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A review of public expenditure in agriculture sector in Sri Lanka: 1998-2008

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Public Expenditure Reviews (PERs) are a powerful research tool often used in many countries to identify and remedy the key problems associated with the allocation and use of state sector resources. In this analysis, the PER approach is used to examine the expenditure in Sri Lanka's agriculture sector during the 1998-2008. The analysis is based on the national budget data.

Although, the agriculture sector covers a wide range of sub-sectors including paddy and other food crops, plantation, fisheries, livestock and forestry, it accounts for about 4 percent of Sri Lanka's total annual public expenditure. The sectoral expenditure has shown a rapid growth from Rs. 13 billion in 1998 to Rs. 56 billion in 2008, reflecting an average annual growth of 31 percent. However, in real terms the annual increase has been about 9 percent per annum. Analysis of the expenditure data in terms of recurrent and capital expenditures shows the dominance of recurrent costs during this period, mainly due to cost escalations for salary payments, maintenance and subsidies. Recurrent costs have risen from Rs. 6 billion to 29 billion (an increase of 35 percent per annum) while the capital expenditures (e.g. rehabilitation, asset improvement) has increased from Rs. 7 billion to Rs. 27 billion during the period (25 percent per annum). A sub-sector wise analysis shows that expenditure on food crop sub-sector accounts for 70 percent in the agriculture sector budget while adding only about 37 percent to the total agriculture GDP. Within the Agriculture Ministry budget, fertilizer subsidy is the largest (43 percent). The growing expenditure for the fertilizer subsidy amounting to Rs 26 billion (2008) as well as the low expenditure on research and extension (1.7 percent of Agriculture Ministry budget or 0.13 percent of Agriculture GDP) are causes for concern. The more important problems in the agriculture expenditure system include: the presence of a large number of ministries within the sector leading to poor monitoring and coordination, inadequate provisions for developing and dissemination of technology and the implementation of the agriculture research budget by the central government while the extension budgets by Provincial Councils. Development of an agriculture policy with consistent and clear goals, effective strategies and monitoring for results rather than for expenditures will improve the expenditure process.