

**AN ANALYSIS OF LOCAL GOVERNMENT EXPENDITURES:
RECONCILING SOCIOECONOMIC, POLITICAL AND
GOVERNMENTAL PERSPECTIVES.**


S.R. Sepalika Nayanie Sudasinghe

**A Dissertation Submitted in Partial
Fulfillment of the Requirements for the Degree of
Doctor of Philosophy (Development Administration)
School of Public Administration
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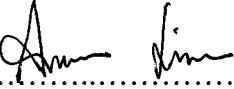
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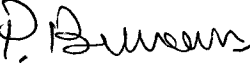
S.R. Sepalika Nyanie Sudasinghe


School of Public Administration

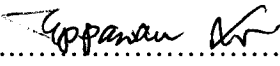
Associate Professor.....  Major Advisor
(Ponlapat Buracom, Ph.D)

The Examining Committee Approved This Dissertation Submitted in Partial Fulfillment of the Requirement for the Degree of Doctor of Philosophy (Development Administration).

Professor.....  Committee Chairperson
(Anusorn Limmanee, Ph.D.)

Associate Professor.....  Committee
(Ponlapat Buracom, Ph.D.)

Lecturer  Committee
(Amornsak Kitthananan, Ph.D.)

Associate Professor.....  Dean
(Tippawan Lorsuwannarat, Ph.D.)

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ABSTRACT

Title of Dissertation	An Analysis of Local Government Expenditures: Reconciling Socioeconomic, Political and Governmental Perspectives
Author	S.R. Sepalika Nayanie Sudasinghe
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The determinants of government expenditure is a recurring theme both in government and scientific discourse. Apart from the central government, local governments are significant in enhancing the community wellbeing and encountering new challenges due to the changing circumstances in which they operate in. There exist few studies on this subject in the Sri Lankan context; therefore focus on Sri Lanka is interesting for several reasons.

This study is mainly conducted with three main objectives, and those can be specifically stated as follows.

- 1) To study the major determinants, trends and differences in level of local government expenditures in Sri Lanka
- 2) To explain the differences in the level of local government expenditures by identifying their determinants
- 3) To propose policy measures based on the models towards promoting the welfare and comfort of the citizens at the local level

The main theories underlined in this research are the median voter theory and the utility maximization assumption in the context of the public choice approach. The proposed model was built upon the general approach to expenditure research.

In terms of research design, the dependant variable in this research is local government expenditures, and the independent variables stem from socioeconomic characteristics, political characteristics, and governmental characteristics.

In terms of the samples used in this research, all of the municipalities and urban councils, are taken from year 2006 on the basis of that year's local government elections and total 54. Relevant to this study, secondary data are considered as the major source of information. Apart from the quantitative technique, the qualitative technique was used in this study in identifying the determinants of local government expenditures in Sri Lanka

The first premise of this research in general is that local government expenditures varies according to the mixture of socioeconomic, political, and governmental factors. More socioeconomic variables in models indicate a demand-driven aspect in local government resource allocation. Local politics also play an important role at the local level in terms of political motivation among the politicians; additionally, the voters are strikingly significant in decision making. Apart from that, the local government's tax effort indicated a significant research implication. Moreover, the dominant role of the central government over the local-level is also significant in expenditure decision making at local level. On the basis of the research implications, policy recommendations are made and mainly the participatory budgeting system and the strengthening of the local revenue base are proposed in facilitating and promoting a need-based development towards promoting the welfare and comfort of the citizens at local level.

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**“The heights by great men reached and kept, were not attained by sudden flight
But they while their companions slept, were toiling upward in the night”**

Henry Wadsworth Longfellow (1807 - 1882)

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CHAPTER 1

INTRODUCTION

1.1 Statement of the Problem

“Policy analysis can involve the investigation of either the causes or consequences of government policies or programmes” (Dye and Gray, 1977: 85). Public policy analysis refers to “what governments do, why they do it, and what difference it makes” (Dye, 1976: 1). “Public expenditure analysis is inherently intricate...because the objectives pursued, the institutions involved, and the fiscal instruments used in the public expenditure process are many and often conflicting” (Sahni, 1977: 3). The term “expenditure” in the public expenditure literature has been used synonymously with the phrase “spending policies.” “In public expenditure literature, those two terms have been used interchangeably” (Hwang, 1987: 49). This means that “...local government expenditure is a genuine reflection of local government spending policy...” (Hwang, 1987: 49).

The determinants of government expenditure is a recurring theme in both government and scientific discourse, such as in public economics and public finance literature. Most of these debates center on the question of the relevant importance of the considered determinants over one another. Politicians, interest group leaders, general public, bureaucrats, and also researchers are often interested in finding out how much these factors should be considered in state and local expenditure decisions. Thus, previous research has been conducted for the identification of the influential factors from socioeconomic, political, and various other backgrounds. Mainly these studies were conducted by economists, political scientists, and also by sociologists and represent a long history of research. These efforts have been accelerated in recent years due to increasing pressure from the public to make the government more efficient and more responsive to citizens’ preferences. In addressing these issues the researchers in the field have contributed immensely by identifying the important

factors that underlie expenditure efforts as they are crucial to ensure democracy in any country. These research studies are mainly in the hands of two actors, economic determinists and political determinists, who tend to ensure their dominance in the field. Economists, following Fabricant, Glen Fisher, Bahl, and Sounders, have commonly identified the variables that represent the socioeconomic development of the relevant jurisdiction, such as income per capita, population density, urbanization, health and educational levels, while the political determinists, following Key and Lockards and others, have selected the popular variables that represent the measurements of political development from voter turnout, interparty competition, and candidate competition, etc. Economists from the public finance field seem generally interested in taxation. Understanding the importance of both aspects present studies, regardless of the area of specialization, tend to employ measurements of both aspects and seem to extend their models to challenge the conventional wisdom concerning governmental, institutional, and other important aspects to derive conclusions. Following Hofferbert's suggestion, they select explanatory variables from different dimensions, as indicated in the following:

...independent variables be drawn from several dimensions: historic-geographic conditions, socio-economic composition, mass political behaviour, governmental institutions and elite behaviour (Fry and Winter, 1970: 515 quoted in Hofferbert, 1968).

All these efforts underscore the neoclassical demand theory one way or another, assuming that state or local government behaviour reflects the utility maximization of consumers/voters. This can be explained theoretically according to constrain maximization models or median voter models in public choice theory.

Regardless of the theoretical differences, these expenditure models are popularly used under the general approach to derive conclusions using either the sample basic expenditure model and the general expenditure model or the stranded model as used by Painter and Bae in 2001. As Hwang (1987: 10) further explains that these models have been used to assess the power of the selected explanatory variables with the common underlying assumption of consumer utility maximization.

Apart from the central government, the local government—the generic term used to describe all levels of government lower than the central government—seems closer to the people, especially in democratic governance, than other units of governments. Thus their expenditure decisions should more reflect the localities' demands through the political and bureaucratic process in the representative governments. Local governments should mostly be concerned with improving the well-being of the population that lives in their territories as their prime objective. In light of this issue correct identification of their priorities is vital for any local body. This issue becomes crucial in the agendas of urban governments, as seen in the following:

...the increase in urban population, the fast growth of cities in order to provide the requirements of increasing population and the effects of expansion of cities on the fringe area are still the common problems of several countries in 21st century (Yenigul, 2007: 1).

In this regard, local urban governments (in this study the municipalities and urban councils) encounter numerous challenges as service providers to their localities, while there is a large demand for local public services such as local roads, health services, etc., as in democratic governments where people demand these services through their representatives. In that sense politicians tend to accommodate the preferences of their voters, aiming at reelection. This can be explained through the public choice approach and more by the utility maximization assumption from socioeconomic, political, governmental, and other perspectives. This means that a “large proportion of the services of governments are socially determined and are influenced by the changing social framework of the society” (Thorn, 1977: 188 quoted in Sahni, 1977). But “the notion that local governments do not behave in a vacuum is not new” (Sjoquist, 1982: 79).

In this regard local governments expenditure choices are important, but as Fisher (1988) highlight,

...The measurement of the preferences for (public) goods ... cannot be subject to individual consumer choice. The closest substitute for consumer choice is voting (original text in italic) (Bowen, 1943 quoted in Fisher, 1988: 47).

However, due to the importance of the role of local governments, the bulk of the literature exists from developed countries, with most examining the American context and with very few from Asia. As an Asian country, the Democratic Socialist Republic of Sri Lanka (hereafter Sri Lanka) has a long history of local government systems dating back to the fourth century, with some features of self-governing functions. It is evident that the continuous reform taking place in the local government sector is due to the importance of this sector in providing public goods at the community level. Thus this research focuses on exploring the significance of the local governments in Sri Lanka as service providers at local level at the grass root level, as in general government is considered as the benevolent social planner that maximizes community welfare.

This importance has been identified by several scholars from different perspectives on the Sri Lankan milieu, such as that of Wanasinghe (1999) on effective local governance. However, in order to provide public goods efficiently, the local governments have to be strengthen their financial resources. Thus the “resource capacity is a major determinant of the level of functions and powers exercised by the local government institutions” (Wanasinghe, 1999: 16). In other words, financial capacity is imperative in deciding the public expenditure to be channeled through various public services on citizens’ demand. In this regard the term refers to the value of goods and services bought by the state or local governments and their articulation. This leads to the question of what forces underlie these decisions, whether the socioeconomic or proximity of electoral or governmental factors. On the other hand this probing question discloses the major issue that exists in the local governments, the poor performance in public goods supply. Therefore, identification of the major determinants is vital for success.

Thus, this study explores the determinants of expenditure policies by introducing the techniques in the Sri Lankan milieu that facilitate decision making at the local level.

1.2 Significance of the Problem

Research on state and local fiscal behaviour is a popular topic in the public finance literature for decades. Those explain the state and local fiscal choices on public choice approach as explained by the median voter theory reflecting the utility maximization behaviour as of constrained models. Those early studies mainly discuss on two agents – voters/tax payers or the public service receptors, and politicians holding office - in general. Bridging these aspects they assumed that;

...vote-seeking politicians, like profit seeking business decision-makers, will have a strong incentive to cater to the views of politically active constitutions....to win votes is to give constitutions or at least appear to give them, what they want (Gwartney et al., 1998: 93).

The truism that explains the above quotation depicts the limited research focused on, as very few studies have been extended to this traditional aspect of public sector bureaucrats to assess the varying degree of capacity to change the outcome of expenditure decision-making in state local government expenditure. This effort is broadened in this research drawing Niskanen's (1971) attempt to answer the following question: What, if anything, do bureaucrats maximize? Further overview the relevancy of the economic theory to explain the bureaucrats' utility. In essence the research on broader determinants has become a timely requirement and this research tends to fill the gaps in existing literature.

On the other hand, over the last couple of decades, a large number of studies have investigated government expenditure, given the importance of the subject matter in public economics, but these studies have scarcely been extended to developing countries. Thus research on the Asian context is vital, as even the same model may explore contradictory findings due to the changing socioeconomic and political environments. Therefore several research problems can be discussed in terms of international and local contexts. Thus the research problem stems from the multidimensional issues on the premise mainly in the Sri Lankan and the Asian context.

Apart from the Asian studies, Sri Lanka has hardly been explained systematically regarding this subject, particularly regarding local polity. Therefore focus on Sri Lanka is interesting for several reasons. This stems from the probing question why the local governments have not progressed for over a century and have not provided corrective measures for an effective system, where truly functional democracy can be ensured.

Apart from the continuous reforms that have taken place towards the promotion of the comfort, convenience, and welfare of the local community, 1987 marks a significant constitutional change in the country, with the 13th Amendment to the Constitution. This marks a challenging transition to new democratic structures that serve the needs of communities. This change introduced another layer of government at the provincial level. This was primarily meant in one way to find solutions to the demands from the Tamil community, By now the civil war that has prevailed in the North and East provinces in Sri Lanka has come to an end. One important point is that the people of those areas have continued to demand for three decades more power and freedom in decision-making in their areas, Though the war against terrorism is over, it is vital to research the gaps which have not been filled, especially in terms of fiscal allocation towards the wellbeing of the community. In this effort, especially in terms of supply of public goods in those areas as the closest government unit to the grass-root level under the provincial council system local government service provision becomes vital. Thus feasible recommendations from researchers on this subject have become a national requisite. To make these recommendations on community demands and to identify how best to meet and deliver services in a manner that would meet them, the correct identification of determinant factors of expenditure decision-making is a fundamental requirement. This request has been proved by the several studies as Institute of Professional Administrators in 2007 reports on the World Bank in 2000 view, the decentralization implemented in Sri Lanka has not permitted high quality demand-driven service delivery to the local population . Further the Institute of Professional Administrators in 2007 reports, the fiscal devolution situation disables rather than enables the performance of the provincial service delivery function in a manner that is welfare enhancing. Thus it is worthy to explore the determinants of these causal factors and to examine whether

there are significant factors that affect the situation and accordingly to see the possibility of seeking changes through public policy.

Apart from the above, the local governments, especially urban governments (hereafter the term “local government” is simultaneously used to refer to municipalities and the urban councils in Sri Lanka) - face a new generation of challenges due to the population growth in the country. As a result, an increasing number of people have moved from rural areas to large cities, resulting in the growth of the population in urban areas. This makes urban governments a lot more customers to provide services than they did in the past. In this regard those governments their responsibilities become broader and vital in terms of the community well-being. In ensuring the community wellbeing it is vital to understand the underlying forces of this demand, as they make service delivery fruitful and the people friendly.

Moreover, even before the country gained independence, Sri Lankan policy-makers continuously addressed the issues of poverty and development from multidimensional efforts. According to the data, in Sri Lanka 23% (2002) of the population still live below the poverty line (Department of Census and Statistics, Sri Lanka). In this aspect the literature on government expenditure, especially local governments, offers several useful insights for policy makers in the effort to reduce poverty. This point makes important due to the natural advantage the local governments pursue in understanding the needs of the locality. As a government comes closer to the people, by understanding the needs and resources of their own jurisdictions, those units can provide better local public goods to meet the needs of the community. In that sense the identification of determinants that lead to fiscal decisions is vital. However, in this regard local governments face numerous challengers, such as limited budgets and competencies and the opportunities they perceive. Additionally, those reasons correct identification of inhabitants’ needs paves the way for overcoming poverty among them. But however apart from social welfare spending, expenditure on infrastructure development is vital in addressing the need-based development of the locality. This point is significant in urban governments where large number of underserved urban communities demand pro-poor services. However, though local governments tend to create a sustainable and habitable environment in urban areas, these services have not been properly addressed. For example, it is a

common site to see vast heaps of garbage on roadsides in Colombo and urban areas. Further, poor housing—squalor in slum shanties—and conditions of market places are good indicators of the mismanagement of urban localities in Sri Lanka. This issue has further explained by Wanasinghe (1999) in terms of lack of basic management competency relevant to most of the councils in Sri Lanka. Besides assessing the service of local governments, USAID (2005) also highly criticizes their capacity regarding service provision. According to them,

This lack of competencies is felt in all major areas of local government management, whether planning, including land use, transport, and environmental planning; financial management, especially budgeting; own source revenue generation, especially local tax assessment and collection (USAID, 2005: 7).

The above point out serious implications for local authorities justifying the significance of the research question for effective expenditure decision-making toward the success of the local government system.

Presumably, in the broader sense proposed, empirical research intends to challenge the socio-economic and political dichotomy of the existing literature by integrating governmental perspective on local governmental expenditure decisions and addressing the country's foremost issues today by protecting the needs of the most vulnerable. Therefore, in this respect identification of the determinates of local government expenditure is significant, as it leads to improving the service provision of local governments towards promoting the welfare and comfort of citizens and ultimately in the long run helps in the socioeconomic development of the country.

1.3 Objectives of the Study

This study mainly intends to identify the determinants of local government expenditures in the Sri Lankan context. Therefore the three main objectives of the study can be specifically stated as follows.

- 1) To study the major determinants, trends, and differences in the level of local government expenditures in Sri Lanka
- 2) To explain the differences in the level of local government expenditures by identifying their determinants
- 3) To propose policy measures based on the models towards promoting the welfare and comfort of citizens at the local level

1.4 Scope of the Study

1.4.1 Specific Areas

This study focuses on identifying the determinants of local government expenditure in the context of Sri Lanka. Conceptualization of the study is mainly based on the theories of public choice-- utility maximization assumption and the median voter theory-- in the public finance literature. Further this study underlies Mueller's view, as he sees public choice as the

...economic study of decision making, or, simply the application of economics to political science. The subject matter of public choice is the same as the political science; the theory of the state, voting rules, voter behavior, party politics, the bureaucracy and so on (Mueller, 2003: 1).

Therefore the conceptualization of the study will incorporate three main perspectives identified from the reviewed literature; namely, the socioeconomic perspective, the political perspective, and the governmental perspective, which try to integrate the utility maximization behaviour of voters/tax payers or the public service receptions and politicians holding office and the bureaucrats regarding the public policy process.

1.4.2 Specific Organization and the Population

In order to identify the determinants of local government expenditure policies, municipalities and the urban councils in Sri Lanka were selected. Those organizations

are considered as the first and second layers of the local government system in Sri Lanka.

1.5 Benefits of the Research

This study contributes both to the theory of local public finance and practically to policy making at the local level.

1.5.1 Contribution to Theory

Most of the studies on local public finance, particularly on expenditure decision-making, centre around the question of the relative importance of socioeconomic and political variables. This study, however, expands the traditional model testing governmental variables, which is an area that has been little researched. Lack of research on this aspect may be due to the fact as Downs and Rocke state “despite the increased emphasis on the role of bureaucracy in shaping policy, bureaucrats or organizational variables have received little attention in the ‘determinants’ literature” (Downs and Rocke, 1979: 722) due to the reason of the high cost involved in acquiring organizational data. However, a combination of these three perspectives can contribute to an extension of the traditional model.

The second innovation is the application of two theories—median voter theory and the utility maximization assumption—in the research to derive the findings. Though these theories explain similar aspects at the surface level, in a broader sense they explain different perspectives. Thus the combination of these two theories will extend the model and make it stronger and more important for this field.

The third innovation is the testing of new measurements at the local level in explaining the socioeconomic perspective of the developing country context. Those measurements significantly bring strength to the tested model to bring about policy recommendations.

1.5.2 Contribution to Public Policymaking at the Local Level

The findings of the study have several benefits at the local and international level in the field of public finance. This study provides several contributions in

expenditure decision-making in urban local governments in developing countries. In terms of the Sri Lankan context, identification of the determinants of local expenditure policies bring academic as well as practical information to policy-makers to introduce and amend the existing policies towards promoting the welfare and comfort of the citizens at the local level.

Firstly, the study helps in identification of the determinants of local policy making. In this regard, beyond the traditional determinants, governmental factors bring a rich combination of causal factors to policy making.

The findings of the research are benefited by many different stakeholders at the national and provincial level. As mentioned, national and provincial policy-makers can use the information and analysis to assess the effectiveness of the current policy of the local government. This strengthens the policy decisions to make efficient allocation of resources at the local level. Local government representatives and managers, and also researchers in this field, can use the findings to compare the performance of their local urban governments or to other similar governments. Citizens can use the information to compare the performance of their localities with that of others, and hold their representatives accountable.

Second, the policy implications made provide a strong rationale to prioritize the identified measures in the current national policy on local governance and to use them as effective tools in the process.

Third, the research implications offer an overview of the current context of the local government's expenditure policies and help policy makers to make desirable changes towards effective relevant policy outcomes.

Finally, local government policy making on the basis of the findings will therefore be of great interest in accordance with the afore-mentioned model, as the determinants of the functional structure of local government expenditure have a direct impact on the economic growth of the country.

1.6 Generalizability

The situations and problems encountered in the sample are common to many urban governments in developing countries and therefore the solutions sought in the

sample too may be applicable to other developing countries with a research context similar to that of Sri Lanka.

1.7 Limitations of the Study

The first limitation concerns the availability of secondary data on the study context. Because of this situation some of the popularly-used variables could not be tested in the Sri Lankan context. This limitation is relevant to the three perspectives, socioeconomic, political, and governmental, selected, as well as the explanatory variables selected. The second concern is the cost and time limitation for this research. Third is the selection of urban governments; thus the rural aspect was excluded. The fourth limitation concerns the research design. In this study cross sectional data were used, as mentioned, due to the unavailability of secondary data.

1.8 Organization of the Study

The study is presented in seven chapters.

Chapter I of this study explains the problem, significance of the problem, objectives of the study, scope, benefits of the research, generalizability, limitations, and the expected benefits of the study.

Chapter II discusses the local government system in Sri Lanka, providing a retrospect up to the present situation. It explains the structure, activities, and functions of local authorities, financial status, personal systems, and the electoral system of the local governments.

Chapter III is devoted to the literature review. This is in two sections: a literature review and model formulation. The literature review begins with an introduction to the government expenditure research with related definitions and concepts, and is followed by discussing multidimensional approaches in identifying the determinants of government expenditure. Then the related theories and models are discussed with evidence from empirical studies from a general approach. Then the proposed model is introduced following the research hypothesis and research questions.

Chapter IV explains further the proposed model from chapter III and discusses the research design following the definitions of variables and relevant measurements. The second part discusses the assumption, research sample, data collection methods, and data analysis methods.

Chapter V presents the differences in levels and patterns of expenditures in local government and explain the determinants of local government expenditures in general and specific aspects—road rehabilitation and maintenance expenditure, solid waste management expenditure, public health expenditure, physical planning and infrastructure expenditure, and other capital expenditures— considering socioeconomic, political, and governmental variables. The section on the quantitative results of the research test the hypothesis and present the revised models representing the determinants of local government expenditures in Sri Lanka.

Chapter VI presents the results of the in-depth interviews following the secondary data in order to uncover additional information and to better explain the findings of the previous chapter. This chapter also explains the specific aspects that have not been adequately explained by the quantitative analysis.

Chapter VII summarizes the major findings of the research following policy implications and recommendations. The benefits and limitations of the study, and future research directions, are also outlined.

CHAPTER 2

LOCAL GOVERNMENT SYSTEM IN SRI LANKA

2.1 Sri Lanka

Sri Lanka, formerly known as Taprobane and Serendib, was given its name by the Portuguese who arrived in 1505 and it was transliterated into English as Ceylon. From 1972, the official name has been Sri Lanka. Sri Lanka is an island off the southern tip of India with a land area of 62,705 sq.km and with a population of 20,010('000 persons) (Central Bank of Sri Lanka, 2009).



Figure 2.1 Map of Sri Lanka

Source: Geology.com, 2010.

There are inscriptions on the history of the country dating back to more than 2500 years. According to legend, the major ethnic group, the Sinhalese (82.0%)

(Census of Population and Housing 2001), are believed to be oriented from the King Wijaya, who came from North Indian “Aryanyan,” and mixed with the local ethnic group called the “Helayan” in 500 B.C. The Theravada school of Buddhism was brought to Sri Lanka around the third century B.C. According to the legend, the Indian emperor Asoka sent missionaries and was fervently adopted by the Sinhalese king, Devanampiya Tissa (250 B.C- 210 B.C.) Theravada Buddhism thereafter was introduced as the main religious belief among the people to date. Other ethnic groups consist of the Tamils (9.4% in 2001), who are said to have migrated as workers in the 19th century and Muslims (7.9% in 2001), who have migrated as Arab traders and other groups (0.7% in 2001).

2.2 Sri Lanka’s Local Government System – A Retrospect

Sri Lanka is a unitary state with a powerful executive presidency and a cabinet of ministers answerable to parliament and a legal and administrative structure is based on its republican constitution. The government system incorporated a deconcentrated presence of central government at sub-national levels.

The sub national government (SNGs) system in Sri Lanka consists of Provincial Councils (PCs) and Local Governments (LGs).⁹ PC councils ... The Local government system in the country constitutes of 330 institutions comprising 18 Municipal Councils, 42 Urban Councils (UCs) and 270 Pradesheeya Sabhas (PSs) as at end 2008 (Central Bank of Sri Lanka, 2008: 142).

Most of the above were reconstituted with the local council election held on 30 March, 2006. This however excludes the councils in the area of military confrontations at that time.

Sri Lanka has a long history of local governments, dating back to the period of the Sinhalese kings to the fourth century. Evidence for these types of governments can be seen in the oldest chronicle of Sri Lanka, the Mahawansa, in the sixth century. According to history, there have been different types of governments with different

characteristics such as the Gam-Sabhas, which were confined mostly to decisions of the elders of high castes of those communities. Additionally, the Dasa-gam, which consisted of clusters of ten villages and the Demala-gam, which simply means the Tamil villages. Moreover, in Sri Lanka there were several Vihara-gam, those belonging to the temples of that area. In terms of the function of these social entities or the decision-making entities those were commonly confined to maintain the law and order of the relevant entities. Beyond maintaining the law and order, those units were responsible for the task of water management in the area, which was a fundamental requisite for an agricultural economy. In addition, land allocation and dispute resolution were taken as important tasks of the aforementioned local bodies. However, the British, during their colonial rule, abolished the Gam Sabhas in 1818 and greatly influenced the local government system in Sri Lanka. Some of the significant changes during the period under British governance is highlighted in Table 2.1.

Table 2.1 Towards the Present Local Government System from the British Period

Year	Relevant Action
1856	Introduction of the Irrigation Ordinance
1865	Establishment of Colombo and Kandy municipal councils
1866	Establishment of Galle municipal council
1871	Reconstitution of village committees by the Village Committee Ordinance
1892	Establishment of sanitary boards for small towns
1939	Establishment of urban councils
1946	Establishment of town councils

Source: UNESCAP, 2010.

However, it is evident from many aspects that a proper system of local government institutions came into power under the Donoughmore Constitution of 1931 and thereafter the local government system became fully systematized in 1936, marking the modern local government system in Sri Lanka. This incorporates a four-

tier system with separate Ordinances for municipal councils, urban councils, town councils, and village councils. The characteristics of these differentiate one another, as the municipal councils are for cities and large towns and similarly the next to the top urban councils too were created for other urbanized areas. Village councils by definition were for rural areas, while small towns within those areas came under the administration of the town councils. However later the functions of village councils were transferred to district development councils in 1980 and did not last long and then were seen as Pradeshiya Sabhas. Presently the local governance consists of three layers with three legal instruments: the Municipal Council Ordinance, the Urban Council Ordinance, and the Pradeshiya Sabhas Act.

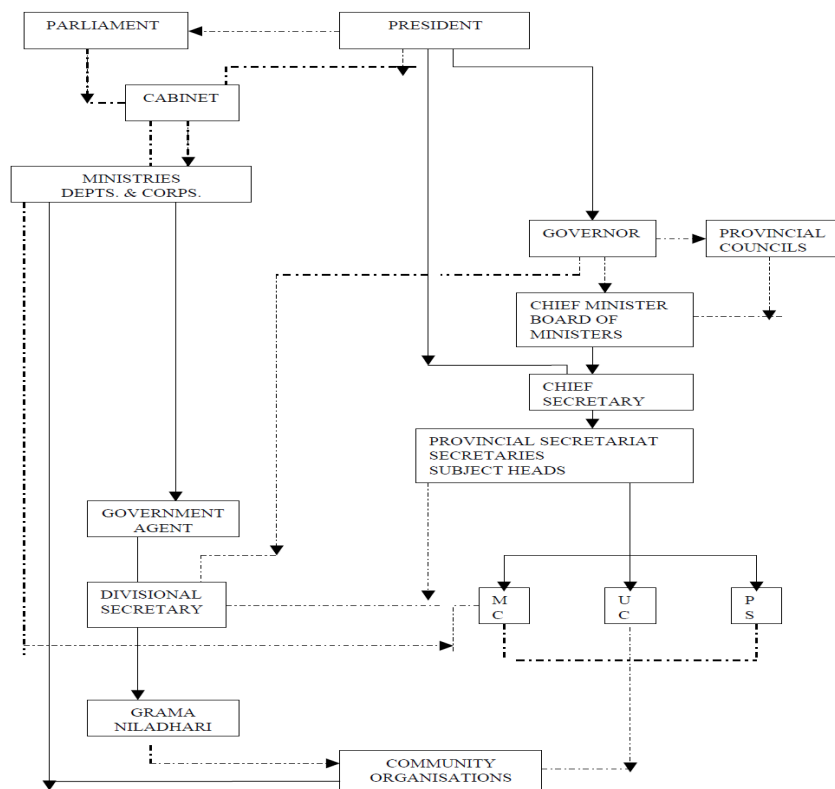


Figure 2.2 Structure of the Government Administration

Source: Samaraweera, 2007: Annex 6.

Under the 13th Amendment to the Constitution, passed on 14 November 1987, the establishment of the provincial councils marks a radical departure from the

centralized form of governance in Sri Lanka. From Figure 2.1 above the relationship between the national level and the sub-national level, and also the provincial councils and the local level, is very clear. Most importantly with this change the processes of inquiry and oversight of local authorities have been transferred to Provincial Councils.

2.3 Activities and Functions of Local Governments

Most countries pursue a system of local government generally for two reasons: 1) as a manifestation of local democracy, and 2) as a provider of local services. In Sri Lanka these entities function on the basic objective of promoting the welfare and comfort of the citizens. Thus all the local authorities commonly promote a number of activities on three broad functional areas: public health and environmental sanitation, public thoroughfares, and public utility services, including the provision of civic amenities.

In terms of administrative structure, despite the differences in designations, the structure is similar in all local authorities. Specifically the municipal councils are headed by the mayor /chairperson, the chief executive, deputy mayor, and members of the council respectively, and they are involved in making policies and policy implementation decisions. The next layer consists of public officials and among them at the top is the municipal commissioner, who is a senior public official. There exist several departments under the administration of a municipal commissioner. The names of departments differ from one council to another as those basically depend on the size, the complexity, and the staff availability for that particular authority. In other words, the resources of the municipality in this aspect are vital. This means that richer local bodies tend have more departments for their day to day work, while others work with few departments. Figure 2.2 depicts the organizational structure of the relatively “rich” council, indicating several departments in the year 2003.

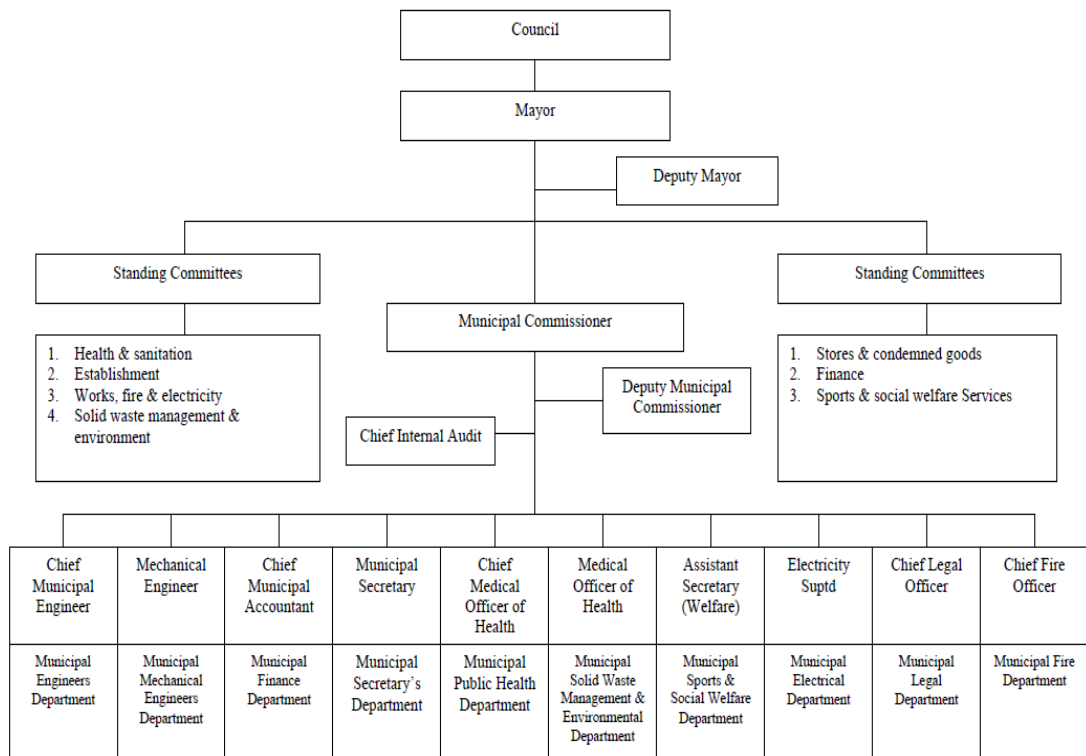


Figure 2.3 Organizational Structure of the Dehiwela Mount Lavina Municipal Council

Source: Wijayapala, 2003: 46.

2.3.1 Municipal Councils

In terms of general powers, according to Section 40 of the Municipal Council Ordinance routine administrative powers covers subjects such as recruitment of officials, acquisition of assets, licensing, instituting legal actions, budgeting, and supplementary budgeting. Since the general duties of the municipal councils are more important for the well being of the public, the duties as stated in section 46 are as follows:

- 1) Maintaining and clearing of all public streets and open spaces vested in the council or committed to its management;
- 2) Enforcing the proper maintenance, cleaning, and repairing of all private streets;
- 3) Supervising and providing growth and development by planning and widening of streets, reservation of open spaces, and execution of public improvements;

- 4) Abating all nuisances;
- 5) Establishing and maintaining public utilities for the welfare, comfort, and convenience of the public; and
- 6) Promoting public health, welfare, and the development of sanitation and amenities.

It is clear that the municipal council functions are more environmental in nature, as aforementioned they basically involve health and sanitation activities, solid waste disposal, greening of the areas under their control, and the development of parks. Apart from the above, an important power is given to the municipal councils to demolish unauthorized buildings in their area of authority. Importantly the law empowers local authorities to meet all of these responsibilities to create a sustainable and habitable environment in urban areas.

Municipal councils have been given enough power to contribute to the economic development of the country. This can be ensured through proper market facilitation and regulation in their areas of authority. Opening new markets and expanding the existing markets help to increase the income of the inhabitants of the locality. In ensuring an inhabitable environment, the powers given to medical and health officers to inspect important places of business, especially hotels and restaurants in the areas not exercised regularly, are vital. Further concerning local area development activities, they are permitted to acquire lands, plants, machinery and equipment or to borrow for development activities. All of these functions depict the strengths of municipalities as a democratic instrument close to the population.

2.3.2 Urban Councils

The powers and duties of urban councils are not very different from the municipal councils, but the powers are listed separately in the Urban Council Ordinance. Section 35 of the ordinance, where the duties of urban councils are listed, is similar to the corresponding section of the Municipal Council Ordinance. Due to the similarity in duties, the main functions of these councils also are environmental in nature, as aforementioned.

The general powers and duties of the urban councils as defined in section 32 of the Urban Councils Ordinance are follows:

There shall be vested in the urban council of each town all such immovable property of the following classes, namely:

- 1) waste lands and open spaces;
- 2) stone, cabook, and gravel quarries;
- 3) public lakes and streams;
- 4) public tanks, ponds and channels;
- 5) Crown lands whether with or without buildings as may be situate within the limits of the town and may be or have been handed over, with the sanction of the President or the Governor-General, to the Council, or to any local authority of which the council is the successor, in the manner described in section 33 (Democratic Socialist Republic of Sri Lanka, Parliament, 1986: 10).

In this regard the parks, open spaces, gardens, canals, public markets and public buildings within the urban council areas become the property of urban councils and are authorized to maintain and regulate markets.

2.3.3 'Pradeshiya Sabhas'

As the final layer of government the Pradeshiya Sabhas too are powered with similar regulations and functions to the municipal and urban councils as regards to the routine administration of their areas. For example, focusing on services and the environment, the Pradeshiya Sabhas also focus on thoroughfares, public health, and market places (relevant to the duties of the ordinance). However, in terms of the environmental characteristics, the Pradeshiya Sabhas share the rural environment. It is evident that due to lack of finances most of the authorities lack effective services.

2.4 Financial Status of Local Governments

Local authorities finance expenditure from revenues from a variety of sources. These are mainly categorized as rates, other revenues, assigned revenues (stamp duty and court fines), borrowings, government transfers, and other receipts. In terms of revenue generation, all local authorities are legally authorized to create a relevant authority fund.

The major source of own revenue differs according to the type of local authority. For municipal councils, rates constitute the major source of own revenue as well the overall revenue accounting for 38% of income. As far as urban councils (27%) and Pradeshiya Sabhas (34%) are concerned other sources of revenue such as income from licenses fees etc. constitute the major source of own revenue. Overall government transfers account for 27% of local government income constituting 33% of Urban Councils, 29% for 'Pradeshiya Sabhas' and for Municipal Councils. Borrowings constitute a minor source of income and financing for local authorities (Finance Commission of Sri Lanka, 2004: 56).

The other important point is that local government institutions in rural areas, especially the Pradeshiya Sabhas, cannot generate much income on their own. Although there are several sources of revenue for local authorities, collecting of these is not easy due to delays in receipts and in terms of efforts to obtain money. This can be seen in the recovery of fines and penalties from courts for example. The Finance Commission, in their report in 2004, further admits this factor. According to the report:

The situation in this regard to the transfer of assigned revenue is unsatisfactory. The amount transferred during anyone year has been less than fifty percent of the collection...The delay in information being made available by the relevant levying authorities is the cause for the delay (Finance Commission of Sri Lanka, 2004: 57).

In that sense the most reliable source of finance comes from the Provincial Councils. This is because according to the Thirteenth Amendment to the Constitution, all recurrent expenditures of local authorities are to be borne by the government.

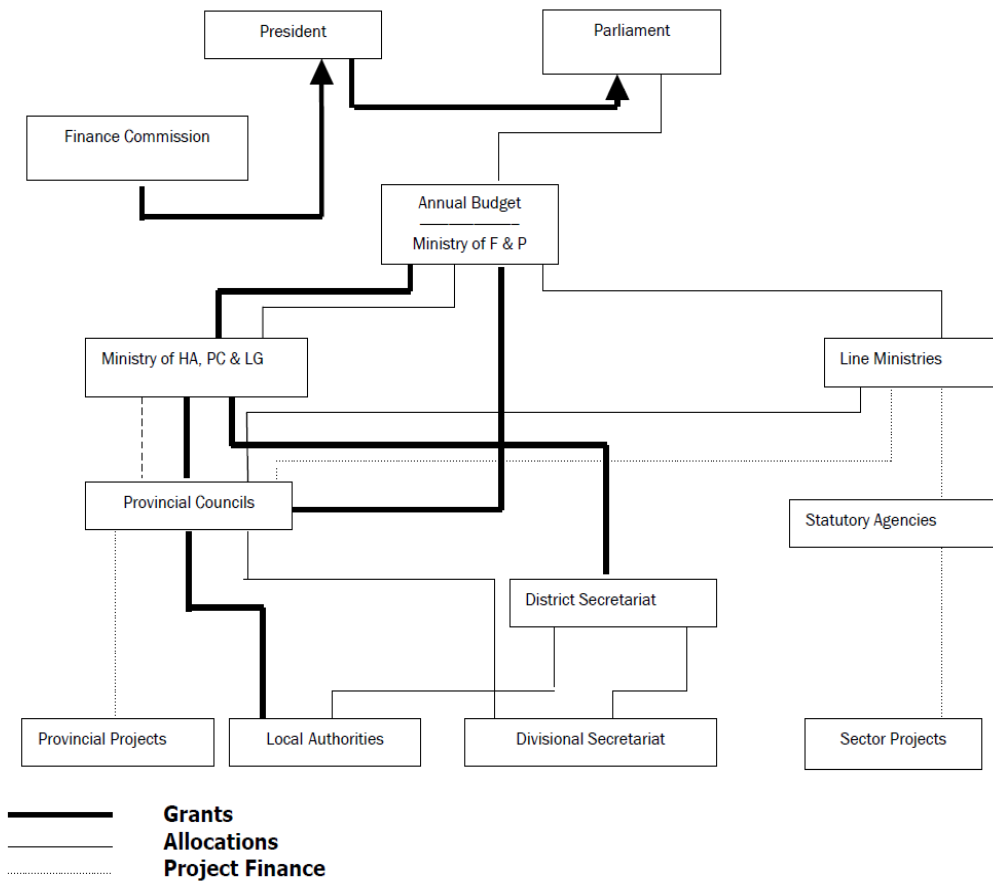


Figure 2.4 Government Transfers to Sub-National Level

Source: UNESCAP, 2010: 16.

Regarding expenditures, the municipal Councils, urban Councils, and Pradeshiya Sabhas channel their expenditure through following subjects due to the similarity in the assigned duties in relevant ordinances:

- 1) General administration and staff
- 2) Health services and sanitation
- 3) Physical planning, thoroughfare and buildings
- 4) Public utility services
- 5) Welfare services

It is seen that the major portion of the above expenditures is to be spent on health and sanitary services, physical planning thoroughfare and buildings, and also on general administration. The capital expenditure classification of Sri Lankan Local governments in 2007 follow the classification below:

- 1) Road rehabilitation and maintenance expenditure
- 2) Solid waste management expenditure
- 3) Public health expenditure
- 4) Physical planning and infrastructure expenditure and
- 5) Other capital expenditure

This classification explains the capital expenditures of all of the local governments of the country in 2007.

2.5 Personal Systems in Local Government

With the 13th Amendment to the Constitution, the local government service is automatically subjected to provincial public service and made provision for an independent Provincial Public Service Commission. As a result, officers of the government service came under the authority of the Provincial Public Service Commission. These positions are transferable between local authorities. Table 2.2 depicts the employment profile of local government authorities with the higher numbers in the Western Province.

Table 2.2 Employment Profile of Local Government Authorities as of 2007.

Province	Total Number of approved Cadre	Total Number of actual Cadre
Western Province	24673	17978
Central Province	5113	4912
Southern Province	3218	3105
Northern Province	3403	2826
North West Province	2837	3458
North Central Province	1311	1207
Uva Province	1551	1359
Sabaragamuva Province	2029	1879
Eastern Province	2248	2400
Total	44135	36724

Source: Ministry of Provincial Councils and Local Government, 2007.

2.6 Local Elections

Local elections tend to ensure democracy at the local level and elected politicians make decisions on behalf of local communities. In Sri Lanka local authority elections come under the Local Authority Election Ordinance. Similar to other election processes, the Commissioner of Elections gazettes the list of candidates and also decides the number of seats each party will get based on the election results. What is different is the candidates' age; that is, the regulation that 40 percent of the candidates on the nomination list should be between 18 and 35 years of age, ensuring more youth participation in local politics.

2.7 Chapter Summary

This chapter discussed briefly the local government system in Sri Lanka, emphasizing the evolution, administrative structure, activities, functions, financing and electoral process of local governments and presented relevant graphs and charts in order to make the explanation more clear.

CHAPTER 3

LITERATURE REVIEW AND MODEL FORMULATION

3.1 Introduction to Government Expenditure Research

The analysis of government expenditures has become a central issue in the public economics and public finance literature. Regardless the level of education, every person has some familiarity with state expenditure policies. More than state policies, local government expenditure policies supply public goods that benefit immensely people's day to day life. Why are we familiar with these efforts? It is because we attend public schools, and may work for the public sector. On the other hand, we benefit from public health facilities, free education, and public parks and other services provided by these authorities. All of these attempts and facilities encompass state and local government expenditures. Then again this implies the question, who and what factors determine all of these government expenditures? In order to shed some light on these questions, the following chapter will look at a broad array of scholarly views on the determinant factors of government expenditure in research studies.

The determinants of the government expenditures of the state or the local governments concern the most popular question of the government expenditure research studies. Considering this popular issue, the review of the literature of this chapter is mainly presented in three parts: relevant theories, research studies, and the model proposed for the study. Further, the second part explains the dependant and independent variables, the research hypothesis, and explain the logical relationship between the dependant and independent variables of the proposed model.

As the first attempt the literature relevant to the study is reviewed. The common characteristics of most of these studies is identified. What is commonly seen in these studies implies the assessment of the comparative importance of socio-economic, political, governmental, and institutional factors in determining the public

expenditures. These studies answer the aforesaid question perusing a form of relationship approach between concepts over different governmental levels and over time. Regarding the two main approaches in explaining the determinants of government expenditure, economists focus more on economic variables and tend to find and explore the importance of the socioeconomic variables. The political approach is mainly followed by political scientists and emphasizes the relative importance of political factors in determining public expenditure policy. Moreover, at later stages, both economists and political scientists have used the governmental variables in explaining the determinants of government expenditure in relevant contexts. In reviewing the literature it is evident that this effort has become an academic dialogue between economists and political scientists during last three decades on the relative importance of the determinant factors of their interest. Therefore the paragraphs below summarize the different approaches, theories, and models of the research, followed by answering the abovementioned questions.

3.1.1 Related Definitions and Concepts

3.1.1.1 Government Expenditure

Government expenditure is the value of goods and services bought by the state or local governments and its articulations. In a democracy, government expenditure is an expression of the people's will, managed through political parties and institutions. The definition of government spending or government expenditure is classified by economists into three main types:

- 1) Government consumption—Government purchases of goods and services for current use,
- 2) Government investment—Government purchase of goods and services intended to create future benefits and transfer payments and;
- 3) Government expenditures that are not purchases of goods and services, and instead just represent transfers of money.

Moreover the Business Directory refers to it as money expended by a government to pay for defense, development projects, education, health, infrastructure, law and order maintenance, etc.

Several scholars have attempted to use the concept adhering to several terms; thus the following paragraphs discuss the different terms being used in studies with similar meaning. In some studies the reference term is considered as public policy, government size, composition of the government structure, public spending, and fiscal policy. Regardless of the terms that have been used, they all refer to the basic term, government expenditure.

The size of the government is one of the terms often used by politicians and journalists in the field of government expenditure studies. This indicates how big the government is. There are several terms that exist to identify the size of the government, but according to Rosen (1992), the common approach to measuring the size of government is by the volume of its annual expenditures. These expenditures are basically of three types, as Rosen (1992) notes:

- 1) Purchase of goods and services
- 2) Transfer of income to people, business, or other governments
- 3) Interest payments

This implies that the term “size of the government” can similarly be used in discussing the expenditures of any government. In other words, if anyone says that the size of the government is large, this implies that the particular government has a larger budget for the purchase of goods and services, the transfer of income to people, business, or other governments, and also for interest payments. Further, Mueller (2003) has used the phrase “size of the public sector” in explaining expenditure at different government levels—federal, state, and local. The size of the government has been an issue of debate for decades.

As Tanzi and Schuknecht (2000) note, since the late 1980s to mid 1990s, the share of public spending to gross domestic product (GDP) for industrial countries has risen substantially. According to researchers, the public spending in developed countries, namely the European Union and United States, has been expanding over the past three decades. These expansions largely reflect military outlays but government spending as a whole did not fall back to the pre-war levels, as indicated by a larger size of the government sector than the 1980s’ level (Tanzi and Schuknecht, 2000; and Mueller, 2003). As reported, the consistent increase in the size of government expenditure over the time is attributed to many reasons, which led to the appearance of many models to explain government expenditure growth.

Another term that is used by the scholars in this aspect is “public expenditure.” This term also has been used in numerous studies to depict the meaning of government expenditure. For example Posner (1978) and Aschauer (1989) have used the phrase “public expenditure” instead “government expenditure.” Additionally, Masood Ahmed, Vice President of Poverty Reduction and Economic Management at The World Bank, has noted that Public expenditure issues are encountered wherever there is a discussion of government, the public sector, and development” (The World Bank, 1998: vii). In other words, the said expression conveys to the reader the idea of similarity in the meaning of these two words.

“Public spending” is another term that has popularly been used to explain government expenditure. As a proxy, Fan and Rao (2003) have used this term in their discussion paper on cross-country comparison. Further, according to the definition of businessdictionary.com, this term is defined as the “Money expended by a government to pay for defense, development projects, education, health, infrastructure, law and order maintenance, etc.”. moreover Davis (1998) and Tanzi and Schuknecht (2000) are among the hundreds of scholars that use this term similarly to explain the expenditure of governments.

Another term similarly applied instead of government expenditure is “government spending.” This too has widely been used by scholars in discussing government expenditure in many scholarly writings, for example, in Lindauer and Velenchik (1992) and Young (2009).

Apart from the above discussion, some scholars, Gwartney, Holcombe, and Lawson (1998), for example, use the term “the scope of government” instead of the term government expenditure. In other words, this explanation can be justified by saying that any government’s scope can be represented from the relevant government’s expenditure responsibilities.

Apart from the use of several similar words in explaining government expenditure the literature states that government spending has increases during wars and then typically takes some time to fall back to its previous level. In the second quarter of the twentieth century, however, government spending has shown a rapid and steady increase. While economists and political scientists have offered many theories about what determines the level of government spending, but there really is

no known explanatory support for either part throughout the historical record. In the present context it is seen that in most countries government spending has grown quite rapidly in recent decades. It can be seen that throughout the twentieth century, governments in the world have been spending larger proportions of their national income. However, government expenditure as a share of GDP in low- and middle-income countries, on average, is lower than comparable shares in industrial market economies and, with few exceptions, is growing.

At the same time, government expenditure is characterized by a current ruling majority. In financing government expenditure, the governments finance through taxes, public debt, and money emission and also through international aid. A broad explanation of the expenditure of any government can be seen in their official budget and it varies in terms of the organization that represents—it differs according to the level of states—central states and their ministries and also in regional and local authorities.

Classification of government expenditure is often common to organizations at similar levels, thus illustrating similar characteristics. This means that expenditure responsibilities differ from state level to local level governments due to their priorities and objectives. Apart from the state level, the local level further pursues different levels of governments as in Sri Lanka in municipalities, urban councils, and Pradeshiya Sabhs. At the national level expenditure responsibilities hold common subjects, such as justice and public order, infrastructure, the military system, the education system, health care, and support for the poor, the old, and the disadvantaged. In different places and over time, those macro-functions have largely changed their level of priority due to several reasons. Government expenditure, most of the time, is influenced by the political will of the leading forces in the state or the local government regarding their priorities and desires. This environment is built on their interpretation of the current economic and political phase in the state or local body. Apart from political will power, the bureaucracy too plays an important decision role in actual expenditure.

Studies on government expenditure mostly have focused on industrial countries, while few studies have been devoted to the study of public expenditure in developing countries. Determination of government spending has become a popular

research throughout the last three decades, and many studies have revealed the complexity of the subject by including many factors, such as fiscal conditions and political, cultural, and economic factors. In addition this situation is made more complicated due to the consideration of different levels of the government—the central and local governments.

In particular, on the basis of the above discussion, one could identify the concept of government expenditure from the different terms that have been used by previous researchers.

3.1.1.2 Local Government

The definition of government is broadly defined and cannot be easily explained. The term government derives from the Greek word **kubernân**, which means steering a ship (Encyclopedia of Governance). Contemporary lexical developments have meant that government now has at least two main significations depending upon whether it is used in a strict (government as an institution) or in a broader sense government as a process (Encyclopedia of Governance).

However the meaning of government can be understood easily by answering the question of why government is needed. This is clear from the statement below:

We have the resources. They are in the wrong places. The governmental apparatus is outdated. We have too many governments. Local governments have lost their fiscal viability. The old cities are especially vulnerable. Urban needs are mushrooming. Little progress is being made. We have the know-how (Ecker-Racz, 1970: 1).

Local governments have during the last decade found themselves buffeted and challenged by a range of forces, including public expenditure constraints, economic restructuring, increased politicization, and changed public perceptions. Nevertheless, as service providers the local governments all over the world provide room for local choice. They act, however, as service providers as well as political institutions which have the capacity and the authority to act within the limits of their powers and the services they provide.

The main objective of local governments is concerned with improving the well-being of the population that lives in their territories. This comes as the first priority of their responsibilities; thus, in general they promote social and economic development, territorial organization, and supply local public goods—water and sewage, transports, housing, healthcare, education, culture, and sports—and maintain the environment and protection of the civil population.

According to Jackson (1967), the term local government is concerned with localities and not with the country as a whole; it must for this reason be subordinate to the national government. This implies, according to Jackson (1967), some jurisdiction or activity of a public nature. This also implies the existence of authorities empowered to exercise that jurisdiction and activity.

Jackson (1967) defines the term local government in terms of the structure of the system in the England and Wales contexts. A similar definition is given by Clark (1975). According to the explanation, as a part of the nation or the state, the local government attends to matters of the relevant inhabitants.

Stewart (1983) defines the local government as a political institution which is directly elected and also as a public authority in terms of the services that it provides towards local choice. Further as a political institution, their services vary and their choices have deep impacts on those that live and work within their (territory) boundaries. These choices are influenced by external factors, political factors, and also the management process of authorities. Montagu (1948) defines local government in terms of freedom of power and responsibility. He focus on the local government's freedom in the election process. Hampton (1991) defines and differentiates local government from other government units located in the area in terms of four characteristics taken from the British context: definite physical boundaries, service responsibilities, the process of electing local councilors, and the power and authority perceived for the benefit of the local residents. Further, Clark (1975) and Hampton (1991) view that service delivery should focus according to the local situation and towards the local inhabitants' needs. Wit (1967), a Thai scholar, describes local government as the lower level political unit produced by the state through political and administrative decentralization. He focuses more on the territorial distribution of administrative powers. Further, Wit explains the local

government as a governmental entity that ranks below the central level, whose authorities and officials perceive primary responsibility to their locality.

Johansen (1965) further refers to Nornljot and Engh (1960) on the definition of the municipality and define it as follows:

...an area which forms a separate legally constituted community subordinate to the State, and invested with the authority to decide its own administrative affairs wholly or partly by means of its own government organs (Nornljot and Engh, 1960: 23 quoted in Johansen, 1965: 343)

Discussing the Norwegian context regarding the concept of local self-government, Johansen (1965) says that municipalities' facility for financing their activities through the medium of tax legislation plays an important role in maintaining autonomy. However due to various limitations—legislative and practical—self-government is not greatly in practice in the real world. Referring to the Norwegian example, he says that this situation is keenly felt by a larger number of municipalities with a comparative weak revenue basis.

Cockburn (1977) has used the term “local state” in defining the local government, however she has used this term to address all state institutions which are operating at the local level for an example even a health authority. One can be confused with the relevancy of this term in this research context. Nevertheless, though her definition of the term is broad, she has taken population as the elected local government, thus indicating that she has meant the same governing body which functions at the local level.

From the definitions given by leading academics, the characteristics of the local government can be summarized as follows:

- 1) lower level political unit produced by the state through political and administrative decentralization

- 2) directly elected political institution

- 3) public authority and service provider which consider local choice

4) These organizations' choices are influenced by external factors, political factors, and also the management process of the authority

To paraphrase, the local government can be defined as a directly-elected political unit produced by the state through political and administrative decentralization that functions as a public authority which provides services -- those influenced by external factors, political factors, and also the management process of the authority— local choice.

3.1.2 Multidimensional Approaches to Identifying the Determinants of Government Expenditure

Research on the causes of public policy has been popular among scholars in the past and even in the present day. Due to this popularity one can note several journals on policy studies that discuss this aspect continuously. Most of these studies concern government policies (such as expenditure on education and health, or programmes such as poverty alleviation programmes and food stamp programmes) as the dependant variable of those studies. In order to evaluate or to analyze these policies, several explanatory variables have been selected from deferent dimensions— social conditions, economic development, political forces, etc.—relevant to states, cities, or even nations. Then these different causes are systematically analyzed to achieve desired objectives.

In evaluating the interest of scholars in the multiple determinants of policy studies, early studies have for the most part been carried out by political scientists. Therefore most of the early policy studies focus more on the topic of how a bill becomes a law. However, with the change of the interest of political scientists of the 70s, more focus was placed on finding the determinants of public policies. This dominance was changed with the emerge of the economists to the field as they more focused on social and economic forces in the environment, believing those are dominant in determining public policies in general. In studying the evolution of the subject, it is clear that some political scientists as well as economists have become interested in governmental forces in determining public policies. Considering this preamble the following discussion is based on the different aspects of policy determination studies.

3.1.2.1 Socioeconomic Approach

The socioeconomic aspect embraces many possible impact dimensions—economic, individual, social, and environmental. These forces are basically considered in policy research as determinants of government expenditure. This approach basically assumes that socio-economic needs and resources are more influential in policy research; thus economists tend to work to highlight the importance of those variables. In other words, this aspect is influenced by the social and economic development of the state or the locality.

Economic development: this refers to economic transformation in the direction of a sustained and rapid increase in the production capabilities that give the country a measure of autonomy for greater economic growth (Furtado, 1964; Webser, 1984). Economic development, therefore, is a process entailing an increase in national income. The advantages of economic development help businesses to be profitable, which generates employment and income; thus better living standards and lower rates of poverty can be achieved.

Social development: in general social conditions refer to the transformation of the living conditions of the people. If there is progress, it should be towards the wellbeing of the people. This can be explained by the ‘basic needs’ approach to national development. This concept refers to the increasing overall wealth, with a more egalitarian distribution of wealth and income. This gives the population access to socially necessary goods and services such as food, education, health, and housing facilities. In measuring the wellbeing traditionally, the gross national product per capita or its growth rates are used. Thus, in particular the socio-economic approach discusses how well the socio-economic factors influence government expenditure decisions.

Further, using socioeconomic factors in explaining government expenditure policies, early economic determinists have ensured the importance of economic factors in early research. Although the political variables were used in those studies, in the early 60’s research were done by economists and their model for analysis has called the spurious model of policy outcomes, as explained in Figure 3.1.

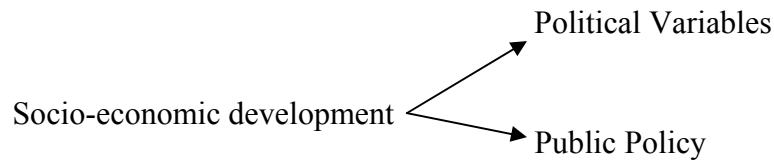


Figure 3.1 Spurious Model

The aforementioned economic deterministic model says that economic development shapes the political system and policy outcomes. In other words, it says that if socioeconomic variables are controlled, there is no relationship between the political variables and policy outcomes. In that sense, the model predicts that socio-economic factors completely determine public policies, but that political factors are related only spuriously. This model was further refined, however, due to the misleading characteristic of the model; the refined model is discussed in the following Figure 3.2.

3.1.2.2 Political Approach

The political approach to the determinants of government expenditure studies has become a common interest of political scientists; thus those studies provide a rich literature for future studies. For this reason, recently, a growing body of literature has emerged that mainly analyzes the impact of political factors on expenditure decisions. This means that the political approach is an instrument in assessing the local democracy, as elected politicians make decisions on behalf of local communities. Thus the strengths of the local government as a democratic instrument can be measured from its closeness to the population. Further, this situation can be seen as the political development of the relevant jurisdiction or in an area.

Political development refers to the transformations in the control and legitimate force components of the nation. It includes greater participation ratios in the decision-making process for groups and members of the population of a society, and includes the rise and explanation of the state (Lagos –Matus, 1963).

Research in the 60s on the determinants of government expenditure began rejecting the aforesaid spurious model and supported the direct model, where the political determinants supported the model. Further, studies such as those by Hofferbert (1968), Sharkansky and Hofferbert and (1969), Dye (1972), and Fry and

Winters (1972) were based on a mixture of variables, but the direct model is clearly evident from the study of Cnudde and McCrone (1969). The direct model of determinant studies can be explained as follows:

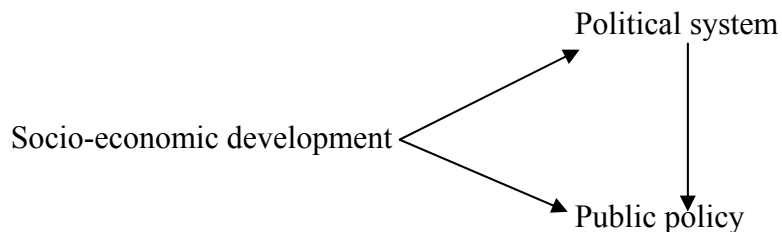


Figure 3.2 Direct Model

Using the abovementioned model, several researchers have tended to analyze political system characteristics but indicate little independent effect on public policy.

3.1.2.3 Governmental Approach

This approach in research studies concerns the characteristics of the government and how decisive those factors are in forming public policies. Relevant to the focus of this study, this approach explores how vital the characteristics of the government organization are in budget decisions. The literature of this subject discusses using different terms for the same fact in explaining expenditure determinant studies. In essence, all refer to the influence of the characteristics of the public organization or the people on public policies. In this regard, “the substantial impact of bureaucracies on development and implementation of public policy is widely recognized and generally believe to be increasing” (Downs and Rocke, 1979: 721). These bureaucracies represent the professional body of trained persons and they are expected to exert a rational influence on policy making. That means that they play a major role in policy making. Their role can be depicted in almost all areas of policy making, particularly in the supply of information. This says that professionals in policy making create an objective base for the systematic framing of policy proposals and providing needed information. Not only that, they provide policy proposals by collecting relevant data considering various political, social, and economic problems. Their suggestions are based on the administrative expertise and capability of the

organization. This means that they play a very important suggestive role in policy making whatever the policy area is. The other important assistance that bureaucrats provide is the analytical role in policy formulation. In this sense they engage by analyzing the pros and cons of the issues that are considered. In this way they frame and reframes policy proposals keeping in view its viability, future prospects, the resources available, acceptability, etc. All of these facts point out that how vital the bureaucracies and bureaucrats are, or in other words, the governmental factors in policy decisions. This importance of the bureaucracy in policy making is increasing day by day. According to Downs and Rocke “despite the increased emphasis on the role of bureaucracy in shaping policy, bureaucrats or organizational variables have received little attention in the ‘determinants’ literature” (Downs and Rocke, 1979:722). Further they say that this happens due to the reasons of high cost involved in acquiring organizational data; thus most scholars focus on the relative impact on economic verses political variables. However, some of the variables that are being used in studies concern the number of audits, structural complexity, degree of unionization, director ideology, etc. Other than these aspects, intergovernmental fiscal relations too have been considered as an important determinant of government expenditure. Most of the scholars referring to this aspect tend to regard intergovernmental grants as a measurement in expenditure determinant studies:

Intergovernmental grants; some times called grants-in-aid, are transfers of funds from one government to another, most often from higher level government in the federal system to a set of lower level governments. These grants are of many different types and are intend to improve the operation of a federal system of government finance (Fisher, 2007: 198).

Further, Hwang (1987) has discussed broadly the importance of governmental variables in local government policymaking, especially regarding expenditure decision-making. He believes that governmental factors have been largely neglected in the studies of this nature but should be given an important place when assessing expenditure determinants. According to his study:

...the empirical analysis of the total and six functional expenditures supported the proposed governmental factor dominant approach. The empirical results showed the dominating role in governmental factors in the determination of the local expenditures in Korea (Hwang, 1987: 204).

All in all this justifies how important the governmental approach is to the analysis of expenditure policies at either the state or local level.

In conclusion, the above discussion clearly depicts the different dimensions that can be taken into consideration in identifying the determinants of government expenditure. Apart from the two major aspects—socioeconomic and political—bureaucrats or organizational variables should receive more attention in the determinants literature.

3.2 Related Theories and Models

In order to carry out the proposed research, existing theories and models and also of previous empirical research are vital. With this background the following paragraphs will explain the relevant theories and empirical studies that are vital to identifying the determinants of government expenditure in local governments. Thus, the following chapters provide an explanation of those theoretical positions following the empirical studies.

With regard to the topic assessed first the theoretical traditions are identified and inclusion of theories for the discussion merely concerns their explanatory power to explore the determinants of local government expenditure in the Sri Lankan context.

3.2.1 Public Choice Approach

The public choice approach studies the decision-making behaviors of social agents—voters, politicians and government officials—from the perspective of economic theory; thus it applies theories and methods of economics in exploring the behavioral patterns of man in different environments and from diverse perspectives. Since this subject is invented by economists and mathematicians who studied peoples’

subject matters it has become an economic study. This justification will be further elaborated in the proceeding paragraphs. Gwartney describes public choice analysis as a study of decision-making, as it affects the formation and operation of collective organizations, such as governments (Gwartney et al., 1998: 88). Following Buchanan's view, he attempts to find and compare the similarity between the behaviour of economic man and political man (Gwartney et al., 1998: 88-98). Buchanan, the constitutional political economist, argues that public choice theory maintains that politicians and bureaucrats are guided by similar motives as consumers and business-decision makers (Gwartney et al., 1998: 97). This statement is elaborated in the paragraphs below through the median voter models and utility maximization assumption.

Bridging two aspects, politics and economics, public choice theory assumes that decision-making in a political process is executed through a political-exchange within the parties of this process. This nature is very much similar to the exchange between sellers and buyers at the market for private goods, but with public goods political exchange intervenes. This justification can be strengthened from Mueller's view, as he sees public choice in terms of the following:

...economic study of decision making, or, simply the application of economics to political science. The subject matter of public choice is the same as the political science; the theory of the state, voting rules, voter behavior, party politics, the bureaucracy and so on (Mueller, 2003: 1).

In essence it is clear that "public choice" can be analyzed from the economic as well as the political perspective. The difference is in the way in which two subjects examine the behaviour of the man. That is, in economics, man is defined in terms of behaviour in the marketplace, with purely selfish motives, while political man is identified from the behaviour towards private interest. According to Muller (2003) both of them can be seen as "one man" from the public choice perspective. That means that the theory postulates that individual behaviour in the political arena will be motivated similarly as those motivated in the market place. In that sense the behaviour of both "people" can be seen similarly from the point of view of public choice theory.

In that sense this approach has immense strength in analyzing the issues which emerge from economic and political and bureaucratic matters at the same time. That means that from this approach any one can draw a picture on the economy regarding the effects or changes of conditions of policy studying through the rational behaviour of these actors.

Nevertheless, in the arena of public choice, a cluster of theories exists based upon relatively simple models of majority decision making. Among the models on public choice, the median voter model is the simplest possible and useful tool in studying the factors affecting decision-making. The present section will analyze the applicability of public choice economics in local government expenditure decision making. In this regard first median voter models will be discussed, then utility maximization assumption in the context of the general approach in expenditure determinants models; then in the socio-economic and political arena and within the bureaucracy.

3.2.1.1 Median Voter Models

With Downs's and Black's work in the late 1950s, the median voter model gained popularity as a growing area among the scholars of public choice. The reason for this popularity is the theoretical developments of public choice via median voter model, which was able to overcome the problem of using ad-hoc models in determinant studies. This model is considered as a model of demand aggregation under majority rule. According to the theory, individuals in a community are ranked according to their most preferred levels of public good expenditure. In considering the voters, all of their individual demands are aggregated through majority rule, voting, to at the community level. Thus, the model hypothesizes the method of aggregating individual demands for local public goods and services. As a model of public sector supply which is determined by the majority of voters, the median voter model does not refer to a single model but to a cluster of models arriving at a common result. That means that there are many median voter models that arrive at the same conclusion (Holcombe, 1989: 262).

In the case of representative democracy, it is said that the voters select policy-makers rather than policies. How does this work? For an example, if there are two parties/candidates competing with each other in an election, the winning party/

candidate gets the power to make policy choices they tend to work for the policies that are mostly preferred and demanded by majority voters in order to maximize their votes at next election. This winning party can be identified as the majority voters' preference. Therefore they can be seen as the representatives of the median voters. In other words, only candidates/parties that are close to the preferences of the majority voters can win in an election. As stated before, voters tend to select their representatives with their preferred policy choices rather than policies.

In the case of competition between two candidates, if both candidates choose policy positions the majority voters preferred, the positions of both candidates converge toward the policy positions that maximize the median voter's preferences. This argument has been suggested by Hotelling (1929) and in detail by Downs (1957). In that sense both candidates receive essentially the same number of votes. This can be explained by the concept of “the move toward the middle.” This says that candidates in a two-person competition will move toward matching the preferences of the median voter.

This condition is clearly elaborated by Arnold (2005: 431-433) in “the move toward the middle” concept. In his example, he has considered that the political spectrum goes from the far left to the far right, and assumes that voters will select the candidates that are closest to their political view.

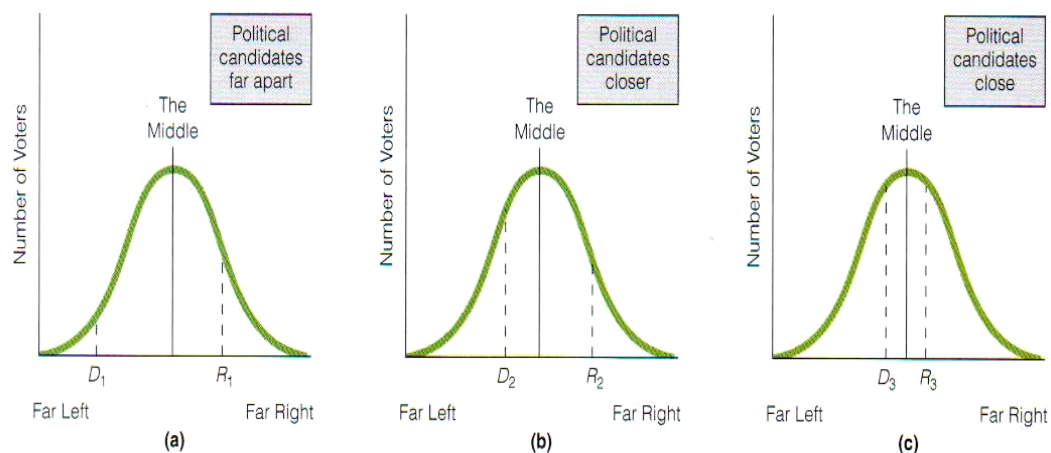


Figure 3.3 The Move Toward the Middle.

Source: Arnold, 2005.

Figure (a) depicts the competition between two parties and assumes D_1 as the democrat and R_1 as the republican, and it is clear that if an election is held R_1 will win, as the candidate is closer to the middle of the political spectrum. Voters between D_1 and R_1 will divide their votes between the two candidates. If in case of a postponement of election by knowing (polling) the Democrat his position can work to gain more votes. In this effort the democratic representative has to be closer to the middle of the political spectrum. This situation can be identified from figure (b) as the democrat position D_2 . Thus during an election, voters for the left would vote for the democratic candidate and accordingly move to D_2 . As previously explained, the voters in between would divide their votes according to their preference. Then, this makes the election is in favour of the democratic candidate. Likewise, when the competition gets stronger and stronger, both competitors try to move close to the middle of the political spectrum. Finally figure (c) depicts the both candidate's positions as D_3 and R_3 in their attempt to get votes. This nature of the politician's behaviour is discussed in the median voter model. In essence as Arnold says,

The candidates in two person political race will move toward matching the preferences of the median voter – that is the person that who's preferences are at the center or in the middle, of the political spectrum (Arnold, 2005: 432).

Further, regarding the validity of the median voter theorem it requires fulfilling an assumption of the single peaked preferences. That means that if the single peakness assumption is violated, the result of the majority voting becomes unstable. In order to overcome this situation, certain strategies can be used.

1) Restrict choices—restrict choices for a level of single public good; the result usually indicates single-peaked preferences (Kramer, 1973).

2) Restrict for one issue—restrictions for one issue at each time may also ensure the single-peaked preferences (Slutsky, 1975).

Although the median voter model has some imperfections, it provides a useful framework for the empirical studies which aim to investigate the demand of public goods.

Moreover, ‘from empirical evidence for median voter specification for future public services and private income as well as current services and income employs two further restrictions’ (Inman, 1977: 279) as follows:

Each local government is assumed to supply only one service financed by a fixed tax structure. This guarantees that local budgets are one dimensional issues demands improbable restrictions on voter preferences. Second, the median voter in each locality is identified as the one with the town’s median family income. Local fiscal choice there fore reduces to an ‘as if’ maximization of the future public services and private income as well as current services and income that corresponds to the family with the median income, subject to the family’s fiscally defined budget constrain (Inman, 1977: 279)

Referring to Bergstrom and Goodman (1973), Inman states five conditions sufficient for future public services and private income, as well as current services and income, that correspond with the preferences of the median-income family, as follows:

- 1) All sample cities have income distributions that are simple proportional shifts of each others’ distributions;
- 2) Each family’s share of local tax cost is a constant elasticity function of family income;
- 3) All families have identical log liner demand for public services as a function only of income and tax shares;
- 4) The relevant elasticities do not violate the condition $\alpha + \beta_e \neq 0$; -- This is explained as family demand (voters from low income families and high income families) for public services in terms of family income (see Inman, 1977: 279).
- 5) All families vote their future preferences (i.e. “sincere” not strategic, voting).

In explaining the relevancy and applicability of median voter theory, the study of existing empirical studies and relevant models is important. Since this is

a highly-tested theory, several findings can be paraphrased in terms of their relevant importance. In explaining the evolution of the median voter models of state and local fiscal behavior, it is clear that those have benefited the tradition from the theory of special competition which was developed by the Hotelling (1929) in “Stability in Competition” and further developed by Bowen (1943), and Downs (1957) as aforementioned. Thereafter, Bocherding and Deacon (1972) and Bergstrom and Goodman (1973) studying public expenditure determinants at decentralized levels of government become popular in using the median voter model. These early studies can be identified as significant turning points in the development of the model at the local level.

Apart from these early developments, various scholars have tested the model in different environments. Analyzing various economic, political, and demographic factors, Bocherding and Deacon (1972) built a model of public spending derived from the received theory of collective decision making. They are among the first researches that built the median voter model covering aforesaid background. They too followed Downs and Tullock’s assumption that in each political unit, a government is elected by majority rule. A similar analysis was carried out by Bergstrom and Goodman (1973) and provided a remarkable contribution from their paper on the “Private Demands for Public Goods” by developing a method for estimating the demand functions of individuals for municipal public services—as the community is constituted by the gathering of individuals with different tastes, wealth, and conflicting interests. Their model relates expenditures for public goods to several economic, social, demographic, and geographic factors over the median voter theorem.

Following Bocherding and Deacon (1972) and Bergstrom and Goodman (1973), a series of papers were published on the same approach, such those by Pommerehne and Frey, 1976; Pommerehne, 1978; Edwards, 1990, 1992; Reiter and Weichenrieder, 1997, 1999; Sanz and Velazquez, 2002; and Mendes, 2006. However Pommerehne (1978) explored the influence of the local bureaucracy on expenditure and tax issues by making the median voter hypothesis inoperative in the context, contrary to the findings of McEachern (1978).

Holcombe (1989) focused on the relevance of the median voter model to understand public sector demand. He believes that the fundamental model can be

extended through various complications, such as multi-peaked preferences. Holcombe concludes that the median voter theorem is a good approximation of demand aggregation in the public sector.

McEachern (1978) adopted the linear function in discussing voters preference at the local debt level for the state as of 1974 and found that the tastes of median preference holder dominate the margins of decisions under either direct or representative democracy.

Ahlin and Johansson (2001) researched the demand for local school expenditure in Sweden in the median voter framework and compared the results with early U.S. studies. The results concluded that demand for schooling was higher in Sweden than in the U.S. In particular they estimated income and tax price elasticities. Finally they concluded that “income as well as tax price and grants enter differently in the demand function for municipal employers” (Ahlin and Johansson, 2001: 347).

Sanz and Velazquez, (2002) analyzed the determinants of the functional distribution of government expenditure in terms of the median voter's demand in public choice literature. Their study refers to a sample composed of the OECD countries during the period 1970-1997.

The necessity of comparative empirical tests for the median voter model was recommended by Mueller in 2003. Further he elaborated that those tests should be based on some comparison of performance of spending models with mean and median variables—income and tax share. Anyway Pommerehne and Frey (1976) and Pommerehne (1978) can be cited as the major empirical works of this nature.

Josselin et al. (2005) tested two alternative models explaining local public expenditure. First they considered the demand side and the choice of public expenditure made by the median voter; secondly the supply side and the decision of public good provision at the lower level of government in France—local government—using data from 14,900 municipalities from 1998. They concluded that supply side and demand side explanations, the determinants of public spending behavior, do change with increases in population. “It appears that the median-voter model is rejected by the data for municipalities with a large number of inhabitants, for which a supply-driven model fits better” (Josselin et al., 2005: 1).

Koksal (2008) uses the “standard public choice model for the demand of public goods to test the median voter theorem at the provincial level, over the period 1995-2001 in Turkey and across the provinces; the findings strongly support the theoretical model. Further, to compare the results and justify the reliability of estimates, the researcher employs the generalization method of moments.

“The evaluation of the public expenditure research has become an area of increasing interest since the seminal work of Samuelson” (Mendes and Sousa, 2006: 2). They estimated the demand for local public spending for the Brazilian municipalities within a median voter framework using the data obtained from the census of 2000. The sample consisted 3,427 Brazilian municipalities (a total of 5,264). The dependent variable represented in the study was the value of municipal current spending and explanatory variables were taken from the socioeconomic characteristics and political variables. The results were obtained by using the classical OLS model. The results were consistent with the theoretical background and price, income and population variables were significantly indicate the expected signs. As they expected, a higher population seemed to increase the demand for public goods.

Medeiros and Barcelos (2007), basing their work on the median voter theorem, and following the pioneering propositions put forward by Borcharding and Deacon (1972) and Bergstrom and Goodman (1973), conducted research on the local demand for public education and tested the hypothesis on associated factors of social, economic, geographic, and demographic variables. Based on a cross-section sample with 5,087 Brazilian municipalities and using multiple regression analysis, they found that income, price, population scale, and age distribution, among other variables, were significant factors in explaining local public education.

All in all, it is clear that median voter theory in the public choice approach is consists of a cluster of models that come to the same conclusion on the basis of rational behaviour of the politicians and voters. Further it is evident that there are a vast number of studies that utilize median voter theory in analyzing the determinants of expenditure policies of state and local governments.

3.2.1.2 Constrained Maximization Models

The modeling state and local government fiscal behaviour within a framework of utility maximization represents a major attempt by public finance

economists to provide a theoretical basis upon which to build and interpret an empirical analysis (Chang, 1996: 11). The term “utility maximization” is generally used by economists in explaining the rational behaviour of consumers in the marketplace. The term “utility” was introduced by the British philosopher Jeremy Bentham. In economic terms “utility” is a quantitative measure of pleasure or satisfaction obtained from consuming goods and services. In the same way economists assume that any decision-maker—bureaucrat, politician, or voter—tries to make the best out of any situation. The theory of consumer behaviour assumes that consumers maximize utility is subject to the constraint of a limited budget. In that sense the term utility maximization refers to a better preference within means. Precisely in economic terms, the utility-maximization rule states that the consumer allocates his or her income to maximize satisfaction (utility), so that the last dollar spent on each product yields the same amount of extra (marginal) utility.

When we turn the argument to the political perspective, Downs (1957) says that economists view politicians as expected utility maximizing—vote maximizing—agents that are concerned with, among other things, the re-election process. This explanation then has been expanded by groups of theorists that look at the issue from diverse backgrounds with political-economic models. Among them Buchanan and Tullock, 1962; Tullock, 1967; Niskanen, 1971, 1975; and Becker, 1983 provide a broader explanation of political interaction in the utility maximizing efforts of bureaucrats and bureaucracies which are explained in detail below. Several empirical studies have provided support for this public choice view on the behaviour of politicians in a representative democracy. Among the several studies, Mixon and Trevino (2002) describe politicians as utility maximizing agents during the British national election of 1945, thus supporting the above-mentioned argument. They further elaborate their justification on Winston Churchill’s expected utility maximization suppression strategy in a British election to suppress the overall military votes. In essence they concluded that the anecdotal evidence and election stimulations presented suggested that Churchill’s expected utility maximization suppression strategy was consistent with public choice tenants and added further to the political economic models of legislator/executive behaviour (Mixon and Trevino, 2002: 961).

How does the voter decide which candidate to support? This can be seen as the same as the consumer behaviour in the market place and selecting among the political alternatives which maximize the expected personal benefits. That means that when other things are constant, the individual will support the candidate that provides the most benefits in terms of net of costs. Thus, in other words, the vote in the electoral campaign is similar to the consumer in the market who will ask “what can you do for me?” In answering the question the politician will think of ways in which he or she can get more votes and win the election. Thus,

...vote-seeking polities, like profit seeking business decision-makers, will have a strong incentive to cater to the views of politically active constitutions....to win votes is to give constitutions or at least appear to give them, what they want (Gwartney et al., 1982: 93).

In these endeavors politicians make a maximum effort to make themselves popular with constituents so as to strengthen their power base, thus improving their prospects for re-election through resource allocation. Then, as the next step, the resources are allocated through a decision making process involving diverse institutions. That means that this ultimately is put into practice through the bureaucratic process since the task of the bureaucracy is the transformation of these allocations into budgetary outcomes. In this venture bureaucrats will, however, pursue their own interests (Fozzard, 2001: 38). In explaining the bureaucratic process, the meaning of the term bureaucrat has to be clear. “The term bureaucrat sometimes is used in the more general sense to define any full-time employee of a bureau....nearly synonymous with civil servant” (Niskanen 1971: 22). The term bureaucracy is not directly relevant to this study. However, it is generally used herein to explain the bureaus and their relationship with the external environment. Further, the term bureau is use particularly in relations to local-level government organizations.

Niskanen (1971), in “Bureaucracy and Representative Government,” with an alternate title “The Supply of public services,” attempts to answer the question “What, if anything, do bureaucrats maximize?” and overview the relevancy of the economists theory for a bureaucrats’ utility function . As a proxy, he identified

several variables in the bureaucrats' utility function such as salary, prerequisites of the office, public reputation, power, and parentage, and those positively and continuously associated with the level of the budget (Niskanen, 1971: 38). Moreover since all of these variables are a positive monotonic function of the total budget of the bureau during the bureaucrat's tenure of office, budget maximization is therefore a proxy for the maximization of the bureaucrat's utility (Niskanen, 1971: 38). Further Niskanen logically suggests that bureaucrats maximize objectives in terms of the agency's discretionary budget allocation. In this way the bureaucrats will seek to maximize the total budget of the bureaus, given demand and cost conditions subject to the constraint. Thus, the budget must be equal to or greater than the minimum total costs of supplying the output expected by the bureau's sponsor stated Chang referring to Niskanen's studies of 1968 and 1971 (Chang, 1996: 23). Downs (1967) argues that bureaucratic officials are similar to the other agents in the society; thus they are motivated by their self-own interest. Further in "Inside Bureaucracy Niskanen," specifying three central hypotheses as the first hypothesis, Downs argue that:

Bureaucratic officials (and all other social agents) seek to attain their goals rationally. In other words, they act in the most efficient manner possible given their limited capacities and the cost of information. Hence the agents in our theory are utility maximizes (Downs, 1957: 2).

Considering the discussed facts, it is clear that the framework of utility maximization represents the behaviour of the general public, politicians as well as the bureaucrats in the policy process.

3.2.2 General Approach

Proliferation of research findings on identifying the determinants of government expenditure is mainly based on two categories such as on economic determinants and political determinants. However, within these two broad categories one can see several deviations, i.e. demographic, governmental, institutional, etc., definitions for these sub-headings, which always depend on the purpose and interest of the researcher. For example, for one researcher the variable population may come under

demographic variables and for another under socioeconomic variables. It is clear, however, that the scholars of the economic deterministic school prefer to work with socioeconomic variables at the same time the political deterministic school works with political variables. Early work suffered badly from this discipline myopia, thus clearly depicting the early economic determinist's and political determinist's studies without comparative findings. This situation is evident from the studies of Fabricant and Fisher,; and Key and Locard. As mentioned, studies carried out by economists on public policies draw the conclusion that socioeconomic variables are importantly for explaining expenditure policy. Contrarily, some of the political scientists could come to more reliable conclusions using both the socioeconomic and political variables and making conclusion regarding the relative importance of political variables. Economic variables are mostly used in cross-sectional policy analysis. Economists popularly have used the consumer utility maximization assumption in their studies, as it discusses how people select preferences for public goods in the context of changing population characteristics. Political scientists, however, have mostly used different variables from different subjects in analyzing government expenditure policies using a mixture of variables.

With regard to the expenditure models popularly used under the general approach, it is evident from the literature that two approaches are used by scholars to derive conclusions; namely, the "sample basic expenditure model" and the "general expenditure model" Niskanen or the "stranded model," as used by Painter & Bea in 2001. These models are broadly explained by Hwang, (1987: 10) and are being used to assess the power of the selected explanatory variables with the common underlying assumption of consumer utility maximization.

3.2.2.1 Sample Basic Expenditure Model

This model is popular among the economists that use the utility maximization assumption (as discussed above) as the underlying argument of their expenditure determinant models to statistically derive conclusions. In these studies, the dependant variable is the expenditure policy and explanatory variables vary upon the researcher's interest in either socioeconomic variables or political variables. This model can be seen in the work of early economic determinists, Fisher (1961) and Fabricant (1952) Kushner (1996), using the regression equation. The basic estimating equation they followed is as follows:

$$Y_n = f(X_{1n}, X_{2n}, X_{3n}) \dots \dots \dots \text{Equation (3.1)}$$

$$Y_n = a + b_1X_n + b_2X_{2n} + b_3X_{3n} \dots \dots \dots \text{Equation (3.2)}$$

As explained above in equation 3.1, the variables X_1 , to X_3 are the explanatory variables, and this can be either the socioeconomic or political factors those explain the local expenditure Y_n – annual per capita total local expenditure of the relevant local body given ‘n’ period—and ‘b’ as a vector of coefficients on the independent variables.

The regression equation used by Fabricant (1952) and Fisher (1961) in their studies is as follows:

$$Y_n = a + b_1X_1 + b_2X_2 + b_3X_3, \text{ where:}$$

Y = Per capita expenditure

x_1 = state per capita personal income

x_2 = density

x_3 = degree of urbanization.

This model assumes that the relationship among the variables is additive. Starting from Fabricant this has been a tradition of research in the field of expenditure studies to date.

3.2.2.2 General Expenditure Model

Besides the aforementioned model specifically appearing in the sample basic approach in government expenditure studies, the general model is also popular among both economic determinists and political determinists. This differs from the prior model (sample basic expenditure model), as in the previous model a specific aspect is taken into consideration but in this model one can see extended models such as for economists, economic variables, and models with of political variables for political scientists with additional variables to explore comparative results. From the literature several studies can be seen on this aspect; namely. the studies conducted by Fabricant (1952), Key (1956), Lockard (1959), Dawson and Fisher (1961); Robinson (1963), and even from the recent studies done by Painter and Bae (2001: 374). Painter and Bae use the term “standard model” similarly in explaining the state government expenditure from the point of view of demographic determinants, political determinants, and institutional determinants. The standard model in the literature assumes that there are a number of factors that are likely to play a role in determining state expenditure growth (Painter and Bae, 2001: 374).

As aforesaid, apart from pure a common socioeconomic and political dichotomy, within the context of the utility maximization assumption scholars have included rationally other variables to the aforementioned models, such as the variables that represent bureaucratic and governmental characteristics. It is clear that those conflicting dimensions are included by both the economists and political scientists from their perception of the particular dimension. This conventional wisdom, which is limited to two aspects, gradually started changing and both schools identified the importance of the explanatory variables emphasized by the other schools that could improve their statistical models. Therefore Fisher, Sachs, and Harris attempted to develop their early models and political scientists began supporting the economic determinist's school. Then Dawson and Robinson (1963) Sharkansky (1967), Fry and Winters (1972), and Sullivan (1972) employed socioeconomic variables. This tradition of research can be seen from the studies of Fry and Winters (1972), Sullivan (1972) who reexamined the Winter-Fry's argument, Wilensky (1975) who worked on importance of economic variables in explaining social security policy. Apart from those Haidenhimer (1973) on Politics of Public Education, Health and Welfare in the USA and Western Europe identify the importance of political determinants in health and welfare programs and these are some of the examples of aforementioned explanation. Moreover, Sanz and Velázquez (2002) on the composition of government expenditures using the median-voter model and panel data, and Koksal (2008), further strengthened this argument by selecting conflicting determinants of public expenditure.

During this time the public sector continued to expand in the industrialized world and thus the state budget policy makers in the United States came under increasing pressure to make the government more efficient and more responsive to citizen preferences. In this regard government factors became increasingly popular among the researchers of that era. Among the other variables, central aid had become a popular variable to test the studies of local government among the researchers. As a result Osman (1966), Bahl and Saunders (1965), Gabler and Brest (1967), and Kurnow (1963) have used central aid as an additional variable and concluded that it is an important variable in expenditure decision-making at the local level.

Beyond the central aid factor, Capmbell and Sacks (1967), Hwang (1987), and Chang (1996) identify the importance of several governmental variables in determining local public policies. In the present context the importance of researching the explained aspect is increasingly becoming popular among the researchers due to the rapid government growth in the 19th century. This can be due to several reasons, such as:

...one looks at government growth ... in the 19th century United States, local governments grew far faster than the federal or state governments. Of course this was due to the growth of cities, ... In 1800 only 4.2% of the U.S. population lived in urban areas, while by 1900 urban population was 39.7% of total population, offering a ready explanation for the growth of local relative to federal and state government expenditures (Holcombe and Lacombe, 2004: 1).

All of this implies the reason for the increasing interest among researches in studying the behaviour of variables those represents the governmental characteristics as determinants of the government expenditure policies of that era.

To sum up, in public choice, a cluster of theories exists based upon relatively simple models of majority decision making. Among the models in the public choice, the median voter model is the simplest and most useful theory in studying the factors affecting expenditure decision-making in governments. This model is considered as a model of demand aggregation under majority rule.

The general approach to expenditure determinant studies underline the utility maximization assumption from economic, political, and governmental perspectives and are popular among researchers. With regard to the expenditure determinant models popularly used under the general approach, mainly two models are used by scholars to derive conclusions; namely, the sample basic expenditure model and the general expenditure model or the stranded model. These models have been used to assess the power of the selected explanatory variables with the common underlying assumption of consumer utility maximization.

3.3 Empirical Studies on the General Approach

It is evident from the literature review that there is no general agreement about the most useful framework for analyzing the determinants of government expenditure despite different underlying theories and hypothesis used in interpretation. As a result, the existing literature is diverse, with a quantity of research efforts addressing the determination of government expenditure. Thus it is obvious that there exists no general accepted theory for identifying which of the determinants takes precedence over others (Bahl et al., 1978).

From the literature reviewed, what is identified is that most models fall under one of two broad classes, the socioeconomic approach or political approach, in identifying the determinants of government expenditure. Further to these research efforts the governmental approach is identified. However, due to the large number of research studies, the separation of studies as pure socioeconomic, political and governmental is a difficult task. Therefore, for review purposes the following discussion is followed as studies done using the socioeconomic approach, political approach, and cross national studies. All of these studies consider the determinants of expenditure policies as community, politicians, and bureaucrats.

In light of the aforesaid explanation the proceeding paragraphs briefly discuss a relevant research work and inclusion of studies is based on the criteria of relevancy to this study may be on theory, definitions and basic outlines within which more research models are constructed. Others are included because they provide a more specific hypothesis that helps guide this empirical analysis.

3.3.1 The Socioeconomic Approach

The early stages of research on American context and local government seem to suffer from discipline myopia, as stated earlier; thus neither economic determinists nor political deterministic are aware of each other's work.

Fabricant and Fisher can be identified as the early economic determinists of this disciplinary perspective. Solomon Fabricant (1952), through a single-equation regression analysis, finds that personal income, degree of urbanization, and population density explains 72 percent of the variation in state per capita total

expenditure. From the three variables employed he found that personal income is the most important determinant, and urbanization is the least.

Glen Fisher (1961), using the same variables as economist Fabricant (1952) and updated the finding on year 1957 on various expenditure categories and found the explanatory power of those variables are lower than Fabricant (1952). Fisher conducted another study in 1964 using the same variables, with 1960 expenditure and capital outlay and found similar results as Fabricant. The variation explained, however, is lower than Fabricant at 53 percent.

Sacks and Harris (1964) used 1960 expenditure data and found again declining power of the said explanatory variables in the areas of welfare and health. They hypothesized that the decline was due to the intervening effect of federal aid. Accordingly, they added state and federal aid to the three basic economic variables and supported the hypothesis.

Ernest Kurnow (1963) used a joint effect regression model and criticized the Fabricant's (1952) and Fisher's (1961) study on their additive model.

An additive model implies that the change in per capita expenditure resulting from a unit change in one of the predictor variables is the same, no matter two other predictors might be ... validity of such assumption is open to question (Kurnow, 1963: 253).

However, by analyzing the exponential model Kurnow demonstrated the strength of the joint model and was able to explain 88 percent, while Fabricant's model only 72 percent.

Bahl and Sounders' (1965) multiple correlation technique was employed in their study, which is much similar to that of Kunow, to explain interstate variations in the changes in both per capita general expenditures and per capita expenditures by function. They criticized the previous studies, saying,

...that all employing a procedure similar to that Fabricant in 1952 and emphasize the relationship between the absolute 'level' (original text in italics) of government expenditures and the absolute 'level' (original

text in italics) of a number of other variables, the most common of which are per capita income, population density, and degree of urbanization (Bahl and Saunders, 1965: 50).

The main point of the study was that change in per capita federal grants to states was the only factor which significantly affected changes in state and local per capita spending.

Woo Sik Kee (1965) discussed differences in socioeconomic and governmental characteristics between city and areas outside the central city in 36 selected Standard Metropolitan Statistical Areas, (SMSAs), using multiple regression analysis.

Morss Elliott (1966) added some thoughts on the determinants of government expenditure during the same time and introduced a new variable—per capita state and local tax collection—which explains 72 per cent of the 1960 interstate variation in total per capita state and local expenditures. The results of the simple linear regression are provided following:

$$Y = 52.60 + 1.24X \quad R^2 = .713 \dots \dots \dots \text{Equation (3.3)}$$

where, Y = 1960 total per capita general state and local government expenditures, by state, and X = 1960 total per capita state and local tax collections, by state. The aim of this paper, however, is merely to stress the objectives of an expenditure study, which should have an important influence on the research methods employed.

During the same period the economist Osman (1966) discussed the various possible effects of federal aid with other factors on expenditure. By investigating the federal aid variables—per capita aid to the function under study, and per capita aid to all other functions— and concluded that per capita expenditures would rise with

- 1) increases in per capita federal aid to that function, and;
- 2) increases in per capita aid to all other functions (Osman, 1966:370).

Examining the effects of several alternative federal policies and grants—matching grants-in-aid, unconditional bloc grants, and bloc grants conditioned with effort formulas—on the basis of utility maximization analysis for state and local governments Gramlich (1968) presents another study that highlights the importance of central aid on local policies. Using a time series model he elaborated the conceptual framework on the utility maximization analysis which assumes that citizens of state

and local governments derive utility both from public consumption and private consumption after tax incomes.

The utility maximization analysis for state and local governments strikes an obvious parallel to that for consumers. Citizens of state and local governments are assumed to derive utility both from public consumption and private after tax incomes (Gramlich, 1968: 120).

Extending the analysis of the effects of aid on government expenditures, Weicher (1972) investigated, furthering the work of Osman (1966) the effects of aid on expenditures for non-aided functions in areas where there is more than one government serving the same population. He found that the results were consistent with those of Osman and Smith, and also with the model tested. The model based on the hypothesis indicates that governments provide services to maximize the probability of re-election for incumbent officials and also hypothesized that state aid to the board of education had the same effect on local expenditure as state aid to the municipal government. Upon further examination, Marsh (1975) supported his justification.

Widening the research area to current and current plus capital outlay expenditures per capita, Gabler and Brest (1967), criticizing Sacks' and Harris' formulation, conducted a regression study on the functional relationship between per capita state and local government expenditures and various independent factors. The three basic variables applied by Fabricant to 1942 data were, in general, less successful in explaining interstate disparities when applied to 1957 or 1960 data (Gabler and Brest, 1967: 78). The study tested one of the expenditure categories—highway classification—analyzed by Sacks and Harris and Fisher, and the results were then compared. The major points that emerged from this study were that federal-aid variables were seen as relevant factors in the determination of state and local government expenditures.

Henderson (1968), employing the logex local welfare function, conducted a multiple regression analysis using cross sectional data in the U.S. context. He used the community welfare function rather than the individual utility function. According to

Barr and Davis (1966), politicians make expenditure decisions on behalf of the residents of the community. Thus as revealed the resultant public expenditure and tax levels can be seen as the result of the community welfare maximization subject to community budget constraint.

Weicher (1970) attempted to extend typical wisdom by taking into account tastes and service conditions factors in explaining local government expenditure patterns in 1960, considering per capita expenditures of 206 central cities of Standard Metropolitan Statistical Areas. These four service categories are: police protection, fire protection, sewers and sanitation, and highways with six independent variables, measures of size; intergovernmental revenues; measures of metropolitan political fragmentation; fiscal capacity; tastes; and service conditions. The researcher concluded as the following:

...inclusion of taste and service condition variables has broadened the usual analysis of local government expenditures to identify several variables which 'have important effects on individual local public services (Weicher, 1970: 393).

W. Patric Beaton (1974) argued that municipalities, when distributed over a wide range of population sizes, experience different expenditure determinants. The study was named "The Determinant of Police Protection Expenditure": thus the dependant variable was the per capita police protection expenditure, while the explanatory variables considered tax base, population, crimes, per capita debt service, and per capita municipal pension, and fringe benefit expenditures. His findings affirmed that the use of the model employing a single equation least squares estimation of the determinants of per capita police expenditures for intrastate systems of cities is likely to lead to incorrect results (Beaton, 1974: 347).

The study of public school spending has preceded in a disjointed fashion, with no explanatory, theoretical paradigm being generally accepted (Danzau, 1975: 241). In order to overcome the gaps Danzau chose 13 empirical papers, all using regression analysis, written in the past two decades as studies of educational (or municipal) financing, as he believes that this form of empirical work can help link up several

parts of the literature. From the list of survey studies—Fabricant (1952), Renshaw (1960), Weisbrod (1964), Henderson (1968), McMahon (1970), Brazer (1959), Hirsch (1960), Miner (1963), Bishop (1964), James (1966), Davis (1965), Barr-Davis (1966), and Wilensky (1970)—Danzau re-estimated on a single data set and selected the explanatory variables and common dependant variable per capita expenditure. He suggested that for testing a theory of school districts, the financing consistency of signs of coefficients is important.

Verbina and Chowdhury (2004) conducted research on a similar topic on a panel data analysis and found that the revenue and student-population ratio had a positive impact on education expenditures, while the effect of population density was negative. They concluded that the income and price elasticity of public education expenditures are comparable to studies from other countries.

By this time—the early and the middle part of the 60s—political scientists came up with the importance of economic variables and several political scientists seemed to employ economic variables in their studies (explained in following paragraphs under the political approach). Among them are Dawson and Robinson from their article on “Socioeconomic Variables, Interparty competition and Welfare Policies in the American States.” What is important to state here is that while the political scientists attempted to come up with the relative importance of socioeconomic and political variables, economists only employed economic variables. Thus some political scientists, for example Dye, came up with the idea that economic variables are more important than political variables in determining public policy.

Economic development shapes both political systems and policy outcomes and most of the associations that occur between system characteristics and policy systems can be attributed to the influence of economic development. Difference in the policy choices of states with different types of policy systems turn out to be largely a product of differing socioeconomic levels rather than a direct product of political variables (Dye, 1966: 293).

In addition to the above explanation, Dye criticized the political scientists with “professional myopia” and “ideological myopia,” where professional myopia was defined as the political scientists limited and restricted attention to governmental institutions and political process and;

...the ideological predisposition of political scientists to place high value on democratic pluralism that led them to conclude that political variables, such as party competition, are the important determinants of public policies (Dye, 1976: 23).

During the same period economists too began to find additional variables to explain expenditure policies in refining their basic models. Sjoquist on “The Effect of the Number of Local Governments on Central City Expenditures” in 1982 explored the notion that local governments engage in strategic behavior in an effort to retain a tax base. By employing an additional variable to the traditional group, the study assumes that the level of expenditures in some communities is determined by the median voter and employed data from a cross-section sample. It was further argued that local governments will decrease their expenditures in response to possible migration of their tax base. As a conclusion, Sjoquist found that expenditures per capita in the central city fell as the number of jurisdictions in a metropolitan area increased.

In addition to this tradition, Falch and Rattso (1997) on the “Political Economic Determinants of School Spending in Federal States: Theory and Time Series Evidence” discussed the determinants of public spending on education in Norway during 1880-1990. This can be seen as a similar but somewhat extended analysis to Denzau (1975) and Verbina and Chowdhury (2004), as discussed above. Adding a disaggregated and time series perspective in the bargaining model—Inman (1981) developed a general model for bargaining over wage—between the central government and a teacher’s union, combined with a demand model of educational services at the local government level. They discussed the economic, political, and school factors of teacher’s wages, teachers per class, and class size.

Matteo and Matteo (1998), on “Evidence on the determinants of Canadian provincial government health expenditures: 1965–1991”, have used a determinants

approach in examining the determinants of health care expenditures—per capita health care expenditures are regressed on variables thought to affect provincial government health expenditures. In this regard, real per capita provincial government expenditures on health care were assumed to be a function of real provincial per capita income, the proportion of the provincial population over age 65, and real provincial per capita federal transfer revenues. Further, the federal transfer revenue variable is also considered as an important determinant of real per capita provincial government health care expenditures and the authors concluded that real per capita provincial government health expenditures are positively and significantly related to real provincial per capita income, the proportion of the provincial population aged 65 and over, and real provincial per capita federal transfer revenue. The model explains 92% of the variation.

Poterba (1996) explored the relationship between expenditures with elementary education and demographic variables on American states during the 1960-1990 period. By explaining the differences of utility among generations, the findings show that the states with a higher concentration of inhabitants are in the highest age range. That is, there is a strong reduction of the per-capita expenditure in fundamental education. However, surprisingly the same investigation by Poterba (1996) reveals that a rise in the proportion of residents (in school age) does not have significant implications for the increase of per-capita public expenditure in education. Further, Fernandez and Rogerson (1997) also studied public expenditure on education in the American states using panel data for the 1950-1990 period and confirmed the findings of Poterba (1996) concerning the drop in the per-capita expenditure with respect to rises in the proportion of enrollments.

Joseph Kushner and a group of researchers conducted an economic analysis on “The Determinants of Municipal Expenditures in Ontario” (Kushner et al., 1996) on the factors that influence municipal expenditures and they believed that economists have paid little attention to the importance of local government area. They used 1991 data in Ontario with a sample of 38 municipal units in the study. According to them the sample size became small due to an attempt to overcome the differences in expenditure levels across municipalities. As the methodology they used multiple regression techniques to estimate the relative importance of each of the various factors that affected municipal expenditures.

The basic estimating equation is as follows:

$$EPC_{ij} = \beta_0 + \beta_1 POP_j + \beta_2 POP_j^2 + \beta_3 POPHEC_j + \beta_4 POP66_j + \beta_5 POP19_j + \beta_6 CAR_j + \beta_7 REGDUM_j + \sum_{k=8}^{12} \beta_k INTER_{kj} + u_{ij}$$

.....Equation (3.4)

EPC is service expenditure per capita by region or county, POPHEC. Other independent variables are population by region or county, population density, percentage of persons 66 and over, the percentage of persons 19 and under, the ratio of commercial-industrial assessment to total tax assessment (percent), REGDUM is a regional dummy variable that takes the value of one if regional government exists and a value of zero otherwise, and INTER is a series of five interactive variables. Finally they found that within a regional government structure the per capita expenditure increases with the size of the municipality.

Gebremariam and Gebremedhin (2006) developed an empirical model on the principles of utility maximization. The theoretical model of local public expenditure determination was based upon the median-voter model of utility maximization following the literature, trying to explain variations in per capital local public expenditures. Thus following Borcharding and Deacon (1972), and Bergstrom and Goodman (1973), the median voter model was used to analyze the determinants of the demand for local public services or the expenditures for local public services.

They also believe in the standard model, which assumes that differences in local public expenditures across regions are explained by differences in per capita incomes, population density, tax base, tax rates, population size, the age structure of the population, grants in-aid from higher levels of governments, labor market characteristics, and school-age population as well as other socio-economic and institutional factors. However, in order to investigate the impacts of spatial spillover effects in the determination of local public spending, the study used a spatial autoregressive model with spatial autoregressive disturbance and the conventional model of local public expenditure determination by Ordinary Least Squares estimator and the spatial lag, as well as the spatial error models by the Maximum-Likelihood estimator, and found that the results were generally consistent with the findings in the literature.

Painter and Bae (2001), as mentioned previously, used the standard model in the literature to explain state government expenditure as follows;

$$Y = f (\text{Demographic Determinants, Political Determinants, Institutional Determinants})$$

In their findings they concluded that demographic factors are very important in describing the influence on state expenditure. Further, income per capita, total long-term debt, unemployment rate, and the proportion of students of college age have a positive and statistically significant impact on state government expenditure. Further, the political influences of expenditure seem less consistent than they expected. In general, the number of economic and institutional factors are important determinants of expenditure. Importantly they found that that the number of bureaucrats is an important positive determinant of expenditure. The results from this study, Randolph et al. (1996), and Falch and Rattso (1997) also show that population density has a negative coefficient.

Bergstrom and Goodman (1973) conducted a study with a sample consisting of 826 municipalities considering the year 1960 on population located in 10 states (between 10,000) and 150,000, using multiple regression technique based on the median voter theory. In this study the explanatory variables are the number of households in a municipality and the tax share of citizens with a median income and justified;

...Time is required for a rapidly growing city to gain a political consensus for expanding public services. Inertial effects may also result in larger expenditures in places with declining population. This might explain our negative coefficient (Bergstrom and Goodman, 1973: 290).

Bergstrom et al. (1982) tested a method for estimating the demand for local public goods which does not require the median voter assumption. They asked from the individuals whether they wanted more or less of various public goods. Also observed were their incomes, tax rates, and actual spending in their home communities in order to obtain the estimates of demand functions. Importantly they found the effect of income and price quite similar to those found in aggregate studies.

A more recent study by Ponlapat Buracom (2007) adopted demand-side and supply-side explanations to analyze the changes in the size of public spending in Thailand during 1982-2003. According to Ponlapat Buracom (2007:5), demand-side theory is based on traditional democratic theory which “specifies that the government is simply an agent which carries out the will or demand of the people.” According to this view, public expenditure is thus a response to the changing socio-economic demand of the society. On the other hand, the supply-side theory argues that the “government is not simply an instrument of a society but plays an important role in shaping public policy and public spending to serve its own interest” (Ponlapat Buracom, 2007: 5). As such, the government has both discretionary power and the tendency to promote their own interest, while citizens’ preferences are considered of secondary importance (Ponlapat Buracom, 2007). The findings from the study suggest that contrary to the studies of public spending in more advanced democratic countries, which often find that public expenditure growth is the result of the interaction of forces from both the demand and supply side through variables such as economic growth, urbanization, inequality, population aging, ability of government to raise revenues, inflation and elections, in Thailand it was found that supply side variables tend to have greater importance in influencing public expenditure growth than demand side factors. As such the study concludes that instead of responding to demands from the society, public spending is more responsive to supply-side factors causing inefficient resource allocations in Thailand.

Holcombe and Williams (2008) examined the relationship between population density and per capita government expenditures of 487 municipal governments with populations greater than 50,000 in 1990. To identify the relationship between population density and total government expenditures the researchers employed the two-stage least squares regression model with per capita total municipal expenditures as the dependent variable, and population density segmented by total population as the key independent variable.

On the relationship between population density and infrastructure expenditures—highway, water, sewers—in smaller cities it was evident that higher population density is associated with lower per capita expenditures on highways and sewers, but this relationship does not hold for larger cities.

Then concerning the relationship between population density and expenditures on services—police and fire services—police expenditures per capita were higher for cities with higher population densities in larger cities, but there was no statistically significant effect for smaller cities; however, a weak relationship was indicated between density and fire expenditures.

The findings of the research have can be indirectly connected to the ideas of Burchell et al., 1998 and 2002, that sprawling development is more costly for governments to service than compact urban development. Thus in conclusion the researches justified their findings as follows:

More compact urban development implies higher population densities, and while the data do indicate that higher population densities are generally associated with lower expenditures on infrastructure, for larger cities, total government expenditures tend to be higher in areas of higher population density, so it appears that on net, higher population density leads to a higher level of government expenditures and therefore higher taxes to support that higher-density development (Holcombe and Williams, 2008: 372)

To summarize, a large number of studies has selected the socioeconomic approach in explaining the determinants of expenditure policies of state and local government. These studies mostly used the general expenditure model to derive intended results.

3.3.2 Political Approach

Key (1949) and Lockards (1959) are among the early political determinists that emphasized the importance of political variables. Key (1959) can be seen as the first political determinist that used explanatory variable party competition and political participation.

The nature of the working of government depends ultimately on the man who runs it. The man we elect to office and the circumstances we

create that effect their work determine the nature of popular government (Key 1949: 10)...what functions should political parties perform in the governing process if your expectations about their performance as instruments of popular government are to be met? On American scene a high priority would generally be given to the requirement that the parties compete for power (Key, 1949: 11).

This brief statement explains the common nature of political parties in today's society. Taking into consideration behaviour, political determinists employed a cluster of variables to explain the behaviour of representatives that represent the decisions of government expenditure. Among the variables commonly used are party competition, and citizen participation, which may be termed as "pluralist." This work of the early determinists, however, as aforementioned, seems to suffer from discipline myopia or the view that the studies those only considered one subject i.e. using of political system variables in identifying the determinants of public expenditure while neglecting other possible variables, such as the characteristics of the bureaucracy and its personnel, etc.

Proposing a model similar to that of Key (1949), Lockard (1959) used an economic development variable to explain expenditure and argued that a high level of economic development forms high party competition, and which determines the level of expenditure. Along with the theoretical contributions of Key and Lockard, Dawson and Robinson (1963) concluded that socioeconomic conditions are more important than the political variable of interparty competition in shaping welfare policies.

The term "Political pluralism" can be explained from the work of political scientists such as Key and Lockard, who argue for the dominance of political variables such as party organization, government structure, electoral procedures, etc. in expenditure decisions.

As discussed previously, recovery from discipline myopia led political scientists to follow the concept measurement approach in refining their basic models. In this regard two attempts are visible: some have tried to find answers by using different methods, while others introduced new variables to test the political system and policy research. Hofferbert (1966) followed the aforesaid first way of this manner

in “Socioeconomic Dimensions of the American States 1890-1960”. With a similar conclusion, Hofferbert’s work was extended by Sharkansky and Hofferbert (1969), discussing the dimensions of state politics, economic and public policy.

Dye (1966) conducted a study on politics, economics, and public policy and employed four economic development variables, four political variables, and several policy measures and found economic recourses more influential in forming state policies than political variables. Parallel to the economists’ findings, Dye too acknowledged that per capita income as the most important variable associated with expenditure decision making. Further, using the Gini index of income inequality as one of the explanatory variables, Dye (1969) suggested that the distribution of resources within the states may have a significant impact on the character of political systems and the content of policy output (Dye, 1969: 162). He further admitted that the “distribution” (original in italics) of social and economic resources within a state may be more important politically than the level of social and economic resources (Dye, 1969: 161). With these remarkable findings, many political scientists have conducted research to reexamine the conventional wisdom as aforementioned.

Fry and Winters (1972) also used the concept-measurement approach and shifted conventional wisdom towards assessing allocation of the burdens and benefits of state revenue and expenditure policies across income classes. Following Hofferbert’s suggestion, they selected explanatory variables from different dimensions.

...independent variables be drawn from several dimensions: historic-geographic conditions, socio-economic composition, mass political behaviour, governmental institutions and elite behaviour (Hofferbert, 1968 quoted in Fry and Winters, 1972: 515).

Multiple regression and multiple partial correlation were employed in the analysis and it was concluded that political variables are more powerful than socioeconomic variables in the allocation of burdens and benefits of public policies.

“Our data not only support the assertion that politics makes a difference, they suggest that politics play a dominant role in the allocation of the burdens and benefits of public policies” (Fry and Winters, 1972: 522). The authors decided that political

variables are more important than socioeconomic ones (Fry and Winter, 1972: 521). Their analysis, however, was reexamined by the Sullivan (1972) and Booms and Halldorson (1973) team and questions about Fry and Winter's conclusion on political variables were raised. Booms and Halldorson, revising Fry and Winters, raised relative importance of the explanatory power of socioeconomic variables. Moreover Sullivan also did not agree with the findings of Fry and Winters and raised the same issue. By using an equal number of political and socioeconomic variables, Sullivan found that politics may make a difference but not overcome the role of socioeconomic factors.

Cnudde and McCrone (1969) on party competition and the welfare policies in the American states, used linear regression analysis and causal modeling to test the relationship between economic development, party completion, and welfare policies. Thus they followed the second major approach—the relationship approach—to drive the findings. They criticized the Key-Loard model due to shaky foundations and proposed their hybrid model as an alternative (discussed above). Further on, the form-of-relationship approach of Strouse and Williams (1972), using a non-additive regression model, tested the hypothesis that socioeconomic and political phenomena operate together on policy once a certain level of development is reached. That means that economic factors as well as political factors can create a threshold effect that leads to an increase in expenditure. It seems that economists always discuss the importance of the multiplier effect and the snowball effect of explanatory variables. Finally, they stated that the non-additive model explains considerably more variance in all policy outputs and also the non-additive model is the more accurate model, which reflects the dynamics of state policy outputs.

Sharkansky (1967) on government expenditures and public services in the American states, assessed the relationship between measures of spending and measures of public services using a systems model. The researcher considered three measures for the dependant variable:

- 1) Combined state and local general expenditure

Combined state and local general expenditures per \$1000 of personal income.

- 2) Combined state and local general expenditures for each major function as a percentage of total general expenditures

3) Considering the large number of independent variables it was concluded by Sharkansky that concluded that “expenditure service linkage doesn’t appear to be strong” (Sharkansky, 1967: 1066, 1067).

Other than the work of Dye (1969), Klass (1979) also provides further evidence for the political dominant aspect analyzing over time education policy and found party and legislative competition as the determinants of education policy.

Lewis-Beck (1977) discuss broadly the relative importance of socioeconomic and political variables for public policy. This research study broadly discussed on research techniques . Further Lewis-Becks study address to the question of why the research efforts to date have failed to assess accurately and the relative importance of socioeconomic and political variables of public policy. According to the study the reason is that most studies have relied on statistical techniques those inappropriate to the task.

To assess accurately the relative importance of these independent variables, it is first necessary to specify correctly the underlying causal structure and estimate its parameters. Then, the path coefficients must be analyzed to determine the effects of the socioeconomic and political variables (Lewis-Beck, 1977: 566).

Finally Lewis-Becks the researcher suggests that an examination of the effects coefficients, derived from the path analysis, is offered as the preferred method for assessing and comparing the effects of these variables (Lewis-Beck, 1977: 566).

Even though there are arguments for the importance of political variables over socioeconomic ones, the importance of socioeconomic variables which has been empirically demonstrated by both political scientists and economists does not allow us to reject the importance of these variables. They are clearly important explanatory variables in expenditure policy (Kim 1978: 41).

Roader (1973) in “Stability and the Change of the Determinants of State and Local Expenditure” has extended the socioeconomic-political dialogue towards state-local expenditures considering the factors of socioeconomic development and political pluralism. Socioeconomic factors are measured by income, urbanization, and the education of the population. These have been seen as the most important determinants of American states during that period. On political factors; political party system, party competition and voter participation shows less important in the political model.

Extending Roder's work, Hwang (1987), in “An Analysis of Local Government Expenditures in a Developing Country: The Case of Centralized Korea,” researched the political versus socioeconomic debate on the large number of socioeconomic, political, and governmental variables. In terms of the dialogue on political over socioeconomic factors and vice versa, there was no clear evidence. However, the results reflect the dominant role of governmental factors in the determination of the local expenditures in Korea.

To summarize, apart from the previously-discussed socioeconomic approach, the political approach used in the expenditure determinant studies discussed above also shows the significance of identifying the determinants of state and local government expenditures.

3.4 Cross-National Studies

As aforementioned, the socioeconomic approach seems to have widened the research area through cross-national studies. Many researchers seem to support this approach regardless of their academic interests. Among the early researchers, Pryor (1968), on public expenditures in communist and capitalist nations, explained that income and economic systems were more important than political variables. Another study similarly ensuring the importance of socioeconomic variables can be find in the literature is Wilensky (1975). He researched on social security policy and findings of this study explore the importance of political and socioeconomic variables and those accounted for 83 percent of the variance among sixty nations considered.

Peters (1980) on “The Determinants of Tax Policy” examined the nineteen member countries of Organization for Economic Cooperation and Development and

came to a similar conclusion, as with most of the researchers to date, concerning the importance of economic variables, particularly income, sales volume and customs in determining the tax policy.

Cameron (1978) provides five explanations on the expansion of the public economy in industrialized economies: economic growth, fiscal structure (reliance on taxes), political aspects including partisan composition and electoral composition, the institutional structure of the government, and the degree of exposure to international markets. The findings from Cameron's study suggest that the international explanation best explains the expansion of the public economy, where greater openness results in increased public expenditures to protect the domestic economy through measures such as social welfare and employment protection, to name just a few examples. Cameron's findings also suggest that economic growth did not explain the expansion of the public economy in the 18 industrialized countries under study.

Apart from the early cross-national studies, it seems that this approach has become increasingly popular among present day researchers, as it widens the conventional wisdom on the subject matter.

Hansen and King (1996) conducted a time series analysis on the health care expenditure of 20 members of Organization for Economic Cooperation and Development using the dependant variable as the per capita health care expenditure, with the explanatory variables: real per capita gross domestic product, the proportion of population under the age of 15 and over the age of 65, the proportion of health care expenditure that is publically funded, and the relative price of health care expenditure, calculated as the ratio of the health services price index to the GDP deflator. The study followed the OLS model to derive its results. Among the findings, the researcher states that the variables in the "standard model" of aggregate health care expenditure were not collectively stationary at levels, meaning that one of the key OLS assumptions was violated.

Sanz and Velázquez (2002), discussed the structure of government expenditure by function over the last thirty years in member countries of Organization for Economic Cooperation and Development and addressed the questions of what factors determine the composition of government expenditures by function, and secondly, which would impede this alignment. After reviewing the relevant economic literature and testing

the model the researchers concluded that “besides income and prices, population density and its age structure, institutional factors and the interrelations between functions play a very significant role in the majority of functions” (Sanz and Velázquez, 2002: 18).

Lindert (2004), on the other hand, provided a counter argument to Cameron’s findings that economic growth was a strong contributing factor to increased school enrollments. Furthermore, Lindert’s study on social transfers reveals that income, demography (population ageing) and democracy contributed to the growth of social transfers. Lindert (1994, 1996) employed regression analyses of two panels of member countries of Organization for Economic Cooperation and Development . He stated that the disparity in income between the poor and middle sectors had a important positive effect on the aggregate level of social spending. Snyder and Yackovlev (2000) similarly conducted analyses of spending patterns in a broad set of Latin American and Caribbean countries and in two specific countries, Brazil and Colombia, and addressed mainly the following question: “What factors or political circumstances make different types of social protection programs more or less vulnerable to being dismantled, gutted, or slashed during economic crises or changes in the political regime or climate?”(Snyder and Yackovlev (2000: 3). It was concluded that spending on education and health care spending were pro-cyclic and also fluctuated more widely as a function according to the type of political regime.

Kim (2006) conducted a study on 102 developing countries on unemployment compensation programs during the period of 1946 to 2000. The dependant variable concerns the aforementioned countries, those that adopted the said programme. According to the researcher these 102 countries were selected mainly on the basis of the availability of data on the independent variables. The selected independent variables varied with different models tested but among the considered were regime type, self-employment, income, and workers. In terms of developing country context, the author concluded that:

...history model for 102 developing countries from 1946 to 2000, reports that the likelihood of adoption of unemployment insurance across countries and time is generally associated with the distribution

of risks in terms of industrial sectors as well as employment status (Kim, 2006: 23).

Apart from the two main approaches, the field of expenditure determinant studies has extended to assess the cross-national level, and this aspect is very popular among researchers today.

3.5 Studies on the Sri Lankan Context

The number of studies investigating the Sri Lankan reality, both in the central or local governments, is extremely small. Surprisingly, no specific study was found on local governance on a particular aspect. Dilrukshini (2004) discussed beyond the topic of this paper “Public Expenditure and Economic Growth in Sri Lanka: Cointegration Analysis and Causality Testing on relationship between public expenditure and national income, using data for Sri Lanka during 1952-2002”. According to her, the size of a government in any country depends on several factors, but on political factors rather than market forces.

To summarize the reviewed literature, the existing literature explaining the determinants of government expenditure was reviewed broadly and thus it is evident that these studies still follow the conventional pattern of examining the relative importance of socioeconomic and political dominancy. Only a few studies can be seen to broaden the subject matter, considering other aspects, such as institutional, demographic, and geographic factors. Most of these quantitative studies have used different statistical techniques to assess the relative importance of the independent variables. Those are for example simple bivariate correlation, partial correlation, and popularly multiple regression. It is evident, regardless of the level of government, knowledge on determinants of expenditure is useful for many purposes. In light of the revealed fact, in the Sri Lankan context, analysis of Sri Lanka expenditure policies has not yet been systematically attempted. Even though a few studies appear in the Asian context, they mostly concern the Korean and Japanese context. Further, it is evident from the reviewed literature that the standard model assumes that differences in local public expenditures across regions can be explained by the differences in per

capita incomes, population density, tax base, tax rates, population size, the age structure of the population, grants in-aid, labor market characteristics, and as well as other socio-economic, political, governmental, and institutional factors.

3.6 Development of the Proposed Model

The proposed research model, analyzing the determinants of local government expenditure, will be developed in subsequent sections and is mainly based on:

- 1) the knowledge derived from the literature reviewed above,
- 2) the availability of published data from various central and local government sources, and
- 3) the limitations the researcher encountered in this study context.

Moreover, as Kushner says, the proposed model will bring multidimensional benefits to international and local contexts because:

Determination of the factors that affect municipal expenditures has important policy implications. For example, the measurement of scale effects would allow communities to evaluate the long-run implications of population growth and the desirability of consolidating services with neighbouring municipalities or even consolidating municipalities (Kushner et al., 1996: 452).

In addition to the revived literature, three broad approaches of expenditure determinant studies are identified: the socioeconomic approach, and the political and the governmental approaches, and most of the studies reviewed are from the American context, either state or local governments expenditure policy analysis; those research approaches seem extensively to have utilized a similar approach. The term local government expenditure in this research, as mentioned, concerns the expenditure policies of municipal councils and urban councils in Sri Lanka. In addition to previously reviewed research efforts, explanatory variables concern strictly the relevancy of those to the Sri Lankan context because the researcher believes in the

“localization approach.” This refers to the explanation of Sudasinghe (2009), which is relevant to the Sri Lankan context, on the idea of Pollit, (2004) on danger of borrowing ideas and how vital it is to co-produce those “imported” facts according to the local context.

In the process of developing a research model, the scholarly views are important. Fabricant has stated: “the variables used in this study were chosen because previous studies had used them” (Fabricant, 1952: 122). This statement reflects on this research effort as well. Following Fabricant, considering the nature of the socioeconomic, political, and governmental characteristics and the availability of published data on Sri Lankan municipalities and urban councils, the following general model is proposed. This model assesses the expenditure policy of Sri Lankan local governments and therefore follows the Median Voter Theory and the Utility Maximization Assumption based on constrained maximization models in the context of the Public Choice Approach and follow the tradition of reviewed empirical studies of socioeconomic, political, and governmental perspectives.. Therefore, the following general model is proposed to explain the municipalities and the urban councils of Sri Lanka. Thus, below describes the simple theoretical framework that will help to develop testable hypotheses.

$$Y = f (\text{Socioeconomic Determinants, Political Determinants, Governmental Determinants})$$

This implies that the dependant variable Y, local government expenditure, is a function of the socioeconomic determinants, political determinants and governmental determinates of Sri Lanka as suggested from the literature review. In terms of model justification, the theoretical relationship is the main consideration. Apart from that, the reviewed empirical studies on the general model of policy analysis are extensively considered.

As explained in the literature review, except for the early studies of expenditure determination, separation of studies from socioeconomic and political perspectives is impracticable. This is due to the fact of identification of the similar importance of both aspects by economic determinists and political determinists who

entered the field later. Thus, a long list of studies can be mentioned in justifying the relationship between local expenditure policy and the socioeconomic and political variables. Most of these studies are reviewed under the socioeconomic and the political perspectives above. Moreover, the studies that investigated the socioeconomic and political perspectives were further reviewed in Table 4.1 in Chapter Four on the Historical Evolution of Research on the Socio-economic, Political, and Governmental Determinants of Public Policy: Summarized from the Reviewed Literature.

In specifying the governmental perspective, this study considers several empirical studies that explore the relationship between public policy and governmental determinants. Among them Kurnow (1963), Bahl and Saunders (1965), Osman (1966), Gabler and Brest (1967), are significant and those have used the central aid concept as an additional variable and concluded that central aid is an important variable in expenditure decision-making at the local level. Beyond the central aid factor, Capmbell and Sacks (1967), Lineberry and Sharkansky (1971) Hwang (1987), Kim (1978), and Chang (1996) identify the importance of several governmental variables in determining local public policies. As explained earlier, it is difficult to separate these perspectives from one another, as most of them can be seen as a mixture of two or more of the above-mentioned perspectives. Kim (1978) and Hwang (1987) provide fine examples for this, as they have extended their models from the socioeconomic and political dichotomy, adding several governmental variables and attempt to explain the relationship between the those determinants and local government expenditure policies over time. Apart from that, this study considers the idea expressed by Downs and Rocke (1979: 722) on this subject.

In line with the above explanation, the proposed models for the analysis of local government expenditures of the Sri Lankan milieu can be elaborated as follows.

$$EXP_i = a + b_1 (SEV)_i + b_2 (POV)_i + b_3 (GOV)_i + u \dots\dots\dots \text{Equation (3.5)}$$

In the proposed model, ‘a’ is the constant term, ‘b’ is the vector of coefficients of the independent variables, u is the normally distributed error term, and i represents the specific expenditure category, where EXP_i is the dependant variable

of local expenditures and the independent variables, SEV_i are the socioeconomic variables, POV_i are the political variables and GOV_i are the governmental variables.

The above model can be further elaborated discussing the selected variables under each perspective. As discussed broadly in Chapter Four, the socioeconomic variables include population density, level of education, health conditions, and commercialization. Political variables represent political participation, party competition, and candidate competition. Finally, the cluster of governmental variables concerns the characteristics of government services, financial capacity of the bureau, and intergovernmental relationships. This composition extends the model and can be explained as follows:

$$EXP_i = a + b_1 (POP)_i + b_2(EDU)_i + b_3(HEALTH)_i + b_4(COMEZ)_i + b_5 (PATCI)_i + b_6 (PRTCM)_i + b_7 (PRTCM)_i + b_8 (GOVSE)_i + b_9 (FINEC)_i + b_{10} (FINEC)_i + u \dots \dots \dots \text{Equation (3.6)}$$

Wherein,

EXP_i = Total Expenditure or one of the specific expenditures (road rehabilitation and maintenance expenditure, solid waste management expenditure, public health policy, physical planning and infrastructure expenditure, and other capital expenditures), POP =Population Density, EDU =Education, $HEALTH$ =Health Conditions, $COMEZ$ =Commercialization, $PATCI$ =Participation, $PRTCM$ = Party Competition, $CANDI$ =Candidate Competition, $GOVSE$ =Government Service, $FINEC$ =Financial Capacity, $PRODT$ =Productivity, $INTER$ =Intergovernmental Fiscal Relations.

As mentioned above the expenditures of Sri Lankan local governments in this study are classified as total expenditure (general) and other functional categories such as road rehabilitation and maintenance expenditure, solid waste management expenditure, public health expenditure, physical planning and infrastructure expenditure and other capital expenditures. Those can be further explained as follows:

$$TOEX_i = a + b_1 (POP)_i + b_2(EDU)_i + b_3(HEALTH)_i + b_4(COMEZ)_i + b_5 (PATCI)_i + b_6 (PRTCM)_i + b_7 (PRTCM)_i + b_8 (GOVSE)_i + b_9 (FINEC)_i + b_{10} (FINEC)_i + u \dots \dots \dots \text{Equation (3.7)}$$

$$\begin{aligned} \text{RDMEX}_i = & a + b_1 (\text{POP})_i + b_2(\text{EDU})_i + b_3(\text{HEALTH})_i + b_4(\text{COMEZ})_i + b_5 \\ & (\text{PATCI})_i + b_6 (\text{PRTCM})_i + b_7 (\text{PRTCM})_i + b_8 (\text{GOVSE})_i + b_9 \\ & (\text{FINEC})_i + b_{10} (\text{FINEC})_i + u \dots\dots\dots \text{Equation (3.8)} \end{aligned}$$

$$\begin{aligned} \text{WATEX}_i = & a + b_1 (\text{POP})_i + b_2(\text{EDU})_i + b_3(\text{HEALTH})_i + b_4(\text{COMEZ})_i + b_5 \\ & (\text{PATCI})_i + b_6 (\text{PRTCM})_i + b_7 (\text{PRTCM})_i + b_8 (\text{GOVSE})_i + b_9 \\ & (\text{FINEC})_i + b_{10} (\text{FINEC})_i + u \dots\dots\dots \text{Equation (3.9)} \end{aligned}$$

$$\begin{aligned} \text{HLTEX}_i = & a + b_1 (\text{POP})_i + b_2(\text{EDU})_i + b_3(\text{HEALTH})_i + b_4(\text{COMEZ})_i + b_5 \\ & (\text{PATCI})_i + b_6 (\text{PRTCM})_i + b_7 (\text{PRTCM})_i + b_8 (\text{GOVSE})_i + b_9 \\ & (\text{FINEC})_i + b_{10} (\text{FINEC})_i + u \dots\dots\dots \text{Equation (3.10)} \end{aligned}$$

$$\begin{aligned} \text{PPIEX}_i = & a + b_1 (\text{POP})_i + b_2(\text{EDU})_i + b_3(\text{HEALTH})_i + b_4(\text{COMEZ})_i + b_5 \\ & (\text{PATCI})_i + b_6 (\text{PRTCM})_i + b_7 (\text{PRTCM})_i + b_8 (\text{GOVSE})_i + b_9 \\ & (\text{FINEC})_i + b_{10} (\text{FINEC})_i + u \dots\dots\dots \text{Equation (3.11)} \end{aligned}$$

$$\begin{aligned} \text{OTHEX}_i = & a + b_1 (\text{POP})_i + b_2(\text{EDU})_i + b_3(\text{HEALTH})_i + b_4(\text{COMEZ})_i + b_5 \\ & (\text{PATCI})_i + b_6 (\text{PRTCM})_i + b_7 (\text{PRTCM})_i + b_8 (\text{GOVSE})_i + b_9 \\ & (\text{FINEC})_i + b_{10} (\text{FINEC})_i + u \dots\dots\dots \text{Equation (3.12)} \end{aligned}$$

Wherein;

TOEX = Total Expenditure (General), RDMEX = Road Rehabilitation and Maintenance Expenditure, WATEX= Solid Waste Management Expenditure, HLTEX =Public Health Expenditure, PPIEX=Physical Planning and Infrastructure Expenditure, OTHEX= Other Capital Expenditures and other independent variables similar to the above.

Apart from the above explanation, the development of the theoretical model follows a systematic step-by-step process to draw valid conclusions therefrom. According to the scientific approach the first step of the research is the identification of the relevant hypothesis which derives from the literature based and on the researcher's experience. Thus the scientific approach begins with identification of the hypothesis. Then the designing of the research begins. The research design is mainly in two stages—conceptualization and operationalization. Conceptualization is the process of specifying the unclear ideas of the concept that is going to be sorted? from the observations and measurements that will be appropriate for the research.

...conceptualization produces a specific, agreed-upon meaning for a concept of the purposes for the research. This process of specifying exact meaning involves describing the indicators we'll be using to measure our concept and the different aspects of the concept, called dimensions (Babie, 2001: 122-123).

Operationalization reflects and refers to "...the development of specific research procedures (operations) that will result in empirical observations representing those concepts in the real world" (Babie, 2001:132). Conceptualization involves three development stages, categorical concepts, typological concepts, and operational concepts, while operational definitions are further developed for the measurements of these typological concepts.

In light of this explanation, first the research hypothesis is introduced and the conceptualization and operationalization of the variables will take place in the next chapter.

Research Hypothesis and Questions

A research hypothesis is a tentative explanation made by the researcher on what the researcher considers the outcome of his/her research will be. These hypotheses usually derive from the relevant literature and the scientific approach for the research beings generally after presenting the research hypotheses. In the context of government expenditure research, commonly several hypotheses are tested in large number of research studies with different frameworks. The common fact for most of these studies is that government expenditure is considered to determined by selected explanatory variables—socioeconomic, political, etc.—in the relevant country/state contexts.

3.6.1 Research Hypothesis

From the reviewed literature, it is clear that there is no agreement among the researchers on which perspective is dominant over the others—socioeconomic, political, governmental and any other—in determining the public policy output. Thus the order of research hypotheses mentioned below are set in preferential order by this

researcher. Based on the major research question identified above, the major hypotheses for the each approach and extended subsets for the each category for the statistical analysis can be elaborated as follows.

Major hypotheses in the analysis.

H:1 Socioeconomic factors make a difference in the level of local government expenditures in Sri Lanka.

H:2 Political factors make a difference in the level of local government expenditures in Sri Lanka.

H:3 Governmental factors make a differences in the level of local government expenditures in Sri Lanka.

Hypotheses based on socioeconomic factors:

H:1:1 Population characteristics make a difference in the level of government expenditures in Sri Lanka.

H:1:2 The education level of the people makes a difference in the level of local government expenditures in Sri Lanka.

H:1:3 Health status makes a differences in the level of local government expenditures in Sri Lanka.

H:1:4 Commercialization makes a difference in the level of local government expenditures in Sri Lanka.

Hypotheses based on political factors:

H:2:1 People's participation makes a differences in the level of local government expenditures in Sri Lanka.

H:2:2 Party competition makes a difference in the level of local government expenditures in Sri Lanka.

H:2:3 Candidate competition makes a difference in the level of local government expenditures in Sri Lanka.

Hypotheses based on governmental factors:

H:3:1 Government service provision makes a difference in the level of local government expenditures in Sri Lanka.

H:3:2 Financial capacity makes a difference in the level of local government expenditures in Sri Lanka.

H:3:4 Intergovernmental fiscal relations make a differences in the level of local government expenditures in Sri Lanka.

3.6.2 Research Questions

- 1) What are the major determinants, trends, and differences of local government expenditure policies in Sri Lanka?
- 2) What factors— socio-economic, political, and governmental or some combination of all—make a difference in the level of local government expenditures in Sri Lanka?
- 3) What actions can the local governments take in promoting the welfare and comfort of the citizens?

3.7 Chapter Summary

This chapter has focused on the review of the literature and formulates the proposed model of the study. It is divided into two main parts. Part one consists of the reviewed literature in this research context. On the basis of the reviewed literature, a research model was proposed following the research hypothesis and questions in the second section.

CHAPTER 4

METHODOLOGY

4.1 Introduction

In addition to the proposed model presented in the previous chapter, the first part of this chapter discusses the research design following the definitions of variables and relevant measurements. The second part discusses the assumptions, research sample, data collection methods, and data analysis methods.

4.2 Research Design

As mentioned above, the conceptualization and operationalization of the variables selected for the research are discussed in the first part of this chapter.

The scientific method is a process of experimentation, explore observations, and answer to questions encounter during the process. However, the scientific method in the social sciences is said to be different from the natural sciences and operationalization seems to differ according to the relevant researcher's theoretical focus in attending to the identified questions. It is very clearly depicted in the above reviewed literature on government expenditure research. Considering the reviewed literature, the conceptualization and operationalization of each variable selected for this research strictly based on previous research. In this regard the researcher intends to employ the traditional expenditure determinant approach used in the American context to explain the determinants of the local government expenditure policies in the developing country context; in this case, Sri Lanka. Here the researcher has not conducted a comparative analysis due to the contextual differences of the two countries but intends to analyze the relevancy of the findings and explanations of reviewed literature in general to Sri Lankan context.

4.2.1 Definitions of Variables

As the first step, the dependant variables, local government expenditures, will be defined and then the independent variables, the socioeconomic perspective, the political perspective, and the governmental perspective is explained. Follow with their extensions.

4.2.2 Dependant Variables

The dependant variables in this research is considered local government expenditures. As explained under the literature review, the term “government expenditure” is comparable in meaning to several other similar terms. More specifically, however, it can be defined as a public policy of local governments. Public policy analysis refers to “what governments do, why they do it, and what difference it makes” (Dye, 1976: 1). Dye broadly explains this aspect, referring to “policy determination” studies. His popular text, “Policy Analysis” published in 1976 explain the dependant variable as the public policy by considering the research question “What is the effect of economic growth on government taxing and spending?” (Dye, 1976: 5). This explanation is relevant to the studies which access the causes or determinants of public policies.

As mentioned in chapter 1, According to Sahni’s (1977: 3-4) public expenditure analysis has become complicated due to several intervening issues and institutions involved in the policy process. This makes the scope of the subject extensive. Because of this complexity there seems not to be any clear agreement among the researchers on common structure, rather than their research interest, to achieve the goals of policy determinant studies. “However, theorizing about public expenditures was in short supply and empirical analysis of a rigorous sort was undeveloped... as public finance prior to the late 1950s was widely interpreted as the economic of taxation” (Haveman and Margolis, 1970: 2). When it comes to the 60s, however, as mentioned by Haveman, the economists were interested in addressing the issues of economic development and growth, specifically the low income problems of less development nations. The research findings prove that “achievement of various social and economic objectives has been relatively limited since 1960 despite the considerable increase in public expenditure in all industrialized countries” (Tanzi and Schuknecht, 2000: 99). Their

research considering 1999 government spending data concluded that “..public spending may not necessarily be an answer to many socioeconomic problems and that with intelligent policies public spending may be reduced” (Tanzi and Schuknecht, 2000:119). In this case proper identification of the determinants of government expenditure policies is vital regardless the level of the government for so-called “intelligent policies” for better results.

What is evident from the literature review is the common view of the researchers, that the expenditure of local government depicts the local government expenditure policy. Further, this has depicted in the form of statistics relevant to the financial period of concern. It is commonly seen that researchers do agree with the fact that the statistics do not depict the actual fiscal picture of any locality.

Fisher (2007: 14-15) provides an extensive explanation of the diversity of sub-national governments and stresses the point of necessity of standardization of data due to the different characteristics of the localities. According to him, “the most common ways of standardizing are to compare the data in per capita terms (per person) or as a percentage of income” (Fisher, 2007: 14). But larger per capita expenditure or income does not really depict the fact that one locality is greater than the other in terms of the services they provide, as a larger proportion of expenditure is needed to serve larger population, relatively than to a small population, to provide equal services. This may need further clarification. In economic terms the said explanation can be elaborated in terms of the attribute of the production function of the locality. It assumes that if the average cost of providing a service to a consumer is constant, then a positive relationship can be expected from the average cost of spending and population growth. Thus the per capita amounts are proportional to the services or depict the “constant returns to scale.” Thus, in other words, when the number of consumers increases, if all other relevant factors are assumed constant, the average per capita cost for each person can be decreased illustrating “an increasing returns to scale” and accordingly the per capita, expenditure even in larger localities, can be similar to the services that they provide. One should note, however, that this only offsets the population effect. However, other than the aforementioned concern, localities can differ one from another due to the decision-making factors, differences among input prices, differences in demographic factors, and differences in consumer demands for services.

A higher level of revenue or expenditure in one state may mean there are more services in that state,...or may mean that residents of that state have decided to provide some service (hospitals, for instance) through the government rather than privately (Fisher, 2007: 15).

This in other words implies how important “public choice” of relevant jurisdiction in expenditure decision-making is. For an economist, this suggests, as explained elsewhere, how rational consumers, politicians, and bureaucrats allocate income to maximize satisfaction or utility.

On the basis of the aforementioned argument, it is evident from the reviewed literature that some studies have focused only on the selected expenditure functions of states/localities in terms of the research objective, while others have selected all. As an example, for a specific focus (from several other studies) it is worth considering the study done by Falch and Rattso (1997). Their dependant variable school spending concerns price and volume factors; in other words, school spending in terms of population. They have used the following equation to derive school spending per capita:

$$\text{School spending/population} = (\text{wages/teachers} + \text{non-wage spending/teachers}) \times \text{teachers/class} \times \text{classes/students} \times \text{students/population}.$$

Moreover, studies on specific functions can be seen in Mendes and Sousa, (2006), Medeiros and Barcelos (2007); and studies with several expenditure functions can be found, for example in Bahl and Sounders (1965), Bergstrom and Goodman (1973), and Weicher (1970).

Further, several scholars have identified different dimensions that can be used to measure expenditures . For example, other than the discussed aspect of the spending policy Sharkansky (1967) in identifying the relationship between spending and the services of agencies (discussed elsewhere), the following measurements of public policy were used.

- 1) Combined state and local general expenditures per capita
- 2) Combined state and local general expenditures per \$1000 of personal income.

3) Combined state and local general expenditures for each major function as a percentage of total general expenditure

Kim (1978), on “Analysis of National-aid and Prefectural Expenditures in Japan”, has analyzed two aspects of prefectural government expenditure on the basis of two points: as policy commitment and policy priority. According to the study, the degree of policy commitment is measured as:

- 1) p/c total prefectural government expenditure
- 2) p/c welfare and health
- 3) p/c public work
- 4) p/c education

The measurement of policy priority in Kim’s study is as follows:

- 1) Welfare and the health— a percentage of total expenditure
- 2) Public work as a percentage of total expenditure
- 3) Educational expenditure as a percentage of total expenditure

From the above measurements it is clear that the researchers have identified several dimensions of public policy, particularly in measuring expenditure policies. Besides at this point its worth to highlight the Kim’s idea on measurements as he says the ‘ more differentiated the concept of public policy becomes the more indicators are required to be adopted for its measurements’ Kim (1978: 55).

Other than the aforementioned, Hwang (1987) explain the Van Meter and Asher (1973) study and identifies the four dimensions of public policy. Further Hwang (1987) discuss the (Cho and Frederickson’s (1973), (quoted in Hwang, 1987) six dimensions of policy. Moreover four dimensions of welfare policies as Van Meter and Asher explain were as follows as;

- 1) Per capita total public welfare expenditures, which indicate the total welfare efforts of the state government
- 2) Per capita states welfare expenditures, which measure inter-governmental relationships
- 3) The number of recipients, which measures the level and extent of welfare benefits; and
- 4) The average monthly payment per recipient, which measures the level of welfare benefits. (Van Meter and Asher, 1973 quoted in Hwang, 1987: 52)

However, any indicator or measurement should be based on the theoretical background of the particular study. In that sense, for this study the researcher considered the aforementioned argument based on the literature reviewed. More specifically, this study considers Fisher's (2007) argument as explained broadly and considers the first dimension of Van Meter and Asher (1973) and Kim (1978). All these agreements highlight the fact that expenditure of any level of government reflects the spending policy of the government through the political and bureaucratic process of the relevant authority. This in other words can be used as the performance indicators of council's in terms of policy objectives. However, with all of these justifications, we should not undervalue the criticism on using government expenditure data to represent public policy. This is because quantitative data cannot explain one hundred percent of the behavior of the people. Despite the said criticism, it is evident from the research studies reviewed that consideration of the monetary aspect of the spending policy reflects the relevant government's priorities. Thus, the said criticism is not applicable to this study, as this study follows the majority researcher's view—that the expenditure of any level of government reflects the spending policy of the relevant government.

Therefore considering discussed facts, the functional classification of the expenditure categories in common relevant to the Sri Lankan local governments can be explained as follows:

- 1) Local government expenditure in general: measured as per capita total expenditure
- 2) Road rehabilitation and maintenance expenditure: measured as per capita expenditure for road rehabilitation and maintenance
- 3) Solid waste management expenditure: measured as per capita expenditure for solid waste management
- 4) Public health expenditure: measured as per capita expenditure for public health
- 5) Physical planning and infrastructure expenditure: measured as per capita expenditure for physical planning and infrastructure
- 6) Other capital expenditures: measured as per capita expenditure for other capital expenditures

4.2.3 Independent Variables

The selection of independent variables is a curtail turning point for any researcher for the success of any research study. In this regard the theoretical background of the research, the researcher's interest, as well as the academic and practical experience of the researcher in the relevant field is are vital for the selection of the explanatory variables for the study. It is evident from the literature reviewed that almost all of the researchers have taken an immense effort to introduce models with high explanatory power in explaining the determinants of government expenditure policies. This is because a model with high explanatory power, in other words, depicts the capturing of a correct combination of explanatory variables. Further, it is vital to understand that either a mode with several explanatory variables or few variables does not ensure better model building. Nevertheless, the multidimensional nature of social phenomena limits any researcher in selecting explanatory variables, even upon theoretical grounds, as theories are built upon several assumptions and different socioeconomic and political backgrounds. Thus, regardless of the degree of the explanatory power of the model, it is vital to realize the limitations of the model in explaining the multidimensional nature of social phenomena.

In an effort to select explanatory variables it is vital to consider the different scholarly views, and those are explained in the following paragraphs as the justification on variables selected for this study in terms of different dimensions.

According to Hofferbert (1968: 8), the following dimensions of independent variables are proposed.

- 1) Historic-geographic conditions
- 2) Socio-economic composition
- 3) Mass political behaviour
- 4) Governmental institutions
- 5) Elite behaviour

This classification broadly explains the multidimensional nature of the independent variables that can be drawn from different dimensions. This classification has been interpreted by different scholars in terms of their research interest according to Kim (1978), the first two dimensions are closely related. In order to justify this,

Kim acknowledge that the present socio-economic condition of any society reflects the historic and geographic conditions of the relevant society. Further, Kim considers the last three dimensions as the political system variables. Sharkansky (1968: 54) discusses the simplified version of the classification discussed above as follows:

- 1) economic and social characteristics
- 2) political characteristics
- 3) governmental characteristics

This in other words reflects Kim's justification of merging different dimensions under one category. It is clear from the above discussion that the identification and selection of dimensions have been immensely influenced by the researcher's theoretical interest and ability to justify the particular selection. This is seen from the evolution of research on expenditure determinant studies reviewed in this study (Table 4.1). However, the dichotomous dimensions of socioeconomic and political perspectives seem to be used commonly and popularly in most of the studies. The merging of other aspects under said perspectives is mainly based on the theories and assumptions considered in the relevant studies.

Apart from the discussed dimensions, the selection of variables too differs from researcher to researcher due to research objectives, theories considered, and specifically upon the researcher's interest. This can be seen from the following summary (Table: 4.1) of selected explanatory variables used by different scholars from time to time.

Table 4.1 Historical Evolution of Research on Socioeconomic, Political, and Governmental Determinants of Public Policy: Summarized from the Reviewed Literature

Author	Selected Independent variables
Fabricant (1952)	Population density, urbanization, income
Key (1956)	Party competition, political participation
Kurnow (1963)	Income, urbanization, aid
Sacks and Harris (1964)	Income, urbanization, population, federal aid, state aid

Table 4.1 (Continued)

Author	Selected Independent variables
Fisher (1964)	Population density, urbanization, income
Bahl and Saunders (1965)	Population density, central aid, income
Kee (1965)	Income, population, state aid, housing conditions
Dye (1966)	Socioeconomic variables(4), political variables(4)
Morss (1966)	Income, population, urbanization, tax collection.
Osman (1966)	Income, population, federal aid, urbanization
Hofferbert (1966)	Party competition, political participation, malapportionment
Gabler and Brest (1967)	Population density, urbanization, income
Sharkansky (1967)	Income, grants, tax burden
Sharkansky (1967)	Socio economic, political and administrative capacity
Gramlich (1968)	Income, federal grants (matching grant in aid, unconditional block grant), interest rate.
Henderson (1968)	Income, population, state and federal aid.
Cnudde and McCrone (1969)	Part competition, political participation
Fry and Winters (1972)	Political and socioeconomic variables.
Weicher(1972)	State aid
Bergstrom and Goodman (1973)	Number of households, the tax share of the citizen, median income.
Roader (1973)	Income, urbanization and education
Beaton(1974)	Tax base, pension, debt services, population, crime, service
Cameron (1978)	Socio economic, political and institutional variables.
Kim (1978)	Socio economic variables (4), political system variables (8)
McEachern (1978)	Political variables, socioeconomic variables
Dye (1979)	Socioeconomic variables (4), political variables(4)
Peters (1980)	Economic, political

Table 4.1 (Continued)

Author	Selected Independent variables
Bergstrom et al. (1982)	Socio economic variables
Hwang (1987)	Socioeconomic, political and governmental variables
Holcombe (1989)	
Poterba (1996)	Socioeconomic variables
Kushner et al. 1996)	Socioeconomic variables
Falch and Rattso (1997)	political economic determinants
Fernandez and Rogerson (1997)	Socioeconomic variables
Matteo and Matteo (1998)	Socioeconomic variables
Tanzi and Schuknecht, (2000)	Socio economic, political, institutional variables
Painter and Bae (2001)	Political variables , Institutional variables including the central aid, demographic variables.
Ahlin and Johansson (2001)	Socioeconomic variables
Sanz and Velázquez (2002)	Socioeconomic variables
Lindert (2004)	Socioeconomic and political variables
Verbina and Chowdhury (2004)	Socioeconomic (education) variables
Josselin et al. (2005)	Socio economic and political variables
Mendes and Sousa, (2006)	Socio economic and political variables
Gebremariam and Gebremariam (2006)	Socioeconomic variables
Medeiros and Barcelos (2007)	social, economic, geographic, and demographic variables
Ponlapat Buracom (2007)	Socioeconomic and political variables
Holcombe and Williams (2008)	Population density

In light of the above explanation, despite the popular dichotomous dimensions of socioeconomic and political perspectives, this research concerns the governmental perspective in order to address the research questions mentioned in the first chapter. In this regard Sharkansky's (1968: 54) classification is considered.

4.2.3.1 Socioeconomic Perspective

Public finance literature abounds with ample studies which discuss the changes in government expenditure due to the impact of socioeconomic development. The socioeconomic perspective, in other words the socioeconomic development of the society as discussed, is extensively a diverse concept. This theoretical construct can be operationalized using several concepts from the reviewed literature as theoretically based indicators, such as population density, health, education, industrialization, etc.

These explanatory variables are commonly used by researchers, as indicated in Table 4.1, to meet their research interests. The selection of measurements should be appropriately carried out as it greatly affects research outcomes. Measurement is a process where value is given (i.e. numerical form) and quantifies the level or state of some quality of an object of the relevant study. These measurements vary from study to study; even similar aspects can be assessed in different contexts by using different measurements. This is because the selection of measurements is profoundly based on the relevancy, study context, and even the philosophical standpoint of the researcher toward the research study. An explanation of the selected explanatory variables for this study is as follows.

1) Population Density

Regarding selected variable population density, it is generally recognized that population density has a considerable influence on demand for public services and thereby government expenditure and indicates both favorable and adverse effects in terms of government expenditure. In this regard the favourable effects can be drawn from the economies of scale, while the adverse effects are due to the fact of diseconomies of scale with regard to public services. According to Kelly (1976: 1061), economies of scale occur due to more efficient use of public facilities, while diseconomies of scale rise from congestion and the rising cost of communication. Further, consideration of population is a prerequisite for a policy and as policy is introduced due to the demand from the population created by the effects of socio

economic development of the population. Therefore, there has to be a positive relationship between policy and the population. This fact is further justified by Holcombe and Williams' discussion on how important the impact of population density on municipal government expenditures is in smaller and larger cities, and they concluded:

...total government expenditures tend to be higher in areas of higher population density, so it appears that on net, higher population density leads to a higher level of government expenditures and therefore higher taxes to support that higher-density development (Holcombe and Williams, 2008: 371).

Among several other scholars, Ladd (1992) too strengthens this idea, acknowledging that higher population density relates to higher per capita government costs. In light of the above explanation, operationalization of the theoretical construct concerns the concept population density and is measured as the number of people living in a square kilometer.

2) Education

Education is vital in creating human capital. In that sense higher rate of schooling used to seem a justification for higher government expenditure, on better quality schools and other services related to education. Like the population density, the level of education too has been a popular explanatory variable among scholars of expenditure determinant studies. By using these variables, the researchers can explain the demographic or socioeconomic factors that represent the characteristics of socioeconomic development. On the other hand we can assume, due to the higher socioeconomic development of the country, a higher demand for human capital increases demand for more facilities for education. This leads to more spending in the educational sector in order to cater to this social demand. To measure this variable there are several measurements popularly used in previous studies, such as the number of students in each jurisdiction, the percentage of students advancing from high school to higher education (Kim, 1978; Hwang, 1987), median school years completed by

population age 25 and over (Roder, 1973), student share of the population (Rattso and falch, 1996), and also teacher wages, teachers per class, class size, literacy rate, and teacher–pupil ratio too is popularly used and even the number of educational centers. The measurement of educational characteristics is carefully carried out at the local level as for most of the developing countries the subject of education comes under the central government’s responsibility. In the Sri Lankan milieu, education comes under the control of the central government, with some responsibilities to the provincial councils. With the establishment of provincial councils, the central government handed control of most of the schools to the local governments. In that sense in Sri Lanka, other than the national schools, provincial schools and privena’s the schools for Buddhist monks are in the government school category. Beyond the provincial level, however, at the local level the governments have the least responsibility in providing education (see Democratic Socialist Republic of Sri Lanka, Parliament, 1986). This means that despite the decentralization effort, the provision of a minimum standard of education to all remains a national policy objective. Considering local government control over education, the researcher in this study use the number of schools in the locality to measure the educational characteristics of the jurisdiction because the other measurements explained above may bring biased research results due to the inapplicability to this research context . Therefore the Justification lies in the argument that if the level of education is higher in the local jurisdiction, higher would be the demand for school facilities from the community that lead to more government spending on this subject. Thus a positive relationship would be expected.

3) Health Status

The relationship between the health status of the people and government health expenditure is not so simple. In Sri Lanka the majority of the population is benefited by the government health care facilities provided free of charge. Apart from the private sector, the public sector services are delivered from more than 500 hospitals arranged in several tiers. This varies with the available facilities, ranging from highest to lowest as maternity homes and dispensaries. Beyond this, additional public services are provided by local authorities. Other than

the western medical services available, Sri Lanka is rich in its indigenous medical sector, which is supported by the government. These health facilities provide indigenous medical services.

Financing the healthcare system support both from public and the private sources and as usual public sources concerns general taxation. But problems arise due to the small tax base of the provincial councils and local governments. In this situation, those are largely funded by block grants by the central government of Sri Lanka. Since the responsibility of local governments is to provide conveniences and well-being to the community, promoting public health has become one of their priorities. In this case the local governments have to play a significant role.

There are several measurements used in the studies to measure the health status of the community. Among them the infant mortality rate and the number of beds in general hospitals are common measurements. In terms of the Sri Lankan local government context, services from dispensaries and indigenous medical centers come by law under the local governments. In this regard the researcher assumes that in measuring health status, the number of dispensaries and indigenous medical centers in the locality provides accurate measurement than the other measurements used in previous studies. Therefore health status is measured by the number of dispensaries and indigenous medical centers in the locality.

4) Commercialization

In operationalizing the construct of the socioeconomic perspective, this study concerns the concept of commercialization relevant to local jurisdiction. This is because commercialization can be considered as another indicator of the socioeconomic characteristics of the society. A similar concept which is used in previous studies is the “industrialization” and is popularly measured by the index based on the workforce ratio measured as a percentage of those employed in the manufacturing sector. This index can be seen in several studies, such as those of Roder (1973), Kim (1978), and Hwang (1987). However, as mentioned above, the relevancy of this concept to the Sri Lankan context is controversial for several reasons. One is the local authorities, by ordinance, are not responsible for the employment status of the localities. They address the above explained status in multidimensional ways. In that regard using measurements with regard to the Sri Lankan local

government context can be looked from different perspectives. The best way is to measure this concept in terms of the assigned responsibilities to the local governments.

Socioeconomic development beyond economic development of any society results as multidimensional attributes, specifically progressive changes in the socioeconomic structure of the country, as discussed above. One such concern is the increase in the output of goods and services or the level of production. If the output of the goods and services is higher, it indirectly implies the continuous increase in industries, trade, and services. This process at local level depicts from the commercial markets and how successful they are. Further, the number of commercial markets maintained in a relevant jurisdiction depicts the level of commercialization of the relevant area.

This argument provides a fine justification to measure the level of commercialization of the area, as by the local government ordinances they are responsible for regulating, supervising, and controlling all of the public and private markets in the area. In other words, the relevant local government is responsible for market facilitation and regulation of the areas of their authority. Thus, in theory they are responsible for the economic development of the relevant jurisdiction.

In light of above explanation this study use the number of local markets to measure the level of commercialization, where most production and services are enacted. Thus it is assumed that the higher the number of local markets maintained by the localities, the higher the level of commercialization and accordingly the better the economy and higher the local government expenditure.

4.2.3.2 Political Perspective

The second construct, the political perspective, is mainly based on the views of early political scientists such as Key and Lockard. According to them party organization, governmental structure, and electoral procedures are important determinants of state policies. When assessing the evolution of expenditure determinant studies, the importance of the political perspective has been discussed by several scholars using different indicators for an example, Painter and Bae (2001), who have used the governor's party, electoral competition, and bureaucratic influences in explaining political determinants. Painter and Bea in their study have considered bureaucratic influences under the political perspective in explaining their research. This really

depicts the researchers standpoint and authority on selecting variables relevant to the context; thus the literature on political economy signifies that the policy-makers are typically political parties or politicians. Naturally, the fiscal policies that are undertaken are tempered by political factors (Chanudhuri and Dasgupta, 2006 : 640).

However, among many concepts that can be subsumed under the construct of political perspective that are likely to influence local government expenditure in Sri Lanka, this study concerns the concepts of political participation, party competition, and candidate competition following previous studies. Although at the operational level too there exist ample indicators or measurements for these concepts, the researcher has selected the indicators discussed below on the basis of the reviewed literature.

1) Political Participation

Political participation is a key component of democracy. It can be in many forms such as voting for representatives, to voting on policies in referenda, forming political groups, and engaging in legal and illegal protests. Through these actions in common the people expect or hope that they can influence the relevant government policies. The core tenant of much of the scholarly literature on public policy highlight the political participation as a major factor that influence the public policy choices and outcomes. Further, in general different candidates and parties advocate, pass, and implement different policies in terms of their interests, but all are likely to lead to desirable social outcomes in one way or another.

In terms of voting for representatives, in general, local residents tend to vote/elect more influential candidates who can pursue their interests. This is particularly true in Sri Lankan local elections where more voting rate depicts for the ruling party. This means that local residents prefer to elect candidates from the ruling party, as they believe that it is strong enough to pursue their interests through central government leaders.

However, it is evident that several researchers have used the concept of political participation, followed by Key, and several indicators have been suggested. Following the traditional indicators and considering previous findings, this study too employs voter turnout as a percentage of eligible voters as an indicator of political participation; thus the hypotheses: the higher the rate of participation, the

higher the local government expenditure will be. In this regard the researcher is concerned with the voting turnout ratio in 2006 local government elections across 64 urban local governments in Sri Lanka.

2) Party Competition

Like voter participation, party competition too is central to guaranteeing the efficient working of representative democracies. Following Key (1949), Lockard (1959), Dowson and Robinson (1963), Wright (1975), and even recent researchers such as Hwang (1987), have used the concept in their studies to explore the effects of political perspective on expenditure policies. Key was the first to build a theory of American party politics and then the relationship between interparty competition and government expenditure policies has been given attention among many researchers. Key believed that interstate differences in interparty competition really matters in the quality of the states' political process and policy outputs. This can be justified in one way as when the competition is strong, the incumbent party has to struggle for the office and accordingly deliver the policies closer to those preferred by the electorate. On the other hand, this will lead the challenger to modify his or her platform in the direction of voters' desires. Thus, as Downs (1957) has stated, higher party competition leads politicians to adopting policies closer to the median voters' preferences. However, we should not forget the fact that not all of these justifications in the public choice literature are equally optimistic about the ability of elections to constrain politicians' choices. In this regard the best way of testing this debate is to test the degree of party completion in a real situation.

Taking into account the previous literature in the field of this study, researcher selects the concept of party competition in operationalizing political perspectives and measured by the party competition index used by Hwang (1987), which is relevant to the Sri Lankan situation with its multiparty system. This index measures the competition between the ruling party against the allied opposition party group, and can be written as follows:

$$\text{Party competition Index (PCI)} = 1 - \left(\frac{\text{Votes for the candidates from the ruling party}}{\text{Total votes cast}} - \frac{\text{Votes for the candidates from other parties}}{\text{Total votes cast}} \right)$$

Accordingly, it can be hypothesized that the higher the PCI, the higher the interparty competition and higher the expenditure would be.

3) Candidate Competition

As aforementioned, according to political economic theory, inter-candidate competition, like interparty competition positively affects the level of government expenditure. The rationale is similar in both aspects—like political parties, individual candidates too compete at reelection; thus it is assumed that the higher the competition among the candidates, the more they will listen to voters and thus more demanded public services will be promised when elected or when they in power. The expected results will be higher government expenditure.

However, this concept too has been popularly used in the expenditure determinant studies. Thus, in light of previous studies, this study hypothesized that the higher the inter-candidate competition, the higher the level of Sri Lankan local government expenditure will be. In light of this argument, inter-candidate competition will be measured by the inter-candidate competition rate (ICR) used by Hwang (1987) as follows:

$$\text{ICR} = \text{Number of total candidates} / \text{Number of total legislative seats}$$

Further the higher the ICR the higher the inter-candidate competition highlighted will be.

4.2.3.3 Governmental Perspective

Instead of modeling traditional aspects—socioeconomic and political perspectives—this study concerns the governmental perspective in explaining local government expenditure in Sri Lanka. The rationale concerns the highly-debated model on the influence of bureaucrat's behaviour in the economics, political, and public administration literature espoused by Niskanen (1971) and others which assumes budget maximization by bureaucrats. As discussed in the literature, government employees are self-interested, thus leading to the pursuit of higher government expenditure. Although the selected theoretical construct—governmental perspective—is not popularly used with the other two perspectives, the rationale ensures that the importance of the comparison of the three perspectives in the subject arena. This is mostly evident from Hwang's (1987) study in explaining the Korean context.

In light of the aforesaid information relevant to this study, the researcher operationalized the construct, considering the concepts of government services, the financial capacity of the bureau, and inter-governmental relationships that rely strongly on previous studies.

1) Government Services

The first hypothesis on the governmental perspective stems from the government service variable. This concept measures the relationship of government performance and its expenditure allocation. As explained in the chapter 3, the theory of Niskanen (1971) explains the said aspect very clearly—how self-interested government employees are likely to push budgets beyond the level represented by median voter preferences.

Dye (1966) too has employed the local government service variable in analyzing state and local expenditure. Hwang (1987) has further justified how important the government service variable is in explaining the level of government expenditure. Rationale for the selection of this concept based on the previous research studies. In the Sri Lankan situation, consideration of this variable is vital due to the function of separate local government service.

Following previous studies, in this study the local government service variable is measured by the total number of local government officers employed in each locality. Thus it is assumed that an increase in the number of local government officers employed in the locality will result in greater local government expenditure allocation.

2) Financial Capacity

The second hypothesis of the governmental perspective stems from the concern over the financial strength of the locality. In general, the financial strength of local authorities in Sri Lanka is not sound enough to meet the expenses of the locality. The capacity to finance through local sources of revenue—taxes, rates, licenses, etc.— is vital in the process of achieving the self-autonomy status of the local body. In the field of public finance, the financial capacity of an organization has been given an important mark, as organizations that command adequate funding are better able to pursue their goals. The term funding here refers to the sources of revenue and the concept of financial capacity in the broader sense depicts the characteristics of the self-financing ability.

Thus, the self-financial capacity of a council is vital in assessing the determinants of local government expenditure. Consideration of the financial capacity of the local authority is based on previous research findings, particularly the findings of Hwang (1987); hence it can be hypothesized that the higher the self-financing capacity of the local authority, the higher the capacity of the locality to meet the required spending demands successfully. In this regard the measurement of the concept concerns local revenue generation from own local sources and measured by the degree of the financial self-reliance (FSR) of the relevant authority. Therefore the index can be written as follows:

$$\text{FSR} = \text{Total revenue from own sources} / \text{Total Revenue} \times 100$$

3) Intergovernmental Fiscal Relations

Since local governments have relatively limited revenue sources (i.e. taxes and chargers), intergovernmental assistance play a significant role in governmental finance (Ahn, 1995: 1). The intergovernmental aid system has become more popular in the public finance research due to its impact on the local government system in various ways. The importance of the central government's aid can be depicted not only from the amount that is allocated for the localities but through various interactions among politicians and bureaucrats at both the central and local level, directly and indirectly, in achieving desired objectives due to the fact that in the process of deciding the allocation both politicians and bureaucrats are actively involved. Granting aid from the central government to local government entities underlies socioeconomic as well as political objectives, such as a remedy for spillover effects (Gramlich, 1977), or equity reasons (Fisher, 2007). This means that there are many types of grants with different objectives. However, what is true in general is that those objectives do not fulfilled as intended due to the influence of different stakeholders, as mentioned earlier. As discussed in the literature, an explanation concerns public choice theory.

With regard to the Sri Lankan situation, it is evident that local governments—except a few councils—heavily depend on central government financial transfers disbursed by the Finance Commission of Sri Lanka through the provincial councils. Thus, the rationale for the selection of the intergovernmental fiscal relations variable stems from its relevancy to the Sri Lankan context.

Further, consideration of diverse aspects in defining the intergovernmental transfers is evident from the literature. For example, as Hwang highlighted, Dye (1976) considered federal and state aid as an economic variable, while Sharkansky (1968) and Hwang (1987) as an administrative variable and Strouse and Jones (1974) as a political variable depicting the flexibility of consideration of this concept. However, considering previous research, this study recognizes the intergovernmental relations variable under the governmental perspective due to relevancy of the theoretical background considered. Therefore, in this study concerning the measurement of the Sri Lankan context, all financial transfers from the central government to the local authorities are used. Due to the high dependency of Sri Lankan local bodies on central government transfers, it is assumed that the higher the amount of financial transfers, the higher the local level expenditure will be towards the benefit of the local community. Thus, the relevant measurement is total central government financial transfers in per capita terms.

4.3 Description of the Sample

The target population of this research is 18 municipalities and 42 urban councils in Sri Lanka. Focus on both the municipalities and urban councils is interesting for several reasons. Relevant to the sample selection, the following characteristics were considered.

First, both of these councils share urban characteristics in their jurisdictions. Other than the similar socioeconomic characteristics, they share importantly a similar institutional and administrative structure, with somewhat different designs. These municipal councils and urban councils are all in general local political administrative agencies that come under the provincial governments of Sri Lanka (Figure 2.2), and they provide the services of environmental management and social services under the common objective of the well-being of the public. Not only these two councils, but the other category of councils, the “Pradeshiya Sabhs,” also share somewhat similar responsibilities by their ordinances. That means the local governments are:

...charged with the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people and all amenities within their areas of jurisdiction (Municipal Councils Ordinance, Section 4; Urban Councils Ordinance, Section 4; Pradeshiya Sabhas Act, Section 3) (Democratic Socialist Republic of Sri Lanka, Parliament, 1986).

The other consideration is based on the concept of self-reliance. In that sense municipalities and urban councils are more self-reliant than the rural governments of Sri Lanka.

In light of this explanation, all municipalities and urban councils are considered from the year 2006. This consideration of year 2006 is mainly based on the data used in the study, the election data of local governments. In essence all of the councils of 2006 relevant to the 2006 local government elections are considered, a total of 54 councils. This selection follows the explanation of Dawson and Robinson (1963) in selecting 50 states that shared a common institutional framework and general cultural background, Chung (1989) for 37 states, and Bahl and Saunders (1965) for 48 states in a five-variable model.

The unit of analysis concerns the organization, particularly the local authority. The sample design varies with the qualitative and quantitative methods, discussed in the chapters below. Following the reputational snowballing technique, 24 officials/policy makers were selected for in-depth interviews. In addition to ensuring the validity of the empirical results, this further helps to meet the third objective of the research—to make feasible policy implications.

4.4 Data Collection Methods

Both secondary and primary data support in one way or another were used to strengthen the research findings and to make recommendations. In this regard the researcher had to rely on several data sources.

4.4.1 Secondary Data

In this study, secondary data were considered as the major source of information. Data on local government expenditures are mainly collected from the monitoring division of the Ministry of Provincial Councils and Local Government, Sri Lanka. Those published data in their 2007 report were cross-checked from some provincial departments for clarification. Socioeconomic and governmental data of the councils were too taken from the reports of monitoring division. For further clarification of the data and to attend to missing data, telephone conversations were conducted with the relevant officer responsible for the department. Political data were taken from the Department of Elections, Sri Lanka, on 2006 election results. Those also were published data.

4.4.2 Informal Interviews

Informal interviews were conducted by the researcher from time to time in order to uncover the existing situation in determining the local government expenditure policies in Sri Lanka. These government officials, at different levels of organizations—the ministerial level and the local level—were helpful in clarifying the secondary data relevant to councils. In this regard no predetermined questions were asked in order to remain as open and adaptable as possible to the interviewee's nature and priorities; during the interview, the interviewer followed the concept of "go with the flow." This was done as part of the process of observing the researched context and was mostly used in the early stages of the research. This also was used by the researcher to recommend future research topics on areas that may have been overlooked by previous research.

4.4.3 In-Depth Interviews

In this study, in-depth interviews were conducted to gather information.

in-depth interviews are useful when you want detailed information about a person's thoughts and behaviours or want to explore new issues in dept. Interviews are often used to provide context to other data (such as outcome data), offering a more complete picture of what happened in the programme and why (Boyce and Neale, 2006: 3).

Twenty officials were selected for the interviews, including local political representatives and senior local governmental officers.

4.4.4 Documentary Data

Other than these two major sources, annual reports of the finance commission were immensely helpful in obtaining information. Further, documentary data were collected from several publications and articles.

These sources of published data were considered as more accurate and reliable than first-hand data. However, because of limited data availability, this study considered only four socioeconomic variables, three political variables, and three governmental variables.

4.5 Assumptions

This study relied on several assumptions, mainly the assumptions relevant to the theories underlined. As discussed in the third chapter, public choice literature consists of a cluster of theories and relevant assumptions. Therefore, the assumptions of utility maximization theory and the median voter theory are applicable to this research in explaining the determinants of local government expenditures. Further, a large proportion of the literature stems from the subject of factors determining government expenditure explained based on the various expenditure components, and by and large these developments assume that the supply of public goods by the government is a counterpart to the quantity demanded by the community, in this study, socioeconomic, political, and governmental characteristics.

4.6 Methods of Data Analysis

4.6.1 Qualitative Analysis

In identifying the determinants of local government expenditure in Sri Lanka and their relative importance, in addition to quantitative analysis, the qualitative technique is vital. In this regard the views of the local bureaucrats and politicians are important. In order to fulfill this requirement, the random sample method was

employed to identify the key local officers in Sri Lanka. In general, expenditure determinant studies mostly employ quantitative methods. This is evident from the reviewed literature as well. In order to make this study unique from other studies, this was taken by the researcher to explain further the empirical results and to make policy implications.

4.6.2 Quantitative Analysis

The study follows the deductive method in approaching the causal model. In this regard the Statistical Software Package-SPSS (version 11) was used to compile and process the data.

Multiple regression analysis was employed in this study in explaining the empirical results. Multiple regression is a family of techniques that can be used to explore the relationship between one continuous dependent variable and a number of continuous independent variables or predictors. This technique provides the researcher with information about the model as a whole (all subscales) and the relative contribution of each of the variables that make up the model (individual subscales). As an extension of this, multiple regression will allow the researcher to test whether adding a variable contributes to the predictive ability of the model, over and above those variables already included in the model (Pallant, 2005).

4.7 Chapter Summery

This chapter is divided in to two parts. The first part discusses the research design following the definitions of variables and relevant measurements. The second part discusses on the assumptions, the research sample, data collection methods, and data analysis methods.

CHAPTER 5

THE DETERMINANTS OF LOCAL GOVERNMENT EXPENDITURE

This chapter explores, explains, and identifies the factors which cause the differences in local government expenditures in Sri Lanka. The first part of the chapter shows the differences in levels and patterns of expenditures in local government expenditures as a rationale for the quantitative analysis. The second part explains the determinants of local government expenditure on general and specific responsibilities—road rehabilitation and maintenance expenditure, solid waste management expenditure, public health expenditure, physical planning and infrastructure expenditure, and other capital expenditures—considering socioeconomic, political, and governmental variables. The chapter concludes with a brief summary of the empirical research findings.

5.1 An Explanation of the Differences in Levels and Patterns of Expenditures in Local Governments

The urban governments of Sri Lanka are facing a new generation of challenges as they undergo the transition to new democratic structures to serve the development needs of the community. In that sense their effective service delivery is vital. Apart from the traditional responsibilities, new challenges are encountered, as explored in the previous chapter, due to the changing circumstances in which they operate.

In Sri Lanka, as broadly explained in the Chapter Two, there exists three layers of local governments: Municipalities, Urban Councils and 'Pradeshiya Sabha's. In the context of the new dynamic environment emerging, the Municipalities and Urban Councils confront forceful challengers from their operational environment such as the increase in population and the problems those aggravate with urbanization

leading to commercialization. Therefore, research on the relevant context is vital before making policy measures.

In light of the above discussion, one can understand that there are several factors that bring about differences in the level of expenditures in total and functional responsibilities. Beyond that, one can see differences in spending among different levels of councils as well. Therefore, it is worthwhile first exploring this situation using secondary data in order to see whether differences exist in expenditures among individual councils. In that sense, the proceeding sections explore the differences of actual the expenditures of Municipalities and Urban Councils of the relevant year to show that each local government exhibits some differences in the level and pattern of expenditures.

5.1.1 Differences between Municipalities and Urban Councils Across Sri Lanka: The Context of Local Government

5.1.1.1 Municipalities

Among the challenges encountered by urban governments, as explained above, population growth, urbanization, and unequal benefits from the rapid economic growth of the country are worth considering in examining the different levels of government. In this scenario their strength—financial strength and spending capacities—is vital for the community well-being, the ultimate objective. As aforementioned, it is critical at this point to see how well and how fairly references have managed their spending responsibilities to confront new challengers during the period of concern.

Figure 5.1 presents the spending differences of Local Governments of a total of nine provinces of Sri Lanka. Regardless of the efficiency of spending, there is a large gap between the Western Province and the rest of the country. With regard to the Western Province, one reason for this large gap is due to the relatively large number of Municipalities (6) and Urban Councils (14) than the other provinces hold. This makes for the higher indication of total expenditure in the graph. This can be further explained from Table 5.1 and Appendix A. It is clear that the Colombo Municipality records the highest expenditure (actual) of Rs 4,565 (Mn) while Kandy Municipality records the second highest at Rs 797 (Mn).

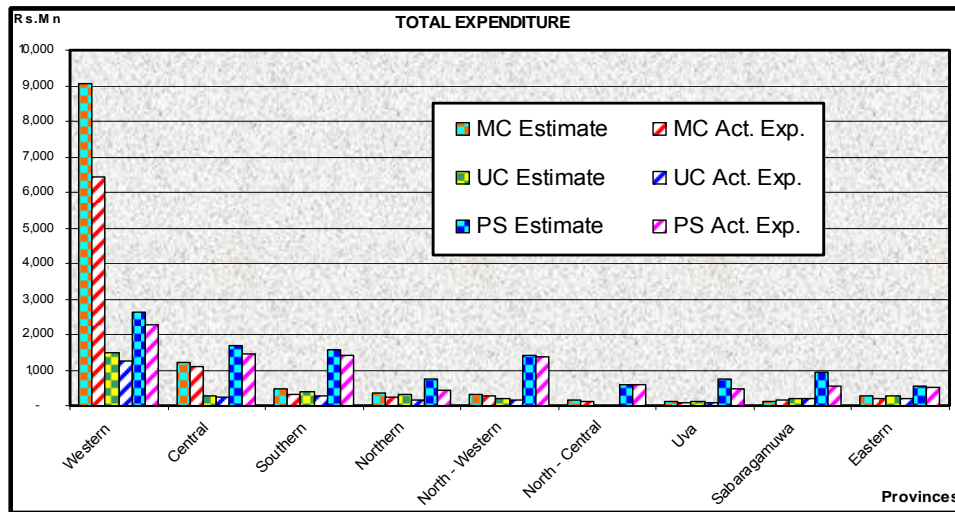


Figure 5.1 Total Expenditure by Provinces (2007)

Source: Ministry of Local Government and Provincial Councils, 2007.

When comparing spending differences, there a large gap is indicated among urban governments. This situation is clear from Figure 5.2. According to the explanation of this figure, one can assume that apart from the other factors, their revenue generation capacity can be an important reason for spending decision-making. This assumption again further strengthened by the interviews conducted because the majorly acknowledged that their revenue generation capacity was vital for successful implementation of programmes. This is clearly depicted from Table 5.1 given below and Table given in the Appendix A. Moreover, as the highest spenders, the Municipalities of the Western Province recorded a total amount of Rs 6,420 (Mn) out of a total of Rs 8,845 (Mn) of the entire island. This depicts the capacity and the strength of the Municipal Councils of the Western province of Sri Lanka as public service providers to the local community.

Table 5.1 Revenue Collection and Expenditure Incurred by Municipal Councils – 2007.

Province & District	Name of Municipal Council	Revenue (Rs:Mn)		As a %	Expenditure (Rs:Mn)		As a %
		Estimate	Actual		Estimate	Actual	
Western							
Colombo	Colombo	4,541	2,599	57	5,703	4,565	80
	Dehiwala - Mount Lavinia	718	672	94	718	665	93
	Moratuwa	392	296	76	382	291	76
	Sri Jayawardenapura Kotte	465	424	91	494	396	80
Gampaha	Negombo	320	406	127	1,479	267	18
	Gampaha	234	116	50	266	236	89
	Total	6,670	4,513	68	9,042	6,420	71
Central							
Kandy	Kandy	892	785	88	892	797	89
Matale	Matale	190	130	68	183	146	80
Nuwara - Eliya	Nuwara - Eliya	140	148	106	136	140	103
	Total	1,222	1,063	87	1,211	1,083	89
Southern							
Galle	Galle	308	208	68	306	192	63
Matara	Matara	183	150	82	183	134	73
	Total	491	358	73	489	326	67
Northern							
Jaffna	Jaffna	352	277	79	346	229	66
	Total	352	277	79	346	229	66
North Western							
Kurunegala	Kurunegala	287	253	88	321	257	80
	Total	287	253	88	321	257	80

Table 5.1 (Continued)

Province & District	Name of Municipal Council	Revenue (Rs:Mn)		As a %	Expenditure (Rs:Mn)		As a %
		Estimate	Actual		Estimate	Actual	
North							
Central							
Anuradhapura	Anuradhapura	140	123	88	153	121	79
	Total	140	123	88	153	121	79
Uva							
		-	-				
Badulla	Badulla	513	207	40	131	75	57
	Total	513	207	40	131	75	57
Sabaragamuwa							
Ratnapura	Ratnapura	117	97	83	133	141	106
	Total	117	97	83	133	141	106
Eastern							
Batticaloa	Batticaloa	191	163	85	191	131	69
Ampara	Kalmunai	74	86	116	79	62	78
	Total	265	249	94	270	193	71
GRAND TOTAL		10,057	7,140	71	12,096	8,845	73

Source: Ministry of Local Government and Provincial Councils, 2007.

However, a larger expenditure or income does not really mean that one council is greater than the other in terms of the services they provide. This is because a larger proportion of expenditure is needed to serve a large population relatively than a small population in providing equal services. Thus, in other words, as explained in Chapter Four, in economic terms one has to think in terms of the attribute of the production function of the locality.

On the other hand, in explaining the revenue subject worth considering the Fisher's (2007: 14-15) explanation on inter-jurisdictional comparisons based on the fraction of income and revenue,

...one might expect that two states, one rich and one poor, would have the same percentage (original in italic) of their income going to government service. This is true only if the income elasticity of demand for those government services is one; that is, if demand for service increases proportionately with income. If not (that is, if demand for state-local services increases slower or faster than income), then equal percentages of income going to state local expenditures are not expected. In addition, this analysis requires that factors other than income be the same between the jurisdictions being compared (Fisher, 2007: 14).

Regarding this argument, Fisher further explains that other than the explained situation, localities can differ one from another for several reasons, such as decision-making factors, differences among input prices, differences in demographic factors, and differences in consumer demands for services.

In light of Fisher's argument one can explain the nature of Sri Lankan Municipalities. As he says,

A higher level of revenue or expenditure in one state may mean there are more services in that state,...or may mean that residents of that state have decided to provide some service (hospitals, for instance) through the government rather than privately (Fisher, 2007: 15).

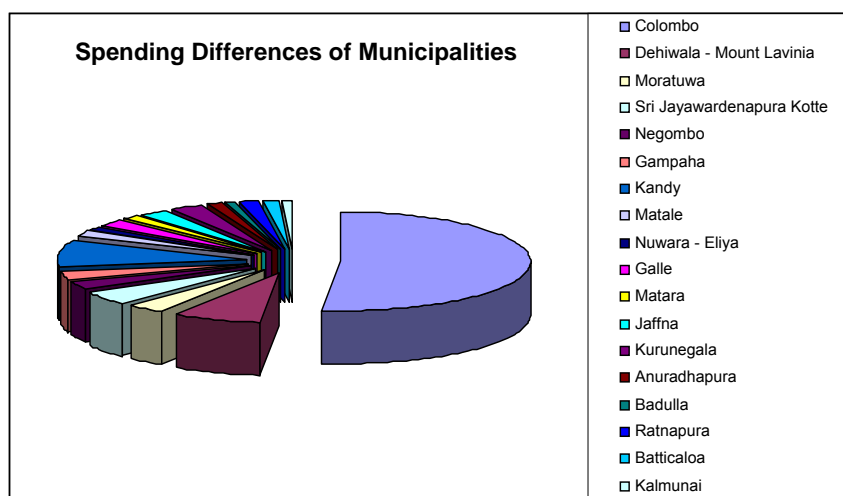


Figure 5.2 Spending Differences of Municipalities, 2007.

This means that one can accept more public services from the Colombo Municipality. This is correct due to the demographic benefits they receive because they are located in the commercial city of Sri Lanka, which provides a home to most economic activities. When the economy grows, it brings economic benefits to the local governments located in that area. This is because “Colombo City itself accounts for nearly 30% of Sri Lanka’s gross domestic product (GDP), predominantly from the service sector (27.6%), manufacturing (24.3%) trade and tourism (20.2%)” (ADB, 2004: 1). On the other hand, this development creates pressure to spend money to deliver more services and to extend or improve infrastructure—roads—or more utility services.

Apart from the councils located in the Western Province, as in the second stage, Kandy and Dehiwala-Mount Lavinia Municipal Councils too expected to provide a considerable amount of public goods to the local community as individual councils.

5.1.1.2 Urban Councils

Urban Councils are the second layer of local governments and total 42 councils island-wide. In terms of allocation of expenditure, those indicate a relatively lower position than the Municipal Councils and the ‘Pradesiya Sabah’s.

This situation can more clearly depicted from the table in the Appendix A. The Maharagama Urban Council of the Colombo District in the Western

Province marks the highest capital expenditure in 2007 -at Rs 241 (Mn). Further, the second and the third highest spenders are Katunayaka-Seeduwa urban Council in Gampaha district in the Western Province at Rs 170 (Mn) and the Kesbewa Urban Council in Colombo District in Western Province at Rs 122 (Mn), respectively.

In light of this, it can be concluded that in 2007 the Urban Councils with highest spending records from the Western Province, and out of three, two were from the Colombo District. Besides their spending capacity as justified by the in-depth interviews with policy makers, this indicates their revenue generation capacity, the geographical benefits, and the economic benefits those councils receive due to locating in the Western Province.

With all of the aforementioned information on individual spenders, Figure 5.3 provides a comparative view of the three layers of councils on estimated and actual spending. On the basis of the previous discussion, a comparative view or an explanation of per capita expenditure is important as it off-sets the population effect. But anyway it can be concluded that the Urban Councils of Sri Lanka indicate, however, a lower level of spending compared with the other upper and the lowest level governments (See Figure 5.3). This situation is worth further study as this cluster consists of a somewhat larger number of councils than the number of Municipalities and shares urban characteristics.

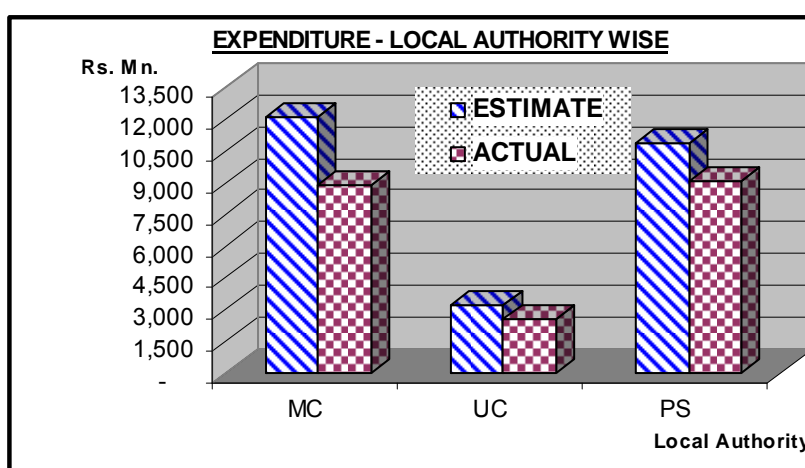


Figure 5.3 Classification of Expenditure by Local Authority.

Source: Ministry of Local Government and Provincial Councils, 2007.

In light of the aforementioned argument, according to 2007 data, one can accept more public services from the Colombo Municipality and Urban Councils with the highest spending records from the Western Province and out of three, two from the Colombo District.

All in all, the points raised above suggest that each local government has some differences in its level of spending and the pattern between the Municipalities and Urban Councils across Sri Lanka. Therefore, further analysis on this aspect is vital.

5.2 Correlation Analysis: Test on ‘Multicollinearity’

The following section analyses the results of the quantitative method on the determinants of total and functional expenditures.

Correlation among Selected Independent Variables

A correlation analysis is used to describe the strength and direction of the linear relationship between two variables (Pallant, 2005: 126). The term multicollinearity is used to describe the situation when two predictor variables are highly correlated. It is said that high correlations cause problems to the success of the model. In checking the assumption of multicollinearity, checking for correlation of variables is vital. As Pallant notes:

check that the correlation between each of your independent variables is not too high. You probably don't want to include two variables with bivariate correlation of .7 or more in the same analysis (Pallant, 2005: 126).

Following the above explanation, it is evident from Table 5.2 below that in this study, all of the correlation values are smaller than .7; therefore, all variables will be retained. Thus, further explanation can be made based on the output of the SPSS results, as follows.

Table 5.2 Pearson Product-Moment Correlation Matrix for all Variables

Variable code	POP	EDU	HEATH	COMEZ	PATCI
POP	1				
EDU	-.038	1			
HEATH	.387**	.316**	1		
COMEZ	.625**	.088	.286**	1	
PATCI	-.299**	-.072	-.190**	-.453**	1
PATCM	.137*	.319**	.259**	-.052	-.598**
CANDI	-.201**	.447**	.001	-.129*	.218**
GOVSE	.019	.097	.034	.008	-.006
FINEC	.515**	-.075	.204**	.109	.098
INTER	.026	.189**	-.052	-.043	-.102

Variable code	PATCM	CANDI	GOVSE	FINEC	INTER
PATCM	1				
CANDI	-.076	1			
GOVSE	.073	.043	1		
FINEC	.032	-.218**	-.035	1	
INTER	.156*	-.215**	-.033	.318**	1

Note: ** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Table 5.2 shows the relationships among the cluster of independent variables regardless of socioeconomic, political, or governmental perspectives. In general, all of the variables indicate a low correlation, except population density and commercialization at $r = .625$; and population density and financial capacity $r = .515$, and participation and party competition $r = -.598$ at the 0.01 significance level. However, as a whole, according to Pallant (2005: 126), the above-mentioned correlation coefficients indicate lack of multicollinearity. Regarding the first situation, it is evident that highly dense areas are highly commercialized in Sri Lanka due to the greater demand of the larger population. This means that in Sri Lanka, highly populated areas require more economic services than rural areas. Secondly, governments of densely-populated areas are financially strong. The third inference is that inter-party competition underlies voter participation in local elections.

5.3 Study of the Determinants of Total Local Government Expenditure (In General)

This section explains the results of the model on total local government expenditure by using the Ordinary Least Square (OLS) Regression Model. In this standard regression model, “each independent variable is evaluated in terms of its predictive power, over and above that offered by all the other independent variables.” (Pallant, 2005: 147). This approach would also tell us how much variance in the dependent variable, each of the independent variables explain.

Table: 5.3 Regression Results on Local Government Expenditure in General

Predictor	Standardized Regression Coefficient	T-value	Significance
Socioeconomic Factors			
POP	.187	2.314	.000
EDU	-.015	-.254	.800
HEALTH	-.248	5.246	.000
COMEZ	.188	3.168	.000
Political Factors			
PATCI	.112	1.949	.000
PRTCM	-.045	-.672	.502
CANDI	-.093	-1.858	.065
Governmental Factors			
GOVSE	.014	.353	.725
FINEC	.276	5.966	.000
INTER	.181	3.007	.000
Constant	5.865		
R²	.647		
Adjusted R²	.631		
F	42.078		

Note: Considered significance level (0.000)

POP= Population Density, EDU=Education, HEALTH=Health Conditions,
COMEZ=Commercialization, PATCI=Participation, PRTCM= Party
Competition, CANDI=Candidate Competition, GOVSE=Government Service,
FINEC=Financial Capacity, INTER = Intergovernmental Fiscal Relations

The results of the regression analysis are presented in Table 5.3 and demonstrate a significant correlation among the selected independent and dependant variables, as significant at a .000 level, with the coefficient of determination R^2 at 0.647. The R squared value indicates the extent of the variance in the dependent variable explained by the model. In this research, the value R^2 is 0.647. If expressed as a percentage, this means that the model explains 64% of the variance in the local government expenditure policy in general (total).

In the proposed model, socioeconomic characteristics such as population density, education level with political factors—party competition and representativeness—and governmental variables such as financial capacity and intergovernmental relationship, are significant and contribute to explaining the total expenditure of the local governments of Sri Lanka.

In explaining the research results of this study, standardized regression coefficients or beta values are used. The beta values measures how strongly each independent variable influences the dependent variable. This is measured in units of stranded deviation, i.e. if the beta value is 0.52, this indicates that a change of one standard deviation in the predictor variable will result in a change of 0.52 standard deviations in the criterion variable. Thus, in other words, higher the beta value, the greater the impact of the independent variable on the dependant variable.

5.3.1 Socioeconomic Determinants of Total Expenditure

Regarding socioeconomic factors, population density, health status, and commercialization are significant in explaining total local government expenditure in Sri Lanka, representing beta coefficient values of .187, -.248, and .188, respectively. The variable population density in the socioeconomic cluster depicts the second largest beta coefficient, making a unique contribution in explaining the total local expenditure in Sri Lankan local governments. This supports in general the findings of Holcombe and Williams (2008), the most recent study that looks directly at data on government expenditures to see the relationship between population density and government expenditures. In other words, the higher the population density, the higher the demand of people for government services; thus, local authorities will cater to the increasing demand of the community. Further, it is evident that the utility maximization

behaviour of this urban community, or as economists explain, the rational behaviour of consumers, makes a higher demand for preferences of local public services, which leads to higher spending in local governments.

Secondly, the factor of commercialization is significant (Beta = .188) in the socioeconomic cluster, making a unique contribution to explaining the total local expenditure in Sri Lankan local governments. The commercialization in the area is measured as the number of local markets in the jurisdiction. In other words, local market characteristics/functions indicate the degree of commercialization in the area. Moreover higher the local economic activities higher would be the production in the area catering to higher demand from the consumers. This makes the demand for more places to be declared as local markets making more responsibility to local governments. This responsibility is facilitated by the relevant laws as by law their responsibility to establish and maintain public markets for the needs of the inhabitants. Further, these local authorities are also responsible for regulating, supervising and controlling all private markets within the area. But however enhancement of local market functions requires more public funding.

The above explanation can be elaborated on supply-side theory as well as demand-side theories, and as Ponlapat argues, “government is not simply an instrument of a society but plays an important role in shaping public policy and public spending to serve its own interest” (Ponlapat Buracom, 2007: 5). In that sense the relevant circumstances bring governments economic advantages in terms of revenue generation. However, on the other side, the second highest beta value indicates governments’ responsiveness to demand-side theories as such to promote citizens’ preferences.

Sri Lanka often records relatively good health indicators, with a life expectancy of 73 years. The national health policy of Sri Lanka seeks to address the health challenges of Sri Lanka. In this regard, the vast majority of the population is benefitted by the government health care facilities, as in Sri Lanka health care is provided free of charge. Although the situation is such, still there are relatively underprivileged and underserved geographical areas in the country. As explained in the previous chapter, apart from the private sector, public sector services are delivered from more than 500 hospitals arranged in several tiers. This varies with the available

facilities, ranging from highest to lowest as maternity homes and dispensaries. Beyond this, additional public services are provided by local authorities. Other than the western medical services available, Sri Lanka is rich in its indigenous medical sector supported by the government. These health facilities provide indigenous medical services.

Financing the healthcare system is supported both from public and private sources and as usual public sources concern general taxation. However, problems arise due to the small tax base of the provincial councils and local governments. In this situation, those are largely funded by block grant by the central government of Sri Lanka. Since the responsibility of local governments is to provide conveniences and well-being to the community, promoting public health has become one of their priorities. In this case, the local governments have to play a significant role in this aspect. In this context the health conditions of the people are significant (Beta = -.248). This means that one unit change of community health status leads to -.248 change in total local government expenditure, and the relationship is negative. This means that due to the higher health conditions of the community, lower budget allocation for health services can be expected. In essence it is evident that once the effects of political and governmental system variables are controlled for, urban industrialized governments spend more per capita on public services with less responsibility for health services. Further, no statistical significance was found between educational level and total local government expenditure. This result was not expected. This means that the educational level of the local community does not make any significant difference in total local government expenditure determination. As mentioned in early chapters, educational problems still appear in the domain of the central government's responsibility.

In light of the discussed research findings, the first hypothesis of the research, which states that local government expenditures vary directly with the socioeconomic factors in Sri Lanka, is mostly fulfilled.

5.3.2 Political Determinants of Expenditure in General

Regarding political factors, inter-party competition; candidate competition, and participation are the selected determinants. From those three, only the participation,

which is measured in terms of the voting turnout, was significant in explaining total local government expenditure in Sri Lanka. The coefficient value of participation (Beta=.112) indicated the fourth largest value in the equation and made the fourth strongest unique contribution in explaining the total local government expenditure in Sri Lanka when the variance explained by all other variables in the model was controlled for. This indicates that the higher the voter participation in an election, the higher the total local government expenditure will be. This strongly explains the underlying theory of decision-making behaviors—median voter theory—of voters, as voters tend to select their representatives with their preferred policy choices. By knowing this, candidates select their policy choices and tend to work for the policies that are mostly preferred and demanded by majority voters in order to maximize their votes in the next election. This leads to more services, incorporating a larger budget, because the participation of these groups exerts pressure on the representative system for policy measures favourable to them. In this regard, this supports the hypothesis that local government expenditures are determined by the degree of participation.

Further, candidate competition and party competition do not make any statistically significant contribution to the total expenditure equation. This can be justified on the basis of Solé-Ollé (2006):

However, there is not a lot of accumulated empirical evidence to suggest that the intensity of party competition is important in practice. The first study to test the link between competition and sub-national policy variation was by Dawson and Robinson (1963), who found only a weak effect of competition on welfare policies in the USA states. Other similar studies at the state level in the USA, Carmines, 1974; Jennings, 1979 and at the local level in the UK, Alt, 1971; Hoggart, 1985; Boyne, 1994 had mixed results (Solé-Ollé, 2006: 146).

Further, Solé-Ollé referring to Boyne (1994) and explains that

this disparity of results may be due to the quality of data and econometric methods used, but also to the many difficulties that blur the effective implementation of this approach (Boyne, 1994 quoted in Solé-Ollé, 2006: 146).

However, as a whole, political factors support the hypothesis that local government expenditures are determined by political factors.

5.3.3 Governmental Determinants of Expenditure in General

From the selected governmental variables—government service, financial capacity, and intergovernmental fiscal relations—the financial capacity of the local government and intergovernmental fiscal relations are significant in explaining the local government expenditure in Sri Lanka. The financing capacity of the local government is measured in terms of the local revenue generation from own sources and measured by the degree of the financial self-reliance of the relevant authority; that is, total revenue from own sources as a percentage of total revenue. In explaining total local government expenditure, the degree of financial self-reliance of locality indicates the highest significant contribution to the model (Beta = .276). In other words, the higher the capacity of revenue generation from own sources, the larger the volume of services the community can expect. That is, local governments allocate more money to appraise the community demand. On the other hand, this can be explain from Downs's (1967) argument. According to him bureaucratic officials pursue their self-own interest, and as Niskanen explains bureaucrats seek to maximize income and perks; thus, in that sense an increase in expenditure can also be expected in this context. This situation is consistent, however, with the findings of Hwang (1987).

The next variable, which is significant in the cluster of governmental variables, is the inter-governmental fiscal relationship, which indicates a positive relationship with the total expenditure in Sri Lanka. This means that central government transfers make a unique contribution in explaining (Beta = .181) the total local expenditure in Sri Lankan local governments. These results are consistent with the findings of Kim (1978) and Hwang (1987). What is important here is that the explanatory power of the intergovernmental relationship is lower than the degree of financial self-reliance in explaining the local expenditures, placing greater emphasis on the power of financial self-reliance in total expenditure decision making. This fact is contradictory to the argument of Hwang (1987).

Although the model suggests a significant relationship between the government service variable and the total expenditure on the basis of Niskanen (1971), in “Bureaucracy and Representative Government,” with an alternative title “The Supply of public services,” government service is insignificant in explaining total local government expenditure in Sri Lanka. Moreover, this is contradictory to the findings of Hwang (1987). Further research on this aspect is needed in order to justify this context. Therefore, this issue was raised during the in-depth interviews and broadly is explained in the next chapter. However, as a whole, the hypothesis on governmental factors was partly fulfilled.

On the basis of the aforementioned discussion, the revised model in explaining the determinants of local government expenditure in Sri Lanka can be explained as follows:

$$\text{TOEXP} = a + .187 (\text{POP}) - .248(\text{HEALTH}) + .188(\text{COMEZ}) \\ + .112(\text{PATCI}) + .276 (\text{FINEC}) + .181 (\text{INTER}) + u$$

wherein,

TOEX=Total Expenditure, POP= Population Density, HEALTH=Health Conditions, COMEZ=Commercialization, PATCI=Participation, FINEC=Financial Capacity, INTER=Intergovernmental Fiscal Relations.

As a whole, the model is powered by more socioeconomic variables, indicating a greater demand-driven aspect in resource allocation. That means that the socioeconomic variables make a differences in total expenditure in general. Even the variable participation partially supports this argument. Thus, the median voter theory and utility maximization assumption are similarly applicable in explaining the overall spending decisions of Sri Lankan local governments in Sri Lanka.

5.4 Study of the Determinants of Specific Expenditures

Explaining functional cost components allows for a better analysis of government expenditures by focusing more on priority needs in improving the quality

of government spending decisions. Therefore, the proceeding analysis was done on the different functional categories of expenditures classified under total expenditure. The purpose of this part of the study is to identify the determinants of specific expenditure functions which are common to all urban local governments, such as expenditures on road rehabilitation and maintenance, solid waste management, public health, physical planning and infrastructure, and other capital expenditures.

5.4.1 Determinants of Road Rehabilitation and Maintenance Expenditure

Local governments by law are responsible for the construction and maintenance of roads, which are preliminary tertiary roads. This has been a popular subject of both municipalities and urban councils in Sri Lanka, but the fact is that most of those tertiary roads are of poor quality. Because of the popularity of the subject and the poor quality of most of the local roads, it is worth identifying the determinants of the decisions on precautions.

Table 5.4 presents the results of the regression analysis among the selected independent and dependant variables, with the coefficient of determination (R^2) at .546. This means, if expressed as a percentage, that the model explains 55% of the variance in the road rehabilitation and maintenance expenditure of the local governments of Sri Lanka.

Table 5.4 Regression Results on Road Rehabilitation and Maintenance Expenditure

Predictor	Standardized Regression Coefficients	T-Value	Significance
Socioeconomic Factors			
POP	.160	1.742	.000
EDU	.163	2.499	.013
HEALTH	.081	0.264	.000
COMEZ	-.031	-.391	.696
Political Factors			
PATCI	.204	1.871	.000
PRTCM	-.058	-.764	.446
CANDI	.260	4.580	.000
Governmental Factors			
GOVSE	-.029	-.656	.513

Table 5.4 (Continued)

Predictor	Standardized Regression Coefficients	T-Value	Significance
FINEC	.167	2.125	.000
INTER	.154	2.865	.000
Constant	2.811		
R²	.546		
Adjusted R²	.527		
F	27.707		

Note: Considered significance level (0.000)

POP=Population Density, EDU=Education, HEALTH=Health Conditions,
 COMEZ=Commercialization, PATCI = Participation, PRTCM= Party
 Competition, CANDI=Candidate Competition, GOVSE=Government Service,
 FINEC=Financial Capacity, INTER = Intergovernmental Fiscal Relations.

5.4.1.1 Socioeconomic Determinants of Road Rehabilitation and Maintenance Expenditure

From the selected socioeconomic factors—population density, education level, health conditions, and commercialization—only population density and the health status of the community are significant in explaining the road rehabilitation and maintenance expenditure of the local governments of Sri Lanka.

Further to the explanation on determinants of total expenditure, the said expenditure decision too acknowledges the importance of population density with a beta value of 0.160. Statistically this factor makes the strongest unique contribution to explaining the road rehabilitation and maintenance expenditure of the urban local governments in Sri Lanka. This does not support the findings of Holcombe and Williams' (2008) research study on municipal governments. Their study suggests:

the possibility of a weakly positive relationship between population density and highway expenditures for the largest cities. Overall, however, highways is the category that shows the strongest negative

relationship between population density and per capita expenditures, although the relationship goes away for the largest cities (Holcombe and Williams, 2008: 367).

Nevertheless, this explanation is contradictory to the Sri Lankan context in terms of the responsibility for local roads, as the Sri Lankan local governments are responsible only for construction and maintenance of roads, which are preliminary tertiary, and not highways, which are the central government's responsibility. However, from the results it can be explained that the councils with higher population density demand the construction of new roads, expand, or even turn, divert or discontinue them (within their power), leading to greater expenditures. The data even support this conjecture.

The other factor that represents the socioeconomic characteristics is the health conditions variable, which also uniquely contributes to explaining (Beta = 0.081) the relevant decision of local authorities: the relationship is positive.

Apart from these two other variables, education level and commercialization are not significant in explaining the policy decision concerned. This result was not expected. In reality, the expenditure on road rehabilitation and maintenance has to be responsive to the level of commercialization in the area, as in accordance with higher economic activities, proper maintenance of roads is vital to maintaining the efficiency of the market. In that sense this situation depicts the inefficiency in resource allocation of the local governments in Sri Lanka. Thus, further systematic explanation is needed as why, apart from the level of education, commercialization does not lead to higher expenditure on the discussed subject. All in all, considering the said explanation on the socioeconomic determinants, the set hypothesis is partially fulfilled.

5.4.1.2 Political Determinants of Road Rehabilitation and Maintenance Expenditure

On political factors—participation, party competition and candidate competition—except party competition, the other two variables are significant in explaining the road rehabilitation and maintenance expenditure of local governments. This depicts the influence of political factors in expenditure decision making in Sri

Lankan local governments. Expenditure decision making for road rehabilitation and maintenance is greatly influenced by local politics and has been a debated political issue, as one can see these issues in political debates when election season is near.

On the people's participation, as explained above under total expenditure, the stronger the people's participation (Beta = .204) in local elections, the higher the demand for better local roads and facilities, which leads to larger budgets for local road maintenance.

The next political factor, candidate competition, constitutes an important role in expenditure decisions. This means that the higher the candidate competition (Beta = .260) in local politics, the better the local road conditions of the community can be expected. This supports the underlying theory of this study, which is described in the third chapter. This means that when the competition is higher and when a candidate has the freedom to select his or her choices, he/she tend to work for the policies that are mostly preferred and demanded by the majority of voters in order to maximize his/her votes in the next election. Therefore, this implies that political factors are important and lead to higher spending in localities in Sri Lanka. Higher candidate competition can also cause problems if they pursue self-motivated objectives. This in other words, may create an imbalance between the demand and supply of public goods. This means that higher political motivation leads to higher spending, resulting increase in a budget deficit of relevant authorities. However, this explanation may be relevant to the Sri Lankan context too, as explained in median voter theory. However, as a whole, the research findings are consistent with the tested hypothesis under the political variables and are mostly fulfilled.

5.4.1.3 Governmental Determinants of Road Rehabilitation and Maintenance Expenditure

Out of the three selected governmental factors—governmental service, financial capacity, and intergovernmental fiscal relations—except the government service variable, other factors are insignificant in explaining the said policy of local governments. As in the explanation of total expenditure, the financial capacity of the local government constitutes the second largest contribution with a positive relationship in explaining (Beta = .167) the relevant spending decision of local governments. This means that councils with higher self-financial capacity tend to allocate more public funds to road rehabilitation and maintenance.

The next variable, intergovernmental fiscal relations, is significant and positive in explaining the tested expenditure. This means that the localities with more central government financial assistance tend to spend more on local road maintenance. More specifically, a one unit increase in central government fiscal transfers results in an increase of .154 units of the expenditure on road rehabilitation and maintenance. However, this cannot be considered as a very large stimulation. It is evident, nonetheless, that financial capacity as a whole has been given an important mark in expenditure decision making, as councils that command adequate funding are better able to pursue their goals. On the basis of the discussion, it is evident that governmental system variables too support the set hypothesis of the study.

In conclusion, concerning road rehabilitation and maintenance expenditure, the revised model in explaining the determinants can be explained as follows:

$$\text{RDMEX} = a + .160 (\text{POP}) + .081 (\text{HEALTH}) + .204 (\text{PATICIP}) + .260 (\text{CANDI}) + .167 (\text{FINEC}) + .154 (\text{INTER}) + u$$

wherein,

RDMEX = Road Rehabilitation and Maintenance Expenditure,
 POP= Population Density, HEALTH=Health Conditions, PATICI
 =Participation, CANDI = Candidate Competition, FINEC=Financial
 Capacity, INTER=Intergovernmental Fiscal Relations.

To summarize, the expenditure on road development and maintenance is similarly responsive to socioeconomic, political, and governmental variables. Thus, the median voter theory and utility maximization assumption are similarly applicable to explaining the road development and maintenance expenditure in the local governments in Sri Lanka. This means that socioeconomic, political, and governmental variables equally make a difference in expenditure allocation for road development and maintenance. Further, in general, there can be seen a balance between demand and supply of expenditure allocation in this context, which is a positive sign for policy implications.

5.4.1.4 Political Determinants of Public Health Expenditure

Voter participation and party competition are significant in explaining the public health expenditure in Sri Lankan local governments, representing beta coefficient values of .081 and 160, respectively. This situation again, as discussed, shadows the median voter theory underlying this study. Further, this theory explains how the voters' individual demands are aggregated through majority rule, voting, to the community level and hypothesizes the method of aggregating individual demands for local public goods and services. In this context the higher the voter participation rate the higher would be the public health care expenses in local governments.

Similar to the explanation of voter participation, party competition is also important in Sri Lankan local councils in health care expenditure decision-making. This is acknowledged from the results of the regression analysis. As explained in Chapter Three, party competition is vital in guaranteeing the efficient working of representative democracies. This is deeply explained by Downs (1957), who says that competition for electoral support will lead the parties to adopt policies that targets the preferences of the median voter. It is evident from the results that the higher the competition among the political parties, the more health care services the community can expect according to Downs, which leads to higher expenditure for health care services. Finally, this information draws a positive conclusion regarding the tested hypothesis under the political factors and it is mostly supported.

5.4.1.5 The Governmental Determinants of Public Health Expenditure

Regarding governmental factors—government service, financial capacity, and intergovernmental relationships—only the intergovernmental relationship variable is significant in the Sri Lankan local government sector. Interestingly, this makes a strong unique contribution in explaining (Beta= 0.124) the local public health expenditures in Sri Lankan local governments. As mentioned continuously in the discussion, this again acknowledges the importance of central governmental financial transfers in expenditure decision making in local governments. On the other hand, as in other expenditure categories, the government service variable is not significant in the local government sector in Sri Lanka. Further, the financial capacity of the council is also not significant in this context, suggesting that those two do not make any significant difference in total local public health care expenditure determination.

Again this was not an expected result, and further clarification is needed in systematic research. Considering the findings, it can again be stated that the tested hypothesis on governmental factors is partially supported.

In view of the results and findings, the revised model in explaining the factors determining the health expenditure policy in Sri Lankan local governments can be written as follows:

$$\text{HLTEX} = a + .181 (\text{POP}) - .388 (\text{EDU}) + .115 (\text{COMEZ}) + .081 (\text{PATICI}) + .160 (\text{PRTCM}) + .124 (\text{INTER}) + u$$

Wherein

HLTEX = Public Health Expenditure, POP= Population Density, EDU = Education Level, COMEZ= Commercialization, PATICI =Participation, PRTCM = Party Competition, INTER=Intergovernmental Fiscal Relations.

In conclusion, it is evident that the underlying theories of this study—median voter theory and utility maximization assumption—support the explanation of the public health expenditure in local governments in Sri Lankan. Therefore it is vital to consider population density, the education level of the people, the commercialization of the area from the socioeconomic variables and people's participation in elections and party competition from the political variables, and the financial transfers from the central government in making expenditure decisions of these localities, as those variables make the differences in expenditure allocation on health services.

5.4.2 The Determinants of Physical Planning and Infrastructure Expenditure

Infrastructural deficiency has been a serious impediment for any area of development. Infrastructure expenditures refer to the disbursement of funds for the construction of various basic public works of the jurisdiction. The subjects/responsibilities of this policy in the Sri Lankan context indicate slight differences and are based on the interest and needs of the councils. In general, however, the subjects under this are the expenses for town planning, markets, lighting of streets and buildings, day care centers, community centers, housing for poor, development of lakes, development

projects, acquisition of vehicles, and other capital investments for the benefit of the general public.

Table 5.5 Regression Results on Physical Planning and Infrastructure Expenditure

Predictor	Standardized Regression Coefficients	T- Value	Significance
Socioeconomic Factors			
POP	.145	1.165	.000
EDU	-.032	-.519	.604
HEATH	.164	3.293	.001
COMEZ	-.337	-4.617	.000
Political Factors			
PATCI	-.378	-5.158	.000
PARTCOM	-.106	-1.507	.133
CANDICOM	-.077	-1.457	.146
Governmental Factors			
GOVSE	.019	.446	.656
FINEC	.208	13.939	.000
INTER	-.444	-8.827	.000
Constant	5.067		
R²	.606		
Adjusted R²	.558		
F	35.316		

Note: Considered significance level (0.000)

PPIEX= Physical Planning and Infrastructure Expenditure POP = Population Density, EDU=Education, HEALTH=Health Conditions, COMEZ=Commercialization, PATCI=Participation, PRTCM= Party Competition CANDI=Candidate Competition, GOVSE=Government Service, FINEC=Financial Capacity, INTER = Intergovernmental Fiscal Relations.

5.4.2.1 Socioeconomic Determinants of Physical Planning and Infrastructure Expenditure

The results depict the significant explanatory power of population and commercialization in explaining the physical planning and infrastructure expenditure in Sri Lankan local governments. In other words, the higher the population density

(Beta=.145), the higher the demand for the local utility services from the relevant jurisdictions. This means that the utility maximization behaviour of the urban community tends to demand more services from their local governments, thus creating more expenditure allocation for relevant authorities. Surprisingly, in terms of the commercialization of the area, this indicates spurious results (Beta=-.337), as the researcher expected a positive relationship between the commercialization of the area and the services of physical planning and infrastructure. According to the results, the higher the commercialization of the area the lower the services expected from relevant utility services. This may be due to the fact of the several different responsibilities included in the main policy. In general, the priorities and price tags are different from one locality to another in this aspect. Therefore, this fact will be broadly explained in the next chapter in the qualitative analysis. As a whole, however, the results suggest the conclusion that socioeconomic factors are important in expenditure decision making in the physical planning and infrastructure responsibilities of local councils. With this it can be concluded that the hypotheses tested on the socioeconomic determinants are mostly accepted.

5.4.2.2 Political Determinants of Physical Planning and Infrastructure Expenditure

Voter participation is significant in explaining the decision-making in physical planning and infrastructure responsibilities of local councils in Sri Lankan local governments, representing a beta coefficient value of -.378. This situation is contradictory to the explanation of the median voter theory underlined in this study. Because this context does not explain the theory - how the voters' individual demands are aggregated through voting at the community level - due to the inverse relationship depicted in the beta value. In this context, the higher the voter participation rate the lower would be the physical planning and infrastructure responsibilities in local governments, which the researcher did not expect. Moreover, this result is contradictory in general to the explanation under total expenditure decisions. This explanation, however, needs further investigation. Because of the fact revealed, the tested hypothesis is not fully fulfilled.

5.4.2.3 Governmental Determinants of Physical Planning and Infrastructure Expenditure

In terms of the governmental factors, as usual, the government service variable is not significant in this context. The governmental factors, however, financial capacity and intergovernmental relationships, are significant in the Sri Lankan local government sector. Interestingly, the financial capacity of the locality makes the strongest unique contribution in explaining (Beta= .208) the physical planning and infrastructure expenditures in Sri Lankan local governments. As mentioned continuously in the discussion, this context again acknowledges the importance of central governmental assistance in expenditure decision making in local governments, but the relationship is strikingly negative. Again this is not an expected result and further clarification is needed in systematic study. Considering the findings, it can again be stated that the tested hypothesis on governmental factors is partly accepted.

In view of the results and findings, the revised model in explaining the factors determining the physical planning and infrastructure expenditures in Sri Lankan local governments can be written as follows:

$$\text{PPIEX} = a + .145 (\text{POP}) - .337 (\text{COMEZ}) - .378 (\text{PATICI}) + .208 (\text{FINEC}) - .444 (\text{INTER}) + u$$

wherein,

PPIEX= Physical Planning and Infrastructure Expenditure, POP= Population Density, COMEZ=Commercialization, PATCI=Participation, FINEC=Financial Capacity, INTER = Intergovernmental Fiscal Relations.

In conclusion, it is evident from the findings that the underlying theory of this study utility maximization assumption supports in explaining the decisions of physical planning and infrastructure expenditures in local governments in Sri Lanka. Therefore, it is vital to consider population density and commercialization of the area from the socioeconomic variables, and people's participation in elections from the political variables, and financial capacity and financial transfers from the central government in making the policy decisions of these localities, as those make a difference in expenditure allocation of the considered local urban councils.

5.4.3 Determinants Other Capital Expenditure.

The other capital outlays of the local governments generally consist of land acquisition and land improvement outlays, building and structure outlays, acquisition of vehicles, water transport vehicles, equipment, furniture, fixtures, acquisition of library books, acquisition of fire services, etc. These services also more or less differ from council to the council in terms of their priorities and interests within the responsibilities of the ordinances.

Table 5.6 Regression Results on Other Capital Expenditure

Predictor	Standardized Regression Coefficients	T- Value	Significance
Socioeconomic Factors			
POP	.113	1.197	.000
EDU	-.079	-1.659	.098
HEATH	.209	2.887	.000
COMEZ	-.201	-3.505	.001
Political Factors			
PATICI	-.211	-3.677	.000
PARTCM	.003	0.669	.000
CANDI	.296	7.118	.000
Governmental Factors			
GOVSE	.016	.485	.628
FINEC	.163	3.582	.000
INTER	.066	1.679	.094
Constant	2.990		
R²	.757		
Adjusted R²	.746		
F	71.578		

Note: Considered significance level (0.000)

POP= Population Density, EDU=Education, HEALTH=Health Conditions,
 COMEZ=Commercialization, PATCI=Participation, PRTCM= Party
 Competition CANDI=Candidate Competition, GOVSE=Government Service,
 FINEC=Financial Capacity, INTER = Intergovernmental Fiscal Relations.

The results of the regression analysis presented in Table 5.8 demonstrate a significant correlation among the selected independent and dependent variables, as the coefficient of determination is at 0.757. This means that the model explains 75% of the variance in the other capital expenditure decisions, which is considered a high explanation. In this regard further explanation can be made on the three selected perspectives as follows.

5.4.3.1 Socioeconomic Determinants of Other Capital Expenditure

Importantly, the socioeconomic variables indicate strong explanatory power in explaining the other capital expenditures in Sri Lankan local governments. Among the selected variables, as usual the population characteristics are important as are the health characteristics of the people. It is worth mentioning that since the subjects included in the policy are unclear, specific explanation is not appropriate in this context. However in general it can be concluded that socioeconomic factors make a significant contribution in explaining the other capital expenditures in Sri Lankan local governments. This means that the considered theories, especially the utility maximization assumption, are relevant to this context. Therefore, it can be concluded that people of highly dense areas demand more services, making a larger budget allocation. This explanation is consistent with the explanation under the constrained maximization models, how the rational behaviour of this community, demand for more public services from their local governments. However, the results suggest the conclusion that socioeconomic factors are more important in expenditure decision making in other capital expenditure decisions. With this it can be concluded that the hypotheses tested on the socioeconomic determinants are mostly accepted.

5.4.3.2 Political Determinants of Other Capital Expenditure

Strikingly, voter participation and party competition, and candidate participation are significant in explaining the other capital expenditure decisions in Sri Lankan local governments, representing beta coefficient values of -.211, .003 and .296, respectively. This situation again, as discussed, shadows the median voter theory underlined, which explains how the voters' individual demands are aggregated through majority rule. In this context, however, the higher the voter participation rate the lower would be the expenses in local governments, which is contradictory to the selected theory. Party competition and candidate competition, however, are important

in this context. As explained in Chapter Three, party competition is vital in guaranteeing the efficient working of representative democracies. This is clearly explained by Downs (1957), who says that competition for the electoral support will lead the parties to adopt policies that target the preferences of the median voter. It is evident from the results that the higher the competition among the political parties, the more services the community can expect, which leads to higher expenditure. However, this may bring, as explained above, positive and negative results to the relevant authorities. Finally, as a whole the discussed information suggests a positive conclusion regarding the tested hypothesis under the political factors and it is mostly supported.

5.4.3.3 Governmental Determinants of Other Capital Expenditure

Regarding governmental factors, only the financial capacity variable was significant in the Sri Lankan local government sector. Interestingly this makes a strong unique contribution in explaining (Beta = 0.163) the other capital expenditures in Sri Lankan local governments. As mentioned in the previous discussion, the explored facts again acknowledges the importance of the financial capacity of the council in expenditure decision making in local governments. Considering the findings, it can again be stated that the tested hypothesis on governmental factors is partially supported.

In view of the findings, the revised model in explaining the factors determining the other capital expenditures in Sri Lankan local governments can be written as follows:

$$\text{OTREX} = a + .113 (\text{POP}) + .209 (\text{HEALTH}) - .211 (\text{PATICI}) + .003 (\text{PRTCM}) + .296 (\text{CANDI}) + .163 (\text{FINEC}) + u$$

wherein,

OTREX = Other Capital Expenditure, POP = Population Density, HEALTH = Health Conditions, PATICI = Participation, PRTCM = Party Competition, CANDI = Candidate Competition, FINEC = Financial Capacity.

In conclusion, it is evident that the underlying theories of this study—median voter theory and utility maximization assumption—support the explanation of the other capital expenditures in the local governments in Sri Lanka. It is vital to

consider population density and the health conditions of people from the socioeconomic variables, people's participation in elections, candidate competition and party competition from the political variables, and the financial capacity of the council from the governmental perspective in making policy decisions of these localities, as those make a differences in the expenditure allocation of local governments in Sri Lanka.

Further, in order to strengthen these findings, the next chapter presents the results of the in-depth interviews and further analysis on the secondary data in order to find policy measures that will the service delivery of councils towards the wellbeing of the local community.

5.5 Chapter Summary

This chapter presented a discussion and the outcome of the quantitative analysis of the proposed models. The results are summarized in the Tables of 5.8 as follows.

Table 5.7 Standardized Regression Coefficients of Socioeconomic, Political, and Governmental Variables for Local Government Expenditures of Sri Lanka

Local Government Expenditure	Socioeconomic Factors			
	POP	EDU	HEALTH	COMEZ
1. Local Government Expenditure in General	.187*	-.015	-.248*	.188*
2. Road Rehabilitation and Maintenance Expenditure	.160*	.081	.281*	-.031
3. Solid Waste Management Expenditure	-.178	-.389*	.077	.203
4. Public Health Expenditure	.181*	-.388*	.169	.115*
5. Physical Planning and Infrastructure Expenditure	.145*	-.032	.164	-.337*
6. Other Capital Expenditure	.113*	-.079	.209*	-.201

Table 5.7 (Continued)

Local Government Expenditure	Political Factors		
	PATCI	PRTCM	CANDI
1. Local Government Expenditure in General	.112*	-.045	-.093
2. Road Rehabilitation and Maintenance Expenditure	.204*	-.058	.260*
3. Solid Waste Management Expenditure	.290	.141	.247*
4. Public Health Expenditure	.081*	.160*	.109
5. Physical Planning and Infrastructure Expenditure	-.378*	-.106	-.077
6. Other Capital Expenditure	-.211*	.003*	.296*

Local Government Expenditure	Governmental Factors				
	GOVSE	FINEC	INTER	R²	Ad:R²
1. Local Government Expenditure in General	.014	.276*	.181*	.647	.631
2. Road Rehabilitation and Maintenance Expenditure	-.029	.167*	.154*	.546	.527
3. Solid Waste Management Expenditure	-.016	.108	.192*	.367	.339
4. Public Health Expenditure	-.014	.144	.124*	.362	.335
5. Physical Planning and Infrastructure Expenditure	.019	.208*	-.444*	.606	.558
6. Other Capital Expenditure	.016	.163*	.066	.757	.746

Note: * Indicate beta weights are significant at the (0.000) level

Finally, revised models representing the key determinants of expenditure policies have also been presented with a discussion of the results.

CHAPTER 6

FURTHER EXAMINATION AND IN-DEPTH INTERVIEWS: FINDINGS

In addition to the quantitative analysis, further analysis is employed to uncover additional information and to better explain the findings of the previous chapter. Thus this chapter intends to supplement the results discussed in the previous chapter. This also helps to explain the specific aspects that have not been adequately explained by the quantitative analysis. In that sense this chapter helps to find policy measures to better provide local services in the country. Furthermore this chapter enables the reader to gain more knowledge on the context of the local government of Sri Lanka and researchers can create policy measures to better provide local services in the country on broader grounds.

On the basis of the above explanation, this chapter covers mainly two areas: the first part presents further findings on the quantitative data following the in-depth interviews to validate the models empirically developed, and further explains the facts explored but not adequately explained in the previous chapter of this research. Moreover, this section aims to identify the extent of people's participation in decision-making at the local level. Therefore this section provides an assessment of policymakers—politicians and government officers—attitudes on expenditure decision-making at the local level following the secondary information.

The second section provides the case studies relevant to this and concludes with a synthesis of the quantitative and qualitative findings.

6.1 Perception of Decision-makers towards Local Government Expenditures

Interviews are important in exploring the respondents' views and experiences on a selected topic. In this study in-depth interviews were conducted to gather information.

In-dept interviewing is a qualitative research technique that involves conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea, programme, or situation....in-depth interviews are useful when you want detailed information about a person's thoughts and behaviours or want to explore new issues in dept. Interviews are often used to provide context to other data (such as outcome data), offering a more complete picture of what happened in the programme and why..... The primary advantage of in-depth interviews is that they provide much more detailed information than what is available through other data collection methods, such as surveys (Boyce and Neale, 2006: 3).

In this research the main objective of conducting the interviews is to identify the perception of decision-makers towards expenditure determination. This helps to evaluate the models identified and also helps to explain more some areas which are not adequately explained by the previous chapter. There are several ways of assessing a model before it is accepted as a theory, such as testing different contexts, different data sets, and using different techniques and on different populations. This study in this regard follows a different data set following the qualitative technique to validate the models identified from the previous chapter.

Further, to identify expenditure determination this section identifies the extent of people's participation in decision-making as implied from the previous findings and several other important facts on probing questions.

6.1.1 Interviews and the Verification of Claims

For the interviews, twenty officials were selected, including local political representatives and senior local governmental officers. Among them were: mayors, deputy mayors, chairmen and council members as political preventatives, and government officials, such as directors from Finance Commission, senior officers at the Ministry of Local Government, and at the local level accountants and secretaries at councils were included. Before the interview, date conformation for the discussion was made via telephone. The interview took twenty to thirty minutes and was

conducted during the period of June to August 2010. In order to conduct the interviews, the random sample method, sometimes referred to as probability sampling, was employed to identify the key local officers in Sri Lanka. This can be seen as a popular method of sampling as it allows a known probability that each elementary unit will be chosen.

6.1.2 Interview Guide

For interview purposes, an interview guide was used, as the questions are the heart of any interview. This guide includes all of the questions and possible probes that were asked during the interview, as this is the roadmap that assists the researcher in gathering information. This also helps to develop a productive relationship with the interviewee. This was a structured interview; thus the interview guide requires a clear topical focus and understanding of the topic researched. This helps the researcher to provide respondents with relevant, meaningful, and appropriate response categories to choose from for each question. Structured interviews are best when the literature in a topical area is highly developed.

In this study the questions were developed on the basis of the empirical findings; they were close-ended questions. These questions were mainly aimed at evaluating the perception of policy-makers toward expenditure decision making. On the wording of questions, they were asked one at a time and were worded clearly. Before the interview, the researcher delivered a ten minute introduction to the interviewee, instructions, and the objective and the context of the subject to make the effort successful. At the interview an audio recorder was used to gather all of the important information and to manage the time allocated, as all of the respondents selected were very important and were very busy with their working schedule. Fortunately, they all agreed to express their views during the interview. Also they happily and freely shared their work experiences, their service to the local community, and their contribution to local policy making.

Since the main aim of this interview was to better explain the models developed as to validate the models explaining the facts not adequately explained in the previous chapter, the interview was centered on a few questions. This also aimed to explore the extent of people's participation in decision making at the local level. In

light of this objective, the following section explores the analysis of the data and information received following the case studies of the in-depth interviews preceding each question.

6.2 Analysis of Data and Information

This part analyses and presents the personal characteristics of the respondents in regard to the primary questions, and then explores the findings from the interviews by questions supporting available secondary information.

6.2.1 Personal Information

Position in the government: Out of 20 respondents, ten political representatives and ten public officers were included in the interview. Among the political representatives, two deputy mayors and eight senior council members were included. From the local government officer group, there were chief accountants at councils, a commissioner, and a secretary at a council and other officers holding senior positions in the central government relevant to this sector.

Service in the Government: All of the respondents had above ten years of active politics and government service.

Educational level: All of the political representatives hold G.C.E.A/L or a similar level of educational qualification, and all of the governments officers are at the graduate level and some with postgraduate qualifications.

Gender: Two were female and the rest comprised eighteen male respondents.

6.2.2 Identification of Determinants of Local Government Expenditure

In identifying the determinants of expenditure, the researcher asked to specify the importance of the major factors that determine expenditure decision making of local governments. In this regard, the researcher explained the relevant dimensions. Identification was done by ranking 1-3 the most important to least factor. The table (6.1) indicates the ranking order of the selected variables obtained from interviewing the relevant officers.

Table 6.1 Rank Orders of Selected Determinants

Respondent No.	Socioeconomic Determinants	Political Determinants	Governmental Determinants
1	1	2	3
2	2	1	3
3	2	1	3
4	2	1	3
5	1	2	3
6	1	3	2
7	3	2	1
8	1	2	3
9	1	2	3
10	1	2	3
11	1	2	3
12	1	2	3
13	1	3	2
14	1	2	3
15	1	2	1
16	3	1	2
17	2	1	3
18	2	1	3
19	2	1	3
20	3	2	1
Total=20	M=1.5	M=1.75	M=2.45

According to Table 6.1, majority respondents agreed that the socioeconomic determinants were important in expenditure decision making (M=1.5) and political determinants (M=1.75). Since the researcher did not specify any expenditure function, this represents the views of the decision-makers towards expenditure in general. When analyzing the mean values, in general results depicted the similar importance of both aspects. These findings are consistent with the empirical findings of total expenditure policy, as most of the socioeconomic variables are significant in the researched context. However, the findings of both methods imply the similar importance of socioeconomic and political determinants in local expenditure policies.

6.2.3 Financial Autonomy

Besides the socioeconomic and political dominant approach depicts in local policy making in Sri Lankan context, the self-financing capacity variable indicates the

highest explanatory power in the researched context, making differences in level of expenditure at the local level. To further validate this aspect, the researcher asked a probing question; judging from their experience, do they agree that financial autonomy is a necessary prerequisite for the successful implementation of public services in Sri Lankan local governments? Strikingly, all of the respondents agreed (100%) that financial autonomy is important in expenditure decision-making as depicted in Table 6.2. This makes for strong policy implication in the Sri Lankan context—that these local bodies should take the necessary steps to further ensure this aspect following the Local Government Policy, which provides an enabling legal and financial environment.

Table 6.2 Is Financial Autonomy—a Necessary Prerequisite for the Successful Implementation of Public Services?

Answer	Frequency	Percent
1 Yes	20	100
2 No	0	0
Total	20	100.0

6.2.4 Significance of Government Service Provision

Although the proposed model for the empirical analysis suggests a significant relationship among between the government service variable and the total expenditure policy on the basis of Niskanen (1971), government service provision is noticeably insignificant in explaining the Sri Lankan context and contradictory to the explanation of Hwang (1987). As suggested in explaining the government service variable in Chapter Five, further research on this aspect is necessary. Therefore the researcher asked another probing question to clarify this point on the qualitative technique and asked the local policy makers whether they thought “government service” was important in determining the expenditures of councils. In this regard only 5% of key decision-makers agreed that government service was important in determining expenditures. The rest expressed similar views on this situation, as presented in the

case studies and in Table 6.3. The common view is due to the politicization of local public service it has have become a neutral factor most of the time in the service provision. This implies that local government service provision should be more strengthened and free from political influences.

Table 6.3 Is Government Service Provision Important?

Answer	Frequency	Percent
1 Yes	1	5
2 No	19	95
Total	20	100.0

6.2.5 What are the Prioritized Services?: Priorities and Price Tags

In order to further explore the empirical findings and to strengthen the models identified, the conducted in-depth interview explains the unexplained aspects of previous research and also further explores the Chapter Five. Therefore, the researcher asked more probing questions to further identify the determinants of expenditure policies and also to identify more the behaviour of functional responsibilities to supplement the previous Chapter Five.

The classification of capital expenditure, as broadly explained in Chapter Four and Five, covers the subjects of physical planning and infrastructure, public health, solid waste management, road rehabilitation and maintenance, and other expenditures. In the Sri Lankan context, the roles that local governments play in providing public services have both similarities in responsibilities but rather substantial differences as service providers. This is evident from the available secondary data (Figure 6.1); thus further research in explaining this situation is vital.

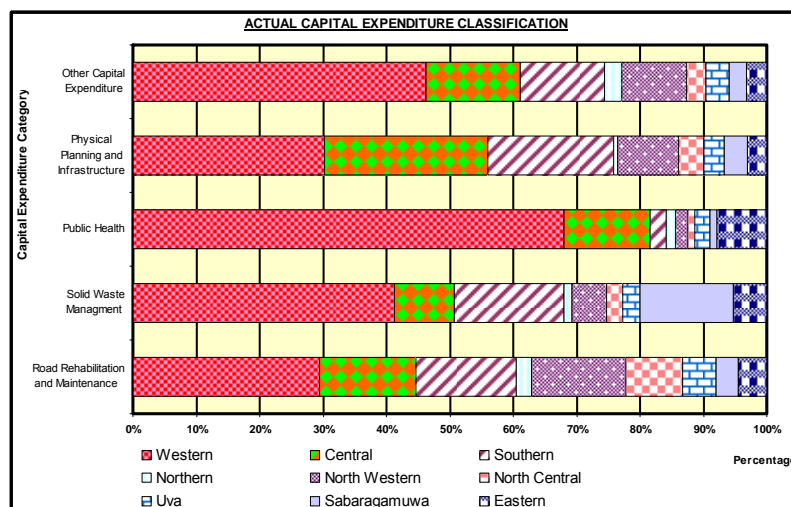


Figure 6.1 Capital Expenditure Classification, 2007.

Source: Ministry of Local Government and Provincial Councils, 2007.

A provincial explanation of local governments on functional responsibilities provides important insight for probing questions for the in-depth interview to explore local level information. These provincial data include, as a whole, the decisions of Municipal Councils, Urban Councils, and Pradeshiya Sabha's of the year 2007. In explaining the context at the macro level, one can notice that the local governments of the western province accounted for the highest capital expenditure percentages throughout all capital expenditure categories during the year concerned, and vast differences even among provinces in terms of selected functional policies. In terms of Public Health programmes, the contribution of the Western Province indicates remarkably a high position. Also it is clear that the percentage of expenditure on road rehabilitation and maintenance and physical planning and infrastructure are higher than in the other provinces considered. These differences among the provinces provide rich ideas for researches interested in this area so that they can find the causes of this situation. One of the causes for these differences among provinces is the massively different environments in which they work. This means, as explained previously, that the councils of the Western Province benefit from being located in the Western Province, as the province pursues higher economic growth than the other provinces. This is further evident from Table 6.4, as the Western Province indicates

the highest provincial GDP of the country. While enjoying the benefits of economic growth, the Councils of this province encounter numerous challengers and issues due to the people's movement from rural areas to Colombo and suburbs, making the areas highly dense. This means that these councils have a lot more customers to provide services for than they did in the past. Thus the demand for local public services has risen; therefore, accordingly the needs of communities expected to fulfill by the councils promoting more public goods. On the other hand, due to the rapid economic growth of the area, they need to provide more services in order to support the development needs of the area or of the entire country. This creates pressure on various development efforts such as new local roads, as a result of continued urbanization and economic growth. Because of this situation, in the considered year the local governments of the Western Province spent more than the other councils. On the other hand, importantly this points out the Western Province's support of the economic growth of the country over the rest of the provinces. However, in this regard one can notice that only the western province exhibit striking results on this subject; other contributors indicate somewhat similar results.

Beside the above explanation, reference Table 6.5 reveals another important fact for policy-makers at the local level. Looking at provincial GDP table 6.4, it is evident that the annual expenditures of provinces are not a significant determinant of the GDP of the province. That is, as a whole, the share of the GDP by each local authority expenditure during the years 2005, 2006, 2007, and 2008 are below the 1% level. This clearly reveals that more than 99% of the GDP of the provinces is determined by both private and central government expenditures. A closer examination, however, reveals a continuous increase in actual expenditure compared to the previous years during the period of concern. In terms of percentage, 2006 indicates an 18% increase in actual expenditure compared to 2005. Compared to 2006 there has been an increase of 23% in the actual expenditure in 2007, where the increase in the year 2008 was 20% compared to 2007. At the same time, the GDP increase in 2005/2006 was 40%, in 2006/2007 it was 22%, and in 2007/2008 23%. In light of this explanation, one can conclude that when the GDP increases, the increase in the actual cost of the provincial councils is low and vice versa. This yet again proves that the annual expenditures of provinces does not depict significant determinants of the GDP of the province.

Table 6.4 Share of the GDP by the Local Authorities' Actual Expenditure

PROVINCE	2005			2006			2007			2008		
	Actual Expenditure	GDP at current cost prices	Percentage (%) to GDP	Actual Expenditure	GDP at current cost prices	Percentage (%) to GDP	Actual Expenditure	GDP at current cost prices	Percentage (%) to GDP	Actual Expenditure	GDP at current cost prices	Percentage (%) to GDP
(1)	(2)	(3)	(4) = (2/3*100)	(5)	(6)	(7) = (5/6*100)	(8)	(9)	(10) = (8/9*100)	(11)	(12)	(13) = (11/12*100)
Western	7,372	1,065,154	0.69	8,530	1,472,060	0.58	9,957	1,732,279	0.57	11,538	2,002,230	0.58
Central	1,601	177,539	0.90	1,266	259,829	0.49	2,758	319,095	0.86	3,177	435,591	0.73
Southern	1,016	187,456	0.54	2,113	292,498	0.72	2,012	374,105	0.54	2,967	468,385	0.63
Northern	1,061	162,302	0.65	795	81,978	0.97	795	104,202	0.76	911	128,369	0.71
North West	1,314	186,487	0.70	1,311	267,102	0.49	1,803	342,653	0.53	2,470	242,439	1.02
North Central	356	90,727	0.39	411	117,848	0.35	705	140,391	0.50	818	440,352	0.19
Uva	686	95,063	0.72	747	125,410	0.60	643	160,747	0.40	722	206,940	0.35
Sab' muwa	592	133,278	0.44	684	178,411	0.38	864	226,103	0.38	941	202,029	0.47
Eastern				678	143,523	0.47	881	177,863	0.50	900	284,231	0.32
Total	13,998	2,098,006	0.67	16,534	2,938,659	0.56	20,418	3,577,438	0.57	24,444	4,410,566	0.55

Source: Ministry of Local Government and Provincial Councils, 2008.

Note: *Northern and Eastern Provincial Councils functioned as the North-East Provincial Council in the year 2005

The above explanation is relevant to all local governments of the country. This research considers, however, only local urban governments. Thus, it is worth explaining how the urban governments prioritize their services, causing identified determinates. The secondary data, however, are available only at the provincial level. Thus, the researcher had to employ the qualitative technique to explore this fact. Thus, in order to make this point clearer, the researcher asked a probing question of the respondents: "How do you rank the following expenditure functions, from most important (1) to least important (5)?"

In answering the question, the majority responded (M=1.55) that public health policy was their priority and then road rehabilitation and maintenance policy. Third place was given to solid waste management policy and fourth and fifth to physical

planning and infrastructure policy and the other capital expenditure policies. The results are given in Table 6.5.

Table 6.5 Decision-Makers' Views on Different Expenditures

Expenditure / Respondent	RD MEX	W A T E X	H L T E X	P P I E X	O T R E X
1	1	3	2	4	5
2	3	2	1	4	5
3	3	2	1	4	5
4	3	2	1	4	5
5	3	2	1	4	5
6	3	2	1	4	5
7	3	2	1	4	5
8	3	1	2	4	5
9	1	3	2	4	5
10	1	3	2	4	5
11	3	1	2	4	5
12	1	3	2	4	5
13	1	3	2	4	5
14	3	2	1	4	5
15	2	1	3	4	5
16	1	3	2	4	5
17	1	3	2	4	5
18	1	3	2	4	5
19	2	3	1	4	5
20	2	3	1	4	5
Total=20	M=2.05	M=2.35	M=1.55	M=4.0	M=5.0

Note: HLTEX = Public Health Expenditure

OTREX = Other Capital Expenditure

PPIEX = Physical Planning and Infrastructure Expenditure

RDMEX = Road Rehabilitation and Maintenance Expenditure

WATEX = Solid Waste Management Expenditure

Both secondary data and the results of the interview indicated that the local urban governments of Sri Lanka are more concerned about the health status of the community; thus they prioritize health services as their responsibility. Of second and third importance is the subject of roads and waste disposal. What is evident from the

key policy-makers' views is that they do not emphasize physical planning or infrastructure development, which excludes road maintenance. This means that the local governments of Sri Lanka are not spending enough on infrastructure.

6.2.6 People's Participation

“Participation” is a broad concept and can be explained from different perspectives. In this study, the term concerns the people's participation in budgetary system in promoting need-based development. This further can be explained from the underlying theories of this study on the utility maximization assumption as well as median voter theory. Specifically, the community tends to demand better services through participation in various ways. As explained in the previous chapters, this can be seen through community groups, NGOs, the private sector, and other relevant organizations.

This aspect is important as one of the main objectives of establishing local authorities is to give the public more opportunities to participate in the decision making process regarding the management and development of their respective council areas. Although there is provision in the local authority laws to appoint committees and to facilitate people's participation, this provision has not been used meaningfully in the past.

Further, the most important inference drawn from the empirical results and the in-depth interviews is the significance of the socioeconomic and political determinants in total expenditure. It is evident from the quantitative analysis that the general model is powered by more socioeconomic variables, indicating a more demand driven aspect in resource allocation. Even the variable participation is partially support by this argument. In this regard it is worth further exploring the extent of the people's participation ensured in these local urban governments. Because of this point, the researcher intends to explore this further, but this section does not provide a broad analysis; rather, the aim is to further explain the quantitative findings and to help to make feasible policy implications. Thus, the researcher administered the probing question: “Do you think that people's participation in the budgetary system is important?,” and if “Yes” was the answer, the following was asked: “What are the programmes/efforts taken in ensuring this aspect?” (e.g. community organizations,

women's organizations, youth organizations, private sector, etc.). These questions intended to explore the extent of community participation ensured in the budgetary system through case studies.

Importantly, all of the respondents interviewed (100%) agreed that ensuring the people's participation was important. Because of this, the researcher added the next question to see how they incorporate peoples' participation to the decision making. However, concerning the second question, not all of the respondents successfully explained how the ongoing programmes ensured people's participation at respective areas systematically. This is evident from the case studies presented in the Appendix D. Of all the respondents, 60% interviewed explained different ways that they ensured community participation. The rest could not explain the systematic ways in which they ensured community participation, except informal ways through political representatives. Most referred in general to community organizations such as the Buddhist foundation, the welfare society, the defense committee of the area, the three-wheel drivers association, the tax payers association, environmental committee, and also through meetings organized at the village level from time to time. Apart from these, one respondent explained how they benefited from the educated people of the area through "Vidvath Kamitu," the associations which the educated people in the area represent. Moreover, one of the efforts was explored that they have taken to ensure the students' participation in their community work through "Resource Centers" at the school level. Adding more to these approaches, the interesting approaches revealed were the Local Development Plan and the Learning-by-doing Approach, which incorporate community participation in expenditure decision making at the local level to support the new challenges encountered. From these questions, the researcher could identify how and to what extent the local urban governments ensured the people's participation. However, the points raised above suggest that the urban governments of Sri Lanka should emphasis more community participation.

Table 6.6 Do You Think People’s Participation in the Budgetary System is Important?

Answer	Frequency	Percent
1 Yes	20	100
2 No	0	0
Total	20	100.0

6.2.7 Expenditure Utilization

Expenditure utilization is another aspect that can be used in further explaining the behavior of expenditure decisions. In this study this aspect was defined in terms of the actual expenditure to annual estimated expenditure. Further explanation on this aspect is important as, in general, relevant to all local governments one can notice a gap between the estimated expenditure and the actual expenditure. Therefore its worth exploring the causes of this gap, as this shows in one way the government’s capacity and the strength of the working force in providing public goods. On the other hand, it indicates community demand for public services and the government’s responsiveness. This demand can be raised through interest groups such as community organizations in the area, as explained in the previous section. In this regard, as explained in Chapter Three, the median voter theory in the public choice approach provides a fine example of the way in which the community maximizes its benefits through political participation and how well the politicians make choices targeting re-election.

In light of this argument, the following section assesses the expenditure utilization of the Sri Lanka Local Government during the period concerned and the progress of the process concerning the time series data.

Table 6.7 Progress of Expenditure Utilization by Province (2005-2008)

PROVINC E	TOTAL EXPENDITURE											
	Annual Estimate	2005 Actual Expenditure	2005 Progress %	Annual Estimate	2006 Actual Expenditure	2006 Progress %	Annual Estimate	2007 Actual Expenditure	2007 Progress %	Annual Estimate	2008 Actual Expenditure	2008 Progress %
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(5)	(6)	(7)	(5)	(6)	(7)
Western	8,016	7,372	92	9,572	8,530	89	13,131	9,957	76	14,093	11,538	82
Central	1,869	1,601	86	1,732	1,266	73	3,153	2,758	87	3,495	3,177	91
Southern	1,185	1,016	86	2,267	2,113	93	2,467	2,012	82	2,876	2,967	103
North Western	1,354	1,061	78	1,310	795	61	1,399	795	57	1,249	911	73
North Western	1,317	1,314	100	1,446	1,311	91	1,924	1,803	94	2,816	2,470	88
Central	437	356	81	655	411	63	736	705	96	815	818	100
Uva	525	686	131	782	747	95	1,007	643	64	915	722	79
Sab' muwa	855	592	69	1,022	684	67	1,263	864	68	1,285	941	73
Eastern				795	678	85	1,109	881	79	1,173	900	77
Total	15,558	13,998	90	19,580	16,534	84	26,189	20,418	78	28,717	24,444	85

Source: Ministry of Local Government and Provincial Councils, 2007 – 2008.

Table 6.8 elaborates on Provincial Councils data and provides a broader understanding of the utilization of the expenditure of local governments. As aforementioned, each Provincial Council consists of Municipalities, Urban Councils, and Pradeshiya Sabha's.

According to Table 6.8, in 2005 the highest expenditure was recorded by the Uva and North-West Provincial Councils, marking progress of 131% and 100%, respectively. This means that in general that the local governments of those provinces have spent more than they planned. Being one of the poorest provinces with high rate of poverty striking people, the governments of Uva Province expected to indicate a higher level of expenditure utilization towards the well-being of the community. This is depicted in the table as well.

On the other hand, at the lowest level, the local governments of Sabaragamuwa Province mark the lowest utilization of expenditure at 69%. The local governments of

these provinces during the year of concern indicated a mismanagement of resources in supplying public goods. This can be due to the influence of several factors: socioeconomic, political, and governmental, as discussed in the literature review. The median voter theory does not seem applicable to this context; if so, the supply of more public goods targeting the 2006 local government elections should have been indicated. Beyond the political factors, this underlines the problems of the service delivery of the bureaucrats of the localities. One of the causes revealed from the in-depth interviews, as explained in the previous sections, is the highly politicized local public service in Sri Lanka. This situation is acknowledged by both the Council members and the officers interviewed. From the local community perspective, this indicates a lack of active community organizations in depicting the utility maximization behavior of the local community. However, from the explanation above, the local governments of this subject explore their capacity and responsibility in expenditure management in providing public services.

On the other hand, the same argument can be applied to the local governments with highest progressive rate. This progressive rate may be explicit on the basis of median voter theory, or as Niskanen (1971) suggests, bureaucrats maximize objectives in terms of the agency's discretionary budget allocation. In this way the bureaucrats will seek to maximize the total budget of the bureaus, given demand and cost conditions subject to constraint.

Besides expenditure utilization at the provincial level, as a whole the year 2005 marks the highest expenditure utilization (90%) of all the years considered. This supports the utility maximization behaviour of the local community and the applicability of median voter theory to this context, supporting the empirical findings in general in the previous chapter on selected councils.

Strikingly, this progress decreased during the year 2006, except in the local governments in the Southern Province and continued to decrease further in 2007 with a sign of recovery in 2008. But as a whole, the progress of actual expenditure against the estimates for the years 2005, 2006, 2007 and 2008 was 90%, 84%, 78%, and 85%, respectively. This explanation is further made clearer from Figure 6.3 on the trend analysis of total expenditures. On the other hand, actual expenditure shows a positive increase of 18% in 2006, 23% in 2007, and 20% in 2008 when comparing with the respective previous years.

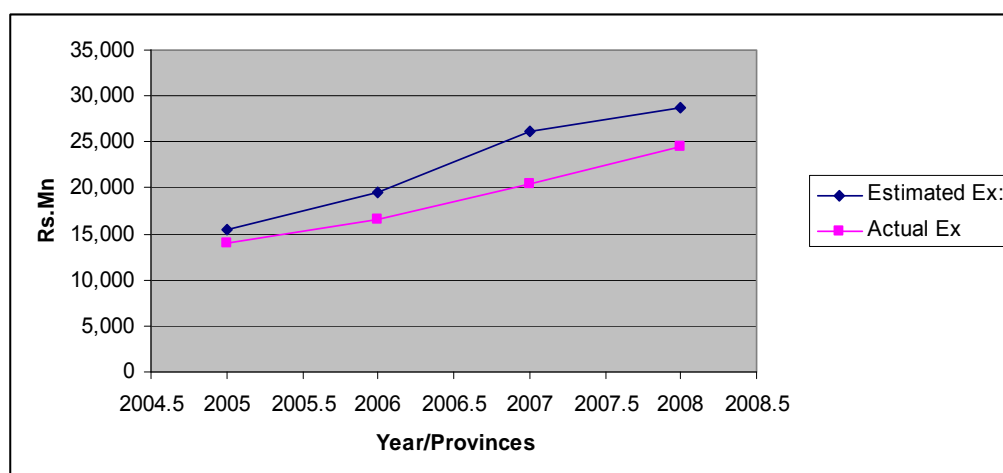


Figure 6.2 Trend of Expenditure (2005- 2008)

The above explanation can be further elaborated on from Figure 6.2 on local council data of 2007. In general, expenditure utilization is lower in the municipalities of all provinces than the rest of the councils during that year. Further, Table 6.8 presents a clear understanding of each councils progress in utilization of expenditure.

Table 6.8 Expenditure Utilization: Province and Local Authority (2007).

Province	MC		UC		PS		Total	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
Western	9,041	6,420	1,474	1,247	2,616	2,290	13,131	9,957
Central	1,211	1,083	258	222	1,684	1,453	3,153	2,758
Southern	489	328	394	279	1,584	1,405	2,467	2,012
Northern	346	229	299	143	754	423	1,399	795
North - Western	321	257	184	160	1,419	1,386	1,924	1,803
North - Central	153	121	-	-	583	584	736	705
Uva	131	75	127	88	749	480	1,007	643
Sabaragamuwa	133	141	188	181	942	542	1,263	864
Eastern	270	193	275	178	564	510	1,109	881
	12,095	8,847	3,199	2,498	10,895	9,073	26,189	20,418

Source: Ministry of Local Government and Provincial Councils, 2007.

As Table 6.10 presents the local governments that are at the lowest level, the Pradeshiya Sabha's indicate a high degree of efficiency, with higher percentage (83%) progress compared to the other Local Authorities relevant to this study.

Moreover, the actual progress in all types of Local Authorities is higher than 70%, a positive signal, which indicates a favourable trend in the progress of the expenditure utilization of the Local governments as a whole in Sri Lanka.

Table 6.9 Expenditure Utilization of Local Authorities (2007)

Local Authority	Est. Expenditure		Act. Expenditure		Progress (%)
	Amount	%	Amount	%	
Municipal Councils	12,094	46	8,847	43	73
Urban Councils	3,198	12	2,500	12	78
Pradeshiya Sabha	10,893	42	9,073	44	83
	26,185	100	20,420	100	78

Source: Ministry of Local Government and Provincial Councils, 2007.

From the above explanation, it is evident in terms of expenditure utilization that there is an increasing favourable trend, regardless of provincial differences, during the four years concerned. The year 2005 indicates the highest utilization of expenditure in all provinces over the other three years considered. As a whole, from all the local governments Pradeshiya Sabha indicate the highest level of efficiency in expenditure utilization, with a higher percentage of progress compared to the other Local Authorities in Sri Lanka. This again provides a probing question to the researcher concerning the causes of these differences relevant to the urban councils that this research explains. Therefore, the researcher once more administered the question to catch the perceptions of decision-makers on this aspect. The question administered was: "According to your understanding, why is the actual expenditure lower than the estimated expenditure in most of the councils?", and given the choices as lower demand from people for local government services, less motivation of

politicians, problems of public officers, and other, as given in Table 6.11. The results revealed that 30% referred, function at budget deficits thus those considered under the “other” category. Only 10% agreed that the fact of less motivated politicians. The rest also revealed the reasons under the category of other reasons, such as over-estimation of proposed work (20%) and late receipt of expected revenue (45%). None of them stressed the point of lower demand from people for local government services and the problems of public officers directly. The researcher assumes, however, that the revenue did not transfer to the local councils on time due to the problems of public officers handling this matter. Thus, 45% of the respondents indirectly supported the fact of the failure in public service delivery.

Table 6.10 Why is the Actual Expenditure Lower than the Estimated Expenditure in Most of the Councils?

	Answer	Frequency	Percent
1	Lower demand from people for local government services	0	0
2	Less motivation on the part of politicians	2	10
3	Problems of public officers	0	0
4	Other	18	90
Total		20	100.0

In light of the explanation on the trends of the expenditure, the secondary data assessed showed mixed results, varying according to the provinces and local councils. The time series data, however, show an increasing favourable trend regardless of provincial differences during the four years concerned. In terms of the subject expenditure utilization, respondents participated in the interview indirectly implied the problems encountered in the public officers handle this matter. Considering the entire explanation on this aspect, it can be concluded that good financial management in local urban governments is crucial for successful service delivery.

6.3 Case Studies: Perception of Decision-Makers Towards Expenditures

The information received from the interviews was extensively used in this chapter. Those cases examined were briefed in a similar format only on the relevant facts of this research. In order to assure the confidentiality of the respondents, the names and their representative organizations were not stated. For further information on the views of the policy-makers, all of the case studies are attached in Appendix D.

6.4 Chapter Summary

In addition to the quantitative analysis, further analysis was employed to uncover additional information and to better explain the findings of the previous chapter. The findings from the in-depth interviews imply the similar importance of socioeconomic and political determinants in local expenditures, supporting the empirical findings. Strikingly, all of the respondents agreed that financial autonomy was important in expenditure decision making. This further strengthened the finding of the previous chapter. The respondents implied that local government service provision should be more strengthened. This again strengthened the research findings of the empirical study, as revealed the local government service provision is a not an important determinant in expenditure decision making in the local councils of Sri Lanka. On the other hand, it was revealed that the local governments of Sri Lanka are not spending enough on infrastructure. The discussion suggested that the urban governments of Sri Lanka should further ensure community participation, supporting the findings of the quantitative study. Finally, this analysis concludes that good financial management in local urban governments is crucial in the success of service delivery.

CHAPTER 7

SUMMARY, CONCLUSIONS, RESEARCH IMPLICATIONS, AND RECOMMENDATIONS

The final chapter consists of three sections: summary and conclusions, research implications, and policy recommendations, and mainly provides an overview of the entire study.

7.1 Summary and Conclusions: Quantitative Analysis

By now one can experience and acknowledge the explanation of the truism in the opening paragraph—that “Public expenditure analysis is inherently intricate...because the objectives pursued, the institutions involved, and the fiscal instruments used in the public expenditure process are many and often conflicting” (Sahni, 1977: 3).

It is appropriate at this point to remember the objective of this research, as such: to study the major determinants, trends, and differences in the level of local government expenditures in Sri Lanka and to explain the differences in the level of local government expenditures by identifying their determinants. Finally, to propose policy measures based on the models towards promoting the welfare and comfort of citizens at the local level. By now, except introducing the policy measures, the above first two objectives are fulfilled.

In order to accomplish the main objectives of this study, a conceptual model was developed through a comprehensive literature review. This includes the main theories underlined, the median voter theory and the utility maximization assumption, in the context of the public choice approach to determinant studies. Moreover, empirical studies of relevant theories were reviewed. Further, the proposed model was built upon the idea of the general approach to expenditure research. After that, the

studies on broadly-identified dimensions were also reviewed, particularly the studies on the socioeconomic approach, the political approach, correctional studies and studies on the local context.

Based on the models, three major hypotheses were derived: the socioeconomic factors, political factors, and governmental factors that make differences in the level of local government expenditures in Sri Lanka. These hypotheses were further extended on ten explanatory variables and five expenditure classifications were considered.

In terms of the research design, the dependant variable in this research was considered as local government expenditures and the independent variables stemmed from socio economic characteristics, political characteristics, and governmental characteristics and were further elaborated as population density, health, education, industrialization in the socioeconomic aspect. The political perspective concerns the concepts of political participation, party competition, and candidate competition, while the governmental characteristics are depicted in the variables of government services, the financial capacity of the bureau, and inter-governmental relationships.

In this study, data on the municipalities and urban Councils are considered for the year 2006. The consideration of this year is mainly based on the election data of local governments. In essence, all of the councils of 2006 relevant to the 2006 local government elections were considered for a total of 54 councils. Relevant to this study, secondary data is were considered as the major source of information. Relevant to local government expenditures, the data were mainly collected from the Monitoring Division of the Ministry of Provincial Councils and Local Government, Sri Lanka. Political data were taken from the Department of Elections, Sri Lanka relevant to the 2006 election results. In identifying the determinants of local government expenditure in Sri Lanka and their relative importance, further to quantitative analysis and qualitative analysis were done. In terms of the quantitative analysis, multiple regression analysis was conducted. The qualitative technique followed the in-depth interviews, supporting the secondary data.

The research findings are discussed regarding five expenditure classifications, including the total expenditure policy in general. The total expenditure in the revised model in explaining the determinants of local government expenditure in Sri Lanka can be explained as follows:

$$\text{TOEXP} = a + .187 (\text{POP}) - .248(\text{HEALTH}) + .188(\text{COMEZ}) \\ + .112(\text{PATCI}) + .276 (\text{FINEC}) + .181 (\text{INTER}) + u$$

wherein,

TOEX=Total Expenditure, POP= Population Density, HEALTH=Health Conditions, COMEZ=Commercialization, PATCI=Participation, FINEC=Financial Capacity, INTER=Intergovernmental Fiscal Relations.

As a whole, the model is powered by more socioeconomic variables, indicating a greater demand driven aspect in resource allocation. Even the variable participation is partially support by this argument. Thus, the median voter theory and utility maximization assumption are similarly applicable in explaining the overall spending decisions of Sri Lankan local governments in Sri Lanka.

Secondly, Road rehabilitation and maintenance expenditure, and the revised model in explaining the determinants, can be explained as follows:

$$\text{RDMEX} = a + .160 (\text{POP}) + .081(\text{HEALTH}) + .204 (\text{PATICIP}) \\ + .260 (\text{CANDI}) + .167 (\text{FINECAP}) + .154 (\text{INTER}) + u$$

wherein,

RDMEX=Road Rehabilitation and Maintenance Expenditure, POP= Population Density, HEALTH=Health Conditions, PATICI = Participation, CANDI=Candidate Competition, FINEC=Financial Capacity, INTER=Intergovernmental Fiscal Relations.

Expenditure on road development and maintenance is similarly responsive to the socioeconomic, political, and governmental variables. Thus the median voter theory and utility maximization assumption are similarly applicable in explaining the road development and maintenance policy in local governments in Sri Lanka. Further, in general there can be seen a balance between demand and supply of expenditure allocation in this context, which is a positive sign for policy implications.

Third, solid waste management expenditure and the results of the regression analysis of the determinants of solid waste management expenditure can be written in the revised model as follows:

$$\text{WATEX} = a - .389 (\text{EDU}) + .247(\text{CANDI}) + .192 (\text{INTER}) + u$$

wherein,

WATEX=Solid Waste Management Expenditure, CANDI=Candidate Competition, INTER=Intergovernmental Fiscal Relations.

In this regard only few selected variables were considered, such as level of education, candidate competition, and intergovernmental fiscal relations responsive to the solid waste management expenditure of local governments Sri Lanka, implying the significance of these in expenditure decision making.

Fourth, public health expenditure and the results and findings of the revised model in explaining the factors determining health expenditure policy in Sri Lankan local governments can be written as follows:

$$\text{HLTEX} = a + .181 (\text{POP}) - .388 (\text{EDU}) + .115 (\text{COMEZ}) + .081 (\text{PATICI}) + .160 (\text{PRTCM}) + .124(\text{INTER}) + e$$

wherein,

HLTEX = Public Health Expenditure, POP= Population Density, EDU = Education Level, COMEZ= Commercialization, PATICI =Participation, PRTCM = Party Competition, INTER=Intergovernmental Fiscal Relations.

From the results it is evident that the underlying theories of this study—median voter theory and utility maximization assumption—support the explanation of public health expenditure in local governments in Sri Lanka. It is vital to consider population density, the education level of people, and commercialization of the area from the socioeconomic variables and people's participation in elections, party competition from the political variables, and the financial transfers from the central government in the making policy decisions in these localities.

Fifth is physical planning and infrastructure expenditure, and the view of the results and findings of the revised model in explaining the factors determining the physical planning and infrastructure expenditure in Sri Lankan local governments can be written as follows:

$$\text{PPIEX} = a + .145 (\text{POP}) - .337 (\text{COMEZ}) - .378 (\text{PATICI}) + .208 (\text{INEC}) - .444 (\text{INTER}) + u$$

wherein,

PPIEX= Physical Planning and Infrastructure Expenditure, POP= Population Density, COMEZ=Commercialization, PATCI=Participation, INEC=Financial Capacity, INTER = Intergovernmental Fiscal Relations

It is evident that the underline theory of this study utility maximization assumption support in explaining physical planning and infrastructure expenditures policy in local governments in Sri Lankan.

Finally is the other capital expenditures and the revised model in explaining the factors determining the other capital expenditures in Sri Lankan local governments can be written as follows;

$$\text{OTREX} = a + .113 (\text{POP}) + .209 (\text{HEATH}) - .211 (\text{PATICI}) + .003 (\text{PRTCM}) + .296 (\text{CANDI}) + .163 (\text{FINE}) + u$$

wherein,

OTREX =Other Capital Expenditures, POP= Population Density, HEALTH=Health Conditions, PATICI =Participation, PRTCM = Party Competition, CANDI=Candidate Competition, INEC= Financial Capacity.

The above results suggest that the underlying theories of this study— median voter theory and the utility maximization assumption—support the explanation of the other capital expenditures in local governments in Sri Lanka.

7.2 Summary and Conclusions: Qualitative Analysis

In addition to the quantitative analysis, further analysis was employed using secondary data and in-depth interviews to uncover additional information and to better explain the findings of Chapter Five. Findings from the in-depth interviews

imply the similar importance of socioeconomic and political determinants in local expenditures. Strikingly, all of the respondents agreed that financial autonomy is important in expenditure decision making. The respondents implied that local government service provision should be more strengthened. On the other hand, it was revealed that the local governments of Sri Lanka are not spending enough on infrastructure. The discussion suggested that the urban governments of Sri Lanka should emphasize community participation to a greater extent. Finally, the analysis concludes that good financial management in local urban governments is crucial in the success of service delivery.

7.3 Important Research Implications

Local governments are meant to ensure the comfort and wellbeing of the community of the relevant jurisdiction. In that sense, they provide several public services to the community. On the basis of conducted research, on this aspect several important determinants of these services are found.

This research study is mainly focused on three perspectives, as explained: socioeconomic, political and, governmental aspects. Within those contexts, the study was conducted to explore the relationship between the identified determinants and functional classification of total expenditure policies. In that sense, some relationships were found to be somewhat spurious and need further research. Thus, those were not considered as important research implications of this study. However, the following are the explored research implications derived and considered important in policy making.

7.3.1 Total Expenditure in General

1) Population density causes differences in the local government expenditure in general.

The research findings implied that population density makes a significant difference in total expenditure in general. The positive relationship means that the higher the demand of the people, the higher will be the local expenditure and more government services would be expected.

2) Commercialization makes a unique contribution to explaining the total local expenditure in Sri Lanka.

This means higher local economic activities lead to high production due to the demand from the consumers. This makes the necessity of more places declared as local markets cater to the local supply and the demand. This creates more responsibility for the local governments in terms of establishing and maintaining public markets for the needs of the inhabitants.

3) The health characteristics of the community are significant in explaining the total expenditure policy.

Promoting public health has become one of the local government's priorities. This is because the responsibility of local governments is to provide conveniences and wellbeing to the community. The relationship in this context, however, is negative. This means that the higher the health conditions of the community, the lower the budget allocation for health services and accordingly lower expenditure.

4) Participation of the people is important in local government expenditure policy in general.

The coefficient value of participation makes the third strongest unique contribution in explaining the total local government expenditure in Sri Lanka. This says that the higher voter participation in local elections, the higher total local government expenditure will be. This strongly explains the underlying theory—median voter theory—of voters, as voters tend to select their representatives with their preferred policy choices; thus candidates select their policy choices mostly preferred and demanded by the majority voters in order to maximize their votes in the next election. However, this leads to more services incorporating a larger budget as participation of the community exerts pressures in various ways for policy measures favourable to them.

5) Financing capacity exerts a significant influence on local government expenditure policy in general.

In explaining total local government policy, the degree of the financial self-reliance of locality indicates the significant highest contribution to the model (Beta =.276). In other words, the higher the capacity of revenue generation from own

sources, the larger the volume of services the community can expect. In this regard the financing capacity of the local government is measured in terms of the local revenue generation from own sources and measured by the degree of financial self-reliance of the relevant authority.

6) Inter-governmental fiscal relationship provides significant explanatory power in the local government total expenditure decisions.

The empirical results suggest that inter-governmental fiscal relationship has a positive relationship with the total expenditure in Sri Lanka. This means that central government transfers make a unique contribution to explaining (Beta = .181) the total local expenditure in Sri Lankan local governments.

7.3.2 Road Rehabilitation and Maintenance Expenditure

1) The higher the population density, the higher the demand for rural roads and road maintenance.

Statistically, this factor makes the strongest unique contribution in explaining the road rehabilitation and maintenance expenditure of urban local governments in Sri Lanka. From the results it can be explained that the community of the councils with higher population density tend to demand for the construction of new roads, or proper maintenance of local roads, leading to greater expenditures to local authorities.

2) People's participation in local elections makes more expenditure in road rehabilitation and maintenance.

The research findings implies that that the people's participation (Beta = .204) in local elections is important in expenditure decision making at the local level. That means that higher the participation, the higher the demand for better local roads and facilities, which leads to larger budgets for local road maintenance.

3) Candidate's competition significantly determines road rehabilitation and maintenance at the local level.

This means that higher the candidate competition (Beta = .260) in local politics, the better the local road conditions that the community can expect. This supports the underlying theory of this study, which is described in the Third Chapter.

This means that when competition is higher and when a candidate has freedom to select his or her policy choices, he or she tends to work for the policies that are mostly preferred and demanded by the majority of voters in order to maximize their votes in the next election.

4) The financial capacity of the councils is an important determinant of road rehabilitation and maintenance expenditure.

As in the explanation of total expenditure decisions, the financial capacity of the local governments makes the second largest contribution, with a positive relationship, to explaining local road rehabilitation and maintenance policy. This means that councils with higher self-financial capacity tend to allocate more public funds to road rehabilitation and maintenance.

5) Localities with more central government financial assistance tend to spend more on local road maintenance.

The variable intergovernmental fiscal relations are significant and positive in explaining the tested policy. However, it is evident that financial capacity as a whole has been given an important mark in expenditure decision making, as councils that command adequate funding are better able to pursue their goals.

7.3.3 Solid Waste Management Expenditure

1) Educational characteristics are a determinant factor of solid waste management expenditure.

According to the results, the higher the level of education of the community, the lower the expenditure on solid waste management will be. This result can be explained from different perspectives, as one can assume that if the community pursues a knowledge on proper waste management strategies through awareness programmes on solid waste management, they tend to follow proper waste disposal strategies in their home gardens and as a result heaps of garbage will not be collected on either side of the road. This leads to lower demand for public services and to lower expenditure on waste management.

2) Candidate competition is significant in waste management expenditure decision making.

This means that when competition is higher, candidates select their policy choices that are mostly preferred and demanded by the majority of voters in order to maximize their votes in the next election. In Sri Lankan local governments, waste management is a popular subject and it is common to see residents complaining about the inefficiency of their councils on this subject. Due to the importance of this subject, it seems to mushroom in local political debates closer to elections. However, the findings imply that the higher the candidate competition in local politics, the better service in waste management the community can expect.

3) Localities that receive financial assistance from the central government tend to allocate more expenditure for solid waste management purposes.

The results indicate that the intergovernmental fiscal relationship variable is significant and has the largest effect in explaining the solid waste management expenditure in Sri Lanka. It is worth noting that most of the urban councils get assistance from several non-governmental organizations in this task, such as UNDP/UN and SEVANATHA, which actively participate in this work with the community.

7.3.4 Public Health Expenditure

1) People from highly dense areas demand more health services, creating larger budget allocation for health services.

This is in fact true in the Sri Lankan context, as urban areas are vulnerable to mosquito-borne diseases and have become the foremost urban health problem. As reported, “Dengue and other mosquito-borne diseases have become a major urban health problem in urban areas in Sri Lanka, due to the prevalence of breeding grounds, and due to improper collection and disposal of garbage” (ADB, 2004:10). Due to this fact, most of the urban councils have designed and supplied several health services with parallel activities—school cleanup programs, media programs, and awareness building marches—in those areas which lead to an increase in health service expenditure.

2) The higher the level of education of the community, the fewer health services they demand.

This research implication can be seen from several perspectives. As explained under waste management expenditure, if the people are aware of preventive

measures of Dengue and other mosquito-borne diseases, and they follow those properly, it may lead to lower expenditure allocation in such health services.

3) The higher the commercialization of the area, the higher the demand for public health service.

Increased commercialization leads to an increase in the number of public and private markets. On the one hand this depicts the increase in the production of the area; on the other hand, this leads to several social problems, such as environmental pollution, which causes health problems in the area, thus leading to mere expenditure on health services.

7.3.5 Physical Planning and Infrastructure Expenditure

1) The higher the population density, the higher the demand for local utility services.

This means that the utility maximization behaviour of the urban community tends to demand more services from their local governments, creating more expenditure allocation for relevant authorities.

2) The financial capacity of the locality makes the strongest unique contribution to explaining physical planning and infrastructure expenditures.

This means that councils with higher self-financial capacity tend to allocate more public funds for local utility services.

3) Central governmental financial transfers indicate a strikingly negative relationship.

The variable intergovernmental fiscal relations are significant but negative in explaining the tested policy. However, it is evident that financial capacity as a whole has given been an important mark in expenditure decision making, as councils that command adequate funding are better able to pursue their goals.

7.3.6 Other Capital Expenditure

1) Population characteristics are important in local utility services.

Therefore, it can be concluded that people of highly dense areas demand more utility services, making for a larger budget allocation. This is due to the fact as explained under the constrained maximization models, how the rational

behaviour of this community, demand for more public services from their local governments leading to more expenditure.

2) Party competition is significant in explaining the other capital expenditure in Sri Lankan local governments.

This means that party competition is an important determinant in expenditure allocation for Sri Lankan local Councils. It is worth noting that party competition is vital in guaranteeing the efficient working of representative democracies.

3) Candidate competition is important in the Sri Lankan local context.

As Downs (1957) explains, the competition for electoral support will lead the parties to adopting policies that targets the preferences of the median voter. It is evident from the results that the higher the competition among the political parties the more services the community can expect, which lead to higher expenditure.

7.3.7 Research Implications of In-Depth Interviews

The findings of the in-depth interviews imply the similar importance of socioeconomic and political determinants in local expenditure policies. They further suggest that financial autonomy is important in expenditure decision making. The interviews revealed that local government service provision is not important in local decision making. The results of the interviews indicated that local urban governments of Sri Lanka prioritize health services as their responsibility. Of second and third importance is the subject of roads and waste disposal. The discussion suggested that urban governments of Sri Lanka ensure community participation. Finally, on expenditure utilization, these vary according to different levels of governments.

7.4 Policy Recommendations

7.4.1 Total Expenditure in General

Besides testing the socioeconomic and political dichotomy of the determinants research, this study focuses on the importance of governmental variables in the expenditure policies in local governments. In testing this model in the Sri Lankan context, the results show equal importance in all aspects in general. Thus, the first premise is that local government expenditures according to the mixture of

socioeconomic, political and governmental factors. This can further be explained broadly as follows.

The research implications discussed from number 1 to 4 indicate that policy-makers at the local level should be concerned about socioeconomic factors in expenditure decision making. In this regard, special consideration should be paid on the population size, commercialization of the area, and the health characteristics of the people. This complies with the theory that suggests the utility maximization behaviour of this urban community or as economists explain, the rational behaviour of consumers that make higher demands for their preferences of local public services, which leads to higher spending in local governments. Thus, this behaviour should be an important consideration in policy making.

Next, the findings on commercialization suggest important policy implications as, on the one hand it indicates government responsiveness to the demand-side theories as such to promote citizens' preferences; on the other hand, as Ponlapat argues, "government is not simply an instrument of a society but plays an important role in shaping public policy and public spending to serve its own interest" (Ponlapat Buracom, 2007: 5). Thus expansion of public markets brings local governments economic benefits. Therefore this can be used as a tool in financing the local governments. In that sense, increasing the number of local markets will support local governments in their self-autonomy. Accordingly, in the long run, facilitation and regulation of markets contribute to the economic development of the country. In that sense this implication brings local policy makers' attention to the power exists in the hands of Municipal Councils and Urban Councils to facilitate or regulate economic activities in their jurisdiction towards the country's economic development.

The best way to evaluate the level of democracy in the country is by looking at people's participation in government activities. That means that people's participation in elections provides an important suggestion for local policy making, as overall expenditure is characterized by the underlying theory of decision-making behaviors—median voter theory—of voters/politicians. This implies the motivation of the community to take part in administrative and development activities at the local level. Moreover, the entire model is powered more by socioeconomic variables, indicating a greater demand driven aspect in resource allocation. Even the variable participation is

partially supported by this argument. This positive aspect can be used to further strengthen the “People’s Governance,” as explained under section 4.1.1 of the National Policy on Local Governance.

Further, the financial capacity of the locality is the most dominant factor in expenditure decision making in Sri Lanka. In other words the local government’s tax effort is significant. Similarly, expenditure policy also is dependent upon the financial transfers from the central government. This again provides consequential policy implications for 4.1.4.5 of the National Policy on Local Governance, as stated:

...to recognize local governments as autonomous bodies, accountable to their people and strengthen them by giving adequate manpower, financial and decision-making powers (Ministry of Finance and Planning, Department of National Planning website quoted in National Policy on Local Governance: 4.1.4.5).

Considering the research implications of 1- 4, public participation further should be a tool in expenditure allocation in Sri Lankan localities. In terms of creating autonomous bodies, exercising bottom-up strategies is vital. Therefore the participatory budgetary system could be an effective tool in expenditure decision making. Thus, as stated in the National Policy on Local Governance under section 4.5.2, the participatory budgetary system could be practiced. Moreover, the findings support a favorable environment in which to practice several policy measures in the National Policy on Local Governance through participation, such as participation of women and of marginalized groups (4.4.2), and public-private partnerships (4.5.3) for better service to the public. This will facilitate the promotion of needs-based development.

The significant explanatory power of the median voter theory in the Sri Lankan context brings positive benefits to the local community in terms of resource allocation. However, this contrarily can cause negative effects if not properly balanced with expenditure decisions. This means that over-motivated political decisions can lead to financial problems, such as increases in the budget deficit of the respective organizations. Thus, this situation has to be strongly considered in policy

decisions. In this regard, fiscal rules would be an important tool in managing a balanced budget by the respective authorities.

Various fiscal rules can constrain the government behaviour. Most rules target the fiscal deficit, some public debt. Most popular and, in a way the simplest, fiscal rule is the balanced-budget rule. This rule would prohibit (in normal times) the running of fiscal deficits regardless of cyclical developments...aforementioned rules address the problem of disequilibrium in the fiscal accounts—that is the difference between public spending and public revenue, not the size of the public sector (Tenzi and Schukneht, 2000: 150-151).

The above explanation draws on Tenzi and Schukneht's ideas on central government. This suggestion, however, maybe applicable to local governments as well to expenditure decisions in managing a balanced budget over strong political participation. In this regard worth to consider the highly politicized local public service in Sri Lanka. Therefore, as Tenzi and Schukneht suggest, monitoring and enforcement would be a successful tool in balancing the expenditure decisions in Sri Lanka. In this regard, apart from the national agencies, local-level independent monitoring committees at the individual level on this subject will bring positive results to the country. Moreover, the service of national agencies on this subject also has to be strengthened.

In addition, the research implications provide fine inputs for the problems underlying the conflicts prevailing in the past. This is because in general ethnic problems and their solutions always have been linked with people's participation in government. This again needs to come to the attention of policy makers in order to overcome the problems still are not solved and have to be addressed in terms of fiscal allocation related to the conflicts had in the northern part of the country.

Further, considering the fifth and sixth research implications, local government's tax effort and dependency upon the financial transfers from the central government, following policy recommendations, can be made as such; due to the strength of the local tax effort, which explains the total expenditure policy, the traditional revenue

base of the local authorities should be further strengthened in order to overcome the dependency of the central government.

To summarize, the socioeconomic, political, and governmental aspects should be given similar importance in local government expenditure policy making in general. But this should not undervalue the differences in the needs and constraints of each service area included in the total policy, as those impact the said three perspectives.

7.4.2 Road Rehabilitation and Maintenance Expenditure

Expenditure on road development and maintenance is similarly responsive to socioeconomic, political, and governmental variables. Research implications similarly indicate the applicability of the median voter theory and utility maximization assumption in explaining the road development and maintenance expenditure in local governments in Sri Lanka. Further, in general there can be seen a balance between socioeconomic, political, and governmental variables in expenditure decisions, which is a positive sign for policy implications. Policy makers of this aspect should consider this situation in their decisions.

7.4.3 Solid Waste Management Expenditure

Due to the fact of high population density, a large quantity of solid waste generated both by the households and commercial establishments in highly-commercialized areas has become a problem of local governments today. As a solution to the garbage problem that currently exists, urban governments take several measures in accordance with their responsibilities to overcome the problem, resulting health hazards in maintaining higher standards of the environment in the area. In this effort this study provides several research implications, together with useful policy measures. In this context the level of education of the community tends to lower the expenditure on solid waste management. This provides a significant suggestion for awareness programs on waste management that can bring about efficient allocation of public expenditure. Apart from this, in general, local policy makers should give equal importance to the three aspects discussed in this research.

7.4.4 Public Health Expenditure

Among the functional responsibilities, public health expenditure is vital in ensuring the sustainable and habitable environment in the area. In the Sri Lankan context, public health expenditure is characterized by several socioeconomic determinants, together with political factors. Due to the importance of more demand-driven factors, public health awareness programmes would be a useful tool in practice to ensure the higher standards of the environment of those localities. In this regard awareness programmes on communal diseases would be a useful effort in ensuring a habitable environment for the local community.

7.4.5 Physical Planning and Infrastructure Expenditure

Infrastructural deficiency has been a serious impediment for any area for development. In this regard the consideration of this aspect is very important. What is revealed from the study is that the utility maximization behaviour of the urban community tends to demand more services from their local governments, creating more expenditure allocation of relevant authorities. Even the in-depth interviews conducted revealed that local governments do not spend much on infrastructure. In that sense this demand for infrastructure facilities should be considered positively in expenditure decision making. This may lead to the consideration of town planning, lighting of streets and buildings, day care centers, community centers, housing for poor, and development of lakes. These considerations would not be common to all the governments and thus should underlie the needs-based approach.

7.4.6 Other Capital Expenditure

Subjects included in the other capital expenditures varies according to the councils. However, the socioeconomic variables indicate strong explanatory power in explaining the other capital expenditures in Sri Lankan local governments. Therefore policy makers should more responsive to the people's demands in expenditure decision making.

7.5 Policy Recommendations: Qualitative Analysis followed by Secondary Information

Since the qualitative analysis supplement the quantitative results, it supports and strengthens the previous policy recommendations made. Specifically it strengthens the recommendations, considering the socioeconomic and political determinants in local expenditure policies.

Further, regarding recommendations relevant to the financial autonomy of the councils, it is important to strengthen the traditional revenue base of local authorities in order to strengthen and overcome the financial constraints for the overall benefit of the councils, as local tax efforts provide significant implications for expenditure determination. Further, regarding local public service delivery, steps should be taken to overcome the problem of the politicization of local public service.

What is evident from the in-depth interviews is that most councils prioritize health services rather than the other expenditures and spend less on infrastructure. In that sense, the local governments of Sri Lanka should spend enough on infrastructure to support the economic development of the locality, as well as increase the quality of life of the populace, as infrastructure and development are part and partial of a well-planned policy. This will increase the productivity and incomes of the local community and help reduce the incidence of poverty. Even this point is evident from the secondary data, as in this way local governments, being the closest government unit to the community, can help reduce poverty. In that sense recognition of efficient and reliable infrastructure facilities and services is fundamental for the support of economic development. Therefore, as suggested, people's participation in the budgetary process is vital.

Moreover, from the assessment carried out on the expenditure utilization of local governments, it is evident that steps should be taken to ensure good financial management of local urban governments, as this is crucial in successful service delivery.

To sum up the section, as a whole the study indicates the similar importance of socioeconomic and political and governmental aspects in local expenditure policy in Sri Lanka. Thus, policy makers should not undervalue any of those factors in their

decisions. Additionally, this indicates more efficient use of public resource allocation at the local level, which is lacking in many of the developing countries. In that sense this is contradictory to the findings of Hwang (1987). These results depict the positive effects of continuous reforms taking place in the Sri Lankan context in enhancing service delivery at the local level.

Local politics is also another important aspect at the local level, as political motivation among politicians and voters is strikingly significant in decision making. This is also a positive factor. Apart from that, the dominant role of the central government over the local level is also visible in the findings, especially in terms of financial dependency. This situation is common to most of the developing countries like Sri Lanka. Local autonomy is difficult to ensure due to several failures in the local government process in any developing countries. Thus it should be a gradual process. The present policy introduced might help to fill the gaps identified by this study. On the other hand, on the path towards local financial autonomy, the strengthening of traditional revenue sources and new sources of revenue would bring positive benefits regarding the efficient expenditure decision making of the local government system in Sri Lanka.

7.6 Future Research Directions

Although this research has produced significant findings, much broader analysis should follow. The limitations of the study provide several future research opportunities.

First, future studies can widen the perspectives beyond selected aspect of this research. Given the limited availability of data, the current research only deals with some of the key variables on socioeconomic, political and governmental perspectives in selecting explanatory variables. Future studies, however, can consider several of the determinants, such as institutional factors, in this field. Even the number of explanatory variables can be increased under each dimension.

Second, the sample of this research considers only the municipalities and urban councils of Sri Lanka. Thus the “Pradeshiya Sabhas” are excluded from the study. Future research can be done on the comparative perspective between urban and

rural characteristics, or even between Sri Lanka and other developing countries. This would provide a more comprehensive model of local government expenditure. Cross-national study provides broader implications of determinants of local government policy making in developing countries.

Third, since this study highlights the importance of community participation in the policy process, a broader analysis of public participation in decision making is a future research need. In this regard, women's participation and public-private participation would be interesting topics of research.

Finally, beyond the multiple regression technique, path analysis can be used to identify the direct and indirect effects of the determinates of expenditures. This would be most appropriate in identifying causal relationships.

7.7 Chapter Summary

This chapter presented the conclusions and recommendations of the study. The first section presented a summary on the research findings of the quantitative analysis, following the qualitative results. Next, the research implications were discussed. Recommendations for promoting the welfare and comfort of the citizens at the Sri Lanka are presented thereafter. The chapter concludes with further research directions for future researchers.

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APPENDICES

APPENDIX A

**REVENUE COLLECTION AND EXPENDITURE INCURRED
OF THE URBAN COUNCILS - 2007**

Table Revenue Collection and Expenditure incurred of the Urban Councils - 2007

Province & District	Name of Urban Council	Revenue Rs Mn			Expenditure Rs Mn		
		Est.	Act.	As a %	Est.	Act.	As a %
Western							
Colombo	Kolonnawa	108	80	74	114	92	81
	Seethawakapura	97	221	228	86	75	87
	Maharagama	217	227	105	215	241	112
	Kesbewa	194	138	71	222	122	55
	Boralesgamuwa	86	35	41	65	42	65
Gampaha	Ja-Ela	45	66	147	45	71	158
	Katunayaka - Seeduwa	190	158	83	189	170	90
	Minuwangoda	30	26	87	30	27	90
	Peliyagoda	77	73	95	105	79	75
	Wattala-Mabola	46	47	102	46	55	120
Kalutara	Beruwala	45	34	76	46	35	76
	Horana	150	46	31	130	46	35
	Kalutara	77	86	112	77	86	112
	Panadura	64	76	119	103	107	104
	Total	1,426	1,313	92	1,473	1,248	85
Southern							
Galle	Ambalangoda	61	55	90	62	82	132
	Hikkaduwa	98	41	42	97	40	41

Province & District	Name of Urban Council	Revenue Rs Mn			Expenditure Rs Mn			As a %
		Est.	Act.	%	Est.	Act.	%	
Matara	Weligama	174	87	50	174	87	50	
Ham'thota	Hambantota	32	34	106	31	32	103	
	Tangalle	30	37	123	30	38	127	
	Total	395	254	64	394	279	71	
Central								
Kandy	Nawalapitiya	47	46	98	47	50	106	
	Gampola	105	78	74	96	67	70	
	Wattegama	17	17	100	17	15	88	
	Kadugannawa	16	19	119	16	20	125	
N' - Elliya	Hattan - Dickoya	71	60	85	68	52	76	
	Talawakelle	15	21	140	14	18	129	
	Total	271	241	89	258	222	86	

Table Revenue Collection and Expenditure incurred of the Urban Councils - 2007

Province & District	Name of Urban Council	Revenue			Expenditure		
		Est.	Act.	As a %	Est.	Act.	As a %
N/Western							
Kurunegala	Kuliyapitiya	67	57	85	73	60	82
Puttlam	Chilaw	66	67	102	70	54	77
	Puttalam	60	43	72	41	46	112
	Total	193	167	87	184	160	87
Uva							
Badulla	Haputale	16	17	106	16	15	94
	Bandarawela	101	98	97	111	74	67
	Total	117	115	98	127	89	70
Sab' muwa							
Ratnapura	Embilipitiya	47	17	36	47	33	70
	Balangoda	60	56	93	30	65	217
Kegalle	Kegalle	89	83	93	111	83	75
	Total	196	156	80	188	181	96
Northern							
Jaffna	Chavakachcheri	139	35	25	139	35	25
	Velvettithurai	38	14	37	38	13	34
	Point Pedro	20	24	120	20	19	95
Vavuniya	Vavuniya	65	58	89	65	54	83
Mannar	Mannar	28	23	82	38	22	
	Total	290	154	53	300	143	48

Province & District	Name of Urban Council	Revenue			Expenditure		
		Est.	Act.	As a %	Est.	Act.	As a %
Eastern							
Trincomalee	Trincomalee	98	91	93	98	87	89
	Kinniya	24	15	63	23	12	52
Batticaloa	Kattankudy	152	28	18	102	28	27
Ampara	Ampara	67	56	84	51	52	102
	Total	341	190	56	274	179	65
	GRAND TOTAL	3,229	2,590	64	3,198	2,501	78

APPENDIX B

**AREA, POPULATION, REGISTERED VOTERS AND
EMPLOYEES OF MUNICIPALITIES, 2007 - 2008**

15 වෙනි පරිච්ඡේදය - පළාත් පාලන සංඛ්‍යාති
 அத்தியாயம் 15 - உள்ளூராட்சிப் புள்ளிவாரங்கள்
 CHAPTER XV - LOCAL GOVERNMENT STATISTICS

මහ නගර සභාවන්ගේ බිම් ප්‍රමාණය, ජනගහණය, ලියාපදිංචි කල ඡන්ද දායකයින් සහ

රැකියා නියුක්තියින්, 2007 - 2008

மாநகர சபைகளின் பரப்பு, சனத்தொகை, பதிவுசெய்யப்பட்ட வாக்காளர்கள், ஊழியர்கள், 2007 - 2008

Area, Population, Registered voters and Employees of Municipalities, 2007 - 2008

15.1 වෙනි වගුව - අර්ධ-වගුව 15.1 Table 15.1

මහ නගර සභාව	மாநகர சபை	Municipal Council	බිම් ප්‍රමාණය	ජනගහණය	ලියාපදිංචි ඡන්ද දායකයින්	නියෝජිතයින්	රැකියා නියුක්තියින්			උපුටා ගැනීම
			ව.කි.මී.	(අර්ථමතව)	දායකයින්	ගණක	පරිපාලන හා ලිපිකරු	දිලිසිය	වෙනත්	මුළු
			පරාපු ජනරා. කී.මී.	ඡනත්තොකෙ (මනිවිට්ටු පට්ටු)	පතිවු ඡෙව්ව්ට්ටු වාක්කාණ්කර්	අණ්කත්තව්ණ් කණ්ණි	නිවාක. ග්‍රහණවිකෙණ්ණර්	තොණ්ණිල් හුට්ටු	ග්‍රෙණ්ණව්ණ්ණර්	වොණ්ණිත්තම්
			Area Sq. Km.	Population (Estimated)	Registered voters	Number of members	Administrative & clerical	Technical	Others	Total
2007										
කොළඹ	කොලුම්පු	Colombo	37	672,743	399,319	53	951	334	6,082	7,367
දෙහිවල - ගල්කිටිය	තෙහුවිකෙණ්ණ - කණ්ණිකෙණ්ණ	Dehiwala - Mt.Lavinia	21	219,827	127,190	29	124	120	1,469	1,713
මොරටුව	වොණ්ණරුකෙණ්ණ	Moratuwa	23	185,668	118,582	29	72	12	727	811
ශ්‍රී ජයවර්ධනපුර	ඡිහි ඡුඡවණ්ණපුර	Sri Jayawardanapura	17	121,370	73,763	21	60	76	681	817
නීගමුව	නිහිකොලුම්පු	Negombo	31	150,364	91,164	26	100	15	456	571
ගම්පහ	කම්පහො	Gampaha	38	59,738	43,825	18	29	22	174	225
කන්දිය	කණ්ණි	Kandy	27	121,286	72,756	24	206	280	1,302	1,788
මාතලේ	මාතලෙ	Matale	9	36,989	26,881	13	45	23	358	426
නුවර එළිය	නුවරෙලියා	Nuwara Eliya	12	37,539	19,792	10	34	19	210	263
ගාල්ල	කාලේ	Galle	17	95,012	64,549	19	100	12	554	666
මාතර	මාතර	Matara	13	74,297	53,564	15	51	5	264	320
යාපනය	ඡාණ්ණිට්ටු	Jaffna	20	151,612	92,654	23	837	13	113	963
බදුල්ල	බදුල්ල	Batticaloa	75	81,674	55,945	19	67	5	338	410
කල්මුණේ	කල්මුණ	Kalmunai	23	106,358	68,058	19	47	6	108	161
කුරුමිගල	කුරුණාකල	Kurunegala	11	30,324	19,006	12	58	18	335	411
අනුරාධපුරය	අනුරාධපුර	Anuradhapura	36	81,522	31,462	13	37	8	440	485
බදුල්ල	බදුල්ල	Badulla	10	42,923	30,021	15	45	21	188	254
රත්නපුරය	රත්නපුර	Ratnapura	20	48,412	31,031	15	32	14	496	542
එකතුව	වොණ්ණිත්තම්	Total	440	2,317,658	1,419,562	373	2,895	1,003	14,295	18,193
2008*										
කොළඹ	කොලුම්පු	Colombo	37	678,954	400,460	53	951	603	5,813	7,367
දෙහිවල - ගල්කිටිය	තෙහුවිකෙණ්ණ - කණ්ණිකෙණ්ණ	Dehiwala - Mt.Lavinia	21	222,101	127,873	29	188	49	1,327	1,564
මොරටුව	වොණ්ණරුකෙණ්ණ	Moratuwa	23	187,588	119,538	29	84	57	674	815
ශ්‍රී ජයවර්ධනපුර	ඡිහි ඡුඡවණ්ණපුර	Sri Jayawardanapura	17	122,626	73,926	20	55	78	709	842
නීගමුව	නිහිකොලුම්පු	Negombo	31	151,919	92,258	26	183	22	672	877
ගම්පහ	කම්පහො	Gampaha	38	60,356	44,240	14	29	22	174	225
කන්දිය	කණ්ණි	Kandy	27	122,540	73,896	24	367	77	1,278	1,722
මාතලේ	මාතලෙ	Matale	9	37,371	27,382	13	60	36	336	432
නුවර එළිය	නුවරෙලියා	Nuwara Eliya	12	37,927	20,427	10	49	23	356	428
ගාල්ල	කාලේ	Galle	17	95,995	65,245	19	92	105	483	680
මාතර	මාතර	Matara	13	75,065	54,215	15	49	6	270	325
යාපනය	ඡාණ්ණිට්ටු	Jaffna	20	153,180	92,654	23	151	12	744	907
බදුල්ල	බදුල්ල	Batticaloa	75	82,519	57,573	19	60	7	343	410
කල්මුණේ	කල්මුණ	Kalmunai	23	107,458	69,470	19	42	10	167	219
කුරුමිගල	කුරුණාකල	Kurunegala	11	30,638	19,330	12	58	18	335	411
අනුරාධපුරය	අනුරාධපුර	Anuradhapura	36	82,363	32,258	13	39	4	380	423
බදුල්ල	බදුල්ල	Badulla	10	43,367	30,781	15	54	24	212	290
රත්නපුරය	රත්නපුර	Ratnapura	20	48,913	31,581	15	32	14	496	542
එකතුව	වොණ්ණිත්තම්	Total	440	2,340,880	1,433,107	368	2,543	1,167	14,769	18,479

* යාවත්කාලීනව තහකාලීකරණය වූ Provisional

මූලාශ්‍රයන් - පළාත් පාලන ආයතන (පළාත් සභා)
 මැතිවරණ දෙපාර්තමේන්තුව
 ஆதாரம் - உள்ளூராட்சி சபைகள் (மாசாண சபைகள்)
 தேர்தல் திணைக்களம்
 Sources - Local Bodies (Provincial Councils)
 Department of Elections

APPENDIX C

AN ANALYSIS ON LOCAL GOVERNMENT EXPENDITURES: RECONCILING SOCIOECONOMIC, POLITICAL AND GOVERNMENTAL PERSPECTIVES

Dear Sir / Madam:

The questions given below are prepared to further clarify the findings of the research study conducted on the above topic. This is a doctoral research. For the interviews, ten senior politicians and ten senior officers of the administrative service were selected (island wide). The researcher is a Consultant to the Sri Lanka Institute of Development Administration (Ministry of Public Administration and Home Affairs).

Your ideas/proposals in this regard are very important and highly appreciated. This interview will be for a maximum 20-30 minutes and will be used only for this study purpose.

Thank you.

Sepalika Sudasinghe

Consultant

Sri Lanka Institute of Development Administration (SLIDA)

94 11 0776250761

sepalikasudasinghe@yahoo.co.uk

(CONFIDENTIAL)**SURVEY QUESTIONNAIRE****1. Identification of determinants of local government expenditure**

1.1 Please specify the importance of factors given below in expenditure decision making (in general) of your local government (define the relevant dimensions). Rank 1-3 the most important to least.

Socioeconomic determinants -----

Political determinants -----

Governmental determinants -----

1.2 Judging from your experience do you agree that the financial autonomy is a necessary prerequisite for the successful implementation of public services in Sri Lankan local governments?

Yes (.....) No (.....)

1.3 Do you think that “government service” is important in determining the expenditures in your Council?

Yes (.....) No (.....)

1.4 How do you rank the following expenditure functions from most important to(1) to least important (5)?

1.4.1 road rehabilitation and maintenance -----

1.4.2 solid waste management, -----

1.4.3 public health -----

1.4.4 physical planning and infrastructure expenditure -----

1.4.5 other capital expenditures -----

1.5 Expenditure utilization

1.5.1 According to your understanding, why is actual expenditure lower than estimated expenditure in most of the councils? Underline your idea.

- Lower demand from people for local government services
- Less motivation of politicians
- Problems with public service provision
- Other

1.6 Do you think that people’s participation in the budgetary system is important?

Yes () No ()

1.7 If “Yes,” what are the programmes introduced/proposed in ensuring this aspect? (e.g. Community organizations, women’s organizations, youth organizations, private sector, etc.)

1).....

2).....

3).....

4).....

2. Demographics

2.1 Position in the government/ local council

2.2 Service in the government/ local politics (in years).....

2.3 Educational level

2.3.1 G.C.E (O/L)

2.3.2 G.C.E (A/L)

2.3.3 Graduate

2.3.4 Postgraduate

2.4 Gender

2.4.1 Male

2.4.2 Female.

2.5 Name:.....

APPENDIX D

CASE STUDIES: PERCEPTION OF DECISION-MAKERS TO WARDS EXPENDITURES

Case Study 1: Opposition Political Views on Expenditure Decision Making

A member of an Urban Council with ten years of active politics with G.C.E.A/L qualifications stated that socioeconomic factors are important in expenditure decision making. Second and the third were political and governmental factors. According to him, financial autonomy is a necessary prerequisite for the successful implementation of public services in Sri Lankan local governments, as Councils that command adequate funding are better able to provide public goods. The council that he represents is financially strong. He is of the idea that government service capacity is not an important factor in decision making. He further criticized the inefficient local government officers who play a neutral role and support the political leadership without questioning. On prioritizing expenditure functions, road rehabilitation and maintenance are the most important, while others such as public health, solid waste management, physical planning and infrastructure and other capital expenditure are important accordingly. He thinks that people's participation in the budgetary system is important as it is the best way to understand community needs. However, the council he represents has no special programmes introduced in ensuring this aspect, other than participation of the community informally through political representatives in development activities. According to him, the actual expenditure of his council is higher than the estimated expenditure.

Case Study 2: Opposition Political Views of Urban Councils on Expenditure Decision Making

A senior council member of more than nineteen years in local politics with G.C.E (A/L) qualifications thinks that political factors are dominant in the expenditure decision making of the Council he represents. He further explained the weakness of the majority politicians of the government party in ensuring the democracy. According to him the next important are the socioeconomic factors and the governmental factors. He thinks that financial autonomy is a necessary prerequisite for the successful implementation of public services and that the council he represents is financially strong. He is of the idea that government service capacity

is not an important factor in decision making, as the main political representative indicates an authoritarian leadership style. In terms of expenditure subjects, health services are the most important and the rest are the solid waste management, road rehabilitation and maintenance, physical planning and infrastructure and the other capital expenditure accordingly. He strongly criticizes the politicization of the council. Answering the question why the actual expenditure is lower than the estimated expenditure in most of the councils, he said that this is “due to the politicization of the implementation of public services the politicizations are less motivated to work thus the people’s demands are less considered and local public sector has become inactive.” He also thinks that the people’s participation in the budgetary system is important but other than the interest group influence there is no proper system ensuring the people’s participation in budgetary decisions.

Case Study 3: A Deputy Mayor’s Views of Urban Councils on Expenditure Decision Making

A deputy mayor, a senior council member in local politics for more than thirty years with high school qualifications equivalent to G.C.E (A/L) qualifications, thinks that political factors are dominant in the expenditure decision making of the council he represents and the rest are the socioeconomic factors and the governmental factors accordingly. He thinks that financial autonomy is a necessary prerequisite for the successful implementation of public services and that the council he represents is financially stable, but now running on budget deficit. As he explains this is due to politicization of the implementation of public services. He is of the opinion that government service capacity is not an important factor in decision making due to politicization of the implementation of public services. In terms of expenditure subjects, health services according to him are the most important. Next are the solid waste management, road rehabilitation and maintenance, physical planning and infrastructure, and the other capital expenditure. Answering the question why the actual expenditure is lower than the estimated expenditure in most of the councils, he stated that due to existing environment in his council, politicizations have loose their motivation to work, therefore the people’s demands are less considered and the local

public sector has become inactive. He also thinks that people's participation in the budgetary system is important, but other than the interest group influence there is no systematic way of ensuring community participation in decisions at the local level.

Case Study 4: An Accountant Explains Expenditure Decision Making

An accountant in local public service with twenty five years of service said that socioeconomic factors are dominant in expenditure decision making, while political and governmental factors come to second and the third places. He thinks that financial autonomy is a necessary prerequisite for the successful implementation of public services and that the council he represents is financially strong. He is of the idea that government service capacity is not an important factor in the decision making in public services. In terms of expenditure subjects, health services are the most important. Other important subjects are the solid waste management, road rehabilitation and maintenance, physical planning and infrastructure, and the other capital expenditure. Answering the question why the actual expenditure is lower than the estimated expenditure in most of the councils, he said that they run on a budget deficit. He thinks that people's participation in budgetary system is important but is not a systematic way of ensuring community participation in decisions at the local level.

Case Study 5: A Municipal Commissioner in an Interview

A municipal commissioner with 23 years of local public service in different areas of the country with postgraduate qualifications was of the opinion that political factors are dominant in supplying public goods at the local level. According to her the other important factors are stem from socioeconomic and the governmental perspectives. She thinks that financial autonomy is a necessary prerequisite for the successful implementation of public services and that the Municipal Council she represents is financially strong. She believes that government service capacity is not an important factor in decision making due to the politicization of the implementation of public services. In terms of expenditure subjects, health services are the most

important and next are the solid waste management, road rehabilitation and maintenance, physical planning and infrastructure and the other capital expenditure. Answering the question why the actual expenditure is lower than the estimated expenditure in most of the councils, she offered several reasons, such as overestimating the expenditure purposely and not receiving the expected revenue on time. She strongly thinks that people's participation in the budgetary system is important but other than the interest group influence there is no proper system implementation. She explained one system she proposed, called the "Local Development Plan," which incorporates community participation in expenditure decision making at the local level.

**Case Study 6: A Council Member of the Government Party Explains
Expenditure Decision Making**

A council member of 8 years of active local politics with high school education expressed his idea saying that socioeconomic factors are important than the political and governmental factors in decision making of the council he represents. According to him, the secondly the governmental factors important and third is political factors. He thinks that financial autonomy is a necessary prerequisite for the successful implementation of public services. He is of the idea that government service capacity is not an important factor in the decision making in public services and criticized the inefficiency of the public sector in this aspect. In terms of expenditure subjects, health services are the most important. Other important subjects are the solid waste management, road rehabilitation and maintenance, physical planning and infrastructure and the other capital expenditure in decision making. Answering the question why the actual expenditure is lower than the estimated expenditure in most of the councils, he said that they run on a budget deficit. He thinks that people's participation in the budgetary system is very important and they try to ensure the people's participation but was unable to explain any proper way of doing that.

Case Study 7: A Council Member Explains His Experiences

A council member of 10 years in local politics with high school education expressed his ideas and said that the governmental factors are important than the political and socioeconomic factors in decision making of the council he represents. He thinks that financial autonomy is a necessary prerequisite for the successful implementation of public services and that the council he represents is financially strong. He is of the idea that government service capacity is an important factor in the decision making in public services. In terms of expenditure subjects, health services are the most important and the other subjects are the, solid waste management, road rehabilitation and maintenance, physical planning and infrastructure, and the other capital expenditure. According to him, however, prioritization depends on the current needs of the society. Answering the question why the actual expenditure is lower than the estimated expenditure in most of the councils, he said that they run on a budget deficit. He thinks that people's participation in the budgetary system is very important and that they ensure the people's participation through community organizations, the Buddhist foundation, the welfare society, and the defense committee, in the area in expenditure decision making.

Case Study 8: A Secretary, Sharing Her Work Experiences in Local Government Service

A secretary to an urban council of 32 years in public service with a high school education explaining her ideas and said that that socioeconomic and political factors are more important than governmental factors. She thinks that financial autonomy is a necessary prerequisite for the successful implementation of public services and that the council she represents is not financially strong. She has the idea that government service capacity is an important factor in decision making in public services. In terms of the expenditure subjects of the urban council she represents, she feels that solid waste management and the health services are the most important. According to her the next priority goes to the road rehabilitation and maintenance, physical planning and infrastructure, and other capital expenditure. Answering the

question why the actual expenditure is lower than the estimated expenditure in most of the councils, she said that they run on a budget deficit. She thinks that people's participation in the budgetary system is very important and that they ensure the people's participation through community organizations such as "Vidvath Kamitu." which educated people in the area represent, the Association of Three-wheel Drivers, the Tax Payers Association, and also through meetings organized at the village level from time to time.

Case Study 9: A Local-Level Accountant Explains His Work Experiences

An accountant in the local public service attached to a local council with twenty years of service said that socioeconomic factors are dominant in expenditure decision making and the second and the third are the political and the governmental factors. He thinks that financial autonomy is a necessary prerequisite for the successful implementation of public services and that the council he represents is not financially stable and depends on central government grants. He is of the idea that government service capacity is not an important factor in the decision making of public services. In terms of expenditure subjects, road rehabilitation and maintenance expenditure is the most important of his council and rest of the expenditures are for the health services, solid waste management, physical planning, and infrastructure, and the other capital expenditure. Answering the question why the actual expenditure is lower than the estimated expenditure in most of the councils, he explained that most of the time the revenue does not receive on time do conduct planned programmes. He also thinks that people's participation in the budgetary system is important but that there is no proper system that has been introduced to incorporate people's ideas in this regard.

Case Study 10: A Chief Accountant Explains Expenditure Decision Making

An accountant by profession in local public service with nineteen years of service in a local council said that socioeconomic factors are important in expenditure decision making. Second and third are political and governmental factors. According

to him, financial autonomy is a necessary prerequisite for the successful implementation of public services in Sri Lankan local governments. The council he represents is financially weak and unable to collect adequate tax revenue. He is of the idea that government service capacity is not an important factor in the decision making of his council. On prioritizing expenditure functions, road rehabilitation and maintenance expenditure is the most important, while other expenditures, such as public health, solid waste management, physical planning and infrastructure, and other capital expenditure. He thinks that people's participation in the budgetary system is important but that there is no particular programmes introduced in ensuring that this aspect other than informal contacts and pressure groups. According to him the actual expenditure of his council is lower than the estimated expenditure, as they do not receive the expected revenue and that which they do receive is not on time.

Case Study 11: Political Representative Explains the Expenditure Decision Making of His Council

A senior council member of the urban council and active in politics since the 1991 local politics with G.C.E (A/L) qualifications thinks that socioeconomic factors are dominant in the expenditure decision making of the council he represents. According to him the next are the political and the governmental factors in expenditure decision making. He thinks that financial autonomy is a necessary prerequisite for the successful implementation of public services and that the council he represents is financially strong in terms of implementing most of the programmes. He is of the idea that government service capacity is not an important factor in decision making. In terms of expenditure subjects, solid waste management expenditure is given priority and then the health services, road rehabilitation and maintenance, physical planning and infrastructure, and other capital expenditures. He explains broadly how successful they are in solid waste management. "Ours is the best in the island in terms of cleanliness; we have the best solid waste management project on the island," he further explained. Moreover, answering the question why actual expenditure is lower than the estimated expenditure in most of the councils he said that it was due to the overestimation of the expenditure subjects. He also thinks that people's participation in expenditure decision making is important and that they

have introduced programmes in order to encourage community participation in their work, such as waste management, which is the most successful project. “Resource Centers” at the school level are one of the efforts that they have made to ensure student participation in their community work.

Case Study 12: An Officer at the Finance Commission Sharing His Work Experiences

Former director of the Finance Commission of Sri Lanka with nineteen years of service said that socioeconomic factors are important in expenditure decision making and the second and the third are the political and governmental factors. According to him financial autonomy is a necessary prerequisite for the successful implementation of public services in Sri Lankan local governments. He is of the idea that government service capacity is not an important factor in the decision making of most of the councils due to politicization. According to him on prioritizing the expenditure subjects, road rehabilitation and maintenance and public health care expenditures are the most important, while others such as solid waste management, physical planning, and infrastructure, and other capital expenditure are important respectively. He thinks that people’s participation in the budgetary system is important but that there are no particular programmes introduced in ensuring this aspect other than informal contacts and pressure groups. According to his knowledge the actual expenditure of most of the councils are lower than the estimated expenditure as those councils can not work on planned programmes as they do not receive the revenue that they expect on time.

Case Study 13: A Senior Government Officer Explains the Expenditure Decision Making of Urban Councils

Socioeconomic factors are important in expenditure decision-making. Second and the third are the political and governmental factors, said a senior government official with postgraduate qualifications and twenty years of service. On functional responsibilities he said that road rehabilitation and maintenance and public health care expenditure are the most important, while others, such as solid waste management,

physical planning and infrastructure, and other capital expenditures. He thinks that people's participation in the budgetary system is important and explains the aspects discussed in the Local Government Policy but feels that no any programmes have been introduced systematically in most of the councils to ensure this aspect other than through the informal contacts and participation of pressure groups informally in expenditure decision making . According to him the actual expenditure of councils was lower than the estimated expenditure because the revenue the most of the councils expected did not receive on time to conduct planed programmes.

Case Study 14: An Officer at a Public Organization Reveals Views on Expenditure Matters at the Local level

The Director to a public organization relevant to this subject with nineteen years of service said that governmental factors are important in expenditure decision making. Second and third are political and socioeconomic factors. According to him financial autonomy is a necessary prerequisite for the successful implementation of public services in Sri Lankan local governments. He is of the opinion that government service capacity is not an important factor in the decision making of most of the councils due to politicization. According to him on prioritizing, expenditure functions, public health expenditure, and road rehabilitation and maintenance expenditure are the most important, while other expenditures, such as solid waste management, physical planning and infrastructure, and other capital expenditures are important. He thinks that people's participation in the budgetary system is important but that there are no particular programmes introduced in ensuring this aspect other than through informal contacts and pressure groups. According to him the actual expenditure of councils is lower than the estimated expenditure as the councils did not receive the revenue as they expected come on time.

Case Study 15: A Deputy Mayor's Views of Urban Councils on Expenditure Decision Making

A deputy mayor, a senior council member in local politics since 1973 with G.C.E. (A/L) equivalent qualifications, said that socioeconomic factors and political

factors are important in the decision- making in his municipal council. According to him, those two socioeconomic factors are important as the community places pressure on their representatives to obtain their demands. In that sense, for future prospects politicians take decisions in favour of those community demands. He thinks that financial autonomy is a necessary prerequisite for the successful implementation of the public services of his council and said that they do not always depend on government grants as most of the time these are not received on time. He is of the opinion that government service capacity is not an important factor in decision making due to the high politicization of the service. In terms of expenditure subjects solid waste management is the most important for them. Next are the road rehabilitation and maintenance, health services, physical planning and infrastructure, and the other capital expenditures. He explains broadly how successful they are in solid waste management and said, "I am the Chairman of the Environmental Committee." Moreover, answering the question why the actual expenditure is lower than the estimated expenditure in most of the councils, he said they cannot conduct all of the programmes planned as they depend on the revenue collection of the council. He also thinks that people's participation in expenditure decision making is important and that they have introduced programmes in order to get the people's participation in their work, such as the Environmental Committee.

Case Study 16: A Senior Government Officer Explains the Expenditure Decision Making of Urban Councils

An officer representing the ministry said that political factors and socioeconomic factors are important in the decision making of councils. He has had twenty years of service with postgraduate qualifications and said that road rehabilitation and maintenance, and public health care, are the most important subjects of councils, while others such as solid waste management, physical planning, infrastructure, and other capital expenditures. He also thinks that people's participation in expenditure decision making is important and believes that government service capacity is not an important factor in decision making due to the highly politicization of the service. He made a laconic statement that "the independence of programs from political processes

is difficult to manage.” He thinks that financial autonomy is a necessary prerequisite for any council for the successful implementation of public services. According to him, the actual expenditure of councils, most of the time, is lower than the estimated expenditure as the expected revenue did not come on time due to the failure of the officers who handle the subject.

Case Study 17: A Senior Government Officer Explains the Expenditure Decision Making of Urban Councils

An officer representing the ministry with graduate qualifications and nineteen years of service said that socioeconomic factors and political factors are important in the decision making of local councils. He thinks that financial autonomy is a necessary prerequisite for the successful implementation of the public services of Councils. He is of the idea that government service capacity is not an important factor in decision making. In terms of expenditure subjects, road rehabilitation and maintenance and public health care are the most important, while others such as solid waste management, physical planning and infrastructure and other capital expenditure are important. Moreover, answering the question why the actual expenditure is lower than the estimated expenditure in most of the councils, he said that some councils cannot conduct all of the programmes planned as most depend on the revenue collection of the council. He also recognizes the need to facilitate effective participation and broadly explained a “learning-by-doing approach” he experienced in experimenting with pro-poor activities. According to him, the actual expenditure of councils is lower than the estimated expenditure as revenue did not come on time as expected.

Case Study 18: A Chief Municipal Accountant at a Local Council Explains His Work Experiences

Political factors are important in expenditure decision making, and second and the third are the socio-economic and governmental factors, said a municipal account with graduate qualifications and twenty years of service in the sector. The finance and

accounting of facilities related to each program are the responsibility of the chief municipal accountant, who is supported by a number of other staff such as book keepers, shroff, revenue officers, and clerical hands. He thinks that financial autonomy is a necessary prerequisite for the successful implementation of the public services of his council and said that they do not always depend on government grants as most of the time those are not received on time. According to him, road rehabilitation and maintenance, and public health care, are the most important, while others such as solid waste management, physical planning and infrastructure, and other capital expenditures are important. He thinks that people's participation in the budgetary system is important but that there are no particular programmes introduced in ensuring this aspect other than informal contacts and through pressure groups. According to him, the actual expenditure of his council is lower than the estimated expenditure, as they overestimate the planned programmes sometimes for various reasons.

Case Study 19: A Chief Accountant Explained the Expenditure Decision Making of Urban Councils

A chief accountant of an urban council with graduate qualifications and twenty five years of service thinks that political factors are dominant in the expenditure decision making of the council he represents and the next are socioeconomic factors and governmental factors. He thinks that financial autonomy is a necessary prerequisite for the successful implementation of public services and that the council he represents is run on a budget deficit. He is in an idea of the opinion that government service capacity is not an important factor in decision making. In terms of expenditure subjects, public health care is the most important, while others such as road rehabilitation and maintenance, solid waste management, physical planning and infrastructure, and other capital expenditure are important. He thinks that people's participation in the budgetary system is important but that there are no particular programmes introduced in ensuring this aspect other than informal contacts and pressure groups. Moreover, answering the question why the actual expenditure is lower than the estimated expenditure in most of the councils, he said that it was due to the overestimation of the expenditure subjects and dependency on financial transfers.

Case Study 20: An Accountant Explained the Expenditure Decision Making of the Council

Governmental factors are important in expenditure decision making, and second and the third are the political and socioeconomic factors, said an account with graduate qualifications and twenty years of service in the sector. He thinks that financial autonomy is a necessary prerequisite for the successful implementation of the public services of his council. According to him, public health care is the most important, while others such as road rehabilitation and maintenance, solid waste management , physical planning and infrastructure, and other capital expenditure are important. He thinks that people's participation in the budgetary system is important but that there are no particular programmes introduced in ensuring this aspect other than informal contacts and pressure groups. The council he represent runs on budget deficit.

APPENDIX E

**THE GAZETTE OF THE DEMOCRATIC SOCIALIST
REPUBLIC OF SRI LANKA**

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PART I : SECTION (I) — GENERAL

Government Notifications

NATIONAL POLICY ON LOCAL GOVERNMENT

1. The Preamble

LOCAL Governments are commonly accepted levels of Democratic Governance which has been actively engaged in local development activities in our country, since historical times. It provides basic services and development to citizens in the areas under its jurisdiction. Creating a new vision for local governance is a need of the hour to overcome the Challenges and fulfill the service requirements of the people and the local development needs. In order to revisit the national development objectives afresh and to pursue new goals and targets of national development for upgrading the system of local government, and also considering the enormous service responsibilities that could be delivered by the local governments, the Ministry of Local Government and Provincial Councils hereby submits the National Policy on Local Government.

The fundamental principle of the policy is to “strengthen and broaden the Democratic structure of government and the Democratic rights of the People by decentralizing the administration and by affording all possible opportunities to the People to participate at every level in national life and in government”¹ as spelt out by the The Constitution of the Democratic Socialist Republic of Sri Lanka.

1.1 THE ASPIRATION

It is peoples’ desire for all local units of human habitat to ‘emerge as micro-centres of growth on modern lines’. The expectation of this policy is to establish an efficient, effective and people’s friendly local governance in Sri Lanka through the active participation of all civil society partners, community organizations and promoting a grass root level governing organization of ‘Jana Sabha’ for a prosperous village government. Likewise the end result will be further empowerment of the general public through advocating a peoples’ friendly governing environment and enhancing the participatory democracy by implementing the required short term and medium term reforms.

¹ The Constitution of the Democratic Socialist Republic of Sri Lanka, Article 27(4), PP17.

1.2 THE CHANGES OF 'LOCAL GOVERNANCE'.

As the overall medium-term objective of this Policy is to make local authorities an integral part of the system of representative government with the highest permissible level of democratic Decentralization and autonomy, backed by corresponding powers and resources. Towards this overall goal, immediate measures will be taken to build local government capacity to gradually assume the new decentralized role with confidence. The capacity will be built through collective vision, participatory governance, rational review of powers and functions, allied legal and statutory reforms and also the development of necessary infrastructure and human resources. These are essential prerequisites for strengthening optimum devolution, decentralization and autonomy.

2. The rationale

2.1 The National Policy on local government is being introduced for the promotion and strengthening of local Democratic Governance based on the following principles.

- 2.1.1 Noting that local, Provincial and National Development are integral and interlinked,
- 2.1.2 The Local Government Sector should maintain strong inter-linkages between and among other existing national, provincial and local governments and administrative structures.
- 2.1.3 More effective inter-relationship should exist between Urban and Rural Economies.
- 2.1.4 The public participation and social awareness are essential main tools to achieve the highest expectations of the decentralization.
- 2.1.5 Every citizen has the right to demand optimal basic services, facilities and infrastructure from the Local Government and other Government Departments and Authorities.
- 2.1.6 That it is the moral and legal responsibility of the local authorities to deliver a reasonable service for the every citizen as enshrined in the Local Government Citizens' Charters.
- 2.1.7 Such rights are accompanied by duties and responsibilities of the citizens, particularly to participate in and contribute to local planning and development.
- 2.1.8 In local governance there are some social civil responsibilities and duties that should be performed by the citizen.
- 2.1.9 For more than hundred years, the local authorities in Sri Lanka have shown unwavering commitment to public well-being manifested through many constructive actions, despite their inherent resource limitations and other impediments.

3. The Aim

The aim of the Policy is to establish the necessary institutional and legal framework and build a supportive environment backed by adequate safeguards and guarantees for achieving the highest feasible level of effective local self-government as an integral part of a three-tier representative governance, by :

- 3.1 Broadening the scope of Local Government with adequate functions, powers and resources.
- 3.2 Raising the consciousness, vision, commitment, planning and managerial capabilities of Local Authorities and of their civil society partners,

- 3.3 Building the capacity of Local Authorities to fully exercise the powers assigned to them to harness local strengths and resources.
- 3.4 Mobilize stakeholder participation and support for physical and socio-economic development of their area of jurisdiction, within their own distinct cultural setting.
- 3.5 Making local governments more effective, people-friendly and equity-building institutions of democratic governance.

4. The Policy Framework

The policy will introduce practical home-grown solutions to address the deficiencies and impediments in Local Government. It shall ensure that the necessary legal and institutional mechanisms, instruments and tools are in place to usher in an era of effective local self-government, by implementing a multi-pronged strategy that will ensure social harmony, cohesion and ethnic integrity.

Goals and Priorities :

4.1 OPTIMUM DIVISIONAL DECENTRALIZATION AND DEVOLUTION :

4.1.1 *Encouragement of Peoples' Governance :*

- 4.1.1.1 The Policy seeks maximum devolution and decentralization of authority and powers for participatory decision-making in a manner that respects and upholds *the principles of autonomy, subsidiarity and proximity* in order to empower Local Authorities to regulate and manage the share of public affairs under their purview.
- 4.1.1.2 As a medium-term goal, the Local Government will be accorded the status of an integral part of a three-tier representative government within the ambit of the Constitution of the Republic of Sri Lanka. Local Authorities will thus be transformed from the status of "*dependent institutions*" to '*self-governing partners*' of the other two tiers of government. The main objective is to help them achieve participatory local self-government and empowerment of 'Gamey Anduwa' or, in other words 'Jana Sabha' which has been born through the existing State Policy followed by the home grown self-governing concept of 'Grama Rajjaya' that has a long history.
- 4.1.1.3 The policy will also take measures to strengthen the Local Government in their duties and responsibilities in order to create a democratic and participatory local governance culture and promote civic conciseness and encourage the community based organizations required for such participation.
- 4.1.1.4 The policy expects that the Local Authorities be consulted whenever the related policies are being prepared by considering the fact that the Local Authorities are independent and autonomous unit of governments.

4.1.2 *Primacy of Local Government jurisdiction :*

- 4.1.2.1 The Policy shall devise necessary institutional mechanisms and legislative enactments and cause to implement the already available statutory safeguards diligently to effectively insulate the Local Authorities as the premier governance institution of the area, devoid of any interference from extraneous interest groups and by strengthening the image of Local Authorities and also safe guarding their powers as stipulated in Section 4.3 of the 13th Amendment to the Constitution

of Sri Lanka which states that “*it will be open to a Provincial Council to confer additional powers on local authorities but not to take away their powers.*’.

4.1.2.2 Overall allocation of any local government function or responsibility to any authority or entity other than the local authority will be done purely and only for reasons of technical or economic efficiency and, necessarily, with wider consultation with and agreement of the related local authorities, other appropriate institutions and expert bodies representing the local government sphere of the country.

4.1.2.3. The Policy, therefore, shall call for more profound intra-governmental and inter-governmental consultation, solidarity and collaboration to enhance local autonomy, stakeholder participation and partnership-building. Through a consultative process involving all relevant ministries, necessary guidelines shall be issued clarifying the inter-agency and inter-governmental (tier) functions and issues and defining their relations.

4.1.2.4 The local authority shall be given full discretion and assistance to exercise their authority in regard to planning, administrative, fiscal and financial matters concerning their jurisdiction.

4.1.3 *Rationalization of the institutional scope and capacity of Local Authorities :*

4.1.3.1 The Policy seeks to expand the scope of local authorities from being an agency for public amenities maintenance to be the flagship for goal-oriented local development that contributes to equity, national growth and equitable economic progress. For this, the scope of local government will be widened. The inadequacy of laws and by-laws to deal with the new and emerging functions and subjects will be addressed as an urgent responsibility. The procedures of enacting statutes and by-laws by provincial councils and local authorities will be simplified.

4.1.3.2 immediate support and expertise will be rendered to reorganize and reinforce the local government administration system.

4.1.3.3 Reintroduction of ward representation system and establishment of ward level ‘Jana Sabha’ will be considered within the scope of the national framework of representative governance. The ‘Jana Sabha’ will be actively involved in planning and monitoring of service delivery and of physical and socio-economic development within the area.

4.1.4 *Local Government as the Planning Authority :*

4.1.4.1 The Policy ensures the partnership of the local authority in divisional development planning and create a common environment for well-coordinated integrated rural and divisional planning.

4.1.4.2 The Policy also will pay special attention to bring the Divisional Administration and the local authority to a common platform of planning and coordination by developing appropriate institutional space and mechanisms for harmonious co-existence between the two. The policy envisages that all major partners in local development will integrate their activities in a coherent manner under the coordination of the local authority.

4.1.4.3 The Policy will ensure proper implementation of the National Physical Planning Law under which the local authority is given the status of the planning authority of the area under its jurisdiction. The scope of local authority will be expanded to enable it assume the role of *planning authority* for both physical planning as well as equitable human development of the assigned area.

- 4.1.4.4. Steps will also be taken to ensure that the major local development initiatives in urban areas are also linked directly to, and coordinated by the local authorities deriving strength and support from the Urban Development authority Act and the Urban settlement Development Authority Act. In doing so, due consideration shall be given to allied issues in disaster-prone areas, in order to mitigate disaster concerns and impact.
- 4.1.4.5 In keeping with the Government vision “to recognize local governments as autonomous bodies, accountable to their people and strengthen them by giving adequate manpower, financial and decision-making powers”², the Policy will also ensure that all investments in local development will be linked to local government. The purpose is to achieve a holistic and integrated development planning process, based on the principle of subsidiarity.
- 4.1.4.6 Under this policy, local government shall assume a new meaning as an amalgam of all the area-based development activities conducted by the Development Triad, *i.e.*, the Government, the Civil Society and the Private Sector, assisted by international development agencies. The Policy shall promote, encourage and support partnerships among the Triad constituents. Local Government planning shall be considered an integral part of provincial and National Planning Systems and process.
- 4.1.4.7 To ensure strict adherence to the above, “a set of guidelines for socio-economic development planning’ at the local level will be stipulated through a process of inter-ministry consultation. This will supplement the existing guidelines for physical planning and urban development planning.
- 4.1.4.8 The Policy considers the preservation and improvement of physical environment, of the area of jurisdiction, is the responsibility of the Local Government Authority and thus, environment and hazard parameters should receive highest consideration in local planning.
- 4.1.4.9 The Policy shall also ensure that, as the planning authority of the area of jurisdiction, the local authority shall be pro-actively involved in disaster preparation, mitigation and management within the overall District Framework for disaster management. Obtaining technical guidance and assistance from related Ministries and allied technical authorities, the local authority shall identify the disaster-prone areas, potential disaster-risks and hazards and formulate a comprehensive, area-specific plan of action based on locally Identified strategies and rapid response systems, having regard to the policy and operational guidelines issued for the purpose, as per the Disaster Management Act.
- 4.1.4.10 The Policy will encourage collective enterprise particularly of geographically contiguous local authorities and others that share common problems and opportunities, for economical and effective management of issues such as transport, solid waste, social forestry and watershed conservation.

4.2 REPRESENTATIVE DEMOCRACY AND CONSENSUS POLITICS.

4.2.1 *Strategic vision and Consensus Politics.*

- 4.2.1.1 The Policy envisages effective implementation of all statutory provisions that help building consensus in local governance.
- 4.2.1.2 To ensure sustainability of participatory local planning strategies and to prevent them from being abandoned in midstream when regime-changes occur, the Policy will entrust local authorities with the onerous task of formulating and implementing a perspective corporate plan with a well articulated vision and strategy for long term development. Necessarily, each local

² Ministry of Finance and Planning, Department of National Planning website.

authority shall ensure that the said corporate plan will represent the consensus view of all the major parties of its Council and is duly validated through an effective citizen consultation process. The Policy will also emphasize the need for regular progress reviews with all-party involvement.

4.2.1.3 The Policy shall work towards creating an enabling environment by promoting a local culture of non-confrontational politics through refinement of participatory planning mechanisms and consensual decision making processes at the local level. It also will encourage civil society partners to under take locally tailored programmes to raise the level of civic consciousness in this regard.

4.2.2 *Rule of Law :*

4.2.2.1 The Policy will encourage local authority participation in developing practical means and mechanisms to uphold and ensure the rule of law, irrespective of social distinctions, within the respective area of authority. This will be done using proper communication methods, coordination mechanisms and partnerships with law enforcing and regulating authorities and with fullest participation and contribution from the civil society.

4.2.2.2 Avenues will also be explored to develop appropriate consensus mechanisms such as a 'Law and Order Advisory Committee' co-chaired by the Head of Local Authority and the chief of Police of the area along with civil society and private sector representatives in order to hold the elected Heads of local authorities too co-responsible with the Police for maintenance of law and order within the area of local authority.

4.3 TRANSPARENCY, ACCOUNTABILITY AND RESPONSIVENESS.

4.3.1 *Transparency and Accountability :*

4.3.1.1 The Policy will insist on achieving the highest possible level of local government transparency and effectiveness. Public accountability will be an integral element of the Policy. It will uphold and protect the citizens' right to information and will make the operations of the local authorities transparent, particularly in matters relating to revenue and expenditure, procurement and tender awards, staff selection and promotion, identification and prioritization of development projects and sharing of information. It will help eradicate alleged speculation, suspicion, malpractices, corruption and other such complaints. Regular public consultations and periodical feedback systems on financial and other important issues will be encouraged to enhance accountability.

4.3.1.2 Thus, the Policy will insist on strategic medium term vision-building, participatory planning and budgeting, transparent procurement procedures, enhanced unhindered public access to budgets and audit reports and statutory public display of justification of tender awards.

4.3.1.3 It will also call for immediate establishment of a well publicized public complaints procedure, an office of ombudsman, and social audit mechanism such as introduction of citizens' report cards, for periodic public assessment of governance at the local level.

4.3.2 *Responsiveness :*

4.3.2.1 The Policy shall uphold responsive governance and encourage, guide and support the Provincial Governments in building the Local Government consciousness and capacity to ensure that local authorities are constantly responsive to local aspirations and addressing the pressing

needs of the residents in a spirit of conformity. Toward achieving this objective, the Policy will make sure that peoples' aspirations and needs receive unreserved attention and unhampered priority at all stages of development planning and budgeting.

4.3.3 *Access to information :*

4.3.3.1. Local authorities regularly generate a large fund of valuable data. They lie in files and are difficult to retrieve and use at short notice. The Local Government Policy will encourage and ensure that all the Municipalities, the Urban Councils and large Pradeshiya Sabhas will install and continually update and upgrade the required level of facility to operate Information Management Systems and other accessories such as own website and stakeholder inventories, in order to collate and store the said data for easy retrieval, effective planning and indicator-based performance review.

4.4 EQUITY PROMOTION AND POVERTY REDUCTION

4.4.1 *Equity in resource distribution, Localizing development goals and Poverty reduction :*

4.4.1.1 The Policy views development goals as a veritable vehicle for disparity reduction and equity promotion. It will work closely with the Treasury and the National Finance Commission to help achieve equity in the distribution of public finance among the local authorities, Similarly, it will ensure equitable distribution of local government resources among the resident populations to remove any existing service and infrastructural disparities within their area of jurisdiction. As a medium term measure, local authorities will be encouraged and supported to localize and diligently pursue the development goals and targets. Local authorities will be trained and helped to compile status reports on developments goals, to identify service and achievement gaps in the local area and to formulate and implement a plan of action for removal of such gaps in collaboration with all appropriate agencies.

4.4.1.2 The Policy also will provide for regular all-party Parliamentary and Provincial Councils review of progress made by local authorities and the provincial governments in narrowing the regional and intra-regional disparities in development.

4.4.1.3 According to the existing state policy, the local authorities will focus on greater planning emphasis on resources for removing intra and inter-area disparities and correct the existing imbalances in regional growth. It will also be requested, guided and supported to develop and implement area-based plans for human development with concerted emphasis on poverty reduction.

4.4.2 *Gender empowerment and Marginalized Groups :*

4.4.2.1 The policy will take measures to increase participation of women and of marginalized groups in decision making processes of local authorities.

4.4.2.2 The Local authorities shall also take measures to create appropriate procedures and mechanisms to bring representation of women and marginalized groups in to the local level decision-making process.

4.4.2.3 Similarly, at the local government level, planning attention and care will be given to address the needs of women, children, and socially dependent and vulnerable populations such as the marginalized and the semi-abled.

4.4.3 *Access to Resources :*

- 4.4.3.1 The Policy recognizes an urgent need to enhance peoples' confidence in the local government system and to improve its image as an effective tier of government. While acknowledging the supreme responsibility of the national and provincial governments to support the local authorities with adequate allocation of resources, the Policy also calls for appropriate measures to further strengthen and galvanize the local government initiative to raise financial and other resources required for local development.
- 4.4.3.2 The Policy will also set in motion a mechanism for stimulating a continuous policy dialogue to identify innovative means of financing the needs of local authorities. It will reiterate immediate introduction of payment of property rate on self-assessment basis to encourage the ratepayers to assess on their own their due rates and make proactive payments without waiting for official notices.
- 4.4.3.3 The current overlapping of sources of revenue between the provincial councils and local authorities will be eliminated through a consultative process. Immediate steps will be taken to clarify the relationship and required coordination between the two levels of government.
- 4.4.3.4 Local authorities will be helped to identify new sources of regular revenue. For this, the scope of regulatory functions will be expanded to cover the activities of private enterprises and informal markets. It will help reorient local governments to be a supportive agency for development of the fast expanding informal sector which has displayed a high potential for poverty reduction and local economic development. On application, local authorities will endeavor and provide, common amenities and infrastructure required by the informal sector enterprises to carryout their operations.
- 4.4.3.5 Adequate safeguards and legal support will be set in place to rationalize and streamline the current revenue channels. The will include arrangements for direct remittance of assigned revenues such as the annual grants from the Finance Commission, the stamp duties and court fines to the local bodies with due and prompt notification to the Provincial Council.
- 4.4.3.6 Similarly, necessary measures will be set in motion to increase the powers of local authorities to achieve a higher degree of autonomy that guarantees freedom and access to raise adequate human and financial resources that commensurate with their development vision, functions and responsibilities.

4.5 SOCIAL INCLUSIVITY, CIVIL SOCIETY PARTICIPATION AND PARTNERSHIPS.

4.5.1 *Social Inclusivity.*

- 4.5.1.1. The policy derives its socio-economic and political vision from the pluralistic realities of the nation and encourages respect and preservation of ethnic, religious and cultural diversity as integral to its social tapestry and providing them with equal opportunity and access to power, justice and resources. Therefore, the policy will promote optimum social inclusion in all matters, political, social and economic. This principle will encompass ethnic, religious and all other minority groups and also the marginalized and vulnerable segments of the nation.

4.5.2 *Civil society participation for governance :*

- 4.5.2.1 The policy will encourage conscientious peoples' participation not merely as a tokenist gesture of attending occasional meetings and consultations dominated by the officials and/or political leaders but, as a continuing partnership that is effectively integrated and institutionalized into the local area decision making process as expressed in the Local Government Citizens' Charters.

4.5.2.2 The local government planning process will be refined with appropriate guidelines that will provide for and encourage ward-based, community-level area-planning and participatory budgeting which will engage ward level stakeholders, community-based organizations and voluntary groups under the leadership and guidance of the elected representative/s of the ward. The Policy recognizes the right of local authorities to define and periodically sharpen the modes and mechanisms of civil society participation in local decision making.

4.5.2.3 The Policy will also emphasize the entailing duties that accompany participation rights of the people. Building the institutional capabilities of civil society organizations to take up local responsibility is an integral part of the Policy. Peoples' participation through Working Group mechanisms, City Development Committees, public consultations and through civil society organizations such as the Rate Payers' Associations will be the fulcrum of this participatory process.

4.5.3 *Public -Private Partnerships :*

4.5.3.1 The local authorities will be encouraged to enter into productive partnerships for development activities in the area under their jurisdiction. Appropriate Investment portfolios with other agencies, particularly the private sector, will be encouraged in principle and practice, subject to minimum but adequate safeguards and controls at provincials and national levels.

4.5.3.2 The Policy will provide for establishment of a local development fund at the national level with a special cess, grants and voluntary contribution by the government, private sector and the international donors to assist local development.

4.6 MANAGEMENT EXCELLENCE

4.6.1 *Inter Agency Co-ordination :*

4.6.1.1 The Policy insists on practical directions to stimulate participatory mechanisms for local authorities to realize the highest possible level of cooperation and coordination with relevant ministers and agencies. It emphasizes the need to strengthen local ownership and cross-sectoral coordination of local governance and development efforts among all involved institutions.

4.6.1.2 The Policy recognizes that local governance requires the highest sense of coordinated ownership and cooperation by all relevant ministries and sectors in order to provide conceptual and technical guidance to local authorities to realize their development vision and goals. For this purpose, in addition to the statutory committees, the Policy recommends and encourages the use of participatory mechanisms such as City and Local Area Watch Groups, Advisory Committees, Residents' Associations, Citizens' Fora, City Development Councils etc., supported by regular inter-departmental and inter-agency progress review and follow-up mechanisms at and among different tiers of government.

4.6.2 *Professionalized human resources management :*

4.6.2.1 With the emerging new trends, functions and responsibilities, there is an urgent need to upgrade and professionalize the knowledge and skills of the local government cadres and prepare them to take up new challenges with a high sense of responsibility, confidence and competence. The Policy calls for immediate measures to professionalize the human resources capabilities of local government institutions. Local government capacity building will, therefore, receive highest attention and support for skills development training and regular performance assessment.

4.6.2.2 The Ministry will establish a National Strategy on Local Government Capacity Development which will place emphasis on planned development of local government capacity. Emphasis will be placed on skills development of local government personnel, by networking the training institutions, technical agencies, universities, local government experts and the academia specialized in local governance and participatory planning and development.

4.6.2.3. The Policy will also ensure that the technical personnel required for the purpose are provided to the local authorities without delay. Human resource development and management with norms and guidelines for forward planning, recruitment, rigorous performance appraisal, and promotions will form an integral part of this process.

4.6.3 *Information Communication Technology for Management Efficiency.*

4.6.3.1. In compliance to the state policy of ‘an efficient and people friendly public administration system will be established in Sri Lanka with the assistance of Information and Communication Technology’, ‘the automation and process re-engineering of local government functions will be done in order to improve the efficiency and effectiveness of local governance with the aim of enhancing its contribution towards upgrading the public service delivery and improving socio-economic development. Thereby, it is also expected to rectify the following weaknesses in the present local government system.

4.6.3.1.1 lack of data management system.

4.6.3.1.2 lack of public confidence in Local Government.

4.6.3.1.3 lack of civil society participation.

4.6.3.1.4 obsolete systems and inefficient resource and revenue management.

4.6.3.1.5 lack of accountability and responsiveness in service delivery.

4.6.3.1.6 lack of facilities for a meaningful democratic representation.

4.6.3.2 In this technical transformation, the provincial level capacities will be improved to enable them to provide the technical support services to the local government institutions and the ‘Sri Lanka institute of Local Governance’ and other national level institutions also will be mobilized for the purpose. The contribution and support of the national and international resource agencies will be provided, for the purpose of making capacity development and providing necessary computer hardware in line with the applications of new technology.

4.6.3.3. Information Technology Projection on Local Government - e Local Government.

The Ministry of Local Government and Provincial Councils with the assistance of Information and communication Technology Agency (ICTA) has already commenced an information technology project on local Government under the title of ‘e-Local Government’ to address the above issues. Moreover, by this project , the solutions based on free software which could be provided freely to all local authorities are designed and implemented.

4.6.4. *Constructive politico-administrative interface and balance :*

4.6.4.1. For the optimal functioning of Local government, political authority and administrative leadership must work hand in hand. Therefore, a consultative exercise will be launched, involving the Ministry of Local Government and Provincial Councils, the Provincial Public Service Commissions and National Association/s of the Head of Local authorities to develop and implement suitable

mechanisms that can promote and ensure a healthier and more constructive balance and respectful interface between the local level political authority and the administrative staff of local authorities. For this purpose, a Code of Ethics for Elected Representatives of local authorities, will be adopted for voluntary observance,

5. Commitment

5.1 NATIONAL COMMITMENT :

- 5.1.1 The objective of this Policy is to remove these inadequacies and impediments that are currently obstructing the local government system in the country from being an effective partner of the government in local development and administration.
- 5.1.2 The Policy aims to empower and strengthen the local self government institutions of the country and create an enabling environment for them to provide authority backed, goal-oriented, people-friendly and proactive support services for development of their localities and residents.
- 5.1.3 For this purpose, the Government of Sri Lanka pledges its support, services and resources to ensure immediate implementation of this Policy for which a well articulate implementation plan will be formulated and carried out by the Ministry of Local Government and Provincial Councils. In turn, it will urge the provincial councils to take necessary measures immediately to ensure that the objects and spirit of this policy are fully incorporated in their policies and statutes.
- 5.1.4 In pursuance of the above, the Ministry shall set up a “National Council for Local Government” which shall be the focal point for implementation of this Policy and to improve democratic governance. It shall have representation of central government, provincial councils, and local authorities and will meet quarterly, or as required, to review progress of implementation and to recommend necessary corrective measures, reforms and actions. It will provide conceptual and technical guidance and tool to the Provincial Councils and local authorities.

6. Revision of Policy

- 6.1 In keeping with the spirit of this document, the Policy will be reviewed and updated periodically by the ‘National Council for Local Government’.
- 6.2 In this regard a consultative process will be followed with the involvement of all tiers of government and the civil society.
- 6.3 It will be done with the view to refining and strengthening the local government system progressively, in consideration with the limitation of the existing state policy, *viz-a-viz* its structure, powers, functions, duties, resources and the degree of autonomy.
- 6.4 This will be supported by necessary Policy adjustments and enactment of rules and statutes by the higher level of governments.

JANAKA BANDARA TENNAKON,
Minister of Local Government and Provincial Councils.

Colombo,
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BIOGRAPHY

NAME

S.R. Sepalika Nayanie Sudasinghe

ACADEMIC BACKGROUND

Sepalika is a Sri Lankan, and received her Bachelor's Degree in Arts (Honors) from the University of Sri Jayawardenepura-Sri Lanka in Economics, Philosophy, Sociology and Anthropology, with a Postgraduate Diploma in Economic Development from the University of Colombo and a Masters Degree in Economics from the University of Colombo.

PRESENT POSITION

She is a Consultant at The Sri Lanka Institute of Development Administration (SLIDA) of the Ministry of Public Administration and Home affairs. She is also a Lecturer in Development Economics and the module coordinator of the Economics for Policymaking Module of the Masters in Public Management Programme at SLIDA.

EXPERIENCES

Sepalika began her service to the government as a Trained School Teacher of English and worked in several leading National Schools in Colombo and then joined the Ministry of Social Services and Social Welfare as a Programme Officer and presently as a Consultant to the Sri Lanka Institute of Development Administration, Sri Lanka. Her service in the public sector covers more than seventeen years.