

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

Final Presentation  
Case Study: International Political Economy

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# Introduction

- ❑ Sri Lankan administrative system based on past experience on the British colonial regime-1948-1970
- ❑ 1948- Limited power parliamentary system with independent public service commission
- ❑ 1972- Established centralized strong parliamentary system ( National State Assembly)
  - Abolished public service commission- power transferred to cabinet ministers
  - Introduced public sector reforms; DPA/DCB
  - Result was to highly political influence and institutional failure
- ❑ 1978- Changed the governmental system – Strong Presidential system
  - Introduced public sector reforms under the power centralized political system
  - DM/Privatization/Decentralization
  - Highly politicization of the whole system: weak civil society and institutional failure
- ❑ Although the government introduced several administrative reforms including NPM package but nothing has happened
- ❑ Why is this so and what kind of challenges behind the situation.
- ❑ Researcher observed four cases; two cases between the period from 1970s to 1990s and two cases between the periods from 1990s to 2010

# Research Problem/Purpose of the Study

## Research problem

- Sri Lankan government has taken several attempts to reform 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 behind this? What explains this situation?

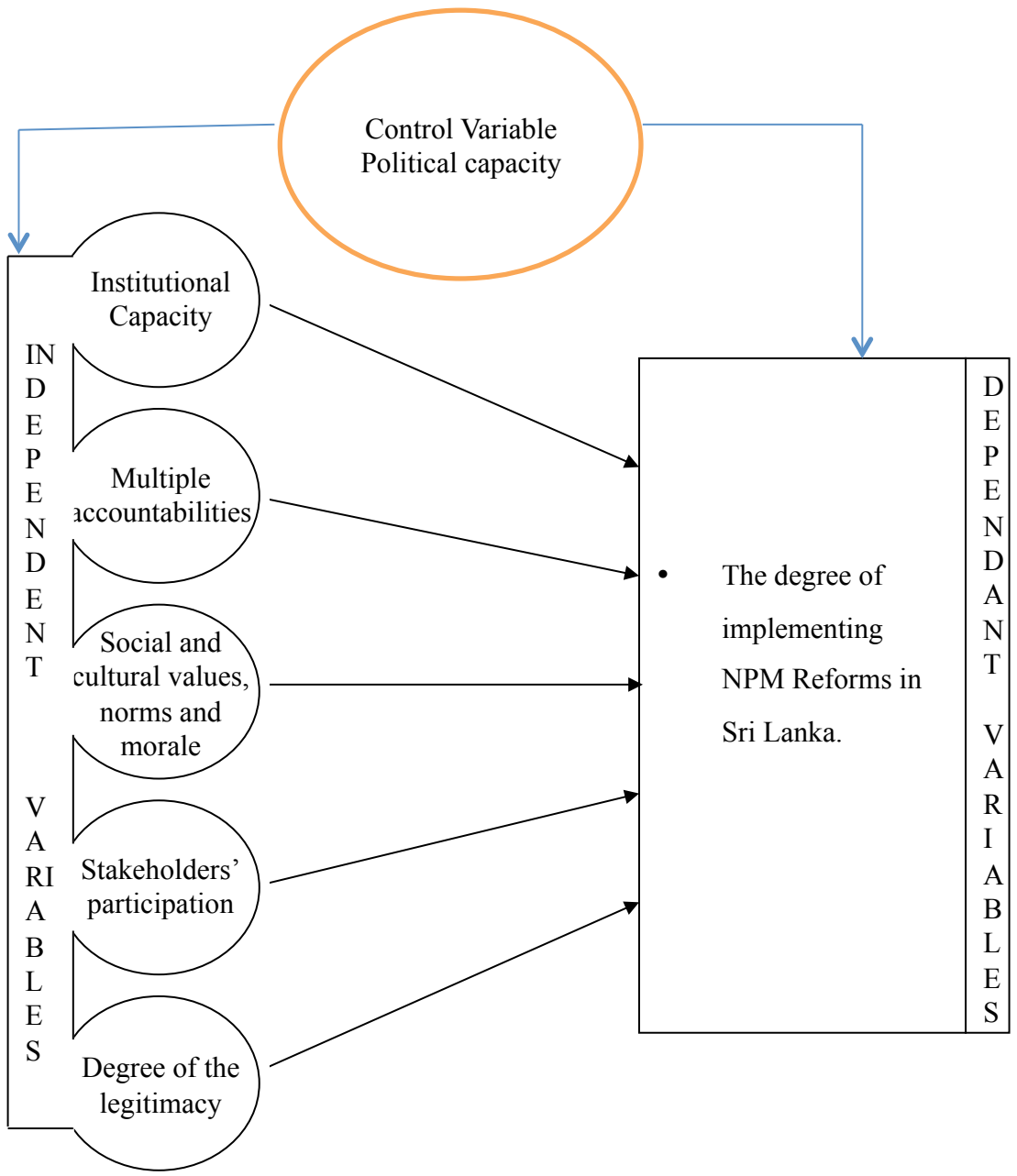
## Purpose

- To explore the challenges in implementing the NPM reforms in Sri Lanka.

# Research design

## Variables

- ❑ **Dependent variable:**
  - **The degree of implementing the NPM reforms in Sri Lanka.**
- ❑ **Independent variables:**
  - **Institutional Capacity (such as institutional and administrative capacities)**
  - **Multiple accountabilities (like political accountability, managerial accountability, and financial accountability)**
  - **Social and cultural values, norms and civil service morale**
  - **Stakeholders' participation such as private sector, professional associations and trade union, regulatory bodies,**
  - **Degree of the legitimacy**
- ❑ **Control Variable :**
  - **Political Capacity**



# Hypothesis

- **The degree of implementing NPM reforms is depended on the committed and competent institutional environment**

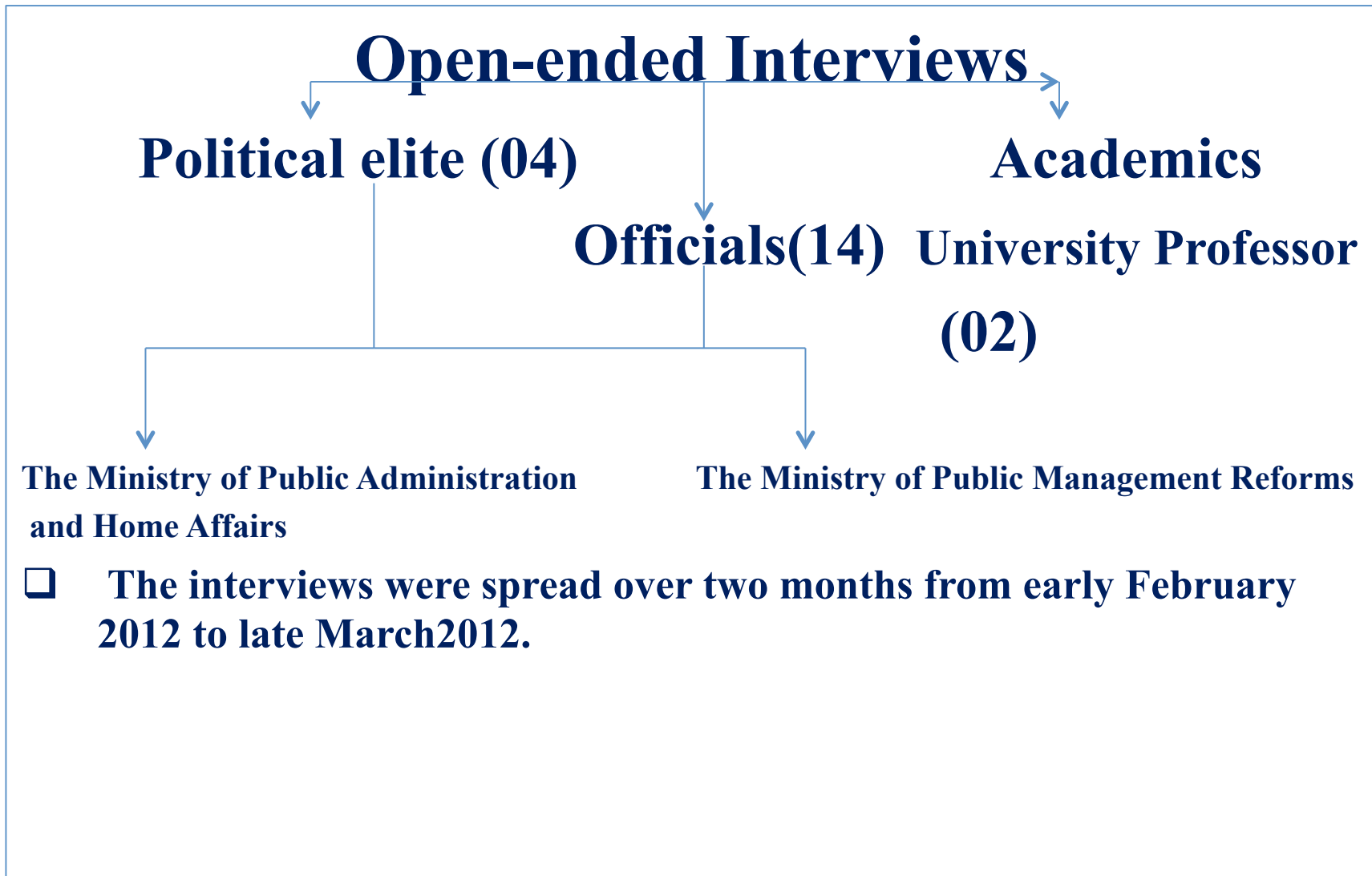
# Research methodology

**The approach of this paper is essentially exploratory and so the research design is historical and qualitative.**

- Secondary data:**
  - Published books,**
  - Journal articles,**
  - Memoranda,**
  - Written reports,**
  - Administrative documents,**
  - Newspaper clips**



# Primary Data(20)



- The interviews were spread over two months from early February 2012 to late March 2012.

# Data Analysis

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

# Literature Review

## 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.
- ❑ Major consideration of NPM (Hood, 1991).
  - Direct public sector costs should be cut and labor discipline should be enhanced so as to improve the maximum utilization of resources;
  - Private-sector-style management practices applied to increase flexibility in decision-making;
  - Competition in the public sector (through term contracts and tendering) increased, as rivalry is the key to lower costs and better standards;
  - The public sector disaggregated and decentralized to make units more manageable and to increase competition among them;
  - Controls shifted from inputs to outputs, to stress results rather than procedure;
  - Explicit standards and performance measures established, because accountability requires clearly stated targets and efficiency requires attention to goals;
  - Managers given powers to conduct hands-on professional management, because accountability requires clear assignment of responsibility, not diffusion of power.

# Results and Discussion

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

### A. Case 01: Decentralization

- ❑ **The Provincial Councils (PCs)-1987**
- ❑ **Devolution of political and administrative power to the sub-national level under the 13th Amendment to the Constitution.**
- ❑ **As agents of the central government within the unitary regime.**
- ❑ **Accordingly the act powers were devolved as**
  - **Reserved List(Central government functions)**
  - **Provincial List(Provincials governments functions)**
  - **Concurrent List(Both government can be use the power).**
- ❑ **Only to the legislative and executive functions only. There is no devolution of judicial power**

- ❑ The Provincial Councils have not been provided with the capacity to draft laws.**
- ❑ The Chief Secretary of the Provincial Council Administration is appointed by the President and the Governor as well as the Provincial Secretary is also appointed by the President.**
- ❑ Provincial public service commission vs Central public service commission**
- ❑ The Secretaries of the Ministries and the Head of Departments of Provincial Council Administration are appointed by the Central Public Service Commission.**
- ❑ The cadre positions of the provincial public administration are determined by the Department of Management Services of the General Treasury.**
- ❑ The Provincial Councils have to depend on Treasury funds for their recurrent expenditure, as well as for the salaries of the staff.**
- ❑ As funds are required for the creation of new positions, Finance Commission too involve in approving such appointments to the Provincial Council (Bandara: 2009).**

# The budget expenditures and revenues of PCs (Source: Central Bank, (2011))

Item	2008	2009	2010	2011
<b>Total Revenue</b>	<b>19,481</b>	<b>25,868</b>	<b>31,368</b>	<b>29,433</b>
Tax Revenue	16,586	21,473	25,992	24,907
Non-tax revenue	2,895	4,395	5,376	4,526
<b>Total expenditure</b>	<b>94,470</b>	<b>113,067</b>	<b>120,011</b>	<b>130,260</b>
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
<b>Central Government Transfers</b>	<b>79,029</b>	<b>88,317</b>	<b>88,942</b>	<b>93,999</b>
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

# Decentralization or Re-centralization?

❑ Accordingly, the administrative units of the central government had to be reduced in theory but in practice they have increased and continue to perform through central agencies.

❖ 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. 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)

❑ Decentralization- within the unitary structure and power centralized presidential system

❑ 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

# Case 02: Privatization

- ❑ In the SL context, privatization is the transfer of management and/or ownership of property from the public sector to private sector
- ❑ The privatization program was conducted in an ad hoc manner -A number of line ministries carried out specific reform measures in their PEs as they wishes
- ❑ There are 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.
- ❑ Lanka Marine Services Ltd -former Chairman of the Public Enterprises Reform Commission and the Secretary to the Treasury, Dr. P.B. Jayasundara, was found guilty of neglecting to act in the interest of the government



# Capital Investment in Selected Privatized Companies

Company	Pre-privatisation (mean)	Post-privatisation (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

# Direct Employment Effects of Privatization for Selected Companies (Average Employment)

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
<b>Total</b>		14673	14845	172

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

- ❑ **Privatization became an unsuccessful even due to against of the trade union**
  - **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)**
  - ❖ **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. 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)**

**❑ Lack of Citizen Support also caused to failure of privatization policy in Sri Lanka.**

**❖ 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).**

**❑ However, privatization was abandoned with the change of government in 2005 under the ‘Mahinda Chintana’ philosophy**

# **NPM reforms in Sri Lanka-The period from 1990 to 2010**

- ❑ With the invitation of United Nations Development Program (UNDP) and Asian Development Bank (ADB) missions.-**
- ❑ Administrative Reforms Committee (ARC) in 1996**

## **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**

❑ **Increasing government cadre system**

- **2004- recruited 12,000**
- **2006- recruited 41,480**
- **2011- recruited 10.000**

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

- **2012 – at this moment 15.000 graduates were training**

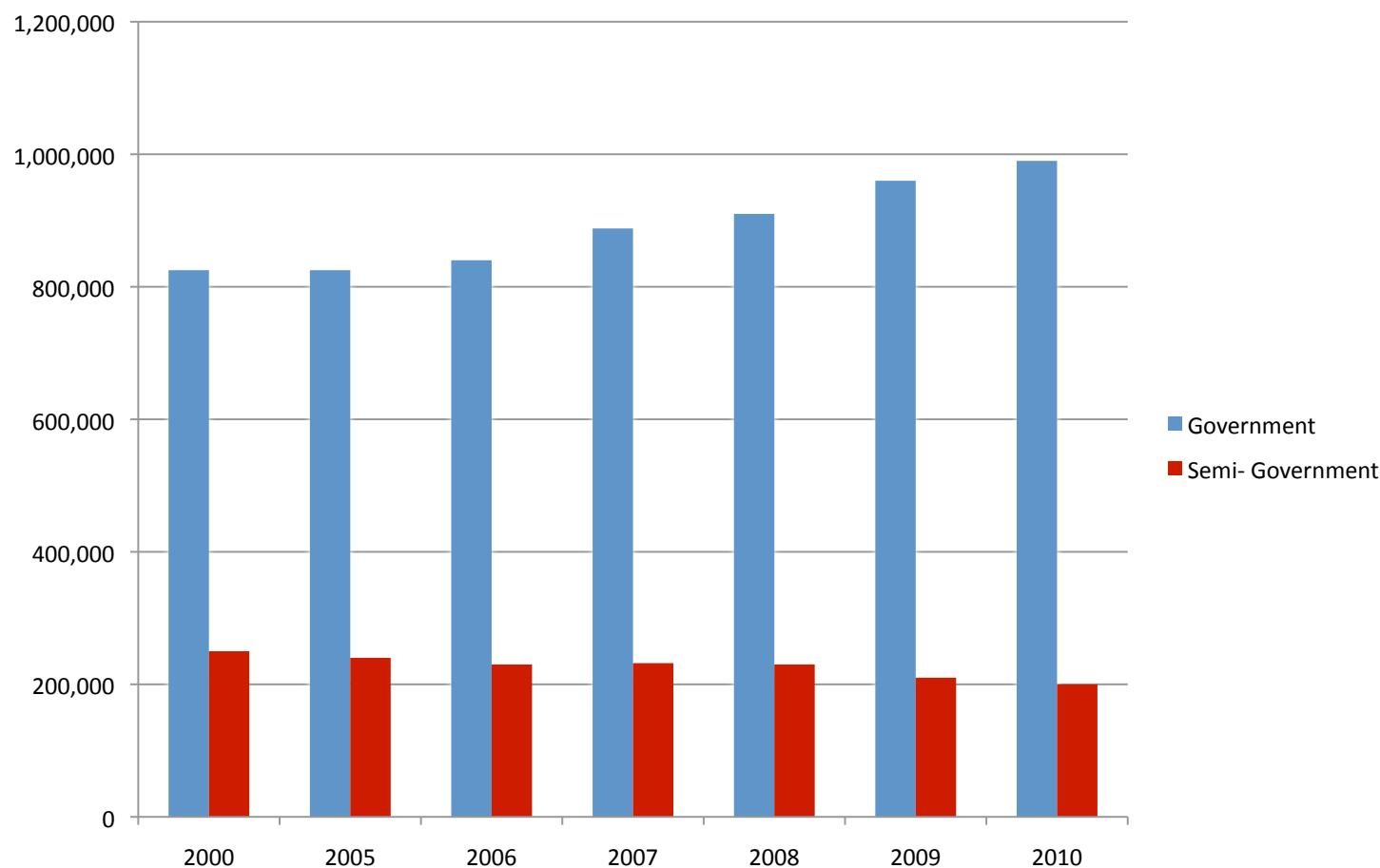
❖ **Chairmen of Public Service Commission S.B. Beddewala cited as**

**“This bureaucracy is large, costly and suffers from low effectiveness and efficiency. Government workers with the lowest levels of graduated. Top policy-makers and professionals are insufficiently compensated” ..... Unnecessarily we filled the teachers’ cadre with graduates who are in excess. It is a political decision( Interview 06.03.2012)**

❖ **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 needs Cadre Review Committee. They recruit people for totally unproductive areas. (Interview, 06.03.2012).**

# The Public Sector Employment from 2000 to 2010 increase (Source: Central Bank, 2000, 2007, 2009 and 2010 )



# Increase of salary bills

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

year	Amount of salary:SLRs
1995	121,841 million
2005	175,031 million
2007	214,160 million
2008	239,078 million
2010	289,120 million



# **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**
- ❑ 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).**

- ❑ **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).**
- ❑ **Fiscal Management (Responsibility) act**
- ❑ **Financial regulations of the government- The Ministry of Finance**
- ❑ **The independent monitoring institutions for successful requirement for better management of public finance.**
  - **The Auditor-General's Department**
  - **COPA-Parliamentary Select Committees on Public Accounts**
  - **COPE- Parliamentary Select Committees on Public Enterprises**
  - **The Committee to Investigate Allegations of Bribery and Corruption**

- ❑ For a better and impartial functioning of the Auditor General's Office, it should be independent from the government and the budget making process
  - The Auditor General is appointed by the president. Further, funds for the Auditor General's Office is allocated by the president and approved by the legislature
- ❑ This project was initially designed to establish a Revenue Authority; but it failed due to employee resistance
- ❑ The reform program intended to establish an independent Public Debt Management Office which was dismantled with the change of government
- ❑ The 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.
- ❑ Bureaucratic and political constraints are major barriers in implementing public finance reforms and good fiscal practices.
- ❑ The lack of better institutional and legal framework and material and human resources stood against the better management of public finances.
- ❑ The lack of government commitment for fiscal discipline because of political reasons ended up with large budget deficits.
- ❑ The misuse of public funds and the lack of proper monitoring, a less attention was given for the improvement of institutional facilities (ADB: 2004).

- ❑ **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.**
- ❑ **The Fiscal Management (Responsibility) Act of 2003 and subsequent institutional changes have been contributed to the recent improvement. But, government's recurrent spending still exceeds the estimates while capital spending falls below the estimates.**
- ❑ **J.M.Ananda Jayawickrema (2007) has done a survey on "Post- Reforms Finance Management: Problems and Prospects". - 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**
- ❑ **The government has failed to collect revenues as estimated in the budget proposals**
- ❑ **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 (Jayawickrema: 2007).**

## Fiscal responsibility by pre- and post- FMRP 2003

(Per cent of GDP, period average)

(Source: J.M.Ananda Jayawickrema “ Post Reform Public Finance Management: Problems and Prospects)

Expenditure component / revenue	Before FMRP 1978-2002			After FMRP 2003-2007		
	Estimate	Actual	Variation*	Estimate	Actual	Variation*
<b>Total expenditure</b>	<b>32.28</b>	<b>35.51</b>	<b>3.23</b>	<b>34.92</b>	<b>34.25</b>	<b>-0.67</b>
<b>Recurrent expenditure</b>	<b>19.74</b>	<b>20.73</b>	<b>0.99</b>	<b>17.13</b>	<b>17.90</b>	<b>0.77</b>
<b>Capital expenditure</b>	<b>12.54</b>	<b>14.75</b>	<b>2.24</b>	<b>17.79</b>	<b>16.35</b>	<b>-1.44</b>
<b>Total revenue</b>	<b>20.35</b>	<b>19.77</b>	<b>-0.58</b>	<b>16.43</b>	<b>15.52</b>	<b>-0.91</b>

Note: \* variation = actual – estimate.

- ❑ **The implementation of FMRP program still on the problem based, due to many deficiencies in the system.**
- **Weak monitoring mechanism of government accounts**
- **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**
- **lack of fiscal discipline**
- **The government has failed to take prompt actions against the cases of malpractices and to suspend or remove accused officers/politicians from their posts.**

# Conclusion

- ❑ **Absent situation of necessary support and capacity of institutional system reform implementation might lead to an unproductive project.**
- ❑ **Case 01: Decentralization has negative outcome due to the Institutional Failure**
  - **Aim: Good Local Governance, with 3Ps**
  - **Performance Management**
  - **People's Participation and**
  - **Partnership between private and state sector (The Ministry of Public Administration and Home Affairs:2012)**
  - **Without law making capacities, administrative competence and financial resources Provincial Council are unable to improve Good Local Governance.-**
  - **Imbalance between the political institutions and the bureaucracy that allowed bureaucrats to formulate and implement public policies without appropriate political guidance,**

- ❑ (Case 02) Implementation of privatization policy based on ad hoc manner- No strong government instrument, lack of support of bureaucrats and civil society, protests of the trade union**
  
- ❑ (Case 03) Implementation of the Cadre management and salary structure policy was not success, due to the short term goal of the politicians and bureaucrats.**
  
- ❑ (Case 04) The implementation of FMRP 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.**



# Suggestions

- ❑ .....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.
- ❑ So.....establishing an enabling strong institutional frame work including whole political system
- ❑ Both politicians and bureaucratic elites should be ready to dedicate and commit for a new era of change
- ❑ Increase of capacity in the government
- ❑ Sri Lankan should get the basics right before attempting more advanced reforms-with greater democracy

Thank You For Listening