KEY MESSAGES:

The Water, Sanitation and Hygiene (WASH) sector requires large-scale investments given the population growth and economic development taking place in the country. While safe drinking water is disproportionately prioritised over sanitation in Sri Lanka, the outbreak of the COVID-19 pandemic has highlighted the importance of investment in sanitation. Therefore, Sri Lanka must take a step further to ensure that comprehensive hygiene and sanitation programmes are put in place considering the ongoing pandemic.

In the period between 2015 and 2019, actual budgetary expenditure in the WASH sector had increased significantly at an annual average growth rate of 14.9% in nominal terms, reaching LKR 49.5 billion in 2019. In real terms, the actual budgetary expenditure grew at an annual average growth rate of 9.7% over the same period. Sustaining the trend, a substantial increase in budgetary allocations for 2020 (revised estimate LKR 78.8 billion) and 2021 (estimate LKR 105.8 billion) reflects a steadily increasing commitment of the government towards the WASH sector. Between 2015 and 2021, the nominal WASH expenditure per capita has grown at an annual average growth rate of 38.1% while the nominal WASH expenditure as a share of GDP stands at 0.7% in 2021 compared to the 2015–2020 period average of 0.5%.

Foreign financing contribution towards the budgetary financing for the WASH sector has consistently exceeded domestic financing. Between 2015 and 2020, foreign financing contribution accounted for approximately 78.5% of the WASH sector budgetary expenditures while domestic financing accounted for only 21.5%. However, an interesting change can be observed in the 2021 estimates, as 46% of the WASH sector budgetary expenditures are expected to be funded through domestic financing. This shift towards domestic resources could likely be explained by the government’s overall shift since 2020 to domestic financing over foreign financing of the budget.

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Photography: UNICEF Sri Lanka / Earl Jayasuriya
According to the GLAAS report 2019 and GLAAS Survey 2018/2019, the national WASH expenditure as a share of GDP of Sri Lanka, which was 0.80% in 2018, is lower than both the upper-middle-income countries’ and lower-middle-income countries’ WASH expenditure as a share of GDP of 1.18% and 1.07% respectively. The same report states that 92% of Sri Lanka’s WASH sector resources were directed to an improvement in drinking water access, while only 8% were channelled to sanitation projects in 2018. This level of disaggregated data of allocation towards drinking water and sanitation is not available in the budget documents. Moreover, budget documents also fail to track the region-wise allocations of the WASH sector resources. This is a serious limitation as it poses a significant constraint in the ability to analyse and determine if sufficient WASH sector resources are allocated to the different regions of Sri Lanka according to their needs.

During the period under review, under-execution of budgets in the WASH sector tends to be the norm other than in 2015, where there was a 197.7% over-execution. Within the WASH sector budget, recurrent expenditure averaged an execution rate of 93.5% from 2016 to 2019, performing better than the capital expenditure’s average execution rate of 88.8% during the same period. Fiscal consolidation leading to underspending of the capital budget is a common budgetary phenomenon and this could partly explain the under-execution of the WASH sector capital expenditures.

Sri Lanka has performed well in terms of increasing access to safe drinking water from 76% in 2006 to 93.2% in 2020 and increasing the safe sanitation coverage from 91.2% in 2016 to 92.1% in 2019. However, there are regional disparities, with the estate sector’s access to safe drinking water and safe sanitation well below the urban and rural sector’s access. However, Sri Lanka has a national target to provide safe water to 100% of the population by 2025 and to ensure that everyone in the country has access to safe sanitation by the year 2030. Sri Lanka also aims to end open defecation by 2025.
1. INTRODUCTION

This Water, Sanitation and Hygiene (WASH) budget brief explores the extent to which the Sri Lankan government funds the WASH needs of the country through its budgets. It is one of the five budget briefs. The remaining briefs on education, health, child protection and social protection sectors explore public expenditure patterns relating to these sectors.

This brief, on Sri Lanka’s WASH sector budget and expenditure, focuses on analysing the trends, levels, and composition of budget allocations for the sector in fiscal years 2015–2021. This analysis includes the underlying policy goals and the functional and regional distribution of budget allocations. The brief also offers insights into the efficiency, equity, and adequacy of the execution process. The main objective of the brief is to function as an informative piece on the WASH sector budget. As such, the brief summarises budget information in a manner that would be easily understood by different stakeholders, including civil society and the broader population who may lack technical knowledge on the subject. This piece also serves to increase transparency on how much is being spent to meet the goals of the WASH sector. The brief is the result of a research partnership between UNICEF and Verité Research that aims to unpack the contours of government budgets in Sri Lanka.

The methodology used for this brief involved data extraction from Sri Lanka’s Central Government Annual Budget Estimates 2015–2021. The sector includes budget allocations to the following ministries: Ministry of Water Supply and State Ministry of Rural and Divisional Drinking Water Supply Projects Development. The extracted data on the specific ministries over the years was then analysed to identify; expenditure trends, allocations and resource utilisation. Allocations for hygiene promotion that may be attributed to the health sector have been excluded as these are not easily identifiable in central budgets. In addition, health sector-specific expenditure is discussed in a separate brief, as mentioned above.

The brief was developed under several constraints:

- Data on provincial allocations for the WASH sector has not been used in the brief as there is limited disclosure on allocations specific to this sector in Provincial Council (PC) Budget Estimates. This poses a significant constraint in the case of WASH, a sector that has considerable resource mobilisation at this level.

- Local authority-level (municipal councils (MC), urban councils (UC) and pradeshiya sabhas (PS)) data has not been included in this brief because of the difficulties and time constraints in accessing this information. Information at this level is not publicly available and would need to be obtained by physically visiting each of around 340 local government authorities. Further, disaggregated data for the WASH sector is not available at this level.

- Availability of and comparability of data/information varied over time. These variations are seen across the central government level.

- Ministerial portfolios have undergone significant changes over the last 3 years primarily due to political administration changes following the 2019 presidential and 2020 parliamentary elections, rendering infeasible a meaningful comparison of budgets from one year to the next.

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1. 2021 ministry names as of 18th August 2021.
2. HOW IS THE WASH SECTOR DEFINED?

2.1 Institutional framework

The provision and development of WASH services in Sri Lanka is a multi-agency function, inclusive of national, provincial council, local authority, and village-level institutions. The WASH sector in Sri Lanka is primarily owned and operated by government entities with the provision of drinking water, improved sanitation and hygiene services being a key government priority and the freshwater resources in Sri Lanka remaining a free public good where the state acts as the trustee and custodian of the resource. However, there is a growing reliance on community-based organisations (CBOs) to manage rural schemes. Central-level government authorities are responsible for the development, construction and management of water and sewage systems; the provision of support to CBOs and local authorities to ensure maintenance and operation of rural water supply schemes; and the promotion of water preservation. Additionally, these entities are responsible for determining and implementing tariffs for WASH services. At the sub-national level, PCs and local authorities are responsible for (i) ensuring equitable allocation of resources, (ii) ensuring quality and standards of services and (iii) providing WASH facilities to varying degrees in their respective regions.

Central government

Before 2020, there was only one central-level ministry primarily overseeing the WASH sector of Sri Lanka. However, in 2020, in addition to the Ministry of Water Supply (MWS), a new ministry known as the State Ministry of Rural and Divisional Drinking Water Supply Projects Development (SMRDDWSPD) was formed mainly to support the rural WASH sector.

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2. CBOs are mostly involved in managing water supply schemes in rural areas to provide piped water. Although the government often provides capital to these CBOs in their initial stages, they generally operate as self-financed and independent entities.


1. **The Ministry of Water Supply (MWS)** is the key line ministry of the WASH sector responsible for the formulation of sector policy, coordination, budget allocation, monitoring and review of progress. In addition, the special priorities of this ministry include implementing new water supply and drainage projects to provide water for all, developing rural and urban water supply schemes and conservation of water and preventing the wastage of water in pipe-borne water supply and the distribution of water. Key institutions and projects coming under this ministry are National Water Supply and Drainage Board (NWSDB), Water Resources Board (WRB), Water Supply and Sanitation Improvement Project (WaSSIP) and China Sri Lanka Research Grant Project.

2. **The State Ministry of Rural and Divisional Drinking Water Supply Projects Development (SMRDDWSPD)**, established in 2020, is primarily responsible for assisting in the formulation of policies concerning the subject of rural drinking water supply projects development under the direction and guidance of the Ministry of Water Supply. The special priorities of this ministry have been specified as follows:
   - Taking measures to carry out community water supply projects efficiently and properly,
   - improving and maintaining community water supply projects to ensure the supply of safe drinking water for the rural population,
   - stabilising the water supply in rural areas,
   - developing reservoirs and feeder canals,
   - conserving water,
   - and expediting water distribution projects associated with water supply projects launched at rural and regional levels through the national irrigation system.

The NWSDB, a state-owned monopoly, is the principal agency of the Ministry of Water Supply. It was established under an act of Parliament in 1975.

It is responsible for implementing water supply and sanitation projects, providing water supply and sanitation facilities nationally and providing support to CBOs and local authorities. Apart from being responsible for almost all large-scale water supply and sanitation projects, it is also responsible for the implementation of large-scale sewerage projects planned for the major cities in the country. In addition, it prepares and enforces tariffs for services provided by the government.

The Water Resources Board (WRB), which was previously under the purview of the Ministry of Irrigation and Water Resources Management, comes under the supervision of the Ministry of Water Supply since 2020. The WRB is responsible for groundwater in Sri Lanka, and mainly deals with the planning, extraction, supervision of groundwater utilisation, and construction of tube wells.

Another central-level WASH institution is the Department of National Community Water Supply (DNCWS). The DNCWS, established in 2014, is currently under the purview of the State Ministry of Rural and Divisional Drinking Water Supply Projects Development. Since 2020 onwards, the importance and the role of DNCWS in Sri Lanka’s WASH sector has grown with the department being assigned increased responsibilities, especially to develop the rural WASH sector. It is responsible for ensuring a safe drinking water supply and basic sanitation facilities for the rural population through sustainable community-managed facilities. While assisting in formulating and updating national policies relevant to the field of rural water supply and sanitation, it is also responsible for managing the construction and maintenance of water supply schemes carried out by the CBOs and providing technical assistance when required.

In addition, the Health Promotion Bureau that falls under the purview of the Ministry of Health maintains responsibility for hygiene promotion and the Central Environment Authority (CEA) under the Ministry of Environment is responsible for monitoring and management of the quality of water discharge.

The brief does not include allocations to the Ministry of Health or the Ministry of Environment as it is difficult to isolate allocations for hygiene promotion from the health budget and for water quality monitoring and management.
from the environmental budget. This is because these allocations are often amalgamated with other expenditures under these ministries.

**Sub-national government**

The central government transfers a portion of the funds allocated for the WASH sector to the nine PCs through the Finance Commission. The PCs are tasked with equitably allocating resources and maintaining the quality and standards of services of water supply and sanitation projects. They promote investment, development, and sustainable management of water supplies in the provinces and are involved in the conservation and effective management of watersheds to ensure sustainable use of water for communities. The PCs do not have separate departments dedicated to the supply of water and sanitation facilities. Rather, various provincial ministries implement ‘water supply and drainage’ programmes. Further, local authorities under each PC – including the MCs, UCs and PSs – are responsible for providing water and sanitation services and determining tariffs for these public utilities. They are also responsible for planning, designing and implementing small and medium water supply schemes including their operation and maintenance. This brief does not include sub-national-level WASH spending due to limited disclosure on allocations specific to this sector in PC budget estimates.

Overall, the WASH sector is fragmented and is characterised by an overlapping mandate of institutions involved in water supply and sanitation services. Moreover, there are different institutional structures for urban and rural water supplies. The NWSDB, operating through 11 regional support centres, is the primary institution responsible for providing water in urban areas, except for locales where MCs or UCs are involved in delivering this service. These councils fall under the Ministry of Provincial Councils and Local Government (MPCLG). In rural areas, local government authorities fulfil the same function under the MPCLG with CBOs receiving support from local government, NWSDB and the Department of National Community Water Supply.

In the sanitation sub-sector, the Colombo Municipal Council, for example, manages the sewerage system of the city, while the NWSDB fulfils this mandate in some other urban areas. Households themselves assume the primary responsibility for rural sanitation with local authorities providing septic services in some areas. CBOs tend to be entrusted with the responsibility of managing village sanitation programs, complying with regulations and norms as stipulated by local authorities and the Department of Health. However, the capacity to provide sanitation services and supervise facilities is uneven across the country. In the estate sector (i.e. hill country tea plantation areas), plantation companies supply water with other private sector organisations providing limited sanitation support, such as desludging services.

2.2 Strategic and Policy Framework

Numerous sector-specific policy documents guide the WASH sector. These include the National Drinking Water Policy, the National Policy on Sanitation, and the National Policy for Rural Water Supply and Sanitation Sector. In addition, the Government of Sri Lanka’s National Policy Framework Vistas of Prosperity and Splendour seeks to ensure that the entire population in the country is provided with clean and safe drinking water while increasing access to pipe-borne water.24 The government aims to ensure that all citizens of this country will have continuous access to clean drinking water within the next three years by expanding and improving the efficiency of ongoing projects. The prime minister, in the Budget Speech 2021, stated the government’s plan to invest LKR 1,000 billion for the Water for All National Programme from 2021 to 2024. The funds are expected to be channelled towards 1,000 community water projects, 171 major projects aimed at enhancing the production capacity, and new water supply schemes, as well as to expedite ongoing projects to ensure access to drinking water to the entire population.25

The National Drinking Water Policy aims to provide an adequate quantity of drinking water at an affordable cost to the entire population. Among other aspects, this policy encourages planning and development of the water supply to have a people-centred, participatory, and demand-responsive approach. Further, it promotes the decentralisation of operational responsibilities to the lowest appropriate level and encourages citizen participation in water supply planning and development.26 The National Policy on Sanitation identifies access to sanitation services as a basic human need, catalytic to the personal, social and economic development of the individual and the country. It further reiterates universal recognition of access to sanitation services should be treated as a basic right with appropriate responsibilities ascribed to the people to ensure the practice of proper sanitation processes. The policy’s main areas of action include (1) raising awareness among decision-makers for improved sanitation; (2) improving sanitation services in schools; and (3) promoting environmental sanitation through local government services.27 The scope of the policy also includes; to ensure dedicated and appropriately enhanced budgetary support for sanitation; identifying responsibilities and strategies for financing investments and meeting of costs for operation and maintenance; child friendly school sanitation and care and maintenance with particular attention to needs of girl children including facilities for menstrual hygiene; sanitation facilities in public places and in commercial, industrial, transport and healthcare sectors and so on.28

In addition to defining the roles of the central government and provincial councils, The National Policy for Rural Water Supply and Sanitation Sector assigns responsibility to the CBOs, private sector and NGOs for the provision of sanitation services. It also encourages end-users to manage sanitation facilities sustainably and to participate in capital investment aimed at creating these facilities.29

The policies for the WASH sector attempt to address various water sanitation issues, including intestinal infections resulting mainly from poor sanitation hygiene and the risk of water degradation due to natural disasters, deficient agriculture practices, and pollution from agrochemicals and industrial waste.30

The WASH sector policy documents do not address or provide strategies specifically aimed at addressing the chronic kidney diseases (CKDs) caused due to poor water quality. However, the increasing incidence of CKDs, primarily in the dry zone, has triggered concerns over the quality of groundwater in affected areas.31 Consequently, this has reinforced the urgency of providing access to clean water, especially in areas where CKDs are prevailing, by implementing projects such as Prevention of Water Borne Diseases in the Chronic Kidney Disease Affected Areas.32 Sri Lanka also suffers from water degradation and faces additional risks related to climate change. The National Policy on Sanitation further draws attention to intestinal infections caused mainly by poor sanitation and hygiene, which is among the ten leading causes of hospitalisation in Sri Lanka. According to the latest census, a considerable number of households in Sri Lanka do not have adequate sanitation facilities at present. Moreover, rural services still lag far behind urban services.33

32. Ministry of Finance, Budget Estimates (2021), p. 298
National drinking water and sanitation policies further recognise the importance of disaster risk reduction and preparedness, accompanied by adequate funding. Sri Lanka’s National Adaptation Plan for Climate Impacts also considers the water sector and recognises the adverse effects of climate change on the availability of safe drinking water.34

Despite the significant progress that Sri Lanka has made in the WASH sector, challenges arising from water degradation, water scarcity during extended periods of drought, and ageing infrastructure remain.35 Hence, major investments are required to overcome the aforementioned challenges and to meet the increased demand arising from development activities, and aspirations to improve the quality of water and sanitation services. The Kelani River Basin Multi-stakeholder Partnership was established in 2016, with USD 50 million worth of initiatives aimed at containing pollution of this water resource, a critical component of WASH in Colombo and the Western Region.36 The World Bank’s Board of Executive Directors approved USD 40 million in additional financing for Sri Lanka in 2021 to expand water supply, sanitation, and hygiene services in 7 districts through the WaSSIP. The project will also increase septage facilities in the more populated part of the country in Western, Southern and North Western Provinces.37 Meanwhile, the Integrated Watershed and Water Resources Management Project (IWWRMP) carried out by the World Bank will continue to rehabilitate ageing dams and irrigation canals, and manage water resources in an integrated manner. The project is expected to help lessen the longer-term economic impacts of climate change and improve agricultural production and livelihoods.38

BUDGET AND EXPENDITURE ANALYSIS

This section of the brief analyses public sector spending trends in Sri Lanka’s WASH sector. This analysis is based exclusively on budget and expenditure data that is publicly available. Specifically, it focuses on budget and expenditure trends for the years 2015–2021 at the central level.

38. Ibid.
3. WHAT TRENDS EMERGE FROM THE WASH SECTOR BUDGET AND EXPENDITURE?

The 2021 Budget Estimate at the Central Level allocated LKR 105.8 billion for the WASH sector. This represents a nominal increase of 34.3% relative to the 2020 budget estimate. In real terms, it is an increase of 28.8% as compared to the 2020 budget estimate.

The budgetary allocations for the WASH sector have trended upwards since 2017, particularly in 2019 and 2020. The annual nominal increase in the budget estimate in 2019 and 2020 were 69.7% and 66.7% respectively, significantly higher compared to the increase in the previous years. Even in real terms, the increase in budget estimate stood at 62.6% and 59.5% in 2019 and 2020 respectively. However, the nominal increase of the 2020 revised budget was 41.3% relative to the 2019 revised budget. This has been a consistent trend in the WASH sector allocations where the initial budget estimate allocations are regularly revised upwards during the year, except in 2020.

The WASH sector actual budgetary expenditure saw a nominal increase of 62.3% between 2015 and 2019, at an annual average growth rate of 14.9%. However, in real terms, the total increase over the same period was only 34.9% with an annual average growth rate of 9.7%. It can be noted in exhibit 1 that, from 2015 to 2019, the actual expenditure was consistently higher than the initial budget estimate allocation (except in 2016) but lower than the revised budget (except in 2015). However, it has to be noted that the actual budgetary expenditure of the WASH sector does not reflect the total national expenditure on the WASH sector. This is because, post-2015, the WASH sector saw a change in the funding structure with the treasury issuing bonds in favour of NWSDB to strengthen its balance sheet and enable non-budget dependent spending by the Board.\(^{39}\) When taking this into account, the total expenditure on the WASH sector in 2016, 2017, 2018 and 2019 would be as shown in exhibit 3. These numbers reflect an even greater increase in the expenditure on the WASH sector from 2015 to 2019 than what is reflected by the budgetary expenditures alone. The WASH sector expenditure reached a peak of LKR 109.2 billion in 2018 before falling back to LKR 77.4 billion in 2019.

EXHIBIT 1 | WASH Sector Budgetary Allocations

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimate, Current</th>
<th>Revised Budget, Constant</th>
<th>Actual, Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
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<td>15.5</td>
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<tr>
<td>2016</td>
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<tr>
<td>2017</td>
<td>23.8</td>
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</tr>
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<tr>
<td>2021</td>
<td>105.8</td>
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EXHIBIT 2 | WASH Sector Budgetary Allocations

<table>
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<tr>
<th>Year</th>
<th>Estimate, Constant</th>
<th>Revised Budget, Constant</th>
<th>Actual, Constant</th>
</tr>
</thead>
<tbody>
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<td>14.4</td>
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<td>2018</td>
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<tr>
<td>2019</td>
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<td>2020</td>
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</tr>
<tr>
<td>2021</td>
<td>75.0</td>
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</tbody>
</table>

Source: Author’s own calculations using Ministry of Finance, Budget Estimates 2015–2021. Inflation for 2021 as measured by the Colombo Consumer Price Index (CCPI) was estimated by the author by adjusting the 2020 CCPI with the 12-month moving average as at July 2021.

EXHIBIT 3 | Sri Lanka’s National Expenditure on WASH Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Total National Expenditure on WASH Sector</th>
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<tr>
<td>2016</td>
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<tr>
<td>2017</td>
<td>70.5</td>
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<tr>
<td>2018</td>
<td>109.2</td>
</tr>
<tr>
<td>2019</td>
<td>77.4</td>
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</tbody>
</table>

Source: Ministry of Finance, Annual Reports 2016–2019

From 2015 to 2021, the total Nominal WASH expenditure per capita has more than tripled as can be observed in exhibit 4. In real terms as well, the total WASH expenditure per capita has grown by 150.1% over the same period. A similar trend can also be observed in terms of the growth of Total WASH expenditure as a share of GDP as reflected in exhibit 6.

According to the latest United Nation’s Water Global Analysis and Assessment of Sanitation and Drinking Water (GLAAS) Report and Survey, Sri Lanka’s per capita National WASH expenditure was USD 33.16 in 2018. Sri Lanka has been on the threshold of upper-middle-income country status and, for a brief period in 2019, was classified as an upper-middle-income country before being downgraded due to an economic downturn. When compared to the upper-middle-income countries per capita WASH expenditure of USD 75.30, Sri Lanka’s per capita WASH expenditure is low. However, Sri Lanka’s WASH spending is higher than the USD 19.25 per capita allocated by the lower-middle-income countries on average in 2018. It should be noted that 2018 was an exceptional year in terms of allocations to the WASH sector in Sri Lanka, recording the highest figure in between 2015 and 2021. The national WASH expenditure as a share of the GDP of Sri Lanka stood at 0.80% in 2018. This is lower than the 1.18% of GDP WASH expenditure by upper-middle-income countries and also lower than the 1.07% of GDP allocated to the WASH sector by lower-middle-income countries on average in 2018.
EXHIBIT 4 | Sri Lanka’s National Expenditure on WASH Sector

<table>
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<tr>
<th>Year</th>
<th>Revised Budget</th>
<th>Budget Estimate</th>
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<td>2021</td>
<td>3786</td>
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Expenditure per person (LKR)

EXHIBIT 5 | Sri Lanka’s National Expenditure on WASH Sector

<table>
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<tr>
<th>Year</th>
<th>Revised Budget</th>
<th>Budget Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
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</table>

Expenditure per person (LKR)

EXHIBIT 6 | Sri Lanka’s National Expenditure on WASH Sector

Source: Author’s own calculations using Ministry of Finance, Annual Reports 2016-2019 and Ministry of Finance Budget Estimates 2015–2021. GDP figures were obtained from the Central Bank of Sri Lanka. 2021 GDP estimate was obtained by adjusting the 2020 GDP figure with the Central Bank of Sri Lanka’s projected growth rate for 2021 of 5%.40

EXHIBIT 7 | Sri Lanka’s Wash sector expenditure compared to lower middle-income and upper middle-income countries

Source: Data Obtained from GLAAS Report 2019 and GLAAS Survey 2018/2019 Country Highlights

Source: Author’s own calculations using Ministry of Finance, Budget Estimates 2015–2021. Population figures from 2015 to 2020 were obtained from the Department of Census and Statistics, Sri Lanka. The 2021 population was obtained via an estimate by the author by adjusting the 2020 population with the 5-year annual average population growth rate.

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4. WHERE DO WASH RESOURCES COME FROM?

Sri Lanka’s WASH sector is financed by both domestic and foreign sources at the central and sub-national levels. Domestic financing is predominantly sourced from tax revenue and NWSDB direct borrowings, while foreign funding comes mainly through loans and grants from bilateral and multilateral institutions.

The NWSDB direct borrowings significantly expanded after 2015 when the government started issuing bonds in favour of NWSDB to strengthen its balance sheet. These direct borrowings are financed by both domestic and foreign sources. The NWSDB direct borrowings, rather than the allocations made through the government annual budget, were the dominant source of financing to the WASH sector in 2017 and 2018, contributing 55% and 70% of the total WASH expenditures respectively. In 2019, however, 60% of the expenditures in the WASH sector was through the government annual budget while only 37% came from NWSDB direct borrowings. Extending this shift further, the allocations to the WASH sector in the annual budget significantly expanded in 2020 and 2021 (as reflected in exhibit 1), further establishing it as the principal source of funding channelled to the WASH sector.

The NWSDB also sets national tariff rates, and local authorities including MCs apply a similar tariff to their water supply schemes, with some adjustment for local cost conditions. Although tariff revenue collected by the NWSDB covers the cost of water, it is insufficient to cover capital investments and debt servicing. To address this shortfall, the NWSDB applies a constant tariff across all its services, allowing cross-subsidisation to reduce losses from costly projects.

Sri Lanka’s WASH sector is predominantly financed by foreign resources. From 2015 to 2020, approximately 78.5% of the WASH sector budgetary expenditures was funded through foreign resources, while the remaining 21.5% was funded through domestic resources. These figures highlight that Sri Lanka’s WASH sector has, in recent years, been dependent on foreign funding. However, exhibit 9 reveals that in 2021, 46% of the WASH sector budgetary expenditures will be funded through domestic resources, the highest within the period considered. This shift towards domestic resources could likely be explained by the government’s overall shift since 2020 to domestic financing over foreign financing of the budget.

Loans comprise the bulk of foreign financing of the WASH sector. The grants’ contribution towards foreign funding of the WASH sector was insignificant, averaging approximately 1.3% from 2015 to 2021. The multilateral and bilateral donors that significantly contribute to the WASH sector of Sri Lanka include the World Bank Group (WBG), Asian Development Bank (ADB), Japan, Saudi Arabia, and the OPEC Fund for International Development (OFID). The most recent World Bank-financed project, WaSSIP, finances new water supply systems, rehabilitation of existing water supply systems, toilets for households and schools, and septage treatment plants. In June 2021, the World Bank approved USD 40 million in additional financing for Sri Lanka to support the WaSSIP.

As per the GLAAS 2019 Report, Sri Lanka was the top recipient of the Water and Sanitation aid commitment amongst the Central and Southern Asian countries in 2017. Sri Lanka received USD 345 million compared to USD 213 million by India, USD 117 million by Bangladesh and USD 14 million by Pakistan.
EXHIBIT 8 | WASH sector sources of funding at central level

Central - level: Nominal Terms


EXHIBIT 9 | WASH sector sources of funding at central level

Central - level: Proportional Terms


EXHIBIT 10 | WASH Sector sources of foreign funding

5. HOW ARE WASH SECTOR RESOURCES SPENT?

As shown in exhibit 11, the bulk of WASH sector resources is allocated towards the MWS, which is responsible for almost all of the large-scale water supply and sanitation development projects in the country. In 2020 and 2021, 96.4% and 95.7% of the budgetary allocations towards the WASH sector in the respective years has been channelled towards the MWS, while only 3.5% and 4.1% of the WASH resources have been allocated to the SMRDDWSPD.

2020 onwards, the allocations to DNCWS, the only institution coming under the purview of SMRDDWSPD, have significantly increased. The average actual annual budgetary allocation to DNCWS from 2015 to 2019 was LKR 0.27 billion. However, the allocation increased substantially in the following years to LKR 1.50 billion in 2020 and LKR 2.90 billion in 2021. The annual growth rate of the allocations to DNCWS is 153.9% in 2020 and 93.8% in 2021, much higher compared to the average annual growth rate of 11.56% in the period between 2015 to 2018. As mentioned earlier in the brief, the budgetary resource allocations to DNCWS have been boosted following the increase in the department’s responsibilities, functions and the projects assigned since 2020. One of the major projects currently being carried out by DNCWS is the Praja Jala Abimani Water Supply Schemes, for which

EXHIBIT 11 | WASH related budgetary allocations to relevant ministries

<table>
<thead>
<tr>
<th>Proportional Terms</th>
<th>2020 (Revised Budget)</th>
<th>2021 (Budget Estimate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10%</td>
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<td></td>
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<td>20%</td>
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<tr>
<td>100%</td>
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</tr>
</tbody>
</table>

Source: Author’s own calculations using Ministry of Finance, Budget Estimates 2020-2021.
LKR 2,500 million have been allocated in 2021. The project involves development of new water supply schemes, construction of sanitary toilets across all districts and improvement of water quality of the existing water supply schemes. Another key project that is being carried out by the DNCWS is the Improvement of Community Water Supply, for which LKR 200 million have been allocated in 2021.

**EXHIBIT 12 | Budgetary Allocations to Department of National Community Water Supply**

<table>
<thead>
<tr>
<th>Year</th>
<th>Current LKR Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>0.15</td>
</tr>
<tr>
<td>2016</td>
<td>0.18</td>
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<tr>
<td>2017</td>
<td>0.23</td>
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<tr>
<td>2018</td>
<td>0.19</td>
</tr>
<tr>
<td>2019</td>
<td>0.59</td>
</tr>
<tr>
<td>2020 (Revised Budget)</td>
<td>1.50</td>
</tr>
<tr>
<td>2021 (Budget Estimate)</td>
<td>2.90</td>
</tr>
</tbody>
</table>


### 5.1 Capital Expenditures Overwhelmingly Dominate the WASH Budget

The WASH budget is broken down into two categories: recurrent and capital expenditure. Recurrent expenditure includes remuneration, procurement of goods and services, and other operating costs. Capital expenditure refers to spending on assets and investments towards expanding access to water and sanitation and improving quality of services.

Between 2015 and 2019, the total actual budgetary expenditures on the WASH sector amounted to LKR 168.7 billion. Of this, LKR 167.2 billion was for capital expenditures compared to just LKR 1.5 billion for recurrent expenditures. In proportional terms, only 0.9% were recurrent expenditures while the rest of the 99.1% was spent on capital-related expenses. This recurrent-to-capital spending ratio has been consistent throughout the period and has been maintained in the central government's budgetary allocations in the 2020 revised sector budget and 2021 budget estimate. This large share of capital spending reflects the nature of the WASH sector, one that requires large investments for water and sanitation infrastructure and facilities. As is to be expected, this is evident at the central-level allocations given that the central government is responsible for the development, construction and management of water supply and sewage systems.50

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Between the two ministries responsible for WASH, recurrent expenditure consumes a relatively large share of SMRDDLWSPD’s budget as opposed to MWS’s budget as demonstrated in exhibits 14 and 15. This is primarily because SMRDDLWSPD is responsible for several maintenance activities such as maintaining community water supply projects to ensure the supply of safe drinking water for the rural population, and it is not as heavily involved in the WASH sector infrastructure development, unlike the MWS.
5.2 Spending by functional classification

Administration and Establishment Services dominated the WASH sector budgetary expenditures between 2015 and 2019. In this period, the average yearly expenditure for Administration and Establishment Services accounted for 79.1% of the total WASH sector budgetary expenditures. This was followed by an average of 13.9% dedicated to Water Sector Community Facilitation; an average of 3.9% for Large-Scale Water Supply & Sanitation Schemes; and 2.8% for Emerging Small Townships Water Supply Schemes with the cumulative budgetary expenditure for the remaining functional areas averaging less than 0.3% of the WASH sector budgetary expenditures. The single largest expenditure component under Administration and Establishment Services throughout the years until 2020, accounting for nearly 90% of it, has been Provision for the Loan Disbursement of Ongoing Projects.

However, a dramatic shift in the composition of allocations between 2019 and 2020 amongst different functional areas can be noticed, particularly between Administration and Establishment services and Large-Scale Water Supply & Sanitation Schemes. While the allocations for the Large-Scale Water Supply & Sanitation Schemes significantly increased from LKR 154 million (0.31%) in 2019 to over LKR 57,000 million (73.08%) in 2020, the allocations for the Administration and Establishment Services drastically dropped from LKR 41,600 million (84.2%) to just over LKR 2,300 million (2.92%) over the same period. No allocation has been made towards the Loan Disbursements for the Ongoing Projects component of Administration and Establishment Services from 2020 onwards, which can explain the considerable drop in the expenditure on Administration and Establishment Services. On the other hand, allocations for multiple new water supply and sanitation development projects have been made since 2020 under the Large-Scale Water Supply and Sanitation Schemes functional area, boosting its figures for 2020 and 2021. It also must be noted that Sewerage Schemes, for which allocations were discontinued since 2015, have been allocated over LKR 8,800 million (11.2%) in 2020 and over LKR 4,000 million (3.8%) in 2021. This suggests a shift in the type of allocation from loan disbursement to direct allocation for large-scale schemes, rather than a change in the composition of expenditure.

EXHIBIT 17

The GLAAS Survey 2018/2019 revealed that most of the WASH sector resources of Sri Lanka are directed to an improvement in drinking water access, with a relatively smaller allocation towards sanitation. The survey indicated that approximately 92% of the WASH sector expenditures was dedicated towards drinking water while only 8% was allocated to sanitation activities in 2018.51 However, this level of disaggregated data of the allocations for drinking water and sanitation within the WASH sector is not available in the budget documents, which makes it difficult to track allocations for the recent years.

5.3 Are Allocations Channelled towards the Greatest Needs?

The budget estimates and other expenditure reports do not track region-wise allocations of the WASH sector resources. The Household Income and Expenditure Survey 2016 revealed that access to safe drinking water was 98.2% in the Western Province while it was just 71.2% and 77.7% in the North-Central and Central Province respectively.\(^{52}\) Likewise, disparities exist in terms of access to WASH needs among the different regions. Moreover, certain regions require special attention to help address the unique challenges they face in the WASH sector such as the ever-increasing incidence of CKD in the North-Central and North-Western Provinces of Sri Lanka due to the high content of dissolved solids in the water available in these regions.\(^ {53}\) It is critical to analyse if these regions facing such unique challenges are being allocated with resources specifically aimed at addressing those challenges. However, the budget documents’ failure to track the region-wise allocations of the WASH sector resources prove to be an obstacle to carrying out such an analysis. This obstacle highlights the need to improve tracking of sector budgets and expenditure to support constructive analysis, efficient planning and improved transparency.


6. HOW WELL HAS THE WASH SECTOR EXECUTED ITS BUDGETS?

Sri Lanka’s WASH sector executed, on average, approximately 87.9% of its budgets between 2016 and 2019 (See exhibit 20). The under-execution of the budget is a consistent trend that can be observed in the WASH sector throughout the years except in 2015. The year 2015 was an outlier with a significant over-execution of the sector’s budget (197.7% execution rate). However, the over-execution in 2015 was primarily owing to the exceptionally low budget estimate of LKR 6 billion and revised budget of LKR 15.2 billion while the actual expenditure during the year was LKR 30.4 billion. The following year, 2016, saw the lowest budget execution rate at 76.4%. One of the key factors that could help explain the low execution rate in 2016 is the change in the funding structure of the WASH sector during the year, with the treasury issuing bonds in favour of NWSDB leading to expansion of non-budgetary allocations to the WASH sector. Budget execution in 2017 and 2018 increased to 94.3% and 92.1% respectively exhibiting a considerable improvement before falling to 88.8% in 2019.

EXHIBIT 21 | WASH sector budget execution

Within the WASH sector budget, the recurrent expenditure from 2016 to 2019 averaged an execution rate of 93.5%, performing better than the capital expenditure’s average execution rate of 88.8%. Fiscal consolidation leading to underspending of the capital budget is a common budgetary phenomenon and this could partly explain the under-execution of the WASH sector capital expenditures as well.

**EXHIBIT 22 | WASH sector budget execution**

7. HOW WELL HAS THE WASH SECTOR PERFORMED?

Over the past decade or so, Sri Lanka has made significant strides in the WASH sector. Access to safe drinking water for the Sri Lankan population has increased from 76% in 2006 to 93.2% in 2020. Similarly, safe sanitation coverage increased from 91.2% in 2016 to 92.1% in 2019. However, geographic and sectoral disparities remain. As aforementioned, the sixth goal of the United Nations SDGs is to ensure access to safe drinking water and sanitation equal to the global level by 2030. Sri Lanka is well on track to be in line with this. The government’s policy statement “Vistas of Prosperity and Splendour” articulates a national target to ensure access to safely managed water for the entire population of the country by the year 2025 and to reach 100% safe sanitation coverage of the population by the year 2030. Sri Lanka also aims to end open defecation by 2025.

7.1 Drinking Water

Sources that provide safe drinking water in Sri Lanka have been identified as pipe-borne water, tube wells, protected wells, semi-protected wells, rural water supply projects and bottled water. In 2016, while 90.4% of the population had access to safe drinking water via these sources, pipe-borne water was the largest source (35.7%) followed by protected wells (28.7%), semi-protected wells (11%) and tube wells (3.6%). By 2020, the coverage of the pipe-borne water had significantly increased to 53.7% of the population, further establishing its predominant position. On the other hand, 7% of the population in 2020 relied on unimproved sources of water such as unprotected wells, rainwater, river, tanks, springs, etc.

However, the findings of the Sri Lanka Demographic and Health Survey (DHS) 2016 reveal disparities across the regions of the country in terms of access to safe water. 98.7% and 91.2% of the urban and rural population respectively had access to safe water compared to just 43% of the population in the estate sector indicating that the majority of the people in the estate sector relied on unimproved water sources. The pipe-borne water coverage in the estate sector was just 19.7% compared to 73.6% in the urban sector. The most common source of safe water for the rural sector was protected wells (33.6%) followed by pipe-borne water (28.7%).

In line with the national target to provide safe water to 100% of the population by 2025, the NWSDB aims to increase the pipe-borne water coverage from 53.7% in 2020 to 79% by 2025 while the remaining 21% will be covered by community water supply schemes and other safe point sources. The intent of achieving this target has been quite evident from the significant increase in allocation towards the development of large-scale water supply schemes, especially over the last 3 years. Furthermore, the government in 2020 established a new ministry (State Ministry of Rural and Divisional Drinking Water Supply Projects Development) that specifically focuses on improving the rural populations’ access to safe water.

Despite these achievements and efforts made in the WASH sector, challenges such as climate change, financial uncertainty, ageing infrastructure, and water quality issues remain. Sri Lanka is vulnerable to the vagaries of climate such as extended periods of drought. It tends to face difficulties in ensuring an uninterrupted supply of drinking water during such drought periods, which is being aggravated by the impacts of climate change. On the other hand, achieving 100% coverage for safe drinking water by 2025 requires implementation and timely execution of many large-scale water supply infrastructure projects and this, in turn, requires heavy investments flowing into the sector uninterrupted over the next few years. The NWSDB has estimated that an investment of LKR 990 billion is required from 2021 to 2024 to realise the policy intention of ensuring safe drinking water for all by 2025. Historically, Sri Lanka’s WASH sector has been largely dependent on foreign funding. However, the government has expressed its intention to shift away from large-scale foreign financing to domestic financing of the budget deficit. Considering the prevailing fiscal challenges faced by Sri Lanka, obtaining the required funding for this sector may prove to be challenging.

Another key challenge that needs to be addressed is the leakages in some pipe networks that result in high volumes of non-revenue water (NRW) causing significant losses to the NWSDB. The NRW in 2020 was 24.6% countrywide. However, within the country, the extent of the NRW loss was highest in the Colombo district at 39.21% in 2020, which is significantly higher than the countrywide figure. To address this issue, the NWSDB has planned to convert the NRW supply into revenue gradually through the coming years by reducing the distribution loss and utilising the excess production capacity effectively.

61. Sri Lanka Demographic and Health Survey (2016), p. 14
Disparity also exists across the regions of the country concerning safe sanitation coverage. According to the DHS 2016, only 79.8% of households in the estate sector had access to improved sanitation facilities compared to 91.5% and 91.7% in the urban and rural sectors respectively. The uneven access to safe sanitation facilities across the sectors is the result of insufficient financial provisions being allocated for providing sanitation facilities for the people of low-income levels, especially in the estate sector.

In 2019, 92.1% of the population had access to safe sanitation coverage: 90% relied on on-site facilities that principally comprise septic tanks and closed pit latrines and 2.1% had access to piped sewerage that are limited only to a few main cities in the country. Moving forward, NWSDB has planned to increase the piped sewerage coverage to 4.4% by the year 2030 while continuing its efforts to increase the coverage of other safely managed and basic onsite sanitation facilities, thereby increasing Sri Lanka’s total safe sanitation coverage to 100% in 2030.
GLOSSARY OF BUDGET TERMS:

**Budget Estimate:** First allocation of funds, approved by parliament

**Revised Budget Estimate:** Revised allocation of funds, approved by parliament

**Actual Expenditure:** Allocated funds that are spent by the end of the fiscal year

**Budget Execution:** Percentage of allocated funds spent out of the total allocation

**Nominal/Current Values:** Numbers not corrected for the effect of inflation

**Real/Constant Values:** Numbers corrected for inflation

ABBREVIATIONS:

**ADB:** Asian Development Bank

**ADB:** Asian Development Bank

**CBOs:** Community-based Organizations

**CEA:** Central Environment Authority

**CKD:** chronic kidney disease

**DHS:** Demographic Health Survey

**DNCWS:** Department of National Community Water Supply

**GDP:** Gross Domestic Product

**GLAAS:** Global Analysis and Assessment of Sanitation and Drinking Water

**IWWRMP:** Integrated Watershed and Water Resources Management Project

**LKR:** Sri Lankan Rupee (Local Currency)

**MC:** Municipal Council

**MWS:** Ministry of Water Supply

**MPCLG:** Ministry of Provincial Councils and Local Government

**NGO:** Non-Governmental Organization

**NRW:** Non-Revenue Water

**NWSDB:** National Water Supply and Drainage Board

**PC:** Provincial Council

**PS:** Pradeshya Sabha

**SDG:** Sustainable Development Goal

**SMRDDWSPD:** State Ministry of Rural and Divisional Drinking Water Supply Projects Development

**UC:** Urban Council

**USD:** United States Dollar

**UNICEF:** United Nations Children’s Fund

**WASH:** Water, Sanitation, and Hygiene

**WaSSIP:** Water Supply and Sanitation Improvement Project

**WBG:** World Bank Group

**WHO:** World Health Organization

**WRB:** Water Resources Board