

# **International Political Economy**

**Case Study**

**Professor of HIWATARI Nobuhiro**

## **The Challenges to Implementation of New Public Management Strategies in Sri Lanka**

**Research Paper**

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## **Abstract**

The government of Sri Lanka has introduced New Public Management (NPM) Reforms during the past decade. Although the government introduced NPM reforms the administrative system suffer with the lack of delegation of authority, political interference in the government decision-making process, and corruption. While the government accepted NPM reforms no serious attempt has been taken to implement its recommendations as a whole. Some recommendation has never been implemented; and some recommendation was partly implemented while the some provision was executed in an ad hoc manner. Although some proposals implemented there were no successful outcomes due to the various factors. Hence; the aim of the study is to explore the challenges in implementing the NPM reforms in Sri Lanka. The basic hypothesis in the study is that the degree of implementing NPM reforms is depended on the committed and competent institutional environment. To test the scenario data was collected through primary and secondary sources. The data was collected within The Ministry of Public Administration and Home Affairs and Ministry of Public Management Reforms in Sri Lanka. Using open-ended questionnaires, relevant information collected including 20 samples from three types of respondents, as political elites, officials and academics. The result shows absent situation of the committed and competent institutional environment it was impossible to achieve successful NPM out comes in Sri Lanka. Therefore need to be a greater and ruled based proficient political system with sufficient resources and strong institutional mechanism for successful NPM implementation in the country.

Key Words: New Public Management, committed and competent institutional environment, policy implementation, political interference



## **1.0 Introduction**

I was very intense to observe how Sri Lankan (SL) public administration works when, introducing the New Public Management (NPM) reforms. After independence, Sri Lankan administrative system was based on past experience on the British colonial regime. Hence the whole system depended on the highly centralized administrative structure, rigid ruling system became the norm and seniority rather than merit had been the main ground for promotion. The administrative and political structure were focus on 'the welfare first and growth later' approach. However, many difficulties came to political arena in late 1970s with the problem of weak economic development, unemployment and unproductive administration system (Thilakaratne, 1989). Due to more awkward situation the government started to implement public sector structural adjustment program with internal and external pressure. Many of the reforms undertaken during the 1970s were based on the decentralization of government responsibilities and duties to local governmental authorities, but in the 1990s marked remarkable departure and started to apply NPM strategies for Sri Lanka (Jayawardana, 1998).

Although the government introduced several administrative reforms including NPM package but nothing has happened. The administrative system suffers with the lack of delegation of authority, political interference in the government decision-making process, corruption and Politicization of public administration system (Root, et al. 2001). While the government accepted NPM reforms no serious attempt has been taken to implement its recommendations as a whole (Wijesinghe, 1997). Why is this so and what kind of challengers behind the situation. The paper attempted to explore this situation with the attention of implementing NPM in Sri Lanka. Researcher observed four cases; two cases between the period from 1970s to 1990s and two

cases between the periods from 1990s to 2010. Using the four cases researcher tried to explore; what challenges are facing Sri Lankan government when the implementation process of NPM.

This paper comprises of fifth major sections inclusive of the introduction. The introduction section focuses on the introduce research puzzle, objectives and research methodology applied for this study. The second part of the paper discusses literature review of NPM reforms. Section three examines the implication and what challenges of the NPM reforms during the period from 1970 to 1990. Segment four observes the reforms implication and challenges of the period from 1990 to 2010. Final part of the paper concentrates on making some conclusions based on the findings of the study.

### **1.1 Research puzzle**

Hence, in my research puzzle is: Sri Lankan government has taken several attempts to reforms the public administration system with special array of NPM in recent decades, however major problems remain. There seems to be few prospects for their elimination, much less for major improvements. Why is this so? What were the reasons or challenges to behind this? What explain this situation? The basic **hypothesis** in the study is that the degree of implementing NPM reforms is depended on the committed and competent institutional environment. The **purpose** of this study, therefore, is to explore the challenges in implementing the NPM reforms in Sri Lanka.

### **1.2 Research methodology**

The approach of this paper is essentially exploratory and so the research design is historical and qualitative. Researcher used following method to collect data.

#### **1.2.1 Secondary Data**

The data was collected through the sources of; Published books, Journal articles, Memoranda, Written reports, Administrative documents and Newspaper clips.



These documents provided history of implementation and about the public service during its early history and after reforms. However, evidence regarding the reasons why certain reforms were initiated, the intentions behind them; the reasons why they succeeded or failed; which group gained or lost from reforms; so the gaps had to be filled from other sources. In this regards interviews with a few people who were knowledgeable with the subject were used as a method of primary data collection.

### **1.2.2 Primary Data**

The data was collected from primary sources through the Open-ended Interviews. Using open-ended questionnaires, relevant information was collected from two types of respondents, one sample comprised political elites. The other sample comprised officials, and academics. The political elite and Civil Service officials were within the two Ministries. Those ministries were; The Ministry of Public Administration and Home Affairs; and the Ministry of Public Management Reforms. Chairmen of the Public service commission, two of professors in university and one of the opposition parties (J.V.P)<sup>1</sup> member were interviewed. The interviews were spread over two months from early February 2012 to late March 2012.

### **1.2.3 Data Analysis**

As mentioned, the paper was qualitative one in nature and, therefore, researcher used the explanatory method to analyze the data. The primary data findings have been presented in a narrative form while the secondary data were analyzed and interpreted mainly by charts and graphs so as to validate the primary data. In the presentation of the primary findings, direct quotes are used to allow the reader to confirm the conclusions.

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<sup>1</sup> J.V.P. –Janatha Vimukthi Peramuna (Peoples Liberation Front) is Sinhalese youth based radical political party.

### **1.3 Research design-Variables**

#### **1.3.1 Dependent variable**

In this study, dependent variable is the degree of implementing NPM reforms in Sri Lanka.

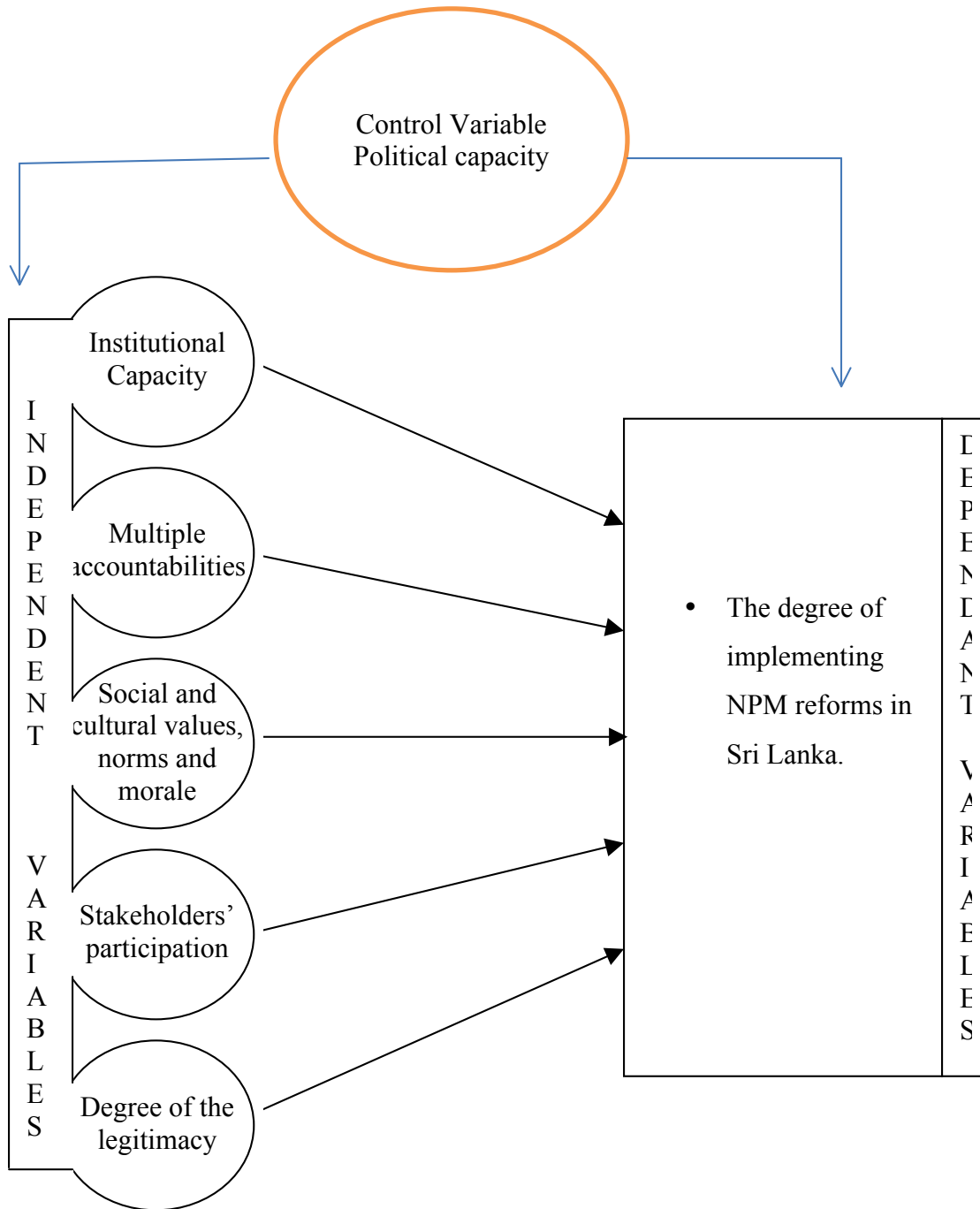
#### **1.3.2 Independent variables**

The independent variables are as follows.

- Institutional Capacity (such as institutional, technical, and administrative capacities)
- Multiple accountabilities (like political accountability, financial accountability and public accountability)
- Social and cultural values, norms and civil service morale
- Stakeholders' participation such as private sector, professional associations and trade union, regulatory bodies, multinational corporations, international financial institutions
- Degree of the legitimacy

The figure 01 shows how researcher used variables in this study

**Figure 01: The process of using variables**



## **2.0 Literature Review**

### **2.1 New Public Management**

The NPM is a relatively new phenomenon of management culture and organizational procedures that emphasizes the centrality of the citizen or the customer as well as accountability for results. It emphasizes the structural, organizational and managerial changes and a set of management approaches and techniques, for existing civil service, borrowed from the profit oriented market based private sector. According to Hood, given below are the major considerations of the NPM (Hood, 1991).

- (a) Direct public sector costs should be cut and labor discipline should be enhanced so as to improve the maximum utilization of resources;
- (b) Private-sector-style management practices applied to increase flexibility in decision-making;
- (c) Competition in the public sector increased, as rivalry is the key to lower costs and better standards;
- (d) The public sector disaggregated and decentralized to make units more manageable and to increase competition among them;
- (e) Controls shifted from inputs to outputs, to stress results rather than procedure;
- (f) Explicit standards and performance measures established, because accountability requires clearly stated targets and efficiency requires attention to goals;

According to Charles Polidano (2001) the NPM reform is the means (not end) through which efficiency and the use of the economic market as a model for political and administrative relationships would be facilitated. Willy McCourt and Martin Minogue (2001) explain the NPM process as an “internationalization of the NPM reforms”. They have analyzed different dimensions such as moods of internationalization, adaptability of these reforms for local

conditions, and effects of this transferring process. Beyond their attempt to conceptualize the NPM reforms as a process that became outcome of globalization, Tom Christensen and Per Laegreid, (2001) try to illustrate that not only due to the globalization but also some other factors have been affected to that process. Among those factors, the followings can be highlighted.

1. Complex mixture of environmental pressure
2. Polity features
3. Historical and institutional contexts

(Christensen and Laegreid, 2001)

In relation to NPM principles, there is another aspect which is more important to consider. That is nothing else but democracy. How democratic values and principles can be achieved, while applying market oriented reforms ought to be a vital matter of concern. Tang (2004) has tried to compare and contrast these two different dimensions. His main research question was that, what would be the result(s) if one country may go to achieve both the democratization and NPM simultaneously? His final argument is that there is in fact a synergic interaction between the reforms during their initial phase.

Thus NPM is a market based administrative phenomena of the world. It is a result and citizens oriented value model and highly emphasized production than rule based administration. Therefore quality and values are most important part of the NPM. Thus need to build up the accountability between citizens and the government for greater achievement of the NPM.

## **2.2 NPM practices in the world**

Through the several literatures, few developing countries have become relatively successful while others have failed in implementing NPM program. It argues that the very nature of the politics, institutional development, and socio-economics dynamics influence the NPM initiatives.

Abu Elias Sarker (2006) in his article 'New public management in developing countries: An analysis of success and failure with particular reference to Singapore and Bangladesh' discusses the environment of success in Singapore NPM practices and why and what factors to influence the fail in Bangladesh experiences. He notices some preconditions for the success of the NPM model. Reasonable level of economic development and experience of the operations of markets, with well-developed judicial system, well established administrative system, state capacity; need to be successful NPM practices. He argues Countries like Singapore fulfill many of these preconditions on the other hand, a Bangladesh does not fulfill these preconditions due to the various factors its very socio-economic and political systems.

Charles Polidano (1999) in his literature 'The New Public Management in developing countries' examine the argument that the NPM is inappropriate to developing countries on account of problem such as corruption and low administrative capacity. He argues cases like performance appraisal program in Ghana, Health reforms in Africa, Decentralization in Africa and Latin America have failed due to the red tape procedure in the government sector, corruption and lack of capacity building.

Willy McCourt (2007) , in his literature 'Public Management in Developing Countries' review why NPM largely failed to root in developing countries. He discusses several examples in developing world like performance contracting in Ghana, a proposed administrative devolution in Nepal, and malfunctioning accountability mechanisms in Bangladesh and Sri Lanka have failed because of suffers with corruption, nepotism and inadequacy of political will.

These writings and other literature related to the topic shows that many studies have been done under this particular theme. According to these literatures, most of the developing countries have been failed in implementing NPM practices. In literature, basic argument is developing

countries are facing big challenges when the process of NPM. Most of the writers argument is the NPM is inappropriate to developing countries on account of problem such as corruption and low administrative and political capacity.

### **3.0 Public sector reforms in Sri Lanka: 1970-1990**

Under This Section researcher examine two administrative reforms implemented by the government; period from 1970s to 1990s. The new government led by SLFP<sup>2</sup> came in to power in 1970 and established a separate ministry called the ‘Ministry of Public Administration’ to create radical public management reforms in the country.

#### **3.1 Case 01: Decentralization**

Decentralization of the government function has become major device in public sector reform in Sri Lanka (SL). Since 1970 s; while the government introduced several decentralized policies most of them have failed due to the various factors. Thus the new government led by UNP<sup>3</sup> has introduced several decentralization systems after 1978s under the new constitution. The Provincial Councils (PCs) system has become the important tier of the administrative structure of SL from 1987; with the devolution of political and administrative power to the sub-national level under the 13th Amendment to the Constitution. Since the year 1988 the PCs were functioning as agents of the central government within the unitary regime. The PCs have now established several administrative centers and as a result there had emerged two state services, a Central and Provincial Public Services, changing the administrative landscape at the regional level. The constitution amendment facilitated devolving the legislative, executive and judicial powers of the

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<sup>2</sup> Sri Lanka freedom Party is one of the Major political party in Sri Lanka

<sup>3</sup> United National Party is one of major political party in Sri Lanka

government to the Provincial Councils. Accordingly the act powers were devolved as Reserved List<sup>4</sup>, Provincial List<sup>5</sup> and Concurrent List<sup>6</sup>.

However, the devolution of government power implemented during the last twenty four years was limited only to the legislative and executive functions only. There is no devolution of judicial power as envisaged in the amendment. Accordingly provision has been made to entrust the Provincial Councils 37 subjects including law and order, agriculture and agrarian services, local government, cooperatives etc.(The Ministry of Public Administration and Home Affairs:2012).

Although the PCs were entrusted with statute making power to prepare these institutions cannot exceed the laws passed by Parliament. Thus the Provincial Executive has to exercise its authority within the legal framework established by national Parliament. On the other hand legislative power of Parliament is restricted by the 13<sup>th</sup> amendment as any bill pertaining to any subject in the Provincial List it has to be referred to the PCs for their prior approval. Supposing if all the Provincial Councils do not give the approval it has to be passed by the Parliament with a 2/3<sup>rd</sup> majority and if not it will not be valid to that particular province and such laws are not applicable (Herath:1991).

The executive power to conduct the work pertaining to those subjects entrusted to the provinces is with the Governor appointed by the President (Herath: 1991). There again this power entrusted to the Governor of the province is not applicable once the appointment of the Chief Minister is made by the political party or the group which won the majority of seats in the Council.

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<sup>4</sup> Central government functions

<sup>5</sup> Provincials governments functions

<sup>6</sup> Concurrent List, mean both government can be use the power



Thereafter the Governor of the province has to work on the advice of the Chief Minister. The Governor is expected to be the executive for name sake only after empowering the executive powers to the Cabinet of Ministers.

The Provincial Secretary who is the Chief of the provincial administration is appointed by the President. A Provincial Public Service has also been established and the amendment of the constitution has empowered the establishment of a Provincial Public Service Commission in every PC (Wijeweera: 1989). However the leadership of the administration of provincial institutions does not come under this Provincial Public Service Commission, the reason being that they are members of All Island Services controlled by the Central Public Service Commission. The appointments for these administrative organizations are done by the Ministry of Public Administration along with parallel ministries and the National Public Service Commission administers their duties ( The Ministry of Public Administration and Home Affairs:2012).

Provision is made to collect revenues for the PCs by way of taxation, along with business turn over taxes, stamp duties, vehicle licensing fees, fines imposed by the courts within the province. As it was agreed this income is not sufficient for the function of the Provinces, a Finance Commission has also been appointed by the constitution to advise the Central Government on the criterion of allocating funds to the PCs (The Ministry of Public Administration and Home Affairs:2012).

The PCs were not in a position to exercise its powers over the subjects in the Provincial List unless they have been handed over to them by the Central Government. If any subject in the Provincial List is handed over to the PCs it cannot be taken back by the Central Government.

Further the Central Government could take back any Concurrent List subject given to the Provincial Council (The Ministry of Public Administration and Home Affairs: 2012).

If any PC acts in contravention of the security of the state or if an emergency situation occurred in the Province President is empowered to dissolve the PC and entrust to Parliament the authority to pass the laws on the subjects in the Provincial List(The Ministry of Public Administration and Home Affairs:2012). Hence the PC Public Administration was not an authoritative organization according to the power sharing mechanism. Thus it can be explained as follows.

1. The PCs have not been provided with the capacity to draft laws.
2. The Chief Secretary of the PC Administration is appointed by the President and the Governor as well as the Provincial Secretary is also appointed by the President.
3. The Secretaries of the Ministries and the Head of Departments of PC Administration are appointed by the Central Public Service Commission.
4. The cadre positions of the provincial public administration are determined by the Department of Management Services of the General Treasury.
5. The PCs have to depend on Treasury funds for their recurrent expenditure, as well as for the salaries of the staff.
6. As funds are required for the creation of new positions, Finance Commission too involve in approving such appointments to the PC (Bandara: 2009). Hence the PCs had not been given the opportunity to establish its own administration. The PC System is an example of devolution which has been formulated strictly following the power arrangement within a unitary system of

government. What has been done is re-centralization not devolution. It is worth noting here that these PCs are highly depended on Central Government funding. The annual reports of the Central Bank show the budget expenditures and revenues of PCs as follows.

**Table 01: The budget expenditures and revenues of PCs**

Item	2008	2009	2010	2011
Total Revenue	19,481	25,868	31,368	29,433
Tax Revenue	16,586	21,473	25,992	24,907
Non-tax revenue	2,895	4,395	5,376	4,526
Total expenditure	94,470	113,067	120,011	130,260
Current expenditure	76,428	92,721	103,199	111,336
Personal emoluments	60,497	74,711	79,717	85,855
Capital expenditure	18,042	20,346	16,812	18,924
Central Government Transfers	79,029	88,317	88,942	93,999
Block Grants	62,342	70,742	76,773	77,386
Criteria Based Grants	790	1,208	2,304	2,276
Matching Grants	221	205	-	-
PSDGs	7,345	6,995	7,262	10,945
Foreign Grants for Special Projects	8,331	9,167	2,603	3,393

(Source: Central Bank, (2009, 2011))

According to Table, 82% of the PC's expenditures were from the central government. And also the central government transfers to PCs increased gradually. Besides the total capital expenditure of PCs was increased exceeding their total revenue. However allocation of the fund by the

central government may depend on what political regime is going on the province. Vijitha Herath, MP, JVP, commented on the flow of finance to the PCs,

“If the Central Government is one party and the PC is another party, the financial allocation is always imperfect. This is same even for Pradeshiya Sabha<sup>7</sup>. If the PC is SLFP and the Pradeshiya Sabha is UNP money is cut to prevent them strengthening their political base. Unfortunately the public does not get required service due to conflict in the political authorities in three levels” (Interview 28.02.2012).

Thus the new PC system failed to achieve its objectives due to the lack of commitment political situation in the country. There was lack of coordination between different levels of government and also there was an imbalance between the political institutions and the bureaucracy that allowed bureaucrats to formulate and implement public policies without appropriate political guidance, which made the situation more complex. Mainly a high degree of political influence in decision making process can be seen in the system.

### **3.2 Privatization policy**

The next administrative reform initiative of the 1980s was the privatization of Public Enterprises (PEs). In the SL context, privatization is the transfer of management and/or ownership of property from the public sector to private sector (Central Bank, 1998, p. 215). It was initiated by the UNP government during 1977-1994. The key motivations for privatization included improving efficiency and productivity through private capital investment, technology, and expertise.

However the privatization program was conducted in ad hoc manner-A number of line ministries carried out specific reforms measures in their PEs as they wish (Kelegama:1992). There are

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<sup>7</sup> Local authorities are divided in to three different groups: Municipal councils, Urban councils and Divisional councils(Pradeshiya Sabha)

many irregularities in the privatization process; since the government did not take any action against these incidents. Former president Kumaratunga was fined in relation to privatization of water's Edge by the Supreme Court and the buyer was ordered to return the property to the government (The Sunday Times: 2008). Lanka Marine Services Ltd- former chairmen of the PEs reforms commission and the secretary to the treasury, Dr. P.B. Jayasundara, was found guilty of neglecting to act in the interest of the government (Sri Lanka news first:2012).

The privatization process was not profitable due to the unnecessary control of the political leaders. Table 02 below indicates that except for the Telecom, Colombo Gas Company and Air Lines, capital investments to sale have dropped after privatization.

**Table 02: Capital Investment in Selected Privatized Companies**

Company	Pre-privatization (mean)	Post privatization (mean)	Change mean
<b>SL Telecom Ltd</b>			
Capital expenditure to sales	0.670	0.980	0.310
Capital expenditure to assets	1.420	1.050	-0.370
<b>Colombo Gas Company Ltd</b>			
Capital expenditure to sales	0.386	0.051	-0.335
Capital expenditure to assets	0.180	0.060	-0.120
<b>SL Air Lines</b>			
Capital expenditure to sales	0.386	0.089	-0.297
Capital expenditure to assets	0.179	0.059	-0.120

(Source: World Bank 2001 data) (As cited in Knight-John & Athukorala, 2005, p. 403)

In regard to capital expenditure to assets, all three companies have failed to adhere even to the status quo. Therefore, in order to make a general judgment there should be an overall inquiry.

According to the Annual Report of the Public Enterprises Reform Commission in 2004, out of 98 privatized PEs, 17 divestitures collapsed after privatization. In terms of proportions about 16% of the privatized companies have failed to continue their services and closed down, leaving their employees abandoned without compensation or even salaries for many months (Public Enterprises Reform Commission:2004). Privatization policy changed time to time accordingly government policy making process. COPE<sup>8</sup> report investigated many irregularities in the privatization process.

Implementation of the privatization policy without strong institutional arrangements; led to tragic out come in the country. The main negative effect was employee redundancy. Since most PEs was overstaffed when privatization was introduced, a considerable number of employees lost their jobs. A study done by Knight-John and Athukorala (2005) illustrates that many workers lost their jobs due to privatization. Table 03 provides direct employment effects of privatization for selected companies. According to Table 03 the SL Telecom, SL Air Lines and National Development Bank have increased their staff after privatization whereas others have reduced. The Colombo Gas Company reduced their staff by two-thirds and the Lanka Ceramics Ltd reduced their staff by half.

**Table 03: Direct Employment Effects of Privatization for Selected Companies (Average Employment)**

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<sup>8</sup> Parliamentary Select Committees on Public Enterprises

Company	Year	Before privatization	After privatization	Change
SL Telecom	1997	7,599	8,499	900
SL Air Lines	1998	4,358	4,908	550
Colombo Gas Company Ltd	1995	646	292	-354
National Development Bank	1993	188	311	123
Caltex Lanka Ltd	1994	320	275	-45
Lanka Salt Ltd	1997	1,562	560	-1,002
Total		14673	14845	172

(Source: Knight-John & Athukorala, 2005, p. 413)

The other negative effect was that most of the redundant employees were unable to find alternative jobs or sustainable income sources due to non-expansion of the economy. This was particularly serious for non-skilled workers.

In Sri Lanka the Trade unionism plays an important role when any policy implementation process. Most of the time privatization became an unsuccessful even due to against of the trade union. Accordingly, strikes are more common in SL. These unions do strike only for better employment conditions, but mostly for political reasons and against public policy matters such as privatization, restructuring and reforms. Many attempted reforms were resisted by trade unions on several occasions; for example, in 2003, they resisted the establishment of a Revenue Authority by amalgamating three existing revenue departments: the Customs, Inland Revenue, and the Excise. In 2004, the Railway department was reformed and established as the Railway Authority. Due to strong resistance of trade unions the government restored the status quo once again (The Ministry of Public Administration and Home Affairs: 2011). Currently trade unions are consulted in the formulation of the annual transfer schemes in the public service. As assistant

secretary in the Ministry of Public Management Reforms, R.G.C.P.D. Ramawickrama pointed out in the interview

“No any possibilities to implementing the public sector reforms in the country because of the strike of the various trade unions. It was a headache. When the governing party led by UNP; SLFP unions not allow doing anything. The same thing happened under the SLFP regime. This is a political game; no any solution.....” (Interview 02.03.2012)

Thus the Trade unions; they are not allow to do reforms relevant to the devolution and privatization policies. They have a mind like these policies as an enemy of the country.

Lack of Citizen Support also caused to failure of privatization policy in Sri Lanka. Since independence the peoples of Sri Lanka engage with the welfare maximization policy provided by the government, thus they not allow to privatize the government institution in most of the time. Basic argument is media or the government did not attempt to aware of the people when implementing privatization techniques. Project director of the Ministry of Public Management Reforms, D.M.P. Jayawardena pointed out

“The people didn’t know about the privatization. They did not know whether this was important or not. There was no real attempt by the media to give it to the public. Media will report on murders not on these matters. There were no well-informed civil society groups which were active. Unless there is a tremendous public outcry there won’t be any reforms (Interview, 22.03.2012).

Citizen was encouraged to against the privatization policy by the trade union and opposition parties during the proposal time. Therefore implementation of the privatization policy was an unproductive effort in Sri Lanka. Thus privatization was abandoned with the change of



government in 2005 led by SLFP under the “Mahinda Chintana” philosophy<sup>9</sup> (The Ministry of Public Management Reforms: 2010).

#### **4.0 New Public Management reforms in Sri Lanka-The period from 1990 to 2010**

Throughout this period there were massive reforms initiatives in the country with the invitation of United Nations Development Program (UNDP) and Asian Development Bank (ADB) missions. During the period the public sector reforms were taken in relation to the field of employee promotions, salary increments, important postings, training and so on. The basic idea was to reorganize the structure; personnel system; and work systems and procedures within the ministerial level. To accomplish the reforms the government established Administrative Reforms Committee (ARC) in 1996.

In this section researcher attempted to evaluate two important recommendations and their implementation process.

##### **4.1. Case 03: Cadre Management and Salary Structure**

The report of the ARC revived Sri Lankan cadre system was beyond the reasonable requirement for efficient government operation. Thus the proposal of the team emphasizes cadre rationalization and revise of the salary structure is a must. However most of the decision based on political aspiration targeting winning the election or continue to power in Sri Lanka. The project director of the Ministry of Public Management Reforms; D.M.P. Jayawardena emphasized the situation of the cadre system in an interview.

“In generally, Sri Lankan political leaders want to more power. President Jayawardana, Premadasa or even Chandrika did not take broader attempt to implement these reforms. The whole episode of reform is giving up. Every party needed to win in the next election. No one

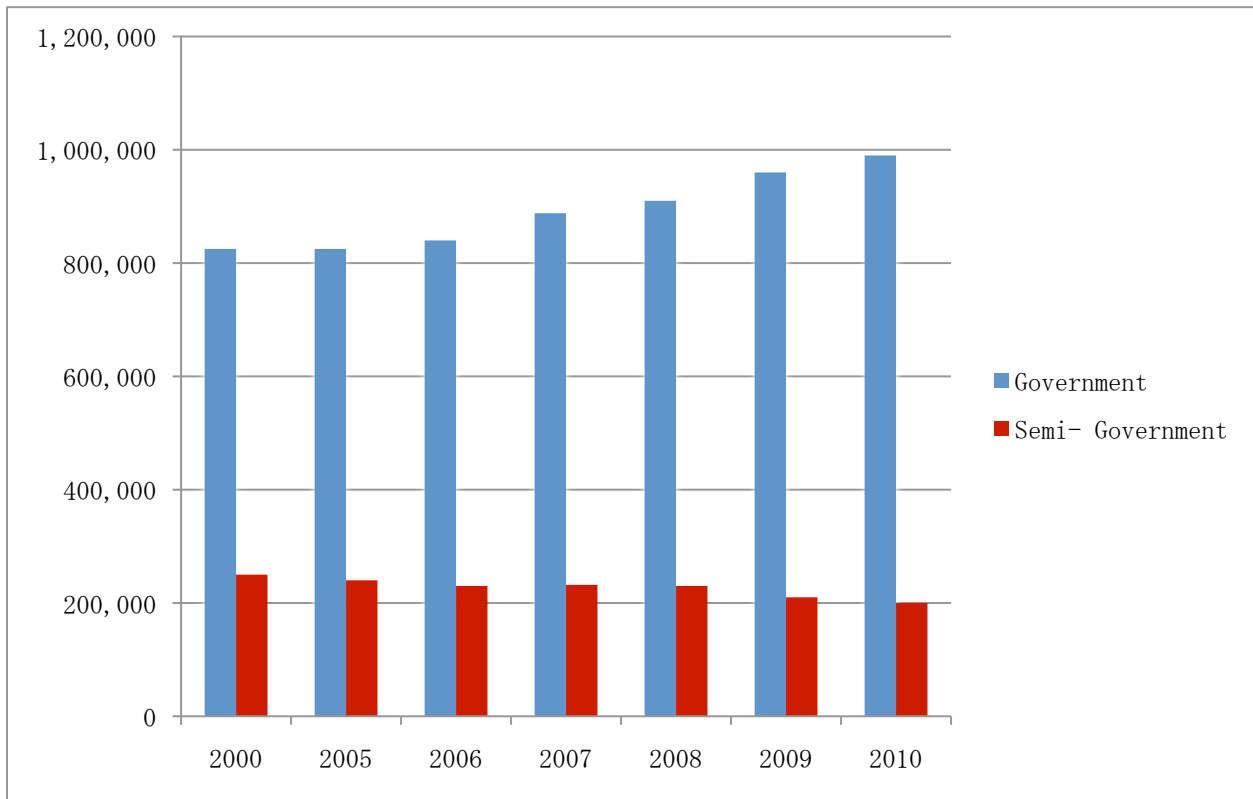
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<sup>9</sup> “Mahinda Chintana” is an election manifesto of the United Peoples Freedom Alliance (UPFA) led by SLFP in 2005

needs CRC [Cadre Review Committee]. They recruit people for totally unproductive areas (Interview, 09.03.2012).

ARC emphasize the reduce carders and establish carder review committee in the ministerial level with the salary skills management. But the government is increasing carders without any consideration of the process. Targeting of the winning election the governing party recruited graduates to the various department and also after the new government came to power to fulfill the election manifesto to provide more jobs; but no real needed. It was a real political aspiration. As an example by the new government which recruited 12,000 unemployed graduates in 2004 and another 41,480 in 2006 (The Ministry of Public Administration and Home Affairs, 2005 & 2007). The increase of government sector can be explained in following graph.

**Table 04. The increase of Public Sector Employment from 2000 to 2010**



Note: Government: Central Government, Local Government, and Provincial Council

Semi-Government: State Corporations, Statutory Boards, and State Authorities

(Source: Central Bank, 2002, 2006, 2007 and 2010)

According to the graph government sector cadre progressively increased in later years. Chairmen of Public Service Commission S.B.Beddewala cited as “This bureaucracy is large, costly and suffers from low effectiveness and efficiency. Government works with the lowest levels of graduated. Top policy-makers and professionals are insufficiently compensated.....Unnecessarily the government filled the cadre with graduates who are in excess. It is a political decision (Interview 06.03.2012). The Minister for Public Administration and Home Affairs; W.D.J.Senevirathne also commented, “They are not utilized because they are not required. They are appointed on a political decision. There was no actual necessity” (Interview, 15.02.2012).

Thus; this kind of recruitment provides a temporary solution to the existing social problem of unemployment, it has several far-reaching negative outcomes as underemployment of staff in the public sector. The salary bills were increased accordingly; Table 05 shows increase of salary bills from 1995 to 2010.

**Table 05: Increase of Salary bills**

Year	Amount of Salary: SLRs
1995	121,841 million
2005	175,031 million
2007	214,160 million
2008	239,078 million
2010	289,210 million

(Source: The Ministry of Public Administration and Home Affairs: 2012)

Thus implementation of cadre management policy is an unproductive matter in this situation. Most of the government institution overstaff now, the situation was badly changed after the current government stopping the privatization program. Hence right-sizing cadres and introducing manpower planning did not implement by the government. The reason is giving the government sector jobs is the key instrument of continue political power in Sri Lanka.

#### **4.2 Case 04: Fiscal Management Reform Program (FMRP)**

UNP government introduced Fiscal Management Reform which came into power in late 2001. The major purpose of this reform was the economic shrinkage. SL's economy, for the first time after Independence, recorded a 1.5% reduction in 2001 under the SLFP regime (Wignaraja P. & Sirivardana S: 2004). Although the economy recovered later at the rate of 4% of GDP growth, the fiscal position was not sound with the increase of defense expenditure, weak tax administration, a narrow tax base and various tax incentives. In addition, the balance of payments problems led the exchange rate devaluations, and raising the local currency value of the external debt. As a result, the budget deficit reached 8.9% of GDP (excluding grants and privatization proceeds) and public debt increased to 106% of GDP in 2002 (ADB, 2004).

In this context, with the assistance of the ADB the government formulated the FMRP. This reform focused on improving tax administration, budget framework, public expenditure management and control systems, fiscal discipline, and fiscal coordination including supporting the groundwork for fiscal decentralization (ADB, 2004, p.11). Accordingly, the Fiscal Management (Responsibility) Act was enacted. According to the act financial regulations of the government, the Ministry of Finance is charged with raising and collection of revenue and with the general oversight of all the financial operations of the government. In the financial system of the country there are independent monitoring institutions for successful requirement for better management of public finance. The Auditor-General's Department, COPA<sup>10</sup>, COPE and the Committee to Investigate Allegations of Bribery and Corruption are important monitoring institutions on public accounts and public service of Sri Lanka.

For a better and impartial functioning of the Auditor General's Office, it should be independent from the government and the budget making process. However, the Auditor General is appointed by the president. Further, funds for the Auditor General's Office is allocated by the president and

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<sup>10</sup> Parliamentary Select Committees on Public Accounts

approved by the legislature. Therefore, it seems that the audit process of public finances is not purely independent from the budget making process.

This project was initially designed to establish a Revenue Authority; but it failed due to employee resistance (ADB, 2004). Therefore, the SLFP government suggested establishing a Unified Revenue Board to coordinate common functions by giving more operational autonomy to those departments (ADB, 2004) but no action has been taken in this context yet. In addition, the reform program intended to establish an independent Public Debt Management Office which was dismantled with the change of government.

Under fiscal decentralization the government recognized the gap between provisions to PCs under the 13th Amendment to the Constitution and the genuine fiscal devolution (ADB, 2004). Therefore, this project is expected to address the imbalance between the Centre and the province and across provinces. Yet, the progress of these actions so far was not published.

Many issues in public finance management of Sri Lanka have been attributed to various institutional and policymaking and implementation deficiencies. Firstly, bureaucratic and political constraints are major barriers in implementing public finance reforms and good fiscal practices. Secondly, the lack of better institutional and legal framework and material and human resources stood against the better management of public finances. Thirdly, the lack of government commitment for fiscal discipline because of political reasons ended up with large budget deficits. Fourthly the misuse of public funds and the lack of proper monitoring, a less attention was given for the improvement of institutional facilities (ADB: 2004). These issues together make the management of long-term public finances a serious issue.

One serious problem in the public finance management of Sri Lanka is the lack of fiscal discipline. Over the years the government has spent more than the estimates approved for the

financial year. Nevertheless, the government was able to maintain its actual spending within the estimated limits in recent years. The Fiscal Management (Responsibility) Act of 2003 and subsequent institutional changes have been contributed to the recent improvement. J.M.Ananda Jayawickrema (2007) has done a survey on 'Post- Reforms Finance Management: Problems and Prospects'. According to the survey data government's recurrent spending still exceeds the estimates while capital spending falls below the estimates. The author argues that the FMRP has not contributed to improve the revenue discipline of the government. According to his analysis during the period 1978-2002, the government was unable to raise expected tax revenue. Actual revenue was less than estimates by about 0.6 per cent of GDP. In fact, the gap has been widened from 2003 to 2007 implying further deterioration in the revenue collection discipline. Further, the government has failed to collect revenues as estimated in the budget proposals (Jayawickrema: 2007). Both inefficiency in the revenue collection process and faults in budget forecasts, individually or together, may contribute to the low revenue collection. Though several measures have been taken to improve the revenue discipline, actual revenue still falls below the budget estimates. High expenditure and low revenue collection relative to estimates together makes budget deficits wider affecting the medium-term budget framework of the government.

## **5.0 Conclusion and Suggestions**

According to the analysis so far in this study, several realistic arguments can be raised up. One such conclusion would be, based on this study, that absent situation of necessary support and capacity of institutional system reform implementation might lead to an unproductive project. More effective implementation is required for proactive thinking and positive attitudes from implementers. Thus there need to be strong commitment between political leaders and bureaucrats for this process; they should be ready to work with innovations. In a country like Sri Lanka, this is not an existing situation. Institutional failure has become a tragedy after 1970 s in Sri Lanka. Civil society has become helpless due to the highly politicization of the whole system. Almost the four cases above mentioned largely contributed to negative outcomes. It appeared that reforms were unable to deliver positive outcomes due to political considerations in the design and implementation of reforms; instead they created many more complex problems.

Provincial Councils (Case 01) were established with the intention of providing a self-rule for them but the necessary basic requirements have not been provided enabling them to a develop a self-rule. These basic requirements are administrative competence, law making capacity and resources to get necessary revenue. Consequently the important three requirements to develop Good Local Governance, namely, Performance Management, People's Participation and Partnership between private and state sector (3Ps). Without law making capacities, administrative competence and financial resources Provincial Council are unable to improve Good Local Governance.

Implementation of privatization policy (Case 02) based on ad hoc manner. Through the stabilized welfare economic system it is very difficult to achieve positive outcome. Still peoples are thinking privatization as an enemy of the country. There was no governmental mechanism to aware the civil society at this process. Lack of transparency is another problem; various



ministries followed various technique of implementing privatization program. Most of the bureaucrats did not support to the privatization policy and they protest engaging with trade unions. The One of main hindrance is there were no well stabilized privatization policy within the political regime; it also changing time to time.

Implementation of the Cadre management and salary structure (Case 03) policy was not success, due to the short term goal of the politicians and bureaucrats. The government is increasing carders without any consideration of the process. Rising government recruitment has gone hand in hand with the proliferation of government institutions. Hence the most of government institutions suffer with lack of competent and capable bureaucrats at this stage. Therefore creating a competitive institutional framework for achieving public sector reforms is a big challenge in Sri Lanka.

The implementation of FMRP (Case 04) program still on the problem based, due to many deficiencies in the system. Weak monitoring mechanism of government accounts, lack of fiscal discipline can be identifying as main hindrances of the program. Monitoring institutions suffers with lack of human resources and facilities. The lack of government commitment for the implementation of recommendations given by the monitoring institutions is another issue: The government has failed to take prompt actions against the cases of malpractices and to suspend or remove accused officers/politicians from their posts.

The overarching set of reasons would be that ongoing reforms require stable, peaceful, year by year continuous governing system. That is the only way the reforms are properly developed and implemented, but this was not in the case in SL. Therefore, if one tries to build up a model or develop an explanation on why and how SL's situation is like that the answer would be complex. The first half of the answer would be self-serving political culture and the second half of the

answer would be that public service is driven by political motivation rather than technical motivation. That's the reason is failure of many government institution at this stage. The high echelons of public servants are appointed and beholden to the politicians of the day. Therefore, the level of stability and continuous development of public services is technically impossible. Self-serving political culture and patronage are not confined to SL but they have serious implications on the country's public administration and reforms

Therefore, without establishing an enabling strong institutional frame work including whole political system the necessary administrative reforms would be impossible. The creation of an enabling environment is a hard and challenging task. Both political and bureaucratic elites should be ready to dedicate and commit for a new era of change. Therefore, the pathway forward is not clear but the Sri Lankans are common sense people. They are always passionate and strong about their responsibility towards their next generation.

There are several ways to achieve the enabling environment and a stable government. There need to be increase of capacity in the government. In this process the approach would be to get the basics right. There is a view that countries should get the basics right before attempting more advanced reforms. Thus greater democracy is a must. And also there should be flexible devolution system. The government should address the root causes of the 30 years of internal conflict of the country. Reforming the political system including the executive presidency also needed. The current government structure far from the democracy because president can direct influence to the public sector without any margins. The next point is the address of key issues in the current public administration tragic issues mentioned above.

Therefore successful NPM practices depend on committed and competent institutional environment. Whole political system should be ready to accept new policies with greater hopes

of the future. Thus effective government is an urgent matter in Sri Lanka. At this process; Sri Lankan government should address above mentioned arguments as much as possible.

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