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# Ride the Wind but Know the Tide

15 years of politically informed  
subnational governance  
reform in Sri Lanka (2005–  
2020)

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## Table of contents

### Contents

Acronyms.....	1
1. Introduction .....	2
2. The Political Economy of Subnational Governance in Sri Lanka .....	4
3. Economy-focused and Participatory Pathways.....	7
3.1 Identifying entry points.....	7
3.2 After a tsunami and during a civil war (2005–2009) .....	9
Institutionalising more meaningful participatory local governance .....	9
Improved local resource allocation and distribution .....	11
An entry point to the provincial level.....	14
3.3 Consolidation in peacetime (2009–2014) .....	15
More inclusive and accountable local governance.....	17
The uphill path to changing internal incentives .....	18
3.4 Political turbulence (2015–2020).....	19
4. Lessons from TAF's Experience of Promoting Subnational Governance Reforms over the Long Term.....	24
References .....	28

## Acronyms

CSO	Civil Society Organisation
CBO	Community-based Organisation
DECs	Dynamic Economic Centres
eCRC	Electronic Citizen Report Card
EGI	Economic Governance Index
GESI	Gender Equality and Social Inclusion
GNI	Gross National Income
LTTE	Liberation Tigers of Tamil Eelam (Tamil Tigers)
LGRC	Local Governance Resource Centre
M&E	Monitoring and Evaluation
NGO	Non-governmental organisation
PPD	Public–Private Dialogue
TAF	The Asia Foundation
TALG	Transparent Accountable Local Governance Project
Top	Technology of Participation

# 1. Introduction

This case study provides an example of Thinking and Working Politically (TWP) in practice, by unpacking The Asia Foundation's efforts to support reform of Sri Lanka's subnational governance sector from 2005 to 2020. This work built upon several decades of support to strengthen democracy, resolve conflict, and encourage greater citizen participation in policymaking since The Asia Foundation (TAF) first established its office in Sri Lanka in 1954. The study seeks to show how the TAF subnational governance programme – comprising a sequence of projects over that time – ‘worked politically’ by focusing on and successfully navigating the political dynamics of devolution, prioritising locally owned and driven solutions, encouraging experimentation and iteration, and working with coalitions of reform-minded actors. In doing so, it contributed to addressing key developmental challenges the country faced at the time: poor access to basic services, limited government accountability and citizens’ mistrust of formal institutions, in both urban and rural areas.

Importantly, TAF recognised the integral role of informal norms, relationships, and incentives in shaping formal policies and institutions. While these underlying dynamics are considerably more challenging to alter, sustainable changes to formal governance structures and processes can be achieved only by strategically introducing and reinforcing alternative incentive frameworks that influence both formal and informal institutions within the system. It is therefore an example of the long-term application of TWP, in which TAF prioritised trust-based relationships, a deep understanding of what motivates key actors and agencies, and interventions that built on those to spur reform.

The paper looks at the evolution of the subnational governance programme in Sri Lanka over several key periods in the country's recent history, including the final stages of a 26-year civil war (see Box 1), the post-war reconstruction, rapid political transitions, a constitutional crisis, terror attacks, and finally and most recently a debilitating economic crisis. We describe how the TAF team collaborated with local partners – including local authority mayors and chairpersons, chief ministers of provinces, urban and rural council commissioners, and secretaries and staff within various government institutions, as well as international non-governmental organisations (NGOs), multilateral development banks, civil society organisations (CSOs), unions, and community-based organisations (CBOs) – to deploy locally grounded TWP approaches and strategies to facilitate meaningful and sustained policy reforms.

Looking back over a 15-year timeframe, the paper details the ways in which a series of consecutive projects successfully supported key improvements in local governance including: (1) institutionalised participatory planning and budgeting processes, first in 47 local government authorities<sup>1</sup> and later in

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<sup>1</sup> Sri Lanka is divided into nine provinces, each governed by a Provincial Council, which has authority over sectors such as education, health, agriculture, and local governance. Under the Provincial Councils there are Local Authorities, of which there are three types: Municipal Councils (MCs) – for major cities (e.g., Colombo, Kandy, Galle); Urban Councils (UCs) – for smaller towns; and Pradeshiya Sabhas (PSs) – for rural areas.

all 341 through a national framework; (2) improved the national and subnational policy and legal environment for devolved subnational governance; and (3) developed local authority capabilities to deliver improved public services and engage with the private sector to bolster local economic development. Taken together, these improvements have made local governance more resilient to changing political and economic conditions and more responsive to diverse community needs.

**Box 1: The Sri Lankan Civil War (1983–2009)**

The Sri Lankan civil war was a prolonged and devastating armed conflict between the Sri Lankan government and the Liberation Tigers of Tamil Eelam (LTTE), spanning from 1983 to 2009. Rooted in long-standing ethnic tensions between the Sinhalese majority and the Tamil minority, the war resulted in approximately 150,000 casualties and widespread displacement of civilians.

The war was driven by historical grievances, including policies perceived as discriminatory against the Tamil population. Notably, the 1956 Sinhala-Only Act and post-independence political decisions led to reduced Tamil representation in governance, fuelling demands for autonomy. Over the following decades, peaceful protests and political negotiations by Tamil parties failed to yield meaningful reforms. In response, the LTTE, under the leadership of Velupillai Prabhakaran, sought to establish an independent Tamil state – Tamil Eelam, in the north-eastern regions of Sri Lanka. The war was characterised by intense insurgency tactics, including suicide bombings, targeted assassinations, and large-scale military operations. Both parties to the conflict were accused of serious human rights violations.

This case study is structured as follows:

Following this Introduction, Section 2 provides a brief history of the political economy of subnational governance in Sri Lanka, outlining the context in which these local governance improvements were pursued. Section 3 describes three overlapping pathways that TAF traversed to improve local governance in Sri Lanka over 15 years. It provides an overview of the cumulative effort across those programmes that led to sustainable reforms. Section 4 looks at what TAF learned from these programme experiences. Within this context, and with the benefit of hindsight, this last section also considers what TAF could or should have done differently in Sri Lanka. It also summarises some of the successful processes and lessons that TAF and local authorities implemented, such as

participatory budgeting and planning, and improvements to tax collection and spending transparency, which have contributed to improving governance at the national level.

The paper derives largely from programme monitoring data and reports produced throughout that time, some of which are public and some of which donors have retained as internal documents.<sup>2</sup> These were supplemented with several key informant interviews with former TAF staff and donor partners carried out in late 2024<sup>3</sup>.

<sup>2</sup> For instance, an external evaluation undertaken by Triple N Consulting, Melbourne, in 2018.

<sup>3</sup> Interviewees included former strategic and technical advisors for the local governance programme from 2005 to 2015, a provincial programme officer, two provincial Commissioners of Local Government, a Community Development Officer associated with a local authority, and a former donor official.

## 2. The Political Economy of Subnational Governance in Sri Lanka

In an interview<sup>4</sup> conducted on 18 March 2010 with *The Straits Times*, a journalist asked then Sri Lankan President Mahinda Rajapaksa about his views on federalism. '*Federalism is a dirty word in Sri Lanka*', he replied, '*It is linked ... with separation. If I want to leave politics and go home, the best way is to talk of federalism*'. In contrast to positive ideas of federalism as a mechanism to decentralise decision-making and enable governments to be more responsive to local needs, as is common in many other contexts, for Rajapaksa, as for much of the political establishment in Sri Lanka, federalism has for many years had negative connotations. These are linked to the country's colonial past and the post-colonial ethnic divisions that led to the civil war (see Box 1). Historically, unmet desires for decentralisation fuelled claims to separatism, which, in turn, sustained the war as long-standing ethnic tensions between the minority Tamil and majority Sinhala-dominated government resulted in violence from 1983 to 2009. Over the next 26 years, the Sri Lankan armed forces fought the LTTE, who sought Tamil self-determination and a separate state.

This link between separatism and federalism was meant to be overcome with the 13<sup>th</sup> amendment to the Sri Lankan constitution passed in 1987.<sup>5</sup> This amendment provided a framework for devolved governance by establishing a new system of 'Provincial Councils' with an elected council and powers over specified policy areas such as education, agriculture, health, land management, and policing.<sup>6</sup> It introduced a power-sharing arrangement enabling self-governance in all nine of Sri Lanka's provinces, whether Tamil- or Sinhala-majority areas.

In theory, the Provincial Councils were supposed to contribute to easing (violent) conflict by increasing power sharing between different groups. Yet, because they devolved not only administrative authority (deconcentration) but also political power (devolution) to the councils, many in the Sinhalese majority viewed them as a threat to the unitary state and to national territorial integrity, which could lead to the secession of the Tamil-majority Northern and Eastern provinces.<sup>7</sup> Tamil political parties meanwhile,

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<sup>4</sup> <https://jdsrilanka.blogspot.com/2010/03/to-read-full-interview-click-here.html>

<sup>5</sup> This amendment involved an agreement between the Sri Lankan and Indian governments that aimed at addressing the ethnic tensions underlying the civil war. India played a significant role in Sri Lankan politics during the 1980s. Its involvement was driven by regional security concerns, Tamil nationalist sentiments in South India, and strategic interests.

<sup>6</sup> <https://www.thehindu.com/news/international/the-hindu-explains-what-is-the-13th-amendment-to-the-sri-lankan-constitution-and-why-is-it-contentious/article32531844.ece>

<sup>7</sup> Decentralisation is usually referred to as the transfer of powers from central government to lower levels in a political-administrative and territorial hierarchy (cite Agrawal and Ribot 1999). This official power transfer can take two main forms depending on the extent of central government control. Administrative decentralisation, also known as deconcentration, refers to a transfer to lower-level central government authorities, or to other local authorities who are upwardly accountable to the central government (Ribot 2002). In other words, there is no real transfer of authority between levels of government. Political decentralisation, on the other hand, is known as devolution, the transfer of governance responsibility for specified functions to sub-national levels, either publicly or privately owned, that are largely outside the direct

saw the councils as ineffective mechanisms for addressing Tamil political aspirations. Thus, rather than contributing to peace, the 13<sup>th</sup> amendment ignited even more contentious debates about the structure of the Sri Lankan state.<sup>8</sup>

As a result, the efficacy and legitimacy of Provincial Councils as a tier of subnational governance in Sri Lanka were subject to a highly polarised debate from their inception. This had a profound impact on their ability to contribute to a decentralised governance system that would improve citizens' access to and the quality of public services.<sup>9</sup> Against this backdrop, the central government was able to weaken the power and effectiveness of the Provincial Councils by using a Presidential Authority to restrict their budgets.

The timing of Rajapaksa's interview in 2010 was significant. It was one year after the end of the civil war, at a time in which the nature of the post-war Sri Lankan state was an open question and a change of tone on decentralisation might have been possible. Observers wondered whether the comprehensive military victory of the Sri Lankan government over the LTTE might result in a more inclusive state willing to address the roots of the ethnic conflict by strengthening the devolved political structure, rebuilding vital infrastructure in war-affected Northern and Eastern provinces, and cementing fractured social relationships between the Tamil-speaking minority communities and the Sinhala-speaking majority. Alternatively, they wondered whether the victory would reinstate heavy central-government control over the provinces and enable the consolidation of a Sinhala-majoritarian state.<sup>10</sup> Unfortunately, President Rajapaksa's stance on federalism indicated the latter direction.

These tensions regarding the decentralisation of power and authority provide important background to the challenges TAF faced in its efforts to support a combination of local and national stakeholders in their desire to see subnational governments more effectively meet citizens' needs and priorities. It also highlights the inherent tensions between the devolution of powers *de jure* (in law) and *de facto* (in practice) which the TAF subnational governance programme and its partners had to navigate over 15 years. In addition to the legal devolution of powers to the Provincial Councils, the 13<sup>th</sup> amendment also outlined a series of responsibilities between other devolved and deconcentrated governance structures. The two main structures which are supposed to share the responsibility for delivering

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control of the central government. Similarly, delegation transfers management responsibilities and authority to semi-autonomous entities that respond to the central government but are not totally controlled by it. See Agrawal & Ribot, J. (1999), and Ferguson & Chandrasekharan (2005).

<sup>8</sup> <https://www.vifindia.org/article/december/07/The-13-th-Amendment-of-Sri-Lanka-and-India-Sri-Lanka-Relations>

<sup>9</sup> <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/391321468103487412/sri-lanka-service-delivery-and-decentralisation-assessment-and-options>

<sup>10</sup> <https://sc01.tci-thaijo.org/index.php/tureview/article/view/40571>



services to citizens and implementing development programmes are, first, central government line ministries and agencies operating through their deconcentrated<sup>11</sup> local administrations at the district and divisional levels; and second, the hierarchy of devolved<sup>12</sup> government structures, which consists of elected Local Authorities at the provincial and local levels, including Provincial Councils, Municipal and Urban Councils, and Pradeshiya Sabhas.

The president of Sri Lanka exercises control over various devolved levels, primarily through the Provincial Governor, which is a nominated position. Below the Governor, all provincial heads of administration – departmental heads and secretaries to ministries – belong to the Central Government Cadre controlled by the Ministry of Home Affairs. The president appoints Provincial Governors (legally the head of the province): powerful governors can influence postings and transfers of all key executive staff. Politically, resource allocations are often skewed if the political party at the centre is different from that which dominates in a particular province. Provincial Governors can stall the passing of provincial policies and legal statutes, making it difficult for subnational bodies to exercise their full mandate.

The complexity results in overlapping responsibilities across the deconcentrated and devolved units. This is particularly apparent regarding service-provision mandates, where 17 of 28 public services (including sanitation, public health, roads, and commercial buildings) have shared responsibility across Local Authorities, Provincial Councils, and the National Government.<sup>13</sup> As a result, although the 13<sup>th</sup> amendment clearly delineates the roles, functions, and structures between deconcentrated administrative units and devolved governance bodies, in practice controls, skewed reporting lines, and unequal or limited resource allocations; and power relations hinder the autonomy and effectiveness of subnational governments in the country.

Beyond the overall level of discomfort within the national government with the devolution of power in a quasi-federalist system,<sup>14</sup> there are several other factors that impeded the full realisation of the spirit of devolution in Sri Lanka. A key reason why most national politicians tend to favour the deconcentrated arm of government over the devolved system is that they believe they can more easily exert control over local officials within the deconcentrated system. The potential for competition also

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<sup>11</sup> Deconcentration occurs when the central government shifts responsibility for implementing a policy to its field offices. This transfer alters the geographic distribution of authority, but responsibility and power remain at the centre.

<sup>12</sup> Devolution represents the strongest form of decentralisation and involves the transfer or shift of a portfolio of authority to regional or local governments, which are legally constituted as separate levels of government.

<sup>13</sup> State of Sri Lankan Cities 2018' published by UNHABITAT. [https://unhabitat.org/sites/default/files/2020/09/soslc\\_report\\_final\\_low-r\\_0.pdf](https://unhabitat.org/sites/default/files/2020/09/soslc_report_final_low-r_0.pdf)

<sup>14</sup> Sri Lanka is a unitary state. In contrast to a federal system, where sovereignty is constitutionally shared between central and regional governments, Sri Lanka remains formally unitary but with some devolved powers, making it a quasi-federal system in practice.

plays an important role. In Sri Lanka, the typical pathway to building a political career starts at the local level, progresses to the provincial level, and culminates at the national level. Few political leaders remain at the local or provincial levels for extended periods. As a result, national-level politicians often view their local counterparts as future competitors and seek to limit their popularity by reducing their access to resources or opportunities. Together, these dynamics stifle the role of subnational politicians in the federal system.

To an extent, however, the Sri Lankan national government wished to be seen to be committed to the 13<sup>th</sup> amendment and a degree of international scrutiny contributed to that. Later, from 2009 onwards, federalism was seen as an important precondition for post-war peace and stability.<sup>15</sup>

These were the overarching political economy dynamics throughout the 15 years in which, together with local partners, TAF implemented its subnational governance programme (comprised of the several, sequential donor-funded projects mentioned above), and they provide the backdrop for the ways in which the individual projects that comprised that programme engaged at different levels of government to improve the quality of local governance. These dynamics highlight the challenges and pitfalls of engaging solely with the formal system, as many international development actors commonly do, and they help explain the difficulties the programme faced at times when reform paths challenged deeply held views on decentralisation, as well as the scale of some of the successes achieved when anti-federalist institutional cultures gradually shifted.

### 3. Economy-focused and Participatory Pathways

#### 3.1 Identifying entry points

In 2005, TAF's initial approach to supporting improved local governance in Sri Lanka was shaped by an understanding of the tensions within the national government regarding political decentralisation. Given the sensitivities surrounding the contested 13<sup>th</sup> amendment, it was clear that engagement at the provincial level would be risky and unlikely to gain traction. TAF therefore chose to focus on the lowest third-tier local governments as a politically feasible alternative for its first subnational governance project, the Transparent Accountable Local Governance (TALG) Program (2005-2008).

Initially designed to support 13 local governments in Central, North Central and North Western provinces, just before the programme commenced, USAID expanded the scope to include 22 local governments in the Eastern and Southern provinces most affected by the devastating tsunami that hit

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<sup>15</sup> See Burke & Mulakala. (2005).

Sri Lanka on 26 December 2004. This brought the total number of participating local government authorities to 35 across five provinces in Sri Lanka. The programme aimed to reach several outcomes:

- to support local authorities to be more responsive to citizens' needs and demands;
- to improve local planning, leadership, and management in local authorities;
- to improve financial management practices; and
- to build political momentum to improve service delivery in the locations in which local authorities were being supported.

**Box 2: TAF's Subnational Governance programme in Sri Lanka (2005–2015)**

The TAF subnational governance programme spanned several separate donor-funded projects throughout its lifetime: The Transparent Accountable Local Governance (TALG) Program funded by USAID from 2005 to 2008; the Local Economic Governance Program Phases I and II funded by the Australian government (2006–2009; 2010–2014), in its later phase supplemented by a small grant from the UK government; and the Creating Opportunities for Economic Revival and Development (CORD) Project from 2009 to 2010, also funded by the Australian government.

The locations were chosen to ensure a diverse range of local authorities from different provinces, ensuring geographic representation. Local authorities were selected on the basis of their interest and readiness to engage with the programme and in the extent to which they could contribute to and benefit from its focus on strengthening economic resilience, enhancing representation, and improving redress mechanisms for citizens.<sup>16</sup>

In addition to the political polarisation and ongoing conflict at this time, the country was also facing a difficult economic situation. While there was relatively strong economic growth of 5.4% in 2004, the conflict was taking its toll and contributing, through military spending, to high public debt. The fiscal deficit was high, and unemployment and poverty levels were a continuing cause of concern. In addition, the tsunami had severely disrupted an already weak economy, setting the stage for major recovery and rebuilding efforts from 2005 onwards.

These challenges were not felt evenly across the country. There were significant geographic and regional development disparities, stemming from a combination of historical, economic, infrastructural, and political factors, with central and western regions more developed than the north and east. There remain inequalities in infrastructure, including transport, electricity, water, and digital connectivity, which have contributed to uneven development, with the Western Province, in particular, benefiting more than rural regions. Despite post-war reconstruction initiatives in the badly affected North and Eastern provinces, regional economic stagnation persists. The centralised governance structure has further exacerbated disparities, as political and budgetary decisions are often concentrated in Colombo, limiting effective regional development.

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<sup>16</sup> <https://asiafoundation.org/wp-content/uploads/2018/10/Savanthi-Karunasundera-Sri-Lanka-Subnational-Governance-Program.pdf>

For the first project of the TAF subnational governance programme this meant two things. First, that many stakeholders, including representatives of the government and LTTE peace secretariats,<sup>17</sup> as well as international donors and multilateral agencies, agreed that a focus on economic recovery was an immediate priority, offering a platform on which consensus could be built in an otherwise polarised context. Framing issues in terms of economic development provided a way of fostering dialogue when other issues were divisive, particularly with the ongoing civil war. Second, government officials and international donors providing funding for tsunami-related assistance increasingly recognised that this would be useful only if it reflected the needs and priorities of the affected communities. Given broader concerns about Sri Lankan governance in the context of the civil war, donors also wanted assurances that funds would not be misused. This meant that there was an appetite for participatory planning and budgeting processes among local governments. Momentum around these two priorities – economic development and participatory governance – provided the programme with important entry points to build relationships with its new local government partners.

### 3.2 After a tsunami and during a civil war (2005–2009)

#### *Institutionalising more meaningful participatory local governance*

To begin with, TAF was able to leverage its existing relationships with several local governments through its prior experience of community-driven environmental projects in different parts of the country. These relationships allowed the TAF team to collaborate with all 35 local authorities on an assessment of their critical capacity needs. This informed the creation of a series of training programmes for local government officials and staff as well as context-specific tools and approaches to strengthen local administrators' mandated roles and functions.

Together with the Ministry of Local Government and Provincial Councils, the Sri Lanka Institute of Local Governance and several non-governmental partners, and drawing on materials from local governance reform work led by TAF Philippines, the team developed a set of tools to improve the facilitation and moderation skills of staff on the frontlines of engagement with citizens in local governance. Through what became known as the 'Technology of Participation' (ToP)<sup>18</sup> suite of tools and guidance, staff on the frontlines of service delivery, such as community development workers, developed an understanding of and skills in facilitation and citizen consultation techniques and methods to improve participatory governance. Introduced across 35 local authorities, the programme proved extremely

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<sup>17</sup> For more information on the peace secretariats see <https://www.c-r.org/accord/pioneering-peace-pathways/peace-secretariats-and-dialogue-promotion-potential-and>

<sup>18</sup> <https://www.changingtides.eu/wp-content/uploads/11TechnologyofParticipationTOP.pdf>

popular: complementing other efforts to improve budgeting and planning through better use of software and technology, it provided local government staff with much-needed and yet often unprioritised ‘soft skills’ – personal attributes and interpersonal abilities – needed to respond effectively to citizens’ views and needs. The guidelines emphasised the importance of proper planning and articulation of goals, clear communication, and ensuring a setting that is convenient to citizens. They emphasised principles such as mutual respect, teamwork, cooperation, respect for differences, patience, and positivity, providing local government staff with ideas for overcoming disputes and building trust. They therefore went beyond the more formal dimensions of participatory local governance in Sri Lanka, in which the focus is on the process and composition of various committees, to emphasise the social norms and forms of behaviour that must underpin those for them to be effective.

These soft skills proved useful during annual planning and budgeting cycles, when local governments engaged with communities to identify their respective needs and priorities across the 35 authorities. The result was a marked improvement in the quality of facilitation and a significant increase in the level of community participation. They proved essential because, although local government laws mandated participatory processes to identify needs for planning and budgeting programmes and for resource allocation, poor development of the attitudinal skills needed for effective community engagement had previously rendered these processes largely tokenistic.

Over the next two years, local authorities came to recognise the benefits of meaningful community engagement. As captured in project monitoring at the time, in all 35 local authorities in which the programme was working, the TAF team successfully encouraged local officials to invite *all* local stakeholders, including community organisations, women’s groups, youth clubs, elders’ societies, and farmers’ organisations –regardless of organisational prominence or capacity, level of commitment, or political alignment – to identify, pilot, and evaluate strategies to improve local planning for socioeconomic development. This gave the team a solid footing for entering into conversations on local economic development.

TAF’s efforts to improve government responsiveness to citizens was not just top down. In addition to supporting local authorities, the TAF team also used the ToP model to provide training for local civil society organisations (CSOs) and community-based organisations (CBOs)<sup>19</sup> so that they could play an

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<sup>19</sup> Civil Society Organisations (CSOs) and Community-Based Organisations (CBOs) are non-governmental entities that often play crucial roles in social development, advocacy, and service delivery, although they differ in scale, scope, and function. CSOs are a broad category of non-state actors that include non-governmental organisations (NGOs), advocacy groups, labour unions, professional associations, and think tanks. They operate at local, national, or international levels to influence policies, promote human rights, and provide services. CBOs are grassroots groups that operate within a specific community to address local needs. They are usually informal or semi-formal, staffed by volunteers, and focus on direct service delivery or mutual support.

active role in local decision-making. TAF worked with organisations such as Women's Rural Development Societies and local community centres to facilitate community-level consultations as part of annual planning and budgeting processes. The presence of local facilitators – both in government and from communities – gave these processes greater legitimacy and enabled them to be truly locally led. The success of these efforts emphasises the importance of the relational dimension of state capability building, in which 'the quality of citizen–state relationships' are core, in contrast to traditional approaches that have tended to 'overemphasize the technical ... elements, overlooking relational dynamics'.<sup>20</sup>

With the success of participatory budgeting and planning at the local level, in 2008 the TAF team sought to extend its impact to the national level by institutionalising the ToP training models and practices. In collaboration with the Sri Lankan Ministry of Provincial Councils and Local Government and the Sri Lankan Institute of Local Government, TAF published a compendium of facilitation techniques based on ToP.<sup>21</sup> Some of the initial local government trainees later became master trainers in ToP, thus embedding the skills in Sri Lankan administrative culture at multiple levels.

### *Improved local resource allocation and distribution*

In 2006, as the civil war still raged and post-tsunami recovery continued, the TAF team sought to leverage the opportunity to build local consensus around economic development issues. Given that each local community in which the project was operating faced a different set of economic challenges, TAF introduced an adaptable platform for dialogue, together with partners in government and local business and trade associations, to enable the airing of issues and to seek local solutions that would enable more effective, transparent, and equitable resource distribution while supporting local economic growth. To this end, over the next three years, TAF facilitated a system of Public–Private Dialogues (PPDs) in 19 of the local governments that were motivated to be involved and opted in.

The PPDs were the first of their kind in Sri Lanka. They served as platforms where state officials and private-sector representatives jointly address business practices and policy concerns, aiming to institutionalise equitable business reforms and policy changes within project locations to overcome blockages in local private-sector development. These were manifold as the period was marked not only by the civil conflict, post-tsunami devastation, and domestic economic vulnerabilities, but also by the 2008 global financial crisis. Local businesses at the time in Sri Lanka faced a volatile mix of high inflation, rising costs, reduced consumer demand, skills shortages, and poor access to finance.

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<sup>20</sup> [https://snfagora.jhu.edu/wp-content/uploads/2025/01/SNF-Agora-Working-Paper-01\\_Relational-State-Capacity-1.pdf](https://snfagora.jhu.edu/wp-content/uploads/2025/01/SNF-Agora-Working-Paper-01_Relational-State-Capacity-1.pdf)

<sup>21</sup> <https://www.changingtides.eu/wp-content/uploads/11TechnologyofParticipationTOP.pdf>

During this time, PPDs served as a critical trust-building platform, providing local-government staff a forum to engage directly with the business community and work collectively to address individual grievances or broader systemic issues, while also promoting peaceful inter-ethnic relations.<sup>22</sup> Local government leaders also used PPDs to explain their challenges and limitations, while the business community – particularly micro and informal enterprises –used them to voice concerns and influence local decision-making. TAF undertook several studies to inform improvements in local business environments pursued under the PPDs. This included an Economic Governance Index (EGI), developed and implemented from 2007, involving a survey of 5,000 firms across the country and ranking municipalities across ten critical areas, including participation, transparency, legal environment, land access, regulatory environment, informal charges, and the tax administration.<sup>23</sup> The EGI served as a diagnostic tool to measure various aspects of economic governance, enabling local governments to identify strengths and areas for improvement. It provided comparative data on the business enabling environment at the municipal level and provided the basis for evidence-informed reform discussions. The findings were shared with the national line ministry, respective provincial leadership, and partner local authorities.

One of the PPDs' notable achievements was their role in improving tax collection through collaborative problem-solving. In Chilaw, a coastal city in the North Western Province, for instance, the urban council leveraged the PPD as part of the annual planning and budgeting process in 2007 to address tax arrears by engaging directly with the business community, who began to show more willingness to comply with local business tax regulations. These dialogues led to a policy innovation that outsourced tax collection to a local community development bank, in turn significantly enhancing efficiency and the amount of revenue collected. Similarly, in the town of Hikkaduwa, on the southern coast, and the district of Puttalam in the northwest, PPD Working Groups carried out an awareness-raising initiative (2006–7) on the benefits of tax compliance. As a result, the Hikkaduwa council recovered 50% of overdue taxes, while Puttalam saw a 35% increase in assessment collections.

Businesses were often hesitant to pay taxes when they perceived local governments to be inefficient or corrupt. They also often had limited understanding of the broader benefits of tax compliance, in particular tangible improvements in local infrastructure or better municipal services. The dialogue provided a direct channel of communication in which business concerns could be unpacked and, in

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<sup>22</sup> [https://asiafoundation.org/wp-content/uploads/2024/08/Sri-Lanka\\_Promoting-Inter-Community-Dialogues-Through-Economic-Engagement\\_INSPIRED.pdf](https://asiafoundation.org/wp-content/uploads/2024/08/Sri-Lanka_Promoting-Inter-Community-Dialogues-Through-Economic-Engagement_INSPIRED.pdf)

<sup>23</sup> The Sri Lanka EGI was the first of eight subsequent locally tailored surveys of economic governance conditions that TAF conducted between 2007 and 2018 in Bangladesh, Cambodia, Indonesia, Malaysia, Myanmar, and Vietnam. <https://asiafoundation.org/wp-content/uploads/2024/08/Measuring-Economic-Governance-at-the-Subnational-Level.pdf>

some cases addressed, while gently increasing peer pressure that made it harder to justify non-payment. The shift of tax collection to a community development bank reassured businesses in Chilaw, for example, that their taxes were being handled effectively and efficiently.

In the town of Ariyampathy in Eastern Province, through the inclusive planning and budgeting process, community members, including minority Muslim groups, became increasingly involved in the prioritisation and design of government projects, which broadened buy-in. Participatory planning also strengthened government accountability by empowering local CBOs and the community at large to hold elected officials responsible for equitable and needs-based resource allocation. In Ottamavadi in Eastern Province, through the PPD process, the local government worked with CBOs to construct stormwater drainage systems. Prior to this effort, the community generally held the government in low regard. The collaboration also saved money, which the local government then invested in additional community projects that delivered tangible benefits for constituents. This, in turn, helped to improve trust in their capacity to provide for citizens.

Supported by data-driven insights, such as budget analysis and citizen feedback on service delivery, across the 35 local governments, the PPDs provided an enabling environment for officials and members of the community to work together to address common local-level challenges, including revenue constraints, poor service standards, and weak citizen engagement. Combined with the focus on participatory governance, the TAF local field team were able to nudge local officials from a focus on political contestation towards one that appreciated the benefits of more inclusive, transparent, accountable, and participatory governance and economic development. As Lant Pritchett and others have argued, governments can adopt accountability mechanisms only when they have built the basic administrative and operational capacities required to undertake and sustain them.<sup>24</sup> Once those capacities were in place, they gave local authorities the confidence to be more accountable. Enhanced citizen participation opened pathways for local authorities to improve financial stability, upgrade service provision, and foster stronger relationships between local councils and the community.

Building on the foundation of participatory governance and several successful economic development initiatives, the TAF team tested the water with some local authorities for more transformative policy reforms. Drawing on local expertise to ensure new concepts were translated clearly for local government officials, TAF designed tailored training modules to address other local issues that government officials particularly cared about, such as financial performance measurement. When support and engagement on these issues were well received, they sometimes opened doors for more difficult conversations. For instance, in several locations, the TAF team proposed greater transparency

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<sup>24</sup> <https://bsc.hks.harvard.edu/publications/building-state-capability-evidence-analysis-action/>



of tax defaulters to further incentivise payment. At first, many councillors feared that this could threaten their local popularity. However, once they saw both increased revenue and public support for the initiative, they shifted to supporting the action. As small-step programme initiatives began to bear benefits, including better access to information, financial gain, and public support, local officials became more willing to adopt broader reforms. In other words, the strategy was not to roll out one set of reforms everywhere, but to push progress location by location, depending on what was possible.

### *An entry point to the provincial level*

Using these and other local-level successes as a springboard, the TAF team was able to engage with the more politically sensitive second tier of government-- the provincial level. The TAF team supported local government officials with whom they had been working to develop essential skills to facilitate PPDs and apply ToP tools with several provincial authorities. This enabled planning of medium- and longer-term interventions and addressing broader disaster-management challenges that required engagement by a higher level of government over a broader area. TAF supported local administrators in developing several pro-poor strategies for shelter, water, sanitation, livelihoods, and disaster risk mitigation. They also fostered collaborative actions, through working groups between devolved local governments and Divisional Secretariats (the lowest tier of deconcentrated governance), and provincial and central agencies, thus bridging significant gaps in coordination across and between the different levels of government.

As relationships between TAF and the local, provincial, and national authorities grew stronger, by 2015, the TAF team was able to broker cooperation across the politically fraught division between provincial administrations and the national Ministry for Provincial Councils and Local Government, with the aim of improving the broader policy and legal environment to sustain and enable replication of initiatives ongoing at the local level.

This emphasis on integrating the vertical layers of government via a bottom-up process that spread successful policies and reforms upwards had a decisive impact: it resulted in more locally relevant policies and strategies at the national level. This was in direct contrast to other efforts supported by international agencies at the time that focused on 'best practice', but with limited knowledge of and relevance to local political economies. By drawing on data and insights collected through the team's engagement with local governments, and by providing legal drafting expertise, TAF's subnational governance programme supported the Ministry of Provincial Councils and Local Government to make crucial amendments to key national laws that provided a framework for improving administrative efficiency, accountability, and representation. For example, an amendment to the Urban Councils Act included clearer definitions of roles and responsibilities of different levels of government and streamlined procedures. TAF focused on those amendments that would strengthen the scope of

devolution and would enable local authorities to become more financially resilient, based on what TAF and its partners had learned through their successful economic development activities.

The enactment of the first National Policy on Local Government (2009)<sup>25</sup> was a transformative achievement that flowed from these efforts. As divisions in the national government's previously unilateral anti-federalist stance appeared, TAF was able to get behind an effort led by the then-Minister for Local Government Affairs to put his mark on a new national policy. TAF was invited to support the legal department of the ministry to develop the new policy. The 2009 framework marked a significant milestone in Sri Lanka's road to federalism because it sought 'maximum devolution and decentralisation of authority and powers for participatory decision-making, upholding the principles of autonomy, subsidiarity, and proximity to empower local government authorities to regulate and manage their share of public affairs' (National Policy Declaration, clause 4.1.1.1). Later, TAF supported the institutionalisation of the policy when it partnered with the Sri Lanka Institute of Local Government to establish diploma programmes for local governance which included the adoption of participatory planning and budgeting processes.

During the intense resurgence of violent conflict between 2007 and 2009, TAF was able to cover two conflict-affected provinces – Eastern and North Central. In the two regions, support to local authorities was sustained through the provincial administration, ensuring continuity despite the challenging context. Field visits were largely suspended, however, because of security concerns. At that time, the conflict had become more concentrated in the Northern Province, and TAF only started working there after the war ended.

### 3.3 Consolidation in peacetime (2009–2014)

When the 26-year civil war in Sri Lanka ended in May 2009, the Rajapaksa-led government set ambitious goals for economic development – aspiring to Gross Domestic Product (GDP) growth rates of over 8% and the development of new economic hubs through ports, aviation, commerce, and energy. The government also emphasised the need for lagging regions – especially the poorer, Tamil-majority Northern and Eastern provinces – to catch up in terms of economic development and quality of life as a necessary condition for future peace and social cohesion.

During the civil war, TAF's overarching strategy had been tactical and pragmatic: to support Sri Lanka's political decision-makers with a persuasive case for delegating greater authority and responsibility to subnational governments by demonstrating the economic benefits of doing so. TAF recognised that

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<sup>25</sup> [https://www.preventionweb.net/files/28587\\_localgovernmentpolicy.pdf](https://www.preventionweb.net/files/28587_localgovernmentpolicy.pdf)

the main alternative-- framing federalism as a pathway to peace – would be counterproductive when the political environment was hostile and polarised. More common ground could be found around economic issues. TAF's approach had therefore leveraged the national government's interest in economic development with the untapped potential of local businesses, their associations, and subnational governments to improve local economic conditions in Sri Lanka. With the post-war government increasing its economic development ambitions, TAF was well placed to leverage an economic narrative of post-war reconstruction in which local authorities could increase growth from the ground up and improve living conditions across the country. TAF thus worked *with the grain* of government priorities while *working against the (government) grain* to push for a more inclusive and participatory approach to economic governance. In this sense, it did not simply support the Rajapaksa government's reform agenda unquestioningly but sought opportunities to apply an inclusive and participatory lens that would enable more equitable development outcomes.

The core premise was that if Sri Lanka was to sustain the fragile peace earned after decades of conflict, the path forward would need to be built on *inclusive growth* – which needed to reach all corners of the country and every segment of society. Achieving this required further strengthening the role and effectiveness of local governments in promoting locally grounded solutions to the challenges of economic development while actively engaging a diverse range of subnational stakeholders – including people living in poverty, women, and marginalised groups – to make local governance more responsive and accountable.

With funding from the Australian government in the post-war phase, TAF was able to expand its geographic reach to 15 additional urban local governments across five provinces, chosen both for economic reasons and to avoid ethnic and geographic biases.<sup>26</sup> Significantly, TAF was enabled to amplify the impact of its efforts by partnering with an Australian government-funded, World Bank-led, local infrastructure initiative being implemented in the war-affected Northern and Eastern provinces. This partnership enabled TAF to demonstrate the transformative potential of synergising large-scale infrastructure investment with governance reforms.<sup>27</sup> By aligning infrastructure-focused 'hardware' interventions with TAF's emphasis on governance 'software', such as planning and budgeting tools, revenue audits and forecasts, and citizen engagement models, the combined efforts amplified their impact.

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<sup>26</sup> Had the programme focused solely on war-affected provinces the nationalist party-led government would have viewed this as a 'political project' and would have exposed it to higher levels of risks.

<sup>27</sup> Interview with DFAT official, August 2024.

### More inclusive and accountable local governance

In the early 2010s, TAF's subnational governance work introduced significant innovations on social accountability.<sup>28</sup> Dominant models at the time tended to prioritise strengthening the demand side of the accountability relationship between citizens and power holders, focusing on improving methods and increasing opportunities for citizen engagement. While important, TAF recognised that a sole emphasis on amplifying citizens' voice, without accompanying it with a concomitant concern regarding the government's ability and/or willingness to respond, would not produce the desired improvement in accountability. Building on what it had learned from the earlier ToP model, TAF was aware that, unless there is a conscious effort to prepare the supply side (the local government) to receive and respond to the demand side (citizens' voice), little would improve. This included orienting and securing buy-in from the local government's senior leadership and second- and third-tier officials as well as identifying opportunities to respond to feedback.

#### Box 3: Supporting both citizen voice and local government capacity to respond – an example

*I clearly remember that we initially measured nine different types of services provided by our council. The insights we gained led us to reallocate resources to fill gaps that had previously gone unnoticed. More importantly, Electronic Citizen Report Cards (eCRC) fundamentally changed how we approach budgeting and service delivery. In the past, budget allocations were often influenced by powerful voices, rather than actual community needs. But with eCRC, we began making data-driven decisions based on public feedback and ground realities. Today, this approach is no longer unique to our local authority – many others have adopted the eCRC survey as a critical decision-making tool. It has become a transformative mechanism for ensuring that resources are directed where they are truly needed, rather than where influence dictates. The impact of eCRC has been profound, reshaping our thinking and reinforcing the importance of evidence-based governance.*

Commissioner, Batticaloa Municipal Council

It was with this in mind that, from 2010, TAF developed and deployed Electronic Citizen Report Cards (eCRC) together with local government authorities that opted in (see Box 3). The overall aim of the eCRC was to collect actionable citizen feedback to support improvements in service delivery. The eCRC enabled the collection of large quantities of feedback from citizens through an Android-based mobile application, which was analysed and reported on in real time. The platform proved popular with citizens and local governments. Participant samples were selected on a stratified basis, using the population data provided by the local governments. The sample was representative of gender, ethnicity, economic status, and place of residence. Survey data highlighted gaps such as inconsistent quality and reliability and identified underserved areas, especially remote wards and areas where ethnic minority communities live. This data-driven approach enabled decision-makers to draft budgets

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<sup>28</sup> <https://carnegieendowment.org/posts/2016/07/accountability-at-the-cutting-edge?lang=en>

that reflected citizens' needs and to address systemic inefficiencies. In addition, recognising the importance of direct interaction between citizens and governments, TAF also promoted citizen feedback kiosks in five locations that allowed real-time feedback on service delivery and often addressed grievances, such as delays in processing birth certificates or land permits, on the spot.<sup>29</sup>

The TAF team focused its initial interventions on improving service delivery rather than directly addressing more contentious issues like corruption. This focus on enabling 'quick wins' in small service-delivery improvements helped to build trust. The TAF team gradually overcame resistance to new technology and analytics from less tech-savvy local government staff (who were often more senior) by conducting conflict-resolution workshops and team-building activities, again improving soft as well as hard skills. Eventually, the use of a variety of technology platforms became integral to the ability of local authorities to improve their performance.

### *The uphill path to changing internal incentives*

Across local governments, TAF saw an overall increase in revenues, driven by interventions such as the PPDs as well as technical improvements to revenue-management systems, transparent property tax assessments, and innovative door-to-door tax campaigns to recover arrears. However, this surge in revenue also introduced the risk of misuse, or situations in which new resources were diverted to non-priority and ad-hoc expenditures. Increased revenue collection in several local authorities also coincided with a rise in taking on temporary staff, which the public often perceived as examples of rent-seeking and political patronage. At other times, the adoption of transparent and systematic revenue-collection practices disrupted rent-seeking opportunities for some government staff, who then sought to undermine the reforms.

The Badulla Municipal Council, an early adopter of reforms, vividly illustrated this resistance to change. While local revenue initially increased in 2013, it dropped sharply the following year as staff deliberately delayed revenue collection to discredit the reforms, fearing they would be unpopular particularly with local business owners. Even with intervention from the local mayor, the strong political connections of the local staff meant it took some time before revenue collection commenced again. For the TAF team, these experiences reinforced the importance of embedding accountability mechanisms in governance projects, encouraging citizen participation, and partnering with local reform champions who have the political will to sustain reform in the face of entrenched resistance.

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<sup>29</sup> The usefulness and effectiveness of these tools in improving local governance was recognised in the 2012 United Nations Development Programme (UNDP) National Human Development Report, p.111

### 3.4 Political turbulence (2015–2020)

Ten years after the tsunami, in November 2014, President Mahinda Rajapaksa unexpectedly called for early elections, seeking a third term. The January 2015 presidential elections delivered a surprise victory for opposition leader Maithripala Sirisena, who had campaigned on a platform of ‘good governance’. Many Sri Lankans initially celebrated his win as a triumph of democratic forces. The election also raised hopes, particularly from minority communities in Northern and Eastern provinces whose votes had been critical to Sirisena’s success, that the new government would address longstanding demands for a greater commitment to effective devolution. However, the optimism was short-lived. Political instability soon emerged within Sirisena’s government. Parliament was dissolved in June 2015, and early general elections resulted in a new coalition government.

The Australian government-funded phase of TAF’s subnational governance programme coincided with this turbulent period. It included a constitutional crisis in October 2018, when President Sirisena controversially appointing Mahinda Rajapaksa as Prime Minister while Ranil Wickremesinghe refused to step down, creating a period of dual prime ministership. Devastating terror attacks took place on Easter Sunday in April 2019.<sup>30</sup> In March 2020, COVID-19 arrived, heralding both a health and an economic crisis. This period also saw Sri Lanka’s official rise to ‘Upper Middle-Income Country’ (UMIC)<sup>31</sup> status in 2019, which reduced its eligibility for grants and low-interest loans, and in turn reduced central government financing of subnational governments. The country was on the road to default on the debt the following year.

In the midst of all these challenges, however, this period saw an important shift towards greater local devolution, including a new electoral law mandating direct elections for councillors and reserving 25% of council seats for women and youth. Direct elections immediately increased councillors’ accountability to their constituencies, broadening the enabling environment for the kinds of reforms on which TAF’s subnational governance work had already been focusing. Among local authorities, there was heightened interest in the data and evidence generated by the programme, especially financial projections. In all pilot councils across the nine provinces, local authorities asked TAF to present projections on revenue and expenditure and to suggest reform measures. The increased presence of women councillors gave the programme’s Gender Equality and Social Inclusion (GESI)-

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<sup>30</sup> On 21 April 2019, Sri Lanka experienced a series of coordinated suicide bombings targeting churches and luxury hotels during Easter Sunday services and breakfast hours. The attacks resulted in the deaths of 267 people, including at least 45 foreign nationals, and injured over 500 others. <https://www.thehindu.com/topic/sri-lanka-easter-bombings/>

<sup>31</sup> The World Bank classifies the world’s economies into four income groups – high, upper-middle, lower-middle, and low – based on a country’s per capita gross national income (GNI). The 2019 threshold for UMIC classification was USD 3,996-12,375: Sri Lanka’s per capita GNI was USD 4,060.

focused activities, such as gendered local budgeting and gender analysis of citizen feedback surveys, much-needed political backing, helping to improve responsive governance for women.

This turbulent period placed TAF's approaches, developed over the previous decade, under intense stress. It also provided opportunities to innovate on a new scale. The TAF team framed a new phase of its subnational governance portfolio as an action-learning programme and sought to consolidate earlier gains while fostering evidence-driven innovations. Continuing with the earlier focus on equitable economic development and improved service delivery, the TAF team challenged conventional thinking about economic growth centres.

Traditionally, Sri Lankan policymakers focused on Municipal Councils – large urban local governments in cities like Colombo, Kandy, and Galle – as the primary hubs of economic growth, often overlooking the economic potential and dynamism of local governments outside these major cities. Drawing on TAF's database of more than a decade's worth of local government financial data, collected in earlier phases of subnational engagement, TAF found that many rural local governments consistently outperformed their urban counterparts in generating revenue and demonstrating financial stability. Moreover, Sri Lanka's human settlement patterns – characterised by urban sprawl and ribbon development<sup>32</sup> – have led to the growth of secondary cities that absorb much of the migration pressure from larger cities. To better understand these trends, the TAF team developed a composite index based on several indicators, including population density, urban character, the entrepreneurial base, and levels of revenue generation to develop a data-driven map of economic growth potential areas across the country. They used this to compare all 335 local governments and identify the most dynamic (subsequently identified as 'Dynamic Economic Centres' or DEC's).

The results allowed TAF to advocate for changes to national criteria for classifying local governments as urban, semi-urban, or rural, which influences various aspects of governance, including the allocation of national funding and the scope of responsibilities. This effort attracted the interest of major donors like the World Bank, and TAF was commissioned to produce a comprehensive study on local finances and service provision for local policymakers for which the data formed a critical part. The creation of the DEC's challenged the conventional way of looking at the economic prospects of local authorities, which prioritised their political categorisation (e.g. a Municipal Council, an Urban Council or a Pradeshiya Sabha), rather than analysis of their existing and potential economic situation.

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<sup>32</sup> Ribbon development refers to pattern of urban or suburban expansion where buildings, particularly residential, commercial, or industrial structures, are constructed in a linear fashion along major roads and transport routes, highways, or railways. It tends to lead to greater traffic congestion, is an inefficient use of land leading to urban sprawl, and results in higher infrastructure costs compared to more compact urban development.

TAF's collaboration with the national ministry also revitalised the 107-year-old Local Loans and Development Fund (LLDF), turning it into a modern institution capable of supporting local infrastructure financing with expanded loan portfolios and innovative green financing initiatives. A Strategic Development Fund established under the programme in 2018 attracted funding from 18 local governments, doubling the initial seed funding and providing another mechanism to ensure the continuation of meaningful governance reforms as well as the transformation of local governments into self-sufficient entities capable of driving ongoing improvements.

From 2015 onwards, TAF supported central and local governments to institutionalise a series of reforms by setting up 21 independent Local Governance Resource Centres (LGRCs) in 21 of the country's 25 districts. These LGRCs housed resources that helped local authority staff improve digital data collection, legal compliance assessments, and budget analyses. They provided a dedicated mechanism to address issues related to improving the performance of local authorities, and became a common repository for knowledge products and a platform for training and capacity development. While the LGRCs' main role was to address technical, informational, and capacity needs, they also provided a physical space where public officials and citizens could convene and engage in dialogue. Through the LGRCs, TAF facilitated the creation of local resource pools – loose networks of technical experts within the civil service. This improved the flow of information across local government authorities and reduced the negative effects of institutional silos. Through these networks, technical officers supported one another to improve legislation and policy and to embed critical new skills in local administrations (see Box 4).

**Box 4: A perspective on Local Governance Resource Centres**

*As an autonomous entity, LGRCs have truly become a cornerstone for local government training – whether it's equipping elected representatives with the skills they need, supporting council affairs, developing operational manuals, or publishing critical materials. Their training centres and ICT labs have also been instrumental in boosting digital literacy, ensuring that local governments are better prepared for the challenges of a rapidly evolving world.*

Community Development Officer, Eastern Province

By late 2019, as the last phase of the programme was ending, Sri Lanka was deep in a national economic crisis. Ill-conceived national fiscal policies, foreign debt accumulation, the impact of the pandemic, and poorly conceived shifts in agricultural policy produced high inflation, depleted foreign reserves, and caused shortages of essential goods. By 2022, inflation was at record levels, leading to widespread shortages of essentials such as food, fuel, and medical supplies. In May 2022, Sri Lanka defaulted on its foreign debt for the first time in the country's history. Public unrest led to nationwide protests, and President Gotabaya Rajapaksa resigned in July 2022. A USD 2.9 million bailout from the International Monetary Fund (IMF) began to stabilise the economy from March 2023, which was achieved by 2024, under the leadership of Anura Kumara Dissanayake, who represented a distinct



break with the political elite which had been in power for 20 years.<sup>33</sup> The IMF has since approved a third review of its bailout, releasing an additional USD 334 million in loans and grants, a reflection of the country's solid economic performance, having met most targets and structural benchmarks and projecting growth rates of 5% in 2025 and reducing inflation.

### 3.5 Impact of TAF's long-term local governance programming

Over 15 years, TAF's SNGP programme contributed to many important policy reforms at different levels of Sri Lanka's federal system, always with a focus on those which would be financed, implemented, and produce practical results to improve people's lives. Beyond improving the skills of individual government staff and CSOs – crucial as that was as an entry point – TAF's engagement in local governance efforts working together with crucial stakeholders made important contributions to improving local governance systems, helping to make them more resilient, more inclusive, and more innovative.

**More resilient local governance:** Local government authorities that partnered with the programme became more financially resilient. This included through enabling legislative amendments to unlock non-traditional revenue sources beyond taxes, exports, tourism, and remittances, through improving revenue-collection processes and through the creation of business plans for infrastructure investments with long-term revenue potential, such as the LLDF and the Strategic Development Fund. These impacts were grounded in improvements to the formal policy and legal frameworks for federalised governance at all levels, and in some cases the results of their implementation such as improved financial stability and tax revenue.

This financial resilience of local authorities is more critical than ever. Amidst the current fiscal consolidation efforts driven by IMF recommendations following the recent financial crisis, central government grants are being curtailed. By 2028, all 341 local authorities are expected to achieve self-reliance. In this challenging landscape, TAF's approach to revenue-generation, budget management, and expenditure control continue to offer viable solutions to strengthen fiscal discipline and ensure the sustainability of local governance.

**More responsive local governance:** Historically, citizen and business engagement in local governance in Sri Lanka was limited. Devolution and decentralisation, driven more by political imperatives than developmental priorities, created gaps between national plans and local needs, often limiting their relevance to local populations and having a negative impact on the most marginalised. TAF played a

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<sup>33</sup> <https://www.reuters.com/world/asia-pacific/sri-lanka-focus-transforming-economy-president-says-2025-02-17/>

pivotal role in fostering more equitable participation in local planning and budgeting. The *Guide to Participatory Planning and Budgeting for Local Authorities*, developed with TAF's support, remains the cornerstone framework for community consultations.

Systems were introduced or enhanced that made governance more meaningfully responsive to citizen engagement, leading to improvements in public trust and greater accountability at local levels. Initiatives such as the PPDs and participatory budgeting and planning resulted in greater interest in and ownership of collaborative and participatory approaches to governance, while multiple innovations regarding data, technology, and analysis encouraged greater ability among policymakers

**Box 5: A perspective on how a municipal council improved local revenue collection**

*When I joined the Batticaloa Municipal Council as Assistant Commissioner in 2012, I was immediately confronted with a pressing challenge – our revenue was insufficient to run the council, and we had a significant backlog of outstanding arrears from various sources. With support from... TAF, we developed a structured action plan to tackle this issue head-on. One of our key initiatives was organizing a planning meeting with the Taxpayer Association, Trade Unions, and other stakeholder groups. With their collaboration, we launched an intensive one-month arrears collection program, going door-to-door and business-to-business to recover overdue payments. Through this effort, we successfully collected arrears on shop rents, assessment taxes, and other outstanding dues – amounting to an impressive 60 million rupees in just one month. The guidance and encouragement from TAF played a crucial role in making this possible.*

*At the same time, we introduced an awards program to recognize and encourage taxpayers who made timely payments. We presented appreciation gifts to responsible citizens who paid their taxes regularly, as well as to municipal officers who contributed the most to arrears collection. The impact of this initiative was remarkable – many of those who received awards in 2014 have continued paying their taxes on time, motivated by the prospect of future recognition.*

Deputy Commissioner, Batticaloa Municipal Council

for the use of evidence. Concurrently, knowledge of economic development challenges increased while relations between businesses and governments in target local government areas improved.

**More innovative local governance:** Finally, institutional assessments and surveys conducted by TAF within local authorities highlighted the dominance of a compliance-focused mindset over creativity and adaptive practices. Throughout the lifetime of the subnational governance programme, TAF consistently pushed boundaries to foster innovation. TAF's advocacy efforts contributed to changes in the national performance framework for governance, introducing innovation as a key metric. Many local leaders were inspired to adopt cost-effective, behaviour-driven solutions to complex governance challenges.

The institutionalisation of tools like the eCRC empowered local authorities to make data-driven decisions, leading to significant increases in capital expenditure allocations for projects that citizens prioritised. These tools also ensured resources were directed to underserved areas, reducing geographical inequities. As local authorities navigate shrinking budgets, TAF's support to institutionalising inclusive consultation processes and training frontline staff in facilitation skills are critical. These measures will enable local authorities to maintain the quality of public services and address the needs of marginalised groups, ensuring that inclusivity remains central to local governance.

The programme also contributed to many less tangible, but just as important, changes: greater motivation among some public officials to improve performance and engage with citizens, improved institutional memory within local government authorities, better relations between different levels of government (vertical) and between local authorities (horizontal). Indeed, by challenging top-down governance approaches and embedding participatory, inclusive, and innovative practices, TAF's long-standing engagement has contributed to a paradigm shift in Sri Lanka's subnational governance, departing from conventional models of governance reform and ensuring local authorities are better equipped to navigate current and future challenges. Rather than imposing top-down reforms, that shift placed political economy insights, grassroots engagement and non-financial incentives at the heart of change processes. Subnational governance was reimagined from a political afterthought, often pejorative, to a dynamic, locally-driven aspiration for development, innovation and public accountability.

The overarching strategy that allowed the programme to succeed involved scoping, listening to, and learning from local authorities. Establishing legitimacy and investing in overcoming niche issues on which future investments of time, resources, and effort could be anchored. It involved incubating and testing models of revenue generation and citizen engagement simultaneously, illustrating the links between those while eking out institutional pathways for scaling and replication. In the latter phase, these approaches laid the groundwork for transforming key institutions and developing pathways for resilience and sustainability.

## 4. Lessons from TAF's Experience of Promoting Subnational Governance Reforms over the Long Term

As this case study has illustrated, TAF's approach to Thinking and Working Politically on subnational governance reform evolved over time as the team learned from its successes and failures. Below we highlight the main lessons from 15 years of TAF's engagement in such efforts.

**Understanding the political economy takes everyday skills, time, and trust.** In contrast to the idea, common in many international development circles, that the appropriate approach to understanding the local political economy is through a stand-alone research activity at project design or start-up phase, the TAF team learned that the nuance of internal institutional dynamics depends on establishing relationships based on trust. Thinking of a political economy analysis (PEA) solely as a research activity for this kind of work is not helpful. With hindsight the TAF team realised that it took around five years before they felt that they fully understood the interests and incentives within local authorities. To build that shared understanding the programme team carried out a range of PEA-type activities from team-based discussions to tailored research activities. The team became adept at ‘doing PEA’ at multiple levels. While the shifts in the overarching politics of decentralisation at the national government set the stage and needed to be kept in the team’s peripheral vision, its daily ‘bread and butter’ were the micro-institutional politics of individual local governments.

**Beyond identifying individual champions, anchor long-term reform in the ‘middle tier’.** There is a certain attraction for development programmes to work with individual reformers in government. They often provide momentum and leadership for reforms that vastly increase the pace of progress so that outcomes can be demonstrated. Yet, in a politically dynamic and contested context such as Sri Lanka, champions have a short shelf-life. Institutional memories – the second and third tiers of officials – thus became a critical resource to ensure momentum and continuity of activities. Consistently engaging with these tiers in subnational governments not only helped to build trust and relationships with a wider cohort within these institutions but also enabled greater stability and the retention of critical institutional memory whenever new leadership took over the reins, even if sometimes the pace was slow. From its earliest engagement in improving subnational governance in Sri Lanka, from 2005 onwards, the TAF team made a strategic investment in collaborating with and building capacity of second- and third-tier officials, recognising that the frequent turnover of more senior officials and bureaucratic staff would otherwise have undermined TAF’s project sustainability and the durability of reforms. By building relationships at these ‘mid’ levels of the bureaucracy, TAF was able to sustain its own relationships over a long period of time while strengthening the government’s institutional memory. From this base, the TAF team also worked hard to secure broad political buy-in through engaging with officials across national ministries, provincial administrations, and local governments as they created inclusive, transparent, and participatory forums. This grounding also enabled TAF to withstand the political turbulence at the higher levels of politics.

**Be prepared for delayed resistance to innovation.** Technology-led efforts to introduce citizen-centred service-delivery mechanisms reduced opportunities for corruption, especially in the provision of public services. Initially, local authorities greeted technology with enthusiasm. Sleek tablets, eye-catching dashboards, and striking infographics often encouraged quick buy-in both from the higher-level

officials and frontline workers. Yet, the initial shine sometimes wears off when new technology challenges historically opaque structures and practices and the benefits they accrue to some individuals. In some instances, the resistance came in the form of discrediting the technology or, raising apprehensions about the security of storing data in a digital form. In other instances, there were deliberate attempts to slow down the implementation of reforms among those who felt less comfortable with the new technology. Rather than focusing solely on the benefits of the innovation, the team addressed this by acknowledging valid anxieties and insecurities felt by a cohort of public servants, not just through providing training but also by applying the principles of conflict resolution to overcome those.

**Focus on incentives for change.** The programme in Sri Lanka heavily relied on a strong empirical foundation to position activities – budget analysis, service-delivery mapping, etc. However, a key challenge was in translating the empirical data into ideas that would nudge local authorities to adopt them in meaningful policy reforms. One strategy the team used was to incentivise the uptake of recommendations with national priorities. For instance, the analysis of their own revenue streams in local governments showed heavy dependence on central transfers and underscored the need to generate revenues in the event of reduced transfers from the central government. Another was to ‘meet local governments where they were at’ and not overwhelm them with multiple levels of reform where there were limited capabilities and incentives for uptake. Rather than insist that local government units become more accountable to citizens, for example, the TAF team understood that the lack of the ‘soft’ skills needed to engage effectively with citizens in public forums was a significant part of the disincentive to do so. They therefore found a way to remove that disincentive through an emphasis on building facilitation skills that became highly popular and enabled a whole range of community consultations and PPD efforts that followed. In contrast to focusing solely on the technical dimensions of importing new systems (Information Technology, human resources, financial management, etc.) the TAF team identified the areas in which those would cause conflicts *in advance* and worked with staff to air those issues, to manage risks, and to enable the system to be introduced. The effectiveness of this approach also helped the TAF team build trust with partners.

**Operations matter – a lot.** While grasping the ‘thinking’ aspect of TWP is often straightforward – thanks to a burgeoning array of tools and methodologies designed to assist implementation teams in navigating their operational environment – the ‘working’ component presents significant challenges. Sometimes the nimble intelligence required for TWP bumps up against the substantial inertia of institutional structures and the cautious expectations of donors. The agility expected, for instance, is often practically hindered by extensive and rigid procurement protocols among all partners. Similarly, conflicting or lengthy due diligence or pre-audit requirements sometimes make it difficult to engage local partner organisations whose operations do not meet the standards set. These are the practical

consequences of working at the intersection of different national procurement policies and laws – bilateral government donors, multilateral agencies, and national governments. These are not just ‘operational issues’. Their impact on programme aspirations, particularly those that seek to be adaptive and agile, can be significant: delays to resource deployment can reduce trust between programme partners – which is particularly detrimental to a programme on which the outcomes rely on trust-based relationships. All partners should broker stronger partnerships regarding the actual rather than ideal ideas of project implementation – around operations as much as programme.

**Invest in rubric-based monitoring and evaluation.** One of the biggest challenges for the TAF team was to document the outcomes of the subnational governance programme beyond some of the initial quantitative indicators that made up its initial monitoring and evaluation (M&E). While useful background data, these were insufficient to capture many of the qualitative changes to which the programme contributed, as described above, with robust evidence. In 2005, M&E theories and approaches in Sri Lanka were not very developed, and it was immensely difficult to find the right expertise to capture the tacit strategies the team were using and qualitative results they were achieving. Even looking back on the project documentation in preparing this case study, there is more of an emphasis on the training toolkits, the number of eCRCs and PPDs. It can give the false impression that all that is needed for successful local governance reform is a training package and some consultation forums. The TAF team struggled to develop an approach that could effectively capture contextual insights to go beyond the numbers and explain why an outcome was achieved. An approach that involves structured, qualitative assessment, based on collectively understood criteria, understood and owned by the team and its partners, would probably have made that much easier.

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## About the Thinking and Working Politically Community of Practice

The Thinking and working Politically Community of Practice (TWP CoP) is a global network of practitioners, researchers and policymakers in development and global affairs committed to promoting more effective policy and practice. The TWP CoP works to foster more politically aware approaches to understand how change happens and why, translate findings and implications emerging from political economy analysis into operationally relevant guidance, encourage more flexible and adaptable ways of working, and provide evidence-based insights that can stimulate innovation, sharing and learning in international development and global affairs.

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