



FINANCE COMMISSION OF SRI LANKA

ANNUAL REPORT

2014

Contact Details

The Finance Commission of Sri Lanka

No. 48, Vajira Road

Colombo 04

Sri Lanka

Tel: +94 11 2556834

Fax: +94 11 2556836/7, 4512758

Email: fincom@sltnet.lk

Website: www.fincom.gov.lk

Harmonizing the Concepts of Unitary State and Devolution in Practical Context

I take great pleasure in writing this message to the Annual Report- 2014 of the Finance Commission. At the same time I am glad that I was able to lead the staff of the Finance Commission to publish the Annual Report continuously in every year since 2011 after I assumed duties as Chairman of the Finance Commission.

Devolution of power from national to provincial level was introduced with constitutional provisions in 1987. It should be noted that although, the constitutional amendments were effected to devolve power, the decentralized system of administration existed in the country was not changed and it continued irrespective of provincial council system. The District Secretaries/Government Agents and Divisional Secretaries continue to perform many development functions assigned to them by national level ministries. Many of such functions performed by the officers of district administration overlap with the subjects devolved to the provinces which are included in the “provincial council list” included in the 13th Amendment to the Constitution. This means that national ministries continue to get involved in implementation of various development programmes although such functions are constitutionally devolved. This situation needs to be considered with the fact that the constitution maintains the provision of “unitary state” while the devolution is also included in it.

Under the circumstances explained above, the policy makers and development administrators should find ways as to how the dual concepts be harmonized with a view to improve the service delivery to the people and socio-economic development in the country. Unfortunately, even after about twenty seven years since the introduction of devolution of power to the provincial councils, some theorists do not understand the reality of the situation. They merely argue on the rhetoric of the devolution concept and demand that provincial councils be given the full power and resources to administer disregarding the actual situation that exists in the country. The theorists and practitioners instead of getting involved in a tug of war should get together and study the experience of the dichotomy of the system practiced over two decades and try to develop modalities and strategies to achieve the best results while harmonizing the national and provincial systems.

I am glad that I was able to introduce Results Based Management approach to the provincial planning system which helped the provincial authorities to focus on socio-economic development of the province. This planning system helped to achieve balanced regional development which is a major objective of the provincial council system. The major responsibility of the Finance Commission is to facilitate achieving intra and inter regional development which would eventually lead to real balanced development in the country. Several national level political leaders and provincial bureaucrats who discussed with me about the apportioning of funds among provinces had intimated to me that some districts within the province do not receive adequate resources while other districts receive excessive funds. It may be necessary to develop a rational methodology to apportion funds to all geographical parts of a province to ensure achievement of real balanced development and will plan to introduce such methodologies in the coming years.

My main objective is to help the provincial authorities to ensure optimal utilization of scarce resources by the provincial authorities which would ultimately result in improving the quality

of life of the people living in the provinces. I am convinced about the contribution accorded to me by the relevant staff in the Finance Commission who extended their fullest cooperation in the march towards achieving this objective.

I wish to put in record my appreciation to all those staff members who supported me to introduce changes to the existing system with a view to improve the delivery of service expected from all of us. Hope that they continue to improve the system and practice in future too.

Ariyaratne Hewage
Chairman
Finance Commission of Sri Lanka

November 2015

Achieving Balanced Regional Development

In spite of the fact that nearly three decades have passed with introduction of the Provincial Council system of Sri Lanka, the promotion of devolution and the achievement of balanced development among provinces has also been a hot and debatable topic within this period of three decades. The Finance Commission is fully cognizant of the Constitutional mandate given by the 13th Amendment to the Constitution to promote devolution and balanced regional development within the country, though the Finance Commission alone cannot achieve this goal. In this regard, several efforts have been made by the Commission in the recent past to promote and rationalize coordination and smooth-running of provincial development efforts undertaken by Provincial Councils and key Line Ministries. The Finance Commission has been able to take initiatives to build up the planning and monitoring capacities at the level of sub-national development aligning with the national policy as well as devolved subjects.

This is the 6th Annual Report published by the Commission and it provides an account of the performance and achievements of nine provinces and the Finance Commission for the year 2014. The report elaborates provincial revenue, recurrent and capital financial allocations, expenditure and releases for the provinces to meet expenditure needs. Status of provincial finance, fiscal aspects and provincial development trends can be grasped through the report.

The Commission wishes to place the support and collaboration of provincial political and administrative authorities in carrying out the role and functions of the Finance Commission.

The Commission extends its appreciation to the staff for their dedication, devotion and commitment in performing their responsibilities to produce the Annual Report for 2014.

W. H. Munasinghe
Secretary
Finance Commission of Sri Lanka

November 2015

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Editing Assistance
Mr. Dushyantha Mendis

Finance Commission

Vision

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

Mission

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

Thrust Areas

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

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

Senior Executive Officers of the Finance Commission

Secretary

Mr. W.H. Munasinghe

Senior Executive Officers

Mr.P.Sumanapala – Senior Director – Results Based Planning

Mr.A.T.M.U.D.B.Tennakoon – Director – Policy, Research and Publications

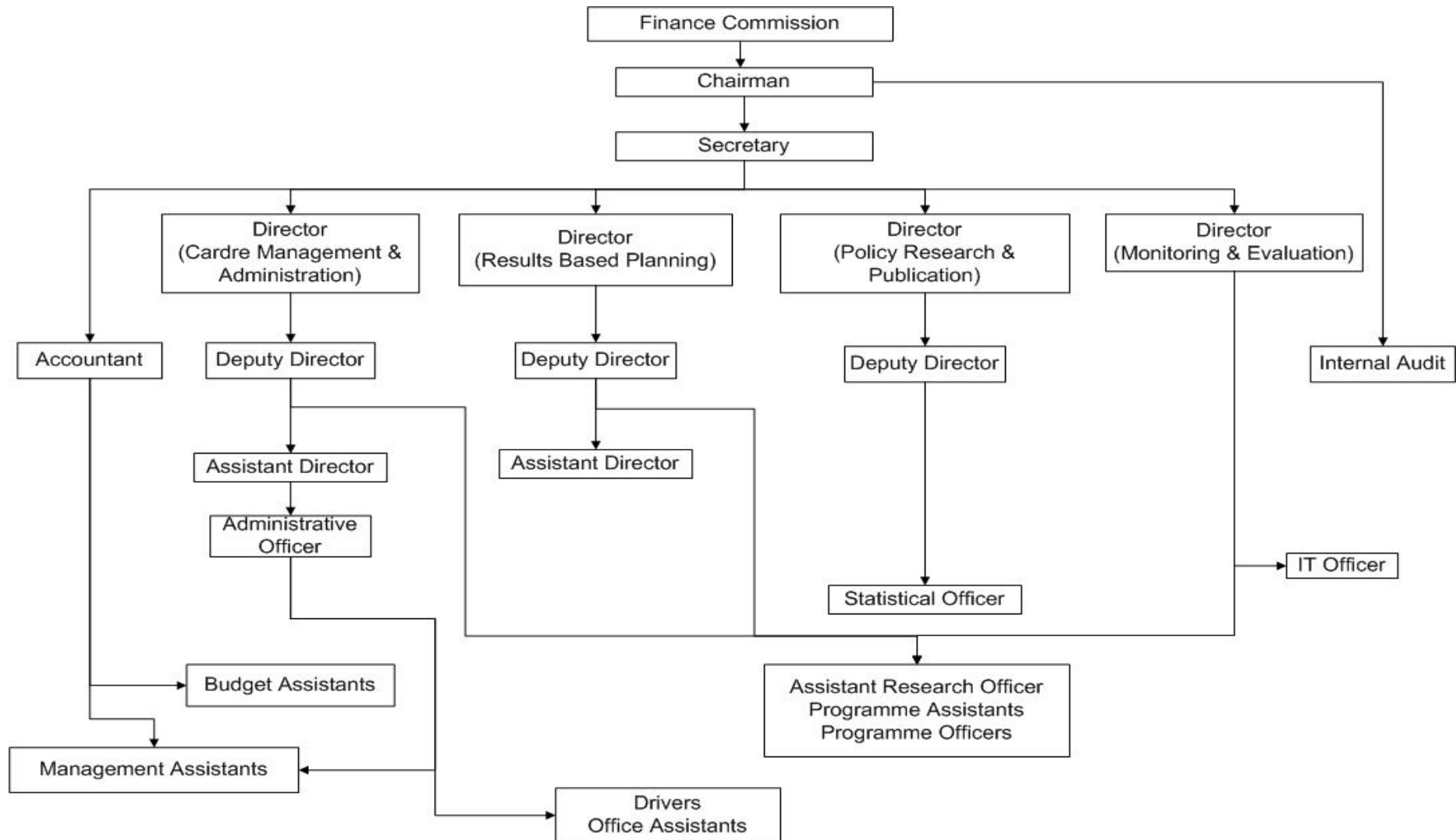
Ms.U.P.Wijayahewa – Deputy Director – Finance

Mr.M.L.A.Chandradasa – Deputy Director (Actg.) – Cadre Management and
Administration

Ms.A.P.L.D.D.N.Fernando – Assistant Director - Cadre Management and
Administration

Ms.D.P.L.E.N. Gunasekera – Assistant Director – Results Based Planning

Organization Chart



1. The Finance Commission of Sri Lanka

The Finance Commission is the constitutionally mandated link between the National Government and the Provincial Councils to make recommendations to and consult with the Government on the principles on which funds allocated from the national budget towards meeting the needs of the provinces should be apportioned between the provinces. The Commission is required to do this with the objective of achieving balanced regional development in the country, both inter provincial and intra provincial.

The Finance Commission is established by and receives its mandate from Article 154 R of the Thirteenth Amendment to the Constitution.

1.1 Composition, Functions and Responsibilities of the Finance Commission

The composition of the Finance Commission is determined by the terms of Section 154 R (1) of the Thirteenth Amendment.

The main functions and responsibilities cast on the Commission by the Thirteenth Amendment are as follows:

- a. Article 154 R (3) of the Thirteenth 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 matters 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 is required to 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 154 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”.

1.2 Establishment of the Finance Commission

The Finance Commission established in terms of the Article 154 R (1) of the Thirteenth Amendment to the Constitution, consists of five members appointed by the President including two ex-officio members, namely the Secretary to the Treasury and the Governor of the Central Bank. The other three members are appointed to represent the three major communities and they are required under the terms of S154 R (1) of the Thirteenth Amendment to be persons who have established themselves in the fields of finance, law, administration, business or learning.

The Nineteenth Amendment to the Constitution which came into effect in May 2015 led to the setting up of the Constitutional Council which makes recommendations to the President of persons for appointment as Chairmen and Members of some designated bodies including the Finance Commission. This amendment therefore brings the recommendations for appointment of the Chairman and Members of the Finance Commission back to a body which was originally entrusted with that duty by the Seventeenth Amendment to the Constitution, enacted in 2001.

That system was briefly changed in the period when the Eighteenth Amendment to the Constitution was effective i.e., September 2010 – to May 2015. Under that amendment, the President appointed the Chairman and Members of the Commission, taking into consideration the observations made by the Parliamentary Council established under the same Amendment.

The Chairman presides at the meetings of the Commission and oversees the functioning of the Secretariat of the Commission. He is charged with ensuring that policy decisions made by the Commission are effectively executed by the staff according to the relevant legislation and regulations.

1.3 Executing the Functions and Responsibilities of the Finance Commission

The constitutionally mandated objective of the Finance Commission is the achievement of balanced regional development of the country (i.e., in terms of Article 154 R (6) of the Thirteenth Amendment). The government makes allocations to meet the funding needs of the Provinces through its Annual Budget on the recommendations of, and in consultation with, the Finance Commission (i.e., in terms of Article 154 R (3) of the Thirteenth Amendment). The Finance Commission is required to make recommendations to the President on the principles to be observed in the apportioning of the funds so allocated between the provinces ((i.e., in terms of Article 154 R (4) of the Thirteenth Amendment).

These functions and responsibilities give rise to the several activities of the Finance Commission.

a) Assessment of Provincial Needs

It is evident that an assessment of annual needs of the provinces is a prerequisite to the process of making recommendations to the government as to the amount of funds which should be allocated to the Provinces through the annual budget. Such amounts comprise two major items: recurrent and capital expenditure.

The Commission analyses the annual requirements submitted by each province in terms of those two broad categories and it also takes into account the annual allocations made in previous years and the progress in the utilization of funds and implementation.

When assessing the recurrent expenditure needs, the Commission takes into consideration the amounts needed for remuneration of the existing staff and new staff (almost 50% of the recurrent expenses), taking into account the need to ensure both quality service delivery as well as productivity.

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 Government and the allocations under the “decentralized budget” as well.

The funding needs which emerge is a net figure, after deducting the expected revenue a provincial council could expect from the revenue sources accruing to it, as stipulated in the Thirteenth Amendment.

The Commission is continuously engaged in developing, updating and upgrading formats, guidelines and instructions to be issued to the provinces.

b) Negotiating on Provincial Needs with the Government

Based on this preceding 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.

The Commission and the Department of National Budget endeavor to reach a consensus on both the total allocation, and its division among the component sub-sectors. In this regard an important activity is estimation of foreign funded capital flows to provinces in respect of provincial subjects.

c) Making Recommendations 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.

Funds are allocated and apportioned among the provinces by the Commission in order to work towards the objective of Article 154 R (5), i.e., to achieve “balanced regional development in the country”.

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

1. the population of each province
2. the provincial Gross Domestic Product and Per Capita Income
3. the need to progressively reduce socio-economic disparities within and among provinces, especially taking into account the Provincial Poverty Headcount Index.

The key elements that are included in the recommendations made to the President are:

1. Assessment of needs of each province.
2. Apportionment of the annual grants among the provinces.
3. Division of the total amount allocated to each province between recurrent and capital needs.
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. Once Parliamentary approval is obtained, the Commission then takes action to implement the recommendations, submitted to the President during the course of the financial year for which funds are granted.

2. Provincial Councils and Local Authorities

2.1 Provincial Unit of Devolution

The nine provinces of Sri Lanka evolved in the process of administrative decentralization in nineteenth century.

Following the Colebrook-Cameron (administrative, judicial and economic) Reforms of 1833, there were five provinces in the country, as follows:

- Central Province
- Eastern Province
- Northern Province
- Southern Province
- Western Province

Subsequently four more provinces were set up as follows:

- The North Western Province carved out in 1845 from the Western Province.
- North Central Province carved out in 1873 from the Northern Province.
- Uva Province carved out in 1886 from parts of Central and Eastern and Southern Provinces.
- Sabaragamuwa Province carved out in 1889.

When the political decision to carry out a measure of devolution of powers from the Government was taken in 1987, it was the provinces, which had so far been only administrative units of the Government, which were chosen as the unit of devolution.

2.2 Provincial Councils

The Thirteenth Amendment to the Constitution has laid down provisions governing the following procedures and features.

1. Establishment of Provincial Councils
2. Appointment of the Governors of the provinces and their powers and functions.
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 of the provinces
8. Establishment of the Finance Commission

The Provincial Councils Act No. 42 of 1987 lays down the frameworks within which the Provincial Councils should act with respect to the following matters.

1. The membership of councils
2. Meetings and other business conducted in the councils

3. The financial procedures to be followed by the councils
4. Establishment of the Provincial Public Service Commission

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

1. Governor
2. Members of the Council
3. The Chief Minister
4. Five Provincial Ministers including the Chief Minister
5. Members of the Provincial Public Service Commission
6. Chief Secretary

The Governor is vested with executive powers derived from the Thirteenth Amendment. He has the authority to appoint the members of the Board of Ministers including the Chief Minister. The Chief Secretary is appointed by the President with the concurrence of the Chief Minister. Though his functions and responsibilities are not specifically laid down in legislation applicable to Provincial Councils, the Chief Secretary is the Chief Executive Officer as well as the chief accounting officer of the Provincial Council.

Members of the Provincial Council are elected for a five year period on the proportional representation system. The membership of each council is determined on the criteria formerly used for carving out electorates, i.e., population and area, though in the case of these councils the population basis is one member for every 40,000 persons and the area basis is one member for every 100 sq. km of territory.

The Ninth Schedule of the Thirteenth 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. The Provincial Councils have the power to make statutes on subjects specified in List i. The Provincial Council List also specifies the sources of revenue necessary to finance the expenditure and necessary 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 subject areas under the Provincial Council List are as follows;

- Planning - implementation of provincial economic plans
- Education
- Local Government
- Housing and Construction

- Roads
- Social Services and Rehabilitation
- Agriculture and Agrarian Services
- Rural Development
- Health and Indigenous Medicine
- Land
- Irrigation
- Probation and Childcare
- Livestock
- Transport

The Provincial List also contains the sources of revenue which accrue directly to the Provincial Council, i.e, independently of the amounts allocated through the national budget.

b) Reserved List

The following functions set out in the reserved list are exclusively under the control of the Government.

- National policy on all subjects and functions
- Defense and National Security
- Foreign Affairs
- Posts and Telecommunication
- Finance in relation to national revenue, monetary policy and external resources; customs
- Foreign Trade; inter-province trade and commerce
- Ports and Harbours
- Aviation and Airports
- National Transport
- Rivers and Waterways; Shipping and Navigation
- Minerals and Mines
- Immigration, Emigration, and Citizenship
- Elections including presidential, parliamentary, provincial councils and local authorities
- Census and Statistics
- Professional Occupations and Training
- National Archives; archeological activities and sites and antiques declared by or under any law made by Parliament to be of national importance
- All subjects and functions not specified in the Provincial and Concurrent Lists.

c) Concurrent List

Subjects listed here are those on which both Parliament and the Provincial Councils could legislate subject to the duty of consulting each other prior to passing such legislation. The listed subjects are as follows:

- Planning
- Higher Education
- National Housing and Construction
- Acquisition and Requisitioning of Property
- Social Services and Rehabilitation
- Agricultural and Agrarian Services
- Health
- Co-operatives
- Irrigation
- Fisheries
- Employment
- Tourism
- Trade and Commerce
- Price Control
- Drug and Poisons
- Protection of the Environment

2.2.1 Procedure for Planning and Approval of Provincial Financial Measures

The Thirteenth 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 one month 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 grant from the Government, and 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 as set out in the Annual Financial Statement being charged to the Provincial Fund.
- 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 while adhering to the provisions of the provincial financial rules.

2.3 Local Authorities

The local government system is the third and the lowest tier of the governance system in Sri Lanka. Historical evidence shows that systems of local government had existed in Sri Lanka even in the ancient period of Sri Lankan history. Local government institutions set up by the British in the second half of the nineteenth century provided the start of the tradition of local government in modern times, and also provided valuable experience with the exercise of the franchise even prior to the introduction of universal adult franchise in 1931.

Prior to 1987, Local Authorities performed as autonomous institutions with the required powers being vested in them by relevant acts and ordinances.

Under the Thirteenth Amendment to the Constitution in 1987, local government became a devolved subject of the Provincial Councils. The Provincial Department of Local Government headed by a Commissioner supervises the Local Authorities. 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.

There are currently three types of local government institutions (i) the Municipal Councils (ii) The Urban Councils and (iii) the Pradeshiya Sabhas. 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

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

b) Urban Councils

These serve the relatively smaller urban areas. 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 public health, welfare and convenience, and developing sanitation and amenities in the council areas.

c) Pradeshiya Sabhas

Pradeshiya Sabhas are established under the Pradeshiya Sabha Act No. 15 of 1987 and they replaced the Town Councils and Village Committees which existed earlier. 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 legislation of the Local Authorities allows any local authority to establish a Local Authority Fund to manage its financial affairs: the fund is credited with incoming revenue and debited with approved expenditure. Funds so established are the Municipal Council Fund, Urban Council Fund, and Pradeshiya Sabha Fund.

Substantial changes in the system of Local Authorities were 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 Sabhas 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 2.3-1 illustrates the number of Local Authorities in each province.

Table 2.3-1: Distribution of Local Authorities by Province – 2015

Province	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	25	28
Sabaragamuwa	1	3	25	29
Eastern	3	5	37	45
Total	23	41	271	335

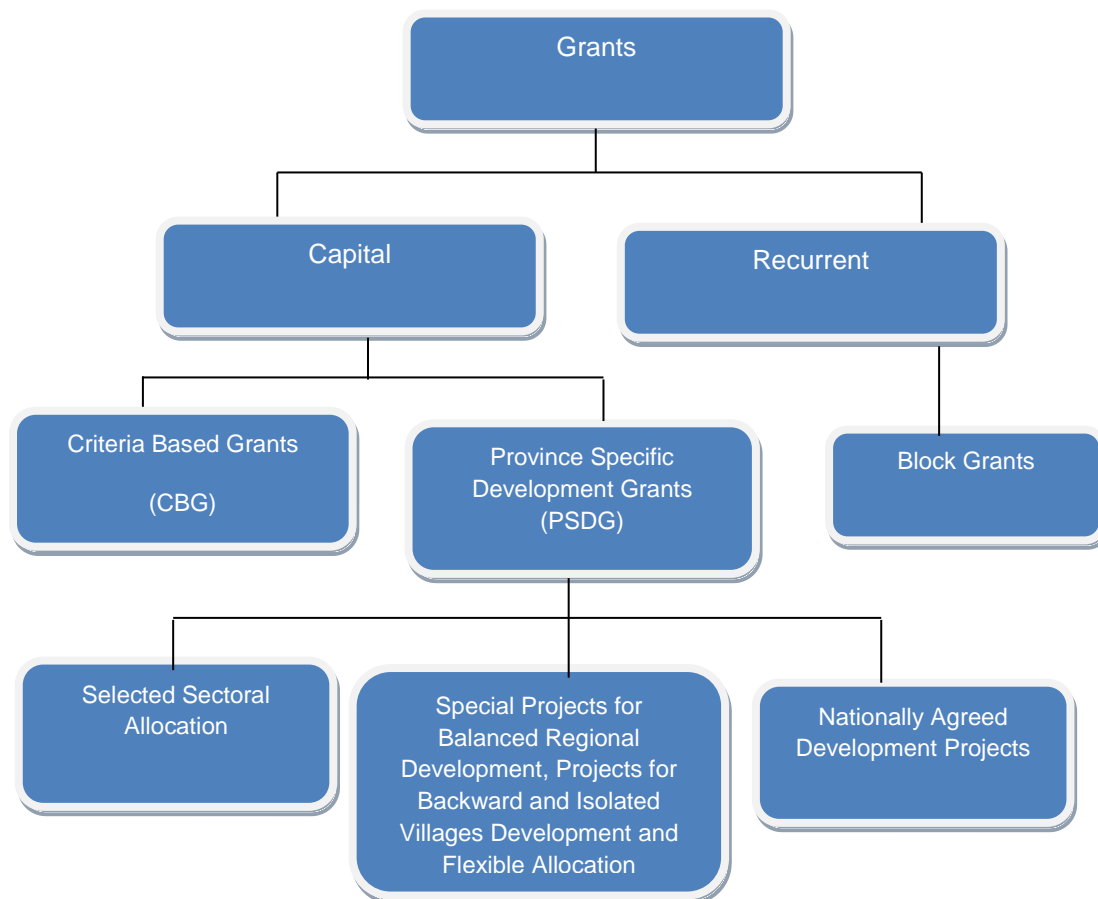
Source: Provincial Councils

3. Apportionment of Funds to the Provinces

3.1 Government Grants to Provincial Councils

These grants are all made after recommendation by the Finance Commission. Government funds are allocated to the provinces by means of three types of grants; Block Grants, Criteria Based Grants and Province Specific Development Grants as illustrated in the 3.1-1 figure.

Figure 3.1-1: Types of Grants



3.1.1 Block Grant

The Block Grant is made to meet the recurrent needs of the provinces in order to sustain and improve the service delivery system of the provinces. It 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 of each province.

Expense categories such as personal emoluments (salaries and wages, overtime and other allowances), maintenance, supplies, and overhead costs are financed from this grant. A large part of the grant goes to finance the salaries and wages of the cadre which have been approved by the Department of Management Services (DMS).

When assessing the provincial recurrent expenditure needs, the Commission analyzes the actual living cadre of the provinces, expenditure incurred during past years, and key elements of the circulars and guidelines issued by the General Treasury, the relevant line ministries, and the Commission.

The Block Grant 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.

3.1.2 Criteria Based Grant (CBG)

The CBG finances the capital needs of the provinces. Under this grant the provinces receive money as a bulk amount, and the provincial councils have wide discretion in choice of capital expenditure. However, provincial councils are required to adhere to the guidelines issued by the Commission in the allocation and utilization of this grant.

3.1.3 Province Specific Development Grant (PSDG)

The PSDG is to finance specific development projects under different devolved subjects paying particular attention to infrastructure development. After receiving the provincial development plans, the Commission holds discussions with the respective provincial authorities and it is ensured that these plans address the provincial needs and are in line with the Development Policy 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.

These funds are allocated under the following Sectors/Subjects.

1. Roads
 - 1.1 Rehabilitation of Provincial Roads
 - 1.2 Estate Roads
2. Transport
3. Land
4. Education
5. Health (Western Medicine)
6. Indigenous Medicine
7. Sports
8. Local Government
 - 8.1 Local Authority Roads
 - 8.2 Local Authority Services
 - 8.3 Waste Management
9. Probation and childcare
10. Social Services
11. Housing
12. Cultural and Religious Affairs

13. Agriculture
14. Livestock
15. Inland Fisheries
16. Irrigation
17. Rural Development
18. Small Industries
19. Rural Alternative Energy
20. Tourism

In addition, resources are also allocated under the following heads

Special projects for Balanced Regional Development

Resources are allocated for special projects to enhance balanced regional development. Specific amounts are given for medium scale projects, which are required to be formulated and implemented within a period of one to three years.

Projects for Backward and Isolated Villages Development

These projects are to provide necessary infrastructure for the identified rural villages which have been isolated and neglected due to lack of essential basic infrastructure. In designing these projects, an integrated approach has to be adopted considering all requirements in different sectors for the development of such villages. Construction of small scale bridges, culverts and access roads, providing electricity, drinking water, agricultural technology, facilitation for small scale industry, and development with technical knowhow should be priority areas under these projects.

Projects under Flexible Amount

This category of funds earmarks particular amounts for 'gap filling', as well as for use on any urgent requirements which are not included in the original plans, as well as for purposes such as development of underserved villages.

Foreign and Locally funded Projects designed by and agreed 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.

3.2 Methodology of Apportionment of Funds among Provinces

As observed before, the Finance Commission is constitutionally required by Article 154 R (5) of the Thirteenth Amendment to work towards the objective of achieving balanced regional development in the country in formulating principles for apportionment of funds among the provinces.

In pursuit of this objective, the Commission, in 2009, introduced formulas to apportion funds under CBG and PSDG. Updated formulas were used in 2014 in the 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

Weights are assigned to the identified indicators. 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 identified indicators and assigned weights to apportion funds under PSDG are set out in the Table 3.2-1.

Table 3.2-1: 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		15%
Neo-natal mortality rate	Per 1,000 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 indicators and weights used in apportioning funds under the CBG are as follows:

1. Population: population of the province – 35%
2. Per capita income: 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 following four categories:

1. The Income and Poverty Category consists of three variables,
 - Mean Per Capita Income
 - Poverty Headcount Index
 - Unemployment Rate
2. The Health Category consists of two variables,
 - Neo-natal Mortality Rate
 - Low Weight Births
3. The Education Category comprises,
 - Student enrolment
 - Learning achievements at grades 4,5,9,O/L and A/L exams.
4. The Infrastructure Facilities Category comprises,
 - 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:

$$x_i = a_1 V_{1i} \bar{B} + a_2 V_{2i} \bar{B} + \dots + a_n V_{ni} \bar{B}, \quad \sum_{i=1}^n a_i = 1$$

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 .

3.3 Allocations of Government Grants to Provincial Councils

Table 3.3-1: Apportionment of the Block Grant 2010-2014

	<i>Rs.mn</i>				
Province	2010	2011	2012	2013	2014
Western	6,100	7,170	9,011	8,502	9,110
Central	13,000	13,270	13,763	14,864	15,795
Southern	10,500	11,172	11,803	12,908	13,945
Northern	8,400	9,153	8,557	10,075	11,622
Eastern	10,100	10,473	11,385	11,635	12,632
North Western	12,300	12,656	12,651	14,118	15,160
North Central	7,300	7,386	7,005	7,346	9,095
Uva	8,300	8,897	9,459	10,263	11,115
Sabaragamuwa	9,000	9,823	11,243	13,088	14,150
Total	85,000	90,000	94,877	102,800	112,624

Source: Finance Commission

Table 3.3-2: Percentage Growth of the Block Grant 2011-2014

Province	2011	2012	2013	2014
Western	18	26	-6	7
Central	2	4	8	6
Southern	6	6	9	8
Northern	9	-7	18	15
Eastern	4	9	2	9
North Western	3	0	12	7
North Central	1	-5	5	24
Uva	7	6	9	8
Sabaragamuwa	9	14	16	8
Total	6	5	8	10

Source: Finance Commission

The following points may be noted regarding the Tables 3.3-1 and 3.3-2.

- 1) The total apportionments made under the BG have increased over the period 2010 to 2014. However, the increase may be less in real terms, once inflation is taken into account.
- 2) Apportionments to the Western Province have shown a declining trend in 2013 and 2014 as compared to 2011 and 2012.
- 3) Consistent increase in apportionments over any three year period are recorded only by Uva and Sabaragamuwa provinces.

Table 3.3-3: Allocation and Release of Block Grant 2010-2014

Province	2010		2011		2012		2013		2014	
	Allo.	Rele.	Allo.	Rele.	Allo.	Rele.	Allo.	Rele.	Allo.	Rele.
Western	6,100	6,100	7,170	8,979	9,011	8,894	8,502	9,691	11,699	11,699
Central	13,000	13,000	13,270	13,697	13,763	13,049	14,864	15,687	17,917	17,917
Southern	10,500	10,500	11,172	11,760	11,803	11,907	12,908	13,586	15,785	15,785
Northern	8,400	8,700	9,153	9,318	8,557	8,500	10,075	10,795	12,642	12,642
North Western	12,300	12,299	12,656	13,018	12,651	11,921	14,118	14,846	16,413	16,413
North Central	7,300	7,300	7,386	7,596	7,005	6,776	7,346	7,765	10,595	10,595
Uva	8,300	8,300	8,897	8,948	9,459	9,032	10,263	10,758	12,500	12,500
Sabara.	9,000	9,000	9,823	10,335	11,243	10,737	13,088	13,606	14,809	14,809
Eastern	10,100	10,100	10,473	10,952	11,385	10,737	11,635	12,066	13,786	15,786
Total	85,000	85,299	90,000	94,602	94,877	91,552	102,800	108,801	126,146	126,146

Note: Including supplementary allocations

Source: Finance Commission and General Treasury

In a few cases, the amounts released are less than those allocated. In the majority of cases where there is a difference between the amounts released and allocated however, the difference is on the positive side. These cases are where supplementary allocations have had to be used. Needless to say, the use of supplementary votes plays havoc with budgetary discipline, and it is evident that much more attention has to be paid to evolving much more precise estimates at the outset at the provincial level.

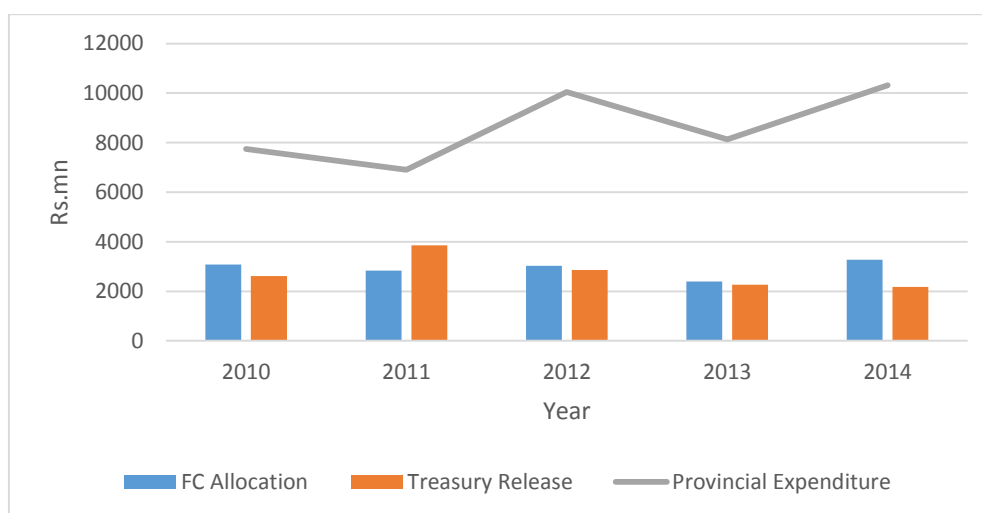
Table 3.3-4: Criteria Based Grant - Allocation, Release and Expenditure 2010 – 2014

Province and Year	FC Allocation	Treasury Release	%	Provincial Expenditure	Rs.mn
					%
Western					
2010	450	383	85	3,120	693
2011	400	660	165	2,940	735
2012	427	180	42	5,466	1,280
2013	370	370	100	5,055	1,366
2014	475	293	62	5,857	1,233
Central					
2010	410	308	75	580	141
2011	375	337	90	440	117
2012	400	218	55	359	90
2013	321	193	60	314	98
2014	430	129	30	382	89
Southern					
2010	350	298	85	1,272	364
2011	325	292	90	727	224
2012	347	189	55	688	198
2013	295	177	60	479	162
2014	380	255	67	1,046	275
Northern					
2010	300	255	85	299	100
2011	275	247	90	262	95
2012	294	161	55	209	71
2013	195	195	100	194	99
2014	280	280	100	391	140
North Western					
2010	300	255	85	280	93
2011	300	270	90	287	96
2012	320	175	55	273	85
2013	270	162	60	246	91
2014	350	290	83	506	145
North Central					
2010	260	260	100	403	155
2011	275	1,277	464	1,339	487
2012	293	1,420	485	2,227	760
2013	230	742	323	1,011	440
2014	350	193	55	867	248

Province and Year	FC Allocation	Treasury Release	%	Provincial Expenditure	%
Uva					
2010	300	255	85	1,157	386
2011	300	240	80	357	119
2012	320	175	55	292	91
2013	240	144	60	416	173
2014	330	179	54	410	124
Sabaragamuwa					
2010	380	323	85	367	97
2011	335	301	90	321	96
2012	357	195	55	351	98
2013	252	151	60	239	95
2014	335	335	100	534	159
Eastern					
2010	325	276	85	267	82
2011	250	230	92	229	92
2012	267	146	55	181	68
2013	217	130	60	175	81
2014	340	227	67	325	96
Total					
2010	3,075	2,612	85	7,744	252
2011	2,835	3,855	136	6,902	243
2012	3,025	2,859	95	10,045	332
2013	2,390	2,264	95	8,129	340
2014	3,270	2,181	67	10,318	316

Source: Finance Commission, Provincial Councils and General Treasury

Figure 3.3-1: Allocation, Releases and Expenditure of CBG 2010 - 2014



It may be noted that while the amounts allocated by the Finance Commission and released by the General Treasury have fluctuated (the General Treasury release of 2014 being an outlier in the last five years in showing the sharpest deviation in a negative

direction from the Finance Commission's allocation), in four of the five years 2010 – 2014 the amounts expended by the provincial councils themselves have been 250% more than the Finance Commission allocation, and in three years, in excess of 300%.

This very positive result could occur because the provincial councils add their own resources to expenditure under CBG. A certain proportion also reflects the discretionary spending allocated to council members.

However, it should also be noted that the pacesetter in spending from own resources is the Western Province, and this may reflect the fortunate resource base of that province. The lowest and highest in the range of spending above Finance Commission allocation in the period 2010-2014 is as follows:

Table 3.3-5: Funds Expended under Criteria Based Grant in Excess of the Finance Commission Allocation 2010 - 2014

Provincial Council	(%)	
	Lowest	Highest
Western	693	1,366
Central	89	141
Southern	162	364
Northern	71	140
North Western	85	145
North Central	155	760
Uva	91	386
Sabaragamuwa	96	159
Eastern	81	96

Source: Finance Commission

Two interesting questions that arise are how some Provincial Councils could outperform others even in spite of poorer resource bases and whether these exceptional performances should not receive due acknowledgement by increased Finance Commission allocations in the following year. Such an incentive scheme may energize all Provincial Councils to give greater emphasis to capital investment.

It would not be impossible to come up with a formula which takes into account the resource base of the province and use of the Provincial Council's own resources in CBG with increased allocations to be made by the Finance Commission in the following year.

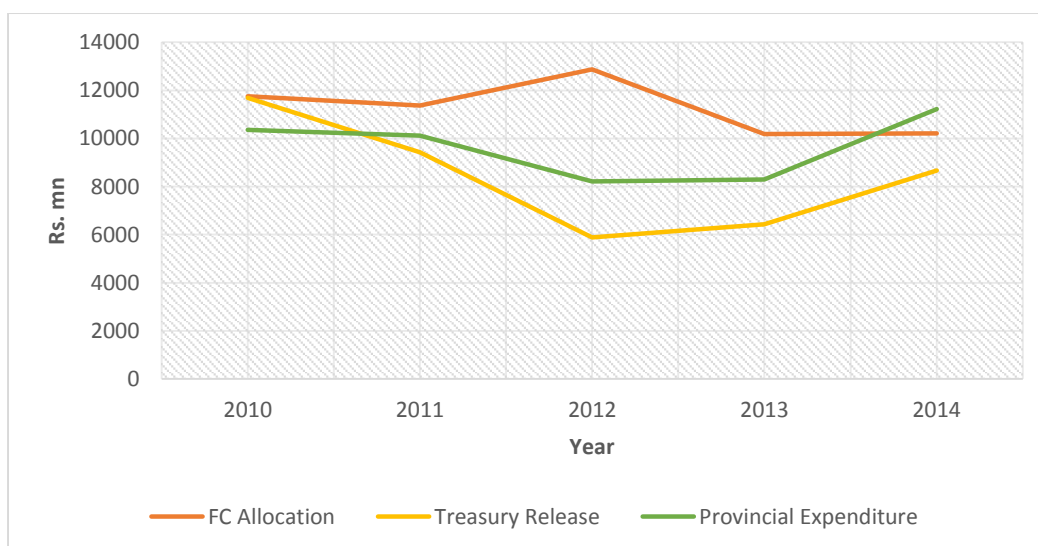
Table 3.3-6: Province Specific Development Grant - Allocation, Release and Expenditure 2010 – 2014

Province and Year	FC Allocation	Treasury Release	%	Rs.mn	
				Provincial Expenditure	%
Western					
2010	1,300	1,215	93	1,001	77
2011	1,575	1,231	78	1,220	77
2012	1,735	405	23	1,542	89
2013	1,266	990	78	1,140	90
2014	1,270	508	40	1,112	88
Central					
2010	1,500	1,500	100	1,447	96
2011	1,400	1,172	84	1,350	96
2012	1,595	755	47	1,210	76
2013	1,229	738	60	1,101	90
2014	1,230	742	60	1,063	86
Southern					
2010	1,300	1,299	100	655	50
2011	1,450	1,208	83	1,212	84
2012	1,642	777	47	781	48
2013	1,229	737	60	752	61
2014	1,230	820	67	907	74
Northern					
2010	1,300	1,205	93	1,201	92
2011	1,150	913	79	1,040	90
2012	1,302	616	47	974	75
2013	1,030	618	60	851	83
2014	1,035	908	88	1,024	99
North Western					
2010	1,300	1,300	100	1,224	94
2011	1,450	1,188	82	1,304	90
2012	1,642	777	47	935	57
2013	1,137	712	63	853	75
2014	1,140	1,684	148	2,367	208
North Central					
2010	1,300	1,645	127	1,505	116
2011	1,275	1,056	83	1,093	86
2012	1,445	684	47	696	48
2013	1,000	600	60	675	68
2014	1,000	650	65	713	71
Uva					
2010	1,455	1,450	100	1,341	92
2011	1,150	993	86	1,056	92
2012	1,323	658	50	849	64
2013	1,144	746	65	1,072	94
2014	1,150	1,555	135	1,856	161

Province and Year	FC Allocation	Treasury Release	%	Provincial Expenditure	%
Sabaragamuwa					
2010	1,200	1,134	94	1,059	88
2011	1,100	955	87	1,087	99
2012	1,266	599	47	616	49
2013	1,145	687	60	1,194	104
2014	1,150	1,148	100	1,354	118
Eastern					
2010	1,100	935	85	929	84
2011	815	711	87	753	92
2012	925	610	66	617	67
2013	1,000	600	60	661	66
2014	1,000	650	65	823	82
Total					
2010	11,755	11,683	99	10,362	88
2011	11,365	9,426	83	10,114	89
2012	12,875	5,881	46	8,220	64
2013	10,180	6,429	63	8,299	82
2014	10,205	8,665	85	11,219	110

Source: Finance Commission

Figure 3.3-2: Allocation, Releases and Expenditure of PSDG 2010 - 2014



It may be noted that the amounts allocated under PSDG are very much larger than the amounts allocated under CBG. Whereas the CBG allocation in 2014 was Rs. 3,270 million and actual spending was Rs. 10,318 million reflecting a 316% increase, under the PSDG, the allocation was Rs. 10,205 million and actual spending Rs. 11,219 million reflecting a 110% increase.

As we have seen, grants made under PSDG are for specific, pre-approved projects, and there is no room for discretionary spending. Where spending above allocation occurs, it

may have been made possible where provincial councils have spent from their own revenue and reserves.

The more significant feature emerging from the above table is the degree of under spending (i.e., below FC allocation) seen in many years and in all provinces. The Finance Commission allocations and provincial spending are however not the whole story: in many instances the General Treasury releases have been much less than the FC allocation. In many of these instances too, the Provincial Councils have managed to spend more than the General Treasury releases, perhaps making heroic attempts to meet their investment targets. Scrutiny of the above table would reveal that there are only a very few instances in which spending has been below the General Treasury release. All of these instances occurred in the year 2010.

Despite the attempts of the provincial councils to maintain their capital expenditure levels, it must be acknowledged that much more could have been done if the General Treasury releases were more in line with Finance Commission allocations. These allocations are made on a scientific basis, taking into account the need to reduce regional disparities. Reduced Treasury allocations therefore strike at the core of Finance Commission efforts to achieve its constitutionally mandated objectives of achieving balanced regional development.

3.4 Provincial Investments in Major Sectors under PSDG

This section reviews PSDG investments in five selected major sectors of the economy by province. It should be noted that expenditure by various line ministries also takes place within all provinces on the sectors to be examined below. To that extent, the PSDG figures may understate, in some cases even sharply, total government capital expenditure on these sectors. Again, it should be remembered that General Treasury releases are often less than the original Finance Commission allocation.

3.4.1 Education

The importance of this sector needs no underscoring: the education sector in a country plays a major role in moulding the human resources to meet the manpower needs. The 21st Century is dedicated to achieve the objectives of a knowledge based society and UNESCO emphasizes the concepts of education for life and education for all which mean that all persons would continue to learn throughout their lives.

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 ensuring the provision of required vocational skills to school leavers.

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.

Table 3.4-1: Province-wise PSDG Investments in the Education Sector (2010-2014)

Province	Rs.mn				
	2010	2011	2012	2013	2014
WP	143	184	234	176	176
CP	117	150	171	112	139
SP	135	199	95	127	166
NP	147	177	201	247	260
EP	133	191	154	128	167
NWP	127	207	163	146	502
NCP	159	145	132	125	121
Uva	225	162	145	179	861
Sab	130	283	131	203	336
Total	1,318	1,699	1,428	1,443	2,728

Source: Provincial Expenditure Reports

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

PSDG investment in the education sector have more than doubled if one simply takes the years 2010 and 2014. However, whether this increase will be sustained remains to be seen as there have been fluctuations at much lower levels than those of 2014, in the previous years.

The largest outlays to any single province have been channeled to the Northern Province in the period 2012-2014, undoubtedly a reflection of the reconstruction of the education infrastructure in that province.

3.4.2 Health

The health sector represents approximately 1.5% of the GDP at national level, and apart from the importance of its preventative and curative aspects in improving the general quality of life, it is also an important factor in developing human capital. Except teaching hospitals and selected provincial general hospitals, all other hospitals and medical centres come under the purview of Provincial Councils.

Table 3.4-2: Province-wise PSDG Investments in the Health Sector (2010-2014)

Province	Rs.mn				
	2010	2011	2012	2013	2014
WP	90	161	188	155	127
CP	182	196	184	166	180
SP	65	184	130	164	102
NP	154	248	224	188	209
EP	151	130	91	117	150
NWP	224	269	142	118	136
NCP	127	155	131	95	79
Uva	148	175	132	168	220
Sab	116	157	92	178	203
Total	1,256	1,675	1,313	1,349	1,406

Source: Provincial Expenditure Reports

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

PSDG investments in the health sector have declined from the peak reached in 2011 in the period 2010-2014, though year on year increases have been recorded in 2013 and 2014.

3.4.3 Agriculture

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, the agriculture sector contributes around 11% to the GDP but around 35% of the labour force is engaged in agriculture related activities. Therefore, investments in the agriculture sector affect a wide swath of people.

Table 3.4-3: Province-wise PSDG Investments in the Agriculture Sector (2010-2014)

Province	Rs.mn				
	2010	2011	2012	2013	2014
WP	22	25	43	21	25
CP	55	40	37	40	40
SP	15	37	41	21	40
NP	89	68	88	9	60
EP	95	61	42	74	119
NWP	31	41	35	37	48
NCP	38	37	32	24	42
Uva	67	38	34	92	50
Sab	28	35	16	29	40
Total	441	383	369	347	464

Source: Provincial Expenditure Reports

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

The highest PSDG expenditures on the agriculture sector in the period 2010 – 2014 occurred in the years 2010 and 2014. There have been steady declines in the period 2011 - 2013.

3.4.4 Livestock

Apart from its effects on incomes in the wider agricultural sector, development of the livestock sector can directly contribute to improve the nutrition status of the people since they secure a major part of their protein requirements through milk, meat and eggs. In their investments in the livestock sector, provinces have focused on development of dairy, poultry, goat and swine projects.

The highest PSDG expenditures on the livestock sector in the period 2010 – 2014 occurred in the years 2011 and 2014. There have been steady declines in the years 2012 and 2013.

Table 3.4-4: Province-wise PSDG Investments in the Livestock Sector (2010-2014)

Province	Rs.mn				
	2010	2011	2012	2013	2014
WP	8	16	20	15	15
CP	29	29	28	25	27
SP	11	19	17	15	21
NP	29	24	44	13	29
EP	30	25	24	29	38
NWP	18	23	16	20	30
NCP	16	24	21	10	19
Uva	41	32	29	28	30
Sab	27	20	13	24	40
Total	209	213	212	179	249

Source: Provincial Expenditure Reports

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

3.4.5 Road

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. 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.

Table 3.4-5: Province-wise PSDG Investments in the Road Sector (2010-2014)

Province	2010	2011	2012	2013	2014
WP	425	466	482	490	474
CP	585	483	453	401	431
SP	175	418	206	241	314
NP	280	238	131	207	102
EP	106	49	42	129	146
NWP	387	407	292	256	336
NCP	549	250	148	177	198
Uva	297	266	270	216	322
Sab	270	241	144	242	336
Total	3,075	2,818	2,169	2,359	2,659

Source: Provincial Expenditure Reports

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

It is noteworthy that investments in this sector are very much larger than those in other sectors already examined, perhaps reflecting the preoccupation with large investments in infrastructure projects at the national level in the period 2010-2014. It is also noteworthy that the Western and Central Provinces, with relatively larger resource bases, have secured the largest funding in this sector in the years 2010-2014.

4. Provincial Finance

Provincial Finance can be classified into two components namely, income and expenditure.

4.1 Provincial Revenue & Income

The major sources of funds of the provincial councils as given in the Provincial Council Act No. 42 of 1987 are as follows;

- a) Revenue collected at the provincial level by devolved sources.
- b) Transfers of revenue to provinces, collected at the national level by the relevant authorities.
- c) Proceeds of all grants made to the provincial councils by the Government.
- d) Proceeds of all loans advanced to the provincial councils from the Consolidated Fund.
- e) All other receipts of the provincial councils: these include donations, gifts, profits of commercial ventures of the provincial council and proceeds of loans taken by the provincial council.

The incomes from d) and e) above are uncertain, in many cases only temporary, and where loans are obtained, availed of only as a last resort.

4.2 Provincial Revenue Collection from Devolved Source

These revenue sources are included in the section from 36.01 to 36.20 of the Ninth Schedule of 13th Amendment to the Constitution, set out in the Table 4.2-1.

Table 4.2-1: 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 ;

No.	Source of Revenue
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 ;

The details of revenue collected by the provincial authorities through devolved sources for the last five years are set out in the Table 4.2-2.

Table 4.2-2: Provincial Revenue Collection by Devolved Source 2010-2014*

<i>Rs.mn</i>					
Revenue Source	2010	2011	2012	2013	2014
BTT*	19,584	3,652	197	101	93
%	53.65	15.37	0.84	0.41	0.33
Stamp Duty	6,714	9,304	10,096	10,959	14,192
%	18.39	39.15	43.06	45.05	49.90
Motor Vehicle License Fees	3,911	5,040	5,726	6,588	7,480
%	10.71	21.21	24.42	27.10	26.30
Excise Duty	591	732	794	835	942
%	1.62	3.08	3.39	3.43	3.31
Court Fines	1,588	1,591	1,907	1,774	1,841
%	4.35	6.70	8.13	7.86	6.47
Others	4,117	3,443	4,728	3,922	3,891
%	11.28	14.49	20.16	16.14	13.68
Total	36,505	23,762	23,448	24,178	28,440

Note: 1. Government Transfers are not included

2. *Collection of due BTT up to 2010

Source: Finance Commission

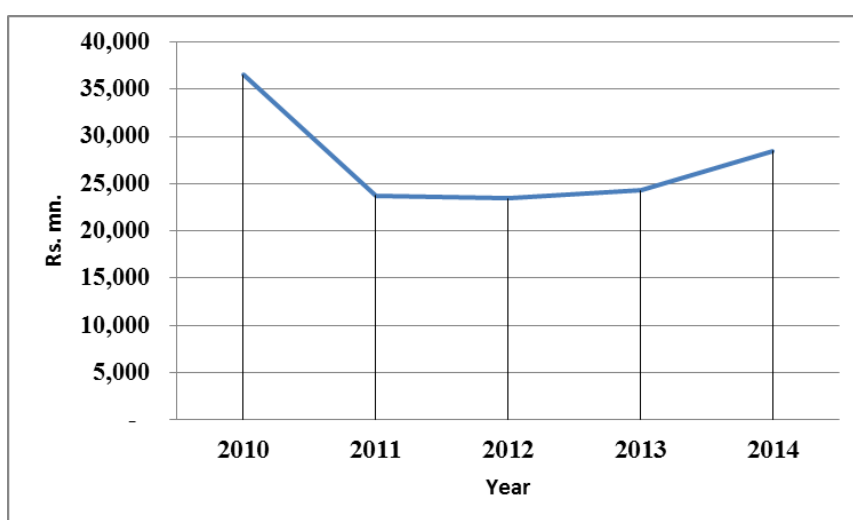
The Provincial Councils' main source of revenue until 2010 was the Business Turnover Tax (BTT). However, as the provincial BTT, which was charged in addition to other similar national taxes acted as a tax upon tax, creating a high tax burden, especially on Small and Medium Enterprises (SMEs) and consumers,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

Accordingly, the figures included in the table under that head for 2012 - 2014 refer only to arrears of BTT.

As shown in the Table 4.2-2, the largest volume of revenue comes from stamp duties since 2010. However, the revenue collected through stamp duties and court fines 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 Table 4.2-2, the total revenue from all the devolved sources has declined by almost 33% between 2010 and 2012. Thereafter it has risen marginally in 2013, and somewhat more significantly in 2014.

Figure 4.2-1: Provincial Revenue Collection by Devolved Source 2010-2014



4.3 Transfer of Revenue to Provinces, Collected at the National Level

The reduction in revenue resulting from the abolition of BTT 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 under specific heads 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. 33 1/3 % of the Nation Building Tax (NBT)
- b. 100 % of Stamp Duty
- c. 70% (instead of the earlier 60%) 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

Table 4.3-1 presents data on transfer of government revenue to the provinces.

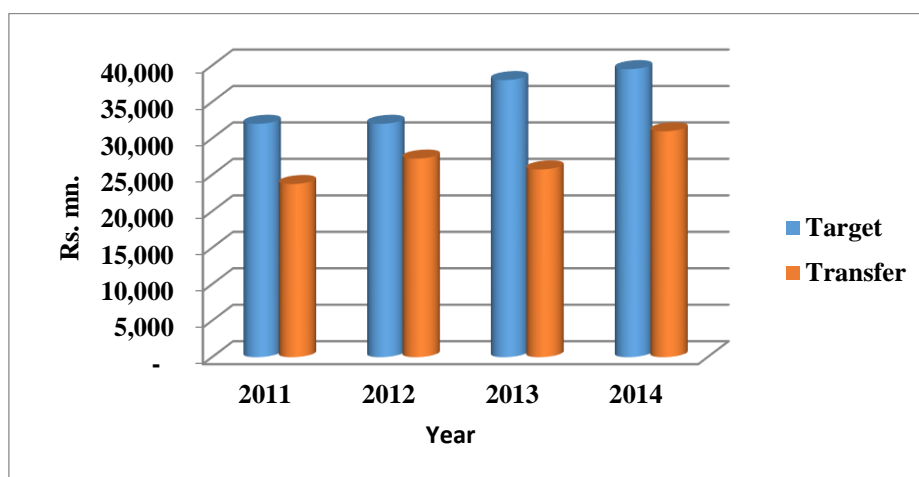
Table 4.3-1: Transfer of Government Revenue 2011-2014

Province	Rs.mn							
	2011		2012		2013		2014	
	Target	Transfer	Target	Transfer	Target	Transfer	Target	Transfer
Western	15,360	12,073*	15,360	13,043	18,240	11,947	18,960	14,999
Central	2,880	2,210	2,880	2,458	3,420	2,251	3,555	2,837
Southern	2,880	1,677	2,880	2,456	3,420	2,252	3,555	2,755
Northern	1,600	1,187	1,600	1,257	1,900	1,218	1,975	1,532
North Western	2,880	2,101	2,880	2,579	3,420	2,222	3,555	2,884
North Central	1,600	1,179	1,600	1,416	1,900	1,412	1,975	1,538
Uva	1,600	1,115	1,600	1,377	1,900	1,742	1,975	1,554
Sabaraga.	1,600	1,180	1,600	1,356	1,900	1,297	1,975	1,453
Eastern	1,600	1,021	1,600	1,290	1,900	1,406	1,975	1,425
Total	32,000	23,743	32,000	27,232	38,000	25,746	39,500	30,977

Source: Finance Commission

It will be noted from Table 4.3-1 that the annual transfer of government revenue has varied, and invariably fallen short, sometimes significantly, from the amounts targeted, in the period examined, 2011 to 2013. These variations may indicate that either the basis on which targets are set has to be revised, and / or that a more concentrated effort needs to be made by the national government to transfer the amounts targeted.

Figure 4.3-1: Transfer of Government Revenue 2011-2014



4.4 Provincial Revenue Collection and Government Transfers

Table 4.4-1 sets out the figures resulting when provincial revenue collection from devolved source and government transfers of revenue are included together.

Table 4.4-1: Provincial Revenue 2010 – 2014

Province	2010		2011*		2012*		2013*		2014*	
	Target	Actual Revenue Collected	Target	Actual Revenue Collected	Target	Actual Revenue Collected	Target	Actual Revenue Collected	Target	Actual Revenue Collected
Western	23,450	22,741	23,481	25,958	25,731	26,353	28,690	25,522	32,860	31,092
Central	3,380	2,986	3,650	4,192	5,040	4,203	5,261	4,344	5,630	5,229
Southern	3,710	2,924	3,505	3,837	4,681	4,670	5,279	4,479	5,895	5,274
Northern	-	155	-	1,268	1,772	1,556	2,088	1,529	2,375	1,866
North Western	3,610	2,949	3,738	4,371	4,968	4,882	5,593	4,699	6,110	5,720
North Central	1,350	1,171	1,418	2,087	2,237	2,510	2,601	2,326	2,930	2,596
Uva	1,090	975	1,236	1,779	2,136	2,169	2,489	2,475	2,605	2,437
Sabaraga.	1,840	1,705	1,982	2,300	2,507	2,616	2,840	2,474	3,185	2,834
Eastern	-	900	1,059	1,713	2,236	1,721	2,571	2,205	2,735	2,368
Total	38,430	36,506	40,069	47,505	51,308	50,680	57,412	50,052	64,325	59,417

Source: Finance Commission

Numerous variations of actual revenue collection as against the targets are seen in the Table 4.4-1. In every year except 2011 the actual revenue collected has been below the targeted amounts. This is perhaps largely because, as we have already observed, transfers of government revenue to the provinces are invariably below target. The basis on which targets are set may also need to be revisited.

In all the years for which statistics are presented, the collection of revenue in the Western Province has been comparatively higher than in the other provinces. This can

be attributed to the agglomeration of industries, commercial activities and value addition concentrated in the Western Province. Considering this aspect, 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.

4.4.1 Revenue Collection by Government & Provincial Councils

Provincial Revenue as a percentage of government revenue has varied within a narrow band (4.33% – 5.12%) in the period 2010 -2014. By and large therefore provincial revenues have generally increased in fairly uniform proportion to increases in total government revenue.

It should also be recalled that grants also take place from government to provincial councils.

Table 4.4-2: Revenue Collection by the Government and Provincial Councils 2010 - 2013

Description	Rs.mn				
	2010	2011	2012	2013	2014
Total Government Revenue	841,463	958,335	1,014,058	1,082,496	1,160,128*
Provincial Revenue	36,506	47,504	50,680	50,052	59,417
Provincial Revenue as a % of Total Government Revenue	4.33	4.95	4.99	4.62	5.12

Source: Finance Commission and Central Bank Report (2009-2014)

** Provisional*

Note: From 2011, Provincial Revenue includes Government Transfers

4.5 Provincial Expenditure

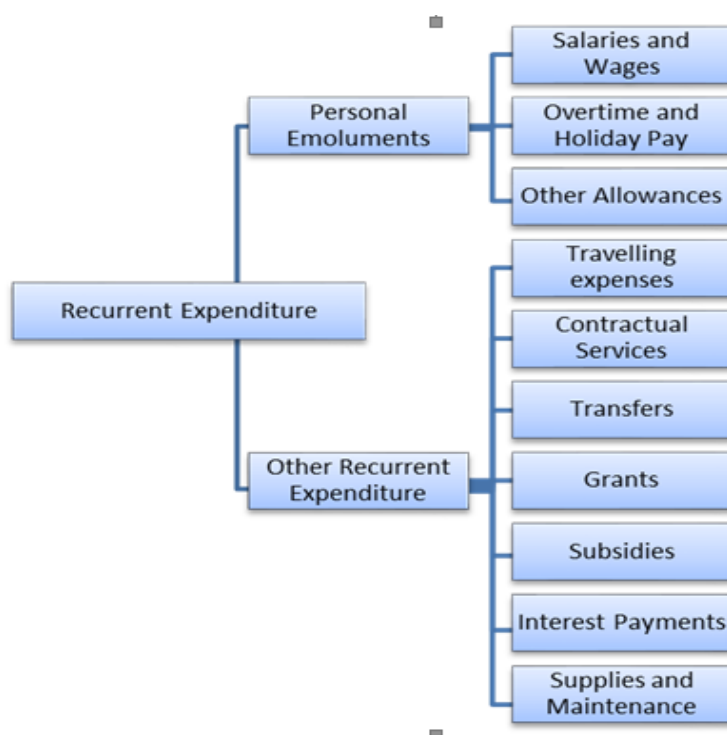
Expenditure in the context of the provinces means actual payments made for recurrent and capital purposes. Such expenditures are met through the funds allocated by the government and the provincial council's own revenue (whether from devolved source or transfer of revenue share by the national government).

Provincial authorities often raise the grievance that the amounts allocated are not released by the General Treasury at the beginning of the year or at regular intervals as requested by the provinces due to financial constraints.

4.5.1 Recurrent Expenditure

The following figure indicates the line items falling under the two broad categories of recurrent expenditure, i.e., Personal Emoluments and Other Recurrent Expenditure.

Figure 4.5-1: Structure of Recurrent Expenditure



Recurrent expenditure accounts for 70-80 per cent of provincial expenditure and is mainly spent to meet personal emoluments covering the cost of salaries and allowances of employees and council members of the provincial councils. This expenditure is incurred also 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 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.

Details of actual expenditure under the object categories / line items are shown in the Table 4.5-1.

Table 4.5-1: Summary of Provincial Recurrent Expenditure by Object Categories 2010-2014

Rs.'000

Object Category	2010	2011	2012	2013	2014
Personal Emoluments	92,049,175	100,939,589	106,750,832	117,320,047	131,132,283
<i>Salaries & Wages</i>	66,480,962	71,752,577	68,659,702	71,143,324	73,578,644
<i>Overtime & Holiday Pay</i>	4,134,444	4,652,407	4,999,060	6,760,623	7,696,170
<i>Other Allowances</i>	21,433,769	24,534,605	33,092,070	39,416,100	49,857,469
Other Recurrent Expenditure	26,868,683	29,416,065	32,630,570	38,207,906	41,047,766
Travelling	1,022,373	1,125,477	1,186,753	1,245,231	1,319,311
Supplies	2,879,406	3,683,123	3,600,167	4,070,088	4,465,677
Maintenance	3,224,205	3,777,593	3,958,387	4,303,075	5,318,598
Contractual Services	2,456,988	2,854,921	3,133,293	3,440,379	3,888,836
Transfers	11,761,927	12,240,249	13,440,735	12,935,223	12,043,452
Grants	4,739,039	4,314,270	5,833,032	11,051,281	12,350,871
Subsidies	175,344	689,995	983,202	67,021	258,411
Other	609,401	730,437	495,001	1,095,608	1,402,610
Total Recurrent Expenditure	118,917,858	130,355,654	139,381,402	155,527,953	172,180,049
% Increases	6	10	7	12	11

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

Source: Finance Commission

It would be noted that total recurrent expenditure year to year increases have not occurred at a uniform rate. The highest rate of increase was 12% in 2013, and the lowest – 6% - in 2010.

The percentage shares taken by Personal Emoluments and Other Recurrent Expenditure in the years 2010-2014 are set out in the following table.

Table 4.5-2: Percentage Shares of Personal Emoluments and Other Recurrent Expenditure

Year	Personal Emoluments	Other Recurrent Expenditure
2010	77.4	22.5
2011	77.4	22.5
2012	76.5	23.4
2013	75.4	24.5
2014	76.1	23.8

Source: Finance Commission

What is remarkable is that the shares of the two categories of expenditure have remained largely stable over the five year period.

Table 4.5-3: Total Living Cadre of Provinces

Provinces	2010	2011	2012	2013	2014
Western	52,402	52,133	53,288	56,067	54,074
Central	39,910	41,311	39,849	39,284	39,775
Southern	35,365	35,509	35,390	34,785	35,950
Northern	23,607	24,146	23,679	24,485	27,061
North Western	38,370	38,499	38,269	41,031	38,740
North Central	23,214	21,613	21,316	20,483	21,316
Uva	28,287	27,940	27,354	26,926	27,133
Sabaragamuwa	27,166	27,723	28,068	29,038	31,239
Eastern	29,341	29,906	29,559	29,534	28,884
Total	297,662	298,780	296,772	301,633	304,172

Source: Provincial Councils

The total living cadre of the provinces fluctuated within a narrow band in the years 2010-2012, but show abrupt increases in 2013 and 2014. The increase in cadre between 2010 and 2014 however is only 6,510, a mere 2.1%.

Table indicates the increases in government and provincial council recurrent expenditure.

Table 4.5-4: Recurrent Expenditure 2010-2014

Rs.mn

Year	Government Current Expenditure	Annual % Increase	Provincial Recurrent Expenditure	Annual % Increase	Provincial Share %
2010	952,243		118,918		12.5
2011	1,020,264	8	130,356	10	12.8
2012	1,118,401	9	139,381	7	12.5
2013	1,253,706	16	155,528	10	12.4
2014	1,370,501	4	172,180	11	12.6

Source: Annual Budget Estimates

It would be seen that here again provincial recurrent expenditure as a percentage of Government current expenditure has remained remarkably stable, fluctuating within a very narrow band (12.4% - 12.8%).

4.5.2 Impact of the Provincial Recurrent Investments

It is estimated that there are around 304,000 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 2014 was Rs.131,132 million. This expenditure comprised about 76% the total provincial recurrent expenditure. Although this amount may be seen as a large chunk of the total provincial allocation, the key results achieved with regard to 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 paid special attention to 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. The agriculture, roads and irrigation sectors at provincial level have also provided a significant contribution to improve 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.

In our discussion earlier in this chapter, we have noticed that the share of emoluments in the recurrent expenditure of the provincial councils has remained largely stable over the five years 2010-2014, and that cadre has increased by only 2.1% between 2010 and 2014. That such stability could be maintained in the midst of an increasing contribution by the cadre of the provinces would speak to some increasing productivity of that cadre.

4.5.3 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.

4.6 Overall Assessment of Provincial Revenue and Expenditure

Provincial capital expenditures are financed by government grants. The question that then arises is whether provincial revenues are sufficient to cover their recurrent expenditures. But with regard to this question we already know that the government makes block grants through the Finance Commission. It would be interesting to see therefore to what extent provincial revenues meet their recurrent expenses. We attempt this in the following table.

**Table 4.6-1: Provincial Revenues, Recurrent Expenditure and the Block Grant
2010-2014**

	<i>Rs. bn</i>				
Year	2010	2011	2012	2013	2014
(1) Total Recurrent Expenditure	118.9	130.4	139.4	155.5	172.2
(2) Provincial Revenues	36.5	47.5	50.6	50.0	59.4
(1) – (2)	82.4	82.9	88.8	105.5	112.8
Block Grant	85.0	90.0	94.8	102.8	112.6

Source: Finance Commission

In the above table we get a very clear final picture of the state of provincial finances, and the crucial role played by the block grant in covering even provincial recurrent expenditure. The question is how sustainable this model is: provincial councils are very much wards of the government to meet both their recurrent and capital expenditures.

Perhaps this is not an entirely correct way of looking at the problem. All revenue gained by the provincial councils would have gone to the government in the absence of provincial councils. Similarly, whether undertaken by government or the provincial councils, all capital expenditure and most recurrent expenditure would in any case have had to be incurred; we have already seen that the provincial cadre plays a key role in delivery of output and services to the community.

In that light, the problem is not one of keeping the provincial councils afloat; rather it is one of financing government. That is of course a wider problem that cannot be resolved in this report, but a few cautionary observations may be made;

- 1) All revenue comes from the same pool of people, whether they are taxed at provincial or national level.
- 2) Indirect taxes are by their very nature regressive, falling more heavily on the poor rather than the rich, because the marginal propensity to consume declines with increases in income.
- 3) Direct taxation can alter the incentives to work, save and invest in productive assets.
- 4) Inflationary finance acts as a tax through price increases, and again the impact will be more on the poor, rather than the rich. (To some extent this latter group may well find some temporary gain in inflation in that the values of their assets increase as well, before the corrosive effects of inflation are felt throughout the economy).

Thus a cautious path must necessarily be trod in finding revenue sources. At the other end of the spectrum, the productivity of factors employed will also have to be increased, and in this latter aspect, the provincial cadre appears to be rising to the occasion.

4.7 Financing Local Government

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

4.7.1 Financial Transfers to Local Authorities

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

From 2007 onwards the total amount payable as salaries and allowances of the approved living cadre are financed fully through government funds. Table 4.7-1 indicates the amounts transferred to local authorities for reimbursement of salaries to the staff.

Table 4.7-1: Transfers to Local Authorities for Reimbursement of Salaries 2010-2014

	<i>Rs.mn</i>				
Province	2010	2011*	2012	2013	2014
Western	4,624	4,116	4,390	4,673	5,059
Central	1,101	1,087	1,156	1,323	1,378
Southern	743	792	864	970	934
Northern	618	690	732	799	1,012
North Western	607	688	654	712	783
North Central	239	267	295	326	322
Uva	311	354	374	468	485
Sabaragamuwa	415	485	506	512	571
Eastern	488	570	615	561	653
Total	9,146	9,050	9,587	10,344	11,197

Source: Finance Commission

The amount transferred to local authorities as per the table above declined between 2010 and 2011. Thereafter it has increased, over the level of 2010, by Rs. 441 mn. in 2012, Rs. 1198 mn. in 2013, and Rs. 2051 mn. in 2014.

4.7.2 Revenue Transfers to Local Authorities

The assigned revenue from stamp duties and court fines that the provincial councils receive are expected to be transferred 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.

Many local authorities 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 allege that the provincial councils use such revenue for their own purposes disregarding the due rights of the local authorities.

However it is also a fact that the transfer of funds gets delayed owing to delays on the part of local authorities in submitting the required information, and as a result, a significant sum of money remains with the provincial councils without being transferred to local authorities for the provision of local services.

Table 4.7-2 indicates the assigned revenue received by the provincial councils in the year 2010 – 2014, and amounts transferred to local authorities during the same period.

Table 4.7-2: Transfer of Assigned Revenue to Local Authorities

Province	2010		2011		2012		2013		2014	
	Total Collec.	Amount of Transf.	Total Collec.	Amount of Transf.	Total Collec.	Amount of Transf.	Total Collec.	Amount of Transf.	Total Collec.	Amount of Transf.
WP	5,146	3,248	6,925	2,052	7,600	3,079	8,103	3,754	10,661	4,199
CP	550	268	676	306	907	1,156	930	807	1,177	581
SP	673	402	994	327	1,160	437	925	637	1,404	757
NP	-	-	-	-	-	-	-	-	4.00	
NWP	990	461	1,208	466	1,303	625	1,210	791	1,476	764
NCP	225	104	243	115	242	103	234	220	227	224
Uva	178	200	222	141	233	156	175	152	294	137
Sab.	362	183	417	166	487	355	421	377	395	315
EP	179	38	207	119	72	95	335	316	394	311
Total	8,303	4,904	10,892	3,691	12,002	6,006	12,333	7,054	16,032	7,288

Source: Finance Commission

It is seen that there is a rise in the amounts collected and transferred to the local authorities from 2011 to 2014. However although the amount collected in 2014 is almost double the amount collected in 2010, the amounts transferred have not kept up, and wide gaps remain between the amounts collected and the amounts transferred.

5. Regional Disparities at Provincial Level

The Article 154R (4) of the Thirteenth Amendment to the Constitution requires the Finance Commission to formulate principles for the annual grant of funds from the government to the provinces, and the apportionment of such funds among the provinces. Article 154 R (5) requires the Commission to formulate such principles “with the objective of achieving balanced regional development in the country”, and to take into account, among other things, Article 154R (5) (c) and (d) set out below:

(c) the need, progressively to reduce social and economic disparities and

(d) the need, progressively to reduce the difference between the per capita income of each province and the highest per capita income among the provinces.

The Commission, in pursuit of its constitutional mandates, has formulated and implements certain principles which are applied in apportioning capital grants to the provinces. This chapter is also presented in pursuit of the Commission’s mandates to achieve balanced regional development and reduce social and economic disparities.

In this chapter, data relating to certain well known social and economic indicators were used in order to compare and show what major social and economic disparities exists among provinces. Then attempt has been made to identify, as regards any particular social or economic indicator used, which provinces are worse off relative to their peers.

The social and economic indicators used as the basis of analysis in this chapter have over recent years received discussion in the Annual Report of the Finance Commission. These indicators would generally be adequate in getting some broad idea on the existing regional disparities in the country.

Where data for the year being reported on 2014 is not available, data from the nearest past year has been used. As the economic and social phenomena discussed do not change in any significant way over short periods of time, it is not necessary to think that the use of such data would result in any inaccuracies in the overall analysis.

5.1 Population, Land Area, and Population Density

Table 5.1-1: Population, Land Area, and Population Density 2014 by Province

Province	Mid - Year Population 2014 (' 000)	Land Area (Sq.km.)	Population Density
Western	5,936	3,593	1,652
Central	2,631	5,575	472
Southern	2,532	5,383	470
Sabaragamuwa	1,970	4,921	400
North Western	2,425	7,506	323
Eastern	1,593	9,361	170
Uva	1,301	8,335	156
North Central	1,298	9,741	133
Northern	1,085	8,290	131
Sri Lanka	20,771	62,705	331

Source: Department of Census & Statistics

Table 5.1-1 arranges the provinces of Sri Lanka so that the provincial densities of population appear in descending order, ie, the Western Province with the highest population density appears at the top of the table and the Northern Province, with the lowest population density, appears at the bottom.

It is easy to note the drastic difference between the population density of the Western Province and that of the other provinces. Even the province with the second highest population density – the Central Province –has a density only slightly larger than one quarter of that of the Western Province.

Land area itself has little to do with population density: the Western Province has the least land area of all the provinces, while the North Central Province, with the largest land area of all provinces, has the second lowest population density. Population densities would be determined by economic opportunity, as the discussion to follow would indicate.

5.2 Production, Employment and Per Capita Income

In this section the indicators that are used, are Provincial shares of GDP, Provincial Employment by Major Economic Sector and Provincial Per Capita Income.

5.2.1 Provincial GDP

Gross Domestic Product is the measure most commonly applied in analyzing the economic position of any country or region. The GDP of a country or region is defined as the total market value of all final goods and services produced within that country or region in a defined period of time, usually one year. The resulting figures refer only to the value of goods and services that are traded in the market, and therefore excludes some goods and services which are nevertheless of some or even great importance, for instance the value of goods and services produced through the labour of housewives, and the value of family and exchange labour in agricultural operations.

Table 5.2-1: Composition (%) of GDP by Provinces – 2014

Province	Industry	Agriculture	Services
Northern	19.6	15.3	67.0
North Central	21.3	13.8	64.8
Sabaragamuwa	21.8	11.4	66.8
Uva	22.1	17.2	60.6
Central	22.9	11.3	65.9
Southern	26.0	13.9	60.1
North Western	29.0	11.3	59.7
Eastern	32.2	12.6	55.2
Western	37.1	2.1	60.9
Sri Lanka	30.1	8.3	61.7

Source: Central Bank of Sri Lanka

The data in the Table 5.2-1 on the share of the provincial industrial sector is arranged in the ascending order commencing from the lowest at the top of the table to the highest at the bottom.

As per the table, the Western province is the most industrialised and the Northern Province, the least. The industrial sector of the Western province is almost double the size of the industrial sector of the Northern Province. Smaller but nevertheless striking disparities are clearly seen with regard to many other provinces vis-a-vis the Eastern and Western provinces. One clue to the high population density of the Western province is at any rate evident; its relatively large industrial sector.

The share of agriculture in provincial GDP is highest in the Uva province and lowest in the Western Province, which also shows significant disparities in this regard with all other provinces. A highly developed service sector is a hallmark of an advanced economy. However, the large service sector in the provincial economies are not necessarily an indicator of any significant development. In nearly all of these cases, perhaps with the exception of the Western province to some extent, the large services sectors probably indicate crowding into low productivity activities such as retail trade, for want of better opportunities.

It may be noted that there is necessarily no link between the industrial and service sectors in the provincial economies; the Eastern province with the second largest industrial sector has the smallest service sector of all the provinces. Seven provinces are below the national average for size of industrial sector of 30.1%.

If we take the Central Province as the median for share of Industry in provincial GDP, the rank order of provinces below the median from the least industrialized to progressively more industrialized is (1) Northern (2) North Central (3) Sabaragamuwa and (4) Uva. In this respect however there is no vast difference between these provinces. The share of industry in the GDP of these provinces only varying from 19.6% (in the Northern Province) to 22.1% (in Uva Province).

5.2.2 Employment by Sector

Table 5.2-2: Total Employment by Major Economic Sector, by Province (%) – 2014

Province	Industries	Agriculture	Services
Western	32.7	5.9	61.4
Sabaragamuwa	31.9	32.3	35.8
North Western	28.1	31.8	40
Southern	26.5	35.5	38
Central	24.3	35.5	40.2
Northern	22.7	31	46.3
Eastern	21.3	30.1	48.6
North central	15.1	51.5	33.4
Uva	11.2	60.7	28.1
Sri Lanka	28.5	26.5	45

Source: Department of Census & Statistics

The Table 5.2-2 is arranged in such a manner that provincial industrial employment increases from the top to the bottom of the table (ascending order). As per this table, the province with the least industrial employment is Uva and the province with the most such employment is the Western. The Western Province has almost treble the industrial employment of Uva Province, and there are smaller but still striking disparities between the Western province and many other provinces with regard to this measure. Six provinces have industrial employment rates below the national average.

If the Central Province is taken as the median, the rank order of provinces below the median ranging from that with the least industrial employment to those with progressively more industrial employment is (1) Uva (2) North Central (3) Eastern and (4) Northern.

5.2.3 Per Capita Income

Table 5.2-3: Mean Per Capita Income by province 2012/13

Province	Rs. Mean per capita income
Eastern	7,622
Northern	8,339
Uva	9,382
North Central	9,877
Central	10,104
Sabaragamuwa	10,718
Southern	10,973
North Western	11,596
Western	16,124
Sri Lanka	11,819

Source: Department of Census & Statistics

Per Capita income is a widely used measure of development. The above table displays per capita income by province 2012/13. The Eastern Province has the lowest per capita income of all the provinces, and the Western Province, the highest. The per capita income in the latter province is more than double that of the Eastern province, and slightly less than double that of the Northern Province.

Only two provinces have a per capita income of more than the national average.

When it takes the per capita income of the Central Province as the median, the rank order of the provinces below the median ranging from that with the lowest per capita income to progressively higher per capita incomes is (1) Eastern (2) Northern (3) Uva and (4) North Central.

5.2.4 Overall Assessment of Provincial Production, Employment and Per Capita Income Indicators

The rank order that has come up, as regards the three tables analyzed under this grouping of indicators are as shown in the Table 5.2-4.

Table 5.2-4: Rank Ordering of Provinces below the provincial median in Production, Employment and Per Capita Incomes

Rank Order	Lowest share of industry in GDP to progressively larger shares of industry in GDP	Least employment in industry to progressively higher rates of employment in industry	Lowest Per Capita Income to progressively higher rates of Per Capita Income
1	Northern	Uva	Eastern
2	North Central	North Central	Northern
3	Sabaragamuwa	Eastern	Uva
4	Uva	Northern	North Central

The provinces which come up with the less satisfactory outcomes with regard to all three indicators examined in this section are the Northern, North Central and Uva Provinces. This must be recognized for the extraordinary situation that they are in the same three provinces take up three of the four entries under each heading in the above table. What that would clearly indicate is that where those indicators are concerned, the Northern, North Central and Uva Provinces are consistently disadvantaged relative to their peers.

5.3 Unemployment & Poverty

In this section the indicators that used are Unemployment, Poverty Head Count and Poverty Gap.

5.3.1 Unemployment

Table 5.3-1: Unemployment Rate by Province – 2014 (%)

Province	Unemployment Rate
Uva	2.9
North Central	3.3
Western	3.7
North Western	4.0
Central	4.3
Eastern	4.9
Northern	5.3
Sabaragamuwa	5.5
Southern	5.9
Sri Lanka	4.3

Source: Department of census & Statistics

The Table 5.3-1 has been arranged in such a manner that the rates of unemployment increase from the top to the bottom of the table (ascending order).

As per the table, Uva Province has the least unemployment and the Southern Province, the most. Four provinces have rates of unemployment less, and four other provinces have rates of unemployment more, than the national average.

When it takes the Central province as the median (and in this case it also reflects the mean), the rank order of provinces above the median ranging from that with the highest rate of unemployment to those with progressively lower rates of unemployment is (1) Southern (2) Sabaragamuwa (3) Northern and (4) Eastern.

5.3.2 Poverty Head Count Index

Table 5.3-2: Poverty Head Count (PHC) Index by province (2012/13)

Province	%
Western	2.0
North Western	6.0
Central	6.6
North Central	7.3
Southern	7.7
Sabaragamuwa	8.8
Northern	10.9
Eastern	11.0
Uva	15.4
Sri Lanka	6.7

Source: Department of Census & Statistics

The Poverty Head Count (PHC), together with its sister measure, the Poverty Gap Index, are widely used measures of social wellbeing. The PHC is the simpler of the two indices, merely stating the percentage of population below the specified poverty line. The weakness of the PHC is that it does not capture movements (upwards or downwards) below the poverty line.

On this measure, Uva Province has the highest PHC, and the Western province, the lowest. The PHC of Uva Province is only slightly less than eight times that of the Western province. Very striking disparities are also seen between the Western province and all other provinces. The worst PHCs are found in the Northern, Eastern and Uva Provinces. Only three provinces have PHCs lower than the national average.

If the Southern Province is taken as the median on this measure, the rank order of the provinces above the median ranging from that with the highest PHC rate to those with progressively lower PHC rates are (1) Uva (2) Eastern (3) Northern and (4) Sabaragamuwa Provinces.

5.3.3 Poverty Gap Index

The Poverty Gap (PG) index is a measure invariably used in conjunction with the Poverty Headcount Index. Whereas the Poverty Head Count simply states the number or percentage of people below a specific poverty line, the PG index presents the depth of poverty by considering how far, on the average, the poor are from that poverty line.

Table 5.3-3: Poverty Gap Index (PGI) by Province 2012/13

Province	%
Western	0.4
Central	1
North Central	1
North Western	1.1
Southern	1.4
Sabaragamuwa	1.5
Eastern	2.1
Northern	2.3
Uva	2.6
Sri Lanka	1.2

Source: Department of Census & Statistics

As per the table, the highest PG prevailed in the Uva Province, and the lowest in the Western province, repeating the pattern of the PHC. The PG in the Uva Province is more than six times that of the Western province, and there are striking differences even among the other provinces. Four provinces are below the national average in terms of the PG Index.

If the Southern Province is taken as being the median, the rank order of the provinces above the median ranging from that with the highest PG rate to those with progressively lower rates are the 1) Uva 2) Northern 3) Eastern and 4) Sabaragamuwa Provinces.

5.3.4 Overall Assessment of Provincial Unemployment and Poverty Indicators

The three indicators examined in this section are all intimately connected with the indicators examined in the earlier grouping (Production, Employment and Per Capita Income). In fact the current grouping can be viewed as the flip side of the earlier grouping.

The rank ordering that comes up with regard to the three tables analyzed under the present grouping of indicators are as shown in the Table 5.3-4.

Table 5.3-4: Rank ordering of provinces below provincial median in terms of Unemployment and Poverty Indicators

Rank Order	Highest Rate of Unemployment to progressively lower rates of unemployment	Highest Poverty Head Count Index No. to progressively lower index numbers	Highest Poverty Gap Index No. To progressively lower index numbers
1	Southern	Uva	Uva
2	Sabaragamuwa	Eastern	Northern
3	Northern	Northern	Eastern
4	Eastern	Sabaragamuwa	Sabaragamuwa

The provinces which come up with the less satisfactory outcomes with regard to all three indicators examined in this section are Sabaragamuwa, Northern and Eastern provinces. Thus there is a repeat of the extraordinary situation that encountered in the overall assessment in Section 2); the same three provinces take up was three of the four entries under each heading in the table. The Uva Province appears – and leads - with regard to two indicators, and while the Eastern and Northern provinces merely change places with regard to those two indicators, the Sabaragamuwa Province is consistent in appearing at the bottom of both.

5.4 Basic Living Standards

In this section the indicators that are used, are (1) Access to safe drinking water (2) Domestic access to Toilets (3) Domestic use of Electricity as principal method of lighting and (4) Ratio of persons to Medical Officers.

5.4.1 Access to Safe Drinking Water

Table 5.4-1: Households with Safe Drinking Water Facilities by Province (2012/13)

Province	%
Uva	74.8
Central	77.6
Sabaragamuwa	80.3
Southern	88.2
North Western	92.9
North Central	93.4
Northern	95.1
Western	97.1
Eastern	97.2
Sri Lanka	89.7

Source: Department of Census & Statistics

As per the Table 5.4-1, households in the Eastern and Western Provinces have the highest rate of access to safe drinking water, and households in the Uva Province, the lowest rate of such access. The Uva and Central Provinces are significantly behind the Eastern, Western,

Northern, North Central and North Western Provinces in this regard. Four provinces are below the national average in providing access to safe drinking water.

If the North Western Province is taken as the median, the rank order of provinces below the median ranging from the province with households with the least such access to those with progressively higher rates of such access is Uva ,Central, Sabaragamuwa and Southern.

Table 5.4-2: Households by distance to travel to get drinking water by province (2012/13)

Province	2012/2013					
	Within Premises %	Outside Premises %	Outside premises % by Distance			
			<=100 m	101-200 m	201-500 m	>500 m
Northern	52.4	47.6	27.5	7.7	9.1	3.2
North Central	65.4	34.6	14.7	5.5	9.4	5
Eastern	73.2	26.8	18.4	2.8	4.2	1.4
North Western	73.2	26.8	15.5	3.4	4.6	3.3
Uva	78.2	21.7	11.5	5.2	4.3	0.7
Central	79.4	20.6	15.9	2.5	2.1	0.1
Sabaragamuwa	80.3	19.7	14.7	3.2	1.6	0.2
Southern	84.6	15.4	11.2	2.3	1.6	0.4
Western	91.5	8.5	7.6	0.6	0.2	0.1
Sri Lanka	79.9	20.1	13.3	2.8	2.9	1.2

Source: Department of Census & Statistics

The Table 5.4-2 is a useful complement to the earlier table on access to safe drinking water. The latter table is arranged so that the percentage of households with access to water within premises by province increases from top to bottom (ascending order).

As per the table the province with the lowest percentage of households with access to water within premises is the Northern, and the province with the highest percentage is the Western. Within the Northern Province however 27.5% of households have access to water within 100 meters of the premises, the highest percentage for that category among all provinces. Nevertheless, the disparities between the Western and other provinces is striking. Five provinces are below the national average on this measure.

When it takes the Uva Province as the median, the rank order of provinces below the median ranging from that with the lowest rate of access to water within premises to those with progressively higher rates is Northern, North, Central, Eastern and North Western.

5.4.2 Domestic Access to Toilets

As per the Table 6.4-3, the province with the lowest percentage of households having toilets exclusively for the household is the Eastern, and the Province with the highest such percentage is the Southern. Four provinces show percentages below the national average where this indicator is concerned, but very striking differences do not appear between provinces where this indicator is concerned.

Table 5.4-3: Households by Availability of Toilet Facility by Province (2012/13)

Province	Exclusive for the household %	Sharing with another household %
Eastern	82.5	11.5
Northern	83.9	9.8
Central	89.3	10
Uva	89.3	9.7
North Central	90.4	8.2
Western	91.0	7.4
Sabaragamuwa	91.2	8.8
North Western	91.4	7.4
Southern	93.1	6.7
Sri Lanka	89.9	8.4

Source: Department of Census & Statistics

If the North Central Province is taken as the median, the rank order of provinces below the median ranging from that with the lowest domestic access to toilets to those with progressively higher rates of such access is Eastern, Northern, Central and Uva.

5.4.3 Domestic Access to Electricity

The importance of this measure cannot be overestimated. Domestic access to electricity vastly enhances the quality of life of those who have such access, it is of vast importance in facilitating children to study better, and it stimulates domestic output, whether for consumption within the household or for markets outside the home.

Table 5.4-4: Percentage Distribution of Households who uses Electricity as Principle Type of Lighting by province (2012/13)

Province	Household %
Northern	66.0
Eastern	79.9
Uva	83.7
North Central	87.4
Sabaragamuwa	88.2
North Western	89.1
Central	92.5
Southern	94.4
Western	97.6
Sri Lanka	90.2

Source: Department of Census & Statistics

As per the Table 5.4-4, the province with households with the lowest rates of use of electricity as the principle method of lighting within the home is the Northern Province, and the province with households with the highest such rate is the Western. Indeed the Northern and Eastern provinces are somewhat significantly behind the other provinces on this measure, a reflection undoubtedly of the long years of the terrorist conflict. Less easy to explain though are the disparities between the Western Southern and Central provinces and the Uva, North Central, Sabaragamuwa and North Western provinces. The percentages of six provinces are below the national average.

When the Sabaragamuwa Province is taken as the median, the rank order of provinces below the median ranging from that with lowest percentage of households using electricity as the principal method of lighting to those with progressively higher such rates is (1) Northern 2) Eastern (3) Uva and (4) North Central.

5.4.4 Provincial Availability of Medical Officers

Table 5.4-5: Persons per Medical Officer – 2013

Province	Total Medical officers by Province 2013*	Population - 2013 ('000)	Persons per Medical Officer
North Central	837	1,283	1,533
North Western	1,592	2,405	1,511
Sabaragamuwa	1,321	1,951	1,477
Uva	874	1,285	1,470
Southern	1,971	2,507	1,272
Eastern	1,337	1,575	1,178
Northern	973	1,073	1,103
Central	2,730	2,604	954
Western	7,398	5,896	797
Sri Lanka	19,033	20,579	1,081

Source: Central Bank and Department of Census and Statistics

Note: Includes all Medical Officers, Dental Surgeons & Assistant and Registered Medical Practitioners

**Provisional*

The ready availability of medical personnel is an important indicator of the general level of wellbeing in any society. The above table is arranged in such a way that the persons per medical officer by province decreases from top to bottom (descending order).

As per the Table 5.4-5, the province with highest number of persons per medical officer is the North Central and the province with the lowest such ratio is the Western. The persons per medical officer in the North Central Province is only slightly less than double the number in the Western province. In any event all provinces show significantly higher figures than the Western province. Seven provinces show figures higher than the national average. If the Southern Province is taken as the median, the rank ordering of provinces below the median ranging from the highest ratio of persons to medical officers to those with progressively lower such rates is (1) North Central (2) North Western (3) Sabaragamuwa and (4) Uva.

5.4.5 Overall Assessment of Provincial Basic Living Standards Indicators

The rank order that come up with as regards four of the tables analyzed under the present grouping of indicators are as shown in the Table 5.4-6.

Table 5.4-6: Rank Ordering of provinces below provincial median on Basic Living Standards Indicators

Rank Order	Lowest rate of Access to Safe Drinking Water to progressively higher rates	Lowest Percentage of Households having toilets exclusively for use of household	Lowest Percentage of households using electricity as principal method of lighting to progressively higher rates	Highest rate of persons per medical officer to progressively lower rates
1	Uva	Eastern	Northern	North Western
2	Central	Northern	Eastern	Sabaragamuwa
3	Sabaragamuwa	Central	Uva	North Central
4	Southern	Uva	North Central	Uva

The Uva Province comes up with less satisfactory outcomes with regard to all four indicators examined in this section. The Central, Eastern, Northern and Sabaragamuwa Provinces appear with regard to two indicators each.

5.5 Educational Indicators

In this section the provincial indicators that were examined are Student–Teacher Ratio, Percentage qualifying at first sitting of GCE (O/L) for GCE (A/L), Percentage qualifying at GCE (AL) for university entrance, and Computer Literacy Rates.

5.5.1 Student - Teacher Ratio

Table 5.5-1: Student - Teacher Ratio by Province - 2013

Province	Student / Ratio
Uva	14
Northern	16
Sabaragamuwa	16
Central	17
North Central	17
North Western	18
Southern	18
Eastern	19
Western	22
Sri Lanka	18

Source: Ministry of Education

As per the Table 5.5-1, the student teacher ratio which was 14 in Uva Province was 22 in the Western Province. Five provinces show a ratio below the national average. It would be expected in the normal course of things that the smaller the ratio, the better it would be in general for the education of students. Since in this case the less satisfactory outcomes would be where the ratios are larger, the focus should be on the ratios above the median rather than below.

When the North Central Province is taken as the median, the rank order of the provinces above the median ranging from that with the highest ratio to those with progressively lower ratios is 1) Western 2) Eastern 3) Southern and 4) North Western.

5.5.2 GCE (O/L) Success Rate at First Sitting for GCE (A/L)

Table 5.5-2: G.C.E. (O/L) Examinations - Performance of School Candidates (1st Attempt) - 2014

Province	Number Sat for 5 or more subjects	Qualified for G.C.E.(A/L)	
		No.	%
Northern	15,266	9,800	64.2
Uva	17,065	11,061	64.8
North Central	16,304	10,638	65.3
Central	34,085	22,481	66.0
Eastern	20,164	13,451	66.7
Sabaragamuwa	23,466	16,017	68.3
North Western	29,734	20,938	70.4
Western	68,093	49,003	72.0
Southern	33,145	24,223	73.1
Sri Lanka	257,322	177,612	69.0

Source: Ministry of Education

In this Table 5.5-2 that focus is based on the percentage of students in the various provinces who sat for five or more subjects at the GCE (O/L) and qualified at the first attempt to enter the GCE (A/L). The table is arranged in such a way that the percentage so qualifying increases from top to bottom (ascending order).

As per the table the lowest percentage of students qualifying in the first sitting for GCE (A/L) is in the Northern Province, and the highest percentage is in the Southern province. Six provinces show outcomes below the national average.

If the Eastern Province is taken as the median, the rank order of the provinces below the median ranging from that with the lowest percentage qualifying for GCE (A/L) to progressively better outcomes is (1) Northern, (2) Uva, (3) North Central and (4) Central.

5.5.3 GCE (A/L) Success Rate for University Entrance

In the Table 5.5-3, focus is on the percentage qualifying at provincial level at the GCE (A/L) to gain entrance to a state university.

Table 5.5-3: GCE (A/L) Examination – Performance of School Candidates by Province - 2014

Province	No. Sat	Qualified for University Entrance	
		No.	%
North Central	11,775	6,961	59.12
North Western	23,404	13,977	59.72
Central	25,975	15,547	59.85
Western	55,376	33,330	60.19
Eastern	14,267	8,817	61.8
Uva	13,764	8,523	61.92
Southern	30,083	18,707	62.18
Northern	12,330	7,910	64.15
Sabaragamuwa	20,330	13,199	64.92
Sri Lanka	207,304	126,971	61.25

Source: Central Bank of Sri Lanka

The statistics refer only to the basic qualification of obtaining passing grades in three subjects, but not to selection to a state university; three simple passes would not in most cases suffice to get a student into a state university. However, the table is useful in the sense that even the numbers who obtain the most basic requirement is indicative of the general standard of education in any province. The table is arranged in such a manner that the percentage qualifying increases from top to bottom (ascending order).

As per the table, the lowest percentage is from the North Central Province and the highest percentage from the Sabaragamuwa Province. Four provinces have percentages lower than the national average, but significant disparities between provinces are not seen.

If the Eastern Province is taken as the median, the rank order of provinces below the median ranging from that with the lowest percentage to those with progressively higher rates are 1) North Central 2) North Western 3) Central and 4) Western.

5.5.4 Computer Literacy Rates

Computer literacy has rapidly gained great importance in the required skill levels of any employment or occupation of relatively higher productivity, and equipping people with such skills significantly enhances their productivity and ability to secure better employment opportunities.

As per the Table 5.5-4, the lowest computer literacy rate is in the North Central Province and

the highest such rate is in the Western province. The computer literacy rate of the Western province is more than double that of the North Central, Eastern and Uva Provinces and only slightly less than double that of the Northern Province. Seven provinces have computer literacy rates below the national average.

Table 5.5-4: Computer Literacy Rate by Province - 2014

Province	%
North Central	15.3
Eastern	15.9
Uva	17.1
Northern	17.5
North Western	22.6
Sabaragamuwa	22.6
Central	24.3
Southern	25.4
Western	34.3
Sri Lanka	25.1

Source: Department Of Census Statistics

If the North Western Province is taken as the median, the rank order of provinces below the median ranging from the lowest computer literacy rate to progressively higher rates is (1) North Central (2) Eastern (3) Uva and (4) Sabaragamuwa.

5.5.5 Overall Assessment of Provincial Educational Indicators

Table 5.5-5: Rank Ordering of Provinces on the less satisfactory side of median for Educational Indicators

Rank Order	Student Teacher Ratio from highest to progressively lower ratios	Percentage qualifying for GCE (AL) in first sitting at GCE (OL) from lowest to progressively higher rates	Percentage qualifying for University Entrance at GCE (AL) from lowest to progressively higher rates	Computer Literacy Rates from lowest to progressively higher rates
1	Western	Northern	North Central	North Central
2	Eastern	Uva	North Western	Eastern
3	Southern	North Central	Central	Uva
4	North Western	Central	Western	Northern

The North Central Province is lagging on three of four indicators, and the Northern, North Western and Uva provinces are lagging on two indicators each.

5.6 Stream-wise Performance at GCE (A/L) by Province - 2014

Under this head is examined the provincial performances at the GCE (A/L) by the major streams, bio science, physical science, commerce and arts. The results should be interesting in that they would give some broad indication of where the provinces stand with regard to higher secondary education especially in the sciences.

Table 5.6-1: G.C.E (A/L) Examination – 2014 Stream - wise Performance of School Candidates by Province - Bio Science

Province	No. Sat	Passed in Three Subjects
North Central	2,581	44.56
Uva	2,792	45.13
Central	5,590	49.43
North Western	5,119	50.56
Southern	7,300	52.93
Sabaragamuwa	4,679	53.96
Eastern	2,736	54.50
Northern	1,994	55.92
Western	11,165	59.53
Sri Lanka	43,956	53.24

Source: Ministry of Education

The Table 5.6-1 deals with the provincial performances in bio science. The lowest percentage of passes in three subjects is from the North Central province, and the highest rate of such passes is from the Western province. The best performances, in descending order are from the Western, Northern and Eastern provinces, with Sabaragamuwa Province only marginally behind the Eastern. Five provinces show up performances below the national average.

When the Southern Province is taken as the median, the rank order of provinces below the median ranging from the poorest performance to progressively better performances is (1) North Central (2) Uva (3) Central (4) North Western.

The Table 5.6-2 deals with the provincial performances in physical science. The lowest percentage of passes in three subjects is from the North Central province, and the highest rate of such passes is from the Southern province. The best performances, in descending order are from the Southern, Northern and Western provinces, with Sabaragamuwa and Uva immediately behind them. Six provinces show up performances below the national average although one of them, Sabaragamuwa is only marginally below that average.

The Uva Province is taken as the median, the rank order of provinces below the median ranging from the poorest performance to progressively better performances is 1) North Central 2) Eastern 3) North Western 4) Central.

Table 5.6-2: G.C.E (A/L) Examination – 2014 Stream wise Performance of School Candidates by Province – Physical Science

Province	No. Sat	Passed in Three Subjects
North Central	1,353	40.28
Eastern	1,647	42.26
North Western	3,537	44.25
Central	3,438	46.57
Uva	1,636	46.94
Sabaragamuwa	2,680	47.72
Western	10,490	48.42
Northern	1,867	48.42
Southern	5,992	53.00
Sri Lanka	32,640	47.83

Source: Ministry of Education

The Table 5.6-3 deals with the provincial performances in commerce. The lowest percentage of passes in three subjects is from Uva Province, and the highest rate of such passes is from the Southern province. The best performances, in descending order are from the Southern Sabaragamuwa and North Western Provinces, with the Western and Eastern Provinces immediately behind them. Six provinces show up performances below the national average.

Table 5.6-3: G.C.E (A/L) Examination – 2014 Stream - wise Performance of School Candidates by Province - Commerce

Province	No. Sat	Passed in Three Subjects (%)
Uva	3,944	59.13
Northern	3,135	59.14
Central	7,700	59.7
North Central	3,470	60.03
Eastern	3,732	60.50
Western	22,031	62.15
North Western	6,351	62.48
Sabaragamuwa	5,914	66.28
Southern	8,796	66.85
Sri Lanka	65,073	62.37

Source: Ministry of Education

If the Eastern Province is taken as the median, the rank order of provinces below the median ranging from the poorest performance to progressively better performances is (1) Uva (2) Northern (3) Central and (4) North Central.

Table 5.6-4: G.C.E (A/L) Examination – 2014 Stream - wise Performance of School Candidates by Province - Arts

Province	No. Sat	Passed in Three Subjects (%)
Eastern	9,886	59.70
Western	19,282	62.23
Central	13,553	65.73
North Western	12,582	66.67
North Central	7,183	68.20
Northern	6,905	68.63
Southern	13,902	70.24
Uva	8,189	71.95
Sabaragamuwa	11,053	72.79
Sri Lanka	102,535	66.84

Source: Ministry of Education

The Table 5.6-4 deals with the provincial performances in arts. The lowest percentage of passes in three subjects is from the Eastern province, and the highest rate of such passes is from the Sabaragamuwa Province. The best performances, in descending order are from the Sabaragamuwa, Uva and Southern Provinces, with the Northern and North Central provinces immediately behind them. Five provinces show up performances below the national average.

If the North Central Province is taken as the median, the rank order of provinces below the median ranging from the poorest performance to progressively better performances is (1) Eastern (2) Western (3) Central and (4) North Western.

5.6.1 Overall Assessment of Stream – wise Performances at GCE (A/L) by Province – 2014

Table 5.6-5: Rank Ordering of Provinces with Below Median Performances at GCE (A/L) 2014 – Poorest Performance to Progressively Better Performances

Rank Order	Bio Science	Physical Science	Commerce	Arts
1	North Central	North Central	Uva	Eastern
2	Uva	Eastern	Northern	Western
3	Central	North Western	Central	Central
4	North Western	Central	North Central	North Western

Table 5.6-5 is useful in demarcating the provinces which may be cited as being challenged at the level of higher secondary education. The Central province appears under each of the four A/L streams, the North Central and North Western provinces each under three of the four streams and the Eastern and Uva Provinces each under two of the four streams.

5.7 Infrastructure

Under this heading, only one item, the state of provincial roads is given consideration. The importance of a good road network hardly needs underscoring; it facilitates communication and transport, and therefore it also encourages production, productivity and general wellbeing.

Table 5.7-1: Provincial Length of Roads with Transportation Difficulties Due to Damage – 2014

Province	Length (Km)
Western	135
Southern	219
Uva	475
Eastern	548
Sabaragamuwa	599
North Western	660
North Central	1,025
Central	1,302
Northern	1,354
Sri Lanka	6,319

Source: Provincial Councils

The best illustration of the privileged status of the Western Province is in the Table 5.7-1. From the analysis made so far it is evident that the worse performance indicators are reflected by the North Central Province. North Central Province keeps emerging time and again on the wrong side of the median. North Central Province has 750% more almost unserviceable roads than in the Western Province. The Central Province has 964% more almost unserviceable roads than the Western Province and Northern Province 1003% almost unserviceable roads than the Western Province. Further, elaborations would be superfluous.

5.7.1 Overview of Regional (Provincial) Disparities

In this chapter various groupings of social and economic indicators are examined in order to try to understand the disparities among provinces with regard to those indicators and to see which provinces are worse off relative to their peers. Some groups of factors are of course more important than others: the first group, 'Production Employment and Per Capita

Income', and the second group, 'Unemployment & Poverty' are of the greatest importance in indicating economic structure, levels of development, income and poverty among provinces.

An important finding of this chapter was that with regard to the first group, the Northern, North Central and Uva Provinces and with regard to the second group, the Sabaragamuwa, Northern and Eastern Provinces are quite clearly disadvantaged in relation to their peers.

The other indicators examined in this chapter are more narrow, but together they also provide important insights into the different disparities among provinces. It may be noted that fundamentally, it is a generalized process of economic growth which would lead to the reduction of disparities seen particularly as regards the first two of our groups of social and economic indicators.

However, alleviation of some of the more narrow or specific disparities, would in turn lead to higher economic growth in the provinces. For instance increasing the numbers of households using electricity, increasing computer literacy, improving health services by increasing the number of medical officers available, improving the general standards of education in the provinces, and improving the provincial road network would have both immediate and more long term effects on economic development in the provinces. Improvements in these areas would also enable the provinces to benefit better from the processes of economic growth and development originating from outside the province itself.

The province however is an amalgam of districts, and in order to come to some comprehensive understanding of regional disparities, we need to examine the districts as well.

6. Regional Disparities – District Level

This is the second part of the study on regional disparities in Sri Lanka. Subject of course to the availability of data, this chapter examines the more important indicators that we examined in Chapter 5, but this time, disaggregated by district.

The objective of this chapter is to determine which districts are of the most concern with regard to the particular indicator that is being examined. The districts included with regard to any particular indicator (highlighted in green in the relevant tables) are all those which show a figure below the provincial median identified in Chapter 5 for that indicator (highlighted in yellow in the relevant table).

Although some provinces may show for any particular indicator an average figure lower than the provincial median for that indicator, some district/s within that province/s may nevertheless show, as regards that indicator, a figure higher than the provincial median for that indicator. These districts would therefore be excluded. On the other hand some provinces which for a particular indicator may show a figure equal to or higher than the provincial median may nevertheless include some district/s which are themselves below the provincial median for that particular indicator. These districts would therefore be included.

In a few cases in the provincial analysis in the previous chapter, the analysis was passed on figures for a particular indicator which are above rather than below the provincial median for that indicator. The principles on which inclusions/exclusions of districts are done in these cases would nevertheless be the same, although such inclusions/exclusions would then take place on the basis of figures higher than the provincial median for that indicator.

6.1 Mean Per Capita Income Per Annum

Table 6.1-1: Mean Per Capita Income Per Annum by District (2012/2013)

Province/ District	(Rs.)
Western	16,124
Colombo	19,346
Gampaha	14,839
Kalutara	12,559
Central	10,104
Kandy	10,899
Matale	9,392
Nuwara-Eliya	9,074
Southern	10,973
Galle	10,533
Matara	10,919
Hambantota	11,821
Northern	8339
Jaffna	8,246
Mannar	6727
Vavuniya	11,360
Mullaitivu	6,310
Kilinochchi	7,369

Province/ District	(Rs.)
Eastern	7,622
Batticaloa	6,276
Ampara	8,041
Trincomalee	8,776
North Western	11,596
Kurunegala	11,834
Puttalam	11,098
North Central	9,877
Anuradhapura	9,673
Polonnaruwa	10,307
Uva	9,382
Badulla	9,369
Moneragala	9,406
Sabaragamuwa	10,718
Ratnapura	11,338
Kegalle	9,909
Sri Lanka	11,819

Source: Department of Census Statistics

The provincial median used for this indicator in Chapter 5 was Rs.10,104 p.a (from the Central Province). The provinces of concern with regard to this indicator were, as seen in Chapter 5, the (1) Eastern (2) Northern (3) Uva and (4) North Central Provinces.

The districts of concern as they now emerge with regard to this indicator are as follows;

Central Province; Matale, Nuwara-Eliya.

Northern Province; Jaffna, Mannar, Mullaitivu, Kilinochchi,

Eastern Province; Batticaloa, Ampara, Trincomalee.

North Central Province; Anuradhapura.

Uva Province; Badulla, Moneragala.

Sabaragamuwa Province; Kegalle

6.2 Unemployment & Poverty

6.2.1 Unemployment

Table 6.2-1: Unemployment Rate by District –2014

Province/ District	Unemployment %
Western	3.7
Colombo	3.7
Gampaha	3.7
Kalutara	3.9
Central	4.3
Kandy	5.0
Matale	5.2
Nuwaraeliya	2.9
Southern	5.9
Galle	4.6
Matara	6.9
Hambantota	6.7
Northern	5.3
Jaffna	5.6
Mannar	2.9
Vavunia	3.9
Mullaitivu	5.6
Kilinochchi	7.6
Eastern	4.9
Batticaloa	3.9
Ampara	6.0
Trincomlee	4.3
North Western	4.0
Kurunegala	3.5
Puttalam	5.3
North Central	3.3
Anuradhapura	3.1
Polonnaruwa	3.7
Uva	2.9
Badulla	3.0
Monaragala	2.7
Sabaragamuwa	5.5
Ratnapura	3.7
Kegalle	7.8
Sri Lanka	4.3

Source: Department of Census Statistics

The provincial median used for this indicator in Chapter 5 was 4.3% (from the Central Province). The provinces of concern with regard to this indicator were, as seen in Chapter 5, the 1) Southern 2) Sabaragamuwa 3) Northern and 4) Eastern Provinces.

The districts of concern as they now emerge with regard to this indicator are as follows;

Central Province; Kandy, Matale

Southern Province; Galle, Matara, Hambantota

Northern Province; Jaffna, Mullaitivu, Kilinochchi

Eastern Province; Ampara

North Western Province; Puttalam

Sabaragamuwa Province; Kegalle

6.2.2 Poverty Headcount

Table 6.2-2: Poverty Headcount Index by District - 2012/2013

Province/ District	%
Western	2.0
Colombo	1.4
Gampaha	2.1
Kalutara	3.1
Central	6.6
Kandy	6.2
Matale	7.8
Nuwara-Eliya	6.6
Southern	7.7
Galle	9.9
Matara	7.1
Hambantota	4.9
Northern	10.9
Jaffna	8.3
Mannar	20.1
Vavuniya	3.4
Mullaitivu	28.8
Kilinochchi	12.7
Eastern	11.0
Batticaloa	19.4
Ampara	5.4
Trincomalee	9.0
North Western	6.0
Kurunegala	6.5
Puttalam	5.1
North Central	7.3
Anuradhapura	7.6
Polonnaruwa	6.7

Province/ District	%
Uva	15.4
Badulla	12.3
Moneragala	20.8
Sabaragamuwa	8.8
Ratnapura	10.4
Kegalle	6.7
Sri Lanka	6.7

Source: Department of Census Statistics

The provincial median used for this indicator in Chapter 5 was 7.7% (from the Southern Province). The provinces of concern with regard to this indicator were, as we have seen in Chapter 5, the (1) Uva (2) Eastern (3) Northern and (4) Sabaragamuwa Provinces.

The districts of concern as they now emerge with regard to this indicator are as follows;

Central Province; Matale

Southern Province; Galle

Northern Province; Jaffna, Mannar, Mullaitivu, Kilinochchi

Eastern Province; Batticaloa, Trincomalee

Uva Province; Badulla, Moneragala

Sabaragamuwa Province; Ratnapura

6.2.3 Poverty Gap

Table 6.2-3: Poverty Gap Index by District - 2012/2013

Province/ District	%
Western	0.4
Colombo	0.3
Gampaha	0.4
Kalutara	0.5
Central	1
Kandy	1.0
Matale	1.1
Nuwara-Eliya	1.0
Southern	1.4
Galle	1.8
Matara	1.2
Hambantota	0.9
Northern	2.3
Jaffna	1.7
Mannar	4.6
Vavuniya	0.5
Mullaitivu	6.2
Kilinochchi	2.4

Province/ District	%
Eastern	2.1
Batticaloa	4.5
Ampara	0.6
Trincomalee	1.4
North Western	1.1
Kurunegala	1.3
Puttalam	0.9
North Central	1
Anuradhapura	1.1
Polonnaruwa	0.9
Uva	2.6
Badulla	1.8
Moneragala	4.2
Sabaragamuwa	1.5
Ratnapura	1.8
Kegalle	1.1
Sri Lanka	1.2

Source: Department of Census Statistics

The provincial median used for this indicator in Chapter 5 was 1.4% (from the Southern Province). The provinces of concern in this regard were, as seen in Chapter 5, the (1) Uva (2) Northern (3) Eastern and 4) Sabaragamuwa Provinces.

The districts of concern as they now emerge with regard to this indicator are as follows;

Southern Province; Galle

Northern Province; Jaffna, Mannar, Mullaitivu, Kilinochchi

Eastern Province; Batticaloa,

Uva Province; Badulla, Moneragala

Sabaragamuwa Province; Ratnapura

6.3 Basic Living Standards

6.3.1 Access to Safe Drinking Water

Table 6.3-1: Percentage Distribution of Households with Safe Drinking Water Facilities by Districts - 2012/2013

Province/ District	%
Western	97.1
Colombo	99.5
Gampaha	97.9
Kalutara	91.1
Central	77.6
Kandy	81.6
Matale	88.5
Nuwara-Eliya	61.4
Southern	88.2
Galle	89.2
Matara	81.3
Hambantota	95.9
Northern	95.1
Jaffna	99.0
Mannar	99.3
Vavuniya	96.4
Mullaitivu	88.0
Kilinochchi	76.1
Eastern	97.2
Batticaloa	97.6
Ampara	97.7
Trincomalee	95.8
North Western	92.9
Kurunegala	94.0
Puttalam	90.6
North Central	93.4
Anuradhapura	93.1
Polonnaruwa	94.0
Uva	74.8
Badulla	63.8
Moneragala	94.0
Sabaragamuwa	80.3
Ratnapura	81.4
Kegalle	78.9
Sri Lanka	89.7

Source: Department of Census Statistics

The provincial median used for this indicator in Chapter 5 was 92.9% (from the North Western Province). The provinces of concern in this regard were, as seen in Chapter 5, the (1) Uva (2) Central (3) Sabaragamuwa and (4) Southern Provinces.

The districts of concern as they now emerge with regard to this indicator are as follows;

Western Province; Kalutara

Central Province; Kandy, Matale and Nuwara-Eliya

Southern Province; Galle, Matara

Northern Province; Mullaitivu

North Western Province; Puttalam

Uva Province; Badulla

Sabaragamuwa Province; Ratnapura, Kegalle

6.3.2 Domestic Access to Electricity

Table 6.3-2: Households using Electricity as Principal Source of Lighting by District - 2012/2013

Province/ District	%
Western	97.6
Colombo	98.7
Gampaha	97.6
Kalutara	95.5
Central	92.5
Kandy	95.1
Matale	90.0
Nuwaraeliya	89.3
Southern	94.4
Galle	94.9
Matara	94.8
Hambantota	93.0
Northern	66.0
Jaffna	77.2
Mannar	70.5
Vavuniya	70.2
Mullaitivu	36.0
Kilinochchi	24.9
Eastern	79.9
Batticaloa	73.0
Ampara	86.6
Trincomalee	77.8
North Western	89.1
Kurunegala	90.4
Puttalam	86.4

Province/ District	%
North Central	87.4
Anuradhapura	86.5
Polonnaruwa	89.7
Uva	83.7
Badulla	87.2
Moneragala	77.6
Sabaragamuwa	88.2
Ratnapura	87.7
Kegalle	88.9
Sri Lanka	90.2

Source: Department of Census Statistics

The provincial median used for this indicator in Chapter 5 was 88.2% (from the Sabaragamuwa Province). The provinces of concern in this regard were, as seen in Chapter 5, the (1) Northern (2) Eastern (3) Uva and 4) North Central Provinces.

The districts of concern as they now emerge with regard to this indicator are as follows;

Northern Province; Jaffna, Mannar, Vavuniya, Mullaitivu, Kilinochchi

Eastern Province; Batticaloa, Ampara, Trincomalee

North Western Province; Puttalam

North Central Province; Anuradhapura

Uva Province; Moneragala

Sabaragamuwa Province; Ratnapura

6.3.3 Medical Personnel by District

Table 6.3-3: Medical Personnel by District - 2013

District	Total Medical Officers - 2013 *	Population ('000)-2013	Persons per Medical Officer
Western			797
Colombo	4,884	2,341	479
Gampaha	1,647	2,323	1410
Kalutara	867	1,232	1421
Central			954
Kandy	2,020	1,389	688
Matale	399	491	1231
NuwaraEliya	311	724	2328
Southern			1272
Galle	1,018	1,073	1054
Matara	542	824	1520
Hambantota	411	610	1484
Northern			1103
Jaffna	555	589	1061
Mannar	99	101	1020

District	Total Medical Officers - 2013 *	Population ('000)-2013	Persons per Medical Officer
Vavuniya	187	174	930
Mullaitivu	57	93	1632
Kilinochchi	75	116	1547
Eastern			1178
Batticaloa	367	531	1447
Ampara	672	659	981
Trincomalee	298	385	1292
North Western			1511
Kurunegala	1,068	1,633	1529
Puttalam	524	772	1473
North Central			1533
Anuradhapura	509	873	1715
Polonnaruwa	328	410	1250
Uva			1470
Badulla	575	826	1437
Moneragala	299	459	1535
Sabaragamuwa			1477
Ratnapura	710	1,103	1554
Kegalle	611	848	1388
Sri Lanka	19,033	20,579	1081

Source: Central Bank and Department of Census and Statistics

Note: Includes all Medical Officers, Dental Surgeons & Assistant and Registered Medical Practitioners

**Provisional*

The provincial median used for this indicator in Chapter 5 was 1,272 (from the Southern Province). The provinces of concern in this regard were, as we have seen in Chapter 5, the (1) North Central (2) North Western (3) Sabaragamuwa and (4) Uva Provinces.

The districts of concern as they now emerge with regard to this indicator are as follows;

Western Province; Gampaha, Kalutara

Northern Province; Mullaitivu, Kilinochchi

Central Province; NuwaraEliya

Southern Province; Matara, Hambantota

Eastern Province; Batticaloa, Trincomalee

North Western Province; Kurunegala, Puttalam

North Central Province; Anuradhapura

Uva Province; Badulla, Moneragala

Sabaragamuwa Province; Ratnapura, Kegalle

6.4 Educational Indicators

6.4.1 Student Teacher Ratio

Table 6.4-1: Student Teacher Ratio by District – 2013

Province/ District	Overall Teacher Student Ratio
Western	22
Colombo	22
Gampaha	22
Kalutara	20
Central	17
Kandy	17
Matale	16
Nuwaraeliya	17
Southern	18
Galle	20
Matara	16
Hambantota	16
Northern	16
Jaffna	17
Kilinochchi	17
Mannar	15
Vavuniya	16
Mullativu	16
Eastern	19
Batticaloa	19
Ampara	18
Trincomalee	19
North Western	18
Kurunegala	16
Puttalam	22
North Central	17
Anuradhapura	17
Polonnaruwa	19
Uva	14
Badulla	14
Monaragala	15
Sabaragamuwa	16
Ratnapura	17
Kegalle	15
All Island	18

Source: Ministry of Education

The provincial median used for this indicator in Chapter 5 was 17 (from the North Central province). The provinces of concern in this regard were, as seen in Chapter 5, the (1) Western (2) Eastern (3) Southern and (4) North Western Provinces.

The districts of concern as they now emerge with regard to this indicator are as follows;

Western Province; Colombo, Gampaha, Kalutara

Southern Province; Galle

Eastern Province; Batticaloa, Ampara, Trincomalee

North Western Province; Puttalam

North Central Province; Polonnaruwa

6.4.2 GCE (A/L) Success Rate for University Entrance

Table 6.4-2: GCE (A/L) Examination 2014 - Performance of School Candidates by District

Province/ District	Eligible for the University Entrance (Passed 3 subjects)	
	No.	%
Western		60.19
Colombo	15298	61.29
Gampaha	5,819	58.19
Kalutara	7,026	61.08
Central		59.85
Kandy	9614	59.63
Matale	2903	60.12
NuwaraEliya	3480	60.24
Southern		62.18
Galle	7873	63.05
Matara	6466	63.04
Hambantota	4368	59.51
Northern		64.15
Jaffna	4686	63.29
Mannar	771	63.61
Vavuniya	1053	65.49
Mullaitivu	651	63.76
Kilinochchi	749	69.03
Eastern		61.8
Batticaloa	2850	65.22
Ampara	4,011	61.32
Trincomalee	1956	58.28

Province/ District	Eligible for the University Entrance (Passed 3 subjects)	
	No.	%
North Western		59.72
Kurunegala	10296	58.63
Puttalam	3681	63.01
North Central		59.12
Anuradhapura	5036	60.38
Polonnaruwa	1925	56.04
Uva		61.92
Badulla	5,611	61.00
Moneragala	2912	63.78
Sabaragamuwa		64.92
Ratnapura	13,077	65.10
Kegalle	5838	64.70
Sri Lanka	126971	61

Source: Ministry of Education

The provincial median used for this indicator in Chapter 5 was 61.8% (from the Eastern province). The provinces of concern in this regard were, as seen in Chapter 5, the (1) North Central (2) North Western (3) Central and (4) Western provinces.

The districts of concern as they now emerge with regard to this indicator are as follows;

Western Province; Colombo, Gampaha, Kalutara

Central Province; Kandy, Matale, Nuwara-Eliya

Southern Province; Hambantota

Eastern Province; Ampara, Trincomalee

North Western Province; Kurunegala

North Central Province; Anuradhapura, Polonnaruwa

Uva Province; Badulla

6.4.3 Computer Literacy Rates

Table 6.4-3: Computer Literacy Rate - 2014

Province / District	%
Western	34.3
Colombo	41.6
Gampaha	32.6
Kalutara	30.0
Central	24.3
Kandy	28.9
Matale	22.8
NuwaraEliya	13.2
Southern	25.4
Galle	24.6
Matara	25.5
Hambantota	24.3
Northern	17.5
Jaffna	18.6
Mannar	10.5
Vavunia	19.8
Mulativu	10.3
Kilinochchi	13.6
Eastern	15.9
Batticaloa	13.9
Ampara	14.8
Trincomalee	14.7
North Western	22.6
Kurunegala	24.0
Puttalam	21.8
North Central	15.3
Anuradhapura	15.8
Polonnaruwa	18.7
Uva	17.1
Badulla	14.1
Monaragala	18.3
Sabaragamuwa	22.6
Ratnapura	21.1
Kegalle	22.6
Sri Lanka	25.1

Source: Department of Census & Statistics

The provincial median used for this indicator in Chapter 5 was 22.6% (from the North Western Province). The provinces of concern in this regard were, as seen in Chapter 5, the 1) North Central 2) Eastern 3) Uva and 4) Sabaragamuwa Provinces.

The districts of concern as they now emerge with regard to this indicator are as follows;

Central Province; NuwaraEliya

Northern Province; Jaffna, Mannar, Vavuniya, Mullaitivu, Kilinochchi

Eastern Province; Batticaloa, Ampara, Trincomalee

North Western Province; Puttalam

North Central Province; Anuradhapura, Polonnaruwa

Uva Province; Badulla, Moneragala

Sabaragamuwa Province; Ratnapura

6.5 Overview of Regional (District) Level Disparities

It may be noted that no discussion is made on district level stream wise performances by students at the GCE (A/L). This discussion has not been entered into because it may have been pointless; students may often be sitting the examinations from schools in a district away from their home districts.

Examining figures at the district level provides a more comprehensive view of regional disparities. This is because the overall provincial figures may conceal disparities within a province itself. While in some cases the provincial figures may be bumped up (above the provincial median) by one or two districts within that province, even though yet another district within the province yields a figure below the provincial median, in other cases a province may be below the median even though one or more districts within the province yield figures above the provincial median.

This is not to say that statistics by province are of no value; rather the point is that it is useful to complement the provincial figures with district figures wherever possible.

It is hoped that the analysis entered into in Chapter 5 and this Chapter, will be of some use to policy makers in deciding on development priorities among and within provinces.

7. Performance of the Finance Commission

7.1 The Secretariat of the Finance Commission

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 execute all directions given by the Board.

The Secretariat of the Finance Commission 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 four divisions are,

1. Policy, Research and Publications Division
2. Results Based Planning Division
3. Cadre Management and Administration Division
4. Monitoring and Evaluation Division

The four Directors are assisted by Deputy and Assistant Directors, Statistical Officer, Assistant Research Officers, Programme Officers, IT Officer and Programme Assistants.

In addition, there are two supporting units, Administration and Finance functioning directly under the Secretary. The supportive services provided by the Administration and Finance Divisions help the other professional staff to carry out their functions efficiently and effectively.

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

7.2 Performance of the Policy, Research and Publications Division

Recommendations for 2015 which contained the budgetary provisions for provinces, the way in which apportionment of funds between the provinces were made and the related policies and principles were prepared in 2014. These recommendations have been forwarded to Parliament by the President, after obtaining the approval of the Cabinet of Ministers.

During the year concerned, the provincial authorities submitted their financial requirements on capital needs for 2015, based on the guidelines on requesting capital grants, issued by the Finance Commission. After assessing the requirements made by the provinces, the need

of capital grants has been recommended to the General Treasury. The provincial capital grants provided by the General Treasury based on the recommendations of the Finance Commission were apportioned between the provinces by October, 2014. Capital grants are 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 has been issued by the Finance Commission in October, 2014. These guidelines are expected to be followed in the preparation of Provincial Development Plans for 2015.

In addition, Annual Report of the Finance Commission for 2012 has been printed and distributed to relevant parties.

7.3 Performance of Results Based Planning Division

The following basic functions were completed by this division in 2014.

- i. Grant concurrence of the Finance Commission for Provincial Annual Development Plans of 2014.
- ii. Grant concurrence for the revisions of the Annual Development Plans during 2014.
- iii. Contribute to preparation of the Recommendations for 2015, submitted to the President by the Commission.

The Officials of the Finance Commission and the Central Province participated in a field visit in Matale and Nuwaraeliya Districts on 21st and 22nd August, 2014, to observe the farms in agriculture and livestock sectors. Special emphasize has been given to observe the issues relating to big onion and potatoes seed production. Based on the experience of field visit, a special loan scheme by the Central Bank of Sri Lanka has been suggested by the Finance Commission to motivate big onion and potatoes seeds farmers.

7.4 Performance of Cadre Management and Administration Division

The major functions of this division include recommending provincial recurrent expenditure needs to the General Treasury, after assessing the needs of the provinces and apportioning Block Grant between the provinces.

Provincial authorities submitted the estimated amounts of recurrent needs for 2015 in accordance with the specimen guidelines and formats to the Finance Commission. After assessing the recurrent needs, the real need has been calculated by deducting the revenue targets. The recommendation for Block Grant has been forwarded to the General Treasury for consideration.

7.5 Performance of Monitoring and Evaluation Division

Provinces have been directed to monitor provincial development activities at both policy and implementation levels using the given formats. Measures have been taken to update the website of the Commission.

7.6 Performance of Administration Division

The Administration division is one of the two service divisions within the Finance Commission, and as such extends its unstinted support to the professional staff of the Commission in the process of delivering on their mandated roles and functions.

7.7 Performance of Finance Division

The Finance Division facilitates the statutory and other functions carried out by the Finance Commission. Further, the division is responsible for providing required funds for annual financial needs by maintaining a better co-ordination with the General Treasury and managing such funds in a proper manner.

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

Table 7.7-1: Financial Provisions, Expenditure and Performance – 2014

Object Code	Description	Object Code	Description	Financial Performance
	Recurrent Provision / Expenditure	Rs.	Rs.	
	Personal Emoluments	19,250,000.00	17,781,434.75	92%
	Other Recurrent Expenditure	17,375,000.00	15,210,776.41	87%
	Total	36,625,000.00	32,992,211.16	90%
	Capital Provision / Expenditure			
2002	Plant, Machinery and Equipment	500,000.00	37,730.00	6%
2003	Vehicles	400,000.00	0.00	0%
2102	Furniture and Office Equipment	1,200,000.00	1,037,577.40	86%
2103	Plant, Machinery and Equipment	1,000,000.00	337,980.00	34%
2401	Training and Capacity Building	1,000,000.00	294,670.00	29%
	Total	4,100,000.00	1,700,957.40	41%
	Grand Total	40,725,000.00	34,693,168.56	85%

Source: Finance Commission

Table 7.7-2: Advance Account Activities

Description	Maximum limit to Expenditure	Maximum limit of Receipts	Rs.
			Maximum limit of Debit Balance
Provision	3,500,000.00	1,000,000.00	20,000,000.00
Actual (After adjustment under the FR 505 (1))	2,053,763.00	1,619,437.00	7,160,488.00

7.7.1 Auditor General's Report for 2014

Four audit inquiries were received on 2014. Auditor General has pointed out that appropriate account and reconciliation statements have been prepared satisfactorily, in line with the draft report of Auditor General for the year, and final reports and books of the Finance Commission for the year ending 31.12.2014.

8. The Way Forward

The mandate cast on the Finance Commission (by Article 154 R (5) of the Third Amendment to the Constitution) are onerous indeed. The Commission is enjoined to formulate principles (on which allocations are made from the National Budget to the Provincial Councils) in order to achieve balanced regional development in the country. This requirement is coupled with the need to “reduce progressively differences between per capita income of each province and the highest per capita income among provinces.”

Taken to its logical conclusion, these constitutional requirements give the Finance Commission a central place in the formulation of development strategies of the provinces.

The Commission has taken its role very seriously in this regard. It will be recalled that the Commission has developed a formula for the allocation of capital grants to the Provinces very much on the basis of its constitutional mandate.

As we have seen in Chapters 6 and 7, regional disparities between the provinces and even within administrative districts of the same province are in many cases very wide. Resolving these disparities is a complex task.

In many cases, resolution of such disparities would depend on the policies implemented at national level, i.e., policies designed to spread the benefits of social and economic development widely, with special reference to underdeveloped/underserved provinces and districts.

In yet other instances, initiatives at the provincial and district level would be required for attainment of those objectives.

Thus we see that initiatives both at national and provincial levels are required to address the challenge of regional disparities.

This leads to the question of better co-ordination of national, provincial and district level initiatives. The Finance Commission could play a key role in such co-ordination, given the role it already plays as the conduit for funds from the National Budget to the Provinces.

Such co-ordination is an extremely pressing issue particularly when financial constraints are taken into account. We have seen earlier in this report that very often the General Treasury releases of funds are less than the Financial Commission allocations, sometimes by wide margins. This is mainly due to financial constraints at macro level.

However, funds allocated by the Finance Commission are not the only government funds reaching the provinces; line ministries too spend vast amounts in those same areas. Better co-ordination between the line ministries and the Provincial Councils could make for a much more efficient and effective outlay of funds from both sources. The Finance Commission would be the logical institution to undertake such co-ordination efforts.

A central part of the Finance Commission’s constitutional mandate is also to act a conduit for the flow of funds to the provinces allocated from the National Budget. However, the Finance Commission should not merely be acting as a conduit. As the

institution which makes recommendations for such allocations, the Commission also bears some custodial responsibility for the manner in which the provincial councils utilize these funds.

The Commission has issued comprehensive guidelines and reporting requirements regarding the utilization of funds allocated to the Provincial Councils. Unfortunately, the response to such guidelines and reporting requirements have been less than satisfactory. Much more discipline needs to be brought into this area of utilization of funds, particularly in view of the fact that all these funds are ultimately obtained in one way or another from the public of this country, which makes proper utilization of such funds a sacred trust.

Thus, the Finance Commission may have to consider how to utilize its existing powers in order to secure better compliance by the Provincial Councils of its guidelines and reporting requirements.

This chapter has therefore, come up with two ideas or recommendations for the future; better co-ordination of national and provincial level expenditures, and a stronger approach by the Commission as regards the funds it allocates. Both would have to be effectively managed, if optimum use is to be made of scarce resources in order to achieve more balanced regional development in the country.