



## EXPLAINING BUDGET DEVIATION

### A BUDGET CREDIBILITY SNAPSHOT

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The study of budget credibility examines the extent, nature, causes and consequences of deviations from approved budgets. In this series, part of the International Budget Partnership's Assessing Budget Credibility Project, 24 civil society partners in 23 countries probed a specific area in which execution of the national budget repeatedly diverged from the approved plan to learn whether adequate reasons were provided for the deviation. The broader synthesis report on these findings can be found [here](#).

## SRI LANKA: THE AGRICULTURE SECTOR

With 26 percent of the total labor force – and an even greater share of the population outside the urbanized Western Province – engaged in the sector, agriculture is a major source of employment in Sri Lanka. However, the sector's contribution to GDP in 2017 was only 7.5 percent. The agricultural labor force is one-third as productive as the labor force in industry and one-fifth as productive as that of the services sector. Studies conducted on the issue attribute Sri Lanka's declining agricultural productivity to a number of factors including lack of modernization and innovation, inadequate diversification, adverse weather patterns and climate change, and an ageing workforce.

### BUDGET CREDIBILITY CHALLENGE

In Sri Lanka, deviations between budget promises and actual expenditure have been prevalent over time and across sectors such as health, education, social welfare, and agriculture. The tendency to underspend is particularly pronounced in the agriculture and irrigation sector, where the government has spent significantly less than what it promised in every year since 2011 (except 2015, an election year when many sectors were overspent). Absolute deviations range from 10 to 40 percent during this period. These deviations may compromise services that a significant proportion of Sri Lankans depend on.

#### SRI LANKA – EXTENT OF BUDGET DEVIATIONS IN GOVERNMENT SPENDING IN KEY SECTORS, 2011-2017

Year	2011	2012	2013	2014	2015	2016	2017
Civil administration	9%	-4%	-6%	-19%	16%	-6%	-32%
Public order & safety	-9%	-15%	-7%	7%	5%	-7%	-3%
Education	1%	-4%	-7%	11%	6%	-29%	-3%
Health	2%	-10%	1%	-15%	-1%	-21%	-1%
Housing	0%	-14%	-4%	-6%	1%	0%	0%
Community services	-1%	-14%	-20%	14%	-21%	-39%	-27%
<b>Agriculture &amp; irrigation</b>	<b>-19%</b>	<b>-25%</b>	<b>-40%</b>	<b>-25%</b>	<b>14%</b>	<b>-33%</b>	<b>-10%</b>
Energy and water supply	-3%	-5%	16%	-13%	161%	-1%	58%
Transport & communication	1%	-11%	-5%	-27%	33%	-3%	32%
Other	-35%	-25%	-18%	-32%	224%	-20%	-21%
Total expenditure & lending	-1%	-2%	-6%	-9%	13%	-9%	10%

Source: Central Bank of Sri Lanka (CBSL), Annual Reports (2011-2017)

## WERE EXPLANATIONS FOR THE DEVIATIONS FOUND IN GOVERNMENT REPORTS?

To some extent. The following reports were reviewed for explanations:

- Budget Estimates: contains no reasons
- Progress Reports on development projects and programmes by the Department of Project Management and Monitoring: contains reasons
- Performance Reports by the Ministry of Agriculture: contains no reasons
- Annual Reports and Special Reports by the Auditor General's Department: contains reasons

Overall, Sri Lanka provides detailed information on budget deviations at the line-item level, but most of these are not explained. One limitation when analyzing official reports for explanations is the fact that the Ministry of Agriculture has been reconfigured multiple times between 2010 to 2018 making it all the more difficult to track down the causes of deviations. The most common reasons provided in official documents relate to the mismanagement of program funds and the failure to conduct feasibility studies.

## DID THE GOVERNMENT AGREE TO BE INTERVIEWED TO EXPLAIN FURTHER?

To some extent. Interviews were only conducted with Ministry of Agriculture officials. Multiple attempts were made to interview officials from the Ministry of Finance and Mass Media, Auditor General's Department, and Department of Project Management and Monitoring, but they were unsuccessful.

The reasons provided by the interviewees included political bias in the formulation and implementation of programs, delays in receiving funds from the Treasury to implement program activities, lack of evaluation of completed programs, and adverse weather conditions.

## WERE THE REASONS PROVIDED BY GOVERNMENT ADEQUATE?

The Sri Lankan government does provide justifications for some deviations, but these are often only partial. For example, in 2016 a fertilizer subsidy program was underspent by LKR 7.2 billion, but only LKR 62 million (0.8 percent of the total deviation) is explained in terms of a transfer of funds to another program; the majority of the deviation is unexplained. Some explanations draw a link to nonfinancial performance information, but lack sufficient detail on how underspending relates to the achievement of targets. For instance, the 2014 budget for the "Big Onion Seed Production Programme" was under-spent by 48 percent, reportedly because only 23,172 kg of mother bulb had been supplied against a target of 38,600 kg. However, it's unclear why the full amount could not be supplied. Other published explanations involved process issues that were too generic to really explain budget deviations. Interviews with officials yielded general insights, including poor planning, procurement challenges, delays in receiving funds from the Treasury, and adverse weather, but none of these specifically explained the execution rate over time or the differences among execution rates of various components of the agriculture sector.