

Fiscal Decentralization and Improvement of Provincial-Level Service Delivery in Sri Lanka: Autoregressive Distributed Lag (ARDL) Approach

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The meaning of Fiscal Decentralization (FD) is the allocation of resources to the institutions of governance at the sub-national levels of the country. Theoretical evidence strongly suggests that FD is an effective tool for the efficient delivery of services at the local level. Provincial Councils (PCs) were first established in 1987 as sub-national legislative bodies in each of the nine provinces of Sri Lanka. According to the literature, there are many problems associated with the provincial-level service delivery in Sri Lanka. Therefore, it is necessary to evaluate the services of PCs through a macro-level quantitative study to determine the impact of FD on human capital development, health, and education. In Sri Lanka, no in-depth studies have been done on the short-run and long-run impacts of FD on service delivery. Also, none of the studies that were considered appears to have fully analyzed the impact of decentralization on health, education, and human capital development. Clearly then, these studies have failed to accurately assess the impact of FD on service delivery in Sri Lanka. Therefore, the objectives of this research are to determine rather more precisely the effects of FD on provincial-level service delivery in Sri Lanka, covering such areas as health, education, and human capital development, in order to find out the short-run and long-run dynamic impact of FD. Under the methodology adopted for this research, time-series data pertaining to the PCs in Sri Lanka during the 1988-2018 period have been used for the analysis, while following the ARDL approach. The findings reveal that the present level of FD at the provincial level in Sri Lanka has not been able to contribute significantly to human capital development, health, and education in the short and long run. This can be attributed to the lack of fiscal autonomy and sufficient funds. Three decades of experience with FD reveal that the financial capacity of practically every PC is very poor and despite many sources of income, the provincial tax base is limited. The scarcity of financial resources constrains the implementation of innovative development programs as well as the capacity to meet recurring expenditures. A high degree of centralization restricts the smooth functioning of the PCs as the center concurrently maintains its own agencies at the local level. Also, functions and responsibilities related to basic services such as health and education are not fully decentralized in Sri Lanka. By way of recommendations, it is suggested that restructuring the expenditure and revenue functions of the PCs would considerably enhance the capacity to deliver provincial services because introducing new sources of revenue and limiting non-priority spending in the provinces is bound to have a positive outcome. Increasing the funding for health and education at the provincial level and introducing reforms will also improve the productivity of these services.

Keywords: ARDL approach; Fiscal decentralization; Human capital development; Provincial Councils

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