other receipts estimated to be available, will provide indicative allocations to the different ministries. The departments under these ministries prepare the draft financial statements within the limits of the indicative allocations provided. The financial needs of the province are prepared in accordance with the Finance Commission's guidelines.

The following are the main steps in the process of preparation and presentation of Annual Financial Statement;

- Calling for draft estimates of financial needs from the Accounting Units as per the budget instructions laid down for the particular year. During this stage a full internal consultation process from the bottom up to sectoral ministry level should be undertaken.
- Initial discussion with the respective accounting units, and scrutiny for conformity with the required standards, by the Provincial Treasury and Planning Secretariat.
- Consolidating all financial needs and initial submission to the Finance Commission.
- Discussion with Finance Commission and arrival at allocations and other criteria to be adopted for final presentation.
- Revision of the draft and preparation of the final Annual Financial Statement by the respective accounting units.
- Consolidation by the Provincial Treasury and submission to the Governor for his recommendation and follow-up for the adoption of the Annual Financial Statement by the Council.
- Provincial Council's assent to the finances in the Annual Financial

Statement being charged to the provincial fund subject to committee stage amendments.

- Introduction of an Appropriation Statute to provide for appropriation out of the provincial fund to meet the expenses.
- Chief Minister signs the warrants for withdrawal of money from the provincial fund, after the Appropriation Statute is passed.

After following the above steps the provincial authorities are expected to spend funds on the agreed development plans and meet provincial recurrent expenditures only after following the above procedure while adhering to the provisions of the provincial financial rules.

2.2 Local Authorities

The local government system is the third and the lowest tier of the governance system in Sri Lanka. Historical evidence shows that the local government system had existed in Sri Lanka since the 5th Century BC and that village level governance has been a main feature of the country's local government system. Prior to 1987, local authorities performed as autonomous institutions with the required powers being vested in them by relevant acts and ordinances.

Under the 13th Amendment to the Constitution in 1987, local government became a devolved subject of the provincial councils. Local authorities function under the three legal entities of, (i) the Municipal Council Ordinance, (ii) Urban Council Ordinance, and (iii) the Pradeshiya Sabhas Act. The power of supervising and dissolution of the local authorities rests with the provincial councils. The key responsibilities of the local authorities are to provide a variety of local public services including roads, sanitation, drains, housing, libraries, public markets, public parks, and recreational facilities.

a. Municipal Councils

The municipal councils are vested with powers through the Municipal Council Ordinance No. 16 of 1947. There have been more than 40 amendments to the Ordinance. An urban area is declared a Municipal Council, taking into consideration factors such as revenue, population, road network, industrialization, and communications. There are currently, 23 municipal councils in the country.

b. Urban Councils

Powers of the urban councils are listed in the Urban Council Ordinance No. 61 of 1939. There have been 44 amendments made to the Ordinance. Currently there are 41 urban councils in the country.

The Municipal Councils and Urban Councils are responsible for the following functions.

- i. Maintenance and cleaning all public streets and open spaces vested in the Council or committed to its management;
- ii. Enforcing the proper maintenance, cleanliness and repairs of all private streets;
- iii. Supervising and providing for the growth and development of their area of jurisdiction by planning and widening streets, the reservation of open spaces, and the execution of public improvements;
- iv. Abating all nuisances;
- v. Establishing and maintaining (subject to the extent of its resources) any public utility service which is authorized to be maintained under this Ordinance, and which is required for the welfare, comfort or convenience of the public;
- vi. Promoting the public health, welfare and convenience, and developing sanitation and amenities in the council areas.

c. Pradeshiya Sabhas

Pradeshiya Sabhas were established by the Pradeshiya Sabha Act No. 15 of 1987 and they replaced the town councils and village committees which were previously considered to be local authorities. There are a total of 271 Pradeshiya Sabhas across the country.

Pradeshiya Sabhas have been vested with powers in the following areas:

- i. Providing services concerning public health, public utilities, and public thoroughfares.
- ii. Protection and promotion of the comfort, convenience and welfare of people.
- iii. Provision of all amenities within the area.

Members of all local authorities are elected for a period of 4 years. One of the elected members is appointed as mayor or chairman in the respective local authority. The Provincial Department of the Local Government headed by a Commissioner supervises the local authorities. In addition, the Provincial Public Service Commission, which comes under the purview of the Governor of each province, is responsible for all matters with regard to recruitment and other cadre management of local authorities.

The legislation of the local authorities allows any local authority to establish a local authority fund to finance its needs. Such established funds are, the Municipal Council Fund, Urban Council Fund, and Pradeshiya Sabha Fund. These funds empower local authorities to initiate revenue generation activities according to their needs. Substantial changes in the system of local authorities have been made in 2011, with the expansion of the number of authorities to 335, from 330 in 2006. The number of municipal councils was expanded by upgrading the existing councils and establishing new councils. Consequently, Bandarawela and Hambantota

urban councils, and Kaduwela pradeshiya sabha were upgraded to municipal councils, while two new municipal councils namely, Dambulla and Akkaraipattu were established. In addition, another two pradeshiya sabhas – Lunugala and Narammala – were established, while the existing pradeshiya sabha in Eravur was upgraded to an urban council. Table 2.2-1 illustrates the number of authorities in each province.

The Provincial Department of Local Government headed by a Commissioner

supervises the Local Authorities while the Provincial Public Service Commission which functions under the Governor is responsible for aspects of human resource management.

Each Local Authority has the authority to create a Fund which can be credited with incoming revenue and debited with approved expenditure.

Table 2:2-1 Distribution of Local Authorities by Province - 2013

Provinces	Municipal Councils	Urban Councils	Pradeshiya Sabhas	Total Local Authorities
Western	7	14	27	48
Central	4	6	33	43
Southern	3	4	42	49
Northern	1	5	28	34
North Western	1	3	29	33
North Central	1	0	25	26
Uva	2	1	5	28
Sabaragamuwa	1	3	25	29
Eastern	3	5	37	45
Total	23	41	271	335

Source: Finance Commission

3

Apportionment of Funds to the Provinces

In terms of the Section 19 (1) of the Provincial Council Act No. 42 of 1987, the main sources of funds of the provinces are as follows;

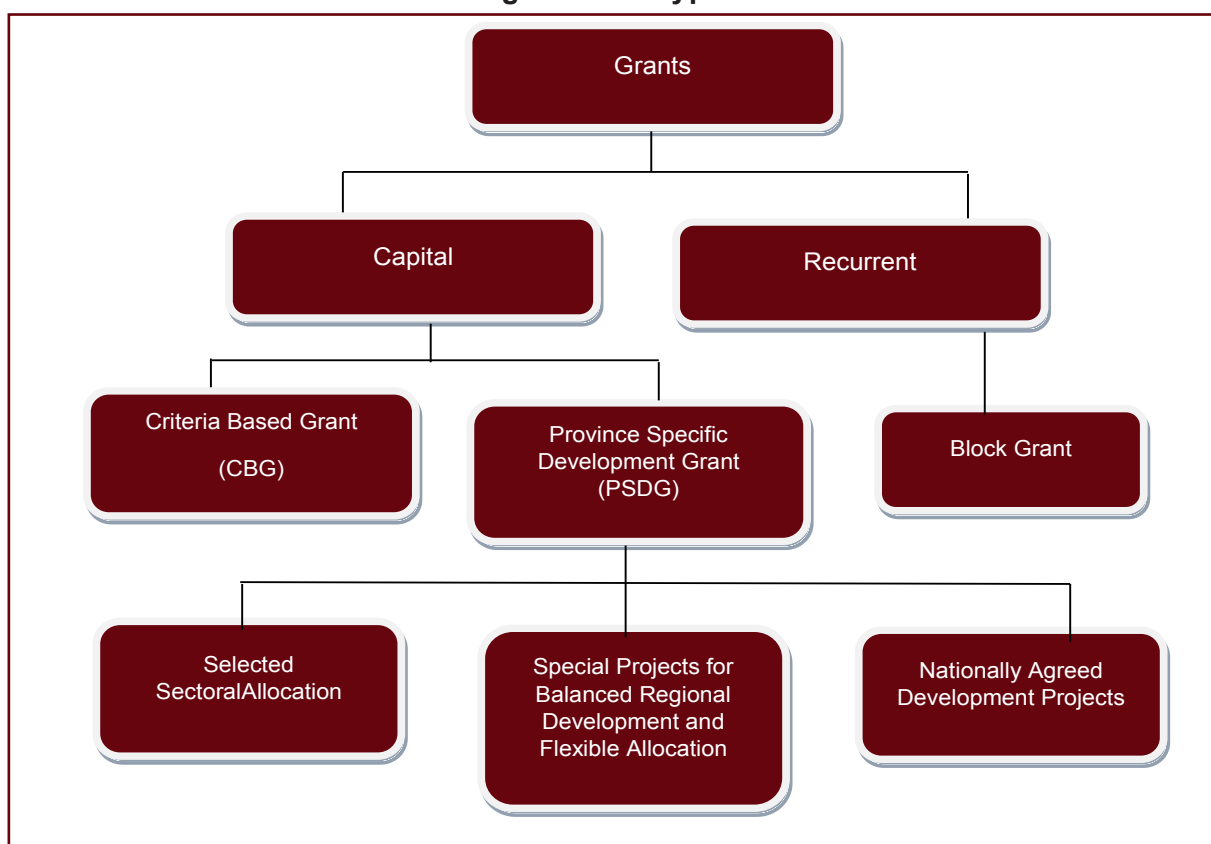
- a) Proceeds of all taxes imposed by the provincial councils
- b) Proceeds of all grants made to the provincial councils by the Government

c) Proceeds of all loans advanced to the provincial councils from the Consolidated Fund

d) All other receipts of the provincial councils

Government funds are allocated to the provinces by means of three types of grants as illustrated in Diagram 3.1.

Diagram 3.1: Types of Grants



3.1 Block Grant

The Block Grant (BG) is made to meet the recurrent needs of the provinces in order to sustain and improve the service delivery system of the provinces. Expense categories such as personal emoluments (salaries and wages, overtime and other allowances), maintenance, and supplies, and overhead costs are financed from this grant. A large part of the Grant goes to finance the salaries and wages of the actual living cadre which have been approved by the Department of Management Services (DMS). Funds required for this category are recommended by the Commission after a comprehensive need assessment of cadre is carried out.

The BG also allocates transfers to local authorities to meet the salaries and wages of their approved cadre, and to reimburse the allowances of the members of the authorities. Allowances paid to contracted employees are expected to be paid from the revenue earned by the authorities.

3.2 Criteria Based Grant (CBG)

The Criteria Based Grant is meant to finance the capital needs of the provinces. Under this grant the provinces receive money as a bulk amount, and the allocated funds can be spent on developmental activities to improve the socioeconomic status of the people with the aim of reducing regional disparities.

However, in the allocation and utilization of this grant provinces are required to adhere to the Guidelines issued by the Commission.

3.3 Province Specific Development Grant (PSDG)

The PSDG is to finance development projects paying particular attention to infrastructure development projects under different devolved subjects. After receiving the provincial development plans, the Commission holds discussions with the respective provincial authorities and they

agree to ensure that these plans address the provincial needs and are in line with the National Development Policy Framework of the Government. For each investment it is necessary to identify measurable results such as output, outcome and impact, in terms of pre-defined indicators. Periodic monitoring and evaluation of achievements are carried out based on these indicators. A results based monitoring and evaluation process has to be carried out by the respective provincial authorities with the assistance of the Commission.

The concurrence of the Commission is required for the implementation of such plans and projects.

These funds are allocated under the following four Sectors/Subjects.

1. Economic Infrastructure
 - 1.1 Roads
 - 1.2 Transport
2. Social Infrastructure and Services
 - 2.1 Education
 - 2.2 Health
 - 2.2.1. Western Medicine
 - 2.2.2. Indigenous Medicine
 - 2.2.3. Sports
 - 2.2.4. Waste Management/
Local Government
 - 2.3 Probation and childcare
 - 2.4 Social Services
3. Production Sector
 - 3.1 Agri Development
 - 3.1.1 Agriculture
 - 3.1.2 Livestock
 - 3.1.3 Inland Fisheries
 - 3.1.4 Irrigation
 - 3.2 Rural Development

3.2.1 Rural Infrastructure

3.2.2 Rural Industries

3.2.3 Rural Alternative
Energy

3.3 Tourism

4. Special projects for Balanced Regional
Development

Resources are allocated for special projects to enhance balanced regional development targets, which aim at reducing regional disparities. A specific amount is given for medium scale projects, which are required to be formulated and implemented within a period of one to three years.

5. Flexible Allocation

This category of funds earmarks a particular amount for 'gap filling', as well as for use on any urgent requirements which are not included in the original plans.

6. Foreign and locally funded projects
designed by and agreed on at national
level

Allocations are made for special projects, which are designed and agreed/ approved at the national level, and are to be included in the provincial budget. These projects are implemented particularly through the assistance of bilateral and multilateral donors, and local funds.

3.4 Apportionment of Funds among Provinces

Funds are allocated and apportioned among provinces by the Commission in accordance with Article 154 R (5) to achieve "balanced regional development in the country".

Further, the Commission takes into account the following key elements when formulating the principles:

1. the population of each province
2. the per capita income

3. the need to reduce progressively socio-economic disparities

4. the need to reduce progressively differences between per capita income of each province and the highest per capita income among provinces.

The major criteria taken into account by the Commission when apportioning funds to the provinces and past behavior of such criteria are explained below.

3.4.1 Provincial Gross Domestic Product (PGDP)

PGDP provides important insights into a region's growth while also indicating disparities between regions. Analyses of PGDP also assists in identifying core areas that need to be targeted, as well as measures that could be undertaken to moderate regional disparities. Data on PGDP that are published by the Central Bank of Sri Lanka is used by the Commission in allocating funds among provinces. The differences of province-wise GDP are considered as an important indicator in this process.

Table 3.4-1 indicates in percentage form the contributions to PGDP by each province in respect of the period 2009-2013.

Being the economic and commercial hub of the country, the Western Province traditionally makes the highest contribution to the country's GDP, which is driven by the services and industry sectors. The fall of the province's share of GDP from 45.8 per cent in 2009 to 42 per cent in 2013 points to a reduction in regional disparities. The Central Province makes the second highest contribution and has seen the greatest improvement among provinces in contributing to GDP in the past five year period: its contribution to GDP has increased by 1.3 per cent in the 2009-2013 period. The Central Province, together with Southern and North Western Provinces, contributes 32.3 per cent to provincial GDP. The share of the Sabaragamuwa Province has remained

Table 3.4-1: Provincial Contribution to GDP 2009-2013 (%)

Province	2009	2010	2011	2012	2013	Difference Between 2009-2013
Western	45.8	44.8	44.2	43.4	42	-3.8
Central	9.8	10.0	9.8	9.8	11.1	1.3
Southern	10.5	10.7	11.0	11.5	11	0.5
Northern	3.2	3.4	3.7	4.0	3.6	0.4
Eastern	5.8	6.0	5.8	6.3	6.3	0.5
North Western	9.6	9.5	10.0	9.6	10.2	0.6
North Central	4.6	4.8	4.7	4.7	5.1	0.5
Uva	4.5	4.5	4.5	4.5	4.7	0.2
Sabaragamuwa	6.1	6.3	6.2	6.2	6.1	0
Total	100	100	100	100	100	

Source: Central Bank of Sri Lanka

unchanged in 2013 compared with 2009. It is noteworthy that Uva, North Central and Sabaragamuwa provinces which account for 22 per cent of the country's population and 37 per cent of the land mass contribute only 15.9 per cent to the national GDP. However, encouragingly, with the end of the conflict, the contribution of the Northern and Eastern provinces has increased by 0.4 per cent and 0.5 percent, respectively. It is noteworthy that compared with 2011, the increase in GDP in 2013 for the Eastern Province has come mainly from the agriculture sector, whereas the contribution of the agriculture sector to GDP in 2013 has declined in all the other provinces. With increasing efforts of the government to build stronger local government institutions and a more vibrant economy in the North and East, the provinces' contribution to GDP is expected to grow in the coming years.

In recommending provincial allocations, the Commission aims at maintaining appropriate distribution in the provinces while also striving for sustainable development. Effective management of resources becomes vital in carrying out these intentions. Currently, a large proportion of the provincial allocations are utilized to cover operational/recurrent expenditure, while only a comparatively smaller proportion is

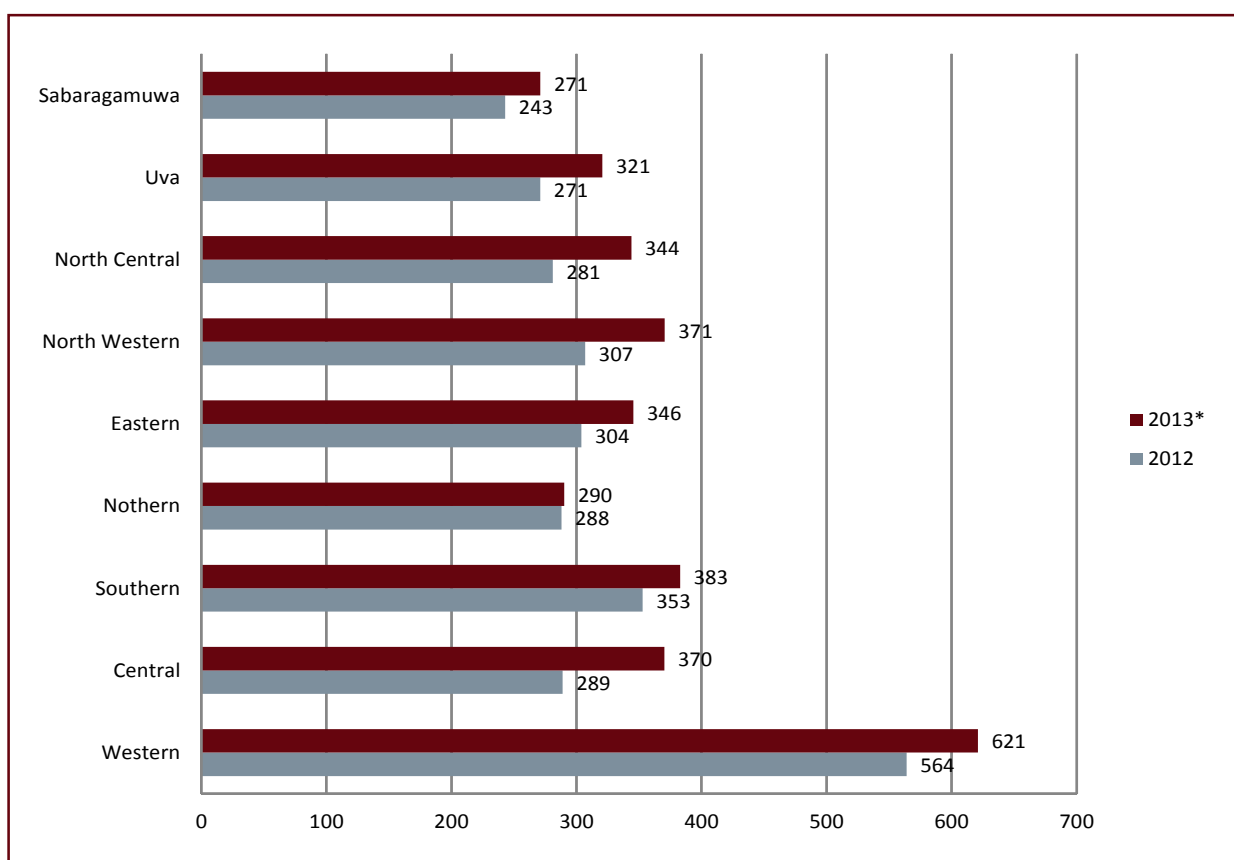
used for the creation of economic and social assets. This has constrained the creation of new jobs, promotion of entrepreneurship, improvements in service delivery and raising incomes of communities. Recognizing these institutional weaknesses, the Commission is now undertaking strategic measures to create an enabling environment - over a specific time period- to attract investments and other business ventures. These programmes will be launched with the support of other government agencies and the private sector.

There has been a decrease in the contributions by the Western, Southern and Northern Provinces in 2013.

3.4.2 Per Capita (GDP) Income

Per Capita Income (PCI) is used widely to measure the purchasing power of a population. Increases in PCI are often indicative of increases in the standard of living of a society, economic development capacity, and developments in human welfare factors such as health and education. Province-wise variations of PCI also were used as an indicator in the process of apportionment of funds. PCI increased in all the provinces in 2013 compared with 2012 (see Figure 3.4-1 for details). The Western Province

Figure 3.4-1: Per Capita (GDP) Income by Province 2012-2013 (Rs. mn)



Note: * Estimated on CBSL Provincial GDP Data
Source: Central Bank of Sri Lanka

recorded the highest PCI in 2013 recording more than 1.5 times the national PCI value, followed by Southern, North Western and Central provinces. The Central Province has recorded the highest growth in PCI in 2013 compared with 2012 (28 percent). The North Central, North Western, Uva and Eastern Provinces saw the highest growth in PCI after the Central Province recording growth rates of 22, 20, 18 and 13 per cents respectively.

3.4.3 Poverty Head Count Index (PHCI)

Sri Lanka has achieved significant progress in achieving the Millennium Development Goals (MDGs) set out for achievement by 2015. The country has already achieved the MDG Target 1 which was meant to eradicating of poverty. Although, poverty at the national level had been reduced to a level larger than

targeted, there still exist regional variations of poverty. The provincial trends of poverty incidence were considered as an indicator in the process of apportionment. The fall in the PHCI in Sri Lanka from 28.8 per cent in 1995/96 to 6.7 per cent in 2012/2013 is a 76 per cent decline in the PHCI. Similarly, in the last two decades poverty levels in the provinces have got reduced progressively. PHCIs in the Western and North Western, Central, Southern and Provinces fell by over 75 per cent during this time and Western, North Western and Central Provinces record PHCIs lower than the national PHCI. However, the focus of provinces to combat poverty should continue to be a priority as regional disparities in poverty persist despite the overall decline in poverty. The incidence of poverty is currently the highest in the Uva Province, followed by the Eastern and Northern provinces.

Table 3.4-2: Achievement of MDG Target 1 by Province

Province	Poverty Head Count Index						2015 MDG Target 1 (as per the PHC)
	Survey Period						
	1990/91	1995/96	2002	2006/07	2009/10	2012/13	
Western	19.1	16.3	10.8	8.2	4.2	2.0	9.55
Central	30.7	36.2	25.1	22.3	9.7	6.6	15.35
Southern	30.2	32.6	27.8	13.8	9.8	7.7	15.1
Northern	NA	NA	NA	NA	12.8	10.9	
North Western	25.8	27.7	27.3	14.6	11.3	6.0	12.9
North Central	24.5	24.7	21.5	14.2	5.7	7.3	12.25
Uva	31.9	46.7	37.2	27.6	13.7	15.4	15.95
Sabaragamuwa	31.0	41.7	33.6	24.2	10.6	8.8	15.5
Eastern	NA	NA	NA	10.8	14.8	11.0	NA
Sri Lanka	26.1	28.8	22.7	15.2	8.9	6.7	13.05

Source: Central Bank of Sri Lanka

3.5 Methodology and Factors Used in the Exercise of Apportionment of Funds among Provinces

The Commission introduced a formula to apportion funds under CBG and PSDG in 2009. The updated formula was used in 2013 in the exercise of apportionment of funds. The following indicators were used when developing this formula.

- ▶ Provincial share of GDP
- ▶ Average share of economic sectors within regions
- ▶ Average share of regions within economic sectors
- ▶ Annual growth rate in regions
- ▶ Population Share and Per Capita Income of Provinces
- ▶ Poverty Headcount Index
- ▶ Some social and economic indicators

In apportioning provincial capital funds through PSDG and CBG, weights are assigned to identified indicators, taking into consideration the regional economic and social disparities. The identified indicators and assigned weights to apportion funds

under the PSDG are given in Table 3.5-1. Each province was assigned a calibrated weight after annual data for the indicators was analyzed. The total PSDG allocated to the provinces was based on these weights using a Composite Index.

The indicators and weights used in apportioning funds under the CBG are given below. Based on the calculated weights for these indicators, funds are allocated to the nine provinces from the CBG. These weights have been assigned considering the relative importance of each indicator.

1. Population: share of population of the province – 35%
2. Per capita income: percentage share of per capita income of the province – 20%
3. Poverty: Poverty Head Count Index (percentage of poor in the province) – 20%
 - a. Income and poverty
 - b. Health
 - c. Education
 - d. Infrastructure facilities
4. Unemployment: unemployment rate in the province – 25%

The methodology used for apportioning funds between the provinces under PSDG and CBG is indicated below. A multivariate statistical technique called “Principal Components Analysis” (PCA) was used to calculate the composite indices for all provinces using the variables closely associated with the living standards of the people. The following four categories have been taken into account for the resource allocation formula.

The Income and poverty category consists of three variables,

- ▶ Mean Per Capita Income
- ▶ Poverty Headcount Index
- ▶ Unemployment Rate

The Health category consists of two variables,

- ▶ Neo-natal Mortality Rate
- ▶ Low Weight Births

The Education category comprises,

- ▶ Student enrolment

- ▶ Learning achievements at grades 4,5,9,O/L and A/L exams.

The category of infrastructure facilities includes,

- ▶ Number of houses without electricity
- ▶ Length of C, D roads.

The above four categories were assigned with weights by population share of each province. The allocation formula can be expressed as:

$$x_i = a_1V_{1i}\bar{B} + a_2V_{2i}\bar{B} + \dots + a_nV_{ni}\bar{B}, \quad \sum_{i=1}^n a_i = 1$$

Where x_i is the allocation for province i ,

V_{ni} is the score value of variable category n for province i ,

a_n is the weight for variable category V_n

The assigning of weights (a_i) for categories was determined by the Commission taking into account the factors relating to the regional development priorities of the Government.

Table 3.5-1: Identified Indicators and Assigned Weights for Apportionment of PSDG

Criterion	Indicator	Weight
Poverty and Income		40%
Population	Share of population of the province	14 %
Per capita income	Percentage share of per capita income of the province	08%
Poverty	Poverty Head Count Index	08%
Unemployment	Unemployment Rate of the province	10%
Health and Nutrition	9.9	15%
Neo-natal mortality rate	Per 1000 live births	7.5%
Low birth weight	Per 100 live births	7.5%
Education		15%
Student enrolment ratio in grade 1	Percentage share of the province	5%
Student learning achievement of grade 4, 8, 9, O/L and A/L		5%
Student survival rate from year 6 to 14		5%
Infrastructure		30%
Houses without electricity facilities		5%
Provincial road length: Percentage share of province (C & D)		25%

The Commission will in future devote greater attention to the following factors:

1. The amounts set apart under the Decentralized Budget where currently the resources available to each province differ from province to province as the amounts depend on the number of Members of Parliament representing the electorates in each province.
2. Distribution of the capital budgets of ministries of the national government where national level capital resources are planned to be spent on large projects of the government distributed in the provinces.
3. The amounts allocated to members of the provincial councils of each province which are, like the allocations under the DCB, unequal among provinces.

4. Large unspent balances remaining idle in the Provincial Fund

In addition to the above mentioned macro criteria of apportionment, the concept of “At Least Minimum Level of Well-being for All” is also considered in this process. Minimum well-being includes different aspects of living quality, important among them are basic needs, economic growth, quality of life and welfare. The possession of commodities including services provide people with means to lead a better life.

4

Provincial Finance

Provincial Finance can be classified into two components namely, income and expenditure. The provincial income is originated from three main sources;

- i. Grants provided by the Government
- ii. Transfers of revenue to provinces, collected at the national level by the relevant authorities.
- iii. Revenue collected at the provincial level by devolved sources.

All other receipts including donations, gifts, profits of commercial ventures and proceeds of loans are also considered as income sources. A matter that needs to be taken into the reckoning is the effect of inflation on the revenue receipts. As the GDP is calculated on the nominal basis it would be useful to take into account the real value of the resources transferred to the provinces by calculating the figures at constant values and make decisions on a comparative basis.

Provincial Expenditure consists of;

- i. Recurrent expenditure to meet the Personal Emoluments and Other Recurrent Expenditure.
- ii. Expenditure incurred on economic and social overheads of a capital nature.

Although, it has been observed that the

provincial recurrent expenditure accounts for 70%-80% of the total expenditure, the benefits accrued in the social development of the country can be attributed to the services rendered by the provincial staff. This phenomenon is seen mainly in the education, health and social services sectors.

4.1 Provincial Revenue

Provincial revenue consists of transfers of revenue to provinces by the government and revenue collected by provinces through devolved sources. These revenue sources are included in the section from 36.1 to 36.20 of the Ninth Schedule of 13th Amendment to the Constitution. Please refer to Annex 1.

4.1.1 Revenue Sources and Collection

The details of revenue collected by the provincial authorities through devolved sources for the last five years are depicted in the Table 4.1-1.

It should be noted that since the government abolished the BTT in 2011, the figures included in the table for 2012 and 2013 display the amounts collected as arrears of BTT. As shown in the Table 4.1-1, the largest volume of revenue comes from stamp duties since 2010. However, the revenue collected

Table 4.1 1: Provincial Revenue Collection by Devolved Source 2009-2013*

(Rs. mn)

Description	2009	2010	2011	2012	2013
BTT**	16,079	19,584	3,652	197	101
%	54.04	53.65	15.37	0.84	0.41
Stamp Duty	5,225	6,714	9,304	10,096	10,951
%	17.56	18.39	39.15	43.06	45.05
Motor Vehicle License Fees	3,495	3,911	5,040	5,726	6,588
%	11.74	10.71	21.21	24.42	27.10
Excise Duty	463	591	732	794	835
%	1.56	1.62	3.08	3.39	3.43
Court Fines	1,132	1,588	1,591	1,907	1,910
%	3.80	4.35	6.70	8.13	7.86
Others	3,362	4,117	3,443	4,728	3,922
%	11.30	11.28	14.49	20.16	16.14
Total	29,757	36,506	23,762	23,448	24,306

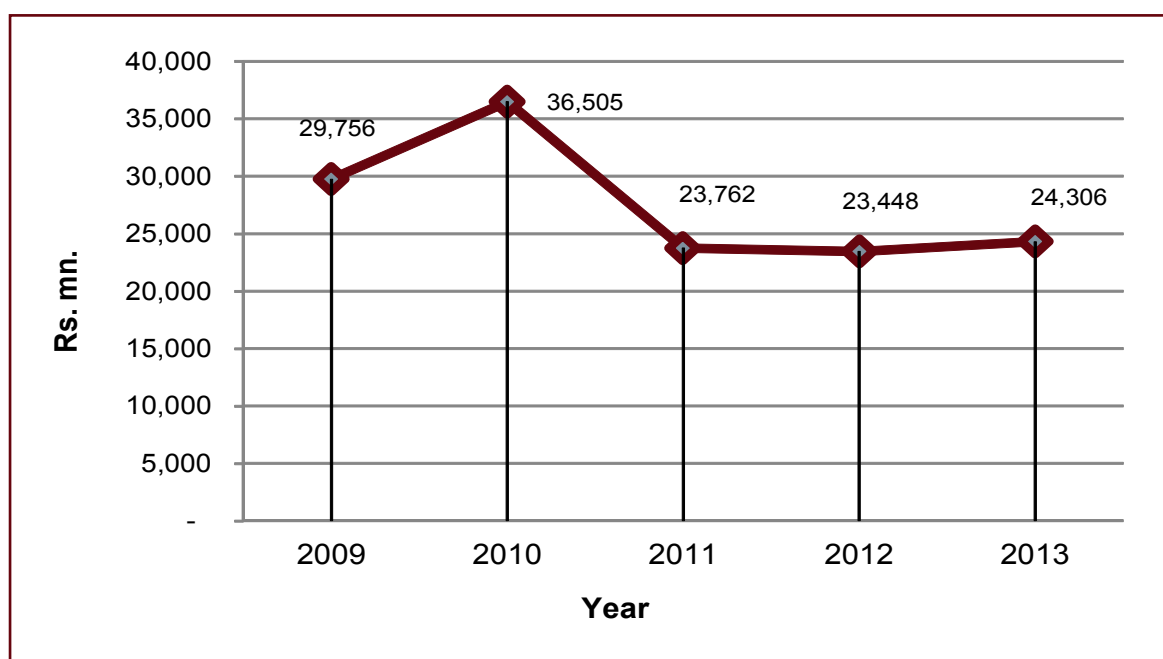
Note: 1. * Government transfers are not included

2. **Collection of due BTT up to 2010

Source: Finance Commission

through stamp duties should be transferred to the respective local authorities by the provincial councils. The second largest source of revenue is the collection from the motor vehicle license fee and the volume has almost doubled over the years.

As shown in the Figure 4.1-1, the total revenue from all the devolved sources has risen in 2010 by almost 23% thereafter there has been a steady decline. The decline between 2010 and 2013 is almost 33%.

Figure 4.1-1: Provincial Revenue Collection by Devolved Source 2009-2013

Source: Finance Commission

4.1.2 Revenue Sharing

The Provincial Council's main source of revenue until year 2010 was the Business Turnover Tax (BTT). However, with the observation that the provincial BTT which was charged in addition to other similar national taxes, acted as a tax upon tax, creating a high tax burden, especially on Small and Medium Enterprises (SMEs) and consumers, the collection of BTT was abolished by the 2011 National Budget.

This reduction in revenue was met by a special revenue sharing system introduced by the National Budget - 2011. Consequently, through the Fiscal Policy Circular No. 01/2010 issued by the Secretary to the Treasury on 29th December 2010, the revenue collected by national authorities such as the Commissioner General of Inland Revenue, the Director General of Customs, and the Commissioner General of Motor Traffic, has to be transferred to the provinces on the following basis, with effect from 01 January 2011.

- a. 70% of Vehicle Registration Fees
- b. 33 1/3 % of the Nation Building Tax (NBT)
- c. 70% of Vehicle Registration Fees

The collected revenue from NBT and Stamp Duty is divided among provinces according to the percentages given below;

Province	Ratio (%)
Western	48
Central	09
Southern	09
North Western	09
Sabaragamuwa	05
North Central	05
Uva	05
Eastern	05
Northern	05

The procedure of sharing the vehicle registration fees remained unchanged. However, the percentage given to the provinces increased from 60% to 70% with effect from 01 January 2011. Table 4.1-2 and Figure 4.1-2 presents data on transfer of government revenue to the provinces.

It is to be noted, as shown in Table 4.1-2 that the annual transfer of government revenue against the targets has varied significantly from 2011 to 2013. These variations give a signal that the bases used for the assessment of targets have to be revisited.

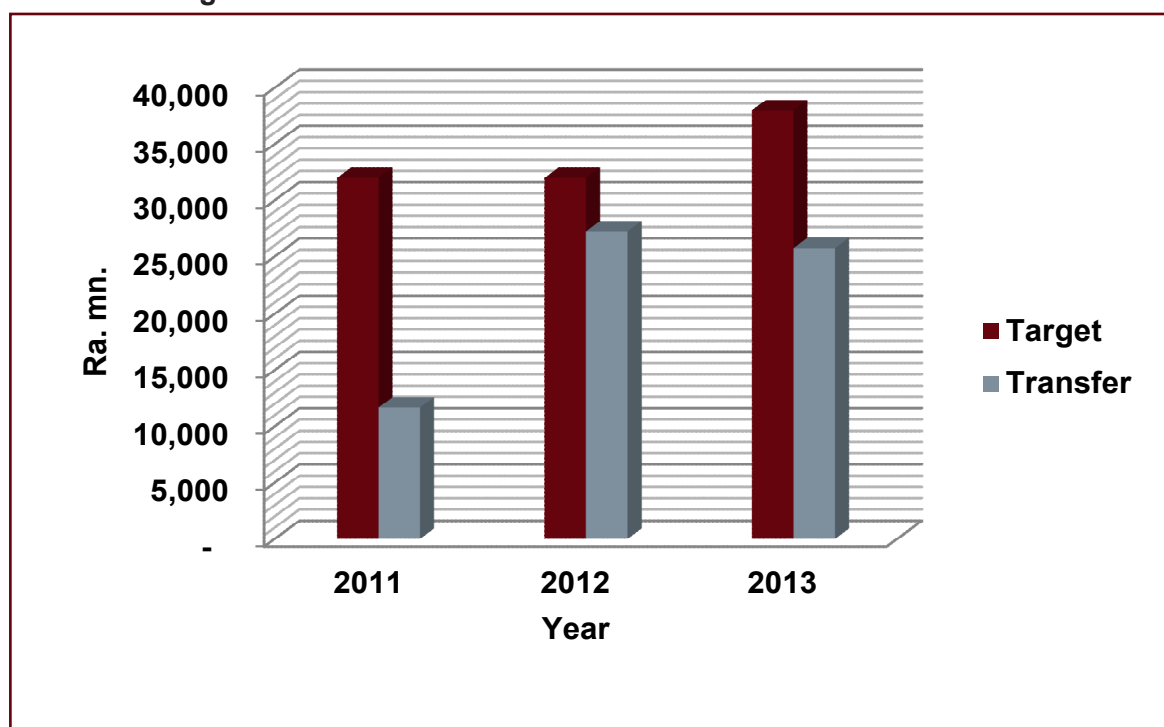
Table 4.1 2: Transfer of Government Revenue 2011-2013

Province	2011		2012		2013	
	Target	Transfer	Target	Transfer	Target	Transfer
Western	15,360	12,073*	15,360	13,043	18,240	11,947
Central	2,880	2,210	2,880	2,458	3,420	2,251
Southern	2,880	1,677	2,880	2,456	3,420	2,252
Northern	1,600	1,187	1,600	1,257	1,900	1,218
North Western	2,880	2,101	2,880	2,579	3,420	2,222
North Central	1,600	1,179	1,600	1,416	1,900	1,412
Uva	1,600	1,115	1,600	1,377	1,900	1,742
Sabaragamuwa	1,600	1,180	1,600	1,356	1,900	1,297
Eastern	1,600	1,021	1,600	1,290	1,900	1,406
Total	32,000	11,670	32,000	27,232	38,000	25,746

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

Source: Finance Commission

Figure 4.1-2: Transfer of Government Revenue 2011-2013



Source: Finance Commission

Table 4.1 3: Revenue Collection by the Government and Provincial Councils 2009 -2013

(Rs. mn)

Description	2009	2010	2011	2012	2013
Total Government Revenue	699,644	817,279	934,776	1,051,461	1,137,447*
Provincial Revenue	29,757	36,506	47,504	50,680	48,832
Provincial Revenue as a % of Total Government Revenue	4.25	4.47	5.08	4.82	4.29

Note: 1. Provisional

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

Source: Finance Commission and Central Bank Report (2009-2013)

Table 4.1-3 presents data on the revenue of provinces in relation to that of the government.

It can be seen from the Table 4.1-3 that the total government revenue has increased by 38% from 2009 to 2013. The percentage increase of provincial revenue from 2009 to 2013 indicates a higher figure than the national increase which is 64. The main reason for this significant increase is due to the revenue sharing system introduced by the government in 2011. The Provincial revenue as a percentage of total government revenue has risen slightly from 2009 up to 2012 and declined to an all time low in 2013.

4.1.3 Revenue Targets and Improving Revenue Collection

The 9th Schedule of the 13th Amendment to the Constitution has listed the sources of devolved revenue under items 36.01 and 36.20. The Commission sets revenue collection targets mainly on the basis of GDP of the provinces. The performance in the collection of revenue by the provinces in the past is also taken into reckoning in setting targets by the Commission. The amounts disbursed to the provinces from the government are based on the instructions set out in the Fiscal Policy Circular No. 1/2010.

Better use of the existing manpower in the provinces through close supervision and a scheme of annual performance appraisal method are expected to improve the volume of revenue collection.

4.1.4 Revenue Performance by Province

It is necessary to analyze the total revenue collected by the provinces and the province-wise performance against the targets set by the Commission in the management of revenue and expenditure.

It is to be noted as shown in Table 4.1-4 that the annual changes in the collection of revenue against the targets have little variation in the years 2010 and 2012 while in 2011 the collection has exceeded targets by 16%. However, in 2013 the shortfall was almost 13% but less than the shortfall in 2009. These variations give a signal to the Commission that the bases used for the assessment of targets have to be revisited. In all the years the collection of revenue in the Western Province has been comparatively higher than all other provinces. This can be attributed to the agglomeration of industries, value addition and commercial activities concentrated in the Western Province.

Considering this situation, the Commission adjusts the allocation of Block Grant to the Western Province in an appropriate manner while ensuring adequate allocation of funds to the low income generating provinces.

As can be observed in Table 4.1-4 actual revenue collected by provinces has increased from 2012 to 2013 only in the Central and Eastern provinces. The revenue collected by all provinces in 2011, has exceeded the set targets. In the year 2012, the revenue collection in the Western, North Central and Sabaragamuwa provinces has superseded the set targets. However, all provinces have not been able to achieve the targets in 2013.

Stamp duties are collected on transfer of immovable properties based on the assessed value of such properties. Registered notaries are expected to affix the stamps of the required value on the documents related to transfer of properties. Court fines refer to the amounts decided by the respective judges when a person is found guilty on civil or criminal charges. Both stamp duties and court fines should be transferred to the relevant local authorities by the provincial councils.

Table 4.1-4: Provincial Revenue 2009 – 2013

(Rs. mn)

Province	2009		2010		2011		2012		2013	
	Target	Actual Revenue Collected	Target	Actual Revenue Collected	Target	Actual Revenue Collected	Target	Actual Revenue Collected	Target	Actual Revenue Collected
Western	29,434	18,147	23,450	22,741	23,481	24,958	25,731	26,353	28,690	25,522
Central	3,534	2,700	3,380	2,986	3,650	4,192	5,040	4,203	5,261	4,344
Southern	3,590	2,507	3,710	2,924	3,505	3,837	4,681	4,671	5,279	4,479
Northern	-	-	-	155	-	1,268	1,772	1,556	2,088	1,529
North Western	3,443	2,630	3,610	2,949	3,738	4,371	4,968	4,882	5,593	4,699
North Central	1,132	1,036	1,350	1,171	1,418	2,087	2,237	2,510	2,601	2,326
Uva	836	894	1,090	975	1,236	1,779	2,136	2,169	2,489	2,109
Sabaragamuwa	1,781	1,420	1,840	1,705	1,982	2,300	2,507	2,616	2,840	2,474
Eastern	-	-	-	900	1,059	1,713	2,236	1,721	2,571	2,205
Total	43,750	29,334	38,430	36,506	40,069	46,505	51,308	50,681	57,412	49,686

Note: * Including the Government transfers

Source: Finance Commission

Table 4.1-5: Collection of Stamp Duty and Court Fines 2009-2013

(Rs. mn)

Province/ Source	2009	2010	2011	2012	2013
Western					
Stamp Duty	3,637	4,550	6,354	6,913	7,341
Court Fines	479	596	571	687	761
Central					
Stamp Duty	404	482	608	836	860
Court Fines	67	68	68	71	70
Southern					
Stamp Duty	350	502	828	902	750
Court Fines	180	171	166	257	175
North Western					
Stamp Duty	562	671	899	899	894
Court Fines	178	319	309	404	316
North Central					
Stamp Duty	29	41	50	54	54
Court Fines	90	184	193	188	180
Uva					
Stamp Duty	63	96	126	129	100
Court Fines	52	82	96	103	75
Sabaragamuwa					
Stamp Duty	181	263	305	362	300
Court Fines	86	99	112	125	121
Eastern					
Stamp Duty	0.32	110	133	0.5	260.0
Court Fines	-	69	74	72	75
Total					
Stamp Duty	5,225	6,714	9,304	10,096	10,559
Court Fines	1,132	1,588	1,591	1,907	1,774

Note: Northern Province not included

Source: Finance Commission

According to Table 4.1-5, revenue received through stamp duties and court fines shows an increasing trend in all provinces during the period from 2009 to 2013. The total amounts collected as stamp duties and court fines in the Western Province are figures compared to all other provinces. Out of the total revenue from the stamp duties and court fines, 66% is captured by the Western Province.

Many local authorities continue to complain that the revenue received through stamp duties and court fines is not being transferred to respective local authorities by the provincial councils within a reasonable period of time. They further agitate that the provincial councils use such revenue for their own purposes disregarding their due rights.

4.2 Provincial Expenditure

Expenditure in the context of the provinces means actual payments made for recurrent and capital purposes. Such expenditure is met through the funds allocated by the government and their received revenue. Provincial authorities often raise the grievance that the amounts allocated will not necessarily be released by the General Treasury at the beginning of the year or at regular intervals as requested by the provinces due to certain financial constraints.

4.2.1 Recurrent Expenditure

Recurrent expenditure accounts for 70-80 per cent of the provincial expenditure and is mainly spent to meet personal emoluments covering the cost of salaries and allowances of employees and council members. This expenditure is also meant to meet the maintenance requirements of the existing capital assets.

Recurrent expenditure is met mainly from the Block Grant which is calculated on the basis of the actual requirement of funds with a view to filling the gap between the estimated recurrent expenditure and the estimated revenue collection of each province.

When assessing the provincial recurrent expenditure needs, the Commission analyzes the actual living cadre of the provinces,

expenditure incurred during past years, key elements of the circulars and guidelines issued by the Treasury, the relevant line ministries, and the Commission. The ratio of Personal Emoluments in relation to Other Recurrent Expenditure is usually in the range of 80:20. Although, the recurrent expenditure is around 80% of the total expenditure, it is worthy of mention that personal emoluments paid mainly to the employees of the health and education sectors have greatly contributed to achieve the socio-economic targets identified at national level.

A comparison of actual amounts indicated in Table 4.2-1 compared with the real value of the block grant apportioned indicated in Table 4.2-2. This comparison illustrates the real value calculated using the Colombo Consumer's Price Index of 2008. It can be observed that nominal value of Rs.78 bn in 2009 means Rs.75.4 bn in real terms which has increased to Rs.76.2 bn in 2013. This increase in nominal terms has increased to Rs.102.8 bn in 2013. The percentage difference between the nominal and real values is 35%. The amount of block grant allocated for 2013 was Rs.102.8 bn being approximately 80% of the total provincial allocation. The Table 4.2-2 which presents the amounts of the grant at constant figures, with 2008 as the base year, shows a much lower value for 2013 as Rs.76.2 bn after adjusting for inflation.

Table 4.2-1 Apportionment of the Block Grant 2009-2013, Current Prices

(Rs. mn)					
Province	2009	2010	2011	2012	2013
Western	1,922	6,100	7,170	9,011	8,502
Central	12,176	13,000	13,270	13,763	14,864
Southern	10,298	10,500	11,172	11,803	12,908
Northern	8,349	8,400	9,153	8,557	10,075
Eastern	9,891	10,100	10,473	11,385	11,635
North Western	12,294	12,300	12,656	12,651	14,118
North Central	6,270	7,300	7,386	7,005	7,346
Uva	7,907	8,300	8,897	9,459	10,263
Sabaragamuwa	8,893	9,000	9,823	11,243	13,088
Total	78,000	85,000	90,000	94,877	102,800

Source: Finance Commission

Table 4.2-2 Apportionment of Block Grant 2008-2013, Constant Prices (2008=100)

(Rs. mn)

Province	2008	2009	2010	2011	2012	2013
Western	6,500	1,859	5,554	6,115	7,147	6,306
Central	12,950	11,775	11,837	11,317	10,916	11,024
Southern	10,200	9,959	9,560	9,528	9,361	9,574
Northern	8,100	8,074	7,648	7,806	6,787	7,473
Eastern	8,500	9,565	9,196	8,931	9,030	8,622
North Western	12,500	11,889	11,199	10,793	10,034	10,471
North Central	6,500	6,064	6,647	6,299	5,556	5,485
Uva	8,250	7,647	7,557	7,587	7,502	7,612
Sabaragamuwa	9,000	8,600	8,195	8,377	9,710	9,707
Total	82,500	75,431	77,393	76,752	76,043	76,274

Source: Finance Commission

Table 4.2 3: Change of Percentage -Allocation of the Block Grant 2011-2013

Province	2011	2012	2013
Western	18	26	-6
Central	2	4	8
Southern	6	6	9
Northern	9	-7	18
Eastern	4	9	2
North Western	3	0	12
North Central	1	-5	5
Uva	7	6	9
Sabaragamuwa	9	14	16
Total	6	5	8

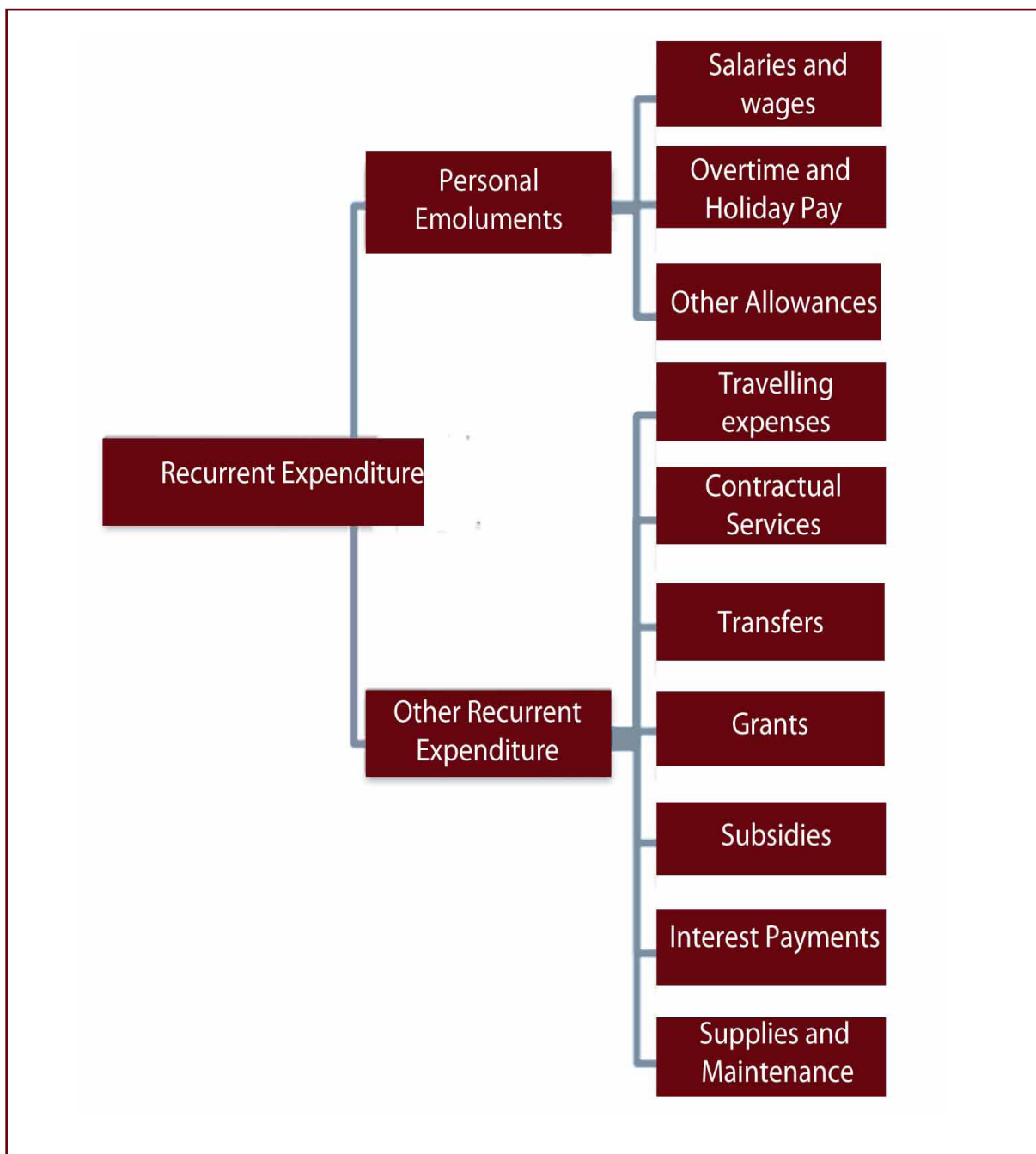
Source: Finance Commission

It is evident from the above table that the percentage of total block grant allocations fluctuated between 6% and 8% during 2011-2013. However, the change of percentage value of the Western Province in 2013 shows a decline of 6% compared with 2012. This decline may be attributed to the increase in revenue transferred from the government and collected by the province. In contrast to the trend of the Western Province, the percentage values of the Central and Sabaragamuwa Provinces show an increasing trend from

2011 to 2013. The changes of percentages displayed in the above table can be attributed to several reasons including abolishing of BTT, introduction of revenue sharing system, increase of cadre and revenue collection.

In Diagram 4.1 are indicated the line items falling under the two broad categories of recurrent expenditure i.e. Personal Emoluments and Other Recurrent Expenditure.

Diagram 4.1 Structure of Recurrent Expenditure



Details of actual expenditure under the object categories/ line items are shown in Table 4.2-4 while Figure 4.2-1 illustrates in a pie chart the distribution of recurrent expenditure in the year 2013.

It is to be noted that the percentage increases each year have been fluctuating. In fact in 2012 the increase has been 6.92% as against that in 2011 of 9.62%.

Table 4.2-4: Summary of Provincial Recurrent Expenditure by Object Categories 2009-2013

Rs. mn)

Year	2009	2010	2011	2012	2013
Object Categories	Actual	Actual	Actual	Actual	Actual
Personal Emoluments	86,553,314	92,049,175	100,939,589	106,750,832	117,320,047
Salaries & Wages	64,501,985	66,480,962	71,752,577	68,659,702	71,143,324
Overtime & Holiday Pay	3,802,501	4,134,444	4,652,407	4,999,060	6,760,623
Other Allowances	18,248,828	21,433,769	24,534,605	33,092,070	39,416,100
ORE	25,466,076	26,868,683	29,416,065	32,630,570	38,207,906
Travelling	921,683	1,022,373	1,125,477	1,186,753	1,245,231
Supplies	2,702,792	2,879,406	3,683,123	3,600,167	4,070,088
Maintenance	3,064,758	3,224,205	3,777,593	3,958,387	4,303,075
Contractual Services	2,213,446	2,456,988	2,854,921	3,133,293	3,440,379
Transfers	11,811,837	11,761,927	12,240,249	13,440,735	12,935,223
Grants	4,100,883	4,739,039	4,314,270	5,833,032	11,051,281
Subsidies	127,117	175,344	689,995	983,202	67,021
Other Recurrent Expenditure	523,560	609,401	730,437	495,001	1,095,608
Total	112,019,390	118,917,858	130,355,654	139,381,402	155,527,953
% Increases	8.28	6.16	9.62	6.92	11.58

Note: Including Local Government Transfer, Stamp Duty & Court Fines

Source: Finance Commission

Figure 4.2-1: Distribution of Recurrent Expenditure in 2013

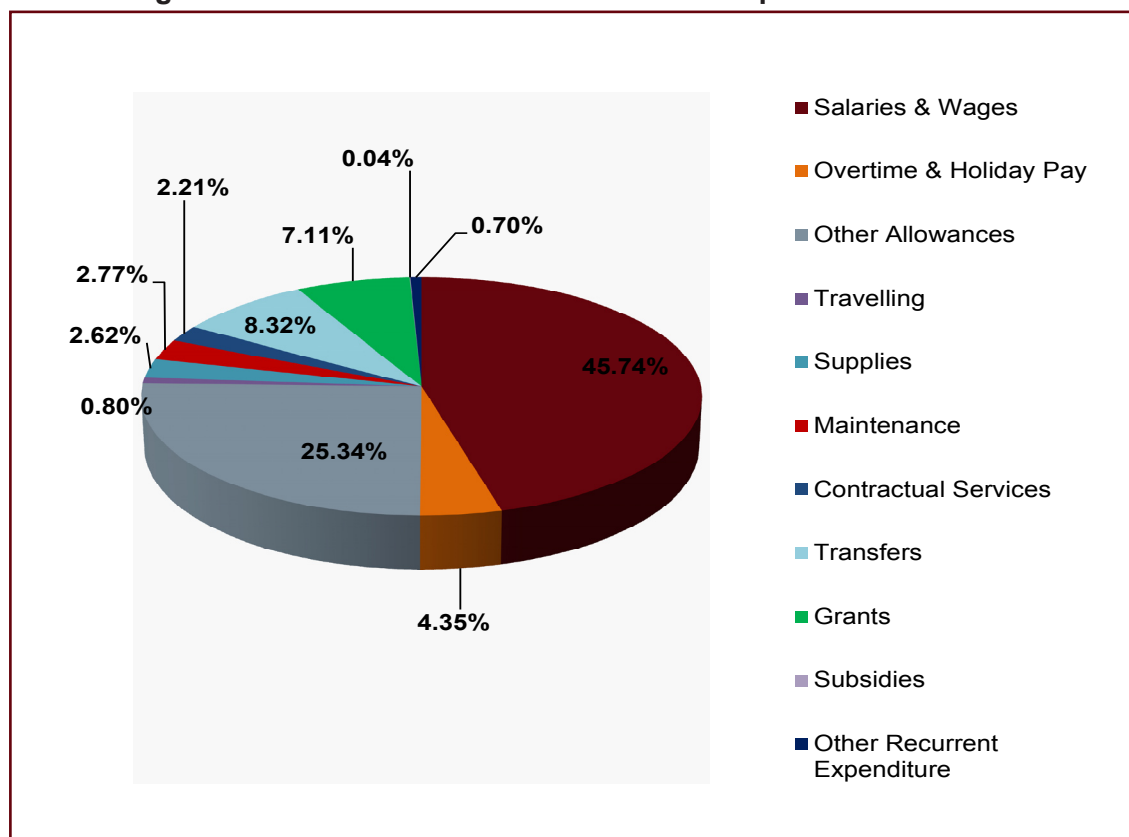


Table 4.2-5: Recommendation and Allocation of Funds for Block Grant 2009 - 2013
(Rs. mn)

Province	2009		2010		2011		2012		2013	
	FC	Govt.	FC	Govt.	FC	Govt.	FC	Govt.	FC	Govt.
	Rec.	Allo.	Rec.	Allo.	Rec.	Allo.	Rec.	Allo.	Rec.	Allo.
Western	1,923	1,923	6,100	6,100	7,170	7,170	9,011	9,011	8,502	8,502
Central	12,176	12,176	13,000	13,000	13,270	13,270	13,763	13,763	14,864	14,864
Southern	10,298	10,298	10,500	10,500	11,172	11,172	11,803	11,803	12,908	12,908
Northern	8,349	8,349	8,400	8,400	9,153	9,153	8,557	8,557	10,075	10,075
North Western	12,294	12,294	12,300	12,300	12,656	12,656	12,651	12,651	14,118	14,118
North Central	6,270	6,270	7,300	7,300	7,386	7,386	7,005	7,005	7,346	7,346
Uva	7,907	7,907	8,300	8,300	8,897	8,897	9,459	9,459	10,263	10,263
Sabaragamuwa	8,893	8,893	9,000	9,000	9,823	9,823	11,243	11,243	13,088	13,088
Eastern	9,891	9,891	10,100	10,100	10,473	10,473	11,385	11,385	11,635	11,635
Total	78,000	78,000	85,000	85,000	90,000	90,000	94,877	94,877	102,800	102,800

Source: Annual Budget Estimates 2009-2013

Table 4.2-6: Allocation and Release of Funds for Block Grant 2009 – 2013
(Rs. mn)

Province	2009		2010		2011		2012		2013	
	Allo.	Rele.	Allo.	Rele.	Allo.	Rele.	Allo.	Rele.	Allo.	Rele.
Western	2,923	2,749	6,100	6,100	7,170	8,979	9,011	8,894	8,502	9,691
Central	12,526	12,487	13,000	13,000	13,270	13,697	13,763	13,049	14,864	15,687
Southern	10,299	10,085	10,500	10,500	11,172	11,760	11,803	11,907	12,908	13,586
Northern	8,349	7,963	8,400	8,700	9,153	9,318	8,557	8,500	10,075	10,795
North Western	12,294	11,868	12,300	12,299	12,656	13,018	12,651	11,921	14,118	14,846
North Central	6,550	6,513	7,300	7,300	7,386	7,596	7,005	6,776	7,346	7,765
Uva	7,907	7,807	8,300	8,300	8,897	8,948	9,459	9,032	10,263	10,758
Sabaragamuwa	8,893	8,493	9,000	9,000	9,823	10,335	11,243	10,737	13,088	13,606
Eastern	9,891	9,421	10,100	10,100	10,473	10,952	11,385	10,737	11,635	12,066
Total	79,631	77,386	85,000	85,299	90,000	94,602	94,877	91,552	102,800	108,801

Note: Including supplementary allocation

Source: Finance Commission and General Treasury

Table 4.2-5 illustrates the amounts recommended by the Commission to the government and the sums allocated. It is seen that the sums recommended by the Commission for the block grant have always been approved and allocated in the annual budget of the government. However, as illustrated in Table 4.2-6, the sums released by the Treasury have often been less than the sums allocated.

The main categories of recurrent expenditure indicated in Table 4.2-7 may be compared with the position of the actual cadre indicated in Table 4.2-8 for the same period since a

large proportion of recurrent expenditure, approximately 77%, is devoted to personal emoluments. Though the amount of funds allocated for personal emoluments has increased from Rs. 86.5 bn in 2009 to Rs. 106.7 bn and Rs. 117.3 bn in 2012 and 2013 respectively, the increase in the cadre positions has been relatively slight. Perhaps increases in salaries and allowances may be responsible for the variation as the increase in total cadre is not the reason for the increase in the expenditure on personal emoluments.

Table 4.2-7: Main Categories of Recurrent Expenditure 2009-2013

(Rs. mn)

Year	Personnel Emoluments	%	Other Recurrent Expenditure	%	Total Recurrent Expenditure
2009	86,553,314	77.27	25,466,076	22.73	112,019,390
2010	92,049,175	77.41	26,868,683	22.59	118,917,858
2011	100,939,588	77.43	29,416,065	22.57	130,355,653
2012	106,750,832	76.59	32,630,570	23.41	139,381,402
2013	117,320,047	75.43	38,207,906	24.57	155,527,953

Source: Finance Commission

Table 4.2-8: Total Cadre of Provinces 2009-2013

Provinces	2009	2010	2011	2012	2013
Western	51,979	52,402	52,133	53,288	56,067
Central	40,745	39,910	41,311	39,849	39,284
Southern	35,398	35,365	35,509	35,390	34,785
Northern	23,599	23,607	24,146	23,679	24,485
North Western	38,370	38,370	38,499	38,269	41,031
North Central	22,689	23,214	21,613	21,316	20,483
Uva	25,104	28,287	27,940	27,354	26,926
Sabaragamuwa	29,271	27,166	27,723	28,068	29,038
Eastern	29,559	29,341	29,906	29,559	29,534
Total	296,714	297,662	298,780	296,772	301,633

Source: Provincial Councils

As shown in Table 4.2-9, the share of provincial recurrent expenditure as part of the total government recurrent expenditure has remained at around 13% for the period

of 2009 - 2013. However, government recurrent expenditure has increased by 37% while provincial recurrent expenditure has increased by 31% from 2010 to 2013.

Table 4.2-9: Provincial Recurrent Expenditure Shares in Total Government Recurrent Expenditure 2009-2013

(Rs. mn)

Year	Government Recurrent Expenditure	Annual % Increase	Provincial Recurrent Expenditure	Annual % Increase	Provincial Share %
2009	879,575		112,019		13
2010	952,297	8	118,918	6	12
2011	1,029,248	8	130,356	10	13
2012	1,117,931	9	139,381	7	12
2013	1,299,906	16	155,528	10	12

Source: Annual Budget Estimates

4.2.2 Financing Local Government

Although the cost of salaries and allowances of local authority staff and council members is reimbursed from the block grant, a large number of employees recruited on a contract basis by local authorities are being paid from the revenue collection of local authorities. The Commission considering this inconsistency has reviewed and developed relevant guidelines to allocate a proportion of the collected revenue for development purposes of the respective local authorities. Since the government has taken action to absorb the existing local authority cadre into the Department of Management Services approved cadre in 2013, reimbursement of the total salary bill of the local authorities is being met from the government funds. The revenue collected by the respective local authorities is used for discretionary spending. Even municipalities earning large volumes of revenue seem to depend on government for the payment of salaries and allowances to employees.

4.2.2.1 Sources of Financing

Local authorities finance their expenditure requirements through the following revenue sources:

- a. Rates
- b. Other revenue (eg: taxes and levies)
- c. Assigned revenue (Stamp duty and court fines)
- d. Borrowings
- e. Government transfers
- f. Other receipts

4.2.2.2 Financial Transfers to Local Authorities

Since all financial transfers to local authorities are channeled through provincial councils, the financing of local authorities was incorporated under the scope of the

subject of “local government”. Accordingly, local government expenditure, including salary reimbursement of approved living cadre and allowances to members, is also included in the provincial needs assessment. Staff salaries and wages are calculated on the basis of:

- a. The number of staff actually employed
- b. Staff whose recruitment has been approved by the Department of Management Services

Up to 2007, reimbursement of salaries was calculated as a percentage of the revenue collection of the local authorities in relation to its cadre approved by the Department of Management Services. Subsequently, the total amount payable as salaries and allowances of the approved living cadre were financed fully through government funds from 2007 onwards.

Table 4.2-10 indicates the amounts transferred to local authorities for reimbursement of salaries to the staff.

As shown in the Table 4.2-10, the amounts so transferred show a gradual increase and this increase may be due to the extra staff recruited or an upward rise in the salaries.

4.2.2.3 Revenue Transfers to Local Authorities

Provincial councils receive the assigned revenue mainly from stamp duties and court fines and are expected to transfer such revenue to the local authorities. Stamp duties and court fines are levied by the Land Registry and Courts respectively and paid to the provincial councils. The said revenue is then transferred to local authorities by the provincial councils according to the location where the levies were made. Owing to delays on the part of local authorities in relation to submitting the required information, the transfer of funds also gets delayed. As a result, a significant sum of money remains with the provincial councils without being

**Table 4.2-10: Transfers to Local Authorities for Reimbursement of Salaries
2009 – 2013**

(Rs. mn)					
Province	2009	2010	2011*	2012	2013
Western	3,686	4,624	4,116	4,390	4,673
Central	1,127	1,101	1,087	1,156	1,323
Southern	779	743	792	864	970
North East	616	618	690	732	799
North Western	659	607	688	654	712
North Central	329	239	267	295	326
Uva	327	311	354	374	468
Sabaragamuwa	472	415	485	506	512
Eastern	532	488	570	615	561
Total	8,528	9,146	9,050	9,587	10,344

Note: * Revised

Source: Finance Commission

transferred to local authorities for the provision of local services.

Table 4.2-11 indicates the assigned revenue received by the provincial councils and amounts transferred to local authorities during the same period.

It is seen that there is a rise in the amounts collected and transferred to the local authorities during this period. The amount collected in 2009 has got doubled in 2013. But the amounts transferred have not kept pace.

**Table 4.2-11: Assigned Revenue* Received by the Provincial Councils and Amounts
Transferred to Local Authorities 2009-2013**

(Rs. mn)										
Province	2009		2010		2011		2012		2013	
	Receipts to PC	Transfers to LAs	Receipts to PC	Transfers to LAs	Receipts to PC	Transfers to LAs	Receipts to PC	Transfers to LAs	Receipts to PC	Transfers to LAs
Western	4,115	3,275	5,146	3,248	6,925	2,052	7,600	3,079	8,103	3,754
Central	471	366	550	268	676	306	907	1,156	930	807
Southern	530	500	673	402	994	327	1,160	437	925	637
Northern	-	-	-	-	-	-	-	-	-	-
North Western	740	354	990	461	1,208	466	1,303	625	1,210	791
North Central	119	88	225	104	243	115	242	103	234	220
Uva	115	106	178	200	222	141	233	156	175	152
Sabaragamuwa	267	51	362	183	417	166	487	355	421	377
Eastern	-	-	179	38	207	119	72	95	335	316
Total	6,357	4,741	8,303	4,904	10,892	3,691	12,002	6,006	12,333	7,054

* Stamp duties and court fines

Source: Finance Commission

4.2.3 Capital Expenditure

The allocation for capital expenditure is meant to be utilized for investment on the creation of assets or on the enhancement of existing assets in order to achieve socio-economic development. Spending on the acquisition of capital assets or improvements thereon, or on development of infrastructure as well as on human resource development are deemed to be expenditure of a capital nature.

There are two sources of funding for capital expenditure. They are the PSDG and CBG. The allocation and the expenditure through PSDG has always been bigger than that through CBG. In 2013 the amount under the PSDG was 91% of the total capital fund allocation.

PSDG funds were allocated under key development sectors for projects and programmes with a view to ensuring the achievement of balanced regional development. In addition, special funding arrangements have been made through PSDG to empower provinces to undertake projects to address flagship development projects. The main objective of such projects is to increase value addition, reduce poverty

and generate employment opportunities of the province aiming at reducing intra-provincial disparities. Further, it was expected to involve the private sector in a more proactive manner when planning and implementing these projects (See Annexure II).

Table 4.2-12 indicates the amounts allocated under PSDG, amounts released and sums spent, while Figure 4.2-3 graphically illustrates the position under these three elements.

The amount of expenditure against the allocation in the relevant period has been in the range of 46-64% except in the years 2010 when it was well above 85% and in 2012 when it was below 50%. The amounts released have been even less than the figures for expenditure. How this could have happened need some explanation. It is possible that the provinces spend from their accumulated reserve funds or that they incur expenses (without payment) and accumulate debt to be cleared in the following year. The real value of the amount transferred in 2013 is Rs.18,219 mn (against the nominal value of Rs.24,564 mn) while the amount released has been Rs 5,765 mn (against the nominal value of Rs.7,773mn).

**Table 4.2-12: Allocation, Expenditure and Release of PSDG, at Current Prices
2009 – 2013**

(Rs. mn)

Year	Government Recurrent Expenditure	Annual % Increase	Provincial Recurrent Expenditure	Annual % Increase	Provincial Share %
2009	20,431	13,107	64	11,998	59
2010	19,480	16,830	86	16,404	84
2011	23,457	12,493	53	11,199	48
2012	24,714	11,351	46	6,961	28
2013	24,564	13,578	55	7,773	32

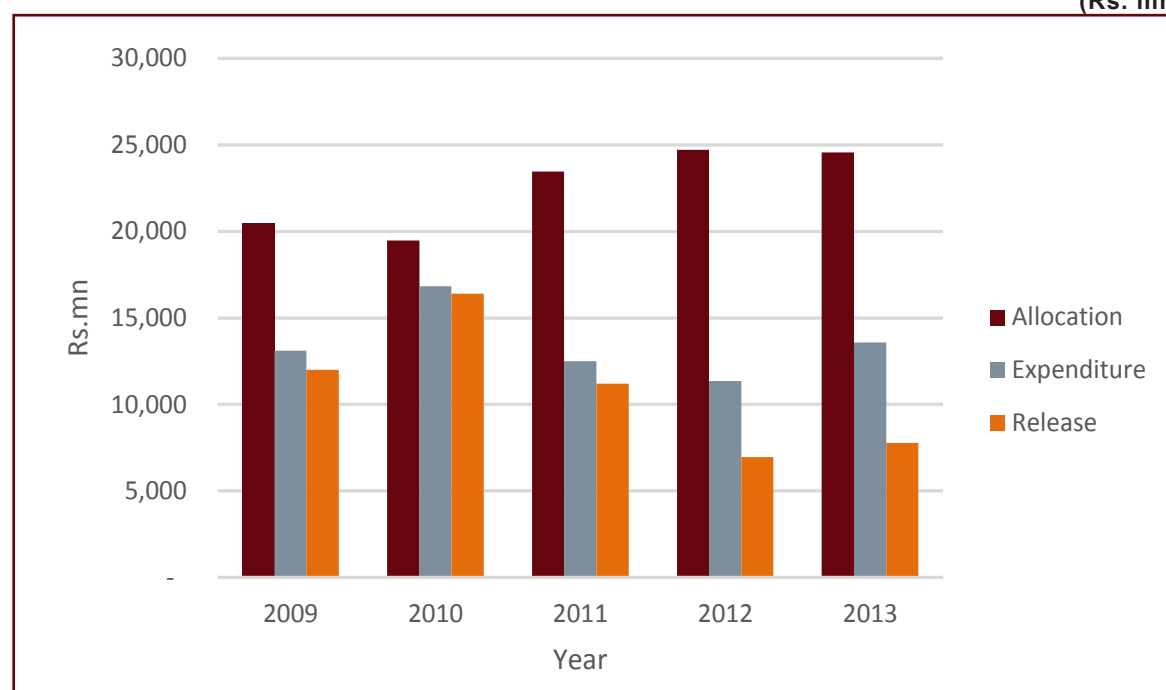
Note: 1. Figures include development projects funded by local and foreign sources

2. Expenditure shows higher figures than release due to bills in hand and the amounts spent from own revenue of provincial authorities are included in it

Source: Finance Commission, General Treasury and Provincial Councils

Figure 4.2-2: Allocation, Expenditure and Release of PSDG 2009 – 2013

(Rs. mn)

**Table 4.2-13: Allocation, Expenditure and Release of PSDG 2009-2013, constant prices, 2008=100**

(Rs. mn)

Year	Allocation	Expenditure*	%	Release	%
2009	19,758	12,675	64	11,603	59
2010	17,737	15,324	86	4,936	84
2011	20,004	10,654	53	9,551	48
2012	19,601	9,003	46	5,521	28
2013	18,219	10,070	55	5,765	32

Note: * including provincial fund in addition to government grant

Source: Finance Commission, General Treasury and Provincial Councils

In addition Table 4.2-13 shows the real value of the funds in constant terms.

The discrepancy between the allocations and the amounts released does not augur well in the exercise for regional development and for reducing regional disparities.

The CBG is the other type of capital grant to the provinces.

As Table 4.2-14 and Figure 4.2-3 indicate, unlike in the case of the PSDG, the amount of expenditure has exceeded the allocation by more than 250% in three of the five years and by more than 150% in all the years. This excess in expenditure can mainly be

attributed to the fact that the provinces allocate additional funding for projects under CBG. It is gratifying to note that the release of funds has been above 85% in most of the years. It should also be noted that the certain proportion of CBG funding is allocated for discretionary spending of the council members.

In 2013 the amount of funds allocated under PSDG was Rs.24,564mn being 91 % of the total capital expenditure allocation. The amount made available for 2013 under CBG was Rs.2,264 mn being 9% of the total capital expenditure allocation.

Table 4.2-14: Allocation, Expenditure and Release of CBG 2009 – 2013
(Rs. mn)

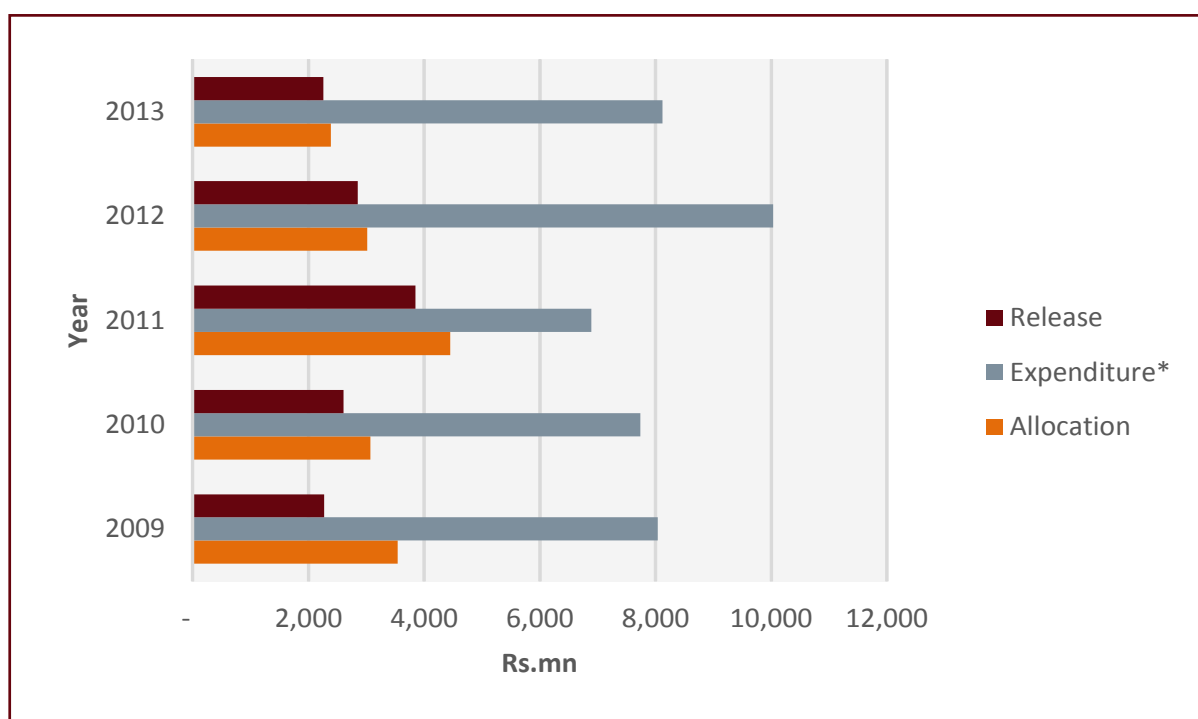
Year	Allocation	Expenditure*	Release
2009	3,550	8,050	2,276
2010	3,075	7,744	2,612
2011	4,460	6,902	3,855
2012	3,025	10,045	2,859
2013	2,390	8,130	2,264

Note: * including provincial fund in addition to government grant

Source: Finance Commission, General Treasury and Provincial Councils

Figure 4.2-3: Allocation, Expenditure and Release of CBG 2009 – 2013

(Rs. mn)



4.3 Provincial Investments in Major Sectors under PSDG

The investments in provinces are channeled through various financial sources. Public funds are mainly transferred to the provinces and their respective districts through various sources such as the decentralized budget, line ministries, provincial councils, local authorities, statutory bodies and donor communities. In addition, private sector

and NGOs also provide funds for socio-economic development at sub-national level. Every province receives PSDG and the CBG funds from the Treasury based on the recommendations of the Finance Commission for the sector and agency wise development activities in provinces. This section reviews the investments in selected five major sectors of provinces under PSDG.

4.3.1 Education Sector

The education sector in a country plays a major role in moulding the human resources to meet the manpower needs. The importance of this sector has been highlighted by various experts as the 21st century is dedicated to achieve the objectives of a knowledge based society. UNESCO emphasizes the concepts of education for life and education for all which mean that all persons would continue

to learn throughout their lives. Education at provincial level should ensure that provincial projects and programmes are in line with the national education policy formulated by the National Education Commission and the Ministry of Education. The responsibility of the provincial educational authorities focuses mainly on preschool, primary and secondary education leaving the responsibility of higher education to national authorities. The provincial authorities are also responsible for

Table 4.3-1: Province-wise PSDG Investments in Education Sector (2009-2013)

(Rs. mn)

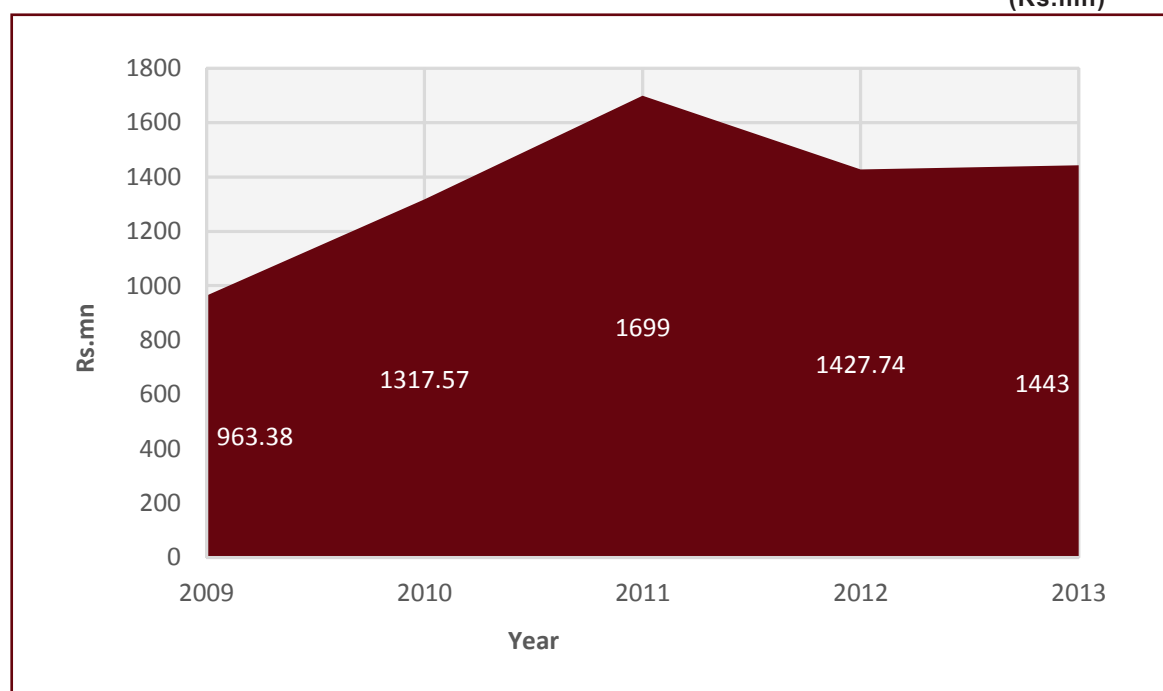
Province	2009	2010	2011	2012	2013	Total
WP	100	143	184	234	176	837
CP	99	117	150	171	112	649
SP	96	135	199	95	127	652
NP	127	147	177	201	247	900
EP	101	133	191	154	128	708
NWP	105	127	207	163	146	749
NCP	106	159	145	132	125	667
Uva	138	225	162	145	179	849
Sab	91	130	283	131	203	840
Total	963	1,318	1,699	1,428	1,443	6,851

Source: Provincial Expenditure Reports

Note: The figures do not include the funding through line ministries, other local institutions and donor projects

Figure 4.3-1 Total Investment in the Education Sector (2009-2013)

(Rs.mn)



ensuring the provision of required vocational skills to the school leavers. Investment on education is mainly used for quality improvement and development of physical infrastructure.

It is observed that the investments in the education sector have increased by 50% from 2009 to 2013. Of total PSDG allocations, nearly 15% is allocated to the education sector. During the period under review, the highest level of investment on education can be observed in the Northern Province. This is mainly because the government has given high priority to the construction and improvement of damaged school buildings and other related structures in the province.

4.3.2 Health Sector

In the allocation of resources among sectors, a priority has been given to the health sector and it represents approximately 1.5% of the GDP at national level. Since the government

has been adopting a free health policy since independence, the country has been able to achieve good results in terms of health related indicators. Except teaching hospitals, all other hospitals and medical centres come under the purview of provincial councils. Therefore, it is obvious that the provincial authorities have to play a crucial role in the improvement of health services in relation to both curative and preventive care. The other important aspect of the investment in the health sector is that such investment is considered as incurring resources on developing human capital which is a major factor in production.

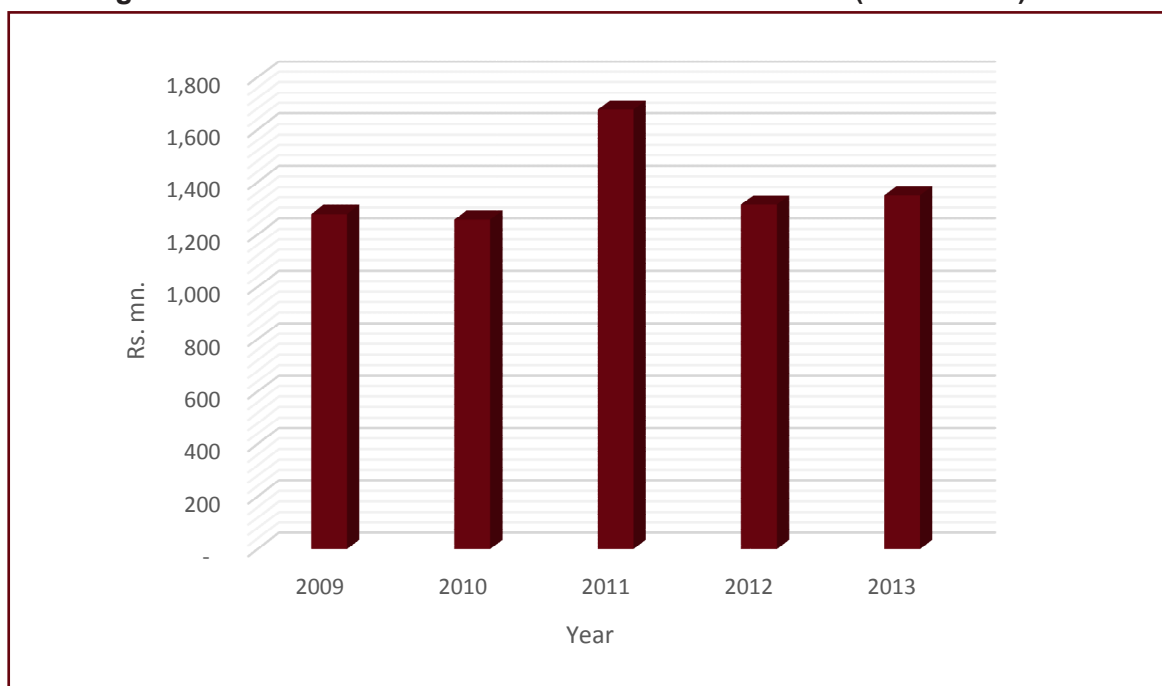
The health sector has received nearly 15% of the total allocation of PSDG. During the period concerned, the investments made in the sector have shown an increase of 6%. The Northern Province has recorded the highest investment while the lowest investments are in the Eastern Province.

Table 4.3-2: Province-wise PSDG Investments in the Health Sector (2009-2013)
(Rs. mn)

Province	2009	2010	2011	2012	2013	Toatal
WP	63	90	161	188	155	656
CP	236	182	196	184	166	965
SP	92	65	184	130	164	635
NP	197	154	248	224	188	1,010
EP	129	151	130	91	117	617
NWP	162	224	269	142	118	916
NCP	126	127	155	131	95	634
Uva	133	148	175	132	168	756
Sab	139	116	157	92	178	682
Total	1,277	1,256	1,675	1,313	1,349	6,870

Source: Provincial Expenditure Reports

Note: The figures do not include funding through line ministries, other local institutions and donor projects

Figure 4.3-2 Total Investment in the Health Sector (2009-2013)

4.3.3 Agriculture Sector

The agriculture sector in a country plays a key role in the process of development since it provides food security which is a prerequisite for growth in a society. In Sri Lanka, although the agriculture sector contributes 11% to the GDP almost 35% of the labour force is engaged in agriculture related activities. A large proportion of the agriculture labour force falls into the category

of informal sector and a considerable number of people are self employed with seasonal engagements. It can be observed that provinces have paid attention mostly to improving productivity and quality of the agricultural production under this sector.

The largest PSDG investment during the period was recorded in the Northern Province while the Western Province recorded the lowest. It is also noted that the largest

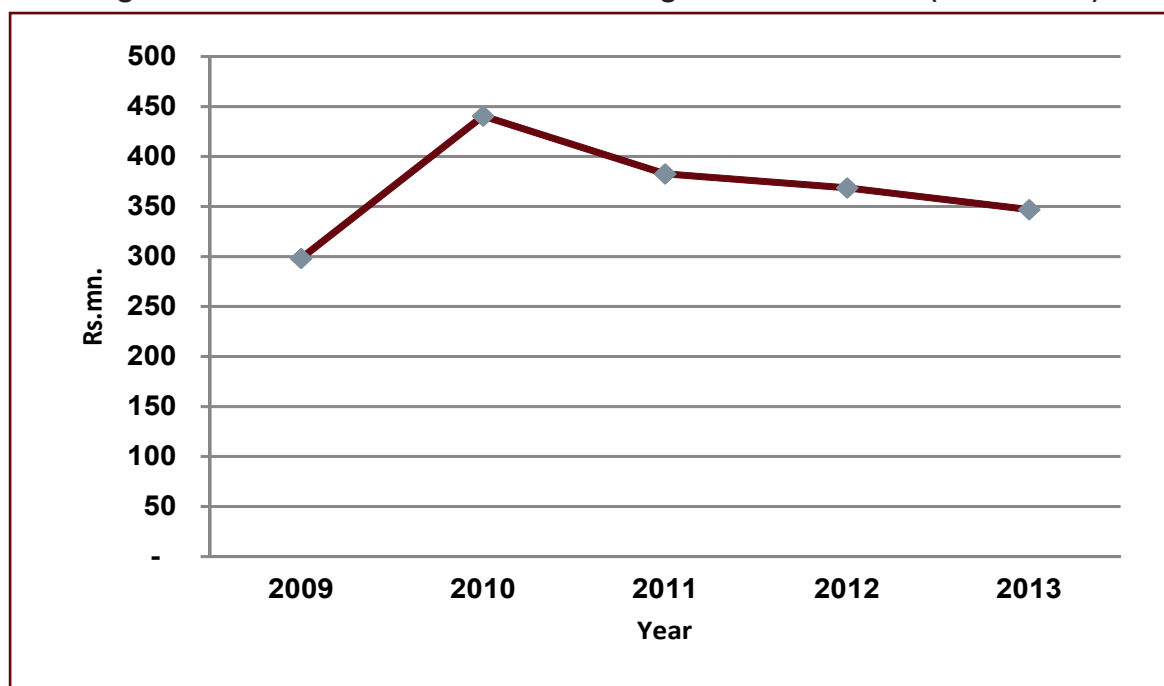
Table 4.3-3: Province-wise Investments in the Agriculture Sector under PSDG (2009-2013)

						(Rs. mn)
Province	2009	2010	2011	2012	2013	Toatal
WP	14	22	25	43	21	124
CP	38	55	40	37	40	210
SP	17	15	37	41	21	130
NP	92	89	68	88	9	347
EP	44	95	61	42	74	317
NWP	23	31	41	35	37	166
NCP	27	38	37	32	24	159
Uva	21	67	38	34	92	252
Sab	24	28	35	16	29	132
Total	298	441	383	369	347	1,838

Source: Provincial Expenditure Reports

Note: The figures do not include funding through line ministries, other local institutions and donor projects

Figure 4.3-3 Total Investment in the Agriculture Sector (2009-2013)



percentage (19%) of agricultural investment out of the total provincial investment has been in the Northern Province.

Figure 4.3-3 indicates a sharp increase in total investment in agriculture from 2009 to 2010 which is about 48%. But it has declined in 2011, 2012 and 2013 gradually.

4.3.4 Livestock Sector

Development of the livestock sector can

directly contribute to improve the nutrition status of the people since they secure a major part of protein requirements through milk, meat and eggs. Several studies conducted on the nutritional status of the country have revealed that pregnant mothers and children suffer from nutritional deficiencies. It can therefore be considered that investments on the development of the livestock sector directly contribute to improving the productivity of the labour force. Through

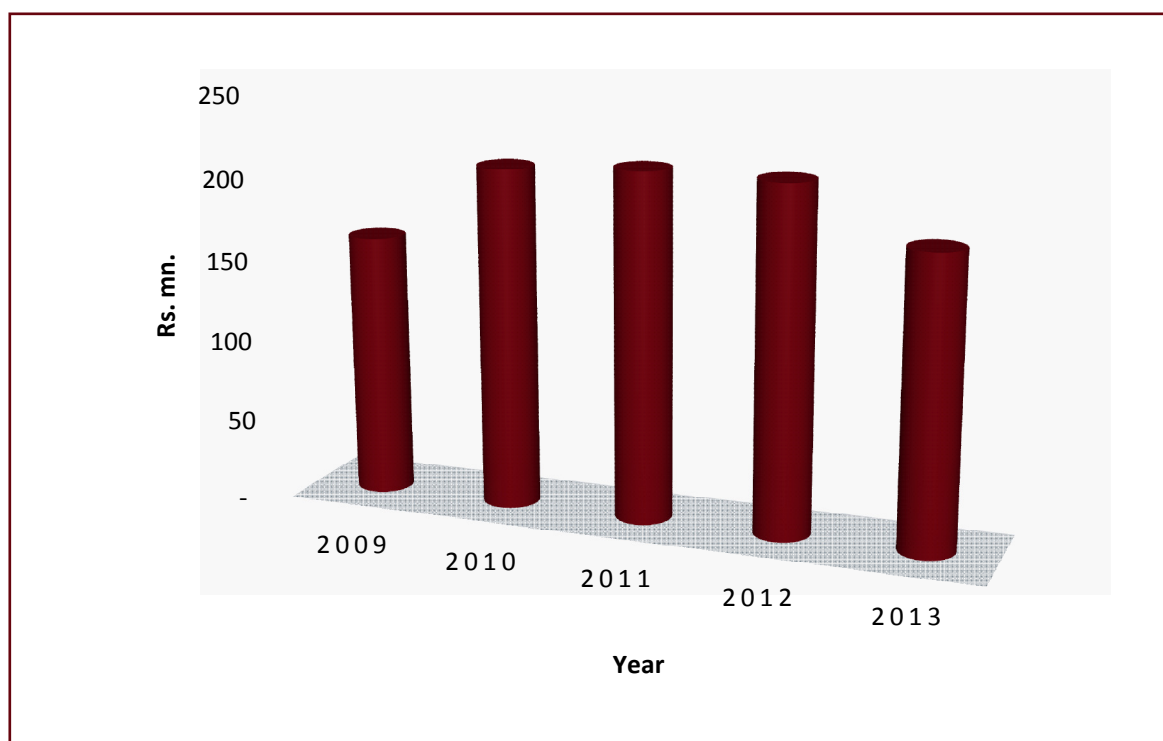
Table 4.3-4: Province-wise Investments in the Livestock Sector under PSDG (2009-2013)

						(Rs. mn)
Province	2009	2010	2011	2012	2013	Toatal
WP	11	8	16	20	15	70
CP	19	29	29	28	25	130
SP	5	11	19	17	15	67
NP	20	29	24	44	13	130
EP	30	30	25	24	29	138
NWP	13	18	23	16	20	91
NCP	7	16	24	21	10	79
Uva	32	41	32	29	28	161
Sab	24	27	20	13	24	107
Total	161	209	213	212	179	974

Source: Provincial Expenditure Reports

Note: The figures do not include funding through line ministries, other local institutions and donor projects

Figure 4.3-4 Total Investment in Livestock Sector (2009-2013)



the investments in the livestock sector, provinces have focused on development of dairy, poultry, goat and swine projects.

During the period 2009-2013, PSDG investment on livestock has been highest in the Uva Province followed by the Eastern, Northern and Central Provinces. In 2013 the highest expenditure has been incurred in the Eastern Province while the North Central Province has recorded the lowest. The expenditure figures on livestock development indicated in the Table 4.3-4 also include the investments on value added activities in this sector.

Overall investment in the sector has increased from 2009 to 2010 and remained without a noticeable change until 2012, and decreased again in 2013.

4.3.5 Road Sector

The availability of easy accessibility with a quality road network is a key requirement in the development process of a country since such a network provides access to markets, education, health and other services. Therefore, the major responsibility of the

provincial road authorities is to establish and maintain C & D categories of roads to ensure connectivity with the national road system (A and B categories & Expressways) and rural roads of all categories. A comprehensive road network is essential to maintain an effective linkage between the producer and market at provincial and rural levels. In this regard, proper co-ordination between national, provincial and rural levels needs to be maintained with a view to avoiding duplication of work.

The highest investment during the period concerned was recorded in the Western Province while the lowest investment was recorded in the Eastern Province. The total investment of nine provinces has shown a decreasing trend from 2009 to 2013 except in 2010. It should be noted that the Northern, Eastern, Central, North Central, Uva and Sabaragamuwa Provinces have received donor funding for road development. The amounts allocated under the donor funding for road development are given in the Table 4.3-6.

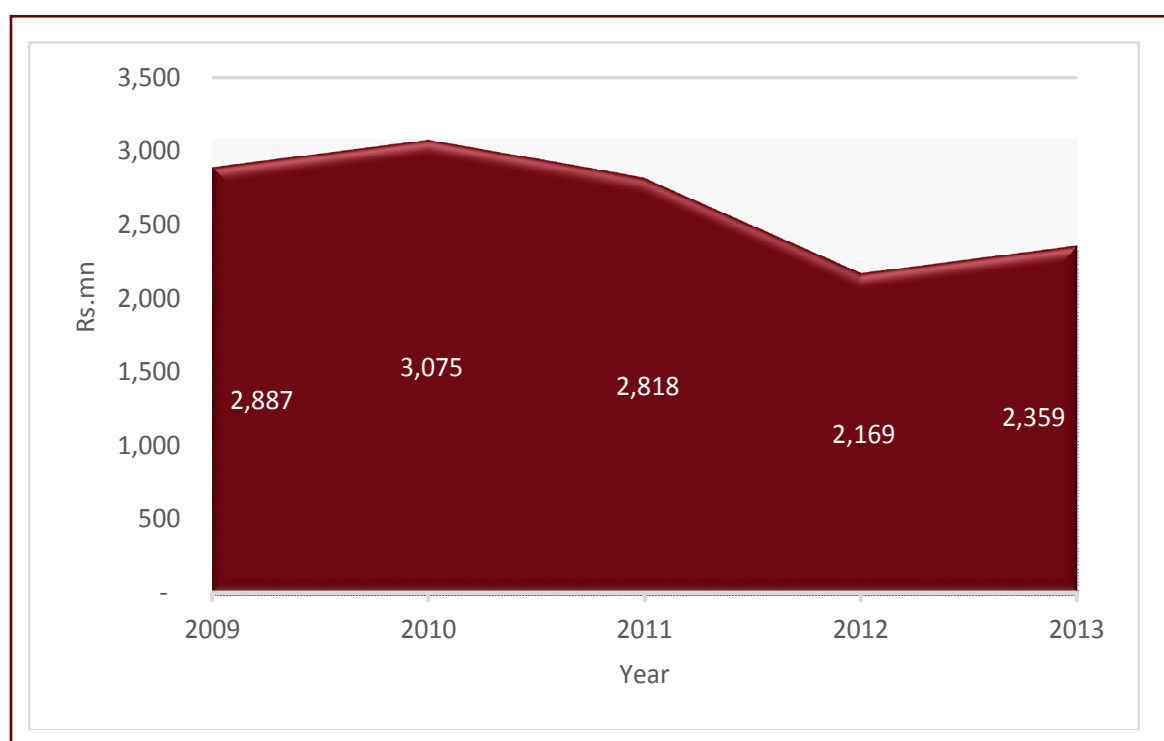
Table 4.3-5: Province-wise PSDG Investments in the Road Sector (2009-2013)

(Rs. mn)

Province	2009	2010	2011	2012	2013	Total
WP	950	425	466	482	490	2,813
CP	136	585	483	453	401	2,059
SP	260	175	418	206	241	1,300
NP	314	280	238	131	207	1,171
EP	115	106	49	42	129	440
NWP	255	387	407	292	256	1,597
NCP	168	549	250	148	177	1,293
Uva	464	297	266	270	216	1,513
Sab	226	270	241	144	242	1,124
Total	2,887	3,075	2,818	2,169	2,359	13,308

Source: Provincial Expenditure Reports

Note: The figures do not include the funding through line ministries and donor projects

Figure 4.3-5 Total PSDG Investment in Provincial Road Sector (2009-2013)

**Table 4.3-6: Allocations Under Donor Funded Road Development Projects
by Province from 2010-2012**

(Rs. mn)

Province	2010	2011	2012	2013
Central	150	800	1,125	940
Uva	2,350	1,701	1,420	942
North Central	1,386	1,400	1,175	394
Sabaragamuwa	150	750	1,125	900
Northern	-	1,354	1,373	1,193
Eastern	2,309	3,528	2,163	2,445

Source: Budget Estimates

5

Performance of the Finance Commission

The main task of the Finance Commission is to apportion funds among the provinces ensuring the achievement of balanced regional development in the country and to provide guidelines and technical guidance to the provinces with the objective of ensuring the utilization of such funds in an effective manner. Policy decisions made by the Commission are used as the basis in the process of apportioning funds and allocating resources among agencies/ sectors of the provinces. The functions of the Commission are overseen and guided by the Chairman of the Commission who functions on a full-time basis and ensures the implementation of the Board's decisions. It is the responsibility of the Secretariat of the Commission to then execute all such directions given by the Board. The Finance Commission's staff possesses the professional skills necessary to perform the assigned functions effectively. The four Directors of the Commission, who are senior public officers, carry the responsibility of managing the assigned tasks under the guidance of the Chairman and the Secretary. Deputy Directors and Assistant Directors are assigned function-wise responsibilities, while duties relating to the provincial capital and recurrent budgets are carried out by Assistant Research Officers and Programme

Assistants. The support staff extends their fullest cooperation to the other officers in the performance of their functions.

Accomplishing duties relating to the responsibilities vested by the Constitution in the Finance Commission was undertaken by the four main divisions namely, Policy, Research & Publication, Results Based Planning, Monitoring & Evaluation, and Budget & Forecast. The supportive services provided by the Administration and Finance Divisions helped the professional staff to carry out their functions efficiently and effectively. Key performances of these six divisions in 2013 have summarized below.

5.1 Policy, Research and Publications Division

Recommendations for 2014 which contained the budgetary provisions for the provinces, the way in which apportionment of funds between the provinces is made and the related policies and principles were prepared during the latter part of 2013. As required by the Article 154 R (4) & (7) of the 13th Amendment to the Constitution, these recommendations were forwarded to H.E. the President by the Commission and placed before Parliament after obtaining the approval of the Cabinet of Ministers.

The Commission having reviewed the annual provincial capital needs undertook consultation with the General Treasury and agreed upon the amounts to be allocated for the provinces. The Finance Commission apportioned the bulk amount allocated by the General Treasury for 2014 among the provinces during October, 2013. Capital grants were allocated among sectors/agencies in the provinces taking into consideration the principles and criteria developed by the Commission.

A compendium of guidelines to ensure the effective utilization of allocated provisions between the provinces for the benefit of the people was issued by the Finance Commission in October, 2013. These guidelines were expected to be followed in the preparation of provincial development plans for 2014.

Measures were taken to prepare the Finance Commission's Annual Report from 2012 with a novel approach and the assistance of the Institute of Policy Studies was obtained in this regard. Accordingly, special chapter has been included to the report on Development of Provinces through Investments under Key Sectors. The necessary information was obtained from District Secretariats and agencies at national level for this purpose.

According to a decision taken at the meeting of the Commission, a study has been undertaken to review the impact on provincial capital and recurrent expenditure during the period of 2009-2011. As provincial recurrent expenditure constitutes almost 80% of total expenditure, a special attention was paid to study the impact of recurrent expenditure. The study has covered the sectors of education, health, roads, irrigation, agriculture, social services and probation and childcare and the final report was submitted to the Commission.

5.2 Results Based Planning Division

The following basic functions were completed by this division in 2013.

- i. Granting of the concurrence of the Finance Commission to Provincial Annual Development Plans of 2013.
- ii. Granting of the concurrence to the revisions of the Annual Development Plans submitted by the provinces during 2013.
- iii. Contributing to the preparation of the Recommendations for 2014, submitted to H.E. the President by the Commission.

In addition to above basic functions, following activities have also been undertaken in 2013.

- i. Coordinating the workshops organized by the World Bank in the Northern, Eastern, North Western, North Central and Uva on Promotion on Public-Private Partnership Approach.
- ii. Organizing a workshop on Development of Road Infrastructure for Sustainable Development with the participation of relevant provincial officers at Kandalama Hotel on 14th and 15th July 2013. This workshop was organized in collaboration with the Asian Development Bank.

5.3 Budget and Forecast Division

The Finance Commission received the required amounts for recurrent needs for 2014 in accordance with the guidelines issued by the Finance Commission to the provinces. After assessing the recurrent needs submitted by the provinces, the real need is estimated by deducting the revenue targets of the provinces. Accordingly, the required amount to meet the recurrent expenditure was granted by the General Treasury as Block Grant for 2014.

Subsequent to a decision taken at the Conference of Chief Ministers held on 15th and 16th of February 2013, the Finance Commission has been assigned to prepare a report on Enhancement of Revenue at Provincial and Local Authority Levels. As an initial step, a workshop was held on 19th and 20th, December 2013 at The National Cooperative Development Institute, Polgolla with the participation of the senior officials of provinces and local authorities. A comprehensive report based on the findings of the workshop has been prepared and it will be submitted to the next Conference of Chief Ministers.

5.4 Monitoring and Evaluation Division

Provinces have been directed to monitor provincial development activities at both policy and implementation levels. Specific formats reflecting the key concepts of the Agency Results Framework Approach were developed by the Commission in consultation with the provincial authorities. Chief Secretaries of all provinces were requested to educate the relevant officials to use these formats with a view to monitoring the results at policy and implementation levels.

Measures have been taken to update the trilingual website of the Finance Commission.

5.5 Administration Division

The Administration Division extended its unstinted support to the professional staff of the Commission in the process of delivering its mandated roles and functions.

- i. **Personnel Management including Maintenance of Personal Files and Other Documents:** Annual salary increments of all staff members were paid on time. At the request of some officers, measures have been taken to issue certificates of service.

- ii. **Settlement of Bills: Vouchers** relating to payments by the Commission were submitted to the Finance Division for payment. All payments have been properly documented.
- iii. **Supervision of Security and Janitorial Services:** Regular supervision was carried out to ensure that security and janitorial services were delivered during the contract period in terms of the clauses contained in the service agreements.
- iv. **Maintenance of Office Premises and Other Assets:** The office premises used on rental basis were maintained and necessary repairs were carried out by the owner under the supervision of the Administration Division. The maintenance and repair of other assets namely, vehicles, computers, printing machines, photocopiers and fax machines were undertaken by this division as per the service agreements.
- v. **Day to day Administration on Leave, Loans, Salary Increments etc.** Leave records of all employees were properly maintained tallying with the finger-print machine.
- vi. **Procurement of Goods and Services:** The required stationery, office furniture and equipment were procured according to the procurement guidelines. The maintenance of vehicles and office equipment was undertaken to ensure smooth functioning of such capital assets. Due payments have been made for all procurement and maintenance services within the required time period.
- vii. **Training and Development:** The following officers were provided opportunities to participate in local training programmes given in the table below.

Name of the Officer and Designation	Programme
Mrs.D.T.K.Perera – Public Management Assistant Service	Store Management (Conducted by the Training Institute of the Ministry of Public Administration) – 06.02.2013-08.02.2013)
Mrs.M.A.F.Rifna – Public Management Assistant Service	Public Finance Management (Conducted by the Training Institute of the Ministry of Public Administration) – (04.03.2013-08.03.2013)
Ms.Durga .Jayasinghe – Public Management Assistant Service	Advance B Account of Government Officers (Conducted by the Training Institute of the Ministry of Public Administration) – (27.03.2013)
Mrs.P.Gamage – Public Management Assistant Service	Salary Conversion (Conducted by the SLIDA) – (24.06.2013-25.06.2013)
Mrs.A.P.S.P.Samaratunga – Public Management Assistant Service	Pension Procedures (Conducted by the SLIDA) – (27.06.2013-28.06.2013)
Mrs.W.P.S.Mangalika – Administrative Officer	Disciplinary Actions Procedures (Conducted by the SLIDA) – (08.07.2013-10.07.2013)
Mrs.P.Gamage – Public Management Assistant Service	Tamil Language (Conducted by the Department of Official Languages) – (09.07.2013-19.12.2013)

5.6 Finance Division

The division is responsible for obtaining required financial provisions for the Finance Commission by maintaining a steady co-ordination with the General Treasury and managing the provisions obtained in a proper manner. As per the P.A. Circular 33/2013, Appropriation and all other accounts have been submitted to the Department of Public Accounts and the Department of Auditor General.

As an independent body, the Commission functions as a Head of Expenditure with the status of an A Grade Department for budgetary purposes. The annual estimates of the Commission consist of two parts.

i. Annual budget for recurrent and capital expenditure

ii. Public officer's Advance B Account

The annual budget and actual expenditure and Public Officer's Advance B Account for 2013 are given in Table 5.6-1 and 5.6-2.

In 2013, the Finance Commission was allocated Rs. 41.34 mn and Rs. 4.8 mn for recurrent and capital expenditure respectively. As shown in Table 5.6-1, there is an unutilized amount of 6.34 mn which can be attributed to understaffing of the approved cadre. It should be noted that about 53% of the total approved cadre has been recruited by the Commission over the past few years mainly due to non availability of personnel

Table 5.6-1: Annual Provisions and Actual Expenditure – 2013

Item	(Rs. mn)		
	Total Provision	Actual Expenditure	Balance Unutilized
Personal Emoluments	24.50	18.16	6.34
Other Recurrent Expenditure	16.84	13.89	2.95
Capital Expenditure	4.80	0.77	4.03
Total	46.14	32.81	13.33

Source: Finance Commission

Table 5.6-2: Public Officer's Advance B Account – 2013

(Rs. mn)

Item	Estimate	Actual
Maximum Debit	3.50	2.05
Minimum Credit	1.00	2.41
Maximum Limit of Debit Balance	20.00	7.15

Source: Finance Commission

Table 5.6-3 Recurrent Expenditure by Project–2013

(Rs. mn)

Nature of Expenditure	Provision in Budget Estimates	Supplementary Provision and Supplementary Estimate Allocation	Transfers in terms of the F.R. 66 and 69	Total Net Provision	Total Expenditure
General Administration and Establishment Services					
Personal Emoluments	24.50	-	1.75	24.50	18.16
			(1.75)		
Other Expenditure	16.84	-	0.10	16.84	13.89
			(0.10)		
Total	41.34	-	-	41.34	32.04

Source: Finance Commission

Table 5.6-4: Capital Expenditure by Project – 2013

(Rs. mn)

Nature of Expenditure	Provision in Budget Estimates	Supplementary Provision and Supplementary Estimate Allocation	Transfers in terms of the F.R. 66 and 69	Total Net Provision	Total Expenditure
2002	Plant, Machinery and Equipment	0.60	-	0.60	0.05
2003	Vehicles	0.70	-	0.70	0.42
2102	16.84	-	0.10	16.84	13.89
	Furniture and Office Equipment	1.00	-	1.00	0.02
2103	Plant, Machinery and Equipment	1.50	-	1.50	0.07
2401	Building and Structure	-	-	-	-
	Training and Capacity Building	1.00	-	1.00	0.21
Total		4.80	-	4.80	0.77

Source: Finance Commission

with required qualifications. The main reason for underutilization of capital expenditure is due to non availability of own building as the Commission has leased out a private building for its office and non procurement of new vehicles during the period.

Project-wise details of the recurrent expenditure in 2013 are indicated in Table 5.6-3. It is to be noted that 78% of the budget for recurrent expenditure has been utilized.

Similar data on the capital expenditure are indicated in Table 5.6-4. The utilization of allocations under capital expenditure was low as necessity did not arise to purchase capital assets during the year due to the fact that most of such items had been purchased recently.

5.7 Auditor General's Report for 2013

The following measures have been taken, in relation to the Audit Report of 2013.

Non maintenance of registers :

As per F.R.110, a schedule on damages and losses has already been prepared and maintained properly.

Budget variation :

Savings of some expenditure items could be observed owing to carrying out the maintenance activities of the rented office building by the landlord and no replacement for the officers who got transfers.

Reconciliation statement on Advance Account of Public Officers :

- i. Measures have been taken to charge the due balances.
- ii. The balances of distress loans which were granted contradictory to the P.A.Circular No. 30/2008 dated 31.12.2008 have already been charged from the officers.

Good governance and Accountability :

Annual Procurement Plan:

As per the letter No. PFD/RED/01/04/2014/01 dated 17.02.2014 issued by the Ministry of Finance and Planning and the Public Finance Circular No. 01/2014 03 (e), it is not required to prepare a procurement plan by the institutions like Finance Commission. Therefore, such a plan has not been prepared.

Report on Annual Departmental Survey of Government Property:

Based on the Report of the Annual Departmental Survey of Government Property, it has been recommended to dispose unutilized goods. Inventories have been updated after disposing such goods on General Form - 47.

Losses and Damages :

An investigation has been made in this regard. According to the police report, the driver of the Commission was not found guilty. The loss has been covered by the Sri Lanka Insurance Corporation.

Human Resource Management :

Due to transfer of officers and unavailability of qualified officers for the approved cadre, some posts have been vacant. Maximum effort has been made to fill the vacant posts.

6

Impact of Investments on Regional Disparities

The rationale for the creation of the Finance Commission needs to be understood in a study of the impact of investments made in the provinces through the mediation of the Finance Commission. It was the need to improve the income and the living standards of the people in the provinces while at the same time to reduce the regional disparities existing in and among the provinces. It is evident that the Western Province enjoys a privileged position, so to say, while the provinces such as Eastern and Uva have been lagging far behind. Therefore, it is the responsibility of the Commission to assist in raising the levels of these deprived provinces. In this levelling up effort, the Commission will not be seeking to deprive other resource rich provinces but only seeking to facilitate raising the levels of the resource poor provinces in order to reduce the gaps and achieve a kind of balanced regional development.

6.1 Key Sources of Investments

Since there are several different sources of funding invested in the provinces for socio-economic development, it is necessary to study the impact of total volume and the distribution of such funds. The sources of funding are:

- i. Grants from the government - PSDG and CBG (including allocations to members of provincial councils), based on the recommendations of the Finance Commission
- ii. Revenue transfers from the national government
- iii. Revenue collected by provinces and local authorities through devolved sources
- iv. Investments of line ministries on capital projects
- v. Multi-lateral and bi-lateral donor funding
- vi. Allocations to Members of Parliament under the Decentralized Budget (DCB)
- vii. Private sector investments and BOI projects
- viii. Assistance from NGOs

The changes taking place in development in the provinces should be considered as being the impact of investments by all the above sources and not necessarily the funds allocated on the recommendation of the Commission. It will not be feasible to identify accurately the quantum of funds available

for spending in provinces under investments of line ministries on capital projects, private sector investments and BOI projects and assistance from NGOs. Besides, these funds as well as those under the DCB are outside the control of the Commission.

The impact of investment needs to be measured against some acceptable key criteria which in turn need to be related to the broad objective of the Commission; balanced regional development by reducing disparities among regions in relation to key socio-economic indicators. Expenditure per se at provincial levels should not be the single criterion to measure the impact. Instead, it should be the results of the expenditure in the form of achievement of targets that should be measured.

6.2 Socio-Economic Indicators

Some commonly accepted indicators used to measure the impact of investment on development in the past are set out in the list below:

- i. Provincial GDP
- ii. Per capita GDP
- iii. Poverty Head Count Ratio
- iv. Literacy Rate
- v. Infant Mortality Rate and Maternal Mortality Rate
- vi. Access to potable water
- vii. Access to electricity
- viii. Pass rates at the O/L and A/L examinations
- ix. Teacher - student ratio
- x. Changes in staff of doctors and para-medical officers
- xi. Changes in paddy production
- xii. Effectiveness of Irrigation works
- xiii. Production of livestock

- xiv. Daily dietary energy consumption
- xv. Rate of unemployment
- xvi. Rate of crime
- xvii. Provincial roads
- xviii. Private sector investment
- xix. Prosperity Index
- xx. Wellbeing Index

Provincial GDP termed as “real GDP” is a measure of the real value of the financial resources utilized. It will be always lower than the nominal values stated as the latter become meaningful only when they are adjusted by taking into account the effect of inflation or deflation as the case may be. The rate of crime is a negative measure which could influence the well-being of the population. A low value of crime will indicate the state of discipline and the law abiding propensity of society. The changes in paddy production are a measure of the achievement of physical targets set at the provincial level of production in agriculture. The measures of expenditure depicting the extent of utilization of funds in relation to production of livestock, effectiveness in Irrigation and length of roads and annual improvements on roads do not offer any indication of achievement of targets. Hence this indicator is necessary to compare the expenditure with results achieved. In this context it is necessary to know the unit costs of the relevant activities which have been hitherto unknown.

With respect to the indicators or criteria selected it must be added that too detailed items of statistics or too many statistical tables have been omitted as, for example, in regard to agricultural production that of fruit cultivation, or in the education sector the number of libraries established have not been considered since such information being less important than many other variables cannot be taken into the reckoning nor interpreted to form an overall judgment in regard to the attainment of the main objectives. Otherwise

it would be a case of “missing the wood for the trees”. The results presented below based on each of the key indicators are as follows:

6.2.1 Provincial Per-Capita Gross Domestic Product

The GDP of a country is defined as the total market value of all final goods and services produced within a country in a given period of time (usually a calendar year). The value in rupees refers to the value of goods and

services that enter the market and excludes those that are not freely traded, or sold and paid for. The per capita GDP value in each province is calculated by dividing the total value for the province by the mid-year population of each province.

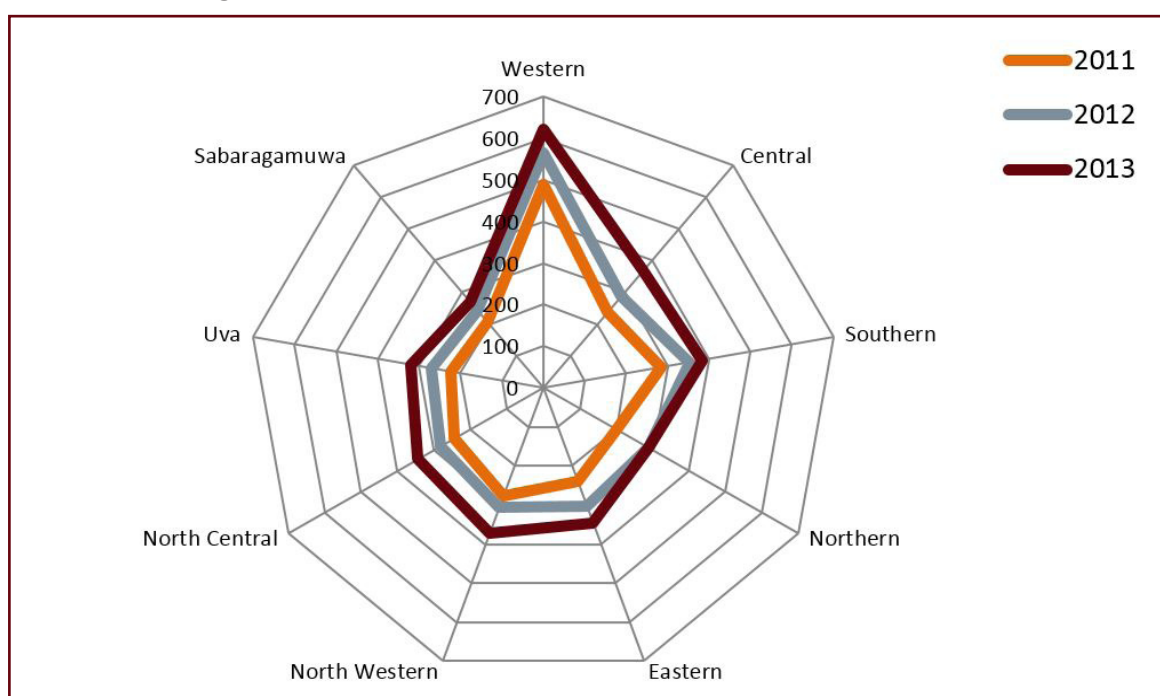
Table 6.2-1 furnishes the figures for the years 2011-2013 provinces wise. There is an improvement in all provinces from 2011 to 2013, of between 27% to 56%. A significant improvement of over 40% is seen in the

Table 6.2-1: Per Capita GDP by Province 2011-2013

Province	Per capita GDP (Rs. '000)			% Increase		% Increase from 2011 to 2013
	2009	2010	2011	2012	2013	
Western	489	564	621	15.3	10.1	27.0
Central	237	289	370	21.9	28.0	56.1
Southern	285	353	383	23.9	8.5	34.4
Northern	202	288	290	42.6	0.7	43.6
Eastern	239	304	346	27.2	13.8	44.8
North Western	277	307	371	10.8	20.8	33.9
North Central	244	281	344	15.2	22.4	41.0
Uva	222	271	321	22.1	18.5	44.6
Sabaragamuwa	207	243	271	17.4	11.5	30.9
Sri Lanka	314	373	423	18.8	13.4	34.7

Note: Calculated using the CBSL provincial GDP data

Figure 6.2-1 Province-wise Per Capita GDP 2011 - 2013



Central, Eastern, Uva, Northern and North Central provinces. The Western Province continues to have the highest income. The Sabaragmnuwa Province has remained in the last position as at 2013 followed by the Northern Province. Its per capita income has risen only slightly. The regional disparities have changed in the two years with Central, North Central and Uva Provinces performing better while the Northern Province has not fared well declining from the 6th to the 8th place.

6.2.2 Gini-Coefficient

Another aspect relevant to income is the degree of inequality in the distribution of income in society as measured by the Gini Coefficient (Gini). Gini coefficient is one of the widely used indicators to measure the depth of inequality of income distribution. The table 6.2-2 displays, Gini coefficient of mean household income, per capita income and income receiver's income.

The Northern and Uva Provinces with a Gini-coefficient of 0.48 show the biggest

deviations in the distribution of income. This means that there is a larger gap in incomes between the rich and the poor in these two provinces than in the rest. But there is a bigger deviation with respect to the income receiver's income. This deviation is high in the Northern, Uva and the Eastern Provinces. It is observed in the table that there is a considerable difference in inequality values among provinces. The lowest Gin Coefficient (0.39) of mean household income has been reported in the North Central Province in 2012/2013.

No substantial differences of Gini Coefficient of per capita income are reported in other provinces since it varies from 0.44 to 0.48.

The Gini coefficient of Income receiver's income is relatively high in every province. The North Central Province has reported less income equality compared to the other provinces. Income inequality in the North Western, Sabaragamuwa and Central Provinces has lessened in 2012/2013, compared to 2009/2010.

Table 6.2-2: Gini Coefficient of Mean Household Income, Per Capita Income and Income Receiver's Income by Province

Province	2009/2010			2012/2013		
	Mean Household Income	Per Capita Income	Income Receiver's Income	Mean Household Income	Per Capita Income	Income Receiver's Income
Western	0.47	0.48	0.55	0.47	0.46	0.54
Central	0.48	0.48	0.55	0.44	0.43	0.5
Southern	0.42	0.42	0.5	0.45	0.44	0.51
Northern	*	0.41	0.47	0.48	0.47	0.57
Eastern	0.42	0.41	0.45	0.45	0.44	0.5
North Western	0.54	0.54	0.58	0.47	0.47	0.53
North Central	0.44	0.44	0.51	0.39	0.38	0.47
Uva	0.47	0.46	0.53	0.48	0.47	0.54
Sabaragamuwa	0.53	0.51	0.59	0.46	0.44	0.52
Sri Lanka	0.49	0.49	0.55	0.48	0.46	0.53

Source: Department of Census & Statistics

*Not Available

6.2.3 Provincial Share of GDP

The distribution of the country's GDP among the provinces is indicated in the Table 6.2-3, showing the values in actual, also called nominal figures at current prices. The Table 6.2-4 shows the values in real figures at constant prices with the year 2008 as the base year. These real values mean that the effect of inflation has been excluded.

Table 6.2-3 displays the Gross Domestic Product at current prices by province and its percentage shares from 2011 to 2013. The relative shares of provincial GDP have risen in all the provinces from 2012-2013. The highest share, 42% of total GDP is generated in the Western province and the lowest share, 3.6%, is from the Northern Province in 2013. The Western, Central, North Western and Southern Provinces

Table 6.2-3: Provincial share of GDP at Current Prices 2011-2013

Province	2011		2012		2013	
	Value (Rs/bn)	%	Value (Rs/bn)	%	Value (Rs/bn)	%
Western	2,905.2	44.4	3,243.9	42.8	3,643.2	42.0
Central	644.2	9.8	775.6	10.2	959.7	11.1
Southern	727.0	11.1	834.3	11.0	954.6	11.0
Northern	241.2	3.7	277.8	3.7	311.5	3.6
Eastern	375.3	5.7	478.4	6.3	542.8	6.3
North Western	652.1	10.0	760.1	10.0	886.8	10.2
North Central	300.0	4.6	379.2	5.0	438.9	5.1
Uva	292.5	4.5	362.0	4.8	410.0	4.7
Sabaragamuwa	406.6	6.2	467.2	6.2	526.2	6.1
Total	6,544.0	100	7,578.6	100	8,673.6	100

Source: Central Bank of Sri Lanka

Table 6.2-4: Provincial Share of GDP at Constant Prices 2011-2013

Province	2011 (Rs.bn)	2012 (Rs.bn)	2013 (Rs.bn)
Western	2,477.5	2,572.8	2,702.1
Central	549.3	615.1	711.8
Southern	620.0	661.7	708.0
Nothern	205.7	220.4	231.0
Eastern	320.0	379.4	402.6
North Western	556.1	602.9	657.7
North Central	255.9	300.8	325.5
Uva	249.4	287.1	304.1
Sabaragamuwa	346.7	370.6	390.3
Total	5,580.8	6,010.7	6,433.0

Note: Base year- 2008=100

show a higher increase of the GDP while the increases in the Northern, Uva and Sabaragamuwa Provinces are rather slight. GDP values of all the provinces display an increasing trend. However, changes of the percentage composition of GDP among provinces indicate a positive sign of lessening the regional disparities.

Though the total GDP figures in each province indicate a rise, it needs to be viewed in the light of the GDP values at constant prices. Table 6.2-4 is for the GDP at constant prices by province 2011–2013. So, a value of Rs.8,673.6 billion of GDP at current prices is really a value of Rs. 6,433 billion, a reduction of nearly 35% taking 2008 as the base year.

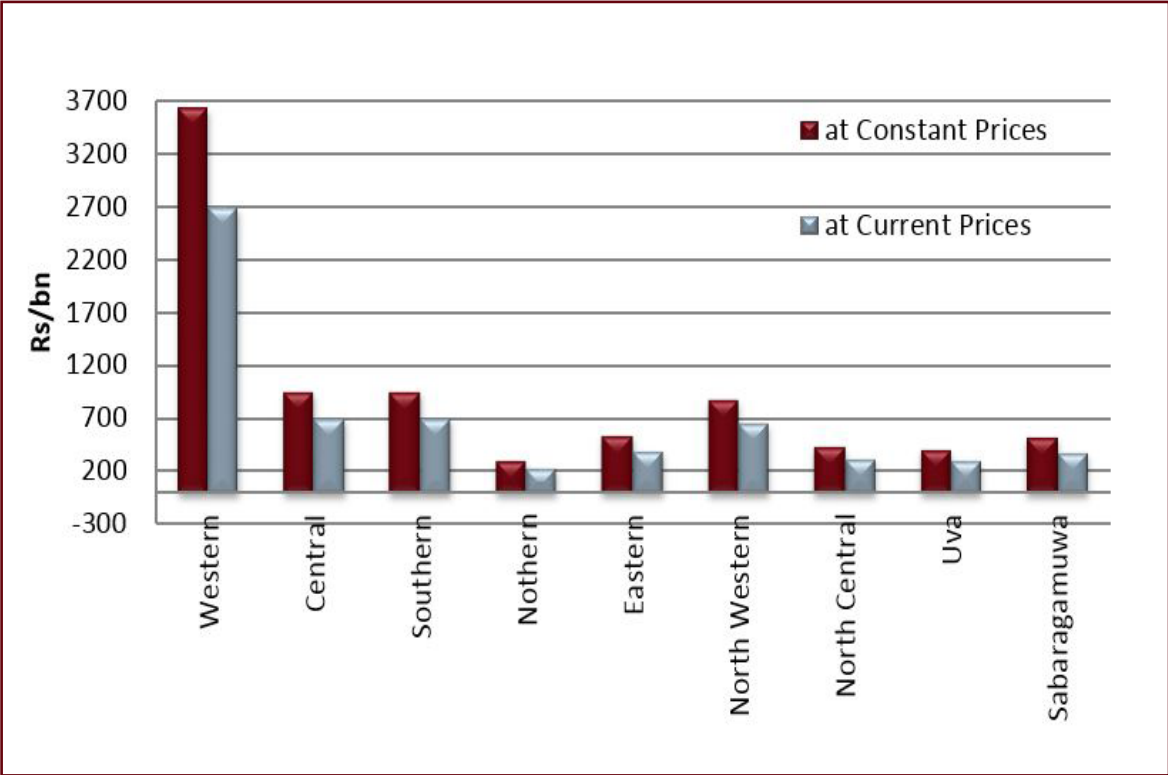
Figure 6.2-2 describes a clear image of the effect of the inflation on the GDP at current prices.

6.2.4 Poverty Status

Frequently, poverty is defined in either relative or absolute terms.

Absolute poverty measures poverty in relation to the amount of money necessary to meet basic needs such as food, clothing, and shelter. The concept of absolute poverty is not concerned with broader quality of life issues or with the overall level of inequality in society. The concept therefore fails to recognise that individuals have important social and cultural needs. This, and similar criticisms, led to the development of the concept of relative poverty. Relative poverty defines poverty in relation to the economic status of other members of the society: people are poor if they fall below prevailing standards of living in a given societal context. An important criticism of both concepts is that they are largely concerned with income and consumption (UNESCO).

Figure 6.2-2: GDP at Current and Constant Prices - 2013



Several indices such as Poverty Head Count Ratio, Poverty Gap Index and Poor Household Percentage are used to measure the status of poverty.

The Poverty Head Count (PHC) Index is the percentage of population below, the official poverty line. The poverty line is the minimum monthly expenditure per person that is required to fulfil the basic needs such as calorie intake, clothing, shelter, health care etc. The official poverty line for the year 2013 is Rs 3,730. The Poor Household Percentage means the percentage of households which are below the poverty line in relation to the total households in the country. The poverty gap is defined as the requirement of money (shortfall) by the poor to come out of this poverty or a gap between the total consumption value of the poor and the value of the poverty line.

The PHC index in the country has declined from 8.9 in 2009/10 to 6.7 in 2012/13 which can be considered as a national level improvement. However, in the North Central and Uva Provinces, the index has risen from 5.7 and 13.7 in 2009/2010 to 7.3 and 15.4 respectively in 2012/2013. Except for these two provinces, a significant drop

in the poverty level can be observed in all other provinces. It is noted that the highest reduction in poverty incidence is in the North Western Province while the Eastern Province comes next in terms of reduction of poverty.

The percentage of poor households below the poverty line shows the effect of poverty on the total poor households without considering individual poverty. Island wide figures show a reduction within the two years concerned from 7.0 in 2009/2010 to 5.3 in 2012/2013. Poor household percentages in all other provinces except the Uva and North Central Provinces have reduced in 2012/2013 compared with 2009/2010. The highest percentage of 13.5 of poor households is recorded in the Uva Province in 2012/2013.

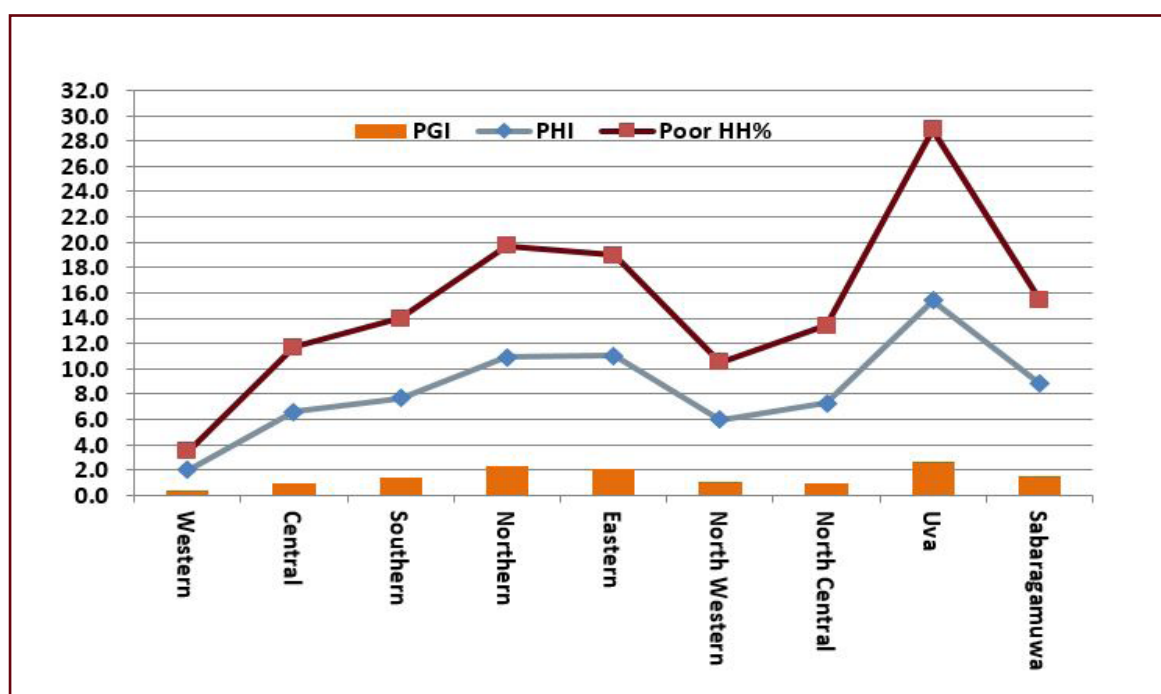
The poverty gap index in Sri Lanka has been reduced by 0.5 from 2009/2010 to 2012/2013. The gap index is high in the Uva Province followed by the Northern and Eastern Provinces in 2012/2013. An increase of the Gap Index can be seen in the Uva and Northern Provinces in 2012/2013 compared with 2009/2010. The same status in the Gap index is visible in the North Central Province

Table 6.2-5: Status of Poverty in the Provinces in 2009/10-2012/13

Province	Poverty Head Count Index		Poor Household (%)		Poverty Gap Index	
	2009/2010	2012/2013	2009/2010	2012/2013	2009/2010	2012/2013
Sri Lanka	8.9	6.7	7.0	5.3	1.7	1.2
Western	4.2	2.0	3	1.5	0.8	0.4
Central	9.7	6.6	8.2	5.1	1.8	1.0
Southern	9.8	7.7	7.5	6.3	1.8	1.4
Northern	12.8	10.9	10	8.8	2.1	2.3
Eastern	14.8	11.0	12.4	8.0	3.2	2.1
North Western	11.3	6.0	8.2	4.5	2.4	1.1
North Central	5.7	7.3	4.6	6.1	1.0	1.0
Uva	13.7	15.4	12	13.5	2.4	2.6
Sabaragamuwa	10.6	8.8	8.7	6.6	2.1	1.5

Source: Department of Census and Statistics

Figure 6.2-3: PHI, PGI and Poor Household Percentages - 2013



within the same periods of time. A decline of the gap index is observed in the North Western and Eastern Provinces in 2012/2013 compared with 2009/2010.

Figure 6.2-3 provides graphical evidence of the dispersion of poverty among provinces in relation to the poverty indicators of PHI, PGI and Poor household percentages for 2013.

6.2.5 Literacy

Literacy is measured by the percentage of the population above the age of 10 years who are able to read and write in a language at least a paragraph or a short letter. An improvement in the literacy suggests that the capabilities and competencies of the population have been enhanced. Table 6.2-6 presents the data by sex and by province for the year 2012.

Table 6.2-6: Percentages of Literate Population (aged 10 years and above) by Sex and Province -2012

Province	Population aged 10 years and above	Both sexes	Male	Female
Western	4,953,138	98.0	98.5	97.6
Central	2,109,607	93.9	96.1	92.0
Southern	2,052,466	95.3	96.3	94.4
Northern	876,354	97.8	98.3	97.4
Eastern	1,237,082	91.9	94.0	89.9
North Western	1,967,530	96.3	97.0	95.6
North Central	1,029,994	95.4	96.6	94.3
Uva	1,034,402	92.2	94.7	89.8
Sabaragamuwa	1,607,252	94.8	96.3	93.5
Sri Lanka	16,867,825	95.7	96.9	94.6

Source: Department of Census and Statistics

Figure 6.2-4: Literacy Rate - 2012

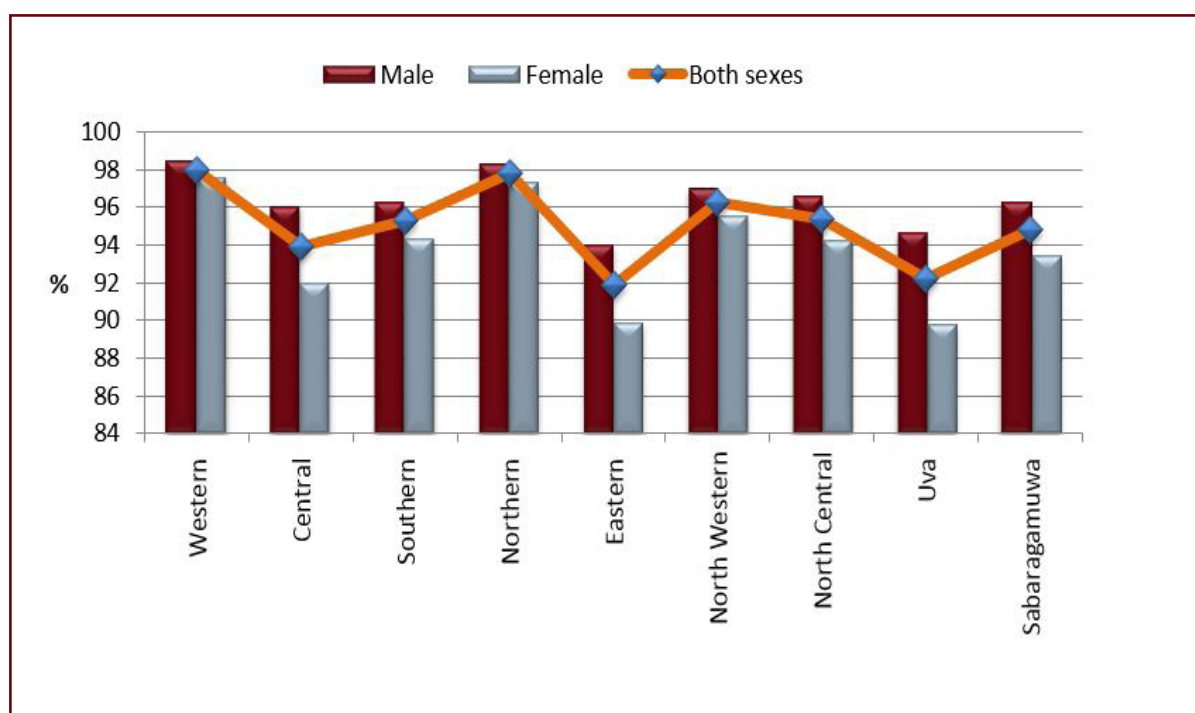


Table 6.2-6 indicates the relevant data for the population above 10 years. In 2012 the all island rate has been 95.7%. The highest has been 98 % in the Western Province followed by the Northern and North Western Provinces scoring 97.8% and 96.3% respectively. As between the males and females, the lowest literacy rates are recorded in the Uva and Eastern Provinces for the female category. As for the highest literacy rate, the Western Province records the highest.

6.2.6 Infant Mortality

The Infant Mortality Rate (IMR) is the number of infants dying before reaching one year of age, per 1,000 live births in a given year. When the rates improve by having a lower number of deaths of infants, it can be

interpreted as an index of better nutrition levels, improved public health services and efficient patient care.

Table 6.2-7 depicts the data on infant mortality of the country during 2000-2010. The IMR of 13.4 in 2000 has dropped to 9.9 in 2010 in the country. The Eastern, Central, North Central and Northern Provinces reported a relatively higher IMR during the above ten year period. The highest IMR of 19.2 in 2010 was reported from the Batticaloa District.

It should be noted that the IMR for a given year is computed using the number of infant deaths registered in a particular year on the basis of the place of occurrence of the death. Therefore, some districts carry high IMR since the main hospitals are located within such districts.

Table 6.2-7: Infant Mortality Rate by Districts per 1,000 birth (2000-2010)

Province	District	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Western	Colombo	18.1	17.1	16.0	15.2	14.5	14.6	15.6	14.1	14.3	15.1	15.6
	Gampaha	5.5	5.2	5.4	6.1	3.4	4.5	4.0	2.7	3.7	4.6	3.9
	Kalutara	6.2	4.4	4.0	4.1	2.8	3.7	2.3	3.3	3.4	5.6	5.6
Central	Kandy	18.7	17.9	15.6	15.4	14.9	13.1	13.7	11.1	9.6	13.7	16.6
	Matale	10.2	7.6	7.5	10.3	7.6	6.4	5.0	7.2	6.8	6.5	7.6
	Nuwara Eliya	17.2	20.0	15.8	15.6	18.4	21.9	12.7	14.8	14.0	10.6	12.1
Southern	Galle	12.0	13.6	10.9	10.8	8.9	12.2	10.6	9.9	11.9	10.7	8.6
	Matara	13.9	7.8	8.1	8.4	8.1	8.8	6.4	9.4	9.5	9.0	10.3
	Hambantota	3.9	6.1	4.7	6.7	6.9	12.4	6.1	4.3	5.6	5.5	5.4
Northern	Jaffna	4.3	5.2	5.5	5.7	3.9	9.2	3.5	3.0	3.4	7.6	13.0
	Kilinochchi	14.2	6.6	4.0	1.2	0.4	1.7	1.4	0.9	..	1.5	0.3
	Mannar	4.3	6.7	4.8	1.9	2.4	1.9	1.2	3.5	0.9	1.6	-
	Vavuniya	3.9	9.7	12.2	8.0	7.9	8.7	2.8	8.6	13.7	35.8	8.2
	Mullativu	13.3	13.9	9.3	2.5	-	46.8	0.4	-	..	25.1	26.0
	Batticaloa	16.9	18.4	16.0	21.1	17.7	24.8	30.0	25.1	13.0	17.4	19.2
	Ampara	7.4	6.6	6.9	5.9	2.7	15.1	2.9	4.5	3.7	3.1	4.3
	Trincomalee	4.0	2.6	3.2	3.4	3.4	5.8	1.7	2.5	5.6	4.5	3.0
North Western	Kurunegala	17.4	13.4	11.4	14.2	9.6	11.7	16.8	9.7	14.2	9.6	9.6
	Puttalam	9.7	7.5	6.6	6.4	5.6	7.9	9.8	7.0	6.4	6.3	6.7
	Anuradhapura	16.5	22.5	17.7	17.4	19.7	15.4	11.3	10.3	10.8	12.3	16.7
	Polonnaruwa	8.4	12.4	17.2	27.6	14.7	8.8	3.5	4.6	11.8	7.8	2.7
	Badulla	22.0	21.0	16.1	9.5	10.0	7.2	9.1	6.2	6.9	6.0	8.3
	Monaragala	4.4	3.1	1.9	2.1	2.4	5.3	2.9	3.6	2.1	5.1	2.8
Saba.	Ratnapura	16.2	12.5	13.6	13.0	9.8	8.3	7.7	5.7	5.8	6.9	7.2
	Kegalle	15.1	9.5	9.7	7.5	6.9	8.7	10.3	5.1	4.1	6.3	6.1
	Sri Lanka	13.4	12.6	11.4	11.3	9.8	11.2	10.0	8.5	9.0	9.7	9.9

...: Not reported.

Note: IMR for a given year is computed using the number of infant deaths registered in that particular year on the basis of place of occurrence.

Source: Department of Census and Statistics

6.2.7 Maternal Mortality

The Maternal Mortality Rate (MMR) is calculated using the number of women who die during pregnancy or childbirth per 100,000 live births. Relevant statistics are given in the Table 6.2-8. In this case, a low rate indicates better levels of health services and nutrition. It could even be asserted that a low rate would be a function of better education levels.

Although the MMR of the country shows a declining trend from 2000 to 2005, it had regained same rate of 22 which existed in 2000 again in 2010. It can be observed that high MMR has occurred in the Northern, Eastern and Uva Provinces during the period.

Table 6.2-8: Maternal Mortality Rate by District 2000-2010 Per 100,000 birth

Province	District	2000	2001	2002	2003	2004	2005	2006	2009	2010
Western	Colombo	19.0	16.5	11.2	14.4	7.9	4.7	14.5	20.7	7.2
	Gampaha	3.8	25.6	11.7	7.7	3.1	13.5	14.3	10.8	18.6
	Kalutara	6.3	6.0	6.2	18.9	6.0	5.9	5.8	6.0	24.7
Central	Kandy	10.6	6.9	10.2	13.3	16.4	9.9	13.0	53.0	20.4
	Matale	11.2	-	-	43.9	21.3	10.9	-	18.8	20.0
	Nuwara Eliya	60.4	18.6	51.3	52.8	46.0	38.9	53.0	18.4	20.4
Southern	Galle	16.4	37.9	10.4	20.3	-	10.7	4.9	25.0	31.9
	Matara	20.0	20.2	14.0	27.7	7.2	14.0	13.5	13.6	-
	Hambantota	-	-	14.1	-	12.3	-	23.6	43.2	11.4
Northern	Jaffna	75.8	72.8	34.3	32.8	18.8	37.5	10.9	12.9	80.2
	Kilinochchi	63.2	-	57.5	93.3	-	68.2	55.8	-	26.2
	Mannar	-	-	-	-	47.2	-	-	-	-
	Vavuniya	-	62.5	-	-	-	-	-	21.9	31.5
	Mullativu	24.6	62.2	-	21.2	-	-	-	-	-
Eastern	Batticaloa	33.5	26.3	24.7	14.8	30.5	8.5	33.7	9.5	48.9
	Ampara	24.8	8.3	16.9	23.4	8.4	-	20.5	14.3	21.3
	Trincomalee	-	-	10.7	37.4	12.3	12.2	-	35.6	49.3
North Western	Kurunegala	21.7	13.2	19.9	8.5	8.6	10.9	11.7	48.0	34.3
	Puttalam	15.4	21.7	21.4	8.0	8.0	-	31.9	34.3	7.1
North Central	Anuradhapura	33.1	13.6	19.1	23.0	26.5	-	6.5	36.9	43.7
	Polonnaruwa	15.5	14.1	14.6	-	14.5	26.4	-	-	-
Uva	Badulla	43.8	21.7	26.7	33.5	5.6	39.3	-	-	28.5
	Monaragala	-	17.4	14.4	-	15.3	-	15.3	14.2	14.6
Saba.	Ratnapura	30.7	5.4	30.9	27.3	26.9	15.8	18.8	4.7	5.0
	Kegalle	55.8	19.2	-	21.3	-	11.3	9.1	8.9	27.5
Sri Lanka		22.1	17.8	16.3	19.7	12.1	11.9	14.2	22.3	22.0

Note:

(1) (2) (3) Maternal Mortality rates for year 2007 and 2008 are not available

(2) Information received from civil registration system in 2009 was reviewed and was supplemented with the maternal mortality data compiled by the Family Health Bureau, Ministry of Health. Therefore, the increase in 2009 or 2010 figures should not be interpreted as an increase in maternal deaths but be construed as an improvement in the quality and completeness of coverage of maternal deaths.

(3) MMR for a given year is computed using the number of maternal deaths registered in that particular year on the basis of place of occurrence.

6.2.8 Access to Safe Drinking Water

A fair number of bowel diseases and, recently, even kidney diseases are attributed to the lack of safe potable water. Usually it is pipe borne water that is supposed to be potable as the water in the reservoirs maintained by the Water Supply and Drainage Board are treated with germicides. This type of treated

water is available only in urban areas. Well water and other sources of drinking water in agricultural areas may not be so safe as they could be contaminated with pesticides.

Table 6.2-9 displays the percentage distribution of households having safe drinking water in 2006/2007 and 2012/2013. Almost 90% of the households in the country had access to safe drinking water in the year

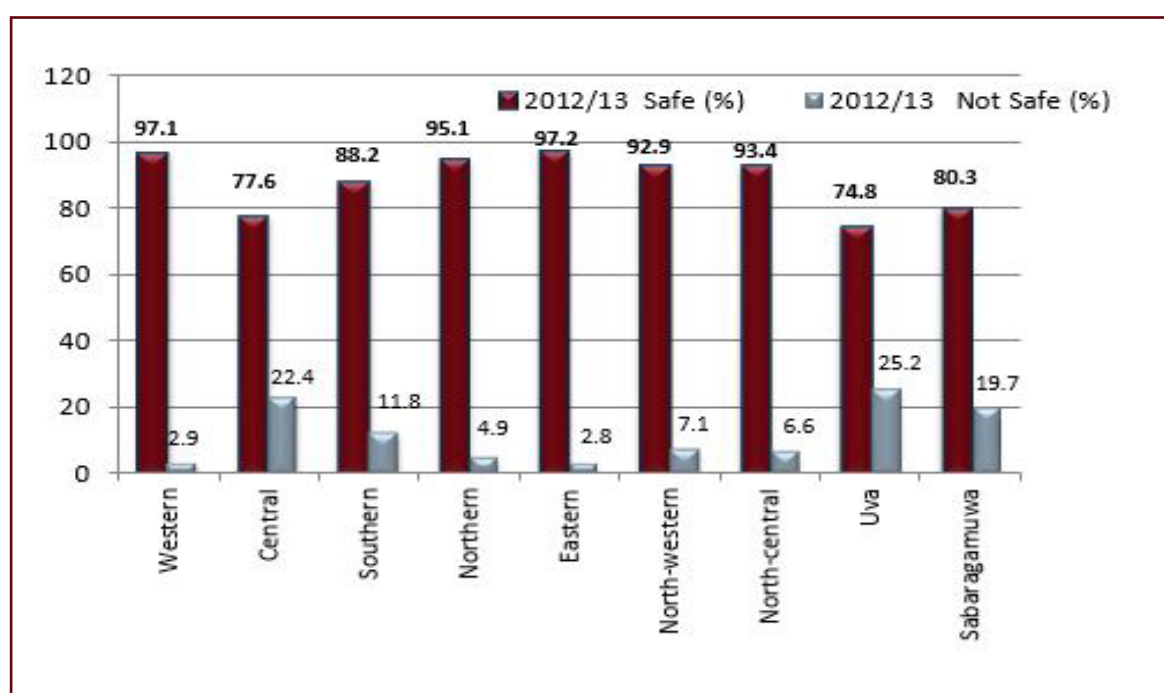
Table 6.2-9: Households with Safe Drinking Water

Province	2006/07 (%)	2012/13 (%)
Western	94.3	97.1
Central	70.6	77.6
Southern	84.4	88.2
Northern	*	95.1
Eastern	92.2	97.2
North-western	90.5	92.9
North-central	86.4	93.4
Uva	81.4	74.8
Sabaragamuwa	67.2	80.3
Sri Lanka	84.8	89.7

Source: Department of Census and Statistics

Note: * not Available

Figure 6.2-5: Availability of Drinking Water



2012/2013 as against 85% in 2006/07. The best position was recorded in the Eastern Province at 97.2% in 2012/2013 while the lowest percentage of 74.8 was reported from the Uva Province. By 2013, five provinces namely the Western, Northern, Eastern, North Western and North Central Provinces have been able to reach higher positions than the national level.

The percentage of households to whom water is not available within their premises in the country was 19.7 in 2012/2013 as against 28.3 in 2006. Larger percentages of households without drinking water within the premises can be observed in the Northern, North Central, North Western, Eastern

and Uva Provinces, the Northern and the North Central Provinces. The percentage of households having to travel more than 500 meters to obtain drinking water was 1.2% in 2012/2013 as against 1.7% in 2006/2007 showing a slight improvement. The worst affected provinces in 2012/2013 were the North Central Province followed by the North Western, Eastern and Northern Provinces. Even in 2006/2007 the worst affected had been the North Central, North Western and Uva Provinces. The situation in the North Central Province has become worse in 2012/2013 when 5% of the households had to travel a distance of more than 500 meters to collect drinking water.

Table 6.2-10: Percentage Distribution of Households by Distance to Collect Drinking Water

Province	2006/2007						2012/2013					
	Available Within Premises %	Available Outside Premises %	Available Outside Distance %				Available Within Premises %	Available Outside Premises %	Available Outside Distance %			
			<=100 m	101-200 m	201-500 m	>500 m			<=100 m	101-200 m	201-500 m	>500 m
Sri Lanka	71.7	28.3	18.7	3.8	4.1	1.7	79.9	20.1	13.3	2.8	2.9	1.2
Western	86.3	13.7	11.7	0.9	0.5	0.4	91.5	8.5	7.6	0.6	0.2	0.1
Central	62.9	37.1	26	4.6	5.8	0.7	79.4	20.6	15.9	2.5	2.1	0.1
Southern	74.7	25.3	17.2	3.3	3.4	1.5	84.6	15.4	11.2	2.3	1.6	0.4
Northern	*	*	*	*	*	*	52.4	47.6	27.5	7.7	9.1	3.2
Eastern	69.2	30.8	17.8	4.6	6.3	2.2	73.2	26.8	18.4	2.8	4.2	1.4
North Western	62.2	37.8	20.6	6	7.1	4	73.2	26.8	15.5	3.4	4.6	3.3
North Central	53.7	46.3	25.7	7.9	9.1	3.5	65.4	34.6	14.7	5.5	9.4	5.0
Uva	62.4	37.6	26.1	5.7	4.8	1	78.2	21.7	11.5	5.2	4.3	0.7
Sab.	69	31	19	4.1	4.8	3.1	80.3	19.7	14.7	3.2	1.6	0.2

Source: Department of Census and Statistics

6.2.9 Human Resources of Health Sector

The ratio of medical/para medical staff to the population can safely be assumed to be a measure of the adequacy and level of patient

by Central, Southern and North Western Provinces respectively. The least number of medical personnel except attendants and other categories is recorded in the North Central Province while the Uva Province comes next.

Table 6.2-11: Distribution of Health Personnel and Population by Province 2012

Province	Mid - Year Population	Specialists - Curative care Services	Medical Officers	Dental Surgeons	Nurses	Para Medical Officers	Attendants	Other	Total
Western	5,866	733	6,358	385	13,723	4,664	1,904	9,486	37,253
Central	2,592	275	2,275	197	4,941	2,217	1,136	5,506	16,547
Southern	2,493	188	1,565	116	4,413	2,081	800	4,226	13,389
Northern	1,073	89	815	60	1,251	1,046	749	2,300	6,310
Eastern	1,571	99	1,174	86	2,076	1,680	616	3,614	9,345
North West.	2,393	104	1,235	132	3,434	1,847	741	3,663	11,156
North Cent.	1,263	69	707	76	2,011	1,182	530	2,088	6,663
Uva	1,278	74	772	79	1,805	1,183	440	2,650	7,003
Sabara.	1,941	94	1,009	92	2,832	1,530	630	2,922	9,109
Total	20,328	1,725	15,910	1,223	36,486	17,430	7,546	36,455	116,775

Source: Ministry of Health, Annual Bulletin – 2012

care and the availability of health facilities to the population.

Table 6.2-11 presents data on distribution of health personnel by province 2012. The highest number of total cadre of 37,253 (32%) is recorded in the Western Province followed

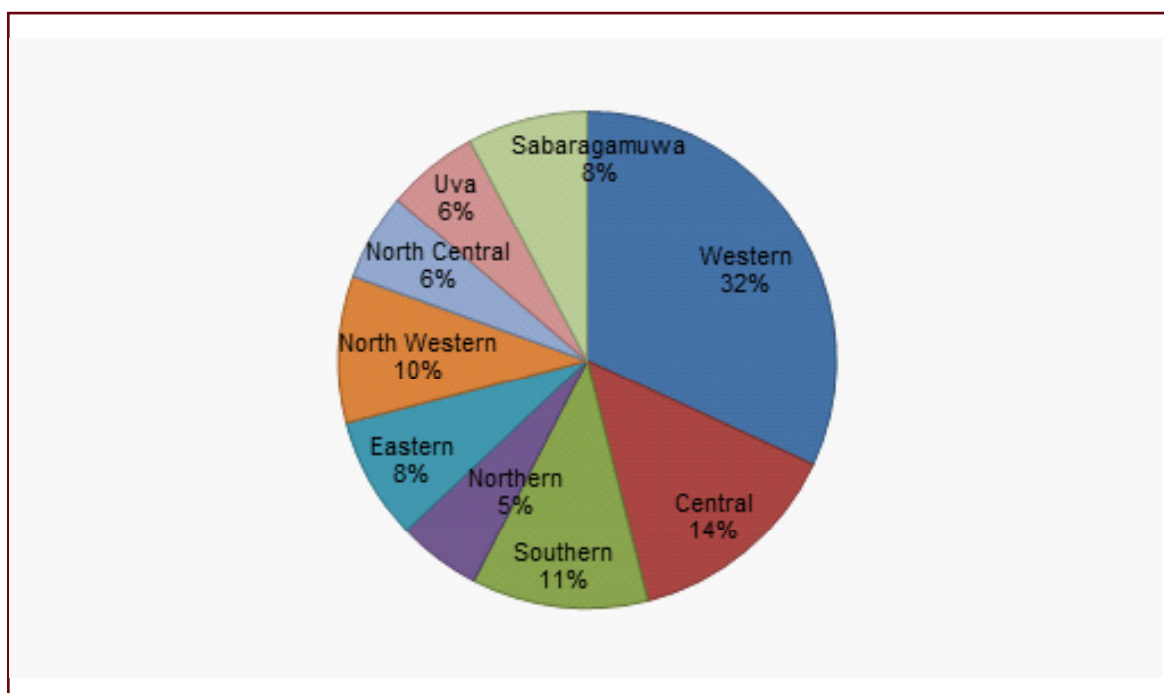
Table 6.2-12 displays persons per key health personnel by province in 2012. The lowest number of persons per medical officer and per nurse was reported in the Western Province while the highest number was recorded in the North Western Province.

Table 6.2 -12: Persons per Medical Officer, Dental Surgeon & Nurse -2012

Province	Persons per Medical Officer	Persons per Dental Surgeon	Persons per Nurse
Western	923	15,236	427
Central	1,139	13,157	525
Southern	1,593	21,491	565
Northern	1,317	17,883	858
Eastern	1,338	18,267	757
North Western	1,938	18,129	697
North Central	1,786	16,618	628
Uva	1,655	16,177	708
Sabaragamuwa	1,924	21,098	685
Sri Lanka	1,278	16,621	557

Source: Ministry of Health, CBSL

Figure 6.2-6: Percentage Distribution of Health Personnel - 2012



The Sabaragamuwa province has become the second highest. This means that the availability of key medical personnel to serve the population is satisfactory showing a higher availability than the national level in the Western Province.

Persons per dental surgeon are higher than the persons per medical officer in all provinces. The highest number of persons per dental surgeon can be seen in the Southern Province which needs an improvement in dental care. The Sabaragamuwa Province also shows a similar situation with regard to dental care. The lowest number of persons per dental surgeon is in the Central Province indicating a better situation.

There are 557 persons per nurse in the country in 2012. The lowest recorded number of persons per nurse is in the Western Province while the highest number per nurse is recorded in the Northern Province.

The percentages of the distribution of total health personnel are displayed in the figure 6.2-6.

6.2.10 Access to Electricity Supply

Access to electricity supply is a basic requirement of living in the modern society. Availability of electricity in households also helps children to engage in their learning while providing for comfortable living. In addition, electricity facilitates self - employment opportunities at household level. Therefore, access to an electricity supply is considered an essential element in measuring the regional disparities.

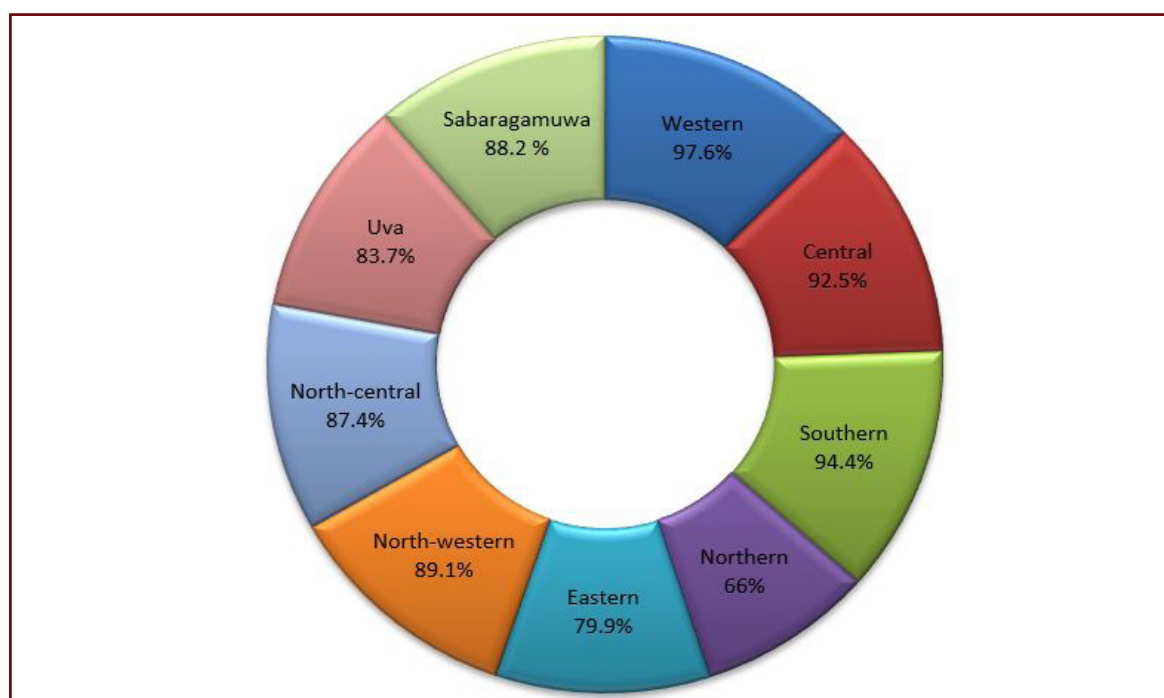
Table 6.2-13 gives data on the percentage of households having electricity supply during the period of 2006/2007 – 2012/2013. In the period of 2012/2013, electricity was the main source of lighting in 90.2% households of the country. All other provinces except the Northern Province recorded more than 80% of households which consumed electricity. Higher increases can be observed in the North Western, North Central and Sabaragamuwa Provinces with 12.1%, 10.2% and 9.1% respectively during the period concerned.

Table 6.2-13: Households Having Electricity Supply (2006-2013)

Province	Household %		
	2006/2007	2009/2010	2012/2013
Western	92.8	95	97.6
Central	78.2	87.3	92.5
Southern	84.4	91.1	94.4
Northern	*	69.6	66
Eastern	68	76.3	79.9
North-western	70.7	77	89.1
North-central	69.1	77.2	87.4
Uva	69.2	78.9	83.7
Sabaragamuwa	71.3	79.1	88.2
Sri Lanka	80	85.3	90.2

Source: Department of Census and Statistics

Note: * not Available

Figure 6.2-7: Households Having Access to Electricity –2012/2013

The Figure 6.2-7 indicates the province-wise availability of electricity at household level in 2012/2013.

Table 6.2-14 shows the changes in the number of all account holders including households, commercial ventures and other institutions from 2010 to 2013. It is also reckoned as the measure of access to electricity. Besides, these changes have to be viewed against the

population of each province. This is a proxy measure of electricity consumers enjoying adequate income and social wellbeing.

On this parameter between 2010 and 2013, there has been an average of 16% increase in the number of consumers benefiting from a supply of electricity. The highest numbers are manifest in the Western Province at 26%, the next being the Central and North Central

Table 6.2-14: Electricity Consumer Accounts by Provinces 2010-2013

Province	2010	2011	2012	2013
Western	1,214,826(a)	1,252,176	1,296,316	1,334,127
Central	598,187	626,460	653,912	858,446
Southern	591,887(a)	616,482	636,247	659,545
Northern	143,611	166,051	188,284	217,973
Eastern	312,727	337,287	366,942	392,436
North Central	594,899	627,289	663,514	693,040
North Western	295,924	314,523	338,951	356,446
Uva	353,632	373,819	401,725	308,707
Sabaragamuwa	374,729	403,359	433,969	390,039
LECO	-	1	1	1
Total	4,480,422	4,717,448	4,979,862	5,210,761

Source: Central Bank of Sri Lanka

Note: 1. Transmission of bulk supply to Lanka Electricity Company (LECO) shows separately from 2011

2. (a) Including LECO

Provinces. The total number of electricity account holders in 2012 being 4.9 million has risen to 5.2 million in 2013. The decrease in the number of account holders in the Uva Province is due to the fact that there has been a transfer of accounts from them to Central and Sabaragamuwa Provinces by the Ceylon Electricity Board.

6.2.11 Pass Rates at Ordinary Level (O/L) and Advanced Level (A/L) Examinations

Examination results are deemed to be a measure of success in the education sector. Changes in the results at the General Certificate of Examination (G.C.E.) O/L and A/L examinations are therefore analysed below in Table 6.2-15. In the case of the O/L examination, only the numbers of students qualifying for the A/L are taken into account. At the A/L only the numbers of students qualifying for admission to the University are taken into account.

Around 27% of the total number of students who sat for five or more subjects at the O/L was recorded in the Western Province in 2013. The Southern and Central Provinces

indicate around 13% and the North Western Province indicates 11.6%.

As indicated in Table 6.2-16, 64% of students of the country qualified for A/L for the year 2012 and 66.6% for 2013. The highest qualified percentage in both years has been recorded in the Western Province. The North Central and Northern Provinces also highlight good indicators in the two years. All other provinces exceed 63%. The Eastern and Sabaragamuwa Provinces display a significant percentage increase from 2012 to 2013.

Out of 241,629 students who sat for the G.C.E. A/L in 2013, 140,993 students were eligible to enter a university. Under the Z Score method, around 25,000 of them were selected annually for the universities. Although 58.4 % of the total number of students who sat the G.C.E. A/L in 2013 qualified for the university entrance, only about 18% entered the state universities due to lack of capacity.

In every province more than 56% of students qualified for the University. The highest percentage of 62 was from the Northern Province while Sabaragamuwa and Southern

Provinces followed respectively. The majority of students qualifying for the universities from the Arts and Commerce streams was recorded in Sabaragamuwa Province, while Northern and Southern Provinces recorded the second and third places in the Arts stream. Southern and Western Provinces gained the second and third places in the Commerce stream.

The highest number of students from Bio Science stream was recorded in the Western Province, while Southern Province bagged the highest place in the Physical Science stream. The smallest number of students qualifying for the universities in the Physical Science stream was from the North Central Province.

Table 6.2-15: G.C.E. O/L Examination Performance of School Candidates (1st Attempt) by Province 2012-2013

Province	2012			2013		
	No. sat for 5 or more subjects	Qualified for (G.C.E. A/L)		No. sat for 5 or more subjects	Qualified for (G.C.E. A/L)	
		No	%		No	%
Western	70,871	48,923	69.0	71,357	49,521	69.4
Central	34,868	21,442	61.5	34,455	21,878	63.5
Southern	35,139	23,297	61.5	33,692	22,591	63.5
Northern	15,720	9,430	66.3	15,280	9,982	67.1
Eastern	20,701	12,875	60.0	20,525	13,430	65.3
North Western	30,924	20,659	62.2	30,775	21,209	65.4
North Central	16,768	10,128	66.8	16,726	10,548	68.9
Uva	19,012	11,336	60.4	18,003	11,419	63.1
Sabaragamuwa	24,992	16,070	59.6	23,959	15,956	63.4
Sri Lanka	268,995	174,160	64.3	264,772	176,534	66.6

Source: Ministry of Education

Table 6.2-16: Stream-wise Performance of All Candidates by Province G.C.E. A/L Examination - 2013

Province	Eligible for University Entrance - passed in 3 Subjects											
	Bio Science		Physical Science		Commerce		Arts		Other		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Western	6,083	59.6	5,199	48.9	13,180	57.9	10,769	59.2	337	41.1	35,568	56.8
Central	2,386	48.2	1,523	47.3	4,305	53.3	8,793	62.9	147	54.2	17,154	56.3
Southern	3,519	53.8	3,049	53.5	5,159	58.7	9,516	68.7	57	57.6	21,300	60.9
Northern	896	52.7	856	51.5	1,415	54.8	5,063	69.8	50	47.2	8,280	62.2
Eastern	1,252	53.6	734	46.1	1,965	56.1	6,247	62.4	105	48.4	10,303	58.4
North Western	2,263	51.7	1,495	45.0	3,633	56.0	8,178	62.2	98	51.3	15,667	56.9
North Central	998	44.5	576	45.1	1,984	52.9	4,646	63.7	67	45.0	8,271	56.2
Uva	1,102	47.6	688	45.0	2,288	55.5	5,557	66.6	58	47.5	9,693	59.0
Saba.	2,268	51.7	1,279	48.5	3,579	59.9	7,569	70.1	62	44.6	14,757	61.7
Sri Lanka	20,767	53.2	15,399	48.8	37,508	56.8	66,338	64.5	981	46.4	140,993	58.4

Source: Ministry of Education

6.2.12 Teacher Student Ratio

The teacher student ratio is an indicator of the adequacy of the educational system. This ratio indicates the number of students per teacher. Better ratios are a pointer to an improvement in the quality of teaching and learning.

Table 6.2-17 shows the number of students per teacher by province. Overall teacher student ratio of 18 in 2013 has remained constant for the three previous years. The Western Province had the largest number of students per teacher in all years. The North Western Province had the lowest number of students per teacher in 2013 while the Sabaragamuwa and Eastern Provinces had the next best ratios. The Western Province's ratio has remained constant from 2011 at 22 indicating that its advantageous position on other variables has been counterbalanced.

employed population. An improvement in both quantities produced as well as the yield is an indicator of development in general and in the quality of the inputs from expenditure on irrigation and agronomy.

According to Table 6.2-18, only a few provinces produced paddy on an economically extensive scale. In the two years of 2012 and 2013, there have been no significant variations except in the Eastern and North Central Provinces. The highest production figures are recorded in the North Central and Eastern Provinces. The total production of paddy in 2012 and 2013 has been 3,846,000 mt and 4,621,000 mt respectively. The increase in total production is 20%.

There has been an improvement in the yield in most provinces. In respect of the yield, the Southern, Northern, North Western and Sabaragamuwa Provinces have shown good

Table 6.2-17: Teacher-Student Ratio 2010-2013

Province	2010	2011	2012	2013
Western	23	22	22	22
Central	17	17	17	17
Southern	17	17	17	18
Northern	18	18	17	18
Eastern	19	19	19	16
North Western	17	17	17	14
North Central	17	17	18	17
Uva	15	15	15	19
Sabaragamuwa	17	17	17	16
Sri Lanka	18	18	18	18

Source: Ministry of Education

6.2.13 Paddy Production and Productivity

Paddy, in the form of rice, has been the main staple diet of the large majority of the population in Sri Lanka. It is also the country's main agricultural crop, the cultivation of which absorbs a fair proportion of the

improvements in the number of bushels per acre. Best results are seen in the Southern Province in 2013 compared with 2012.

Table 6.2-18: Paddy Production, Net Extent Harvested and Yield per Acre 2012-2013

Province	Production mt,'000		Net Extent harvested '000 ha		Yield- Bushels per Acre	
	2012	2013 (a)	2012	2013 (a)	2012	2013 (a)
Western	115.8	117.5	36.1	36.9	62	62
Central	161.8	203.8	39.2	47.5	80	83
Southern	332.3	402.2	77.9	82.3	83	95
Northern	259.9	313.6	72	75.1	70	81
Eastern	1,062.2	1,039.5	235.7	268.4	87	75
North Western	330.4	688	85.9	158.6	75	84
North Central	1,031.2	1,225.7	210.2	260.4	95	91
Uva	324.4	381.2	75.7	87.3	83	85
Sabaragamuwa	227.8	249.3	50.6	50.8	87	95
Total	3,845.9	4,620.7	883.4	1,067.3	84	84

Source: Department of Census and Statistics

6.2.14 Use of Irrigation for Paddy Cultivation

Table 6.2-19 shows the use of irrigation from different sources for paddy cultivation in the country in 2012/2013.

Total area cultivated under paddy for both Maha and Yala seasons using major and minor irrigation schemes has been 2,367,752 acres in 2012/2013. This represents 78% of total cultivated area under major and minor irrigation schemes and the rest is cultivated

using rain water. The largest acreage of paddy cultivated under major and minor irrigation schemes is shown in the Eastern Province followed by the North Central Province. It should be noted that the lowest acreage under rain fed paddy cultivation during the Yala season is recorded in the Northern and North Central Provinces. This can be attributed to the fact that the farmers cultivate other food crops during the Yala season mainly in the dry zone areas.

Table 6.2-19: Cultivated Land Area under Paddy by Province 2012/2013

Province	Extent shown by Province - 2012/13 Maha season (Acres)			Extent shown by Province - 2013 Yala season (Acres)		
	Major Schemes	Minor Schemes	Rain fed	Major Schemes	Minor Schemes	Rain fed
Western	4,790	16,510	50,054	3,798	7,424	20,841
Central	29,781	46,631	18,916	22,573	19,985	5,899
Southern	62,446	25,514	56,427	57,344	18,902	25,769
Northern	83,806	44,953	70,721	29,152	13,428	18
Eastern	255,785	37,751	161,651	251,096	27,450	5,556
North Western	56,659	121,367	73,859	43,604	69,501	45,027
North Central	217,780	152,315	42,497	195,158	74,897	256
Uva	50,719	55,597	56,831	41,876	26,592	2,773
Sabaragamuwa	5,462	21,808	16,417	5,402	15,861	11,329
Udawalwe & Mahaweli H area	89,471			64,564		
Sri Lanka	856,699	522,446	547,373	714,567	274,040	117,468

Source: Department of Census and Statistics

6.2.15 Production of Livestock Sector

Livestock is an important interrelated sub-sector of the agriculture sector. Output of the livestock sector can be considered as an indicator of the nutritional level of the people living in the country. The employment in the livestock sector is approximately five million farmers. The contribution of the livestock sector to the economy has grown by 6.3 percent in 2013, compared with 2012.

Table 6.2-20 indicates changes in respect of production in milk and eggs and livestock population which contribute towards health and nutrition as well as import substitution.

The highest cattle population and milch cows is recorded in the Northern Province during the period from 2011 to 2013. The Central Province displayed the highest proportion of milch cows (39%) out of the cattle population in 2013 while the Northern Province indicates 27%. The highest average annual milk production of 66,426 litres ('000) is recorded in the Central Province while the Southern Province has produced the lowest of 11,592 litres ('000) in 2013. The highest average annual milk production of 2,505 litres per cow is recorded in the Central Province while the Northern Province showed the lowest, 444 litres, per cow in 2013.

The highest buffalo population and cows milking is recorded in the Eastern Province during 2011 to 2013. The second and third highest buffalo population was in the Southern and North Central Provinces in 2013. Nearly 57% of total buffalo milk production was recorded in these three provinces in 2013.

The highest poultry population, around 9 mn, has been recorded in the North Western Province while around 1,234 mn eggs has been produced in 2013. Around 57% of the total poultry population in the country was in the North Western Province in 2013.

The Western and North Western Provinces are the main swine producers of the country

while the Northern Province is the main producer of goats.

6.2.16 Daily Dietary Energy Consumption

This indicator represents to some degree the extent of nutrition in the form of minimum energy intake necessary for survival. The minimum intake of energy for an adult male is 2000-3000 kilo calories per day depending on the body weight. A summary of the data reveals the following facts on the actual average intake of kilo-calories by an average person.

Table 6.2-21 presents information on the general level of energy consumption among provinces. In this table data are presented for two categories such as the poor and the non- poor.

Slender declines of daily dietary energy consumption can be seen in the Central, Northern, North Central and Sabargamuwa Provinces in 2013 compared with 2009. However, the daily dietary energy consumption per person of all households in the country indicates a considerable increase from 2,094 kcal to 2,111 kcal from 2009 to 2013.

The gap in consumption of daily dietary energy between the non-poor households and the poor households can be seen in all provinces. This is an indicator of the severity of poverty of the people in the poor category. The lowest energy consumption of the poor household category has been recorded in the Western Province in both years. The Eastern Province records the biggest decline of consumption of daily dietary energy among provinces within the same period.

6.2.17 Employment Status

A criterion often used to measure the socio-economic status of a nation is the extent of employment of its resources like capital, technology and labour. Usually it is the level of unemployment that becomes the index.

Table 6.2-20: Livestock Population and Production 2011-2013

Province	Year	Cattle			Buffalo			Poultry		Swine Population ('000)	Goats and Sheeps Population ('000)
		Population ('000)	Cows Milking at Present ('000)	Milk Production ('000 Lt)	Population ('000)	Cows Milking at Present ('000)	Milk Production ('000 Lt)	Population ('000)	Egg Production ('000)		
WP	2011	62	14	12,680	37	8	6,117	3,162	201,324	32	24
	2012	64	15	15,231	39	9	7,399	3,300	264,420	36	26
	2013	64	16	17,681	38	10	8,895	3,376	271,620	37	25
CP	2011	77	25	57,360	21	1	215	1,140	78,996	4	38
	2012	76	25	62,141	19	1	266	1,123	99,864	4	38
	2013	68	27	66,426	15	0.4	310	1,380	109,056	4	34
SP	2011	68	20	9,647	66	20	12,282	375	40,860	2	15
	2012	69	22	12,257	64	21	13,257	442	56,256	2	15
	2013	62	21	11,592	62	21	13,552	398	49,284	2	11
NP	2011	254	59	22,856	15	3	1,686	866	67,956	0.2	99
	2012	283	66	27,079	18	5	2,464	904	74,232	0.2	101
	2013	247	67	29,737	16	4	2,194	956	111,528	0.3	86
EP	2011	194	50	23,776	72	20	10,523	704	56,184	0.5	62
	2012	209	58	28,919	77	22	13,286	761	72,240	0.4	65
	2013	216	60	29,842	71	23	12,808	776	63,276	0.3	61
NWP	2011	202	25	28,620	57	5	5,019	6,186	654,480	35	68
	2012	189	29	33,208	60	5	5,636	5,698	776,328	39	69
	2013	178	35	41,603	49	6	6,117	9,181	1,234,776	32	58
NCP	2011	169	34	24,725	68	14	10,421	782	30,504	5	42
	2012	173	38	30,788	71	15	10,253	811	43,812	5	42
	2013	147	39	31,481	55	15	9,618	746	40,416	3	29
Uva	2011	138	20	21,404	50	13	7,366	287	24,648	1	21
	2012	143	22	24,601	46	14	7,858	287	31,392	1	21
	2013	125	26	25,506	44	14	8,377	287	30,192	1	16
Sab.	2011	30	5	5,212	19	3	1,982	698	30,348	2	15
	2012	31	7	6,716	19	3	2,048	712	38,580	1	16
	2013	32	9	7,760	19	5	715	687	32,040	1	14
Total	2011	1,192	251	206,280	405	86	55,611	14,199	1,185,300	82	384
	2012	1,236	280	240,940	415	94	62,466	14,039	1,457,124	89	393
	2013	1,140	299	261,628	370	99	62,587	17,788	1,942,188	80	335

Source: Central Bank of Sri Lanka

Table 6.2-21: Daily Average Level of Energy Consumption per Person among Provinces

Province	2009/2010			2012/2013		
	Poor Households	Non poor Households	All Households	Poor Households	Non poor Households	All Households
Western	1,209	1,968	1,936	1,176	1,975	1,958
Central	1,531	2,274	2,202	1,523	2,246	2,198
Southern	1,469	2,173	2,104	1,443	2,214	2,155
Northern	1,511	2,306	2,204	1,545	2,219	2,146
Eastern	1,536	2,155	2,063	1,453	2,152	2,075
North Western	1,398	2,194	2,104	1,501	2,197	2,155
North Central	1,483	2,248	2,204	1,553	2,254	2,203
Uva	1,721	2,398	2,305	1,783	2,404	2,308
Sabara.	1,509	2,252	2,173	1,675	2,209	2,162
Sri Lanka	1,472	2,155	2,094	1,530	2,153	2,111

Source: Department of Census and Statistics

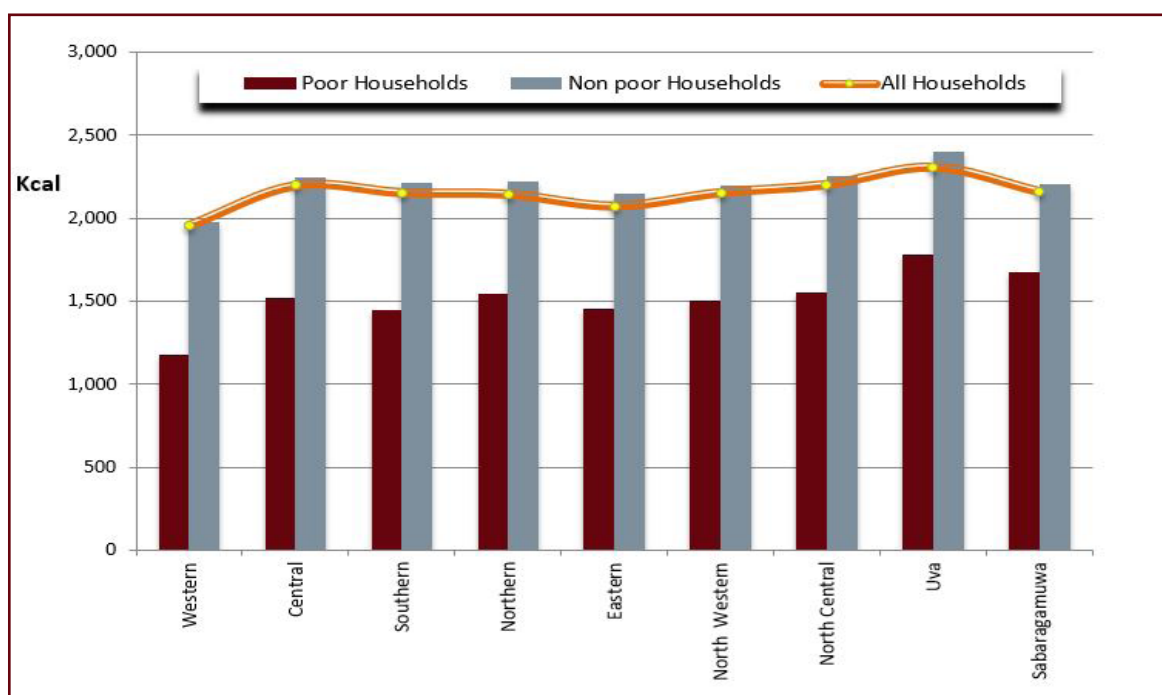
Figure 6.2-8: Daily Average Dietary Energy Consumption - 2013

Table 6.2-22 below furnishes data about Unemployment and the nature of employment as self - employed, paid labour and family worker types.

Unemployment in Sri Lanka was slightly high in year 2013 than 2012. The lowest unemployment rates, visible in the Uva Province in 2013 and 2012, were 3 and 3.2. In year 2013, unemployment rates of the Southern, Western and Sabaragamuwa Provinces have increased over the previous year.

Changes of the employment status in a country determines people's living standards and economy in many ways. Paid employees in Sri Lanka in 2013 were around 56% of the total number employed. Own account workers constituted 32.2% and contributing family workers were around 9.1% in 2013. Less number of employers (3%) in 2013 is a significant feature in the employment status in the country.

The highest percentage of 65.6 of paid

Table 6.2-22: Unemployment Rate and Percentage Distribution of Employment Status by Province 2012- 2013

Province	Unemployment		Employment Status							
			Paid employee		Employer		Own Account Worker		Contributing Family Worker	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Western	3.5	3.9	67.5	65.6	4.6	5.1	23.4	24.8	4.6	4.5
Central	4.7	4.6	61.8	59.6	1.8	2.2	27.3	29.6	9	8.6
Southern	4.8	5.6	54.2	54.2	2.9	2.9	33.3	33	9.5	9.9
Northern	5.2	5.2	56.9	57.7	3.3	3.7	35	34.2	4.8	4.3
Eastern	4.9	4.3	57.3	57.8	2.1	2.0	36	35.4	4.6	4.7
North Western	3.8	3.7	50.5	51.8	2.3	2.3	39	35.8	8.2	10.1
North Central	3.4	3.3	33.1	33.7	0.9	1.2	45	42.8	21	22.2
Uva	3.0	3.2	41.7	40.4	1	0.7	37.3	39.5	20	19.5
Saba.	3.8	5.8	54.2	53.8	2.6	2.3	34.5	35.5	8.7	8.4
Sri Lanka	4.0	4.4	56.4	55.7	2.8	3.0	31.9	32.2	8.9	9.1

Source: Department of Census and Statistics

employees was recorded in the Western Province and it is a decrease compared to 2012. Similarly, the highest percentage of employers (5.1%) was also seen in the Western Province.

6.2.18 Rate of Crime

The rate of crime (per 1,000 population) is an indicator of lawlessness, a lack of discipline and a state of dismay and unhappiness in the society. Such a state of lawlessness is a disincentive to potential investors in establishing business enterprises. It could be said that crime rates are in inverse proportion to the state of wellbeing of the people.

Table 6.2-23 presents the data on total grave crimes in the country during 2011-2013. In respect of grave crimes per 1,000 population, the most satisfactory province has been the Uva Province followed by the Southern, Sabaragamuwa and North Western Provinces while at a disadvantageous position has been the Western Province with a rate of 0.87 as against the average of 0.54. In 2011,

the rates of grave crime had been lower at 0.4 in Sri Lanka.

6.2.19 Provincial Roads

Roads are considered to be arteries in the transport system that gives access to the citizens. They are also part of the infrastructure. Provincial roads include C and D categories of roads. The length of provincial roads stays static as there were no considerable new additions to the provincial road system. The funds allocated for the provincial roads usually are utilized for the improvement and maintenance of the existing road system. The length of provincial roads in 2012 and 2013 is presented below.

The total length of the C and D roads was 19,395 km in year 2013 and there has been an increase of 1,804 km in 2013 when compared with that of 2012. This increase may be due to converting and upgrading local authority roads into provincial roads and addition of newly constructed roads at provincial level. To this increase, the North Western and Northern Provinces have

Table 6.2-23: Incidence of Province-wise Grave Crimes 2011- 2013

Province	Total Grave Crime	
	2009	2010
Western	0.57	0.87
Central	0.31	0.39
Southern	0.32	0.31
Northern	0.41	0.70
Eastern	0.35	0.44
North Western	0.40	0.38
North Central	0.34	0.59
Uva	0.27	0.30
Sabaragamuwa	0.28	0.33
Sri Lanka	0.40	0.54

Source: Department of Police

Figures do not include the crime reported to Fraud Bureau, Women and Children Bureau, National Child Protection Authority, Narcotics and Central Crime Division

Table 6.2-24: Provincial Roads (2012–2013)

Province	2012			2013		
	Class C	Class D	Total	Class C	Class D	Total
Western	998	954	1,952	998	954	1,952
Central	1,665	578	2,243	1,665	578	2,243
Southern	924	720	1,644	915	715	1,630
Northern	1,886	134	2,020	1,959	161	2,120
Eastern	722	376	1,098	722	376	1,098
North Western	1,091	1,065	2,156	1,954	1,921	3,875
North Central	1,211	736	1,947	1,211	736	1,947
Uva	1,559	180	1,739	1,559	180	1,739
Sabaragamuwa	1,247	1,544	2,791	1,247	1,544	2,791
Sri Lanka	11,304	6,287	17,591	12,232	6,165	19,395

Source: Central Bank of Sri Lanka

contributed with 1,719 km and 100 km of new roads respectively. A decrease of 14 km of C and D roads in the Southern Province can be attributed to converting provincial roads into national roads.

6.2.20 Private Sector Investments

The private sector is induced to invest in areas far away from the Western province

only when the climate is favourable by way of availability of infrastructure facilities like good roads, power, access to ports and absence of internal conflicts. Private investment projects supplement the opportunities for job creation mediated by public investment. Job creation in turn encourages economic activity by raising aggregate demand in the provinces. In this respect the districts that have benefited most in the years 2010-

2012 were those in the Western, Central and the North Western provinces. In terms of the money invested, apart from the Western Province, the Northern and Eastern Provinces too have had an increasing share in 2012. Table 6.2-25 presents data on the economic and business climate as part of the prosperity index in the provinces. Outside the Western Province the Southern and North Central Provinces show the best prospects for business with an index of 66.7 and 65.4 respectively against the Western Province's 86 in 2011.

Another index complementing the economic and business climate index in the provinces is the availability of the necessary infrastructure as measured by the Infrastructure index. Next to the Western Province rank the Southern, North Western and Uva Provinces. Here too there has been a steady improvement in the provision of infrastructure over the years up to 2011.

6.2.21 Prosperity Index

Table 6.2-25 presents information on the Prosperity and Wellbeing of the people in the respective provinces in the period 2004-2011.

According to the statistics available at present the values for the three years 2009, 2010 and 2011 show an overall improvement from a value of 56.5 in 2009 to 60.6 in 2011, a rise of 7% within two years. The Western Province enjoys the highest value at 76.1 in 2011, the next highest is the Southern Province followed by the Central and North Western Provinces. There was only a slight increase in the Northern Province between 2006 and 2008 but the index has risen significantly thereafter. The lowest was in the Uva Province in 2011.

Wellbeing Sub Index

This index should be considered as the final end result of the outcomes of all the other criteria on investments considered above.

As the Table 6.2-25 indicates the Western Province shows the best performance in the three years 2009-2011. The wellbeing of everyone in all the provinces has improved. However, some like the Southern Province has lost its pre-eminent place as the third best receding to fifth position while the Northern Province occupying the last position in 2009 has come up to the third position. Except for the Western Province which enjoys an index of 70.4, the inter provincial differences in the wellbeing index are small, with an index varying between 48.7 (North Central Province) and 54.6 (Central Province), a difference of approximately 13% in 2011. In 2010, however, excluding the Western Province, the inter provincial difference between the highest (Central Province with 53.8) and the lowest (North Central Province with 46.8) has been approximately 14%.

6.3 Overall Status of Provinces

In interpreting these Key Indicators it is important to examine the differences and changes among the different provinces to form an opinion about the reduction of regional imbalances. It is seen that where some provinces have performed well in some areas they have not performed so well in others. This contrasting situation is summarized in the Table 6.3-1.

The overall picture presents a good performance among all provinces marked by "gp" in the last column. It is only with regard to four criteria, namely IMR & MMR, calorie intake and crime rate that there has been an unsatisfactory situation ("us") in some provinces. However, prosperity index indicates "bi" for all provinces which can be interpreted as the best performance.

Table 6.2-25: Prosperity Index by Province 2004 – 2011

Province	2004	2005	2006	2007	2008	2009	2010	2011
Western	61.1	63.1	66	67.1	68.8	72.2	73.5	76.1
Central	45.8	46.6	49.7	50.6	51.7	54.5	56.7	58.3
Southern	44.9	48.0	50.4	52.1	53.6	56.8	57.8	60.0
Northern	42.5	44.7	43.4	43.7	43.9	48.9	51.8	55.6
Eastern	41.2	42.4	43.9	44.5	45.5	50.0	53.3	54.6
North Western	43.8	45.7	47.9	48.7	49.9	53.3	55.1	57.1
North Central	40.6	42.6	44.1	46.0	47.4	50.9	53.0	54.9
Uva	42.4	41.7	44.5	46.7	47.2	50.9	52.6	54.5
Sabaragamuwa	42.7	44.2	47.0	47.4	49.2	51.8	53.9	55.8
Sri Lanka	46.6	48.3	50.8	51.6	53.1	56.5	58.2	60.6
Economic & Business Climate Sub Index								
Western	63.5	66.2	71.1	71.5	72.0	80.9	83.4	86.0
Central	46.5	47.2	51.5	51.9	51.9	60.5	61.5	62.3
Southern	48.7	50.0	53.7	53.3	53.6	62.7	64.2	66.7
Northern	47.2	47.5	42.6	43.9	45.1	56.1	59.5	62.8
Eastern	46.9	48.6	51.0	50.1	50.8	59.5	61.4	63.3
North Western	47.5	49.0	52.8	52.6	53.2	61.1	62.2	64.0
North Central	47.8	49.5	52.5	52.0	52.8	61.5	63.5	65.4
Uva	45.5	46.5	49.4	51.2	48.9	57.1	58.6	60.4
Sabaragamuwa	44.3	45.4	50.4	50.1	49.7	57.8	60.1	61.8
Sri Lanka	51.6	53.4	57.3	56.7	57.2	66.0	67.4	70.1
Wellbeing of People Sub Index								
Western	61.0	62.7	65.0	65.6	66.5	66.4	67.4	70.4
Central	49.9	50.6	52.5	51.8	52.2	51.9	53.8	54.6
Southern	44.4	48.3	49.2	51.9	52.2	51.5	51.3	53.0
Northern	44.7	48.6	49.1	48.5	46.2	45.1	50.7	54.0
Eastern	40.7	41.9	44.4	44.6	43.7	46.6	51.6	52.4
North Western	46.3	48.5	49.3	49.3	49.3	50.4	51.8	53.6
North Central	41.1	43.2	41.9	43.2	43.8	45.1	46.8	48.7
Uva	43.6	41.7	44.7	45.1	44.9	45.5	48.0	49.5
Sabaragamuwa	47.3	49.0	48.9	49.1	50.3	48.8	50.3	52.2
Sri Lanka	48.4	50.2	51.6	52.1	52.4	52.5	54.4	56.4
Infrastructure Sub Index								
Western	58.3	60.5	62.0	64.3	68.0	69.2	69.8	71.9
Central	40.6	42.0	45.0	48.1	50.9	51.0	54.7	58.1
Southern	42.8	45.7	48.4	51.3	55.0	56.1	57.9	60.1
Northern	37.7	38.0	38.5	38.7	40.5	45.7	45.1	50.0
Eastern	35.8	36.8	36.4	38.9	41.9	43.8	46.9	48.2
North Western	37.9	39.5	41.6	44.2	47.2	48.2	51.1	53.8
North Central	33.0	35.0	37.8	42.8	45.6	45.9	48.8	50.6
Uva	35.8	37.0	39.5	43.8	47.7	50.1	51.2	53.6
Sabaragamuwa	36.7	38.2	41.7	42.8	47.7	48.7	51.2	53.5
Sri Lanka	39.7	41.3	43.5	46.1	49.6	50.9	52.8	55.4

Source: Annual Report of Central Bank of Sri Lanka 2012

Table 6.3-1: Overall Socio-Economic Status of the Provinces 2006-2013

	Criteria	WP	CP	SP	NP	EP	NWP	NCP	UP	SabP	Overall
1	PC Income	gp	gp	gp	gp	gp	gp	gp	gp	gp	gp
2	PGDP	gp	gp	gp	gp	gp	gp	gp	gp	gp	gp
3	Poverty HC	bi	gp	gp	gp	gp	bi	us	us	gp	gp
4	Literacy	gp	gp	gp	gp	gp	gp	gp	gp	gp	gp
5	Infant Mortality	gp	gp	gp	us	gp	gp	gp	gp	gp	gp
6	Maternal Mortality	gp	us	gp	gp	us	gp	us	gp	gp	gp
7	Safe water	gp	gp	gp	gp	gp	gp	gp	gp	gp	gp
8	Electricity	gp	gp	gp	gp	gp	gp	gp	gp	gp	gp
9	O/L pass rate	gp	gp	gp	gp	gp	gp	gp	gp	gp	gp
10	A/L pass rate	gp	gp	gp	gp	gp	gp	gp	gp	gp	gp
11	Teacher/ student ratio	gp	gp	gp	gp	bi	bi	gp	us	gp	gp
12	Health Staff	gp	gp	gp	gp	gp	gp	gp	gp	gp	gp
13	Paddy production	gp	bi	bi	bi	gp	bi	gp	gp	gp	gp
14	Unemployment	gp	gp	us	gp	gp	gp	gp	gp	us	gp
15	Crime rates	us	gp	gp	us	us	gp	us	gp	gp	gp
16	Calorie intake	gp	gp	gp	us	gp	gp	gp	gp	us	gp
17	Livestock production	gp	bi	gp	gp	gp	bi	gp	gp	gp	gp
18	Irrigation	gp	gp	gp	gp	gp	gp	gp	gp	gp	gp
19	Roads	gp	gp	gp	gp	gp	gp	gp	gp	gp	gp
20	Prosperity Index	bi	bi	bi	bi	bi	bi	bi	bi	bi	bi

Note: Grading based on socio-economic indicators

Key :

bi = big improvement

gp= good performance

us = unsatisfactory

6.4 Impact of the Provincial Recurrent Investments

It is estimated that there are about 301,600 employees of all categories attached to the provincial cadre. This represents about 35% of the total public sector employees. Salaries and allowances paid for the provincial staff for the year 2013 was Rs.117,320mn. This expenditure comprised about 75% the total provincial recurrent expenditure. Although 80% of recurrent expenditure is seen as a large chunk of the total provincial allocation, the key results achieved with regard to the

service delivery can be attributed to the contribution made by the provincial staff. This phenomenon can be observed mainly in the sectors of education, health, social services and agriculture. Consequent to a decision taken by the Board of the Finance Commission, a special study was undertaken to analyze the benefits accruing from the recurrent expenditure related to salaries and allowances paid to provincial staff during 2009 - 2011. This study has paid special attention to recurrent expenditure and covered the main sectors of education, health, roads, irrigation, agriculture, social

welfare and probation and childcare. The required data for this study was called from the relevant provincial agencies and the Finance Commission prepared a report after analyzing the data.

The study revealed that the provincial recurrent investments have contributed to improve the socio-economic conditions of the people especially due to investments in the sectors of health and education. A large proportion of provincial recurrent expenditure is allocated to service delivery in the health and education sectors. The programmes and projects implemented under these sectors at provincial level have been carried out by the relevant provincial staff. The services provided by them have contributed to achieve a high level of performance in the health and education sectors on par with

developed countries. The agriculture, roads and irrigation sectors at provincial level have also provided a significant contribution to improve the productivity in agriculture and improve the infrastructure facilities in the provinces. The provincial contributions to these sectors have supplemented the development drive initiated by the government in achieving socio-economic targets at macro level. Provision of social care services has contributed to improve the living condition of disadvantaged communities at provincial level thus reaching towards the objective of ensuring minimum wellbeing for all.

The findings of the study on Provincial Investment and Development Benefits Achieved have been summarized in the Box 6.2.

Box 6.1: A Conceptual Perspective of Balanced Regional Development

01. Why some regions are backward?

Any country consists of several regions whose demarcations are based on geographical borders or administrative jurisdictions. The concept of regional development is based on the development of such demarcated specific regions. Owing to different factors, it is obvious that all regions in a country are not similar in the level of development. In other words, regional disparities are natural and they are mainly associated with factors such as;

- Unequal natural resources endowment or locational disadvantages.
- Man-made differences due to negligence or preferences of some areas by policy makers or investors.
- Low productivity in some factors of production particularly, in the land.
- High population pressure on land owing to in-migration and some other specific socio-economic characters.
- Excessive dependence on agriculture or any other industries in which production is low.
- Geographical isolation due to natural barriers which prevent inter-regional relations and transactions.
- Primacy of some regions due to high urbanization resulted in agglomeration of economic activities around them.

02. Why regional planning is needed?

Regional planning is very popular in many countries, the reason being there is a pressure from those who are in lagging regions to develop them on par with developed regions. Hence, the subject of regional development or regional planning is strongly associated with appropriate policy measures and techniques of evaluating potentiality of sub-national areas and developing them to the best advantages of the nation as a whole. The main objective of regional development and planning is to remove regional disparities in respect of economic and social development and bring up the region to be on par with other regions of the country. Some argue that regional disparities are the results of the unfinished task of nation building which reflects inadequacies of the development strategies which lead to continue the distortions brought about by the past. In fact, the common conviction is that government intervention by way of regional planning is needed to reduce regional imbalances.

03. How to reduce regional disparities?

Measures to reduce regional disparities in a country, advocated by regional planners/ experts can be set out under following principles;

- **Adequate resource transfers:**
Resource transfer to backward regions in an adequate manner from the central pool should be made, based on appropriate evaluation of projects and programmes. Irrespective of the source, the resource transfers should be made in accordance with an integrated plan with common objectives and targets.
- **Focus group development programmes:**
Development programmes focusing on vulnerable communities such as small farmers, agricultural labourers, small fishermen and individual craftsmen who are located in backward areas need to be implemented to promote entrepreneurial opportunities. These entrepreneurial groups will in turn contribute to increase the regional value addition in productive sectors, paving the way for reducing differences in per capita income, at sub-national level.

Box 6.1: Contd

- **Promotion of direct private investment:**
Various preferential incentives can be used to boost private investments in backward regions. These incentives are usually in the form of interest subsidies, tax holidays, reduced tax rates and concessionary loan schemes characterized by extended grace period and easy collaterals.
- **Public – Private Partnership (PPP) Approach:**
PPP approach should be adopted in order to promote private investors in the sectors where the risk factor is high. This approach can be viewed as a risk sharing strategy between public and private sectors and an opportunity of giving chances to private sector in fulfilling their corporate social responsibility. There are different methods of PPP arrangements ranging from Build, Own and Transfer (BOT) approach to Management Contracts which is the simplest way of private sector participation.
- **Providing required facilities and utilities:**
An improved infrastructure and service delivery systems will attract private investors to lagging regions and hinterlands thus creating the capital required to start business and commercial ventures with big potentials in creating jobs and increasing value addition. On the other hand, this will lead to reduce possible migration flows from rural to urban areas for seeking job opportunities and better living standards.
- **Promotion of industrial and tertiary sector activities:**
A major reason for backwardness of the regions is identified as over expansion of agriculture and allied activities since the output of this sector which is usually of primary nature does not contribute much in the increase of regional income. Therefore, strategies focusing on expanded secondary sector (industries) and tertiary sector (services) should be promoted in order to ensure balanced regional development in a country. Improved infrastructure, skilled manpower and risk taking entrepreneurs are pre-requisites for the expansion of secondary sector which is more productive in accelerating regional growth. It is noteworthy to mention that secondary and tertiary sectors should be expanded while giving due consideration to food security.
- **Providing adequate finance facilities:**
A major requirement to start business activities is financial capital and if there is no facility to borrow such capital, potential local investors are reluctant to embark on commercial ventures. In this situation, the policy makers and planners should take appropriate measures to provide finance for potential investors through establishing commercial banking, and other support services such as insurance services and leasing facilities on concessionary terms. Both public and private sectors can engage in providing these services depending on the policy of the government.

**Box 6.2: Highlights and Achievements in Provincial Investments in Key Sectors
(2009 – 2011)****Education Sector:**

- Total investment during the period was Rs.209 bn.
- Recurrent expenditure included the salaries of teachers, principals, non-academic staff and other day to day expenses related to the provincial education activities.
- Capital investment was incurred for construction and improvement of school buildings, science & computer laboratories, play grounds, teacher's quarters and, for provision of drinking water, sanitary facilities other and infrastructure needs.
- Total number of schools was increased by 202.
- Recruitment of graduate teachers and trained teachers including teachers from National Colleges of Education was increased by 12,892 (22%) and 18,048 (18%) respectively.
- Teacher/student ratio of 1:19 in 2009 was improved to 1:18 in 2010 and remained the same in 2011.
- Literacy rate increased from 91.3% to 92.2%.
- Pass rate of O/L examination was improved from 43% to 53%.
- Pass rate of A/L examination fell from 60% to 59%.

Health Sector:

- Total investment of the period was Rs.82 bn.
- Recurrent expenditure consisted of salaries and allowances of medical officers, nurses, para –medical officers and other staff of the health sector and other expenditure required for maintenance of day to day services.
- Capital investments were utilized for new constructions, improvements to infrastructure, purchase equipment and developing human resources.
- Number of hospital beds per 1,000 persons was 2.9 in 2011
- On average, medical doctors per 100,000 persons was 29.1.
- On average, nurses per 100,000 persons was 49.4.

Road Sector:

- Total investment of the period was Rs.23 bn.
- Recurrent expenditure was incurred on maintenance of pavements and drainage, clearing of road side, repair of small damage to roads, installation of road signs and maintenance of roads.
- Nearly 75% of the recurrent expenditure was spent on maintenance of roads.
- Capital investments were made on carpeting and tarring roads, improvements to access roads and rehabilitation of roads.

Box 6.2: Contd.

- Compared with 2009, capital expenditure on road development was increased by Rs.7,403 mn (225%) in 2011.
- 17,500 km of C and D roads were maintained from 2009 to 2011.
- 9,765 km of provincial roads were rehabilitated from 2010 to 2011.

Agriculture Sector:

- Total investment for the period was Rs.4 bn.
- Recurrent expenditure was incurred on salaries of employees of institutions in the sector and other day to day expenses.
- Capital investments were used for distribution of agricultural equipment, training programmes, soil conservation, storage facilities, small irrigation, distribution of seeds and plants and other construction.
- During the period 2009 to 2011, land under paddy cultivation increased by 100,466 ha (17%).
- Paddy production in 2009, 2010 & 2011 was 3.4 mn, 4.3 mn and 3.9 mn mt. respectively and rice imports were reduced by 78% from 2009 to 2011.
- From 2009 to 2011, vegetable production was increased by 287,368 mt.
- In 2011, post – harvest losses in paddy, vegetables and other crops was managed within 30%.
- During the same period, fruit production was increased by 93,811 mt.
- 25,468 officers and 1,179,479 farmers were trained during the period.

Irrigation Sector:

- Total investment during the period was Rs.2.6 bn.
- Reconstructed irrigation projects, during the period were 5,497 tanks, 53 ponds, 5,260 bunds, 980 anicuts, 7,607 agro wells and 4,921 canals.
- Irrigated water was supplied to 308,306 hectares of land in 2011.
- From 2009 to 2011, the land area irrigated under minor irrigation schemes was increased by 25% (minor irrigation is a provincial subject).
- During this period, 32% of farmlands were provided with water through minor irrigation schemes.
-

Probation and Childcare Sector:

- Total investment during the period was Rs.2 bn.
- 223 children who were under probation were offered jobs during 2009 – 2011.
- 1,694 children under probation were handed over for adoption to foster parents.
- 70, 72, & 83 children were given for legal adoption in 2009, 2010 and 2011 respectively to French, Dutch, Italian, German & Danish nationals.

Box 6.2: Contd.

Social Welfare Sector:

- Total investment during the period was Rs.5.75 bn.
- Recurrent expenditure included public assistance for socially disadvantaged people, in addition to payment of salaries and wages to the employees in the sector.
- Rs.1bn was distributed to 474,793 persons as public assistance in 2011. When compared with 2009, the increase was 26,715.
- During the period Rs. 450 mn was granted for self-employment of socially disadvantaged people and assistance for patients suffering from tuberculosis (TB) and cancer.
- During the period 140 elderly homes and 58 homes for differently able people were managed and improved and accommodation provided to around 5,100 elders and 3,300 differently able people.
- Amounts paid as public assistance were increased from Rs. 100 – Rs. 300 to Rs. 500 – Rs. 1,000 during the period. Total amount of public assistance provided rose from Rs.671 mn in 2009 to Rs.1,036 mn in 2011.
- Of the total recurrent expenditure, around 70% was spent on the provision of public assistance for the needy.

Source: Data obtained from Provincial Authorities

7

The Way Forward

Although a sense of satisfaction over the achievements of 2013 was the concluding observation expressed in the chapter 6, the Finance Commission takes the view that still more can be achieved in the pursuit of its main objective of marching towards a balanced regional development.

With this end in view, it would be useful to review the suggestions made in the Annual Report for 2012 for reducing regional disparities and examine the progress made so far. The suggestions made in the Annual Report 2012 were;

- ▶ Infrastructure facilities to isolated and backward villages
- ▶ A minimum level of wellbeing for everybody
- ▶ Prioritization of projects
- ▶ Tourism sector for rural livelihood development
- ▶ Alternative funding sources including funding through capital market, attraction of private investments, concessionary/unconditional loans, community investments for social infrastructure and establishment of corporate culture

Among the more useful suggestions made that on access to facilities arising from the availability of infrastructure for residents

in remote areas should be addressed for implementation. Problems such as lack of small bridges and a road network deny those living in such areas access to schools and hospitals.

In addition to such a review, it is proposed that the following suggestions be kept in view for the future especially at the time of making assessments of needs and estimate of funds to meet such needs.

- ▶ Though resources are transferred to the provinces on the basis of the requirement indicated in their plans, action may be taken to review in depth whether the actual needs of the people have been identified by the authorities. The need for this is evident from the regular requests for revisions of the Provincial Annual Development Plans, since the projects and programmes indicated in the plans do not display the actual needs of the people.
- ▶ Due to budgetary constraints at the national level, attention needs to be paid to better planning and coordination with respect to the inadequate funds allocated to the provinces for the implementation of devolved subjects. It is observed that large amounts of funds have been allocated to line ministries for the implementation of

subjects devolved to the provinces. Therefore, serious attention should be paid by the government when allocating annual funds to the line ministries and provinces under devolved subjects.

- Although, the Commission has indicated in its guidelines the need to apportion funds in a fair manner within the province, it has been observed that large amounts of funds have been channelled to the developed and urbanized areas in the province without giving adequate attention to the less developed areas. This practice has led to a pork-barrel situation in the utilization of public resources. Appropriate criteria should be developed to divert the funds to the areas in real need.
- More information should be available to the Finance Commission regarding the investments made by the private sector, donor agencies and NGOs to apportion funds in a more rational manner. The statistics divisions in the provinces should collect relevant data from districts and divisions and thereby provide the accurate information to the Commission and the relevant institutions.
- Under the Medium-Term Agency Results Framework, KPIs have been developed to be used as targets as well as milestones for measuring achievements in the various functional or operational areas in provinces for the period 2012-2017. It is now time that a review be undertaken to ascertain the success of this task by obtaining from the provinces information on the achievement of core targets.
- As an adjunct to the KPIs already identified, it is necessary to ascertain the unit costs. The rationale for adoption of unit costs is that the KPIs become meaningful only if they are related to the optimal costs of achievement of the targets. It may not be difficult to achieve some targets at unacceptably

high costs instead of at optimal costs. Unit costs of a kilometre of a D class road in the Western Province could now be compared with that of a similar road in the Uva Province. Though it is not to be expected that unit costs will be the same or uniform in all provinces at least it is possible to recognize unit costs for similar activities within a range of values.

- At present, there are difficulties in attracting manpower to remote areas in the provinces. This difficulty has to do with lack of access to urban centres where there are good schools and large hospitals, lack of accommodation due to absence of living quarters etc. In countries like Australia there are monetary incentive schemes in place meant to attract professionals by paying them extra allowances. Due to the paucity of funds available to provinces incentive payments may not be a feasible proposition. But building quarters, providing better roads and transport facilities will go a long way in this regard. Making available better transport facilities to categories of professionals like doctors, veterinarians, and agriculturists will not be such a difficult task.

The Commission hopes to achieve still better results in the coming year by pursuing action on the proposals made above with the cooperation of its staff and provincial staff.

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

No.	Source of Revenue
36.01	Turnover taxes on wholesale and retail sales within such limits and subject to such exemptions as may by law made by Parliament ;
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

Allocations under Province Specific Development Grant (PSDG) - 2013

No.	Agency	WP	CP	SP	NP	EP	NWP	NCP	Uva	Sab.	Total
1	Roads										
	1.1.Rehabilitation of Provincial Roads	365	270	240	100	60	250	156	200	215	1,856
	1.2. Estate Roads	19	28	24	-	-	3	-	29	19	122
2	Transport	24	21	21	14	22	11	10	15	16	154
3	Land	3	3	3	3	3	3	3	3	3	27
4	Education	182	177	172	197	173	180	150	190	188	1,609
5	Health (Western Medicine)	165	167	161	197	173	140	120	152	163	1,438
6	Indigenous Medicine	20	19	21	26	30	26	28	29	26	225
7	Sports	14	13	13	14	15	12	12	15	15	123
8	Local Government										
	8.1. Local Authority Roads	142	136	150	50	60	93	75	91	90	887
	8.2.Local Authority Services	25	19	20	27	20	24	20	18	22	195
	8.3. Waste Management	45	24	25	16	15	15	15	15	15	185
9	Probation and Childcare	14	11	17	16	14	18	12	13	14	129
10	Social Services	10	11	20	16	16	12	10	10	10	115
11	Housing	3	3	3	3	3	3	3	3	3	27
12	Cultural Affairs	3	3	3	4	4	3	3	4	4	31
13	Agriculture	21	40	42	60	60	48	50	50	45	416
14	Livestock	17	26	25	30	45	30	25	30	25	253
15	Inland Fisheries	5	6	10	14	15	17	12	10	9	98
16	Irrigation	14	21	31	30	40	40	90	34	21	321
17	Rural Infrastructure	14	18	22	23	16	20	23	22	17	175
18	Small Industries	10	10	12	9	9	12	9	10	10	91
19	Rural Alternative Energy	5	13	10	4	5	7	4	8	8	64
20	Co-operative Development	4	4	4	4	4	4	4	4	4	36
21	Tourism	19	26	30	26	45	20	24	25	25	240
22	Special Projects for Balanced Regional Development	105	125	115	120	123	106	105	129	138	1,066
23	Projects under Flexible Amount	18	35	35	27	30	40	37	35	40	297
Sub Total		1,266	1,229	1,229	1,030	1,000	1,137	1,000	1,144	1,145	10,180

No.	Development Projects	WP	CP	SP	NP	EP	NWP	NCP	Uva	Sab.	Total
1	Health Sector Development Project - HSDP (GOSL & WB)	100	100	100	100	100	100	100	100	100	900
2	Transforming School Education as the Foundation of a Knowledge Hub - TSEP (GOSL/WB & Aus Aid)	245	285	245	310	340	275	250	295	250	2,495
3	Establishment of 1000 School Programme (GOSL)	65	30	35	35	40	30	35	40	40	350
4	Estate Sector School Development Programme	25	40	25	-	-	25	-	60	65	240
5	UNICEF Programme	-	15	-	45	40	-	0.5	15	-	115.50
6	Provincial Roads Project (GOSL & JICA)	-	940	-	-	-	-	-	-	900	1,840
7	Provincial Roads Project (GOSL & WB)	-	-	-	760	760	-	-	942	-	2,462.00
8	Provincial Roads Project (GOSL & ADB)	-	-	-	-	780	-	241	-	-	1,021.00
9	Northern Road Connectivity Project (GOSL & ADB)	-	-	-	309.7	-	-	-	-	-	309.70
10	Northern Road Connectivity Project (GOSL & ADB) - Additional Financing	-	-	-	123	-	-	153	-	-	276.00
11	Emergency Natural Disaster Rehabilitation Project (JICA)	-	385	-	-	385	-	360	-	-	1,130.00
12	Project for Improvement of Basic Social Services Targetting Emerging Regions (GOSL & JICA)	-	230	-	-	160	300	-	-	265	955
13	EP Rural Roads Development Project (GOSL & JICA)	-	-	-	-	905	-	-	-	-	905.00
14	Local Level Nutrition Programme	-	-	-	150	-	-	-	-	-	150.00
15	Iranamadu Smallholder Irrigation & Livelihood Development Project (GOSL & IFAD)	-	-	-	475	-	-	-	-	-	475.00
16	Jaffna - Kilinochchi Water Supply and Sanitation Project (GOSL & ADB)	-	-	-	320	-	-	-	-	-	320.00
17	Reconstructions of Schools in Kilinochchi Mullative (USAID)	-	-	-	35	-	-	-	-	-	35.00
18	EP Rural Water Supply Development Project (GOSL & JICA)	-	-	-	-	405	-	-	-	-	405.00
Sub Total		435	2,025	405	2,663	3,915	730	1,140	1,452	1,620	14,384
Total		1,701	3,254	1,634	3,692.7	4,915	1,867	2,139.5	2,596	2,765	24,564

Source: Finance Commission