

Summary of Proceedings

Session I

Overview of the current economic situation

Dr. Saman Kelegama explained the basis for the present infrastructural drive by the government given the lack of such an effort since the Mahaweli Development programme in the 1980s. He emphasized the importance of rationalizing state expenditure without compromising the requirement for state expenditure on major public goods. The political economy of reform was also discussed, particularly the importance of compensating losers of reform, creating domestic capacity prior to reform (e.g. Infrastructure, marketing and technical capabilities). It was emphasized that reforms need to be taken progressively and sequentially, building on confidence of successful reforms given the current coalition based political climate in the country.

Macroeconomic framework of Sri Lanka and Provincial poverty

Dr. Raj Nallari focused on the inequalities in the distribution of growth in the country. The Western province dominates growth and poverty reduction whereas the results in other provinces are dramatically lower. He argued that the government involvement in the economy has not been entirely productive and pointed to the examples of the Samurdhi scheme and certain inefficient state owned enterprises. Dr. Nallari also emphasized the importance of the economy adopting an outward orientation without focusing too much on agriculture, a sector which has stagnated. Links between remittances from migrant workers and poverty alleviation were pointed out in the presentation. Off-shoring was identified as a potential area for expansion of the external sector, but barriers in regulation (labour and land markets), cost of utilities and the security situation need to be overcome.

Discussions

The need for community ownership and social mobilisation were identified as key elements in sustainable development and reform, this is not present when development takes place in the form of “project cycles”. However politicisation of CBOs, lack of coordination of projects has been a key constraint for sustained benefits. Fundamental changes are required in the delivery of services to poor people, particularly looking at the access-delivery problem. There has been a historical trend of bureaucrats adhering to the needs of politicians rather than the people they are due to serve, a fundamental change of attitude is required to correct this. It would also be useful to build up countervailing power of the poor, particularly such that they can reject government efforts if they feel that political clout determines to whom resources from the state flow. An example of this is in Hambantota where small scale producers were organized through regional chambers and gained access to finance and technology without resorting to government transfers.

Service delivery needs to be at the closest level possible to the ground and coupled with transparency and accountability; one could expect an improvement in service delivery to

the poor. This would help the “politically marginalized poor” to obtain a voice in obtaining what is due to them. The issue of land reform and its implications was also brought up. Allowing the market to determine allocation of land has its benefits including the determination of efficient farm size and allowing the use of land as collateral, however the present political economy is not conducive to land reform and this is unlikely to succeed as a result.

The lack of awareness of the needs for and benefits of reform in Sri Lanka was highlighted, particularly with regard to what other countries have achieved through reform. An example from the State of Bihar in India of where public private partnerships were initiated in the railway sector. Ticketing, signalling and catering was subcontracted to the private sector releasing funds for the state to spend on much needed infrastructural improvements. This is in contrast to the privatisation attempts in the bus transport sector in Sri Lanka in the early 1990s. This attempt was faulty since the regulatory framework was not in place before privatisation, buses did not run effectively in rural areas due to limited profitability, driver discipline was weak and quality of service declined.

Session II

Fiscal Decentralization and Revenue Collection at the Provincial Level

Mr. M.A. Chandrapala, Revenue Commissioner of the Sabaragamuwa Province spoke on the decentralization of administration in Sri Lanka focusing on issues of provincial revenue, provincial expenditure and grants from the centre. He pointed out that only about 3.8 per cent of central government tax revenue or 0.5 per cent of GDP has been devolved to sub-national units. This has resulted in a significant level of imbalance between provincial revenue and provincial expenditure. Furthermore the Western Province collects almost 70 per cent of the devolved while the remaining 30 per cent is shared between the other provinces. With regard to expenditure, only 16 per cent of expenditure is on capital improvement, with the remainder being spent on recurrent expenditure of maintaining the administration. With regard to the grant system, 80 per cent of grants are in the form of block grants which are of a gap filling nature and thus do not create incentives to improve revenue or rationalize expenditure. The criteria based grants and matching grants are also said to be based on outdated and irrelevant criteria.

Performance Based Budgeting

Dr. Migara De Silva expressed the importance of effective outputs from government expenditure keeping in mind the public finance position in the country. This calls for a change in approach to expenditure, and Sri Lanka can benefit from adopting performance based budgeting as opposed to traditional budgeting techniques. The latter focuses on inputs in budgeting while the former pays attention to outputs for measuring budget performances. The presentation looks at measuring performance and examples from international best practices.

Discussion

The discussion included the importance of internal reform at the provincial level to enhance revenue as opposed to raising taxation further which adds to costs for private enterprise and individuals. As it stands a great deal of revenue is uncollected due to lack of capacity within the provincial revenue departments. It was also pointed out that many of the devolved items to the provincial level are totally irrelevant due to a lack of feasibility, e.g. Toll on road usage. Another issue that recurred was the political structures that prevented effective devolution, for instance funds do not flow effectively from the provincial level to local authorities. An example in tackling this was when the Colombo Municipal Council threatened to impose a toll on vehicles entering the city, its dues were promptly paid by the Treasury.

Session III

Improving Service Delivery at Local Levels

Dr. De Silva stressed the fact that economic growth and public spending quantities alone will not result in improved service delivery at the local level. What is more important is an effective system of decentralization such that high quality services can be delivered through the lowest levels of administration. This is particularly important in Sri Lanka given regional inequalities in growth and development. Having outlined a series of examples of failure in provincial service delivery in Sri Lanka, de Silva explains how decentralization can help this situation. He stresses the benefits of greater accountability and local knowledge. A few successful examples of decentralization from international experience are provided along with a word of caution regarding the concerns of political capture, and capacity constraints. These can be addressed by increasing the voice of service recipients through public hearings, citizen report cards and general improvements in transparency, along with effective accountability measures.

Sri Lankan experiences in service delivery at local levels

Prof. Willie Mendis of the University of Moratuwa outlined the existing devolved and decentralized structures of service delivery in Sri Lanka. The Province has the authority as a spending, revenue and planning unit, but capacity gaps, particularly in the latter, undermine the efficacy of effective service delivery at this level. There is also an overlap in service delivery functions between provincial authorities and service delivery institutions and para-statal bodies and departments e.g. UDA. Local authorities have not had timely access to finance due to administrative gaps that have emerged in the flow of funds between provincial councils and local authorities, the Finance Commission has reported this figure as Rs. 9.1 billion between 1999-2004. Prof. Mendis identified the needs for creation of cadres for Town Planning Officers, Veterinary Services Officers and Valuation Officers at the earliest in order to better serve the functioning of local authorities.

Ms. Janaki Hettiarachchi of the Urban Development Authority, Central Province provided a case study of a town planning initiative; the Greater Dambulla Development plan. She highlighted the measures taken within this plan to improve service delivery at the local level and expressed some of the difficulties that have arisen in attempting to do so.

Discussion

During the discussion it was pointed out that the difficulties exist due to lack of availability of cadres, but that the dominance of recurrent expenditure is a major problem and it crowds out capital expenditure. In this background, is it viable to enhance the staff cadre? However it was pointed out that some of these new recruits would help enhance revenue, for instance in Colombo, where the planning department is the second largest revenue earner. From there, with improved revenue generation, further cadres can be recruited. Until revenue generation begins, 100 per cent reimbursement will be provided by the Central government for salaries of these newly recruited officers. But only the NWP made a positive response to requests from the Central Government to Local Authorities asking about cadre requirements.

The discussion also considered the role of community based organisations (CBOs) in service delivery at local levels, in parallel to state service delivery. It was pointed out that the government tends to abandon CBOs due to other priorities that arise upon completion of projects. Development work should concentrate on empowering communities to carry on with the work themselves, sustainability in both outcomes and processes being important. At the same time the legitimacy of CBOs is important, for instance it was questioned as to whether they should come under the Cooperatives Act. Without this legitimacy the relations between the government and CBOs tended to break down. When CBOs get empowered they tend to become more powerful than politicians, this creates incentives for politicians to intervene by meddling with the leadership decisions of CBOs. Legitimacy must be built in. A system of audit is one option to achieve this.

A key theme of discussion was to recognize that if the Central Government can make a mistake, the same can be said of provincial governments. The ideal is where the people can make the decisions, and the closest proxy to that is a situation where the relevant government is most accountable. Furthermore, when the central government makes a mistake it has wide ranging impacts. The dilemma that needs to be addressed is in striking a balance between service delivery at the smallest possible unit of administration which is closest to the ground and therefore in theory the most accountable to the people, and ensuring that capacity exists even at these smallest levels to effectively deliver services.

Session IV

Delivery of Financial Services at Provincial Levels

Mr. M.M. Attanayaka of the SME Bank emphasized that access to widespread financial services can economically and socially empower poor people but a large proportion of the population in developing countries lack the access to such services. Hence, the presentation examined the approaches and issues relating to taking financial services to local levels. The government has opted for direct intervention in providing credit for this sector, with support from donors as well. However despite the successes of some of these efforts, there is still an unfilled demand for financial services at local levels. The geographical outreach by the financial institutions has been in the urbanized areas and was identified as one of the main reasons to experience such an unfilled demand. Since the financial literacy is generally low among these groups, introduction of financial products with complicated procedures were not recommended. It was further highlighted that, traditional mindset and attitude of the bankers are also major challenges when taking financial services to local level. Further, the role of the government should be supportive rather than direct intervention in implementing. Political focus on short term expediency should be avoided and policies should be implemented to develop the financial infrastructure. Additionally, the government can look into any legal impediments affecting the provision of financial services at local levels.

Health Service Delivery at the provincial level

Dr. S.M. Samarage outlined the structures of the administration of health delivery at the provincial level. He also provided detailed statistics of health indicators at the provincial level. It was pointed out that the major problem in healthcare is a lack of funding which is often below average health spending in the region due to public finances being used up for military expenditure. Dr. Samarage referred to the new health sector development plan which intends to focus on outputs rather than inputs and considers financing provinces and districts directly. He also emphasized the need for community led initiatives in promoting and developing health.

Telecommunications Services at the Provincial Level

Ms. Malathy Knight-John pointed out that Sri Lanka was lagging behind other countries in the region in terms of fixed line and mobile penetration. The divergences in telecom access between the provinces in Sri Lanka were also very clear, with the Western province having a significant lead over others. At the same time private operators have engaged in innovative telecom packages to suit the needs of the poorest segments of the population, including pre-paid packages, local language SMS and very cheap top up rates. She also mentioned the importance of telecommunication services for the poor, referring to its use in bridging information gaps in markets, for communication between migrant populations both internally and internationally. Examples were given from international experiences including the Grameen story of how microfinance was linked

with rural telecommunication. Finally the regulatory barriers that need to be overcome to improve further penetration of telecommunication into the provinces were also identified.

Education at the Provincial Level

Dr. Tara De Mel explained how administration in education is divided between the central government and the provinces and further decentralisation to the smallest units of administration, the divisional education offices. Limitations in the present system were pointed out, particularly the fact that principals are reluctant to exercise their authority fearing reprimands from administrative authorities. Major issues in provincial service delivery include the deployment of quality teachers to underdeveloped provinces, teacher absenteeism, lack of devolution of academic functions such as curricular development, political interference in school management, and technical capacity constraints. Dr. De Mel suggests a variety of solutions to these issues including increased autonomy in management, more innovative budgeting and expenditure methods (medium term budgeting, PETS) and performance based funding, and of critical importance is enhancing technical capacity of teachers and education administrators at local levels.

Transport Services at the Provincial Level

Prof. Saman Bandara's presentation focused on the very intrinsic linkages between efficient transport systems and economic development. He explained the division of administrative responsibilities in the transport sector between the central government and provinces. He pointed out that prior to building roads, it is important to establish systems to ensure the maintenance of roads once they are built. This is a major problem for rural roads, as there are very limited funds available for maintenance. Prof. Bandara highlighted the importance of design in road creation, often roads are built with a design inappropriate for the levels and types of usage. Bicycle lanes and provisions for vulnerable road users should be considered a priority. Whilst it is true that there are significant disparities between urban and rural roads, these can be mitigated by paying attention to the different needs of the different types of roads and building and maintaining them accordingly. It is not necessary and it is not cost effective to have identical roads running within Colombo and within Moneragala, but it is important to ensure that the needs of the users in the two cities are met by the design and maintenance of the roads.

Discussions

In discussing the role of microfinance, it was pointed out that unregulated microfinance can be problematic since individuals can take cheap loans from microfinance institutions and lend these at higher rates in different markets at a profit. It was argued that the government's role in microfinance delivery should be limited to that of creating the supportive environment with an effective legal framework of rules. Regulation is essential, for instance it was mentioned that in the aftermath of the tsunami several microfinance institutions emerged and lent money way below the market rates which

undermined the markets of established MFIs. However once these post tsunami donors left the system, their actions had crippled the existing system. This kind of lending needs to be properly regulated, but the state needs to be weary of over-regulation which could stifle lending completely by MFIs that would otherwise be effective. The discussions highlighted the importance of seeing finance as more than just loans. Developing financial infrastructure at the provincial level is the duty of the government – e.g. tax support, regulatory mechanism - not a one size fits all system. Financial institutions need to adapt to micro finance market, this is taking place at the moment, helped by technological advances and improved knowledge which has resulted in innovative credit guarantee systems and smart subsidies.

The discussion extended to education when it was mentioned that some of the education reforms took place with insufficient planning. For instance English medium was introduced before the teachers were properly trained in this medium and introduction of English in select schools increased disparities that existed between schools already. It was explained that this was the result of a change in government which saw reform processes stalled and a resulting decline in output of English teachers. It was also argued that it is due to the lack of English teaching in state schools that international and private schools emerge to fill this void, the state by introducing English medium made an attempt to provide this service free of charge and thereby actually reduce disparities between students who can afford private education and those who can't. It was emphasized that the English medium was introduced as a response to demand by parents and students for this service. The chair pointed out the importance of transparency and accountability in service delivery in education and asked what steps have been taken to address these. Principals had been told to put up on notice boards in the school giving details of funding received and usage of these funds. However these instructions were not always followed. Another problem at the provincial level has been the lack of deployment of teachers according to skill. Unfortunately teachers have often been deployed according to needs of the province, regardless of the teacher's own skills. For instance one often sees a teacher trained in social studies being sent to teach maths in a school where maths teachers are deficient.

Two very useful case studies were provided by participants of community based s that were implemented to improve service delivery in poor areas. The Ministry of Health implemented two plans, creating a model health village programme in Anuradhapura and a participatory nutrition improvement project in Kalutara. Both involved mobilisation of local resources, particularly human resources to own and run the projects. The key lessons learned from these s are;

- Community can be mobilized under the guidance and leadership of the field PHM for nutrition promotion
- Holistic approach is easy, complementary & synergetic
- Integration of services can be done at the community level
- Both community leaders and volunteers are happy & proud of their contribution for the development of their community

- Field health workers are happy and willing to work with community leaders and volunteers for community development
- Community based nutrition s need to be a long term to evaluate the impact
- Needs continuous guidance, monitoring & supervision by a resource group specialized in participatory development and community mobilization.

Case study NWSDB

The National Water Supply and Drainage Board (NWSDB) received funds from the UNESCAP to develop pro-poor public private partnership based water supply. The model was implemented in Halgaskumbura in Borella, where the community consisted of 40 per cent low income households out of a population of 400,000 (Colombo metropolitan). The NWSDB was unable to obtain any payments for water supply from these poor communities despite sending bills and numerous reminders. To compound matters there was a 40% water supply wastage in the Colombo city, this is referred to as NRW (Non-revenue water). Discussions were held with line ministries and key stakeholders in order to formulate and implement a project to overcome these critical problems in service delivery. Despite initial opposition the NWSDB officials convinced those opposed to the planned project, especially those opposed to the concept of public-private partnership in water supply. The NWSDB was able to convince those opposed to the scheme by comparing the original position without any payments from the poor households with how the financial position would be improved by the new partnership, whilst at the same time showing that water usage will be better managed with less wastage.

Petra Engineering (PE) through tender procedure was selected out of 6 applicants by using pre-defined criteria. The NGO Sewanatha Urban Resource Centre was involved for community mobilization and to implement the project as well. The main funding body was UNESCAP. PE was given a Rs.500,000 loan by NWSDB funded by UNESCAP. NWSDB updated the existing Halgaskumbura stand pipe water scheme by improving the major pipe network. A bulk meter was fixed at the end of this line. PE installed the connections and meters for individual houses, connecting from the NWSB network to every household. The standard connection fee was Rs. 14,000, but for the low income households this was charged at Rs. 4,000, which was levied in instalments by PE.

NWSDB is now getting Rs. 25,000 per month from PE, whereas prior to this project they received no payments from the Halgaskumbura settlement. Community pays the national tariff to PE, NWSDB sells water to PE at Rs.2 per unit, whilst the bulk rate is Rs.7 per unit. NWSDB signed a sales agreement with PE, and NWSDB is in the process of designing a pricing system where the bulk rate is increasing. With the increase in the national tariff, NWSDB is in the process increasing the bulk rate at which water is sold to PE. In Narahenpita “27 vaththa” Women Bank was the private entity that has formed a CBO in this particular community. This CBO performed the task undertaken by PE and Sewanatha in this community.

In discussions on the transport sector it was asked why there have been so many delays in building up infrastructure in the country. In response the presenter argued that it is also

important to rehabilitate and maintain existing infrastructure whilst building new infrastructure, the railways was highlighted as an example. It was explained that many of the services provided in the railway sector are inefficient, for instance the entire cost of producing and selling tickets is so inefficient that it would be more cost effective to let passengers travel for free. This again links to the point made earlier about subcontracting certain services to the private sector. Pre-paid tickets is another solution, this would also help target subsidies better for instance to older citizens and students.

Session V

Tools for Performance Evaluation

Dr. Nallari pointed out that old thinking on budgets is that they protect priority spending without focusing on the actual output. Using examples from Malawi and Ethiopia, he illustrated that similar changes in public spending can be associated with vastly different changes in outcomes. From 1980's to 1990's both the countries had increased the spending on education in similar amounts but primary school completion percentage in Malawi had rapidly increased compared to Ethiopia. Therefore he highlighted the point that, budgets should be allocated based on the outcomes. He further explained the concept of 'Citizen Report Cards', a method initiated in India in order to improve the service delivery at local level. It is a set of formal quantitative surveys of client satisfaction with public services. They have been conducted by non-governmental organizations in low-income neighbourhoods in several Indian cities. The surveys generate "report cards" on the perceived quality and responsiveness of a range of urban services. They are used to put pressure on elected officials by demonstrating the extent of public dissatisfaction and areas in need of improvement, with the hope that this will result in greater responsiveness on the part of public servants responsible for services. The surveys are also used to educate the media, other public interest groups, and citizens. Also Dr. Nallari illustrated the methodology of public expenditure tracking surveys using a success story from Uganda. This method of survey mainly finds out the information on providing the resources for the general public. As a result of the Uganda survey, it had been revealed that only 13 per cent of intended per student grant actually reached the schools. Therefore he suggested that Sri Lanka too could conduct such surveys and find out the leakages of public expenditure in order to take corrective actions. He further stressed that monitors of the public expenditure should be individuals who are committed and have the support of the community. Further, monitors should be selected on the basis of gender and from special interest groups such as youth, elderly and religious leaders. As a result of the exercise, Uganda has able to increase the share of funds reaching the schools to 80 per cent in 2001 compared to 20 per cent in 1995.

Role of the Private Sector in service delivery at the Provincial Level

Mr. Jayantha Abeyratne's presentation focused on some of the constraints faced by private enterprise in functioning effectively in the provision of services at the provincial level. Access to land, lack of supporting infrastructure, the attitude of the state towards the private sector, costs of utilities, lack of standardization of service quality and

interference by regional political leadership. He also made the point that inter-regional trade does not take place as efficiently as it should due to the non-availability of proper financial instruments. There are also gaps in technology which are not filled by market forces, particularly affordable technology. There is also limited market penetration by service providers in poorer regions, as a result there is limited competition and imperfect markets. He suggested that resource mapping would be a useful input by provincial level policy makers and administrators. Furthermore, the provincial governments should consider outsourcing some of their services to local enterprises, play the role of the facilitator of the market whilst maintaining a sound regulatory environment to ensure quality of both private service providers and state service provision.

Discussions

An example of market linkage between provinces was the post tsunami market linkage project. Large established entrepreneurs were linked with smaller ones and also regionally disparate markets were linked e.g. Lace industry in Galle can be linked with the North Central province where there is a smaller lace industry. The Chambers organized a trip for Ampara handloom producers to meet buyers in Galle, Matara and Hambantota. It was pointed out that there is a lack of information about potential inter-regional markets and that there are limitations in inter-regional market promotion. It was also highlighted that certain financial services are undersupplied by the market due to their relatively small size, and more innovative practices are needed by financial service suppliers in order to tap into these markets. It would be worthwhile following the example of telecom service providers such as Dialog which introduced innovative low cost services to generate business in rural areas.

There is a lack of knowledge and technology in certain skills such as preservation of food prior to selling. Fish mongers for instance lose a great deal of money in spoilage since they lack the access to technology that is available in the Colombo region. It was pointed out that *nanasalas* in the regions have not been effectively used due to a lack of awareness and understanding. The Chambers provided some training to certain sectors who demanded this, and this has resulted in more extensive use of *nanasalas*.