

A REVIEW OF PUBLIC EXPENDITURE IN AGRICULTURE SECTOR IN SRI LANKA, 1998-2009: TRENDS AND EMERGING ISSUES

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Abstract

Public Expenditure Reviews (PERs) are commonly used in many countries to analyze and identify key issues and trends associated with the use of state sector expenditure systems. In this paper, the PER approach is used to analyze Sri Lanka's agriculture sector, broadly covering food crops, plantation crops, fisheries and livestock sub-sectors with an emphasis on food production.

Study results indicate that the agriculture sector expenditure accounts only for 4 percent of the country's total annual public expenditure (8 percent of the Agriculture GDP). Within the sector, the largest volume of expenditure is handled by the Agriculture Ministry. Of this, the bulk, (Rs. 30 billion/year or 4.9 percent of the Agriculture GDP) is spent on implementing the fertilizer subsidy for paddy. The subsidy accounts for 95% of the cost of importing fertilizer and its financial sustainability is a major concern. Although it is often pointed out by many that the agriculture sector is starved of funds, findings of this analysis clearly suggest that, in actual fact, the ministries and departments concerned are constantly underutilizing their annual allocations. The problem is more critical in the capital expenditure items. The chronic underutilization of allocated resources indicates a serious deficiency in the internal capacity of the ministries and departments to identify prepare and implement effective development projects and programmes. The problem merits urgent remedial action.

Analysis of the process of budget estimation, allocation procedure and the implementation of the expenditure programmes indicate that it is supported by a set of well laid out rules and procedures. The process, however, is strictly followed only at the higher levels of the expenditure hierarchy. At the lower levels, the rules are applied less rigorously, resulting in a major loss of efficiency in the overall expenditure system. Virtually in all instances, the

monitoring and implementation (M&E) of expenditure programmes in the sector are based solely on the amount of funds spent, with no efforts to measure actual results achieved on the ground. The absence of rigorous, ex-post evaluations of major development programmes in the sector by suitable institutions with adequate independence and capacity is a critical problem affecting the performance of the expenditure programmes. The performance of Sri Lanka's Agriculture sector is seriously affected by the presence of too many Ministries, frequent changes in their scope and responsibilities. Similarly, the absence of a clear and consistent long-term sector policies and strategies also pose serious problems reducing the effectiveness of the expenditure programmes in the sector. While the accounting aspects of expenditures in the sector are generally followed to the letter, the accountability for delivering actual results of the expenditure programmes are lacking to a large extent. Introduction of a results based, expenditure monitoring and evaluation is therefore a major imperative in the sector.

1. Introduction

1.1 Agriculture Sector in the Overall Economy

Agriculture is continuing to play a pivotal role in the economy of Sri Lanka and the scenario is bound to continue for a long time in the future as well. All successive governments since the 1940s have made major initiatives to strengthen the domestic agriculture sector and to achieve food self sufficiency through massive transfer of public funds. The efforts have covered a wide range of public sector driven interventions including development of irrigation systems and related infrastructure, establishment of large scale human settlement schemes in the drier parts of the country, improving national agricultural research, extension systems and farmer awareness, establishment of produce purchasing and marketing institutions and provision of assistance for supply of inputs including seeds, planting materials and fertilizer to the farmers. State sector assistance was also provided to the farming communities by introducing a wide range of direct and indirect government subsidies to promote the use of fertilizer and other non-conventional inputs and to enhance producer incentives and profitability of farming.

Despite numerous public sector interventions and the incentive mechanisms introduced by the government, Sri Lanka's agriculture sector up to now has, in general, failed to deliver expected. Even though the rice self sufficiency has been a unique development theme in the food production sector, it has proved to be an elusive goal if wheat flour imports are also taken in to account. The country, taken as a whole after five decades of continuous efforts, is still continuing to be a net food importer and its food sector performance is largely attributed to weather variations. For instance, in 2009 import rice cost Rs.2,616 million, wheat flour Rs.195 million, other food items such as onion, chillies, pulses, dhal and potatoes Rs.52,414 million and milk and milk products, Rs.19,013 million. Indeed from the perspective of growth also, Sri Lanka's agriculture sector has shown mixed results (Table 1.1). Performance of the domestic food crop production sector has been particularly weak during 1999- 2009 period with an average annual growth rates varying around 2 percent per annum. In most years, the annual growth rate in the food crop sub sector reveals negative growth rates, indicating its high vulnerability and instability due to climatic and other influences.

Table 1.1: Sri Lanka: GDP Growth in Agriculture by Sub-sectors in Selected Years (1999-2009)

Sub-sector	Annual Growth Rate (%)			Average (%) (1999 -2009)
	1999	2004	2009	
Food Crops	13.7	-2.8	-1.3	3.1
Fisheries	-1.1	2.1	10.8	7.3
Livestock	11.9	12.8	7.8	5.0
Plantation	6.1	0.1	-16.2	1.7
Overall	4.4	0	-2.5	2.2

Source: Central Bank of Sri Lanka, (1998-2009).

Given the massive expenditure made by all past governments in Sri Lanka for promoting domestic agriculture sector in the last five decades in the form of irrigation system development, and Mahaweli development activities and other projects, particularly for improving the domestic food production levels and also due to the continuing problem of the lingering presence of a lack luster performance of the food sector, it was felt that a detailed analysis of the public expenditure programmes would be most helpful to the policy makers. Such an attempt will help firstly, to identify how much public funds have been transferred to the sector/sub-sectors. Secondly, it would also help to uncover key problems and issues affecting the sector performance from an expenditure point of view. A survey of the literature undertaken on these issues indicated that, up to now, no major attempts have been made by researchers in Sri Lanka or elsewhere to

examine the problem. Hence, this paper is designed to serve as an attempt to fill the research gap by closely examining the amounts and composition of the public expenditures incurred in developing the agriculture sector and also by examining the process of moving government budget resources in to the sector.

1.2 Study Objectives

The overarching objective of this paper is to undertake a detailed analysis of Sri Lanka's public sector expenditure on the agriculture sector (with emphasize on food crops-paddy and other field crops) with a view to provide insights on the amounts of budgetary resources allocated, its composition, actual expenditure incurred and also to examine the budget preparation and implementation activity to identify issues underlying its planning, implementation and monitoring processes.

More specifically, the study is designed to: (i) identify and analyze the annual, public expenditure allocated, (ii) amounts of funds actually utilized for the purposes earmarked with a view to shed light on key policy related questions on budget allocation and management and use. The issues covered will include an examination of the commitment made by the government on resource allocation to various activities within the sector, for what purposes, by what agency, how much is actually used, The analysis also aims to look at the fundamental issues underlying the process followed in the budgetary process and to identify issues that require remedial measures.

1.3 Methodology and Scope

The analysis is based on the preparation of a detailed and comprehensive data base and the development of a time series data matrix classified by subsector on annual expenditures (planned and actual) incurred by all ministries and departments in the agriculture sector. The data is available in the annual publication of budget information in the National Budget Department functioning under the Ministry of Finance and Planning of the government of Sri Lanka. The information provides a clear, comprehensive and consistent set of data on the actual expenditures incurred by all Ministries and Departments for any given year along with information on the estimates approved for the following year. The study covers data for a 12 year period (1998-2009). With a view to supplement the quantitative information obtained by the National Budget Department, discussions were also held with key officials in the Ministries dealing with the budget and the budgetary processes.

The agricultural sector is defined to include all ministries dealing with food crops such as rice and other seasonal crops, plantation crops, fisheries and livestock sub-sectors. Expenditure data from forestry and wildlife Ministries are not included in the review.

1.4 Organization of the Essay

The main body of this paper is organized under four further sections. The next section (identified as Section two) is devoted to an analysis of the government expenditures actually incurred in the agriculture sector taken as a whole mainly to establish its basic composition and time trends. The third section provides an account of the expenditures incurred by the Ministry of Agriculture which primarily deals with the production and marketing food crops including paddy, and other field crops. The fourth section is centred on a discussion on the issues associated with the budgetary process including its preparation, implementation and monitoring functions with the aim of highlighting key issues hindering the effectiveness of the expenditure programmes. The fifth and the final section provide a summary of key study findings and lessons learnt.

2. Public Expenditure incurred on the Agriculture Sector

This section provides a detailed analysis of the expenditures incurred by the government on the agriculture sector, covering food crops, plantation crops, fisheries and livestock sub sectors. It focuses on five main aspects: (i) total amount of annual expenditures incurred by the sector and underlying trends, (ii) composition of the expenditure expressed in terms of recurrent and capital components, (iii) allocation and utilization of the expenditure within the individual ministries functioning in the sector, (iv) expenditure allocations and utilizations by major sub-sectors within the agriculture sector, and (v) a ministry-wise distribution and use of the sub sectoral expenditures.

2.1 Public Expenditure on the Agriculture Sector: The Overall Picture

The analysis reveals that, overall; the government expenditure incurred on the agriculture sector during the 1998-2009 period has been stagnating (both in nominal and real terms), with some minor changes, around 4.3% of the total government expenditure (Table 2.1). The highest is seen in 1999 (4.7%) and the lowest in 2007 (3.1%). The relative stagnation of the proportion of the public expenditure on agriculture sector in relation to the total government budget raises a number issues relating to the development of the sector in the overall economy. The findings suggest that the amount actually spent by the government on

agriculture sector in the country is less than desired, particularly in relation to its expected role in ensuring national food security on a sustainable basis and also serving as a source for providing livelihood and employment for the rural poor as well as for poverty alleviation. Furthermore, the expenditure incurred on the agriculture sector in Sri Lanka is thinly spread over a whole range of sub sectors including paddy and other seasonal food crops, plantation crops, minor export crops, fisheries, livestock production, and fisheries. The under investment of public expenditure in the agriculture sector is a cause for major concern.

The analysis also show that the total public expenditure in the Agriculture Sector during the period 1998 to 2009, in nominal terms, has risen from 12 billion in 1998 to about 73 billion in 2009. However, in terms of percentages of the Agriculture GDP indicate that proportion has been consistently varying around 6% per annum during the period 1998-2004 depending on the emphasis given to agriculture by the existing government. The proportion in the subsequent years has increased from 6-8 % in 1998 to about 12.0 in 2009 (Table 2.2).

Table 2.1: Sri Lanka: Public Expenditure in Agriculture Sector, 1998-2009

Year	Public Expenditure in Agriculture (Rs. bn.)	Total Government Expenditure (Rs. bn.)	Agriculture Expenditure as a proportion of Total Government Expenditure (%)
1998	11.9	268	4.4
1999	13.2	279	4.7
2000	13.5	336	4.0
2001	15.1	386	3.9
2002	13.6	403	3.4
2003	15.1	418	3.6
2004	16.6	477	3.4
2005	24.6	585	4.2
2006	31.1	714	4.3
2007	37.4	1,194	3.1
2008	64.0	1,552	4.1
2009	73.1	1,719	4.2
Annual Average	27.4	694	4.3

Source: Budget Estimates, Government of Sri Lanka, 1998-2009

Note: 1. Expenditure in current rupees.

2. Includes ministries of Agriculture, Irrigation & Mahaweli Development (includes some expenditure for power generation), Ministry of Plantation Industries, Ministry of Fisheries & Aquatic Resources, Ministry of Agricultural Development & Agrarian Services, Ministry of Irrigation and Ministry of Animal Production & Health

2.2 Use of Recurrent and Capital Expenditure Within the Sector:

Disaggregating the annual government expenditure data on agriculture sector in to recurrent and capital (investment) components reveals that virtually all increases in total expenditure in the more recent years have mostly come from increases in recurrent expenditure items (Table 2.3). The recurrent expenditure component to a large part indicates the increased payments for the staff in the public sector in terms of their salaries and other emoluments and also for providing a range of subsidies for inputs (mostly for fertilizer) and services. Given the predominance of the salary payments and other related expenditures, it appears that the sector does not provide many opportunities for introducing any new activities or does not try out any innovative activities.

2.3 Allocations and Actual Use of Funds:

The analysis on allocation of expenditure versus actual budget use data shows that overall, all Ministries and Departments in the agriculture sector consistently underutilize their allocated budgets. In fact, all ministries functioning in the agriculture sector when taken together show an unexpectedly high level of underutilization of allocated annual budgets (Table 2.4). The percentage varies from 40% in 2007 to about 34% in 2008 and 30% in 2009. Most serious underutilization is seen in the in the Ministry of Agriculture, Ministry of Agrarian Development and also in the Ministry of Livestock.

Table 2.2: Growth in Public Expenditures and Agriculture GDP, 1998-2009

Year	Total Public Expenditure on Agriculture Sector (Rs. Mn.)		Agriculture Sector GDP (Rs. Mn.)		Ag. Expenditure as a proportion of Ag. Sector GDP (%)
	Nominal	Real	Nominal	Real	
1998	11,894	11,894	175,479	175,479	6.8
1999	13,222	12,653	191,577	183,329	6.9
2000	13,517	12,127	200,963	180,300	6.7
2001	15,171	12,108	214,483	171,180	7.1
2002	13,621	10,028	233,615	171,999	5.8
2003	15,149	10,610	241,122	168,871	6.2
2004	16,651	10,719	262,271	168,828	6.3
2005	24,575	14,324	289,906	168,980	8.4
2006	31,133	16,307	333,137	174,493	9.3
2007	37,426	17,195	418,104	192,093	9.0
2008	63,968	25,261	590,114	233,039	10.8
2009	73,167	27,353	607,788	227,221	12.0
Annual Average	27,458	15,048	313,213	184,651	8.0

Source: Budget Estimates and Central Bank Annual Reports (1998-2009)
Deflated by GDP Deflator Index, 1998=100

Table 2.3: Recurrent Expenditure versus Capital Expenditure in Agriculture in Nominal Terms

Year	Recurrent (Rs. Mn.)	Capital (Rs. Mn.)	Ratio (Rec./Cap.)
1998	5,629	6,265	0.9
1999	5,007	8,216	0.6
2000	5,624	7,891	0.7
2001	7,132	8,040	0.9
2002	6,964	6,655	1.0
2003	6,932	8,215	0.8
2004	8,894	7,757	1.1
2005	13,686	10,890	1.3
2006	19,356	11,778	1.6

Source: National Budget Estimates, Government of Sri Lanka, 1998-2009

As seen from Table 2.4, on an average, the level of underutilization in the Ministry of Agriculture Development vary around 40% of the allocated annual capital budget. This problem of consistent under-spending of allocated budgetary resources within the agriculture sector is a major cause for concern as regards the effectiveness of using allocated funds in all Ministries concerned. The problem is more acute in the capital expenditure component. The under utilization of budgets is regularly seen in activities such as land acquisition and related activities. This implies that most ministries in the agriculture sector over estimate their capacity to spend capital budgets and send their annual budget estimates to the Treasury without adequate planning and preparations on capital investment activities.

2.4 Fund Use of Sub Sectors in Agriculture Sector:

As seen from Table 2.5, in terms of actual expenditures, the least development priority of the government agriculture sector budget is the livestock development activity - with a meagre 1% of the total agriculture sector expenditure. As poultry production as well as pig farming in Sri Lanka are almost totally led by private entrepreneurs, most of the actual public sector expenditures on livestock are focused on dairy farming. Given the urgency for developing domestic dairy production industry and the ambitious goal set by the government to achieve self sufficiency in milk within a short period, the extremely low priority given by the government budget allocation for the dairy development is a major concern. This should receive attention of development Planners in the Livestock sector and the Ministry.

The next least important sub sectors in the agriculture sector, in terms of the annual public expenditure use, are Fisheries and Plantation crop sub-sectors, each accounting for about 10% each of the total sector expenditure. Most of the expenditures for managing and developing the plantation sector, particularly the estates owned and managed by Plantation companies, are currently borne by the private sector. Hence, the low expenditures on plantation sub sector is justifiable to a large extent.

In contrast, the food crop sub-sector including paddy and other seasonal crops, accounts for the lion's share - nearly 80% of the total agriculture sector budget on an average.

Table 2.4: Allocation and Utilization of Public funds by Key Selected Ministries in the Agriculture Sector, 2007- 2009

Ministry	Recurrent Expenditure			Capital Expenditure		
	Approved (Rs.Mn.)	Actual (Rs.Mn.)	Under use(-) /Over use (+) (%)	Approved (Rs.Mn.)	Actual (Rs.Mn.)	Under use(-) /Over use (+) (%)
2007						
Agricultural Development	14,558	14,651	0.6	4,401	2,638	-40.1
Agrarian Services & Development of Farmer Communities	2,526	2,474	-2.1	3,370	794	-76.4
Agriculture, Irrigation & Mahaweli Development	1,572	1,572	0.0	4,324	3,989	-7.7
Fisheries & Aquatic Resources	749	744	-0.7	5,946	3,399	-42.8
Livestock & Infrastructure Development	334	310	-7.3	684	541	-20.9
Total	19,739	19,751	0.1	18,756	11,358	-39.4
2008						
Agricultural Development & Agrarian Services	33,661	33,022	-1.9	10,826	6,660	-39.0
Plantation Industries	1,543	1,415	-8.3	3,644	2,601	-28.6
Fisheries & Aquatic Resources	856	831	-2.9	4,184	3,847	-8.0
Livestock Development	368	333	-9.4	697	383	-45.0
Irrigation & Water Management	1,243	1,263	1.6	5,020	2,700	-46.2
Total	37,671	36,864	-2.1	24,371	16,191	-33.6
2009						
Agricultural Development & Agrarian services	35,317	34,276	-2.9	11,035	4,764	-56.8
Plantation Industries	1,709	1,599	-6.4	3,296	2,124	-35.6
Fisheries & Aquatic Resources	971	937	-3.5	6,685	6,819	2.0
Livestock Development	402	361	-10.0	960	319	-66.8
Irrigation & Water Management	1,340	1,295	-3.4	10,813	9,457	-12.5
Total	39,739	38,468	-3.2	32,789	23,483	-28.4

Source: Ministry of Finance and Planning and Annual Reports of Sri Lanka, 2008 and 2009

Note: The List of Ministries based on Budget 2007, 2008 and 2009

Table 2.5: Public Expenditure in Agriculture Classified by Sub-sectors, 1998-2009

Year	Food crops (Rs. Mn.)	Fisheries (Rs. Mn.)	Plantation Crops (Rs. Mn.)	Livestock (Rs. Mn.)	Total (Rs. Mn.)
1998	8,822 (74)	885 (7)	2,036 (17)	151(1)	11,894 (100)
1999	8,679 (66)	1,603 (12)	2,755 (21)	185 (1)	13,222 (100)
2000	9,089 (67)	1,595 (12)	2,674 (20)	159 (1)	13,517 (100)
2001	10,966 (72)	2,091 (14)	1,957 (13)	157 (1)	15,171 (100)
2002	11,075 (81)	1,112 (8)	1,318 (10)	116 (1)	13,621 (100)
2003	11,806 (78)	2,022 (13)	1,113 (7)	208 (1)	15,149 (100)
2004	13,873 (83)	1,231 (7)	1,307 (8)	240 (1)	16,651 (100)
2005	18,990 (77)	3,884 (13)	1,310 (5)	391 (1)	24,575 (100)
2006	25,324 (81)	3,926 (13)	1,447 (5)	436 (1)	31,133 (100)
2007	29,149 (78)	4,143 (11)	3,437 (9)	697 (2)	37,426 (100)
2008	52,607 (82)	5,216 (8)	5,067 (8)	1,078 (2)	63,968 (100)
2009	59,144 (81)	7,656 (10)	5,005 (7)	1,362 (2)	73,167 (100)
Annual average	21,627 (77)	2,947 (11)	2,452 (11)	432 (1)	27,458 (100)

Source: National Budget Estimates, Government of Sri Lanka, 1998-2009

Note: The figures in parenthesis indicate the percentage

2.5 Ministry-Wise Allocations in the Agriculture Sector:

A key feature associated with the agriculture sector in Sri Lanka, particularly in the more recent years is the functioning of a large number of Ministries (Seven ministries in 2006). Frequent changes in the Ministries, with drastic changes in their roles, responsibilities and scope of work is clearly detrimental to the smooth

functioning of the sector in general and to the Ministries concerned in particular. These changes in the ministry work programmes lead to major overlaps in the areas of responsibility and problems of accountability between the Ministries. The situation has led to confusion in the workloads carried out by respective Ministries which in turn has led to poor coordination between different ministries, departments and institutions within the sector.

3. Expenditure Related Issues in the Agriculture Ministry, 1998-2009

The largest share of the public expenditure in the Agriculture is incurred by the Agriculture Ministry (mainly responsible for the food sector). Hence, this section of the paper is focused on a detailed economic classification of the public expenditure incurred in the food crop sector (paddy and other field crops), implemented by the Ministry of Agriculture. The Ministry is primarily responsible for improving the domestic food crop production.

3.1 Low Priority Given to Capital Expenditures:

Analysis of the expenditure data in the Ministry of Agriculture indicate that nearly three fourth of government expenditure in the Ministry budget is spent on recurrent items and only one fourth is spent on capital expenditures suggesting a major imbalance in the overall expenditure in the Ministry (Table 3.1). The relatively low share of expenditure associated with the capital investments in the Ministry reveals the correspondingly low priority attached to the investment activities in the food sector by the Ministry. From a sector growth perspective, the imbalance between the recurrent and the capital expenditure in the Ministry is a major issue that requires close attention. Inadequate emphasis placed on vital capital investments, such as storage facilities, in the food crop sector is likely to affect the long term development of the food sector. The imbalance may arise from inadequate capacity of the planning, implementation and project development activities in the Ministry. Well conceived projects and ideas that are in line with the overall development objectives and the plans of the Ministry is a *sine qua non* for a satisfactory solution.

3.2 Imbalance in Recurrent and Capital Expenditures:

Recurrent expenditures in the Agriculture Ministry, to a large extent, include staff salaries and other emoluments, provision of subsidized fertilizer distribution and other services. It accounts for the largest share of the Ministry expenditure (75%), thereby leaving hardly any room for other productive, recurrent activities. Of the recurrent expenditure budget, a major share is accounted by the ongoing

programme for distributing the subsidized fertilizer for the paddy farmers (43 percent of the annual average expenditure in the Ministry for the period 1998-2006). Furthermore, the personal emoluments including salaries and overtime expenditure for the staff accounts for the second largest recurrent expenditure component (22%). These two activities alone account for almost 90% of the recurrent budget leaving little room for innovative activities.

Table 3.1: Share (%) of Actual Expenditures Incurred in the Ministry of Agriculture Classified by Recurrent and Capital, 1998-2006

Item	1998	1999	2000	2001	2002	2003	2004	2005	2006	Average
Recurrent Costs:										
Personal Emoluments	10.8	16.3	24.8	26.8	32.7	34.0	18.7	17.4	14.8	21.8
Travelling expenditure	0.6	0.6	0.8	0.6	0.7	1.0	0.8	0.5	0.2	0.6
Supplies	0.7	0.9	1.4	1.2	1.2	1.5	1.0	0.8	0.4	1.0
Maintenance	-	-	0.7	0.5	0.6	0.6	0.4	0.3	0.2	0.5
Contractual services	1.7	2.1	2.2	2.1	1.8	2.3	2.1	1.8	0.8	1.9
Transfers	3.4	4.3	4.4	5.0	4.6	1.8	0.7	1.2	7.0	3.6
Subsidies	55.1	38.1	32.9	42.2	40.2	24.3	45.7	60.1	51.2	43.3
Other recurrent	5.2	6.5	1.2	0.8	0.8	1.6	0.2	0.3	0.0	1.8
Sub Total	77.8	69.6	68.7	79.4	82.9	67.3	69.7	82.8	74.8	74.8
Capital Cost:										
Rehabilitation & improvement of other assets	4.7	8.8	7.6	7.8	1.0	4.0	1.4	0.9	3.1	4.4
Acquisition of fixed assets	11.6	16.6	17.4	8.5	4.1	9.0	9.5	11.7	5.0	10.4
Capital transfers	1.1	1.4	3.8	2.8	1.9	1.5	0.6	1.2	2.6	1.9
Capital grants	4.8	3.5	2.2	1.3	-	-	-	-	-	1.3
Other capital expenditure	-	-	0.1	0.1	0.0	2.9	10.3	3.2	13.9	3.3
Operational cost of donor funded projects	-	-	-	-	9.8	14.9	0.7	-	-	2.8
Sub Total	22.2	30.3	31.2	20.5	17.0	32.6	30.2	17.1	25.2	25.1
Total	100	100	100	100	100	100	100	100	100	100

Source: National Budget Estimates, Government of Sri Lanka, 1998-2009

3.3 Expenditure for Operating the Fertilizer Subsidy Programme:

Fertilizer subsidy is the largest public expenditure item in the agriculture Ministry and the amounts involved are indicated in Table 3.2. The expenditure for the year 2011 for the subsidy programmes is estimated at around Rs. 30 billion per annum. The rising subsidy cost to the government is causing serious doubts about the overall sustainability of the programme. Under this programme, currently, the paddy farmers are offered a 95% of the subsidy for the fertilizers used by them. The problem has been further aggravated by the sharply rising price of fertilizers in the world market.

Table 3.2: Fertilizer Subsidies in Sri Lanka in Nominal Term, (Rs. Mn.) 2005-2008

Description	2005	2006	2007	2008
Fertilizer subsidy	6,885	10,700	11,000	26,854

Source: Ministry of Finance and Planning, Annual Report, 2008

The current fertilizer subsidy is allowing the farmer to bear only about 5 percent of the actual procurement costs. The task relating to the entire chain of activities relating to the subsidy programme including tendering, importing, storage, distribution, supervision and monitoring of fertilizer use are fully undertaken by the government. Hence if all costs are considered, the government subsidy is most likely to increase at least to about 100%. The fiscal drain on the budget arising from the subsidy is clearly unsustainable. Furthermore, the subsidy as operating now, suggests that the system is providing a base for major abuse of the system at all levels. Similarly, there is ample evidence to suggest that there are major leakages in the current system of fertilizer delivery. The over use of agro chemicals, in turn is leading to an over application of pesticides and other poisonous agro chemicals in the food crop sector, resulting in a vicious cycle with negative environmental consequences (Gunatilalake *et al*, 2004). In the light of these problems, the fertilizer subsidy programme requires a careful review.

3.4 Public Expenditure Issues in Agriculture Research and Extension Services:

Under the devolved system of administering the agriculture sector activities, the central government is responsible for carrying out all agriculture research in the country while Provincial Councils are responsible for operating agriculture extension activities in most parts of the country (except inter-provincial areas).

Given the current status of stagnation in the food crop production sector including that of paddy, establishing an effective and efficient system of research and extension is the most critical need of the hour. There is overwhelming evidence to suggest that Sri Lanka's research and extension system is splintered and weak and show less than satisfactory results. Tabor and Samaratinga (1994) demonstrate a downward trend in real expenditure on agricultural research in Sri Lanka, in terms of total expenditure, as well as in terms of proportions of GDP and total government expenditure.

The main institution in the agriculture sector for delivering and generating technology and dissemination in Sri Lanka's food sector is the Department of Agriculture (DOA). In addition to the DOA, provincial administration is also providing funds independently to carry out extension functions in the provinces. In this analysis only the DOA expenditure is analyzed and this effort should therefore be viewed as an initial step.

As revealed by the data presented in Table 3.3, public expenditures and extension in the DOA on research is larger than expenditure incurred on agricultural extension and training. If the expenditures incurred by the provincial councils are considered, the cost of providing extension services in the agriculture sector would be larger than that of the research system.

Table 3.3: Expenditure on Agriculture Research and Extension Services Undertaken by the Department of Agriculture (DOA), 1998-2007

Year	Expenditure on Agric. Research & Development (Rs. Mn.)	Expenditure on Agric. Res. & Development as a % of Total DOA Expenditure	Expenditure on Agric. Extension & Training (Rs. Mn.)	Exp. on Agric. Extension & Training as a % of Total DOA Expenditure
1998	191.1	38.5	115.5	23.2
1999	210.0	27.0	145.9	18.8
2000	222.2	26.9	166.2	20.0
2001	262.1	30.4	187.7	21.8
2002	n.a.	n.a.	n.a.	n.a.
2003	263.2	36.8	174.9	24.5
2004	313.5	39.0	233.0	28.9
2005	415.8	36.0	317.9	27.6
2006	558.9	35.9	412.5	26.5
2007	658.3	21.2	479.7	15.4
Average	343.9		248.1	

Source: National Budget Estimates, Government of Sri Lanka, 1998-2009

n.a. data not available.

The most fundamental weakness in providing funds to Agriculture extension and research viewed from a budgetary point of view, is the dual system of providing government funds to the national agriculture extension services. One, through the central government and the other, through provincial government systems. These two systems are currently functioning independently from one another with virtually no coordination and accountability to the final results. The dual path of providing public funds, in fact, has completely alienated the two main elements of the food production i.e. research and extension activities in the agriculture system. This has led to unintended and adverse outcomes. Hence, if the country is to move forward in terms of agriculture sector improvement, it is critical that the government take a systematic review and monitor the funding and fund use in the current technology generation and dissemination system.

The study data indicate that currently, the entire financial burden of developing the agriculture research and extension system is borne by the government. This is an area in which closer collaboration with private interests and investments could be effectively harnessed by way of developing joint Public Private, People partnerships (PPPs).

An additional compounding factor that reduces the effective use of public funds in Sri Lanka's agriculture sector is the non availability of a strong, well-defined national agricultural policy supported by effective strategies capable of delivering expectations. The past experiences suggest that often, the agriculture policies and plans used are devoid of effective strategies.

4. Issues in Planning, Execution and Monitoring Agriculture Sector Expenditure Programmes

The effectiveness of the public sector expenditure programmes in the agriculture sector at the national level is determined not only by the amount of funds spent, but also by the process through which funds are channelled in to the sector. The process ideally involves a combination of five critical steps including: (i) budget planning, (ii) programme execution, (iii) monitoring and evaluations (M&E), (iv) post-evaluation of programmes and tracking results, and (v) provision of an effective response mechanism by the government to the M&E findings.

This section therefore, is devoted to a close review of the expenditure process adopted by the ministry in respect of each of these key steps in the expenditure process. The main aim of the exercise is to identify key issues and constraints affecting the outcome of the expenditure programme.

Results of this review clearly suggest that providing more public funds and other resources to the sector is unlikely to deliver results. Unless suitable adjustments and improvements are made to improve the expenditure process by providing greater cost effectiveness, increased allocations alone would not deliver better results.

4.1 Public Expenditure Planning Process: Overall Experiences in the Agriculture Sector

Ideally, the budget planning process in the agriculture sector, should aim at ensuring the realization of economic aspirations of the government vision with respect to the development of agriculture. The expenditure planning process should necessarily ensure social goals including: value for money, openness, transparency, equity, sustainability and accountability for the investment made. A review of the actual processes of planning public expenditure programmes in the agriculture sector, however, indicates a wide difference between the expected and the real processes followed.

Attempts made in this study to review the development plans prepared for the agriculture sector in the recent years indicate a paucity of such documents indicating a clear plan of action underpinned by an effective, long term vision and consistent policy framework. The plans and strategies prepared in the agriculture sector, particularly in the food crop sector, often reflect a knee-jerk response of most institutions concerned to short term problems and changes in the system including changes in the political economy. The plans prepared, are in general, devoid of effective strategies capable of delivering sustainable results. They are hardly built on lessons learned from similar experiences gained in the past.

This study indicates that there is weak institutional capacity within the ministries in the agriculture sector, to engage in serious planning, presenting, monitoring and evaluation of the investment programmes. Non availability of good quality research information on key development issues and problems, weak institutional capacity to provide innovative, effective and sustainable development options, lack of quality monitoring and evaluation studies on existing and completed agricultural development programmes are also posing serious constraints in improving expenditure planning in the sector. It also shows that the agriculture plan preparation processes adopted in the recent past do not reveal any serious attempts to seek stakeholder involvement to understand realities and to validate ground truths.

An issue that complicates expenditure planning and other tasks connected with the expenditure management process is the presence of too many ministries in the agriculture sector. The problem is further confounded by the frequent changes in the scope of work, transfer of responsibilities and overlapping functions of the Ministries concerned. The overlap between the Ministries results in a situation of multiple accountabilities which in turn result in ineffective expenditure control, difficulties in coordination and confusion in the management.

Mainly because of the institutional weaknesses, the agriculture sector improvement plans are continuing to be developed at the higher levels in the decision making hierarchy, which are then passed on to the real stakeholders at the bottom level for implementation. In fact, Sri Lanka's experiences in the last 20-30 years repeatedly confirm that most "policy documents" produced during this period are built on weak logic, untenable assumptions and strong statements. This is a critical issue that requires attention for improving the effectiveness of public sector expenditure planning process in the agriculture sector.

4.2 Implementation of Expenditure Programmes:

The unsatisfactory implementation of expenditure programmes in the agriculture sector is one of the common problems that leads to poor results in many public sector expenditure programmes in the agriculture sector in Sri Lanka. The problem is easily identifiable in most of the foreign funded investment programmes. The weak character in the implementation process is identifiable in a number of results indicators including: under expenditure, chronic delays in completing the planned programmes, cost overruns and lack of accountability. A significant problem that exacerbates the poor implementation is the overwhelming tendency of the senior management levels in the public sector to measure progress of development projects solely in terms of financial expenditures rather than on the delivery of agreed results.

4.3 Monitoring and Evaluation of Expenditure Programmes for Results:

Perhaps, the most critical activity that brings down the overall effectiveness of the public sector expenditure programmes in Sri Lanka's agriculture sector is the absence of well functioning Monitoring and Evaluation (M&E) systems. Often, such M&E systems designed to establish effectiveness of fund use and cost effectiveness of the expenditure systems are nonexistent in many instances in the agriculture sector. In fact, it is hard to locate any rigorous Monitoring and Evaluation activity in public expenditure programmes in the agriculture sector. Key reasons for this problem are; virtual absence of a M&E culture in the sector

as whole, inadequate recognition by the authorities concerned on the useful role that could be played by an effective M&E system and inadequacy of professional capacity in most Ministries concerned. Post-evaluation studies focused on the results generated by expenditure programmes are almost nonexistent within the agriculture sector. This is an area that needs improvements. Since the agriculture sector provides public institutions an adequate independence and capacity to undertake post-evaluations, they need to be encouraged to step in and fill the research gap.

4.4 Summing up: Budgetary Process in Sri Lanka.

In summing up this section, an attempt is made to develop a model to evaluate the overall effectiveness of the public expenditure programmes/projects in the agriculture sector using selected indicators. The indicators selected are: (i) Quality of the development plan and the strategy proposed at the entry level (Project Readiness), (ii) Transparency of financial and other Information contained in the project budget, (iii) Programme effectiveness in terms of delivering results (iv) accountability of the project for achievement of results and (v) the internal capacity of the programme for Tracking, Monitoring and Evaluation (M&E) of the expenditure programme.

Information gathered in this analysis during the data collection phase indicated that the effectiveness of the past public expenditure programmes implemented in the agriculture sector have been highly variable. Apart from issues relating to project design and strategy related issues, a major part of this variability is attributable to lack of understanding of the project development objectives and to inadequate levels of adherence to rules and norms in the budget process by those in the lower levels of the implantation hierarchy. This information also indicate that at the budget planning stage, all stakeholders in the public sector at almost all levels should closely involve and strictly adhere to the agreed norms and timelines. However, the least amount of care and attention in most programmes is paid to all stakeholders in monitoring and Evaluation activities and in conducting post-evaluations of the results achieved by the programmes (mid-term, final and post- reviews).

Based on the knowledge gathered through the analysis a model has been developed to help in assessing the effectiveness of the public expenditure programmes in the agriculture sector (Table 4.1). The model generally indicates that the budgetary allocation, implementation and evaluation process should adhere to laid out procedures strictly at the highest (Treasury) level. However, as the process is being implemented, at the lower levels of the implementation

hierarchy, the effectiveness and efficiency of the expenditure programme tend to recede at a faster rate. This is an issue that requires closer attention by the senior budget planners. A number of remedial measures could be adopted to avoid this problem. Few of the key measures that could be used to avoid this problems are: increase the awareness on the vision, goals and strategies underlying the expenditure programme/project to those operating the lower levels of the project hierarchy, increase the level of participation of all implementers from the inception of the project preparation activities and selection of an effective monitoring and evaluation agency from the beginning of the expenditure programme.

Table 4.1: A Frame Work to Assess and Compare the Effectiveness of the Budgetary Process in Public Expenditure Programmes

Criteria	Expenditure Programme (Level I, Treasury)	Expenditure Programme (Level II, Ministry/Dept.)	Expenditure Programme (Level III, Lowest, Field Level)
1. Quality of the development plan and the strategy proposed at the entry level (Project Readiness)	High	Medium	Very Low
2. Transparency of financial and other Information contained in the project budget	High	Medium	Very low
3. Programme effectiveness in terms of delivering results	High	Medium	Very Low
4. Accountability of the programme for results achievement	High	Medium	Very Low
5. Internal capacity of the programme for Tracking, Monitoring and Evaluation (M&E) of the programme	Good	Weak	Poor

5. Conclusions

This section provides a concise summary of the study findings and the presentation is divided into two main parts (i) budgetary allocation and utilization issues and (ii) budget process issues relating to the expenditure programmes undertaken in the agriculture sector.

5.1 Budget Allocation Issues

- (a) **Lower level of priority given to the Agriculture sector:** Agriculture sector in Sri Lanka has a clear role to play in terms of providing food for its rapidly urbanizing population, creating employment opportunities, supporting livelihood improvement for its rural population. However, the study findings clearly indicate that in actual practice, public expenditure in agriculture sector in Sri Lanka during 1998-2009, has accounted only for about 4 percent of Sri Lanka's total public government expenditures and the expenditure has not shown a consistent growth pattern during this period. The least priority has been given to livestock, around 1 % of the total annual government expenditure. In fact, the expenditure on agriculture has shown a decrease during the period 1998 to 2003. However, the study also provides evidence to suggest that increasing budget allocation alone will not make significant improvements in the sector performance as a number of other key process related issues relating to the budget allocation are hindering the achievement of expected results. The process issues need to be carefully reviewed prior to increasing budget allocations.
- (b) **High levels of expenditure incurred on direct subsidies in the sector:** The analyses indicate that the sector is associated with a large number of direct and indirect subsidy programmes. Of them, the paddy fertilizer subsidy accounts for the largest, incurring a massive annual cost to the government (estimated to be around Rs. 30 billion per annum in 2011). The programme is unsustainable. In addition to the fertilizer subsidy, the government is also involved in providing an extremely wide range of subsidies to the agriculture sector, for providing services as well as goods to the sector. Furthermore, at the provincial level also the agriculture sector is provided a wide range of inputs and service subsidies to the farmers by the Provincial Council budgets. Despite a plethora of subsidy programmes available in the country, so far, no serious attempt has been made by researchers to document all subsidies currently given, the total budgetary burden associated with the subsidies and the long term sustainability of these programmes. The subsidies are almost solely focused on the farmer and expected to serve as production incentives.

The fertilizer subsidy in particular has led to a range of financial, institutional, environments and other issues.

(c) Recurrent budgets are mostly incurred for staff salary payments: The second largest expenditure item in the Agriculture sector is the payment of salaries and other emoluments to the staff working in the sector. Bulk of the recurrent expenditures are incurred to this manner leaving little or no financial provision to undertake improve the system or to introduce innovative activities. In the case of Agriculture Ministry budget, salaries and other emoluments account for 22 percent of the budget.

(d) Underutilization of Funds Allocated to the Capital Budget: Study findings also indicate that the food production sector, mostly handled by the agriculture ministry, is chronically affected by the problem of underutilization of annual capital budget. This finding, is raising a number critical issues that require serious consideration of the Ministries concerned. The problem basically comes from overestimation of the internal capacity of the Departments/line agencies to achieve what is promised and partly comes from the inherent capacity problems in the ministries to plan and attend to the capital investments including the initiation and implementation of new, innovative investment activities which require larger expenditures. Because of the inability of the Ministries/Departments/agencies involved to carry out the capital works planned at the beginning of the fiscal year, funds are unspent at the end of the fiscal year.

(e) Agriculture Technology Generation (Research) and Dissemination (Extension):

The study highlights a number of key issues affecting the National Research and extension systems. The problems are exacerbated due to the lack of consistent agriculture policies with a clear long term vision and effective strategies. Expenditure on both Research and Extension are under funded. The study highlight that while the national agriculture extension system is funded by both the central government and Provincial Governments, the national research system is funded only by the Central government. The institutional duality is a major cause for the ineffectiveness of the technology generation and dissemination system of the country.

5.2.1 Budget Process Issues

(a) Under funding of Agriculture Sector: One of the critical problems surfaced in this study relate to the problem of under investment of public funds in the

agriculture sector. The usual solution provided to this problem in the past has been to provide larger doses of funds to the sector (e.g. for research, extension, and marketing etc.). Underlying this response is a strong assumption that once funds are given, the system will correct itself automatically and deliver results. In the agriculture sector, the approach has proven to be a failure time and again.

(b) Limited Capacity at the Ministry and Line Agency level: Implementation of the annual budget of Sri Lanka is involved at three different levels in the administrative hierarchy. Performance of these three levels gradually becomes weaker as it moves down the system. At the highest level (Treasury level) public expenditure allocation process is functioning well with the high level of accountability, transparency, planning and monitoring. At the middle level (Ministry level) the performance becomes less strong and at the ground level the process gets even more diluted.

(c) Institutional Issues: Poor coordination between ministries, departments and institutions within the agriculture sector is a major factor that causes weak performance in the sector. Presence of a large number of ministries dealing with agriculture sector, frequent and ad hoc changes in the ministries and their functions has created major problems in the agriculture sector in achieving the results.

(d) Lack of Effective Monitoring and Evaluation Systems: Weaknesses in the agriculture sector to undertake monitoring and evaluation of the expenditure programme is a notable feature. Successful M&E activities to monitor expenditure programmes within the agriculture sector are virtually non-existent. Absence of an effective institutional mechanism to undertake M & E activities is causing difficulties in keeping track of the expenditure programmes. In fact, in most cases the progress of development programmes, in the sector are measured on the basis of financial expenditures incurred rather than on actual achievements made on the ground.

(e) Harnessing Private sector resources, interests and commitment; one of the key lessons learnt from this analysis is that in designing public expenditure programme consideration also should be given to the need to incorporate and promote private-public partnerships. Enhancing private sector participation in agriculture could produce several benefits. First, it would increase the overall volume of resources invested in the agricultural sector. Second, due to the competition between the public and private sector, it could increase agricultural productivity.

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