Local Economic Governance in Sri Lanka

The Sri Lankan government, private sector, and civil society have all emphasized the need for lagging regions to catch up to the rest of the country in terms of per capita income if future conflict is to be avoided. Though the end of three decades of civil war has ushered in hope for reviving economic growth and rebuilding social trust, there are genuine apprehensions that the peace dividend could get easily compromised if continuing economic disparities are not addressed.

Economic growth and development imbalances have been a driver of conflict in Sri Lanka in the past and have contributed to three insurgencies since 1971. The end of the war brings with it the potential for the country’s economic growth to accelerate and for the benefits of economic development to spread to neglected regions and marginalized groups. However, to realize this potential, businesses of all sizes in the lagging regions must have a chance to operate in a supportive environment, and be enabled to link with leading regions, as part of an overall strategy of economic development and community rehabilitation. Inclusive growth thus holds the key to Sri Lanka’s development prospects.

The Asia Foundation believes that for such inclusive growth to occur, local government’s role and effectiveness in promoting economic development must be strengthened, and sub-national stakeholders – the private sector generally, including ordinary citizens, and marginalized groups – must be actively engaged in local economic governance reform. The objectives of The Asia Foundation’s local economic governance project are therefore to improve local economic governance; to increase private sector participation in decisions that affect the business environment; and to give greater voice to marginalized groups in local governance.

The Local Economic Governance project is active in 16 towns in the North, East, South, Central, and Uva Provinces. Our project partners are local authorities (municipal and urban councils), central and provincial government agencies responsible for regional economic development, chambers of commerce and trade associations, and community-based organizations. We are achieving results through a web of interrelated activities in three program components.

1. INCREASING PRIVATE SECTOR PARTICIPATION IN ECONOMIC DECISION-MAKING

A landmark Asia Foundation perceptions survey of almost 5,000 business owners from around the country asked them to identify the biggest impediment to growing their businesses. The most frequent answer was “government attitudes to business.” Consequently, the Foundation and its partners have organized public-private dialogues (PPDs) and working groups in 15 LEG town that have proved to be an effective tool for bringing together business and government to identify local impediments to economic recovery and development. Through a process of consultation, barriers to economic development are identified and recommendations for reforms are put forward for these working groups to pursue. Joint projects to stimulate private public cooperation have been identified, tackling issues such as traffic congestion and insufficient public services. The resulting partnerships have helped to build strong relations between local authorities and the private sector.
2. INCREASING LOCAL GOVERNMENT REVENUES

Local authorities (LAs) could more quickly respond to private sector and community needs if they could carry out their service delivery and regulatory responsibilities without relying only on fiscal transfers from the center. To that end, The Asia Foundation is assisting LAs to better understand and access the full range of revenue streams available to them. The Foundation conducted in-depth assessments of the core obstacles faced by LAs as well as their potential in generating greater “own-source” revenue. Of approximately 30 possible revenue sources mandated under the Municipal Council and Urban Council Ordinances, the Assessment Tax (or property tax) was specifically targeted because, in addition to being a major source of revenue for most urban-based councils, it represented almost 50 percent of the arrears in revenue collection.

Due to lack of awareness among elected officials and accounting staff, the legal procedures and practices which ensure efficient and effective collection specific to each revenue source were not accurately followed and, as a result, only 25-30 percent of recurrent expenditure was secured from local sources, leaving most LAs highly dependent on central government transfers. In Jaffna Municipal Council alone, this exercise will likely bring in an additional 19 million Sri Lankan Rupees per year – funds that will pay for crucial local services and development. From 2011 more than 120 million Sri Lankan rupees in arrears has been collected in 9 partner localities. More importantly, the taxes have been collected with the cooperation of the private sector – the Foundation is facilitating “social compacts” between council staff and businesses, which secure private sector and community support for more efficient tax collection in exchange for local government commitments to allocate these additional resources for improving public services.

3. GIVING GREATER VOICE TO MARGINALIZED GROUPS

The Asia Foundation is working to improve state-society relations in lagging regions by helping local government authorities to be more responsive to the concerns of citizens, especially those who are economically and socially disadvantaged. The Foundation assessed people’s awareness of the roles and responsibilities of local authorities and local government officials’ sense of obligation to citizens. Knowledge and awareness of social accountability concepts and practices among LAs and citizens is weak, and few formal processes exist for LAs to identify, much less address, the concerns of disadvantaged communities and groups. The Foundation is in the process of developing a range of social accountability tools that provide a voice to the average citizen - these include tools that emphasize information collection and sharing, making budgeting and expenditures more transparent to the public (such as preparation and dissemination of Citizen Budgets or Budget Summaries); promoting the use of Citizen Charters that enable municipal authorities to publish their promises to provide municipal services in a timely, predictable manner. The Foundation also implemented a Citizen Report Card in two pilot locations to provide a mechanism for measuring the quality of municipal services from a citizen-user perspective.

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