

# Governance journal

Vol No 4



**SRI LANKA INSTITUTE OF LOCAL GOVERNANCE**



WITH THE COMPLEMENTARY  
OF SLILG

# Governance Journal

VOL. NO. 04

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10:10:00 AM  
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**Sri Lanka Institute of  
Local Governance,**  
(Ministry of Provincial Councils  
and Local Government)

No.17, Malalasekera Mawatha, Colombo 07.

Sri-Lanka

9561087  
PL

# Governance Journal

**Published by:**

**The Sri Lanka Institute**

**of**

**Local Governance,**

No. 17, Malalasekera Mawatha,  
Colombo 07.

**Sri Lanka.**

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Sri Lanka Institute of Local Governance invites  
papers on governance related issues for consideration  
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Governance Journal

Volume 1, No. 1

January 1998

Published by the Sri Lanka Institute of Local Government Studies

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# INDICATOR TOOLS FOR ASSESSEMENT AND ANALYSIS OF CITY GOVERNANCE

By  
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## Introduction

All human endeavours, being the result of behaviour, needs direction, guidance and discipline and it is more so, when such endeavours are expected to impact on all other beings and their environment. Urban management is no exception to this rule. As human needs and aspirations undergo change, and development thought and approaches advance with expanding human knowledge, managing urban centres has become a complex network of responsibilities and functions. Under the circumstances, the old things have passed away giving way to new and more dynamic managerial imperatives. These imperatives call for critical changes in urban planning and administration. The old style functioning can no more deliver the goods essential for urban well being. The primary call is for attitudinal changes. Municipal and national governments will not be able to meet the people's aspiration unless their decision-makers, planners and administrators are prepared to look anew at urbanization, urban form, urban poverty and urban management systems. Such attitudinal change must be accompanied by an in-dwelling change of their behaviour, leadership style and goals. That only can help them make a determined effort to speedily bring about the many required changes to the laws, institutional mechanisms, and administrative processes & procedures that have hitherto been governing the urban areas of our nation.

Obviously, harmonizing the attitudes, structures and processes of government with the aspirations and needs of its urban citizenry would not be enough. Such change will not necessarily or automatically lead to good social progress unless operationally dynamic mechanisms and administratively adequate checks and balances are put in place to ensure that peoples' aspirations are met through (a) productive facilitation of opportunities and (b) unimpeded enforcement of policies and legislation that such systems promulgate. In doing so, care must also be

taken to ensure that their results will contribute to build a society that upholds justice, equity and peace. In the final reckoning, governance must not only appear to be effective but should also be measured effective.

Measuring the performance and effectiveness of the governing institutions, mechanisms and processes therefore, must receive utmost respect and priority attention from all urban stakeholders, i.e.. the state, the civil society and the private corporate sector. Measuring governance is serious business, not an optional pass time. This paper attempts to capture the essential dimensions and elements of good governance and shall endeavour to present several leads to enhance our understanding of measuring good urban governance.

## **Urbanization & Asia**

The new millennium begins with a promise of fast urbanizing the earth. For the first time in contemporary human history, more than a half of the world's population shall live in urban areas. Many of them will live in poverty and squalor, deprived of their basic needs and rights

Since the 1950s the world's urban population has been growing rapidly from under 300 million to 2.7 billion in 1999. Today, around 55 million people have been added annually to urban areas as the urban growth rate stands at 2.5%. Once secondary towns like Surabaya, Guadalajara and Bangalore have become metropolitan areas during the past twenty years. Natural demographic increases have overtaken migration as the main cause of urban growth. Growing unemployment & poverty and environmental degradation are now the main issues to be tackled by urban decision-makers.

Meanwhile, there are some major trends that will have a serious and lasting impact on Asian cities in the coming century. By the year 2010, 4.2 of the world's 7 billion population will reside in the Asia and the Pacific region; About half (45%) of the world's GDP growth will take place in Asia; Forty-three percent of the Asian population will live in cities; and thirty-three Asian cities will have populations of 5 million or more in the 21<sup>st</sup> century.

## **Urban Centres and National Development**

The capacity of nations to pursue their economic and social goals has begun to depend more and more on their ability to govern their cities. As a result, urban governance has assumed increasing importance. This is largely due to the quantum and quality of contribution that urban centers make to the national income and to other spheres of development such as the creation of social and political ideals, transfer of information and technology, and creating social capital through fostering of human resources, arts and culture.

Cities are often referred to as engines of economic growth. They are also hubs of political and cultural fusion. Globalization and the attendant liberalization of economy in most Asian nations highlight the growing urban predominance over the national life and character. They are interdependent as never before.

“For better or for worse, the development of contemporary societies will depend largely on understanding and managing the growth of cities:” the city will increasingly become the test bed for the adequacy of political institutions, for the performance of government agencies and for the effectiveness of programme to co exclusion and to promote economic development.” (*UNCHS/Habitat Urban Indicators Programme January. 1999*)

Conventionally, the main functions of city governments have been the fixing and collection of assessment rates and municipal taxes, public health related engineering and extension and upkeep of municipal lanes and avenues. Today, with rapid delegation and devolution of functions from higher levels of government, most municipal governments have been themselves engulfed with many different demands by their citizens, most of which are new and techno-centric. While administering the day to day work within a macroeconomic framework over which they have no direct control, urban local bodies are now expected to plan and coordinate and of times manage urban transport; formulate and direct anti poverty measures; improve urban productivity; plan and protect local environment; and plan and supervise human settlements development.

These new responsibilities have been thrust on local self-governments so suddenly and without the necessary power, authority and resources to handle them. On the contrary, in some countries. there have been concurrent actions by. the higher levels of government that have resulted in serious erosion of the existing municipal revenue base.

One such example is India where the Octroi transport tax. which was the main revenue earner of the urban local bodies over a long span of time, has been withdrawn and compensated for by a static annual payment in lieu of it. As a result, fiscal benefits of a growing transport sector that began to expand with the economic liberalization policies of the country were transferred to a higher seat of government which, now expands its revenue base annually by auctioning the Octroi collection rights to the private sector on fixed terms. The traditional collector and user of the tax, i.e.. the urban local body was thus deprived of this expanding revenue base at the most critical time of its expansion. Many nations have similarly thrust on the local bodies, different new responsibilities without ensuring any corresponding increase in revenue and authority.

With or without these new responsibilities, urban local administrations everywhere have generally shown a serious lack of ability and capacity to carry out their statutory responsibilities. They have failed to maintain their cities as clean, caring and responsive habitats. Moreover, there is much to be desired in the maintenance of the rule of law. In the Eighties, local governments attributed their failure to their lack of local autonomy. But the Nineties saw a substantive, though not adequate, transfer of authority from central to local governments yet, without much corresponding improvement in local government.

Meanwhile, the nature of state too is changing towards democratic and administrative decentralization, greater local autonomy and control and community empowerment and community-based management. These are challenging new flight-paths for local governments.

### **The Response: Good Governance**

Under the circumstances, effective governance within the available frame of power and resources appears to be the only managerial solution to minimizing losses and maintaining an adequate level of urban services and facilities.

The response to these challenges lies in good governance. "Wherever change is for the better, wherever the human condition is improving, people point to good governance as the key. This better governance is not just national - it is local, regional and it is global. Few things are more sensitive -and more challenging - than improving governance." (James Gustave Speth. UNDP) Good governance makes accountability, transparency, participation and rule of law mandatory administrative functions. They are the foremost vital pre-requisites for effecting sustainable change for the better.

### **MEASURING GOOD GOVERNANCE**

There is a popular myth that economic growth will automatically lead to equitable human development. It is true that it will lead to development of some of the human beings but, not of the whole society. When good governance is absent, a greedy few will, by might and craft, appropriate to themselves the best of the fruits and profits of economic growth leading the way to greater economic and social disparities. Responsive and accountable governance systems and processes upholding equity and rule of law will prevent, such polarization of resources, both material and human.

A pre-requisite for measuring good urban governance is a full understanding of what governance is and the difference between Governance and Government. There are many different ways to describe government and governance.

**Government** can be described as “the repository of confidence and power of the people delegated by them for a fixed period of time for the express purpose of identifying, mobilizing, organizing, guiding and directing all available resources, human and other, to facilitate planned and participatory transformation of their society towards enhanced well being via. just enjoyment of all its needs, rights and aspirations and sustainable peace”. Government comprises the constitution and laws, institutions and structures, management mechanisms and administrative procedures. These are devolutionary instruments that make a government. Governments are necessarily political regimes pursuing a course of developmental action perceived by them as most suited within the framework of the construct and form of their society and its constitution.

**Governance**, on the other hand, is the cumulative result of the behaviour and practice within and among governments. The quality and effectiveness of governance depend mostly on how judiciously the government uses the said instruments to help people achieve the ultimate goal of progress, justice, equity and peace.

The term “Governance” is derived from the Greek word “kybernan” and “kybernetes”. It means “to steer and to pilot or be at the helm of things”. While the term “government” indicates a political unit for the function of policy making as distinguished from the administration of policies, the word “governance” denotes an overall responsibility for both - the political and administrative functions. It also implies ensuring moral behaviour and ethical conduct in the task of governing, i.e., the continuous exercise of authority on both the political and administrative units of governments.

Some noteworthy definitions of “governance” come from the World Bank. UNDP, OECD and The Commission of Global Governance. They are:

The World Bank has identified three distinct aspects of governance: (i) the form of political regime; (ii) the process by which the authority is exercised in the management of a country’s economic and social resources for development; and (iii) the capacity of governments to design, formulate and implement policies and discharge functions. (World Bank, 1994)

Governance is viewed as “the exercise of economic, political and administrative authority to manage a country’s affairs at all levels. It comprises mechanisms, processes, and an institutions through which citizens and groups of citizens articulate their interests, exercise their legal rights, meet their obligations, and mediate their differences.” (UNDP. 1997)

The concept of governance denotes the use of political authority and exercise of control in a society in relation to the management of its resources for

social and economic development. This broad definition encompasses the role of public authorities in establishing the environment in which economic operators function and in determining the distribution of benefits as the nature of relationship between the ruler and the ruled. (OECD. 1995)

- “Governance is the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and co-operative action may be taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest”. (Commission on Global Governance 1995)
- Good governance is both a goal and a process. It only can help us find solutions to poverty, inequality and insecurity. It creates an environment in which civil organizations, business community, private citizens and other institutions can assume ownership of the city development process and the management of their communities.

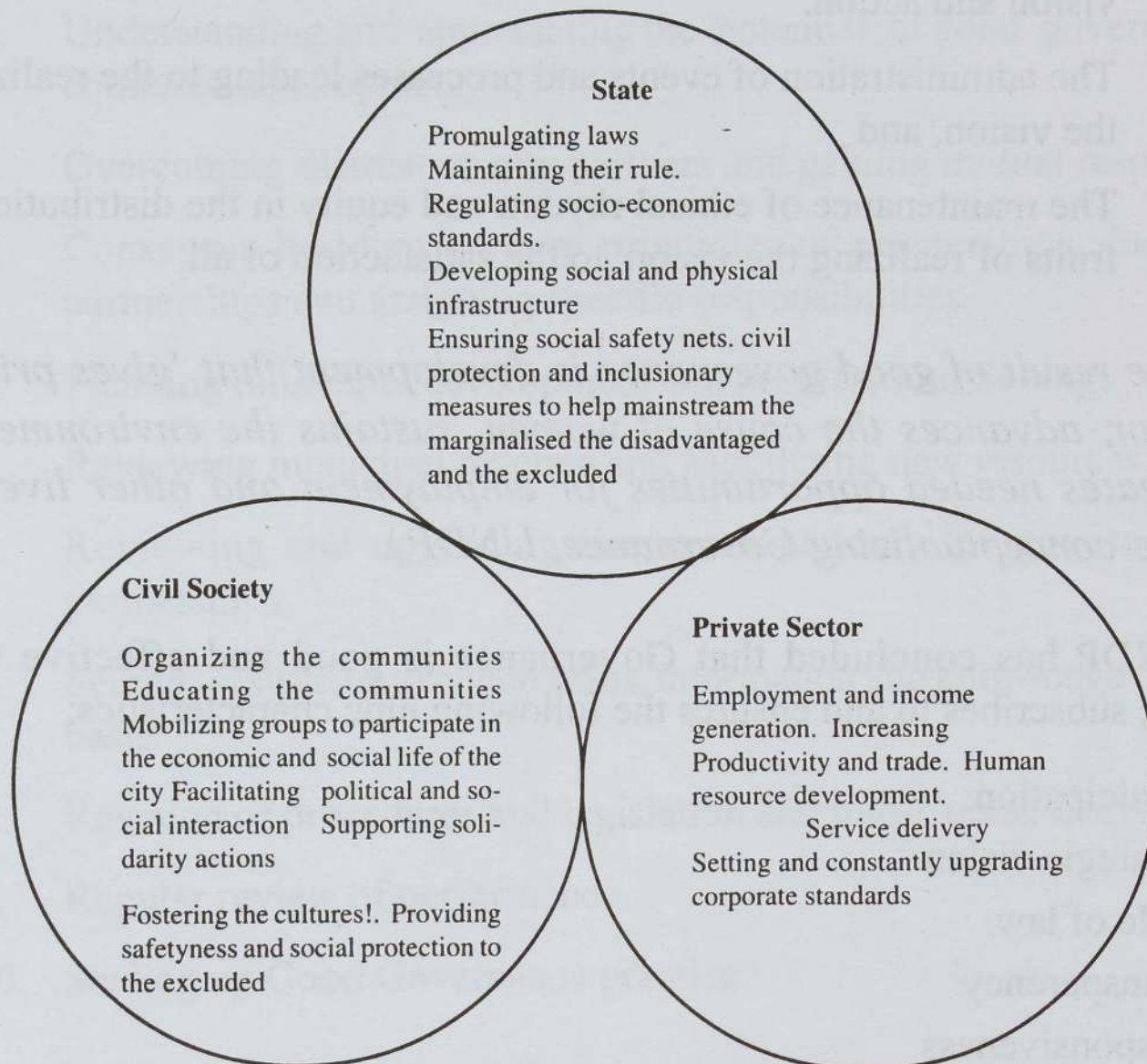
### Three Interdependent Regimes of Governance

There are three main regimes involved in good governance. They are the State, the Civil Society and the Private Sector. All three are critical for sustaining human development. Because each has weaknesses and strengths, a major objective of good governance is to promote highest possible constructive interaction among them in order to minimize individual weakness and utilize the strengths optimally. The intricate intercourse between and among these three domains will indicate the direction of the society's economic and social flight path. The more integral, balanced and inter-dependant the three are the better for that society.

**THE STATE** provides the foundation of Justice. Equity and Peace, creating a conducive political and legal environment for human progress. **CIVIL SOCIETY** provides the foundation of Liberty. Equality. Responsibility and Self-expression. **PRIVATE CORPORATE SECTOR** provides the foundations of economic growth and development. The three regimes carry out these responsibilities by performing multifarious tasks. The major ones are listed in the diagram below.

Governance becomes respected and impactful when the three regimes work together through cooperative alliances and partnerships. Where such partnerships are absent, public trust and confidence in the government and its systems will flee. The impact of actions of the three regimes will fail to yield maximum returns.

To register early and sustainable progress in development, a creative pact among these three is necessary. The pact must not only describe what creative responses will it contain to address the burning socio-economic issues but also must contain a clearly defined role for each of the three, collectively and severally, in monitoring the progress through yardsticks and indicators specifically identified for the purpose. These indicators must be scientifically prepared, methodically pre-tested and sensitively introduced.



Governance is the cumulative result of the interaction among the above three regimes in society's political, economic and administrative domains. It will have a lasting impact on the life styles and living standards of its citizens. These regimes comprise the governance system through many different and complex mechanisms, institutions, and partners, processes and relationships which citizens use on daily basis to:

- articulate their needs, problems and aspirations:
- exercise their rights and duties:
- obtain redress or solutions, and
- Mediate to maintain law. order and justice.

Any attempt at measuring good governance must have indicators to assess the effectiveness of inter play among these regimes. Some of the results of this

interplay may not be too easily discernible and measurable. Yet, the overall impact can be measured through peoples' own involvement in the an assessment process.

### **Results of Good Governance**

Good governance results in:

- The orderly organization of the city's predominant political thought, vision and action.
- The administration of events and processes leading to the realization of the vision, and
- The maintenance of ethical rhythm and equity in the distribution of the fruits of realizing the vision, to the satisfaction of all.

*The result of good governance is development that 'gives priority to poor, advances the cause of women, sustains the environment, and creates needed opportunities for employment and other livelihoods (Re-conceptualizing Governance, UNDP,)*

UNDP has concluded that Governance is good and effective when it promotes, subscribes to and ensures the following nine characteristics:

- Participation:
- Strategic vision
- Rule of law
- Transparency
- Responsiveness
- Consensus Orientation
- Equity building
- Effectiveness and Efficiency and
- Accountability

These nine characteristics provide the primary yardsticks for measuring governance. Indicators must be developed to assess the degree and quality of performance in each of these character domains. In other words, the assessment tools employed must lead us to measure to what extent the governance of a particular urban local body is:

participatory; sustainable, legitimate and acceptable to people, transparent; promotes equity and equality; able to develop the resources and methods of governance; promotes gender balance; tolerates and accepts diverse views and perspectives; able

to mobilize and efficiently use resources for social purposes; operates by rule of law; commands public trust and respect: accountable: sensitive to the needs and aspirations of citizens: regulates rather than controlling: and facilitating instead of providing.

## 10 Action Steps for good governance

1. Understanding and appreciating the potential of good governance for equitable development
2. Overcoming distrust among partners and gaining mutual respect
3. Consensus building on core principles of partnerships, formalizing partnerships and assigning specific responsibilities
4. Planning municipal development and progress and Setting,
5. Reviewing municipal revenue and Mobilizing new resources
6. Reviewing and upgrading management tools for governance and partnerships
7. Setting up systems to obtain skills, information and knowledge on regular basis
8. Revision of procedures and legislation and mid-Course Corrections
9. Regular review of performance.
10. Scaling up Good Governance practice

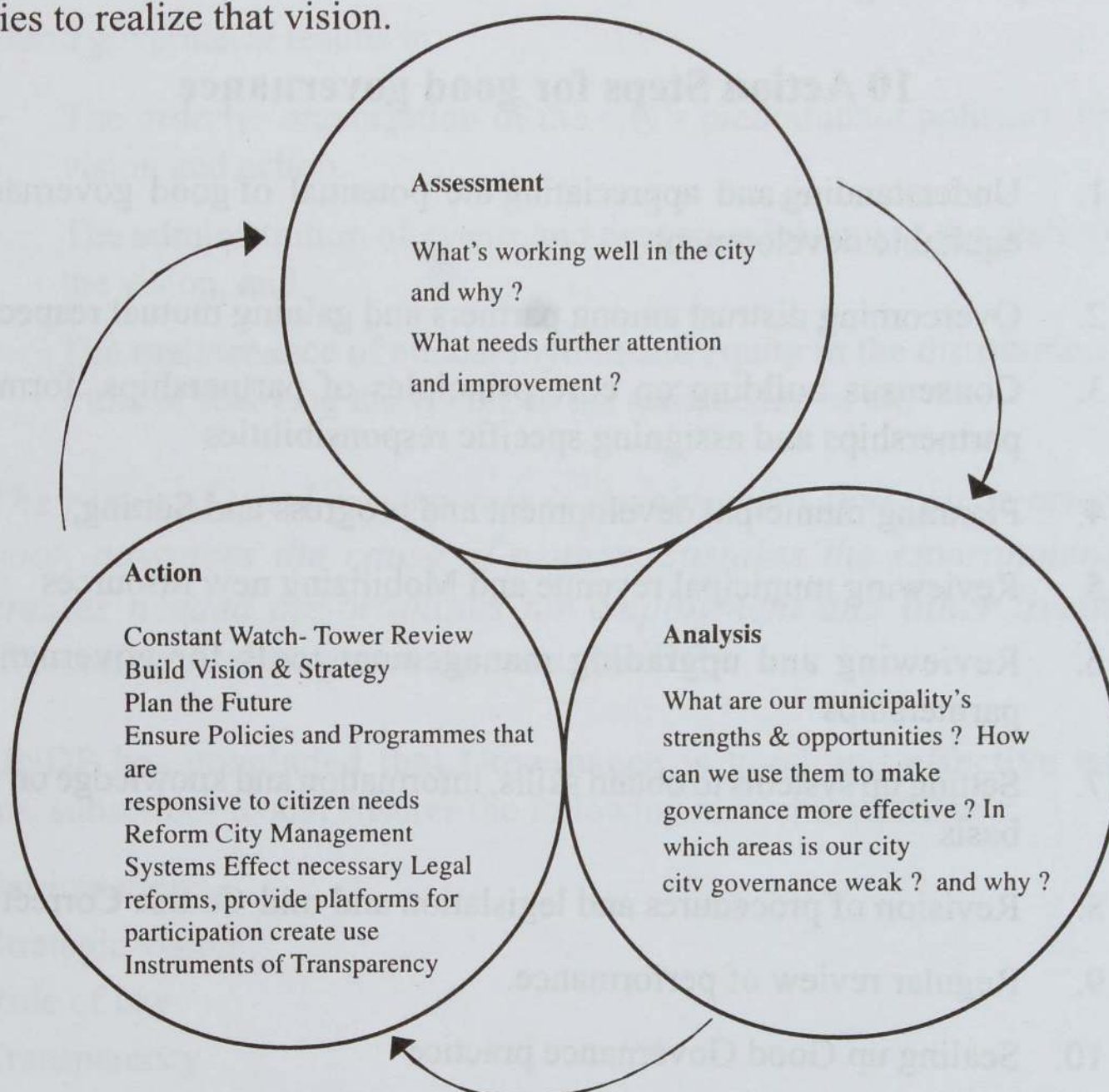
## The Benefits of Impact Assessment

### Analysis & Action

Brief and, at times cursory, **assessments** of events, systems and processes often give rise to detailed in-depth **analyses** which provide good “leads” to corrective or constructive **action**. Assessment, Analysis and Action are critical managerial inputs in every human endeavour. Constant review, revision and evaluation are crucial for their course correction and direction. Mid-course pulse-detectors are, therefore, important management instruments. They help to understand the health and strength of any human endeavour, be it a profit-making business or development-oriented service.

Assessment, Analysis and Action are all part of a greater vision to be transparent in governance. They also presuppose the potential that there can be

negative growth and development if the urban processes are not properly planned, charted, checked and tended. Any *Assessment* or impression, however brief or cursory it may be, must lead to careful in-depth *Analysis*. Analysis will help formulate *Action* that will include a long-term vision for city governance and strategies to realize that vision.



Correct assessment of urban systems and processes is important for policy and programme development for many are the dangers and pitfalls of uniformed policy construction. Where objective assessment is absent, prejudices and assumptions colour the concepts and influence the decisions. Availability of good database of indicators can stimulate objective analysis and positive change processes.

## Benchmarks

Indicators also constitute benchmarks. With the initial database created, every subsequent application of the indicators will not only provide the current status, but also plot the change of status from the point and time last measured. The need for regular assessment and for indicators for such assessment, therefore, can never be over-emphasized.

## DIFFERENT INDICATOR CATEGORIES

Good governance is not an accident. It has to be planned and managed. Managing Governance is a task in itself. To manage, it must have a vision, goals, targets and broadly accepted measurements. All stakeholders must have a consensus on what indicates Good Governance. There can be many types of indicators of Good Governance.

### Types of Indicators

(The works of. Jeb Brugmann and Graham Pinfield that appeared Local Environment, vol.2 No.1&2 of 'CLEPS. South Bank University. London. Feb & June 1997 under the titles "Is there a Method in Our Measurement?" and "Use of Indicators in Local Sustainable Development Planning" were used in compiling these categories)

Indicators are of many different types.

Firstly, there are input/output level indicators. These are generally used to assess quantitatively the performance of functionaries and systems. They may not help understand the behavioural and procedural processes of the endeavour but will depict the extent of resource investments made with the aim of bringing about a desired change.

Secondly, there are outcome/impact level indicators meant to assess the effectiveness of the efforts made by humans to bring about change. These will indicate whether the desired change had actually begun to take place. They can be best used only in summative evaluations at the end of a long-term effort.

Thirdly, there are Condition-Stress-Response (CSR) indicators. They measure the ground realities (Condition): the challenges (Stress) and the systemic approaches employed to meet those challenges (Response).

A more detailed disposition of these categories is given below.

Each of these indicator types has its own advantages and disadvantages. Each type has its own:

- specific rationale for existence.
- direction and purpose.
- methodological complexities.
- data requirements.
- purposive standards & conditions and
- application modes.

Some of the better known and used categories of socio-economic indicators are as follows.

**Integral Indicators:** portraying the results of linkage between/among different sectors and factors.

*E.g. Rate of employment*, for it points to municipal facilitation processes, economic credibility level of the city, confidence of investors in city governance, municipal planning priorities etc..

*Rate of malnutrition*, for it points to the impact of numerous interactions among many causative sectors. They indicate the performance levels of income distribution, household food security, Consumption habits and patterns, Food Storage and handling systems etc.

**Trend Indicators:** linked to processes pointing to quantity or speed patterns of change.

*E.g. Rate of change in municipal expenditure in select areas*, for it indicates the direction or trend of municipal spending on priority areas of concern.

**Distributive Indicators:** linked to equity issues of resources, income and services.

*E.g. GINI index of Income Disparity* for it establishes a standard and estimates the distance between the standard and state of performance.

**Predictive Indicators:** linked to assessing trends and processes and making futuristic projections. These are basically forecasting models.

*E.g.. Estimated rate of increase in municipal revenue*. It determines possible projections into the future on the basis of past patterns and probable future trends.

**Conditional indicators:** portraying results achievable under assumed conditions or changes, or both.

*E.g.. Rate of female participation in municipal governance*. It assumes that neither the life style patterns of urban women nor the constitutional and statutory provisions for such participation will change.

**CSR Indicators:** A mix of the above, linked to Condition, Stress & Response (CSR). It is a simple model for measuring local conditions but not for comparative purposes.

This particular type of indicators is directly responsive to municipal needs. It measures how the governance system is responding to, either the situation (condition), or the problem/s created by the situation (stress on the governing system or on the governed) or the way they are resolved (Response) or to all. CSR indicators are a logical amalgam of many) of the above categories pointing either to input or outcome or impact level accomplishments, as needed. Their construct is not too complex; easy to substantiate, understand and use.

*E.g.. Percentage of time of the council meetings devoted to review human resource needs for good governance.*

### **Important Issues for Consideration In Assessing Governance**

It is useful for those who use indicators to know the following, that will put them in a constant state of preparedness when confronting issues of definition and analysis.

- Indicators are often value-laden. Therefore, the users must decide beforehand the moral minima or the minimum set of values that their indicators must represent.
- There is often a tension between scientific rigour required of any indicator and the available municipal and community capacity to use them. If not properly resolved at the outset, this tension can later make the indicators redundant or unusable. There is also the tension between the perspectives of the generalist and specialist.
- Public participation is an important corollary to collection and analysis of data for indicators. However, approaches to indicators and assessment generally suffer from a popular notion that the public can better collect city level indicators. There is no doubt that they can be better collected through public participation. But, one has to understand that there are numerous data that the public cannot collect, process and analyze for the lack of technical and scientific knowledge and skills needed to determine the different dimensions of the CSR regime analysis. Remember that indicators are not simple; they are simplifications of complex problems.
- If indicators are only for a social construct, and not for managerial use, diverse indicators are not necessary. Then it will help measure the social processes only. But mere academic appraisals will hardly help bring about changes in governance. The best is to weave both, managerial information and social experience into one set of indicators.

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- However simple the tools may be, they must be subject to scientific scrutiny.
- Indicators must not be developed without properly understanding the end result required. For examples, if sustainability is not properly defined and clearly understood, there is no way that indicators can be developed to measure it.
- Using indicators as performance output measurements are simple, justifiable and more precise viz a viz measuring change and processes. Simple because the project output targets have already defined the indicators; justifiable because the indicators are automatically pursuing some priority interventions established by the community; precise because it measures very precise, targeted things.
- There is a tension between the North and South about indicators as a whole. G77's view that indicators are imposed on the developing countries as subtle development controls; that they violate national sovereignty; that rich nations are unwilling to reduce their consumption to sustainable levels and therefore, are trying to get the poor to change and live according to standards set by them: that it is not sustainable development first but economic progress etc. etc..

## **Watch-Tower Sentinels to Measure Good Governance**

To achieve good governance, there must be sentinel watchtowers constantly assessing the performance of municipal administration. The primary responsibility for this lies with those who reside within the city. For long-term sustenance, such sentinel systems must exist within and as part of the municipal governance mechanism. Any monitoring outside the established governance system will be a mere cosmetic with little or no chance of effective impact.

Each city must have a sentinel group to constantly assess, monitor and review the city's governance. The Group must be small but representative of the city population. It must come from different stakeholder groups such as the private sector, NGOs/CBOs and the Government. The purpose is to stand all the time as a sentinel watchtower with love to all and malice to none and thus, help the city administration and civil society with a regular feedback from the point of view of the governed.

The municipal performance in all major potential impact must be consistently monitored, reviewed and, where necessary, revised to keep them on track toward the desired goals of investment and development. The potential impact areas are numerous and often diverse and complex. Unethical or irresponsible interactions between and among them can:

- derail the charted course to growth and development;
- reduce the economic and social benefits of growth;

- warp the distribution of those benefits; and.
- Increase the costs of social benefits delivery.

With effective monitoring of the way the cities govern the course of their development, it will be easier to administer timely preventive measures, rather than taking post-facto curative or remedial actions. The realm of prevention requires participation, rule of law, transparency, responsiveness, consensus and equity building and accountability as part of a broad strategic vision.

## **Global efforts in the development and use of Good Governance Indicators**

The use of indicators to assess human and social behaviour began with the Creation Story. At the end of each of the six days that He was engaged in creating the universe, daily God did an assessment and review and found the day's work was good. Then, He gave Adam and Eve a self-assessment indicator - the Tree of Knowledge in the Garden of Eden. The tree untouched was an indicator of good human behaviour and good governance of their own affairs.

Since then, the indicators movement has taken numerous positions, directions and shapes rekindling and refining human quest for higher attainments and more content living.

Until recently, the world's statistics bureaus courted simple but seemingly composite indicators like Gross Domestic Product and National Per Capita Income to measure the growth path of nations. But, experience of human progress in the past fifty years has proved that the relationship between accelerated economic development does not necessarily lead to human progress. Similarly, the lack of economic progress too does not mean lack of human progress if economic returns however small it may be are ploughed back as social investments to improve health care, education and social safety nets. Sri Lanka and Kerala State in India are clear examples of this where the two have achieved commendable social progress to be placed high on the human development index despite their registering slow economic progress.

As Charles Handy points out, national expenditure levels may show a rapid increase indicating an economic vibrancy but "if national infrastructure is bad, accidents go up, which increases the amount spent on hospital care, vehicle repairs, and so on. Likewise, money can be spent if factories pollute the rivers, oceans and atmosphere. All of these financial transactions increase national wealth as calculated by GDP". Therefore, realizing the inadequacy of the conventional wealth-centric economic indicators, in the 1970s, the United Nations institutions

introduced the Physical Quality of Life Index (PQLI) and Human Development Indicators (HDI) to measure human progress. However, they too had limitations. They were not intended to measure development processes until after the impacts were visible which many considered as an act of closing the stable after the horses have fled.

Disenchanted by their inability to capture the methods and attitudes employed to achieve the end results, the world community buttressed the existing measurement modes with a conceptual framework that insisted on good management of democratic institutions, their vision, processes and personnel. The series of international conferences that started with the Children's Summit in New York (1990), followed by many others including the Earth Summit in (1992) Population Summit in Cairo (1994), Social Development Summit in Copenhagen (1995) and the World Conference on Women in Beijing (1995) and the City Summit in Istanbul (1996) highlighted the importance of redefining the tools of measurement of success of development and encouraged the member states to develop and use indicators more susceptible to needs and aspirations of sustainable development. Stimulated by the said events, a series of good governance indicators has since been produced by many interested groups to assist in the task.

First in the series was the Summit Goals for Children adopted in 1990. Then came many others including the indicators for Rapid Urban Environmental Assessment UNDP, 1993), WHO'S 27 Indicators of Healthy Cities (1994) and UNDP's 130 *Indicators for Sustainable Development* (1996) and UNCHS/HABITAT Global Urban Observatory's 49 core indicators and 124 supplementary indicators (1997). The most recent attraction is the two sets of good governance indicators that UNDP's The Urban Governance Initiative (TUGI) developed during 1999.

Almost all these were input/output level indicators and did not help much in assessing outcome and impact. Moreover, most of these indicators were programme-related measurements and thus had a serious bias towards service coverage levels. Meanwhile, a few cities commenced experimenting with different tools to assess good municipal governance. They included Indonesia's PKK community health governance indicators (1985-95) which too still showed service delivery bias and Citizens' Report Card of Bangalore, India which showed greater sensitivity to citizens' own reactions to municipal governance. However, they too showed several limitations in capturing the essential elements of governance performance. As a result, they were not able to attract much attention for wider use.

There is also an urban governance indicator movement gaining momentum in the USA. The Sustainable Seattle, which is a volunteer led organization, is advocating for sustainability as a concept and approach to be used by business,

community, government and individuals. Its 'Indicators of Sustainable Community', first produced in 1993 and have won many awards including the UN Habitat II in Istanbul, include Business vitality. Civic Engagement, Community Health, Economic Capacity, Job Quantity and Quality. Education & Workforce and Livability as major categories of effective governing action. In contrast. The Quality of Life Index of Pasadena. CA. uses some other indicators as more penetrating and important from the point of its societal needs and culture. The main clusters of those indicators are: Use of Alcohol. Tobacco and Other Drugs. Arts & Culture, Community Safety. Economy & Employment. Education, Environment, Health, Housing, Recreation and Transport. In addition, many other American cities have included Government & Politics, ChildCare, Nutrition Quality. Homelessness, Community Resources, Land Use, Family Integration and Population Resources. These are in conformity with the Bellagio Principles of November 1996. which sets out international guidelines for assessment. The document is available with International Institute for Sustainable Development (IISD). Winnipeg.

The latest in the process of searching for good measurement indicators is The Urban Governance Initiative for the Asia and the Pacific of UNDP. In 1999 it began field testing a new tool-kit for measuring urban governance. The tool kit is being field tested in four large cities in Asia including Penang (Malaysia), Kathmandu (Nepal), Suva (Fiji) and Colombo (Sri Lanka).

### **TUGI Urban Governance Indicators**

The structure of TUGI indicators is based on a health care analogy. Just consider how medical examinations are held to check the health status of human beings. They are generally done in two stages. First, the physician does a primary examination with basic instruments like the stethoscope. She checks the pulse-rate or puts the client on a treadmill. These are simple tests. Having ascertained the basic condition of health, she puts the patient through a series of pathological and other advanced hi-tech tests to complete the checking up process.

Similarly, TUGI recommends a two-tier approach to determining how healthy the urban governance in your city is. The first is meant to be an instrument of qualitative primary examination -just a report card. The second is a more advanced quantitative and somewhat high-tech pathological test.

The First is a recommended Good Governance Report Card that can **help** assess the perceptions of the main stakeholders about city governance. It contains 50 qualitative indicators selected basically to promote a quick impressionistic

assessment of the performance of municipal administrative systems and processes in each city. Having filled the report card and given a first-count rating to governance, the stakeholders might wish to study the performance in detail with statistical support and quantitative analyses.

The Second, therefore, is a recommended list of Extended Indicators which go beyond perceptive assessment. It is a comprehensive set containing 99 indicators. They are designed to **help analyze** the city performance in specific priority action areas such as employment, health, education, water & sanitation, sewerage, roads & safety etc. Local governments that are keen on making a detailed assessment of their governance in these areas can use this set of indicators to obtain a more detailed quantitative analysis of outputs, outcomes and impact.

**A. Primary Indicators — The report Card:** Good governance being an amalgam of systems, procedures and processes, the indicators included in this set basically are CSR level indicators. It is a mid-course pulse-checker. Therefore, its emphasis is on the systems *and* processes of governance. They are for periodic performance assessment and, not for outcome evaluation. They indicate whether the course of governance is on the right track and which areas of city governance need improvement. By applying this set of simple, perceptive indicators, the stakeholders will be able to make a fair assessment of the strength and direction of the city's governing process. This set of indicators has an in-built rating system. It provides for performance rating against each indicator as high, medium or low. For high or medium performance, the respondent gives 2 and 1 point respectively to his local administration.

**b) Extended Indicators:** This set is for end-of-term evaluation of the outcome and impact of governance. While the Primary Indicators report Card will look at the functioning of municipal systems and processes, the Extended Indicators will help capture the effectiveness of those systems and processes in terms of inputs, outputs, outcomes and, where possible, the final impact. Being an optional exercise, this set of indicators does not have a rating system. It only provides a standard norm that is achievable through good governance.

Each city can decide which of these 99 indicators are relevant to their specific needs and conditions and use them for extended assessment in order to ascertain whether the desired minimum norms have been achieved or not. If most of the indicator show that norms have been achieved, then it can be concluded that the city governance is good and strong. If not there is much work for the municipality to complete. *For a copy of these indicators, please contact UNDP TUG1. Malaysia.*

## How to Use the Indicators

- Identify the major stakeholder groups in the city who are concerned about city governance, e.g..

Elected Municipal Councillors

Senior municipal officials.

NGOs.

CBOs.

Private Business Establishments

Religious Worship Centres.

- Select a representative sample of respondents from these groups to administer this report card. Ensure that an equal number is selected from each group and administer the Report Card or the Extended Indicators Questionnaire.

The recommended indicators will:

- Measure performance of the political and administrative regimes of the city vis. a vis the situations (or conditions) they are in, the problems that stress them and the effectiveness of their responses in solving those problems.
- Depict the process and direction the governance systems are taking in a city.

### The Purpose

The purpose of these indicators is to encourage and assist the urban local government institutions and their civil society and corporate sector partners in understanding and appreciating:

- the need for good governance.
- the need for regular assessment of their performance to determine and address the strengths and weaknesses of the city's political & administrative mechanisms
- the ways of measurement of good urban governance
- The urgent need to use the methodology and indicators for self assessment.

### Expected Outcome

The expected major outcomes from the use of this set of indicator are.

- A novel urban partnership culture that respects the need and responsibility of each other to keep an adequate cooperative tab on the processes of city planning, administration and governance.

- A readily available and regularly updated, comprehensive database to measure the status and trends of the City's governance and its impact.
- A ready-reckoner of service disparities within the city that helps plan for intra-city disparity reduction. Once measured, the planners will know precisely the geographic areas where the city services must improve.
- Constantly improving city governance, which is responsive, responsible and accountable to the governed.

### **Criteria used for Indicators Selection**

In compiling these two sets of indicators of urban good governance, there were several primary considerations. They were selected after ascertaining that the data sought by each indicator:

- are readily available and easily collectable at the city level
- can really help assess governance and,
- can, where required, effectively help change governance
- are easy to understand and use by the assessors
- do not require the use of special surveys and studies

The selected indicators are those that can help guide urban policy directions, participatory governance and greater municipal responsiveness to needs and aspirations of the residents.

### **Intended users**

This set of indicators is aimed at stimulating urban local governments and their partners to undertake an annual exercise of participatory self-assessment to ascertain the direction their local urban governance is proceeding in: the impact of such governance in the short run; and the vibrancy of democratic participation in local governance. This will be a participatory joint exercise and therefore, the following partners will be the users of these indicators.

- national, sub-national and urban local governments.
- international development agencies.
- civil society organizations, and
- representative organizations of the city's corporate sector
- research institutions

## **Action Steps to Initiate Assessment/Analysis Process**

If you are one of those interested in the well being of your city its residents and its democratic institutions, the first thing you may wish to do is to encourage the city government and its partners to take a good look at the way the city is being managed. The action processes leading therefrom will be easy to understand and support. The major action steps to initiate the exercise are:

### **1. Introducing/popularizing the Self-Assessment Concept.**

- Meet the Mayor/CEO of the city.
- Share THE RECOMMENDED sets of indicators of good governance
- Ask how does his/her city fare vis a vis The indicators.
- Convince that s/he must know the impact of her/his leadership.
- Explain the political value of using the indicators

### **2. Orientation & Education:**

- Explain the indicators to senior councillors, managers. Planners and “NGOs.
- Educate the public on the assessment process and train the end- users of the indicators

### **3. Indicator modification:**

- Select from the list the indicators that are relevant to city conditions & needs. Modify them to suit the city’s specific needs. Add to the list additional areas, which are priorities for your city.

### **4. Set up a Task Force:**

- Identify a research institution or a non-governmental agency to organize and conduct the assessment. Ensure impartiality of the organization.
- Set up a Participator} Self-Assessment Task Force, preferably under the leadership of non-partisan, non-municipal, and academic persons.
- Formalize the Task Force within the municipal administrative system. Suggested composition is:
  - An academic from a university or any other higher education institution;
  - Counsellor nominee of the Mayor;
  - The Chief Executive Officer or Municipal Commissioner or Secretary;
  - Nominees each from the main CBO NGOs. corporate sector organizations in the city.

- A nominee from main religious institutions in the city;
- Several senior residents co-opted by the above members at its first meeting

## 5. Survey, Analyze and Publish the results

- Identify the list of correspondents to administer the questionnaire. Ensure that each stakeholder group is represented by an equal number of respondents.
- Take corrective action, if any. and publish the survey results

### Summary

Urban governance can and must be measured periodically only to keep a tab on it and enhance transparency and participation but also ensure that it is on desired rails. Nations are argued to develop suitable mechanism to employ appropriately designed measurement tools to assess urban governance. There are some attempts made both in USA and in Asia to develop indicators to measure the efficacy of governance. Some are brief and the others are detailed. There are many methodologies that can be used.

Nations can develop their indicators based on the nine major characteristics of good governance. Ideally, to ensure impartiality of assessment, the indicators must be developed, administered and data tabulated and analyzed by an independent Task Force comprising academics, administrators, NGOs, Private Sector representatives and peoples' elected representatives.

Governance assessment exercises must be conducted on a regular basis. It will increase voter confidence and will lead to citizen satisfaction and greater democratic practice in the country.

# **THE MUNICIPAL SYSTEM AT THE CROSS-ROADS**

**Asoka S. Gunawardena**

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## **1. THE MUNICIPAL SYSTEM IN SRI LANKA: THE LOCAL GOVERNMENT FRAMEWORK**

Definitions of what constitutes “Local government” vary from country to country, with different forms of Government and with variations in the patterns and relationships that exist in them, for the provision of services which are needed by the community. In Sri Lanka, it may be argued that, Local Government functions are being carried out by various government agencies, whether at the national or provincial levels. A review of municipal finance should then proceed from an understanding of the role and scope of the municipal system in the local government context of Sri Lanka.

### **1.1 Origins and Evolution of the Municipal System**

The Municipal System in Sri Lanka goes back to 1865 when Municipal Councils (MCs) were established for Colombo and Kandy, and later extended to Galle, for the purpose of “transferring to the residents authority on certain aspects of administration”. The Councils had elected and appointed Members in the ratio of 3:2, with an appointed Chairman, who was the Government Agent of the Province. Male residents over 21 years of age who held property to the value of Pounds 10 as owner or lessee were entitled to vote, while a property qualification of Pounds 50 entitled to become a candidate. Three of the Councilors were vested with judicial powers as magistrates to hold inquiries on specified matters. Councils were assigned powers to collect revenue, which up to that time were assigned to government. In 1931 with the conferring of limited self-government, all members were elected by the popular vote, and the mayor by a majority vote of the members. There were only three MCs at the time of Independence in 1948.

Since then, the Municipal System has come a long way, the law having been consolidated in the Municipal Councils Ordinance of 1947. It has since been amended forty times to provide for emerging urban management situations, and the number of MCs increased to 18 to reflect the urbanization trends.

## 1.2 The Local Government Context of the Municipal System

The LG context constitutes the external policy framework for the Municipal System. It passed through many vicissitudes in its evolution into its present institutional framework for the provision of local services. It was introduced as an extension to the colonial bureaucracy, and took form and shape as a sector of government activity, first directly under the central government and thereafter under the purview of Provincial Councils. The LGS is yet to emerge as a sphere of governance due largely to its inability to breakthrough the “steel frame” of the territorial administration that has survived from the Colonial times. It has resulted in a duality of governance arrangements, in the form of de-concentrated (central agencies working directly or through central government agents at the district and the divisional levels) and devolved (provincial and local councils) systems for the provision of local services. The MCs accordingly must function within this system of parallel provisioning of services, though in the case of Municipal services such provisioning is directly by individual central regulators and providers.

### The Status of Local Government

The modern Local Government System (LGS) was established during colonial times as an extension of the colonial bureaucracy, introduced to take care of matters of a local nature, that were considered to be beyond the province of the central government. Thus starting with MCs, the LGS was extended through Urban Councils (UCs) and to cover the entire country through Town Councils and Village Councils, the latter two being later replaced by Pradeshiya Sabhas (PSs). The three types of LAs, viz., MCs, UCs and PSs are established under separate laws, the Municipal Councils Ordinance of 1947, the Urban Councils Ordinance of 1940 and Pradeshiya Sabha Act of 1987. Accordingly the LGS is constituted as a single tier system but comprised of three types of Local Authorities (LAs) on an urban-local continuum. There are 18 MCs, 34 Ucs, and 257 PSs.

On paper therefore MCs are only one type of LAs, the most urbanized. There are no accepted criteria for the definition of rural and urban. On the basis of the current spatial demarcation of MCs (and UCs) vis a vis PSs, there is a fundamental difference in the relationships with the sub-national agents of the central government. Thus the Divisional administration has coordinating linkages with the corresponding PS, the two being originally demarcated to correspond to the same territorial jurisdiction. Accordingly for purposes of sub-national governance, the Division and the Pradeshiya are perceived as constituting complementary functional responsibilities. The MC in this sense stands out as an urban outlier with inherently different types of needs in respect of the comfort, convenience and welfare of the people.

In terms of the size, the Municipal System constitutes 0.51 per cent of the total land area and carries 10.1 per cent of the population. They employ about 51 per cent of the total staff employed by the LGS and account for approximately 45.65 per cent of total expenditure (2003). The Municipal System accounted for 52.53 in respect of recurrent expenditure and 33.18 per cent of capital expenditure of the LGS. As far as LGS revenue was concerned, the Municipal System accounted for 74.60 per cent of all revenue. The eighteen MCs thus account for almost half of LGS expenditure operations and three-fourths of revenue generation.

It is noteworthy that in terms of revenue and expenditure, the LGS is small. Total LGS revenue accounts for only 2.2 per cent of total government revenue, while accounting for 2.5 per cent of total government expenditure. Indeed the size of LGS operations must be seen in the context of the total provincial revenue, that is 2.9 per cent of total government revenue while accounting for 11.3 per cent of total government expenditure. The small size of the LGS reflects the growing area of Central provision of urban services.

## **2. THE SCOPE OF MUNICIPAL FINANCE: “PROMOTING THE COMFORT, CONVENIENCE AND THE WELFARE OF THE PEOPLE”**

Thus the core of the Municipal service provision function is the promotion of the comfort, convenience and the welfare of the people. Then the scope and extent of municipal finance is critical to the ability of MCs to address concerns of comfort, convenience and welfare of the people. As already noted the size of LG finance in total public expenditure is small. The finances of MCs are inadequate to meet the service provision needs, the sources of revenue lack buoyancy and are in most cases dependent on central transfers. Access to other sources of finance is limited.

### **2.1 Budget and Budgetary Expenditures**

The budget has traditionally constituted the financial instrument for appropriation and authorization of expenditures for the given year on identified Heads and Objectives. The MCs, as all other LAs, follow a Program Budget format consisting of seven programs. These constitute the major categories of services provided by the MCs.

#### **Service Provision Programs**

- **General Administration**

This program takes care of internal services including Administration, Finance, Revenue, Personnel, Training and Legal functions.

- **Health Services**

The program includes provision of Curative and Preventive Health, Maternity and Child Welfare, Health Education, Ayurvedha, Veterinary, Food, Environmental Health and Sanitation, Solid Waste Management, Cemeteries and Crematoria. Colombo MC provides sewerage services within a limited areas of its jurisdiction.

- **Thoroughfares, Lands and Buildings**

The program includes Town Planning, Roads, Lands, Parks and Buildings.

- **Water Supply**

All MCs do not engage in the provision of water. However where this program is operative it includes, water for Domestic and Industrial uses, public Stand Posts, maintenance of Reservoirs and Distribution lines.

- **Public Utility Services**

The program includes the provision of amenities such as Public Markets, Fairs, Public Bathing Places, Fire Fighting Services.

- **Welfare Services**

The program includes the provision of Libraries and Reading Rooms, Community Centres, Entertainment Facilities, Public Assistance.

- **Electricity**

No MC now provides electricity.

The six programs where MCs are operational cover a significant area of “comfort, Convenience and Welfare”. However it must be noted that not all MCs provide water, including the Colombo MC. Further, municipal health services are largely confined to outdoor services. This leaves solid waste management, roads, parks, utility and welfare services as the core of urban services provided by MCs.

### **Budget Out turns**

The MCs have recorded surpluses in their total budget ourturns.

**Table 1**

**Budget Out turn of Municipal Councils 2000 - 2003**

<b>Year</b>	<b>Receipts</b>	<b>Expenditures</b>	<b>Surplus</b>
2000	Rs. 4,010,360,315	Rs. 3,995,078,902	Rs. 45,281,413
2001	Rs. 4,455,237,659	Rs. 4,303,488,403	Rs. 151,749,256
2002	Rs. 6,569,084,605	Rs. 6,243,181,783	Rs. 325,902,823
2003	Rs. 6,044, 918, 024	Rs. 6,248,399,520	- Rs. 203,481,496

The current practice of MC budgeting (as is for local as well as central government) is for the preparation of separate recurrent and capital budgets. The recurrent and capital expenditure of MCs in 2000 -2003 is given in Table 2.

**Table 2**  
**Municipal Expenditures 2000 -2003**

Year	Recurrent	Capital	Total
2000	Rs. 3,087,447,382	Rs. 877, 631, 520	Rs. 3,995,078,902
2001	Rs. 3,405,502,026	Rs. 897,986,377	Rs. 4,303,488,403
2002	Rs. 4,108,387,007	Rs. 2,134,794,776	Rs. 6,243,181,783
2003	Rs. 4,921,026,362	Rs. 1,327,373,168	Rs. 6,248,399,520

The year 2002 has recorded a significant increase in capital expenditures of MCs while 2003 records a significant decrease from the level of the previous year. This is due to the increase in revenue during 2002 allowing higher levels of capital expenditure, and the public sector salary increases, increase reflected in higher expenditures on personal emoluments during 2003 accompanied decrease in revenue accompanied. Wide fluctuations in revenue and expenditures from 2002 to 2003 perhaps represent factors beyond the control of MCs.

It is important to note the wide differences in the size of operations of MCs. At one extreme is Colombo MC accounting for half (50.22 per cent) of all municipal expenditures, comprised of 47.45 per cent of capital expenditure and 51.35 per cent of recurrent expenditure of all MCs. In comparison with Colombo MC with a total budget outturn exceeding Rs 3.0 billion, there are about ten MCs with outturns around Rs. 100.0 million, individually accounting for approximately 3.0 per cent of the outturn of Colombo.

An important dimension of Municipal Finances is the expenditure share of the different programs. The shares of recurrent and capital expenditures vary between programs.

**Table 3**  
**Shares of Municipal Recurrent Expenditure by Programs -2003**

Program	Share of Expenditure
General Administration	17.63
Health Services	32.03
Thoroughfares, Lands and Buildings	27.86
Water Services	9.82
Utility and Other Services	3.39
Welfare Services	9.28

**Table 4**

**Share of Personal Emoluments in Total Recurrent Expenditure**

<b>Program</b>	<b>Share of Personal Emoluments</b>
General Administration	42.36
Health Services	48.75
Thoroughfares, Land and Buildings	61.64
Water Services	30.00
Utility and Other Services	37.53
Welfare Services	58.77
Total Program	48.77

The situation in respect of recurrent expenditure in 2003 is given in Table 3. The major areas of municipal recurrent expenditures, hence service provision, are Health and Roads. Health operations include collection and disposal of solid waste. Personal emoluments account for approximately 48 per cent of all recurrent expenditures. The share of personal emoluments in the service provision cost-structures range from 61 per cent in the case of Roads, through Welfare Services, Health and General Administration to Water Services with a share of 30 per cent of recurrent costs. The share of personal emoluments in recurrent expenditures of MCs is given in Table 4. The share of personal emoluments reflects the large numbers of labour grades employed for the direct provision of services with very little outsourcing of service deliveries.

The shares of the different program areas in respect of capital expenditure are given in Table 4. Roads constitute the major area of capital investment by MCs. The other important areas of capital expenditure are Utility and Welfare services reflecting expenditure on infrastructure for the provision of these services.

**Table 5**

**Shares of Municipal Capital Expenditure by Programs -2003**

<b>Program</b>	<b>Share of Expenditure</b>
General Administration	4.04
Health Services	14.20
Thoroughfares, Lands and Buildings	30.98
Water Services	14.45
Utility and Other Services	19.11
Welfare Services	17.23

**2.2 Accounts and Financial Management**

Municipal Councils Ordinance specifies legal requirements in regard to budgeting, but does not lay down operating procedures. A uniform accounting system designed around Program Budgeting was introduced in 1974 and was made mandatory only for Village Councils. It was notified to MCs by circular instructions issued by the Commissioner Local Government, but not made a requirement by law and hence applied with alterations without due authority. Accordingly there is no uniform accounting system in MCs though they broadly follow the program budget system.

Key provisions in the MC Ordinance relating to the budget are the following.

- After consultation with the several standing committees, the Mayor submits to the Council a budget containing an estimate of the available municipal income and details of proposed expenditure for the ensuing financial year.
- The budget is circulated among the Councillors and is made open to inspection at least seven days prior to its submission and notice thereof given in the Gazette and in two or more newspapers circulating within the MC.
- The MC considers the budget at a special meeting during the last month of the financial year.
- The Mayor may at any time prepare a supplementary budget and lay it before the Council following the same procedure.
- If the MC modifies or rejects all or any of the items or adds any item thereto and the Mayor does not agree, the budget is re-submitted for further consideration. The budget is deemed duly adopted if not passed by the Council within two weeks.

MCs are required to complete their Final Accounts and submit to Audit by March 31<sup>st</sup> the following year. The accounting system adopted by MCs follow the basic principles of commercial accounting, involving the maintenance of a General Ledger, extraction of a Trial Balance, and the preparation of a Revenue and Expenditure Account followed by a Balance Sheet. Accounts are prepared on double entry principles. Receipts and payments are accounted on a cash basis and converted to accrual basis at the end of the year. Provision is made for arrears of revenue and accrued expenditure.

All moneys received by the MCs are receipted and schedules are prepared daily and monthly. The receipts are also entered in the relevant registers. All payments are supported by vouchers and entered in a classified Cash Book. The General Ledger is entered monthly with the help of schedules and the classified Cash Book and journal entries are written for accruals. At the end of the year a trial balance is prepared. An Income and Expenditure Account and a Balance Sheet are prepared with the help of the balances shown in the Trial Balance. The surplus/deficit shown in the Income and Expenditure Account is transferred to an accumulated fund. Well-designed self balancing registers support the accounting system

### 2.3 Revenue Administration

The structure of revenue assigned to MCs has been referred to. Table 6 sets out the shares of these different sources in respect of 2003.

The major source of municipal revenue is property rates, accounting for over a third of all revenue collected. The next in order is Salary Reimbursement (central government transfer) and Stamp Duty and Court Fines (re-assigned by the PC). Fees for services are negligible.

**Table 6**  
**Shares of Municipal Revenue by Sources - 2003**

Source of Revenue	Share of Revenue
Rates and Taxes	37.48
Rents	5.39
License Duties (includes Trade Licenses)	1.92
Fees for Services	4.39
Warrant Costs	1.60
Other Income (includes Stamp Duty and Court Fines)	11.44
Salary Reimbursements	24.44
Capital Grants	13.65

The municipal budget estimates revenue and expenditure by program areas. Shares of municipal revenue by program area are shown in Table 7.

**Table 7**

**Shares of Municipal Revenue by Program Area - 2003**

<b>Program</b>	<b>Share of Revenue</b>
General Administration	79.08
Health Services	5.16
Thoroughfares, Land and Buildings	4.33
Water Services	5.18
Utility Services	4.77
Welfare Services	1.48

The General Administration program that is responsible for revenue administration is responsible for as much as 80 per cent of revenue collected. Revenue generation by the programs responsible for the provision of municipal services is accordingly negligible. This situation reflects the absence of cost recovery as far as the services provided. Water accounting for a mere 5.18 per cent reflects the insignificance of this service in the municipal system. However in Kandy MC where water supply is provided, water revenue constitutes about 37 per cent of all revenue.

It is significant to note that the variance between budgeted and actual revenue collection for all MCs was around 35 per cent. The performance of the different MCs is highly variable in this regard. The largest variance is recorded in the Colombo MC amounting to as much 40 as per cent of budgeted revenue.

## **2.4 Access to Outside Sources**

Municipal finance is essentially comprised of revenue and transfers. There is very little accessing of outside sources in funding service provision whether as capital or operational expenditures. The sole source of loan financing is the Local Loans and Development Fund (LLDF), originally established in 1916, “to provide facilities for granting loans for local purposes of public utility”. While the LLDF is mandate to obtain funds from any commercial bank or government sponsored lending institutions, the sole source of finance has been the government’s Consolidated Fund. Operations of the LLDF are small and have rarely exceeded Rs. 100 million. Thus in 2003 loans from the LLDF accounted for about 1.6 per cent of total receipts of MCs.

Approaches to strengthening municipal finance in general and urban finance in particular have tended to focus upon the provision of project-based lending rather than establish a system of financing municipal infrastructure and services on the basis of what services the municipal system is responsible for. These initiatives also have focussed upon improving financial performance of the MCs targeted rather than establish a financing system.

### **3. FINANCING MUNICIPAL SERVICES: THE GOVERNANCE FRAMEWORK FOR MUNICIPAL FINANCE**

The institutional framework for the provision of municipal services has its roots in the colonial bureaucracy. It has evolved over a hundred years when the law relating to MCs was consolidated in the Municipal Councils Ordinance in 1947. While the law has been amended forty times, the basic institutional structures and processes have remained unchanged. Indeed the necessity to amend the law forty times would point towards the need to relate it to the emerging development context and imperatives. As pointed out earlier the LGS in general and the Municipal System in particular is yet to evolve as a sphere of governance, hence raising serious questions about its relevance in urban development.

#### **3.1 Provider Role and Function of the Municipal System**

A fundamental imperative of a policy framework for municipal finance is the expenditure role and responsibility of MCs. The expenditure role and responsibility underpins the “provider” role and function in respect of the subjects that have been assigned to MCs to enable discharge their responsibilities in the “protection and promotion of the comfort, convenience and welfare of the people and the amenities of the municipalities”. In the provision of such services, the MCs must function within the framework of inter-governmental roles of the National, Provincial and Local (i.e. Municipal) levels. In the context of their proximity, the MCs would then have to take the lead role in the identification of the needs and preferences and the provision of services for the comfort, convenience and welfare of the people.

However, the Presidential Commission on Local Government (1999) described the extant system of LG as a “system ..... For the performance of a limited scope of functions at the local level”, rather than a “comprehensive and full-fledged level of governance”. Therefore, the MCs, apart from the greater Colombo municipal system comprising three MCs, have little voice and say, in the provision of public utilities within their jurisdictions. There is a general perception that local services are “public” goods and hence should be provided directly by MCs, as with the rest of the LGS. Resource constraints created problems in meeting the growing needs, especially electricity and water, leading to these service functions being taken over by centrally created local bodies.

The MC Ordinance permits partnering with other local bodies, but does not explicitly provide for partnerships with the private sector in the performance of its powers and functions. However it is open to the PCs to confer additional powers on LAs. This has not happened yet, even in the Western Province where urban services are key to further development, perhaps due to political concerns. Statutory mechanisms to engage with the private sector are yet to be established. Nor do the major central providers have mechanisms for partnerships with MCs or with the private sector, except for telecommunication.

There are few incentives to attract private investment for the provision of local services, in fact the financing of MC salaries by the central government, even in part, acts as a disincentive to even outsource. As far as MCs are concerned the salary reimbursement accounts for approximately 63 per cent of total personal emoluments. The system of financial transfers therefore does not make outsourcing a financially viable option in the short-term as the MC would have to raise revenue in order to outsource and carry redundant cadres. Outsourcing of solid waste management is very recent and a partial operation. Hence, MCs have been reduced to providing "public amenities" and left out of the income earning service areas. The welfare orientation of both the policy makers and citizens leave little space for cost recovery on public amenities.

The inter-governmental provider situation is a complex if not a confused one. The Constitutional Amendment establishing PCs introduced three lists of functions seeking to demarcate the spheres of the National and Provincial levels, in terms of a Provincial List, a Reserved List and a Concurrent List. It is within this framework of assignment of functional responsibilities between the National and Provincial levels that MCs (i.e. the LGS) must engage in service provision activities. There is much ambiguity in the demarcation of the areas of the National and Provincial governance domains. The PCs are minor players in the provision of urban services and does not constitute a priority area of activity or financing as far as they are concerned. The marginal role and interest of the PC in urban services further marginalizes the MCs in the provision of urban infrastructure and services.

The provision scenario of urban services thus constitutes an amalgam of programs, projects and activities of the central government parastatals and MCs (and other LAs). It makes for lack of clarity as to the role and responsibility of MCs in terms of which services and what results they are responsible and accountable.

### **3.2 Financing Municipal Functions**

As seen earlier, the LAs are financially weak. Though the MCs account for as much as seventy five per cent of LG revenue, their dependence upon central transfers for expenditure on personal emoluments is as much as 63 per cent, which accounts for

30 per cent of all recurrent expenditure. Therefore the present structure of MC finances fail to match expectations being hampered by several constraints.

On the revenue side:

- The lack of buoyancy of the sources of revenue assigned to MCs. Property rates are in-elastic and MCs have experienced problems of undertaking regular assessments of properties.
- The outdated levies and charges in respect of rates (where property assessments are not regular), rents, license fees, business taxes etc. imposing restrictions on the upper limits of revenue generation.
- Innovative resource exploitation is not possible due to tight central controls.
- Lack access to money or capital markets.

On the expenditure side:

- Steeply rising costs in infrastructure and service provision.
- Unwillingness on the part of PCs to allow MCs increase revenue rates and recoup costs by revising tariffs.
- Political priority for capital expenditure at the expense of maintenance expenditure resulting in poor maintenance, heavy operational costs and breakdown in services.

Thus MCs are caught in a vicious cycle of a weakening resource base, inability to meet service requirements of growing urbanization, the entry of central parastatals as providers of municipal services. Own source revenue supplemented by very limited borrowings (by the smaller MCs) and donor grant/loan funds constitute the sources of financing municipal services. Central government financing (including project finance) has usually taken care of initial investments in capital intensive public utilities and service infrastructure, while own revenue has usually taken care of small-scale infrastructure and amenities. Apart from statutory restrictions, private equity financing has yet not been a serious financing option also because of the sole-provider approach of most MCs, especially the smaller ones, and the resultant failure to establish the necessary institutional framework for entry of private equity financing.

In this context the crucial issue of municipal finance is as to how municipal services can be efficiently financed. There are at least three aspects to this issue.

- Inter-governmental transfers available to MCs are limited to what PCs are prepared to pass on to them. The present scheme of inter-governmental transfers does not provide for financing of programs and outcomes.

- There is no coherent approach to demand oriented cost recovery for services provided or cost recovery-based provision of new services.
- Then there is the issue of services for the urban poor and under-served communities if MCs are to move on to cost recovery. There are no clear arrangements and instruments in this regard and are generally addressed through donor funded projects.
- These issues are compounded by the lack of a clear perspective on alternate modes (in terms of tax, non-tax, grant, private equity or debt) for financing municipal services.

### 3.3 Allocation of Municipal Resources

The fundamental issue about the allocation of municipal resources is about people getting what services they want in the right place and time they want, in other words making municipal services work for the people, especially the poor and the under-served. The budget is critical in linking people with services. If resources are misallocated, services do not get adequately funded. If funds are misappropriated, quantity, quality and access to services will suffer. Municipal financial management is therefore about expenditure management. Public expenditure management is weak in MCs, as is elsewhere in the public sector, whether local, provincial or national. Accordingly matching needs with resources is further constrained, within the resource constraint context in which services should be provided.

The MC budget (as elsewhere in the public sector) though organized on a program basis, is prepared on a line-item basis. It basically lists how much the MC will spend on every item used as per specified cost categories. The primary orientation of this method of budgeting is that of revenue sourcing, expenditure control and accountability. Of course the advantage of the system is their ease of preparation and readily indicates how much money is allocated to specific cost categories.

However the line item budget does not provide any information regarding activities and functions of the program. While this type of budgeting helps the Council and staff understand how much is being spent on salaries, supplies and maintenance and the like, it does not reveal how much is being spent on the actual delivery of services. In order to determine cost of service provision, expenditures must be re-arranged into activities within the programs and projects. This is rarely done, if at all. In this sense the MC budget does not add up to a plan for the allocation of resources and control of expenditures to meet service provision levels and targets.

As important in the allocation of resources is the process of determining service needs to be provided for in the budget. The Presidential Commission (1999) noted

that “the budgets prepared by many Local Authorities appear to be a mere written statement without proper financial management, and do not appear to have been prepared to reflect public opinion or to meet public expectations to the maximum”. The preparation of the municipal budget is required by law to go through a consultation process through the MC committee structure. The Committees are not open to public participation, accordingly their proceedings are unlikely to be demand driven. While some MCs have been experimenting with participatory approaches to decision-making, involving the participation by public and private citizens, reliance upon bottom-up and demand-led responses and focus on process in solving problems and getting things done, these are yet to be up-scaled into budgeting and expenditure management procedures and processes.

These inadequacies in the structure and process of MC budgets have serious implications in regard to accountability for services provided. What is at issue is more than an audit of MC accounts. It is about accountability of MCs to their respective citizens/rate payers in the protection and promotion of their comfort, convenience and welfare.

### **3.4 Municipal Reporting**

As already noted the MC Ordinance provides for three reporting situations.

- a. The Annual Administration Report by the Mayor (as the Chief Executive Officer) in respect of the administration of the previous year showing the nature and amount of receipts and disbursements on account of the Municipal Fund, submitted to the Council and to the Minister within six weeks thereof.
- b. The Auditor’s Reports, both monthly and annual, to the Council with a duplicate of the Annual Report being sent to Minister.
- c. The Annual Report by the Commissioner Local Government containing a general survey of the affairs of the Council transmitted to the Mayor, who shall cause it to be tabled for the information of the Councilors.

The last item of reporting is more observed in default than compliance.

In addition there is internal and external financial reporting. These are,

- a. Internal financial reporting consist of a monthly financial report for both income and expenditure using the same format and accounting codes as are used in the budget. The relevant Committee considers the reports before submission to the Council.

- b. External financial reports of the Council are the statement of financial position (Balance Sheet) and the statement of net income (Income Statement).

A fundamental inadequacy of the reporting system is that they hardly provide for disclosure to the public. As already noted the Committees are not open to the public. Generally all business conducted at the Committee level is considered confidential until the Council adopts the recommendations. Transparency constitutes an essential attribute of good municipal governance and hence greater opportunities for access to information by the public should make for greater accountability.

A further issue regarding municipal information and reporting is the extent to which readily usable information is available. In fact limited use is made of computerization in MC financial management. Major applications of computerization are in the areas of property rates, payroll, water-billing and receipting. This is inadequate for efficient reporting of financial operations.

#### **4. PERFORMANCE OF MUNICIPAL FINANCE: ENSURING DEVELOPMENT OUTCOMES**

The governance issues of municipal service provision have far reaching implications for the performance of municipal finance. Adequate service provision cannot take place in the absence of a coherent approach to municipal finance. The concern of municipal finance should not only be about adequacy, but also arrangements and instruments to achieve adequate levels of finance. Schemes of financing can affect incentives that would ensure efficiency and effectiveness in meeting citizen needs and preferences, sustainability of services as well as other service provision goals, especially equity and poverty alleviation. The successive efforts to build capacity for improving service provision have worked within the LA rather than the “system” and hence have had little impact on the performance of individual LAs/MCs. There have been no significant innovations in terms of systems and procedures despite the several donor initiatives to introduce “modern” methods of municipal management.

##### **4.1 Performance Planning**

Thus the governance framework for municipal finance provides little focus on performance. Despite the reporting requirements, there is very little incentive for MCs to become performance oriented. While there is no question of bailout in event of financial crisis, most MCs opt for the soft option of “managing within the income” with the inevitable result of having to compromise on the quantity and

quality of services provided. Therefore, indeed, there is no question of crisis as far as a LA is concerned, whether MC, UC or PS. Accordingly there is very little incentive for LAs to become performance oriented.

The fundamental lacuna is in the practice of preparing a budget for the “ensuing financial year”. There are very few exceptions to the rule, where MCs have opted for medium-term Corporate Plans to guide their resource allocation process. Thus there is no coherent articulation of the service provision goals and targets for “the protection and promotion of the comfort, convenience and welfare of the people”. The traditional line item budget practiced by MCs is inadequate as a planning instrument for several reasons, some of which have been noted earlier. In addition:

- The separation of current and capital budgets dichotomizes maintenance from improvement of the quantity and quality of services. Indeed in the process management loses focus on both.
- The incremental or historical approach to budgeting becoming the standard practice due to avoidance of risks that result from the inability to accurately estimate and generate required resource availability.
- The lack of predictability of resources likely to become available perhaps with the exception of the grant for the reimbursement of allowances and salaries of Members and Staff.

These render the MC budget an ineffective tool for performance planning by MCs.

There has been no systematic approach to improving performance of the municipal system or the LGS. It would seem that the issue of the performance of LGS in general and of MCs in particular has been one that has been more of donor concern than government. The MCs along with UCs and the more urbanized PS have been the focus of successive donor support to improve. Specific areas of focus have been budgeting and cash management, assets and inventory management and timely preparation of final accounts. While most of the interventions stipulated the preparation of a Management Action Plan by the participating LA, the approach has been a financial management one. The fundamental flaw in the approach has been the project mode, which worked with the individual LA and not the LGS system. As a result there has been little if any sustainability of performance improvement efforts.

## **4.2 Service Standards and Targets**

Thus the budgets of MCs do not provide information regarding the quantity and quality of services being provided. While on the one hand it reflects the absence of a performance framework for municipal service provision and resource allocation,

it is also due to the limited use if not the absence of performance indicators in the budgeting and reporting processes. It has been said that LAs are not much concerned about the quality of services they provide to their citizens, and much less about the efficiency and effectiveness of their services delivery process. As already noted, budget decisions on services are incremental and are based upon budgetary allocations received the previous year to which is added any new workload and/or cost escalations.

The Presidential Commission (1999) recommended the adoption of “Ratepayer’s Charter”, following on the “Citizen’s Charter” adopted in the UK. The Ratepayer’s Charter was envisaged as being:

- A vision statement for compliance by Councilors, employees and ratepayers.
- A statement of the types of services to be provided, standards for performance, rights of citizens to demand the observance of standards and administrative arrangements for the purpose.

However the adoption of service standards and targets is yet to become a reality.

Problems in this regard are many.

- Perhaps the most critical is the absence of service provision policies for MCs.
- The incremental line item budget that does not require service standards and targets for its formulation.
- The absence of performance indicators and unit-cost information in respect of MC operations.
- The absence of historical data sets in respect of the services deliveries of MCs.
- The limited use of IT for monitoring and review purposes.

### **4.3 Central Regulation**

There are several areas of statutory provisions and administrative decisions that exercise powers over MC actions. These may be powers of approval or powers of control. It is the latter that is usually referred to as “central control”. The MC Ordinance provides specifically for situations that permit the Minister to exercise central control. These include the following on the part of the Mayor, the Council or any of the Councilors.

- a. Incompetence or mismanagement.
- b. Persistent default in the performance of the duties imposed by the Ordinance or any other law.
- c. Persistent refusal or neglect to comply with any provisions of the law.
- d. Abuse of the powers conferred by the ordinance or any other written law.
- e. Persistent refusal to hold or attend any meetings or to vote or transact business at any meetings to be held.

While Central Control refers to the exercise of powers to deal with situations of failure to perform in accordance with the law, Central regulation is about specific administrative controls to bring the functioning of MCs within the framework of government policy. The key areas of regulation with implications for municipal finance are the following.

- a. Powers and responsibilities of the Auditor General, who is vested with authority for the audit of accounts of all LAs in terms of Article 154 (1) of the Constitution. The Auditor General is responsible for oversight of financial discipline, expose irregularities, and to impose surcharges on persons responsible for such irregularities.
- b. Powers and responsibilities of the Finance Commission, in respect of determining the amount, nature and scope of central government financial support to LAs.
- c. Powers and responsibilities of the Governor and the Public Service Commission of the Province relating to staffing of LAs, including appointments and transfers.
- d. Powers and responsibilities of the Provincial Commissioner for Local Government (PCLG), successor the Commissioner of Local Government at the Centre, as the principle supervisory officer on local government. In this regard the PCLG is responsible for ensuring compliance with the law, regulations and administrative instructions.

The foregoing statutory provisions provide for a broad oversight framework that extends to financial performance of LAs. However their overall impact on the performance of municipal finance is a mixed one. In the context of the inherently political nature of local government, central control and regulation does make for and ensure standards of financial performance. However ensuring sound financial

performance in each MC (or LA) requires subsidiarity in the organization of the central oversight and supervision regime. The oversight and supervision regime should start at the MC (or the LA) and be focussed on performance imperatives arising from the service provision responsibilities assigned in the inter-governmental context. In this regard central control and regulation has failed to posit itself within a coherent policy framework for role and function of municipal governance. As correctly pointed out by the Presidential Commission (1999), central control and regulation should not be for the purpose of restricting the powers of LAs. It should be for purposes of ensuring the proper exercise of the authority vested in them by providing the external policy environment in which the comfort, convenience and welfare of the people is taken care of efficiently and effectively.

#### 4.4 Information and Inspection

Effectiveness of central control and regulation as an oversight arrangement towards ensuring sound performance of municipal finance is contingent upon the availability of information and regular inspection. The MC Ordinance provides for reporting by the Mayor as well as the Commissioner Local Government on the financial status of the MC. The latter reporting pre-supposes the availability of information and regular inspection and scrutiny of the service provision operations in general and financial performance in particular. The auditing of the accounts of the Municipal Fund by the Auditor General provides for an independent assessment of financial status of a MC. However such inspection and reporting must work in tandem with and within the performance framework of MC service provision operations.

The traditional audit is focused on compliance with the financial procedures, especially to expose irregularities, specifically, “to call the attention of the Council to any material defect, impropriety or irregularity in the expenditure of moneys by, or in the recovery of moneys due to, the Council or in Municipal accounts”. Audits are yet to move on to assessment of service provision performance in terms of value for money.

Complementing the audit is the inspection of MCs by the staff of the PCLG. The PCLG, following on the powers of the predecessor CLG, is required to maintain continuous supervision of the LAs through a staff of Investigation Officers and Community Development Officers. The PCLG's office conducts quarterly “investigations” of the affairs of LAs, that covers 134 items concerning Council Affairs, Staffing, Revenue, Expenditure, and Programs. Investigation Officer must fill a form recording information and submit the same to the PCLG. Thus, while the investigations generate much information, they remain largely unused being confined to files and not incorporated into a database. The investigation is indeed more useful as on the spot problem solving than a service inspection.

The absence of a performance framework makes audits and investigations fault finding exercises rather than performance improving initiatives. The statutory requirements and financial procedures constitute the base line for audits and investigations.

## **5. THE MUNICIPAL SYSTEM AT THE CROSS-ROADS: FINANCING IMPERATIVES OF PROVIDING FOR THE COMFORT, CONVENIENCE AND WELFARE OF THE PEOPLE**

Financing the comfort, convenience and welfare of the people has evolved to become a complex challenge of managing economic and social changes taking place internally as well as externally in the national and global economy. It has indeed come a long way from the post-colonial context in which the MC Ordinance was consolidated. Municipal finance cannot any longer be envisaged in terms of proper accounting of receipts and payments. It has and must play a key role in ensuring development outcomes in urbanization. Municipal finance must not only be concerned with adequacy but also address goals of equity and poverty reduction while raising capital and recovering costs. It is only then that municipal finance can lead to sustainable municipal systems that can provide for the comfort, convenience and welfare of the people.

### **5.1 Designing a Viable Municipal Finance Framework**

Several internal inefficiencies have become endemic in the management of the role and function of MCs. The absence of a strategic vision or a corporate perspective is perpetuated by the legal requirement for the preparation of a budget for the ensuing twelve months. Further, MCs are financially weak due to poor resource mobilization complemented by an inefficient system of financial transfers, restrictions on fiscal powers and poor financial management. Fiscal powers have remained static over two decades while costs of providing services have risen many times leaving a set of inevitable choices in terms of cutting back on service provision, maintenance and new investment. The institutional framework comprising the policy regime, administrative arrangements and procedures is not supportive of a vibrant financing operation. It is in this context that MCs must address financing of municipal services. There are several imperatives that the re-designing of municipal finance must take into account.

The structure of municipal finance based upon own revenue, central government transfers and insignificant borrowings from LLDF is no longer adequate to finance a rapidly growing and an increasingly diversified urbanization demands whether in metropolitan Colombo or backwoods of the Sri Lankan periphery. On the one hand, municipal financing of urbanization must move on to an integrated and inclusive approach to service provision. The MC cannot and need not be the sole provider of

municipal services. Municipal service provision should then move on to combining the Centre and Local dimension with Public and Private partnership arrangements.

On the other hand MCs must move on to more diversified financing structure where other sources of financing play an increasingly vital role. The LLDF is inadequate for financing MCs, both in terms of its insignificant size of operations as well as in terms of the types of financing opportunities it provides. It is yet to move on to exercising its powers for the issue of bonds etc. as well as lending for MC outsourcing to the private sector. Indeed, public-private partnerships would seem to constitute the viable and realistic option for improving performance and expanding service provision in the context of the current status of financial management in MCs. While a few MCs are experimenting outsourcing in solid waste management entry into public-private partnerships require enabling statutory provision. It would also be necessary to establish clear regulatory arrangements, proper tariff regimes and targeted subsidies to the poor. These constitute risks for the entry and sustainability of private sector investment in the provision of municipal services.

Innovation in managing resources constitutes a further set of imperatives for a viable municipal finance framework. The system of managing finance must move from control of inputs to managing outcomes. The current systems of budgeting must change. There are several improvements to the current budget formulation procedures and practices that should take place in order to bring about an outcome-based service provision orientation. These include:

- The development of a performance planning framework of service provision goals, standards and targets to formulate a medium-term expenditure framework to guide the annual budget process.
- The budget to incorporate program and performance details within the budget document. This involves detailing the service levels on which the budget is predicated.
- A framework of efficiency and effectiveness indicators to enable measure performance in the provision of services and achieving outcomes.
- A management information system that enables setting and achieving budget and performance targets.
- Improved control methods that allow reasonable discretion and flexibility to MC departments in managing programs while ensuring the proper use of funds.

As one moves on to more diversified sources of financing as well as channels for delivering services, transparency in financial operations of a MC constitutes a key governance imperative.

## 5.2 Ensuring Relevance to Urban Development

The above financing framework must function within the framework of a coherent approach to the provision of urban services. It is expected that approximately half of the Sri Lankan population will live in “urban” areas by the year 2010, up from about 30 per cent at present. The growth in urban population reflects the dynamics of urban agglomerations as centres of growth, development and therefore opportunity. This will involve on the one hand the provision of enhanced economic and utility services to support the location and growth of competitive business as well as make such growth environmentally and socially sustainable in making cities livable, on the other.

In the context of the significance of urban agglomerations for economic growth, there is no doubt that the State would have to continue to take the initiative in urban development integrated in an overall national development policy strategy. However issues of the provision of urban services would be different in the different MCs and hence service provision in public utilities, health and sanitation, roads, environment, housing and social welfare would need to be approached accordingly. The needs and preferences of service provision are not homogenous and municipal provision is precisely about taking such differences into account in becoming efficient and equitable. Resulting agendas would involve different urban finance arrangements and instruments.

It is within this urban service policy context that the role and responsibility of MCs should be defined. Local authorities do not have an exclusive or absolute domain. In practice they have been responsible for the operation and maintenance of urban infrastructure and services that have been assigned to them. The redefinition of the role of MCs in the provision of urban services should proceed from two policy concerns of managing urban development. The first is about the urban development outcomes for which MCs should be made responsible. The second concerns the ensuing relationship between central agencies and MCs in performing their provider responsibilities for the delivery of urban development outcomes they have been assigned. It is important that MCs have a responsibility by their ratepayers to ensure that urban services are “provided”, as distinct from their production and delivery that could take different institutional forms, without excluding them from engaging in the delivery of services as well.

Then the roles and responsibilities of the centre, province and local in urban development should be made explicit. It is the necessary basis for the efficient allocation of resources for the provision of urban services. The guiding principle is clear in that finance should follow function, for resources should be commensurate with the functions they fund. An appropriate mix of taxes, user charges and transfers is necessary to ensure relevance of municipal finance to urban development.

### 5.3 Relating to the Urban Poor

A significant gap in current financing of urban services is the targeting of poor. Goals of equity and poverty reduction are fundamental concerns of the provision of “public” services. Therefore the need to provide municipal services to the under-served urban communities should constitute a fundamental imperative of MC provision responsibilities.

During the last two decades there have been several program-driven initiatives to address the needs of under-served settlements in MCs, especially the Colombo metropolitan area. The Colombo MC has established a decentralized institutional structures to ensure community participation in program design and implementation. However it has been found that the qualitative improvement in urban poor settlements have not been substantial. Urban sector studies have identified, inter alia, lack of access to city network of service infrastructure by the urban poor. However partnership with community-based organizations for the provision of urban services is yet a pilot exercise and remains to be mainstreamed.

There are fundamental problems that prevent MCs from moving on to partnership with community-based organizations for the provision of municipal services. The establishment of partnerships involves resource sharing, since the relationship is not one of outsourcing delivery but is more about making decisions about the delivery of services. It is then about the design and formulation of arrangements for the delivery of services that involve decisions about the allocation of resources and financing community initiative. Public sector delivery systems in Sri Lanka are yet to address these issues in a pro-poor manner.

Therefore providing for the under-served communities at present is concerned with targeting service to the poor. Though there is ample evidence to suggest that under-served are willing to pay, the providers of excludable urban services, especially water, follow across the board principle of “ability to pay”. However it is inefficient both from the point of view of demand management as well as resource allocation. There is also the question of targeting the poor under public-private partnerships. The need to provide public goods and services to under-served may require arrangements for revenue-sharing among operators in different markets, or taxation of the private providers in the more affluent areas, with such conditions being established as a condition of service contracts.

### 5.4 Managing Sustainability

The development and management of urban services calls for a partnership of collective action between public (MC), private and community organizations and

the users. Their collective actions are needed to ameliorate poor performance and improve financial viability of municipal service provision. Hitherto the MC has been the major if not the sole player in the provision of municipal services. It is generally believed that any withdrawal of the public (i.e. municipal) sector from the production and delivery of services would leave the urban poor worse off due to their low ability to pay. It is then necessary to ensure that delivery arrangements whether through market or government allocation are equitable and meet the needs of all users. While the transfer of resources to the poor is a legitimate and desirable instrument of public policy, it is important to ensure that such transfers do empower by providing them with choices.

Principles of public finance would require that users pay for the cost of such services. Willingness to pay all or part of the costs is a critical factor for financial sustainability of urban service provision. Studies show that the poor are willing to pay for better services. Then the provision of municipal services should be made responsive to user needs and expectations. User participation is particularly important in service provision situations where users have hardly any alternative sources available (low potential for exit) and do not possess the means for expressing their preferences to the suppliers (exercising voice)

Sustainability of municipal services is not only a question of resources, but also one of the institutional arrangements that are in place for the provision and utilization of such resources, including the accountabilities in regard to their application and utilization. The institutional imperatives of improving MC resource use and application have been reviewed in the context of budgeting and resource allocation procedures and processes. Capacity building of MCs for improved use and application of resources has been largely project driven and hence segmented along time-bound foreign funded projects that have different objectives. Such interventions do more damage than build sustainable capacity. An approach to capacity building that combines improving systems and procedures with access to resources for improving delivery of municipal services is required for sustaining increasingly higher levels of performance.

# THE ROLE OF LOCAL GOVERNMENT IN CITIZEN PARTICIPATION

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## **Introduction**

“Local Government” generally brings to mind a system in which the administration of public affairs in each locality which are considered local in character is undertaken by a body of persons representative of the local community. Such Local Authorities are statutorily established bodies, receiving their legal powers from the national or regional government. They have corporate status and are empowered to perform their functions within their legally recognized boundaries. While they are obliged to function within the provisions of the Acts governing them, and are subject to central (or in some cases, sub national) control, they nevertheless possess a considerable amount of responsibility and discretionary power.

However, the degree of such discretionary authority, the nature and extent of the functions they perform will vary from one country to another. The model of local government adopted by each country will depend on a number of factors such as historical tradition of the country, the political consciousness of its people, and above all, the attitudes of the political (and administrative) elite to the concept of local self government. Thus at one end of the spectrum are local councils which are designed as institutions of local self government, which, subject to national objectives, provide a variety of services to the local community, including police, education, social services, transport, housing, environmental management, agricultural and industrial development, etc. Britain and the Scandinavian countries fall into this category. At the other end are local councils that are assigned a subordinate role and are entrusted with an extremely limited range of activity which they carry out subject to rigid central (or regional) control. In between, there can be varying arrangements adopted by different countries.

Whatever the nature of the system that is adopted, the basic values of local government are almost universally accepted.

## **Values and Objectives of Local Government**

The traditional case for political decentralization or devolution of power rests on popular participation in government on the proposition that democracy has little

meaning unless it is widely diffused. It is this same idea that finds expression when Friedrich von Hayek asserts that “Nowhere has democracy functioned well without a large measure of local self-governance” 1.

Local government by its very nature is associated with democratic governance and the participation of local communities in the processes of government. National development and sustainability of development require an understanding of the needs, potentialities and priorities of each area. This requires close contact and interaction between government and people, which could best be achieved through locally elected, accountable bodies in different areas. While national policies must apply throughout the country, local authorities, as partners in planning and implementation, are able to throw up the felt needs of their communities against the backdrop of their physical environment, and the social and economic problems facing them.

Additionally, from a practical standpoint, local authorities can attend to the mundane functions of ordinary living, by providing those services which, in accordance with the principle of subsidiarity, can best be provided at the local level, which is closest to the people and thus accountable to them. Other attributes of an effective system of local government include political socialization of the citizen body, and act as a training ground for regional/central politicians of the future.

### **Participation**

What is of utmost significance is that local government is the institutionalised mechanism through which the citizenry at the local level can be incorporated into the decision making process within the polity, thus ensuring democratic governance.

For such participation to be a reality, however, it is necessary to focus on certain pre-requisites, some of which are the following:

- Recognition and acceptance of the institutions of local governance as a tier of government that can play an important role within the polity
- An effective electoral system which enables close contact between the local councillors and people
- Mechanisms for participation from the grass roots, through which the needs of the locality reach the decision makers within the local authority itself

The objective of this paper is to examine these issues mainly within the context of Sri Lanka's institutions of local governance.

### **Background to Sri Lanka's Institutions of Local Governance**

A system of *Gamsabhas* or village councils seems to have existed in Sri Lanka before the advent of the colonial powers in the 16<sup>th</sup> Century. These councils, however, lost their image and significance under colonialism, especially British colonialism which extended from 1796 to 1948. The following characteristics which developed during this period had a marked impact on Sri Lanka's local government and administration:

- Centralized administration, consisting of:
  - the *Kachcheri System*, under which a strong, hierarchically organized administrative structure headed by Government Agents appointed by the Centre functioned in each province;
  - Line agencies of government departments which came into existence parallel to the Government Agent's *Kachcheri*
- Elected local authorities of four types – Municipal Councils, Urban Councils, Town Councils and Village Councils - introduced in the 1930s and 1940s. However, limited by inadequate powers and finances, these institutions were marginalized, while the agencies for governmental activity were the GA's *Kachcheri* and field units of government departments.

### **Post Independence Developments**

In the years following Independence in 1948, thinking revolved round the need for greater coordination among local authorities, doing away with the colonial administrative structure, and decentralization of the administration.

Thus the recommendation of the Choksy Commission of 1955 was the establishment of a system of Regional Committees which could take over most functions of government departments, and act as the coordinating upper tier of local government.

The Draft Regional Councils Bill (1957), introduced by the government of S.W.R.D. Bandaranaike which came into power in 1956, went beyond the Choksy recommendations, and provided for regional councils with powers pertaining to public utility services, agriculture and food production activities, land and land

development, colonization, etc. The next attempt at decentralization was in 1968, in accordance with the provisions of the White Paper on District Councils. Mounting communal tensions in the country led to the abrogation of these attempts at decentralization, which could have strengthened local government.

The reforms that were implemented eventually consisted of a system of Development Councils / District Ministers at district level, under the terms of the Development Councils Act No. 35 of 1980. These councils were supplemented by Pradeshiya Mandala and Gramodaya Mandalas in 1981, by an amendment to the Act. Fifteen subjects – including agriculture and agrarian services, rural development, education, fisheries, health services, housing, cooperative development, etc. – were decentralized to these councils. With these reforms, while Municipal and Urban Councils continued to function, Town councils and Village councils were abolished.

Although much was hoped for from the system of DCs/ PMs/ GMs, unfortunately, most of these objectives were not fulfilled. It proved equally ineffective as a mechanism through which minority aspirations could find expression, and through which area-based development could be effected. The system was abolished in 1987, under the Development Councils (Repeal) Act No. 14 of 1989, with the introduction of a system of Provincial Councils to which powers have been constitutionally devolved.

Despite the abolition of Development Councils (and Pradeshiya Mandalas), the Gramodaya Mandalas at the grass roots, consisting of chairmen of voluntary community based organizations in the area, have, however, been retained under Articles 17A and 71 of the Development Councils (Repeal) Act of 1989.

### **Provincial Councils (1987)**

It was the intensification of ethnic strife in the 1980s that provided the main impetus for politico-administrative reorganization, especially at the periphery. Tamil separatist demands, arising in large degree from a sense of being marginalized within the centralized state system, made it imperative to devise some form of devolution of power.

Thus after extended discussions between the government and the Tamil parties/groups, with India's mediation, the 13<sup>th</sup> Amendment to the Constitution and the Provincial Councils Act No. 42 of 1987 made provision for devolution of power to a system of Provincial Councils (PCs).

In the same year (1987), the Pradeshiya Sabhas Act No. 15 of 1987 was also passed, making provision for the establishment of elected Pradesiya Sabhas, in each AGA Division.

## **Present System of Local Government**

Local Government in Sri Lanka presently consists of the following:

- Municipal Councils for large towns
- Urban Councils for smaller towns
- Pradeshiya Sabhas for rural areas.

## **Tier of Governance**

It is significant to note that local government institutions i.e. Municipal Councils, Urban Councils and Pradeshiya Sabhas, have been given constitutional recognition for the first time under the 13<sup>th</sup> Amendment to the constitution. Local government is a subject that is devolved on Provincial Councils. The powers of these local councils are moreover enshrined within the constitution and PCs may only increase those powers. It is thus specified that

“Local authorities will have the powers vested in them under existing law, Municipal Councils Ordinance and the Urban Councils Ordinance. Pradeshiya Sabhas will have the powers vested in them under existing law. It will be open to a Provincial council to confer additional powers on local authorities but not to take away their powers.” 2.

While the “traditional” functions of local government, (as recognized in Sri Lanka), are those relating to public health, roads and thoroughfares and public utility services, Pradeshiya Sabhas, have received, additionally, certain development functions. Thus, under the Pradeshiya Sabhas Act, (1987), they are authorized to undertake community development projects, promote rural women’s development activities, organize employment programmes, construction, improvement and maintenance of village works, engage in integrated development schemes of selected villages, etc. Moreover, as already indicated, provision has been made for PCs to confer additional functions on all institutions of local government. For the effective performance of these functions, a further strengthening of these institutions – financially, and in other ways – would have been necessary.

What was envisaged, presumably, was a system of intergovernmental relations between the national, provincial and local levels, with the recognition of local authorities as the third tier of governance.

Regrettably, however, these objectives have not been fully realized, since the Transfer of Powers (Divisional Secretaries) Act No. 58 of 1992, placed the emphasis once

again on administrative agencies rather than on the institutions of local governance. In accordance with the provisions of this Act, the Divisional Secretariat, rather than the elected Pradeshia Sabha, has become the focal point of the administrative structure in each area. It is through the Divisional Secretariat that central government activities are carried out, with provision being made for provincial councils too to function through this institution.

What seems to be lacking is political will (at national and provincial levels) as well as administrative commitment, so that the institutions of local government receive due recognition within the political system.

In this connection it should be pointed out that in India, under the 73<sup>rd</sup> and 74<sup>th</sup> Amendments to the Constitution (1992), *Panchayati Raj* institutions (which are the institutions of local government at three levels within the district) have received re-enforcement and constitutional recognition, and are incorporated into the planning process. Thus George Mathew comments that

“With the 73<sup>rd</sup> and 74<sup>th</sup> Amendments, de facto a third tier of governance, with a wide democratic base has come into existence in the country. Till then in the Parliament, in the States and Union Territories, we had 4963 elected members. But now, every five years three million people’s representatives are elected by this democratic process. Out of this, one million are women. A large number of unrepresented groups and communities are now included in the decision making bodies.” 3.

In the Constitution of the Republic of South Africa 1996, Article 40 (1) states that

“In the Republic, government is constituted as national, provincial and local spheres of government, which are distinctive, interdependent and interrelated.”

Moreover, an entire chapter (Chapter 7), in the Constitution is devoted to Local Government, and under this chapter, Article 154 (1) sets out inter-governmental- relations and the status of local government on which the functioning of the polity is based, when it states that

“The national Government and provincial governments, by legislative and other measures, must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their functions.”

In western democracies like Britain and the Scandinavian countries, local self government is the accepted norm, with local authorities providing a vast range of services with very little interference from the centre in their day to day operations.

## Public Participation and the Electoral System

As already mentioned, four types of local councils -Municipal councils, Urban councils, Town councils and Village Councils – operated until 1980, in which year Town and Village councils were abolished. Attention has to be drawn to the system of elections under which these councils had been elected, i.e. the “ward” system, which ensured participation and close contact between the voter and his representative in the local council. Each local authority area, under this system, was demarcated into a number of areas termed “wards” within each of which voters elected the “ward member” on the first-past -the -post principle.

The rural voter, especially, maintained a close relationship with the member, to whom he went regarding the repair of a road or culvert, or construction of a drinking water well. Furthermore, qualities of personal leadership, integrity and record of social and community service had even greater influence in ward elections than political affiliation

However, with the introduction of the List System of Proportional Representation under the Constitution of 1978, elections to local authorities too are conducted in accordance with the same system, each local authority area being considered as one constituency returning the requisite number of members. This necessitates campaigning by candidates for local elections over large territorial areas, in some of which they are hardly known to the voters. Indeed some persons who would have liked to have contested in local elections (especially women), pointed out that it was impossible to do so unless you had adequate financial backing. 4.

Another drawback of this system is that while some areas within the boundaries of a local authority can be heavily represented, others are inadequately represented. These circumstances did not arise under the ward system, in which each ward had its member, who was known to everyone in the area.

The electoral system that seems to be indicated is a combination of the ward system with the list system of proportional representation. Thus the local authority area could be divided into wards which correspond to half the number of members to be elected to the local authority, while the other members would be elected on the list system of PR. Each voter would have two votes, one vote which he/she would cast for the ward member, and the other for the list of the party / independent group.

This would not only eliminate the deficiencies of PR, but would also provide scope for the representation of youth groups, as well greater representation of women. (At the last local authority elections of 2002, representation of women was only 77, or 1.97% in all local authorities). Such an electoral system would ensure closer interaction between local councillors and their voters (including minority groups), thereby promoting democratic participation and governance.

## **Participation at the Grass Roots**

Defining the concept of “Governance”, Nira Wickremasinghe refers to Rosenau’s approach, according to which “Governance ... is a more encompassing phenomenon than government. It embraces governmental institutions and processes, but also subsumes informal non-governmental mechanisms, whereby those persons and organizations within its purview satisfy their needs and fulfil their wants. Thus governance not only encompasses the activities of governments, but also includes other channels by which steering mechanisms ensure the framing of goals of development, formulation of policies and their implementation” 5.

Thus, if local authorities are to act as genuine institutions of local governance, mechanisms have to be established through which grass roots level participation can be ensured. Civil society, organized in the form of Non Governmental Organizations (NGOs) and Community Based Organizations (CBOs) can play an important role through interaction and collaboration with local authorities in planned development as well as in service delivery.

In Sri Lanka, there is no lack of NGOs and CBOs, which can fill the lacuna between the local authority and the people at the grass roots. Thus a recent study conducted in the district of Moneragala has revealed that approximately 53 NGOs are active within the district. According to available data, in two Divisional Secretary’s Divisions alone – Badalkumbura and Thanamalwila – 270 and 232 Community Based Organizations respectively (some of which may be non-functional) have been identified. 6.

A noteworthy feature is that although so many CBOs exist at the grass roots, most of them function as isolated units, with perhaps a weak relationship being maintained by each society with the relevant line ministry official or the Divisional Secretary of the area. What should be emphasized is the absence of an institutional mechanism through which these grass roots level agencies could be tied up to the elected local authority of the area, so that they could act as meaningful partners in the processes of democratic governance.

Gramodaya Mandalas, as already mentioned, have not been abolished. Under the Development Councils (Amendment ) Act No. 45 of 1981, these were not elected bodies, but consisted of the chairmen of voluntary societies in each Grama Niladhari Division e.g. Rural development societies, young farmers’ clubs, Sarvodaya societies, death donation societies, Buddhist, Hindu Muslim and Christian societies, etc. Gramodaya Mandalas too received constitutional recognition under the 13 th Amendment to the Constitution, which states that

“Gramodaya Mandalas will have the powers of gramodaya mandalas under existing law. It will be open to a Provincial Council to confer additional powers on Gramodaya Mandalas.” 7.

Thus, presumably, gramodaya mandalas were to function as “bridging institutions” connecting village level groups to the Pradeshiya Sabhas, for purposes of participatory development.

These institutions, unfortunately, are presently non-functional. There is thus a lacuna, and an absence of any mechanism through which the grass roots could find access to the institutions of democratic governance. It is necessary therefore, to establish an institutional mechanism at this level.

### **The Committee System**

Another aspect which needs to be considered in this connection is the Committee System in local government. Under the Pradeshiya Sabhas Act, for instance, a Pradeshiya Sabha is empowered to appoint committees “consisting of members of the Sabha, or partly of members of the Sabha and partly of other inhabitants of the Pradeshiya Sabha area...” for the purpose of advising the Sabha with reference to any of its powers duties and functions. Four such committees are mentioned under the Act, viz.

- finance and policy making
- housing and community development
- technical services
- environment and amenities. 8.

Under the same article, other committees could also be appointed by the Pradeshiya Sabha. The committee system could, accordingly, be developed further so that it could be one of the mechanisms through which NGOs and members of the community could meaningfully participate in the decision making process.

### **Conclusion**

Public participation and governance can be the outcomes of an effective system of local government, if due recognition is given to its role within the polity, with effective mechanisms for people’s participation being designed and in –built into the system.

In Sri Lanka what is required is a greater perception of governance issues and the contribution that local authorities can make towards public participation in the processes of development planning and implementation.

It is heartening to note that the Presidential Commission on Local Government Reforms (1999), has drawn attention to the need for a new vision on local government, and has recommended that local government should be incorporated into the Constitution as a level of governance. 9.

1. Hayek, Friedrich von, *The Road to Serfdom* (1944), quoted Lambsdorff, Count Otto, in "Subsidiarity taken Seriously" *Liberal Times*, Vol. 7 / No. 4, 1999
2. 13<sup>th</sup> Amendment to the Constitution, List 1, section 4.3
3. Mathew, George, "Local Self Government in India" p 10, *Liberal Times*, Vol. 7, No. 4, 1999
4. See Leitan G.R.Tressie and Gunasekera, Swinitha, *Women in Rural Politics* (Social scientists' Association, 1996)
5. Wickremasinghe, Nira, "Governance: a Critique" in Somasundram, M (ed), *The Third Wave* (International Centre for Ethnic Studies, 1999) pp. 130, 131.
6. See Leitan Tressie and Selvakkumaran, N. *Institutional Development and Capacity Building* (Unpublished Paper, Regional Development Studies Centre, university of Colombo, July 2000)
7. 13<sup>th</sup> Amendment to the Constitution, List 1, Section 4.4
8. Pradeshia Sabhas Act, No. 15 of 1987. 12 (1), (2)
9. Report of the Commission of Inquiry on Local Government Reforms 1999 (SP 1 1999) pp. 358, 385.

# **THE NEED TO FORMULATE A NEW VISION FOR LOCAL GOVERNANCE IN SRI LANKA**

**Dr. H.A.P. Abeyawardana**

Former Chairman, Presidential Commission of Inquiry in  
Local Government Reforms.

## **Abstract**

Presidential Commission on Local Government Reforms (1998 – 1999) conducted an in-depth study of the prevailing system to identify shortcomings and to formulate proposals to remedy them. The recommendations focused attention on the mandate issued with a view to reform in order to transform the prevailing system to a model level of governance duly entrenched into the Constitution of the country and to provide the opportunity to these local level democracies to serve the local population efficiently and effectively.

Restoration of the ward based electoral system, amendments to 81 local government related ordinances identified, formulation of new statutes by the Provincial Councils encouraging councils to adopt new by laws according to the individual requirements invoking the enabling provisions aimed at the strengthening of the legal system. Empowerment of councils to perform without hindrance strengthening the resource base by identifying new avenues to mobilise resources within their areas and streamlining the grant system were some of the main issues addressed by the Commission. Participatory local government system by building up a congenial environment to motivate the main stakeholders viz the elected councillors, officials and employees rate payers and external agencies was highlighted as a pressing need. It was anticipated to develop a new local government culture and also to formulate a charter with a grievance procedure to deal with defaulting situations.

The commission report contained 18 chapters. The last chapter was an attempt to summarise the recommendations to formulate a vision to achieve excellence.

## **1. Introduction**

### **1.1 Appointment of the Commission**

The Commission of inquiry appointed by a Presidential warrant on 12<sup>th</sup> February 1998 under the provisions of the Commission of enquiry act (ch.393) empowered the members to inquire into the

present status of the system of local governance in Sri Lanka and to submit proposals for effecting suitable amendments.

The terms of reference (TOR) covered 5 major areas as enumerated in appendix (A)

## **1.2 The Strategy**

A well structured work plan prepared by the Commission provided the framework for the consultative mechanism. Accordingly the views of the public were obtained by written memoranda, and oral evidence recorded at different venues in Sri Lanka. Personal interaction with mayors of municipal councils and chairmen of Urban Councils, chairmen of Pradeshiya Sabhas selected Local government practitioners, Heads of Departments retired Public Servants, and other identified resource persons was possible through a series of seminars, workshops and consultative discussions.

A literature survey on the current trends in Local government in 30 countries having Sri Lankan missions was conducted through the courtesy of the Ministry of Foreign Affairs. Ten selected countries participated in a two-day workshop in Colombo for a study of comparative Local Governments. At the drafting stage of the report information was obtained from the Internet where appropriate.

## **1.3 Submission of the report**

The commission submitted its findings to H.E. The President in August 1999 in all three languages Sinhala, Tamil and English. The Chairman of the commission was provided with the opportunity to present a resume of the findings to H.E. the President. While complementing the commission for the arduous task performed in such a short period H.E. instructed the Hon. Minister of Local Government and Provincial Councils to arrange for "An awareness programme and an implementation programme". The report bearing sessional paper No. 01 of 1999 was released to the public in January 2000 and was highly acclaimed as a landmark report with proposals to reform local government in Sri Lanka.

## **1.4 Implementation**

It was learnt that the Cabinet of Ministers had approved a majority of the proposals leaving out those having a bearing on Constitutional amendments. Several studies had been conducted

at the initiative of the line ministry, by international agencies, and by official committees. However the progress made so far to implement proposals accepted by the government is not satisfactory. It was known that an attempt to restore earlier system of ward based election though included as an item in the order paper of Parliament in June 2001 was withdrawn from discussion at the Cabinet as a result of a lobby.

## **2. A new vision for Local Government**

2.1 The Commission report contained 18 chapters. The last chapter dealt with the development of a New Vision for local government to remedy the ills identified and to transform the local governance in Sri Lanka, to be efficient and effective to serve the local community.

The new vision developed by the Commission, which recommended its adoption, contained the following 9 provisions as summarised below. The justification for this approach is discussed in the various chapters.

### **Main components**

1. Greater degree of local autonomy
2. People's participation in the affairs of local government
3. Public accountability
4. Self reliance and Equity
5. Greater responsiveness to the needs of the local constituents.
6. Development role of local government.
7. Efficiency Effectiveness and productivity
8. Development of a new local government culture.
9. Rate payers charter.

## **2.2**

### **1) Greater Degree of Local Autonomy**

Local government should be considered as a level of governance distinct from national and provincial, making

new constitutional provisions to define the role of local government as a level of governance.

At present, local government institutions functions as delegated authorities created under under the supreme law. Partnership in administration could be developed by entrenching the system of local government in the supreme law in terms of the recommendations made thus ensuring certain guarantees for their continuance. Revision of the legal provision by accommodating changes to the local government laws, identifying loopholes in the bestowing of additional legal powers. Were emphasised.

## **2) People's Participation in the Affairs of Local Government**

The local people will play an active role in many spheres of local government such as local level planning, indentification of resources. Ratepayers serve as a wide resource base and would be accredited partners in local government management. Certain services such as libraries, Ayurveda, environment protection, vector control, maintenance of roads, water supply etc, carry with them a very high component of popular appeal encouraging ratepayer participation .

## **3) Public Accountability**

For representative democracy to be meaningful councillors elected on a ward basis, while representing the wards of the local government institution, would participate in the council's administration. The code of conduct should be a constant reminder, which will moderate their conduct. Public accountability is an integral element of good governance. Matters relating to revenue, expenditure, identification and prioritisation of projects and programs, data relating to performance etc. could be made available to the local people and ratepayers so that there would be little room for speculation, suspicion and allegations of malpractices.

#### **4) Self Reliance and Equity**

Wide variations in terms of the actual or potential revenues exist in local authorities. There is a need to devise resource allocation mechanism at the nation and provincial levels to ensure that resource poor local authorities have access to adequate resources. This would help maintain equity between poor and wealthy Local government institutions and maintenance of standards in service delivery.

#### **(5) Greater Responsiveness to Local Needs**

Since local government is the level of government closest to the people, the priorities should be concerned with the felt needs of the local inhabitants.

Felt needs should be identified by the proposed ward committees chaired by the ward members, with the participation of defeated candidates, and leading rate payers. Their suggestions should be expressed through the annual budgets and projects undertaken by the councils.

#### **6) Development Role of Local Government**

Local self-government institutions will be in the forefront of divisional level development, expanding its activities from traditional local government activities to cover a wide range of development functions to be attended to within a democratic system.

A major part of development in the area should be formulated by local communities so that local authorities, on the one hand become more democratic in the formulation of their programs and projects and on the other hand are able to harness local resources more effectively.

#### **7) Efficiency, Effectiveness and Productivity**

The quality of services should be assured and visible in the following areas

- a) The Concept of Democracy
- b) Management
- c) Maintenance of Services

Managerial skills should be developed by the policy makers, officials and employees to win the satisfaction of rate payers. Check list of performance indicators should be announced for public information.

## 8) Development of a new local government culture

The concept of a local government culture would be possible only if the partners succeed in identifying the roles assigned to, each one of them. The following are the main partners:

- a. Elected councillors
- b. Officers and employees
- c. Rate payers
- d. External agencies

When those parties function with a sense of service and understanding there cannot be any room for shortfalls and grievances.

## 9) RATE PAYERS CHARTER

To make the charter meaningful there should a prior, before announced grievance procedure with penalties in default

## Appendix (A)

### NOTICE TO THE PUBLIC

### COMMISSION OF INQUIRY ON LOCAL GOVERNMENT REFORMS

Her Excellency Chandrika Bandaranaike kumaratunga President of the Democratic Socialist Republic of Sri Lanka in pursuance of the provisions of Section 2 of the Commission of Inquiry Act (Chapter 393) has appointed a Commission consisting of-

- (a) **Dr. Hetti Arachchige Piyadasa Abeywardana - Chairman**
- (b) **Prof. Gunapala Nanayakkara-Member**
- (c) **Prof. Siripala Telambura Hettige-Member**
- (d) **Mr. Jayanadipathige Gunapala Keerthiratne-Member**
- (e) **Naganathan Selvakumaran-Member**

To inquire and report on the following matters

956148

- (a) the existing system of local government, the defects and shortcomings in that system, and the reforms required to remedy such defects and shortcomings.
- (b) The amendments necessary to be made to the existing laws relating to local government in order to have an effective legislative structure to ensure good government at the local authority level with special reference to Municipal Councils, Urban councils and Pradeshiya Sabhas
- (c) The reforms necessary to be made to the existing laws and regulations relating to local government, to ensure a uniform system of law applicable to the entire country.
- (d) The existing laws relating to local authority elections and the reforms needed to ensure effective representations of the peoples of the respective areas of authority of local bodies.
- (e) The measures necessary to ensure effective control by the Central Government over local authorities and their activities in order to ensure an effective system that would

meet the needs of the people and to make recommendations with reference to any of the matters that have been inquired into.

The above Commission has also been empowered to hold all such inquiries and make all other investigations into the aforesaid matters as may appear to be necessary.

Any person or organization having any information views and proposals or is desirous of making representations in respect of the above matters is kindly requested to communicate with the commission in writing on or before 15<sup>th</sup> may, 1998 to enable the Commission to inquire into them expeditiously.

By order of the Commission

D.A.D.Jayawardema,  
Secretary to the Commission.

Office of the Commission of Inquiry on Local Government Reforms.

P.O.Box.1549,  
17A, Barnes Place,  
Colombo 07,  
16<sup>th</sup> March, 1998.  
Tel.:697018

## Appendix (b)

Digital map -Showing the distribution of local authorities of the Country.

The map depicts the distribution of local authorities at the last election 2002. Since a new urban council has been established for Embilipitiya recently the number of urban councils would be increased to 38 at the next elections 2006.

Ministry of provincial councils is planning to set up 20 more council shortly. It may not be possible to be established before the next local government elections due in March 2006.

# WITHERING OF LOCAL GOVERNMENT IN SRI LANKA

**Perakum Wijesinghe**

Commissioner of Local Govt. and Director of the world  
Bank funded Municipal Management Project.

## **Introduction:**

Local Govt. forms a system of democratic decentralization of State power effected primarily through the process of devolution. Different patterns have been created on the basis of roles and functions. Local Govts. in developed countries enjoy more powers and perform many functions providing a vast array of services to the well-being of the inhabitants. Most of them are self reliant and autonomous to a great extent. Countries that have suffered under Colonial rule have inherited Local Govt. systems that are dependent on the Govt., exercising limited powers under strict supervision and control. Limited sources of revenue have been provided for them. As a result of inadequate local revenue, their capacity to perform has continued to be poor. Some of these countries have revived and re-invigourated their local govt. systems to enable them to operate as partners in Govt.

## **Development of Local Govt. in Sri Lanka.**

In Sri Lanka, modern Local Govt. had its origins in the 19<sup>th</sup> century under the British. Steps were taken by them to re-establish the old system in response to agitations for self-govt. and the felt need for the revival of the Village Council system of cultivation. But the system introduced by them was based on the local govt. concepts and traditions in their country and suited their colonial rule here. Their system did not meet the aspirations and expectations of the people or the needs of the country. It was a shadow system and was only an implied empowerment of the people.

After Independence, the Govt. adopted a new vision in the early 50s that Local Govt. should be given more powers and responsibilities to make them partners in socio-economic development. Steps were taken to give more powers and increase the revenues of Local Authorities and improve their capacity. Many committees and Commissions of Inquiry appointed to this effect made several recommendations but a few which are less detrimental to Govt. were taken up for implementation.

Although this new vision envisaged strengthening of the Local Govt. system, successive Governments perpetuated the colonial policy of keeping Local Govt.

under control whilst strengthening and using the bureaucracy and was not prepared to make Local Authorities partners in the Govt. Local Authorities were made to operate in isolation away from the mainstream of development. Withering of the system commenced with this separation. For example, the functions under the Agrarian Services Act at local level could have been entrusted to the Village Councils after necessary empowerment. Instead, the Government created new structures and alternative institutions at local level developing disunity among village people and making Village Councils worthless institutions. In respect of many other functions at local level too, Local Authorities have been by-passed, and as a result they have become redundant. Some of these functions include public assistance, health and environmental services, community development, cultural and social activities which are related to local govt. and come under the purview of local govt.

In this scenario, local leadership and local institutions as democratically created institutions waned in importance and recognition. New and alternative structures formed out of appointed personnel assumed supremacy over the elected Local Authorities. Govts. have failed to make use of the time tested existing Local Govt. institutional structure. Their weaknesses were highlighted often but never seriously considered the improvement of their capacity to make them partners in administration and development. This separation resulted in withering away of Local Govt. institutions through neglect and they became lethargic and sluggish.

Withering of Local Govt. has become more dominant and pronounced during the post Independence period rather than in the Colonial era. British Colonial rulers too had appointed committees and commissions to inquire and report on ways and methods of improving Local Govt. performance. Most of the recommendations of such committees and commissions were implemented without much delay. More attention was paid to their problems related to smooth running. Local Authorities had earned recognition under the British for the services they rendered. Govts. after Independence were more concerned about supervision and control rather than promoting Local Govt. through improving their status, enhancing capacity and increasing revenues.

Withering of the system in Sri Lanka becomes explicit when compared with the improvements taken place in other countries in the region. In India, the Panchayat system has been revived and empowered to take more responsibilities and parallel development has taken place in Bangladesh. Local Govt. system in the Philippines has been strengthened under the Local Govt. Code of 1991. Many other countries in the Asian region including Malaysia, Nepal, Korea, and Indonesia have strengthened their systems after vesting more powers and responsibilities on Local authorities to make them effective as partners in development.

The neglect and withering of Local Govt. become evident in relation to the following aspects:-

- (a) Decline of the status of Local Govt.
- (b) Weakened Local Authority – Voter relationships
- (c) Weakened financial status
- (d) Increase of capacity issues
- (e) Incapability to provide the services at a satisfactory level
- (f) Increase of staffing issues
- (g) Accountability and transparency issues and
- (h) Negative perception of the people

**(a) Decline of the status of Local Govt.**

**(iii) Status of Local Govt.**

The status enjoyed by Local Govt. has been severely affected with several structural changes effected during the last two decades. The establishment of Development Councils in 1981 in place of Village Councils and Town Councils is a major change in the structure of Local Govt. system. The people in these areas viz, 549 Village Councils and 83 Town Councils were deprived of enjoying Local Govt. as there was no Local Authority to represent them. Under Development Councils, the staff, assets and resources of Village Councils and Town Councils were used for purposes other than Local Govt. by the District Authorities responsible for managing Local Govt. It was a major setback on the development of Local Govt.

Thirteenth amendment to the Constitution and consequent establishment of Provincial Councils in 1988 have resulted in pushing Local Authorities into the Third Tier. This too forms a setback as they lost direct access to Govt. and fell behind Provincial Councils. Now, different patterns of Local Authorities have emerged under Provincial Councils depending on Local Govt. policy patterns of management, degree of co-operation and support and the nature of supervision and control imposed.

It is within the domain of the Provincial Councils under the 13<sup>th</sup> amendment to the Constitution to enhance the status of Local Authorities by giving more powers and functions. Several statues passed by the Provincial Councils relate more to control Local Authorities rather than providing co-operation and support. A complete clamp down has been brought about on enhancing powers of Local Authorities and this is detrimental to the development of Local Govt. in the country thus withering continues in a greater magnitude.

### **(iii) Erosion of Powers and Functions**

After independence, Governments have taken steps to take away certain functions vested in Local Authorities and hand over them to existing or newly created State Agencies and Institutions through subsequent legislation. Eroded powers and functions fall under:

- Foods & Drugs Ordinance
- Weights and Measures Ordinance
- Housing & Town Improvement Ordinance
- Town & Country Planning Ordinance
- Local Authorities Housing Ordinance

The services include the distribution of electricity, major water supply schemes, running of rest houses, local govt. housing schemes etc. Further, some of the powers enjoyed by Local Authorities pertaining to personnel management has been curtailed. i.e., creation of posts, fixing salaries, making appointments etc. Thus their hands have been tightened in this respect and their autonomy is at stake.

Subsequent legislation that supercedes the authority of local govt. institutions include:-

- (i) Urban Development Authority Law 1978
- (ii) Food Act 1980
- (iii) National Housing Development Authority Act 1978
- (iv) National Environmental Authority Act 1980
- (v) National Water Supply & Drainage Board Law, 1974 and
- (vi) Ceylon Electricity Board (amendment) Act 1986.

Erosion of powers and functions in Local Authorities has resulted in shrinking the operations and reduction in their revenues. The vital services they were responsible to provide to the people were taken away and are reduced to a few. As a result general redundancy has set in. This has resulted in the depletion of the revenue base as well.

### **(iii) Encroachment on Local Government Functions**

This is a recent phenomenon. State Agencies have begun to undertake certain infra-structure development work that comes under the purview of the Local Authorities. For example, funds under the decentralized budget allocated for local authority road improvement purposes were given over to Divisional Secretaries for execution of work. Their utilization by-passing Local Authorities amounts to usurpation of local authority powers and functions. Encroachments of this nature,

which unless corrected, will eat into the system creating further dents in the future. Local Authorities concerned have resorted to legal remedy to arrest such encroachments and usurpations. It is necessary for the Authorities concerned to ensure that no institution should encroach upon the functions of Local Authorities.

**(b). Weakened Local Authority – voter relationships**

**(i) Discrepancies in the representation**

With the introduction of the proportional representation system of elections in 1979 to Sri Lanka's Local Authorities, election of members on the basis of wards was replaced by it. Due to the shortcomings in the new system several issues relating to representation have emerged. People have become distant from Local Authorities and members. The member – voter relationships have been weakened. Some wards are not represented by any member whereas certain other wards are represented by more than one member. No member is elected for any particular ward and can identify any as his, since the entire local authority area is represented by him and by all other members.

**(ii) Limitation of opportunities for prominent citizens to contest at elections**

The new election system encourages political parties or independent groups to contest at local authority elections. No individual, worthy of serving as a member can contest at local government elections unless he joins a party or a group. This situation has prevented certain prominent senior citizens with long experience in different professions who do not take to politics to join Local Authorities as members and serve the people.

**(iii) Reduced role of members**

Under this electoral system since the Heads of Local Authorities are elected directly by the people, their powers have been increased. As a result, the status of the members has declined. Earlier system provided for the members of the Council to elect one of them as the Head of the Local Authority who shared responsibilities with them, in the running of Local Authorities, creating opportunities for members and the people who represent them to involve and participate. Present system enables heads of Local Authorities to assume a higher status and enjoy more powers. There is a tendency for members to play a less significant role by letting the Heads of Local Authorities as leaders to perform on their behalf and create a gap in the link with the people.

#### **(iv) Changed image of members**

Heads of Local Authorities and members in the respective areas served the people as honorary members. No allowances were paid to them for attending meetings or conduct of business. Much respect and acceptance were accorded to them for work done as leaders, and on their part they maintained their image and on many occasions, their election was uncontested.

With the commencement of paying allowances to members and Heads of Local Authorities concurrently with the proportional system of elections, the good image of the members changed. It was conceived that members work for some personal benefit and the attitudes of the people towards their members have changed considerably. The gap between the member and the voter has widened as a result.

#### **(v) Controlled Decision Making**

Decision making by Local Authorities is not fully independent. Alignments with political parties force Local Authorities to decide on the basis of party lines and such decisions sometimes do not address the problems and actual needs of the people and the locality as against the earlier system under which people of a ward got their problems attended to and their proposals implemented with a concern for the area without any extraneous influence and politics.

### **(c) Weakened Financial Status**

#### **(i) Diminishing of Revenues**

Local Authority financial status has not improved over the years. Some of the sources of revenue have depleted. For example, the Acreage tax in rural Local Authorities have been diminished to a bare minimum. Collection efficiency of taxes, license duties etc. is not encouraging. Revenue generating projects undertaken by Local Authorities such as water supply and distribution of electricity have been taken over by State Agencies as mentioned earlier. The only revenue generating projects left with Local Authorities are markets, fairs and shopping units.

Govts. have failed to arrest this situation by providing new sources of revenue. The Govts. and Provincial Councils have not been much concerned about revenue generation in response to diminishing revenues of Local Authorities and taken remedial action. Even legally assigned revenues collected by some Provincial Councils have not been remitted to Local Authorities for several years causing severe

financial crises in Local Authorities. It is the responsibility of the Provincial Councils which are in charge of their management to remit these funds in time, without holding them to tide over their financial difficulties.

**(ii) Increasing dependence on grants for development work**

Consequent to the diminution of local revenues, Local Authorities are heavily dependent on grants. Cost of providing services and carrying out development work is increasing. The demand for such services is increasing and the Local Authorities are compelled to request for more grants to undertake them. The dependence on the Provincial Councils and the Govt. has affected the degree of self-reliance and autonomy of Local Authorities.

**(d) Increase of capacity issues**

Despite the training conducted over the years to improve the knowledge and skills of Local Govt. staff, results have not been encouraging. In the management grades, new staff appointed from the public service have not been able to contribute towards capacity improvement in Local Authorities. The situation as regards technical grades is worse. The staff is not competent to make project plans, carry out feasibility studies and undertake large projects. Most of the Local Authorities outsource such personnel and work is contracted out.

**(e) Incapability of providing services at a satisfactory level**

It is disheartening to hear that Local Authorities are incapable of providing at least those services which are left with them. Solid waste collection and removal, the single important service of Local Authorities, is not carried out satisfactorily. Other services like fire fighting and street lighting and ambulance services are confined to certain Urban Local Authorities. Provision of these services has been neglected due to the inadequacy of resources, facilities and dependence on other institutions.

**(f) Increase of Staffing Issues**

With the establishment of eight (8) Provincial Public Service Commissions (PPSC s), the existing unified Local Govt. Service (LGSC) was closed down. The officers who came under this Commission were absorbed by the newly established PPSC s created under the Provincial Council System. Senior and trained officials in Local Authorities found their way to Provincial Ministries, Departments and institutions creating a large number of vacancies in the Local Authority management grades.

Newly appointed officers to vacant positions in Local Authorities who were not conversant with the Local Govt. administration did not perform well and the overall performance of local Authorities has become weaker.

**(g) Accountability and Transparency Issues**

Accountability and transparency are important elements of good governance which are values the people would like their Local Authorities to maintain. Consequent to the breakdown of the investigations programme, issues relating to accountability and transparency have increased. Flaws in the accounting system, rules and regulations and non-adherence to the Law have also been responsible for this situation. It is insisted that the investigations programmes have to be carried out effectively to make Local Authorities better their accountability and improve transparency.

**(h) Negative perception of the people**

Perception of the people on Local Authorities is negative. Heads of Local Authorities as leaders or chief citizens and members are distant from the people. It is often said that complaints of people are not attended to promptly. Instances of inefficiency and corruption have been noted. Whatever services left with Local Authorities, they are not provided to the inhabitants at a satisfactory level. Provision of services is subject to criticism often as they expect a good service to commensurate with the taxes they pay. It is often the expressed view that Local Authorities look after themselves and not the people.

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**Causes for Withering**

Local Govt. as a subsidiary institution depends on the Govt. / Provincial Councils for their growth and development. The Govt. is responsible for their creation, viz, Constitution, form and structure, but their management and development are subjects of the Provincial Councils. Division of responsibilities in this manner is not conducive for development of an effective Local Govt. system. Often it has been questioned as to what has lead to the withering in Local Govt. But no definitive action to remedy this situation is taken. Some causes have been identified viz:

**1. Non conducive Policy of the Government**

There has been no clear-cut policy on Local Govt. as to its roles and responsibilities regarding services, social welfare, economic development etc. other than what is implied in the Local Govt. law. Due recognition is

not accorded to Local Govt. The Commission of Inquiry on Local Govt (1999) has highlighted this situation as no reference is made to Local Govt. in the Constitution of the country. Colonial policies and traditions have continued over the years and Local Govt. institutions have enjoyed implied empowerment while bureaucracy has been preferred for strengthening and use in administration and development.

## **2. Unfavourable Structural Changes**

Structural changes brought about in the Local Govt. system during the last two decades of the last century to resolve major ethnic issues and later to decentralize administration were responsible for the disintegration and withering of the system to a large extent. Establishment of Development Councils (1981) and the creation of Provincial Councils (1989) and setting up of Divisional Secretariats (1992) have resulted in the destabilizing of Local Govt. institutions. Although Local Authorities come directly under the Provincial Councils, the provincial councils prefer Divisional Secretariats as their executive arms rather than Local Authorities. Further, they empowered Divisional Secretaries to perform the powers and functions of the Assistant Commissioner of Local Govt. This arrangement was by no means acceptable to Local Authorities and their position was overridden making Local Authorities subordinate to Divisional Secretariats.

## **3. Reluctance of the Govt. and Provincial Councils to empower Local Authorities and part with powers enjoyed by them**

The Govt. and the Provincial Councils over the years have displayed much reluctance to empower Local Authorities. As a result, the status of Local Authorities have not been improved. Instead, their status has been affected under encroachments and usurpations as well as establishment of alternative institutions to Local Authorities, to perform the legitimate local authority functions.

## **4. Breakdown of Local Authority Investigation Programmes**

The programme of providing guidance and assistance as well as the supervision carried out by the Dept. of Local Govt. broke down to a large extent under the Provincial Council administration. Different programmes and systems to inspect Local Authorities emerged under eight Provincial Councils. Inadequate inspections staff and the management by officials not competent in Local Govt. administration were responsible for this unsatisfactory situation.

## **5. Reluctance of the Local Authorities for change**

Govts. have taken certain steps to improve the capacities of Local Authorities on the guidelines and assistance of International Organizations like the World Bank, Asian Development Bank, and USAID. Implementation of changes introduced have not met with success. The reluctance by local authorities to adopt them have continued to make them poor performers adding to the momentum of withering.

## **6. Poor role played by the Associations of Local Authorities**

Associations of Local Authorities in many countries are strong and powerful and agitate for more powers. They express their opposition when Govt. action affects Local Govt. administration, powers and functions and their rights and privileges.

The role played by Associations of Local Authorities in Sri Lanka has been insignificant. No action is taken, when Govts. and Provincial Councils take decisions detrimental to the Local Govt. system, their powers and functions, revenue etc. It has been the tradition to accept and comply with whatever decision is taken by the Govt. or the provincial council showing lethargy and lack of interest.

## **7. Conclusion**

Local Govt. development in the present setup depends on the policies of the Provincial Councils. Withering of the system should receive the attention of the Provincial Councils responsible for Local Govt. management. The Govt. is required to frame a National Policy on Local Govt. in terms of the provisions of the Constitution. This national policy needs to be drawn up in consultation with Provincial Councils and representatives of respective Associations of Local Authorities so as to make it acceptable to all authorities concerned. Experience of other countries in the region could also be made use of in this area. However, it is incumbent on the Provincial Councils to take action to arrest the withering taking place and strengthen Local Authorities, improve their capacities and make them partners in socio-economic development. Local Authorities and the Associations should also organize themselves and strive to improve their capacities to provide a satisfactory service to the people and prove to be worthy partners of the Government at the Third tier.

# **BUDGETING AS A TOOL IN GOVERNANCE**

**T. K. Dassanayake**

Mr. T.K. Dassanayake was the Secretary to the Ministry of Environment and later was appointed as Governor to the Central Province by H.E the President.

The quality of Governance that we see as citizens is a matter of serious concern to all of us. This aspect is of common interest in public service or in the fair enforcement of the rule of law, or in the degree of equity in public decisions. The process and institutions of governance is in all respects found to be wanting. Citizens not only have to contend with poor quality, but also with utter non responsiveness of public service providers. The instruments that furthered the objectives in governance are rule of law, transparency, responsiveness, public accountability, participation a voice in decision making for the citizens. Since the early 1990 's there has been a growing realization among social activists that budgets of Central, Provincial or Local governments are powerful tools for influencing policies and priorities, and in realigning to improve accountability and transparency in Governance.

Budget is a plan for future activities. It can be expressed in a number of ways. But it usually describes all of an organization in financial terms. It is the yardstick by which an organization is measured. There is a popular saying that “ if you fail to plan you are planning to fail”. Budget is a statement of monitory plans prepared to provide services with in a set period. Using budgets is important for the planning of any organization, for control and coordination of actions of different managers and tasks in an organization while securing commitment to achieving results. They provide targets for earning revenues and bench mark against which performance is measured and monitored. It provides a reliable way of analyzing actual performance in an organization. Budgets help organizations to achieve planned objectives and also illustrates the financial responsibilities to stakeholders, lenders, suppliers, employees, customers, owners and beneficiaries. Hence if used effectively budgets will be key tools for success. A budget should fulfill managerial expectations and pool the maximum efforts. It creates a frame-work and encourages to look and plan ahead enhancing the process of communication of the objectives of the organization. The budget should also enhance coordination of tasks and motivation of the employees of the organization.

Thus the budget has six main aims of planning, coordinating, communication, motivation, control and evaluation of performance of individuals and sectors and

tasks. The main concern herein is planning with specific targets not just reacting to changes. This ensures meeting the expectations, "aspirations of the people. As budgets can meet with resistance and reluctance they need to embody factors that enhances stakeholder expectations and needs to constitute elements to build confidence within them, that development through efficient budgets embody a service oriented framework with deep roots in the community that would be served. The budget should avoid a polarization of efforts that would embarrass the ultimate objectives. It should hence reflect a vision of where the organization wants to go on a time basis. It can be designed on a long term, based on a strategic plan or a short term working plan with controls to achieve targets and results. Budget and plans properly executed will build confidence in the people as long as they embody their aspirations and if designed to meet the needs of a particular area. Hence building consensus through effective consultation with a mechanism for stakeholder participation in planning and budgeting is a prerequisite in promoting its effectiveness. Local authorities or government institutions should possess a built in mechanism of which the people should be aware and the people should have confidence in its working. A working structural arrangement should be effectively used with the budgeting process. Hence all budgeting related tasks should be scheduled, allowing sufficient time to do justice to the budgeting process, may be this year, next year or several years into the future. An initial realistic planning will help in carrying out budget related tasks in a logical manner.

A budget analysis of previous years will be a good guide to determine where the money should go. It will conceptualize the priorities to be determined for a period long term or short term or even the year. It will systematize the thinking behind a budget's directions and channel resources in service delivery process to cater to satisfying the people's perceptions on resource use and distribution. A successful budget is always based on a long list of information, that provides for efficient forecasting of people's needs and resource availability and allocation and utilization. Hence analysis before budgeting provides a leading path to success to be achieved. This aspect revolves around continuous absorption through discussion with stake holders and target groups, officials and the leadership. Such analysis should lead to team building among implementing groups, conceptualizing process leading to policy building or policy changes or directions. There is an inbuilt inter relationship between budgeting and policy in any institution.

## ABOUT STRUCTURE

Budget is a part of the structural model of planning and control, hence there needs to be a structural process of managing the budgeting process itself to ensure consistency and quality hence team work plays a constructive role in the success of

a budget, as many departments or tasks could be involved. It is said that the benefits of good budgeting will always exceed the cost as the process has to plan ahead to reduce adhoc decisions and provides yardsticks to ensure performance. In order to perform it may be necessary to link the budget to objectives and provide a procedure that all could understand and follow in a fast changing **environment**. **Being rigid and** unyielding can be counter productive as it would tend to compare actual results to ideal results as there are always financial and non financial targets. This is particularly so in local authorities as they are expected to ensure quality service towards the people and meet their aspirations effectively in promoting the “comfort, convenience and welfare” of the public in their areas.

Resources as we know are scarce, there will be competing demands, hence decisions need to be well focused. In order to ensure a results oriented decision stakeholder participation needs to be a strategic intervention. This is a strategy to assess what your organization needs to produce {out puts) and what resources are needed to achieve these (inputs) may be human, material, technical or financial. At the end of the budget period assessment of the out comes will complete the budget cycle, but such attention is very rear.

## **GOVERNANCE PERSPECTIVES THROUGH CIVIL SOCIETY PARTICIPATION**

**The** role and relevance of civil society as a stake holder in the effort to ensure Governance has not received attention in budgets. Organizations in civil society have played a positive role in mobilizing public opinion to reform the role of public institutions. Even with mechanisms in place they have kept budgeting out of reach of these organizations. The local authorities are endowed with a committee system, that needs to address the financial aspects relating to their organizations. The committees are to include the civil society as a stake holder in some form through participation of individuals or groups. They have the right to call for opinions or proposals. Building a consensus with such participation will be foremost in the endeavors to partnership building with the people. Their participation will promote interaction leading to transparency, rule of law , equity in resource allocation, responsiveness, accountability, consensus building and will promote a focus in planning and determining priorities in relation to the needs of the people. The budget is more than just an income expenditure document It needs to ensure a spirit of embodiment of people centered activity plans for which funds are made available through the budget.

The four stages of the budget provides opportunities for people to involve themselves. The first at the budget preparation stage which is not so public, but people’s views proposals openions are to be canvassed and entertained. Media can be used to

advocate for issues and express priorities which can influence budgets. Next is the stage where budget is presented to the legislature where it is discussed and debated, where amendments to proposals are entertained. Opinions can be presented through legislators. The third stage is the implementation stage where citizen's organizations could monitor projects and resource use. The final stage is audits and performance evaluations. In varying degrees people can be prompted to effectively practice participatory methods of which the people needs **awareness of such mechanisms in the participatory process**. The local authorities **are mandated to** make available approved budgets for public scrutiny, but there is less people's involvement before approval. Such practices do not help the governance process. The Indian experiences presents certain adopted practices.

**“DISHA” Team in GUJERAT analyses the budget allocations** and examine these in terms of their accuracy, social impact, addressing the social economic condition of the poor. They also prepare briefs that highlights issues in the budget that need emphasis during debates. The information is further shared with other community organizations for advocacy purposes. Opposition member of the legislature often link with them for such valuable information for debates and corrections. The legislature is thus kept on their toes.

A second experience is the PROOF experiences in Bangalore. Here people participate in quarterly public discussions. Training is provided to them on how to read Government financial statements. Based on the training citizens analyze the local budgets in the areas of education, health care and specific development projects. Performance indicators are developed to evaluate the services. There is a weekly airing series over the All India Radio encouraging students and activists. A news letter is circulated to gather people's involvement. The information is supplied to higher levels including the development information center organized by the World Bank. India promotes such groups to enhance Governance through sectoral studies of budgets, as normal overall budget studies are too complicated.

Since 1996 Tamil Nadu People's Forum for social development has been using budget analysis as a means of social audit. The aim is to advocate for the social sector allocations. The “social watch India” has analyzed the National budget for social audit perspectives.

**“JAN SUNWAI”** or public hearing, is a tool for improving public accountability at **local levels through** citizens participation. Government or Local public finance and spending is one area of their concerns. This is a public hearing there is consultation with people affected by decisions and activities. This really empowers people to push for greater transparency and accountability from Governments and local Institutions. In these, the findings are documented and published for information and to develop corrective action where ever such needs arise.

The Citizens report card is a formidable document to enforce Governance in practice. In principle it recognizes

- A. "The voice of citizens must remain in the public domain, as users of public services the citizens are best equipped to evaluate service delivery and resource mobilization and use"
- B. Unbiased action is the key to informed action.
- C. **Comparison, creating a healthy competition.** This creates peer pressure

This report card is applied through community social organization. The card will carry service specific questions. The result is that there is follow up on actions and initiatives to improve the service delivery.

Other Community organizations that play a similar role are the "Citizen's charters", and also "Election watch". They do concern them-selves with budget and their frameworks, uses and results. Public interest litigation goes deeper into these aspects and seeks litigation in advocacy in public service and utilization of resources.

All these represent convergence of citizens in expressing their concerns on service providers, and resource allocation and use in the budgeting process and other exercises that promote governance. The principles in budgeting needs to assure that resources are ment for results oriented performance based factors that promotes convenience, comfort and welfare of citizens they serve.

Stake holder groups do not end with CSOs. There are large number of other professional groups such as the Chambers of Commerce or Industry, groups of health workers, clubs formed for various social needs, agriculture farm organizations and farmer groups, literary societies and others whose exclusive needs may have to be found expression in budget form. Needs of more deprived groups such as elders, disabled, the poverty stricken too should find expression in a budgetary form. Hence consensus building in a holistic model is what would complete a comprehensive picture in the budgetary concerns particularly in a local authority. This creates the need for good effective plans where priorities are clearly identified. Budgets are thus not only income expenditure statements, but should through its process be social instruments and tools for holistic development that covers plenty of ground for effective governance that would be responsive to people's need s and build equity in resource use.

Budgets are effective tools in unifying interests expectations , and concerns may be political, social, cultural or more of it economic. It further brings together all capacities to address the vision goals and objectives of an institution. It streamlines action and strategies. But the success of budgets depends heavily on their ability to

balance revenue and expenditure. State budgets often adopts deficit budgeting. Local authorities on the other hand cannot in any way afford such strategies. They are forbidden from using such uncertainties. They are the closest representative bodies to the people. The proximity and easy access to councillors place them in a position where they need to be directly accountable to the people, hence they need to be more concerned about been positively responsive in producing results. But most local bodies are severely handicapped by the lack or inadequate revenues. Some rates and taxes are quite out of date, hence remain meagre. They cannot raise the level of taxes or rates due to **political pressure against increasing** rates and taxes, though they are empowered to **review their** rates every five years. This activity is not regularly followed due to staff constraint in the agency empowered to effect valuations. The identification of new developed areas for purposes of revenue is not regular, as this process is hampered due to various pressures. Hence the expansion of the revenue base is very slow. A counter charge made by citizens is that the services are unsatisfactory and not to standards, hence they need not comply with tax payments. This is broadly an excuse.

Local authorities receive grants from the Central Government. These are mostly for the purpose of payment of salaries, to it's staff. Local authorities are generally constrained by lack of funds hence budgetary performance in many are not predictable and uniform, this hinders them from being productive.

Our local authorities have not been able to realize their total potential though they are so close to the people. They are made to be still far away. If they are of the same political party as the Government in power, they are forced to be an appendage, hence are not allowed to be autonomous or independent in actions and pursue a political agenda of the people they are expected to serve . If the local authorities are of a different political follower ship, they are stifled by irregular or deficient funding. This is understandably the political culture in the country. The enthusiasm displayed by local government particularly seen at the "model Local Authorities program" of the SLILG was very encouraging, the members always were keen in making a name by being effective. Even such emerging leadership was considered a challenge to the party high up. Yet most Local Authorities really were keen on making a name and there by they tried to fit themselves into a role of local leadership, displayed through effective service delivery and legitimizing their role as public institutions through a democratic process.

There is no cost base or quality base assessment of the performance of Local Government institutions. No indicators for such a response from the public is instituted. This may be a drawback on the performance of a budget in any institution. Such an approach could eventually lead to standard costing on a financial or a gross value base of activities and services. This will lend itself to

evaluating through budgetary controls and variance analysis. Budgetary inputs could be put into best use there by and service delivery standards be raised. This can be a foundation for micro or even macro planning at local levels. However budgetary information should trickle down to the public for their response to emerge. The works plan and the budgeting inputs with specific details of out comes not only the out puts are relevant information. A public monitoring system through groups NGOs, CBOs would ultimately be the base for public confidence. Thus budgets are expected to be effective management tools, as the public are no more monopolistic but are managerial in orientation.

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