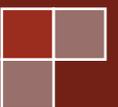# The Local Economic Governance Program: Notes for Practitioners

By Verité Research

Revenue Collection

Contents

Revenue Collection

Introduction

The main sources of funds for a Local Authority (LA) are intergovernmental transfers/government grants, revenue generation through taxes, user fees and licenses and proceeds from investments. The responsibility of the LA to provide services to their local residents and their authority to raise revenues are intertwined functions and it is essential that the LA generates enough revenue to meet its expenditure requirements.

Government grants to LAs have been low and are sometimes not transferred/received. Revenue generation by LA is funds raised directly in their local area. Unlike central government transfers, own-source revenues are at the LA's discretion. The LA is constitutionally bestowed with the authority to raise revenues through local resolutions, procedures and actions.

Own-source revenues can be categorized as taxes, user fees, licenses/permits, fines, investment proceeds and other miscellaneous sources.

Most commonly used own-source revenue instruments by Municipal Councils (MCs) are[1]:

- **Stamp duty:** Charged on bills of exchange, cheques and promissory notes, on documents in relation to any transaction with any bank, on documents presented or filed in civil proceedings, on instruments compromising or relating to district matters[2]
- **Assessment tax:** All land and buildings within MC limits have to be registered with the Municipal Council Assessment Registry. This tax is charged as a percentage of the Annual Assessment Value of land and buildings. It varies according to the services and facilities in each area and the percentage to be charged is first decided by

---

[1] N.B. There are some variances among the mandates of the three types of LAs in Sri Lanka, Municipal Councils, Urban Councils and Pradeshiya Sabhas, including the mandate to raise revenue.

[2] Inland Revenue Department, (2012). *Stamp Duty Act No. 43.*. [online] Available at: http://www.ird.gov.lk/publications/Acts/Stamp/SDActNo.43[E]1982.pdf [Accessed 12 Jun. 2015].

the Council and then approved by the Provincial Council Minister. Buildings and land that are used for commercial purposes are charged a higher tax.

- **Leases on municipal land**
- **Trade tax/licence:** All individuals carrying out businesses within a particular Municipal Council area should obtain a trade license issued by the Municipal Commissioner or pay a tax.
- **Court fines:** Fines paid at the Magistrate for offences committed within the locality will be remitted to the MC.[3]
- **Shop rents**
- **Market stall rents**
- **Rest house rent**
- **Entertainment tax:** Public performances except religious, educational and charity shows that take place within a particular Municipal Council area are liable to pay entertainment tax which is included in the price of tickets.
- **Advertisement tax:** Permit has to be obtained for any advertisement that is placed within an open space for the viewing of the public within a Municipal Council area.
- **Vehicle tax:** A fee is charged to park on roads, parts of roads and areas declared by MC as parking lots.
- **Quarters' rents**
- **Slaughter house fees:** All slaughter houses and meat stalls within a particular Municipal Council must obtain a license issued by the Municipal Commissioner. In most cases meat stalls are annually auctioned by the Municipal Council.[4]

N.B. The instruments used above are the same for an Urban Council (UC).

---

[3] Federation of Sri Lankan Local Government Authorities, (2011). *Municipal Council Revenue Collection*. [online] Available at: https://fslga.files.wordpress.com/2011/03/municipal-council-revenue-collection-pdf.pdf [Accessed 12 Jun. 2015].

[4] The Asia Foundation, (2007). *Regulatory Mapping: Guide Book on Local Government Services, Municipal Councils*. Volume 1. Sri Lanka.

Local governments have failed to exploit the tax potential of their jurisdictions due of lack of information, low institutional capacity and weak political commitment. These issues persist in other parts of the country, but the specific LAs' inability (discussed below) to generate revenue was amplified by the long running civil war in Sri Lanka. For example, local residents had been displaced by war, the Sri Lankan and Indian army were end-users of municipal services and buildings but could not be charged for using the services, LAs were not able to provide the minimum required level of services, staff could not be trained, properties were damaged and businesses could not operate as normal. Over the years this had led to a build-up of arrears.

Against this backdrop, after the end of the war, there was an urgency to collect all outstanding revenue over the last few years to fund their operations. However, the experiences of the LAs revenue collection attempts are also broadly applicable to many LAs in Sri Lanka.

Purpose/Rationale of Tool for LA:

LAs need money to continue providing services, finance the municipality's operating cost and for capital investments. Especially after the end of the war, the demands faced by the LA have increased, thus the capacity to boost own-source revenues in addition to government grants has become imperative.

Government grants/funds may not be adequate or delays or failures to allocate funding by central government can have severe consequences on LAs ability to deliver services if they have no alternative source of income. Hence it becomes important that LAs depend instead on the revenue they generate to finance public services and projects. But local authorities have not been conferred with the adequate resources to identify their sources of income and monetise the potential defined by the ordinances and by laws. Such issues/practices over the years has led to an accumulation of arrears.

Purpose/Rationale of the Tool for Citizens (Residents and Local Businesses):

Arrears collected are planned to be invested in projects that would generate an income for the LAs in the future. Yearly revenue generation will be complemented by returns from investments which will equip the LA with additional resources to provide more and higher quality services to the local residents, improving their quality of life. As the case studies below demonstrate, LAs were able to expand services significantly through better revenue collection and improved services also led to greater compliance among citizens leading to a virtuous cycle of greater public services and satisfaction.

Design/Plan and Conceptualisation:

Revenue collection was planned and conceptualised as a part of The Asia Foundation's (TAF) Local Economic Governance (LEG) "own-source" revenue generation program. The intervention complemented the revenue assessment and management activities that were initiated as part of the LEG project.

The intervention had two core areas of focus; 1) collect arrears on unpaid taxes through comprehensive identification and active efforts for collection 2) encourage active citizen

compliance on payments through increased public awareness. To collect as much arrears as possible efficiently, policies were improved, new procedures were introduced, statutory notices of assessment or 'K-forms' used for assessment tax collection were computerised[5], staff were trained and the organizational structure was adjusted accordingly.

---

[5] This is discussed in further detail in this series in note #3 of this series, *Citizen Friendly Payment Systems*

The Implementation Process

The Asia Foundation approached different LAs from 2010 onwards and proposed technical support. The LAs include Jaffna Municipal Council (MC), Chavakachcheri Urban Council (UC), Vavuniya Urban Council, Batticaloa Municipal Council and Kalmunai Municipal Council.

A technical expert identified by TAF, visited the LAs carrying out an audit to analyse the budget, ledger and all necessary documents, and interviewing local authorities to gauge the financial position of the LAs. The expert assembled a report consisting of the financial capacity of the LAs, the arrears pending and recommendations on different procedures to collect the arrears. Each LA was requested to propose which areas it wanted to choose to proceed with on revenue collection and the procedures followed.

TAF also introduced the electronic K-Form. Previously, an officer in a LA would have to refer to a lot of documents to issue a hand-written K-Form- a lengthy process which could on occasion take several months. Under the electronic system, K-Forms are generated by the computer instantly.

Further, to facilitate the process, capacity building programs were conducted for LA officials. Capacity building encompasses human, scientific, technological, organisational, institutional and resource capabilities. A key focus of the capacity building process, mirroring international practices was to enhance the ability to evaluate and address crucial questions related to policy choices and modes of implementation.[6]

The interest shown by different LAs and the procedures they chose to collect their arrears varied according to their preferences. For example, some LAs did not want to have designated revenue collection periods but instead chose to incrementally follow up on recovering arrears.

---

[6] United Nations Sustainable Development, (1992). *Agenda 21, Chapter 37, Capacity building.* Brazil

```
┌─────────────────────────────────┐
│ TAF approached LAs and proposed to │
│ evaluate arrears and suggest methods of │
│ arrears recovery and revenue collection. │
└─────────────────────────────────┘
                 │
                 ▼
┌─────────────────────────────────┐
│ Technical expert analysed LA's financial │
│ books and interviewed LA officers to │
│ gauge the financial *position/capacity* of │
│ LA │
└─────────────────────────────────┘
                 │
                 ▼
┌─────────────────────────────────┐            ┌──────────────────────────┐
│ Technical expert presented the LA with │───▶│ Choose not to take on the pro- │
│ assembled reports on the financial *posi-* │    │ gram │
│ *tion/capacity* and suggested arrears col- │    └──────────────────────────┘
│ lection recommendations │
└─────────────────────────────────┘
                 │
                 ▼
┌─────────────────────────────────┐
│ LA chooses preferred areas and meth- │
│ od/s of revenue collection │
└─────────────────────────────────┘
                 │
┌──────────────────────────┐      │
│ *TAF introduced electronic* │─────▶│
│ *K-Form* │                        │
└──────────────────────────┘      │
                                   │
┌──────────────────────────┐      │
│ Capacity building by TAF │────────▶│
└──────────────────────────┘      │
                                   ▼
┌─────────────────────────────────┐
│ Implementation: create awareness and │
│ collect revenue and pending arrears │
└─────────────────────────────────┘
```

Case Studies

Case Study 1: Batticaloa MC Implementation

Batticaloa MC chose to collect all identified arrears within a specific time period. The MC declared June 2014 as the Revenue Arrears Collection Month. The MC aimed to collect as much arrears pending as possible in June.

The MC followed a 4 step process in revenue collection:

1. Public awareness on tax obligations
2. Mobile collection centres to increase ease of payment
3. Incentivising tax payment through reward schemes
4. Pursuing legal action to deter non-compliance

1. Public awareness – In May 2014, the MC created awareness among the locals by issuing notices, putting up banners and making announcements on speakers in Kovils, Churches and Mosques. Following this,, they held a media, stakeholder and tax payer conference to inform everyone of all the developments in the MC so far and their plan to collect arrears in a month. The MC and Tax Payer's Association collaborated to collect arrears. The staff were educated on the project, strategy and procedure.

2. Mobile collection centres – Towards the end of the June, in an effort to increase collection further they decided to establish mobile arrear collection points in public places. The first mobile arrear collection point was at Manchathoduwai Technical College on the 28th of June where 6 teams collected a total of Rs 250,000. The second mobile tax collection was held at Mamangam Cultural Hall and Samurthi Office at Iruthayapuram on the 5th of July where 7 teams collected a total of Rs 430,000. Mo-

bile arrear collection points on the 8th, 9th, 10th and 11th of July collected Rs 97,000, Rs 191,000, Rs 67,000 and Rs 50,000 respectively.

3. Incentivising tax payments – The citizens who paid their taxes in full and early were recognised at an awards ceremony. The MC also introduced a privilege card scheme for early payment on taxes.

4. *Legal action – For those who still had not paid their taxes, the MC threatened to issue distaining orders. The MC threatened to issue a distaining order (a municipal order to demand payment) to collect arrears from those who had still not paid their taxes and eventually in some instances it had to file cases to recover the pending taxes.*

Table 1: Total arrears collected as of July 2014

Category	Opening Balance (Rs)	Recovered (Rs)	% Recovered	Balance (Rs)
Stamp Duty	35,000,000.00	40,183,128.00		
Assessment Tax	25,537,283.87	6,494,012.63	25%	19,043,271.24
Leasing	7,018,448.04	279,583.70	4%	7,058,164.34
Trade Tax	6,933,028.00	1,851,750.00	27%	3,401,567.12
Outside shop rent	1,852,074.00	728,700.00	39%	1,113,874.00
Rest house rent	718,323.04	-	0%	718,323.04
Market shop rent	741,868.80	143,770.00	19%	598,098.80
Entertainment tax	558,879.03	-	0%	218,704.03
Advertisement tax	955,162.50	715,312.50	75%	239,850.00
Quarter's rent	329,861.18		0%	329,861.18
Slaughter house fees	116,204.00	2,835.00	2%	55,601.00
Total	**79,761,132.46**	**50,399,091.83**	**63%**	**32,777,314.75**

Source: Batticaloa MC

After collecting arrears in June and July, the MC identified further remaining arrears and underestimated pending revenue. The MC had calculated Stamp Duty arrears to be at Rs 35 million, but they recovered more than Rs 40 million (as shown in Table 1). The underestimation of arrears was because of insufficient and incomplete documents. Moreover, the MC was able to estimate arrears only up to 2008 as they did not have supporting documents for previous years and any documents available were incomplete.

The total percentage recovered, 63%, is the total amount collected as a percentage of the total arrears estimated.

The MC also recognised that most of the uncollected arrears were of small values, amounting to less than Rs 5000. A large number of these small amounts are pending as the MC does not find it cost effective to pursue legal action. Some arrears were deemed too small to justify recovery efforts. E.g. where the administrative costs of collection such printing and posting a reminder to the tax payer exceeded arrears.

Case Study 2: Kalmunai MC Implementation

Kalmunai MC chose to systematically collect arrears for selected specific years during the period of the TAF intervention. TAF approached the Kalmunai MC in 2011. The MC chose to collect arrears pending since 2006. The staff at the MC were not aware of the importance of own source revenue generation and moreover were not aware that assessment tax was a key source of revenue to the MC.

The MC conducted awareness programs for the public and politicians, carried out media campaigns and made public announcements regarding impending revenue collection efforts.

Table 2: Total revenue collection 2009-2014

Revenue Source	2009	2010	2011	2012	2013	2014
Assessment Tax	3,262,024.55	2,696,450.10	8,533,731.57	9,573,432.25	8,784,417.07	5,285,342.48
Stamp Duty		4,636,075.00	22,130,484.00	10,056,483.12	20,434,820.58	30,242,079.00
Courts Fine	3,324,486.00	1,885,900.00	6,868,750.00	11,168,602.00	4,783,402.00	9,152,379.00
Trade License	1,280,960.00	1,469,540.00	1,487,377.00	3,569,235.10	3,992,164.00	5,150,502.00
Shop Rent	3,871,095.00	3,912,295.00	3,676,645.00	11,163,929.80	2,968,875.00	4,357,070.00
Shop Rent (fruit)	101,750.00	161,000.00	157,260.00	372,213.50	148,950.00	
Slaughter License	3,415,029.27	2,832,961.76	4,521,548.19	5,408,210.00	5518920.00	6,272,445.74
Public	4,644,599.7	826,800.00	3,152,363.0	2,146,760.0	2,521,798.0	2,701,520.0

market	0		0	0	0	0
Vehicle Park	746,090.32	942,988.90	1,288,081.00	1,535,912.50	1,767,550.00	3,088,752.92
Advertisement Tax	199,815.00	510,513.00	559,800.04	611,825.50	658,652.50	485,282.50
Total	20,845,849.74	19,865,523.76	52,376,039.80	56,081,971.87	51,579,549.15	66,735,374.64

Source: Kalmunai MC

Table 2 shows the revenue collection from 2009 to 2014. The MC chose to initiate arrears collection in 2011, which explains the jump in revenue collected from 2011 onwards. Despite not initiating a specific revenue collection month, systematic identification of revenue sources and arrears[7] helped the MC to see a dramatic improvement in own source revenue, increasing over 160% in one year.

Revenue collection improvements were resilient overall, but demonstrated some vulnerability to political change. The decline in revenue in 2013 was during a transition of mayors in the local council.[8] Revenue from assessment taxes are yet to recover to pre-2013 levels.

Case Study 3: Vavuniya UC Implementation

Vavuniya UC opted to conduct a revenue collection drive within a specific time period. The UC declared September and October as the arrears collection months with a focus on collecting assessment taxes. Awareness programs were conducted by distributing leaflets to tax payers, publishing notices on the newspaper, and displaying banners in public places and public announcements. The necessary data on revenue was collected through the revenue assessment process[9] conducted prior to the revenue collection drive and an ap-

[7] For related information, see note #1 in this series on *Revenue Assessment and Management*
[8] Interview with Kalmunai Civil Society Group. (2015).
[9] See also *Revenue Assessment and Management*

propriate plan was devised. Two reminders and a final red notice were issued accordingly to tax payers who had still not cleared their arrears prior to the collection process.

Six trained officers were assigned a team each, each team consisted of an Administrative Officer, an officer from Assessment Tax Section, Distaining Officer and a Police Officer. Distaining officers were hired on a contract basis and were paid 15-20% commission of tax on recovery. Teams were allocated wards and had to visit houses to collect the arrears in a given time period. Official receipts were issued on the spot to those who paid.

The team did house visits daily for the 2 assigned months, and an average of Rs 86,000 was recovered each day.

Case Study 4: Chavakachcheri UC Implementation

The Council chose to start with assessment tax arrears collection. The UC also faced a problem of poor tax revenue due to outdated valuations as they were still using 1989 valuation rolls to compute their assessment tax because they could not update them during the war. The Valuation Department was contacted and valuation rolls were updated. Updating valuation increased the total valuation and thus total assessment tax arrears **by 7.5 times**.

In addition to improving revenue potential through updated valuation, the LA mostly relied on systematic identification of arrears through moving to a digitized payment system.[10] The council input property details data into the system and initiated assessment tax arrears collection.

In both 2013 and 2014 the estimated arrears were greater than the total collected (See Table 3 below). But year on year revenue collected continued to improve with 2014 seeing an increase of nearly 50% from 2013.

---

[10] For related information, see note #3 in this series on *Citizen Friendly Payment Systems*

Table 3: Estimated Arrears vs Total Collected

	2013	**2014**
Arrears Estimated (Rs)	6,000,000	6,000,000
Arrears Collected (Rs)	3,108,051	4,589,713

Source: Chavakacheri UC

International experiences: a conceptual framework of designing revenue collection instruments

Efficient revenue collection depends on revenue instruments. The above case studies demonstrate that most LAs narrowed their focus with many emphasising assessment taxes as a primary focus. The following framework devised through studying local government revenue collection issues in South Asia by Kelly et al offers some guidelines for targeting revenue growth in LAs. The LEG project's own experiences in the cases discussed above suggest that the considerations discussed would have widespread applicability in Sri Lanka.

Revenue instruments would be most effective when formulated under the following considerations/criteria: revenue potential, economic efficiency, equity, administrative feasibility and political acceptability.[11]

- Revenue Potential

Revenue potential is the most important criterion of a revenue instrument. It depends on the buoyancy and stability of the revenue base. The buoyancy is measured by the response of tax revenue to changes in income, population and inflation and stability is the ability of the instrument to generate a steady stream of revenue over the years. Buoyancy and stabil-

---

[11] Kelly, R. (2015). *Intergovernmental Revenue Allocation Theory and Practice: Application to Nepal.* [online] Roy Kelly and President and Fellows of Harvard College, pp.8-11. Available at: http://www.cid.harvard.edu/hiid/624.pdf [Accessed 10 Oct. 2015].

ity are determined by both tax policies that defines tax base and the tax rate structure, and by the tax administration which identifies the base, assessment, collection and enforcement. For example, assessment tax would be more stable and less buoyant as valuation rolls are updated only once in a few years and stamp duty would be more buoyant and less stable as the tax is levied on varying transaction values that increase with inflation.

It is challenging to devise a tax instrument that is buoyant and stable. Thus it is important to have a mix of instruments with varying levels of buoyancy and stability. For example, some LEG project partner LAs chose not to pursue utilising revenue instruments which have adequate legal provision and are currently unused. This was due to high setup costs (e.g. process of gazetting by-laws, collection) and low revenue potential such as licensing for specific businesses such as hairdressing salons in small towns.

- Economic Efficiency

Taxes can induce economic inefficiencies leading to social welfare costs. These economic distortions can be in investments, production, consumption and location decisions. Tax administrators need to structure taxes so as to minimize economic inefficiencies. The extent of the social welfare cost depends on demand and supply elasticities and the level of tax. As for taxes, economic inefficiencies will be minimized when low rates are levied on broad bases, and as for user charges, user fees should be just above the cost of providing the service.

- Equitable Revenue

The revenue instruments need to be as equitable as possible; based on ability to pay or principle beneficiary. As for the ability to pay, the individual should be taxed based on his income or wealth or value of transaction, for example assessment tax and stamp duty. And as for the beneficiary, he should be charged by the usage. Equitability is determined by the final distribution of the tax burden. The equitability of the tax can be measured by where the market settles after demand and supply have adjusted to the taxes.

- Administrative Feasibility

Revenue instruments need to be designed to be administratively feasible. They should be easy and low cost to administer and to comply, taking into consideration the current capability/capacity of the LA. Rather than starting with the most ideal system for the tax policy, which usually leads to failure as it cannot be supported by the staff and the system, the administrators are better off assessing the current capacity of the LA and designing the revenue instruments in a more realistic way. The system can be gradually improved to enhance the instrument over time.

The success of the tax policy depends on how effectively the instruments are delivered to the payers. Again, the primary reason for under-utilising revenue sources for many LAs was the cost of administering the sources could cancel the benefits of increased revenue sources.

- Political Acceptability

Voluntary compliance by the taxpayer is essential for the success of the revenue system. This can be enhanced by reducing the paperwork and the time taken for the individual to pay, as a cumbersome process of may impede a willing payer. The payer acceptability can be increased by providing promised services on time, improving them over the years, and providing a more transparent and accountable system.

The process of revenue collection described in the case studies above are all demonstrative of the value of easing access and efficiency of payments. The LEG project has also worked towards improving the efficiency and transparency of payment processing. This is discussed in note #3 of this series.

Lessons Learnt and Potential for Institutionalisation and Sustainability

The LA's failure to generate revenue over the years, stem from common issues that prevail in other countries such as inadequate information, institutional incapacity and frail political systems and aggravated by unique problems caused by the war such as displacement of people and breakdown of institutions. International experiences indicate that local authorities in most developing countries rarely have even sufficient resources to carry out the most basic local level services.[12]

In addition,, the locals were not aware of the LAs, their functionality and authority. The locals for example, did not know that they had to pay taxes, user fees and for licenses.

After the arrears collection program, the LA staff and public became more aware of the role of the LA, how the finances are generated, how and where it will be expended and the procedures of paying/collecting. Getting finances right at the local government level will help achieve broader goals of improved state services and accessibility. Collated observations and learnings of key considerations in that respect are discussed below.

Revenue Sources - Currently the LAs are working with approximately 15 different sources of revenue, but the respective ordinances have stipulations for *32 sources* of revenue. The LAs need to diversify and expand their local tax base and emphasize on capital investments for increasing their revenue potential in the long term. Staff training is essential to generate revenue from underutilised and unutilised revenue sources and increase efficiency.

Valuation - The valuation rolls used for assessment tax were out of date and obsolete. Prior to the 2013 revaluation, the last valuation was in 1990 in Jaffna and in 1989 in Chavakachcheri. Although the war had disrupted the practice of updating property valuation at least once every five years, after the initiation again in 2013 the re-valuation is likely to continue.

---

[12] Bahl, R. and Linn, J. (1992). *Urban public finance in developing countries.* Oxford [England]: Published for the World Bank [by] Oxford University Press.

High Value Revenue Sources - Assessment tax and stamp duty tax accounted for the highest total and highest proportion of arrears collected because the base which is taxed is of high value and the tax payer/end user is easy to identify and hold liable. eg: guest house rent arrears was hard or impossible to collect as the Indian army and the Sri Lankan army were end users in LAs such as Batticaloa, making recovery too difficult. A different problem was encountered by some LAs due to poorly written lease agreements or where the lessees cannot be identified or held accountable.

Gaps in Available Data - Apart from identifying the sources, collecting data to calculate arrears was difficult. Past information was not well documented, the records were maintained in books and ledgers, accessing the information was tedious and some data are still missing. For eg: when the Batticaloa MC first started their calculating arrears in 2013 they estimated Rs 79mn but by 2015 after accessing and assessing more data they had estimated arrears worth Rs 97 mn, but are still unsure as to the final estimate and how much more needs to be collected.

Potential for Sustainability - Once training on revenue collecting procedures are completed, the potential for sustainability is high as there is no further requirement for constant training. Some problems exist due to LA staff transfers (occurring every five years on average) causing a loss in human capital. However, the impact is likely to be limited if managed by LAs since staff transfers are a gradual and often predictable process and there is sufficient time for the trained staff to transfer knowledge. Facilitating the development of 'institutional memory' is therefore important in sustaining impact.

Sometimes LA may face **obstacles in revenue collection** when a new mayor takes office; this was observed in the Kalmunai 2013 revenue collection figures. Revenue generation instruments used should be politically acceptable for both the locals paying and the mayor/Council who hold the authority to impose the tax, for revenue generation to be sustainable. Political and bureaucratic support is vital for proper implementation and citizens' voluntary compliance is crucial for the implementation to be successful.

Many of the above issues were successfully overcome by the LAs in collaboration with the LEG programme. However, some impediments do persist in sustaining the advancements,

particularly due to vulnerability to political will. Fear of public opposition limits LA councillors' willingness to increase and expand taxation. Even after gains are made, the revenue collection process can be disturbed and not utilised to its full potential particularly when political actors may feel it is disadvantageous.

Therefore, citizen awareness and accountability processes such as *participatory budgeting and planning* and *e-citizen report cards* which were also introduced in the LEG project can play a critical role in creating public awareness and support for taxation. Participatory budgeting can increase public support as citizens' are included and aware of how tax revenues are utilised reducing disincentives for political actors' to stymie revenue collection for short term gain. Report cards can act as pressure to improve LA services, thereby creating incentives to have a stronger revenue base.

List of References

Bahl, R. and Linn, J. (1992). *Urban public finance in developing countries*. Oxford [England]: Published for the World Bank [by] Oxford University Press.

Federation of Sri Lankan Local Government Authorities, (2011). *Municipal Council Revenue Collection*. [online] Available at: https://fslga.files.wordpress.com/2011/03/municipal-council-revenue-collection-pdf.pdf [Accessed 12 Jun. 2015].

Inland Revenue Department, (2012). *Stamp Duty Act No. 43.*. [online] Available at: http://www.ird.gov.lk/publications/Acts/Stamp/SDActNo.43[E]1982.pdf [Accessed 12 Jun. 2015].

Interview with Kalmunai Civil Society Group. (2015).

Kelly, R. (2015). *Intergovernmental Revenue Allocation Theory and Practice: Application to Nepal*. [online] Roy Kelly and President and Fellows of Harvard College, pp.8-11. Available at: http://www.cid.harvard.edu/hiid/624.pdf [Accessed 10 Oct. 2015].

The Asia Foundation, (2007). *Regulatory Mapping: Guide Book on Local Government Services, Municipal Councils*. Volume 1. Sri Lanka.

United Nations Sustainable Development, (1992). *Agenda 21, Chapter 37, Capacity building*. Brazil

Annexure 1 – Semi-Structured questionnaire for TAF staff

1. What was the primary purpose and expected outcome of introducing the tool/s to local authorities?

2. What was the response of local authorities to the tool?

3. What was their level of enthusiasm when the tool was first introduced? (scale of 1-10, 10 the being highest value)

4. Where was it implemented? Please list all locations

5. What was the level of implementation at each location? Please list appropriate level for each location (early stages/partially implemented/fully implemented)

6. Please list out the implementation process followed at each location.

7. What were the main changes and outcomes to the LA as a result of implementing the tool? Please list any empirical evidence to support the changes and outcomes mentioned.

8. What were the major challenges to implementing the tool

9. On a scale of 1-10 (10 being the highest) how would you rate the success of the tool and why?

Annexure 2 – Unstructured Case Study Questionnaire

A. **Case Study Objectives:**

1. Getting to a comprehensive understanding of how The Asia Foundation (TAF) has navigated the complexities and realities of politics in the Local Economic Governance (LEG) Project. (This includes all three strands/domains being addressed in the Practice Notes).
2. Unpacking the dynamic nature of the institutional and organizational structures and processes (political/social/economic/legal/other) at the sub-national level that have facilitated (or failed to facilitate) TAF's key objectives of institutionalization, innovation, replication and sustainability.
3. Exploring how political and economic incentives were built to provide citizen-centric services.
4. Documenting/highlighting the value-addition that the LEG Project provides to the existing body of conceptual and empirical knowledge.

B. **Questions for Unstructured KPIs and FGDs:**

1. Has TAF's LEG Project (and the three strands/domains embedded in this Project) been successful in terms of its stated objectives (as set out in Case Study Objective 2 above and as reflected specifically in the sub-objectives underpinning the three strands addressed in the Practice Notes)? Has the Project failed to realize these objectives?

   a) Please identify the key supply and demand-side enabling factors that have contributed to the success of the Project. These factors may include political/social/legal/economic/technical/other institutional/organizational structures and processes at the sub-national/LG level and in the relevant public policy space (such as factors associated with national/provincial gov-

ernment, donor practices, other development partners such as the private sector/Regional Chambers, citizen groups, etc.).

b) Please identify the key supply and demand-side factors that have undermined the success of the Project.

c) Please identify key procedural elements that stand out as innovative/novel in the LEG Project.

1. How have the strategic political economy approaches and tools adopted by TAF in the LEG Project worked in practice?

   a) What are the political incentives that have worked to make the Project a success?

   b) What are the political disincentives that have undermined the success of the Project?

   c) To what extent has the strategy of working closely with political actors (including "political champions") been useful in terms of realizing the objectives of the LEG Project? Explain for instance, how these "champions" have negotiated the challenge of getting broad buy-in/political ownership for the reform process. Has political competition and comparison played a role in shaping the incentives and behavior of these political actors?

   d) To what extent has the strategy of working closely with political actors (including "political champions") led to new risks that have in turn undermined the success of the LEG Project?

   e) How has the role of bureaucrats (as distinct from politicians) been balanced and contextualized in the Project?

   f) Has the existing political context had an impact in terms of the success/failure of the Project? If so, how (explain the dynamics of the link between the political context and the success/failure of the Project)? Explain how the specifics of Sri Lanka's sub-national/LG context have impacted on the LEG Project. Explain how the Project has addressed issues such as rent-seeking/corruption and political favoritism. Explain how the LEG Project has

navigated institutional realities during and after the civil war (including the nature of the state, of the state-citizen nexus, of the role of other development partners- for instance, the private sector and the donor community).

g) Explain how the LEG Project has addressed the issue of trust deficit in Sri Lanka's civil society and facilitated and embedded citizen "voice" mechanisms (and the active participation of citizens in the broader socio-economic development and political governance process) – particularly in relation to the empowerment of vulnerable and marginalized communities.

h) How has the politics of governance been blended with the imperative of economic growth in the Project?

2. To what extent can the strategic political economy approaches and tools underpinning the LEG Project be replicated – in other localities in Sri Lanka/by TAF in future programs/by other donors?

-What are the <u>key "good practice" lessons as well as major shortcomings</u> that may be useful for practitioners (Sri Lankan policy makers, the donor community, other key actors in this particular public policy space, etc.) attempting to replicate this "model"?