

***The Budget Process in Sri Lanka:
Local and National
Issue Analysis and Recommendations***

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Preamble

This booklet is the outcome of the project aimed at Reconnecting Citizens and Local Authorities in the North,¹ in Pradeshiya Sabhas. The objectives of this project were to increase citizen awareness and participation in the budget and planning process, and to foster more efficient and accountable PS'. This would increase the democratic strength of PS, as they reflect local citizens and their concerns much more effectively. During the last years of the project we have come across different experiences such as the Yakkalamulla workshop on participatory budgeting (discussed in the booklet). Some public galleries as a result of this have become active in the measures we have recommended. Information sharing has also increased. Other benefits will become clear within the discussions of the issues and recommendations in this booklet, as the importance of transparency and accountability will be clear throughout.

The Civic Budget Concept

The budget is an essential tool for acknowledging the needs of a countries' population. It represents the collective taxpayer funds that have been pooled with the intention of servicing citizen needs. The budget is also an instrumental development, administration and management tool. In terms of development the budget seeks to rectify social inequalities within a country and address development concerns that the private sector fails to acknowledge, through expenditure of taxpayers' money. For administration, the budget allows the use of taxpayers' money to be recorded effectively with correct and relevant information on an annual basis, with interim reports. In

terms of management, expenditure can be co-ordinated in a decisive manner as decision making and allocation of funds can be undertaken efficiently and democratically. Therefore problems surrounding the budget are important to address to ensure these essential benefits are not hindered.

There are three budget areas in Sri Lankan public administration. These are the national, provincial, and local. This policy paper shall mainly focus issues relating to the local budget, and more specifically the Pradeshiya Sabhas budgets. This booklet will set about analysing the budget cycle and shall consider the current issues facing the entire process, along with recommendations for resolving them. However the last paper will discuss the inherent problems since the inception of the national budget.

This booklet shall also offer the views of those involved in the local budget process i.e. politicians, local citizens, CSO representatives, media and government officials, and the horizontal and vertical obstacles they face, along with their recommendations for a better policy structure. And so by the end of this booklet it should have provided a strong analysis of issues in the budget processes, along with realistic and achievable policy recommendations for the future

Participatory Budgeting

Participatory budgeting [PB] was developed in Brazil in the late 1980s. Since then, participatory budgeting

concepts and mechanisms have spread in Latin America and the rest of the world, and by 2003, more than 200 municipalities across Brazil were experimenting with participatory budgeting. Independently similar methods have been practiced in other countries, such as with Kerala, in South India. **(Annexure 1)**

According to scholars, researchers, activists, politicians and members of organized civil society such as NGOs, CSOs PB is a powerful instrument to improve governance. Some of the acclaimed results of PB experiences are as follows:

- Better transparency and accountability
- Lower levels of corruption and irregularities
- Improvement of public service delivery and two way communication
- Reversion of priorities/ pro-poor policies
- Increased social justice/redistribution in allocating resources
- Efficiency gains and more rational administration

PB is a decision making process through which citizens deliberate and negotiate over the distribution of public money and resources. Also PB is a mechanism that involves elected leaders, public officials, service providers, non-state actors – civil society, private sector development partners and tax payers to design common priority based local

budget. Therefore PB helps to establish new relations between the elected, local politics and their citizens. It also helps to find ways to end passivity and favoritism, and stimulate citizens' participation in the budget process. It also helps to promote transparency and accountability which has the potential to reduce government and politicians inefficiencies, irregularities and corruption.

Even though PB had different models and effects, there are three main ways that it is regarded as offering benefits to citizens / taxpayers.

- It improves the democratic process, widening participation and re-invigorating the role of local authorities, local councilors and civil society, and increasing trust in public institutions.
- It enhances the effectiveness of public spending by improving the way money is invested, how service provision is monitored, and by increasing the knowledge available to the local authority and public bodies when undertaking service planning.
- Finally it strengthens the community and voluntary sector by investing in services essential to poorer communities, so enabling their development, by increasing the number of people taking part in local democratic processes, and it builds the social capital by creating forums for local groups to meet, negotiate and make decisions together.

The theme of participatory budgeting has therefore had a strong impact on budget process ideas, as its

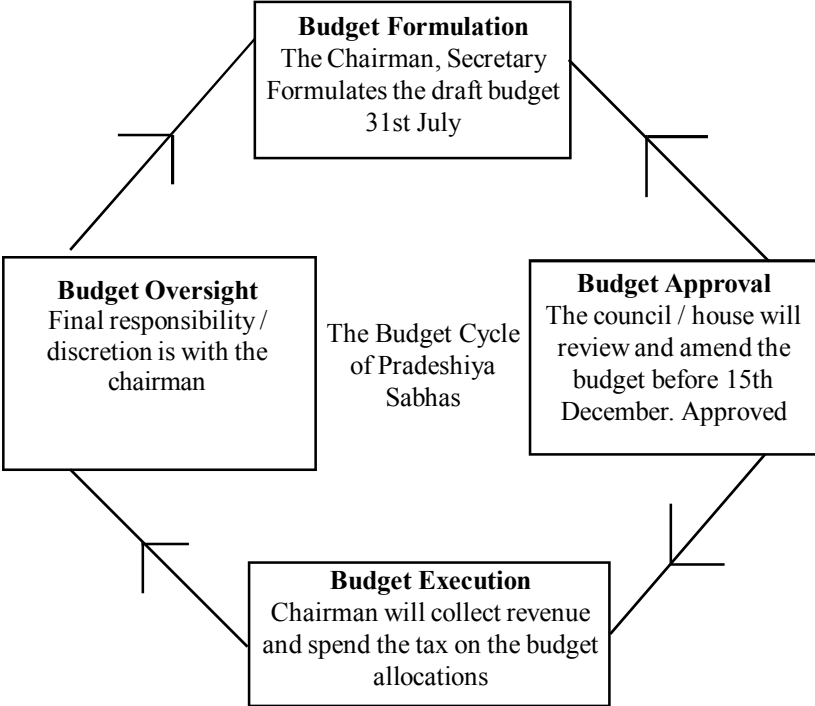
objectives and effects are in line with those recommended on numerous occasions within this booklet. Many of the issues highlighted throughout will have solutions with ties to participatory budgeting, as the budget is viewed for the most part as an effective tool for holding decision makers to account for transparent and accountable means.

The Democratic Gap
Between the Local Budget
Cycle and its Benefactors

The Pradeshiya Sabha Budget Cycle

The budget cycle of Pradeshiya Sabhas (PS) within Sri Lanka is subject to a number of issues. While transparency appears to have improved in the national budget, in PS' there is a lack of accountability, participation, and transparency. The Finance Commission and Supreme Audit Institution are effective tools for regulating the national budget as it travels between different departments, however their roles are in effect obsolete for taxpayers' money at the local level, and there are no similar institutions or watchdogs that currently take their place for PS'. Furthermore a large sum of the PS' revenue is generated independent of the national budget, meaning the majority of local revenue and expenditure never comes under thorough scrutiny and therefore is at risk of mismanagement, corruption or inefficiency. In addition for the most part the taxpayer is isolated from the budget process, disabling them from holding decisions to account based on their needs. The issues surrounding the budget cycle for PS' should essentially be addressed along with recommendations and potential solutions for such concerns. **(Annexure 2)**

Budget Cycle of Pradeshiya Sabha



Budget Formulation

At present the draft budget is formulated preferably by the Chairman, by 31st July of each year (according to *Report of the Commission of Inquiry on Local Government Reforms, 1999*). This therefore leaves the starting direction of the budget in the hands of one individual. This can lead to issues of accountability and democracy, as the concentration of local power to such an extent can be against the will of the taxpayer, and the draft budget can easily fail to address the general policy areas that concern local citizens. This can lead to disillusionment, as draft budgets addressing irrelevant or low priority issues will fail to engage effectively with the taxpayers. This damages the whole budget process, as, if taxpayers are not involved at the start, they are unlikely to re-connect with the process further down the budget cycle. (**Annexure 3**)

Taxpayer Consultation before Approval

After the draft budget has been formulated there is no consultation with the taxpayer before it is presented to the council. This means that beyond the personal judgment of the council the budget is voted on without any knowledge of its ability to address local needs. While local elections help give a general direction for taxpayer preferences, this is insufficient for decision makers to gauge public opinion on the numerous budget proposals put forward each year. This lack of engagement with local citizens leaves little incentive for the taxpayer to ever engage in the process after the budget is passed, meaning accountability is undermined as decisions fail to come under public scrutiny.

The Approved Budget

Once the budget is approved by the council (before 15th December) it should be printed and distributed by 31st December. However the final budget for each PS is at present incredibly

lengthy and technical, and therefore not accessible to the average citizen. Not only this but there is no Right to Information Act in place for local budgets to ensure taxpayers have constant access to the document, instead leaving it to the PS' discretion. This makes it unlikely that taxpayers will read the document to see where their money is being spent, increasing chances of corruption or inefficiency as final budgets will fail to come under strong public scrutiny and allow expenditure to fall into the wrong hands. For example a number of contracts could be given out at an inefficient or unfavourable rate for the taxpayer, as a lack of public scrutiny means the council is under no pressure to search for the most favourable contracts. This also adds to the already poor level of citizen participation from earlier stages of the budget, as a lack of citizen involvement in the draft stages mean that this final budget is unlikely to reflect their concerns, further isolating them from the budget process as they will fail to have any interest.

Not only this but at present the document is poorly distributed within PS'. This means that citizens cannot participate in public scrutiny even if they would like to, (an essential part of democracy,) as they may not be able to see the projects planned within the final budget. If citizens feel they cannot obtain the documents describing budget plans for their area, they are unlikely to participate in the budget process as they cannot see if the council has addressed their concerns.

Execution and Oversight of the Budget

The chairman collects revenues and spends tax on the relevant allocations made in the budget. Considering the budget was based on estimations from the previous year though it can be possible that there is insufficient revenue to cover the allocations, or vice versa. In the case of insufficient revenue, there is currently no indication of what taxpayers are willing to de-

prioritise and so any projects that remain unfulfilled due to fiscal constraints could have in fact been those most important to local citizens. This can lead to public dissatisfaction and distrust of decision makers as they have reneged on their budget promises due to funding issues and cut projects that the taxpayer assigns high importance to. On the other hand if actual revenue proves greater than estimated, there is no mechanism to ensure that such increased revenue is not wasted on inefficiency or corruption, and once again the taxpayer has not been able to highlight where such revenue should be spent, if not saved as surplus.

When projects are undertaken and expenditure begins, it must be sufficiently audited to ensure spending is applied to the correct areas highlighted in the budget. However when the budget accounts are audited they are reviewed by the council / house, and action is required by the Chairman to correct audit findings. This disallows the taxpayer the ability to review expenditure and ensure projects are being executed as planned. In view of the fact that auditing power lies chiefly in the hands of the chairman, there is no guarantee they will acknowledge any discrepancies highlighted from an audit. This can prove highly undemocratic and the taxpayer can feel helpless in ensuring audits are effective as a form of scrutiny for expenditure, echoing their lack of involvement in all previous levels of the budget process. Furthermore unlike at the national level there are no watchdog institutions to monitor the execution and oversight of the budget, meaning that the decision makers do not have to fear accountability for their decisions. This gap in regulation can therefore leave political space for corruption and misuse of taxpayers' money.

Measures and Techniques to Address Budget Related Matters

A number of recommendations have been made based on the evidence the governance and **anti-corruption Programmes'** team have encountered, during the local government budget transparency projects, which should help rectify some of the issues identified within the budget process. Such changes could prove beneficial for both the taxpayer and decision makers, and taxpayers would have more faith and involvement in the budget cycle and in turn councils would enjoy greater trust and satisfaction from local citizens.

- Concerning the draft budget, local representatives, activists, and other relevant groups could be consulted to discuss and highlight the relevant policy areas of concern to the taxpayer, as this will ensure the budget moves in the right direction to address social concerns of that area. This will prevent early disillusionment with the budget, giving space for citizen participation at the very initial stage of the budget cycle.
- After the draft budget has been formulated, there is an opportunity for taxpayer consultation on a greater level. This would mean invitations to similar representatives highlighted for the draft budget, but instead involving a more detailed and in depth consultation process. For example citizens could be given votes on what projects they consider high priority, along with the chance to amend such projects based on the needs of the PS. This can help establish trust between local citizens and decision makers, providing a much healthier relationship than that of the closed budget cycle at present. It is important however that decision makers will genuinely take note of the input made by citizens, otherwise they

will stop participating in the process in the belief that their voices will be side-lined or ignored.

- In terms of the approved budget, it would be far more engaging for taxpayers if a citizens' budget was produced, which highlighted key information such as estimated revenue and expenditure, and what projects will receive funding. This way, taxpayers will be more keen to involve themselves in the process as they can understand and translate exactly if decision makers have realised their concerns and passed them through the approved budget, helping to maintain the motion of participation addressed in earlier suggestions.
- The distribution of the approved budget must reach all taxpayers within the PS. Online access is insufficient, and the council should make it a priority to ensure such a document reaches all local citizens in paper format. Taxpayers will not be able to scrutinise decisions made for the final budget if it is not presented to them, and so is essential for democracy.
- A Right to Information Act would prove instrumental in aiding the oversight and auditing of the budget once it has been implemented. This would allow taxpayers to check that the budget does not falter from its pre-planned direction highlighted in the approved budget, and will allow citizens to hold decision makers accountable for their actions, particularly the Chairman.
- As well as a Right to Information Act, the establishment of a watchdog institution could help ensure there is no gross mismanagement of taxpayers' money during the implementation of the budget at the Pradeshiya Sabha

level. This would mean that both the taxpayer and the watchdog agency would be able to hold to account the budget expenditure and implementation. While such an institution would be most useful during the implementation and auditing of the budget, it could help ensure decision makers adhere to democratic and accountable standards at all stages of the budget cycle.

Since the 1987 Pradeshiya Sabha Act No. 15 the concentration of power had primarily been with the Chairman. However a Bill was passed in Nov.2012 helping spread some of this power to the council and the PS Secretary, therefore proving far more democratic. Unfortunately before the Bill was passed it was not widely available for public scrutiny to ensure it is in the taxpayers interest, as otherwise such changes could have been critiqued independently and looked over before being converted into an Act. The Special Provision Act, 2012 conferred cheque signing authority to two officials, instead of the Chairman. Previously even with overruling by two members, the chairman had been able to use discretionary powers and finalise matters. However now if the budget/supplementary budget is not passed within a week of referral, the Chairman would have been deemed to have resigned³. In effect, the discretionary powers of the chairman have been somewhat reduced through this Act which does in fact address the democratic deficit surrounding the concentration of power the Chairman previously held. This can only be beneficial to the citizen.

Prospects for the Future

It is clear that there are a number of issues relating to the current budget cycle in PS'. Taxpayer participation is lacking at all stages of the budget, along an appropriate watchdog institution and a fair distribution of power. While the system as it stands is unaccountable, closed door and open to corruption, the issues highlighted are most certainly rectifiable to a certain extent, particularly through inclusion of the taxpayer at a number of stages within the budget to fill the democratic void and give citizens greater decision-making powers over their money. This will in turn increase accountability and transparency as taxpayers are far more aware of the budget process and the decisions taken. The addressing of such issues will provide mutual benefit for the taxpayers, decision-makers and public representatives, as the taxpayer will reward them will trust or even re-election. Therefore the scope for improvement is considerable; if all these groups are willing, we suggest to adopt such strategies which are public friendly. **(Annexure 4)**

Fiscal Concerns and the
Impact on Pradeshiya
Sabhas

The Importance of Revenue

The collection of revenue for Pradeshiya Sabhas (PS) is essential for servicing the social requirements of the population. Participation and transparency in local budgeting would have little use if there was no revenue available to spend. Therefore PS' must be sufficiently funded via local taxes and grants from the national budget to ensure it has the fiscal capacity to address local concerns. Not only this but PS' are the most effective tool for delivering local services, as it is the closest level of government to the taxpayer. National government or provincial councils are in nature centralised and unsuitable for addressing social concerns due to the varying requirements of different villages and towns, and so the potential of PS' must be fully realised. However at present there are a number of issues regarding the generation of revenue that continually erodes the autonomy of PS', and such issues must be addressed to prevent this from happening. They face considerable funding issues in particular as they fail to generate the revenue necessary to provide a respectable amount of public services. This is due to a weak flow of funding from the national budget, or high levels of defaulting on tax payments from local citizens due to a lack of trust in PS service delivery. The current problems they face shall be highlighted below.

Top Down Funding Concerns

At present a PS generates around 70% of its revenue through its own local taxes. This means that funding from the national budget constitutes just 30% of a PS' total revenue, via block grants, matching grants and project specific grants. This

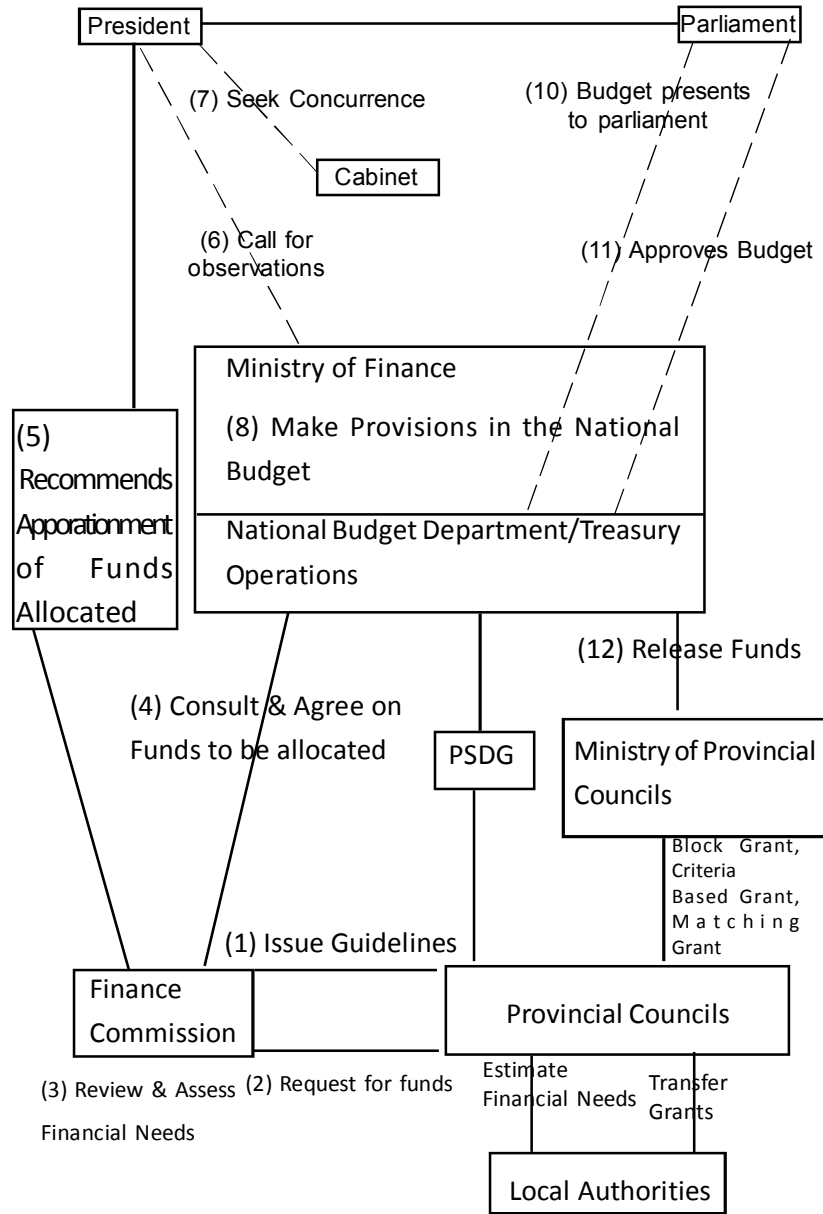
leaves excess pressure on the PS to generate the majority of revenue (funds) for its budget, while the national budget fails to live up to its responsibility of providing adequate funding for local services. Instead the national budget is spent on programmes that provide minimal benefit for local citizens, when in fact the regulation has identified that the budget should provide around 60% of a PS' revenue.

Not only this but funds for PS' go through an elaborate allocation process. The finance for Local Government is first legislated nominated by the cabinet and distributed to the Treasury. The Treasury then distributes such funds to the relevant line ministry (Local Government & Provincial Council). This is finally distributed to the Provincial Councils (PC), who then distributes the revenue to 335 local authorities (LA), of which 275 are PS². **(Annexure 5)** The PC effectively acts as an unnecessary middle man at this stage, and can lead to mismanagement of funds due to corruption and excess expenditure at this provincial level. This is made all the more likely by the fact there are no strong auditing institutions to make sure revenue is distributed fairly and efficiently from the PCs.

The local government funding allocations are also vulnerable to abuse from the Treasury once they have already reached the PCs. With the prioritisation of new projects or schemes at the national level, the Treasury will extract revenue from the PCs to pay for such initiatives. These initiatives are rarely beneficial to the taxpayer, and so such extraction represents a direct loss of funding for local citizens. For example in 2009 the government set up new ministries and channelled funding from

the Ministry of Local Government, which had already allocated (who are already established as relatively inefficient themselves), is meaning the taxpayer ultimately loses out. This further disillusioned citizens, as they feel that their finances are never safe from mismanagement. This also places any revenue estimates for PS' into question, as it can never be known if the Treasury decides to take away funding in favour of different projects.

Allocation Process of Funding to Local Authorities



Support and Training for Pradeshiya Sabhas

At present there is minimal support for PS' in terms of knowledge and skills for ensuring tax is collected and spent appropriately. No supervisors are put in place, and while there are guidelines for such procedures these are considerably vague. Also, as guidelines they have no legal binding and as such cannot enforce or have much impact on the day to day running of PS' in terms of public revenue generation and expenditure. This lack of training and skills can lead to severe mismanagement of taxpayer revenue, as decision makers are not familiar with how to ensure funds are streamlined and spent in the most efficient manner.

Promoting Reform

From the concerns highlighted above, we can suggest a number of changes to the current system of generating revenue that may aid in increasing transparency and accountability, while reducing waste and corruption. These reforms are essential if the process of obtaining public revenue is to become an accountable and effective system.

- The National Budget must cater for a much greater percentage of the PS revenue. At just 30% it leaves far too much onus on the PS to generate its own tax. The National Budget has the fiscal capacity to do so; it is simply that at present such potential funds are distributed for other means. In line with the regulation mentioned previously, a PS should receive 60% of its revenue from the National Budget. This will relieve

pressure on the PS and help reduce the local taxes it puts in place, therefore gaining favour with local citizens. This will also help prevent the PS' from taking a business like structure, and instead will allow them to focus on social and public provision rather than the generation of revenue.

- Finances from the National Budget should be transferred directly to the PS' accounts. This manoeuvre would prevent waste and inefficiency at the PC level; cutting out the middle man so to speak, and would make it more likely each PS receives its full allocated share, as the National Budget comes under greater auditing than the PC budget.
- It is important that, if revenue does go straight to the PS, it should go to an administrative department rather than the Chairman's account. This can help prevent abuse of public funds for self-interest on behalf of the Chairman. The current Bill that addresses PS' will help distribute power more evenly across the council, however it is key that if the Bill does become an Act it does in fact address the specific problem of distribution of revenue, ensuring it streams into an administrative account.
- An audit institution must be established to monitor the generation of tax within the PS', so that local citizens can be assured that generation of tax is fair and is spent accurately. At present no such institution exists, and with the concentration of power at the Chairman level it is important that an audit institution is on hand to ensure

public accounts are coherent with expenditure, and ensure the taxpayer has had the revenue returned in the form of value for money service provision. A Right to Information Act must also be introduced so that both the taxpayer and such an audit institution could have access to revenue accounts.

- The Local Government minister must actively raise concerns regarding funding of their department, particularly regarding corruption and inefficiency. This must happen at the parliamentary level, with support from other ministers to gather momentum. If the minister manages to successfully address concerns regarding corruption from local citizens, they will in return be given more faith and trust from the taxpayer, reducing disillusionment in the funding process. This must be more than rhetoric however, and the minister must act upon preaching of transparency and efficiency. Furthermore Civil Society Organisations (CSO) and activists must rally in support of any such movements to reduce corruption and increase funding for PS', through lobbying and public awareness.
- The current level of default on taxes must be altered through greater service provision from the PS. With the suggestions above of greater auditing and an enlarged revenue stream from the National Budget, PS' should be able to obtain tax more reliably. This is because as the PS receives greater funding from the National Budget it will have more revenue to spend on public services, which in

turn gains local citizens' trust, and inclines them to pay their taxes as they place more faith within their PS. This therefore benefits both the taxpayer in the form of public services and the PS in terms of increased revenue.

- The Taxpayers must also be included within the decisions regarding local revenue so that they can contribute towards deciding what is taxed and at what levels. If local citizens are able to participate in this process they will be more inclined to pay their taxes, as they have decided to pay at such rates in the first place. This also gives the taxpayer a sense of ownership over the revenue process, giving them more incentive to engage with their local PS and its decision.
- Support mechanisms must be put into place to help decision makers, activists, CSOs and local representatives working in relation to the PS', as at present many are not familiar with the exact methods of practice within their job. This can come in the form of supervisors or more vigorous guidelines (that preferably have some form of legal binding for decision makers). Such training will help these groups to streamline expenditure more effectively, and ensure revenue generation is fair and efficient. Bylaws alongside such training are also essential, as this will effectively give PS' more autonomy over their revenue, as they are able to legally and legitimately decide its individual way of generating finance without fear of reprimand.

The Future of Revenue Generation

There are obvious issues relating to revenue generation at present that limit its transparency, accountability and efficiency at the expense of local citizens. National funding for PS' remains inadequate and the process of transferring such revenue to local decision makers remains bureaucratic and wasteful as it travels through the PCs. Furthermore the business structure that seems to have taken hold of PS' has meant that taxpayers have failed to place faith within their local services, and so local tax receipts remain low from distrust and disillusionment. There is also a clear lack of skills at the local level to streamline revenue and ensure it provides maximum benefit for the taxpayer, along with non-existent auditing to prevent corrupt use of such public funds. The suggestions made help make the funding of PS' from the national budget greater and more direct, along with greater auditing at the PS' to ensure citizens trust their decision makers and reward them with full tax receipts. With greater training and a more even distribution of power within each PS the council can manage revenue more effectively. Through such changes can arise a more transparent and accountable revenue system at the local level, providing benefit to both the taxpayer and the PS.

The Local Citizens' Budget

Why the Local Citizens Budget?

At present the budget acts as a highly technical and lengthy document that explains allocation of funds. For the most part this is inaccessible to the average taxpayer due to its complicated nature. The local citizens' budget would be a version of this budget that comes in a more taxpayer friendly manner, and is significantly non-technical. This document would outline the basic and major needs of taxpayers, how the local or Pradeshiya Sabha (PS) budget has addressed these issues, and the finalised provisions and priorities. The entire budget document is unnecessary for local citizens and fails to engage with them in the correct manner, and so the citizens' budget rectifies this problem. This can also be applied to the national budget, so that all taxpayers of Sri Lanka are able to see macro level decisions made by the government regarding finance and expenditure.

The citizens' budget would include finances raised, spent, and with the individual financial effects on citizens for different products or services, for example tax changes that affect the prices in local shops, or increased costs for drivers in obtaining a car. This is an area that has in particular been forgotten by local representatives, government officials, activists and local government members, and this sort of information provides a vital opportunity to engage the taxpayer with the budget process.

There are a number of reasons why the creation of a citizens' budget is essential.

Government Dependence on the Taxpayer

Firstly, a major component of government revenue comes from the tax paid by citizens. Therefore if the taxpayer is not engaging with the budget process and become disillusioned, they may default on their tax payments. It is therefore in the interest of the government to ensure local citizens remain interested and have faith in the budget cycle, cooperating with them legitimately at the execution, and so the citizens' budget helps achieve these objectives.

Citizens' Rights

Citizens also have a fundamental right to know about the budget. The technicality of the current budget documents effectively prevents many local citizens from knowing about financial decisions as they struggle to understand it, and so a local citizens' budget would address this concern by restoring their right to information on such matters.

Transparency and Monitoring

Citizens can also monitor budget decisions far better with access to a citizens' budget, as they are able to see changes over time in expenditure on certain projects or social areas, and check that revenue has not been subject to corruption. This will also allow citizens to voice concerns with decision makers far more regularly, helping shape the path of local funding.

Preparing for Future Budgets

The citizens' budget also acts as an effective arm for taxpayers to prepare for the next budget. With access to easily

understandable information they can be alert to inefficiency and mismanagement, and monitor each budget over time. It also allows them to contextualise expenditure as they can see what previous levels of spending were on certain social issues, rather than simply seeing a snapshot that cannot be interpreted.

Citizen Proposals in Decision Making

The existence of citizens' budget also allows taxpayers to draw up and prepare proposals for the next budget. Observing where funding is lacking on certain projects or social concerns, they are able to deliver proposals to the PS. This will be particularly effective as being the citizens affected by such decisions they will be in the most knowledgeable position in terms of what provisions they require. If the PS is willing to consider such proposals, this will drive efficiency in tackling issues, and help restore mutual trust between the taxpayer and the decision makers.

Public Pressure

The citizens' budget can help increase public pressure on decisions made at the national and subnational level, as the knowledge that taxpayers will have access to their budget decisions will mean they must ensure their decisions please local citizens. Such public pressure is good for democracy, as it essentially helps give local citizens a voice on budgetary matters. Such a tool will act as a reminder for PS' to stay on track and keep to their promises, therefore enhancing accountability for local politicians.

Towards Adoption

The points highlighted emphasise the importance of a citizens' budget, which will enhance transparency and democracy, giving the taxpayer a far greater role within public finance proceedings. The non-technical manner of such a budget will allow any citizen to engage with it, and are therefore able to hold decision makers to account far more effectively. Therefore we keenly encourage the adoption of such an approach, which will complement other measures seeking to further include local citizens in decision making processes.

The Voice of Local Actors within the Budget
Process of Pradeshiya Sabhas

The Importance of Local Actors and their Voices

While we have outlined issues and recommendations regarding a number of aspects of the budget process, it is essential that the views and concerns of those involved in such a process are voiced. As they are the members involved in the process, they are likely to have first-hand knowledge of the issues that surround the budget process, and so they can offer an insight that is largely unachievable via research from outside the process. The people involved in the cycle can range from local councillors or Chairman, to local representatives or journalists. The experience of these different groups will vary within budget cycle, and so each will offer different perspectives to consider when discussing issues and recommendations. Therefore it is important when considering the views of different actors to put them into context with other experiences, so that a full picture can be gained of first-hand concerns. This is not of course to say that all views will be concerns, as some may find that particular aspects of their budget cycle seem efficient or accountable. The variation of praise and concern will help set the benchmark for what methods are effective and democratic in Pradeshiya Sabhas (PS') and what are inefficient and unaccountable.

The views we present have been gathered through workshops and discussions with such relevant actors. Some comments shall be general points that have been picked up from a number of related actors, while some will be more specific to one individual or one particular comment. Moreover different PS' have different experiences and so an issue remains that some actors will not necessarily represent all PS' across Sri Lanka.

Concerns over Chairman Power

Councillors within PS' have expressed concerns over the large amount of power Chairmen have at present³. The Pradeshiya Sabha Act has guaranteed them a unprecedented power over budgetary issues, and councillors have found this particularly challenging to work with. They have expressed concerns that when they propose ideas (whether taken from local citizens or developed themselves) to the Chairman, for example feedback on the budget or new concerns over expenditure, the Chairman can simply ignore this feedback, and regularly does. Additionally local councillors will also raise the issue that if a budget is defeated and fails to pass at council, the Chairman can simply overrule such a decision. This has proven frustrating for councillors who feel such an issue is making the process considerably undemocratic. The Secretary of Galgamuwa⁴ PS has also found that some councils have Chairmen that dictate decisions in an authoritarian manner, emphasising the need for councillors (particularly those in opposition) to be able to voice their concerns without this problem.

Involving the Chairman in Budget Formulation

Some of the council secretaries and council members have also raised the issue that the budget formulation process has a lack of input from the Chairman. The secretaries in particular have found that while they have dealt with the budget formulation, the chairmen failed to involve themselves and help with such a process. This has led to a lack of knowledge and engagement in the budget process from such Chairmen. This

has not necessarily been the case in all PS', however it has been found in enough to warrant it a considerable issue.

Related to this is the concern from council members that all budget related contracts are decided by the Chairman. It can be found that they don't consider the budget formulation process in terms of its use for local citizens, and instead such control in budget contracts has been observed to lead to Cronyism. Such practices can of course be dangerous for the PS' finances, as contracts may be given at a poor rate for the taxpayer, with Chairmens' acquaintances overpaid on such contracts. The former Senior Assistant Secretary to the Local Government Ministry⁵ has raised the concerns related to this, arguing that in many cases the Chairman acts as a "one man show", failing to take into account the views of council members and local representatives, which seems to be the case regarding budget contracts.

The Structure of the Councillors

Through the workshops conducted by the Governance programme so far on PS' we have found that some members of the council, particularly opposition members, have found that the PS is organised as a ruling party and opposition, even though this is illegal. In actual fact councillors should sit by seniority within the House, rather than along party lines. Opposition leaders and councillors have therefore found that their vote on matters is restricted to falling within the parties position, when in fact they may wish to vary their voting to an extent.

Opposition members have also found that the ruling party will make budget decisions without consulting them, which will lead to a politically biased document. For example when deciding on where spending should fall, the ruling party will ignore the input and suggestions from opposition councillors and simply enforce decisions without consultation. Opposition members are still elected representatives of taxpayers within the council, and so regardless of position in the PS they have a right to be consulted regarding budget decisions. Therefore many opposition members have become frustrated and have felt helpless in contributing towards the budget process and other related development programmes. Because of this, the work plan of the council has become a wish list of the Chairman and ruling party members.

Chairmen's Perspective on Finance

It has been observed that some chairmen cite financial instability as an issue in regards to the budget, meaning it is difficult to fund a number of projects within the PS. The Chairman of Yakkalamulla⁶ has argued that the PS has dealt with the financial situation as best as possible, but highlighted that citizens must be aware of the financial difficulties the PS is facing. The Chairman welcomed any form of mechanism that would give greater financial stability and support to the PS, and it would appear that regular finance would make it far easier to run a PS efficiently, and cater to the taxpayers' needs. The Secretary of Karainagar⁷ PS has also raised the issue of funding, saying that, as they run on such a low budget it is very difficult to accommodate local citizens' ideas and proposals, as there are

simply no finances to undertake such suggestions. This is a practical example of the business like structure of PS' mentioned within the paper on fiscal concerns.

Thoughts from Passara Pradeshiya Sabha on Transparency and Accountability⁸

As previously mentioned not all input has been negative. Local citizens within Passara Pradeshiya Sabha (PS) have said they are satisfied with the system of governance there, and have found that the PS listens to them. As they have such a feeling towards the council, they have placed trust within it, which means they are far more likely to pay taxes or involve themselves in decision making as much as they can. The Chairman of the PS reflects such a position, arguing that the PS is there to listen and serve the community. They believe that a local council should be transparent and accountable, and the Chairman aims to achieve such goals through participatory planning, budgeting, monitoring and implementation, which appear to be working due to the positive response from local citizens. This is uncommon compared to other local councils across Sri Lanka.

Public Participation in Pradeshiya Sabha Meetings

Citizen's committee members have expressed that they do not in fact have many opportunities to take part in PS meetings. In Haliela,⁹ Badulla for example they cite a lack of motivation and facilities as part of the reason, and that the relationship between them and the PS is very poor. In addition to it the taxpayers have claimed they are poorly informed of relevant meetings, and so the information is not disseminated

to them to raise awareness among them. For example in Lunugala PS¹⁰ the local citizens say that although there are some chairs in the gallery for taxpayers, they do not know if they can attend certain meetings.

The councillors echo many of these points from an opposite point of view, stating that they cannot involve taxpayers in decision making as they do not turn up to budget related discussion. Therefore it is clear there is a poor relationship between the two groups, as they take opposite views on a related issue. However the Chairman of the Point-pedro PS¹¹ has said that while the council has not currently set up a mechanism of listening to citizens' ideas, they are perfectly open to an organisation or agency setting up such a link, meaning that there is potential for stronger relations between the taxpayer and the PS at the willingness of the Chairman.

Furthermore the secretary of Poonagari, Killinochchi PS¹² has said they have rolled out a number of innovative methods to engage with the taxpayer and improve the running of the PS, for example obtaining information from local citizens on what books to get for local libraries, a decision previously taken by officials.

Local Representatives Awareness and Participation

The relationship between local representatives and the council is in some cases at an acceptable level. When such a relationship exists, it is far easier for interactive dialogues to take place. The representatives can conduct various programmes and workshops in collaboration with the PS and its resources.

However it has also been found that some local representatives are not aware of how the budget process works within PS', and are also unsure what mechanism is available to bring ideas to the council. For example the Chairman for the Progressive Farmers Association, Hingurakgoda¹³ in North Central Province has claimed that while he has embarked on some activities with the council in regards health issues, he found that he has little knowledge of how the budget process is run. Not only has he said that he requires a mechanism to allow him to take ideas to the council for budget consideration, to foster a closer relationship between the PS and his Association.

Within this though there is potential for conflict. In the Galgamuwa PS¹⁴ the Secretary has found that when consulting local citizens, some councillors become distressed as they feel they are representing the taxpayer. Therefore it can be seen as interfering with the election structure and concept of representation from these councillors.

Media Relations with the Budget Process

Provincial journalists have found that PS' are not particularly helpful in allowing them to cover local issues and budget related concerns in the media. A research project of the Outreach unit of the CPA¹⁵ was conducted in which 225 PS' were contacted and asked if they facilitate the media. They found that many of the PS' gave some provisions to provincial journalists such as travel allowances, however in general there were inadequate provisions in terms of public gallery space or meals and refreshments, meaning that journalists do not become fully involved in the budget process and development issues.

It has also been found that journalists have had a strong relationship with the Chairmen and the Secretaries, however they do not have similar relations with the rest of the PS' members and councillors. For example a provincial journalist within Trincomalee PS¹⁶ found that fellow journalists had a degree of knowledge regarding tax and the budget process, however he believed that the majority of local citizens do not have the same awareness. They also found that they struggle to access many budget documents, and so it can prove difficult for journalists to report effectively on issues in reference to the budget. Other media actors that have been contacted have claimed that local budget debates lack CSO representation, active public galleries, budget players and interested citizens. Therefore citizens have no evidence over whether their budget proposal has been taken into account or has been sidelined and neglected.

The Pradeshiya Sabha Act and Council Discussions

Some Chairmen have brought up the concern that many discussions fail to focus on local issues. The trend of the country has not been in line with the Pradeshiya Sabha Act and instead local councillors have been discussing central government matters at length during meetings. For example the Chairmen of Yakklamula and Galgamuwa have raised such concerns, as focusing on central government issues can detract from the importance of social issues within that PS. Moreover the journalists within Trincomalee found that many discussions did not focus on rural development and instead council members were keen to raise national issues, which are not of particular interest to local citizens.

Reflections from the Former Senior Assistant Secretary (SAS) to the Ministry of Local Government and Provincial Councils

When discussing the current situation of PS' with the former SAS ¹⁷, he claimed that there is a lack of process in budget matters, and any guidelines that do exist are not being followed, for example national procurement guidelines. He suggested that CSOs and government programmes could enforce such guidelines more vigorously, and help provide training for Chairmen and council members so that they are able to serve their local citizens more effectively. As mentioned previously, the Chairman also tends to run the PS singlehandedly, and this can raise serious questions over accountability and transparency. The SAS believes this concern is the key budget related issue to address if citizens are going to place faith in the PS system.

Recommending Measures based on such Views

From the views given by various actors in the budget process it can be possible to disseminate and highlight potential measures to address some of the concerns raised by their first hand experiences. These are listed below.

- Reform of the Chairman's power within PS', such as obligations to listen to other councillors and reducing their power to overrule decisions made by council. This also includes less concentration of power in regards to deciding construction and purchase related contracts, along with a good balance of involvement within budget formulation. At present a series of amendments to the Pradeshiya Sabha Act is in the process of being approved,

as mentioned in the paper on issues related to the budget cycle of PS', which has the potential to curtail such powers and distribute them more fairly, addressing related concerns. However it is important that these amendments included firstly are passed through parliament, and secondly address the specific concerns highlighted by local actors over the Chairman's power.

- It must be enforced far more powerfully by law that councillors do not sit along party lines, and instead must sit according to seniority. This will allow councillors to better represent their citizens, as they will not be pressured to vote along party lines. It is not a matter of introducing the law, but tightening and enforcing it effectively. If the rule of law is followed, it will increase the trust of citizens as they feel that decisions are not made by political party interferences. The citizens will also believe that the councillors will truly consider proposals from across the House without interference, and shall work as a team across all party lines.
- As proposed within the paper on revenue collection for PS', the national budget should provide a greater proportion of total PS funding. This will help prevent financial instability, and allow the PS to reduce tax rates locally, pleasing local citizens. This will also allow the Chairman to focus on spending concerns, rather than issues regarding how they will raise their revenue.
- Taxpayers must be involved within the decision making processes, in light of the success of Passara PS, and the new initiatives being implemented by Galgamuwa

Council. This should involve promoting greater awareness for local citizens to attend budget discussions, and giving them an ability to regularly attend meetings and put fourth suggestions and proposals for the next budget. This has also been mentioned in previous papers, and could serve as a method for creating better relations between the taxpayer and the PS, as is the case in Passara PS. Local citizens must also be motivated to attend such meetings, and so it is important that taxpayers are given a real say on issues, along with a reduction in corruption through other measures to ensure they have faith in the system. Moreover consultation must be improved with opposition councillors, so that all representatives are listened to and all ideas can be voiced from across the political spectrum.

- Clear mechanisms should be emphasised for making proposals and bringing ideas to council as well, in light of the points given by the Chairman of the Progressive Farmers Association. It is possible that with the co-operation of Chairmen, and possibly external Civil Society Organisations, mechanisms can be set up that give an official process to bringing ideas to council. While this to an extent can be seen as undermining the concept of councillors representing and relating local citizens' views, the many issues surrounding PS' at present mean that it seems necessary to listen to local representatives and citizens directly, as some feel their ideas are not being voiced.

- Journalists must be given greater provisions in order to attend as many council discussions as possible. While funding for this may be difficult it has been recommended that more funding is received from the national budget. Additionally they must be given guaranteed access to budget documents, so that they are able to monitor the situation with the local budget. This will allow them to disseminate information to the taxpayer, and can act as a scrutinising mechanism.
- It must be ensured that local issues are discussed rather than central government issues. This can be enforced through greater public awareness and scrutiny from measures mentioned above, which will indirectly encourage councillors to discuss relevant matters as otherwise the taxpayer is likely to complain and add further pressure for discussions that are in their interests.

Considering the Opinions of Budget Process Actors for Future Change

There are many issues raised by different actors surrounding the budget process. These actors range from journalists to local citizens, or the Chairmen of the PS', and each view offers unique insights into how to address concerns surrounding PS. There are evidently poor relations between the council and other actors such as local citizens, and these need to be improved. There are however concerns within the council itself, such as, Chairmans's powers and structure of meetings as regards party lines. These concerns are not futile, and can indeed be addressed successfully if each group within this

process is willing to open dialogue with others, and work on solutions to such problems, such as those suggested within this paper. Passara PS and its optimism from both local citizens and the Chairman show that if transparency and accountability is strived for, it can lead to content local citizens that are satisfied with the budget process being enacted. And so actors can use the views and suggestions mentioned to understand and commence dialogue with other groups, so that they may be aware of each other's grievances and address them accordingly.

Yakkalamulla Pradeshiya Sabha

The Initiative of Yakkalamulla

The dialogue of Yakkalamulla Pradeshiya Sabha (PS) is a completely new initiative, put forth by the Chairman of Yakkalamulla. The PS is comprised of 44 GN divisions, and 5 representatives of each GN division (altogether 220 representatives) are invited to participate in the dialogue¹⁸. The Chairman, opposition leader, ruling party, opposition members, officer in charge of the police station and representatives of community development committees are all represented at this dialogue.

Such a dialogue shows the local citizen participation in the political process of the PS, looking to gain influence and a voice on budget related matters and participatory planning so that they may choose how their taxes are spent. The dialogue also shows the project on improving transparency and accountability of PS' budget process in Sri Lanka is in the interest of the Chairman and the Committee members, as it includes more citizen participation into their development plans and process, and other PS activities. The promotion of strong citizen participation from the project has therefore clearly influenced the PS process in Yakkalamulla, and is likely to benefit both decision makers and local citizens, particularly through greater trust and a more positive relationship.

Local Citizen Interest

Observations from the dialogue in the Yakkalamulla open gallery clearly showed a keen interest from local citizens, and discussions covered controversial topics, of which the council

was willing to address and debate. The size of the gallery clearly facilitated a strong dialogue, as it allowed many representatives from across the PS area to voice their opinions on budget and planning related matters. This is unusual in comparison to other PS', who rarely have the same facilities to allow such dialogues to take place. This also shows a strong tripartite relationship between government representatives such as public, officials (including police grama officers and samurdhi development officers), the secretary of the council, and local citizens.

Creativity and Open Discussion

The high turnout for the dialogue clearly showed willingness from local citizens to participate within the budget cycle of the PS, both to provide new ideas for development and the political process and also to act as an investigative and monitoring mechanism, so that the PS and its decision makers could be held to account. Local citizens were passionate and strong in their voicing of ideas and opinions, showing no fear of reprimand and a sense of trust between the PS and its local citizens.

Representation

The dialogue also gave wide representation from across the PS, and no areas or groups of citizens were isolated from the discussion by lack of invitation or lack of participation. This was a vital aspect of the dialogue as it ensured that decision making regarding budget and planning matters took into account groups that may be affected by such decisions. This way plans for the

budget and development always reflected the opinions of any group that would be affected by such decisions.

The Community Council

The initiative in Yakkalamulla has led to the establishment of a “community council”, the first of its kind at the PS level. This council evenly represents the entire PS, disregarding Geography, ethnicity, or other factors likely to interfere in fair representation. This will be a perfect platform to engage in strong participatory budgeting, as it can voice all community needs that may otherwise be ignored or remain unaddressed. This will showcase the citizens’ budget where taxpayers will be part of the monitoring process at budgets execution.

Leading by Example

It is clear that the path the PS has recently taken has fostered greater public participation and more transparent and accountable budgeting. As a project team the main objective has been achieved to some extent, as it has been shown in practicality how local citizens have begun to participate in budgeting and start their own initiatives to put pressure on the council and its members. If the PS continues to follow such a process, it will gain ongoing and greater participation from the taxpayer who will in turn place much greater faith in the council’s ability, as they will be far more aware of the concerns of local citizens in the PS. It acts as an example for other PS’ across Sri Lanka, showing the path to transparency and accountability that the taxpayer deserves, and shall hopefully act as inspiration for its adoption across other PS’ in the country.

The Budget Process: The National Context

From Local to National

Whilst this booklet has taken a sharp focus on local budgeting processes, particularly within Pradeshiya Sabhas (PS), it is important to make a final address to the national budget. As highlighted in previous papers, the national budget at present contributed to around 30% of PS' revenue, and so it is relevant to consider issues surrounding national processes. Not only this but it is a topic not to be entirely neglected, due to the importance of the national budget on such wide ranging issues across the whole of Sri Lanka, rather than simply PS'. The transparency of the budget itself has been increasing according to the Open Budget Index (OBI) conducted in 2010 by the International Budget Partnership (IBP). In 2006 it scored 47/100, meaning some budget information is provided. This moved to 64/100 in 2008 and finally 67/100 in 2010, meaning significant information is provided. **(Annexure 6)** However this does not mean that significant issues do not remain surrounding the national budget process, and it would be naïve to believe that such a score warrants no further inquiry. This paper addresses such an inquiry, finding issues and providing recommendations.

The national budget is currently formulated by the Ministry of Finance, and the budget is approved by the Treasury. The Treasury is then able to allocate finance to the various line ministries, for example the Ministry for Education or the Ministry for Local Government and Provincial Concils. The different ministries will then allocate their funds more autonomously, although the Treasury can regularly take funding away from certain ministries for different uses. While in theory it is possible

that there is no problem with such a system, in reality there are a number of concerns regarding these processes in relation to transparency, accountability and corruption, that permeate within many of the processes relating to the national budget. And so it is important to discuss such issues, as they hinder the effectiveness of the national budget to serve the taxpayer across all of Sri Lanka.

Taxpayer Awareness and Participation

At present the taxpayer is still far too unaware of the national budget process. Many fail to make the link between the money they pay in taxes, and the services they should therefore receive from the government. This lack of awareness means the “taxes to knowledge” deficit is exploited to some extent by those who legislate and execute the budget, as they choose not to bring the taxpayer into the budget process still, knowing there will be no complaint from them. This leaves great space for mismanagement of the public purse and corruption through practices such as Cronyism. Not only this but such a lack of understanding and knowledge means the taxpayer does not push to participate within the national budget process, meaning there is minimal public scrutiny.

The Right to Information

If a government is to be held to account on its budget related decisions, the taxpayer must be free to observe such decisions whenever they choose to. However at present there is no mechanism that guarantees citizens’ ability to view budget documents at the national level. While there are some indirect policies that give the taxpayer a little insight into the national

budget, this cannot be substitute for a full Right to Information Act, that permanently grants access to any budget related information the taxpayer wishes to view. This is particularly important at the national level, as unlike a PS' budget the national budget is considerably larger, and therefore has the potential for far greater waste and corruption. The citizen is also more likely to trust the government if they feel they are not attempting to mask any information from the public eye; only a Right to Information Act can guarantee this.

Ineffective Audits

At present auditing within the national budget process exists on a greater level than for local budgets. However this does not mean that the audits are perfect or entirely effective at scrutinising accounts and disseminating this information to citizens. The annual audit report from the Supreme Audit Institution Auditor General does indeed scrutinise budget accounts, however it takes far too long to reach the public domain. This means that by the time the audit report is released, the budget has since been forgotten and attention is instead focusing on the next annual budget. This means budget decision makers feel little pressure from such an audit, as so far there has been minimal pressure from citizens based on these audit reports for change. The comprehensiveness of such audit reports also prevents many citizens from understanding them, as similar to the budget itself the report is lengthy and technical. The taxpayer will not be able to utilize such a document for scrutiny against the national budget if they are unable to understand what the audit report is telling them.

Isolating the Taxpayer through Technicality

Sharing similarity with the technicality of the audit report, the national budget itself is considerably complex and difficult to digest. This can be more so than local budgets, as it will include the allocation of far greater funds and larger sums of money. As mentioned in the paper regarding the local citizens' budget, the technicality of budget documents can isolate the taxpayer and result in apathy about budget procedures. With a lack of interest comes a lack of accountability, as the taxpayer will fail to hold their representatives to account based on the finances of the national budget, therefore giving taxes without any knowledge of how they will be allocated.

Finding Recommendations and Solutions

Based on the issues highlighted above, a number of recommendations can be made to help improve the national budget process in terms of transparency, accountability and active participation of the taxpayer.

 n The government should promote far greater awareness of budget procedures amongst the taxpayer, as at present they are simply not aware of what documents or information to look out for. This could also come in the form of greater media coverage, which could present current budget matters in a more relatable format. Additionally public participation should be keenly encouraged, so that they have more faith and interest within the budget process and therefore are more knowledgeable of the expenditure of their taxes.

- A Right to Information Act, as recommended in previous papers for local budgets, should be implemented. This will give citizens the fundamental ability to view whatever national budget documents they wish, and decrease chances of corruption and inefficiency as citizens (and media) are able to keep a far closer eye on the situation of the budget, and how it is being spent. It is important this Act grants access without risk of reprimand, as decision makers within the budget process should not be allowed to interfere with the use of such an Act by the taxpayer.
- The national budget should also be simplified into a citizens' budget format for the taxpayer, much like that recommended in the local citizens' budget paper. This would give taxpayers more interest within the national budget cycle, as they feel they can monitor its circumstances with relative ease due to the simplicity of such a budget. It is clear such a recommendation has potential for all budgets, and so this is one of the more important policy measures put fourth within this booklet.
- The audit report from the Supreme Audit Institution should be far more timely and relevant to the budget proceedings at that time. This will mean that at the time of national budget execution the taxpayer is able to scrutinise this process and watch for corruption when it is still relevant and in

process. Furthermore the audits produced should either be edited to be more accessible to the taxpayer, or a second document should be produced similar to the concept of the citizens' budget, so that they are always able to identify where corruption or mismanagement in the national budget process has taken place.

The Future of the National Budget

From such issues it is clear there are a number of problems regarding transparency, accountability, and most importantly of all democracy that must be addressed if the taxpayer is to trust the budget cycle and maintain an interest in it. The recommendations put fourth should go some way to solving such concerns, and have the potential to restore some citizen involvement and participation within the national budget system. It is important though that the system is reflexive, and when new problems arise it should be quick to identify them and find ways of addressing them. Such a reflexivity can be developed through a more transparent and accountable system, which gives incentive for decision makers to consider problems through public scrutiny of their ability to deal with them and a more trusting relationship between the taxpayer and the government. If such issues are addressed at the local level as well, it will make for a far more efficient and democratic budget process, which addresses the needs of its citizens.

Thoughts and Reflections

This booklet has sought to explain the issues surrounding budget processes at both the national level and local level, particularly surrounding Pradeshiya Sabhas. It has highlighted the many issues that surround the budget cycle such as formulation, execution and auditing, and has scrutinised the processes of revenue generation for Pradeshiya Sabhas. These issues have surrounded the themes of transparency, accountability and corruption, which have been found to hinder the efficiency of the budget process. In addition to this it has

offered the views of various measure actors within the budget cycle, such as politicians or local representatives, so that issues can be raised based on the first-hand experiences of those involved in the cycle. The culmination of all these issues has allowed us to present various recommendations that follow themes of great taxpayer participation and awareness, along with greater monitoring mechanisms and fairer distributions of power. The citizens' budget in particular has been highlighted as a potentially effective policy tool for giving taxpayers a much greater involvement in the budget process, and we keenly encourage the adoption of such a measure for all levels of budgeting.

While these recommendations are relevant at present, it is important to monitor budget processes over time to see what other issues may arise, as the budget cycle is by no means static and instead is open to change as new structures or policies are introduced. Whatever issues do arise, the aim of any solution should always be to serve the citizens most effectively, and transparency, accountability and taxpayer participation should be at the heart of such solutions.

Further Readings

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- *Urban Councils Ordinance, Chapter 255 No 61 of 1939*
- *Annual Budgets 2012 of Kuruwita PS of Ratnapura District and Yakkalamulla PS of Galle District, Sri Lanka*

Foot Notes

1. The Project *Reconnecting Citizens and Local Authorities in North* funded by USAID/RISEN
2. www.pclg.gov.lk
3. If the Pradeshiya Sabha modifies or rejects all or any of the items in any budget or supplementary budget or adds any item thereto, and the Chairman does not agree with any such decision of the Pradeshiya Sabha, he shall re-submit the budget or supplementary budget to the Pradeshiya Sabha for further consideration. Where a budget or supplementary budget is not passed by the Pradeshiya Sabha within two weeks after it is re-submitted, such budget or supplementary budget shall, notwithstanding that it has not been passed by the Pradeshiya Sabha, be deemed to be the duly adopted budget or supplementary budget of that Pradeshiya Sabha. (Section 169, No 15 of 1987 Pradeshiya Sabha Act)
4. Interview with the Secretary of Poonagari PS, Kilinochchi 21 september 2013
5. Mr. D.P. Hettiarachchi, Former Senior Assistant Secretary, Ministry of Provincial Council and Local Government
6. Mr. Chandima Liyanage, Chairman, Yakkalamulla PS, Galle 14 August 2013
7. Mr. P. Anaimugan, Chairman, Karainagar PS, Jaffna 16 August 2013
8. Interview with the Chariman and the Secretary of the Citizen's committee of Passara, Badulla 20 September 2013
9. Villagers / Tax payers of Haliella PS, Badulla 10 July 2013
10. Interview with the Chariman and the Secretary of the Citizen's committee of Lunugala, Badulla 20 September 2013
11. Mr. P. Sanjeevan, Chairman, Point-pedro PS, Jaffna 18 August 2013
12. Secretary, Poonagari PS, Kilinochchi
13. Mr. P. Jayathissa, Chairman Progressive Farmers Association, Hingakgoda, Pollanaruwa
14. Interview with the Secretary of Poonagari PS, Kilinochchi 21 september 2013
15. *The Role of Media in Local Governance*, Outreach Unit, CPA - Oct. 2012, Colombo
16. Mr. Sarath Gallage, Freelance Journalist, Trincomalee, 25 September 2013
17. Mr. D.P. Hettiarachchi, Former Senior Assistant Secretary, Ministry of Provincial Council and Local Government
18. General Meeting of the Community Boards, Yakkalamulla 16 August 2012

Annexure 1

TABLE I Legal Instruments and Local institutional structures¹		
Countries	Legal Instruments	Institutional Structures
India	73 rd constitutional amendment (1992) Each state has its own local government legislation Article 243g and Article 234w	Gram sabha
Pakistan	Until the provinces finish promulgating the local government ordinance 2001 remains the main local government legislation. The Baluchistan Provincial Assembly Promulgated the Baluchistan Local Government Act 2010 Article s 32 and 140-A	Village and neighborhood councils, citizen community boards
Bangladesh	The Hill District Local Government Parishad Act, 1989 The Zila Government [Pourashava] Ordinance, 2009 The Local Government [Upazila Parishad] Ordinance, 2008 The Local government City Cooperation Ordinance, 2008	Citizens' committees involving UP representatives and the members of the community Union Parishad based Standing Committees
Nepal	Gram Panchayat Acts – 2006, 2013, 2018 (BS), Village Development Committee Act – 2047, 2048 (BS) Nepal State Nagarpanchayat Act 2006 (BS) Nepal State municipality Act	Village Councils Village Development committees

	2009 (BS)Nagarpanchayat Act 2019 (BS), Municipality Acts- 2047, 2048 (BS), District Panchayat Act 2019 (BS), District Development Committee Acts – 2047, 2048 (BS), Zonal Panchayat Act – 2019 (BS), Zonal Sabha Act – 2024, 2035 (BS), Decentralization Act 2039 (BS)Local Self Governance Act – 2055 (BS)	
Sri Lanka	Provincial Councils Act 1987Urban Council Ordinance 1939Municipal Councils Ordinance 1947Pradeshiya Sabha Act no.15/ 1988[Pls, refer the annexure 1 for supportive legislations, ordinances and reports for the local governance]	-Community boards -Citizen councils-Jana Sabha in 2012 which is the Replacement of old Gramodaya Mandalaya- Financial and Policy Planning committee,- Housing and Community committee, - DevelopmentTechnical services committee and - Environment and Amenities committee
Maldives	Decentralization Act 2010 Local council election act 2010	-
¹ By Sriyanie Wijesundara, Center for Policy Alternatives, 2013		

Annexure 2 Time Schedule for the Budgets in Local Authorities / Budget Call

No	Purpose	Target Date	Responsibility
01	Issuing requests to formulate the Budget	15 th April	Municipal Commissioner/ Secretary
02	Presentation of members and ward committee proposals	30 th June	Ward Committees and Members
03	Presentation of programme expenditure and revenue	30 th June	Programme Heads
04	Preparation of preliminary estimates	01 st July	Accountant/Book Keeper/ Budget officer
05	Obtaining advices from the finance committee	31 st July	Municipal Commissioner/ Secretary
06	Review of the estimates	01 st August	Mayor/Chairman
07	Decide budget policies and present to the council	31 st August	Mayor/Chairman
08	Preparation of the budget estimates – programme based	30 th September	Program Heads

09	Preparation of final budget estimates and drafting the budget	31 st October	Accountant/Book Keeper/ Budget officer
10	Observe the draft budget by financial standing committee	01 st November	Municipal Commissioner/ Secretary
11	Preparation of the budget message	20 th November	Mayor/Chairman
12	Presentation of draft budget to the council	30 th November	Mayor/Chairman
13	Second reading of the draft budget, if necessary	10 th December	Mayor/Chairman
14	Approval of the draft budget	15 th December	Council
15	Printing and circulating the draft budget	31 st December	Municipal Commissioner/ Secretary

Annexure 3

Annual Budget of Pradeshiya Sabha

Formulation:-

- Discussions to identify common issues for viable project proposals
- Submission of budget proposals
- Assist with councilors to assess submitted projects
- Presenting opinions on project priorities

Approval

- Participation for budget debates from the Citizens' Gallery
- Looking at proposed budget proposals of the Budget Bill when its open for public scrutiny
- Make aware their public representative on reality of the Budget estimates

Execution / Implementation

- Searching the implementing programs by the councils whether they are the programs approved by the budget
- Be alert on supplementary budgets
- Monitor the expenditures whether they are as approved
- Be aware of PS Taxes and other payments

Performance monitoring

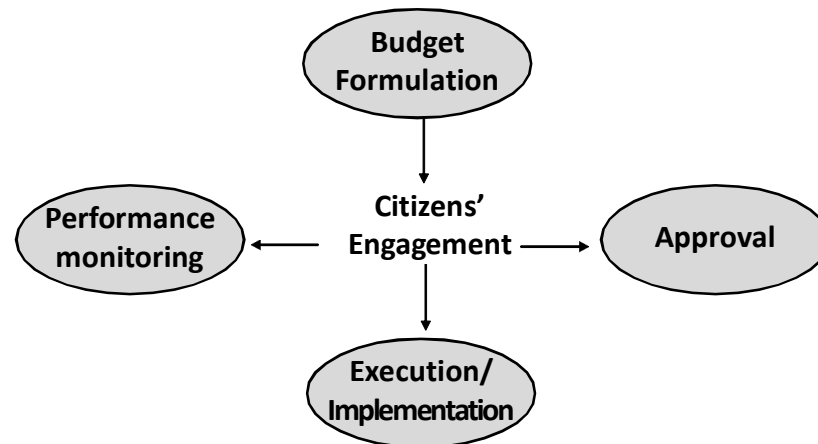
- Be aware of Budget observations presented by the Auditor General from the committee members and council members

- Assist providing reliable information and data to correct budget observations [Audit Quarries]

Broad based participation is needed for sustainable development of Citizens. Participation of Citizens revolves around the function of local governance, and higher level of participation results in desirable level of cooperation, negotiation and contestation among the stakeholders in controlling and allocating resources, services and assets at local level.

Through extensive Field experience of five years on local budget, it is found that the essential services as education, health - nutrition, irrigation, agricultural services, and the infrastructural facilities are all managed directly by the central government institutions and their functionaries without any involvement of the PSs either in design or implementation process. Thus institutional “isolation’ and ‘incapacity’ has made Pradeshiya Sabha a non-responsive body to provide essential services to the rural poor, more so to the marginalized ones.

GRAPHIC 1: Access nodes for tax payers, civil society and budget analyzers/players to influence the budget process



In Sri Lanka, These structures have placed constructive arrangements and dual service delivery mechanisms in some locations significantly. Therefore, the best place to observe and understand the impact with the broad forms of active engagement by citizens in policy formulation, approval, implementation, monitoring and overall decision making is at the LOCAL LEVEL, where the concerns of the 'grassroots' or locality interconnect most directly with governance and the government. Hence, local government as the most suitable administrative structure and the decentralization as the most powerful reforming mechanism which has opened influential space for the wider and deeper active participation of citizens at the local level together would bring most viable and sustainable foundation for the roof of overall development

In this paper the author argues that the development programs should be initiated from the local government levels which are the pivotal arms of Local Governance than provincial and national governments due to its closeness to citizens, geographical coverage and the legal base. Pradeshiya Sabhas based on PS Act of 15/ 1987 as the closest community layer with pools of unsullied voices of local community citizens is the ideal entry point with more citizen participation. However, participatory governance shall not become the reality that it should be if there is no distribution of resources to the local communities in parallel. Among the processes that enable this is the local government budgeting. The effective distribution of resources to local communities –and the specific decision making framework thereto -is achieved by none other than the budgeting process and therefore nowhere is the citizen's voice is as important as this stage- in that, 'participatory budgeting.'

Participatory Budgeting is also a strong influential change agent of social accountability which spreads transparency outlook and is the most practical and potential tool bringing local citizens closer to the Pradeshiya Sabha decision making process around the entire public budget process thereby gaining access to valuable resources of the central government.

Annexure 4

Table 2. Composition of Local Government¹		
Composition of Local Government	Number	Geographical Coverage
Municipal councils	23	7%
Urban Councils	41	12%
Pradeshiya Sabhas	271	81%
Total	335	100
¹ Ministry of Local Government and Provincial Councils, 2011		

The social bond between local authorities including Pradeshiya Sabha and local tax payers which is strengthened by participatory decision making can assist the management of local governments' available public financial resources. It also enhances social transparency, accountability of locally elected representatives and public officials who engage in financial and administrative management and especially social inclusion in local governance.

Further, this generates the space for citizens to increase active, vigilant participation and interaction with local public representatives and officials in the service delivery of the locality. Also this drives to achieve expectations of democratic decentralization along with fiscal administrative and political dimensions which systematically removes the barriers.

This has been justified by Mahor and Crook's (1998, 29-30) case study in India which illustrated how control over participatory procedures affects the opportunity of citizens to participate.

Annexure 5

Showcasing the notable good practices observed through participatory budgets in Pradeshiya Sabhas in Sri Lanka:

- Constructive citizens engagements in pre budget discussions
- Councilors are in compliance with the council regulations
- Availability of constructive space for the taxpayers' ideas and suggestions, and participations
- of citizens in all activities including the budget process
- Proper use of the budget time table [Budget Call]
- Delivering friendly services to the Citizens'
- All council members including the Chairman, and the Opposition Leader work as a team
- without differentiating between the Party
- Seating of Councilors according to the seniority
- Active participation of the citizens in the functions of the main committees
- As an executive of the council, the Chairman takes participatory decisions rather than
- making tyrant decisions.
- Decisions taken are based on the voices of the citizens, and implementing projects are open for public scrutiny.

- Progressive improvements of the tax collection show the regained trust of tax payers' towards local government institutions.
- Make use of all viable sources of income and revenue with proper management for the sustainability of revenue base of the PS

Recently observed good practices in several Pradeshiya Sabhas in Sri Lanka realizing the notions of Social Accountability in practice include Participatory budgeting along with monitoring of public service delivery, investigative media, citizens councils and Community boards. A key attribute of such changes is the increased public trust towards local government and Civil Society Organisations to influence local government priorities for public spending, reform and monitoring public expenditures. Some of the Pradeshiya Sabhas who has more good practices which can be identified as models at the local government level, signals the importance of accessing local structures for sustainable, impact oriented innovations and development in Sri Lanka.

Annexure 6

Rooting Participatory Budget Practices for Transparent and Accountable Local Governance

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Local governance is widely recognized as the best training ground in which the citizen can learn the art of governance through their own experiences and the reality that exists around them. Local government which is the third layer of country's administration is also always, in all circumstances, considered as the important vehicle and the only the means to provide state benefits and services to the local citizens In fact, "no political system is considered complete and democratic if it does not have the system of local governance" (B Havenga -2002, University of Pretoria).

Although the concentration of Governance rooted in 1980s and 90s, the relationship between the government and citizens began to emerge pretty much later. It is in such milieu that Gaventa, John (2011), has argued that a key challenge for the twenty-first century is the construction of viable new relationships between citizens and governments (mainly, local government).

This emergence has showcased the multifaceted issues and problems in the development process at national level proving the impracticality of the top-down measures that are used by the central government administration. The corollary is being the gradual emergence and integration of the voices of ultimate beneficiaries of development plans; local citizens voices, their participation and into the decision making process.

Such relationships sharpen the active civic participation or engagements in the decision making process of development activities while opening doors for participatory governance.

Perhaps the best place to observe and understand the impact with the broad forms of active engagement by citizens in policy formulation, approval, implementation, monitoring and overall decision making is at the local level, where the concerns of the 'grassroots' or locality intersect most directly with governance and the government. Hence, local government as the most suitable administrative structure and decentralization as the most powerful reforming mechanism opened influential space for the wider and deeper active participation of citizens at the local level, and would lay the most viable and sustainable foundation for overall development efforts.

Almost all South Asian countries have implemented some form of decentralization, and country specific legal frameworks and institutional structures for citizen participation at local levels have been developed by SA countries.