

## **Fiscal decentralization, its performances in sub-national governance: a study of the Provincial Councils system in Sri Lanka**

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This paper reviews the current knowledge of fiscal decentralization in development administration in the contemporary political economy. It focuses on how government's fiscal decentralization, including the assignment of responsibilities for revenue collection and expend to sub-national bodies, and how internal fiscal transfers are performed and implemented between the central government and provincial councils in Sri Lanka.

A renewed interest in the concept of decentralization has been observed in last two decades with the experience of centralized governance of developed and developing nations over the past fifty years. The fiscal decentralization is one of the pillars of among three pillars of the decentralization concept. It is an important reform initiative to empower local communities of developing nations and transition economies through their local governments. Fiscal decentralization is a potential policy instrument to enhance the livelihoods of local communities, nevertheless, proper implementation and effective performance of the fiscal decentralization process is determined by the external and internal conditions such as the design of fiscal decentralization system, rationality of the institutional setting with checks and balances between the central and local financial agencies, competency of the officials, adequacy of human-capital resources as well as the role played by the central governments.

Absence of an adequate appraisal inquisition system had not only undermined the advantages of the fiscal decentralization process but had also created a vacuum in the policy initiative for fiscal decentralization in developing countries. Sri Lanka experience show that a proper performance appraisal of the fiscal decentralization enhances necessary policy initiatives. The case study concludes that fiscal decentralization measures put forwarded by the 13<sup>th</sup> amendment has not much decentralized the highly centralized financial management structure vis-à-vis to the political and administrative decentralization in Sri Lanka under the 13<sup>th</sup> amendment to the constitution in 1987. The financial commission which is established as a key policy instrument for regulating center-province relation in the area of provincial finance, which mandatory for provide consultancy service and submit recommendation to the president in regarding financial needs assessment of the provinces plays central role rather than mediatory financial institution. It is recognized that provincial council do not have been received financial autonomy neither in expenditure or revenue perspectives. An incentive decentralized financial mechanism needs to be built in to the central transfer mechanism in which transfer allocation response to regional needs assessment and economic performance.

**Key words:** Decentralization, Fiscal decentralization, Development administration, Provincial councils, Sri Lanka

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