



THE FINANCE COMMISSION

RECOMMENDATIONS TO H.E. THE PRESIDENT

On

APPORTIONMENT OF FUNDS BETWEEN THE PROVINCES 2019

(In terms of the Article 154R (4) of the Constitution)

September 2018



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(அரசியலமைப்பின் 154-er ஆய்வு உறுப்பினரின் கீழ் தாபிக்கப்பட்டது)

FINANCE COMMISSION

(Established under Article 154 R of the Constitution)

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Your No

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திகதி
Date

28.09.2018

His Excellency Maithripala Sirisena
President of the Democratic Socialist Republic of Sri Lanka
Presidential Secretariat
Colombo 01

Your Excellency,

In terms of the Article 154 R (4) of the 13th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka, I hereby submit the Recommendations pertaining to provincial capital and recurrent needs for 2019, including the proposed strategies to achieve balanced regional development in the country.


The Recommendations shall be laid before Parliament in terms of the article 154 R (7) of the Constitution and the action taken thereon shall be notified to Parliament.

It should however be mentioned that the Recommendations made by the Finance Commission represent the Block Grant for Personal Emoluments and Other Recurrent Expenditure (net of Provincial Revenue) in respect of Provincial Council and Local Authorities.

In relation to Capital Expenditure, the Recommendations cover only PSDG (Provincial Specific Development Grant), CBG (Criteria Based Grant) and RPG (Revenue Performance Grant) and not any allocations made by line ministries which allocate funds directly for various projects in the provinces.

The Finance Commission has already addressed these deficiencies in planning and made recommendations in this regard in the Commission submission last year and currently working with the Ministry of National Policies and Economic Affairs and relevant line ministries in order that the Provisions under Article (1) 154 R (4) would be met eventually.

Yours respectfully,


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Chairman
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1. Introduction

The Finance Commission hereby submits its recommendations to H. E. the President with respect to the principles on which funds allocated by the Government for 2019 be apportioned between the Provinces.

In the process of preparation of these recommendations, the financial needs requested by the Provinces were reviewed with the Provinces and the agreed financial requirements have been apportioned in a rational manner in line with the Constitutional mandate of the Commission.

Following the Finance Commission's experience with nearly 30 years of track record, other policy recommendations to be taken into account leading to balanced regional development of the country are also submitted.

The Finance Commission expects that adequate funds will be transferred by the Government as per determined needs of the Provinces. Furthermore, this report draws the attention of the Government to the policy recommendations given herewith in order to achieve higher socio-economic standards of the people with minimal regional disparities.

2. Establishment of the Finance Commission

The Finance Commission (FC) was established in 1987 by the Thirteenth Amendment to the Constitution of Democratic Socialist Republic of Sri Lanka, to facilitate the devolution process introduced under the provincial council system Article, 154R. (1) to (8) of the Constitution deals with the composition, role and functions of the FC.

3. Mandate of the Finance Commission

Article 154R. (3): 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.

Article 154R. (4) (a): It shall be the duty of the Commission to make recommendations to the President as to - the principles on which such funds are granted by the Government annually for the use of Provinces, should be apportioned between the various Provinces.

Article 154R. (5): The Commission shall formulate such principles with the objective of achieving balanced regional development in the country, and shall accordingly take into account - (a) the population of each Province; (b) the per capita income of each Province; (c) the need, progressively,

to reduce social and economic disparities; and (d) the need, progressively, to reduce the difference between the per capita income of each Province and the highest per capita income among the Provinces.

Article 154 R (7) of the Constitution requires that “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”.

4. Legal Provisions on Devolution of Power in Sri Lanka

4.1. Thirteenth Amendment to the Constitution

The enactment of the Thirteenth Amendment to the Constitution created three distinctive tiers of governance, i.e. the Central Government, Provincial Councils and Local Authorities. Accordingly, Devolved governance was established by demarcating the areas of legislative, executive and financial authority to be exercised by Provincial Councils. The subject content of powers between the centre and the Provinces is specified in the three lists given in the Thirteenth Amendment, as the Reserved List (powers of the center), the Provincial Councils List (powers devolved to the Provincial Councils) and the Concurrent List (subjects of shared responsibilities).

The list of provincial subjects is extensive and covers subjects such as Education and Educational Services, Local Government, Provincial Housing and Construction, Roads and Bridges and Ferries, Social Services and Rehabilitation, Agriculture and Agrarian Services, Rural Development, Health, Indigenous Medicine, Food Supply and Distribution, Cooperatives, Land, Irrigation, Animal Husbandry, Entertainment and Sports etc.

The Provincial List also includes the sources of revenue to be collected by the Provincial Councils and these revenue sources refer to different types of taxes and fees explained under the Section 7 of this report. It is expected that the Provincial Councils utilize the revenues collected to meet the provincial financial requirements.

As per the Article 5 of the Thirteenth Amendment to the Constitution, with regard to any matter set out in Concurrent List, Parliament may make laws in consultation with all Provincial Councils as Parliament may consider their appropriateness in the circumstances of each case or in alternative matter on the Concurrent List, subject to the provisions of the Constitution, every Provincial Council may make statutes applicable in consultation with Parliament as it may consider appropriate in the circumstances of each case.

The Government shall allocate adequate funds for the purpose of meeting the needs of the provinces from its annual budget on the recommendation of the Finance Commission.

Thirteenth Amendment to the Constitution sets out the legislative basis for the following;

- i. Establishment of Provincial Councils
- ii. The appointment of the Governors of Provinces
- iii. Membership and tenure of Provincial Councils
- iv. The appointment and powers of the Board of Ministers
- v. The legislative powers of the Provincial Councils
- vi. Alternative arrangements when failures occur in the administrative machinery
- vii. The establishment of the High Courts of the Provinces
- viii. The establishment of the Finance Commission

4.2. The Provincial Councils Act No 42 of 1987

Provincial Councils Act No. 42 of 1987 provides the procedures to be followed by Provincial Councils in relation to;

- i. Membership of Provincial Councils
- ii. Meetings and conduct of business in Provincial Councils
- iii. Financial procedures of Provincial Councils
- iv. Establishment of Provincial Public Service Commission

4.3. Nineteenth Amendment to the Constitution

The Nineteenth Amendment to the Constitution of Sri Lanka was enacted in May 2015. The Chairman and members of the Commissions referred to in Article 41B shall be appointed by the President under recommendations of the Constitutional Council. The Finance Commission is included in the list of nine Commissions under the Schedule to the said Article, and it is responsible and answerable to Parliament.

4.4. Legal Basis for Local Authorities

The Local Government became a devolved subject of the Provincial Councils, under the Thirteenth Amendment to the Constitution in 1987. Subject of Local Government operates under three legal entities namely Municipal Councils, Urban Councils and Pradeshiya Sabhas. Currently, there are 24 Municipal Councils, 41 Urban Councils and 276 Pradeshiya Sabhas in Sri Lanka.

The Local Government is the third and lowest tier of the Government in Sri Lanka. Local Authorities are responsible for providing a variety of local public services including roads, sanitation, drains, housing, libraries, public parks and recreational facilities.

The Provincial Councils are entrusted with power of supervision of Local Authorities including the power of dissolution. However, the constitutional amendments ensure that Local Authorities to have powers under the respective Statutes, Ordinances and Acts.

4.4.1 Municipal Councils

The Municipal Councils Ordinance No: 16 of 1947 list the powers of Municipal Councils. There are more than 40 amendments to the Municipal Councils Ordinance. An Urban area can be declared as a Municipal Council, based on factors such as revenue, population, road network, industrialization and communication.

4.4.2 Urban Councils

The powers of Urban Councils are specified in the Urban Council Ordinance No: 61 of 1939. There are 44 amendments to the Urban Council Ordinance.

Duties of Municipal and Urban Councils could be summarized as follows;

(a) Maintaining and cleaning all public streets and open spaces vested in the Council or committed to its management (b) Enforcing the proper maintenance, cleanliness and repair of all private streets; (c) Supervising and providing for the growth and development of their area of jurisdiction by planning and widening of streets, the reservation of open spaces, and the execution of public improvements; (d) Abating all nuisances (e) Establishing and maintaining (subject to the extent of its resources) any public utility service authorized under this Ordinance and which is required for the welfare, comfort or convenience of the public (f) Promoting the public health, welfare and convenience, and the development of sanitation and amenities of the council areas.

4.4.3 Pradeshiya Sabhas

The Pradeshiya Sabhas were established by the Pradeshiya Sabha Act No: 15 of 1987 in place of Town Councils and Village Councils which existed as local authorities previously.

The Pradeshiya Sabhas have powers relating to public health, public utility services and public thoroughfares and the protection and promotion of the comfort, convenience and welfare of the people and all amenities within the area.

According to the Local Authority legislations, any Local Authority is empowered to establish a Local Authority Fund for its financial purposes such as Municipal Council Fund, Urban Council Fund and Pradeshiya Sabha Fund. These legislations empower Local Authorities to take necessary action to ensure that revenue generation takes place according to the needs of the Local Authorities.

5. Transferring Funds to the Provinces

The Constitution requires adequate funds to be provided to meet the financial needs of the Provinces, and at the same time, that such funds be apportioned amongst the Provinces with the objective of achieving balanced regional development. In this regard, the role of the Finance Commission is twofold.

- a. Determine the fiscal needs of the Provinces based on the analysis of the needs submitted by the Provincial Councils giving due consideration to national policy directives and priorities. Currently, the determination of the Provincial needs is limited to the information provided by the Provincial Councils. The Commission recommends such needs to the Government with regard to allocation of funds from the Annual Budget to meet their needs, considering the availability of funds.
- b. Apportion such funds among the Provinces with the objective of achieving balanced regional development.

The apportionment of funds allocated in the above manner is expected to reduce inter and intra provincial disparities. The process of allocation and apportionment of funds to the Provinces is carried out in the following forms.

5.1. Block Grant

Block Grant is meant to meet recurrent expenditure needs of the Provinces for the purpose of sustaining and improving the service delivery system. The Salaries and wages of provincial staff

constitute the major category of recurrent expenditure for the approved cadre by the Management Services Department (MSD). Accordingly, the assessment of salaries and wages is confined to the approved cadre. The Block Grant also includes transfers to Local Authorities to meet expenditure with regard to their reimbursement of allowances to members and salaries and wages of the staff.

Presently, a large proportion of this grant is used for the payment of salaries and wages of the approved cadre while the payment of allowances for the contracted employees is expected to be met by the collected revenue. The Block Grant allocations and the release for the period from 2014 to 2018 are given in the Table 5.1.

Table 5.1: Allocations and Release of Block Grant 2014 – 2018

(Rs. Mn)

Province	2014		2015		2016		2017		2018
	Allocation	Release	Allocation	Release	Allocation	Release	Allocation	Release	Allocation
Western	11,699	11,699	18,842	18,842	21,743.80	21,741	15,090.98	14,989	14,261
Central	17,917	17,917	23,542	23,542	23,374.90	23,374	23,319.63	23,233	25,383
Southern	15,785	15,785	21,459	21,459	20,507.80	20,507	21,032.82	21,084	22,858
Northern	12,642	12,642	16,268	16,268	16,757.20	16,754	17,077.53	17,034	18,651
North Western	16,413	16,413	21,705	21,634	20,829.10	20,821	21,866.19	21,788	21,991
North Central	10,595	10,595	13,616	13,616	14,174.10	13,722	13,828.65	13,686	14,707
Uva	12,500	12,500	16,237	16,237	16,422.30	16,249	16,114.89	15,971	15,711
Sabaragamuwa	14,809	14,809	18,410	18,410	18,219.20	18,218	19,350.28	19,281	21,441
Eastern	13,783	13,783	17,475	17,475	17,166.10	16,996	18,667.53	18,430	19,751
Total	126,143	126,143	167,554	167,483	169,195	168,382	166,349	165,497	174,755

Source: Finance Commission and the General Treasury

5.2. The Province Specific Development Grant (PSDG)

This grant is meant for financing capital nature development projects paying special attention to infrastructure development under different devolved subjects. Upon the receipt of provincial development plans, they are reviewed and consensus is reached with some revisions based on the discussions with provincial authorities. The Provincial Development Plans should be aligned with the National policy Framework while addressing provincial needs. For each investment, measurable results (output, outcome) need to be identified in the form of pre-defined indicators to

facilitate periodical monitoring and evaluation of achievements, adopting a Results Based Monitoring and Evaluation System.

The recommended allocations under PSDG, supplementary allocations and released amounts from the year 2016 to 2018 are given in Table 5.2.

Table 5.2: Allocations and Release of Province Specific Development Grant 2016 – 2018

(Rs. Mn.)

Province	2016			2017			2018	
	Allocation	Supplementary Allocation	Released	Allocation	Supplementary Allocation	Released	Allocation	Supplementary Allocation up to June
Western	2,894.10	534.31	1,400.00	764.86	2,194.10	900.00	1,306.09	1537.00
Central	3,684.30	42.00	1,352.93	1,168.93	2,538.23	1,900.00	1,996.11	
Southern	2,246.30	159.00	874.38	1,167.73	2,310.09	2,278.35	1,994.05	
Northern	3,199.30	39.00	1,800.00	1,657.18	4,109.64	3,620.50	2,829.87	124.00
North Western	2,838.30	00	1,550.00	1,447.93	1,711.26	2,365.00	2,096.73	
North Central	2,736.30	220.00	1,100.00	1,682.44	1,871.33	2,559.60	2,472.54	
Uva	2,913.30	00	1,042.34	1,364.95	1,381.98	2,410.00	2,872.99	300.00
Sabaragamuwa	3,297.30	85.00	1,510.00	1,544.14	1,870.96	1,964.99	2,330.84	300.00
Eastern	3,216.30	00	1,505.00	1,227.86	1,432.47	2,252.00	2,636.83	222.00
Total	27,025.50	1,079.31	12,134.65	12,026.02	19,420.06	20,250.44	20,536.08	2483.00

Source: Finance Commission and the General Treasury

In 2017 and 2018 the allocated PSDG for each Province was invested on different sectors as depicted in the Table 5.3. Sectoral allocation was determined by the sector weightages presented by each Province. In 2017 and 2018 a larger proportion of allocation was for Education (19.3%, 19.6% respectively), Health (20.7%, 22.4% respectively) and Roads (20.4%, 16.1% respectively) sectors and a considerable amount has been allocated to Agriculture, Livestock, and Irrigation and Local Government sectors.

Table 5.3: Allocation of Provincial Specific Development Grant - 2017 and 2018

Sector	2018 (Rs. Mn.)	%	2017 (Rs. Mn.)	%
Economic Infrastructure	9,377	52.06	5,625	51.66
Provincial Roads	3,670	20.38	1,754	16.11
Estate infrastructure	149	0.83	77	0.71
Transport	245	1.36	182	1.67
Land	68	0.38	31	0.28
Agriculture	1,017	5.65	800	7.35
Livestock	720	4.00	447	4.11
Inland Fisheries	210	1.17	136	1.25
Irrigation	775	4.30	426	3.91
Rural Development	340	1.89	230	2.11
Small Industries	298	1.65	174	1.60
Rural Electrification	205	1.14	77	0.71
Tourism	435	2.42	295	2.71
Local Government	1,245	6.91	996	9.15

Sector	2018 (Rs. Mn.)	%	2017 (Rs. Mn.)	%
Social Infrastructure	8,635	47.94	5,263	48.34
Education	3,480	19.32	2,140	19.65
Western Medicine	3,075	17.07	2,120	19.47
Indigenous Medicine	650	3.61	320	2.94
Sports	192	1.07	114	1.05
Probation and Childcare	685	3.80	250	2.30
Social Services	270	1.50	149	1.37
Cultural and Religious Affairs	147	0.82	74	0.68
Housing	118	0.66	67	0.62
Co-operative	18	0.10	29	0.27
Total	18,012	100	10,888	100
<i>Projects under Flexible Amount</i>	494		108	
<i>Grant for Villages with Special Needs</i>	2,030		1,030	
Grand Total	20,536		12,026	

5.3 The Criteria Based Grant (CBG)

Similar to PSDG, Criteria Based Grant (CBG) is to meet the capital expenditure for improving socio-economic conditions in the provinces in a manner that contributes towards reducing regional disparities. The funds provided under this grant are available to the provinces for discretionary spending on development. However, the provinces are required to use CBG, adhering to the guidelines given by the Finance Commission.

The recommended CBG allocations and releases from the year 2014 to 2018 are given in Table 5.4.

Table 5.4: Allocation and Release of Criteria Based Grant 2014 – 2018

(Rs. Mn.)

Province	2014		2015		2016		2017		2018
	Allocation	Released	Allocation	Released*	Allocation	Released	Allocation	Released	Allocation
Western	475.00	292.50	525.00	2,286.20	460.00	200.00	254.40	100.00	254.40
Central	430.00	129.00	500.00	1,890.00	423.00	116.51	388.80	200.00	388.80
Southern	380.00	255.00	385.00	1,990.00	413.00	368.84	388.40	400.00	388.40
Northern	280.00	280.00	400.00	1,840.00	475.00	437.00	551.20	589.20	551.20
North Western	350.00	192.50	375.00	2,217.00	400.00	400.00	481.60	300.00	408.40
North Central	330.00	119.00	375.00	1,725.00	475.00	415.00	559.60	315.00	481.60
Uva	335.00	335.00	400.00	2,437.24	514.00	293.12	454.00	431.74	559.60
Sabaragamuwa	340.00	227.00	400.00	1,462.00	465.00	445.00	513.60	500.00	454.00
Eastern	350.00	290.00	425.00	1,750.00	375.00	360.00	408.40	400.00	513.60
Total	3,270.00	2,120.00	3,785.00	17,597.44	4,000.00	3,035.47	4,000.00	3,235.94	4,000.00

Source: Finance Commission and the General Treasury

*In 2015, released amounts are contained both PSDG and CBG.

The recommended amounts and the allocations referred in Tables 5.1, 5.2 and 5.3 differ due to prevailing financial constraints.

5.4. Revenue Performance Grant (RPG)

The Finance Commission recommends a new grant called “Revenue Performance Grant” in order to encourage provincial revenue. This is a development oriented grant, pivoted on increment devolved revenue collection. The Provinces have discretionary power to use this grant for capital related development programmes.

6. Measurements of Provincial Disparities

Table 6.1: Provincial GDP (at Constant Prices) Share and Growth Rates by Province 2013 - 2016

Province	2013			2014			2015			2016		
	PGDP (Rs Bn)	%	Growth Rate	PGDP (Rs Bn)	%	Growth Rate	PGDP (Rs Bn)	%	Growth Rate	PGDP (Rs . Bn)	%	Growth Rate
Western	3342.62	42.51	3.0%	3455.48	41.61	3.4%	3447.87	39.86	-0.2%	3594.08	39.78	4.2%
Central	823.77	10.48	6.2%	865.66	10.42	5.1%	917.06	10.60	5.9%	949.92	10.51	3.6%
Southern	820.49	10.44	-1.7%	903.02	10.87	10.1%	873.62	10.10	-3.3%	905.92	10.03	3.7%
Northern	277.87	3.53	0.0%	297.30	3.58	7.0%	357.03	4.13	20.1%	377.09	4.17	5.6%
North Western	824.59	10.49	8.5%	891.89	10.74	8.2%	918.64	10.62	3.0%	965.10	10.68	5.1%
North Central	394.26	5.01	4.0%	425.28	5.12	7.9%	508.69	5.88	19.6%	522.00	5.78	2.6%
Uva	386.07	4.91	6.7%	414.94	5.00	7.5%	482.62	5.58	16.3%	521.24	5.77	8.0%
Sabaragamuwa	531.15	6.76	13.7%	556.44	6.70	4.8%	651.66	7.53	17.1%	679.82	7.52	4.3%
Eastern	460.66	5.86	-3.7%	495.23	5.96	7.5%	493.68	5.71	-0.3%	518.21	5.74	5.0%
Sri Lanka	7862.30	100.00	3.4%	8305.25	100.00	5.0%	8650.87	100.00	4.8%	9034.14	100.00	4.4%

Note: Calculations are done by using the GDP deflator of the Department of Census and Statistics

Source: Central Bank of Sri Lanka

The regional disparity of the country is a major factor that the Finance Commission takes into account in the process of preparing recommendation. Some indicators mainly used to discuss regional disparities and which have been incorporated in Finance Commission’s fund apportioning formula are described below;

i. Provincial Gross Domestic Product

The provincial disparities in terms of provincial share of GDP and its growth provides insights to formulate strategies for balanced regional development. Table 6.2 provides provincial GDP contribution and its growth showing provincial disparities over the years.

The Western Province continues to account for nearly 40% of the provincial contribution to the country’s GDP. The Southern, North-Western and Central Provinces together contribute

approximately 31% to the GDP. It is noted that these Provinces which comprise eight districts with the close proximity to the Western Province, have been able to facilitate spread effects of economic development into the Provinces and thereby record higher contribution to the National GDP. The Provinces such as Uva, Sabragamuwa and North Central with approximately 22% of the population of the nation encompassing 37% of the land mass have been able to contribute only around 20 % to the National GDP. These Provinces also have a leverage on agriculture and agro-based economic activities, but have not been able to achieve a significant growth for over the years. Although, the Northern and Eastern Provinces have contributed the least proportion to the GDP, their growth rates are considerably higher than the national growth rate from 2014, except the Eastern Province in 2015. Further, those Provinces are expected to record higher contribution to the GDP in the future owing to concerted efforts made by the Government.

Table 6.2: Provincial GDP Contribution by Sector -2016

(Rs/ Mn)

Province	Agriculture	%	Industry	%	Services	%	GDP	%
Western	97,908	11.0	1,589,865	48.9	2,652,839	39.2	4,737,065	39.8
Central	129,550	14.5	264,711	8.1	752,866	11.1	1,251,900	10.5
Southern	160,100	18.0	206,371	6.4	727,932	10.8	1,194,360	10.0
Northern	62,198	7.0	122,765	3.8	270,137	4.0	496,667	4.2
North Western	128,165	14.4	340,354	10.5	697,325	10.3	1,272,327	10.7
North Central	72,984	8.2	133,423	4.1	424,066	6.3	688,057	5.8
Uva	88,364	9.9	189,235	5.8	352,278	5.2	687,407	5.8
Sabaragamuwa	68,133	7.7	232,039	7.1	520,835	7.7	895,995	7.5
Eastern	83,200	9.3	170,226	5.2	372,389	5.5	682,974	5.7
Total	890,602	100.0	3,248,987	100.0	6,770,667	100.0	11,906,752	100.0

Source: Central Bank of Sri Lanka

The agriculture sector contribution to provincial Gross Domestic Product (PGDP) has ranged among provinces from 7.0 to 18.0 per cent in 2016. The Southern Province contributes the highest percentage. The Industrial sector and the Services sector contribution to PGDP is significantly high in the Western province, compared to other provinces. The Northern, Eastern, Uva and North Central Provinces provide less contribution to the industry and services sectors.

ii. Poverty Head Count Index

Sri Lanka has made a significant progress on the path of achieving Millennium Development Goals (MDGs) by 2015. In 2016, the country has agreed to achieve Sustainable Development Goals including ending poverty in all forms throughout the country by 2030. Therefore, the provincial focus on combating poverty should continue on priority basis and be integrated and made complimentary to the Central Government's poverty reduction strategy. Incidence of poverty in the

Northern Province is the highest compared to other provinces. In 2016, Eastern and Uva Provinces were also relatively high in the poverty incidence ranking. It is observed that significant results have been achieved by the poverty reduction strategies implemented by the Government towards the achievement of Millennium Development Goal 1.

As Table 6.3 indicates, all provinces have shown a progressive reduction in the poverty index during the past 20 year period. The Poverty Headcount Ratio for Sri Lanka has declined from 28.1% in 1995/96 to 4.1% in 2016.

Table 6.3: Poverty Headcount Index from 1995 to 2016

Province	Poverty Headcount Index				
	1995/96	2006/07	2009/10	2012/13	2016
Western	16.3	8.2	4.2	2.0	1.7
Central	36.2	22.3	9.7	6.6	5.4
Southern	32.6	13.8	9.8	7.7	3.0
Northern	n.a.	n.a.	12.8	10.9	7.7
North Western	27.7	14.6	11.3	6.0	2.7
North Central	24.7	14.2	5.7	7.3	3.3
Uva	46.7	27	13.7	15.4	6.5
Sabaragamuwa	41.7	24.2	10.6	8.8	6.7
Eastern	n.a.	10.8	14.8	11.0	7.3
National	28.8	15.2	8.9	6.7	4.1

Source: Household Income & expenditure survey reports of the Department of Census and Statistics, 1995/96, 2006/07, 2009/10, 2012/13, 2016

In 2012/13, provincial Poverty Head Count Ratio ranges from 2% to 15.4%. However, as a result of decline in poverty to 4.17% by 2016, its range records 1.7% to 7.7% indicating a less provincial disparity in terms of poverty. When district wise poverty is considered, the least poverty of 0.9% is recorded in Colombo while the highest is recorded in Kilinochchi as 18.2%. The Central, Northern, Eastern, Uva and Sabaragamuwa Provinces, are above the Poverty Head Count Index at National level.

In this background, poverty reduction strategies of provinces should focus on pockets of poverty characterized by geographical, historical and socio economic differences and address the issues in targeted manner. The reduction of poverty is a priority area of the provincial development.

iii. Mean Household Monthly Per Capita Income -2016

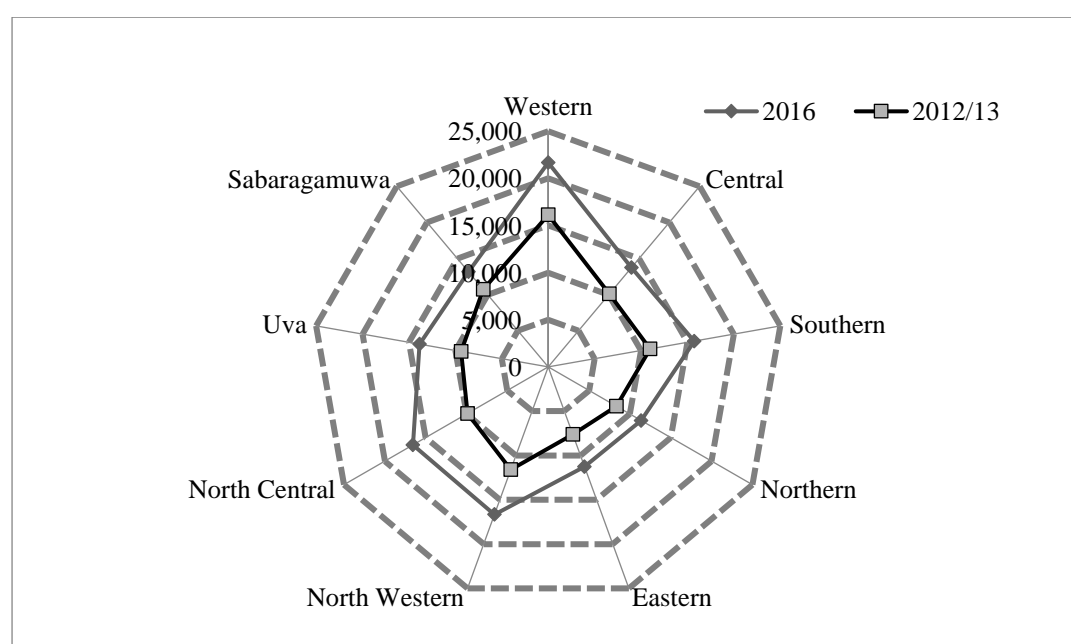
The Mean Household Monthly Per Capita Income is commonly used to measure the purchasing power of people. The Per Capita Income in the Western Province in 2016, is the highest (Rs.21,665) among all Provinces of the country. As shown in Table 6.4, the second, third and fourth places are occupied by the North Western, North Central and Southern Provinces respectively. The Northern and Eastern Provinces record the least amounts of mean monthly household Per Capita Income which is around Rs. 11,000 and it is less than the national average. This highlights the need for paying more attention to develop more facilities on mobilization of resources effectively to enhance economic capacity of those areas.

Table 6.4: Mean Monthly Household Per Capita Income by Province -2012/13 and 2016

Province	2012/2013 (Rs.)	2016 (Rs.)
Western	16,124	21,665
Central	10,104	13,729
Southern	10,973	15,730
Northern	8,339	11,384
North Western	11,596	16,671
North Central	9,877	16,567
Uva	9,382	13,867
Sabaragamuwa	10,718	13,157
Eastern	7,622	11,259
Sri Lanka	11,819	16,377

Source: Expenditure Survey of the Department of Census and statistics -2016

Figure 6.1: Mean Monthly Household Per capita Income



iv. Students Eligibility for University Science Stream

Table 6.5 displays students who sat for the Advanced Level examination in science stream in 2017 and number of eligible students (passed in three subjects) for university entrance and percentages.

In 2017, the Western province has recorded the highest percentage of students in Science stream who qualified for the university entrance and the Southern Province being the second highest. In all provinces other than the North-Central the percentage of students who are qualified for the university entrance in Science stream is higher than 50%. When compared to the national average of 80%, the provinces namely North Western, North Central, Uva, Sabaragamuwa and Eastern show lower percentages in relation to eligibility for university entrance in Science stream.

Table 6.5: Students' Eligibility for University Entrance in Science Stream, 2017

Province	Total number of A/L Student -2017	No of students in Science Stream - 2017	Science Students as a Percentage to the total A/L Students	Eligible for University Entrance in Science Stream (Passed in 3 Subjects) -2017	
				No	%
Western	55,573	17,660	32%	10,594	60%
Central	26,633	7,207	27%	3,859	54%
Southern	29,581	10,157	34%	5,608	55%
Northern	11,591	3,261	28%	1,924	59%
Eastern	14,551	3,843	26%	1,988	52%
North Western	22,929	6,598	29%	3,507	53%
North Central	12,130	2,946	24%	1,277	43%
Uva	13,613	3,514	26%	1,750	50%
Sabaragamuwa	20,029	5,642	28%	2,923	52%
All Island	206,630	60,828	29%	33,430	55%

Source: Department of Examinations

v. Availability of Medical Personnel

Table 6.6 shows availability of Medical Officers per 100,000 persons of the country for 2016. The Western province has the highest number of Medical Officers per 100,000 persons. The second highest number of Medical Officers per 100,000 persons can be seen in the Northern Province. The Sabaragamuwa Province has the least number of officers.

Table 6.6: Medical Officers per 100,000 Persons in 2016

Province	Medical Officers per 100,000 Persons
Western	122
Central	93
Southern	74
Northern	99
North Western	62
North Central	72
Uva	70
Sabaragamuwa	59
Eastern	89
Sri Lanka	89

Source: Ministry of Health and Indigenous Medicine

vi. Mainstreaming SDGs for Minimizing Regional Disparities

Since the endorsement of the “2030 Agenda”, Sri Lanka has taken several initiatives to facilitate and advance the implementation of the Sustainable Development Goals (SDGs). Establishment of a Parliamentary Select Committee on the United Nations Agenda for Sustainable Development and enactment of the Sustainable Development Act in 2017 which lays the foundation for a well-organized institutional mechanism utilizing the existing system of public institutions are key steps among others. Further, Sri Lanka’s Development Policy Framework; “Vision 2025” and the Public Investment Programme 2017-2020 reflect the country’s adherence to Sustainable Development principles. This policy framework highlights the implementation of social protection schemes for all necessary segments, identification of environmental management as a priority area and emphasizing the need to facilitate economic growth for adopting sustainable development strategy.

Sri Lanka is in the process of discussion with regard to initiatives taken to mainstream the overarching and comprehensive framework of SDGs. The Finance Commission, in guiding the Provinces for their annual development planning process has introduced a separate planning and monitoring mechanism on SDGs under the devolved subjects. In the planning process for each sector, components and sub-components have been introduced for the year 2018 by the Finance Commission. In this process, it is expected to identify the SDGs related to each component with the investments to be made. This model is to be further developed and continued for 2019 onwards. It is also proposed that this exercise to be extended to all national level investments.

vii. Provincial prosperity

Table 6.7: Overall Prosperity Index and Provincial Ranks

Province	Index		Rank	
	2015	2016	2015	2016
Western	1.243	1.272	1	1
Central	0.370	0.450	3	3
Southern	0.435	0.455	2	2
Northern	0.232	0.239	6	6
North Western	0.274	0.356	5	5
North Central	0.360	0.400	4	4
Uva	0.133	0.151	8	8
Sabaragamuwa	0.222	0.153	7	7
Eastern	0.062	0.135	9	9
Sri Lanka	0.685	0.746		

Source: Central Bank

Table 6.7 shows the prosperity of the country and provinces for 2015 and 2016 by province and its rankings according to the index values. The Western province is in the highest position in prosperity while the Eastern is the lowest. All other provinces except the Sabaragamuwa, have promoted to higher prosperity from 2015 to 2016. The provincial rankings in terms of prosperity has not changed within years of 2015 and 2016.

Table 6.8: Gini Coefficients for Mean Household Income, by Province – 2016

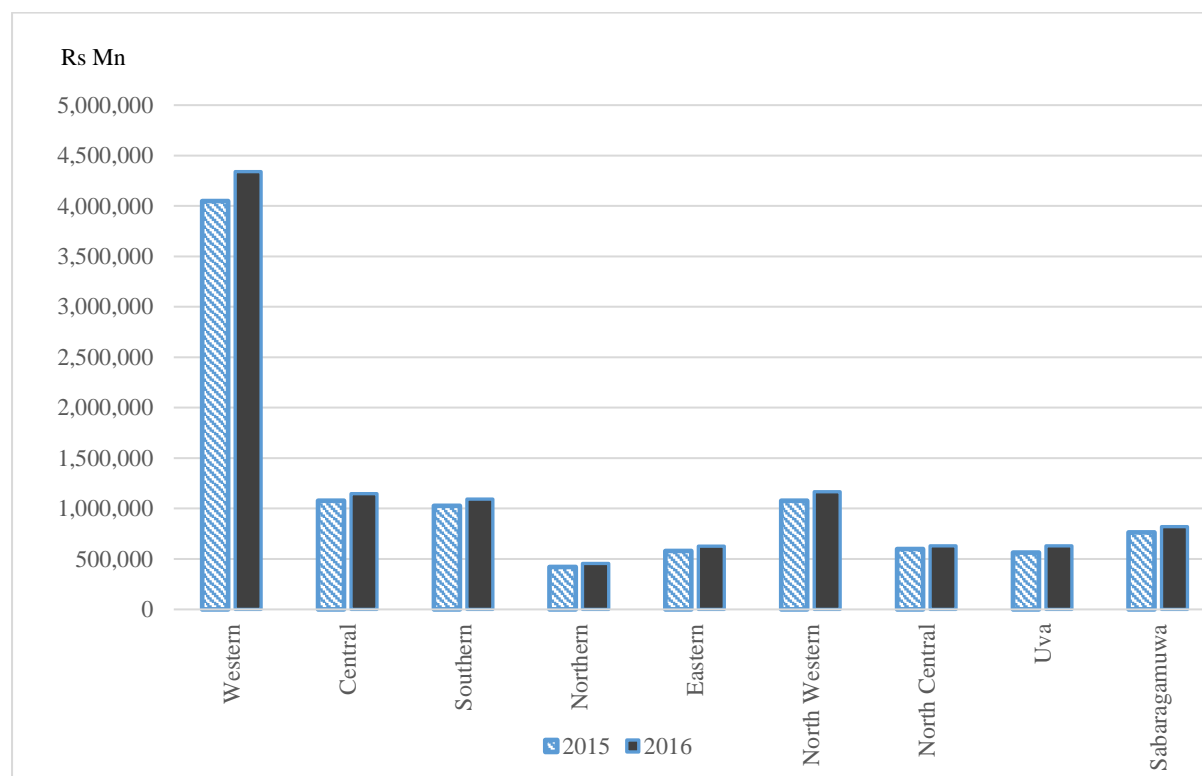
Province	Gini coefficient of Household Income	
	2012/13	2016
Western	0.47	0.45
Central	0.44	0.42
Southern	0.45	0.42
Northern	0.48	0.44
Eastern	0.45	0.42
North Western	0.47	0.46
North Central	0.39	0.46
Uva	0.48	0.45
Sabaragamuwa	0.46	0.41
Sri Lanka	0.48	0.45

Source: Department of Census and Statistics

Table 6.8 shows for Mean Household Income, by Province – 2012/13 and 2016, Gini Coefficient for mean household income is 0.45 for the country in 2016. The North Western and North Central Provinces show the highest Gini Coefficient (0.46) indicating relatively higher income disparity. Sabaragamuwa Province reports the lowest Gini value (0.41). The Central, Southern, Northern,

Eastern and Sabaragamuwa Provinces show less value than the national figure for 2016. However, as all provinces have a considerable income inequality, investments have to be directed to reduce this disparities through income generating projects designed for low income community.

Figure 6.2: Gross Value Addition to the Provincial GDP in 2015 and 2016



Source: Central Bank

Figure 6.2 shows gross value addition to the Provincial GDP in 2015 and 2016. During the period, the Western Province contributes the highest amounts to the GDP while the North Western Province held the second place as shown in the chart lagging regions produced low value addition. The Northern Province Contributes the lowest value addition compared to other Provinces.

Table 6.9: Per Capita Gross Value Addition to the GDP for 2015, 2016 and Their Ranks

Province	PGVA-2015 (Rs)	PGVA-2016 (Rs)	Rank - 2015	Rank-2016
Western	681,995	725976	1	1
Central	409,225	431575	5	5
Southern	404,986	428170	6	6
Northern	386,905	415996	8	7
North West	444,890	476243	3	4
North Cen	460,605	480543	2	2
Uva	434,233	478630	4	3
Sabaragamuwa	387,773	412981	7	8
Eastern	363,498	387502	9	9
Total	488,895	519635		

Table 6.9 shows Per Capita gross Value addition to the GDP for 2015, 2016 and their ranks for the years.

The Western Province shows the highest values and rankings for year 2015 and 2016 while the Eastern Province shows the lowest ranking and value for the years. The Uva and Northern Provinces shows positive changes of the ranking for 2016 compared to 2015.

7. Provincial Revenue

Provincial revenue sources have been identified under the Ninth Schedule of the Thirteenth Amendment to the Constitution (Para 36:1 to 36:20). The Business Turnover Tax (BTT) was the major revenue source of Provincial Councils. However, it was felt that the operation of the provincial BTT and other similar national taxes had resulted in tax upon tax. There was an opinion that this had caused a high tax burden particularly, on Small and Medium Enterprises (SME) and consumers. On account of this, BTT was abolished in 2011. In order to supplement the reduction of revenue collected by the Provinces, a special revenue sharing system was introduced.

To implement this policy decision, the Secretary to the General Treasury issued the Fiscal Policy Circular No: 01/2010 on 29th of December, 2010. Accordingly, it was decided that the revenue collected by central authorities namely the Commissioner General of Inland Revenue, Director General of Customs and Commissioner General of Motor Traffic to be transferred to the provinces, on the following basis, with effect from the 01st of January, 2011.

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

The NBT and Stamp Duty referred to the above are shared with the Provinces as follows;

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

In the Vehicle Registration Fees, the existing procedure remained unchanged. However, applicable percentage to share the revenue with the Provinces was increased from 60% to 70%, with effect from 01st of January, 2011.

7.1 Basis for Setting Revenue Targets

The Finance Commission has set revenue collection targets for the devolved revenue sources for the Provinces in every assessment until 2010. However, since the BTT was abolished in 2011, NBT, Stamp Duty and Vehicle Registration Fees are transferred to the Provinces by the Central Government. Two systems in setting the revenue targets for the Provinces were introduced from 2011. Accordingly, the Finance Commission sets the revenue targets for devolved revenue sources of the Provinces (Stamp Duty, Court Fines, Motor Vehicle Annual License fee, Excise Duty etc.) and the percentages of revenue transfers from the Central Government to Provincial Councils. The total amount of revenue targets set under the above two systems is deducted from the required recurrent expenditure needs assessed under the Block Grant to the Provinces.

When setting the targets under devolved provincial revenue, the Finance Commission reviews the assessment of revenue collection submitted by the provincial authorities and the past performance of provincial revenue collection. Transfers of Central Government Revenue to the Provinces for the year 2019 have been forecast based on the percentages agreed by the Finance Commission and the General Treasury.

7.2 Review of Provincial Revenue Performance for 2017

The Motor Vehicle License Fees, Excise Duty, Stamp Duty and Court Fines were some of the sources of provincial revenue while BTT was the major source up to end of 2010. The Table 7.1 shows the actual collection of provincial revenue for the year 2017.

Table 7.1: Provincial Revenue Collection by Source – 2017

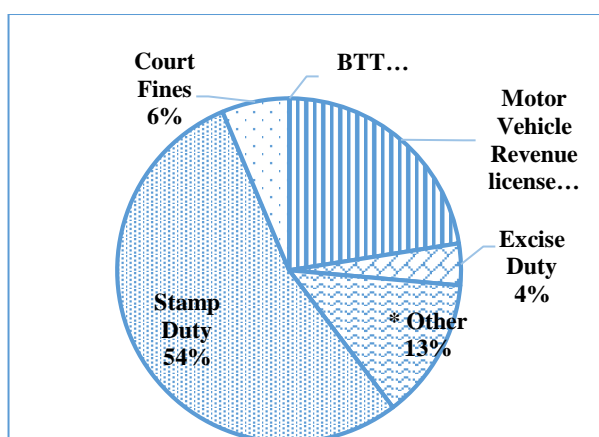
(Rs '000)

Province	BTT	Motor Vehicle Revenue license Fees	Excise Duty	* Other	Stamp Duty	Court Fines	Total revenue collection from Devolved Sources
Western	15,800	3,987,640	658,730	2,451,770	16,029,570	993,340	24,136,850
Central	2,966	900,510	366,844	489,991	1,694,601	96,462	3,551,374
Southern	984	1,176,164	142,301	563,409	1,759,393	447,896	4,090,147
Northern	-	324,252	47,407	291,551	648,101	172,130	1,483,441
North Western	3,694	1,294,773	141,402	418,595	1,868,970	447,023	4,174,457
North Central	959	569,995	64,449	501,496	176,136	208,889	1,521,924
Uva	3,287	419,750	101,769	364,783	362,613	114,986	1,367,188
Sabaragamuwa	958	711,895	96,276	442,102	694,578	154,310	2,100,118
Eastern	-	464,004	101,122	303,464	476,561	142,763	1,487,914
Total	28,648	9,848,983	1,720,299	5,827,161	23,710,523	2,777,799	43,913,413

Source: Monthly Revenue Reports of provincial councils – 2017

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

Figure 7.1: Provincial Revenue Collection by Province



As shown in Table 7.1, the Western Province is the highest revenue collector and its average contribution to the total annual provincial revenue is approximately 55%. The average annual contribution to the total provincial revenue by all other Provinces is nearly 45%. The lowest contributor is the Uva Province.

As the above figure shows, the Stamp Duty is the highest source of revenue among all the sources and its contribution is around 54% i.e. the average annual contribution to the total provincial revenue by all other revenue sources is approximately 46% and the Motor Vehicle License fees is the highest contributor among other revenue sources. The Stamp Duty and Court Fines collected by the Provinces are annually transferred to the Local Authorities.

7.3 Revenue Forecast for 2019

The Finance Commission analyzed the provincial performance of actual revenue collection of previous years and the first five month of 2018 in setting the 2019 targets. Thus, the Finance Commission set the targets for devolved provincial revenue sources of all provinces for the year 2019 as Rs 47,986.7 Million. The Table 7.2 shows the estimated provincial targets and the assessment of the FC for the year 2019. This includes Stamp Duty and Court Fines which should be transferred to the relevant Local Authorities.

Table 7.2: Revenue Forecast for 2019

(Rs.Mn.)

Province	Revenue Forecast Including Stamp Duty & Court Fines			Revenue Forecast Excluding Stamp Duty & Court Fines		
	Provincial Estimate	FC Forecast	% of Provincial Share of FC Forecast	Provincial Estimate	FC Forecast	% of Provincial Share of FC Forecast
Western	24,251	26,385	55.0	6,851	7,385	39.5
Central	3,760	4,078	8.5	1,910	1,936	10.4
Southern	4,020	4,366	9.1	1,920	2,016	10.8
Northern	1,500	1,580	3.3	750	755	4.0
North Western	4,742	4,707	9.8	2,122	2,157	11.5
North Central	1,486	1,541	3.2	1,081	1,126	6.0
Uva	1,301	1,495	3.1	671	985	5.3
Sabaragamuwa	2,183	2,195	4.6	1,318	1,330	7.1
Eastern	1,538	1,640	3.4	913	990	5.3
Total	44,781	47,987	100	17,536	18,680	100.0

Source: Finance Commission

Table 7.2 gives the estimated provincial revenue targets and assessment of the Finance Commission for the year 2019. The targets of the Finance Commission for 2019 excluding, Stamp Duty and Court Fines are estimated at Rs.18, 680 million.

The Western Province collects the highest share of provincial revenue compared to the other Provinces. Therefore, the Western Province has been given a target of 55% of the total revenue to be collected by all provinces.

Table 7.3 exhibits the amount of Stamp Duty and Court Fines to be transferred to the Local Authorities from total revenue of Rs. 29,307 million.

Table 7.3: Stamp Duty and Court Fines to be Transferred to the Local Authorities for 2019
(Rs.Mn.)

Province	Stamp Duty	Court Fines	Total	% Provincial Share
Western	18,000	1,000	19,000	64.8
Central	2,042	100	2,142	7.3
Southern	1,900	450	2,350	8.0
Northern	650	175	825	2.8
North Western	2,100	450	2,550	8.7
North Central	190	225	415	1.4
Uva	370	140	510	1.7
Sabaragamuwa	700	165	865	3.0
Eastern	480	170	650	2.2
Total	26,432	2,875	29,307	100.0

Source: Finance Commission

The General Treasury has estimated to allocate Rs. 63,800 million from the centrally collected revenue to the Provinces for the year 2019 in accordance with the Fiscal Policy Circular No: 01/2010. It is 2.5% from the projected total revenue collection of the Central Government. The Table 7.4 shows Transfers of Central Government revenue to the Provinces for the year 2019.

Table 7.4: Transfers of Central Government Revenue to the Provinces – 2019

(Rs.Mn)		
Province	Transfers	% of Provincial Share
Western	30,624	48
Central	5,742	9
Southern	5,742	9
Northern	3,190	5
North Western	5,742	9
North Central	3,190	5
Uva	3,190	5
Sabaragamuwa	3,190	5
Eastern	3,190	5
Total	63,800	100

Source :Finance Commission

8. Provincial Request on Recurrent and Capital Expenditure

8.1 Provincial Request on Recurrent Expenditure Needs

The recurrent expenditure accounts for the large proportion of the total provincial expenditure and is to meet the day-to-day expenses of the provinces mainly, the cost of salaries, overtime and holiday pay and other allowances of employees. In addition, this expenditure is also used to meet the maintenance requirements of capital assets already undertaken.

The Personal Emoluments (PE) constitute the major component of recurrent expenditure and they include salaries and wages, overtime and holiday pay and other allowances of the provincial cadre. Other recurrent expenditure (ORE) includes travelling expenses, supplies, maintenance, contractual services, transfers to other agencies, and others. The amounts under the recurrent expenditure requested by the provinces for the year 2019 are given in the Table 8.1.

Table 8.1: Provincial Request on Recurrent Expenditure Needs– 2019

(Rs.Mn.)

Province	Personal emoluments	% from total expenditure	Other recurrent expenditure	% from total expenditure	Total Recurrent Expenditure
Western	44,119	18	29,237	32	73,356
Central	33,613	14	10,942	12	44,555
Southern	26,853	11	9,349	10	36,201
Northern	21,907	9	7,428	8	29,335
North Western	29,270	12	9,152	10	38,422
North Central	18,452	8	5,763	6	24,215
Uva	20,075	8	5,670	6	25,746
Sabaragamuwa	26,182	11	7,274	8	33,455
Eastern	22,127	9	5,869	6	27,996
Total	242,599	100	90,684	100	333,283

Source Finance Commission

Note: Including Local Government Transfer, PE for Statutory Bodies and Stamp Duty and Court Fines

The Personal emoluments and other recurrent expenditure constitute 73 percent and 27 percent of the recurrent expenditure respectively. The personal emoluments requested by the provinces include requirements of current existing cadre as well as the vacant cadre. Other recurrent expenditure comprises the operational cost, Stamp Duty, Court Fines, Personal Emoluments for statutory bodies and reimbursement of salary of the Local Authorities. Requested ORE excluding Local Government transfers, Stamp Duty and Court Fines are given in the Table 8.2.

Table 8.2: Provincial Request on Other Recurrent Expenditure Needs– 2019

(Rs.Mn.)

Province	Other Recurrent Expenditure
Western	6,735
Central	5,105
Southern	4,522
Northern	4,568
North Western	4,241
North Central	4,255
Uva	3,779
Sabaragamuwa	4,914
Eastern	3,437
Total	41,556

Source: Provincial budget estimates – 2019

Note: Excluding Local Government Transfer Stamp Duty and Court Fines

The percentage of requested ORE excluding Local Government transfers, stamp duty and court fines, as indicated in the Table 8.2 is computed at 17 percent of the personal emoluments of total living and vacant cadre, in the Table 8.1.

Although recurrent expenditure which is 80% of total allocation appears to be unproductive, such expenditure is mainly related to development activities. In this context, it is observed that personnel who provide services in all sectors, particularly education and health contribute towards achieving regional development.

8.2 Provincial Request on Capital Expenditure Needs

The Capital Budget requirement is assessed by the Provinces based on the Sectoral Results Framework, prepared in line with the Finance Commission's guidelines. The provincial capital fund requirements are submitted in line with the Finance Commission's guidelines and formats.

The PSDG is provided to Provinces under the following four categories;

- i. Sectors
- ii. Grants for Villages with Special Needs
- iii. Flexible Allocation
- iv. Special Projects identified at National Level

i. Sectors

For each Sector, a specific amount is provided from the local funds to undertake capital nature development activities in the Annual Development Plans, prepared by the Provinces. The identified Sectors for providing funds under the PSDG are as follows;

1. Economic Infrastructure

- 1.1 Provincial Roads
- 1.2 Estate Infrastructure
- 1.3 Transport
- 1.4 Land
- 1.5 Agriculture
- 1.6 Livestock
- 1.7 Inland Fisheries
- 1.8 Irrigation
- 1.9 Rural Development
- 1.10 Small Industries
- 1.11 Rural Electrification
- 1.12 Tourism
- 1.13 Local Government
 - 1.13.1 Local Authority Roads
 - 1.13.2 Community Water Supply
 - 1.13.3 Waste Management
 - 1.13.4 Other Local Authority Services

2 Social Infrastructure

- 2.1 Education
- 2.2 Health
 - 2.2.1 Western Medicine
 - 2.2.2 Indigenous Medicine
 - 2.2.3 Sports
- 2.3 Early Childhood Development
- 2.4 Probation and Childcare
- 2.5 Social Services
- 2.6 Cultural and Religious Affairs
- 2.7 Housing
- 2.8 Co-operative

ii. Grants for Villages with Special Needs

The provincial authorities are expected to identify the villages lagging behind with hardships on livelihood of people due to non-availability of essential infrastructure facilities. The problems highlighted by various media and organizations at national and provincial Levels related to poor infrastructure facilities could also be rationally addressed under this category.

iii. Flexible Allocation

A particular amount is earmarked under this category to attend urgent requirements which are not included in the original plan.

iv. Special Projects identified at National Level

Some special projects, identified under the national programmes are expected to be financed by Provincial Councils. In such situations, PSDG funds are utilized to contribute national programmes.

The requests on capital expenditure for the financial year 2019 as submitted by the Provinces are compiled in Table 8.3 below.

Table 8.3: Provincial Requests on Capital Needs -2019

(Rs.Mn)		
Province	Provincial Request	%
Western	6,251.53	6.3
Central	20,208.72	20.4
Southern	12,754.14	12.9
Northern	12,257.90	12.4
North Western	8,804.93	8.9
North Central	6,800.17	6.9
Uva	8,138.65	8.2
Sabaragamuwa	7,136.27	7.2
Eastern	16,501.70	16.7
Total	98,854.00	100.0

*Note: Excluding nationally agreed Foreign and locally funded Projects
Source: Finance Commission*

9. Assessment of Provincial Needs

The requests on capital and recurrent expenditure submitted by the Provinces are reviewed and assessed by the Finance Commission, before making recommendations to the Government.

9.1 Assessment of Recurrent Needs

Recurrent expenditure is composed of two categories namely, Personal Emoluments (PE) and Other Recurrent Expenditure (ORE). The Personal Emoluments constitute the expenses needed for the approved cadre of each Province while other recurrent expenditure comprises service delivery charges, based on a percentage of the personal emoluments of each Province.

In the assessment of the provincial recurrent needs for the year 2019, due attention has been made to the following.

1. The approved cadre by the Department of Management Services (DMS).
2. The staff already assigned by the line Ministries on pending approval by the DMS.
3. The personal emoluments of the staff expected to be attached to the Provinces in the year 2019 by the Ministry of Education, Ministry of Agriculture, Ministry of Health and Indigenous Medicine and the Ministry of Rural Affairs.
4. The cost of roads and irrigation maintenance has been considered in the assessment of ORE.
5. The Personal emoluments of the approved cadre for the Child Development Authority, the Road Development Authority and the Passenger Transport Authority have been estimated aiming at providing quality infrastructure and services, in the assessment of ORE.

Accordingly, assessed provincial approved cadre and personal emoluments for the year 2019 are given in the Table 9.1.

Table 9.1: Assessed Personal Emoluments of the Provincial Approved Cadre -2019

(Rs. Mn)							
Province	DMS approved cadre of the Province as at 31.03.2018	Personal Emoluments	Provincial Share of PE %	Other Recurrent Expenditure	Provincial Share of ORE %	Total Recurrent Expenditure	Provincial Share of TRE %
Western	62,047	42,276	17	16,024	25	58,300	19
Central	51,267	34,330	14	7,533	12	41,864	14
Southern	43,231	27,357	11	7,143	11	34,500	11
Northern	35,266	22,610	9	5,572	9	28,182	9
North Western	47,632	29,952	12	6,562	10	36,514	12
North Central	30,075	18,674	8	4,861	8	23,536	8
Uva	32,049	20,372	8	4,860	8	25,233	8
Sabaragamuwa	36,621	25,310	10	5,495	9	30,806	10
Eastern	36,088	22,255	9	5,491	9	27,746	9
Total	374,276	243,137	100	63,543	100	306,681	100

Source: Finance Commission

Note: ORE-excluding Stamp Duty and Court Fines and including PE for Authorities/Boards

PE- Including personal emoluments for line Ministry attachments & salary arrears

Assessed total approved cadre of all Provinces is determined as 374,276 and around Rs: 306,681 million is estimated to be transferred to the Provinces for the purpose of meeting the expenses of their approved cadre.

Assessed Other Recurrent Expenditure including Local Government transfers to the Provinces, as agreed with the General Treasury for the year 2019 is given in the Table 9.2.

Table 9.2: Assessed Other Recurrent Expenditure for the Provinces – 2019

(Rs.Mn)						
Province	Other Recurrent Expenditure without Local Government Transfer	%	Local Government Transfer	%	Total Other Recurrent expenditure with Local Government Transfer	%
Western	5,896	16	10,128	38	16,024	25
Central	4,119	11	3,414	13	7,533	12
Southern	4,416	12	2,727	10	7,143	11
Northern	3,539	10	2,034	8	5,572	9
North Western	4,308	12	2,254	9	6,562	10
North Central	3,808	10	1,053	4	4,861	8
Uva	3,547	10	1,313	5	4,860	8
Sabaragamuwa	3,965	11	1,531	6	5,495	9
Eastern	3,509	9	1,982	7	5,491	9
Total	37,107	100	26,436	100	63,543	100

Note: Excluding Stamp Duty and Court fines.

Source: Finance Commission

The amount of Local Government transfer is calculated by considering the salaries of the approved cadre of the Local Authorities by the Department of Management Services and the allowances paid to Local Authority members.

9.2 Assessment of Capital Needs

The Finance Commission is mandated by the Constitution to focus on achieving balanced regional development through a process of recommending funds, considering total population of each Province, Per Capita Income of each province and the need to reduce the differences between the Per Capita Income of each Province. For assessment of provincial capital and recurrent needs of 2019, the Finance Commission issued guidelines to Provincial Councils in January 2018. To strengthen the capital need assessment process due attention was paid to the following.

- Development policy of the Government
- Special development programs implemented by the Government and their impact
- Master plans and Sectoral Results Framework of the Provinces
- Achievement of Sustainable Development Goals
- Optimum use of physical and human Resources

- Reduction of inter and intra-regional disparities in the Provinces
- Comparative advantages to maximize efficiency
- Guidelines issued by the Finance Commission aiming at avoiding duplication of work ensuring inter-sectoral coordination, enhancing of rural economy and ensuring optimum resource distribution.

In determining disparities among the Provinces, macro-economic indicators such as Provincial Gross Domestic Product, Poverty Headcount Index and Provincial Per Capita Income have been used.

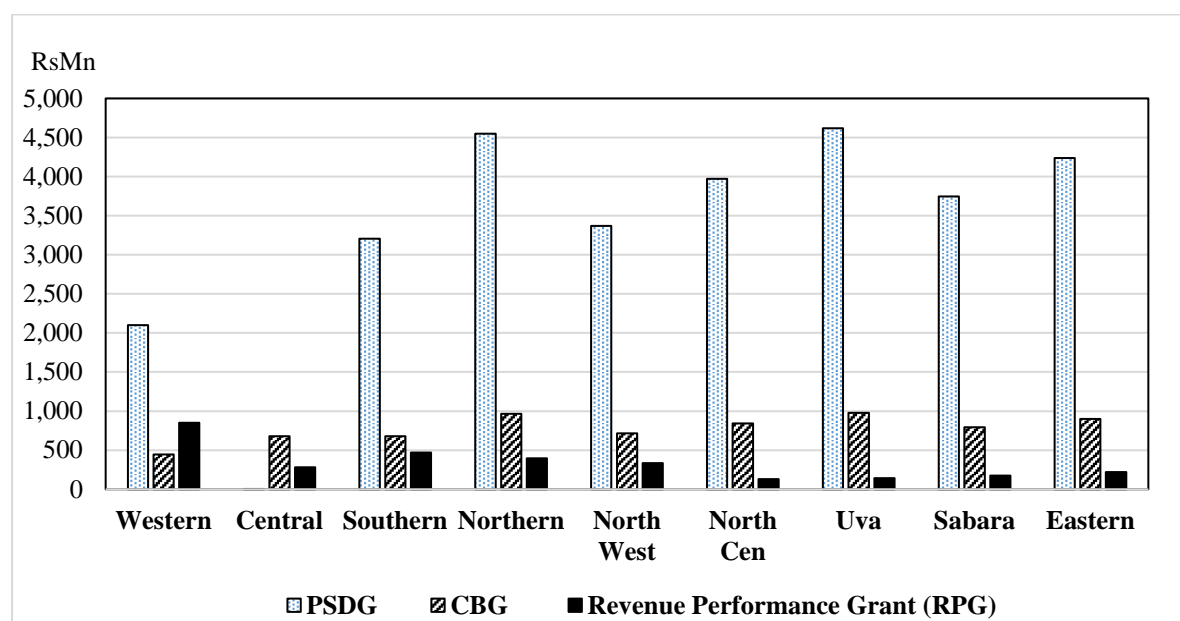
The Provincial capital needs submitted by each Province was assessed keeping in line with Finance Commission guidelines. Details of the requested capital needs are indicated in Table 8.3 while Finance Commission's assessment on capital requirement of the Provinces is given in Table 9.3.

Table 9.3: Capital Needs 2019 Assessed by the Finance Commission

Province	FC Recommendation		%	(Rs.Mn)
	PSDG	CBG		Revenue Performance Grant (RPG)
Western	2,098	445	6.36	849
Central	3,208	680	9.72	282
Southern	3,204	680	9.71	468
Northern	4,547	965	13.78	396
North Western	3,369	715	12.04	333
North Central	3,973	843	13.99	132
Uva	4,617	979	11.35	141
Sabaragamuwa	3,746	794	12.84	177
Eastern	4,237	899	10.21	222
Total	33,000	7,000	100.00	3,000.0

Source: Finance Commission

Figure 9.1: Capital Needs 2019 Assessed by the Finance Commission



9.3 Revenue and Expenditure at Provincial Level and Imbalances

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.

Table given below shows the revenue generation and expenditure for the provinces from 2014 to 2017. (This excludes revenue and expenditure of local authorities)

Table 9.4: Revenue and Expenditure in Provincial Level

Item	(Rs/Mn)			
	2014	2015	2016	2017
Total Revenue	59,133	67,972	79,595	85,172
Tax Revenue	52,569	61,476	70,942	76,607
Non- Tax Revenue	6,564	6,496	8,653	8,565
Total Expenditure	216,824	269,586	276,147	286,031
Recurrent Expenditure	172,131	222,223	237,664	236,575
Capital Expenditure	44,693	47,363	38,483	49,457
Central Government Transfers	157,691	201,614	196,552	200,860
Block Grants	126,144	167,551	169,106	166,348
Criteria Based Grants	3,392	3,753	3,035	3,236
Province Specific Development Grants	8,343	13,345	12,177	20,250
Foreign Grants for Special Projects	19,812	16,965	12,234	11,025

Source: Annual Report of the Central Bank – 2017

Figure 9.2: Provincial Revenue and Expenditure 2014- 2017

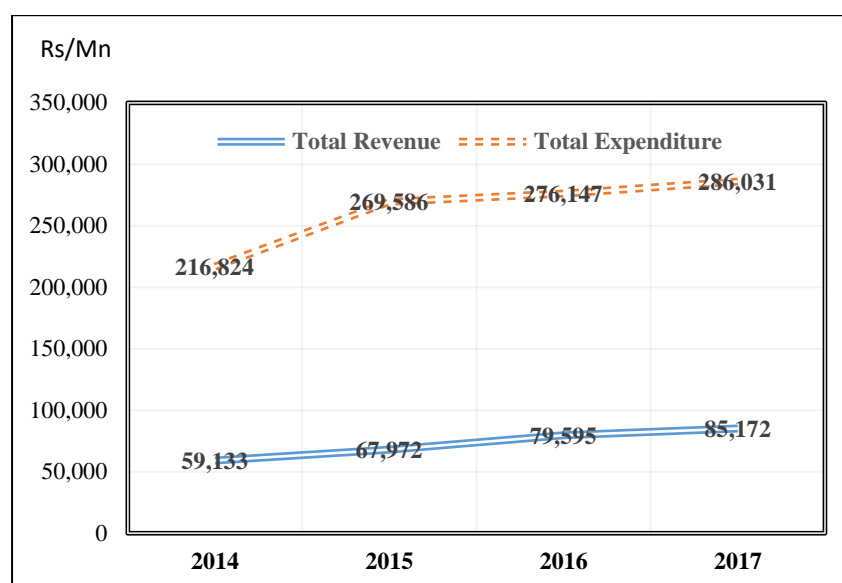


Table 9.4 and Figure 9.2 show that provinces are unable to meet their expenditure from own revenue. i.e. mismatch between the revenue and expenditure. Thus the government has to transfer funds to bridge the gap between provincial expenditure and revenue. The provincial vertical and horizontal imbalances have been a problem for achieving the balanced regional development. The vertical imbalances indicate that all government grants made to the provinces are insufficient to meet both capital and recurrent needs. The horizontal fiscal imbalances refer to mismatch between the revenue and the expenditure of the provincial councils in relation to both recurrent and capital expenditure.

It is however noted that the capital expenditure given above does not give the true perspective investment made in the provinces, in that a substantial amount well above the expenditure given in the Table is incurred by the central government. In the absence of a sound planning and proper financial system such expenditure incurred by the central government cannot be determined.

10. Apportionment of Funds among the Provinces for 2019 and the Principles Adopted in Making the Recommendations

Having completed need assessment, the FC in consultation with the General Treasury agreed with total amount of funds to be apportioned among the Provinces for the year 2019. The Finance Commission follows a specific budget time cycle incorporating a wide consultative process with

the stakeholders of the Provinces and the Central Government in determining the funds to be apportioned to the Provinces in forthcoming year.

Accordingly, the funds determined are as follows;

- i) The Recurrent expenditure funded through the Block Grant
- ii) The Capital expenditure funded through the Provincial Specific Development Grant (PSDG) and the Criteria Based Grant (CBG). Funds of some foreign funded projects are also included under PSDG and are they directly channeled to the Provinces by the General Treasury.

10.1 Apportionment of Provincial Recurrent Needs through the Block Grant

The assessment of the provincial recurrent needs made by the Finance Commission is given in the Table 10.1. In the assessment of Block Grant, estimated revenue of the Provinces (revenue collection and revenue transfers) was deducted from the total provincial recurrent expenditure.

Table 10.1: Total Block Grant Recommended for 2019

(Rs. 000)

Province	** Total Recurrent Expenditure	** Revenue Target Excluding Stamp Duty and Court Fines by Prov. Councils	Estimated Transfers of Government Revenue to the Provinces	Total Block Grant Recommended by FC
(1)	(2)	(3)	(4)	(5)= (2) -(3)-(4)
Western	58,300,050	7,385,000	30,624,000	20,291,050
Central	41,863,774	1,936,000	5,742,000	34,185,774
Southern	34,499,613	2,016,200	5,742,000	26,741,413
Northern	28,182,241	755,000	3,190,000	24,237,241
North Western	36,514,397	2,156,500	5,742,000	28,615,897
North Central	23,535,717	1,126,000	3,190,000	19,219,717
Uva	25,232,756	985,000	3,190,000	21,057,756
Sabaragamuwa	30,805,614	1,330,000	3,190,000	26,285,614
Eastern	27,746,367	990,000	3,190,000	23,566,367
Total	306,680,529	18,679,700	63,800,000	224,200,829

Source: Finance Commission

Note: As per the Fiscal Policy Circular No. 01/2010

** Excluding SD & CF and including Local Government Transfers, Vacancies, Salary arrears and PE for attachments by Line Ministries and PE for authorities/ Boards

The Block Grant is to meet the assessed recurrent expenditure needs of the Provinces including personal emoluments and other recurrent expenditure. This grant also includes transfers to the Local Authorities and to the other authorities that provide services such as road, transport and early childhood development. Their expenditure in respect of salaries, wages, overtime and other allowances is met by these transfers.

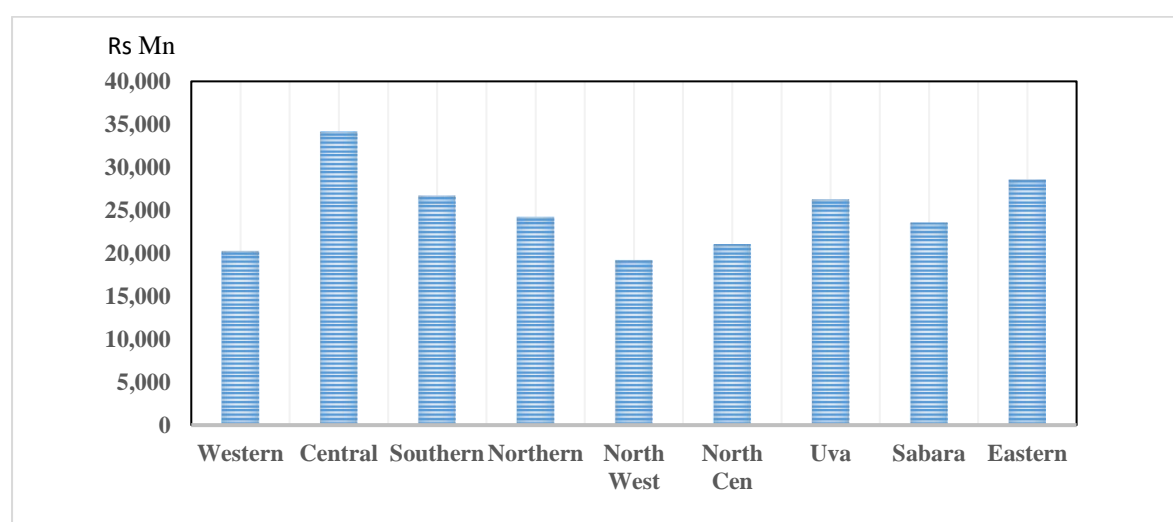
The provincial share of Block Grant for 2019 is given in the Table 10.2.

Table 10.2: Provincial Share of Block Grant for 2019

Province	Block Grant (Rs. 000)	Provincial Share of Block Grant (%)
Western	20,291,050	9.05
Central	34,185,774	15.25
Southern	26,741,413	11.93
Northern	24,237,241	10.81
North Western	19,219,717	8.57
North Central	21,057,756	9.39
Uva	26,285,614	11.72
Sabaragamuwa	23,566,367	10.51
Eastern	28,615,897	12.76
Total	224,200,829	100.00

Source: Finance Commission

Figure 10.1: Block Grant for 2019



10.1.1 Financing the Local Government Sector

The transfers to Local Authorities for payment of salaries and allowances of approved cadre and members are given in Table 10.3. At present, the total amount paid in respect of salaries of the staff is reimbursed from the funds provided under the Block Grant. It is observed that although revenue collected by the Local Authorities has not been used for payment of salaries of the approved cadre, a large number of employees recruited on contract basis are being paid through such revenue.

Table 10.3: Allocation for the Payment of Allowance to Members and Reimbursement of Salaries of Staffs of Local Authorities – 2019

Province	No. of Local Government Authorities				Members Allowance		Reimbursement of Staff Salaries (Rs. Mn.)		Local Government Transfers (Rs. Mn.)
	MC	UC	PS	Total LG	No. of Members	Allowance (Rs. Mn.)	Living Cadre	Vacant Positions	
Western	7	14	28	49	1,759	344	7,683	2,102	10,128
Central	4	6	37	47	1,233	237	2,561	616	3,414
Southern	3	4	42	49	1,141	219	2,151	356	2,727
Northern	1	5	28	34	763	146	1,650	237	2,034
North Western	1	3	29	33	971	182	1,662	409	2,254
North Central	2	0	25	27	576	111	688	254	1,053
Uva	2	1	25	28	610	117	1,040	157	1,313
Sabaragamuwa	1	3	25	29	806	152	1,178	201	1,531
Eastern	3	5	37	45	879	172	1,497	313	1,982
Total	24	41	276	341	8,738	1,680	20,110	4,645	26,436

Source: Finance Commission

10.2 Apportionment of Capital Funds

10.2.1 Methodology Used for Apportionment of Capital Funds

The Commission uses a statistical formula developed in collaboration with the Department of Census and Statistics for the apportionment of capital funds among the provinces under the Criteria Based Grant (CBG) and the Province Specific Development Grant (PSDG).

A multivariate statistical technique called Factors Analysis is used to calculate the composite indices for all provinces incorporating the variables below.

- Mid -year Population (2015)
- Provincial GDP (2014)
- Poverty Head Count Ratio (2012/13)
- Median Per-capita Income (2012/13)
- Persons per Medical Officer (2013)
- Province wise candidates qualified for Universities in Science stream as a percentage of students sat for A/L in Science stream (2013)

The following Composite Indices have been used for the apportionment of PSDG and CGB among the provinces for 2019.

Table 10.4: Composite Indices for Apportionment of Capital Funds

Province	Composite Indices
Western	0.58631
Central	0.89621
Southern	0.89543
Northern	1.27113
North Western	0.94187
North Central	1.10997
Uva	1.29017
Sabaragamuwa	1.04710
Eastern	1.18388

Source: Finance Commission

Under the capital expenditure, the amounts allocated by the General Treasury was apportioned between the Provinces, based on the above indices.

10.2.2 Apportionment of PSDG, CBG and RPG for the Year 2019

The Provincial Specific Development Grant (PSDG) and the Criteria Based Grant (CBG) are provided under capital budget to meet provincial development needs, with the objective of reducing inter and intra provincial disparities. The apportioned amounts of capital grants are given in the Table 10.5. The Revenue Performance Grant (RPG), as elaborated in the Para 5.4 of this report, is recommended to encourage devolved revenue collection. This grant is apportioned between the Provinces taking into account of revenue collection in the previous years. The details of apportionment of the capital grants are shown in the Table 10.5.

Table 10.5: Apportionment of Capital Funds (PSDG, CBG and RPG) – 2019

(Rs. Mn)							
Province	PSDG and CBG Allocation %	PSDG	CBG	Sub Total	RPG Allocation %	RPG	Grand Total
Western	6.36	2,098.80	445.20	2,544	28.3	849	3,393
Central	9.72	3,207.60	680.40	3,888	9.4	282	4,170
Southern	9.71	3,204.30	679.70	3,884	15.6	468	4,352
Northern	13.78	4,547.40	964.60	5,512	13.2	396	5,908
North Western	10.21	3,369.30	714.70	4,084	11.1	333	4,417
North Central	12.04	3,973.20	842.80	4,816	4.4	132	4,948
Uva	13.99	4,616.70	979.30	5,596	4.7	141	5,737
Sabaragamuwa	11.35	3,745.50	794.50	4,540	5.9	177	4,717
Eastern	12.84	4,237.20	898.80	5,136	7.4	222	5,358
Total	100.00	33,000.00	7,000.00	40,000	100.0	3,000	43,000

Source: Finance Commission

12. Policy Recommendations

The Finance Commission submits the following policy recommendations, giving particular attention to achieve balanced regional development in the country.

Fair Distribution of Funds to Provinces

1. Entire funds disbursed for the development sectors coming under the devolved subjects should be channeled through the Provincial Councils based on the recommendation of the Finance Commission to ensure fair distribution of funds for the Provinces.
2. To achieve Balanced Regional Development the National Ministries it is proposed to consider the proportions recommended by the Finance Commission, in distributing their capital funds among the Provinces.
3. The current practice of planning and budgeting is not integrated and sometimes not sound due to weak information and decision systems. In addition, poor co-ordination and

communication among various Government Departments has hindered the economic progress to a great extent. Therefore, a common framework for national and sub- national planning system needs to be established without undermining the concept of devolution and established fiscal relationships between the center and periphery.

4. Ensuring strong vertical coordination between the three tiers namely; Central, Provincial Councils and Local Authorities is needed to avoid duplication of work and waste of resources.
5. Out of the total annual revenue of the country, currently only around 12.5% is transferred to the Provincial Councils. This seems unfair. Consideration is needed to increase the percentage of transfers to the Provinces from the total annual revenue of Sri Lanka including provincial councils and local authorities, enhancing their financial capacity for development.
6. The Government provides total requirement of funds for the personal emoluments of the local authorities irrespective of their revenue generation capacity. It is proposed that a detailed study should be carried out and make appropriate policy decisions on funding of the local authorities.

Social Infrastructure Development

7. Sri Lanka's population has a very high literacy rate. However, the country's education system does not fully cater to the needs of the modern job market, and lags behind in many socio economic spheres, resulting in unemployment and under employment. Thus, changing the education system to meet the demand of job market is very important. It is imperative to formulate a sound policy on education and school system of Sri Lanka by the National Education Commission.
8. The majority of schools coming under the provincial system do not have facilities compared to the national (353) and urban provincial schools. Thus resource allocation in the education sector should recognize this and develop this and develop long term plans in order to mitigate such disparities.
9. Management across all institutions largely suffer from lack of required human resources in skilled and professional categories. High priority should be accorded to develop human

resources in the Provincial Councils and Local Government authorities for their capacity building.

10. In providing education, students should be encouraged to enhance their skills development with the objective of ensuring employability.
11. The children under probation and childcare need to be mobilized to engage in productive activities through formal education, vocational training, development of IT skills, language skills etc. Therefore, providing more allocations for this sector along with sufficient human resources including the services of psychiatrists is recommended.
12. National Education Commission recommends in its proposal for National Policy on General Education in Sri Lanka -2016, one year free pre-primary quality education be provided to every Sri Lankan child. Accordingly, the Finance Commission recommends to allocate adequate funds for relevant provincial agencies to regulate and facilitate Pre-School Education at provincial level.
13. It is proposed that the rule of minimum distance for student admission in National Schools needs to be amended to ensure fairness to all tax payers. It is recommended to consider maintaining separate schools for primary and secondary education in order to ensure a fair basis of student enrollment.
14. Underutilization of physical resources and non-availability of Specialist Medical Officers in rural hospitals need be given special attention to ensure effective service to the people in rural areas and to avoid overcrowding in urban hospitals.
15. Section 17.2 of the 19th schedule in the 13th amendment refers to provincial cooperative development including cooperative education. Although, cooperatives have played a key role in entrepreneurial development, finance, eradicating poverty, food security etc. in the past, its position is subdued at present mainly due to their poor governance structure. Recognizing their potential it is important to introduce appropriate institutional reforms with proper guidance.

Economic Infrastructure Development

16. In line with the government strategy on promoting Public Private Partnership, by both public and private sectors, provincial authorities should take measures to implement such projects in the relevant areas.
17. Promotion of income generating projects by small entrepreneurs at local level need to be encouraged to support national level programme on poverty alleviation, with appropriate micro finance scheme.
18. Small enterprises need to be encouraged increasing regional level contribution to the Gross Domestic Product (GDP) additionally, promotion of value chain development of industries is recommended.
19. Considering the regional potentials of different provinces, strategies need to be developed to promote production of merchandise exports as well as import substitutes relieving the high burden on the balance of payment of the country. This will also contribute to transform the economy from non-tradable to tradable.
20. High priority should be given to develop and maintain C, D and rural roads as the majority of population live around such roads.
21. Agriculture is the cornerstone in socio-economic development of Sri Lanka. A substantial amount of funds is spent annually to import food. Most of which can be produced locally. In 2017, approximately RS 250 billion worth of food including milk food has been imported by Sri Lanka. It is also noted that local production of quality seeds and planting materials do not meet the country's requirement and the Agriculture sector face challenges associated with climatic change and out-migration labor. However, in the recent past neglect in the rehabilitation and maintenance work is recorded.

Limited water availability, especially in the dry zone is a major impediment to Agricultural Development in Sri Lanka. This situation is aggravated in the absence of a sound and regular maintenance system for irrigation tanks. It is also noted that the agriculture productivity has not increased significantly despite of incentive & assistance given by the government.

Accordingly;

- i. Take measures to increase the production of quality seeds of high yield production.
- ii. To promote appropriate technologies and enhance mechanization
- iii. Introduce innovative food products and food technology process and develop food value chains with dedicated food technology parks to promote regional development, contributing towards tradable economy.
- iv. Take collaborative action to mitigate adverse effect of climate change
- v. Government should allocate more funds to improve the conditions of minor irrigation.

Revenue Generation

22. Provincial Revenue Officers are underutilized due to the abolition of BTT. Therefore, appropriate measures should be taken to obtain a more meaningful and productive service from them, by assigning specific roles of tapping possible revenue sources.
23. Provincial and rural roads are part of an economically important arterial network for which provinces and local authorities spend a substantial amount annually without any cost recovery mechanism. It is therefore reasonable to introduce a mechanism whereby vehicle owners will bear the maintenance cost of roads, at least partially. e.g. based on the engine capacity of vehicles, an additional tax can be charged at the time of renewal of annual license and this additional revenue can be utilized for road maintenance purpose. In addition, it is appropriate to empower Provincial Councils to impose duties on transferring ownership of vehicles in accordance with the List I of the 9th schedule of the 13th Amendment.
24. In order to enhance provincial revenue, permit provincial Councils to collect dealership license taxes on drugs and other chemicals in accordance with the List I of the 9th schedule of the 13th Amendment.

25. Direct the government institutions responsible for collecting provincial revenue to transfer the due provincial revenue portion to them on time. e.g.
- Fauna and Flora Act
 - Medical institution registration
26. There is no provision in the Urban Council Ordinance to collect court fines of the Urban Councils. However, the Municipal Councils and the Pradeshiya Sabhas are entitled to receive court fines. Hence, it is important to revise the Urban Council Ordinance enabling them to collect court fines. This will enhance their financial capacity.
27. A proper administrative mechanism with suitable IT system should be established to distribute court fines and stamp duties collected by the PCs, among the local authorities avoiding unnecessary time lag.
28. The property taxes collected by many Local Authorities are totally inadequate to meet the cost of collection and there is a potential to raise substantial revenue from this source, if the properties are re valued on regular basis. For this purpose, services of professional valuers need to be obtained. In addition, all taxes imposed by the Local Authorities need to be revised to reflect a realistic value on regular basis.
29. Provincial Authorities should explore the possibilities of improving revenue collection according to the devolved sources as listed in 36.1 to 36.19 of the Ninth Schedule of the Thirteenth Amendment to the Constitution.

Others

30. All Provincial Councils and Local Authorities need to exercise economy, efficiency and effectiveness in utilizing resources to create value for money by introducing a Results Based Framework.
31. Accountability, transparency, responsiveness, equitability and effectiveness and efficiency are among the major cornerstones of the good governance. The organizational culture among the provincial officers needs to be promoted directing them to improve Good Governance and alternate sources of funding for their development activities.

32. Direct contract has to be awarded only for the Community Based Organizations in the same village/ in adjoining villages/ GN Divisions without permitting other CBOs to enter into contracts in order to/ avoid cost overrun and time over run. Such works should be handled by Community Based Organizations themselves.
33. Since the government has given high priority to achieve SDGs by 2030, provincial councils and local authorities need to be directed to speed up the process throughout the island.
34. It is proposed that a study undertaken by Department of Fiscal Policy to analyze the current provincial revenue sources and identify the new revenue sources in the provincial system.
35. Distance and exclusivity should not be measured in spatial terms but also in terms of access to information, particularly among the marginalized sectors of the economy. Accordingly, provincial councils and local authorities should promote access to information on services to all adopting modern ICT.
36. Formulation of a sound Spatial Development Planning System, consistent with the objective of maximizing national economic growth is to be considered. All regions will benefit under such a spatial development planning system leading to balanced sustainable development of the country as a whole. The current practice of fragmented fiscal decision making should be avoided and strengthening of inter-agency mechanism in resource allocation giving due emphasis to an integrated national development plan is to be considered.
37. Solid Waste Management is crucial to meet the 2030 Agenda for Sustainable Development. However, the public sector lack relevant technology to tackle the increasing amount of waste that is being produced through urbanization and new consumption pattern of the people.

The current practice of linear consumption with high economic environment and social cost of waste is unsustainable. Each provincial council and Local Authority should be promoted the adoption of circular economic by developing road maps with implementation plans to:

- minimize waste generation

- maximize the recovery of resources from waste in a way that fosters the growth of the circular economy
 - design and deliver waste management services that meets needs of the society in a cost effective manner shared
 - steward ship
 - sound waste management system will offer value contribution towards a future economy
38. Local government is a major component in the country's administration system. They have not been recognized in the mainstream of development. This should be reversed by making local governments as an integral part of regional development.

Gender Response Budgeting

39. The SDG goal 5 is to achieve gender equality and empower all women and girls. Since, the women and girls represent more than half of the total population in Sri Lanka, gender equality to be ensured when allocating resources wherever possible.

Empower differently able People

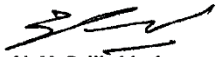
40. Mainstreaming differently able people would be another major area that is also to be addressed in 2018 Budget. The Cabinet of Ministers has already directed to implement the "Sri Lanka National Action Plan for Disability" which has been prepared based on the National Policy on Disability and designed for implementation of 7 thematic areas namely, Empowerment, Health and Rehabilitation, Education, Work and Employment, Mainstreaming and Enabling Environment, Data and Research and Social Institutional Cohesion. In line with the Government policy and the action plan all spending agencies are required to identify focus areas and relevant activity on empowering the differently abled community and mobilizing them as an equally useful segment of the society.

General

41. Policy interventions involving targeted Public Investments in lagging regions are critical towards achieving Balanced Regional Development e.g. especially targeted development policies considering Social, Natural and Capital resource of the regions.

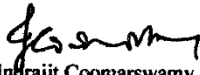
Note: Recommendations mentioned under No. 1, 2, 3 and 4 were included in our recommendations made in 2018 which need to be implemented as soon as possible as they were approved by the Cabinet of Ministers and tabled in Parliament.

The Commission wishes that the above Policy Recommendations be given due consideration and implement them with the Cabinet approval and tabling the same in Parliament.




U. H. Palihakkara

Appointed Member and Chairman



Indrajit Coomarswamy

Ex-officio Member and the Governor of the Central Bank of Sri Lanka



R. H. S. Samaratunga

Ex-officio Member and the Secretary to the Treasury



V. Kanagasabapathy

Appointed Member



H. M. Zafrullah

Appointed Member