

THE FINANCE COMMISSION

RECOMMENDATION - 2015 TO H.E. THE PRESIDENT
In terms of the Article 154R (4) of the Constitution of Sri Lanka

March 2015

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நீதி ஆணைக்குழு
(அரசியலமைப்பின் 154'எ ஆம் உறுப்புரையின்கீழ்
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FINANCE COMMISSION
(Established under Article 154 R
of the Constitution)

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දිනය
திகதி: } 31.03.2015
Date

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

Your Excellency,

As required by the Article 154 R of the 13th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka, I hereby submit the Recommendation for 2015 including the proposed strategies to achieve balanced regional development in the country and the apportionment of funds to be allocated from the Annual Budget - 2015 for use in the provinces.

This Recommendation may be laid before Parliament in terms of 154 R (7) of the constitution.

Yours respectfully,

Sgd/ Ariyaratne Hewage
Chairman
Finance Commission

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1. The Role of the Finance Commission and its Major Responsibilities

The Finance Commission was established, by the 13th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka in 1987 to facilitate the process of transfer of resources to the provinces, and provincial development planning. The mandate of the Finance Commission as indicated in Article 154 R (3), (4) and (5) of the 13th Amendment to the Constitution is 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, per capita income, the need progressively to reduce social and economic disparities and the need progressively to reduce the differences between the per capita income of each Province and the highest per capita income among the Provinces. Accordingly, the Finance Commission is to apportion such funds between 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”.

1.1 Legal Provisions for Devolution

The process of devolution of power in Sri Lanka is based on a number of pieces of legislation which have introduced a substantial transfer of power to the Provincial Councils and Local Authorities in the political and administrative structure in Sri Lanka. A summary of this legal framework is given below;

1.1.1 The Thirteenth Amendment to the Constitution of Sri Lanka

The 13th Amendment to the Constitution established devolved governance under the provincial council setup with appropriate legislative, executive and financial authority to be exercised by the provincial councils. The distribution of power between national government and the provinces is included in the three lists given in the 13th Amendment to the Constitution. They are namely as the Reserved List (powers of the national government), the Provincial List (powers devolved to the provinces) and the Concurrent List (areas of shared responsibilities). The 13th Amendment to the Constitution also created three tiers of governance, i.e. the National Government, Provincial Councils and Local Authorities though interdependent, which are yet dependent each one, on the national Government, superseding the other two tiers.

The 13th Amendment to the Constitution provides the legislative basis for the following;

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

1.1.2 The Provincial Councils Act No 42 of 1987

Provincial Councils Act No. 42 of 1987 provides the detailed 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 the Provincial Public Service Commission
- v. Appointment of the Chief Secretary and other officers

1.1.3 Provincial Statutes and Financial Rules

The 13th Amendment to the Constitution has made provisions to allow statutes to be made by each provincial council applicable to the province concerned. Every statute made by a provincial council shall be presented to the Governor for his assent. The Governor shall either assent to the statute or he may return to the provincial council requesting the council to reconsider the statute.

The financial rules of the provinces are framed in line with the constitutional mandate of the Finance Commission and the provinces are expected to obtain concurrence of the Finance Commission for their development plans. The Finance Commission assists the provinces in their planning and implementation by way of engaging mainly in the following activities;

- Assessment of the requirements of provincial capital expenditure, recurrent expenditure and cadre annually,
- Issuing guidelines and instructions in relation to the needs assessment in the provinces,
- Recommendation of allocations to the government needed for provincial development after discussions with the provinces,
- Informing the provinces on annual grants allocated by the government,
- Issuing guidelines on the preparation and implementation of annual development plans including utilization of funds within the government policy and budgetary framework,
- Directing provinces in order to ensure achieving balanced regional development through effective utilization of resources.

1.1.4 Legal Base of the Local Authorities

Being the third and lowest tier of the government, local authorities are responsible for providing a variety of public services including roads, sanitation, drains, housing, libraries, public parks and recreational facilities. All local authorities comprise members elected by the people.

Local authorities operate under three legal entities namely Municipal Councils, Urban Councils and Pradeshiya Sabhas. There are 23 Municipal Councils, 41 Urban Councils and 271 Pradeshiya Sabhas operating in the country. The 13th Amendment to the Constitution included local government as a devolved subject of the provincial councils. Local authority legislations empower any local authority to establish a local authority fund for its financial

purposes namely municipal councils' fund, urban councils' fund and Pradeshiya Sabhas' fund.

1.1.5 The Eighteenth Amendment to the Constitution

With the introduction of the Eighteenth Amendment to the Constitution of Sri Lanka in 2010, some changes were introduced to the system of appointment of the seven commissions. The Chairman and members of the Commissions referred to in Schedule 1 under Article 41 A (1) shall be appointed by the President. In making such appointments, the President shall seek the observations of a Parliamentary Council established under the same Article. The Finance Commission is included in the list of seven Commissions under the Schedule 1.

However, it should be noted that the present government is in the process of changing the 18th Amendment to the Constitution by replacing it with the 19th Amendment.

2. Provision of Funds to the Provinces

As per the Constitutional requirement, the Government shall allocate adequate funds to meet the fiscal needs of the provinces in consultation with the Finance Commission. The Finance Commission is to recommend and apportion funds among the provinces aimed at balanced regional development. In this context, the Finance Commission performs two main functions;

- a. Estimates the fiscal needs of the provinces based on the analysis of the needs submitted by the provinces and ensure that they are in line with national policy directives and priorities. The Commission informs such needs to the Government with regard to allocation of funds from the Annual Budget, adequate to meet provincial needs.
- b. Apportions such funds between the provinces with the objective of reducing regional disparities.

The apportionment and release of such funds to the provinces are performed through the following grants.

Block Grant - The Block Grant is to meet recurrent expenditure needs of the provinces for the purpose of sustaining and improving the service delivery system. Salaries and wages of provincial staff constitute the major part of recurrent expenditure and are to be paid to the provincial cadre approved by the Management Services Department (MSD). Accordingly, the

assessment of salaries and wages is calculated taking into account the actual living cadre within the approved staffing limit. This grant also includes transfers to local authorities aimed at meeting the expenditure on reimbursement of allowances of members and salaries and wages of staff. (Allocation and Release of Block Grant 2009 – 2014 are in Annex 1)

Criteria Based Grant (CBG) - This is a grant meant to meet the capital expenditure for improving the socio-economic conditions of the people in a manner that contributes towards reducing regional disparities. The funds provided under this grant are available to the provinces for discretionary spending on work related to development. However, the provinces are required to utilize this grant, adhering to the Circulars issued by the Commission. (Allocation and Release of Criteria Based Grant 2009 – 2014 are in Annex 2)

Province Specific Development Grant (PSDG) - The PSDG is allocated mainly for financing development projects of a capital nature, paying special attention to economic and socio infrastructure development under different devolved subjects with a view to improving the quality of life of people. The annual development plans have to be prepared following the guidelines issued by the Commission. When provinces submit their development plans, the Commission and respective provincial authorities discuss and agree to ensure that such plans would address the provincial needs and that they are also within the national policy framework of the government. For each investment, measurable results (output, outcome and impact) need to be identified, in the form of pre-defined indicators and periodical monitoring and evaluation of the achievements should be undertaken on the basis of such indicators. All provincial authorities are expected to use the relevant formats introduced by the Finance Commission for results based monitoring and evaluation. (Allocation and Release of Province Specific Development Grant 2009 – 2013 are in Annex 3)

The PSDG has been divided into the following four main categories.

Devolved Sectors/ Subject Areas - The Finance Commission has taken into account twenty two sectors that come under the devolved list in the provision of funds for development projects in 2015. These sectors are assigned to the provincial ministries and there are departments, divisions, units, authorities and institutes responsible for the planning and implementation of the sector activities. The earmarked amount is allocated to the responsible agency by the provincial budget.

Special Projects for Balanced Regional Development - A specific amount is provided for the projects under balanced regional development for implementation of medium scale projects at provincial level, aiming at reducing regional disparities. Prior concurrence of the

Commission should be obtained for such projects which are required to be formulated and implemented, during a period of one to three years. It is expected to bring about positive impacts namely on value addition, poverty reduction and employment generation through these projects in respective areas. It is expected to develop these projects under an integrated approach which covers major sectors.

Backward and Isolated Village Development - These projects are to provide necessary infrastructure facilities for the identified rural villages which have become isolated and thus neglected, due to lack of essential basic social and economic overheads. In designing these projects, an integrated approach has to be adopted considering all requirements in different sectors for the development of such villages. Construction of small scale bridges, culverts and access roads, providing electricity, drinking water, agricultural technology, facilitating small scale industry, and introducing technical knowhow should be the priority areas.

Flexible Amount - These funds are expected to be used for making suitable budgetary adjustments to address specific constraints in a particular year and inclusion of activities which have not been incorporated in the original plans.

In addition to above four allocations, provisions have been made under PSDG for the development projects which have been agreed upon and decided at the national level and funded by bilateral and multilateral donors and the Consolidated Fund as well. In the implementation of these projects, the support of the provincial staff is obtained.

3. Assessment and Apportionment of Capital and Recurrent Needs at Provincial Level

The Finance Commission engages in a comprehensive process in calling for required provincial capital and recurrent needs and analyzing them using the criteria included in Finance Commission's guidelines, as the Finance Commission is responsible for formulating principles towards achieving balanced regional development in the country.

The provincial authorities were requested to submit their estimates of financial needs for the financial year of 2015 in accordance with the "Guidelines on Presentation of Request for Finances" issued by Finance Commission. Briefly, this process includes the following procedures.

- A series of consultative meetings are held with the relevant provincial officers and a wide range of data and information on provincial development priorities, required service delivery, actual cadre and infrastructure needs are given thorough scrutiny.
- The Finance Commission submits its assessment of provincial fund requirements to the General Treasury.
- The General Treasury agrees in consultation of the Finance Commission, upon the bulk amount on PSDG, CBG and BG to be allocated to the provinces.
- The bulk amount is apportioned among provinces based on the set of criteria, developed by the Commission.
- The Chief Minister as the minister in-charge of the subject of finance submits the Provincial Budget before to the Board of Ministers. Subsequently the approved budget is submitted to the Governor who will cause it to be submitted to the Provincial Council for its approval.
- The constitutional provisions require the Finance Commission to submit, to the President, its recommendations with regard to principles of apportioning funds from the annual budget between provinces.

Requests for capital and recurrent expenditure submitted by the provinces are carefully examined and assessed by the Finance Commission before making recommendations to the Government. In assessing provincial needs, mandatory constitutional requirements, alignment with the government policies and guidelines issued by the Finance Commission, Medium-Term Development Plans of the provinces, circulars issued by the General Treasury and the Ministry of Public Administration and the performance on spending public funds in provinces are taken into consideration.

3.1 Assessment of Capital Needs at Provincial Level

In assessing the provincial capital needs, the Commission undertakes a comprehensive analysis within the policy framework of the government and Provincial Medium-Term Plans. maintenance of services, improvement of service efficiency, achievement of planned results, avoidance of duplication of work and wastage of resources, implementation capacity for priority needs of provincial agencies, and national policy are given due consideration.

In this exercise, the Commission is engaged in a sequential process in order to obtain the real capital needs of the provinces. This includes,

- i. Calling the provincial capital needs from the provinces using the relevant format (Form 2).

- ii. Assessing the provincial needs sent by each province using the criteria such as the past performance, the expected results in the Provincial Medium Term Plan, adherence to the guidelines of the Finance Commission, priorities of the government, maintenance of service delivery, avoidance of duplication of work and the availability of resources.
- iii. Engaging in a consultation with the General Treasury on provincial resource requirements, focusing on resource availability, investment priorities and the need for reducing regional disparities.
- iv. Recommending the financial requirements to the General Treasury, based on the above consultations.
- v. Apportioning the capital funds among the provinces using criteria developed by the Finance Commission.

Capital needs requested by the provinces for 2015 are given in the Table 1.

Table 1 : Provincial Requests on Capital Needs (PSDG) – 2015

Province	Provincial Request (Rs. mn)	% of Provincial Share
Western	6,593	11
Central	5,595	9
Southern	14,353	24
Northern	6,977	12
North Western	6,843	11
North Central	3,555	6
Uva	7,496	12
Sabaragamuwa	2,432	4
Eastern	6,519	11
Total	60,363	100

Source: Provincial budget estimates-2015

Note: Excluding nationally agreed Foreign and locally funded Projects

Capital needs recommended by the Finance Commission for each province for the year 2015 are given the table 02.

Table 2 : Capital Needs Recommended by the Finance Commission - 2015

Province	PSDG		CBG	
	FC Recommendation Rs. mn	% of Provincial Share	FC Recommendation Rs. mn	% of Provincial Share
Western	6,097	14.2	1,290	13.6
Central	5,397	12.6	1,165	12.3
Southern	5,120	11.9	1,161	12.2
Northern	3,978	9.3	935	9.8
North Western	4,537	10.6	967	10.2
North Central	3,659	8.5	845	8.9
Uva	4,523	10.5	1007	10.6
Sabaragamuwa	5,133	11.9	1,106	11.6
Eastern	4,556	10.6	1024	10.8
Total	43,000	100	9,500	100.0

Source: Budget division, Finance Commission

3.2 Apportionment of Capital Funds between Provinces

A major function of the Finance Commission is to formulate principles for achieving balanced regional development in the country and to apportion funds among the provinces accordingly. The Commission apportions funds among the provinces taking into account the main aspects such as the total population of each province, the per capita income of each province, the need for reducing socio-economic disparities progressively and reducing the differences between per capita income of each province. The Commission has used a statistical formula for apportionment of capital funds (PSDG and CBG) between the provinces. In this formula, the following indicators have been used to analyse the regional economic and social disparities.

- Provincial contribution to GDP
- Average share of economic sectors in the provinces
- Average provincial contribution to the economic sectors of the national economy
- Provincial annual growth rates
- Provincial population and per capita income
- Provincial Poverty Head Count Index
- Other provincial socio-economic indicators

It should be noted that funds provided by foreign funded projects particularly, in the Northern and Eastern Provinces have been taken into consideration in apportioning the funds.

3.2.1 Methodology of Apportionment of Capital Funds

When apportioning funds under PSDG and CBG, a statistical formula is used by the Finance Commission. The technique of “Principle Components Analysis” has been adopted in order to calculate the Composite Indices for all provinces using some key variables which have direct relationships with the living condition of the people. The following four categories have been considered in this formula with the assigning of weights for each category. The identified variables and assigned weights for apportionment of PSDG are given in the table 3.

Table 3 : Identified Indicators & Assigned Weights for Apportionment of PSDG

	Criterion	Indicator	Weight
01	Poverty and Income		40%
	(i) Population	Share of population of the province	14 %
	(ii) Per capita income	Percentage of share of per capita income of the province	08%
	(iii) Poverty	Poverty Head Count Index	08%
	(iv) Unemployment	Unemployment Rate in the province	10%
02	Health and Nutrition		15%
	(i) Neo-natal mortality	Per 1000 live births	7.5%
	(ii) Low birth weight	Per 100 live births	7.5%
03	Education		15%
	(i) Student enrolment in grade 1	Percentage share of the province	5%
	(ii) Student learning up to secondary level	% of population who have completed education up to secondary level	5%
	(iii) Student leaving schools (from year 6 to 14)	Student leaving rate	5%
04	Infrastructure		30%
	(i) Houses without electricity facilities	% of houses without electricity	5%
	(ii) Provincial road length: (C & D)	Percentage share of province	25%

Source: policy, Research & Publication Division, Finance Commission

The statistical formula used for apportionment of funds is given below,

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

Where x_i is the allocation for province i ,
 V_{ni} is the score value of variable category n for province i ,
 a_n is the weight for variable category V_n

In the apportionment of CBG between provinces, four selected socio-economic indicators namely provincial population, per capita income, poverty ratio and unemployment rate have been taken into account. The weights assigned to each of them are given below.

Criterion	Weight
Population	35%
Per Capita Income	20%
Poverty Ratio	20%
Unemployment Rate	25%

Composite indices used for apportionment of funds between the provinces under PSDG and CBG are given in the table 4.

Table 4 : Composite Indices (CI) for Apportionment of Funds – 2015

Province	CI Scores for PSDG	CI Scores for CBG
Western	0.141776	0.215716
Southern	0.119078	0.120791
Sabaragamuwa	0.119396	0.105867
Central	0.125506	0.125938
Uva	0.105193	0.083533
Eastern	0.105971	0.091885
North Western	0.105490	0.110560
North Central	0.085104	0.072859
Northern	0.092487	0.072850

Source: Budget Division, Finance Commission

Using the composite indices, allocated amounts under PSDG and CBG by the General Treasury were apportioned among the provinces by the Finance Commission. However, some adjustments with regard to allocations were made considering the projects implemented in the provinces with local and foreign funding.

The next step adopted by the Commission is to allocate funds among different sectors and the provincial agencies. The Commission considered a few selected elements when deciding the amounts to be allocated among the sectors. These elements are given below.

- i. Adherence to policy directives and strategies of the government.
- ii. Compliance with the goals and thrust areas identified in the Medium Term Agency Results Framework of the provinces.
- iii. The existing intra provincial disparities with respect to major socio-economic sectors particularly health, education and social services.

- iv. Need for improvement of physical infrastructure in provinces to attract private investment mainly in income generating activities.
- v. Need for formulating and implementing specially designed projects which have forward and backward linkages in provincial economies.
- vi. Investing in selected projects which have a direct impact on isolated geographical pockets in provinces, with a view a improving connectivity with other parts of the province.

The amounts for capital projects apportioned between the provinces for 2015 are given in Table 05. This table also includes amounts allocated under the development projects funded by foreign and local funding sources.

Table 5 : Apportionment of Capital Funds – 2015

(Rs. mn)

Province	CBG	PSDG	Sub Total	% of Provincial Share	Development Projects *	Total	% of Provincial Share
Western	525	1,452	1,977	12	1,145.91	3,122.91	9
Central	500	1,390	1,890	12	2,489.35	4,379.35	13
Southern	385	1,305	1,690	11	2,691.80	4,381.80	13
Northern	400	1,440	1,840	12	3,597.80	5,437.80	15
North Western	425	1,325	1,750	11	1,174.77	2,924.77	9
North Central	375	1,190	1,565	10	1,040.10	2,605.10	8
Uva	375	1,350	1,725	11	2,011.17	3,736.17	11
Sabaragamuwa	400	1,365	1,765	11	2,995.10	4,760.10	14
Eastern	400	1,190	1,590	10	1,279.32	2,869.32	8
Total	3,785	12,007	15,792	100	18,425.32	34,217.32	100

Source: Finance Commission

* Nationally agreed foreign and locally funded projects.

Provincial authorities prepare the Provincial Annual Development Plan – 2015 on the basis of the amounts allocated for the sectors. There are 22 sectors identified for the allocation of funds and, in addition, funds are also allocated for special projects under Balanced Regional Development, Backward and Isolated Village Development and Flexible Amount. Key criteria to be considered by the Finance Commission when approving projects are as follows.

- i. Need for improvement in the key sectors of education, health and roads with a view to enhancing living standards of the people.
- ii. Ensuring minimum well-being of the people, particularly those at a low income level.
- iii. Promotion of value added industries and, small and medium scale enterprises with the objective of income generation and employment.
- iv. Promotion of private investment in lagging regions in line with government policy.
- v. Need to align with the Hundred Day Programme of the government.

- vi. Ensuring fair distribution of resources among the districts in the province.
- vii. Importance of identifying actual needs of buildings and other structures to ensure delivery of quality services.

3.3 Assessment of Recurrent Needs at Provincial Level

Recurrent expenditure includes two components, personal emoluments and other recurrent expenditure. Personal emoluments include salaries and wages, overtime and holiday payments and allowances for employees. The other recurrent expenditure consists of traveling expenses, supplies, maintenance, contractual services, transfers to other agencies, grants, subsidies and interest payments etc. When approving the Block Grant, the Finance Commission takes into account the expected revenue. In addition the amounts transferred to the local authorities by the provincial council are taken as an expenditure item of the province. Provincial recurrent needs for 2015 are given in the Table 6.

Table 6 : Provincial Requests on Recurrent Expenditure - 2015
(Including Revenue from Stamp Duty, and Transfer of Court Fines and Transfers to LAs)

(Rs'000)

Province	Personal Emoluments	% of Provincial Share	Other Recurrent Expenditure	% of Provincial Share	Total Recurrent Expenditure
Western	26,434,100	60	17,847,963	40	44,282,063
Central	18,355,153	73	6,865,349	27	25,220,502
Southern	16,506,341	76	5,318,971	24	21,825,312
Northern	11,061,291	74	3,898,237	26	14,959,528
North Western	17,014,169	76	5,425,687	24	22,439,856
North Central	9,702,270	73	3,536,284	27	13,238,554
Uva	11,379,055	74	4,092,345	26	15,471,400
Sabaragamuwa	16,886,030	78	4,660,046	22	21,546,076
Eastern	12,256,425	73	4,589,084	27	16,845,509
Total	139,594,834	71	56,233,966	29	195,828,800

Source: Provincial Budget estimates -2015

Table 7 : Provincial Requests on Other Recurrent Expenditure -2015
(Excluding Revenue from Stamp Duty, Transfer of Court Fines and Transfers to LAs)

(Rs'000)	
Province	Other Recurrent Expenditure
Western	5,825,327
Central	5,977,233
Southern	2,820,932
Northern	2,734,919
North Western	3,108,526
North Central	2,355,078
Uva	3,516,196
Sabaragamuwa	2,901,206
Eastern	2,998,169
Total	32,237,586

Source: Provincial Budget estimates -2015

When assessing the recurrent needs submitted by the provinces, the Finance Commission takes into account the following factors.

- Cadre approved by the Department of Management Services
- Actual living cadre and vacancies
- New appointments agreed to by the line ministries and provincial councils
- Estimates of personal emoluments, salary arrears and staff loans
- Estimates of other recurrent expenditure, including maintenance of capital assets
- Allowances for elected members, and transfers to the local authorities and other agencies

Table 8 : Assessed Personal Emoluments of the Living Provincial Cadre - 2015

Province	Living Cadre	% of Provincial Share	Personal Emoluments							
			Salaries & wages (Rs.'000)	% of Provincial Share	Overtime & Holiday pay (Rs.'000)	% of Provincial Share	Other Allowances (Rs.'000)	% of Provincial Share	Total (PE)(Rs.'000)	% of Provincial Share
Western	55,962	18	15,123,640	20	1,777,218	19	9,622,273	19	26,523,131	19
Central	41,494	13	10,232,891	13	1,599,499	17	6,502,763	13	18,335,153	13
Southern	38,936	12	9,426,676	12	839,440	9	6,240,225	12	16,506,341	12
Northern	26,631	9	5,811,335	8	833,074	9	4,416,881	9	11,061,290	8
North Western	39,481	13	9,616,323	13	1,039,135	11	6,313,238	12	16,968,696	12
North Central	22,934	7	5,005,704	7	851,747	9	3,399,471	7	9,256,922	7
Uva	26,176	8	6,260,145	8	999,438	1	4,119,472	8	11,379,055	8
Sabaragamuwa	30,364	10	7,697,891	10	1,020,977	11	5,454,540	11	14,173,408	10
Eastern	30,125	10	6,845,715	9	627,166	7	4,746,971	9	12,219,852	9
Total	312,103	100	76,020,320	100	9,587,694	100	50,815,834	100	136,423,848	100

Source: Provincial Budget estimates 2015

Note : Except vacancies.

Table 9 : Assessed Other Recurrent Expenditure for the Provinces – 2015

Province	Other Recurrent Expenditure without Transfers to LAs	% of Provincial Share	(Rs'000)		
			Transfers to LAs	% of Provincial Share	Total Other Recurrent Expenditure with Transfers to LAs
Western	6,514,758	20	5,670,936	42	12,185,694
Central	3,501,533	11	1,611,544	12	5,113,077
Southern	3,726,400	12	1,269,896	9	4,996,296
Northern	2,867,320	9	1,184,956	9	4,052,276
North Western	3,568,222	11	1,018,661	8	4,586,883
North Central	1,953,441	6	365,935	3	2,319,376
Uva	3,316,871	10	536,904	4	3,853,775
Sabaragamuwa	3,708,009	12	871,887	7	4,579,896
Eastern	2,935,223	9	810,286	6	3,745,509
Total	32,091,777	100	13,341,005	100	45,432,782

Source: Finance Commission

3.4 Apportionment of Block Grant among the Provinces

The Finance Commission undertakes a comprehensive analysis of the recurrent needs submitted by the provinces and recommends to the General Treasury the amounts required to meet the provincial recurrent expenditure. The apportionment of the Block Grant for 2015 is given in the Table 10.

Table 10 : Apportionment of the Block Grant - 2015

(Rs'000)	
Province	Block Grant
Western	10,000,000
Central	18,000,000
Southern	16,000,000
Northern	12,800,000
North Western	16,750,000
North Central	10,700,000
Uva	12,600,000
Sabaragamuwa	15,000,000
Eastern	13,750,000
Total	125,600,000

Source: Budget Division, Finance Commission

A point has been made that a larger proportion of provincial funds have been allocated for recurrent needs with less attention to capital development work. It should be noted however, that the services delivered by the provincial staff have impacted positively on the improvement of quality of life of people. This phenomenon can be observed particularly in the sectors of education and health when taking into account the positive growth of the related socio-economic indices. The large numbers deployed in the education and health sectors mainly as teachers, principals, medical and para-medical personnel are paid through the provincial recurrent budget.

The government announced a salary increase of Rs. 10,000/- for the public officers to be paid in installments as indicated below;

- Rs. 3,000/- with effect from 01st January 2015
- An additional Rs. 5,000/- with effect from 01st February 2015
- An additional Rs. 2,000/- with effect from 01st June 2015

The above decision of the government has been made effective by the Public Administration Circular 05/2015 of 11.02.2015.

Required additional financial provisions to meet the above salary increase for the provinces are given in the table 11.

Table 11 : Additional Allocations Required for Payment of Salary Increase**(Rs.mn)**

Province	No. of Employees	Interim allowance Rs.3000 for Jan.2015	Rs.8000 allowance from Feb - May 2015	Rs.10000 allowance from June - Dec. 2015	Total Requirement
Western	57,084	171.25	1,826.69	3,995.88	5,993.88
Central	40,988	122.96	1,311.62	2,869.16	4,303.78
Southern	41,270	123.81	1,320.64	2,888.90	4,333.39
Nothern	26,650	79.95	852.8	1,865.50	2,798.28
N' Western	43,350	130.05	1387.2	3,034.50	4,551.79
N' Central	24,405	73.22	780.96	1,708.35	2,562.55
Uva	27,648	82.94	884.74	1,935.36	2,903.07
S'gamuwa	30,435	91.31	973.92	2,130.45	3,195.71
Eastern	29,963	89.89	958.82	2,097.41	3,146.14
Total	321,793	965.38	10,297.38	22,525.51	33,788.59

Source: Budget Division, Finance Commission

3.5 Financing Local Authorities

Transfer of funds from provinces to local authorities for payment of salaries and allowances to approved living cadre and members is a major element of recurrent expenditure. The total amount paid for salaries of the staff is reimbursed from the funds provided under the Block Grant .Although, contract and casual cadre were previously paid from the revenue collected by the local authorities, recently they were absorbed into the approved cadre. Hence, the total salary bill is paid from funds transferred under the Block Grant. Therefore, it is recommended that the revenue collected by the local authorities be utilized for the improvement of the service delivery.

Table 12 : Allowances to Members and Reimbursement of Staff Salaries of Local Authorities - 2015

Province	MC	UC	PS	Total LG	Members' Allowance		Reimbursement of Staff Salaries	
					No of Members	Allowance (Rs'000)	Living	Amount (Rs'000)
Western	7	14	27	48	884	77,867	17,193	5,593,069
Central	4	6	33	43	634	43,098	4,896	1,568,446
Southern	3	4	42	49	582	40,188	4,004	1,229,708
Northern	1	5	28	34	398	27,138	3,728	1,157,818
North Western	1	3	29	33	500	32,916	3,209	985,745
North Central	1	0	25	26	294	20,034	1123	345,901
Uva	2	1	25	28	319	22,379	1,669	514,525
Sabaragamuwa	1	3	25	29	424	28,866	2,149	843,021
Eastern	3	5	37	45	447	30,245	2,376	780,041
TOTAL	23	41	271	335	4482	322,731	40,347	13,018,274

Source: Budget Division, Finance Commission

Required additional financial provisions for the officers of the Local Authorities to meet the salary increase announced by the 2015 budget of the government are given in Table 13.

Table 13 : Additional Allocations to pay salary increases to officers of Local Authorities - 2015

Province	No.of Employees	Interim allowance Rs.3000 for Jan.2015 Rs. mn	Rs.8000 allowance from Feb-May2015 Rs. mn	Rs.10000 allowance from June-Dec.2015 Rs. mn	Total Requirement Rs. mn
Western	17,193	51.58	550.18	1,203.51	1,805.28
Central	4,875	14.63	156.00	341.25	511.88
Southern	4,856	14.57	155.39	339.92	509.88
Nothern	3,728	11.18	119.30	260.96	391.44
N' Western	3,844	11.53	123.01	269.08	403.62
N' Central	1,599	4.80	51.17	111.93	167.90
Uva	2,547	7.64	81.50	178.29	267.44
S'gamuwa	2,045	6.14	65.44	143.15	214.73
Eastern	3,031	9.09	96.99	212.17	318.26
Total	43,718	131.15	1,398.98	3,060.26	4,590.43

Source: Budget Division, Finance Commission

3.6 Total Budgetary Status of the Provinces

Total sum of revenue, expenditure and government grants of all provinces is depicted in Table 14.

During the period from 2004 to 2013, total revenue collection of all provinces has increased from Rs. 13,522 mn to Rs. 50,469 mn representing a 273% increase. Tax revenue of the provinces in general constitutes 85% of the total revenue. During the period concerned, the increase of tax revenue is 280%. Non tax revenue of the provinces has increased from Rs.1,978 mn to Rs. 6,532 mn showing an increase of 230%.

As given in the table 14, total expenditure of all provinces has increased from Rs. 56,964 mn to Rs.186,062 mn. This is an increase of 226%. As a whole, recurrent expenditure consists of 83% of the total expenditure during the period under review while recurrent expenditure has increased from Rs.46,308 mn to Rs. 156,799 mn indicating an increase of 238%. The capital expenditure has gone up from Rs.10,656 mn to Rs.29,263 mn representing an increase of 175%.

According to the table 14 government transfers including foreign funded projects have increased from Rs.45,848 mn to Rs.135,593 mn by 196%.

The block grant which includes personnel emoluments and other recurrent expenditure constitutes of nearly 80% of total government transfers.

Table 14 : Total Budgetary Status of the Provinces

(Rs. mn.)

Head	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Revenue	13,522	16,133	19,481	25,868	31,368	29,433	36,829	40,990	49,235	50,469
Tax Revenue	11,544	13,819	16,656	21,473	25,992	24,907	31,049	34,658	41,657	43,937
Taxes on Goods and Services	7,783	9,300	11,074	15,700	19,969	19,649	24,336	20,671	25,119	26,802
Turnover Taxes / NBT	5,948	7,202	8,626	12,962	16,641	15,845	19,986	15,550	18,927	19,569
Licence Fees	1,809	2,078	2,410	2,695	3,269	3,757	4,280	5,030	5,144	6,544
Other Taxes	26	20	38	43	59	46	70	91	1,048	688
Taxes on Property	3,761	4,519	5,512	5,773	6,023	5,258	6,713	13,987	16,538	17,135
Non Tax Revenue	1,978	2,314	2,895	4,395	5,376	4,526	5,780	6,332	7,578	6,532
Interest, Profit and Dividends	744	811	1,181	2,007	3,070	2,188	1,539	1,732	1,921	1,583
Sales and Charges	1,234	1,503	1,714	2,388	2,306	2,338	4,241	4,600	5,657	4,969
Total Expenditure	56,964	73,100	94,471	113,067	120,011	130,260	145,491	157,373	161,341	186,062
Recurrent Expenditure	46,308	59,132	76,428	92,721	103,199	111,336	119,162	129,600	139,121	156,799
Functional Classification	46,308	59,132	76,428	92,721	103,199	111,336	119,162	129,600	139,121	156,799
Provincial Administration	3,606	4,682	6,648	7,100	10,889	6,890	10,550	7,163	12,551	14,195
Economic Servicers	1,976	2,423	3,146	3,797	4,253	4,504	4,771	8,345	2,383	3,325
Social Servicers	40,726	52,027	66,634	81,824	88,057	99,942	103,841	114,092	124,187	139,280
Economic Classification	46,308	59,132	76,428	92,721	103,199	111,336	119,162	129,600	139,121	156,799
Salaries and Wages	36,079	46,479	60,497	74,711	79,717	86,547	91,644	101,886	108,246	116,757
Others	10,229	12,653	15,931	10,611	23,482	24,789	27,518	27,714	30,875	40,043
Capital Expenditure	10,656	13,878	18,043	20,346	16,812	18,924	26,326	27,773	22,220	29,263
Acquisition of Capital Goods	923	1,348	1,149	1,248	2,551	2,516	2,902	4,302	2,736	4,207
Capital Transfers	175	205	137	150	511	510	2,496	3,700	869	173
Province Specific Development Projects	3,792	5,693	7,857	9,058	8,578	10,945	11,683	9,953	5,901	6,429
Special Projects	4,988	5,641	8,331	9,253	2,603	3,393	7,439	7,973	11,452	18,100
Others	778	991	969	637	2,569	1,560	1,809	1,845	1,263	356
Government Transfers	45,848	59,695	79,029	88,317	88,942	93,999	107,032	116,383	112,106	135,593
Block Grant	35,892	47,107	62,342	70,742	76,773	77,386	85,299	94,603	91,892	108,801
Criteria Based Grant	803	817	790	1,208	2,304	2,276	2,612	3,854	2,861	2,264
Matching Grant	311	273	221	205						
Province Specific Development Grant	3,854	5,561	7,345	6,995	7,262	10,945	11,683	9,953	5,901	6,429
Grants for Special Projects	4,968	5,937	8,331	9,167	2,603	3,393	7,439	7,973	11,452	18,100

Source: Central Bank of Sri Lanka

3.7 Provincial Financial Statement

The Annual Financial Statement consists of major programmes and projects of a province. Constitutional provisions require that the Governor of a province shall, in respect of every financial year, and at least three months before the commencement of such financial year, cause to be laid before the provincial council of that province, a statement of the estimated receipts and expenditure (Annual Financial Statement) of the province for that year. The provincial authorities require the annual allocation to be transferred from the national budget to the provinces on the recommendations made by the Finance Commission. The provincial financial statements are prepared on the basis of the information related to allocation of funds. Annual provincial development plans are prepared considering the funds allocated for different sectors and in accordance with the Finance Commission's guidelines and the financial rules of the province.

4. Provincial Revenue

Provincial revenue originates from two main sources as given below;

- i. Transfer of Government Revenue in terms of the Fiscal Policy Circular No. 01/2010.
- ii. Revenue collected from devolved sources such as taxes, fees, charges, fines in the 9th schedule of the Thirteenth Amendment to the Constitution.

4.1 Transfer of Government Revenue

According to the Fiscal Policy Circular No: 01/2010, the national authorities, namely the Commissioner General of Inland Revenue, Director General of Customs and Commissioner General of Motor Traffic have been directed to transfer the collected revenue to the provinces on the following basis;

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

The collected NBT and Stamp Duty should be shared between the provinces fortnightly, using dedicated bank accounts in terms of the following percentages, subject to their being re-fixed periodically by the General Treasury, with the concurrence of the Finance Commission.

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

Table 15 : Transfer of Government Revenue - 2013 and 2014

(Rs. mn)

Province	2013		2014	
	Target	Transfer	Target	Transfer upto June *
Western	18,240	11,947	16,800	7,120
Central	3,420	2,251	3,150	1,339
Southern	3,420	2,252	3,150	1,319
Northern	1,900	1,218	1,750	760
North Western	3,420	2,222	3,150	1,421
North Central	1,900	1,412	1,750	793
Uva	1,900	1,742	1,750	669
Sabaragamuwa	1,900	1,297	1,750	573
Eastern	1,900	1,406	1,750	640
Total	38,000	25,746	35,000	14,634

Source: Monthly Revenue Reports of Provincial Councils
* Provisional

4.2 Revenue Collected from Devolved Sources

Provincial revenue sources are listed under the Ninth Schedule of Thirteenth Amendment to the Constitution (Para 36.1 to 36.20) and can be classified as being collected as tax and non-tax revenues. Motor Vehicle License Fees, Excise Duty, Stamp Duty and Court Fines are some of the main provincial revenue sources. Stamp Duty and Court Fines collected by provinces are annually transferred to the Local Authorities. Stamp Duty constitutes the highest contribution among all the revenue sources. Amounts collected through the main sources of provincial revenue in 2013 and 2014 (upto June) are given in Tables 16 and 17.

Table 16 : Provincial Revenue Collected by Devolved Source – 2013

(Rs. '000)

Province	BTT*	Motor Vehicle license Fees	Excise Duty	Stamp Duty	Court Fines	Other**	Total
Western	75,540	2,931,120	327,360	7,341,490	761,160	2,137,530	13,574,200
Central	16,338	628,155	195,998	871,145	101,880	279,442	2,092,958
Southern	17	671,059	74,979	1,000,897	243,895	236,696	2,227,543
Northern***	-	189,049	-	-	-	121,879	310,928
North Western	1,856	851,195	84,082	893,639	316,462	329,784	2,477,018
North Central	2,800	349,998	23,885	65,379	152,414	320,005	914,481
Uva	4,105	246,211	54,076	144,537	100,418	183,134	732,481
Sabaragamuwa	-	439,847	54,541	405,475	102,234	174,450	1,176,547
Eastern	-	281,380	19,789	228,149	131,232	138,977	799,527
Total	100,656	6,588,014	834,710	10,950,711	1,909,695	3,921,897	24,305,683

Source: Monthly Revenue Reports of provincial councils – 2013

*Collection of due BTT up to 2010

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

***No provincial revenue collection mechanism available since a statute has not been passed by the Council

Table 17 : Provincial Revenue Collected by Devolved Source (upto June) – 2014*

(Rs. '000)

Province	BTT**	Motor Vehicle license Fees	Excise Duty	Stamp Duty	Court Fines	Other***	Total
Western	25,140	1,581,270	104,570	4,561,450	250,970	1,189,150	7,712,550
Central	5,470	320,287	90,809	438,914	42,429	174,929	1,072,838
Southern	4,107	371,094	26,821	525,753	92,671	118,520	1,138,966
Northern	-	107,613	-	626	-	41,108	149,347
North Western	779	458,411	42,227	540,291	120,121	159,902	1,321,731
North Central	11,299	188,471	69,462	81,812	73,435	98,864	523,343
Uva	441	133,547	20,684	26,805	45,335	80,744	307,556
Sabaragamuwa	0	226,172	19,836	-	48,596	114,607	409,211
Eastern	-	147,643	16,937	125,610	48,113	75,310	413,613
Total	47,236	3,534,508	391,346	6,301,261	721,670	2,053,134	13,049,155

Source: Monthly Revenue Reports of provincial councils – 2014

* Provisional

**Collection of due BTT up to 2010

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

4.3 Revenue Forecast for 2015

The system of setting revenue target forecasts for the provinces is based on two main sources of revenue, Transfers of Government Revenue and Target for Devolved Revenue Sources.

The total amount of forecast revenue under the above two systems is deducted from the assessed recurrent expenditure needs. The Finance Commission engages in a consultative process with the General Treasury and provincial authorities in setting the revenue targets.

4.3.1 Transfer of Government Revenue

The annual amounts to be transferred to all provinces are decided by the General Treasury in terms of the Fiscal Policy Circular No: 01/2010 of 29.12.2010. Transfers of Government Revenue to the provinces for 2015 have been forecast, based on the following percentages, agreed between the Finance Commission and the General Treasury.

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

The General Treasury has allocated Rs. 39,500 million from the nationally collected revenue to the provinces for the year 2015 in accordance with the Fiscal Policy Circular No. 01/2010.

Table 18 : Estimated Transfers of Government Revenue to the Provinces – 2015

(Rs'000)

Province	Transfers	% of Provincial Share
Western	18,960,000	48
Central	3,555,000	9
Southern	3,555,000	9
Northern	1,975,000	5
North Western	3,555,000	9
North Central	1,975,000	5
Uva	1,975,000	5
Sabaragamuwa	1,975,000	5
Eastern	1,975,000	5
Total	39,500,000	100

Source: Budget Division, Finance Commission

4.3.2 Targets for Devolved Revenue Sources

The targets for devolved revenue have been set based on the revenue assessment submitted by the provincial authorities and past performance of actual revenue collected by the provinces for the previous years and the first six months of 2014.

The forecast target of revenue collection for 2015 including stamp duty and court fines is Rs. 24,500 million. The revenue forecast for 2015 excluding stamp duty and court fines is Rs. 12,177.4 million. Details on revenue forecast for 2015 are given in the table 19.

Table 19 : Revenue Forecast for 2015

(Rs'000)

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	12,444,332	13,675,000	56	4,689,332	6,000,000	49
Central	2,072,000	2,090,000	9	1,082,000	1,100,000	9
Southern	2,154,960	2,372,000	10	973,960	1,200,000	10
Northern	258,859	348,000	1	258,350	347,400	3
North Western	2,432,000	2,620,000	11	1,207,000	1,400,000	11
North Central	881,450	960,000	4	653,700	710,000	6
Uva	604,370	630,000	3	354,370	420,000	3
Sabaragamuwa	1,264,840	1,065,000	4	759,840	600,000	5
Eastern	708,000	740,000	3	418,000	400,000	3
Total	22,820,811	24,500,000	100	10,396,552	12,177,400	100

Source: Provincial budget estimates 2015 and Budget Division, Finance Commission

The forecast amount of Stamp Duty and Court Fines to be transferred to the Local Authorities from total revenue for 2015 is Rs 12,322.6 million. The provincial breakdown on revenue transfers to local authorities is given in table 20.

Table 20 : Stamp Duty and Court Fines to be transferred to the Local Authorities for 2015

				(Rs'000)
Province	Stamp Duty	Court Fines	Total	% Provincial Share
Western	7,000,000	675,000	7,675,000	62
Central	890,000	100,000	990,000	8
Southern	950,000	222,000	1,172,000	10
Northern*	600	-	600	0
North Western	900,000	320,000	1,220,000	10
North Central	65,000	185,000	250,000	2
Uva	130,000	80,000	210,000	2
Sabaragamuwa	380,000	85,000	465,000	4
Eastern	260,000	80,000	340,000	3
Total	10,575,600	1,747,000	12,322,600	100

Source: Budget Division, Finance Commission

** No provincial revenue collection mechanism available since a statute has not been passed*

4.4 Enhancing the Revenue Base at Provincial and Local Level

The sections from 36(1) to 36(20) in the Ninth schedule of the 13th Amendment to the Constitution spell out the sources of revenue assigned to the provinces. Some of them are as follows;

- Dealership license taxes on drugs and other chemicals
- Taxes on prize competitions and lotteries
- Betting taxes
- Non-tax revenue such as fees charged under the Motor Traffic Act toll collections, fees under the Fauna and Flora Protection Ordinance.

Main revenue sources identified in the Acts on Urban Councils, Town Councils and Pradeshiya Sabhas are as follows;

- Stamp duties on land
- Property tax
- Permit fees
- Fees on rent or lease
- Various kinds of fines
- Tax on capital sales
- Service fees.

The gap between the estimated recurrent needs and the targeted revenue is bridged by providing the Block Grant as recommended by the Commission. Estimated total recurrent needs, targeted revenue and allocated Block Grant for 2013 and 2014 are given in table 21.

Table 21 : Provincial Revenue and Recurrent Expenditure*

(Rs. mn)

Province	2013			2014		
	Estimated Total Recurrent Expenditure need	Revenue Target	Allocated Block Grant	Estimated Total Recurrent Expenditure need	Revenue Target	Allocated Block Grant
Western	29,982	23,090	8,502	35,716	22,800	9,000
Central	17,988	4,331	14,864	20,771	4,200	15,600
Southern	16,716	4,464	12,908	18,444	4,300	13,800
Northern	11,633	2,088	10,075	13,813	2,150	11,500
North Western	17,482	4,443	14,118	20,058	4,350	15,000
North Central	9,632	2,369	7,346	11,367	2,450	9,000
Uva	12,498	2,314	10,263	14,938	2,150	11,000
Sabaragamuwa	17,322	2,440	13,088	18,920	2,450	14,000
Eastern	13,904	2,236	11,635	14,643	2,150	12,500
Total	144,156	47,775	102,800	168,669	47,000	111,400

Source: Budget Division, Finance Commission

**These figures include transfers to the LAs*

It can be observed from the data given in the table 21 that only the Western Province is in a position to meet a large share of recurrent expenditure needs from its own collected revenue. All other provinces are mainly dependent on the government transfers, since the gap between the estimated total revenue and recurrent needs is significant. Therefore, appropriate measures should be taken to minimize such gaps.

4.4.1 Measures for Provincial Revenue Enhancement

The Finance Commission has undertaken a comprehensive study on the measures to be taken to enhance the revenue of the provincial councils and local authorities. The proposals and suggestions of all relevant stakeholders including senior officers of the Ministry of Provincial Councils and Local Government, senior officers of provincial councils and provincial revenue officers and key elected members of a few local authorities were obtained for the study. In addition, a few subject specialists were actively involved in the study. Major recommendations presented in the study report are summarized below.

- Currently, Value Added Tax, Nation Building Tax or Business Turnover Tax are not collected from the enterprises earning an income of less than 12 million annually.

Hence, action should be taken to introduce necessary legal provisions to collect taxes from such enterprises.

- Since Constitutional provisions are available, necessary measures should be introduced to conduct provincial lotteries, in consultation with the National Lottery Board and Development Lottery Board.
- Appropriate methodology should be developed to redistribute a reasonable proportion of income earned through the export of such products as tea, rubber and cinnamon to the provinces where such industries are established. At present, the tax income from such product is collected in metropolitan regions where value addition activities are concentrated without sharing reasonable proportion with the producing regions.
- Establish a system in collaboration with the Ministry of Fisheries to collect a levy on the sales of fish at wholesale fish markets in the fisheries areas.
- It has been observed that there are enormous tourism opportunities available in the regions. The provincial authorities should mobilize their resources to avail such opportunities to their advantage. This objective can be achieved by i.) providing required infrastructure and support services and ii.) embarking on joint ventures with interested private investors for the promotion of the tourist industry. These initiatives may bring additional income by way of taxes and profit sharing.
- Although, some devolved revenue sources have been identified in the Constitution, it is observed that at present they are collected by national level agencies without any transfers to the provinces. For example, license fees levied for the sales of the medicine and chemicals, and charges collected under fauna & flora protection laws are retained by the national level agencies. Hence, it is suggested to share such revenues in an agreed manner between the national and provincial agencies.

4.4.2 Measures for Revenue Enhancement of Local Authorities

- It is observed that property taxes are not collected in a proper and regular manner in all local authority areas. In many local authority areas, taxes are not collected from the assets at all while in some areas regular valuation of assets is not being conducted for various reasons. It is suggested to introduce tax collection from assets

even on a nominal basis, at first, to make people feel the social responsibility as citizens to pay taxes.

- There are many income generating ventures available in local authority areas which do not pay any fee or tax on their income. Some such salient ventures are private tuition classes, private health clinics, eateries, beauty salons and fitness centres. Legal provision should be introduced to register such business ventures and to encourage them to pay due taxes.
- Local authorities should explore the possibilities of utilizing the available attractive tourist locations by way of providing necessary facilities on a basis of charging a reasonable fee which contributes to their income and which they could utilize for the development and maintenance of such locations. It is more practical to involve the private sector in the efficient and effective management of such entities.
- Maintenance of common assets such as roads, markets, street lighting and schools bear a heavy burden on the local authority budget. Therefore, it is suggested to invite civil society organizations, interested private parties and entrepreneurs to share the cost of such common services for the benefit of the people.
- Local authorities should introduce modern technologies for assessing and collecting revenue such as online payment of taxes and fees with a view to improving the efficiency and effectiveness of their services.

5. Development Strategies at Sub-National Level

The Finance Commission recommends that the provincial authorities should inter alia, take the following steps in 2015 in order to strengthen and facilitate the development activities at sub-national level. Similarly, as an integral part of the strategies, the provincial authorities must ensure incorporating the practices of good governance, introduced by the present government into their plans and programmes.

5.1 Aligning with National Policies

All provinces are expected to implement their development projects and programmes in respect of the devolved subjects listed in the 13th Amendment to the Constitution, aligning them with the national policies relating to the respective subjects. In this

context, it is necessary to maintain a proper coordination with relevant national agencies when implementing the projects and programmes, mainly under the subject areas, such as health, education, agriculture, roads, housing, industries and culture.

Provincial authorities should also incorporate major policy directives of the present government on main sectors, as given below:

Health: Health is considered as an investment for the future. Hence, investing in preventive care should be given high priority while at the same time, giving due consideration to curative and clinical aspects through strengthening the state hospital system. It is also necessary to integrate western and indigenous health sectors in order to provide better service to the public.

Education: The reforms and development programmes of the education sector should be implemented in line with the needs of today's economy while distributing human and physical resources rationally in the school system, with a view to ensuring equal opportunities of education for all. A sound monitoring mechanism from the pre-education level to universities should be carried out in order to ensure that the vast amount of resources allocated to the sector is utilized in an optimum manner.

Agriculture: It is necessary to persuade farmers to produce health-friendly foods by minimizing the usage of chemical fertilizer and pesticides. For this purpose, special attention should be paid to promote organic manure and traditional pest control methods. Promotion of local varieties of plants and seeds should also be given due attention with a view to protecting traditional food culture and practices. Further, measures need to be taken to strengthen the capacities of agriculture related research institutions to develop high quality planting material suited to domestic conditions.

Small and Medium Enterprises: It is planned to develop a policy framework in order to improve small and medium enterprises through enhancing access to market, providing concessionary finance, availing of skilled labour and entrepreneurship, and disseminating required technical-knowhow. Identified entrepreneurs, and villages with required potential should be developed as industrial villages which could produce traditional goods in modern form, aiming at the local and export markets. These products should be of high quality to attract the tourists with a view to opening avenues for additional income for the rural community.

Fisheries: Measures should be taken to solve the issues that confront small fishermen by providing vessels and fishing gear at concessionary prices. It is proposed to remove the taxes on such equipment, enabling the fishermen to purchase these items at reduced prices.

Housing: In order to realize the objective of shelter for all, assistance should be provided to low-income families for the construction and improvement of their houses. In the housing development policy for low-income people, an “Aided Self-Help” Approach needs to be adopted, instead of giving outright grants. Instead, operating housing assistance through revolving funds, it is suggested to secure the services of the rural banks in providing housing loans on concessionary terms.

5.2 Improvement of Rural Livelihood

Small and medium scale projects should be encouraged to help improve the livelihood of rural people particularly those who are engaged in the activities related to tourism, agriculture, livestock and rural industries. The private sector should be invited to embark on projects which generate wage employment opportunities for people. Provincial authorities should facilitate the provision of the required infrastructure facilities and other inputs. Enhancing self-employment opportunities should also be encouraged through provision of concessionary finance, access to markets, appropriate technology and training on entrepreneurship development.

5.3 Road Connectivity Development

Most of the feeder roads connecting to highways and express ways are maintained by the provinces. It is therefore crucial for the provincial authorities to play their expected role in improving and rehabilitating the provincial road network which is essential for growth of the provincial economy. In this context, the following aspects should be given due attention, in the development of the road system:

- Establishing a GIS and computer based road inventory.
- Allocating resources adequately for regular improvement of roads to maintain quality.
- Responsibility of road maintenance should be assigned at least for three years to the same contractors who undertake the construction of the roads with a view to ensuring the quality of the construction.

- Ensuring availability of skilled manpower including engineers, technical officers, contractors and labourers.
- Promotion of research and development on cost saving designing and appropriate technologies.
- Establishing a better coordination with other service providing sectors like water, electricity and telecommunication to avoid unplanned implementation.
- Developing and adhering to proper guidelines on acquisition of land, technical auditing, environmental conservation and maintenance.

5.4 Minimum Well-Being for Low Income Families

Even though macro level data on per-capita income, poverty, literacy and health standards displays an appreciable achievement, sharp socio-economic disparities can be observed between different income groups. These differences are clearly visible in the indicators related to Millennium Development Goals, except in a few areas. Therefore, provincial authorities are expected to pay attention to low income families in the preparation of plans and projects.

5.5 Special Focus on Lagging Regions

It has been observed that there are intra regional disparities with regard to socio-economic development in all provinces. There are isolated geographical pockets without adequate access to resources, services and market. Effective utilization of the special amount allocated by the Finance Commission for the development of isolated and backward villages should be essential in order to reduce such gaps, ensuring minimum well-being for every citizen of the province.

5.6 Hundred Day Programme

The present government has embarked on an ambitious Hundred Day Programme covering the first four months of 2015 which includes urgent needs of the proposed Six Year Development Programme. The Finance Commission has already instructed the provincial authorities to modify their annual plans in line with the Hundred Day Programme.

The following are the major elements of the Hundred Day Programme announced by the government which should be taken into account when modifying the provincial development plans.

- The efficiency of both state and private transport services to be improved through providing appropriate incentives.
- The low quality fertilizer that threatens life as well as soil to be replaced by fertilizer of better quality that conforms to regular standards.
- Wi-Fi to be made available free of charges in centres in every town to facilitate internet access.
- An institution to be set-up to regulate and develop micro finance.
- A Bureau to be setup to protect small enterprises.
- All drugs needed by patients attending government hospitals to be made available without shortages.
- Government hospitals to offer services to out-patients department until 10.00 p.m. every day.
- Steps to be taken to strengthen ayurvedic health services.
- Measures to be taken to efficiently coordinate services in Western, Eastern and Indigenous Medicine and provide a unified service to the people.
- Increase gradually up to 6% of GDP from the current 1.7%, the allocation for free education.
- Current high taxes on fishing boats, nets, equipment and engines to be removed.
- Immediate steps to be taken to repair irrigation channels that have fallen into disuse.
- Immediate steps to be taken to clear reservoirs that have silted up.
- A programme to be implemented swiftly to provide housing to the hundreds of thousands who have no shelter.
- A culture to be established that safeguards and values the independence and artistic integrity of practitioners of arts.

5.7 Hundred Day Revolution - The Financial Statement by Hon. Minister of Finance

Hon. Minister of Finance presented a Financial Statement called Hundred Day Revolution before Parliament on 29th January, 2015. This statement coincides with the Hundred Day Programme, announced by the government with a view to providing immediate relief measures to the people. Some Proposals stated in this statement are

relevant to provinces, when preparing the Hundred Day Programmes to be implemented at provincial level. Briefly, the proposals are as follows;

- The guaranteed purchase price of paddy to be increased to Rs. 50/- per Kg, commencing from the Maha Season of 2015.
- The guaranteed purchase price of potatoes to be increased to Rs. 80/- per Kg. commencing from the next harvest.
- The guaranteed purchase price of tea leaves to be increased to Rs. 80/- per Kg.
- The guaranteed purchase price of rubber to be increased to Rs. 350/- per Kg.
- The guaranteed purchase price of fresh milk to be increased to Rs. 70/- per lt from July 2015.
- The profit earned by investors who invested in lagging regions to be taxed at a 50% of the normal income tax rate.
- Samurdhi / Divineguma banks to be integrated with Regional Development Banks in order to enhance access to finance in the rural area.
- Proposal to fix solar units in suitable government buildings with a view to reducing the expenditure on electricity. This will provide a return on capital invested within a period seven years or less.

5.8 Establishment of an Effective Monitoring and Evaluation (M & E) System

It is recommended to upgrade the M & E mechanism established on the basis of Agency Results Framework approach for the provinces in 2015. Under this approach, provincial agencies are expected to identify results in the form of outputs and outcomes in respect of each Thrust Area, Key Performance Indicators and targets for a period of five years. Initially it is intended to utilize resources to achieve the targeted results effectively rather than depending on the conventional practice, based on mere input-output relations. To facilitate the results based monitoring and evaluation process, specimen formats already introduced by the Finance Commission will be revised taking into account the experience gained during the past years.

5.9 Periodical Assessment of the Provincial Cadre

The role played by the public institutions in service delivery and their workload should be properly assessed in order to avoid creation of unproductive cadre which will become a burden on the budget. To achieve this objective, it is necessary to undertake periodic review of cadre by the key relevant institutions such as the Department of Management Services, the National Pay Commission and the Finance Commission.

5.10 Promotion of Seed Production

It has been observed that the farmers, particularly those engaged in producing seed big onion, potatoes and beans have the capacity to produce the total requirement of local seed demand which would help to reduce the foreign exchange spent on the import of seed. Against this background, authorities in seed producing provinces should promote seed production by way of providing concessionary credit, technical know-how, entrepreneurial skills, storage facilities and other required inputs. The Finance Commission is engaged in a dialogue with the Central Bank of Sri Lanka to undertake an extensive research on this important issue of national importance with a view to implementing the findings of such research study. The Finance Commission also recommends that the General Treasury may formulate required tariff policies on the importation of big onion, potato and bean seeds.

6. Towards Balanced Regional Development

The major objective of the regional development is to reduce regional disparities in respect of economic and social development and raise the level of disadvantaged regions to be on par with other regions of the country. However, it should be noted that the regional disparities in socio-economic development in any country cannot be totally eliminated since there is a natural tendency of convergence of economic activities in a particular region or regions. The agglomeration of industries and service providing entities around metropolitan regions or more urbanized regions is clearly visible even in developed countries mainly due to economies of scale which such localities enjoy. This would invariably affect regional development thus creating unavoidable disparities.

To reduce this adverse trend, all nations irrespective of their level of development, should take measures to channel more resources to lagging regions through public and private sources using appropriate interventions. It is encouraging to note that the present government has already proposed to create employment opportunities and reduce regional

poverty by way of promoting investors who are willing to invest in lagging regions. Accordingly, the profits earned under the projects through these investments are to be taxed at a 50% of the normal income tax rate. (100 Day Revolution - Financial Statement by Hon. Minister of Finance, 2015)

Provincial councils are expected to play a crucial role in reducing regional disparities by way of enjoying regional/ provincial comparative advantages in relation to both physical and human resources. It is therefore, pertinent that provincial authorities should map out their development plans and prepare projects in such a way that the endowed resources are utilized fully, to the maximum possible extent. In the appraisal of development proposals and apportionment of funds between the provinces, the Finance Commission assures the maintenance of reason and justice in keeping with the constitutional mandate to achieve balanced regional development in the country. Further, necessary guidance has been given to the provinces to look for alternative modes of financing, particularly from the private sector through appropriate approaches like public-private partnership and management contracts. The succeeding section of this chapter is devoted to review whether a noticeable achievement has taken place with regard to reduction of disparities in socio-economic development during the recent past. Some identified socio-economic indicators are used to measure the degree of change in the development results as given in the table 23.

A major responsibility of the Finance Commission is to take appropriate measures to reduce regional disparities in the country through apportionment of resources among the provinces in a rational manner. In this process, the Commission has been using a statistical methodology for the apportionment of funds among the provinces while taking into consideration some practical aspects such as foreign funded projects and the existing location related disadvantages.

The present government in principle has agreed to support devolved governance through provincial council system in terms of the provisions of the 13th Amendment to the Constitution. New appointments, particularly for the posts of Governors in the Northern and Eastern Provinces have been effected with a view to maintaining a close rapport with the provinces. The President has initiated cordial relationship particularly with these two provinces which is evident from the fact that the political leadership of the provinces has pledged its support to the government for the implementation of proposed constitutional reforms and development programmes. The international community has also endorsed its cooperation with the government which is a prerequisite for the furtherance of the ties between the national government and peripheral regions. The Eastern Provincial Council

has taken measures to set up a joint administration with major political parties irrespective of their different political ideologies and communal representations.

The provinces receive funds from different sources for the implementation of their annual development programmes, particularly the capital projects in relation to improvement of infrastructure facilities. Out of these financing sources, PSDG, CBG and Block Grant are allocated from the Consolidated Fund based on the recommendation of the Finance Commission. In addition, official foreign aid grants provided by bi-lateral and multi-lateral agencies contribute to the flow of funds to the extent of around 60%. However, a considerable part of the recurrent expenditure is borne by the provincial councils through collected revenue under the devolved sources, and funds received through income sharing arrangements with the government.

The table 22 provides information on provincial financing through the Finance Commission under different sources, during the period from 2011 to 2015.

Table 22: Allocation of Resources at Provincial Level by Source (2011 - 2015)

(Rs. mn)

Source	Year						Percentage increase from 2011 to 2015
	2011	2012	2013	2014	2015	Total	
Block Grant	90,000	94,877	102,800	112,594	189,600	589,871	110
PSDG	11,365	12,875	10,180	10,205	12,007	56,632	6
CBG	2,835	3,025	2,390	3,270	3,785	15,305	33
Foreign and Local Funded Development Projects	12,092	11,839	14,384	18,995	18,425	75,735	52
Total	116,292	122,616	129,754	145,064	223,817	737,543	92

Source: Finance Commission

It can be observed that during the five year period from 2011 to 2015, Rs. 737,543 mn has been allocated to the provinces to meet both capital and recurrent needs. However, it is noted that some allocations made by the line ministries and the General Treasury to the provincial councils are not included here, since they are not channeled through the Finance Commission.

Out of Rs. 737,543 mn allocated under different sources to the provinces, almost 80% is set apart for recurrent needs of which salaries and other allowances constitute a major part. It is worthy to note that the provincial staff is engaged in implementing the development programmes of the national and provincial agencies, particularly in relation to education and health sectors. It can be observed that the total allocation during the same period has increased by 92% at current prices. In case of recurrent needs, this increase is higher representing 110%, mainly due to new recruitments and salary increases introduced by the government.

When observing the trend of allocation during the recent past, the share of the provincial capital budget channeled through the Finance Commission seems nearly 2% of the total capital budget of the government. However, necessary instructions have been provided to provinces by the Finance Commission to invest these funds in a more productive manner, ensuring the maximum return to the people.

The present practice of Results Based Management incorporated in the planning process of the provinces is expected to achieve the intended outcomes which have been clearly identified in the plans with verifiable indicators. Further, provinces have been requested to work closely with the private sector in promoting investments in development projects and becoming partners in implementing the development projects since the private sector is expected to work for the benefit of people through their social responsibility initiatives.

6.1 Province wise Socio-Economic Disparities

The Table 23 depicts province wise information relating to key socio-economic indicators that are categorized under the areas of GDP, Poverty and Income, Unemployment, Health, Education and Infrastructure.

Table 23: Province Wise Key Socio – Economic Indicators

Sector/ Area	Indicator	Province										Sri Lanka
		Year	Western	Central	Southern	Northern	Eastern	North western	North Central	Uva	Sabaragamuwa	
Gross Domestic Product	Provincial Gross Domestic product at current prices(Rs/Mn)	2010	2512908	562744	598976	189740	333969	534831	266954	253177	350806	5604105
		2013	3643180	959694	954568	311468	542845	886819	438862	409979	526185	8673870
	Provincial Percentage share of GDP 2013	2010	44.8	10.0	10.7	3.4	6.0	9.5	4.8	4.5	6.3	100.0
		2013	42.0	11.1	11.0	3.6	6.3	10.2	5.1	4.7	6.1	100.0
	Per capita income (Rs'000)	2011	489	237	285	202	239	277	244	222	207	314
		2012	564	289	353	288	304	307	281	271	243	373
per capita income Ratio**	2011	1.6	0.8	0.9	0.6	0.8	0.9	0.8	0.7	0.7	1	
	2012	1.5	0.8	0.9	0.8	0.8	0.8	0.8	0.7	0.7	1	
Poverty and Income	Poverty Head Count Ratio	2009/2010	4.2	9.7	9.8	12.8	14.8	11.3	5.7	13.7	10.6	8.9
	Gini Coefficient of household Income	2009/2010	0.45	0.51	0.45	*	0.33	0.49	0.39	0.41	0.5	0.49
Unemployment	Unemployment Rate	2010	3.7	6.7	7.8	*	5.3	4.8	3.6	4.1	4.6	4.9
		2013	3.9	4.6	5.6	5.2	4.3	3.7	3.3	3.2	5.8	4.4
Health	Maternal Mortality Ratio	1990/91	17.8	81.4	28.9	37.9	70.2	41.4	44.3	37.8	52	42.3
		2009	4	9.5	4.4	4	14.5	16.8	8.4	*	6.1	7.4
	Infant Mortality Ratio	1990/91	20.7	24.9	15.1	8.5	9.3	19.2	16.6	11.9	19.8	17.7
2009		10.71	11.6	9.01	16.21	7.99	8.46	10.88	5.78	6.7	9.7	
Infrastructure	Percentage House holds with Electricity	2006/2007	92.8	78.2	84.4	*	68	70.7	69.1	69.2	71.3	80.0
		2009/2010	95	87.3	91.1	69.6	76.3	77	77.2	78.9	79.1	85.3
	Percentage House holds with safe drinking water	2009/2010	95.7	81.2	86.2	96.2	96	91.4	91.7	69.9	70.4	87.7
Education	Students Qualified to University Admissions	2010	59.2	59.3	63.47	66.77	63.1	63.48	60.09	60.86	63.95	61.47
		2013	57.3	56.7	59.8	63.9	60.7	56.5	56.0	59.2	61.2	58.6
	population able to use computer	2012	32.9	24.1	22.4	19.4	18.6	20.5	17.7	17.6	19.9	24.2
Prosperity Index		2009	72.2	54.5	56.8	48.9	50	53.3	50.9	50.9	51.8	56.5
		2012	73.5	56.7	57.8	51.8	53.3	55.1	53	52.6	53.9	58.2

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

Notes: * Not available

** Provincial per capita income as a ratio of per capita income of national level

It is noteworthy to take into account that the percentage of GDP share of the Western Province which stayed around 45 for last several years has decreased from 44.8 to 42 during the last 03 years and in the meantime percentages of GDP share of other provinces except for the Sabaragamuwa Province have shown a slight increase ranging from 0.2% to 1.1%. The per capita income at national level has increased from Rs.314,000 in 2011 to Rs.373,000 in 2012 which represents a 19% increase. A similar pattern can be observed in the increase of per capita income of every province ranging from 11% to 43%. The highest increase of per capita income has been recorded in the Northern Province by 43% from 2011 to 2012. It can also be observed that the per capita income, except in the Western Province, is at a lower value than the national figure. The per capita income ratio of the Western Province has decreased from 1.6 in 2011 to 1.5 in 2012. This ratio has increased from 0.6 to 0.8 in the Northern Province while all other provinces do not show a significant change.

During the last three decades, the poverty head count ratio at national level has displayed a sharp decrease from 26% in 1982 to 8.9% in 2010 improving on the level targeted under the Millennium Development Goals (MDGs). This trend can be observed in all provinces. However, a remarkable disparity in poverty head count ratio continued to exist at provincial level. The poverty head count ratio in 2010 ranges from the lowest value of 4.2 in the Western Province to the highest value of 14.8 in the Eastern Province. The other notable factor is that the poverty head count ratio of seven provinces except the Western and North Central Provinces are higher than the national figure of 8.9 in 2009/10.

The Gini Coefficient of household income which explains the pattern of income distribution varies from 0.39 in the North Central Province to 0.54 in the Northern Province in 2012/13. The Gini Coefficient at national level was 0.48 in 2012/13.

Provincial variations can be observed in relation to the unemployment rate from 2010 to 2013. Four provinces namely Sabaragamuwa, Southern, Northern and Central show a relatively higher level of unemployment rate when compared with the national rate of 4.4. The highest level of unemployment rate which is 5.8 could be observed in the Sabaragamuwa province while the lowest rate of 3.2 is in the Uva Province.

The Maternal Mortality Rate (MMR) and the Infant Mortality Rate (IMR) in 2009 exhibit sharp provincial variations. In 2009, the highest MMR and IMR could be observed in the North-Western Province and the Northern Province respectively as 16.8 and 16.2.

The number of households with availability of electricity at national level shows a higher percentage in all provinces with noticeable variations from 80 in 2006 to 85.3 in 2010. A

similar increasing trend of availability of electricity can be observed in all provinces ranging from 69.6 in the Northern Province to 95 in the Western Province in 2010. The percentage of households who have access to safe drinking water is highest in the Northern Province, recording a 96.2 while the lowest percentage has been recorded in the Uva province which was 69.9 in 2009/10.

The national percentage of computer literacy was 24.2 in 2012. However, the Western Province shows the highest percentage while the Uva Province exhibits the lowest percentage ranging from 32.9 to 17.6. The percentage of students qualified for university admission also shows a remarkable regional disparity ranging from 63.9 in the Northern Province to 56 in the Uva Province in 2013 while the national percentage is 58.6.

The prosperity index is an often used criterion in measuring the socio-economic development of the people. This index is calculated using 26 variables including such major areas as economy and business climate, socio-economic infrastructure and social wellbeing of the people. During the period from 2009 to 2012, the national prosperity index has increased from 56.5 to 58.2. This increasing trend is also visible in all provinces, even though disparities existed. The highest prosperity index was recorded in the Western Province which is 73.5% while Northern Province recorded the lowest value of 51.8 in 2012. Except the Western Province, all other provinces show lower values in the prosperity index when compared with the national percentage.

6.2 Proposed Measures to Reduce Disparities

Regional disparities can be observed despite the remedial measures taken during the past. Although the country has achieved an appreciable performance in terms of socio-economic indicators, particularly with regard to MDG targets, some provinces are still lagging behind. Several research studies have revealed that there are some isolated geographical pockets throughout the country which do not have access to market places due to lack of basic infrastructure facilities, particularly modes of transport.

To overcome these unfortunate issues in the regional development front, the following measures are recommended to be adopted, in the process of regional development.

- (i) The provincial authorities argue that they do not receive adequate funds to undertake planned development activities as a result of national level agencies funding local projects directly without going through the provincial system. It is therefore pertinent that the current fund flow to the provinces be channeled through the existing constitutional mechanism. It is essential to strengthen the role of the Finance

Commission in order to ensure proper formulation and implementation of development projects and programmes under one consolidated plan at provincial level based on the Medium-Term Results Framework.

- (ii) It is essential to realize that the funding of all development activities at provincial level cannot be undertaken solely by the government due to the difficulty in providing adequate public funds. In this context, it is prudent to explore the possibility of seeking alternative funding sources mainly through the private sector to be channeled particularly to the underdeveloped regions. With a view to promoting private sector investment, fiscal incentives like preferential taxes and concessionary interest rates can be introduced as part of an integrated strategy.
- (iii) It is a known fact that almost every sub-national level entity including provincial councils seeks funding from government without paying adequate attention to the improvement of their revenue base, although required legal provisions are already in place. Therefore, all relevant sub-national institutions such as provincial councils and local authorities should take innovative measures to tap additional resources through legally assigned revenue sources. A reasonable portion of earned income should be used for development activities, instead of spending them solely on recurrent expenses.
- (iv) It is high time that provincial authorities take a serious look at the present system of thinly distributing funds among various small projects and programmes which would not bring about desired results. It is therefore recommended that provincial authorities should re-visit their development plans with a view to giving priority to identify key flagship projects that would create a clearly visible impact on the quality of life of the people.
- (v) Provincial authorities should also pay serious attention to tap the resources using modern credit instruments available in the capital market. They should improve the corporate culture of their institutions as a means of securing additional funds for lucrative investments. Investment of public funds on such financially and economically viable ventures is unproductive as public officials are not oriented to undertake profit making enterprises.
- (vi) It is also vital to introduce more effective financial management techniques at the provincial level replacing the conventional output based accounting systems.

Introducing results based budgeting and modern accounting practices in provincial institutions will ensure accountability, value for money and good governance.

7. Conclusion

Devolved governance has been recognized as an important development strategy of the present government. With the recent administrative measures adopted by the government particularly with regard to the Northern and Eastern provinces, it is observed that a positive relationship is being developed between the national and provincial levels. Provincial authorities seem to be involved in development activities in line with the national policies and to operationalise good governance practices embarked upon the government.

It is hoped that adequate funds will be allocated to the provinces to formulate and implement development programmes and projects related to the subjects constitutionally devolved to the provinces. The practice of implementing sub-national level projects directly by the national level agencies may be discouraged and necessary support to strengthen the capacities of provincial agencies should be given due consideration.

It is also necessary to develop suitable mechanisms among provincial, district and divisional level agencies in order to establish a strong coordinated effort in achieving effective regional development. The present system of channeling funds through different agencies such as provincial authorities, district secretaries and divisional secretaries to the same region should be revisited with a view to formulating an integrated development strategy based on the Result Based Management Approach leading to optimal utilization of resources for the benefit of the people in the country.

It is now high time to develop alternative and innovative financing mechanisms for regional development rather than depending heavily on public funds. In this regard proper strategies may be introduced to attract private investors to the regions away from the metropolitan areas particularly giving attention to the lagging regions.

Sgd/ Ariyaratne Hewage
Appointed Member & Chairman

Sgd/ R.H.S.Samaratunga
Ex-Officio Member

Sgd/ Arjuna Mahendran
Ex-Officio Member

Sgd/ M.N.Junaid
Appointed Member

Sgd/ S. Amirthalingam
Appointed Member

Allocation and Release of Block Grant 2009 – 2014

(Rs. mn)

Province	2009		2010		2011		2012		2013		2014	
	Allo.	Release	Allo.	Release	Allo.	Release	Allo.	Release	Allo.	Release	Allo.	Release Up to 31.10.2014
Western	1,923	2,749	6,100	6,100	7,170	8,979	9,011	8,894	8,502	9,691	11,234	8,869
Central	12,176	12,487	13,000	13,000	13,270	13,697	13,763	13,049	14,864	15,687	17,628	14,183
Southern	10,298	10,085	10,500	10,500	11,172	11,760	11,803	11,907	12,908	13,586	15,511	12,816
Northern	8,349	7,963	8,400	8,700	9,153	9,318	8,557	8,500	10,075	10,795	12,552	10,244
Eastern	9,891	9,421	10,100	10,100	10,473	10,952	11,385	10,737	11,635	12,066	13,595	10,945
North Western	12,294	11,868	12,300	12,299	12,656	13,018	12,651	11,921	14,118	14,846	16,413	13,394
North Central	6,270	6,513	7,300	7,300	7,386	7,596	7,005	6,776	7,346	7,765	10,436	8,433
Uva	7,907	7,807	8,300	8,300	8,897	8,948	9,459	9,032	10,263	10,758	12,312	9,979
Sabaragamuwa	8,893	8,493	9,000	9,000	9,823	10,335	11,243	10,737	13,088	13,606	14,606	12,068
Total	77,999	77,386	85,000	85,299	90,000	94,602	94,877	91,552	102,800	108,801	124,287	100,931

Source: Finance Commission and General Treasury

Allocation and Release of Criteria Based Grant 2009 – 2014

(Rs.mn)

Province	2009		2010		2011		2012		2013		2014	
	Allo.	Release	Allo.	Release Up to 31.10.2014								
Western	510	375	450	383	400	660	427	180	370	370	925	293
Central	446	306	410	308	375	337	400	218	321	193	430	129
Southern	426	230	350	298	325	292	347	189	295	177	380	255
Northern	332	241	300	255	275	247	294	161	195	195	280	280
Eastern	382	197	325	276	250	230	267	146	217	130	340	227
North Western	370	272	300	255	300	270	320	175	270	162	505	290
North Central	297	137	260	260	275	1,277	*1,616.63	1,420	*1,005	742	350	193
Uva	373	206	300	255	300	240	320	175	240	144	330	179
Sabaragamuwa	416	311	380	323	335	301	357	195	252	157	335	324
Total	3,550	2,276	3,075	2,612	2,835	3,855	4,349	2,859	3,165	2,270	3,875	2,169

Source: Finance Commission and General Treasury

*with supplementary allocation

Allocation and Release of Province Specific Development Grant 2009 – 2014

(Rs.mn)

Province	2009		2010		2011		2012		2013		2014	
	Allo.	Release	Allo.	Release	Allo.	Release	Allo.	Release	Allo.	Release	Allo.	Release Up to 31.10.2014
Western	1,726	1,567	1,755	1,737	1,736	1,380	1,990	491	1,266	990	1,270	508
Central	2,572	1,606	2,145	1,895	2,490	1,369	3,013	857	1,229	738	1,230	742
Southern	1,727	1,102	1,773	1,656	1,535	1,283	1,818	814	1,229	737	1,230	820
Northern	1,877	1,946	2,807	2,365	3,068	1,306	3,568	947	1,030	618	1,035	908
Eastern	4,702	1,202	3,273	1,730	5,079	1,135	3,917	1,108	1,000	600	1,000	600
North Western	1,530	1,056	1,633	1,613	1,542	1,265	1,836	817	1,137	712	2,523	1,384
North Central	1,701	1,202	2,350	1,956	2,808	1,141	2,807	718	1,000	600	1,000	550
Uva	2,338	1,173	2,007	1,888	3,169	1,210	3,117	806	1,144	746	1,892	1,513
Sabaragamuwa	2,259	1,143	1,737	1,564	2,028	1,110	2,648	710	1,145	687	1,150	885
Total	20,431	11,998	19,480	16,403	23,455	11,199	24,714	7,267	10,180	6,428	12,331	7,910

Source: Finance Commission and General Treasury

Note: Including Development Project