

PROGRAM EXPENDITURE AND FINANCING ASSESSMENT

1. **Macroeconomic context.** Sri Lanka was classified as a middle-income country in 2019 and then reclassified as a lower-income country in 2020. Recent incidents such as the Easter Sunday bombings in 2019 and the coronavirus disease (COVID-19) outbreak have had a severe impact on the country's economy and fiscal situation, which, adding to the slowdown in economic activity since 2015, contributed to a large fiscal deficit and high debt levels. The fiscal deficit was 6.8% of gross domestic product (GDP) in 2019, and the government projected it to be 8.5% in 2020.¹ The central government debt level was projected to increase to 92.4% of GDP, from 86.8% in 2019.² The Asian Development Bank (ADB), in its latest *Asian Development Outlook Supplement*, estimates that the impact of the pandemic will contract Sri Lanka's real GDP by up to 6.1% in 2020. However, if the pandemic dissipates in 2021, a GDP growth rate of 4.1% can be expected in 2021. Inflation projections were also revised down from 5.0% in 2020 to 4.0%, and from 4.8% in 2021 to 4.2%.³

2. **Sector context.** Education in Sri Lanka is viewed as a basic right, and the government has adopted policies to encourage compulsory schooling among children. General education encompasses the primary (grades 1–5) and secondary (grades 6–13) levels. Nationally, the Ministry of Education (MOE) is responsible for education policy, planning, and monitoring, curriculum development, and assessments and examinations; and the nine provincial education authorities (PEAs) are responsible for the delivery of subnational education services. Sri Lanka has made good progress in expanding access to education, achieving universal access to primary education and a net enrollment rate for secondary education⁴ that is higher than the average of low middle-income countries (62%) and upper middle-income countries (79%). The reform targets in education were met by increasing their priority in national public spending. Expenditure on education as a share of GDP rose from 1.72% in 2010 to 2.11% in 2018 (Table 1). Similarly, education's share of total public expenditure increased from 8.61% to 11.33%.⁵

Table 1: Government Expenditure on Education
(%)

Education Expenditure Ratios	2010	2011	2012	2013	2014	2015	2016	2017	2018
As a share of total government expenditure (%)	8.61	9.11	8.39	9.42	10.82	10.95	17.73	14.5	11.33
As a share of GDP (%)	1.72	1.81	1.50	1.62	1.93	2.23	3.45	2.78	2.11
On primary education, as a share of GDP (%)	0.43	0.44	0.36	0.37	0.55	0.63	1.20	0.93	0.63
On secondary education, as a share of GDP (%)	0.91	0.93	0.76	0.80	0.91	1.05	1.74	1.42	0.97
On post-secondary non-tertiary education, as a share of GDP (%)	0.09	0.12	0.10	0.11	0.08	0.12	0.09	0.07	0.08
On tertiary education, as a share of GDP (%)	0.28	0.32	0.28	0.34	0.39	0.43	0.42	0.36	0.44

¹ Government of Sri Lanka, Ministry of Finance, Economic and Policy Development. 2020. *Annual Report 2019*. Colombo.

² Based on the government's GDP growth estimates of 1.0%–1.5% for 2020. Public debt, by the International Monetary Fund's definition—central government debt, publicly guaranteed debt, and outstanding International Monetary Fund credit—is about 7 percentage points higher than central government debt.

³ ADB. 2020. *Asian Development Outlook Supplement – June 2020*. Manila.

⁴ The net enrollment rate was 99.1% at the primary level, 98.5% at the lower secondary level, and 81.4% at the upper secondary level: United Nations Educational, Scientific and Cultural Organization Institute for Statistics. 2020. *Education Data*. Montreal.

⁵ Based on the central government's annual budgets, National Statistical Office, and the World Bank's Development Indicators.

GDP = gross domestic product.

Source: United Nations Educational, Scientific and Cultural Organization Digital Library estimates.

3. From 2010 to 2018, the share of secondary education in total government expenditure on education remained fairly constant at about 50%. Despite the steady increases in government spending, secondary education still faces challenges: (i) limited and inequitable access to science, technology, mathematics, and commerce (STMC) subjects in secondary schools; (ii) poor quality and relevance of education because of outdated curricula, pedagogy, and assessments; and (iii) weak school leadership and sector management capacity.

4. **Medium-term plan.** To tackle these challenges, the government formulated, together with development partners, the General Education Sector Development Plan (GESDP), 2020–2025.⁶ The GESDP focuses on three core reforms: (i) strengthen equity in education—equitable learning opportunities for all children; (ii) improve the quality of general education; (iii) strengthen the stewardship and service delivery of general education; and (iv) enhance evidence-based sector policymaking and planning. GESDP funding is based on a medium-term budget framework (MTBF) with clear monitoring and evaluation rules, including detailed plans to monitor and evaluate the targets and results, and identification of responsible entities. Funding totals more than \$11.7 billion from 2020–2025 (Table 2).

Table 2: Education Sector Development—Medium-Term Budget Framework
(SLR million)

		2020	2021	2022	2023	2024	2025	Total
MOE	Recurrent	62,628	64,576	71,772	77,514	85,265	93,792	455,547
	Capital	58,903	57,877	76,086	92,746	112,594	134,425	532,631
	Total	121,531	122,453	147,858	170,260	197,859	228,217	988,178
NIE	Recurrent	500	515	556	601	661	727	3,560
	Capital	300	300	308	317	328	341	1,894
	Total	800	815	864	918	989	1,068	5,454
DOE	Recurrent	4,392	4,609	4,978	5,376	5,914	6,506	31,775
	Capital	1,068	1,048	1,132	1,222	1,345	1,479	7,294
	Total	5,460	5,657	6,110	6,598	7,259	7,985	39,069
DEP	Recurrent	66	69	75	81	89	98	478
	Capital	235	230	232	235	238	239	1,409
	Total	301	299	307	316	327	337	1,887
Provinces	Recurrent	148,894	160,806	173,670	187,564	206,320	226,952	1,104,206
	Capital	5,717	6,175	6,669	7,202	7,923	8,715	42,401
	Total	154,611	166,981	180,339	194,766	214,243	235,667	1,146,607
Total	Recurrent	216,480	230,575	251,051	271,136	298,249	328,075	1,595,566
	Capital	66,223	65,630	84,427	101,722	122,428	145,199	585,629
Total (SLR million)		282,703	296,205	335,478	372,858	420,677	473,274	2,181,195
Total (\$ million—spot rate 1 June 2020: 186.04)		1,520	1,592	1,803	2,004	2,261	2,544	11,724

DEP = Department of Education Publications, DOE = Department of Examinations, MOE = Ministry of Education, NIE = National Institute of Education.

Source: Asian Development Bank estimates.

5. **Plan's financing.** To fund the GESDP, the government developed a comprehensive financing strategy, which relies on a combination of the government's own resources (84%) and external sources, including funding from development partners such as ADB, the World Bank,

⁶ Government of Sri Lanka, MOE. 2020. *Sri Lanka: General Education Sector Development Plan, 2020–2025 (revised May 2020)*. Colombo. The GESDP follows the Education Sector Framework and Development Plan 2013-2017.

and United Nations agencies.⁷ ADB's proposed program will support the GESDP's secondary education reforms through results-based lending (RBL) over a 6-year implementation period (2020–2025) focused on upper secondary education (grades 10–13).

6. **Program expenditure framework.** The RBL program expenditure framework is based on the GESDP's MTBF. Accordingly, the framework was prepared based on the GESDP budget estimates for 2020–2025⁸ and prorated for upper secondary education (grades 10–13) using the 2018 student ratio (where applicable). Based on previous budget performance, the framework uses a conservative annual expenditure projection.⁹ Table 3 presents it in accordance with the budget heads of MOE and provinces.¹⁰

Table 3: Summary of Program Expenditure Framework, 2020–2025

Item	Amount (SLR million)	Amount (\$ million)	Share of Total (%)
Central (MOE, including DOE, DOEP, and NIE)			
Recurrent	177,556.6	954.4	29.8%
Capital	61,854.5	332.5	10.4%
Subtotal Central	239,411.1	1,286.9	40.2%
Provinces			
Recurrent	349,637.3	1,879.4	58.7%
Capital	6,523.6	35.1	1.1%
Subtotal Provinces	356,160.9	1,914.4	59.8%
Total program (Central and Provinces)			
Recurrent ^a	527,193.9	2,833.8	88.5%
Capital ^b	68,378.1	367.5	11.5%
Total	595,572.0	3,201.3	100.0%

\$ = United States dollar, DOE = Department of Examinations, DOEP = Department of Educational Publications, MOE = Ministry of Education, NIE = National Institute of Education, SLR = Sri Lanka rupees.

Note: Numbers may not sum precisely because of rounding.

^a Mainly salaries and wages, overtime and holiday payments, other allowances, traveling expenses, supplies, maintenance expenditures, services, and transfers.

^b Mainly rehabilitation or improvement of capital assets, acquisition of capital assets, other capital expenditures, tablets for students and teachers, and human resources development programs. 40% of ADB financing is directed to one-time program incremental capital items linked to COVID-19-related material development, training, refurbishment of laboratories, and purchase of equipment.

Source: Asian Development Bank.

7. Of the total expenditure, 40.2% is allocated to central education activities and 59.8% to provincial ones. The majority of the program's budget (88.5%) goes to staff emoluments and other recurrent costs, and only 11.5% is for capital expenditures. The low share of capital expenditures stems from the fact that the government has already completed major capital investments as part of past programs (such as the Education Sector Development Program and Framework 2013–2017, which included the 1,000 Schools Program and the introduction of the technology stream). Population projections do not suggest a need for investing in new schools or the recruitment and

⁷ ADB and the World Bank are the largest external financiers with shares of 3.1% (ADB) and 0.8% (World Bank) of the total GESDP financing plan.

⁸ The program expenditure framework includes the 5-year implementation period (2021–2025) and fiscal year 2020 (ending 31 December 2020) to cover prior results achieved 1 year before the estimated effectiveness date.

⁹ Budget execution assumed to increase by 2% per year from 85% in 2020 and 2021 to 93% in 2025.

¹⁰ The expenditure framework is based on the government's budget codes. MOE Budget Head 126: (i) Program Code 01 Operational Activities Project Code 02 Administration & Establishment Services; (ii) Program Code 02 Development Activities Project Code 04 Secondary Education, Project Code 06 Teacher Development, and Project Code 07 General Education Development Project (subprojects 24 & 25 only). Department of Education Publication Budget Head 213: Program Code 02 Development Activities Project Code 01 Establishment of Services. Department of Examinations Budget Head 212 Program Code 02 Development Activities Project Code 01 Evaluation of Examination. Provincial budget heads 312 to 318 and 321 Program Code 81 Secondary Education.

deployment of more teachers, other than filling current gaps in underserved areas and specialized subjects. The secondary education expenditures focus on reforms to improve the quality and relevance of curriculum, pedagogy, and assessments, and to encourage more efficient and effective use of the existing infrastructure for upper secondary education.

8. **Effectiveness.** The RBL program is closely aligned with the national education program, which supports the GESDP and the government's development priorities. The program expenditure framework aligns with the GESDP, which is based on realistic estimates of costs (recurrent and capital) to efficiently deliver the education sector services, and is consistent with the planned results for secondary education. The RBL program will support critical reforms to harmonize secondary education with labor market demands and respond to the COVID-19 crisis:

- (i) An incentive scheme for teacher recruitment and deployment to provincial and rural areas will improve learning outcomes and provide equitable access to STMC subjects.
- (ii) Integrated reforms to curricula, pedagogy, and assessments will align education with labor market needs and the demand for 21st century skills. In addition, the curricula will be strengthened with blended learning approaches to mitigate the impacts of COVID-19 and future health emergencies of a similar kind.
- (iii) Equipment for and refurbishment of the so-called Applied Resource Hubs for practical and blended teacher training, and of innovation laboratories for applied student learning. Information and communication technology tools for PEAs and schools to make planning and management more efficient.
- (iv) School grants to implement school development plans, which include strategies to improve learning outcomes in STMC, strengthen online and remote learning, encourage more girls to take up STMC subjects, and properly maintain innovation labs.
- (v) Needs analyses, surveys, and capacity development activities will underpin the reforms to curricula, pedagogy, and formative and summative assessments. Stronger capacity to collect and analyze data will bolster evidence-based policymaking and management.

9. **Efficiency.** The RBL program expenditure framework follows the government's budget classification system, broken down by recurrent and capital expenditures for MOE and the PEAs. The government gradually increased allocations and spending on education, a trend that is expected to continue, as reflected in its latest MTBF.¹¹ However, since 2017, the budget execution rate in the education sector has averaged 85% (Table 4), compared with 96% in 2015 and 2016.

Table 4: Education Sector Budget Performance
(SLR million)

		Central Education ^a			Provincial Education ^b			TOTAL
		Recurrent	Capital	Subtotal	Recurrent	Capital	Subtotal	
2015	Estimate	45,149	17,845	62,994	113,178	7,378	120,556	183,550
	Actual	43,718	15,545	59,263	112,549	5,104	117,653	176,916
	Rate	97%	87%	94%	99%	69%	98%	96%
2016	Estimate	49,723	18,363	68,086	113,773	12,708	126,481	194,567
	Actual	49,324	15,702	65,026	117,881	4,519	122,400	187,426
	Rate	99%	86%	96%	104%	36%	97%	96%
2017	Estimate	59,156	53,757	112,913	116,029	8,317	124,346	237,259
	Actual	51,941	27,575	79,516	116,005	5,639	121,644	201,160

¹¹ Reference budget for fiscal year 2019 (ended 31 December 2019) with projections for fiscal year 2020–2021.

	Central Education ^a			Provincial Education ^b			TOTAL	
	Recurrent	Capital	Subtotal	Recurrent	Capital	Subtotal		
	Rate	88%	51%	70%	100%	68%	98%	85%
2018	Estimate	62,277	42,519	104,796	125,592	4,756	130,348	235,144
	Actual	49,818	26,219	76,037	125,592	2,983	128,575	204,612
	Rate	80%	62%	73%	100%	63%	99%	87%
2019	Estimate	62,415	44,557	106,972	129,979	10,880	140,859	247,831
	Actual	60,464	17,599	78,063	129,979	4,550	134,529	212,592
	Rate	97%	39%	73%	100%	42%	96%	86%

^a Includes the expenditures of the Ministry of Education, Department of Examination, and Department of Educational Publications.

^b Includes only the central government transfers to the provincial councils.

Source: Data from Government of Sri Lanka, Treasury Department, Ministry of Finance.

10. Recognizing this historical track record, and the fiscal constraints in the next 3–4 years, the RBL program expenditure framework projected a conservative budget execution that will maintain the historical rate of 85% in 2020 and 2021, and increase at a rate of 2% per year from 2022. The following inefficiencies were identified in the budgeting process: (i) no specific budget codes separating lower (grades 6–9) and upper (grades 10–13) levels;¹² and (ii) existing budget coding potentially preventing separate and detailed capture of some reform areas (e.g., school grant scheme and incentive scheme for teacher deployment). MOE and the Ministry of Finance have agreed to create a new budget line for school grants and develop a separate mechanism for tracking and reporting budget estimates as well as actual expenditures incurred as part of the teacher incentive scheme. ADB, through technical assistance, will support MOE and the PEAs in strengthening the budgeting process to improve budget execution.

11. **Adequacy.** The RBL program's expenditure framework costed all the recurrent and capital resource requirements for achieving the intended outputs: (i) quality and relevance of secondary STMC study programs enhanced in provincial schools; (ii) teaching–learning resources equitably distributed and educational leadership strengthened in provincial schools; and (iii) planning and management of the secondary education sector strengthened. The expenditure framework is adequate to achieve the intended results because it is based on realistic costing (recurrent as well as capital) for achieving the upper secondary education sector targets. Within the program, budget is allocated for reform and capacity-building elements to improve the quality and relevance of secondary education.

12. **Program financing plan.** The RBL program cost estimate is \$3,201.3 million, of which the government will finance \$2,801.3 million (87.5%) and ADB will finance \$400 million (12.5%) through an ordinary capital resources loan. The ADB financing in the form of RBL will be disbursed upon achieving the agreed DLIs. The financing plan is presented in Table 5.

Table 5: Program Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Government	2,801.3	87.5%
Asian Development Bank (ordinary capital resources: results-based lending loan)	400.0	12.5%
Total	3,201.3	100.0%

¹² Costs are being allocated between the lower secondary (grades 6–9) and upper secondary (grades 10–13) levels based on the student population in the respective grades.

Source: Asian Development Bank estimates.

13. **Sustainability.** The sustainability of the program results depends on the government's continuing ability to allocate adequate capital and recurrent funding. The reforms and capacity development activities linked to the ADB financing are expected to generate some incremental recurrent costs, which will need to be sustained after program implementation: (i) operation and maintenance of new equipment and a new training center; (ii) payment of salaries of additional teachers hired; and (iii) payment of allowances as part of the new incentive scheme. The planned gradual increases in the budget allocation for the secondary education sector in the MTBF, coupled with MOE's stronger budget execution rates for recurrent expenditures and ADB's planned technical assistance to improve budget execution, renders it likely that the respective entities will be able to sustain the incremental recurrent costs after the program is completed. The past ADB-funded RBL program, completed in 2019, was assessed as likely sustainable, given the successful institutionalization of a national competency framework for principals, and performance-based partnership agreements between MOE and PEAs, among other initiatives.¹³

14. **Managing risks and improving capacity.** The main risks identified as part of the expenditure and financing assessment are that

- (i) the budgeting of the GESDP does not fully follow a program-based budgeting approach;
- (ii) delays in budget release or budget cuts may hamper the timely and full implementation of the reform activities;
- (iii) some of the reform areas cannot be monitored using the current budget coding;
- (iv) the budget classification system is not applied consistently in the provinces to segregate allocations by subfunctional categories;
- (v) financing from yet-to-be identified development partners may not come through; and
- (vi) the delay of parliamentary elections because of the COVID-19 situation disrupted the 2020 budget cycle (which was reduced to quarterly vote-on-account allocations), and this may delay the start of implementation.

15. In response to these risks, specific measures were agreed with the government and included in the program action plan:¹⁴

- (i) Develop, together with MOE, robust processes and procedures, budget codes, and an efficient reporting and monitoring system for the program.
- (ii) Regularly monitor program execution through periodic progress reports and continuous dialogue with the government.
- (iii) Improve the budgeting practices of the Ministry of Finance and MOE to reflect program-based budgeting. This will also help the provinces make cost-reflective budgets and apply a uniform budget classification to education-related expenditures.
- (iv) Include a loan covenant for the adequate funding and timely release of budget from the treasury to the program.
- (v) Implement innovative distance education programs for teacher training and student learning as temporary measures to make up for gaps in teacher deployment gaps until the teacher incentive scheme is fully implemented.

¹³ ADB. 2020. [Completion Report: Education Sector Development Program in Sri Lanka](#). Manila.

¹⁴ Program Action Plan (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President.