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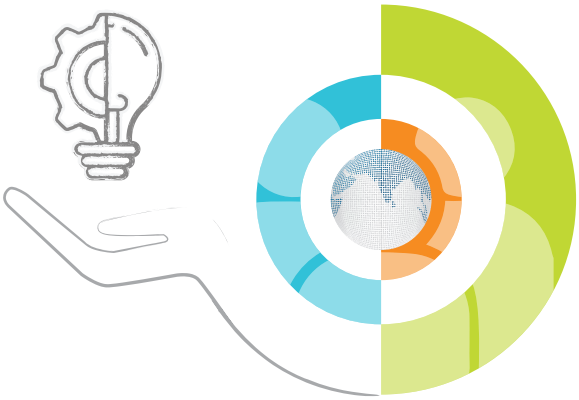

Colombo Development Dialogues 4

PUBLIC SECTOR MODERNISATION

6 FEBRUARY 2020

SUSTAINABLE DEVELOPMENT GOALS

IN PARTNERSHIP WITH

citra social innovation lab sri lanka

PUBLIC SECTOR MODERNISATION

6 FEBRUARY 2020

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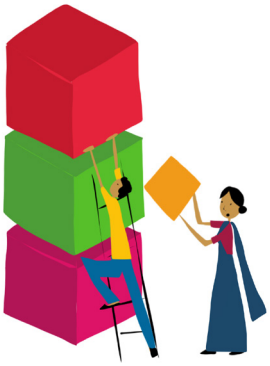
Executive Summary

The fourth edition of the Colombo Development Dialogues focused on **'Public Sector Modernisation'**. The panel brought together a range of individuals from the government, private sector, development agencies, and academia, to provide expert interventions on the need for modernisation within Sri Lanka's public sector and potential ways forward. The panel was complemented by four pre-identified Discussants, who provided additional perspectives and evaluations of the panellists' comments to facilitate further questions and discussions. As such, perspectives on the structure of the government and the cadre, bottlenecks within the public sector and potential reforms to move forward with were discussed and debated during the course of the event.

REFORMING SYSTEMS AND STRUCTURES

- WHAT COMMON TRAITS EXIST IN SUCCESSFUL GOVERNMENT SYSTEMS CAN THESE TRAITS BE REPLICATED TO ACHIEVE HISTORIC REFORM
- RE ENVISION THE ARCHITECTURE OF GOVERNMENT.
- DOWNSIZE PROJECTS THAT HAVE A LOW ROI AND UPSCALE THOSE WITH A HIGH ROI.
- REFORM TAX SYSTEMS TO BE MORE TRANSPARENT.
- REDUCE DECISION MAKING LEVELS TO A MAXIMUM OF FOUR.
- PROVIDE HORIZONTAL INCENTIVES TO ENCOURAGE COORDINATION BETWEEN AGENCIES.
- AVOID ADAPTING GENERIC SOLUTIONS.



SUPPORTING SYSTEMS AROUND MODERNISATION

- EVIDENCE BASED REFORMS AND INCENTIVES TO ENCOURAGE BUY IN.
- ENSURE A ROBUST ANTI CORRUPTION SCHEME TO INCREASE TRANSPARENCY AND EFFICIENCY.
- SET UP IT DIVISIONS IN EACH ORGANISATION TO FACILITATE DIGITIZATION.
- EXPLORE ALTERNATE ENTRY POINTS SUCH AS EDUCATION SYSTEMS TO GENERATE GRADUATES SUITED TO WORKING IN THE PUBLIC SECTOR

EMPOWERING AND REORGANISING WORKERS

- RECOGNIZE THAT INCENTIVES NEED NOT BE FINANCIAL THEY COULD INCLUDE IMPROVED OFFICE SPACES OR INCLUSION IN PROJECT MEETINGS.
- EXPLORE POSSIBILITY OF EXPANDING THE POWERS OF PROVINCIAL AND LOCAL GOVERNMENTS. I.E INCREASE AUTONOMY.
- RECONSIDER SALARY SCALES GIVEN THE DISCREPANCIES BETWEEN REMUNERATION BETWEEN PRIVATE AND PUBLIC SECTOR SO AS TO ATTRACT TRANSFORMATIVE LEADERS TO THE PUBLIC SECTOR.
- LOOK INTO REUTILIZING THE SKILLS OF ARMED FORCES PERSONNEL TO SUPPORT IN OTHER PUBLIC SECTOR JOB ROLES.

LEGISLATION AND POLICIES

- UPDATING ADMINISTRATIVE AND FINANCIAL REGULATIONS WOULD BE CONDUCIVE TO FACILITATING PUBLIC SECTOR MODERNIZATION.
- REDESIGN HUMAN RESOURCES POLICIES
- ESTABLISH A COHERENT POLICY TO ASSESS INSTITUTIONS CADRE REQUIREMENTS.

Panellists and Discussants

The panel was moderated by **Dr Nilanjan Sarkar**, Deputy Director, South Asia Centre, London School of Economics and Political Science.

PANELLISTS

Prof. Michael Moore, Professorial Fellow, Institute of Development Studies, University of Sussex

Dr Ali Cheema, Associate Professor in Economics and Political Science, Lahore Institute of Management Sciences (LUMS)

Hon. Susil Premajayantha, State Minister of International Cooperation

Ms Chandima Wickramasinghe, Additional Secretary to the President, Presidential Secretariat

Mr S. Ranugge, Chairman, National Salaries and Cadre Commission

DISCUSSANTS

Mr Kirthisri Rajatha Wijeweera, Senior Economic Advisor, UNDP Sri Lanka

Mr Waruna Sri Dhanapala, Additional Secretary – Development, Digital Infrastructure and Information Technology Division, Ministry of Defence

Mr Easwaran Rutnam, Editor, Colombo Gazette

Mr Wasantha Deshapriya, Former Director-General, Sri Lanka Institute of Development Administration (SLIDA)

Key Findings

- Sri Lanka is now party to a state sector that is: too big; has mainly recruited and promoted through political affiliations and connections, leading to feelings of entitlement towards state sector jobs; and is under-resourced in every aspect other than people, who are also increasingly badly paid.
- The Sri Lankan public sector comprises three layers – central, provincial and local. In all three tiers of government, a pyramid structure of a traditional public service organisation is apparent, with at least seven layers within the hierarchy.
- The current cadre amounts to 1.41 million public sector workers (including the semi-government sector) to cater to the needs of almost 22 million citizens. There is also an additional workforce within the 450 public enterprises. 65 percent of this cadre is in the central administration and the remainder in the provincial apparatus.
- 66 percent of the public service are familiar with using computers, 56 percent use the Internet and only 36 percent use e-mail, as per statistics from 2016. Therefore, while introducing technology to achieve modernisation may be critical, one must be realistic about Sri Lanka's context, taking into account the lack of universal access to the Internet.
- The number of public sector workers is determined in one of two ways: either through the political executive (the President and the Cabinet of Ministers) or the administrative executive (the bureaucracy). The political executive is often seen to suddenly make recruitment decisions on a large scale; this is often not based on organisational need assessments, but on social factors, as the government is frequently compelled to recruit in bulk due to deal with unemployment among educated youth.
- Recruitment to the public sector is based on principles of meritocracy through a very transparent process. However, the promotion process is different, where in many sectors, promotions are often based on seniority, leading to workers feeling stifled with no way of moving forward based on performance – for instance, workers in the 12 all-island services can be promoted based on seniority, without a performance assessment as a basis.
- While performance-based pay has not been adopted in Sri Lanka's public service, there are incentives offered in some service delivery organisations, such as the immigration office, where incentive-based payments are made – for instance, customers pay extra for one-day services to expedite the process.
- Sri Lanka's public sector faces both systems-based bottlenecks due to technical issues and performer-based bottlenecks due to limited capabilities of the workforce. Issues faced include turning around loss-making SOEs, avoiding the duplication of resources, and the need to streamline and simplify processes where possible.
- There is often a paradox between opportunities provided by legislation that have not been taken on, and arguments that the legislation does not support effective service delivery, that impedes innovative approaches from being adopted. Furthermore, public servants are often reluctant to take decisions and informed risks to innovate, given limited autonomy.
- A common misconception is that public sector modernisation involves introducing new technology to the system. However, as observed in other countries, only introducing technology will not work; a shift will require

simultaneous business process re-engineering or a systems re-adjustment. Furthermore, there is still a cultural element involved in how efficiently systems of automation are designed and implemented, especially since the public sector is known for its resistance to change.

- Digitalisation and digitisation may not result in an immediate reduction in the number of public servants, due to the government's responsibility to provide employment opportunities; the political cost of dismissals from the public sector would be too high. It is only in the longer term that such reductions may manifest.
- Pakistan, which shares some similarities to Sri Lanka's context in terms of rapid social changes and urbanisation, has begun experimenting with public sector reforms, primarily involving incentive structures. However, while such reforms have demonstrated high rates of return, they have not been sustainably embedded in government systems for the following reasons:
  - Political economy constraints that explicitly disable scaling up;
  - A lack of funding to revive the initiative;
  - While the funding and scheme remain intact, the bite of the scheme (where, for instance, incentives are no longer contingent on performance) is disabled.

Recommendations

Reforms to the Systems and Structures of the Public Sector

- There should be a re-envisioning of the architecture of the government, particularly with respect to where agencies at different levels are involved in service provision to citizens and where streamlining processes could improve efficiency.
- There is also a need to work towards reducing decision-making layers within institutions to a maximum of four.
- Downsize the number of projects that do not have a positive ROI and upscale projects that do. While understanding the need of a holistic reform, given the local context, follow a piecemeal approach in which government departments are reformed one at a time.
- Tax systems should be reformed such that citizens can more directly and transparently observe the benefits provided by the taxation they pay, particularly with respect to the provision of public services by provincial and local agencies.
- Failing any changes to the structure of government being considered or implemented, horizontal incentives should be applied to ensure coordination between agencies at different levels to deliver services efficiently.

Supporting Systems Around Modernisation

- Designing a reform agenda requires a holistic approach that focuses on not only digitalisation, but also on ensuring that restructuring institutions, systems and frameworks, increasing awareness, and capacity-building takes place simultaneously to ensure conducive conditions for reforms to be successfully implemented. The successful introduction of ICT reforms will ride heavily on education and sensitization, for instance.
- In order to create buy-in for reforms from the government and minimise resistance, all proposed reforms and initiatives must be justified by a rigorous evidence base, where outcomes are quantified in terms of time and cost savings.
- A key area of focus must be on measures to ensure a robust anti-corruption regime, which would also put in place systems and processes that would make the government more efficient, while freeing up government funds that could be invested elsewhere.
- It was suggested that every organisation in the government must set up an ICT division to facilitate digitisation where possible. In addition, a small, specialist unit should be set up within the public service to support government organisations trying to undergo big changes in technology, not offering technical support, but focusing on processes and organisational leadership.
- Concomitantly, another entry point that would support the objective of modernisation would be a reform of the education system (particularly tertiary education) to generate competent and efficient graduates suited to work in the public sector.

Specific Areas for Reform

- Specific areas in which reforms could be implemented include the following:
  - The process of obtaining a construction permit, which was cited as involving 13 procedures and taking up to 3 months, as per the Ease of Doing Business Index.
  - Developing a land registry, the requirement for which is already set out in legislation, and a negative list for investors in land, to speed up investors' decisions.
- There should be a mechanism to determine what services or bottlenecks to tackle first when implementing reforms – for instance, choosing to automate the services that people most require. A suggestion was also made to set up a system that routinely identifies the five most important bottlenecks to the workings of the government that are solvable, which are then communicated to the President, Prime Minister and relevant Minister to be taken forward.

Empowering and Reorganising Workers

- Leaders and managers should recognise that incentives do not necessarily need to involve salaries or promotions, but could be offered on a more informal basis – for instance, in the form of better offices, higher positions, being held as good examples to colleagues, attending interesting meetings or representing departments.
  There is potential to improve performance at least incrementally by empowering managers to use such methods.
- The government should also explore the possibility of expanding the scope of the powers of the provincial and local governments, to provide institutions with more autonomy and thereby, empower workers to innovate and modernise where required.
- Given discrepancies in remuneration between the private sector and the government, if looking to hire leaders to transform institutions, measures to adequately compensate such individuals should be investigated.
- The armed forces constitute a large portion of the public sector that has received training and education in several skills, but has been expensive to maintain. Thus, effective reform could involve deploying such workers into other public sector, civilian jobs, to better utilise their skills.
- In contexts similar to that of Sri Lanka, government organisations that perform better tend to have a cluster of related characteristics:
  - Mission-focus, where managers and workers understand what their jobs are and what they are delivering;
  - Managers convey that message strongly by their behaviour and how they relate to their subordinates, where interactions are focused on how to perform their mission more efficiently;
  - Managers have expectations about performance from their subordinates;
  - Managers have some freedom and autonomy to reward people who perform better.

Legislation and Policies

- Outdated laws and regulations must be updated to keep up with modernisation efforts – for instance, legislation must be able to effectively tackle issues concerning technology and artificial intelligence. Moreover, given that the Administration Regulations (AR) and Financial Regulations (FR) of the public service have not been amended for more than 25 years and are outdated in today's context, there is a need to re-examine them to better facilitate the work of the government.
- An overall human resources policy for the country should be designed, drawing in the expertise of planning departments from the government and other sectors. The policy should effectively use foresighting tools to observe trends and predict the need for trained personnel going forward. It should also look at the best way to distribute workers across the Sri Lankan economy to maximise its productivity, to avoid excess labour in certain sectors and a wastage of resources in this regard.
- A coherent policy should be formulated on designing and establishing a mechanism to assess the cadre requirement of institutions. Further, there should be a clear policy on the basis for salaries and remuneration.

A Brief History of Sri Lanka's Public Sector

Hon. Susil Premajayantha stated that the structure of the public service was inherited from the British, who introduced their governance systems from the early nineteenth century to Independence in 1948, with education being moulded to supply the kind of public servants required by the system at the time. Since 1948, some changes have taken place within the public service – for instance, what was then the 'civil service' has been converted to the 'administrative service.

Prof. Michael Moore also provided an interpretation of Sri Lanka's recent history, focusing on why public reform issues exist. During the time period from the 1950s to the 1970s, he reflected on four considerations: firstly, relative to other countries in the South Asian region, Sri Lanka already had very good, widespread public health and education systems, although the education system was more geared towards generalist and Arts subjects, as opposed to science and technology – typical of the time period considered, but still the case today. Secondly, the 1950s saw fast population growth and therefore, a growing number of young people. Thirdly, from the 1960s onwards, the economy was stagnant for a long period of time – an interlude between the plantation sector thriving and the garment and tourism sectors picking up thereafter. Finally, Sri Lanka was party to a competitive democratic system.

These four factors led to the emergence of three outcomes in particular: first, a large population of university graduates trained in generalist and Arts subjects who found difficulties in finding work; secondly, a series of violent youth movements, beginning in 1971, led by unemployed and un-employable young people in search of work; and finally, a government that took on the responsibility of providing jobs to unemployed people, recruiting tens of thousands into the public sector in the 1970s. As a result, Sri Lanka is now party to a state sector that is: too big; has mainly recruited and promoted through political affiliations and connections, leading to feelings of entitlement towards state sector jobs; and is under-resourced in every aspect other than people, who are also increasingly badly paid, as seen with schoolteachers. These outcomes have been true since the 1970s and remain true today.

Prof. Moore also made note of changes since the 1970s. Firstly, there is less unemployment. This is a result of more private sector jobs, as well as demand for relatively unskilled government workers remaining relatively strong, along with the willingness of the government to accept the responsibility of hiring such workers. Secondly, while successive governments from the 1950s to the 1980s taxed relatively heavily (typically taxing 20 percent of GDP per year), this trend began to reverse at the end of the 1980s, due to reasons that remain somewhat unclear. By the 1990s, the proportion of GDP taxed by the government went into decline, hitting a low point of 11% of GDP five years ago. The shift from being a relatively high tax economy in the region to a low tax one means that the government now has relatively less money.

He also touched on the implications of Sri Lanka's demographic changes on the public sector. The country is now experiencing an ageing population, resulting in a large number of people retiring from the state sector who need to be paid pensions, with fewer younger workers replacing them. Additionally, the government would increasingly have to bear the costs of a growing population of old, poor people facing great hardships; he stated that the safety net systems for the poor that Sri Lanka implemented over the past five decades, including rice rations, food stamps and Samurdhi, are shrinking and provide very little livelihood to its target groups. He postulated that it is highly unlikely that the youth insurgencies of the past would be repeated, as they tend to occur in societies with large numbers of young people.

The Hon. Minister highlighted the need to take heed of the evolution of the public service in Sri Lanka since Independence, prior to talking about its modernisation. Due to the 13th Amendment to the Constitution in 1987, the 9 Provincial Governments were set up. There were four types of local government at first – municipal councils, urban councils, town councils and village councils. However, when Pradeshiya Sabhas were introduced in 1988, town councils and village councils were abolished. Currently, there are 370 municipal councils, urban councils and Pradeshiya Sabhas, out of which 24 are municipal councils, and three tiers of government – central, provincial and local. Independent commissions for the public service have existed since 1945 and continued after Independence, such as the Public Services Commission for appointments, transfers and disciplinary actions, as well as 9 Public Service Commissions for provincial governments.

Regional Experiments in Public Sector Reform

Dr Ali Cheema drew parallels between the rapid social changes experienced in Pakistan and other South Asian countries over the past few decades, which manifested particularly in the densification of cities. While this meant rising incomes, it also resulted in pollution and issues around sanitation and clean water, leading to poor nutritional outcomes, as well as an under-investment in public education in cities; these factors have led to human capital not growing at the rate it should.

Against this background, Pakistan began experimenting with public sector reforms. Such reforms have not involved systemic or large-scale changes to the bureaucracy, and the architecture of the government has remained intact. Rather, it has involved reforms at the field officer level, targeting incentive structures, recruitment systems or monetary mechanisms, as well as experimentation with ICT-based technology (dashboards and Apps) to allow managers to better monitor and coordinate field staff activity. Examples include reforms tried out in health departments dealing with polio workers, procurement systems in various departments, and pay-for-performance and merit-based posting systems in the property tax department in Punjab. These experiments involved randomised control evaluations, to generate sound estimates of the rates of return of reforms.

Dr Cheema posited that the first lesson from the Pakistan experience is that the internal rates of returns for each of these experiments has been fairly high. For example, pay-for-performance systems for property tax officials led to a return on investment of around 45 percent, where pay was tied to performance as measured by revenue collection, the rate of investment referred to the additional incentive that had to be provided, and the return was the additional revenue the system was generating. Merit-based transfers via tournaments lead to 45 percent higher tax revenue growth compared to the control group; similarly, the ICT-based monitoring of public health officials at health centres led to a 30 percent increase in doctor presence. He argued that these are high rates of returns, and, based on the outcomes of such experiments, a reform roadmap could be formulated to embed these experiments on a larger scale to pivot the system towards generating larger returns for society.

A second lesson from his experience was that, despite high returns, the sustainability of these reforms has been fairly low. These reforms typically occurred as schemes that were introduced on an experimental basis rather than embedded systemically, with the idea that if positive returns were proven, the state would scale up. However, three things happened to prevent scale-up: political economy constraints disabled the scaling up process; in some cases, ongoing funding was denied; and lastly, where the scheme remained ongoing, its bite was disabled – for instance, as observed in the pay-for-performance systems, the additional pay no longer became contingent on performance

and everyone started to benefit. He argued that these processes had the same impact, which was to pivot the system towards the status quo.

Dr Cheema highlighted that even if returns can be demonstrated, incentivising powerholders in the system to scale up reforms is where the second-generation challenge lies. In his view, the solution lies in focusing on sub-national locations where the political economy preconditions to adopt reforms exist. One avenue in which he sees potential is linked to the reform of the governance architecture of cities. He sees potential because rapid urbanization has brought public delivery systems under stress, and because there is a greater potential for political action in these contexts. He felt that this could open up a new relationship between citizens and the state, particularly with respect to demanding services that are lagging. In South Asia, another advantage is that cities have access to robust local revenue bases that have the potential to fund public goods and services, provided they are embedded in a governance system that strengthens fiscal accountability.

He suggested that such systemic reforms should have two core features: firstly, it should involve a complete re-envisioning of the architecture of government. City governments feature a fragmented architecture of service providers, where, for instance, land use in Pakistan is run through provincial agencies while certain services are also devolved to city governments. There exist silos that focus on their own prestige and power, due to little horizontal incentives in the system to ensure coordination between them to deliver services of value to citizens.

Secondly, Dr Cheema argued that the revenue system is not in the hands of city governments that are directly accountable to citizens and neither are many relevant public sector agencies directly accountable to these governments – for example, tax rates are set by provincial government departments, whereas many agencies operate locally. This fragmented system destroys the notion of 'beneficial taxation', which Dr Cheema argued was at the heart of municipal service delivery improvement in the 19th century in cities in the United States and Britain. Beneficial taxation ensures that own-source revenue bases are used to raise extra funding to provide services such as better sanitation, cleaner water and education - this expansion in the network of services could happen because citizens paying for these services can explicitly see the benefits of doing so. Conversely, in South Asia, taxation tends to be centralised, leading to a system of 'onerous taxation', where it is not obvious for the citizen to observe what benefits will be generated by the taxation he or she is paying, breaking the accountability framework of government. Dr Cheema postulated an ideal of city governments with integrated structures that have electoral linkages with the citizenry, based on a foundation of beneficial taxation. With this framework in place, governments will demand reforms that can be sustainably embedded and will generate higher rates of return.

The State of Sri Lanka's Public Service

Structure of the Government

The Hon. Minister provided an overview of the current administrative structure of the government – 25 administrative districts and, therefore, District Secretariats, 332 Divisional Secretariats and 14,025 Grama Seva divisions at the lowest level. The Hon. Minister emphasised that in all three tiers of government, a pyramid structure of a traditional public service organisation is apparent, with at least seven layers within the hierarchy. He expressed a need to reduce these layers to four, citing communication gaps as a key factor leading to delays in decision-making and implementation, thus resulting in a failure to effectively serve citizens. He also raised that there are some public

servants with dual roles, serving both the central and provincial governments. However, he made special mention of the establishment of the Ministry of Public Administration, Home Affairs, and Provincial and Local Government, stating that the establishment of a Ministry for the entire public service was a good strategy.

The Public Service: Characteristics of the Cadre

Mr Sugath Ranugge clarified that the current cadre amounts to 1.41 million public sector workers to cater to the needs of almost 22 million citizens, thus amounting to more workers than required. He explained that the public sector comprises the national public sector, the public corporation sector and the provincial public sector, all of which account for the 1.5 million workers. This cadre is managed by several levels of authority – the President, the Cabinet of Ministers, commissions, such as the Public Service Commission (under which a majority of the public service come under) and the National Police Commission, Governors of the Provinces, Ministers and semi-government organisations. The Hon. Minister also acknowledged the additional workforce within the 450 public enterprises, which operate at different levels of public funding.

Ms Chandima Wickramasinghe stated that 65 percent of the public service is in the central administration and the remainder in the provincial apparatus. She specified that 26 percent of the public sector workforce are graduates or hold PhDs. Further to recent focus on digitalisation, she highlighted that around 66 percent of the public service are familiar with using computers, 56 percent use the Internet and only 36 percent use e-mail, as per statistics from 2016. Regardless of the size and composition of the public sector, she raised that there is a need for services to remain contemporary in management approaches and systems.

Mr Ranugge spoke on the importance of determining what the ideal size of the public sector should be, given Sri Lanka's context as an open economy and with the private sector playing a critical role in delivering goods and services to citizens. He touched on how the number of public sector workers is determined in one of two ways: either through the political executive (the President and the Cabinet of Ministers) or the administrative executive (the bureaucracy). He observed that the political executive is often seen to suddenly make recruitment decisions on a large scale. This is often not based on organisational need assessments, but on social factors, as the government is frequently compelled to recruit in bulk due to unemployment among educated youth, in line with Prof. Moore's thoughts. On the other hand, Mr Ranugge suggested that there should be gradual recruitment to the public sector by other bureaucratic agencies, such as the Management Services Department. He stated that the Salaries and Cadre Commission makes recommendations on recruitment based on requests by organisations, but very often, there is no rational basis for such recruitment, leading to idling workers. There is also no mechanism to assess the cadre requirement of institutions.

Mr Ranugge emphasised that recruitment is based on principles of meritocracy through a very transparent process – vacancies are published in gazettes or newspapers and subjected to competitive examination, free of discrimination. However, he stipulated that the promotion process is different – for instance, workers in the 12 all-island services can get promoted without any performance assessment as a basis; instead, it is based on years worked in the service. With regard to other services, a combination of seniority and merit often forms the basis for promotion, which constitutes more of a transparent process, with marking schemes approved by the Recruitment Authority or the Promotions Authority with regard to the Scheme of Recruitment (SOR); there are, therefore, no issues with regard to the promotion of certain categories of public service. There are several levels of public service – for instance, primary,

secondary, tertiary, senior executive etc., with different considerations for promotion at each level. For example, seniority is a primary factor at the level of senior executives; at other levels, either a mix of seniority and merit or only merit is considered.

He highlighted that performance-based pay has not been adopted in Sri Lanka's public service, but that there are incentives offered. In some service delivery organisations, such as the immigration office, incentive-based payments are made – for instance, customers pay extra for one-day services to expedite the process. Mr Ranugge noted that there is no coherent policy on salaries or remuneration. Many times, it depends on trade union action and power. He concluded that public sector modernisation must crucially take into account the effective management of human resources, which he believes is the biggest constraint Sri Lanka is facing.

Bottlenecks within the Public Sector

Ms Wickramasinghe explained that bottlenecks arise due to delays in workflow or management processes that lead to overall delays, and could either be systems-based, as a result of technical issues, or performer-based, where the workforce has limited capabilities in specific areas – Sri Lanka's public sector faces both types. Such bottlenecks must be identified and addressed, given the public sector's role in policy formulation, policy execution into demonstrable actions, and providing quality service delivery to citizens. She also offered that the efficiencies that do happen within the public administration are not always observed in the public domain, but that their impacts can be felt.

She suggested that one aspect of importance to consider would be efficiencies within the investment sector. The new government believes that the Sri Lankan economy is overregulated and wishes to see regulations simplified and removed where possible. The 'Ease of Doing Business Index 2020' ranked Sri Lanka in the 99th position, only one slot up from 2019 when it ranked 100th, indicating very marginal gains. An example cited within the index looks at the clearance of permits, referring specifically to the Urban Development Authority (UDA), the Colombo Municipal Council and the Water Board; it stipulated that there are 13 procedures to follow to obtain a construction permit, which could take up to 3 months. Such scenarios are not encouraging to investors.

Another example that could be looked at is the absence of a land bank – an investor, upon approaching the BOI, will be provided with registration paperwork, but without the assurance of land and other infrastructure facilities required to move forward. Going to the Land Commissioner's Department also involves a cumbersome process. Ms Wickramasinghe clarified, however, that the State Land Ordinance sets out that there is a requirement for land registries, and guidelines have been issued to divisional secretaries on the preparation of a land registry providing all details of land use. The lack of such registries thus appears to be a direct result of a performer-based bottleneck due to insufficient human resources. Related to this, another aspect that could be considered is a negative list to be given to investors by agencies – for instance, the Forest or Wildlife Department may impose restrictions on specific areas of land. Investors should have access to a list of lands that are available and could be used, legally.

Ms Wickramasinghe spoke about the public procurement system, which is known to involve lengthy, cumbersome and costly processes for suppliers and government entities alike. She also reflected on inefficiencies in state-owned enterprises (SOEs), noting that there is no accurate and updated list of SOEs in Sri Lanka. The reason for such uncertainty is that while some agencies have been incorporated by an Act of Parliament, there are others set up by public companies that are often overlooked. The government is very keen on improving the efficiency of SOEs, especially given that the losses of the country's SOEs doubled in 2018.

Ms Wickramasinghe touched on the duplication of resources observed in government – for instance, the Industrial Development Board consists of 18 industrial zones; however, there are also industrial estates within the purview of line ministries and industrial zones within the UDA, indicating a duplication of points of economic activity. She also took the Coconut Development Board as an example, noting that there is no comprehensive, collated information on the total area of coconut plantations and what kind of coconut-based products are being produced. She stressed on the fact that unless the public sector clears its bottlenecks, simplifies systems and deregulates as reasonably as possible, the targets the government are expecting to reach will not be achievable.

The Hon. Minister referred to the Petroleum Corporation, the Ceylon Electricity Board, Sri Lankan Airlines, Port Authority and the Water Board as five major public enterprises that are all loss-making. Each Ministry can house up to 30 public enterprises (for example, the Ministry of Industries), all of which are also loss-making. He stated that there is an auditing system for such enterprises, through the Auditor-General's Department and private sector auditors, but also through two Parliamentary committees to reinforce checks and balances – COPE and Public Accounts Committee. However, he suggested that the Administration Regulations and Financial Regulations are outdated and haven't been amended for more than 25 years, impeding the work of public servants.

In his former post as the Minister of Education, the Hon. Minister stated that he wished to introduce performance-based evaluations for teachers, but was unsuccessful due to changes in the government. He indicated that while there is an 18:1 teacher-to-student ratio in public schools, key issues lie in administrative factors, such as teacher deployment. He emphasised that with sufficient resources, effective administrators could ensure the efficient running of the state; however, in the absence of such resources, there must be effective managers to manage available resources. However, he argued that we are no longer in an era or administrators or managers, but leadership – a leader is required in every sector.

Potential Reforms

Prof. Moore concluded that there is currently no public sector crisis, as the Sri Lankan government can support the salaries of its cadre at present – however, the number of public sector workers still constitutes a long-term issue. He also reinforced that, historically, certain sectors within the government have demonstrated good performance, indicating that there are some elements present that could lend itself towards creating a good public service.

On public sector reform, he indicated that while many countries have attempted large-scale reforms (such as privatisation and salary increases), such measures would not realistically work in Sri Lanka. Reforms will be incremental and potentially difficult to observe. He suggested that a lever for constructive public sector reform, however, could lie in the introduction of new ICT systems. There are also entry points that could be looked at outside the area of digitisation, including the reform of the education system (particularly tertiary education), to generate graduates suited to work in both the public and private sectors. Prof. Moore raised that the armed forces constitute a portion of the public sector that has received training and education in a number of skills, but has been expensive to maintain and is too large a segment of the workforce at present – he posited that a useful reform might be deploying such workers into other public sector, civilian jobs, to better utilise their skills.

The Hon. Minister reinforced the need for a strategic plan for public sector modernization. He also referred to the 'best value for money' concept introduced in the United Kingdom in 1998 to ensure the quality of its public service, and performance-based evaluations as good practices for the Sri Lankan public sector to adopt. He intimated that

this is the right time to embark on public sector modernisation, given a President with the political will to enforce changes required. However, he also raised that there must be political leadership and will from the relevant line ministry as well. Taking New Zealand as an example of a system that implemented significant modernisation under two different administrations, the Minister stressed on the need to look to the experiences and work carried out by international organisations, countries such as Estonia, and agencies, such as ICTA, who have been mandated with the task to carry out such activities.

Discussion

The Need for Modernisation

Mr Kirthisri Rajatha Wijeweera stated that Sri Lanka is moving into a lower trajectory of growth compared to ten years ago. During the immediate post-war period, the potential rate of growth was close to around 7 percent; now, it has fallen to around 5 percent and is on the decline. Actual rates of growth have been lower still, with visible repercussions. He posited that this growth decline is a result of factor productivity halving between 2009 and 2019. Public sector modernisation will be a key leverage point in boosting and turning the economy around – a revamped public sector with a greater onus on modernisation and delivering high quality services could increase the productivity of the entire economic system.

Mr Ranugge felt that innovation should be pursued for a specific purpose, and not for its own sake. For instance, modernisation should be used to curb corruption and improve the responsiveness and effectiveness of the public sector. For example, fully automating Passport and ID services would reduce corruption if person-to-person contact and the potential for bribery is minimised.

Mr Asoka Gunawardena expressed a need for clarification on what might constitute modernization, and whether the sole focus of the discussion was efficiency. Dr Sarkar clarified that the focus of the discussion was not only efficiency, but rather effectiveness within available means. Ms Wickramasinghe stated that modernisation and reform was looked at as a means of solving bottlenecks and inefficiencies. Conversely, Mr Ranugge felt that modernisation was most famously used to describe the shift away from agriculture to industry, historically, and that perhaps the focus should be on 'innovation' as a means of solving such issues, instead.

Empowering Workers and Institutions

Mr Wijeweera also raised the question as to how much innovation is encouraged within the public sector, what Sri Lanka's 'innovation' tolerance is, compared to that of other countries, and whether there is a culture of risk-taking in the public sector, where employees are empowered to take informed risks within their work domains. He also stressed on the importance of institutional strength, and the link between institutional credibility and professional credibility – while there is undoubtedly talent within the public sector, the professionalism of an individual will only manifest based on the strength of the institution he or she is working in. The Hon. Minister agreed that public servants are often reluctant to take decisions, given limited autonomy in the face of audit queries, for instance.

Mr Waruna Sri Dhanapala highlighted that there have been innovative approaches adopted by certain provincial councils, such as obtained ISOs or certifications for specific service delivery mechanisms, as seen in the Wayamba Industrial Services Division. However, he argued that there is a paradox between opportunities provided by legislation that have not been taken on, and arguments that the legislation does not support effective service delivery, that impedes innovative approaches from being adopted. The Hon. Minister responded by stating that it is often difficult for Provincial Councils to innovate, given their limited powers. He suggested that a potential solution may involve expanding the scope of their powers. He also argued that outdated laws must be updated to keep up with modernisation efforts – for instance, legislation must be able to effectively tackle issues concerning technology and artificial intelligence.

Prof. Moore noted that research implies that in contexts like Sri Lanka, government organisations that perform better

tend to have a cluster of related characteristics: firstly, mission-focus, where managers and workers understand what their jobs are and what they are delivering; secondly, managers convey that message strongly by their behaviour and how they relate to their subordinates, where interactions are focused on how to perform their mission more efficiently; thirdly, managers have expectations about performance from their subordinates; and finally, managers have some freedom and autonomy to reward people who perform better. This last characteristic is often difficult to achieve, but Prof. Moore suggested that incentives do not necessarily need to involve salaries or promotions, but could be offered on a more informal basis – for instance, in the form of better offices, higher positions, being held as good examples to their colleagues, allowing them to attend interesting meetings or represent their department. Through such methods, there is potential to improve performance incrementally by empowering managers.

Introducing Technology

The Hon. Minister offered his perspective on the introduction of technology, stating that the government should prioritise digitalisation and digitisation, given his view that the public service and citizens are both literate enough to adjust to such changes.

Mr Ranugge cautioned that while introducing technology to achieve these goals may be critical, one must be realistic about Sri Lanka's context, taking into account the lack of universal access to the Internet, for instance. At present, the only service that is fully online is the renewal of revenue licenses in the Western Province; other services have only been partly automated thus far. Given that the President has already expressed his will to utilise ICT to improve service delivery in the country, he purported that there should be a view to first automate the services that people most require, with a clear policy on priorities how this should be executed.

Dr Sarkar also raised a point Prof. Moore had made at the morning's masterclass: while e-Governance in the UK is ranked 1st in the world, workers in the social services sector have to key in the same information on four different electronic platforms, simply because the systems are not harmonised.

Support Systems

Mr Wijeweera noted that productivity is viewed in the context of the following: technology, innovation and entrepreneurship, all of which apply to both the public and private sectors. He argued that there is a common misconception that public sector modernisation involves introducing new technology to the system. However, as observed in other countries, only introducing technology will not work; a shift will require simultaneous business process re-engineering or a systems re-adjustment.

Mr Wasantha Deshapriya expressed that at present, systems and work procedures are not structured to deliver efficient services. He echoed Mr Wijeweera's intervention that only concentrating on digital transformation while neglecting support structures may not lead to sustainable modernisation. Based on this, he provided three recommendations: firstly, every organisation in the government must set up an ICT division. Secondly, he argued that the organisations' leaders must be champions of digital transformation. He noted that a CEO in the private sector often makes much more than a Commissioner tasked with transforming his institution, and therefore, measures to effectively compensate such leaders must be investigated. He presented an example of the online revenue license system implemented by ICTA on behalf of a provincial council department over a decade ago, stating that this effected a huge change in the organisation, including a change in its culture and the way in which the staff of the

department worked; however, he stated that the organisation in question is now struggling with implementing a second version of the online system, given a lack of resources to develop the solution in-house or outsource. Based on this, his final recommendation was ensuring the recruitment of a cadre that would ensure the sustainability of the systems put in place.

Dr Sarkar concurred that knee-jerk policy decisions to introduce reforms must come with changes in the supporting environment, and that this is not unique to Sri Lanka. The successful introduction of ICT reforms will ride heavily on education and sensitization. It may take time, as there are issues people have with engagement, in addition to the factors Mr Deshapriya mentioned. He posited that there is still a cultural element involved in how efficiently systems of automation are designed and implemented, and that there will be sectors that will resist it. Ms Wickramasinghe echoed this point, noting that the public sector is known for its resistance to change. She suggested that the way to create buy-in for reform would be for initiatives implemented to be justified by an evidence base, where outcomes are quantified in terms of time taken for a process and cost-savings.

Dr Savitri Goonesekere expressed her view that modernisation should deliver what citizens of this country would like best – competent, efficient public servants with integrity who are committed to performance. She raised whether Sri Lanka has the institutional framework to allow such workers to flourish and contribute to the country's development, in line with the Hon. Minister's suggestion of re-examining the Administration Regulations and Financial Regulations. She noted that the Panellists raised questions of structures and institutions, in contrast to Prof. Moore's view of not looking at the bigger, more abstract picture.

The Size of the Public Sector

Dr Sarkar expressed concerns on dependence on automation, such as its impact on employment. The Hon. Minister also indicated that it would lead to an automatic reduction in the number of public servants, but over a long period of time. Mr Ranugge, however, countered that there may not be a reduction in the number of public servants post-digitalisation, due to the government's responsibility to provide employment opportunities. Digitalisation may be an answer to organisational issues, but may not immediately result in a reduction in the cadre. Furthermore, unless there is strong political commitment to reduce the cadre by, for instance, working with the private sector to hire educated youth, a reduction is unlikely to occur in the short term.

Ms Wickramasinghe offered that jobs are often targeted at those who have barely completed their O-Levels, have no means of employment and could get involved in nefarious activities if not gainfully employed. Prof. Moore stated that when countries such as Sri Lanka initiated public sector reforms in the 1980s and 1990s to reduce the size of the sector, it did not work given that it constituted a significant part of the overall labour force. Sri Lanka cannot afford the political cost of dismissals from the public sector, and could instead stop recruiting new people, redistribute jobs where possible, offer early retirement and increasingly rely on the ageing population to reduce numbers. Mr A. H. S. Wijesinghe agreed that there is excess labour in the public service and a duplication of activities at the central and provincial levels. He inquired if a mechanism to distribute workers (for instance, across the primary, secondary and tertiary sectors of the economy) to maximise productivity could be a way forward.

Mr Pakiosothy Saravanamuttu inquired if a necessary, and not a sufficient, condition for modernisation in Sri Lanka's context would require a reduction in the number of public servants, such that there are enough people to do the job efficiently. He recognised that this is a largely political question, given that competing parties promise an increase in

jobs to their constituencies every election cycle. He questioned if there is a way to break this culture of entitlement to public sector jobs and communicate to people why there must be a reduction. He also inquired if there was any attempt to reach out to the political opposition to come to a consensus that could outlast the present government.

Constraints and Priorities

Mr Janeen Fernando inquired what binding constraints may make modernization activities meaningless if unaddressed. The Hon. Minister spoke about a lack of willingness to embark on modernization as a binding constraint, while Ms Wickramasinghe suggested that seniority-based promotions are an issue, given that there is no meritocracy in public service, leading to people feeling psychologically stifled with no way of moving forward based on performance.

Ms Faiza Effendi asked the panellists to select one priority intervention to accelerate the modernization of the public sector in Sri Lanka. The Hon. Minister said it would be difficult to pick one area, and argued in favour of a holistic approach, where digitalisation, restructuring, increasing awareness and capacity-building would take place simultaneously. However, he stressed on the need to first have a strategic plan for public service reform. Ms Wickramasinghe argued in favour of a robust anti-corruption regime, which would put in place systems and processes that would make the government more efficient and would free up government funds to be invested elsewhere. Based on Mr Deshapriya's intervention, Prof. Moore suggested that it was worth exploring the establishing a small, specialist unit in the public service to support government organisations trying to undergo big changes in technology, offering not technical support, which could be outsourced, but organisational leadership.

Considerations for Reforms

Prof. Moore cautioned against thinking about large, abstract issues, such as coordination, corruption, the structure of government or ICT when considering public sector reforms, which could result in a lot of time spent on generalities. He argued that the focus should, instead, be on targets of delivering better services, and that reform must start at each section of government, by identifying what it is delivering and how it can be delivered better. He also suggested perhaps setting up a system that identifies, at any moment in time, the five most important bottlenecks that are solvable, which are then communicated to the President, Prime Minister and relevant Minister.

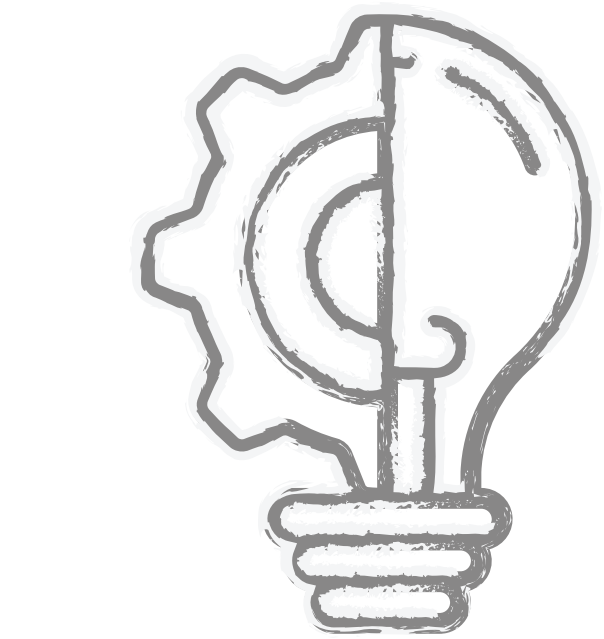
Mr Dhanapala suggested that administrative reforms focus on functional review – what Agency A is doing must not be duplicated by Agency B, ensuring unique delivery mandates. The key challenge to be considered is ensuring that citizens view the government as a single entity. Once roles and responsibilities have been clarified, the focus can then be on modernisation, business process engineering and digitalisation. The Hon. Minister responded by restating that while there are three tiers of government, all three tiers fall under one Ministry, allowing for unified policy decisions on the public sector. He also stated that while the nine Provincial Councils have not been functioning over the last two years, the possibility of upcoming elections should rectify this.

Mr Easwaran Rutnam touched on policy inconsistency and whether digitisation efforts, if taken on by this government, will continue with future governments, or whether the system could potentially be dismantled. Mr Rutnam also questioned what systems would be put in place to ensure data protection and that public information will not be misused by authorities. To this point, the Hon. Minister noted that the Right to Information Act was passed to enable citizens to access information.

The Hon. Minister argued in favour of an overall human resources policy for the country, as observed in countries such as Malaysia; the policy would be formulated by planning departments and would foresight the need for trained personnel, such as doctors, based on observed trends. He emphasised that graduates are currently unemployed as they are not matching market demands, calling for universities to revisit the courses offered. He also stated that change is happening in the IT industry in terms of internship opportunities provided for university students, changes in syllabuses and more access to information. Making such simple changes in the Arts subjects will also have bigger impacts in the long run.

This Working Paper was compiled from a live recording of the event, and notes taken by rapporteurs. The views, opinions and ideas expressed here are a summary of the opinions of the Speaker, and do not reflect those of either UNDP Sri Lanka or LSE South Asia Centre.

The key objective of the 'Colombo Development Dialogues' is the generation of practical and relevant actions for all related sectors discussed in this Working Paper. The organisers and partners for the event will utilise all available channels to disseminate the findings of this Working Paper, which will be available to download free of charge from the websites of UNDP Sri Lanka and LSE South Asia Centre.



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