

# **Annual Report of the Finance Commission**



**2016**

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## Chairman's Message

**“It is our wish and desire to make the Commission strong, vibrant in pursuance of the government’s National Action Plan.”**

I am pleased to present the Annual Report of the Finance Commission, which provides an account of the Commission’s performance in 2016 across its identified thrust areas.

2016 was a year of reflection and transition for the Finance Commission, during which a number of significant steps were taken to position the Finance Commission for its long-term performance and progress, with the firm resolve to turn this important organization into an efficient and strong independent commission, for effective discharge of its mandated functions, contributing to the development of national economy, while ensuring transparency and accountability.

Immediately upon taking over of office in November 2015, the Commission started implementing a robust reform agenda with the formulation of a well-conceived Annual Activity Plan for 2016. This reform-roadmap was designed to strengthen the Finance Commission’s all essential prerequisites for a well-functioning organization. During the year, we therefore set ourselves another challenge: to examine our governance structure and embarked on

a Strategic Plan (2017-2020). Our achievements have not made us complacent. We have a clear vision and a roadmap for the future and are determined to invigorate Finance Commission with Efficiency, Effectiveness, and Integrity.

We will continue striving for the fulfillment of the Finance Commission’s mission providing impetus to all sectors of the economy, in particular the underperforming sectors in the provinces. It is our wish and desire to make the Commission strong, vibrant in pursuance of the government’s National Plan of the action.

I have to acknowledge the support, patronage and encouragement by HE the President and his office, Prime Minister and his office, the Constitutional Council headed by the Hon Speaker, the Ministry of Finance, National Planning Department, other government ministries, the Central Bank of Sri Lanka, the Department of Census and Statistics of Sri Lanka, Provincial Councils and other agencies.

I would like to take this opportunity to record my warmest appreciation to the fellow Commissioners, staff of the Finance Commission, present and the past, whose dedicated services have made the Commission’s efforts productive and successful.



Chairman,  
U.H.Palihakkara

## Secretary's Message

**"This annual report provides information on the role and functions of the Commission integrating the performance for the year 2016."**

### **Towards a Proper Needs Assessment**

The legislative and executive power vested in the Provincial Councils establish the Provinces as a tier of Government for the provisions of public services. Towards this the provinces have assigned sources of revenue and funds transfers from the central government in order that their basic needs are met.

The Finance Commission is entrusted with the task of recommending adequate funds to provinces and to recommend principles to the HE President on the apportionment of such funds between the provinces.

For the fulfillment of above responsibility, a proper needs assessment of provinces is a vital requirement. The Finance Commission has established its Secretariat aiming at this purpose and also to provide related services of the Commission such as issuing guidelines, reviewing annual

development plans, cadre assessments and fixing revenue targets.

This annual report provides information on the role and functions of the Commission integrating the performance for the year 2016.

As the Chief Executive Officer of the Finance Commission, I am pleased to extend my gratitude to the Chairman and the Members of the Commission for their valuable guidance and support in steering the Commission during the year and record my appreciation to the staff of the Commission Secretariat for their commitment and dedication for delivering services expected by the Commission and for the preparation of this Annual Report. Further, I extend my gratitude to Mr. W.H. Munasinghe former Secretary of the Finance Commission, Mr. P. Sumanapala former Senior Director of the Finance Commission and Ms. W.W.W.D.S. Fernando Former Accountant (Actng.) of the Finance Commission for their valuable contribution during their tenure of the Finance Commission.



Secretary,  
A.T.M.U.D.B. Tennakoon

## Commission Members – 2016



**Mr.U.H.Palihakkara**  
**Chairman**

U.H. Palihakkara is a Chartered Accountant, Investment Banker and Management Consultant with over 40 years of professional experience. He holds a MBA from the Aston University, Birmingham UK, where his dissertation was awarded the Best Management Thesis of the year by the British Institute of Management in 1981.

During his professional career, he has held leadership positions in several Public and Private Sector establishments including the Ceylon Electricity Board, Development Finance Corporation, the People's Merchant Bank, the Merchant Bank of Sri Lanka, Acland Insurance Ltd., the Securities Council of Sri Lanka, the National Enterprise Development Authority and the Postgraduate Institute of Management. In addition, he had served as a Financial Management Specialist in the Commonwealth Secretariat (CFTC), UK. He had also worked in a number of programmes and projects funded by the World Bank (WB), the Asian Development Bank (ADB), the African Development Bank (AfDB), the International Fund for Agricultural Development (IFAD) and the European Development Bank. His Professional Highlights include: President – The Organization of Professional Associations (OPA) of Sri Lanka. President – The Institute of Chartered Accountants of Sri Lanka President – The Chartered Institute of Management Accountants UK (Sri Lanka Branch) President – The Association of Chartered Certified Accountants (UK) (Sri Lanka Branch) In recognition of services, he was inducted into the Hall of Fame of Chartered Accountants of Sri Lanka. In 2014.

In 2016 National Apex Awarded to him in recognition of outstanding contribution to the profession and the nation by the Organization of Professional Association of Sri Lanka.



**Dr.Indrajith Coomaraswamy**  
**Ex-Officio Member**

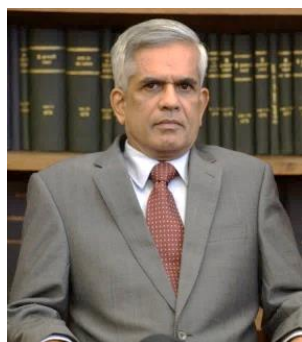
Dr. Indrajit Coomaraswamy has been the Governor of Central Bank of Sri Lanka since July 2, 2016. Dr. Coomaraswamy has 30 years of experience in policy making and providing economic advisory services, on both macroeconomic and structural issues at National and Intergovernmental levels. He served as Director of Economic Affairs at the Commonwealth Secretariat. He was an official in the Central Bank of Sri Lanka from 1974 to 1989. He worked in the Economic Research, Statistics and Bank Supervision divisions. During this time, he was also seconded to the Ministry of Finance and Planning from 1981 to 1989.

He was reemployed by the Commonwealth Secretariat from 1990-2008. During that time, he held the positions, inter alia, of Director, Economic Affairs Division and Deputy-Director, Secretary-General's Office. He was subsequently Interim Director, Social Transformation Programme Division,



Commonwealth Secretariat (Jan-July 2010). He was involved in advising the Prime Minister and the Minister of Economic Reform, Science and Technology, Sri Lanka on negotiating with Bretton Woods Institutions and other major donors, Central Bank of Sri Lanka and the Ministry of Finance & Planning on matters relating to macroeconomics and structural reforms.

Dr. Coomaraswamy served as a Director of Sarvodaya Development Finance Limited. He also served as a Non-Executive Independent Director at Tokyo Cement Company (Lanka) PLC from March 2011 to July 3, 2016. He served as an Independent Non-Executive Director of John Keells Holdings PLC from February 7, 2011 to July 8, 2016 and as Director of MMBL-Pathfinder. Dr. Coomaraswamy obtained his B.A. (Hon) and Masters in Economics from the Cambridge University of UK in 1972 and subsequently obtained a Doctorate from the University of Sussex in 1981. He has represented and led Sri Lank National Rugby team. He led Sri Lanka National Rugby team 1974 in Rugby Asiad while he also played first class Cricket in Sri Lanka.



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

Dr. Samaratunga is currently the Secretary, Ministry of Finance and the Secretary to the Treasury, Sri Lanka. He counts more than 30 years of experience in the public sector. In his capacity as the Secretary to the Ministry of Finance, he also serves as ex-officio member of the Monetary Board of the Central Bank of Sri Lanka and the Finance Commission of Sri Lanka.

He started his career as a Cadet (SLAS), Ministry of Public Administration in 1984 and joined the Department of National Planning as an Assistant Director in 1985 and was promoted as Director, Macro Economic Planning in 2004. He was then promoted to Additional Director General, Department of Fiscal Policy in 2005. He was the pioneering Director General of the Department of Trade, Tariff and Investment Policy which was established in 2006. In February 2008, he was appointed as the Deputy Secretary to the Treasury.

In April 2010, he was appointed as the Secretary to the Ministry of Environment and in 2012 as the Secretary, Ministry of Petroleum Industries. In January, 2015, he was appointed to Secretary to the Ministry of Finance and Secretary to the Treasury.

Dr. Samaratunga holds a Ph.D in Economics from the La Trobe University, Melbourne and MBA from the University of Sri Jayawardenepura, Sri Lanka. He also holds MSc (Agriculture Economics) from the University of Wisconsin Madison, USA and B.A. (Hons) Economics from University of Peradeniya, Sri Lanka.

He was a Member of the Boards of several Public Enterprises and Government-linked companies such as Bank of Ceylon, Ceylon Electricity Board, Mihini Lanka (Private) Limited, De La Rue Lanka Currency and Security Print (Private) Limited, Securities and Exchange Commission of Sri Lanka, Insurance Board of Sri Lanka, Sri Lanka Export Credit Insurance Corporation, the Postgraduate Institute of Management : University of Sri Jayawardenepura, National Institute of Education, Postgraduate Institute of Agriculture : University of Peradeniya. He was also the Chairman of the Carbon Fund. He also served as a Commissioner of the Presidential Commission on Taxation 2009-2010.



## **Mr. V. Kanagasabapathy** **Member**

**Mr. V. Kanagasabapathy** holds a Master's Degree in Public Administration from Harvard University, U.S.A. and is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, Association of Public Finance Accountants and Institute of Certified Management Accountants of Sri Lanka. He is also a member of the Chartered Institute of Public Finance Accountants (CIPFA) London.

He is presently the Advisor, Hotel Developers (Lanka) PLC (Fully owned Government Company owning Hilton Colombo). He is also the President of the Association of Public Finance Accountants, the public-sector wing of the Institute of Chartered Accountants of Sri Lanka.

He serves as a Chairman of the Public-Sector Accounting Standards Committee and serving as a member of the Governmental and public-sector Enterprise Accounting Committee of the South Asian Federation of Accountants.

He is a Council Member of the Institute of Chartered Accountants of Sri Lanka and serve as a member of the Council of Management of the University of Jaffna. Mr. Kanagasabapathy was the Financial Management Advisor to the Ministry of Finance & Planning and Senior Financial Consultant of the Academy of Financial Studies. He has over forty years of service in the public sector in several senior capacities and retired as Director General of Public Enterprise in the Treasury. He also served as a Financial Management Reform Coordinator in the Ministry of Finance & Planning.

He served as a member of the Board of Bank of Ceylon, People's Bank, Merchant Bank of Sri Lanka, State Mortgage & Investment Bank and several other Public Enterprises. He has also served as a Director/Financial Consultant of the Associated Newspapers of Ceylon Limited and executive Director of Hotel Development (Lanka) PLC.



## **Prof. H.M. Zafrullah** **Member**

Prof. Hareed Mohamed Zafrullah holds a LL.B. (Hons) degree from the University of Colombo (First in Order of Merit) and a LL.M. degree from Monash University, Australia. He is an academic and practitioner of the law. He is a lawyer of International repute in the areas of Public Law, Banking and Commercial Law. He has the distinction of teaching law in five Common Law jurisdictions. He has the distinction of teaching law to both law and non-law students at the undergraduate and post-graduate levels at

the University of Colombo, Mannix College, Monash University, University of Malaya, National University of Singapore, Nanyang Technological University, Singapore and the City University of Hong Kong. He has extensive publications to his credit, He is the author of the first serious study on the present Constitution of Sri Lanka.

## Senior Staff

### Secretary

- Mr. A.T.M.U.D.B.Tennakoon
- Mr.W.H.Munasinghe (up to 31.08.2016)

### Management Team

- |                            |                           |
|----------------------------|---------------------------|
| • Mr.P.Sumanapala          | -Senior Director          |
| • Mr. S.M.R.S.Bandara      | - Director                |
| • Ms.T.Prashanth           | - Director(Actg.)         |
| • Mr. M.L.A.Chandradasa    | - Deputy Director (Actg.) |
| • Ms.W.W.W.D.S.Fernando    | - Accountant (Actg.)      |
| • Ms.D.S.Gunawardana       | - Accountant              |
| • Ms. D.P.L.E.N.Gunasekera | - Assistant Director      |
| • Mr. P.R.N.Sujeewa        | - Assistant Director      |
| • Ms. T.Abeysekera         | - Assistant Director      |



**Left to Right,**

**First Row:** Mr. S.M.R.S.Bandara (Director), Mr.U.H.Palihakkara (Chairman), Mr. A.T.M.U.D.B.Tennakoon (Secretary), Ms.T.Prashanth (Director (Act.))

**Second Row:** Ms. D.P.L.E.N.Gunasekera (Assistant Director) , Mr. P.R.N.Sujeewa (Assistant Director), Ms. T.Abeysekera (Assistant Director), Mr. M.L.A.Chandradasa (Deputy Director), Ms.D.S.Gunawardana (Accountant), Mr.G.T.Thisara Kasun Pushpasiri (ICT Officer), Mrs.R.M.D.Nimali Rathnayake (Statistical Officer)

# THE 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 the 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

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

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

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

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

- Issue guidelines and circulars to the provinces on preparation of Annual Provincial Development Plans
- Assess provincial needs on both capital and recurrent expenditure and recommend to the General Treasury on bulk amounts annually needed for the provinces.
- Apportion bulk amount of funds between the provinces using suitable criteria for capital and recurrent needs and inform the provinces accordingly.
- Assess the Provincial Development Plans and grant concurrence for their implementation, using relevant criteria particularly, on feasibility, policy coherence, regional potentials and comparative advantages.



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

# AN OVERVIEW OF THE SRI LANKAN ECONOMY

Sri Lanka graduated into the lower-middle income category in 2010 in terms of the World Bank classification having a per-capita income of US\$ 2,744 and it has increased up to US\$ 3,727 at market prices by 2016.

In 2016, the total GDP of the country was Rs. 11,839 billion at market prices maintaining an annual growth rate of 4.4%. The growth rate of the previous year was 4.8%. Service sector contributed the highest share of 56.5 % of the GDP and industrial and agriculture sectors contributed 26.8 % and 7.1 % respectively. Per-capita income was reported as Rs. 558,363 at market prices. Unfavorable global conditions and bad weather in the country were the major constraints to achieving a high growth. A remarkable growth was in construction, banking and finance, tourism and other services in the economy. Low export prices for tea and rubber have contributed the growth of the agriculture sector in adverse manner.

The investment ratio was 31.5% and the domestic savings ratio was 23.8% in 2016. In this context, the resource gap or savings -investment gap amounted to 7.7%, requiring foreign funds to meet the investment needs of the country. The national savings ratio was estimated to be 28.9%.

Sri Lanka has experienced a deficit in the trade account for several years. In 2016, the total value of merchandise exports was US\$ 10.3 billion and the total value of merchandise imports was US\$19.4 billion. This had resulted in a trade deficit to the level of US\$ 9.1 billion in 2016.

In 2016, the total public expenditure amounted to Rs.2351.8 billion and it was 19.8% of the GDP. The share of recurrent expenditure was about 79% and this is mainly due to interest payments on overseas debt and the welfare expenditure that consists of free education and health, subsidized transport and safety net programs. However, the recurrent expenditure has reinforced the country to retain as the best in the human development index among the countries of South Asian Region. The share of the public investment of the GDP was 5% in 2016 which has mainly focused on infrastructure development. It is vital important that the public expenditure be directed to stimulate private investment by way of providing required economic infrastructure particularly in outer regions.

The Gini Coefficient, which is widely used to explain income inequality has dropped to 0.48 in 2012 from 0.49 in 2009 indicating that the inequality has reduced slightly. Further, in terms of percentage share of income or consumption of subgroups of population, the lowest decile accrues 3.04 percent share of total income, while the value for income share held by the highest decile is 31.8 percent.

The Unemployment Rate was 4.3% and 4.6% in 2014 and 2015 respectively and it has recorded as 4.4% in 2016 indicating that unemployment is not a crucial issue in the economy. However, the youth unemployment (age 15-24 years) remained as high as 21.6% in 2016. This denotes a mismatch between opportunities and expectations which needs to be addressed by generation of high value employment and matching education, training and skills development programs considering dynamic comparative advantages of the economy.

**Table 1: National Accounts and Several Selected Indicators 2012- 2016**

Indicator	2012	2013	2014	2015	2016
<b>(1) Global Aggregates at Current Market prices (Rs. Million)</b>					
Gross Domestic Product (GDP)	8,732,463	9,592,125	10,361,151	10,951,695	11,838,975
Three Major Economic Activities of GDP (Value Added)					
Agriculture	650,510	735,382	829,577	894,780	890,659
Industry	2,630,766	2,797,328	2,931,998	2,991,106	3,208,476
Services	4,858,292	5,406,544	5,895,618	6,270,028	6,743,346
<b>(2) Global Aggregates at Constant Prices 2010 (Rs. Million)</b>					
Gross Domestic Product (GDP)	7,588,517	7,846,202	8,235,429	8,633,890	9,012,026
Three Major Economic activities of GDP (Value Added)					
Agriculture	592,443	611,676	641,493	670,106	641,943
Industry	2,035,601	2,119,080	2,194,167	2,264,673	2,416,276
Services	4,245,461	4,405,644	4,634,805	4,883,444	5,087,452
As a Share of GDP %					
Agriculture	7.8	7.8	7.8	7.9	7.1
Industry	26.8	27.0	26.7	26.2	26.8
Services	55.9	56.2	56.3	56.6	56.5
<b>(3) Per-capita GDP</b>					
At Current Prices (Rs.)	427,538	465,976	498,828	522,355	558,363
At Current Prices (US\$)	3,351	3,610	3,821	3,843	3,835
At Constant (2010) Prices (Rs.)	371,530	381,161	396,486	411,804	425,035
<b>(4) Several Macro Indicators</b>					
Unemployment Rate	4.0	4.4	4.3	4.6	4.4
Real GDP Growth	9.1	3.4	4.9	4.8	4.4
Annual Average of Inflation	7.6	6.9	3.3	2.2	4.0

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

Table 01 provides basic information on National Accounts at Current and Constant Prices, Mid-Year population, Growth Rate, and Unemployment Rate during the period from 2012 to 2016. The Unemployment Rate and Growth Rate have not changed remarkably during the period concerned.

The Human Development Index (HDI) of the country has been the highest in the South Asian region for many years. The Human Development Report 2016, indicates HDI as 0.76 points ranking 72<sup>nd</sup> among 188 countries in 2015. The HDI consists of Life Expectancy at Birth, Mean Years of Schooling, and Gross National Income (Per Capita) and they were 75 years,



10.9 years, and US\$ 10 789 respectively in 2015. Indicating the status of health services, the Infant Mortality Rate has recorded as 6.3 per 1000 live births.

The incidence of poverty in Sri Lanka has decreased, but many of the disadvantaged rural areas are still prone to poverty. The Poverty Headcount Ratio has dropped to 6.7% in 2012 significantly from 22.7% in 2000 owing to rapid economic development experienced during the last one and half decades. In rural areas, where around 80% of the population live, the incidence of poverty is relatively higher. Therefore, investment programs should be implemented paying special attention on poverty pockets, while safety net programs are rationalized to protect the vulnerable and needy groups.

The Public Investment Program (2017-2020) prepared by the Department of National Planning has identified the following medium- term perspectives in line with the estimated higher growth rates coupled with social justices.

- Arresting the present decline in export performance by improving productivity and competitiveness of industries.
- Promoting the inflow of foreign investment by making the country investment-friendly.
- Making necessary reforms in the area of government revenue, giving particular attention on tax administration.
- Diverting a higher share of public resources for upgrading the quality of human resources.
- Promoting equity in the social and economic spheres paying due attention on strengthening local and provincial institutions.
- Minimizing the existing regional disparities focusing much attention on poverty pockets in the allocation of public resources.
- Placing special emphasis on environmental protection and natural resources conservation, taking into account the adverse impacts due to natural disasters in the country.

**Table 2: Key Macroeconomic Targets (%of GDP)**

Indicator	2015	2018	2020
GDP Growth rate	4.80	6.50	7.00
Investment	30.10	31.00	31.50
Domestic Savings	22.60	25.00	26.40
Per Capita GDP(US\$)	3924.00	4790.00	5797.00
Budget Deficit	-7.5	-4.30	-3.50

*Source: Public Investment Program (2017-2020)*

# SOCIO- ECONOMIC VARIATIONS AT PROVINCIAL AND DISTRICT LEVELS

Devolution of power from the center to the periphery, introduced by the 13<sup>th</sup> Amendment to the Constitution in 1987 was a major turning point in the political and administrative system of Sri Lanka and this has paved the way for devolved governance and reduction of regional disparities in socio economic development.

Socio-economic variation at regional level is one of the main focusing matters of the Finance Commission in making annual recommendations related to the provincial financing. This Chapter reviews the behavioral pattern of selected key socio-economic indicators at regional level which include Provincial Gross Domestic Product, Income Distribution and Economic and Social Infrastructure.

## 2.1 Provincial Gross Domestic Product

Table 3 illustrates the Provincial Gross Domestic Product (PGDP) and its percentage share from 2009 to 2015 by each province. As shown in the table 3, the Western Province produces the largest portion of the GDP and the Central, Southern and North-Western Provinces also produce higher amounts compared to rest of the provinces. The peaceful environment after the long conflict period, the strong contribution of the private sector and the various development programs launched by the government are behind the continuous growth of the GDP.

**Table 3: Provincial Gross Domestic Product at Current Market Prices, 2009-2015**

(Rs.Mn)							
Province/ Year	2009	2010	2011	2012	2013(a)	2014 (a)(b)	2015 (a)(b)
Western	2,216,346	2,512,908	2,894,428	3,243,854	4,078,402	4,346,682	4,610,509
Central	473,416	562,744	644,332	775,580	1,005,052	1,089,048	1,152,391
Southern	509,053	598,976	718,768	834,287	1,001,254	1,136,458	1,159,693
Northern	155,828	189,740	242,512	277,828	338,799	374,403	390,689
Eastern	279,363	333,969	379,184	478,401	562,090	622,759	670,760
North Western	466,041	534,831	655,182	760,148	1,006,437	1,122,258	1,223,830
North Central	221,294	266,954	305,975	379,243	480,967	535,476	607,118
Uva	219,293	253,177	297,335	361,975	471,002	521,699	587,118
Sabaragamuwa	294,659	350,806	405,596	467,238	648,122	699,695	781,112
<b>Sri Lanka</b>	<b>4,835,293</b>	<b>5,604,104</b>	<b>6,543,313</b>	<b>7,578,554</b>	<b>9,592,125</b>	<b>10,448,479</b>	<b>11,183,220</b>

<b>GDP Share Percentage 2009-2015</b>							
<b>Province/ Year</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013(a)</b>	<b>2014(a)(b)</b>	<b>2015(a)(b)</b>
Western	45.80	44.80	44.20	42.80	42.50	41.60	41.20
Central	9.80	10.00	9.80	10.20	10.50	10.40	10.30
Southern	10.50	10.70	11.00	11.00	10.40	10.90	10.40
Northern	3.20	3.40	3.70	3.70	3.50	3.60	3.50
Eastern	5.80	6.0	5.80	6.30	5.90	6.00	6.00
North Western	9.60	9.50	10.00	10.00	10.50	10.70	10.90
North Central	4.60	4.80	4.70	5.00	5.00	5.10	5.40
Uva	4.50	4.50	4.50	4.80	4.90	5.00	5.20
Sabaragamuwa	6.10	6.30	6.20	6.20	6.80	6.70	7.00
<b>Sri Lanka</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: The Central Bank of Sri Lanka*

*a) Department of Census and Statistics revised the base year of National account compilation from 2002 to 2010. Hence PGDP 2013 and 2014 are calculated based on the new GDP (base year 2010) published by the DCS. (b) Provisional*

The percentage contribution of the Western Province for GDP has declined from 45.8% to 41.2 % during the period from 2009 to 2015. As far as the other provinces are concerned, there is a remarkable increase in contribution to the GDP. The economic development of the other provinces has contributed to increased percentage share of provincial GDP and this can be considered as a fair sign of the path to balanced regional development.

## 2.2 Income Distribution

Marginalizing of income disparity is important in achieving balanced regional development among the sectors, provinces and districts. Almost 50 % of total income of the country is shared by 20% of the people in every province. The poorest 20% of people in almost all provinces earned 5% of total income of the provinces. (Annual Report, Finance Commission 2015).

The Gini Coefficient is a measurement of the income distribution of a country's residents. This is based on residents' income and it ranges between 0 and 1. Gini Coefficient defines the gap between the rich and the poor, with 0 representing perfect equality and 1 representing perfect inequality.

According to results of the Income and Expenditure Survey (2012/2013), urban sector income inequality is higher than the rural and estate sectors. Gini Coefficient of the urban sector is 0.4 while the estate sector shows 0.3 of Gini value.

Table 4 presents Gini Coefficient of household income by district for the years of 2009/10 and 2012/13. This Coefficient has increased in districts of Colombo and Kalutara. In the country, the Gini Coefficient has decreased from 0.49 to 0.48 from 2009/10 to 2012/13 considered. In table 4 high Gini values could be observed in Moneragala, Jaffna, and Kilinochchi districts.

Rathnapura, Kurunegala, Puttlama and Anuradhapura districts show remarkable declines in Gini coefficient during the period. Anuradhapura district shows the lowest Gini value in 2012/13.

**Table 4: Gini Coefficient of Household Income**

District	Gini Coefficient of House Hold Income	
	2009/10	2012/13
Colombo	0.45	0.48
Gampaha	0.51	0.46
Kalutara	0.41	0.43
Kandy	0.49	0.45
Matale	0.5	0.41
Nuwara Eliya	0.45	0.42
Galle	0.43	0.45
Matara	0.41	0.45
Hambantota	0.42	0.45
Jaffna	0.37	0.50
Mannar	NA	0.37
Vavunia	0.45	0.45
Mullaitivu	NA	0.45
Kilinochchi	NA	0.50
Batticaloa	0.44	0.42
Ampara	0.42	0.46
Trincomalee	0.39	0.46
Kurunegala	0.56	0.48
Puttalam	0.49	0.44
Anuradhapura	0.45	0.37
Polonnaruwa	0.42	0.41
Badulla	0.49	0.45
Moneragala	0.39	0.53
Ratnapura	0.57	0.49
Kegalle	0.44	0.42
Sri Lanka	0.49	0.48

Source: Department of Census and Statistics

## 2.3 Poverty

In Sri Lanka poverty is defined in relation to the amount of money necessary to meet basic needs such as food, clothing, and shelter. The Official Poverty Line (OPL) which is defined as the per-capita expenditure for a person to be able to meet the nutritional anchor of 2030 kilocalories per day is the marginal line to measure poor or non-poor of the country. The value of OPL is calculated monthly and its average value is Rs. 4130 in 2016.

According to the latest available statistics in 2012/2013, Poverty Head Count Ratio (PHI) of the country is 6.7%, which is a 26.1 percent decline compared to 1990/1991. Even though the country has good achievements on poverty reduction, it is still a significant issue in the most areas of the country. In addition, poverty is subjected to change with different but mutually

correlated matters such as inflation, pattern of personal or household expenditure, social habits etc.

Table 5 shows the latest available statistics on poverty and its variation among the DS divisions of each district.

**Table 5: Spatial Distribution of Poverty – Year 2012-2013**

District	No of DS Divisions	Number of DS Divisions where PHI is greater than the National Average	Variation of Estimated Headcount Index (%) among the DS Divisions	
			Minimum	Maximum
Colombo	13	0	0.62	5.21
Gampaha	13	0	1.66	6.09
Kalutara	14	2	2.88	8.40
Kandy	20	13	4.17	16.80
Matale	11	10	5.71	10.67
Nuwara Eliya	5	4	6.13	11.90
Galle	19	16	5.74	11.87
Matara	16	15	3.80	11.92
Hambantota	12	3	3.71	8.13
Jaffna	15	14	6.58	16.75
Mannar	5	5	15.97	26.90
Vavunia	4	2	4.86	10.74
Mullaitivu	6	6	18.25	35.66
Kilinochchi	4	4	18.64	22.73
Ampara	14	13	3.16	15.94
Batticaloa	20	13	5.26	45.14
Trincomalee	11	7	4.69	15.89
Kurunegala	30	20	4.33	10.00
Puttalam	16	4	5.20	8.85
Anuradhapura	22	11	1.96	10.20
Polonnaruwa	7	2	3.69	10.59
Badulla	15	13	4.89	14.77
Moneragala	11	11	18.07	28.70
Ratnapura	17	17	9.16	13.18
Kegalle	11	8	6.25	11.85
	<b>331</b>	<b>213</b>	<b>0.62</b>	<b>45.14</b>

Source: *The Spatial Distribution of Poverty in Sri Lanka- Department of Census and Statistics*

The Average Poverty Head Count Ratio (PHI) in the country was 6.7% in 2013 and the PHI by DS divisions fluctuates from 0.62 to 45.14. The Median PHI by DS divisions is 8.08. Almost 213 DS divisions out of the 331 were greater than the national average.

Table 6 shows the top forty DS divisions which have recorded high poverty with the variation from 14.77 to 45.00. As shown in table 6 DS divisions of the Eastern, Northern, and Uva Provinces recorded high poverty.

**Table 6: High Poverty Divisional Secretariats**

No.	Divisional Secretariats	Districts	Poverty Head Count ratio	Estimated poor population
1	Manmunai West	Batticaloa	45.14	12,776
2	Koralai Pattu South (Kiran)	Batticaloa	37.68	9,811
3	Puthukkudiyiruppu	Mullaitivu	35.66	8,466
4	Thunukkai	Mullaitivu	34.03	3,244
5	Manthai East	Mullaitivu	33.68	2,336
6	Oddusuddan	Mullaitivu	33.49	4,972
7	Manmunai South-West	Batticaloa	28.93	7,090
8	Siyambalanduwa	Moneragala	28.70	15,041
9	Maritimepattu	Mullaitivu	28.61	8,096
10	Koralai Pattu North (Vaharai)	Batticaloa	27.99	5,950
11	Manthai West	Mannar	26.90	3,893
12	Madulla	Moneragala	25.95	7,830
13	Porativu Pattu	Batticaloa	25.84	9,323
14	Musalai	Mannar	25.74	2,064
15	Eravur Pattu	Batticaloa	24.69	18,242
16	Medagama	Moneragala	23.66	8,245
17	Poonakary	Kilinochchi	22.73	4,543
18	Madhu	Mannar	22.00	1,631
19	Thanamalvila	Moneragala	21.33	5,561
20	Kandavalai	Kilinochchi	21.13	4,875
21	Bibila	Moneragala	20.67	8,085
22	Karachchi	Kilinochchi	20.36	12,291
23	Mannar Town	Mannar	19.88	9,801
24	Monaragala	Moneragala	19.56	9,297
25	Badalkumbura	Moneragala	19.13	7,497
26	Pachchilaipalli	Kilinochchi	18.64	1,541
27	Buttala	Moneragala	18.55	9,597
28	Katharagama	Moneragala	18.55	3,219
29	Koralai Pattu (Valachchenai)	Batticaloa	18.42	4,244
30	Sewanagala	Moneragala	18.34	7,573
31	Welioya	Mullaitivu	18.25	1,249
32	Wellawaya	Moneragala	18.07	10,584
33	Akurana	Kandy	16.80	10,451
34	Island South (Velanai)	Jaffna	16.75	2,803
35	Vadamarachchi East	Jaffna	16.37	2,077
36	Nanattan	Mannar	15.97	2,766
37	Mahaoya	Ampara	15.94	3,146
38	Kinniya	Trincomalee	15.89	10,172
39	Island North (Kayts)	Jaffna	15.25	1,476
40	Meegahakivula	Badulla	14.77	2,826

Source: Department of Census and Statistics

## 2.4 Education Sector

Sri Lanka has the highest literacy rate of 97.2, in South Asia. The Government has accorded high priority to improve access to both general and higher education. The cost of public school education was 10% of the total Government expenditure in 2015 and cost for the university

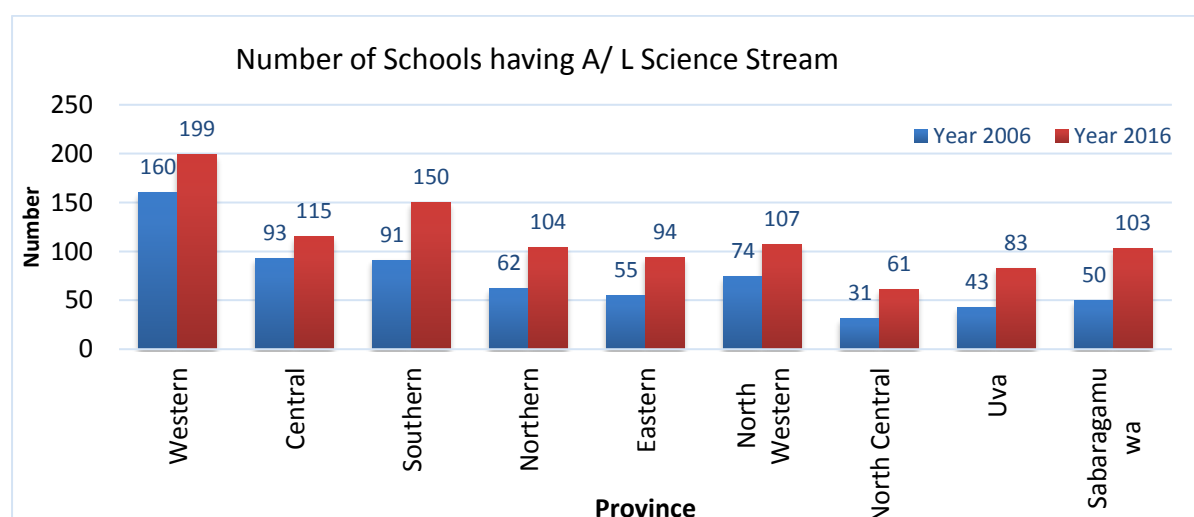
education was 1.7 %. Through Capital and Recurrent Grants, the Government has allocated Rs.324006 million for provincial education in 2016.

Primary education in the country is performed in a successful manner. Compulsory schooling for children from 5 to 16 years of age and the attitudes of the society towards children's education are the main reasons contributed to this success.

Secondary education of the country consists of three streams namely Science, Commerce, and Arts and, recently Technology subjects have been introduced. In Sri Lanka, only 9.9% schools out of the total have Science education facilities for Advanced Level examination.

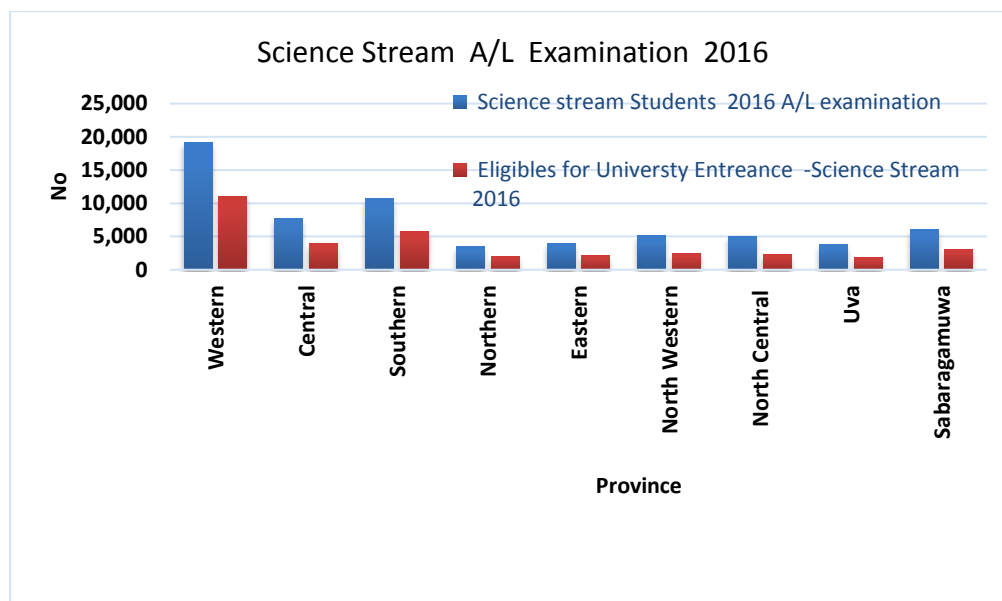
Figure 1 illustrates the number of schools with science education facilities in each province. There were 659 schools with science streams in 2006 and it has increased to 1016 within a period of decade. The Southern, Sabaragamuwa and Western Provinces show higher progress while all other provinces recorded a noteworthy increase.

**Figure 1: Number of Schools having A/L Science Stream-2006 and 2016**



Source: Ministry of Education -School Census Reports

According to the figure 2, the highest number of students who sat for the A/L Examination in Science stream (Bio science and Physical science) are from the schools of the Western Province. The next place is from the Southern Province. The Central and Sabaragamuwa provinces are in the third and fourth places respectively.

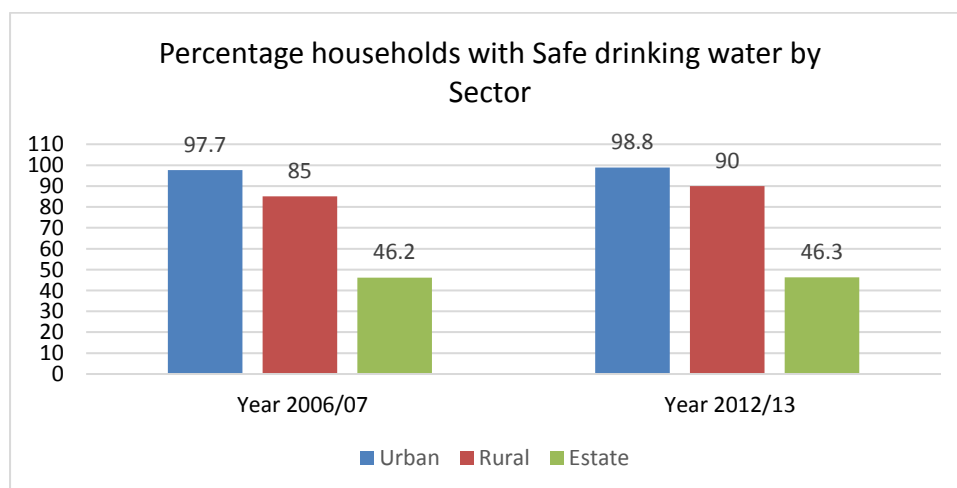
**Figure 2: Performance of Science Stream Students at A/L Examination-2016**

Source: Department of Examination

## 2.5 Safe Drinking Water

Sri Lanka was on track to achieve the MDG goal which aimed at the proportion of people without sustainable access to safe drinking water and basic sanitation by 2015. At present, the country is ready to achieve SDG Goal 6, “Ensure availability and sustainable management of water and sanitation for all” by 2030.

Access to safe drinking water is an important basic human need. The national coverage of access to safe drinking water amounts to approximately 89 per Cent. However, despite such relatively high national figures, considerable disparities remain between urban, rural and plantation sectors, and within the districts in respect of access to safe drinking water.

**Figure 3: Percentage Households with Safe Drinking Water by Sector**

Source: Department of Census and Statistics



Figure 3 shows Percentage households with safe drinking water by sector in 2006/2007 and 2012/2013. The estate sector of the country still suffers from lack of safe drinking water, and there have been no significant changes in the situation according to the statistics given in the figure 3.

**Table 7: Percentage of Households according to Drinking Water Sources by and Districts -2012**

District	Protected Wells	Pipe born/ Rural water Projects /Tube wells	Rivers/ Tanks/springs /Streams	Unprotected well	Other
Colombo	23.60	75.40	0.30	0.30	0.40
Gampaha	59.80	37.20	0.00	2.20	0.80
Kalutara	58.90	34.60	1.60	4.40	0.50
Kandy	25.30	63.50	6.90	2.90	1.30
Matale	38.20	52.00	5.10	4.00	0.60
Nuwara-Eliya	10.70	51.40	33.20	3.80	0.90
Galle	57.50	32.70	2.20	7.00	0.60
Matara	44.10	43.10	6.40	6.00	0.50
Hambantota	19.50	74.60	2.10	2.30	1.50
Jaffna	70.70	25.10	0.00	0.90	3.30
Mannar	51.50	33.30	0.10	2.80	12.30
Vavuniya	66.90	26.50	0.00	3.90	2.70
Mullativu	65.90	5.60	0.20	26.00	2.40
Killinochchi	65.90	5.80	0.00	24.80	3.50
Batticaloa	79.50	16.80	0.70	2.20	0.80
Ampara	46.60	47.50	0.50	4.50	0.90
Trincomalee	51.10	38.50	1.10	3.30	6.10
Kurunegala	77.10	16.00	0.50	5.80	0.60
Puttalam	45.20	44.80	0.20	1.80	8.00
Anuradhapura	49.70	43.50	1.40	3.40	2.10
Polonnaruwa	49.90	40.80	1.50	6.90	0.90
Badulla	26.30	46.30	20.90	5.90	0.60
Monaragala	38.30	49.10	5.70	5.90	1.00
Ratnapura	30.50	51.30	12.20	5.00	1.00
Kegalle	50.60	30.60	10.40	7.20	1.20
<b>Sri Lanka</b>	<b>46.10</b>	<b>44.00</b>	<b>4.60</b>	<b>4.00</b>	<b>1.40</b>

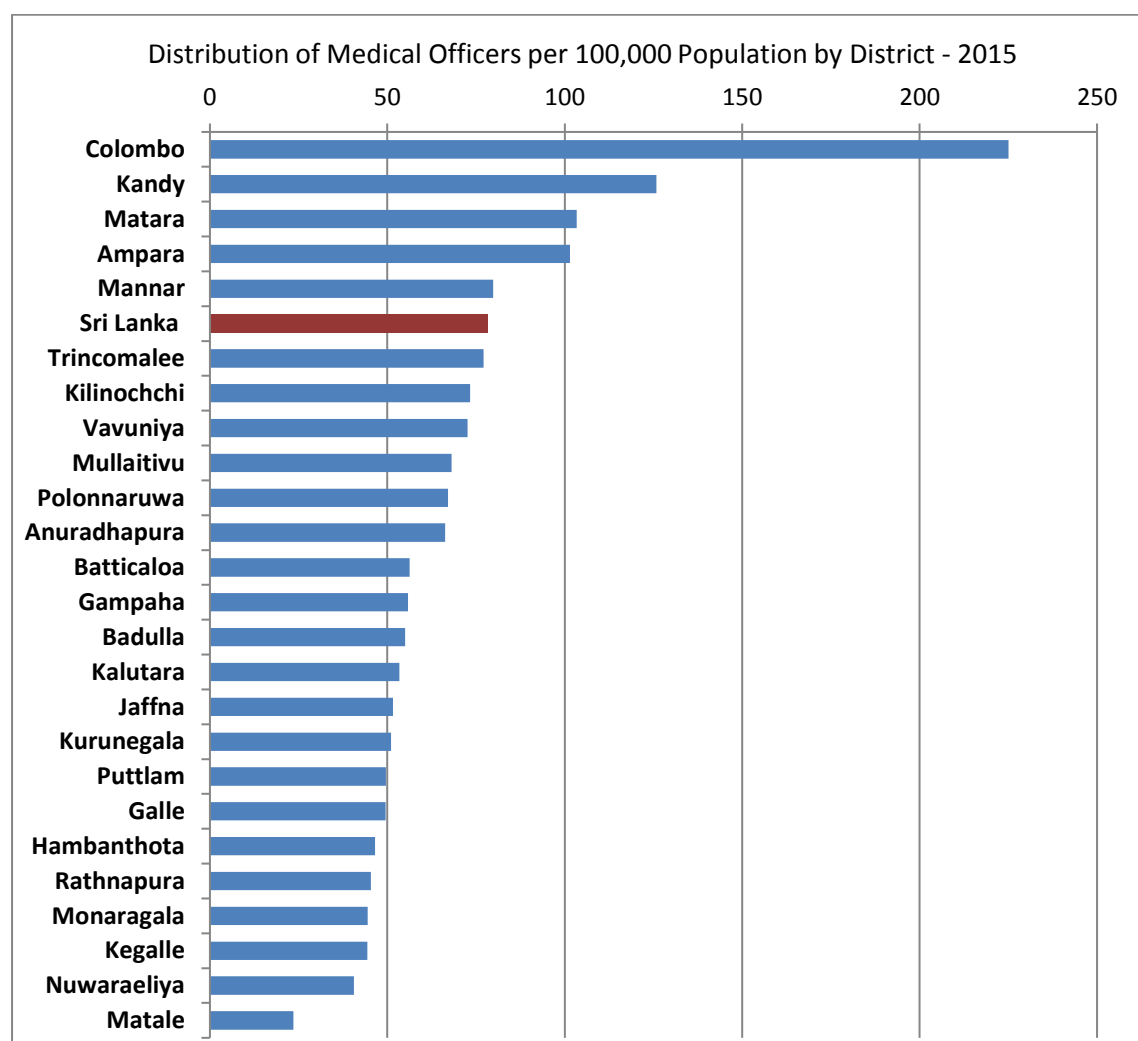
Source: Department of Census and Statistics

Table 7 shows the Census data on Percentage of Households having access to drinking water facilities by water source and districts, in 2012. (latest available) Almost 89% of households in the country have safe drinking water facilities. Considerable amounts of households in the districts of hilly areas of the country such as Badulla, Ratnapura, Kegalle and Nuwaraeliya still depend on unprotected sources for obtaining drinking water. Mulative and Kilinochchi districts still depend on dug wells for water and 26% and 24.8% of households of these districts use unprotected wells for drinking water respectively.

## 2.6 Health Sector

In 2016, Government has allocated 10026 Rs. millions through the PSDG and foreign funded projects for the development of the health sector. According to Human Resource Management Profile by Health Ministry in 2015, Provincial Health Sector consists of 56,812 cadres. Among them, 5,921 doctors and 10,547 Nursing Staff are working in provincial institutions. At present, there are 1,040 curative health care institutions under the Provincial Health Departments.

**Figure 4: Distribution of Medical Officers Per 100,000 Populations by District -2015**



Source: Ministry of Health

According to figure 4, most of the districts are below the National Average and Matale district has the least number of medical persons per 100,000 population.

## 2.7 Child Malnutrition

**Table 8: Percentage of the Children who are Underweight by District in 2013 and 2015**

District	Year	Infants born with Low Birth Weight %	Infants underweight %	young children (1-2 years) underweight %	underweight preschoolers' (3- 5 year %
Colombo	2013	6.67	69.33	15.13	50.94
	2015	6.76	62.94	12.26	52.56
Gampaha	2013	12.94	4.98	12.33	15.29
	2015	10.79	4.60	9.07	20.80
Kalutara	2013	11.97	6.00	14.03	17.56
	2015	10.08	6.08	11.91	17.49
Kandy	2013	13.63	8.96	21.3	24.48
	2015	11.44	7.46	12.51	19.24
Matale	2013	13.70	6.59	14.89	22.19
	2015	11.94	7.01	10.39	16.42
Nuwaraeliya	2013	20.57	13.26	25.48	24.52
	2015	17.79	13.14	18.04	20.26
Galle	2013	12.20	7.70	16.66	24.03
	2015	9.89	6.85	11.43	15.29
Matara	2013	12.08	7.30	17.81	32.86
	2015	11.92	3.83	9.24	17.62
Hambantota	2013	9.69	6.20	15.02	24.96
	2015	9.79	5.49	10.01	14.45
Jaffna	2013	9.66	5.59	12.52	18.3
	2015	8.90	6.07	9.39	14.36
Mannar	2013	10.82	3.47	11.73	15.01
	2015	11.92	3.83	9.24	17.62
Vauniya	2013	14.92	7.18	21.59	25.51
	2015	13.35	8.99	12.06	13.50
Mullative	2013	10.88	4.74	17.29	24.09
	2015	9.99	6.49	12.96	17.40
Kilinochchi	2013	11.52	5.77	17.47	34.11
	2015	10.24	4.39	9.83	12.52
Ampara	2013	15.83	8.01	19.45	24.42
	2015	10.18	6.58	13.72	20.07
Batticola	2013	11.92	6.95	14.02	20.87
	2015	10.53	6.35	11.25	21.18
Trincomalee	2013	13.43	6.32	18.22	20.82
	2015	10.94	6.71	12.35	16.39
Kurunegala	2013	12.09	5.73	15.13	19.95
	2015	10.59	5.48	9.77	16.82
Puttlam	2013	10.97	11.22	17.19	21.56
	2015	9.62	6.55	11.77	20.4
Anuradhapura	2013	13.34	8.13	19.35	26.99
	2015	10.96	7.38	12.95	14.18
Polonnaruwa	2013	15.27	8.55	18.28	26.28
	2015	13.80	8.29	12.65	14.80
Badulla	2013	17.50	10.30	22.50	28.56
	2015	14.62	10.48	15.23	17.79
Moneragala	2013	13.57	6.83	15.81	28.26
	2015	10.77	6.47	11.12	12.28
Rathnapura	2013	16.30	8.54	17.06	25.4
	2015	13.90	7.93	12.01	14.02
Kegalle	2013	16.94	8.69	18.55	26.1
	2015	13.83	7.95	12.34	13.33

Source: Family Health Bureau      Note: These figures are based on the total number of children inspected by the Family health officers of the relevant areas in a particular year.

Body weight of children is one of measurements that could be used to measure their nutritional level. According to the Statistics published by the Family Health Bureau, percentage of malnourished preschoolers (3- 5 years) is significant compared to other categories. The percentage of infants with low birth weight is also high in every district.

## 2.8 Roads

### Provincial Roads

Roads are considered to be arteries in the transport system that gives access to the citizens. They are also part of the infrastructure. Provincial roads include C and D categories of roads. The length of provincial roads stays static as there were no considerable new additions to the provincial road system. The funds allocated for the provincial roads are utilized usually for the improvement and maintenance of the existing road system. The length of provincial roads in 2012 and 2015 is presented below.

**Table 9: Provincial Roads 2012-2013**

Province	2012			2015		
	Class C	Class D	Total	Class C	Class D	Total
Western	998	954	1,952	998	954	1,952
Central	1,665	578	2,243	1,666	578	2,244
Southern	924	720	1,644	915	715	1,630
Northern	1,886	134	2,020	1,959	161	2,120
Eastern	722	376	1,098	722	376	1,098
North Western	1,091	1,065	2,156	1,954	831	2,785
North Central	1,211	736	1,947	1,211	736	1,947
Uva	1,559	180	1,739	1,689	682	2,371
Sabaragamuwa	1,247	1,544	2,791	1,247	1,544	2,791
<b>All Island</b>	<b>11,304</b>	<b>6,287</b>	<b>17,591</b>	<b>12,361</b>	<b>6,577</b>	<b>18,938</b>

Source: Central Bank of Sri Lanka

The total length of the C and D roads was 18938 km in year 2015 and there has been an increase of 1347 km in 2015 when compared to that of 2012. This increases due to converting and upgrading of local authority roads as provincial roads and addition of newly constructed roads at provincial level.

Although Sri Lanka has made a considerable progress of socio-economic development in the country, pockets of severe poverty are visible in many regions.

The 13<sup>th</sup> Amendment to the Constitution has given opportunities for decentralization of power. However, remarkable regional disparities could be observed among and within the provinces owing to financial constraints, administrative issues and lack of coordination.

# ACTIVITIES AND ACHIEVEMENTS IN 2016

## Measures taken by the Finance Commission under Thrust Areas

In pursuance of the objectives of the Finance Commission, the Commission has taken a number of measures which are given below under each Thrust Area.

### 3.1 Formulation and Communication of The Principles on Allocation and Apportionment of Financial Resources to the Provinces.

The Finance Commission was established under the Article 154R (1) of the 13<sup>th</sup> Amendment to the Constitution and the Commission is constitutionally responsible for recommending principles for achieving balanced regional development in the country. In keeping with this mandate, revised guidelines were issued to the provinces in relation to needs assessment at provincial level for both Capital and Recurrent purposes for 2017. Based on the needs submitted by the provinces, the Finance Commission assessed their needs. Thereafter the total financial needs of the provinces were allocated based on a Statistical Methodology with a view to minimizing regional disparities. Recommendations on apportionment of funds for Capital and Recurrent expenditure in 2017 were submitted to His Excellency the President in September 2016, and the Provincial budgetary requirements for 2017 were forwarded to the Department of National Budget.

The General Treasury determined the final budgetary allocation to the provinces and the allocations were made available by the Commission to the provinces, in order that they could plan the activities for the ensuing year.

### 3.2 Fair Distribution of Resources among the Provinces

As a mandated institution entrusted with the responsibility of reducing regional disparities, the Finance Commission is expected to recommend adequate funds to the provinces for implementation of their development plans while providing required technical support with appropriate approaches and concepts. The capital needs of the provinces are assessed by the Commission paying due attention to government policies, and the Provincial Medium-Term Development Plans. In this task, a comprehensive statistical methodology with the support of the Department of Census and Statistics is adopted. The methodology is based on some identified variables and indices which reflect apparent socio-economic disparities at sub-national level.

**Table 10: Variables Incorporated in Statistical Methodology**

Variable
Population - 2015 ('000)
Provincial GDP 2014 (Rs/Mn)
Poverty Head Count Ratio (%) 2012/13
Median per capita income (Rs) 2012/13
Persons per medical officer 2013
All candidates qualified for universities in Science Stream province wise % -2015

The Finance Commission makes an assessment in respect of estimated Personnel Emoluments (PE) and the Other Recurrent Expenditure (ORE) in the form of Travelling Expenses, Supplies, Maintenance Expenditure, Contractual Services, Transfers and Grants and other recurrent expenditure. In this assessment, the Commission takes into account estimated Provincial Revenue Generation (Collection) and Revenue Transfers from the General Treasury and it is apportioned among the provinces in the form of a Block Grant.

The allocation mechanism is pivoted on the principle of good governance and free of biases associated with personal judgments. Views of the senior officials of the provinces have also been obtained through open discussions in order to make the process more pragmatic. The allocations of capital expenditure are categorized into Province Specific Development Grant (PSDG) and Criteria Based Grant (CBG).

### 3.3 The Reduction of Regional Disparities and Promotion of Capacity Development

#### Balanced Regional Development

Balanced regional development is very important for harmonious and smooth development of a country. It does not proffer equal development of all regions of a country. Rather it indicates utilization of development potential of provinces taking into the account their potential and capacity so that the benefit of overall economic development is shared by the people of all provinces of the country.

In 2016, the Finance Commission for the first time in its history spanning 28 years has carried out an analysis on vertical and horizontal imbalances at provincial level. A Provincial GDP analysis was also carried out as a fulfillment of its main mandatory function. (Table 11 and 12)

**Table 11: Vertical Fiscal Imbalances in Sri Lanka -2017**

(Mismatch of the Total Revenues and Provincial Needs)

(Rs.Mn)

Province	Estimated Provincial Needs Assessments			Estimated Provincial Revenue (Receipt)					Vertical Imbalance	Rank
	Capital	TRE Excluding SD & CF	Total	Capital	Block Grant for Recurrent Expenditure	Estimated Revenue Transfers (NBT, SD and VRF)	Estimated Devolved Revenue	Total (2)		
Western	2,126	46,483	48,609	765	14,887	22,080	7,500	45,232	3,377	9
Central	3,250	29,838	33,088	1,169	22,489	4,140	1,629	29,427	3,660	8
Southern	3,246	26,482	29,728	1,168	19,204	4,140	1,500	26,012	3,716	7
Northern	4,607	20,886	25,493	1,657	16,477	2,300	545	20,979	4,514	1
North Western	3,413	29,141	32,554	1,228	21,587	4,140	1,698	28,653	3,902	5
North Central	4,025	17,924	21,949	1,448	13,526	2,300	936	18,210	3,739	6
Uva	4,677	20,239	24,916	1,682	15,899	2,300	760	20,641	4,275	3
Sabaragamuwa	3,795	24,140	27,935	1,365	19,195	2,300	1,050	23,910	4,024	4
Eastern	4,293	21,895	26,188	1,544	17,361	2,300	700	21,905	4,282	2
<b>Total</b>	<b>33,432</b>	<b>237,028</b>	<b>270,460</b>	<b>12,026</b>	<b>160,624</b>	<b>46,000</b>	<b>16,318</b>	<b>234,968</b>	<b>35,492</b>	

TRE- Total Recurrent Expenditure CF- Court Fines

NBT- National Building Tax

VRF- Vehicle Registration Fees

Source: Finance Commission Research Studies

**Table 12: Horizontal Fiscal Imbalances in Sri Lanka -2017**

(Mismatch of Devolved Revenue and Provincial Needs)

(Rs.Mn)

Province	Estimated Provincial Needs Assessment			Estimated Devolved Revenue excluding SD and CF	Horizontal Imbalance	Rank
	Capital	Recurrent	Total			
Western	2,126	46,483	48,609	7,500	41,109	1
Central	3,250	29,838	33,088	1,629	31,459	2
Southern	3,246	26,482	29,728	1,500	28,228	4
Northern	4,607	20,886	25,493	545	24,948	7
North Western	3,413	29,141	32,554	1,698	30,856	3
North Central	4,025	17,924	21,949	936	21,013	9
Uva	4,677	20,239	24,916	760	24,156	8
Sabaragamuwa	3,795	24,140	27,935	1,050	26,885	5
Eastern	4,293	21,895	26,188	700	25,488	6
<b>Total</b>	<b>33,432</b>	<b>237,028</b>	<b>270,460</b>	<b>16,318</b>	<b>254,142</b>	

CF-Court Fines

SD-Stamp Duty

Source: Finance Commission Research Studies

## Capacity Development of the Provinces

Capacity Development is a long term continuous process of development that involves all stakeholders, including ministries, provinces, local authorities, non-governmental organizations etc. Capacity development takes place at individual, institutional, and social levels.

The Finance Commission organized three Seminars for capacity development of the Provinces.

- I. Seminar on **Improving Accountability and Transparency in Provincial Governance and Minimizing Audit Queries** was held on 30-04-2016 at the Organization of Professional Association of Sri Lanka (OPA) Auditorium.
- II. Seminar on **Public-Private Partnership (PPP)** was held at the Sri Lanka Institute of Development Administration (SLIDA) on 08-07-2016 aiming at senior officers of the Provinces.
- III. Seminar on **Assets Management** was held on 19-08-2016 at the Hector Kobbekaduwa Agrarian Research & Training Institute (HARTI) Auditorium

### 3.4 Effective Utilization of Resources in the Provinces

Effective management of resources is a corner stone of good governance. It is an essential task of all provinces. The close coordination between the Commission and the Provincial authorities has paved the way for achieving intended expectations to a significant level.

#### **Coordination with the National Education Commission (NEC) to incorporate good practices to national policy on General Education**

A seminar was organized by the NEC in collaboration with the Finance Commission on October 2016 to make the provincial authorities aware of the education system review made by the Northern Province. At the end of the seminar, all other Provincial Councils agreed to prepare their own System Review proposals and submit them to NEC. Only two Provincial Councils had responded positively to the request NEC.

#### **Study on the Allocations for Education and Health Sectors (2014 – 2016)**

The Finance Commission notes that the capital and recurrent allocation in all Provincial Health and Education sectors are continuously high even though the private sector has also made significant investment in these two sectors. Therefore, a study on allocation in Education and Health Sectors for the period from 2014 to 2016 was carried out in 2016. The main objective of this study was to observe the trend of capital and recurrent provincial allocations for Health and Education Sectors. The study was totally based on secondary data. It is observed that recurrent and capital expenditure in Health and Education sectors shows an increasing trend while private sector investment has also increased in these sectors. According to the study, it is noted that the highest recurrent expenditure is reflected in the education sector, which has the highest cadre in all provinces. It is also noted that, “other allowances and overtime” in Health Sector has greatly contributed to the high recurrent expenditure in the province.



## **Master Plans and Resource Mapping**

In the task of achieving effective resource management during the year, the Finance Commission recommended that the provinces should adopt Master Plans and Resource Mapping. This will make needs assessment more realistic and effective.

## **3.5 The Enhancement of Revenue Generation at Provincial and Local Levels**

The annual increase of the government expenditure has put a severe pressure on the General Treasury. Therefore, revenue collection is an important matter in alleviating such burden.

### **Revenue Performance Grant to Incentivize Devolved Revenue Collection**

Considering the importance of revenue enhancing, the Finance Commission has decided to introduce a development oriented grant to the provinces based on incremental devolved revenue collection to encourage higher revenue generation. This grant scheme will address some crucial development problems of the regions by selecting vital areas, such as Environmental Management, Child Protection, and Social Services. The Commission has agreed in principle to introduce the proposed Revenue Performance Grant Scheme in 2018.

### **Preparation of an Action Plan for Enhancement of Revenue at Local Government Authorities**

Based on a recommendation made at a Chief Ministers' Conference held in 2013 the Finance Commission prepared a report on revenue enhancement in 2014. During 2016, a committee chaired by the Secretary of the Finance Commission was appointed to review recommendations on enhancement of revenue of local authorities. The committee consisted of nine members with Provincial Deputy Chief Secretaries (Finance), four Commissioners of Local Government and the legal Officer of the Ministry of Provincial Council and Local Authorities. The committee conducted a series of meetings and prepared a report identifying priority areas with an action plan for enhancement of revenue.

The final report containing recommendations was sent to the President's Office, the Ministry of Provincial Council and Local Government, all Provincial Councils and other relevant institutions. The responsible agencies are expected to implement the activities assigned to them. Furthermore, the proposed Act on Provincial Councils and Local Government will incorporate some recommendations for the effective implementation of these proposals.

### 3.6 Strengthening Institutional Development of Provincial and Local Institutions of Governance

The Provincial Councils and Local Authorities are expected to fulfill their expected developmental role by strengthening institutional capacity and the governance structure. The Finance Commission has collaborated with them and extended its support in these endeavors

#### **Awareness Workshop for the Political Representatives and Senior Officials of the North-Western Province on Provincial Development**

The Chairman, Secretary and the Senior Director of the Finance Commission participated in the above awareness workshop on 1<sup>st</sup> and 2<sup>nd</sup> December 2016 at the invitation of Chief Secretary NWP. They made presentations covering the areas of effective provincial planning, evaluation of provincial development plans, the mechanism of granting concurrence by the Finance Commission, major elements of the government policy and highlights of the Budget Speech – 2017.

#### **Seminar on Improving Accountability and Transparency in Provincial Governance and Minimizing Audit Queries**



A seminar on Improving Accountability and Transparency in Provincial Governance and Minimizing Audit Queries was organized by the Finance Commission on 30th April 2016 at the Organization of Professional Associations of Sri Lanka (OPA). The Secretaries of 05 Provincial Ministries, Deputy Chief Secretary (Planning), Deputy Chief Secretary (Finance), Deputy Chief Secretary (Engineer) and a Senior Officer of the Provincial Internal Audit Department in nine provinces participated in this seminar. The main objectives of the seminar were:

- Promotion of sound financial management and financial accountability in the provinces through capacity building, financial reporting and financial management policies.
- Identifying issues of accountability and transparency in provincial financial management systems
- Encouraging all provinces to implement an effective risk management and internal control processes.
- Development and support of oversight structures / bodies

- Better understanding of the government auditing system with a view to minimizing audit queries

### Seminar on Assets Management



A seminar on Assets Management was organized by the Finance Commission on 19th August 2016 at the Hector Kobbekaduwa Agrarian Research & Training Institute. Chief Secretaries, Provincial Secretaries and Deputy Chief Secretaries of provinces participated at the seminar.

The main objectives of the seminar are:

- effective management and safeguarding of public assets
- ensure that assets purchased and disposed are properly authorized, acquired, accounted, maintained, utilized and safeguarded in accordance with the relevant regulations
- development of MIS and maintenance of an accurate and timely assets information system for decision-making and reporting purposes
- ensure efficient and economic use of public assets
- introduction to Accrual Accounting

## 3.7 Achieve Effective Coordination between the National Level and the Provinces

### Committee on Data Harmonizing

The non-availability of accurate data at regional level is a challenge to the Finance Commission to perform its role in provincial financing with the objective of achieving balanced socio-economic development of the country. During the year, the Finance Commission reviewed the data requirements of the major stakeholders such as the General Treasury, the Department of Census and Statistics, the Central Bank etc. This has led to the establishment of a committee on data harmonization in collaboration with the major stakeholders.

### **Database and MIS of the Finance Commission**

Currently, the Finance Commission does not have an efficient mechanism to generate the required information and reports. The Finance Commission has re-launched its effort to develop a Database/MIS. In this regard, the Commission held a number of discussions with the Department of Project Management and Monitoring (DPMM), Information and Communication Technology Agency (ICTA) and funding agencies. The DPMM has already embarked on a multimillion project for project monitoring and the Commission has decided to extend their support for its database and MIS. The Commission noted that the completion of DPMM project would take some time and accordingly, it was decided to develop an internal database/ MIS for the use of the FC. This internal database/ MIS is expected to be completed in 2017.

### **Workshop on Improvement of Development Process through Optimum Coordination between National and Provincial Levels**

A workshop on improvement of the development process was held collaboratively by the President's Office and the Finance Commission, under the patronage of HE the President at BMICH on 15 June 2015. This was attended by Hon. Prime Minister, Senior political leaders and provincial officials. Based on identified issues and proposed solutions at the Workshop, an Action Plan was prepared by the Finance Commission with a view to strengthening the coordination between the provincial institutions and the Government.

Following the Action Plan, two progress meetings were held at the Ministry of Finance and the Presidential Secretariat

### **Stakeholder Relations**

The Finance Commission recognizes the importance of stakeholder relations with a view to building trust and confidence among its stakeholders, which include provinces and state institutions, ensuring that their needs are met. During the year, the Commission adopted a number of strategies to promote stakeholder relations by improved information sharing and consultation; as well as collaborative work to find effective solutions for provincial development challenges. It is envisaged that the channel of communication and managerial process will improve stakeholder relations in the near future.

### 3.8 Promote Entrepreneurship through Public Private Partnership

#### Seminar on Promote Entrepreneurship through Public Private Partnership



Aligning with the government policy of investment promotion, the Finance Commission has given recognition to promoting PPP. In this regard, a seminar was organized by the Finance Commission in July 2016 and the Provincial Officers were made aware of innovative approaches of PPP. This seminar was financed by the Asia Foundation. The promotion of PPP by the Finance Commission was to be intensified with an in-house three-day workshop. However, the Commission has decided to postpone the event on account of subsequent developments on PPP in Sri Lanka in relation to preparation of PPP guidelines, as the National Procurement Commission with the support of the Ministry of Finance has undertaken the task of PPP guidelines for Sri Lanka.

The Commission has also taken steps to promote development of provincial infrastructure which will contribute to entrepreneurship development in the provinces. In 2016 the Commission embarked on sector analysis studies and initiated action to promote supply and value chain development by inviting external experts from relevant Ministries and Institutions.

### 3.9 Development of Human and Institutional Capacity of the Finance Commission

The Finance Commission recognizes the importance of developing its human and institutional capacity. In this regard, a number of positive steps have been taken by the Commission.



## Construction of New Office building for the Finance Commission



Currently the Finance Commission is housed in a rented-out premise which is hardly adequate to accommodate its required cadre. Therefore, as reported in 2015, the Commission initiated action to construct a new office complex at a cost of Rs.300mn, at Sarana Mawatha, Rajagiriya.

The Foundation stone for the office complex was ceremonially laid by the Honorable Speaker Karu Jayasooriya, Chairman of the Constitutional Council in the presence of many distinguished guests on 24<sup>th</sup> November 2016 and construction work is being carried out successfully according to the work plan of the project. The construction activities will be completed in 2018.

## Strategic Plan (2017-2020)

Strategic Plan is an efficient guiding tool in achieving institutional goals and objectives. Therefore, the Finance Commission has initiated preparation of its Strategic Plan in 2016 under the guidance of the former Secretary of the Commission.

In this task, the existing thrust areas were reviewed based on the reformulated Vision and Mission and expected activities under the new thrust areas were identified. The plan was discussed in detail towards the end of 2016.

The strategic plan is based on the following guiding principles.

1. To provide guidance to the Finance Commission to achieve the objectives of the Commission
2. To maximize institutional effectiveness to fulfill needs of stake holders
3. To provide strategies to achieve the goals of balanced regional development
4. To have a clear understanding of the role of the Finance Commission
5. To develop skills, attitudes and enhance knowledge to achieve institutional goals

6. To ensure self-contribution to align with institutional mission in collective, dedicative, honest and responsible manner
7. To share relevant information transparently with stake holders through an E-governmental policy

### **Proposed Thrust Areas/Key Result Areas**

1. Apportionment of funds on a logical basis to achieve sustainable balanced regional development based on needs assessment
2. Guiding provincial development planning
3. Availability of data and information for policy making process
4. Development of human and institutional capacity of the Finance Commission

### **Improving Organizational Efficiency**

In 2016, the Finance Commission has taken a number of steps to improve its internal efficiency and procedures. These include introduction of some IT based systems, review of work flow, human resources development, data harmonizing, MIS development etc. regarding which details are discussed elsewhere in the report. The major achievement in procedural review was the shortening of the approval process in respect of provincial need assessment. This will enable the provinces to obtain required funds early from the General Treasury for carrying out their intended activities.

### **Research Unit**

In 2016, a Research Unit was established mainly for assisting in decision-making process of the Commission by maintaining in a proper database and conducting research studies.

The Research Unit is expected to play a vital role, especially in reducing regional disparities and making assessment of provincial needs. In addition, this unit is intended to provide required inputs in the evaluation of Provincial Plans/Projects and preparation of Annual Development Plans and other related documents.

The long-term objective of the Research Unit of the Finance Commission is to assist in the decision-making process of the Finance Commission on provincial matters and maintain an updated database for each province with the help of the Provincial Councils, Local Authorities, Line Ministries and other Research Institutions.

In 2016, a number of special studies were carried out in support of activities. These include.

- Revised Methodology of Capital Funds Allocation for the Provinces and Districts - 2017
- Reintroducing the Revenue Performance Grant Scheme to encourage revenue efforts of provinces.
- Apportionment of funds between provinces for Provincial Recurrent and Capital Needs in 2016
- Payment of overtime and Holiday pay for Health Sector 2015.
- National Budget proposals from the Finance Commission
- Sector – Wise Allocation of funds for the provinces by the Government.
- Progress of Utilization of Capital Grant 2016 (PSDG + CBG) as at 30<sup>th</sup> June 2016 (PSDG + CBG) as at 30<sup>th</sup> June 2016.
- Action Plan for Enhancement of Revenue of Local Authorities.
- Regional imbalances and corrective measures.
- Analyses of GDP using figures for last five years.
- Allocation of provincial requests and impress release of Capital Funds.
- Allocations for Education and Health Sectors (2014 – 2016).
- Role and Functions of the Finance Commission
- A note on Provincial GDP Disparities.
- Progress of utilization of Capital Grants and Block Grants

### **Draft Finance Commission Act**

To date the Finance Commission has not been able to introduce an Act as envisaged by the 13<sup>th</sup> Amendment to the Constitution to perform its functions effectively. An Act of Parliament setting out the powers of the Finance Commission will enable the Commission to function effectively. Although the original recommendation in this regard had been made in 1989 and the draft prepared and had been submitted in 2008 to the His Excellency President holding office of that time, no draft Bill had been presented to Parliament. A new draft Act was formulated by the Commission in 2016 and submitted to the His Excellency the President for its enactment.



# GOVERNANCE AND COMPLIANCE

## 4.1 Introduction to Good Governance

Good governance leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users.

## 4.2 Compliance with Laws and Regulations

Key principles in formulating good governance systems and procedures for the Finance Commission are given below.

**Table 13: Compliance with Laws and Regulations (Good Governance Principles)**

Key Principals	Application in Finance Commission
<b>A.</b> Strong commitment to integrity, ethical values, and the rule of law	<p>The Finance Commission adheres to the good governance, giving consideration to Financial Regulation, Establishment Code, Government Circulars and other relevant guidelines.</p> <p>The Commission encourages its staff to adopt a 'Team Spirit' approach with the objective of improving productivity and efficiency.</p> <p>Staff meetings are held on a regular basis for open discussion on important and day to day activities of the Commission there by ensuring the smooth functioning. Emphasis is made on follow up actions in order that targets of the Action Plan 2016 are achieved of the commission.</p> <p>Performance assessments are done regularly.</p>
<b>B.</b> Openness and comprehensive stakeholder engagement	<p>The Finance Commission works closely with the relevant stakeholders namely the Presidential Secretariat, the Constitutional Council, the Central Bank, the General Treasury, line ministries, Provincial Councils and local authorities with regard to subject matters.</p> <p>Earmarked officers of the Finance Commission are responsible for provincial matters pertaining to planning, budgeting and monitoring. They are expected to establish a good rapport with the officers who are attached to the provinces to ensure smooth functional relationship between the national and provincial levels</p> <p>At the Provincial level, there are officers who represent the Finance Commission and they are expected to facilitate the official transactions between the provinces and the Commission.</p>
<b>C.</b> Defining outcomes in terms of sustainable economic, social, and environmental benefits	<p>Effective coordination with the officers at national and sub national levels for smooth implementation of the mandated functions of the Commission.</p>

Key Principals	Application in Finance Commission
<b>D.</b> Determining the interventions necessary to optimize the achievement of intended outcomes	<p>The Finance Commission has already finalized its strategic plan to achieve sustainable outcomes.</p> <p>Analysing risks and managing performance through monitoring and review to achieve suitable development.</p>
<b>E.</b> Developing the capacity of the entity, including the capability of its leadership and the individuals within it	<p>Members and staff of the Finance commission are encouraged to improve their knowledge, skills and attitude to carry out their roles effectively.</p> <p>Procurement Plan is in place to manage capital funds effectively.</p>
<b>F.</b> Managing risks and performance through robust internal control and strong public financial management	<p>Proper risk assessment assists in making informed decisions about the level of risk that they want to take, and implementing the necessary controls, in pursuit of the entities' objectives.</p> <p>Action has already been taken to set up a sound integrated Data Base/MIS in relation to the Finance Commission/Provincial planning, budgeting and monitoring in line with the e – governance policy.</p>
<b>G.</b> Implementing good practices in transparency and reporting to deliver effective accountability	<p>Appropriation Account and Advance B Accounts are reviewed by the Auditor General Department. In preparing financial statements generally accepted accounting principles have been adopted.</p> <p>Annual Report for 2015 has already been prepared and submitted to Parliament.</p>

A statement of compliance is tabled at the monthly meeting of the Commission.

### 4.3 Governance in the Provincial Council System

Provincial Councils are responsible for ensuring that their activities are conducted in accordance with the laws and regulations, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Finance Commission provides necessary support to the provinces and local authorities in this regard.

### 4.4 Meetings of the Finance Commission-2016

The Commission as the matter of policy meet at least monthly. In addition, special Commission Meetings were held where necessary.

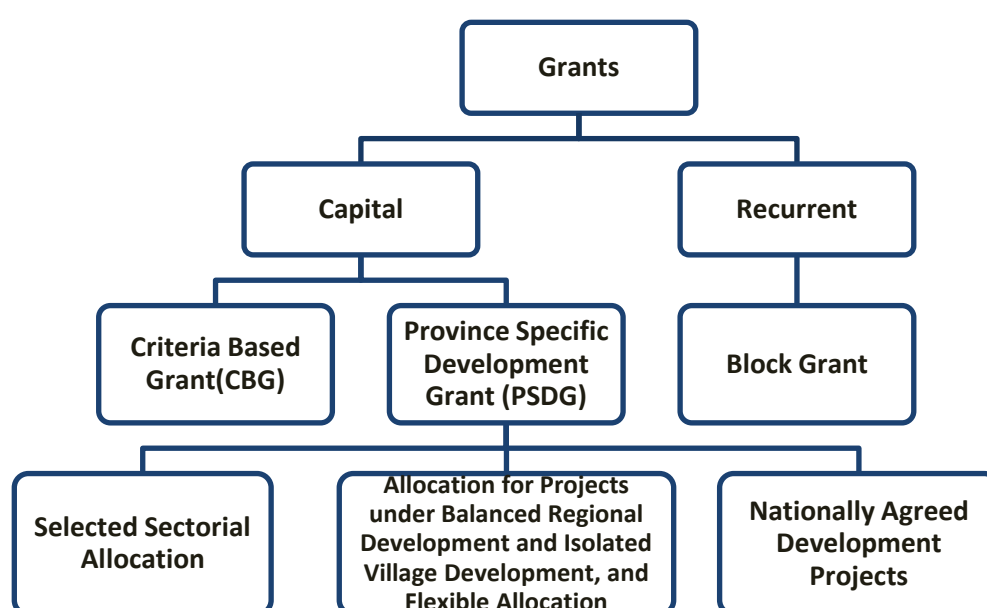
**Table 14: Finance Commission Meetings held during the Year 2016**

Number of Finance Commission Meetings Held For Year 2016					
Date	Chairman FC Mr. Uditha Harilal Paliakkara	Secretary to the Treasury Dr. R. H. S. Samaratunga	Governor Central Bank of Sri Lanka Mr. Arjuna Mehendra	Member Mr. V. Kanagasabapathy	Member Prof. H.M.Zafrullah
27 <sup>th</sup> January 2016	√	√	Excused.	√	√
20 <sup>th</sup> February 2016 (Special Meeting)	√	√	Excused.	√	√
29 <sup>th</sup> February 2016	√	√	Excused.	√	√
30 <sup>th</sup> March 2016	√	Excused.	√	√	√
28 <sup>th</sup> April 2016	√	√	√	√	Excused.
30 <sup>th</sup> May 2016	√	√	√	√	√
23 <sup>rd</sup> June 2016	√	√	Excused.	√	√
			<b>Dr. Indrajith Coomaraswamy</b>		
26 <sup>th</sup> July 2016	√	√	Excused	√	√
29 <sup>th</sup> August 2016	√	Excused.	√	√	√
03 <sup>rd</sup> Sep 2016 (Special Meeting)	√	√	√	√	√
06 <sup>th</sup> Sep 2016 (Special Meeting)	√	√	Excused.	√	Excused.
28 <sup>th</sup> Sep 2016	√	√	√	√	Excused.
24 <sup>th</sup> October 2016	√	√	√	√	√
29 <sup>th</sup> Nov 2016	√	√	√	√	√
29 <sup>th</sup> Dec 2016	√	√	√	√	√

# APPORTIONMENT OF FUNDS TO THE PROVINCES AND EXPENDITURE

The Finance Commission is mandated for operationalizing the devolved governance by providing adequate resources and guiding the provinces in sound development planning. An outline of the fund allocating process is given below.

**Figure 5: Financial Resources Allocation**



## 5.1 Capital Funds

### Apportionment of the Funds to Provincial Councils

The grants are made to the provinces on the recommendation of the Finance Commission. The Commission analyses the annual provincial needs sent by each province by considering Government policies and Provincial Medium- term Development Plans. In 2016, the General Treasury allocated a bulk amount of Rs. 27,025.50 million for PSDG and Rs. 4,000 million for CBG under Capital Expenditure.

As the second step, analyzed Provincial needs are submitted to the General Treasury to allocate Capital Grants for upcoming year. The Treasury allocates the bulk amount for each province and the Finance Commission apportion funds among predetermined sectors. When deciding the sector allocations, the Finance Commission recognizes the provincial viewpoints as well as sectoral allocations of the previous year.

Apportionment of capital funds consist of two categories, namely PSDG and CBG.

### Apportionment of Capital Funds- 2017

**Table 15: Apportionment of Capital Funds- 2017**

(Rs.Mn)							
Province	CBG	PSDG	Sub Total	% of Provincial Share	Foreign Assisted Projects	Total	% of Provincial Share
Western	254.40	764.86	1019.26	6.36%	630.00	1649.26	6.67%
Central	388.80	1168.93	1557.73	9.72%	665.00	2222.73	8.99%
Southern	388.40	1167.73	1556.13	9.71%	640.00	2196.13	8.88%
Northern	551.20	1657.18	2208.38	13.78%	3409.73	5618.11	22.72%
North Western	408.40	1227.86	1636.26	10.21%	655.00	2291.26	9.27%
North Central	481.60	1447.93	1929.53	12.04%	691.90	2621.43	10.60%
Uva	559.60	1682.44	2242.04	13.99%	680.00	2922.04	11.82%
Sabaragamuwa	454.00	1364.95	1818.95	11.35%	645.00	2463.95	9.96%
Eastern	513.60	1544.14	2057.74	12.84%	685.00	2742.74	11.09%
<b>Total</b>	<b>4000.00</b>	<b>12026.02</b>	<b>16026.02</b>		<b>8701.63</b>	<b>24727.65</b>	

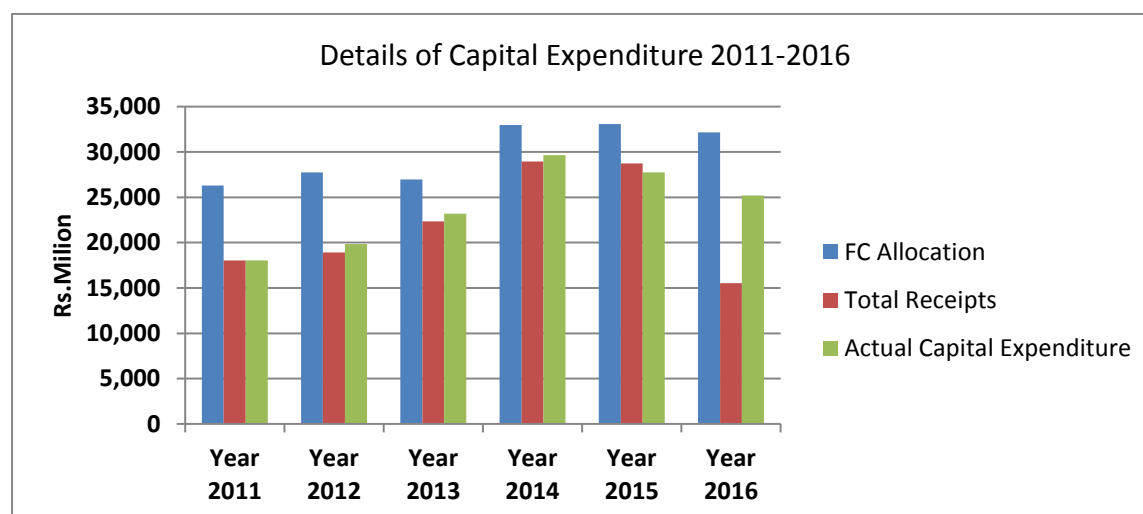
Source: Finance Commission

The table 15 shows the Capital funds allocated among each province under PSDG, CBG and Foreign Assisted Projects. According to the table 15, Uva Province has been allocated the highest amount while the Western province has been allocated the least.

Note: In this exercise, the Department of Census and Statistics provided technical assistance in formation of formula for apportioning of the Capital Fund considering the following socio-economic factors.

- Population of each province
- Provincial Per Capita Income
- Provincial GDP
- Need of reducing socio-economic disparities progressively among the provinces

**Figure 6: Capital Expenditure 2011-2016**



The figure 6 illustrates the Allocation of Capital Funds, Total Receipts and Actual Capital Expenditure during the period of 2011 to 2016. According to the chart, provinces received fewer amounts though they had more allocation in 2016. However, it is observed that in some provinces actual expenditure has exceeded the total receipts owing to supplementary provisions and internally generated funds.

## 5.2 Recurrent Funds

### Allocation of Grants for Recurrent Needs

An annual assessment of recurrent needs, allocation and apportionment of funds to provinces are carried out as a mandatory task of the Finance Commission for the past three decades. Also, provincial activities are facilitated through the process and procedures for execution of devolved functions with the objective of ensuring balanced regional development in the country within the policy framework of the government. Since the establishment of Provincial Councils in 1987, allocation for recurrent needs is vital to implement provincial as well as Central Government functions at provincial level. Block Grants for the financial year 2017 allocated from the annual budget, as shown in table 16.

**Table 16: Allocation of Block Grant – 2017**

(Rs.Mn)

Province	Block Grant
Western	14,867
Central	22,489
Southern	19,204
Northern	16,477
North western	21,587
North Central	13,526
Uva	15,899
Sabaragamuwa	19,195
Eastern	17,361
<b>Total</b>	<b>160,605</b>

*Source: Finance Commission*

The apportionment of Rs. 160,604.8 million as Block Grant among the provinces for the year 2017 is shown in the table above.

The table 17 reveals the increasing trend of funding and utilization of Block Grant over the seven-year period from 2010 to 2016. Actual receipts in some years have exceeded the initial allocation from the main budget due to supplementary allocations, perhaps in some occasions due to utilization of surpluses in provincial funds. On the other hand, actual expenditure in some years is lower than actual receipts owing to irregular pattern of cash flow result in the cumulation of provincial funds.

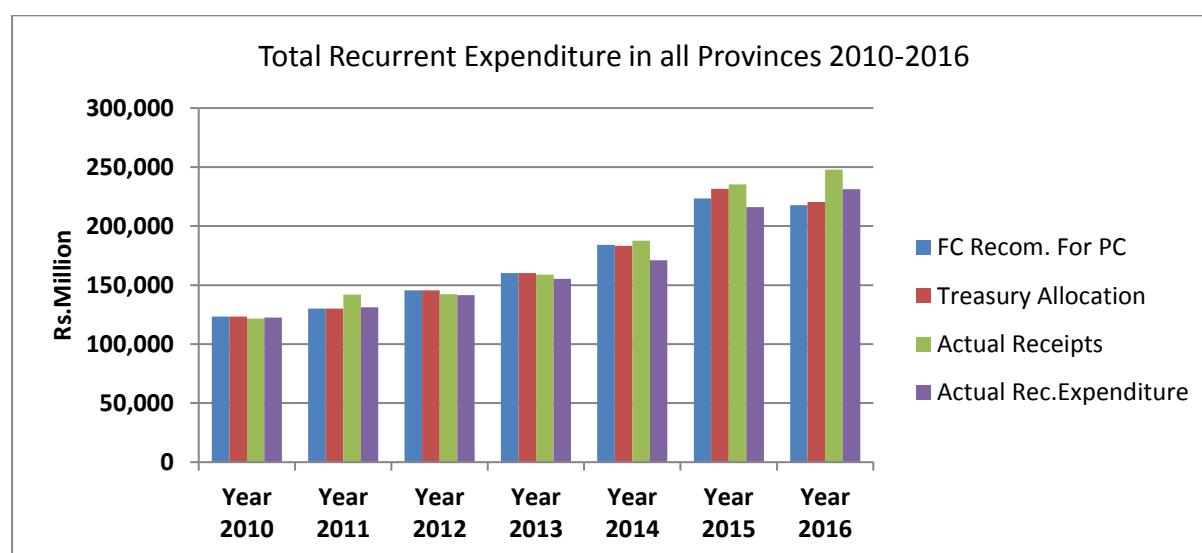
**Table 17: Trend of Funding and Utilization of Block Grant from 2010 to 2016**

**(Rs.Mn)**

	2010	2011	2012	2013	2014	2015	2016
<b>FC Recom. For PC</b>	123,430	130,063	145,617	160,211	184,112	223,387	217,718
<b>Treasury Allocation</b>	123,430	130,068	145,617	160,211	183,396	231,553	220,494
<b>Actual Receipts</b>	121,805	142,108	142,234	158,853	187,563	235,256	247,718
<b>Actual Recurrent Expenditure</b>	122,390	131,086	131,086	155,269	170,961	216,158	231,143

Sources: Finance Commission, impressed released report by TOD, PC monthly expenditure reports

The total recurrent expenditure from 2010 to 2016 is highlighted in figure 7

**Figure 7: Total Recurrent Expenditure in All Provinces 2010-2016**

## PROVINCIAL REVENUE

Provincial revenue mainly comprises devolved revenue collection and transfers from the center. The 9<sup>th</sup> Schedule of the 13<sup>th</sup> Amendment to the Constitution has listed the sources of devolved revenue under items 36.01 and .20. The actual collection of devolved revenue in 2016 is given in the table 18.

### 6.1 Devolved Revenue

**Table 18: Provincial Revenue Collection by Source – 2016**

(Rs. Mn)

Province	Target Including SD & CF 2016	Revenue Collected form Devolved Sources						Total
		BTT*	Motor Vehicle Revenue license Fees	Excise Duty	Other**	Stamp Duty	Court Fines	
Western	18,000	29	3,869	812	2,125	15,214	905	22,955
Central	2,750	5	851	431	396	1,659	93	3,435
Southern	2,840	2	703	197	444	1,714	21	3,081
Northern	410	0	305	42	199	519	177	1,243
North Western	3,070	3	1,234	155	360	1,779	386	3,918
North Central	1,145	1	482	67	567	162	210	1,489
Uva	855	2	387	119	432	316	127	1,381
Sabaragamuwa	1,390	2	672	124	559	620	162	2,138
Eastern	940	0	455	82	283	434	135	1,389
<b>Total</b>	<b>31,400</b>	<b>44</b>	<b>8,960</b>	<b>2,028</b>	<b>5,364</b>	<b>22,417</b>	<b>2,216</b>	<b>41,029</b>

Source: Monthly Revenue Reports of provincial councils – 2016

\*Collection of due BTT up to 2010

\*\*Others include rents, interests, examination fees, sale of capital assets, betting tax etc.

The Finance Commission sets revenue collection targets mainly on the basis of GDP of the provinces and the amounts disbursed to the provinces from the national revenue in terms of the instructions set out in the Fiscal Policy Circular No 1/2010. Expected revenue collection from the devolved sources during the year 2017 is as follows (Table 19)



**Table 19: Devolved Revenue Forecast for 2017****(Rs.Mn)**

Province	Revenue Forecast Excluding Stamp duty and Court Fines			Revenue Forecast including Stamp Duty and Court Fines		
	Provincial Estimates	FC Forecast	%of Provincial share of FC Forecast	Provincial Estimates	FC Forecast	%of Provincial share of FC Forecast
Western	6,444	7,500	46	19,782	22,800	58
Central	1,615	1,629	10	2,965	3,314	8
Southern	1,305	1,500	9	2,838	3,175	8
Northern	484	545	3	1,002	1,068	3
North western	1,686	1,699	10	3,536	3,649	9
North Central	933	936	6	1,243	1,251	3
Uva	669	760	5	849	1,140	3
Sabaragamuwa	1,046	1,050	6	1,688	1,750	4
Eastern	569	700	4	950	1,175	3
<b>Total</b>	<b>14,751</b>	<b>16,319</b>	<b>100</b>	<b>34,853</b>	<b>39,322</b>	<b>100</b>

Source: Provincial budget estimates 2017 and Finance Commission

The main source of revenue of the Provincial Councils until the year 2010 was the Business Turnover Tax (BTT). However, with the abolition of the provincial BTT, (charged in addition to other similar national taxes, as a tax upon tax, creating a high tax burden, especially on Small and Medium Enterprises (SMEs) and consumers) an important revenue source to the provincial authorities was deprived.

## 6.2 Transfer of Government Revenue

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 namely 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.

- 33 1/3 % of the Nation Building Tax (NBT)
- 100 % of Stamp Duty
- 70% (instead of the earlier 60%) of Vehicle Registration Fees

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

**Table 20: NBT and Stamp Duty Dividing Percentages**

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

Based on the Fiscal Policy Circular No. 01/2010 issued by the Secretary to the Treasury on 29th December 2010, the transfer of the government revenue from 2015 to 2017 is as follows.

**Table 21: Transfer of Government Revenue (2015-2017)****(Rs. Mn)**

Province	2015		2016		2017	
	Target	Transfer	Target	Transfer	Target	Transfer (up to May 2017)
Western	18,960	15,785	17,568	18,248	22,080	10,089
Central	3,555	2,997	3,294	3,439	4,140	1,631
Southern	3,555	2,883	3,294	3,388	4,140	1,497
Northern	1,975	1,592	1,830	1,873	2,300	958
North Western	3,555	3,035	3,294	3,465	4,140	1,697
North Central	1,975	1,618	1,830	2,064	2,300	800
Uva	1,975	1,645	1,830	1,915	2,300	948
Sabaragamuwa	1,975	1,314	1,830	1,952	2,300	958
Eastern	1,975	1,643	1,830	1,924	2,300	958
<b>Total</b>	<b>39,500</b>	<b>32,513</b>	<b>36,600</b>	<b>38,267</b>	<b>46,000</b>	<b>19,538</b>

Source: Provincial Councils

# FINANCIAL HIGHLIGHTS OF THE PROVINCIAL AUDIT REPORTS

## 7.1 General Procedure

Audit of financial statements of the Provincial Councils is carried out by the Auditor General in terms of the provisions in Article 154 (1) of the Constitution of Democratic Socialist Republic of Sri Lanka and Section 23 (1) of the Provincial Councils Act. No .42 of 1987. Audit Reports of Provincial Councils are referred to the Governors of the respective Provincial Councils. The Governor in turn submits the above reports to the Provincial Council as per the financial regulations and then they need to be directed to the Provincial Public Accounts Committee (PPAC) along with observations.

On receipt of the provincial audit reports from the Auditor General, the Finance Commission makes the observations and such observations are sent to the respective Provincial Chief Secretaries.

## 7.2 Some Important Observations

Some important and general observations raised in the Provincial Audit Reports for the Financial Year 2015(2016 being audited) are given below

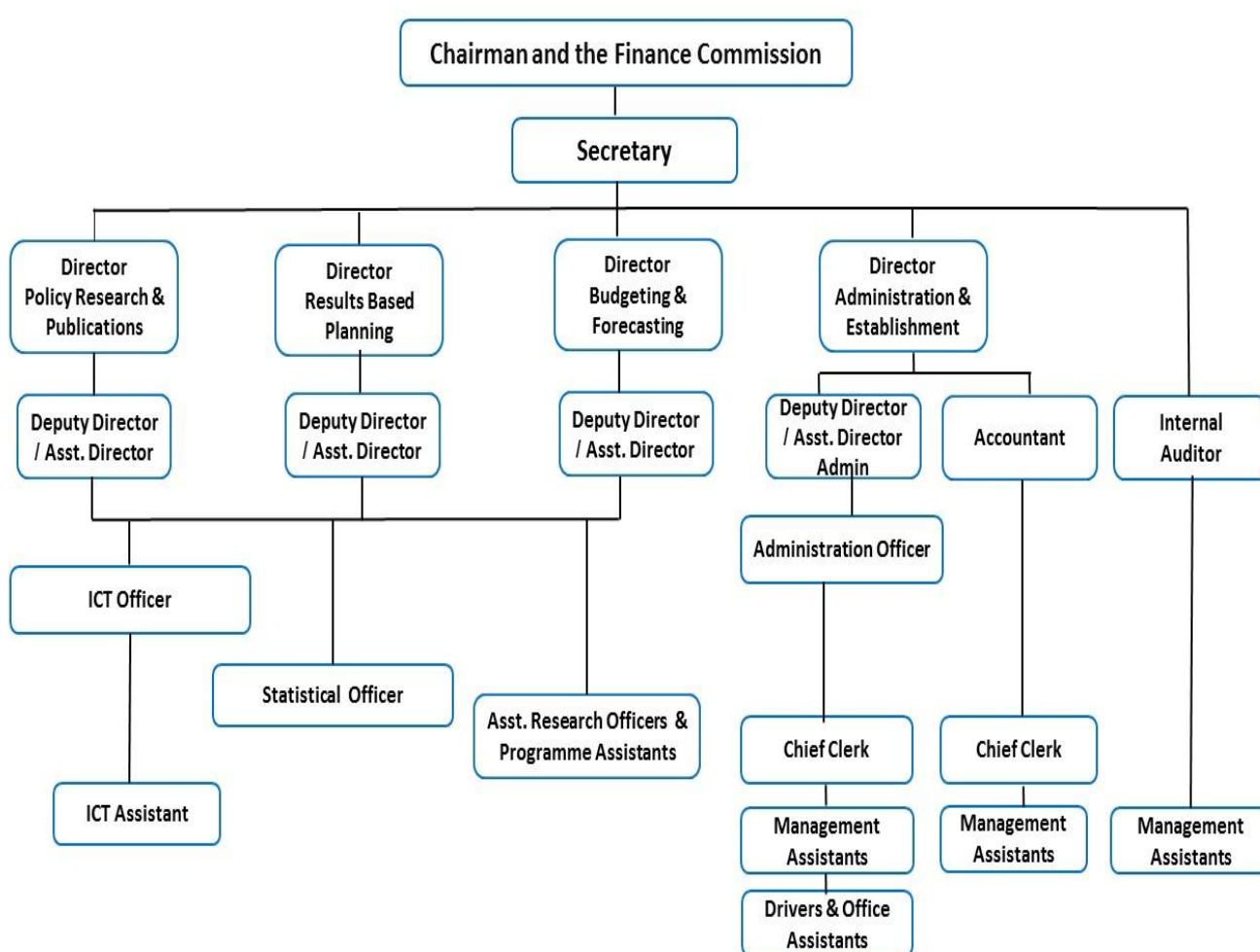
- Non-compliance with Laws, Rules, Regulations and Management Decisions
- Poor Revenue Management
- Management Inefficiencies
- Operating Inefficiencies
- Under-utilization of Assets
- Excess and Idle province staff
- Irregular Transactions
- Lack of Evidence for Audit
- Underutilization of Funds
- Inefficiencies in Vehicle Administration
- Non-availability of Action Plans and Procurement Plans
- Non-functioning of Management Audit Committee

# HUMAN RESOURCES MANAGEMENT

## 8.1 Organization Chart

The Commission recognized the importance of improved Human Resources in performing its intended tasks. The Strategic Plan already prepared has recognized the importance of having a sound organization structure. The existing Organizing Chart is given below.

**Figure 8: Organization Chart**



## 8.2 Staff of the Finance Commission

Figure 9: Living Cadre of the Finance Commission

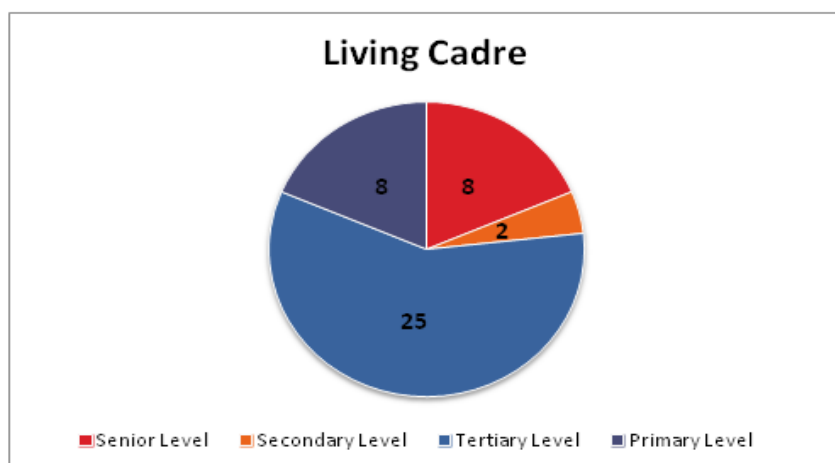


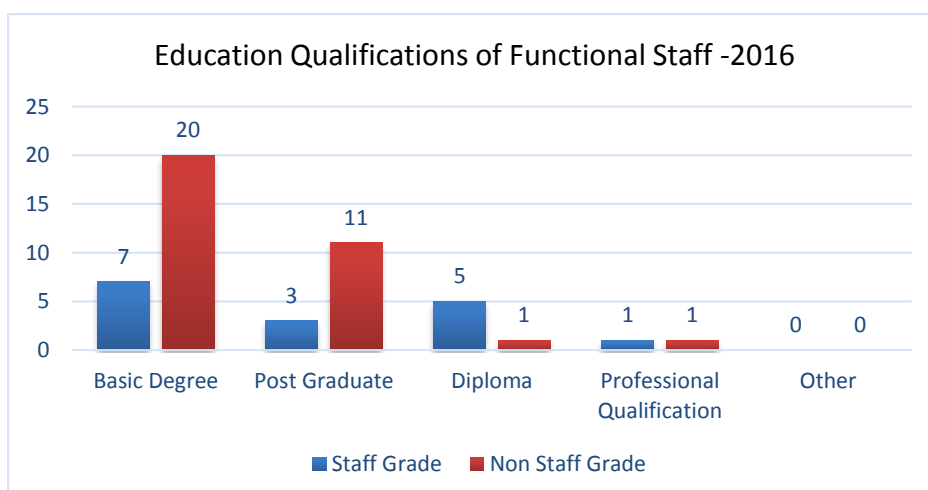
Table 22: Approved Cadre of the Finance Commission

Category	Approved Cadre	Living Cadre
Senior Level	16	8
Secondary Level	3	2
Tertiary Level	44	25
Primary Level	13	8
Total	76	43

Table 23: Education Qualifications of Functional Staff -2016

	Basic Degree	Post Graduate	Diploma	Professional Qualifications	Other
Staff Grade	7	3	5	1	0
Non-Staff Grade	20	11	1	1	0

Figure 10: Education Qualifications of Functional Staff- 2016



## 8.3 Capacity Development of the Officers

### Training Programmes - Foreign – 2016

The Finance Commission provides opportunities to build capacities of the staff at local and foreign training institutes. The following officers participated in foreign training programs in 2016.

**Table 24: Participants of the Foreign Training programmes - 2016**

Name	Programme	Country	Duration
MS.Erandi Gunasekara	Country Specific Fellowship Programme of Regional Development Policy	Korea	2016.04.04 - 2016.04.24
Mr.S.K.K Gaminda	The seminar on International Production Capacity Cooperation for “the belt and road” Asian Countries.	China	2016.04.06- 2016.04.26
Ms.Thiloka Abeysekara	Country Specific Fellowship Program of Strengthen Low Income Families through Women in Rural Area	Korea	2016.06.02 - 2016.06.18

### Foreign Training programmes

#### Country Specific Fellowship Programme of Regional Development Policy

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

#### The Seminar on International Production Capacity Cooperation for “the belt and road” Asian Countries

The seminar was funded by the Ministry of Commerce, of the People’s Republic of China. The objective of the seminar was providing awareness on “one belt one road concept which was referred to as China’s version of the Marshall Plan. The programme consisted of lectures, and field visits to share the knowledge among the participants who came from twelve countries.

#### Country Specific Fellowship Program of Strengthen Low Income Families through Women in Rural Area

This program was coordinated by the Korean International Cooperation Agency (KOICA). The main objective of this Programme was to develop women empowerment programs on capacity building for supporting farm management, businesses development and social activities in rural areas and share development experiences in gender development (GAD) and rural community development in Korea.

# FINANCIAL PERFORMANCE OF THE FINANCE COMMISSION

## 9.1 Financial Performance

The Finance Division of the Finance Commission is mainly responsible for securing financial resources disbursement, and ensuring proper management of finances. In 2016, the Finance Commission was allocated Rs.38.8 million and Rs.203.00 million for the recurrent and capital expenditure respectively. Rs.200 million was allocated for the construction of new building at Rajagiriya which is categorized as capital expenditure.

The utilization rate of the recurrent expenditure was 98% and utilization of capital expenditure was at a lower level of 35%. The utilization of the Capital expenditure was low due to the delay in commencing the construction work of the New Building at Rajagiriya.

As per P.A 252/2016 Circular, appropriation and all other accounts of the Finance Commission have been submitted to the Department of State Accounts and the Department of Auditor General before the due dates. The details on financial provisions, expenditure and financial performance of the Finance Commission for 2016 are given below.

**Table 25: Financial Provisions, Expenditure and Financial Performance – 2016**

Object Code	Description	Provision Rs. (000)	Transfers for FR Rs. (000)	Supplementary Rs. (000)	Net Grant Rs. (000)	Expenditure Rs. (000)	Financial performance Rs. (000)
<b>Recurrent</b>							
1001-1003	Personal Emoluments	21,300	310	5,007	26,617	26,338	99%
1101-1102	Travelling Expenses	2,150	- 1,990	-	160	124	78%
1201-1205	Supplies	1,650	140	-	1,790	1,643	92%
1301-1303	Maintenance	2,650	-	-	2,650	2,565	97%
1401-1405	Services	10,350	1,505	887	12,742	12,295	96%
1506	Transfers	700	35	-	735	717	98%
<b>Total</b>		<b>38,800</b>	<b>-</b>	<b>5,894</b>	<b>44,694</b>	<b>43,682</b>	<b>98%</b>
<b>Capital</b>							
2002-2003	Plant, Machinery and Equipment and Vehicles	800	-	-	800	-	0%
2102-2103	Furniture and Office Equipment	1,200	-	-	1,200	1,100	92%
2401	Training and Capacity Building	1,000	-	-	1,000	896	90%
2104	Building and structures	200,000	-	-	200,000	68,556	34%
		<b>203,000</b>	<b>-</b>	<b>-</b>	<b>203,000</b>	<b>70,552</b>	<b>35%</b>
<b>Grand Total</b>		<b>241,800</b>	<b>-</b>	<b>5,894</b>	<b>247,694</b>	<b>114,234</b>	<b>46%</b>

Source: Finance Commission

**Table 26: Advance Account Activities**

Description	Maximum limit to Expenditure Rs. (000)	Minimum limit of Receipts Rs. (000)	Maximum limit of Debit Balance Rs. (000)
Provision	3,000	700	12,000
Actual	2,298	1,290	6,386

*Source: Finance Commission*



## CHALLENGES AHEAD AND WAY FORWARD

**10.1** The 13th Amendment does not clearly stipulate the role and functions of the Finance Commission. Therefore, the Commission has experienced some difficulties in performing its constitutional mandate. Accordingly, it is important to enact an Act of Parliament to define the definite role and functions of the Commission.

**10.2** Capital projects are funded by PSDG and CBG and almost all the salaries and wages of Provincial Councils and Local Authorities are met by Block Grant. However, it is also noted that Provincial Councils and Local Authorities have the potentials for enhancing their revenue. In order to facilitate the revenue enhancing process of them, the overseeing function of the Commission should be further strengthened.

It is imperative that the provinces be directed to improve their revenue by tapping the devolved sources in an optimal manner. In this regard, the Finance Commission has identified the importance of having regular dialogue between the relevant agencies like the Presidential Secretariat, the General Treasury and the Department of Inland Revenue.

**10.3** All provinces have not been able to deploy their cadre in an optimal manner and this has created a burden on provincial recurrent budget. Furthermore, the high salaries and wages has also caused severe pressure on Government finance. As a result, the Government is compelled to limit the capital budget which can be used for development purposes. The role of the Finance Commission in managing the provincial cadre in a rational manner is somewhat limited due to weaknesses of the prevailing system of deploying staff.

It is also imperative to maintain an optimal cadre to suit provincial needs and there is a firm need to manage recurrent expenditure in a proper manner. Therefore, the Commission will guide the provinces to undertake assessments through comprehensive review on realistic cadre requirements with the technical support of the Department of Management Services and the Salary and the Cadre Commission.

**10.4** The human resources of the Commission does not meet the present day needs of provincial development. Also, the Commission does not have sufficient technically sound officers especially in the areas of regional development, finance, economics, taxation, law, and development planning. This requires urgent attention of the higher authorities and take prompt actions to rectify the shortcomings accordingly.

The Finance Commission has taken steps to prepare its Strategic Plan and it has identified the manpower resources to be deployed to arrest the existing short comings in human development.

- 10.5** The Commission needs to adhere to the National Language Policy of the Government. Hence important documents produced by the Commission need to be in Sinhala, Tamil and English. This involves translating of documents which is costly and time consuming. A position of a translator should be created to get this service done quickly.
- 10.6** Achieving balanced regional development is one of the main roles of the Finance Commission. This should be undertaken through an evidence based policy making process. In this task, availability of adequate data on resource allocations by the General Treasury as well as investment details of the private sector are crucial. At present, no sufficient data in this regard is available at the national and provincial level. Hence, the Finance Commission has to depend on limited socio-economic data of provinces, in making decisions. Therefore, the Commission needs to develop a sound data base and MIS linking the relevant institutions both at national and sub-national level.
- 10.7** The Finance Commission's recommendation in respect of Capital Budget is a small fraction of the total capital budget of the country. As such, the expected role of the Finance Commission in formulating principles for reducing regional disparities would not be achieved effectively. This requires urgent attention of the higher financial authorities.
- 10.8** Adhering to the constitutional mandate, the Finance Commission should make recommendations to allocate funds to the provinces from the Annual Budget of the General Treasury in order to achieve balanced regional development. Hence, recommendations have to be made by the Commission for fair allocation from the annual budget of line agencies focusing on balanced regional development. The Commission also needs to pay attention on developing a comprehensive method for apportioning of funds.
- 10.9** In the existing governance system, the Local Authorities have become the third tier. Since the major share of recurrent and capital budgets of Local Authorities is met by the Block Grant and PSDG, a strong vertical and horizontal relationship and coordination should be maintained at three levels namely national, provincial and local. This will reduce unnecessary duplication of work and wastage of public funds, particularly at sub – national level.
- 10.10** Public funds have to be managed by the provinces productively while facilitating private sector investments for small and medium enterprises. Public-Private Partnership programs (PPP), is important to minimize risk, and ensure productive use of public resources. Hence, the provinces are expected to promote PPP following the guide lines to be issued by the National Procurement Commission. In this exercise, the provinces need to be promoted to invest in infrastructure facilities which will facilitate the private investments.

# ANNEXURES

## Annexure i

### Provincial Revenue Sources

Provincial Revenue Sources as per 13 <sup>th</sup> Amendment	
NO. as per 13 <sup>th</sup> amendment	Source of Revenue
36.01	Turnover taxes on wholesale and retail sales within such limits and subject to such exemptions as may be made 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 Motor Traffic Act;
36.11	Department fees in respect of any of the matters specified in this list;
36.12	Fees under 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 right 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 law made by Parliament;

## Annexure ii

## Allocation Under Provincial Specific Development Grant (PSDG) -2016

(Rs.Mn)

No.	Sector	Total Allocation 2016	WP	CP	SP	NP	EP	NWP	NCP	Uva	Sab.
1	<b>Social Infrastructure</b>	16,241	1,922	2,235	1,465	1,971	1,979	1,946	1,565	1,433	1,725
1	General Education	8,765	1,091	1,250	775	969	1,080	1,080	820	705	995
1	Health	6,741	760	915	580	901	815	785	675	655	655
1.2.1	Western Medicine (Allopathy)	5,731	650	795	500	801	690	660	560	545	530
	1.2.1.1. Completion of partially constructed hospital buildings and maintenance of capital assets	2,302	345	310	200	327	260	260	200	200	200
	1.2.1.2. Provision of common facilities including staff quarters	1,134	80	180	104	170	140	130	115	115	100
	1.2.1.3. Purchasing & maintenance of medical equipment/ machinery	574	85	75	44	85	70	65	50	50	50
	1.2.1.4. Prevention & control of diseases	459	55	60	37	62	55	50	50	45	45
	1.2.1.5. Improving primary health care at MOH areas	458	30	60	41	57	65	55	55	50	45
	1.2.1.6. Improving OPD/ ETU/ dental and other clinics in divisional hospitals & base hospitals	456	30	60	44	57	60	55	55	45	50
	1.2.1.7. Other programmes related to western medicine	348	25	50	30	43	40	45	35	40	40
1.2.2	Indigenous Medicine (Including Ayurveda, Siddha & Unani)	1,010	110	120	80	100	125	125	115	110	125
	1.2.2.1. Conservation and promotion of traditional systems of medicine	202	22	24	16	20	25	25	23	22	25
	1.2.2.2. Development of herbal gardens and drug production	303	33	36	24	30	38	37	35	32	38
	1.2.2.3. Setting up of traditional medical services in underutilized hospitals/ other public buildings	202	22	24	16	20	25	25	23	22	25
	1.2.2.4. Maintenance of capital assets	149	16	18	12	15	18	18	16	18	18
	1.2.2.5. Other programmes related to indigenous medicine	154	17	18	12	15	19	20	18	16	19
1	Sports	180	20	20	18	22	20	20	18	20	22
1	Probation and Childcare	200	18	15	31	31	21	25	19	20	20
2	Social Services	200	16	17	44	30	26	19	16	16	16
2	Cultural and Religious Affairs	75	9	9	8	9	8	8	8	8	8
2	Housing	80	8	9	9	9	9	9	9	9	9

**Allocation Under Provincial Specific Development Grant (PSDG) -2016(Cont.)**

(Rs.Mn)

No.	Sector	Total Allocation 2016	WP	CP	SP	NP	EP	NWP	NCP	Uva	Sab.
2	<b>Economic Infrastructure</b>	8,834	752	1,195	617	998	1,068	1,050	1,059	1,103	989
2	Provincial Roads (C & D Category)	3,149	296	470	77	343	371	348	397	447	397
2	Estate Infrastructure	105	18	30	7	0	0	0	0	26	24
2	Transport	133	18	17	10	16	16	14	14	14	14
2	Land	30	3	5	3	3	2	2	2	5	5
3	Agriculture	1,952	125	260	192	240	230	245	221	227	212
3	Livestock	991	91	138	86	111	134	134	100	111	86
3	Tourism	429	49	60	40	50	60	50	40	40	40
3	Inland Fisheries	120	6	7	10	19	21	20	18	13	6
3	Irrigation	485	25	35	43	55	60	70	110	52	35
2	Rural Development	265	20	30	30	30	30	35	30	30	30
2.11	Small Industries	130	15	18	14	15	13	15	12	13	15
2.12	Rural Electrification	80	6	10	10	8	8	8	10	10	10
2.13	Integrated Projects for Balanced Regional Development	145	10	15	15	18	18	14	15	20	20
2.14	Development of Under-served Villages	820	70	100	80	90	105	95	90	95	95
3	<b>Local Government &amp; Community Services</b>	<b>1,861</b>	<b>210</b>	<b>244</b>	<b>154</b>	<b>220</b>	<b>240</b>	<b>210</b>	<b>204</b>	<b>190</b>	<b>189</b>
3	Local Government	1,831	207	241	151	216	237	206	201	186	186
	3.1.1.Local Authority Roads	880	100	110	60	100	100	100	110	100	100
	3.1.2.Community Water Supply	380	30	50	40	50	55	45	40	35	35
	3.1.3.Waste Management	380	50	55	35	45	55	40	30	35	35
	3.1.4.Other Local Authority Services	180	25	25	15	20	25	20	20	15	15
	3.1.5.Capacity Building of Municipalities	11	2	1	1	1	2	1	1	1	1
3	Co-operative	30	3	3	3	4	3	4	3	4	3
4	<b>Flexible Amount</b>	<b>90</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Total</b>		<b>27,026</b>	<b>2,894</b>	<b>3,684</b>	<b>2,246</b>	<b>3,199</b>	<b>3,297</b>	<b>3,216</b>	<b>2,838</b>	<b>2,736</b>	<b>2,913</b>

Source: Finance Commission

## Annexure iii

## Allocation and Release of Funds for Block Grant-2009-2016

(Rs. Mn)

Province	2009		2010		2011		2012		2013		2014		2015		2016	
	Allocation	Release	Allocation	Release	Allocation	Release	Allocation	Release	Allocation	Release	Allocation	Release	Allocation	Release	Allocation	Release
Western	2,923	2,749	6,100	6,100	8,979	8,979	9,011	8,894	8,502	9,691	11,699	11,699	18,842	18,842	21,743.8	21,741
Central	12,526	12,487	13,000	13,000	13,696	13,696	13,763	13,048	14,864	15,687	17,917	17,917	23,542	23,542	23,374.9	23,374
Southern	10,299	10,085	10,500	10,500	11,760	11,760	11,803	11,907	12,908	13,586	15,785	15,785	21,459	21,459	20,507.8	20,507
Northern	8,349	7,963	8,700	8,700	9,318	9,318	8,557	8,500	10,075	10,795	12,642	12,642	16,268	16,268	16,757.2	16,754
North Western	12,294	11,868	12,300	12,299	13,018	13,018	12,651	11,921	14,118	14,846	16,413	16,413	21,705	21,634	20,829.1	20,821
North Central	6,550	6,513	7,300	7,300	7,596	7,596	7,005	6,776	7,346	7,765	10,595	10,595	13,616	13,616	14,174.1	13,722
Uva	7,907	7,807	8,300	8,300	8,948	8,948	9,459	9,032	10,263	10,758	12,500	12,500	16,237	16,237	16,422.3	16,249
Sabaragamuwa	8,893	8,493	9,000	9,000	10,335	10,335	11,243	10,737	13,089	13,606	14,809	14,809	18,410	18,410	18,219.2	18,218
Eastern	9,891	9,421	10,100	10,100	10,952	10,952	11,385	10,737	11,635	12,066	13,783	13,783	17,475	17,475	17,166.1	16,996
<b>Total</b>	<b>79,631</b>	<b>77,386</b>	<b>85,300</b>	<b>85,299</b>	<b>94,602</b>	<b>94,602</b>	<b>94,877</b>	<b>91,552</b>	<b>102,800</b>	<b>108,800</b>	<b>126,143</b>	<b>126,143</b>	<b>167,554</b>	<b>167,483</b>	<b>169,194.6</b>	<b>168,382</b>

Note: Including Supplementary Allocation

Source: Annual Reports of the Finance Commission &amp; Impress for Provincial Council-2015

## Annexure iv

## Recommendation of Funds for Block Grant-2009-2016

Province	2009		2010		2011		2012		2013		2014		2015		2016	
	FC Recommendation	Government Allocation	FC Recommendation	Government Allocation	FC Recommendation	Government Allocation	FC Recommendation	Government Allocation	FC Recommendation	Government Allocation	FC Recommendation	Government Allocation	FC Recommendation	Government Allocation	FC Recommendation	Government Allocation
Western	1,923	2,923	6,100	8,979	7,170	8,979	9,011	9,011	8,502	8,502	11,234	11,609	15,993	18,842	21,744	21,743.8
Central	12,176	12,526	13,000	13,696	13,270	13,696	13,763	13,763	14,864	14,864	17,628	17,917	22,304	23,542	23,375	23,374.9
Southern	10,298	10,299	10,500	11,172	11,172	11,760	11,803	11,803	12,908	12,908	15,511	15,785	20,333	21,459	20,508	20,507.8
Northern	8,349	8,349	8,400	9,318	9,153	9,318	8,557	8,557	10,075	10,075	12,552	12,642	15,598	16,268	16,757	16,757.2
North Western	12,294	12,294	12,300	13,018	12,656	13,018	12,651	12,651	14,118	14,118	13,595	16,413	21,302	21,705	20,823	20,829.1
North Central	6,270	6,550	7,300	7,596	7,386	7,596	7,005	7,005	7,346	7,346	16,413	10,595	13,262	13,616	12,957	14,174.1
Uva	7,907	7,907	8,300	8,897	8,897	8,948	9,459	9,459	10,263	10,263	10,436	12,500	15,503	16,237	16,422	16,422.3
Sabaragamuwa	8,893	8,893	9,000	10,335	9,823	10,335	11,243	11,243	13,088	13,088	12,312	14,809	18,196	18,410	18,219	18,219.2
Eastern	9,891	9,891	10,100	10,952	10,473	10,952	11,385	11,385	11,635	11,635	14,606	13,783	16,896	17,475	16,997	17,166.1
<b>Total</b>	<b>78,001</b>	<b>79,631</b>	<b>85,000</b>	<b>94,602</b>	<b>90,000</b>	<b>94,602</b>	<b>94,877</b>	<b>94,877</b>	<b>102,799</b>	<b>102,799</b>	<b>124,287</b>	<b>126,143</b>	<b>159,387</b>	<b>167,554</b>	<b>167,802</b>	<b>169,194.6</b>

Note: Including Supplementary Allocation

Source : Annual Reports of the Finance Commission: FC Recommendation in 2015 to H/E Annex 01 &amp; Impress for provincial Council-2015

## Annexure v

## Total Cadre of the Provinces -2009 – 2016

Province	2009	2010	2011	2012	2013	2014	2015	2016 ** Living
Western	51,979	52,402	52,133	53,288	56,067	54,074	55,962	56,691
Central	40,745	39,910	41,311	39,849	39,284	39,775	41,494	42,394
Southern	35,398	35,365	35,509	35,390	34,785	35,950	38,936	37,331
Northern	23,599	23,607	24,146	23,679	24,485	27,061	26,631	28,604
North Western	38,370	38,370	38,499	38,269	41,031	38,740	39,481	41,414
North Central	22,689	23,214	21,613	21,316	20,483	21,316	22,934	24,595
Uva	25,104	28,287	27,940	27,354	26,926	27,133	26,176	30,659
Sabaragamuwa	29,271	27,166	27,723	28,068	29,038	31,239	30,364	34,644
Eastern	29,559	29,341	29,906	29,559	29,534	28,884	30,125	30,696
Total	296,714	297,662	298,780	296,772	301,633	304,172	312,103	327,028

Source: Provincial Budget Estimate and Annual Reports of the Finance Commission

Note : \*\* Excluding Cadre of the Local Government Authorities and the Vacancies

## Annexure vi

## DMS Approved Cadre of the Provinces

Province	2013.01.31	2015.05.26	2016.12.31
Western	60,658	60,994	60,357
Central	44,888	45,372	46,197
Southern	41,841	42,769	42,186
Northern	28,101	29,515	31,490
North Western	42,944	47,558	47,818
North Central	26,783	27,211	27,213
Uva	29,170	32,102	29,863
Sabaragamuwa	31,178	33,318	35,453
Eastern	30,927	32,336	32,301
Total	336,490	351,175	352,878

Source: DMS Cadre review books



## Annexure vii

## Criteria Based Grant 2009-2016

(Rs. Mn)

Province	2009					2010				
	Recommended	%	Actual Expenditure	%	Actual Release	%	Recommended	%	Actual Expenditure	%
Western	509.69	14.36	3551.29	44.12	375.00	16.48	450.00	14.63	3120.04	40.29
Central	446.42	12.58	559.21	6.95	306.35	13.46	410.00	13.33	579.64	7.48
Southern	425.99	12.00	375.00	4.66	230.00	10.11	350.00	11.38	1272.27	16.43
Northern	331.62	9.34	277.46	3.45	240.78	10.58	300.00	9.76	299.43	3.87
North Western	369.63	10.41	287.58	3.57	272.10	11.96	300.00	9.76	279.78	3.61
North Central	296.84	8.36	314.61	3.91	136.60	6.00	260.00	8.46	402.71	5.20
Uva	372.63	10.50	2071.26	25.73	206.30	9.07	300.00	9.76	1156.95	14.94
Sabaragamuwa	415.63	11.71	368.72	4.58	311.49	13.69	380.00	12.36	366.81	4.74
Eastern	381.50	10.75	244.44	3.04	197.00	8.66	325.00	10.57	266.59	3.44
<b>Total</b>	<b>3549.95</b>	<b>100.00</b>	<b>8049.57</b>	<b>100.00</b>	<b>2275.62</b>	<b>100.00</b>	<b>3075.00</b>	<b>100.00</b>	<b>7744.22</b>	<b>100.00</b>

Province	2011					2012				
	Recommended	%	Actual Expenditure	%	Actual Release	%	Recommended	%	Actual Expenditure	%
Western	700.00	16.83	2939.94	42.60	660.00	17.12	427.00	14.12	5465.52	54.41
Central	375.00	9.01	439.70	6.37	337.30	8.75	400.00	13.22	359.27	3.58
Southern	325.00	7.81	727.00	10.53	292.00	7.57	347.00	11.47	687.79	6.85
Northern	275.00	6.61	261.80	3.79	247.33	6.42	294.00	9.72	208.92	2.08
North Western	300.00	7.21	287.38	4.16	270.00	7.00	320.00	10.58	180.61	1.80
North Central	1300.00	31.25	1338.70	19.40	1277.00	33.13	293.00	9.69	272.84	2.72
Uva	300.00	7.21	356.80	5.17	240.00	6.23	320.00	10.58	2227.09	22.17
Sabaragamuwa	335.00	8.05	321.41	4.66	301.33	7.82	357.00	11.80	291.96	2.91
Eastern	250.00	6.01	229.33	3.32	230.00	5.97	267.00	8.83	350.89	3.49
<b>Total</b>	<b>4160.00</b>	<b>100.00</b>	<b>6902.06</b>	<b>100.00</b>	<b>3854.96</b>	<b>100.00</b>	<b>3025.00</b>	<b>100.00</b>	<b>10044.87</b>	<b>100.00</b>

## Criteria Based Grant 2009-2016(Cont.)

Province	2013					2014					(Rs. Mn)				
	Recommended	%	Actual Expenditure	%	Actual Release	%	Recommended	%	Actual Expenditure	%	Actual Release	%	Actual Release	%	%
Western	370.00	15.48	5,055.00	62.18	370.00	16.34	925.00	23.87	5,857.00	56.76	292.50	13.42			
Central	321.00	13.43	314.00	3.86	192.60	8.51	430.00	11.10	382.00	3.70	129.00	5.92			
Southern	295.00	12.34	479.00	5.89	177.00	7.82	380.00	9.81	1,046.00	10.14	255.00	11.70			
Northern	195.00	8.16	194.00	2.39	195.00	8.61	280.00	7.23	391.00	3.79	280.00	12.84			
North Western	270.00	11.30	246.00	3.03	162.00	7.16	504.50	13.02	506.00	4.90	290.00	13.30			
North Central	230.00	9.62	1,011.00	12.44	742.00	32.77	330.00	9.03	867.00	8.40	192.50	8.83			
Uva	240.00	10.04	416.00	5.12	144.00	6.36	330.00	8.52	410.00	3.97	179.00	8.21			
Sabaragamuwa	252.00	10.54	239.00	2.94	151.20	6.68	335.00	8.65	534.00	5.18	335.00	15.37			
Eastern	217.00	9.08	175.00	2.15	130.20	5.75	340.00	8.78	325.00	3.15	227.00	10.41			
<b>Total</b>	<b>2,390.00</b>	<b>100.00</b>	<b>8,129.00</b>	<b>100.00</b>	<b>2,264.00</b>	<b>100.00</b>	<b>3,874.50</b>	<b>100.00</b>	<b>10,318.00</b>	<b>100.00</b>	<b>2,180.00</b>	<b>100.00</b>	<b>2,180.00</b>	<b>100.00</b>	<b>100.00</b>

Province	2015					2016					(Rs. Mn)				
	Recommended	%	Actual Expenditure	%	Actual Release**	%	Recommended	%	Actual Expenditure	%	Actual Release	%	Actual Release	%	%
Western	525.00	13.87	314.51	6.90	2,286.20	12.99	460.00	11.50	432.97	9.64	200.00	6.59			
Central	500.00	13.21	382.00	8.38	1,890.00	10.74	423.00	10.58	352.67	7.85	116.51	3.84			
Southern	385.00	10.17	766.17	16.80	1,990.00	11.31	413.00	10.33	315.25	7.02	368.84	12.15			
Northern	400.00	10.57	379.23	8.32	1,840.00	10.46	475.00	11.88	123.96	2.76	437.00	14.40			
North Western	425.00	11.23	158.06	3.47	1,750.00	9.94	375.00	9.38	443.58	9.87	360.00	11.86			
North Central	375.00	9.91	1,056.27	23.16	2,217.00	12.60	400.00	10.00	372.69	8.30	400.00	13.18			
Uva	375.00	9.91	463.80	10.17	1,725.00	9.80	475.00	11.88	1,272.66	28.33	415.00	13.67			
Sabaragamuwa	400.00	10.57	686.00	15.04	2,437.24	13.85	514.00	12.85	631.95	14.07	293.12	9.66			
Eastern	400.00	10.57	354.12	7.77	1,462.00	8.31	465.00	11.63	547.14	12.18	445.00	14.66			
<b>Total</b>	<b>3,785.00</b>	<b>100.00</b>	<b>4,560.16</b>	<b>100.00</b>	<b>17,597.44</b>	<b>100.00</b>	<b>4,000.00</b>	<b>100.00</b>	<b>4,492.87</b>	<b>100.00</b>	<b>3,035.47</b>	<b>100.00</b>	<b>3,035.47</b>	<b>100.00</b>	<b>100.00</b>

\*\* Actual Release for 2015 is PSDG + CBG

## Annexure viii

DGSA I

**Appropriation Account - 2016**

Name of Ministry / Department / District Secretariat: Finance Commission

Expenditure Head No: 11

Programme Number given in Annual Estimates	Title of the Programme given in Budget Estimates	(1) Provision in Budget estimates Rs.	(2) Supplementary Provision and Supplementary Estimate Allocation Rs.	(3) Transfers in terms of F.R.66 and F.R.69 Rs.	(4) Total Net Provision (1+2+3) Rs.	(5) Total Expenditure Rs.	(6) Net Effect Savings/(Excesses) (4-5) Rs.	Page No. (Reference to relevant DGSA 2 format)
	<b>Recurrent</b>	38,800,000	5,894,000	2,736,000	44,694,000	43,681,906	1,012,094	3
	<b>Sub Total (Recurrent)</b>	38,800,000	5,894,000	(2,736,000)	44,694,000	43,681,906	1,012,094	
	<b>Capital</b>	203,000,000		240,000	203,000,000	70,551,750	132,448,250	4
	<b>Sub Total (Capital)</b>	203,000,000		(240,000)	203,000,000	70,551,750	132,448,250	
	<b>Grand Total</b>	241,800,000	5,894,000	0	247,694,000	114,233,656	133,460,344	

Detailed Accounting Statements in DGSA format Numbers 2 to 10 presented in pages from ...02..... to .....16..... and other Notes presented in pages from .....17..... to .....21..... are integral parts of this Appropriation Account. We hereby certify that the figures in this account, other detailed Statements and Notes are correct and relevant accounts were reconciled with Accounts were reconciled with Treasury Books of Accounts and found correct.

Chief Accounting Officer

Name :

Designation :

Date : 28/3/2017

**A. T. M. U. D. B. Tennakoon**  
Secretary  
Finance Commission

Accounting Officer

Name :

Designation :

Date :

Chief Financial Officer/Chief Accountant/Director (Finance)/ Commissioner

Name : Dilini Sandareka Gunawardena

Designation : Accountant

Date : 28/3/2017

**D. S. Gunawardena**  
Accountant  
Finance Commission  
48, Vajira Road,  
Colombo - 04.

# STAFF OF THE FINANCE COMMISSION

## ICT Officer

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## Statistical Officer

Mrs.R.M.D.Nimali Rathnayake

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Mrs.M.C.Damayanthi

Mrs.P.Indradevi

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Mrs.A.R.Marina

Mrs.R.R.Ranasighe

Mrs.S.Y.Dissanayake

Mr.S.K.K.Gaminda

Mrs.W.P.C.R.P.Hangamporuwa

Mrs.D.D.Janaki Kumari

Mr.M.B.M.A.Bandara

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Mrs.Navodani Abeysooriya

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## Public Management Assistant

Mr.Lakshman Ileperuma

Mr.D.K.D.Kannangara

Mrs.Sumudu Idampitiya

Mrs.P.A.Vinodani De Silva

Mr.J.B.A.Ajith

Mrs.Pushpa Kaluarchchi

Mrs.P.Gamage

Mrs.Wijitha Abeywikrama

Mr.G.G.Samarabandu

## ICT Assistant

Mrs.Y.B.M.A.K.Yapa Bandara

## Management Assistant

Mrs.Nishani Ranasinghe

Mrs.Chandrika Attygalle