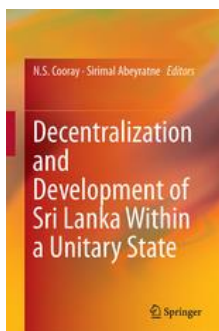


## BOOK REVIEW



N.S. Cooray and Sirimal Abeyratne  
(Editors)

*Decentralization and Development of  
Sri Lanka within a Unitary State*

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This new book edited by Prof. N.S. Cooray and Prof. Sirimal Abeyratne is timely, particularly given the lapse of three decades of devolution as enacted through the 13<sup>th</sup> Amendment to the Constitution in Sri Lanka. Such power sharing was expected to ease the ethnic tensions which prevailed in the country since the 1950s. In spite of devolution efforts, the ethnic conflict continued, culminating in the 30-year long war that ended in 2009. The government is now in the process of formulating a new constitution to streamline devolution.

In light of the above, the subject of decentralization has been largely viewed from ethno-political imperatives, and as a result, has mostly remained within the domain of political scientists. Economists seem to have kept away from discourses on decentralization as they have paid more attention to economic development at the national level. Deviating from this status-quo, the two editors who themselves are economists have sought to focus on the nexus between decentralization and development at sub-national levels in this collection of essays. This makes the volume a path-breaking contribution to devolution in Sri Lanka.

This comprehensive volume provides deep insights into different dimensions of decentralization and development with special reference to Sri Lanka. Drawing from the successful experiences of Japan and other countries, it also proposes novel autonomous local government systems for Sri Lanka.

The book starts with an introductory chapter written by the co-editors. This is followed by 14 articles on different dimensions of decentralization and development authored by eminent scholars. These articles are organized under three sub-themes – decentralization and financing of sub-national units of government, sectoral development under decentralized system, and sharing internal experiences.

As highlighted by the co-editors, devolution of power and empowering of local administrations in Sri Lanka are constrained by diverse factors. The process is quite complicated and sensitive to certain political regimes that are geared to empower the central government rather than local or peripheral governments. The current system of local government was found to be inconsistent, centralized, politicized and relatively less efficient, according to previous research. Hence, the co-editors point to the need to have appropriate policies, particularly in the current post-conflict era, to facilitate reconciliation, peace building and development at all levels: local, provincial and national.

A major issue that has cropped up in several papers of this volume is that economic development is not a major concern for devolution in Sri Lanka. Post-independent history was dominated by tense situations created by the attempt to establish second-tier or sub-national governments as a solution to the ethnic divide which grew worse after 1957. The Provincial Council (PC) system was introduced in 1987 largely through Indian pressure as per the Indo-Lanka Accord to resolve the ethnic conflict. Thus, the PC-based devolution package evolved on ethno-political grounds rather than on an economic development rationale. This problem has haunted the Provincial Council system throughout its existence during the last 30 years. There has never been an attempt to combine national level planning to sub-national economic planning.

Another constraint to development that is highlighted in the volume is the conflict between the central government and PCs. The establishment of PCs changed the landscape of the local authority system as the government decided to handover supervisory control of local authorities to PCs following the devolutionary arrangement in the 13<sup>th</sup> amendment. It is pointed out that PCs were established without the whole-hearted support of the central political leadership. For example, the Ministry of Economic Affairs that existed until 2015 allocated funds for rural development straight to the chairpersons of Pradesheeya Sabhas, bypassing Ministry of Local Government and Provincial Councils.

Fiscal constraint is a major challenge faced by PCs which has led to large budget deficits and increased dependency on the central government for grants, according to several papers in the volume. Providing powers of revenue generation and expenditure determination to sub-national governments is a core component of devolution. It is argued that greater fiscal autonomy would enhance financial efficiency of PCs. Taxation at two levels – by the central government and PCs – is detrimental to investment.

The centre-local sharing of revenue and expenditure is constrained by reluctance on the part of the central government to provide revenue autonomy to PCs. Institutional

support needed for decentralization to work are not in place in Sri Lanka, as in the case of other developing countries. Transfers from the central government account for a large part of subnational finances everywhere, and hence their design is critical to successful decentralization. Transfers should be determined openly, transparently, and objectively, and they should be kept reasonably stable over time.

In comparison, fiscal devolution is carried out successfully in some Asian countries, as pointed out in two articles of the volume. In Vietnam, fiscal decentralization is found to have a significant positive effect on growth. In Japan the local tax system is geared to reduce disparity, to enrich autonomy, and stabilize revenue mobilization.

An article that deals with agriculture and rural development in the volume notes that gradual devolution of decision making is evident in agriculture. However, it points out that the separation of the subjects of crops, livestock, and fisheries among several ministries is a major drawback. The authors emphasize the need for coordination between the central government and PCs. Quantification of the effectiveness of devolution as regards agriculture is difficult due to evaluate due to complexities. The authors conclude that decentralization of power to provinces and local bodies should be based on people's participation to effectively overcome problems in agriculture.

In an interesting paper focusing on the industrial sector, it is noted that industrial clusters have the advantage of reducing transaction costs due to geographical proximity, but they are not a panacea. The author argues that industrial clusters reduce incentive to innovate, and they encourage low quality or 'lemon' products. Hence, it is essential to formulate an effective cluster-based industrial development accompanied with technological progress. The major source of technological progress is the application of appropriate knowledge of technology and management imported from developed countries in productive activities. The author elaborates how Taiwan and South Korea used technology and management know-how from Japan in the 1970s and 1980s when their economies grew rapidly. Later, Indonesia, Malaysia, and Thailand followed the same strategy. More recently, China has been learning from Taiwan, Korea and Japan. At present, Vietnam, Laos and Cambodia are learning from China, among others. Based on these experiences, the author argues for promoting technological progress within industrial clusters.

The article on public investment in education provides a comprehensive analysis of economic and social benefits and the inter-generational and gender-equity benefits of investment in education. The author stresses the need to raise the flow of resources to education which shows a declining trend in recent years. Provincial education administration tiers such as zones and division have to play a major role. The author observes that the allocation of public education resources among provinces is progressive in Sri Lanka. This means that provinces with weaker performance such

as the Central, Eastern and Northern provinces receive greater resources per student than wealthier regions such as the Western province. Equitable development of the education sector is critical as the majority of children of low-income families attend provincial schools. Greater fiscal powers and responsibilities should be given to schools, the author suggests. The other paper that deals with education adapts popular production function model in military spending studies. According to this paper, government education expenditure is a significant factor in economic growth.

The volume contains a paper that presents a novel idea towards an appropriate public local government unit for Sri Lanka. Following the successful experience of Japan with regard to municipalities which provide a wide variety of public services, the authors propose merging two overlapping local administration units – Pradeshiya Sabhas and Divisional Secretariats (DSs). The merged unit may be called a Divisional Administration Unit (DAU) which will contain both executive and legislative branches. The geographic coverage of the DAU would be the same as that of the present DS. The authors claim that this system would be ideal to devolve powers in Sri Lanka while ensuring the unitary state. They emphasize that the proposed system will play a vital role in empowering and improving the livelihood of citizens.

The volume is also enriched with comprehensive papers on community development organizations, women's representation and political engagement and post-conflict foreign policy challenges. This volume reminds us that decentralization is not only about a solution for ethnic issues, but it is also a key for economic development: broadly for the well-being of the people, to improve their quality of life. It is questionable whether devolution is viewed from this angle in Sri Lanka. The term 'balanced regional development' is merely tagged to the Act of the Finance Commission as merely a mechanistic formula to allocate grants among PCs. But the question remains whether PCs have ever taken an effort to promote balanced regional development.

I am confident that this book co-edited by Prof. N.S. Cooray and Prof. Sirimal Abeyratne will be a major contribution to divert the attention of all stakeholders to tie up decentralization with socioeconomic development, in addition to its widely-known role in resolving ethno-political tussles. The book is published by a reputed international publisher, Springer, with high standards. This outstanding volume will be an important source of reference for scholars, researchers, policymakers and for those who are interested in the subject of decentralization and development.