

FINANCIAL DEVOLUTION AND CAPACITY BUILDING IN PROVINCIAL COUNCILS

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Devolution: The Development Context

Sri Lanka devolved power to the Provinces in 1988, towards resolving the ongoing conflict and for the restoring peace. Devolution established a sub-national mandate for providing specified public services at the provincial level. It involved, subject to nationally set standards, identifying local priorities, defining how best to meet the needs, and delivering the services in a manner that would meet them. This was a radical departure from the practice of provisioning of public services that were hitherto nationally defined, sectorally conceived, and delivered through local agents accountable to the centre.

Regional disparities in human development underscore the development imperative of devolved provision. Yet there has been policy failure in adjusting to devolution that created a public sector duality, whose inefficiency and ineffectiveness negate the potential benefits available from devolved provision of services, and delivery of managed development. Institutional self-interest and gaps in the operationalization limit the scope of devolution, marginalizing the devolved governance system.

1. Financing the Devolved Provision of Services: Efficiency and Equity

1.1 The Framework

The framework for financing devolved provision is delineated by the following legal provisions and administrative imperatives.

- a. Legislative, executive, and fiscal and financial powers vested in Provincial Councils. Provinces are assigned sources of revenue and are guaranteed finances as would be adequate to meet their “needs”.
- b. Service provision responsibilities assigned to provinces covering areas of economic, human and social development and community services.
- c. The constitutional objective of “Balanced Regional Development” in the apportionment of financial transfers between Provinces.

1.2 Current Status

The operationalization of the provincial fiscal and financial framework determines the scope of financial devolution and thereby the status of the provision of services in the provinces.

- Context

Devolved services do not take place in isolation. While the law defines the respective areas of central, provincial and local service provision, in practice these providers operate concurrently both sectorally and spatially. It results in multiplicity (and therefore ambiguity) of authority, channels of delivery, and hence financing. There is a lack of clarity in the definition of who is responsible for what outputs and outcomes, undermining accountability in service provision. Consequently, the framework of service provision across the levels of government defines the area of provincial responsibility (“needs of the Provinces”) more by default than by design. (may want to say somewhere that devolution in fact created new powers as opposed to reallocating power)

- Structural Limitations

Several structural limitations constrain financial devolution limiting its contribution to development outcomes.

- a. Central government transfers to Provinces account for as much as 80% of provincial expenditures met on an annual basis from the Government Budget. There are limitations to expanding and enhancing provincial revenue.
- b. Recurrent costs account for as much as 90% of provincial expenditures, leaving only a meager 10% for development investments, essentially capital assets. This situation of provincial finance imposes severe limitations on its capacity to improve the quantity and quality of services provided
- c. This structure of provincial finance has resulted in a historical pattern of provincial spending. There is little financial space available to bring about a shift in the spending shares of the core service areas, eg., human and social development services accounting for 80%, economic development services 5%, and community services 9%. Indeed the inflexibility in the provincial finance situation is demonstrated by the fact that 79% of recurrent cost being expenditure on personal emoluments which are as a result controlled centrally
- d. The scope of provincial service provision is therefore severely constrained and continues to be input oriented de-concentrated provincial components of national programmes. The limited financial space makes the financing of services essentially a maintenance exercise, lacking in a quantity and quality orientation. Provincial focus is therefore ad hoc.

- Governance Arrangements

Provincial governance arrangements provide the management framework for devolved provision. Several limitations constrain performance.

- a. Provincial service provision lacks a strategic outcomes focus and a performance orientation.
- b. Accordingly there is an absence of complementarity in the purposes and uses of provincial finance and provincial resources.
- c. Provinces operating as “sole” providers are not oriented to working through partnerships.
- d. Provincial service provision lack a focus on “private production”, private producers being perceived as the “community”.
- e. The community as the collectivity of citizen interests has little or no voice in decisions concerning their livelihoods.

2.3 Outcomes

The extent to which the socio-economic situation of the provinces has improved should be the test of provincial finance and service delivery. Indeed the gap in the number of poor households between Western and other provinces has increased between 1990/91 and 2002 except in North Central Province. Poverty has worsened in North Western, Uva and Sabaragamuwa between 1990/91 and 2002. Provincial shares of GDP have reduced in all provinces other than in the Western, with Southern remaining static. Eliminating regional disparities constitute the challenge of MDGs.

2. Building Capacity for Devolved Governance and Development

Ensuring desired outcomes of devolved provision is essentially a governance issue. It is about what and how provincial governance does its planning, implementing and monitoring of service delivery programmes. The capacity for managing provincial finance and devolved services must also be reflected in its ability to leverage the development process for the delivery of livelihood outcomes. There are three key aspects of provincial capacity in this regard.

2.1 Expenditure Management

The capability of provincial expenditure management to address livelihood issues through a focus on outcomes, as opposed to engaging in a series of expenditure operations. Such a system requires:

- a. A shift in the focus and orientation of planning and budgeting from inputs and activities to services and outcomes in a holistic approach to service provision.
- b. Procedures for bringing about planning-budgeting linkages.
- c. Provincial service provision procedures for ensuring development outcomes.
- d. Performance assessment, review and reporting procedures to monitor service provision.

2.2 Service Delivery Arrangements

Such an expenditure management system can work only if posited in provincial governance arrangements that perceive its role and function in the efficient and effective delivery of responsive services. It requires institutional arrangements that underscore accountability and promote cooperation and partnership. Governance of devolved service provision should then be based upon:

- a. A focus on outcomes through the definition of livelihood scope and content of provincial services.
- b. Clarity in accountability relations for the provision of services as between responsibility for policy, provision and oversight.
- c. Institutional arrangements that permit stakeholders in service provision to play specified but differentiated roles, and through which, trade-offs and interactions can be managed.
- d. Involvement and empowerment of stakeholders at the local level in provincial expenditure management.

2.3 Subsidiarity in Managing Development

A fundamental performance imperative of managing development is the location of service provision roles and responsibilities at appropriate levels of government. Service provision responsibilities can be assigned to lower levels of government as the implementing “agent” executing specified responsibilities on behalf of the “principal”. The current perspective is top-down. Alternatively, service provision responsibilities may be assigned to provincial or local governments, not only for implementation but also to decide what needs are to be met. The perspective is bottom-up. Location of responsibilities should be guided by imperatives of the opportunities for citizen participation in the expenditure decisions according to who should benefit and in ensuring that implementation responds to their needs. This demands clear differentiation of roles and responsibilities between different levels of governance, in order to enhance accountability and eliminate inefficient overlap and duplication.

3. Capacity Building Initiatives and Imperatives

Capacity building of Provincial Councils for better performance of its devolved governance mandate has been approached as an “internal”, i.e., a provincial affair, rather than as a national development performance improvement strategy. The approach of the “centre” has been to bring the provincial system within a set of central controls. A meaningful centre-province dialogue and partnership is yet to emerge as to how Provinces could contribute towards balanced regional development.

3.1 Many Initiatives: Need for Convergence

There have been several initiatives to address capacity building in provincial councils and decentralized provision of services in general.

The Finance Commission has reviewed the system and status of fiscal and financial devolution with the assistance of UNDP (1999-2000), and strengthening of fiscal decentralization is to be followed up by ADB funded Fiscal Reforms Management Programme (FRMP). In the meantime the focus of capacity building has focussed on improving provincial planning and budgeting; performance monitoring system, and revenue collection. These initiatives focus on internal capacity of provinces to strengthen the performance of provincial finance. A Committee appointed by the President has recently proposed a comprehensive approach and programme to address capacity building for fiscal devolution.

Experience suggests that institutional strengthening of provincial finance would be of limited value and impact if conceived and implemented solely as an intra-provincial exercise. Rather, the approach and strategy should be to address capacity issues and imperatives of devolved provision within the larger context of a decentralization strategy.

There have been several initiatives to address these concerns including:

- A Pilot Service Delivery and TA Loan initiative under ADB portfolio.
- Role of Sub National Agencies and Civil Society in the Provision of Natural Resources and Environmental Services under the project for Investment Plan for Environment and Natural Resources Sector (IPENS) under ADB funding.
- Training on Provincial Capacity to Manage Resources for Economic Growth and Poverty Reduction by the World Bank Training Institute.

However, these have remained disparate often “sector” initiatives, and have not converged on developing a decentralization strategy for managing the provision of services addressing core concern of reducing poverty and regional disparities in development achievements.

3.2 Linking Short-term Imperatives with Long-term Sustainability: Managing Transitions

The capacity for transition from emergency relief to recovery and rebuilding in the post-conflict and post-tsunami situation must address issues of service delivery, delivering livelihood capacity building options to the displaced. It involves, orienting governance arrangements to focus on livelihood recovery and restoration outcomes and realigning resources towards supporting the delivery of such outcomes in a manner that supports the active involvement of those affected. The service delivery imperatives of the transition from relief to recovery, reconstruction and rebuilding must then be posited in the longer- term imperatives of sustainable development. The institutional dimension of transition constitutes the challenge of

governance capacity for planning, implementing and monitoring the delivery of livelihood outcomes that must also address long-term issues of the relevance and sustainability of the governance arrangements.

3.3 Moving From Services to Livelihoods: Approaches to Financing Devolved Provision

A key imperative of capacity for devolved provision is the arrangements for financing of programmes, especially partnership programmes that focus on livelihood outcomes. Current development funding is project oriented, and finances the acquisition of assets in different sectors. Such funding arrangements restrict the potential of devolved provision to address regional development outcomes. These funding mechanisms do not support local resource mobilization. Provincial development funding mechanisms that finances operational and capital costs of programme is necessary to enable provincial provision of services to come out of the structural constraints of provincial finance and move on to accessing local resources.

4. Achieving Synergy in Development Roles and Relationships

Sri Lanka today is facing new challenges in bringing better livelihoods for her people. New ways of managing development is imperative if the provision of basic services is to be equitable irrespective of where people live. Indeed Sri Lanka's achievements in human development are challenged by regional disparities that leave behind significant sections in poverty. Increasingly effective governance and decentralization are being relied upon as the path to better management of development. Importantly it should encompass the Local Government service delivery system as well.

The crisis in decentralized governance and delivery of services undermines accountability and hence efficiency and effectiveness of implementation and the provision of development services. The duality in the delivery of services is inefficient not only in terms of the allocation of resources and use of resources. The service delivery system remains centrally driven failing to establish partnership with local resources. There is a need for a coherent decentralization strategy that can build on the synergies of existing institutional system without creating new structures. It calls for consistency in approaches to delivery and implementation of sector programmes.

