

## **Agriculture and defence budgets reveal unstated priorities in policy**

A country's budget is expected to outline a government's short and medium term fiscal policy framework; explaining how the government plans to raise, allocate and spend public resources.

This insight is motivated by the observation that in Sri Lanka there are regular, systematic and often considerable discrepancies between spending allocations - how much a government plans to spend - and actual spending. These discrepancies can be used to discern a government's actual priorities, which can be quite different from announced priorities.

### ***Reducing the deficit reveals priorities***

Post-war the government's most remarkable fiscal achievement has been its commitment to reducing the budget deficit. The deficit has declined steadily, from 9.9 percent of GDP in 2009 to 5.8 percent in 2013.

However, simultaneously, its greatest fiscal failure is its inability to increase revenue. Government revenue declined from 15.6 percent of GDP in 2009 to the historically low 14.1 percent in 2013.

Reducing the deficit and concurrently reducing revenue means that the burden of this achievement has fallen on cutting expenditure rather sharply. The choice of where to cut expenditure and where to increase spending then reveals the underlying priorities of the government.

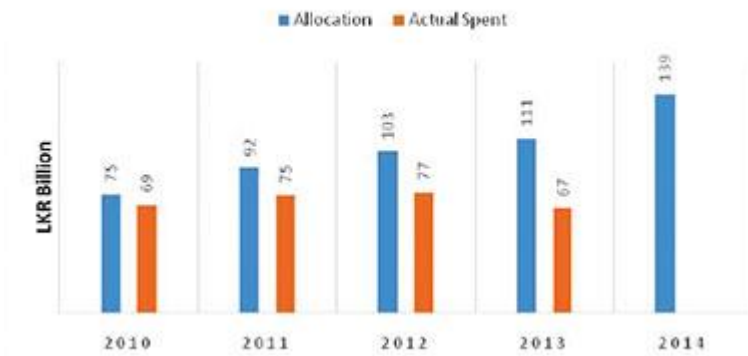
### ***Political rhetoric vs. budgeting reality***

The government's political rhetoric has focused strongly on drawing on a national consciousness that idolizes the farmer as the foundation of society, and a Sinhala cultural perception of social power that is constituted of priests, doctors, teachers, farmers, and blue-collar labour. This grouping is known as the five great forces of the society, in Sinhala pancha-mahabalawegaya.

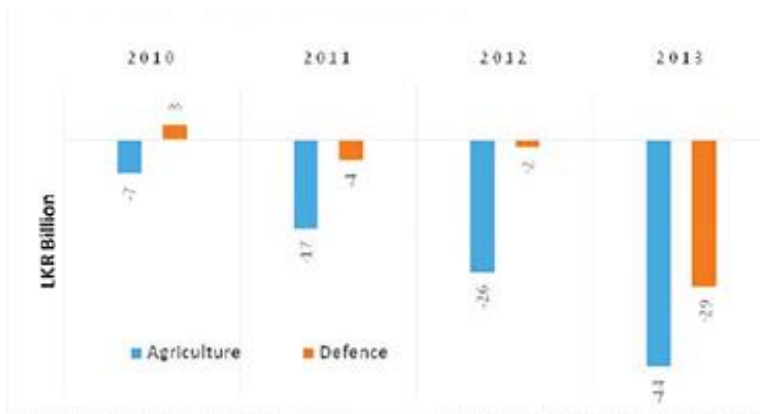
Budget priorities often reflect some of this rhetoric in the allocations announced. But the actual spending patterns can be seriously at odds and suggest that actual priorities are different from the ones that are stated. Comparing the allocations and actuals of agriculture and defence spending can be quite revealing in this regard.

The data used is Central Bank's functional classification of spending, not ministerial allocations, to ensure consistency of information captured across time despite changes in the composition and spending areas of the relevant ministries.

**EXHIBIT I: AGRICULTURE AND IRRIGATION ALLOCATION RISES, ACTUALS STAGNANT**



**EXHIBIT II: AGRICULTURE AND INDUSTRY EXPENDITURE CUT MORE THAN DEFENCE**



***Agriculture allocations and actuals, the trajectories diverge***

The political rhetoric in the country identifies agriculture as the backbone of rural economy and emphasises the importance of investing in agriculture and irrigation as a means of increasing rural incomes and reducing income disparities within the country. In the 2015 budget speech, President Rajapaksa reiterates this goal by stating "our rural centric development strategy must focus on agriculture for food security and a higher income to the rural people."

This political rhetoric has been matched by the trajectory of allocations announced in the budgets. Each post-war budget has allocated increasingly greater funds to agriculture and irrigation. In fact, the allocation in 2013 was 60 percent greater than what was spent in 2010 and the allocation in 2014 is double of what was spent in 2010.

But the trajectory of actual spending is quite different. The actual spending on agriculture and irrigation in 2013 was 3% less than what was spent in 2010. Contrasting a 60% increase in announced allocations from 2010-2013 against a 3% reduction in

actual spending in the same period indicates a huge divergence between the political rhetoric of allocations and actual revealed priorities in Sri Lanka's budget utilisation.

The post-war political rhetoric has elevated the image of the soldier (even perhaps at the expense of the farmer). Along with this rhetoric, budget allocations for defence have been increasing steadily rather than decreasing, despite the high public expectations of reducing this cost after the end of the war.

Compared to actual spending in 2010, allocations for defence was set 14% higher in 2012, 37% higher in 2013, and then 26% higher in 2014. Actual spending has shown a steady upward increase. It was 12% higher in 2012 and 17% higher by 2013.

Therefore, while spending on agriculture has stagnated and even reduced, spending on defence has steadily increased - despite the baseline budget already being very high due to its rapid growth during the war years.

Because of huge discrepancies between budget documents and actual spending, the spending priorities of the government must be discerned from how the spending actually takes place, rather than what is presented in parliament.

Exhibit II shows the gap between what is presented to parliament and the actual spending. The gap between announced allocations and actual spending in agriculture and irrigation has been rising from 7% shortfall in spending in 2010 to a 44% shortfall in 2013. But with regard to defence, there spending has almost tracked allocations, except in 2013 when it suddenly fell short by 29% (still less than agriculture).

Since 2010, spending on agriculture and irrigation has gone down in absolute terms, and has fallen from about 50 percent to 40 percent of the spending on defence. The reduction in priority for agriculture and irrigation has knock on effects. It is the sector that employs one third of Sri Lanka's labour force and where much of rural income and opportunity is based.

The government has been committed to an important goal of reducing the fiscal deficit. However, reducing the deficit in a situation of reducing revenue requires cutting expenditure. Examining the relative cuts and expansions on the budget documents reveal that in the actual spending priorities agriculture is being neglected while defense remains highly favoured. Recognising this problem can be the first step to resetting the budgeting strategies and spending priorities of the government.

Source: Functional Classification of Expenditure, Chapter 6, Central Bank Annual Report (various years)