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U S Agency for International Development

Colombo/Sri Lanka

PROMOTION OF PRIVATE INFRASTRUCTURE PROJECT

583-0118

PROJECT PAPER

USAID COLOMBO

August 26, 1992

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

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5 PROJECT TITLE (maximum 40 characters) PROMOTION OF PRIVATE INFRASTRUCTURE

6 PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 09 03 09 06

7 ESTIMATED DATE OF OBLIGATION (Under B below enter 1 2 3 or 4)
A. Initial FY 92 B. Quarter 4 C. Final FY 95

8 COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	IRST FY			LIFE OF PROJECT		
	B FX	C L/C	D Total	E FX	F L/C	G Total
AID Appropriated Total						
(Grant)	(1364)	(138)	(1502)	(5864)	(1136)	(7000)
(Loan)	()	()	()	()	()	()
Other U.S. 1						
2						
Host Country	--	100	100		2500	2500
Other Donor(s)						
TOTALS	1364	238	1602	5864	3636	9500

9 SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1 Grant	2 Loan	1 Grant	2 Loan	1 Grant	2 Loan	1 Grant	2 Loan
(1) APDN						674		1000	
(2) HE						200		750	
(3) EHR						0		2000	
(4) PSEE						628		3250	
TOTALS						1502		7000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13 PROJECT PURPOSE (maximum 480 characters)

ASSIST THE GSL TO DEVELOP A MARKET FOR PRIVATE FINANCING AND MANAGEMENT OF INFRASTRUCTURE PROJECTS IN SRI LANKA

14 SCHEDULED EVALUATIONS

Interim MM YY 06 09 04 Final MM YY 06 09 06

15. SOURCE/ORIGIN OF GOODS AND SERVICES

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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17 APPROVED BY

Signature: *George Jones*

Title: Richard M. Brown, USAID, MISSION DIRECTOR

Date Signed MM DD YY 09 09 02

18. DATE DOCUMENT RECEIVED IN AID/W OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

AID 1350-4 (8-79)

I have reviewed and concur with the method of implementation contained in this Project Paper

Andrew A. Akers
Andrew A. Akers
Controller

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ACRONYMS & ABBREVIATIONS

ADB	-	Asian Development Bank
BOO/BOT	-	Build-Own-Operate/Build-Own-Transfer
CEB	-	Ceylon Electricity Board
CBSL	-	Central Bank of Sri Lanka
EPDF	-	Energy Project Development Fund
EPZ	-	Export Processing Zones
GCEC	-	Greater Colombo Economic Commission
GDP	-	Gross Domestic Product
GNP	-	Gross National Product
GSL	-	Government of Sri Lanka
IC	-	Industrialization Commission
IDA	-	International Development Association
IMF	-	International Monetary Fund
MIST	-	Ministry of Industries, Science and Technology
MOF	-	Ministry of Finance
MPE	-	Ministry of Power and Energy
MPT	-	Ministry of Posts and Telecommunications
MPPI	-	Ministry of Policy Planning and Implementation
MTH	-	Ministry of Transport and Highways
NIC	-	Newly Industrialized Countries
PISC	-	Private Infrastructure Support Component
PSIDF	-	Private Sector Infrastructure Development Fund
PSW	-	Private Sector Window
PPI	-	Promotion of Private Infrastructure Project
SIDI	-	Secretariat on Infrastructure Development and Investment
SLT	-	Sri Lanka Telecom
WSDB	-	Water Supply and Drainage Board
O & M	-	Operation and Maintenance

ANNEXES

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PROJECT AUTHORIZATION

Name of Country Sri Lanka

Name of Project Promotion of Private Infrastructure

Number of Project 383-0118

1 Pursuant of Sections 103, 104, 105 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Promotion of Private Infrastructure Project for Sri Lanka (the "Cooperating Country") involving planned obligations of not to exceed Seven Million United States Dollars (US\$7,000,000) in grant funds over a four year period from date of authorization subject to the availability of funds in accordance with the A I D OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is four years from the date of initial obligation.

2 The Project will assist the Government of Sri Lanka to develop a market to attract private sector financing and management of economic infrastructure, including, among others, water management facilities for safe water, sanitary waste disposal facilities, roads and transportation, power plants, telecommunication facilities, industrial estates, and environmental infrastructure facilities. Activities financed under this Project to promote development will include technical assistance and training to develop and educate human resources, feasibility studies, and supporting commodities.

3 The Project Agreement which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A I D regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A I D may deem appropriate.

4 a Source and Origin of Commodities, Nationality of Services

Commodities financed by A I D under the project shall have their source and origin in the United States or in the Cooperating Country except as A I D may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States or the Cooperating Country as their place of nationality, except as A I D may otherwise agree in writing.

Ocean shipping financed by A I D under the project shall, except as A I D may otherwise agree in writing, be financed only on flag vessels of the United States.

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g The following waivers to A I D regulations are hereby approved

- (1) Source/Origin waiver for four-wheel-drive, right-hand drive vehicles
- (2) Sole Source waiver for the technical assistance contract

for
George Jones
Richard M Brown
Director
9/2/92
Date

Clearance	WAJeffers, PRJ	<u>[Signature]</u>	Date	<u>8/31/92</u>
	IGSmyer, RLA	<u>(Draft)</u>	Date	<u>8/19/92</u>
	DGarms, PRM	<u>[Signature]</u>	Date	<u>8/21/92</u>
	GAnders, ANR	<u>[Signature]</u>	Date	<u>9/2/92</u>
	TPenner, PSD	<u>[Signature]</u>	Date	<u>8/28/92</u>
	AAkers, CTR	<u>[Signature]</u>	Date	<u>9/01/92</u>

PRJ MJWijesinghe mjw

INTRODUCTION

The Promotion of Private Infrastructure (PPI) Project responds to a compelling set of financial, economic and political circumstances affecting Sri Lanka's development potential, summarized as follows

- * Sri Lanka's continued economic progress, indeed even maintaining the status quo, is severely limited by failing and outdated infrastructure,
- * The GSL (as do most governments) lacks the financial resources and institutional capacity to provide essential infrastructure, and donor assistance levels are do not permit funding of such projects,
- * The private sector (including foreign investors) has demonstrated interest in certain infrastructure projects through BOO and BOT approaches, which have proved successful in other developing countries in Asia, and
- * The GSL, particularly the current government, is committed to a strong public/private partnership in attaining Sri Lanka's development goals

The PPI Project, then, offers USAID a unique opportunity to provide pivotal support to the GSL to encourage public/private partnerships which will result in significant improvements in water management facilities for safe water and sanitary waste disposal, rural roads, transportation, power plants, telecommunications facilities, industrial land, and environmental infrastructure. These facilities are essential for improving the quality of life of Sri Lankans nationwide. At the same time, this Project may create new opportunities for US private sector involvement in Sri Lanka's development through investment in economically and financially viable infrastructure activities

To this end, A I D will provide \$70 million in grant funds for strategic technical assistance, training, and logistical support to the GSL Ministry of Plan and Implementation. This will be delivered, principally, through a contract with a U S firm experienced in the BOO and BOT approaches in developing countries

The GSL, which has created a Secretariat on Infrastructure Development and Investment (SIDI) for purposes of carrying out this Project, will provide dedicated staff, logistical and budgetary support for its operation. The GSL will also provide for local and international financial participation in the Project through the establishment of an independent infrastructure project fund. The total host country contribution is estimated to be \$2.5 million

The Project will be implemented as a series of components

(1) **Private Infrastructure Network Component** to establish the GSL's policy and institutional framework to promote and implement public/private infrastructure activities,

(2) **Public Awareness Component** to inform and educate Sri Lankans of the benefits of the BOO and BOT approach,

(3) **Marketing Component** to engender the participation of the maximum number of qualified private investors, and

(4) **Private Sector Window Component** to expand the role of the private sector in identifying, designing, and financing of infrastructure projects

It is expected that at least three projects will be signed by the end of the Project (09/30/96). If successful, PPI will leverage many millions of dollars of investment in infrastructure projects and attract the additional investment necessary for continued economic prosperity for Sri Lanka. Thus, the project will prove to be an important and highly cost-effective addition to USAID's development program helping Sri Lanka to achieve NIC status by the year 2000.

A PROJECT RATIONALE AND BACKGROUND

1 Infrastructure Development Needs and Opportunities

Sri Lanka's economic infrastructure and its management are inadequate. Poor roads, difficult access, inadequate water supply and distribution, unreliable and strained generating capacity of electricity, unsustainable waste management and treatment practices and lack of minimum standards in telecommunications facilities, especially outside the Colombo area, are likely to deter industrial and commercial investments, and slow private sector growth. This undermines the country's strategy for sustained development of the private sector and for economic growth in general. In fact, in one of the most competitive and dynamic economic regions in the world, South/Southeast Asia, where private investment seeks not only favorable factors of production costs but also modern and reliable infrastructure, Sri Lanka can ill afford maintaining the status quo.

Since the 1970's the GSL primary infrastructure investments have been in irrigation and hydropower, as well as in a port, airports and two free trade zones in Colombo. However, over the last ten years, declining GSL budgetary resources, limited absorptive capacity of the bureaucracy, and other problems have resulted in a steep decline in public investment in Sri Lanka's infrastructure as measured in relation to its GDP. As a result, infrastructure projects needed for sustainable economic growth have not been effectively identified, financed or implemented. This is especially disconcerting in view of the long gestation periods that most infrastructure projects require.

The existing methods for financing infrastructure are insufficient to achieve Sri Lanka's economic ambitions. The GSL has neither the capital financing for new investments nor the budgetary capacity to maintain existing facilities as required to support private sector growth and provide consumers with adequate services. Donor resources, which already provide the bulk of capital investment in the sector, are inadequate to meet the projected investment requirements. Pricing policies are also inappropriate. Tariffs are too low to manage the demand for and efficient allocation of infrastructure services, or to mobilize the resources to expand capacity as needed. A policy of pricing infrastructure services to achieve an adequate rate of return on capital invested is urgently required.

Sri Lanka's traditional management approach of relying on a government monopoly to build, manage and maintain infrastructure have had poor results. The limited technical and human resources of these organizations and the lack of market incentives to improve their performance is another major obstacle preventing the expansion and improvement of Sri Lanka's infrastructural facilities.

Specific constraints facing the major economic infrastructure sectors include

a) Power and Electricity

The supply and distribution of electricity is the responsibility of the Ceylon Electricity Board (CEB), a government agency

Large investments in hydropower have enabled Sri Lanka to significantly increase its electrical generation capacity. The total installed capacity of all power stations owned and operated by CEB is now 1225 MW. However, the energy demand profile buoyed by continuing economic growth and increased demand by industrial users is closing on supply. Recent power shortages and imposed cuts in the urban and rural areas caused by drought have already caused economic hardship and represent enormous financial opportunity costs. Based upon the long gestation period required to bring new power projects on line, new generating capacity, and the methods of connecting to the grid expeditiously and efficiently, must be examined immediately.

The projected average annual growth rate for power in Sri Lanka is 8 percent over the next fourteen years. The Ministry of Power and Energy recently declared plans to install 800 MW of generating plant by the year 2002. To meet this target, Sri Lanka will need large amounts of capital. The total of 800 MW of capacity would consist of 300 MW coal fired plant (at a cost of \$540 million), 300 MW hydropower plant (\$660 million) and 200 MW diesel/gas turbine plant (\$240 million). The estimated investment required to match these targets (in 1992 prices) is \$1,440 million.

Government loans for such large amounts would not be easy or desirable in view of the GSL's large outstanding foreign debt. Another financing option, used in many other parts of Asia, is to allow the private sector (local and foreign) to participate in this development program.

b) Telecommunications

Telecommunications in the information age is perhaps the most important element of economic infrastructure. The telecommunications sector in Sri Lanka requires enormous new investment. The recent corporatization of Sri Lankan Telecom (SLT), while adding some commercial discipline and financial autonomy through changes in its legal structure, does not address investment requirements nor does it significantly expand capacity. Since in the short-term it is unlikely that the Sri Lankan Telecom will be privatized, some solution must be found to provide the technical, financial, and managerial resources that the GSL needs to develop the sector.

SLT estimates that Sri Lanka will need to provide some additional 175,000 new lines by 1994 and an additional 175,000 to that by 1996. But these estimates even appear to be

low A recent study by industry experts states that a total of 550,000 new lines will be required between 1992 and 1997 in order to meet expected and pent up demand Currently there is a six year waiting list for new phone service

While the World Bank and Asian Development Bank have pledged significant financial resources to this sector, these funds would be most efficiently applied to the non-economic service areas while the private sector, on a commercial basis, could play a major role in accelerating construction and operation plans to achieve 1992-97 objectives According to telecommunications industry experts, in order to meet the installation targets for this sector, at an average cost of \$2500 a line, over \$1 billion of new investment would be required

c) Transportation

The transport sector is poorly developed in Sri Lanka In the surface transport area, i e highways, roads, bridges,rail, etc there is far more demand than supply Congested urban roads, poor feeder roads between regional centers, washed out or inadequately maintained bridges, all represent a tremendous constraint to productive economic activity and an undignified "toll" on ordinary citizens, some of whom spend hours a day commuting short distances

A Transport Sector Planning Study prepared in January 1988 outlined the investment needs in these areas Adjusting the study's investment figures for 1992 prices, Rs 12 billion (US\$295 million) is needed for highway investments and Rs 4 824 billion (US\$118) for railways over the period 1992-1996 The highway investment program includes only the upgrading, resurfacing, road construction, and related expenditures It does not include the development of any new projects in this vital sector such as expressways, highways, bridges, etc

The bulk of investment in the last decade in highways has been on rehabilitation and maintenance of roads as well as repairs and improvements to bridges However, as the study notes

"There are strong indications that, at the present level of funding and with existing maintenance techniques, the overall condition of the roads maintained by the Road Development Authority is deteriorating Some drastic measures are necessary to prevent the entire disintegration of the road network "

The study also included estimates for public bus investments Passenger transportation is dominated by omnibus services which operate on over 3,500 routes covering almost every part of the country This segment of the transportation sector has already benefitted from privatization since this study In 1989, the GSL decided to privatize the road passenger transport operations of the Sri Lankan Central Transport Board (SLCTB)

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The main assets of the SLCTB are bus depots, buses and workshops. The bus depot operations of the SLCTB have been converted into public companies with 50 percent of the shareholding given to the employees of the depots. The remaining 50 percent is expected to be disposed of to private sector buyers. The GSL also proposes to privatize the workshops (USAID contributed to this privatization by providing transport engineering assistance and developed a series of studies containing divestiture strategies for three Central Transport Board workshops.) The investment costs avoided (as forecast by the planning study) by the GSL because of this privatization are on the order of US\$ 45 million.

Due to Sri Lanka's geography and site on global trade routes, efficient market-town and intermodal linkages could add tremendous value. In the area of ports, the new investment required is large and especially critical. Sri Lanka has always been an important maritime trade destination. The port of Colombo, while achieving impressive results in traffic growth, is reaching near capacity, and adding new capacity is not viable given the geography of the Port's location. The Port of Galle, which a study has revealed as a preferred port destination for cargo due to its location directly on the shipping routes, is small and requires significant investment to modernize. The Port of Galle project is estimated to cost approximately \$320 million including the construction of a breakwater and dredging. The Port of Trincomalee, while possessing outstanding potential due to its natural attributes, is completely undeveloped.

Public investment in the transport sector is falling and if not for the contributions by donor organizations would be significantly worse. The GSL needs to close the financing gaps and develop new management approaches in order to at least maintain, and hopefully improve, the performance of the transport sector.

d) Water

With the development of the Accelerated Mahaweli scheme, significant advances have been made in hydropower and irrigation. The investments are large and long-term. There are a number of potential water supply projects that result from the extensive investment in the Mahaweli region. However, the investment costs required to link reservoirs, lay pipelines, and establish treatment facilities are high. There is demand, a market, a regulating capacity, and the technology, but as yet no significant projects.

Water supply and distribution in the country is inadequate. The government is making a concerted effort to provide potable water to most citizens within the decade. The investment and maintenance requirements, though, would severely strain existing GSL resources to meet these targets. The National Water Supply and Drainage Board (NWSDB) estimates that over \$600 million will be needed in investment during the present decade to expand access, rehabilitate existing schemes, and upgrade levels of service. This includes supplying piped water to another 2 million people (\$435 million).

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providing hand pumped water to 1.4 million people (\$22 million) and doubling the number of people with access to open protected wells (\$156 million)

Even if the private sector could assume only a small percentage of the total investment needs (10-20 percent) the savings to the government in absolute terms (\$60-120 million) would be significant

e) Solid Waste

Like so many other metropolitan cities in the Asian region, the Colombo solid waste management system is approaching crisis. Metropolitan Colombo generates an estimated average of 700 tons per day of residential and industrial waste materials. Disposal and filling is not always sanitary, causing pollution and clogging of surface canals and drains and pollution of ground water. The problem compounds when urban solid waste fills lowlands for development purposes--a common occurrence given increasing demands for urban land.

A 1991 study on the Identification of Land for Solid Waste Disposal by the National Building Research Organization determined that available and suitable space for solid waste disposal in and around Colombo is insufficient and that waste will need to be transported considerable distances out of the area by train. As disposable wastes increase and environmental standards become more restrictive, solid waste systems are becoming financially burdened. In the system's present form, the financial resources provided by government to collect, treat, and dispose all the waste generated are inadequate.

There is significant potential for better solid waste management through the development, construction, and operation of composting plants, recycling and resource recovery facilities, incinerators, and other methods of disposal at Sri Lankan dump sites. However, this will require significant new financing and improvements in the application of more efficient technology.

2 Relationship to GSL Priorities

The Government of Sri Lanka (GSL) has endorsed a policy promoting public-private sector partnerships for infrastructure development. This policy is yet another milestone in the evolution of Sri Lanka's philosophy on the role that the private sector plays in the process of economic growth and sustainable development. More importantly, Sri Lanka joins several other emerging market nations in the Asian region that recognize that their need for competitive infrastructure is directly related to future economic growth and that the country's needs are in excess of the government's own financial and implementation capacity.

The economic record of Sri Lanka's first 30 years since independence has been lackluster-- averaging relatively small rates of economic growth compared to several of its neighbors in the Asian region. For a large part of that period the private sector's role in Sri Lanka's development has been decidedly limited. Government continued to grow and command increasingly larger proportions of the GDP. Policies tended to be highly protectionist in nature. With the elections in 1977, economic policies became more open and liberal. Import restrictions and price controls were reduced, and foreign investment was actively encouraged. The state's overwhelming presence in the economy was also reduced. As a result, GDP growth from 1978-83 reached an average of 6 per cent, significantly higher than the 2.9 percent average between 1971-77. Economic growth over the last ten years has been around 4 percent per annum despite budgetary difficulties, civil disturbances, and external economic conditions which adversely affected the economy.

A major objective of the GSL since 1989 has been an accelerated effort to liberalize the economy, characterized primarily by a structured program of privatization of state-owned enterprises and capital market development. By the beginning of 1992, the GSL had privatized 17 enterprises. The value of assets transferred to the private sector was an estimated \$US 150 million. The development of the Colombo Stock Market has also been impressive recording significant increases in both share values and shareholders. Both programs have been effective mechanisms for expanding the role of the private sector in the economy. The GSL believes that the issues of sustaining economic growth and continuing to expand private investment and management converge in policy decisions about the provision of competitive infrastructure.

3 Relationship to A I D Strategy

The overall strategic vision of the A I D Program in Sri Lanka is to assist the GSL become a democratic, "greener" NIC (newly-industrialized country) by 2001. A central feature of this vision is to use A I D's on-going relationships with both the public and private sectors to build partnerships which increase economic growth and facilitate sustainable development.

The existing USAID/Sri Lanka portfolio has already demonstrated the excellent potential for public/private partnerships in several areas. One of the most successful examples is the Private Sector Policy Support (PSPS). This project has (a) developed the capital market and strengthened its regulation, (b) assisted the GSL in planning and implementing its medium-term privatization program, and (c) strengthened the capacity of private sector organizations to conduct policy research, analysis, and dialogue with the GSL on issues of concern to the private business community. Many of USAID's other projects including the Natural Resources, Environment, and Policy Project, the Agro-Enterprise Project, and the Technology Initiative for the Private Sector Project have components for enhancing both public and private sector roles.

The project proposed in this project paper will represent a partnership between the public and private sector. This partnership will result in the transfer of risks, responsibilities, and rewards from the public sector to the private sector in order to develop modern, market-oriented, and competitive infrastructure.

This project also supports the four general strategic emphases of USAID assistance in Sri Lanka:

- a) fostering a sound investment climate and business performance
- b) commercializing agriculture systems and improving distribution infrastructure to meet market needs
- c) strengthening environmental policies, standards, and institutions as well as promoting market-based conservation and protection efforts
- d) active participation in democratic systems and promoting local and regional governance. Furthermore, the proposed activities meet the requirements of USAID/Sri Lanka's intervention selection criteria.

The proposed project also offers opportunities to promote U.S. trade and investment. U.S. firms are active in the areas of infrastructure relevant to this project such as telecommunications, power, transport, water supply, water treatment, aviation, and environmental technology, and others. USAID's effort to support the development of a program whereby one of the primary outputs will be the expansion of trade and investment opportunities for U.S. firms, in areas of competitive advantage, represents a significant multiplier beyond the provision of project inputs.

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B PROJECT DESCRIPTION

1 Project Goal and Purpose

The goal of the project is to modernize economic infrastructure in six primary sectors power, water supply and treatment, telecommunications, transportation, waste management and disposal, and industrial estates/facilities

Over the next five years, the targets for this goal will be to expand telephone lines by 500,000, increase power generation by 400 MW, increase by two million the number of people with access to piped water, and increase the capacity of Sri Lanka to manage 1,000 tons per day of solid waste

The project purpose is to assist the GSL to develop a market for private financing and management of economic infrastructure The objective of developing a market for infrastructure is to promote more efficient use of public and private resources and to develop the infrastructure required for economic growth and development

This market will be characterized by the development of new infrastructure projects provided by efficient private firms seeking profit based on their performance The market will operate on a non-subsidized basis and will reflect in most cases the true costs of capital and charge realistic tariffs Importantly, the market will offer the consumer choice No new infrastructure facility will displace an existing facility that represents a free alternative Instead the market will provide higher quality, more competitive service than existing infrastructure services

The sub-purpose of the project is to encourage and support US trade and investment in Sri Lanka's infrastructure development activities The intention is to enhance the likelihood of U S firms and principals directly participating in the GSL program and fostering greater competition in the process of providing private infrastructure

2 Expected Achievements and Accomplishments

At the end of the project the following five end-of-project accomplishments will be in place

- Three projects signed with private parties representing a value of at least \$150 million,
- Functioning policy and procedures for private participation in infrastructure development,

- Broad public awareness and support for private sector infrastructure,
- Significant Bidding Competition for tendered private infrastructure projects, and,
- An enhanced ability of the private sector to participate in the program

In addition to the three projects awarded, there will be a pipeline of at least four more projects which can be implemented by the GSL after the completion of the project. Additionally, projects that are determined non-viable as candidates for private investment will be assessed to determine their suitability for and integration with the public sector investment program with a higher degree of quality in project preparation.

It is also expected that the project will serve as a stimulus for US investment in Sri Lanka. The aim is to have US companies prepare 5 feasibility studies and submit competitive bids for 3 tendered infrastructure projects.

3 The Structure of the Project

The Project will consist of four components: a) Private Infrastructure Network Component, b) Public Awareness Component, c) Marketing Component, and, d) Private Sector Window Component.

The success of this project will require cooperation and coordination among the public and private actors who will participate in this project. Therefore, each of the four components are necessary but not sufficient by themselves to effect attainment of the project objectives. These four components are designed to initiate and support a technical and institutional approach to private infrastructure development in Sri Lanka. The main component, the Private Infrastructure Network Component provides the technical inputs required to inaugurate a "critical mass" of private projects and procedures. The other sub-components are designed to interact with and reinforce the development and implementation of private infrastructure efforts by providing key outputs in public awareness, marketing, and financial enhancement.

<i>Component 1 - Private Infrastructure Network Component</i>
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The Private Infrastructure Network Component will represent the core effort of the project and will provide for the technical support to the designated institutions managing the process of private participation in infrastructure.

Currently, there is no single institutional entity responsible for or engaged in promoting and managing private participation in infrastructure in Sri Lanka. Without a structured approach and framework supporting a policy of private promotion of infrastructure,

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success is highly unlikely. In addition to a structured and organized approach to promoting private infrastructure, formal procedures and efficient processes for planning, analyzing, implementing, and monitoring private infrastructure projects will be required.

Moreover, development of a well-trained cadre of professionals within the designated institutional focal point, the Secretariat on Infrastructure Development and Investment, (SIDI), and the relevant line agencies responsible for infrastructure development in Sri Lanka will be a prerequisite for program success. Presently, there is an embryonic policy and program framework for private infrastructure development initiatives within the GSL, yet the institutional capacity to effectively conduct all of the activities required for program success are not present.

i) Component Objectives

The primary objective for the Network component is to establish a formal network to promote and support the development of private infrastructure in Sri Lanka. Technical assistance will be provided to support the designated focal point, (SIDI) and the other relevant actors in promoting private infrastructure projects such as the GSL line agencies and the private sector. Formal procedures and qualitative operating standards will be developed for identifying, analyzing, implementing, negotiating, and monitoring private infrastructure projects and to upgrade the skills of public and private sector officials alike through technical and on-the-job training.

Lastly, the Network will seek to support the process of private infrastructure project development and implementation in a fashion consistent with and complementary to existing GSL infrastructure development activities by broadening and deepening the linkages between officials, managers, and beneficiaries engaged in infrastructure development.

ii) Component Outputs

The successful attainment of these objectives will be measured by the following outputs:

- Twelve projects will be identified and studied on a pre-feasibility basis
- Six tendered packages for private infrastructure projects will be developed and issued
- Three private infrastructure agreements will be awarded, negotiated, and signed

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iii) Component Activities

In order to support the process of private infrastructure development, a variety of cross-cutting and sequenced activities must be undertaken. In general these activities will assist SIDI to develop the capacity to identify, analyze, rank, and screen BOO/BOT candidates, effect fair and transparent tendering transactions for identified projects, support and develop the structuring and negotiating capacity of SIDI and the network of line agency staff in completing mutually beneficial transactions, and, support conducting follow-up monitoring and evaluation.

Specifically, Network component activities will include

Activity 1 - Preparation of the Project Master List

Develop a "Master List" of potential private/public infrastructure projects through the collection of data, consolidation of existing feasibility studies, and analysis of sectoral candidates from the power, transport, telecommunications, waste management, water, and industrial estates sectors. This activity will be conducted by a technical team of infrastructure sector specialists and BOO/BOT experts working in collaboration with SIDI and the relevant line agencies.

Activity 2 - Conduct Project Screening and Structuring

Using projects and data from the Master list, extensive screening will be conducted to determine the rank order and priority of the first tranche of projects selected for advancement to the pre-feasibility stage. This screening process will entail detailed and systematic examinations of projects and or potential projects based on their economic, financial, technical, legal, environmental, and social attributes. This activity will be performed by SIDI and supported by industry specialists as determined by the character of projects derived from the Master List.

Activity 3 - Perform Pre-Feasibility Studies

Once identified, analyzed, and selected for advancement, SIDI will conduct pre-feasibility studies for BOO/BOT viability on twelve project candidates. It is envisaged that the twelve projects selected will represent a cross-section of eligible sectors of infrastructure, although financial viability will prevail over sectoral balance objectives to drive the decision process.

These twelve pre-feasibility studies will ascertain not only their commercial and economic viability but their attractiveness to the private sector based on different project structuring options. This activity will be performed by private infrastructure experts composed of foreign and local teams with interdisciplinary skills typically in the financial, legal, and technical fields in question.

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Activity 4 - Project Ranking and Structuring

After pre-feasibility studies are completed, the technical unit and support network will undertake project structuring and ranking procedure. In this activity SIDI will determine the most viable projects as the initial candidates for tendering to the private sector. In addition to performing the ranking activity, SIDI will consider the appropriate structuring options and standards/specifications that the project requires before tendering. Ranking activities will be driven by a variety of factors including the considerations of demonstration impact in project selection and priority. Simply put, most likely to succeed least likely to fail criteria will influence project selection decisions.

Activity 5 - Preparing Tendering and Bid Packages

The projects selected from the previous stages that have met or exceeded SIDI's "litmus test" of project candidacy will be prepared for tendering. It is expected that six bid and tendering packages will be prepared by the technical unit under this component. In this activity, SIDI, working with the appropriate implementing agents, will plan, design, draft, structure, and package tender documents for international competitive bidding. The tendering package, typically composed of completed project pre-feasibility study, the Invitation for Bid Proposal (IFB) which describes the standards and specifications established by government so that proposals submitted can be compared and evaluated like to like, financial and economic parameters, a legal package, environmental requirements, a model concession agreement and criteria for evaluation, is the principal instrument by which government solicits serious private sector proposals to undertake inferior projects.

Activity 6 - Bid Evaluations

After bids have been received the technical unit and line agencies will evaluate all eligible bids. This project activity will assist the GSL to develop the bid evaluation criterion and standards in compliance with the BOT program guidelines.

Activity 7 - Negotiations

After the bid evaluation activity, the technical unit and relevant line agency will engage the leading bidder or bidders and begin negotiations. Negotiation activities will include not only project award terms and conditions, but in some cases, will result in the granting of agreements such as Letters of Intent (LOI) or Memoranda of Understanding (MOU) to the successful proponent to either commence construction or to conduct full feasibility depending on the status of the project in question.

Activity 8 - Training Activities Supporting the Secretariat and Network

The last primary activity in the Network component is development of the capacity of the Secretariat (SIDI), the line agencies, and the private sector, to promote and manage private infrastructure development. Therefore, a central activity buttressing the technical assistance in this component will be training. Training activities will be intensive and multidimensional. Training of SIDI staff, line agencies, and the private sector will commence as early as possible in the project and be offered in modular formats throughout the life of the project. Training programs, study tours, conferences, and seminars will be designed that focus on building skills in project identification, project analysis, project bid and tender preparation, project negotiation, and project monitoring. Training activities will also be designed and delivered to focus on infrastructure specific issues such as public/private project issues in the power, transport, telecommunications, water supply, and waste management areas. Training activities will be case-oriented and will rely extensively on data gathered in and relevant to Sri Lankan projects and procedures.

Activity 9 - Logistical Support to the Secretariat (SIDI)

In order to establish an operational technical unit so that the private infrastructure development responsibilities of SIDI and its capacity to carry them out do not lag, early logistical support is required. Currently, the GSL's private infrastructure policy process is moving faster than the present logistical, operational, and institutional capacity of SIDI. This activity will assist SIDI in identifying and establishing facilities in an expedient fashion, support SIDI with administrative and technical experts to respond to the needs of SIDI, and assist in building the network of private infrastructure development actors within the GSL line agencies to accelerate early project requirements.

iv) Component Inputs

The following inputs will be provided under the private infrastructure network component (See Annex 4 for full budget details.)

(a) Technical Assistance

Expatriate		Sri Lankan	
<u>Position</u>	<u>Person Months</u>	<u>Position</u>	<u>Person Months</u>
Chief of Party	36	Infrastructure Specialist	36
BOT Specialist	18	Finance Specialist	36
Home Office	12	Finance Officer	36
Telecom Specialist	2	MIS Specialist	3
Power Specialist	2	Project Officers	72
Transport Specialist	2		
Water Specialist	2	Engineer	12
Waste Specialist	2		
Port Specialist	2		
Prefeasibility Studies	36		
Tender Packages	18	Prefeasibility Studies	54
		Tender Packages	27
Total Expatriates	132	Total Sri Lankan	276
GRAND TOTAL	408 person months		

(b) Training

Inputs consist of short term training including US training (12 persons) third country (6 persons), and in country (60 persons) The training will start with a major BOO/BOT seminar followed by a series of short in-country workshops, on such subjects as initial Training in BOO/BOT concepts and related infrastructure privatization, screening and analysis of projects, and tendering, evaluation and negotiation, of projects

(c) Commodities

The project will finance the following commodities 4 four wheel drive vehicles, 8 computers, 6 software packages, 4 laser jet printers, 2 high speed photocopiers, 2 fax machines, and furniture

(d) Logistical Support

The project will finance a portion of the office costs to establish and operate SIDI and other key organizations participating in the program These costs will include,

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consultants, administrative finance and support staff, operational costs, courier service, report reproduction, etc

Component 2 - Public Awareness Component

This component addresses one of the most fundamental elements of any economic reform initiative promoting an awareness of and support for private infrastructure within the bureaucracy, business sector, and general public. The component will focus on undertaking several efforts, through a variety of techniques, to disseminate information about the objectives, rationale, and benefits of public/private partnerships in infrastructure development.

This component will be carried out in collaboration with several Sri Lankan counterpart organizations including the SIDI, the line agencies and other relevant government entities at the national, municipal, and local level, and the private sector organizations responsible for business development and community participation, such as the local chambers of commerce and other institutions.

Currently, there is limited capacity within the GSL to articulate the official position regarding the policy of private infrastructure development, the potential benefits within the community of the program, the strategies that GSL will adopt to alleviate problems of affected parties caused by projects of this kind, such as right of way, land acquisition, tariff rates, etc., nor, perhaps most importantly, communicating the policy, procedures, standards, and strategies of the program within government to engender the active support and cooperation of key line agencies.

One of the problems this component addresses immediately is communication of the program's operations and procedures to the public at large so as to clarify any concerns regarding the transparency of the program.

i) Component Objectives

The primary objective of this component is to establish an awareness of the benefits of private infrastructure. There are two sub-objectives of this component. The first objective is to strengthen SIDI's capacity to disseminate information about the program using a variety of media, to the general public about the entire private infrastructure program. It is hoped that this effort will result in a greater awareness of and support for the benefits of private infrastructure in Sri Lanka. The communications effort will also convey information regarding the procedures of the program so as to preempt any confusion about the entire process especially regarding the bid award and negotiation process, where potential criticism about the merit of awards is typical.

It will also be responsive to the concerns and questions of individuals or communities who may be affected by the program or by individual projects. This "ombudsmen" role is part of the process of consensus-building and communications. This objective would also serve to promote awareness, consensus, and support for the program within the government bureaucracy itself. This component aims to include to the fullest extent possible, the relevant line agencies and other entities within government to ensure their full cooperation and involvement. Without their participation and awareness the program could suffer.

The second objective is to ensure that the local participation and input of citizens is maximized at all stages of the project. Vital to the success of this project is the support for and understanding of functioning infrastructure by local, municipal, and national communities.

ii) Component Outputs

The successful attainment of the objectives of this component will be measured by the following outputs:

- an increased percentage of the population informed and aware of the private infrastructure development program, and
- large number of Sri Lankans are the direct beneficiaries of infrastructure projects

iii) Component Activities

The activities to be undertaken in the Public Awareness Component focus on four principal tasks: 1) Designing an overall Public Awareness Strategy, 2) Conducting Public Awareness Activities, 3) Information Dissemination at the project level and, 4) Monitoring Local Participation.

Activity 1 - Design Public Awareness Strategy

In this activity, SIDI will undertake an assessment to determine the appropriate strategy, based on local conditions, to convey the objectives and benefits of private infrastructure to the public and private sector. This activity will set the course for a broad-based public affairs effort that will seek input from and be driven by the consumer as well as the private provider of infrastructure service. This activity will entail the development of a public awareness strategy, a plan for implementation, the selection of the appropriate public awareness methodologies such as conferences, newspapers, briefings, and other forms of information dissemination. The activity will draw heavily on the lessons of the Sri Lankan privatization program as well as the public affairs component of the

successful capital market development project USAID has supported. A technical team comprised of local and foreign public awareness specialists will conduct this key input.

Activity 2 - Conducting Program Public Awareness Activities

Program Public Awareness efforts will focus on conveying the objectives of the private infrastructure program to the public at large. Conferences, newspaper articles, television and radio, education, local and provincial meetings, and other forms of information dissemination will be used. The rationale, objectives, benefits, problems, dispute resolution methods, and other salient issues to public/private partnerships will be addressed in these fora. Technical assistance will be provided by local and international media experts and trade industry specialists to develop contacts, compile marketing information, draft materials, conduct presentations and other activities to support SIDI's objectives of reaching the widest possible audience.

Activity 3 - Project Information Dissemination

As the program emerges and program activities shift to more project specific activities and responsibilities, the public awareness program will require a different strategy aimed at a more specific audience. Project information activities will be designed to target the members of the community that are affected by a given project in any way. Examples of project public awareness activities may include the effective communication of communities concerned about the development of a private power project in their region, public meetings on the rights and responsibilities of government in acquiring land for "public use", and information for the employees of enterprises that believe that they will be negatively affected by new investment in private alternatives to public service delivery.

Activity 4 - Monitoring Local Participation

Program and project public awareness activities will include public hearings, training, media relations, beneficiary participation, survey collection and analysis, and other forms of fostering an open and positive environment for private infrastructure in Sri Lanka. Included in this activity will be project monitoring functions so that projects under construction or in operation are accountable to local participants and beneficiaries. Moreover, this activity will also monitor the beneficiaries of private infrastructure development programs and inform the public about project accomplishments and achievements to earn public trust and support in functioning and reliable infrastructure services.

iv) Component Inputs

The following inputs will be provided under the Public Awareness Component (See Annex 4 for full budget details)

(a) Technical Assistance

Expatriate		Sri Lankan	
<u>Position</u>	<u>Person Months</u>	<u>Position</u>	<u>Person Months</u>
Media Specialist	2	Public Relations Specialist	6
GRAND TOTAL		8 person months	

(b) Training

The project will finance training of appropriate senior level officials and SIDI staff on the strategies and techniques of promoting and sustaining public awareness and communications. Five ministries will also receive assistance in monitoring public awareness efforts for specific projects. This will include incountry training (125 persons)

(c) Logistical Support

The project will also finance multi media operational costs including materials preparation, advertising, printing publication/distribution costs, public meetings, etc

Component 3 - Marketing Component

The third component of this project represents the fuel for the engine driving competitive participation by the investment community. Without an effective marketing strategy, local and foreign investors will seek opportunities elsewhere. Additionally, the program seeks to attract the maximum number of credible bids from local and foreign sources, an attainment that protects the long-term interests of government and the public. The Marketing Component targets prospective investors and operators, and financial institutions.

1) Component Objectives

The objective of this component is to generate the highest number of competitive bids from the broadest, local and foreign, investor/operator, community as possible. A sub-

objective is to gear the marketing program to solicit and attract significant U S participation in the program through the submission of credible and competitive bids. The activities in this component will be conducted in close collaboration with not only SIDI and the line agencies but with the External Resources Department of the Ministry of Finance, the Greater Colombo Economic Commission (GCEC), the U S -Ceylon Chamber of Commerce, and the other business organizations in the country.

Currently there is no capacity to market and/or promote the private provision of infrastructure in Sri Lanka. While the government sponsored investment promotion arm, the Greater Colombo Economic Commission, GCEC, is in place, it is not structured or mandated to promote private infrastructure. This component will address the lack of government capacity in private infrastructure promotion and marketing while also building on the efforts undertaken in component two.

An additional constraint this component seeks to overcome is the relatively low level of local private sector capacity to participate in infrastructure project development. Currently, the local private sector does not have the market information, size, and financial stamina to undertake many projects of scale. A marketing component not only enhances the likelihood of receiving the highest number of competitive bids for projects, but also can serve as a linkage between local and foreign partners. Marketing activities will be undertaken which promote informational and commercial exchanges so as to ensure local and foreign collaboration in as many projects as possible.

ii) Component Outputs

Attainment of the objectives of the activities performed in this component will result in the following outputs:

- a competitive GSL incentive package offered for private infrastructure projects
- effective marketing materials are prepared and distributed
- broad awareness and interest in the program by both foreign and local investors

iii) Component Activities

The planned activities for this component are aimed at three levels - marketing the overall program to investors, marketing individual projects, and targeting specific financial institutions.

Activity 1 - Strengthening Sri Lanka's Incentive Structure to Attract Bids

In order to conduct a successful marketing program, it is essential to understand the competitive nature of the emerging market for public/private partnerships in

infrastructure. Nowhere is this more true than in Asia where over \$500 billion worth of infrastructure projects will be developed in the next five years. This "opening" of infrastructure sectors to private investment is occurring throughout Asia and has direct implications on a Promotion of Private Infrastructure Program in Sri Lanka. Simply put, Sri Lanka must compete in order to attract local and foreign participants to bid on projects. The first activity in the Marketing component will be to strengthen Sri Lanka's competitive position to market BOO and BOT in contrast to the incentive structures of other countries in the region with private infrastructure development programs such as the Philippines, India, Malaysia, Indonesia, Pakistan, and the People's Republic of China.

The results of this effort will guide the development and implementation of program and project marketing efforts throughout the life of the project. A technical team will work with SIDI at the beginning of the program to provide the GSL with up to date information and materials on the incentive structures and policies of Sri Lanka's competitors in the region.

Activity 2 - BOO/BOT Program Handbook and Brochure

The other immediate program marketing activity will be the development of an official, professionally prepared private infrastructure program brochure and handbook. These materials, based on the GSL policy guidelines, will be the first overt marketing tool that provides potential investors/bidders with information about the opportunities in Sri Lanka. The handbook and brochure will describe what BOT projects are, their benefits, and the GSL objectives of initiating such a program. The materials will also outline clearly the program requirements for investors as well as specific project opportunities. The brochure will be developed by local and foreign experts with experience in investment promotion, production and layout, and BOO/BOT marketing skills.

Activity 3 - Investor/Operator Marketing Efforts Program Specific

In this activity, SIDI will undertake a variety of other tasks to inform the investor/operator community about the nascent program in Sri Lanka. This activity includes the development of a series of low-cost yet effective conferences and briefings in Sri Lanka and abroad to announce the GSL program. Technical assistance will be provided to develop and market the conferences and conduct presentations on the program. The conferences and publicity events will be coordinated with other active agents "on the ground" including the GCEC, U S -Ceylon Chamber of Commerce, Chamber of Industries, U S Overseas Private Investment Corporation, etc. Events will be scheduled to maximize exposure including coordinating appearances at the World Bank/IMF annual meeting, Asian Development Bank Annual Meeting, Sri Lanka Year of Exports 1992 expositions in Colombo, and other industry related annual events.

Like other international business activities, the infrastructure investment community is tightly-knit and relies on information sharing. This fact lends itself well to the

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development of a Marketing Information Campaign that is designed to market the Sri Lankan program. This will involve identifying and disseminating information about the program through articles, press releases, and other media in the infrastructure development field including trade journals, procurement notices, suppliers bulletins and investor's newspapers. This program marketing effort will then set the stage for the development of more project specific activities aimed at an already "alerted" audience. This technical assistance will be conducted by a specialist intimately familiar with media and industry relations who will develop a detailed workplan to undertake an infrastructure marketing effort, including drafting announcements, scopes of work, articles, and other program related tasks for public circulation.

SIDI and "Network" will undertake marketing missions to a screened and selected group of countries to promote successful project solicitations. In order to receive a high degree of competitive bids and to attract strong U.S. participation in the program and in individual projects, a small representative mission will travel to the United States and selected other key investor/operator capitals in the Asian region. These missions will be specific, focused, and strategically planned. They will not be "soft" efforts, where irrelevant or inappropriate business groups are contacted. Rather, the network will identify and contact serious and credible investor groups well in advance and organize a professional series of marketing missions and investor briefings.

Activity 4 - Project Marketing Information Dissemination

Using the experience and network of the Program Marketing efforts, significant project marketing efforts will follow-up as projects that are going to tender are advanced. Project marketing specialists will utilize the same and additional sources of information such as trade journals, magazines, teleconferencing, procurement notices and the like to market and announce specific project solicitations. These activities will require significant scheduling, tracking, drafting, and follow-up in order to ensure that the maximum number of bids are received for each solicitation. Additionally, the development of "Project Profiles" which are designed to offer potential investors a sampling of financial, technical, and economic information on potential projects will be developed to promote the program and elicit responsive bids on specific projects. A sample project profile is found in Annex 5.

Activity 5 - Financial Institution Marketing Program and Project

In order to bring together the entire mosaic in a marketing effort that includes the GSL and the potential Investor/Operator (local and foreign), it is imperative to provide information to the likely financiers of such projects: the local and international banking community. While this activity is primarily the responsibility of the investor/operator in the downstream, it will be advantageous to design a few specific and discreet marketing activities aimed at promoting the Sri Lankan program and individual projects to the relevant financial institutions. This activity would include the development of a

financial institution strategy, marketing materials focusing on financial aspects of BOO/BOT projects be prepared and distributed for discussion with relevant financial institutions, and missions and briefings be conducted (in tandem with investor/operator missions) to inform the financial community

Technical assistance including briefings, presentations, and aides memoir would be conducted by specialists with high-level access at commercial and concessional financing organizations to discuss in detail the objectives and characteristics of the Private Infrastructure Development Project

i) **Component Inputs**

The following inputs will be provided under the Marketing Component (See Annex 4 for full budget details)

(a) Technical Assistance

Expatriate		Sri Lankan	
<u>Position</u>	<u>Person Months</u>	<u>Position</u>	<u>Person Months</u>
International Marketing Specialist	8	Local Marketing Specialist	24
GRAND TOTAL		32 person months	

(b) Training

The project will finance US training (2 persons), third country training (4 persons), and in country training (75 persons) This training for senior government officials, the private sector, SIDI staff on the strategies and techniques of investor/operator marketing at the program and project level

(c) Logistical Support

The project will finance travel, advertising, publication costs, and other costs associated with the marketing effort

Component 4 - Private Sector Window Component

In order to facilitate the successful implementation of components one, two, and three, it is critical that the project have the capacity to enhance the private sector's ability to

attract long-term financial support, defray or mitigate the costs and risk of developing feasibility studies required for BOO/BOT projects, and engage in developing unsolicited proposals to overcome infrastructure difficulties and identify investment opportunities. The Private Sector Window Component addresses these critical issues.

1) Component Objectives

The Private Sector Window Component is designed to facilitate a greater number of private infrastructure development transactions and to augment other project components. This is intended to promote a greater number of viable project proposals by designing a feasibility study fund or cost-sharing mechanism, developing and implementing a Private Sector Infrastructure Development Fund (PSIDF), and strengthening the capacity of SIDI (SIDI) to receive, analyze, evaluate, process, negotiate, and award unsolicited proposals for private infrastructure projects.

This component is designed to, as early as possible, alleviate three problems that could stifle a robust program in Sri Lanka, and that represent a major constraint to the private sector:

- lack of capacity on the part of the local financial market to provide long-term financing for infrastructure projects,
- lack of incentive for the local and foreign private sector to risk their time and effort to shoulder the entire burden of project identification and feasibility studies without prospect for compensation or award, and
- lack of a legitimate opportunity or window for the private sector to utilize its entrepreneurial resources and energy to identify unique approaches to infrastructure investment opportunities without formal procedures to process proposals.

11) Component Outputs

The successful attainment of the objectives of this component would result in completion of the following outputs:

- A private sector facility/fund designed
- Mechanisms for cost-sharing feasibility studies are developed or accessed
- Formal and effective procedures are established for treating unsolicited proposals for private infrastructure projects

iii) Component Activities

The individual activities will be conducted in coordination with SIDI and other critical GSL counterpart institutions including the External Resources Department of the Ministry of Finance, Development Finance Corporation of Ceylon, and the National Development Bank. Specific activities include the following:

Activity 1 - Private Sector Infrastructure Development Fund Design

The proposed "Private Sector Infrastructure Development Fund" (PSIDF) represents an important facility which will allow the private sector access to official development assistance and serve as a catalyst in promoting private infrastructure projects, assist in overcoming the shortage of available long-term financing in Sri Lanka and the difficulties of accessing foreign long-term financing, and alleviate the fiscal burden on the GSL to provide counterpart funds as required in government to government financing of infrastructure.

This activity will include the development of a PSIDF design by specialists attached to SIDI. The activity will involve extensive contact and discussions with relevant donors such as ADB, IBRD, and the other bilateral donors in constructing a mechanism that is flexible and realistic. In addition to developing the program design, the activity will include presenting, justifying, revising, and negotiating, on the behalf of government and the private sector, the creation of such a facility.

Activity 2 - Feasibility Study Financing Mechanism Design

In order to effectively attract the private sector to participate fully in the program, a vehicle must be in place that offers some burden sharing arrangements in the development of pre and full feasibility studies. Currently, A I D has in place an agency wide mechanism which provides cost-sharing arrangements in the development of feasibility studies for private sector energy development projects (PSED). The PSED feasibility study provides for cost-sharing of 50% on projects that are developed by the public/private sector. This activity would involve the analysis of the usefulness of the existing PSED mechanism for private sector energy projects in Sri Lanka, as well as to determine the viability of its replication, with appropriate alterations, for projects in non-energy related infrastructure areas. This activity also entails the development of alternative arrangements whereby the SIDI would provide some cost sharing or reimbursement arrangements, in local or foreign currency, for feasibility studies undertaken by the private sector.

If design in this activity resulted in positive conclusions or models for implementation, the activity would be enlarged to respond to the need for managing such a facility or facilities in this project.

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Activity 3 - Unsolicited Proposal Processing and Procedures Activity

The Promotion of Private Infrastructure Project will be market-driven and the private sector will participate in project identification. In order to ensure that this facility is in place as early as possible, a principal activity of this component will be the technical input of a specialist familiar with the appropriate procedures in developing a "Unsolicited Proposals". Without such procedures, viable unsolicited proposals are not responded to and result in the program losing some of its long-term credibility. Moreover, unsolicited proposals can assist in building the inventory of quality projects. This activity will entail a survey of SIDI and line agency procedures, discussions with the private sector to determine their responsiveness, and the drafting and implementation of a set of procedures for unsolicited proposals.

iv) Component Inputs

(a) Technical Assistance

Expatriate		Sri Lankan	
<u>Position</u>	<u>Person Months</u>	<u>Position</u>	<u>Person Months</u>
<u>PSIDF</u>		<u>PSIDF</u>	
Finance Specialist	2	Finance Specialist	6
BOT Specialist	2		
<u>Feasibility Studies Fund</u>		<u>Feasibility Studies</u>	
Finance Specialist	2	Finance Specialist	6
Infrastructure Specialist	2		
IQC Buy-ins/TA	25		
<u>Unsolicited Bids Mechanism</u>	2		
Contracting Specialist			
Total Expatriates	35	Total Sri Lankans	12
GRAND TOTAL	47 person months		

(b) Training

Inputs consist of US training (2 persons), third country training (10 persons), and in country training (25 persons). This training will include training for the SIDI finance officer and another financial officer in local institutions. Third country training is planned at the Asia Finance and Investment Corporation.

C COST ESTIMATES AND FINANCIAL PLAN

1 Project Costs

The Project cost is \$9,500,000 over the four-year project period

Table I Summary of Project Costs by Component				
Components	USAID	Host Country		Total Project Costs
		GSL	Other	
PI Network	\$4,997,000	\$219,000	\$0	\$5,216,000
Public Awareness	\$169,000	\$0	\$0	\$169,000
Marketing	\$408,000	\$0	\$0	\$408,000
Private Sector Window	\$1,226,000	\$0	\$0	\$1,226,000
Evaluation/Audit	\$200,000	\$0	\$0	\$200,000
Private Infrastructure Projects	\$0	\$0	\$2,281,000	\$2,281,000
TOTAL	\$7,000,000	\$219,000	\$2,281,000	\$9,500,000

This sum reflects the following contributions: AID--\$7,000,000 and the HC--\$2,500,000 including the equivalent of \$2.28 million from private finances

2 Sources and Uses of Funds

The following is a description of the sources and uses of project funds

Table II Sources and Uses of Project Financing				
Components	USAID	Host Country		Total Project Costs
		GSL	Other	
Technical Assistance	\$5,697,000	\$0	\$0	\$5,697,000
Training	\$336,000	\$19,000	\$0	\$355,000
Commodities	\$138,000	\$7,000	\$0	\$145,000
Logistical Support	\$629,000	\$193,000	\$0	\$822,000
Evaluation/Audit	\$200,000	\$0	\$0	\$200,000
Private Infrastructure Projects*	\$0	\$0	\$2,281,000	\$2,281,000
TOTAL	\$7,000,000	\$219,000	\$2,281,000	\$9,500,000

* includes Private Sector contribution to projects of \$2.28 million for individual project costs

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AID Contributions The AID grant contribution to the Project will provide \$7,000,000 or 74 percent of the total costs Budget Table 1 contains a summary of AID's contributions

Host Country Contribution The Host country contribution to the Project is the equivalent of \$2,500,000 which represents 26 percent of total costs The HC contribution consists of both contributions by the GSL to initiate and administer the project, their contributions to individual project activities and investments by the private sector for infrastructure projects, designing and implementing

3 Recurrent Costs

One of the objectives of the project is to replace traditional GSL capital and recurrent expenditures for infrastructure with private sector funding, thus ensuring the sustainability of the activity The limited increase in any recurrent costs of the Project (largely restricted to SIDI operations) will be compensated many times over by the reduction in expenditures on infrastructure There are no significant recurrent costs issues associated with the project

4 Obligation Schedule.

The proposed schedule of obligations of A I D funds for this Project is as follows

Table III Schedule of Obligation (US\$ thousands)					
Components	FY 1992	FY 1993	FY 1994	FY 1995	TOTAL
Technical Assistance	\$1,000	\$1,999	\$1,192	\$1,506	\$5,697,000
Training	\$200	\$100	\$36	-	\$336,000
Commodities	\$138	-	-	-	\$138,000
Logistical Support	\$164	\$293	\$172	-	\$629,000
Evaluation/Audit	-	-	\$100	\$100	\$200,000
TOTAL	\$1,502	\$2,392	\$1,500	\$1,606	\$7,000,000

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5 Methods of Implementation and Financing

A review of alternative methods of implementation and financing from the standpoint of funds accountability and project needs has been conducted during the course of the PP design. A summary of the results is included below.

Project Requirements	Method of Implementation	Method of Financing	Approx Amount (\$'000)
US Technical Assistance	AID Direct Contract	Direct Payment	4,230
SL Technical Assistance	Host country/Through TA Contract	Direct Reimbursement	477
Marketing Support	Through AID Direct TA Contract	Direct Payment	240
Technical Support	IQC's	Direct Payment	750
Training			
Foreign	Through AID Direct TA Contract	Direct Payment	281
Local	Through AID Direct TA Contract	Direct Payment	55
Commodities			
Foreign	Through AID Direct TA Contract	Direct Payment	113
Local	Through AID Direct TA Contract	Direct Payment	12
Local	Through Host Country Agency	Direct Reimbursement/ Direct Payment	13
Logistical support	Host Country Agency SIDI unit	Direct Reimbursement/ Direct Payment	629
Evaluation & Audit	Direct AID Contract, Buy-in to centrally funded project, or PSC	Direct Payment	200

6 Audit Requirements

A review of the audit requirements of the project is as follows:

Analysis of Audit Requirements

Component	Amt at risk (\$000)	Method of Implementation	Resp Host Country Agency	Recommended Audit Coverage	Proposed Date	Cost to Project for Aud Cov
US Technical Assistance	4,230	Aid Direct Contract	None	DCAA audit Voucher reviews NFA	Annually Quarterly 09/30/94	50,000
SL Technical Assistance	477	Host Country Contract	SIDI unit	GSL AG's annual audit Voucher reviews	Annually Quarterly	None
US and third country Training	281	Through AID direct TA Contract	None	Voucher Reviews NFA	Quarterly 09/30/94	Included above
Local Training	55	Through AID direct TA contract	None	Voucher Reviews NFA	Quarterly 09/30/94	Included above
Foreign Currency Procurement	113	Through AID direct TA contract	None	Voucher Reviews NFA	Quarterly 09/30/94	Included above
Local Currency Procurement	12	Through AID direct TA contract	None	Voucher Reviews NFA	Quarterly 09/30/94	Included above
Local Currency Procurement	13	Through GSL's SIDI unit	SIDI unit	GSL AG's annual audit Voucher Reviews	Annually Quarterly	None
Feasibility Studies	750	IQC's	None	IG/Washington Audit	Annually	None
Marketing Support	240	Through AID direct TA contract	None	Voucher Reviews NFA	Quarterly 09/30/94	Included above
Logistical Support	629	Through GSL's SIDI unit	SIDI unit	GSL AG's annual audit Voucher Reviews	Annually Quarterly	None

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D IMPLEMENTATION PLAN

1 Introduction and Principles

Implementation of a private infrastructure investment program in Sri Lanka requires identification of the priority development programs of key ministries, then providing opportunities for private business to undertake the projects

The tempo and pace of implementation will be driven by the capacity of the designated implementing agency to analyze, select, and package suitable projects for tender. Proposals received are then reviewed and evaluated. Winning proposals establish the basis for award of concession agreements and franchise contracts.

One determinant of the implementation rate will be the ratio of projects prepared and put out for tender by the government, to those submitted and accepted directly through the unsolicited proposal window. Size and complexity of proposals will determine the time required for decisions to be made about them. For investment targets to be met, an institutional capacity will be put into place to prepare the projects, evaluate submissions, and help negotiate agreements. Program success depends upon widespread public awareness and support, effective marketing of the investment opportunities to prospective bidders, and availability of finance.

The focal point designated by Government to manage the program is a new technical unit within the Ministry of Policy Planning and Implementation, the Secretariat on Infrastructure Development and Investment (SIDI). It is responsible for packaging and advertising the selected investment opportunities, inviting proposals, responding to offers, and decision-making to advance approved projects to completion. SIDI provides an authoritative linkage between the key policy and operating Ministries and the highest executive approval level of Government, the Cabinet.

The SIDI Unit serves as the Government interface between the business and financial communities on the one hand, and the line ministries or municipal jurisdictions - proponent agencies seeking construction of toll roads, bridges, ports, power plants, water treatment/waste disposal plants, telecommunications facilities, etc. on the other.

SIDI will establish the program schedule. Projects submitted by the ministries or proposed by private investors, will be prioritized and then handled in sequence, improving the prospects of early success and to reduce commercial risk.

Demonstration projects will be chosen for initial implementation. These will lay the foundation for confidence-building essential to the new public-private partnership. Completion of demonstration projects will enable more rapid progress to be made later in dealing with the backlog of pent up demand.

Successful BOO/BOT implementation requires that capital projects are not only technically and economically viable, but also bankable from the risk-taking investor's perspective. Projects selected will be socially sound and environmentally acceptable. Financial viability under BOO/BOT criteria requires setting realistic tariff levels sufficient to amortize the capital loans, pay a reasonable rate of return on equity investment to shareholders, while still assuring adequate funds to sustain operations and maintenance at high levels.

Business executives, no less than government officials, hate surprises. Corporate managers need to pay full attention to their day-to-day planned, programmed and budgeted production and maintenance functions, avoiding crisis management distractions. SIDI will ensure that its actions provide a fully transparent and predictable "level playing field" in which rules are clear to the players, and perceived country risk is diminished. This will include guidance, counsel and direction to the private investors, and serving as advocate to obtain necessary approvals from the relevant GSL authorities.

SIDI is responsible for vetting tender documents, establishing evaluation criteria, and guiding the proponent agencies in negotiating the concession agreements and franchises awarded to successful proposers and bidders. Technical expertise of the respective ministry or jurisdiction will establish the performance standards and specifications.

2 USAID Project Management

USAID Project Management will be undertaken at three levels - directly by the project officers, supervised at the Office of Projects, guided by the Mission Project Committee and reviewed by the Mission Management on a quarterly basis. The USAID Office of Projects will recruit a qualified Project Officer to oversee and monitor implementation of the project. This project officer will become familiar with all the aspects of the project and keep the Office of Projects, Mission Controller, Executive Office and other relevant USAID managers apprised of program implementation matters. He will also perform other coordinating and support functions inherent in USAID - contractor relationships, including reviewing vouchers, approving budget modifications, monitoring periodic reports, and scheduling evaluations. He will be responsible for liaising with the GSL Project Director on all operational matters.

The USDH Chief for the Environmental and Capital Projects Division will supervise the PPI Project Officer on a day to day basis. He will be responsible for making the overall commitment of AID financial resources. The Project Committee will include representatives of other USAID offices and be responsible for guiding and coordinating the project in relation to other Mission activities. The Mission Director and the rest of the mission management team will review project performance on a quarterly basis at the project implementation reviews.

3 Implementation Schedule

Project Events	
Key Events	Starting Date
1 Project Start-up, SIDI Commences Operation, CFED Contract is mobilized	Nov 15, 1992
2 Component 1 network building initiated Master List, project ranking, pre-feasibility studies started	Jan 15, 1993
3 BOO/BOT Workshop Attendees include SIDI and Ministry Liaison officials, business and banking companies and associations Concepts and procedures are defined	Feb 15, 1993
4 Component 2 Public Awareness Press releases issued, Brochure published	Apr 1, 1993
5 Component 3 Marketing Program marketing begins, when project profiles are ready, projects are marketed	Jun 15, 1993
6 Component 4 Private Sector Window Unsolicited proposals invited, PSIDF designed and funded	Jan 1, 1994
7 Bid and Tendering packages put out to tender	Dec 1, 1993
8 Bid Evaluation and Awards	Sep 1, 1993
9 Concession Agreement Contracts negotiated	Apr 1, 1995
10 Mid-term Program Evaluation conducted	Jun 1, 1994
11 Final Program Evaluation	Sep 1, 1995

4 Implementation Arrangements

a) Pre-Implementation

Given the accelerating momentum of the program, and the enthusiasm being shown at the highest levels of the GSL, project design requires Pre-Implementation activities. These will be largely in the nature of intermittent technical assistance to assure timely and appropriate actions by the operating Secretariat in the Ministry of Policy Planning and Implementation (SIDI), prior to the award of the technical assistance contract. It is likely that specialized technical assistance will be provided directly to one or more of the line Ministries and their agencies, e.g. the Ceylon Electricity Board, Sri Lanka Telecom, Water Supply and Drainage Board, to assure that their activities harmonize with the overall program. These activities also include logistical support for establishing an organizational plan and operating procedures for SIDI, and actions to energize the network of proponent line Ministries that will set the agenda for the program.

b) Contracting for the Technical Assistance

Due to the special requirements of the PPI project activities and the immediate requirements of the GSL for support, the Mission proposes to waive competition for providing technical assistance and training services for the project (see Annex 10). Assuming the waiver is approved, the Regional Contracting Officer will issue a request for a proposal to the selected firm. After review by the technical evaluation panel, the RCO will negotiate the final details and costs for a final award.

After contract award, the initial step would be despatch to Colombo of the contract mobilization team comprised of three persons: 1) a senior officer of the contracting firm who was thoroughly familiar with all phases of the project and had been personally involved in the contract negotiations, 2) the designated Chief of Party, and 3) the logistics specialist with special expertise in office equipment requirements, particularly computer work station hardware and software, printers, reproduction and communication equipment, etc. so that prompt procurement of the commodity components could proceed.

The mobilization team would meet with the SIDI Unit Director and staff and the USAID Project Division Chief and Project Officer to establish the basic overall program workplan, and to initiate start-up of operations. Agreement will be reached on scopes of work for key functional activities to be undertaken, and target dates would be set for accomplishment of specific tasks and delivery schedules. Procedures would be established for prompt review and clearance by the USAID project officer of contractor nominees for short-term consultancies.

5 Implementation Phases

This project will be implemented in four distinct phases, coinciding with each of the four life-of-project years as follows

Phase 1 - First Year - Network Institution Building

Activities scheduled for this year involve the organization of SIDI and its linkages with the line agencies and key private sector institutions. Accomplishments will include establishment of the SIDI office as a functioning organization with qualified staff in place, operating procedures in effect and published manuals and program documents describing selection criteria, application forms, and related materials. Benchmarks to be achieved during this first year will be conduct of a major BOO/BOT Workshop, publication of the Project Master List and completion of designed public awareness program efforts.

Phase 2 - Second Year - Infrastructure Project Execution

With the institutional structure and procedures in place and the public generally knowledgeable about the program, emphasis of the second year will be moving the specific projects along through the necessary sequence of events required for their execution. The specific infrastructure projects such as power plants, water treatment facilities, telecommunication installations, toll expressways, etc. including the relevant pre-feasibility studies, technical performance specifications, legal aspects, economic and financial parameters will be packed into bid documents, and marketed for tendering in the local and international investment communities. During this second operational year, these infrastructure projects will become the units of management for conducting the program. Benchmarks will be in the actual number of projects put out for tender and completion of review, evaluation and go-no go decisions taken regarding both categories of projects - those tendered and those unsolicited proposals that survived the screening process and were subsequently accepted for consideration.

Phase 3 - Third Year - Financial Transactions

The test of whether the project has succeeded in creating a private market for economic infrastructure will become manifest in the third year of the project, when it will become apparent that actual transactions have occurred, utilizing the policies, procedures and instruments put in place by the project. Intermediate benchmarks will be numbers of consummated loan syndications, as evidenced by executed Memoranda of Understanding spelling out terms of loan and equity transactions consummated between investors and confinancers that were arranged by the financing institutions. The final transactional milestones will be the actual Concession Agreement contracts endorsed by SIDI and the line Ministries, that are approved by Cabinet for implementation. The valuation in the

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amounts of these concession agreements, summed up, will represent the additionality in new investment and avoided cost to Government that will provide the ultimate quantitative measure of project accomplishment

Phase 4 - Fourth Year - Program Assessment

The fourth and final life-of-project year will begin with an assessment of project impact, largely based upon the formal evaluation concluded at the end of the third operational year. It is envisioned that this assessment will be a collaborative undertaking by USAID and the GSL that will examine end of project status. The outcome of this assessment is expected to be a determination about the appropriateness of a follow-on project, if indicated, and recommended design features and suitable parameters of scale, based upon the numbers and characteristics of infrastructure projects in the pipeline, and experiences with BOO/BOT of the major line ministries, at that time.

E MONITORING AND EVALUATION PLAN

1 Monitoring

Within the first 120 days after arrival of the technical assistance team the contractor will finalize quantitative performance indicators, in collaboration with USAID and the GSL. This will set benchmarks in achieving the project objectives for the project over its four year life and will generally conform to the four project phases outlined above. These indicators will reflect all aspects of the project (not only those activities under the TA contract) and be disaggregated to annual performance targets.

The principal mechanism to assure satisfactory project monitoring is the project officer, whose main responsibility will be liaising with the GSL and private sector officials and serving as the conduit for conveying technical direction to the contractor. The project officer will also maintain the Mission files for the project, and will be provided copies of all deliverables called for under the contract(s), and other project activities including periodic reports, terms of reference, scopes of work, and other operational documents produced by SIDI in connection with the project.

As noted in Section D 2 above the PPI Project Committee will also provide monitoring support for the project in relation to the overall Mission program.

The progress of the project will also be monitored on a quarterly basis under the Mission Project Implementation Reporting System. These reports will be prepared by the USAID Project Officer who will draw upon the Quarterly reports from the TA contractor, GSL reports, and financial records of the USAID Controller. In addition to reporting on project indicators, the TA contractor reports will include progress reports on commodity procurement, training, and financial performance.

A quarterly project working group meeting will be convened by SIDI with USAID to review project progress and to resolve any outstanding issues. The working group will review annual operational assessments prepared by the technical assistance contractor and revise the subsequent years' work plans as necessary.

2 Evaluation Arrangements

For this project, arrangements will be made for two formal evaluations: a Mid-Term Evaluation after approximately eighteen months of implementation, and a Final Evaluation near the end of the life of project period. These evaluations will follow customary USAID practice of engaging an independent consultant(s) to assess the program and review the progress of implementation against the work plans, budgets and

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project objectives Detailed scopes of work will be developed for each of the formal evaluations The evaluation will be conducted using normal procedures of document review, interviews of Government officials, businessmen, bankers, customers and representatives of donor organizations as appropriate

The first evaluation of the project will focus on the appropriateness of the project process For example this evaluation will ascertain as to whether the sequence of events planned in the project paper have been appropriate and provided in a timely manner This evaluation is meant to either reconfirm the project design if progress is satisfactory, or alternatively suggest alternative courses of action

By contrast the second evaluation, scheduled into the third year of the project, is intended to identify and elaborate on project accomplishments

The baseline circumstances under which this project is being undertaken are the deficiencies and reliability of existing infrastructure services Each private infrastructure project will contain quantitative data such as savings in vehicle operation costs, reduction in economic losses from energy load shedding, numbers of new telephones connected, increases in volume of domestic and international calls, and the number of households to be connected to piped water or provided with improved solid or waste water disposal services This data will permit objective evaluation of the entire project

Another source of program assessment, more appropriate for the project's institutional development objective, will be the written evaluations that are an integral part of each of the workshops and seminars organized and conducted by the contractor, under the training component of this project Copies of these training participant evaluations will be provided to the project officer for inclusion in project files, and made available to the evaluators

USAID may also, from time to time, conduct program audits or examination of operational aspects of the program, as authorized by and provided for under the terms of the project grant and subsidiary contracts

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F SUMMARY OF ANALYSIS

1 Summary of Technical Analysis

Private Infrastructure Development

As noted in section A, the demand for infrastructure far exceeds government's ability to install and manage new facilities. In determining the viability of a private infrastructure development as a viable alternative to public infrastructure, several essential elements must be examined within the context of successful and unsuccessful experiences in similar environments. There are six fundamental issues, mutually reinforcing but not exclusive, that serve to validate the likelihood of successful implementation.

a) Formal Policy and Program Objectives

A primary feature universal to countries with a track record of success is the emergence and manifestation of a clear and formal policy for private infrastructure development. An ad hoc or premature policy environment characterized by ambiguity or informality sends a signal to the implementing agencies, the public, and the private sector that the political will does not correspond to the practical rationale of promoting public/private partnerships in the provision of infrastructure.

This political will and long-term commitment must be overtly demonstrated and its objectives refined and clearly understood. There are several examples of countries that have recognized the need and rationale for private infrastructure development yet have undervalued the importance of defining objectives for the program as a whole, and for specific infrastructure sectors in particular.

In Sri Lanka, the government has over the last fourteen months, prepared, approved, and issued a policy statement clearly articulating the goals and objectives of such an approach. This policy statement or 'guidelines', a copy of which is attached in Annex 5, represents an official commitment to promoting private sector approaches to infrastructure and was developed and approved by the GSL cabinet and the principal actors responsible for policy implementation.

b) Institutional Framework Established

In order for the promotion of private infrastructure project to be successful, a well-designed and coherent institutional framework must be established.

A technical unit that operates full-time and serves as a linkage between the line agencies such as water, power, transportation, communications, etc. as well as to the political

authorities responsible for approval is a prerequisite for success. Experience in developed and developing countries alike verify that without command and control mechanisms in place, private infrastructure development initiatives are likely to fragment, drift, and disappoint.

The GSL has recently established an institutional "focal point" designated as responsible for planning, coordinating, and implementing private infrastructure development actions. This focal point, the Secretariat for Infrastructure Development and Investment (SIDI), will serve in a technical and coordinating capacity between the political authority (Cabinet) and the line agencies responsible for traditional infrastructure development such as the Ministry of Transportation, Ministry of Power, Ceylon Electricity Board, Ministry of Posts and Telecommunications, and the like.

A vital attribute in this design is the designation of a "network" for private infrastructure development whereby relevant Ministries and line agencies active in this process are administratively connected through committee assignments and designations with SIDI and operationally connected through liaison assignments between SIDI and the line agencies. Each line agency will have dedicated BOO/BOT cells assigned to liaise with the coordinating body SIDI, a part of the Ministry of Policy Planning and Implementation, and members of the network will all have clearly defined responsibilities in the implementation of this policy. The attached organizational chart (see Annex 5 - Administrative Analysis) illustrates the responsibilities and relationships of this institutional framework.

c) Established Procedures

The third element that must be considered to determine the feasibility of this intervention is the status of the "rules of the game". Private Infrastructure Development is not unlike foreign investment, banking, trade, and other commercial activities in that a compact must exist between all of the participants in the process, in this instance the government, the private sector, and the public.

This compact relies extensively on a well-established and unassailable set of procedures that will serve to govern the process and subsequent transactions over the life of the project. The Government of Sri Lanka has addressed this aspect of a private infrastructure program decisively. "BOO/BOT Program Guidelines" articulating the process and procedures of the GSL program, have received cabinet approval. These guidelines, a copy of which are attached in Annex 5, represent the key determinant of program feasibility.

d) Technical Capacity

One of the key features of this project design is support to the capacity of the relevant "network" of private infrastructure development actors in carrying out the objectives of the above elements. Without the technical capacity to identify, analyze, structure, screen, evaluate, and negotiate private infrastructure projects, the likelihood for success is diminished.

The project design addresses this problem in several ways. By supporting the framework and network through the provision of long term and short term technical resources that are stylized to meet the unique needs of this project, and by providing SIDI with the logistical support it needs to be operational and responsive to the "market" for infrastructure, the issue of capacity determining feasibility is altered. With technical and administrative capacity supporting the institutional framework, the factors determining project feasibility now become project specific. In this instance project specific determinants become important as mechanisms to support the chances of project (transaction) success, means to support project (transaction) financial viability, and methods to promote greater private sector and local participation in the identification of project (transaction) candidates. This issue is discussed in greater detail in Annex 5.

e) Effective Enabling Environment

When undertaking an initiative such as private infrastructure development, a variety of exogenous factors affect project feasibility and therefore must be assessed. The enabling environment to support successful project gestation and operation is primarily a function of the legal, financial, commercial, and socio-political environment and its disposition towards a project of this kind.

In Sri Lanka, the project design team concluded that the enabling legal environment is supportive for private infrastructure development. In general there are no major prohibitions to BOO and BOT transactions in any of the sectors determined eligible by the Program Guidelines. Moreover, the operating and implementing legal acts that govern the process of project development, approval, financing, and implementation do not pose significant constraints. The granting of concessions, the charging of market or near-market tariffs, the acquisition of land, and all other aspects necessary to initiate BOO and BOT projects without introducing major enabling legislation, are allowed and non-prohibitive.

As discussed in greater detail in the financial, economic, and social soundness analyses of this report, the enabling environment characterizing these sectors are generally supportive. Sri Lanka is a growing and complex economy. The lack of a highly developed financial market and large private sector community are not constraints to this project, rather they are necessary beneficiaries. The project does not rely on their growth and development but is designed to augment and support their expansion. However, the project design does recognize that certain project interventions must be

applied to accelerate this process. Included in this is the requirement to involve the public in this process. The project design devotes substantial resources to the inclusion of local participation and public awareness efforts to build support for and understanding of this project's goals and outputs.

2 Summary of Administrative Analysis

a) Secretariat of Infrastructure Development and Investment (SIDI)

The GSL has designated the Secretariat on Infrastructure Development and Investment (SIDI) implementing agency for the program. An administrative review of the proposed organizational structure and administrative system has been undertaken as part of the project design. The conclusion of the review is that with minimum effort these systems will be satisfactory to implement the project. Strategically located within the Ministry of Policy Planning and Implementation, SIDI is guided by a sub-committee of the Industrialization Commission, which is comprised of senior Secretaries from the key policy and line Ministries. SIDI's status and position within the Ministry of Policy Planning and Implementation gives it the authority to make autonomous decisions on its own behalf, and to coordinate with the line proponent Ministries which will be playing a key role in the tendering and award process that will permit private investment for infrastructure projects.

The Government has defined SIDI's authority, and functions in the official BOO/BOT "Guidelines" which have already been approved by Cabinet. Its organization, personnel and operational budget are line items within the host Ministry's budget.

The "Guidelines for BOO/BOT Projects" state

" SIDI will primarily be responsible for

i Identifying appropriate projects and preparing profiles that may be suitable for implementation under BOO-BOT or other basis, in co-operation with implementing agencies and building an inventory of such projects,

ii Ensuring that proposed projects meet established socio-economic, technical, and environmental policy criteria,

iii Ensuring that proposed projects conform to the Program Guidelines and governing legislation,

iv Administering, in collaboration with the relevant Ministries and key implementing agencies, the process of project development, and

v Negotiating with Investors, with input from relevant Ministries and other implementing agencies, on project proposals, and providing recommendations on decisions to accept or reject "

SIDI will be staffed up to a level of from eight to ten professionals, headed by a Director-General, who will be supported by three Additional Directors (ADLs) The senior ADL is in charge of Operations, another ADL manages Projects while the third ADL is responsible for Coordination with the line ministries

Other professional staff will include a Budget and Fiscal Officer, an Infrastructural Specialist, a Financial Specialist, and two Project Officers with administrative skills

This core group of officers will participate in an intensive career development program designed to enhance their capacity for conducting the BOO/BOT program Performance of their duties will be strengthened by day-to-day relationships with the resident long term consultants and repeated and frequent teaming assignments with an interdisciplinary array of short term experts This will provide continuous on the job skill transfer and support in performing their tasks and fulfilling organization development goals in a setting characterized by high professional standards

The recommendations of the administrative review are to obtain documentation of GSL budget support for the project, ensure that at least the Finance Officer and Project Director are in place prior to the disbursement of funds, establish the GSL Tender Board for the project, and, put inventory control and audit procedures in place as soon as possible High standards of accountability in SIDI operations will be established, and the quality performance will be assured through regular monitoring of each aspect of program operations Results will be confirmed by regular audits and periodic evaluations of the program

3 Summary of Economic and Financial Analysis

a) Economic Viability of the Project

The provision of infrastructure by the private sector should prove to be a superior mechanism to the traditional government and donor-led system of using ODA It reduces the financial burden on overly-indebted governments and involves the private sector in areas where they have greater competitive advantage vis-a-vis the public sector

Economic and financial considerations for the project apply at several levels The first consideration is the return to USAID in comparison with alternative projects in which it could invest \$5 million The possibilities for attractive returns from the project are high in view of the potential leveraging of limited USAID resources for a proportionately much higher level of infrastructure provision The targeted output of the project is \$150 million worth of infrastructure projects signed by the GSL with the private sector One way to view the impact of these project funds is to consider that, using the traditional approach, spending \$5 million for a traditional infrastructure project would create an equal amount of infrastructure by value Using \$5 million of USAID funds to set up a

mechanism that could attract \$ 150 million of infrastructure projects, on the other hand, would result in a leveraging of USAID's resources of 30 times

Justification for this project is based upon the circumstances arising from postponing needed investment in the basic economic infrastructure of the country. Budget constraints and accumulated debt servicing burden have resulted in neglected routine maintenance, and deferral of new infrastructure investments. This has eroded the quality of service, leading to power outages, poor phone service to subscribers and long waits for new service installation, congested ports, overburdened mass transit, increased vehicle operating costs, inadequate water service, poor waste water disposal and solid waste management. In addition to eroding the quality of life, these conditions degrade the investment climate and diminish Sri Lanka's competitiveness in attracting new private business investment.

Public/private partnerships made possible by the project will produce economic benefits by

- Increasing the likelihood that additional infrastructure will be built, and
- Achieving greater efficiency of resource allocation and use by private creation and maintenance of infrastructure

The combined impact of these two benefits assure economic viability for the program if only a few projects are undertaken, and for those to achieve only moderate improvement in efficiency compared to Government-operated facilities.

There are risks associated with this project, largely related to country risk perceptions that could result from potential political opposition to the program, and instability that could be the consequence of an upsurge in civil unrest. There are also financial risks resulting from possible problems encountered by prospective investors in mobilizing sufficient amounts of capital financing at interest rates low enough to permit viable internal rates of return. Although these not insignificant risks could jeopardize the project's potential high returns, these risks have been mitigated through drawing on the lessons learned from other countries to improve program design, and from Sri Lanka's experience in conducting its current privatization program.

On balance, the potential "upside" economic return of the project combined with the limited risk of undertaking a private sector infrastructure program are preferable to the low returns and predictable--and hazardous--risk, which threaten the country's further economic development, of continuing exclusively with the present system of infrastructure provision.

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b) Economic Viability of the Sub-Projects

At a sub-project level, economic and financial considerations will be an integral part of the BOO/BOT project screening and analysis. Projects will first be assessed for their economic feasibility. Projects which do not pass the threshold level as measured by net present value (NPV) and internal rate of return (IRR) criteria will not be pursued.

Projects which are economically viable will then be analyzed for financial viability, that is, their attractiveness to the private sector at market prices. Those that are viable are good candidates for further BOO/BOT consideration.

Those that are not will be further analyzed for potential structuring to make them financially attractive to the private sector. For example, a highway project may in and of itself not be financially attractive. However, some ancillary benefits may be associated with the project, such as land development rights by the entrance and exits points, could be structured as a part of the transaction to make it more attractive to the private sector.

Those projects which cannot be made financially viable, but are economically viable, would remain as suitable candidates for traditional donor financing.

c) Financing Private Infrastructure Projects

Finally, the design team analyzed the potential of the domestic and foreign private sector to mobilize the financial resources to undertake infrastructure projects.

Sri Lanka's financial markets are still "emerging" and not ready to assume the amounts and maturities that would be required for most BOT projects. Discussions with local financial institutions indicate that the maximum amount of capital that could be raised for a BOT project would be about \$10 million. Although participation by Sri Lankan institutions would be initially modest, it is important that they participate in transactions in an effort to further develop the financial and capital markets.

The availability of foreign commercial bank debt is limited by Sri Lanka's high levels of foreign debt and the reluctance of foreign commercial banks to take project risk in Sri Lanka. Foreign direct investment has averaged only about \$40 million a year for the last twelve years. It has been limited by perceptions of risk due partially to the ongoing civil conflict.

As the experience of the Philippines and elsewhere demonstrates, Sri Lanka will need to rely on financing from the IFC and the ADB private sector window to initiate its first significant BOT projects. Discussion by design team members indicates a keen interest by these institutions in participating in the financing of BOO/BOT projects in Sri Lanka. At the same time, Sri Lanka should work with the official development assistance

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community to create a mechanism to channel ODA to the private sector to support BOT projects. This would help to provide the sums and maturities of finance needed for BOT projects, while avoiding problems such as counterpart funds required by traditional donor financing which have slowed infrastructure development. The design team has proposed a "Private Sector Infrastructure Development Fund" (PSIDF) to meet this need. Creating this fund would be a part of the private sector window component.

4 Summary of Social Analysis

a) General Background

Sri Lankan social values have traditionally been strongly oriented toward equity, poverty alleviation, preservation of village lifestyles and cultural values. With the advent of economic liberalization since 1977--and especially in the last three years--these values have been explicitly incorporated in government policies that seek, at the same time, to promote economic growth, investment, an open trading regime and a market economy in which the private sector gradually supplants the state's role in productive activities. This combination requires a shift in emphasis away from welfare policies aimed at redistribution of income and toward economic policies that increase the economic opportunities of large numbers of people--including the rural poor--to participate in and enjoy the benefits of development. This, in turn, requires a delicate balance of policies and investments to avoid the emergence of a dual economy in which a limited number of elite urban participants in the formal economy benefit from accelerating economic growth while large numbers of rural, agriculturally-based people languish in a low-productivity poverty trap.

The policies of the current government seek to harmonize the two goals by emphasizing broad citizen participation in productive private investment and employment. The Promotion of Private Infrastructure Project is fully consistent with this strategy. The project will support the concept of broad participation in development by, most importantly, providing new infrastructural services which are the prerequisites for rapid economic growth and higher standards of living. The project structure fully reflects the need to develop a strong sense of ownership by public and private leaders in Sri Lanka and a broad understanding of its aims by the general public. To this end a public awareness and communications component has been added to the project which will be used to promote and monitor broad Sri Lankan participation.

While the average Sri Lankan--and certainly the typical worker in Sri Lankan industry--is unfamiliar with the concept of large scale private sector infrastructure projects, people clearly understand the needs for better roads, phone, etc. There will be public debate about fees for service on items like transport although in other areas where the public is already paying (i.e. power) these issues are not likely to be as important. Based on

USAID's experience with the "people-ization" program, when the benefits of private sector programs are clearly articulated public awareness and acceptance increases dramatically

Several of the activities planned for implementation under the Project will reinforce public confidence and participation in these new investment opportunities. The Project will focus on the transparency of GSL decisions on private sector projects thereby making it clear to all that these processes will be carried out on level playing fields where everyone can expect a fair chance to play and win. Creation of local markets for new debt instruments, including corporate bonds, will increase the number and variety of opportunities available to Sri Lanka's to share in the benefits of the project.

The social impact of the Project will extend beyond the direct participants in each of the infrastructural projects. The development of markets in private infrastructure will substantially increase the pace of both foreign and indigenous investment in private enterprise in Sri Lanka, and that, in turn, will create new employment opportunities. A recent study on the causes of unemployment, co-authored by a consultant and an official of the Ministry of Policy Planning and Implementation, concluded that the Sri Lankan economy is simply not creating enough jobs to keep pace with the growth of the labor force, and that accelerating employment growth would require an increase of about 23% in annual foreign investment, compared with the 1990 level. Low demand for labor is a direct result of relatively low rates of economic growth in the 1980's, rather than--as some earlier studies have argued--a mismatch between the types of labor demanded and the types of jobs unemployed workers would accept or could perform. In other words, Sri Lanka's unemployment problem is demand-related rather than structural.

The beneficiary impact of this project is widespread, and includes directly those persons who will be provided new employment opportunities through construction, operation and maintenance of the new private sector financed infrastructure projects that would not be built without the project. Employees, managers, owners and shareholders of the service industries in finance, accounting, insurance, and related business services directly supporting the operation of the new facilities, will benefit from added levels of business activity generated by the infrastructure projects when they are being built and afterwards during their operation throughout the concession agreement period, likely to range upwards from twenty to thirty years or more.

A gender analysis of the project has limitations at this stage since infrastructure projects will be selected by the private sector. The impact of these projects will be reviewed on a case by case basis. With respect to the specific activities financed by the grant, all project data will be disaggregated according to gender to maintain representative levels of benefits for training and staff positions. In terms of the overall picture, both women and men are likely to benefit most from the design and construction of new infrastructure. In terms of long term employment in the new private utilities (telecommunications, power, and water) women have traditionally been the largest

segment of the employees, constituting almost 85% of the work force in this sector at the present time

Indirect beneficiaries are the men, women, and children in both rural and urban areas who will be enjoying more reliable and efficient transport, energy, potable water, solid waster disposal,telecommunications, and other services contributing to improvement in quality of life indicators. The business community will experience fewer losses attributed to power outages, delayed shipments, missed communications, etc

Another significant benefit of the project is that it will reduce the levels of public finance required to construct and operate (including the payment of subsidies) inefficient infrastructure services. This will make more GSL funds available to improve the quality and amount of social welfare programs more distinctively governmental in character

There will also be people whose interests will not be served by the project including those persons whose homes and businesses occupy the sites that will need to be acquired by the Government to permit construction of the new highways, bridges, power stations, water and waste water treatment plants, ports, railways, etc. This effect will be mitigated by the equitable exercise of rights of eminent domain, and reasonable and prompt compensation by the Government, to the owners of property being taken over in project construction locations. Likewise, managers and employees of government-owned infrastructure organizations may see private suppliers as a substitute rather than as a supplement for their services. In these cases, the project will depend upon regular consultation with these groups as provided under component two to carefully explain the role of the private suppliers

5 Summary of Environmental Analysis

The Promotion of Private Infrastructure (PPI) Project will enhance the GSL's policy framework and institutional capability to promote private infrastructure development. A I D funds will not be used to implement any infrastructure project, and therefore, will have not direct environmental impact. All A I D funds will be used for the provision of technical assistance, training and logistical support to the GSL's Secretariat for Infrastructure Development and Investment (SIDI). However, the infrastructure projects which will result from an improved GSL policy environment and strengthened institutional structure will have major impacts on the environment. Consequently, The PPI Project will depend simultaneous development of the GSL's environmental assessment and regulation capacity. USAID/Sri Lanka's Natural Resources and Environmental Policy Project (NAREPP) has a mandate to provide this support

The PPI Project will be proactive in ensuring that the GSL environmental procedures for reviewing and regulating infrastructure projects are well-developed and operational early in the life of the Project. In fact, the Project Grant Agreement contains a Covenant which states that "the Grantee shall assure that any proposals approved for private

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participation in infrastructure are technically and economically viable, socially sound, and environmentally acceptable under Government of Sri Lanka environmental laws, rules and regulations "

The most effective way to ensure that the Project meets the environmental standards is to examine the environmental impacts of each project individually. Technical assistance provided through the Project will include preparation of terms of reference (TORs) for environmental assessments and review of environmental assistance. Hence, each proposal will be reviewed for compliance with the GSL's environmental standards and requirements.

The PPI project positively impacts upon the environment in several ways:

a) Rigorous Environmental Review - Each infrastructure proposal received by SIDI will include either an Initial Environmental Examination or an Environmental Impact Assessment depending on the nature of the activities. This will ensure that all future investments are thoroughly examined for all possible environmental consequences and that investment decisions are made with this in mind. This environmental safeguard is also built into guidelines for Unsolicited Proposals. SIDI will promulgate guidelines, based on A I D environmental regulations, and adjusted to Sri Lankan conditions, for all proposals submitted for consideration. All unsolicited proposals will include the same environmental threshold requirements being applied to Government-initiated projects.

b) Environmental Additionality of PPI - In addition to the routine environmental review designed into the operating procedures of the project, PPI may result in a number of private sector investments which have substantial and highly desirable positive environmental impacts. Examples include solid waste disposal, water supply and waste water treatment where there are currently few if any safeguards. These and similar projects would not have been undertaken at all without the facilitating mechanism for new private/public partnerships being established by this project. This "additionality" of investment in projects specifically targeted to improve the environment is among the potential environmental benefits resulting from PPI.

c) Strengthened Local Capability - Since SIDI will be supported by A I D technical assistance, the local private sector will benefit from international expertise in preparing Environmental Impact Studies of an international standard. This would not only help the GSL in ensuring that satisfactory environmental assessments are performed, but also assist the local environmental specialists to develop environmental assessment capabilities that can be used by other development programs.

SIDI will have access to PPI-provided technical expertise, as well as environmental specialists from other USAID/Sri Lanka Projects and other donors. In the first instance, it will work closely with the GSL Central Environmental Authority, the Ministry of Environment, the Ministry of Policy Planning and other GSL environmental

organizations USAID/Sri Lanka will also ensure that SIDI's requirements are provided to the maximum extent possible by the Mission's NAREPP project resources. Finally, SIDI will be able to draw upon World Bank resources under the Metropolitan Environmental Improvement Project.

To ensure that SIDI adheres to satisfactory environmental standards, assessment criteria and an institutional process will be developed as part of the PPI Project. Environmental monitoring will be included in the technical assistance progress reports and will be a standing item at the quarterly project review meetings. Moreover, as stated above, the Project Grant Agreement will include an environmental review covenant.

The GSL environmental review process will consist of three phases:

a) Environmental Screening - SIDI will require all proposals to include a section on environmental screening. SIDI will be responsible for determining the adequacy and validity of the Environmental Screening based on its promulgated guidelines. PPI and NAREPP resources will be used to develop these guidelines and standards.

b) Initial Environmental Examinations (IEEs) - If an IEE is proposed, the proponent will be required to obtain the clearance from the relevant PAA. Once the requirement for an IEE is agreed to, the project proponent shall be requested to follow the guidelines and the formats laid down by the Central Environmental Authority in conducting an IEE. PPI staff will review IEE's to ensure that the type of assistance will not directly or indirectly violate the A I D environmental requirements.

c) Environmental Impact Assessments (EIAs) - If the project proposed needs an Environmental Impact Assessment (EIA), the terms of reference will be developed by the PAA appointed by the Central Environmental Authority. The capability of PAA and CEA to develop TORs for EIA studies is being developed under NAREPP. Under NAREPP, the CEA will be assisted to prepare programmatic guidelines for some of the small-scale infrastructure developments which may be duplicated several times. These guidelines will be used rather than developing separate guidelines. The completed EIA shall be presented to SIDI/PAA which, in consultation with the CEA, shall approve/disapprove the activity.

G CONDITIONS AND COVENANTS

1 Conditions Precedent

The following conditions precedent to initial disbursement are proposed for the Promotion of Private Infrastructure (PPI) Project Grant Agreement

a **First Disbursement** Prior to the first disbursement under the Grant, or to the issuance by A I D of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A I D in form and substance satisfactory to A I D

(1) A statement of the name of the person holding or acting in the office of the Grantee, and of any additional representatives, together with a specimen signature of each person specified in such statement, and,

(2) A published policy promoting private investment in infrastructure adopted by the Government of Sri Lanka, and,

(3) For the first disbursement providing assistance to the Secretariat on Infrastructure Development and Investment ("SIDI"), evidence that suitable, available office space and facilities at a location convenient to the Colombo central business district have been located

b **Additional Disbursement** Prior to additional disbursement for SIDI under the Grant, or to the issuance by A I D of documentation pursuant to which disbursement for SIDI will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A I D in form and substance satisfactory to A I D , evidence that SIDI has

(1) High-level decision-making authority to implement the Government of Sri Lanka's policy promoting private investment in infrastructure,

(2) Sufficient staff with the capacity to implement the policy, including identifying suitable projects and negotiating and administering project development, and,

(3) Adequate administrative, inventory, and funds control procedures

c **Notification** When A I D has determined that the conditions precedent specified in Sections 4 1 and 4 2 have been met, it will promptly notify the Grantee

d **Terminal Dates for Conditions Precedent**

(1) If all of the conditions specified above have not been met within 45 days, A I D , at its option, may terminate this Agreement by written notice to Grantee

(2) If all of the conditions specified above have not been met within 120 days from the date of the Agreement, or such later date as A I D may agree to in writing, A I D , at its option, may cancel the then undisbursed balance of the Grant, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Grantee

2 Special Covenants

a **Project Evaluation** The Parties agree to establish an evaluation program as part of the Project Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter

(1) evaluation of progress toward attainment of the objectives of the Project,

(2) identification and evaluation of problem areas of constraints which may inhibit such attainment,

(3) assessment of how such information may be used to help overcome such problems, and

(4) evaluation, to the degree feasible, of the overall development impact of the Project

b **Coordination and Consultation** The Grantee shall implement its policy promoting private investment through a front line ministry, as the Ministry of Policy Planning and Implementation ("MPPI"), and will designate the Secretariat on Infrastructure and Development Investment ("SIDI") to be responsible for close coordination with consultants financed with resources under this Grant using A I D direct contracts The Grantee shall provide the consultants with all information necessary to enable them to prepare annual work plans, reports, and other documents required to fulfill the terms and conditions of their contracts and, through SIDI or MPPI, shall regularly consult with them to identify potential problem areas that could become impediments to project success and jointly develop solutions

c **Development Fund** Upon completion of a design of a development fund or similar mechanism to provide financing for private investment, the Grantee shall take all

appropriate steps to assure that the fund is created and eligible to receive non-A I D resources such as those of the World Bank or the Asian Development Bank

d **Private Sector Support** The Grantee shall assure that private investors approved for private participation in infrastructure will receive the most favored treatment accorded by the Greater Colombo Economic Commission (GCEC) to commercial investors participating in Export Processing Zones and similar programs under GCEC jurisdiction. The Grantee shall extend the benefits of the treatment for a term and under conditions that reflect the longer periods of commercial risk being assumed for infrastructure.

e **Environmental Protection and Social Soundness** The Grantee shall assure that any proposals approved for private participation in infrastructure are technically and economically viable, socially sound, and environmentally acceptable under Government of Sri Lanka environmental laws, rules and regulations.

f **Continued Policy Promotion Efforts** The Grantee shall continue to emphasize and support the policy promoting private investment in infrastructure over the life of this Project to assure the Project's success and shall take all appropriate steps to fully assume, by the end of the Project, financing of recurrent costs associated with the unit maintaining and implementing the policy.

g **Prohibition** No funds provided by A I D under this Project shall be used to purchase land or to otherwise compensate owners for land.

ANNEXES

Promotion of Private Infrastructure

August 28, 1992

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LOGICAL FRAMEWORK

ANNEX 1

Narrative	Indicators	Verification	Assumptions
<p>Goal To modernize Economic Infrastructure</p>	<p>Over the next 5 years</p> <ul style="list-style-type: none"> - Expand telephone lines by 500,000 - Increase power generation by 400 MW - Population with access to piped water increases to 2 million - Capacity to manage 1,000 ton/pd of solid waste for Metro/Colombo 	<ul style="list-style-type: none"> SL Telecom waiting period for new hook-up reduced - Phone service available - Brown-outs, load shedding ceases - CEB power more available - Water supply available - Annual Reports of CEB, SL Telecom 	<p>GSL commitment to public/private partnerships continues to grow and consolidate</p> <p>Private sector contributes to infrastructure development</p>
<p>Purpose To develop a market for private financing and management of infrastructure</p> <p>Sub-purpose To encourage and support US trade and investment in Sri Lanka's economic infrastructure</p>	<ul style="list-style-type: none"> - 3 projects signed with private parties for \$150 million - Functioning policy and procedures for private participation in infrastructure - Public awareness and support for private sector infrastructure - Competition to provide private infrastructure - Enhanced ability of the private sector to participate in the program 	<ul style="list-style-type: none"> - Contracts awarded - IDI Brochure available and utilized - Survey of public and media - Multiple bids received in response to tenders - SIDI documents 	<p>Domestic and foreign investors and operators will respond to project opportunities</p> <p>Govt Agencies, private sector, and users in public will recognize "common purpose" in benefits of public/private projects</p>
<p>Outputs</p> <ul style="list-style-type: none"> - Formal network established to promote and support private infrastructure 	<ul style="list-style-type: none"> - 12 projects identified for pre-feasibility - 6 tendered packages developed for issuance - 3 agreements awarded and negotiated - Periodic reports confirming project performance 	<ul style="list-style-type: none"> - Review of consultants reports - List of projects completed - Agreements - GSL reports 	<p>A technical unit is established within the GSL and that it possess high-level authority</p> <p>Staff in the relevant agencies and unit can be trained to provide immediate and long term capacity</p>

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<p>- Program established to create an awareness of benefits of private infrastructure</p> <hr/> <p>- Multiple bids received from investors</p> <hr/> <p>- Create a Private Sector Facility</p>	<p>- Increased percentage of population aware of program</p> <p>- Significant participation of Sri Lankans in program activities</p> <hr/> <p>- Foreign and local competitive bids received for projects greater than \$10 million</p> <p>- 3 bids received from U S principals</p> <hr/> <p>- Private Sector Fund designed</p> <p>- Feasibility financing mechanisms developed and or accessed</p> <p>- Procedures established for unsolicited proposals</p> <hr/> <p>- Competitive bids from more than one private developer are submitted for most projects tendered by GSL</p> <p>- Reasonable unsolicited proposals are submitted for targeted sectors</p> <hr/> <p>-Fund is created</p>	<p>- Survey conducted</p> <p>- Ratio of local vs foreign submissions</p> <hr/> <p>- File of project bids</p> <p>- File of foreign bids (SIDI)</p> <hr/> <p>- Investment Fund in place</p> <p>- Cost of studies shared</p> <p>- Actual number of unsolicited proposals received</p>	<p>Priority projects that are determined to be financially viable will be selected and advanced</p>
<p>Inputs</p> <p>LT Technical Assistance</p> <p>ST Technical Assistance</p> <p>Training</p> <p>US Feasibility Studies</p> <p>Commodities</p> <p>Marketing</p>	<p>150 pm</p> <p>212 pm</p> <p>316 persons</p> <p>\$133,000</p> <p>\$101,000</p> <p>32 pm</p>		

STATUTORY CHECKLIST

ANNEX 2

5C(2) ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE IS COUNTRY CHECKLIST UP TO DATE?

YES

A CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

- 1 Host Country Development Efforts (FAA Sec 601(a))
Information and conclusions on whether assistance will encourage efforts of the country to (a) increase the flow of international trade (b) foster private initiative and competition (c) encourage development and use of cooperatives credit unions and savings and loan associations (d) discourage monopolistic practices (e) improve technical efficiency of industry agriculture and commerce and (f) strengthen free labor unions

Project activities directly support private sector growth by creating a market for infrastructure investment. It also enhances international competitiveness.

- 2 U.S. Private Trade and Investment (FAA Sec 610(b))
Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise)

The use of U.S. technical assistance will help strengthen investment opportunities capital markets and market efficiency creating a dramatically improved and more familiar investment climate for U.S. trade and investment activities.

- 3 Congressional Notification

a General Requirement (FY 1991 Appropriations Act Secs 523 and 591, FAA Sec 634A) If money is to be obligated for an activity not previously justified to Congress or for an amount in excess of amount previously justified to Congress has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

Yes

b Notice of New Account Obligation (FY 1991 Appropriations Act Sec 514) If funds are being obligated under an appropriation account to which they were not

appropriated has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

Not Applicable

c Cash Transfers and Nonproject Sector Assistance (FY 1991 Appropriations Act Sec 575(b)(3)) If funds are to be made available in the form of cash transfer or nonproject sector assistance has the Congressional notice included a detailed description of how the funds will be used with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

Not Applicable

- 4 Engineering and Financial Plans (FAA Sec 611(a)) Prior to an obligation in excess of \$500,000 will there be (a) engineering financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes

- 5 Legislative Action (FAA Sec 611(a)(2)) If legislative action is required within recipient country with respect to an obligation in excess of \$500,000 what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

Not Applicable

- 6 Water Resources (FAA Sec 611(b), FY 1991 Appropriations Act Sec 501) If project is for water or water related land resource construction have benefits and costs been computed to the extent practicable in accordance with the principles standards and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962 et seq)? (See AID Handbook 3 for guidelines)

Not Applicable

- 7 Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec 575(b)) Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

Not Applicable

- 8 Capital Assistance (FAA Sec 611(e)) If project is capital assistance (e.g. construction) and total U.S. assistance for it will exceed \$1 million has the Mission Director certified and Regional Assistant Administrator taken into

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consideration the country's capability to maintain and utilize the project effectively?

Not Applicable

- 9 Multiple Country Objectives (FAA Sec 601(a))
Information and conclusions whether project will encourage efforts of the country to (a) increase the flow of international trade (b) foster private initiative and competition (c) encourage development and use of cooperatives credit unions and savings and loan associations (d) discourage monopolistic practices (e) improve technical efficiency of industry agriculture and commerce and (f) strengthen free labor unions

Project activities directly support private sector growth by expanding investment opportunities and capital availability. It also fosters greater competition in the financial markets and directly strengthens the technical capacity of the government to use private investment in infrastructure.

- 10 U S Private Trade (FAA Sec 601(b)) Information and conclusions on how project will encourage U S private trade and investment abroad and encourage private U S participation in foreign assistance programs (including use of private trade channels and the services of U S private enterprise)

The use of U S technical assistance will help strengthen investment opportunities capital markets and market efficiency creating a dramatically improved and familiar investment climate for U S trade and investment activities

- 11 Local Currencies

a Recipient Contributions (FAA Secs 612(b), 636(h))
Describe steps taken to assure that to the maximum extent possible the country is contributing local currencies to meet the cost of contractual and other services and foreign currencies owned by the U S are utilized in lieu of dollars

The Host Country is contributing at least 25% of the cost of project implementation.

b U S Owned Currency (FAA Sec 612(d)) Does the U S own excess foreign currency of the country and if so what arrangements have been made for its release?

No

c Separate Account (FY 1991 Appropriations Act Sec 575) If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies

Not Applicable

(1) Has A I D (a) required that local currencies be deposited in a separate account established by the recipient government (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized and (c) established by agreement the responsibilities of A I D and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies or an equivalent amount of local currencies be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A I D taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

(4) If assistance is terminated to a country will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

- 12 Trade Restrictions

a Surplus Commodities (FY 1991 Appropriations Act Sec 521(a)) If assistance is for the production of any commodity for export is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative and is such assistance likely to cause substantial injury to U S producers of the same similar or competing commodity?

Not Applicable

b Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec 521(c)) Will the assistance (except for programs in Caribbean Basin Initiative countries under U S Tariff Schedule "Section 807" which allows reduced tariffs on articles assembled abroad from U S made components) be used directly to procure feasibility studies prefeasibility studies or project profiles of potential investment in or to assist the establishment of facilities specifically designed for the manufacture for export to the United States or to third country markets indirect competition with U S exports of textiles apparel footwear handbags flat goods (such as wallets or coin purses worn on the person) work gloves or leather wearing apparel?

Not Applicable

- 13 Tropical Forests (FY 1991 Appropriations Act Sec 533(c)(3)) Will funds be used for any program projector activity which would (a) result in any significant loss of tropical forests or (b) involve industrial timber extraction in primary tropical forest areas?

No

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Statutory Checklist: Page 6

14 PVO Assistance

a Auditing and Registration (FY 1991 Appropriations Act Sec 537) If assistance is being made available to a PVO has that organization provided upon timely request any document file or record necessary to the auditing requirements of AID and is the PVO registered with AID?

Not Applicable

b Funding Sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations") If assistance is to be made to a United States PVO (other than a cooperative development organization) does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

Not Applicable

15 Project Agreement Documentation (State Authorization Sec 139 (as interpreted by conference report)) Has confirmation of the date of signing of the project agreement including the amount involved been cabled to State L/T and AID LEG within 60 days of the agreement's entry into force with respect to the United States and has the full text of the agreement been pouched to those same offices? (See Handbook 3 Appendix 6G for agreements covered by this provision)

Not Applicable

16 Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec 2, and as implemented through AID policy) Does the assistance activity use the metric system of measurement in its procurements grants and other business related activities except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric and are components sub-assemblies and semifabricated materials to be specified in metric units when economically available and technically adequate? Will AID specifications use metric units of measure from the earliest programmatic stages and from the earliest documentation of the assistance processes (for example project papers) involving quantifiable measurements length area volume capacity mass and weight) through the implementation stage?

Yes

17 Women in Development (FY 1991 Appropriations Act, Title II under heading "Women in Development") Will assistance be designed so that the percentage of women participants will be demonstrably increased?
The project is designed to promote private sector growth and spread economic growth benefits across all population strata including market women in rural areas

18 Regional and Multilateral Assistance (FAA Sec 209) is assistance more efficiently and effectively provided through regional or multilateral organizations? If so why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs

No

19 Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA, and Sec 525)

a Will assistance be made available to any organization or program which as determined by the President supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

b Will any funds be used to lobby for abortion?

No

20 Cooperatives (FAA Sec 111) Will assistance help develop cooperatives especially by technical assistance to assist rural and urban poor to help themselves toward a better life?

No

21 U S Owned Foreign Currencies

a Use of Currencies (FAA Secs 612(b), 636(h), FY 1991 Appropriations Act Secs 507, 509) Describe steps taken to assure that to the maximum extent possible foreign currencies owned by the U S are utilized in lieu of dollars to meet the cost of contractual and other services

Not Applicable

b Release of Currencies (FAA Sec 612(d)) Does the U S own excess foreign currency of the country and if so what arrangements have been made for its release?

No

22 Procurement

a Small Business (FAA Sec 602(a)) Are there arrangements to permit U S small business to participate equitably in the furnishing of commodities and services financed?

Yes Project intends to rely on services of a Hispanic woman-owned firm to implement the project

b U S Procurement (FAA Sec 604(a)) Will all procurement be from the U S except as otherwise

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determined by the President or determined under delegation from him?

Yes

c Marine Insurance (FAA Sec 604(d)) If the cooperating country discriminates against marine insurance companies authorized to do business in the U S will commodities be insured in the United States against marine risk with such a company?

Not Applicable

d Non U S Agricultural Procurement (FAA Sec 604(e)) If non U S procurement of agricultural commodity or product thereof is to be financed is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U S)

Not Applicable

e Construction or Engineering Services (FAA Sec 604(g)) Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries)

No

f Cargo Preference Shipping (FAA Sec 603) Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936 as amended that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers dry cargo liners and tankers) financed shall be transported on privately owned U S flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

Not Applicable

g Technical Assistance (FAA Sec 621(a)) If technical assistance is financed will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized when they are particularly suitable not competitive with private enterprise and made available without undue interference with domestic programs?

Yes

h U S Air Carriers (Inter-national Air Transportation Fair Competitive Practices Act, 1974) If air transportation of

persons or property is financed on grant basis will U S carriers be used to the extent such service is available?

Yes

i Termination for Convenience of U S Government (FY 1991 Appropriations Act Sec 504) If the U S Government is a party to a contract for procurement does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes

j Consulting Services (FY1991 Appropriations Act Sec 524) If assistance is for consulting service through procurement contract pursuant to 5 U S C 3109 are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

Yes

k Metric Conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec 2, and as implemented through A I D policy) Does the assistance program use the metric system of measurement in its procurements grants and other business related activities except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric and are components subassemblies and semifabricated materials to be specified in metric units when economically available and technically adequate? Will A I D specifications use metric units of measure from the earliest programmatic stages and from the earliest documentation of the assistance processes (for example project papers) involving quantifiable measurements (length area volume capacity mass and weight) through the implementation stage?

Yes

l Competitive Selection Procedures (FAA Sec 601(e)) Will the assistance utilize competitive selection procedures for the awarding of contracts except where applicable procurement rules allow otherwise?

Yes

23 Construction

a Capital Project (FAA Sec 601(d)) If capital (e.g. construction) project will U S engineering and professional services be used?

Not Applicable

b Construction Contract (FAA Sec 611(c)) If contracts for construction are to be financed will they be let on a competitive basis to maximum extent practicable?

Not Applicable

c Large Projects, Congressional Approval (FAA Sec 620(k)) If for construction of productive enterprise will aggregate value of assistance to be furnished by the U S not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation) or does assistance have the express approval of Congress?

Not Applicable

24 U S Audit Rights (FAA Sec 301(d)) If fund is established solely by U S contributions and administered by an international organization does Controller General have audit rights?

Not Applicable

25 Communist Assistance (FAA Sec 620(h)) Do arrangements exist to insure that United States foreign aid is not used in a manner which contrary to the best interests of the United States promotes or assists the foreign aid projects or activities of the Communist bloc countries?

Yes

26 Narcotics

a Cash Reimbursements (FAA Sec 483) Will arrangements preclude use of financing to make reimbursements in the form of cash payments to persons whose illicit drug crops are eradicated?

Not Applicable

b Assistance to Narcotics Traffickers (FAA Section 487) Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances) or (2) been an illicit trafficker in or otherwise involved in the illicit trafficking of any such controlled substance?

Yes

27 Expropriation and Land Reform (FAA Sec 620(g)) Will assistance preclude use of financing to compensate owners for expropriated or nationalized property except to compensate foreign nationals in accordance with a land reform program certified by the President?

Not Applicable

28 Police and Prisons (FAA Sec 660) Will assistance preclude use of financing to provide training advice or any financial support for police prisons or other law enforcement forces except for narcotics programs?

Yes

29 CIA Activities (FAA Sec 662) Will assistance preclude use of financing for CIA activities?

Yes

30 Motor Vehicles (FAA Sec 636(j)) Will assistance preclude use of financing to provide for purchase sale long term lease exchange or guaranty of the sale of motor vehicles manufactured outside U S unless a waiver is obtained?

Yes

31 Military Personnel (FY 1991 Appropriations Act Sec 503) Will assistance preclude use of financing to pay pensions annuities retirement pay or adjusted service compensation for prior or current military personnel?

Yes

32 Payment of U N Assessments (FY 1991 Appropriations Act Sec 505) Will assistance preclude use of financing to pay U N assessments arrearages or dues?

Yes

33 Multilateral Organization Lending (FY 1991 Appropriations Act Sec 506) Will arrangements preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?

Yes

34 Export of Nuclear Resources (FY 1991 Appropriations Act Sec 510) Will assistance preclude use of financing to finance the export of nuclear equipment fuel or technology?

Yes

35 Repression of Population (FY 1991 Appropriations Act Sec 511) Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

Yes

36 Publicity or Propaganda (FY 1991 Appropriations Act Sec 516) Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress to influence in any way the outcome of a political election in the United States or for any publicity or propaganda purposes not authorized by Congress?

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No

- 37 Marine Insurance (FY 1991 Appropriations Act Sec 563) Will any AID contract and solicitation and subcontract entered into under such contract include a clause requiring that U S marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes

- 38 Exchange for Prohibited Act (FY 1991 Appropriations Act Sec 569) Will any assistance be provided to any foreign government (including any instrumentality or agency thereof) foreign person or United States person in exchange for that foreign government or person undertaking any action which is if carried out by the United States Government a United States official or employee expressly prohibited by a provision of United States law?

No

B CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

- 1 Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec 521(b), as interpreted by conference report for original enactment) If assistance is for agricultural development activities (specifically any testing or breeding feasibility study variety improvement or introduction consultancy publication conference or training) are such activities (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States and can the activities reasonably be expected to cause substantial injury to U S exporters of a similar agricultural commodity or (2) in support of research that is intended primarily to benefit U S producers?

Not Applicable

- 2 Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund") Will DA funds be used for tied aid credits?

Not Applicable

- 3 Appropriate Technology (FAA Sec 107) Is special emphasis placed on use of appropriate technology (defined as relatively smaller cost saving labor using technologies that are generally most appropriate for the small farms small business and small incomes of the poor)?

Not Applicable

- 4 Indigenous Needs and Resources (FAA Sec 281(b)) Describe extent to which the activity recognizes the particular needs desires and capacities of the people of the country utilizes the country's intellectual resources to encourage institutional development and supports civic education and training in skills required for effective participation in governmental processes essential to self government

The Project will assist in developing and strengthening the institutional capability of Sri Lankan institutions responsible for infrastructural development. Emphasis is placed on providing technical assistance to these institutions which will enable them to expand and regulate new infrastructure provided by the private sector

- 5 Economic Development (FAA Sec 101(a)) Does the activity give reasonable promise of contributing to the development of economic resources or to the increase of productive capacities and self sustaining economic growth?

Yes. The development of infrastructure will have broad economic and social benefits

- 6 Special Development Emphasis (FAA Secs 102(b), 113, 281(a)) Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level increasing labor intensive production and the use of appropriate technology dispersing investment from cities to small towns and rural areas and insuring wide participation of the poor in the benefits of development on a sustained basis using appropriate U S institutions (b) encourage democratic private and local governmental institutions (c) support the self help efforts of developing countries (d) promote the participation of women in the national economies of developing countries and the improvement of women's status and (e) utilize and encourage regional cooperation by developing countries

The project will in part create opportunities for rural populations to participate as BOO/BOT projects are undertaken outside of urban centers. Moreover broad sustainable economic growth benefits all strata of Sri Lankan society

- 7 Recipient Country Contribution (FAA Sec 110, 124(d)) Will the recipient country provide at least 25 percent of the costs of the program project or activity with respect to which the assistance is to be furnished (or is the latter cost sharing requirement being waived for a "relatively least developed" country)?

Yes

- 8 Benefit to Poor Majority (FAA Sec 128(b)) If the activity attempts to increase the institutional capabilities of private organizations or the government of the country or if it attempts to stimulate scientific and technological research has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Economic benefits accrued from strengthening economic performance will be shared by the poor majority

9 Abortions (FAA Section 104(f), FY 1991 Appropriations Act, Title II under heading "Population, DA," and Sec 535)

a Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No

b Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

No

c Are any of the funds to be made available to any organization or program which as determined by the President supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

d Will funds be made available only to voluntary family planning projects which offer either directly or through referral to or information about access to a broad range of family planning methods and services?

Not Applicable

e In awarding grants for natural family planning will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

Not Applicable

f Are any of the funds to be used to pay for any bio medical research which relates in whole or in part to methods of or the performance of abortions or involuntary sterilization as a means of family planning?

No

g Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

No

10 Contract Awards (FAA Sec 601(e)) Will the project utilize competitive selection procedures for the awarding of contracts except where applicable procurement rules allow otherwise?

Yes

11 Disadvantaged Enterprise (FY1991 Appropriations Act Sec 567) What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises historically black colleges and universities colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans and private and voluntary organizations which are controlled by individuals who are black Americans Hispanic Americans or Native Americans or who are economically or socially disadvantaged (including women)?

An estimated 85 percent of project funds will be provided to a Hispanic woman-owned firm

12 Biological Diversity (FAA Sec 119(g)) Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

- (a) No*
- (b) No*
- (c) No*
- (d) No*

13 Tropical Forests (FAA Sec 118, FY 1991 Appropriations Act Sec 533(c) (e) and (g))

a AID Regulation 16 Does the assistance comply with the environmental procedures set forth in AID Regulation 16?

Yes

b Conservation Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically does the assistance to the fullest extent feasible (1) stress the importance of conserving and sustainably managing forest resources (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests and help countries identify and implement alternatives to colonizing forested areas (3) support training programs educational efforts and the establishment or strengthening of institutions to improve forest management (4) help end destructive slash and burn agriculture by supporting stable and productive farming practices (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded (6) conserve forested watersheds and rehabilitate those which have been

deforested (7) support training research and other actions which lead to sustainable and more environmentally sound practices for timber harvesting removal and processing (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction loss or degradation (9) conserve biological diversity in forest areas by supporting efforts to identify establish and maintain a representative network of protected tropical forest eco systems on a worldwide basis by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation and by helping to identify tropical forest ecosystems and species in need of protection end establish and maintain appropriate protected areas (10) seek to increase the awareness of U S government agencies and other donors of the immediate and long-term value of tropical forests (11) utilize the resources end abilities of all relevant U S government agencies (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of land and (13) take full account of the environmental impacts of the proposed activities on biological diversity

Not Applicable

c Forest Degradation Will assistance be used for (1) the procurement or use of logging equipment unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests or introduce exotic plants or animals in to such areas (3) activities which would result in the conversion of forest lands to the rearing of livestock (4) the construction upgrading or maintenance of roads(including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands (5) the colonization of forest lands or (6) the construction of dams or other water control structures which flood relatively undegraded forest lands unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

- (1) No
- (2) No
- (3) No
- (4) No
- (5) No
- (6) No

d Sustainable Forestry If assistance relates to tropical forests will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources with the goal of developing a national program for sustainable forestry?

Not Applicable

e Environmental Impact Statements Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A I D regulations requiring an environmental impact statement for activities significantly affecting the environment?

Although the project does not finance any direct investment in infrastructure facilities it will nevertheless ensure that proper environmental assessments are undertaken

14 Energy (FY 1991 Appropriations Act Sec 533(c)) If assistance relates to energy will such assistance focus on (a) end use energy efficiency least cost energy planning and renewable energy resources end (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

Yes

15 Sub-Saharan Africa Assistance(FY 1991 Appropriations Act Sec 562,adding a new FAA chapter 10 (FAA Sec 496)) If assistance will come from the Sub-Saharan Africa DA account is it (a)to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable participatory environmentally sustainable and self reliant (b) to be used to promote sustained economic growth encourage private sector development promote individual initiatives and help to reduce the role of central governments in areas more appropriate for the private sector (c) to be provided in a manner that takes into account during the planning process the local level perspectives of the rural and urban poor including women through close consultation with African United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa (d) to be implemented in a manner that requires local people including women to be closely consulted and involved if the assistance has a local focus (e) being used primarily to promote reform of critical sectoral economic policies or to support the critical sector priorities of agricultural production and natural resources health voluntary family planning services education and income generating opportunities and (f) to be provided in a manner that if policy reforms are to be effected contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?

Not Applicable

16 Debt for-Nature Exchange (FAA Sec 463) If project will finance a debt for nature exchange describe how the exchange will support protection of (a) the world s oceans and atmosphere (b) animal and plant species and (c) parks and reserves or describe how the exchange will promote (d) natural resource management (e) local conservation programs (f) conservation training programs (g) public commitment to conservation (h) land and ecosystem

management and (i) regenerative approaches in farming forestry fishing and watershed management

Not Applicable

- 17 Deobligation/Reobligation (FY1991 Appropriations Act Sec 515) If deob/reob authority is sought to be exercised in the provision of DA assistance are the funds being obligated for the same general purpose and for countries within the same region as originally obligated and have the House and Senate Appropriations Committees been properly notified?

Yes

- 18 Loans N/A

- a Repayment Capacity (FAA Sec 122(b)) Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest

Sn Lanka maintains a good debt service record

- b Long-range Plans (FAA Sec 122(b)) Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

Yes

- c Interest Rate (FAA Sec 122(b)) If development loan is repay able in dollars is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years and at least 3 percent per annum thereafter?

Not Applicable

- d Exports to United States(FAA Sec 620(d)) If assistance is for any productive enterprise which will compete with U S enterprises is there an agreement by the recipient country to prevent export to the U S of more than 20 percent of the enterprise s annual production during the life of the loan or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

Not Applicable

- 19 Development Objectives (FAA Secs 102(a), 111, 113, 281(a)) Extent to which activity will (1) effectively involve the poor in development by expanding access to economy at local level increasing labor intensive production and the use of appropriate technology spreading investment out from cities to small towns and rural areas and insuring wide participation of the poor in the benefits of development on a sustained basis using the appropriate U S institutions (2) help develop cooperatives especially by technical assistance to assist rural and urban poor to help themselves toward better life and otherwise encourage democratic private and local governmental institutions (3) support the self help efforts of developing countries (4) promote the participation of women in the national economies of developing countries and the improvement of women s

status and (5) utilize and encourage regional cooperation by developing countries?

Second-tier markets for example increasingly make capital available to the poorer strata as well as increase opportunities for non-urban populations to participate in capital market activities

- 20 Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs 103 and 103A)

- a Rural Poor and Small Farmers If assistance is being made available for agriculture rural development or nutrition describe extent to which activity is specifically designed to increase productivity and income of rural poor or if assistance is being made available for agricultural research has account been taken of the needs of small farmers and extensive use of field testing to adapt basic research of local conditions shall be made

Not Applicable

- b Nutrition Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value improvement of planning research and education with respect to nutrition particularly with reference to improvement and expanded use of indigenously produced foodstuffs and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people

Not Applicable

- c Food Security Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves with particular concern for the needs of the poor through measures encouraging domestic production building national food reserves expanding available storage facilities reducing post harvest food losses and improving food distribution

Not Applicable

- 21 Population and Health (FAA Secs 104(b) and (c)) If assistance is being made available for population or health activities describe extent to which activity emphasizes low cost integrated delivery systems for health nutrition and family planning for the poorest people with particular attention to the needs of mothers and children using paramedicals and auxiliary medical personnel clinics and health posts commercial distribution systems and other modes of community outreach

Not Applicable

- 22 Education and Human Resources Development (FAA Sec 105) If assistance is being made available for education public administration or human resource development describe (a) extent to which activity

strengthens non formal education makes formal education more relevant especially for rural families and urban poor and strengthens management capability of institutions enabling the poor to participate in development and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities

Project provides technical training to support economic development

- 23 Energy Private Voluntary Organizations and Selected Development Activities (FAA Sec 106) If assistance is being made available for energy private voluntary organizations and selected development problems describe extent to which activity is

Not Applicable

a concerned with data collection and analysis the training of skilled personnel research on and development of suitable energy sources and pilot projects to test new methods of energy production and facilitative of research on and development and use of small scale decentralized renewable energy sources for rural areas emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment

Not Applicable

b concerned with technical cooperation and development especially with U S private and voluntary or regional and international development organizations

Not Applicable

c research into and evaluation of economic development processes and techniques

Not Applicable

d reconstruction after natural or man made disaster and programs of disaster preparedness

Not Applicable

e for special development problems and to enable proper utilization of infrastructure and related projects funded with earlier U S assistance

Not Applicable

f for urban development especially small labor intensive enterprises marketing systems for small producers and financial or other institutions to help urban poor participate in economic and social development

Not Applicable

C CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

Not Applicable

1 Economic and Political Stability (FAA Sec 531(a)) Will this assistance promote economic and political stability? To the maximum extent feasible is this assistance consistent with the policy directions purposes and programs of Part I of the FAA?

2 Military Purposes (FAA Sec 531(e)) Will this assistance be used for military or paramilitary purposes?

3 Commodity Grants/Separate Accounts (FAA Sec 609) If commodities are to be granted so that sale proceeds will accrue to the recipient country have Special Account (counter part) arrangements been made? (For FY1991 this provision is superseded by the separate account requirements of FY1991 Appropriations Act Sec 575(a) see 575(a)(5))

4 Generation and Use of Local Currencies (FAA Sec 531(d)) Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991 this provision is superseded by the separate account requirement of FY 1991 Appropriations Act Sec 575(a) see Sec 575(a)(5))

5 Cash Transfer Requirements (FY1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec 575 (b)) If assistance is in the form of a cash transfer

a Separate Account Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?

b Local Currencies Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account and has A I D entered into an agreement with that government setting forth the amount of the local currencies to be generated the terms and conditions under which they are to be used and the responsibilities of A I D and that government to monitor and account for deposits and disbursements?

c U S Government Use of Local Currencies Will all such local currencies also be used in accordance with FAA Section 609 which requires such local currencies to be made available to the U S Government as the U S determines necessary for the requirements of the U S Government and which requires the remainder to be used for programs agreed to by the U S Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

d Congressional Notice Has Congress received prior notification providing in detail how the funds will be used including the U S interests that will be served by the assistance and as appropriate the economic policy reforms that will be promoted by the cash transfer assistance?

15

GRANTEE REQUEST FOR ASSISTANCE

ANNEX 3

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சிசி அமைச்சு
DEPARTMENT OF EXTERNAL RESOURCES
Ministry of Finance

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தெய்வகம் (3ம் மடி)
The Secretariat (3rd Floor)
නා. පො. 277 කොළඹ 1
அ. பெ. இல 277 கொழும்பு 1
P O Box 277 Colombo I

19 21, 08, 1992

Mr George Jones
Acting Director
USAID

Dear Mr Jones,

PRIVATE SECTOR PARTICIPATION IN
INFRASTRUCTURE PROJECTS

We are pleased to inform you that a policy decision has now been taken by the Government to invite the private sector to participate in investing in infrastructure projects on the lines of BOO/BOT principle. In this connection it is proposed to establish a Secretariat on Infrastructure Development and Investment (SIDI) at the Ministry of Policy Planning & Implementation to promote, coordinate and oversee the BOO/BOT Programme.

Whilst thanking USAID for the interest shown and assistance provided in introducing the BOO/BOT concept to Sri Lanka, we wish to obtain your assistance further for setting up of the Secretariat on Infrastructure Development & Investment and strengthening its capacity to undertake its work.

The specific inputs requested under USAID assistance are as follows:

- 1. Services of experts on the BOO/BOT strategy and subject specialists in areas in which projects are likely to be considered viz Power generation, waste management, telecommunication...

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- 11 Training for the staff of SIDI and of the line agencies which would be implementing BOO/BOT Projects,
- 111 Vehicles and some equipment - mainly computers,
- iv. Some local expenses towards the establishment of SIDI to supplement Govt expenditure

We would be most grateful if the above request is considered favourably for funding under the USAID Programme

Yours sincerely,



(Sujatha Cooray)
Deputy Director,
for Director of External Resources

PROJECT BUDGET

ANNEX 4

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TABLE
SUMMARY OF PROJECT COSTS BY COMPONENTS
USAID

COMPONENT	FY 92	FY 93	FY 94	FY 95	TOTAL
PI Network	\$138,000	\$2,167,000	\$1,645,000	\$1,047,000	\$4,997,000
Public Awareness	\$0	\$119,000	\$25,000	\$25,000	\$169,000
Marketing	\$0	\$211,000	\$142,000	\$55,000	\$408,000
Private Sector Window	\$0	\$687,000	\$274,000	\$265,000	\$1,226,000
Evaluation/Audit	\$0	\$0	\$100,000	\$100,000	\$200,000
TOTAL	\$138,000	\$3,184,000	\$2,186,000	\$1,492,000	\$7,000,000

TABLE II
SOURCES AND USES OF PROJECT FINANCING

COMPONENTS	USAID	HCC		TOTAL
		GSL	OTHER	
Technical Assistance	\$5,697,000	\$0	\$0	\$5,697,000
Training	\$336,000	\$19,000	\$0	\$355,000
Commodities	\$138,000	\$7,000	\$0	\$145,000
Logistical Support	\$629,000	\$193,000	\$0	\$822,000
Evaluation/Audit	\$200,000	\$0	\$0	\$200,000
Private Infrastructure Projects	\$0	\$0	\$2,281,000	\$2,281,000
TOTAL	\$7,000,000	\$219,000	\$2,281,000	\$9,500,000

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TABLE III

USAID CONTRIBUTION

DESCRIPTION	FY 92	FY 93	FY 94	FY 95	TOTAL
COMPONENT 1 PI NETWORK					
Technical Assistance					
Long Term	\$0	\$834,000	\$648,000	\$462,000	\$1,944,000
Short Term	\$0	\$1,071,000	\$828,000	\$441,000	\$2,340,000
Total TA	\$0	\$1,905,000	\$1,476,000	\$903,000	\$4,284,000
Training	\$0	\$108,500	\$31,250	\$31,250	\$171,000
Commodities	\$138,000	\$0	\$0	\$0	\$138,000
Logistical Support					
TA Support	\$0	\$153,500	\$137,750	\$112,750	\$404,000
Total Logistical Supp					
Total	\$138,000	\$2,167,000	\$1,645,000	\$1,047,000	\$4,997,000
COMPONENT 2 PUBLIC AWARENESS					
Technical Assistance (ST)	\$0	\$69,000	\$0	\$0	\$69,000
Training	\$0	\$25,000	\$0	\$0	\$25,000
Logistical Support	\$0	\$25,000	\$25,000	\$25,000	\$75,000
Total	\$0	\$119,000	\$25,000	\$25,000	\$169,000
COMPONENT 3 MARKETING					
Technical Assistance (ST)	\$0	\$138,000	\$108,000	\$30,000	\$276,000
Training	\$0	\$48,000	\$9,000	\$0	\$57,000
Logistical Support	\$0	\$25,000	\$25,000	\$25,000	\$75,000
Total	\$0	\$211,000	\$142,000	\$55,000	\$408,000
COMPONENT 4 PRIVATE SECTOR WINDOW					
Technical Assistance (TA)	\$0	\$588,000	240,000	240,000	\$1,068,000
Training	\$0	\$74,000	\$9,000	\$0	\$83,000
Logistical support	\$0	\$25,000	\$25,000	\$25,000	\$75,000
Total	\$0	\$687,000	\$274,000	\$265,000	\$1,226,000
COMPONENT 5 EVALUATION/AUDIT					
	\$0	\$0	\$100,000	\$100,000	\$200,000
GRAND TOTAL	\$138,000	\$3,184,000	\$2,186,000	\$1,492,000	\$7,000,000

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TABLE IV
HOST COUNTRY CONTRIBUTION

	FY 92	FY 93	FY 94	FY 95	TOTAL
Technical Assistance					
Training	\$0	\$9,400	\$4,800	\$4,800	\$19,000
Commodities	\$0	\$4,800	\$1,100	\$1,100	\$7,000
Logistical Support	\$30,000	\$30,000	\$56,000	\$77,000	\$193,000
Evaluation and Audit	\$0	\$0	\$0	\$0	\$0
PI Projects	\$70,000	\$700,000	\$751,000	\$760,000	\$2,281,000
Total	\$100,000	\$744,200	\$812,900	\$842,900	\$2,500,000

TABLE V
TECHNICAL ASSISTANCE PLAN
(Person Months)

	FY 93	FY 94	FY 95	TOTAL
Component 1				
Expatriate TA	60	45	27	132
Sri Lankan TA	102	96	78	276
Subtotal	162	141	105	408
Component 2				
Expatriate TA	2	0	0	2
Sri Lankan TA	6	0	0	6
Subtotal	8	0	0	8
Component 3				
Expatriate TA	4	3	1	8
Sri Lankan TA	12	12	0	24
Subtotal	16	15	1	32
Component 4				
Expatriate TA	19	8	8	35
Sri Lankan TA	12	0	0	12
Subtotal	31	8	8	47

IT IS THE POLICY OF THE FEDERAL BUREAU OF INVESTIGATION TO THE CONDUCT OF A FEDERAL ACT TO REQUIRE THE DISCLOSURE OF ALL INFORMATION IN POSSESSION OF THE OFFICE OF THE ATTORNEY GENERAL AND THE DEPARTMENT OF JUSTICE TO THE PUBLIC UNLESS IT IS DETERMINED THAT DISCLOSURE OF SUCH INFORMATION WOULD BE DETRIMENTAL TO THE NATIONAL DEFENSE.

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THE DOCUMENT CONTAINS SOURCE SELECTION INFORMATION
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 POLICY AND IS UNCLASSIFIED EXCEPT WHERE SHOWN
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 WHERE SHOWN OTHERWISE. DATE 10/10/01 BY 6032
 AND CR 0114/ALD/SA/TIE/AD/0114

COMPONENT 1 FORMAL NETWORK

TECHNICAL ASSISTANCE

	TOTAL PERSON MONTHS	FY 93		FY 94		FY 95		TOTAL COST
		MON	COST	MON	COST	MON	COST	
Long Term Expatriate								
1 Chief of Party	36	12	\$372,000	12	\$372,000	12	\$372,000	
2 BOT Specialist	18	12	\$372,000	6	\$186,000	0	\$0	
Subtotal LT TA	54	24	\$744,000	18	\$558,000	12	\$372,000	
1 Infrastructure Officer	36	12	\$18,000	12	\$18,000	12	\$18,000	
2 Finance Specialist	36	12	\$18,000	12	\$18,000	12	\$18,000	
3 Finance Officer	36	12	\$18,000	12	\$18,000	12	\$18,000	
4 Project Officer	36	12	\$18,000	12	\$18,000	12	\$18,000	
5 Project Officer	36	12	\$18,000	12	\$18,000	12	\$18,000	
Subtotal LT Sri Lankan TA	180	60	\$90,000	60	\$90,000	60	\$90,000	
Subtotal Long Term TA	234	84	\$834,000	78	\$648,000	72	\$462,000	

Short Term Sri Lankan TA

1 MIS Specialist	3	3	\$4,500	0	\$0	0	\$0	
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COMPONENT 1 SHORT TERM EXPATRIATE TA

A Master List		FY 93		FY 94		FY 95		TOTAL COST
		MON	COST	MON	COST	MON	COST	
Expatriate TA								
	Telecom Specialist	2	\$60,000		\$0		\$0	\$60,000
	2 Power Specialist	2	\$60,000		\$0		\$0	\$60,000
	3 Transport Specialist	2	\$60,000		\$0		\$0	\$60,000
	4 Water Specialist	2	\$60,000		\$0		\$0	\$60,000
	5 Waste Specialist	2	\$60,000		\$0		\$0	\$60,000
	6 Port Specialist	2	\$60,000		\$0		\$0	\$60,000
Sri Lankan ST TA								
	1 Infrastructure Specialist	12	\$18,000		\$0		\$0	\$18,000
	Subtotal Master List ST TA	12	\$360,000		\$0		\$0	\$360,000

Short Term Expatriate

1 Home Office	12	6	\$108,000	3	\$54,000	3	\$54,000	\$216,000
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COMPONENT 1 B PREFEASIBILITY STUDIES

	TOTAL PER MONTH	FY 93 PER M	COST	FY 94 PER MON	COST	FY 95 PER M	COST	TOTAL COST
Total No of Studies	12							
No of PMs/Study	3							
No of Studies in FY	4	12	\$360,000	0	\$0	0	\$0	\$360,000
No of Studies in FY	6	0	\$0	18	\$540,000	0	\$0	\$540,000
No of Studies in FY	2	0	\$0	0	\$0	6	\$180,000	\$180,000
Prefeas Studies Exp	12	12	\$360,000	18	\$540,000	6	\$180,000	\$1,080,000
Sri Lankan ST TA		18	\$27,000	27	\$40,500	9	\$13,500	\$81,000
Total Feasibility Studies		30	\$387,000	45	\$580,500	15	\$193,500	\$1,161,000

COMPONENT 1 C TENDERING PACKAGES

	TOTAL PER MON	FY 93 MON	COST	FY 94 MON	COST	FY 95 MON	COST	TOTAL COST
Total No of Studies	6							
No of PMs/Study	3							
No of Studies in FY	2	6	\$180,000	0	\$0	0	\$0	\$180,000
No of Studies in FY	2	6	\$0	6	\$180,000	0	\$0	\$180,000
No of Studies in FY	2	6	\$0	0	\$0	6	\$180,000	\$180,000
Tendering Expatriat	6	18	\$180,000	6	\$180,000	6	\$180,000	\$540,000
Tendering Sri Lankan ST TA		27	\$13,500	9	\$13,500	9	\$13,500	\$40,500
Total Tendering		45	\$193,500	15	\$193,500	15	\$193,500	\$580,500

Component 1 Totals

Total Short Term Expatriate TA		36	1,008,000	27	774,000	15	414,000	\$2,196,000
Total Short Term Sri Lankan TA		42	\$63,000	36	\$54,000	18	\$27,000	\$144,000
Total Short Term TA		39	\$1,071,000	27	\$828,000	15	\$441,000	\$2,340,000
* + 1 TA		123	\$1,005,000	105	\$1,175,000	87	\$297,000	\$4,281,000

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COMPONENT 1 LOGISTICAL SUPPORT		TOTAL PERSON MONTHS	FY 92	FY 93	COST	FY 94	COST	FY 95	COST	TOTAL COST
	LOCATION		MON	MON		MON		MON		
1 STAFF										
Director (Operations)	SIDI	36		12	\$18,000	12	\$18,000	12	\$18,000	\$54,000
Secretary	SIDI	36		12	\$3,900	12	\$3,900	12	\$3,900	\$11,700
Secretary	SIDI	36		12	\$3,900	12	\$3,900	12	\$3,900	\$11,700
Driver	SIDI	36		12	\$2,100	12	\$2,100	12	\$2,100	\$6,300
Driver	SIDI	36		12	\$2,100	12	\$2,100	12	\$2,100	\$6,300
Receptionist	SIDI	36		12	\$3,900	12	\$3,900	12	\$3,900	\$11,700
Driver	SIDI	36		12	\$2,100	12	\$2,100	12	\$2,100	\$6,300
Driver	SIDI	36		12	\$2,100	12	\$2,100	12	\$2,100	\$6,300
2 OPERATIONAL										
Petrol and Maintenance	SIDI				\$6,000		\$6,000		\$6,000	\$18,000
Phone & Fax	SIDI				\$12,000		\$12,000		\$12,000	\$36,000
Postage	SIDI				\$600		\$700		\$700	\$2,000
Supplies	SIDI				\$5,000		\$5,000		\$5,000	\$15,000
Report Production	SIDI				\$5,000		\$5,000		\$5,000	\$15,000
Courier	SIDI				\$5,000		\$5,000		\$5,000	\$15,000
Rental	SIDI				20000		20000		0	\$40,000
3 ALTERATIONS & REFURNISHING SIDI										
					\$11,800		\$950		\$950	\$13,700
4 PUBLICATIONS, ADVERTISING MISCELLANEOUS SIDI										
					\$50,000		\$45,000		\$40,000	\$135,000
Subtotal Logistical Support					\$153,500		\$137,750		\$112,750	\$404,000
Total Component 1					\$138,000		\$2,167,000		\$1,645,000	\$1,047,000 \$4,997,000

COMPONENT 2 PUBLIC AWARENESS AND COMMUNICATIONS

	TOTAL PER MONTHS	FY 93 MON	COST	FY 94 MON	COST	FY 95 MON	COST	TOTAL COST
A ST Expatriate TA								
1 Media Specialist	2	2	\$60,000	0	\$0	0	\$0	\$60,000
B ST Sri Lankan TA								
1 PR Specialist	6	6	\$9,000	0	\$0	0	\$0	\$9,000
Total Short TA			\$69,000					\$69,000
C Training			\$25,000					\$25,000
D Publications, Advertising & Miscellaneous			\$25,000	\$25,000	\$25,000	\$25,000	\$75,000	
Total Component 2			\$119,000	\$25,000	\$25,000	\$25,000	\$169,000	

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COMPONENT 3 INVESTOR/OPERATOR MARKETING

	TOTAL PERSON MONTHS	FY 93 MON	COST	FY 94 MON	COST	FY 95 MON	COST	TOTAL COST
A ST Expatriate TA								
			\$170,000		\$90,000		\$30,000	\$240,000
B ST Sri Lanka TA								
Local Marketing Sp	24	12	\$18,000	12	\$18,000	0	\$0	\$36,000
Total ST TA	32	16	\$138,000	15	\$108,000	1	\$30,000	\$276,000
C Training			\$48,000		\$9,000		\$0	\$57,000
D Publications Advertising & Miscellaneous			\$25,000		\$25,000		\$25,000	\$75,000
Total Component 3	32	16	\$211,000	15	\$142,000	1	\$55,000	\$408,000

COMPONENT 4 PRIVATE SECTOR WINDOW

	TOTAL PERSON MONTHS	FY 93 MON	COST	FY 94 MON	COST	FY 95 MON	COST	TOTAL COST
A PSIDF								
ST Expatriate TA								
1 Finance Specialist	2	2	\$60,000	0	\$0	0	\$0	\$60,000
2 BOF Specialist	2	2	\$60,000	0	\$0	0	\$0	\$60,000
ST Sri Lankan TA								
1 Finance Specialist	6	6	\$9,000	0	\$0	0	\$0	\$9,000
Sub Total	10	10	\$129,000	0	\$0	0	\$0	\$129,000
B Feasibility Studies Fund								
ST Expatriate TA								
1 Finance Specialist	2	2	\$60,000	0	\$0	0	\$0	\$60,000
2 Infrastructure Spec	2	2	\$60,000	0	\$0	0	\$0	\$60,000
3 IQC Buy-ins/TA Supp	25	9	\$270,000	8	\$240,000	8	\$240,000	\$750,000
ST Sri Lankan TA								
1 Finance Specialist	6	6	\$9,000	0	\$0	0	\$0	\$9,000
Sub Total	35	19	\$399,000	8	\$240,000	8	\$240,000	\$879,000
C Unsolicited Bids Proposal Mechanism								
ST Expatriate TA								
1 Contracting Special	2	2	\$60,000	0	\$0	0	\$0	\$60,000
Total TA Component 4	47	31	\$588,000	8	\$240,000	8	\$240,000	\$1,068,000
D Training			\$74,000		\$9,000		\$0	\$83,000
E Publications, Advertising & Miscellaneous			\$25,000		\$25,000		\$25,000	\$75,000
Total Component 4			\$687,000		\$274,000		\$265,000	\$1,226,000

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HOST COUNTRY
LOGISTICAL SUPPORT

	TOTAL PERSON MONTHS	FY 93 MON	COST	FY 94 MON	COST	FY 95 MON	COST	TOTAL COST
1 STAFF								
Director General	36	12	\$8,372	12	\$8,838	12	\$9,300	\$26,510
Director (Operational)								
Director (Projects)	36	12	\$6,976	12	\$7,442	12	\$7,906	\$22,324
Director (Coordination)	36	12	\$8,372	12	\$8,838	12	\$9,300	\$26,510
Messenger/Office Aid	72	24	\$150	24	\$150	24	\$150	\$450
Sub Total	180	60	\$23,870	60	\$25,268	60	\$26,656	\$75,794
2 OPERATIONAL								
Petrol, Maintenance, Equipment, Electricity, Water and Telephone			\$13,954		\$13,954		\$13,954	\$41,862
Furniture			\$4,652		\$1,162		\$1,160	\$6,974
Stationery and Printing			\$9,302		\$6,976		\$6,976	\$23,254
Janitor and Security Services			\$3,720		\$3,720		\$3,720	\$11,160
Rentals			\$0		\$0		\$20,000	\$20,000
Fees (Per diem)			\$4,652		\$4,652		\$4,652	\$13,956
Sub Total			\$36,280		\$30,464		\$50,462	\$117,206
TOTAL HC Logistical Support			\$60,150		\$55,732		\$77,118	\$193,000

EVALUATION/AUDIT

	FY 93	FY 94	FY 95	TOTAL
Evaluation/Audit	\$0	\$100,000	\$100,000	\$200,000
Total	\$0	\$100,000	\$100,000	\$200,000

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FINANCIAL PLAN

	FY 92		FY 93		FY 94		FY 95		TOTAL		AID TOTAL
	Foreign Currency	Local Currency	Foreign Currency	Local Currency	Foreign Currency	Local Currency	Foreign Currency	Local Currency	Foreign Currency	Local Currency	
Technical Assistance	\$0	\$0	\$2 502 000	\$198 000	\$1,662 000	\$162 000	\$1 056 000	\$117 000	\$5 220 000	\$477 000	\$5,697,000
Training	\$0	\$0	\$240 500	\$15,000	\$29,250	\$20,000	\$11 250	\$20,000	\$281,000	\$55 000	\$336,000
Commodities	\$113,000	\$25 000	\$0	\$0	\$0	\$0	\$0	\$0	\$113,000	\$25,000	\$138,000
Logistical Support	\$0	\$0	\$50,000	\$141,500	\$50,000	\$168,750	\$50,000	\$168,750	\$150,000	\$479,000	\$629,000
Evaluation/Audit	\$0	\$0	\$0	\$0	\$50,000	\$50,000	\$50,000	\$50,000	\$100 000	\$100 000	\$200,000
TOTAL	\$113 000	\$25 000	\$2,792 500	\$354 500	\$1 791 250	\$400 750	\$1 167 250	\$355,750	\$5 864 000	\$1,136 000	\$7 000 000

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 DATE 11/27/01 BY SP-6/BJL/STP
 AUTHORITY: 5 U.S.C. 552
 EXECUTIVE ORDER 13526

PROJECT ANALYSIS

ANNEX 5

ANNEX 5 - PROJECT ANALYSIS

a) Technical Analysis

In designing an approach to promote private infrastructure development in Sri Lanka a number of factors must be considered to determine the feasibility of the project. This section assesses the feasibility of the approach proposed, the necessary prerequisites for success, and how the project design components serve to overcome remaining constraints.

Private Infrastructure Development

In determining the viability of a private infrastructure development initiative, several essential elements must be examined within the context of successful and unsuccessful experiences in similar environments. There are six fundamental issues, mutually reinforcing but not exclusive, that serve to validate the likelihood of successful implementation.

1) Formal Policy and Program Objectives

The record shows that other countries which have successfully attempted to promote private infrastructure development share some common features. A primary feature universal to countries with a track record of success is the emergence and manifestation of a clear and formal policy for private infrastructure development. An ad hoc or premature policy environment characterized by ambiguity or informality sends a signal to the implementing agencies, the public, and the private sector that the political will does not correspond to the practical rationale of promoting public/private partnerships in the provision of infrastructure.

This political will and long-term commitment must be overtly demonstrated and its objectives refined and clearly understood. There are several examples of countries that have recognized the need and rationale for private infrastructure development yet have undervalued the importance of defining objectives for the program as a whole, and for specific infrastructure sectors in particular.

In Sri Lanka, the government has learned from the lessons of other countries and has, over the last fourteen months, prepared, approved, and issued a policy statement clearly articulating the goals and objectives of such an approach. This policy statement in the form of "guidelines", is attached (Attachment 1) and represents an official commitment to promoting private sector approaches to infrastructure, was developed and approved by the principal actors responsible for policy implementation.

11) Institutional Framework Established

In order for the promotion of private infrastructure project to be successful, a well designed and coherent institutional framework must be established. The global lessons of privatization and public/private partnerships in particular reveal the import of establishing a focal point designated with the highest political authority possible so that policy and program objectives can be achieved and constraints and operational difficulties overcome. Key to the successful establishment of such a framework is its calibration with and interface to the relevant line agencies identified as eligible sectors for private sector involvement.

This would be a technical unit that operates full-time and serves as a linkage between the line agencies such as water, power, transportation, communications, etc. as well as the political authorities responsible for approval. Experience in developed and developing countries alike verify that without command and control mechanisms in place, private infrastructure development initiatives are likely to fragment, drift, and disappoint.

However, the institutionalization of policy analysis and implementation is always based on the unique organizational and political characteristics of any governmental entity or structure be it local, municipal, or national. It is essential to understand the importance of diagnosing the uniqueness of any given country or institutional structure in order to verify the appropriate and most effective configuration for policy implementation. Effective policy implementation almost always corresponds more to the actual "power structure" rather than the logical center of responsibility.

Sri Lanka has benefitted from the trials of other countries in this regard as well. As with privatization efforts around the world throughout the 1980's, the determination of the focal point for public/private partnerships offers significant challenge. In some countries this focal point is found in a Ministry that has taken the lead such as the Water and Power Development Authority in Pakistan, the Ministry of Public Works in Chile, or the Ministry of Transportation in Jamaica. In other countries the focal point rests with the traditional policy team familiar with general development and privatization issues such as the Ministry of Finance in Argentina, the Ministry of Transformation in Poland, the State Property Agency in Hungary, or the Public Participation Office in Turkey.

Other country examples illustrate the high priority assigned to public/private partnerships by vesting authority at the highest level. Office of the Prime Minister in Malaysia, Office of the President in the Philippines, and the Office of the Cabinet to the President of Mexico.

Decisions taken to entrust the function to a particular government entity laid the foundation for the subsequent success or failure in the effort to promote private sector participation in infrastructure development. Undoubtedly, policy implementation will

PROPOSED INSTITUTIONAL STRUCTURE FOR BOO/BOT CAPITAL PROJECTS IN SRI LANKA

CABINET

MEMBERS

CHAIRMEN SEC MIN PPI MIN OF INDUSTRY
KEY PUBLIC AND PRIVATE SECTOR OFFICIALS RESPONSIBLE FOR INDUSTRIAL INVESTMENT POLICY AND PROJECTS

INDUSTRIALIZATION COMMISSION

FUNCTIONS

COORDINATION AND IMPLEMENTATION OF INDUSTRIALIZATION POLICIES

MEMBERS

MINISTRY OF POSTS AND TELECOMMUNICATIONS
CEYLON ELECTRICITY BOARD
CENTRAL ENVIRONMENTAL AUTHORITY
WATER SUPPLY AND DRAINAGE BOARD
ROAD DEVELOPMENT AUTHORITY
SRI LANKA PORTS AUTHORITY
MINISTRY OF POLICY PLANNING AND IMPLEMENTATION
MINISTRY OF INDUSTRIES
URBAN DEVELOPMENT AUTHORITY
OTHERS

SUB-COMMITTEE ON INFRASTRUCTURE AND ENVIRONMENT

FUNCTIONS

1) RESPONSIBLE FOR PLANNING MONITORING COORDINATING AND EVALUATING INFRASTRUCTURE DEVELOPMENT PROGRAMS AND POLICIES
2) SUBMISSION OF CAPITAL PROJECT PLANS/AGREEMENTS TO CABINET FOR APPROVAL

MEMBERS

CHAIRMAN CAPITAL PROJECTS TASK FORCE
DIRECTOR CAPITAL PROJECTS TASK FORCE
SMALL STAFF OF 2 OR 3 PROFESSIONALS

SECRETARIAT ON INFRASTRUCTURE DEVELOPMENT AND INVESTMENT

FUNCTIONS

RESPONSIBLE FOR ANALYZING EVALUATING AND IMPLEMENTING CAPITAL PROJECTS SPECIFICALLY
1 ENSURE PROJECTS MEET SOCIAL/ECONOMIC DEVELOPMENT CRITERIA
2 CONFORMITY TO GUIDELINES AND LEGISLATION
3 ADMINISTRATIVE PROCESSES OF CAPITAL PROJECTS
4 REVIEW AND RECOMMEND TO INDUSTRIAL COMMISSION TO ACCEPT REJECT OR TABLE PROPOSED PROJECTS
5 MONITORS APPROVED PROJECTS

MINISTRY OF POWER AND ENERGY

MINISTRY OF POSTS AND TELE COMMUNICATIONS

MINISTRY OF TRANSPORT AND HIGHWAYS

WATER SUPPLY AND DRAINAGE BOARD

OTHER ELIGIBLE SECTORS MINISTRIES

FUNCTIONS

1) RELEVANT ELIGIBLE MINISTRIES AND AGENCIES IDENTIFY AND IMPLEMENT SUITABLE CANDIDATE PROJECTS
2) DEVELOP PROJECT PROFILES AND CONDUCT TECHNICAL EVALUATIONS

THE PRIVATE SECTOR WILL BE ENCOURAGED TO PROPOSE INFRASTRUCTURE PROJECTS TO THE CAPITAL PROJECT TASK FORCE AND RELEVANT AGENCIES IN ACCORDANCE WITH PROGRAM GUIDELINES

PRIVATE SECTOR INITIATED PROJECTS

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only be as effective as the focal point or bureaucratic structure selected for carrying it out based on its ability, authority, and unique relationships with the line agencies and the private sector. Not surprisingly, the cases where the highest authority was attached to the focal point have tended to be where the most "action" has occurred and the best examples of successful experience with public/private projects developed.

The GSL has recently established an institutional "focal point" designated as responsible for planning, coordinating, and implementing private infrastructure development actions. This focal point, the Secretariat for Infrastructure Development and Investment (SIDI), will serve in a technical and coordinating capacity between the political authority in question (Cabinet) and the line agencies responsible for traditional infrastructure development such as the Ministry of Transportation, Ministry of Power, Ceylon Electricity Board, Ministry of Posts and Telecommunications, and the like.

A vital attribute in this design is the designation of a "network" for private infrastructure development whereby relevant Ministries and line agencies active in this process are administratively connected through committee assignments and designations with SIDI and operationally connected through liaison assignments between SIDI and the line agencies. Each line agency will have dedicated BOO/BOT cells assigned to liaise with the coordinating body SIDI, a part of the Ministry of Policy Planning and Implementation, and members of the network will all have clearly defined responsibilities in the implementation of this policy. The attached organizational chart illustrates the responsibilities and relationships of this institutional framework. (See Attachment 2)

In a previous analysis of the institutional requirements of any proposed GSL focal point, the design team cited the following descriptive criteria for success:

- (a) The focal point be established in the highest political office possible with at least access to and linkages with the Cabinet and Office of the President.
- (b) The focal point have direct linkages, either through affiliation or sub-committees/secretariat relationships with the implementing agencies responsible for public/private projects. This would include agencies responsible for transportation, power, water, waste management, industrial estates, and telecommunications.
- (c) The focal point have some formal relationship between and within the department responsible for infrastructure development and planning so as to access information and consolidate experience.
- (d) The focal point have an institutional affiliation that allows for dialogue with the private sector.

(e) The focal point has an institutional relationship with the body responsible for coordinating Overseas Development Assistance so as to leverage the participation of donors in this process smoothly

(f) Finally, the focal point be given authority not only to plan and analyze possible transactions but to evaluate and recommend their merit in accordance with technical criteria with the input of the relevant line agency and the supervisory body governing the focal point

The project design team concludes that the selection of SIDI and the institutional configuration now put into place, meet all of the above criteria. Since the above recommendations were made, SIDI has materialized and is in the process of being structured according to the lessons of experience and the unique characteristics of Sri Lankan decision-making

SIDI has high-level access and authority, multiple and broad participation in its operations by the key line agencies, is within the same Ministry as the traditional infrastructure development technocrats, has created a "Private Sector Window" for dialogue with the private sector on projects, is coordinated by the Secretary in the Treasury who oversees Ministry of Finance issues, and is headed by a Ministry of Policy Planning and Implementation director who, has been granted authority to approve and sign agreements for transactions in accordance with program guidelines

The framework established verifies the soundness of the project design and assures concerted implementation of components for this project. Unlike other countries where reorganization, overlap, or poor coordination characterized government approach to infrastructure development matters, the GSL framework is designed to address and prevent problems from occurring or providing a mechanism for swift resolution through program adjustments

Role, Authority, and Consistency

More important than the placement of the technical unit itself is the authority and designated functions of the unit vis a vis the other agencies involved in infrastructure development and economic policy. Experience has shown that it is vital for the unit to work effectively with the line agencies in a coordinating capacity and that it is perceived as being "responsible" for certain tasks in planning and implementing BOO and BOT, i.e. project identification, project analysis, project conformity to guidelines, project administration, project review and recommendation, and project monitoring, and that it be vested with that authority in total. To underscore the importance of these characteristics that SIDI will possess, it can be contrasted with the experience of the Philippines

In the Philippines BOO/BOT program recently, a dispute arose over the determination of a project structuring issue in a proposal that had been solicited by the technical unit

or focal point. The project called for a public bidding of a Grains Terminal Complex. The bidding and tender documents allowed for ingenuity of the private sector in the proposed technical or financial features, as long as performance and costs remained within prescribed standards and specifications.

In the development and issuance of the bidding documents, one of the technical experts working with the unit concluded that the project would be made much more attractive for all parties, and therefore result in the receipt of a greater number of competitive bids, if the project tariffs be fixed and payments to the operator paid in dollars since the terminal would effect direct savings (reduction of vessel time in port) in shipping and landing transactions already denominated and paid in dollars. This requirement also minimized inflation and foreign exchange risks to the private proposers.

The dollar denomination decision was endorsed by the technical unit and confirmed to be in conformity with Central Bank procedures, but was strongly opposed by the Philippine Port Authority for historical reasons which were however, not germane to the Grains Terminal project.

Other recommendations of the technical experts regarding the proposed tariff structure were also objected to. The result was that the technical unit's recommendations were ignored and the Port Authority was able to prevail, exercising its influence beyond the delineation of authority for BOO and BOT.

The consequence was that tendering the project would go forward on the least attractive basis for promoting competitive private sector interest. This assured that fewer bids would be received, and submissions received would reflect higher charges to the public, to cover the greater commercial risk to the investors. Even if the technical unit had been overruled at a higher executive level in government, that outcome would have demonstrated institutional integrity. Instead it appears, that the Port Authority wielded more political authority and exercised it even though it was inconsistent with the objectives of the transaction in question.

The lesson here is that clear areas of authority and responsibility at all stages of the project development cycle must be sustained, to prevent loss of program credibility. Inherent in the project design, the GSL has taken steps to delineate as much as possible, authority, responsibilities, procedures, and commitment to remaining consistent. The SIDI will have distinct authority in the identification, analysis, and approval stage of projects with input and cooperation among and between the relevant line agencies and the cabinet. Although there are likely to be some corrections and adjustments made, the institutional design of this project is sound.

iii) Established Procedures.

The third element that must be considered to determine the feasibility of this intervention is the status of the "rules of the game" Private Infrastructure Development is not unlike foreign investment, banking, trade, and other commercial activities in that a compact must exist between all of the participants in the process, in this instance the government, the private sector, and the public

This compact relies extensively on a well established and unassailable set of procedures that will serve to govern the process and subsequent transactions over the life of the project Experience from other countries indicate clearly that without clear-cut procedures for identifying, analyzing, financing, evaluating, and awarding private infrastructure projects, the chances for failure increase substantially Without clear procedures, the prospects for success are jeopardized by the likelihood of poor project selection, lack of transparent evaluation processes, imprudent demonstration project sequencing, and resultant political and social criticism and concerns

The Government of Sri Lanka has addressed this aspect of a private infrastructure program decisively The "BOO/BOT Program Guidelines" articulating the process and procedures of the GSL program, have received cabinet approval These guidelines, a copy of which are attached in Annex, represent the key determinant of program feasibility Therefore, the project design is in accord with the policy parameters, scope of the Program Guidelines and the jurisdictions they govern

Program Guidelines need not be detailed nor burdensome Ideally, they should articulate the government's objectives in pursuing BOO and BOT projects and outline the procedures through which eligible project and project proponents can advance

Again, not surprisingly, the countries that have developed broad-based yet concise program guidelines that represent accurately the technical, legal, financial, and political objectives and requirements of the Government in question, are the countries experiencing success with BOO and BOT This would include Malaysia, Mexico, Jamaica, and Pakistan The Philippines, which deserves much credit for aggressively pursuing BOO and BOT and has contributed many lessons of success (Hopewell Power) and regretfully, failure, has promulgated specific legislation and Implementing Rules and Regulations which are too detailed and rigid to effectively address many of the issues of project approval, project analysis, project eligibility, and dispute resolution Moreover, the Philippine Government has shown its willingness to intervene politically, quickly ignoring and abandoning its own procedures when bidding does not conform to the anticipated outcome

While the GSL has issued clear yet flexible program guidelines, the project design team advises that implementing rules and regulations should be developed as well These regulations would help to clarify the government's position on procedures that may be unique to planning, implementing, and monitoring BOO and BOT in any one

sector of infrastructure. This would further clarify the position of the government and provide the private sector with a greater level of confidence that compliance and quality that the government expects and the obligations that government is willing to assume are fully understood.

The program's relatively well developed procedures and guidelines distance the GSL nascent program from others in this field. The project design and structure rests on a much sounder foundation for feasibility and success due to the existence of these procedures a priori to any technical assistance intervention.

iv) Technical Capacity.

One of the key features of the project design is support for the capacity of the relevant "network" of private infrastructure development actors in carrying out the objectives of the above elements. Without the technical capacity to identify, analyze, structure, screen, evaluate, and negotiate private infrastructure projects, the likelihood for success is diminished.

In other country experiences, the framework and procedures for interventions of this kind may have been in place, but were not supported by technical and administrative staff and facilities familiar with and responsive to the objectives in question. This has led to ambiguous scopes of work, poor project selection and evaluation, unfavorable and onerous agreements, and backlogged project pipelines.

Worse, these problems have resulted in the private sector and the public at large losing confidence in the credibility of the program and its potential benefits.

The project design addresses this problem in several ways. By supporting the framework and network through the provision of long term and short term technical resources stylized to meet the unique needs of this project, and by providing SIDI with the logistical support it needs to be operational and responsive to the "market" for infrastructure, the possibility of capacity needs or political pressures determining feasibility is averted.

With technical and administrative capacity supporting the institutional framework, the factors determining project feasibility now become project specific. In this instance project specific factors become the most important mechanisms supporting the chances of project (transaction) success, provide data for determining project (transaction) financial viability, and promote greater private sector and local participation in the identification of project (transaction) candidates.

(a) BOO/BOT Project Identification and Screening.

As the first step in the development of a BOO/BOT transaction, the project identification process plays a vital role in determining the future possibilities of the

entire BOO/BOT program. The project identification process is the foundation upon which the entire pyramid rests. Unless this foundation is broad enough, and a suitable quantity of economically important and financially attractive BOO/BOT candidates are added to the inventory of Sri Lanka's BOO/BOT program, there will not be a sufficient number of projects at the "top" that are fully studied, screened, bid-out, evaluated, negotiated and constructed.

More important than quantity, however, is the quality of the project identified to be structured on a BOO/BOT basis. Therefore it is vital that a maximum number of viable BOO/BOT projects are identified, studied, and added to the Sri Lanka's inventory of BOO/BOT project candidates. The project design recognizes this as a technical capacity issue and has built in three critical vehicles to add project candidates to the BOO/BOT inventory.

(i) Training staff

Staff will be trained in the identification and analysis of BOO /BOT projects through technical and on the job training. Important to this training effort will be long and short term consultants working with SIDI staff, and utilizing data collected regarding Sri Lankan projects as primary training/project identification materials.

(ii) The Private Sector Window for Unsolicited Proposals

The Private Sector Window for Unsolicited Proposals allows the private sector the opportunity to identify their own projects and submit them to SIDI. This mechanism will serve not only to develop a larger inventory of quality project candidates but solidifies and institutionalizes the dialogue and interface between the public and private sectors in infrastructure development.

(iii) Private Sector Window Feasibility Study Fund

In the design, a role has been identified for the development of a feasibility study fund to provide incentives for the private sector to undertake studies either through the private sector unsolicited window or on a solicited basis. This design element will represent an important feature of adding to the feasibility and sustainability of this project in that a greater number of projects with a higher degree of success will be identified, structured, and advanced.

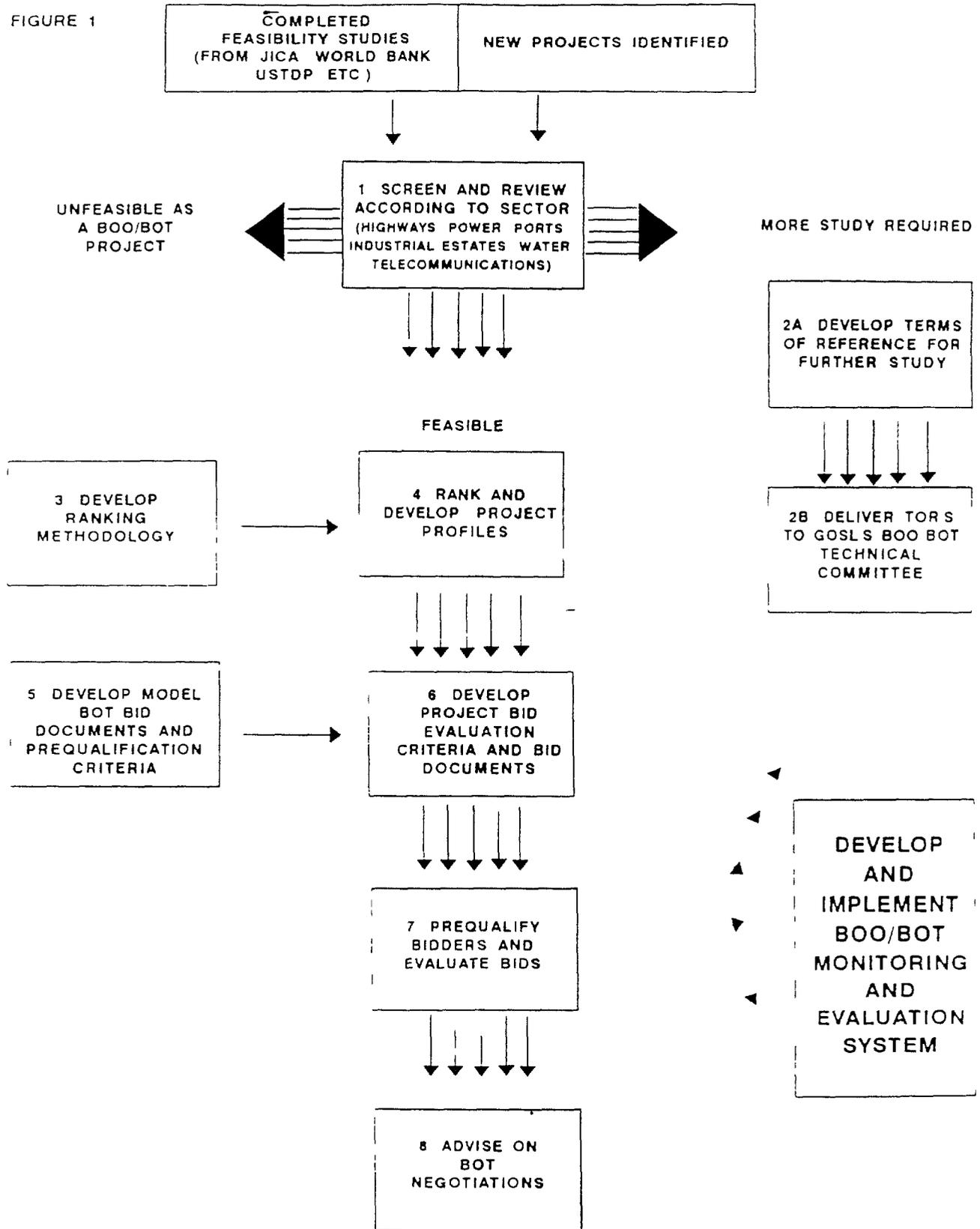
(b) BOO/BOT Project Screening and Structuring.

In order to enhance the technical capacity of the SIDI and the line agencies, significant attention must be focused on the project screening and structuring stage.

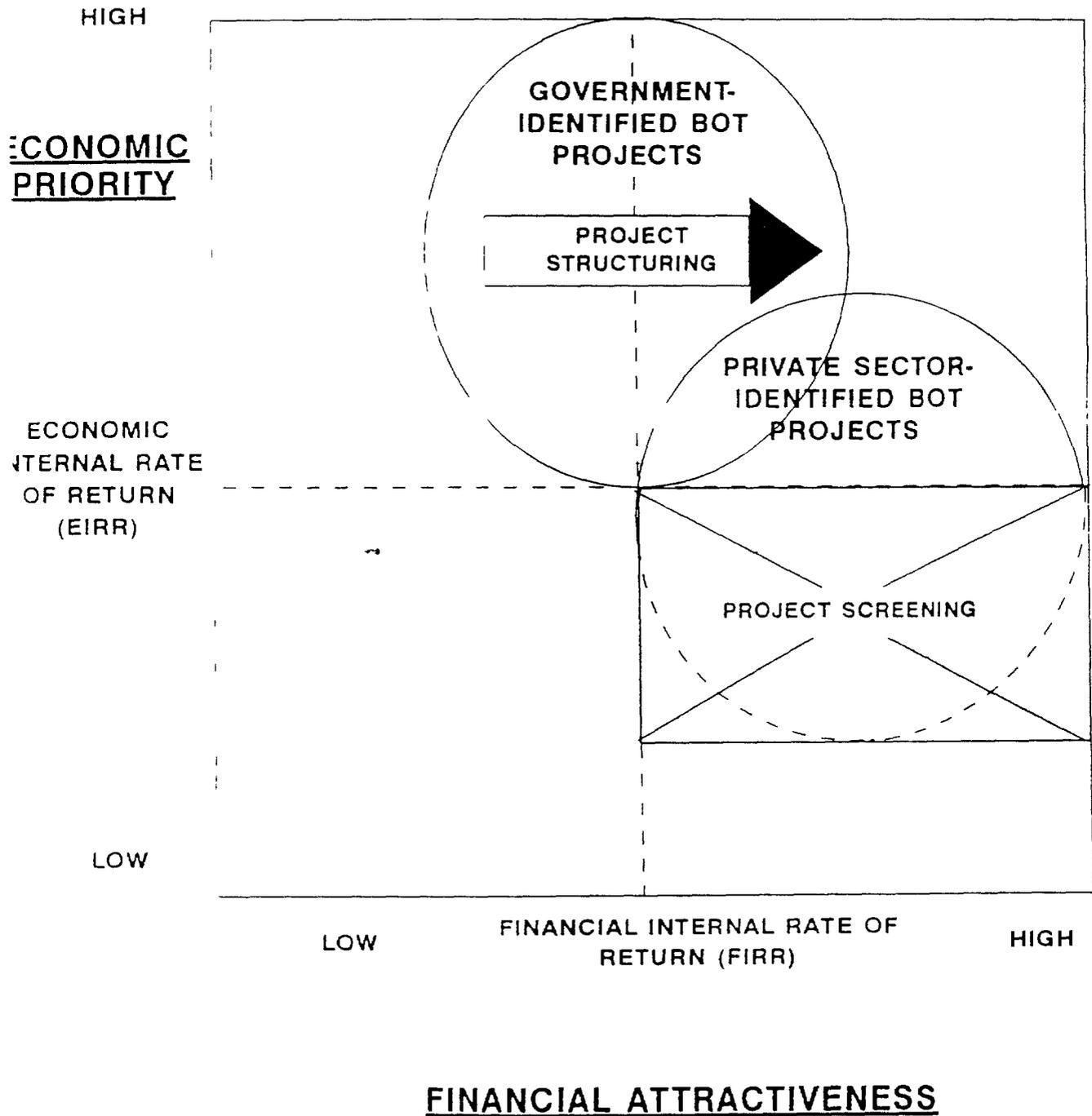
If the project identification process forms the foundation of the BOO/BOT pyramid, then the project evaluation process determines the slope of the pyramid's sides. The

BUILDING THE INVENTORY AND IMPROVING THE QUALITY OF BOO/BOT PROJECTS IN SRI LANKA IN ELIGIBLE SECTORS OF INFRASTRUCTURE HIGHWAYS, POWER, PORTS, INDUSTRIAL ESTATES, WATER UTILITIES AND TELECOMMUNICATIONS

FIGURE 1



IDENTIFICATION AND STRUCTURING OF BOT PROJECTS



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two most important elements of the project evaluation process are 1) Screening out projects that are not economically important or are environmentally unfeasible, and 2) structuring projects to become financially more attractive to the private sector (See Attachments 3 & 4)

Given that BOT projects will require significant levels of effort during the project development and negotiation stages by both the Government of Sri Lanka and private investors, it is important that the project screening process be effective at ensuring that only projects with a high potential for success--financially, technically, legally, and environmentally--are developed. Therefore, the objectives of the BOO/BOT project screening process should be comprehensive and specific.

(c) Project Structuring

While project screening mechanisms will remain chiefly in the hands of the SIDI and specialists within the Line Agencies (BOT Liaisons), the BOT project structuring process will be the result of inputs from both the private and public sectors. However, it will be important that both sides of the table agree on a common set of objectives for the project structuring process. The technical capacity for carrying out this aspect of project design should adhere to the following two objectives:

- i) Initiate projects that are already economically and developmentally important for the Government and structure them to be as financially attractive as possible, to the private sector investors and operators.
- ii) Allow for "value capturing" techniques whereby a project that may not appear to be highly financially attractive based on a single revenue stream, can be structured so that the investor is allowed to capture value from parallel sources. Examples of this would be land development, retail outlets, service stations, cogeneration, and other forms of project structuring. In these cases, the upside potential for the private investor has been enhanced without him having to assume any more risk or be burdened with unenforceable contract terms and conditions.

(d) Administrative Prerequisites

In order for this project to be feasible, and in order to mobilize the technical capacity called for in the project design, a sound administrative and personnel base must be established. The project design stipulates a small but full-time technical unit supported by technical assistance to undertake this effort. The need for this has been shown in many countries.

The successful privatization experiences of Malaysia, Mexico, Chile, and in some respects Pakistan and Philippines, have been cited in consultants' reports, and have been addressed in various meetings in Sri Lanka. To the extent that these programs achieved objectives, it can be attributed to their having formulated program guidelines.

and principles, established appropriate institutions, and most importantly achievements were noted when programs were characterized by a professional approach to administering and managing the process of building public/private partnerships

In addition to creating a dedicated technical unit to plan and manage the program, consultants were utilized at various stages of project design and on-going program management. This was found to be a prudent use of resources, given the evolving nature of BOO/BOT and the fairly limited degree of experience in putting into place privately-financed infrastructure. As the staff conducting these programs become more proficient in planning and managing operations and programs were better coordinated, the role of foreign advisors diminished or were completely phased out over time.

This became possible where programs followed an administrative plan, had a suitable recruitment strategy, and included a training program to ensure that the organizational "learning curve" was neither rushed nor unduly protracted. This is the hallmark of effective institutional development, and is as applicable for BOO/BOT as it is for other complex organizational undertakings.

(e) Administrative Requirements

Administrative design should take account of the common experiences in developing administrative plans for staffing, training and operations, that 1) resources available are always less than optimum, and 2) governments tend to select staff on familiar criteria rather than technical competence, professional suitability, and logical matching of skills to job requirements. More often, seniority, interest in the program, or random circumstances prevail, rather than strategic criteria.

Again, examining the way governments staffed up to conduct privatization programs, either the responsibilities were added to busy officials who were preoccupied with other compelling concerns, or the officials selected were not fully aware of political sensitivities and thus were taken by surprise when adversarial situations were encountered. This oftentimes resulted in delays until higher level political decision-makers could intervene.

Other difficulties encountered in privatization programs arose in situations where very specific skills were called for, with which most government officials were unfamiliar. For example, ways of determining market value of an enterprise, or calculating cash flow to assess the volume of a future benefit stream, while common to the private sector, are simply matters rarely of concern to government bureaucrats. Until these skills are learned, qualified outside consultants should be relied upon. Government officials, on the other hand, are traditionally competent in performance of regulatory functions, and are used to assessing how government operations impact on the public so they can perform their most essential function of serving to protect the public interest.

Applying the insights gained from privatization programs to the requirements of BOO/BOT program managers, several criteria clearly emerge

(i) **Quality of Staff - Recruitment** should seek the best and the brightest both from within and outside of the government. The Unit's officers should be on a par with the most important agencies in government. BOO/BOT will be a program comprised of projects of major scale costing hundreds of millions of dollars, and will include roads, bridges, water supply, and communications directly affecting the quality of life of urban and rural families in all regions of the country. Significant savings in government expenditures, and improvement in delivery of vital services to millions of people will result. The keenest sense of public responsibility should prevail, and the staffing of key positions in the unit should clearly reflect this.

(ii) **Flexibility and Administrative Discretion** - Running a BOO/BOT program is not a routine process moving papers from one level to the next in the bureaucracy. The Unit needs to be lean, focused, and expandable as its project portfolio increases. The program will require launching with adequate resources at the outset, and have the authority and capacity to acquire additional capacity as it grows. As the program matures, concern will shift from project identification and negotiation of large transactions, to oversight, monitoring, and auditing to assure that scenarios set forth in proposals take place on schedule, or that corrective actions are undertaken to keep them on track. The Unit should be large enough to include each of the key disciplines (see staffing requirements suggested in section below).

(iii) **Training Early and Often** - Regrettably many officials tasked with privatization responsibilities in developing, emerging market, or former socialist economies in transition, did not receive adequate training in privatization management, nor did they anticipate the uniqueness of the problems they would be facing. Some Eastern European or former Soviet Union officials in charge of running large public enterprise operations on a Friday were placed in charge on the following Monday of finding willing buyers for their enterprises, which often represented billions of dollars worth of obsolete technology or underperforming assets whose fundamental weakness had been disguised by years of government subsidies. Nor were they adept in dealing with the sensitive political skills of dealing with large numbers of redundant workers whose future employment prospects were hypothetical.

Those countries that have been the most successful in conducting privatization programs during the past five years, and those who will establish the best track record in BOO/BOT in the next five years, will have in common small but very capable staffs well trained in technical skills, financially and economically astute, and competent in serving as a bridge between the private sector and government. Sri Lanka's Privatization/Peoplization program, its Export Processing Zones and GCEC experience, which demonstrates its commitment to train its managers and develop public awareness among the affected constituencies, will serve it well in this program.

(f) Administrative Recommendations.

Staffing needs are driven by the Unit's objectives of building an inventory of infrastructure projects implementable by the private sector, promoting the program and marketing the projects to prospective investors at home and abroad, developing a collaborative relationship between the technical and managerial staff in the unit, the line agencies, and the private sector, and capacity to match candidate infrastructure projects with potential financing for feasibility studies and capital loans and equity sources

These objectives will require skills in ensuring that projects meet the established technical, socio-economic, financial and environmental criteria, that they conform to prevailing program guidelines, that active projects are followed up and kept in train and not permitted to languish through bureaucratic inertia, that negotiations are transparent and fair, are vetted for Cabinet approval, and move to closure without delays, and finally that on-going projects are properly monitored

To perform these tasks, a talented Unit Director should be recruited, and should be supported by additional Directors whose skills and background complement those of the Director, and should be capable of overseeing the crucial programs of project packaging and marketing to investors. Additional professional staff should be recruited with financial analytical talents, and computer skills in financial modeling, pricing, and ability in discounting future benefit streams to calculate present value. Staff should also include one or more infrastructure sectoral specialists with engineering background and infrastructure planning and operational experience, in such sectors as power and energy, water and solid waste, telecommunications, transportation, and industrial production. Ideally, the unit should have in-house environmental and legal officers, to work with the consultants and internalize their skills for the benefit of the unit. Finally, there should be adequate administrative and production staff able to produce studies, reports, marketing materials, and prepare procedures manuals, training modules, and visual presentation materials

(g) Effective Enabling Environment

When undertaking an initiative such as private infrastructure development, a variety of exogenous factors affect project feasibility and therefore must be assessed. The enabling environment to support successful project gestation and operation is primarily a function of the legal, financial, commercial, and socio-political environment and its disposition towards a project of this kind

In Sri Lanka, the project design team concluded that the enabling legal environment is supportive for private infrastructure development. In general, there are no major prohibitions to BOO and BOT transactions in any of the sectors determined eligible by the Program Guidelines. Moreover, the operating and implementing legal acts that govern the process of project development, approval, financing, and implementation

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do not pose significant constraints. The granting of concessions, the charging of market or near-market tariffs, the acquisition of land, and all other aspects necessary to initiate BOO and BOT projects without introducing major enabling legislation are allowed and non-prohibitive. A detailed analysis of this legal setting completed by the design team is attached (Attachment 5).

As discussed elsewhere in the financial, economic, and social soundness sections of this report, the enabling environment characterizing these sectors are generally supportive. Sri Lanka is a growing and increasingly more complex economy. The lack of a highly developed financial market and large private sector community are not a disabling constraint to this project, rather they are necessary beneficiaries. The project does not rely on their growth and development but rather is designed to augment and support their expansion.

The project design does recognize however, that certain project interventions must be applied to accelerate this process. Included in this is the requirement to involve the public in this process. The project design devotes substantial resources to the inclusion of local participation and public awareness efforts to build support for and understanding of this project's goals and outputs.

(h) Implementation Components

This project has four principal components. Each of the components is designed to accomplish specific outputs and to address specific constraints. The four principal components A) Network Component, B) Public Awareness Component, C) Marketing Component, and D) The Private Sector Window, are all linked and mutually reinforcing. The success of one component depends heavily on the success of the other. The application and conduct of the activities of one component are dependent upon the successful completion of activities in the other. This design provides a tension that emphasizes results being achieved with the expectation of exceeding projected outputs and goals.

From a technical standpoint, the realization of the outputs of each component will make a significant impact and contribution to the problems of infrastructure development. The five principal end of project outputs of three projects signed with private parties for \$150 million, functioning policy and procedures for private participation in infrastructure, greater public awareness and support for the benefits of private infrastructure, promotion of competition to provide private infrastructure, and an enhanced ability of the private sector to participate in the program, are significant and far reaching.

Attainment of these outputs will contribute significantly to mitigating the problems of budgetary constraints to infrastructure services, provide a more competitive economic infrastructure, support the private sector in a partnership in economic development, and conserve and protect the environment.

Lastly, there are few technical limitations to achieving the successful implementation of the components and the overall project. The technical limitations that exist, principally in the training, marketing, and financial capacity areas are directly addressed in component design.

The provision of a long-term team supported by short term technical experts from a variety of fields relevant to private infrastructure will identify the critical mass of projects needed for an inventory of competitive projects. The project components are heavily front loaded, focusing on project identification, structuring, tendering, training, and marketing in order to accelerate project development and private sector interest. The project's sustainability is ensured by taking advantage of the favorable enabling environment to select "winning" demonstration projects as first candidates.

As these demonstration projects advance and the public and private sector become more aware of the benefits of private infrastructure, the responsibilities of the unit will shift from project identification to project implementation and monitoring.

The key variable challenging the success of this project in the short and long-run will be problems unique to a given sector or project, be it in the identification or negotiation stage, or a dramatic change in the assumptions required for program success.

No program of technical assistance is without risk. This project is no exception. There are risks that the project identification process will yield fewer quality projects than expected because of the dearth of technical, economic, and financial information. This could lead to greater pressure being placed on the success ratio of projects identified, tendered, and awarded. There are also risks of market downturns and/or less likely, reactions to the concept of private infrastructure that will challenge project managers.

However, virtually all of these risks have been accounted for in project component design and are solvable. In any case, the risks of not promoting the private sector to participate in infrastructure development, or worse, not supporting the private sector given the favorable enabling environment and the fact that the rationale for the project is obvious to those in government, is much greater than undertaking the project, recognizing the need to make mid-course adjustments and corrections.

b) Administrative Analysis

The GSL has designated the Secretariat on Infrastructure Development and Investment (SIDI) implementing agency for the program. Strategically located within the Ministry of Policy Planning and Implementation, it is guided by a sub-committee of the Industrialization Commission, which is comprised of senior Secretaries from the key policy and line Ministries.

SIDI's legal status and position gives it the authority to make autonomous decisions on its own behalf, and to coordinate with the proponent line Ministries which will be playing a key role in the tendering and award process that will permit private investment for infrastructure projects

The Government has defined SIDI's authority, staffing, and functions in the official BOO/BOT "Guidelines" which have already been approved by Cabinet. Its organization, personnel and operational budget are line items within the host Ministry's budget

Success of the program depends upon SIDI's authority as perceived by the line ministries and agencies that are the proponents of the infrastructure projects being prepared for private sector implementation, and public sector confidence

One gains a high level of confidence that the GSL fully understands the requirements of the program, and has empowered the implementing agency - SIDI - with appropriately balanced authority and responsibility. When noting the functions enumerated for SIDI in the GSL official "Guidelines for BOO/BOT Projects", it states

" SIDI will primarily be responsible for

- i) Identifying appropriate projects and preparing profiles that may be suitable for implementation under BOO-BOT or other basis, in co-operation with implementing agencies and building an inventory of such projects,
- ii) Ensuring that proposed project meet established socio-economic, technical, and environmental policy criteria,
- iii) Ensuring that proposed projects conform to the Program Guidelines and governing legislation,
- iv) Administering, in collaboration with the relevant Ministries and key implementing agencies, the process of project development, and
- v) Negotiating with Investors, with input from relevant Ministries and other implementing agencies, on project proposals, and providing recommendations on decisions to accept or reject "

This assignment of functions and tasks, and the stature of SIDI within the Government, indicates that SIDI will be able to competently perform the responsibilities assigned to it. The size and functional titles of the staff comprising SIDI's organizational structure, directly relate to the above defined functions

The project design has provided on-going assistance and support to the GSL for this program, including technical advice, in-country training seminars, field visits to neighboring countries with similar programs, detailed field reports and numerous consultations and meetings

The contemplated provision of long-term technical assistance to continue this support over a three-year period through the provision of a multi-component institution-building program, leads to the conclusion that the program is administratively feasible

c) Economic and Financial Analysis

i) Introduction and Summary.

The provision of infrastructure by the private sector should prove to be a superior mechanism to the traditional government and donor-led system of using ODA. It reduces the financial burden on overly-indebted governments and involves the private sector in areas where they have greater competitive advantage vis-a-vis the public sector. Since the private sector operator has repayment schedules to meet, it has a keen interest in seeing that the project operates smoothly and delivers its planned services.

Economic and financial considerations for the project apply at several levels. The first consideration is the return to USAID in comparison with alternative projects in which it could invest \$5 million.

In order to understand the economic setting in which the project will work, the design team examined the current system of government and donor led financing of infrastructure projects. There is a crisis facing the present system of provision of infrastructure. The GSL's ongoing financial difficulties have not made it possible to provide the economic infrastructure necessary to realize the country's development and growth objectives. Government capital expenditures as a percentage of GDP have declined steadily over the last decade.

The second section identifies, and tries to quantify, the two basic economic benefits from the proposed project:

- Additional infrastructure will be built
- The efficiency of resources utilized in creating and maintaining infrastructure increases

An analysis of the combined impact of these two benefits indicates that economic viability for the project can be attained at relatively modest levels of improvement in the probability of infrastructure being undertaken, and in efficiency.

Although there are not insignificant risks associated with the project's potential high returns, these risks have been mitigated through drawing on the lessons learned from other countries to improve program design, and from Sri Lanka's current privatization program

Moreover, this project will complement, rather than compete with, social objectives. In helping the government to shift its portfolio of economic interventions away from those that can be undertaken by the private sector, and concentrating on those which fall more properly within its domain, the government can free more of its resources to address the social agenda

On balance, the potential "upside" economic return of the project combined with the limited risk of undertaking a private sector infrastructure program are preferable to the low returns and predictable--and hazardous--risk, which threaten the country's further economic development, of continuing exclusively with the present system of infrastructure provision

At a sub-project level, economic and financial considerations will be an integral part of the BOO/BOT project screening and analysis

Finally, the design team analyzed the potential of the domestic and foreign private sector to mobilize the financial resources to undertake infrastructure projects. Sri Lanka's financial markets are still "emerging" and not ready to assume the amounts and maturities that would be required for most BOT projects. Discussions with local financial institutions indicate that the maximum amount of capital that could be raised for a BOT project would be about \$10 million. Although participation by Sri Lankan institutions would be initially modest, it is important that they participate in transactions in an effort to develop the financial and capital markets further

The availability of foreign commercial bank debt is limited by Sri Lanka's high levels of foreign debt and the reluctance of foreign commercial banks to take project risk in Sri Lanka. Foreign direct investment has averaged only about \$40 million a year for the last twelve years. It has been limited by perceptions of risk due partially to the ongoing civil conflict

As the experience of the Philippines and elsewhere demonstrates, Sri Lanka will need to rely on financing from the IFC and the ADB private sector window to initiate its first significant BOT projects. Discussions by design team members indicate a keen interest by these institutions in participating in the financing of BOO/BOT projects in Sri Lanka

At the same time, Sri Lanka should work with the official development assistance community to create a mechanism to channel ODA to the private sector to support BOT projects. This would help to provide the sums and maturities of finance needed for BOT projects, while avoiding problems such as counterpart funds required by

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traditional donor financing which have slowed infrastructure development. The design team has proposed a "Private Sector Infrastructure Development Fund" (PSIDF) to meet this need. Creating this fund would be a part of the private sector window component.

ii) The Current System of Financing Infrastructure.

(a) Background.

Economic growth in Sri Lanka during the early 1970s was limited by an inefficient public sector and by efforts to protect domestic industry from foreign competition.

In spite of reforms initiated in 1977 to make the economy more open and liberal, a large and inefficient public sector was left intact. Large public investment projects financed primarily by donors and foreign commercial lenders yielded low returns, growing indebtedness and inadequate support to the private sector.

In 1989 the government decided to accord the private sector a larger role, and to assist in the development of capital markets. As part of the program, the government launched a privatization program which aimed at privatizing commercially-oriented state owned ventures. By mid 1992, the GSL had privatized 19 ventures worth a reported \$US 180 million.

As a result of these and related measures, the economy grew by 6 percent in 1990 and an estimated 5 percent in 1991. Assuming continued policy reforms, improved macroeconomic management, and the provision of key economic infrastructure, the World Bank expects the country to grow at about 5-6 percent a year in the medium term future.

(b) Financing by Foreign Donors.

A factor that has inhibited Sri Lanka's growth is its low saving rate in relation to needed investment to achieve more rapid and sustainable growth. As a result, it has had to fill the saving-investment gap with foreign resources, in large part from the donors. However, there is a limit on foreign resources. It will be important to increase domestic savings, in part through reform of the financial system to provide the right incentives and market signals for saving and investment.

Official aid and concessional foreign loans have played a major part in Sri Lanka's development. Aid flows, in particular, have played an important role in financing Sri Lanka's current account deficit.

Sri Lanka has received bilateral and multilateral aid averaging about US\$ 580 million per year on a gross disbursement basis between 1985 and 1990. On average, project disbursements have been about US\$ 480 million a year and have financed 50-60 percent of public investment (World Bank 1992)

1990 Assistance		
	Commitments	Disbursements
World Bank Group	325.3	128.1
Japan	246.3	184.5
ADB	198.0	110.6
USAID	41.4	62.9
Other	165.0	139.1
Total	976.0	625.2
Source: The World Bank		

(c) Government Investment in Infrastructure

The government has been investing heavily in irrigation and hydropower since the 1970s, as well as in a port, airports and two free trade zones in Colombo.

As the following table illustrates, the percentage of total project aid going to agriculture and irrigation has declined as Mahaweli-related disbursements have declined. In infrastructure, the share of transport in total project aid has been falling. As the World Bank notes, this is potentially a cause for concern given the high priority that should be accorded to road transport for the economy to sustain high growth. On the other hand, the shares of energy and telecommunications in project aid have increased.

Sector Distribution of Total Project Aid (Percent of Total)		
	1985	1990
Agriculture & Irrigation	47.0	25.8
Infrastructure	30.6	46.1
o/w Transport	11.3	6.4
o/w Telecommunication	2.4	7.6
o/w Energy	12.1	27.6
Social Sectors	4.1	6.5
Others	18.3	21.6
Source: The World Bank		

However, there has been a steep decline in public investment in Sri Lanka as a percentage of GDP. The root cause of these problems lies in the large government recurrent spending relative to its revenues, and a resulting squeeze on the capital budget. There has also been a shortage of counterpart funds resulting from cuts in fiscal expenditures imposed to stabilize the economy.

Public Investment (As a percent of GDP, 1982 prices)					
1982	1984	1985	1986	1989	1990
16.0%	14.5%	13.1%	14.2%	7.8%	5.7%
Source: The World Bank					

(d) The Inadequacy of Infrastructure

Sustainable growth will depend in large part on the condition of the country's infrastructure. Infrastructure in the power, telecommunications, transportation, water and other key sectors lowers the cost of private business and induces private investment.

Even though the percentage of total project aid going to infrastructure has increased, Sri Lanka's economic infrastructure and its management are inadequate. This undermines the country's strategy for sustained development of the private sector and for economic growth in general.

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As the ADB has noted, poor roads, difficult access, inadequate water and electricity supplies, poor sanitation and lack of minimum standards in telecommunications facilities, especially outside the Colombo area, are likely to deter industrial and commercial investments, and slow private sector growth

(Under either a traditional or BOT approach, it is important to note that appropriate pricing policies are critical to manage the demand for and efficiently allocate infrastructure services, and to mobilize the resources to expand capacity as needed. To ensure the financial health of the sector, it is necessary that a policy of pricing infrastructure services to achieve an adequate rate of return on capital invested be implemented)

While a BOT program cannot be a panacea for Sri Lanka's problems, it would clearly be a step in the right direction and consistent with the policies and strategy the GSL is trying to adopt to support sustainable growth. At the very least, attracting private sector resources to infrastructure would release scarce government funds to needed social sectors such as health and education

ii) Economic Analysis of Proposed Project

The basic economic consideration is the return to USAID in comparison with alternative projects in which it could invest \$5 million

The possibilities for attractive returns from the project are high in view of the potential leveraging of limited USAID resources for a proportionately much higher level of infrastructure provision

The targeted output of the project is \$150 million worth of infrastructure projects signed by the GSL with the private sector. One way to view the impact of these project funds is to consider that, using the traditional approach, spending \$5 million for a traditional infrastructure project would create an equal amount of infrastructure by value. Using \$5 million of USAID funds to set up a mechanism that could attract \$150 million of infrastructure projects, on the other hand, would result in a leveraging of USAID's resources of 30 times

There are basically two economic benefits from the project

- The probability of economically useful infrastructure being constructed increases
- Because of private sector participation, the efficiency of resources utilized in creating and maintaining infrastructure increases

The first benefit is very plausible, given the current resource constraints facing the Government of Sri Lanka. This implies that significant benefits are currently lost to the economy because of the return foregone by not undertaking this investment. Increasing the probability of mobilizing resources (either from idle domestic resources [i.e. unemployment], or foreign savings) increases the return flowing to the economy.

The second assumption that the private sector provision and maintenance will be done more efficiently than the traditional approach is also plausible. A growing body of empirical evidence points to the greater efficiency of operations by the private sector over the public sector. A recent World Bank study of 12 privatization transactions worldwide concluded that there were considerable efficiency gains from private sector ownership and operation of assets.

To quantify the expected benefits from the project, we have made the following assumptions. The opportunity cost of capital is assumed to be 12 percent. The average economic internal rate of return from an infrastructure project is assumed to be 20 percent. Total project expenditures are estimated to be \$7.5 million, which includes USAID's \$ 5 million, and \$ 2.5 million from the HC.

Table below calculates the net present value of the proposed project expenditures from different combinations of increased probabilities that infrastructure will be built, and increased percentages in the efficiency with which resources will be used under private sector ownership and management

Net Present Value of Project (\$US Million)						
Increase in Efficiency						
		0%	5%	10%	15%	20%
Increase in	0%	-7.5	-7.5	-7.5	-7.5	-7.5
Probability	5%	-4.1	-0.7	2.7	6.2	9.6
Infrastructure	10%	-0.7	2.7	6.2	9.6	13.0
Will be Built	15%	2.7	6.2	9.6	13.0	16.4
	20%	6.2	9.6	13.0	16.4	19.8

(The calculations illustrated in the above table are quite simple. The figures for the increase in probability of infrastructure being built is the NPV that would be expected for an additional infrastructure project (or projects) of \$150 million with an IRR of 20 percent when the opportunity cost of capital is 12 percent, multiplied by the increased probability of such a project or projects actually being undertaken as a result of the infrastructure privatization program. The increase in efficiency is simply the NPV under present conditions multiplied by the assumed increase in efficiency.)

For any combination yielding a net present value from the project greater than 0, the project should be undertaken since the return exceeds the benchmark opportunity cost of capital. For combinations less than 0, the project should not be undertaken. The first row of figures indicates that if there are no additional infrastructure projects forthcoming because of the private infrastructure program, then the entire project costs will be lost. (The assumed increases in efficiency would be irrelevant in that case since there was no increase in infrastructure.)

However, the table indicates that, for example, with a combination of a 10 percent increase in the probability of additional infrastructure being undertaken, and a 5 percent increase in efficiency with which it is undertaken compared with the present system, the proposed project will attain economic viability.

Economic viability for the project can thus be attained at relatively modest levels of improvement in the probability of an additional \$150 million in infrastructure being undertaken, and an increase in efficiency compared with the present system. At the same time, there is attractive "upside" potential if these levels are surpassed.

(a) Project Choice

It could still be argued that although the likely returns from the project are high, it would be preferable to direct limited resources to projects which have a more demonstrable impact on the more socially deprived groups of the population than the likely users of infrastructure.

It should be noted that the current project is complementary to efforts to address the social agenda. One of the main emphases of the USAID program is to help the government shift its portfolio of economic interventions from those activities that can be undertaken by the private sector and focus on activities that more properly belong to government, such as education and health. By creating a mechanism that will free the government in part from the burden of building, owning and operating infrastructure, it will free resources that can be used by the government to address more directly the social agenda.

(b) Project Risks

Project risks fall into the medium to high range. There is the risk that a private sector approach to infrastructure may encounter social, political and cultural opposition. Vested interests associated with the current means of infrastructure provision may feel threatened by a change in the status quo and exert power and pressure to reduce the program's chance for success. Renewed domestic strife could put the program on hold and deter the foreign investment that will be needed to make the program work. The financial technology and techniques of infrastructure privatization are new and untested in Sri Lanka. The legal and administrative complexity of the tendering (or reviewing unsolicited proposals) and awarding private sector concessions could delay or even derail the program.

Mitigating these risks is the experience gained from other countries which has been incorporated into the design of the project. For example, public awareness and training is a critical variable in explaining the benefits and securing support by key civil servants and the public at large. This has been taken into account in the current project design. Similarly, the proven and successful elements from the programs of other countries have been incorporated into the project identification, screening, structuring, marketing, tendering, negotiation and award process.

Sri Lanka has also had a relatively successful experience with its current privatization program, which focuses on the privatization of existing assets. In spite of difficulties and some controversy, Sri Lanka has persevered with its program and has privatized

19 enterprises worth a reported \$180 million. The lessons learned from this program have also been incorporated into the current design, including adequate staffing, public awareness, formalizing the tendering process, and developing a set of procedures for unsolicited proposals.

Sri Lanka has taken innovative tax and regulatory measures to develop its stock and capital markets which has resulted in an inflow of approximately US\$ 50 million of foreign portfolio investment. This points to the ability of the government to undertake potentially difficult or unpopular measures.

The Government of Sri Lanka has already created a policy framework for the provision and ownership of infrastructure by the private sector.

(c) Economic and Financial Considerations for Individual Sub-projects.

Economic and financial considerations will be an integral part of the BOO/BOT project screening and analysis. Projects will first be assessed for their economic feasibility. Projects which do not pass the threshold level as measured by net present value (NPV) and internal rate of return (IRR) criteria will not be pursued.

Projects which are economically viable will then be analyzed for financial viability, that is, their attractiveness to the private sector at market prices. Those that are viable are good candidates for further BOO/BOT consideration.

Those that are not will be further analyzed for potential structuring to make them financially attractive to the private sector. For example, a highway project may in and of itself not be financially attractive. However, some ancillary benefits may be associated with the project, such as land development rights by the entrance and exits points, could be structured as a part of the transaction to make it attractive to the private sector.

Those projects which cannot be made financially viable, but are economically viable, would be good candidates for traditional donor financing.

iii) Financing of Infrastructure under BOO/BOT and Related Private Sector Projects.

(a) BOO/BOT Programs: the Financial Issues.

A successful BOO/BOT project is one that is bankable--debt financing can be raised to complement owners' equity to see the project through to completion and operation.

The nature of BOO/BOT projects makes their financing particularly complex and challenging. There are three basic financial features of BOO/BOT projects. While BOO/BOT projects as small as \$1 million can conceivably be undertaken, the usual

sums of money tend to be large, sometimes more than \$US 1 billion for power projects and highways

BOO/BOT projects are typically highly leveraged, with the debt component usually running from 70 to 90 percent. And the debt portion requires fairly long maturities, often 10 to 15 years and longer, corresponding to the economic life and payback period of the projects

In developing countries such as Sri Lanka, limited local capital markets and a perception of country risk on the part of foreign financiers complicates further the financing of BOO/BOT projects

A balance of financial interests is required in a BOO/BOT project, between project owners, project lenders, the host Government, and the consumers of the infrastructure services

The "best deal" is a fair and balanced transaction for all parties. The host Government must be prepared to enable a "private sector" rate of return, to investors or to lenders if it is a private sector project. However, as the "arbitrator" between the BOT project company and consumers, the government should focus on reasonable cost of service provided to consumers rather than on return generated by the BOT company. A "high profit/low cost" bid should be preferred to a "high cost/reasonable profit" bid by the private sector for infrastructure projects

(b) Sri Lanka's Financial Markets

Sri Lanka's financial markets are still "emerging" and not ready to assume the amounts and maturities that would be required for most BOT projects. However, they can play a role, although it will necessarily be modest at first. It is important that this modest step be taken, however, in an effort to develop the financial and capital markets further

As the experience of the Philippines and elsewhere demonstrates, Sri Lanka will need to rely on financing from the IFC and the ADB private sector window to initiate its first significant BOT projects

At the same time, Sri Lanka should work with the official development assistance community to create a mechanism to channel ODA to the private sector to support BOT projects. (Means of doing this are the subject of an attachment to this analysis.) This would help to provide the sums and maturities of finance needed for BOT projects, while avoiding problems such as counterpart funds which have slowed infrastructure development

Over time, as the foreign perception of Sri Lanka improves, private foreign capital should hopefully play an increasing role. Concomitantly, as Sri Lanka's financial

markets develop during the 1990s, local private sector agents can be expected to play a growing role in the financing and development of infrastructure

(c) Local Financial Markets

Given the long list of possible BOT candidates on the one hand, and the need to stimulate local capital markets on the other, it will be important and desirable to involve local capital market agents in BOT projects. What is the potential for tapping the Sri Lankan capital market for financing BOT projects?

Sri Lanka's financial institutions are relatively diverse. They are capable of providing private borrowers with at least short term working capital.

A host of policy and institutional problems, however, make longer term financing virtually impossible to provide from local Sri Lankan sources. Some interest rates are controlled and the use of market-based monetary instruments is limited. The development of Sri Lanka's financial institutions is also impeded by serious debt recovery problems, insufficiently rigorous central bank supervision, and inadequate accounting and auditing.

Discussions with local financial institutions indicate that the maximum amount of capital that could be raised for a BOT project would be about \$10 million, the debt portion of which would be repayable in 3 to 5 years. This amount and tenor is too little and too short for most BOT projects that will be needed for Sri Lanka to meet its growing infrastructure needs.

Thus, except for very small projects, Sri Lanka's financial institutions would not be able to raise the amounts of money required for BOT transactions in the near future.

Of course, the actual amounts available in the coming years will depend on a number of factors, including the state of the Sri Lankan economy, the degree of political stability, the level of creativity and ease of application of the government's BOT program and process and skill in overcoming the usual bureaucratic impediments, the response from the ODA community, and the response from the various local and foreign private sector agents who will participate in the program.

(d) The Debt Market

Sri Lanka's debt market is dominated by issues of short maturities of the government, primarily treasury bills. No long term government bonds are outstanding and the corporate bond market, at least until recently, has been moribund.

The two state owned banks, the Bank of Ceylon and the People's Bank, own more than 60 percent of the commercial bank assets, but are technically insolvent when

internationally accepted provisioning for bad debts is taken. As advocated by the World Bank, these banks need to be commercialized after appropriate provisioning and recapitalization is completed, and the Bank of Ceylon needs to be privatized in the future.

Sri Lanka's pension funds and insurance companies have successfully raised large pools of long term capital. However, government policy currently requires this money to be invested in short term government securities.

The two development banks, the National Development Bank (NDB) and the Development Finance Corporation of Ceylon (DFCC) while relatively sound and well managed, are unable to mobilize long-term local currency funds for onlending. Instead, they have to rely on the World Bank and the ADB for long term local currency onlending.

Institutional investors such as insurance companies and pension funds are essentially captive institutions for government debt securities.

(e) The Equity Market

The Colombo Stock Exchange (CSE) has evolved substantially during the last two years. It has seen a significant increase in market capitalization, turnover, stock exchange indices, and the valuation of companies. It has helped to facilitate several privatizations, and in turn has benefitted from the additional listings and turnover in the market. Market developments have helped to make equity financing a more realistic option for Sri Lanka's private sector. While it can play a potential role in BOT financing, the plausible amounts that could be raised remain small in relation to estimated needs.

The key elements in the development of the CSE were a communications campaign to improve public awareness of the goals of the program and benefits to the economy, necessary revisions and reforms to the regulatory structure and tax laws, encouraging foreign investors, and encouraging participation by and development of local financial institutions and individual investors. These would also be key elements in developing a BOT program in Sri Lanka.

The development of the CSE is also interesting in and of itself, and demonstrates that if the GSL's concerted and coordinated efforts to develop the stock market could possibly be repeated in an effort to develop a BOT program, the prospects for success would be encouraging. The second attachment to this analysis discusses the development of the CSE in greater detail.

(f) Private Foreign Capital

Limited domestic savings and the underdeveloped state of its financial markets implies that Sri Lanka will require foreign capital to finance BOT projects

(g) Foreign Commercial Debt

This is normally a very important source of financing for BOT projects, which by nature are fairly highly geared. The scope for private foreign debt financing BOT projects is limited by Sri Lanka's high levels of foreign debt (over \$7 billion) and the reluctance of foreign commercial banks to take project risk in Sri Lanka

External Debt Outstanding by Type of Creditor (1990) (in US\$ Million)	
Commercial Banks	747.4
Supplier's Credits	18.9
Multilateral Donors	2,787.9
Bilateral Donors	3,403.5
Private Non-Guaranteed	179.9
Total	7,137.5
Source: The World Bank	

(h) Direct Foreign and Portfolio Investment

As the case of Hopewell shows (discussed below) foreign equity in the form of direct investment can be attracted, depending on the particular project. Considerable interest exists among foreign portfolio investors for share ownership in Sri Lankan companies. The current level of foreign portfolio investment in the market is approximately US\$ 50 million. This demand for Sri Lankan shares can support BOT projects indirectly when Sri Lankan companies come to market to raise equity capital related to BOT projects. As a part of its privatization program, the GSL was able to sell majority ownership, primarily to foreign investors, in Lanka Milk Foods and Distilleries for about US\$ 12 million and \$25 million respectively through open bidding on the stock exchange.

Despite low wages and a strategic location, Sri Lanka has remained a marginal recipient of foreign direct investment. During the last 12 years, Sri Lanka has received an annual average of US\$ 40 million direct foreign investment. This amount, however, has been declining during the last few years, owing to perceptions of higher country risk due partially to the ongoing civil conflict. In 1990, net

investment was US\$ 32 million, or less than 2 percent of investment. Uncoordinated policies and the discretionary nature of approval procedures have also hindered foreign direct investments.

(i) Debt-Equity Swaps

A debt equity swap is a mechanism for financing equity from foreign commercial bank debt. As we will see in the Hopewell example, a debt equity swap featured in Citicorp's equity participation in the project, which otherwise would not have been made in the absence of this mechanism. At present, however, Sri Lanka does not have a debt-equity swap program. Given the controversies and delays that have happened with such programs in other countries, it is unlikely that setting up a debt-equity swap program would do very much to increase foreign investment.

(j) IFC and ADB

As discussed in Hopewell example below, the IFC and ADB (through its private sector window) will in all likelihood be the most important sources for loan and equity participation in BOT projects in Sri Lanka. Unlike ODA, the IFC does not require--and in fact is prohibited from obtaining--government guarantees. The IFC's presence and interest in neighboring countries points to a solid source of finance for the more "bankable" of the BOT projects.

Given the importance of the IFC and ADB financing for the initial stages of the BOO/BOT program, design team members contacted relevant department in each institution to ascertain their interest in participating in the program. Both institutions indicated a keen interest in participating in the program.

(k) A Private Sector Infrastructure Development Fund

The design team has proposed a multi-donor Private Sector Infrastructure Development Fund (PSIDF) to complement and help mobilize private sector resources to finance, own and operate needed infrastructure projects. The fund would assist the GSL in increasing private sector investments under BOT type arrangements through limited recourse financing which would help attract the private sector to infrastructure projects. The PSIDF could receive support from the World Bank, the ADB, and bilateral donors.

The basic objectives in using ODA for private sector led infrastructure projects in Sri Lanka are to

- Enable private sector access to official development assistance to serve as a catalyst in promoting the development, ownership and management of infrastructure by the private sector.

- Overcome lack of availability of long term financing in Sri Lanka, and the difficulties of accessing foreign long term financing for infrastructure projects
- Reduce the fiscal burden on the GSL to provide counterpart funds required in government to government financing of infrastructure

The Fund would be initially financed from loans and grants from the ODA financiers. Loans would be made to the NDB and DFCC and would be guaranteed by the government. The ODA cofinanciers would enter into a Loan Agreement with the development banks and a Guarantee Agreement with the GSL.

The Fund would provide up to 30 percent of the financing for private sector involvement in infrastructure projects, including various financing arrangements such as BOT, BOOT, BOO and BT. Equity investment (from the project sponsors and other investors) should be a minimum of 20 percent of project cost.

In addition to providing the basic capital of the fund, donors could provide training, technical assistance and commodities to help set up PSIDF, and also work with the line agencies. They could also provide for special studies in private sector participation in infrastructure projects, to encourage and support the participation of foreign investors and Sri Lankan companies in the PSIDF. Setting up this fund would be a part of the private sector window component.

A more detailed discussion of the PSIDF is found in Attachment A to this analysis.

(1) The Hopewell Power Project in the Philippines

A concrete example of a BOT project in the Philippines (and one of the few BOT power projects in Asia) is the Hopewell Energy (Philippines) Corporation's 200 megawatt gas turbine plant located at Navotas, in Metro Manila.

The financing arrangements indicate what the current "art of the possible" will probably be like for Sri Lanka in the medium term. Under the terms of the BOT agreement, Hopewell will build, own and operate the Navotas plant for 12 years and then transfer it free of charge to the National Power Corporation (NPC).

The terms included the following provisions:

- All electricity would be purchased by the National Power Corporation
- NPC will provide the site and all fuel for generation of electricity at no cost to Hopewell

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- NPC will pay Hopewell a capacity fee (monthly) for standby capacity committed to be available plus an energy fee based on electricity actually generated
- The project was awarded "pioneer" status by the government. This provides certain privileges including "tax holiday" of 5 years and waiver of import duties on equipment

The IFC and the ADB (through its private sector window) provided US\$ 10 million in loans with a 10 year maturity in US dollars on a floating rate basis. Another US\$ 10 million was obtained on a complementary basis linked to the ADB direct loan, with a 7 year maturity in US\$ on a floating rate basis. This complementary financing is provided by 4 European commercial banks, with the ADB as lender of record, but with commercial banks taking full project risk.

All performance obligations of the NPC (including payments) are to be guaranteed by the government of the Philippines. The capacity fee and energy fee are to be paid in US\$ to offshore bank account to be maintained by Hopewell.

The equity participation by Citibank was in the form of a debt-equity swap. Notable was the absence of local financing, apart from certain "in-kind" contributions from NPC (land, fuel). Reasons include the unfamiliarity by local financial institutions with BOT, the lack of suitable term financing, the reluctance of Hopewell to risk crowding out limited local financial resources, and the desire to get the project on stream quickly.

Hopewell indicated that this project, relatively small in scope by BOT standards, was designed as a demonstration project to determine what could be accomplished on a BOT basis. The experience gained in the first small project encouraged them to attempt a second, much larger BOT undertaking. The most difficult part of the first project was not arranging the financing, but the lengthy approval process by the government.

A second Hopewell project for two 350 megawatt plants is on the drawing board. This one will apparently involve the remarkable sum of about \$800 million, with the IFC taking the lead role as financial advisor. The ADB also figures prominently in the financing, which like the first Hopewell project is virtually all foreign financed. If this transaction is completed, it should be a significant boost to the implementation of BOT projects in the Philippines.

However, the approval process for this project still appears to be quite slow in spite of new BOT legislation and implementing rules and regulations in the Philippines. Thus, it will behoove Sri Lanka to make a serious attempt to streamline the approval process, especially in view of the increasing importance it attaches to BOT projects for infrastructural development in the country.

Attachment A

Economic and Financial Analysis

A Private Sector Infrastructure Development Fund.

This attachment outlines a funding mechanism whereby Official Development Assistance (ODA) from the World Bank, the Asian Development Bank (ADB), and other official donors and concessional financiers could be utilized in Sri Lanka by the private sector for infrastructure projects, including BOT type projects.

As noted above, the provision of infrastructure by the private sector could prove to be a superior mechanism for providing needed infrastructure to the traditional donor-to-government way of using ODA. It reduces the financial burden on overly-indebted governments and involves the private sector in areas where they have greater competitive advantage vis-a-vis the public sector. Since the private sector operator has repayment schedules to meet, it has a keen interest in seeing that the project operates smoothly and delivers its planned services.

In Sri Lanka, the concept and procedures for channelling ODA to the private sector are already developed. The World Bank, the ADB and other official donors and concessional financiers have regularly provided lines of credit to the private sector, primarily through the conduiting agency of the NDB and the DFCC.

In at least one other country (Pakistan), the World Bank and official donors have created a fund to channel ODA to the private sector for infrastructure development, including BOT type projects. In the Philippines, the government has endorsed a PSIDF concept, and proposed it to the donors, where it has received encouragement and support.

Thus, the mechanics and the precedent exist for establishing such a fund. In essence, ODA could be conducted through the DFCC and the NDB to provide finance to promote and support private sector involvement in the provision of much needed infrastructure in the areas of power, telecommunications, ports, roads and bridges, mass transit, and solid waste management and other sectors as indicated by the GSL guidelines.

It should be noted that initially, it will probably be more useful for independent loans or lines of credit to be made available from ODA financiers for the first few specific BOT projects. If the BOT program shows signs of developing into a sustained process, then it will prove useful to develop a formal fund.

Fund Objectives

The basic objectives in using ODA for private sector led infrastructure projects in Sri Lanka are to

- 1 Enable private sector access to official development assistance to serve as a catalyst in promoting the development, ownership and management of infrastructure by the private sector
- 2 Overcome lack of availability of long term financing in Sri Lanka, and the difficulties of accessing foreign long term financing for infrastructure projects
- 3 Reduce the fiscal burden on the GSL to provide counterpart funds required in government to government financing of infrastructure

Donor Involvement in Private Sector Projects.

How reasonable is it to expect ODA financiers to participate in such a fund? The World Bank, by its charter, is limited in its lending activities to making loans to sovereign governments or loans that are covered by a sovereign guarantee. Thus, it has not been able to lend directly to BOT projects, none of which so far has carried a sovereign guarantee.

The World Bank has found indirect and creative ways, however, to assist its member countries in implementing BOT projects. In Pakistan, for instance, the World Bank played a key role in establishing a US\$ 520 million Private Sector Energy Development Fund (the "PSEDF"), which is intended to make long term loans to finance up to 30 percent of the cost of qualifying projects, including BOT projects, in the energy sector.

Another way in which the World Bank helps its member countries carry out BOT projects is by conducting sector studies. These studies have been done for the power sector in Turkey, Pakistan and the Philippines. They have helped to identify the need for and to determine the feasibility of BOT power plant projects in these countries.

Fund Description.

The proposed fund would be a multi-donor Private Sector Infrastructure Development Fund (PSIDF) to complement and help mobilize private sector resources to finance,

own and operate needed infrastructure projects. The fund would assist the GSL in increasing private sector investments under BOT type arrangements through limited recourse financing which would help attract the private sector to infrastructure projects. The PSIDF could receive support from the World Bank, the ADB, and bilateral donors.

The Fund would be initially financed from loans and grants from the ODA financiers. Loans would be made to the NDB and DFCC and would be guaranteed by the government. The ODA cofinanciers would enter into a Loan Agreement with the development banks and a Guarantee Agreement with the GSL.

The Fund would provide up to 30 percent of the financing for private sector involvement in infrastructure projects, including various financing arrangements such as BOT, BOOT, BOO and BT. Equity investment (from the project sponsors and other investors) should be a minimum of 20 percent of project cost.

In addition to providing the basic capital of the fund, donors could provide training, technical assistance and commodities to help set up PSIDF, and also work with the line agencies. They could also provide for special studies in private sector participation in infrastructure projects, to encourage and support the participation of foreign investors and Sri Lankan companies in the PSIDF.

Fund Implementation

The following section addresses some of the key issues and parameters in setting up such a fund, but are largely illustrative. The exact conditions (interest rate, repayment period, grace period, etc.) need to be based on the economics of the particular project. These decisions will need to be made by the fund manager on a case by case basis.

Fund Structure

Each donor would have its own project agreement with the GSL to provide funds for a common credit facility. The procedures for the coordination among cofinanciers would be detailed in a Cofinanciers' Memorandum of Understanding (CMU) which would be finalized between the GSL and the cofinanciers.

The CMU would outline the processes involved in the approval of the decision of the fund for financing eligible BOT and other types of projects, clearance of bidding documents, and approval of award recommendations, reporting format, and annual audit arrangements.

The World Bank's International Finance Corporation (IFC) and the ADB's private sector window (whose funds are not considered to be ODA) could complement this by Fund by offering commercial credit to firms and taking equity positions in the privately owned and/or operated infrastructure projects.

One possibility would be to set up the fund as a separate entity. Such a fund could be financed, in addition to onlending by the ODA consortia, by private sector equity.

However, setting up a new entity would be a disadvantage both from the point of view of time required as well as a tendency for financial institutions to proliferate. The creation of a new institution would require extensive work to outline the future role of the fund, sources of financing for its future operations, financial performance criteria, guidelines for operations, and staffing.

A more practical option would be to utilize existing development banks such as DFCC and the NDB.

On-Lending Mechanism.

The NDB and DFCC would be the borrower from the ODA co-financiers. Through the PSIDF, these development banks would make medium and long-term limited recourse loans to eligible infrastructure project companies.

Guarantee and Foreign Exchange Risk

The GSL would guarantee the loan between the cofinanciers and the development banks, and assume the foreign exchange risk. The development banks would pay the government a guarantee fee and a fee for the foreign exchange cover to enable the government to set up its own foreign exchange loss provisions.

Sovereign guarantees for loans assumed by the private sector, however, would not be provided. A basic principle of BOT and other privatization projects is that private sector investors should not require direct sovereign guarantee for suppliers' credits and commercial loans. Instead, the institutions providing these funds (including the PSIDF) should be prepared to assume project specific risks. The credit risk for loans made to eligible project companies would be born by the development banks.

Co-financiers Rate to the Development Banks

This would depend upon the project agreements between the individual cofinanciers and the GSL and the development banks. The World Bank, for instance, could lend to the development banks at its standard variable rate.

On-lending rate of the Development Banks to Project Companies.

The development banks would onlend the project funds to eligible infrastructure project companies in rupees and foreign exchange at market rates of interest, i.e. at rates that approximate the cost to borrowing funds of a similar maturity in the market. The development banks could offer alternative variable and fixed rate options to the project company borrowers. The rate should be sufficient to cover the cofinanciers.

rate, foreign exchange fee for rupee denominated loans, and an adequate spread to cover other expenses

The onlending interest rate for loans in foreign currencies from the PSIDF to eligible private sector entities would equal the prevailing rate on foreign loans to industrial enterprises. The onlending rate would cover the cost of borrowing, the cost of operations and allow for the accumulation of reserves. The cost of operations would cover costs such as personnel and administration, auditing, reporting, loan documentation, and supervision of project implementation.

Interest rates for rupee denominated loans could be based on the ODA cofinanciers pool-based variable lending rate system for the World Bank and the ADB. The GSL would assume the foreign exchange risk under the loan for a market-based foreign exchange risk fee (FXRF) to be paid by the development banks to the GSL. Weighted average of the rates of interest on time deposits of up to six months' maturity paid by ten large commercial banks during the previous semester could be used as the reference relending rate for determining the FXRF. For variable rate subloans, this fee would be equal to the difference between the reference rate and the Bank's pool-based variable rate less (i) gross receipts tax (GRT), (ii) RGF, and (iii) the development banks' intermediation margin.

The repayment terms for onlending could be up to 25 years, with a grace period of up to 10 years (the exact figures will depend on the terms of the ODA loans and the economic profiles of the projects). This grace period will facilitate the completion of long gestation period infrastructure, and the repayment of export credits and commercial loans.

This implies that commercial loans would be senior in repayment to the loans provided by the Fund. Commercial loans and/or export credits obtained for the purposes of the project company would have priority over the financing obtained from the PSIDF in the allocation and distribution of funds available with the project company for repayment. PSIDF, however, would be pari passu with commercial lenders in liquidation.

Eligible Subborrowers

The PSIDF would finance technically, economically and financially sound infrastructure projects that feature private sector ownership and/or management of the infrastructure facilities. The minimum equity contribution by the project company should be 20 percent.

The following sectors would be eligible for ODA financing through the Private Sector Infrastructure Development Fund

- Power
- Telecommunications
- Ports
- Mass Transit
- Roads and Bridges
- Solid Waste Management
- Water Supply
- Others as per GSL guidelines

The criteria for project approval by the Fund would include

- The project is qualified for the Public Investment program, included in the list of eligible projects under BOT Guidelines, and/or has been independently proposed by the private sector and approved as per GSL guidelines on unsolicited proposals
- Project complies with relevant GSL and co-financiers' guidelines on environment, occupational health and safety, and procurement
- Project Company successfully negotiated Implementing Agreements with GSL and other relevant agreements
- Project Company submits a detailed, bankable feasibility study

Evaluation of Subprojects

The PSIDF and the development banks would review and evaluate the subprojects in accordance with the eligibility criteria for subborrowers and subprojects. If the amount of a subloan exceeds the limit agreed to by the cofinanciers, then they will have the option of conducting their own evaluation of the particular subproject.

Procurement

The procurement of equipment, materials and services financed by the World Bank would be in accordance with the Bank guidelines. The private sector project investors would be able to utilize tied funds available from a country's donor agency by following the procurement procedures acceptable to that agency.

Disbursements

The disbursements of cofinanciers' funds would be in accordance with their respective guidelines. In case the successful bidder is from a country eligible for financing under the guidelines of the World Bank and the ADB, the contracts would be financed from all the agencies in proportion to their contribution to the fund.

Commingling of Funds

While the commingling of funds from the different sources may be ultimately desirable, initially this will probably not be very practical given donor funding mechanisms. Rather than subject the implementation of the fund to possible delay, it is recommended initiating the PSIDF without commingling. The possibility of commingling can be addressed in a later evaluation once the fund is up and running.

Single Borrower Limits

Both the DFCC and NDB face limits in the amount of money that can be lent to any single borrower. Determined as a percentage of equity, this limit would be in the range of \$5 to \$10 million for each bank. This would obviously be a constraint for the large sums of potential infrastructure projects. One area for further investigation is to see whether a syndicating mechanism could be worked out with the local commercial banks.

Implementation Schedule

The development of the Fund could be implemented in stages. As mentioned above, it will probably be more useful for independent loans or lines of credit to be made available for the first few specific BOT projects. If the BOT program shows signs of developing into a sustained process, then it will prove useful to develop a formal fund.

The first stage in developing the fund would cover its establishment, development of guidelines for the appraisal, approval and supervision of BOT type projects, recruitment of core staff and the appointment of consultants to support the operations during the first few years.

The second stage would involve the recruitment of consultants to design the organization structure for the Fund, prepare the operation manuals, and staffing strategy. Infrastructure project finance requires specialized skills, and it would behoove the Fund and the GSL to secure the consulting services of a financial institution with experience and a track record in undertaking infrastructure project finance. Hopefully, some of the fund's initial contributions will include grant monies to be used to secure technical assistance as needed to get the PSIDF up and running.

The terms and conditions under which the development banks would manage the Fund would be set out in an administration agreement between the GSL and the development banks. The manager of the Fund should be at the level of senior executive vice president/deputy managing director.

As the Fund is expected to deal with a number of relatively diverse infrastructure projects, it will not be practical to maintain the necessary professional staff for appraisal and supervision of all BOT projects. The in-house staff in the Fund would, therefore, be limited to the core staff required for the appraisal and supervision and financing operations.

The Case of Pakistan.

In Pakistan, the World Bank and other ODA co-financiers have established the Private Sector Energy Development Fund (PSEDF) to extend loans to the private sector for energy projects. Total funds committed to PSEDF are \$US 653 million. Both the grace period and the repayment period of these loans are attractive with the result that a project's debt service profile will typically be more commensurate with the long life of power projects than would be feasible given commercial finance alone. The Fund is administered by the National Development Finance Corporation (NDFC), the equivalent of the DFCC or NDB of Sri Lanka.

The Fund will lend up to 30 percent of the total cost of approved projects, but no more than 50 percent of the foreign exchange costs. Loans may have a maturity of up to 23 years, with a grace period of repayments of up to 8 years. Currently the applicable interest rate is 14 percent.

Either firm commitments or indications of support have been received from

- The World Bank
- Export Import Bank of Japan
- U S Agency for International Development
- U K Overseas Development Administration
- Kreditanstalt für Wiederaufbau (KfW), Federal Republic of Germany
- Canadian International Development Agencies
- Government of the Republic of Italy

The Hab River Project

The Hab River Project is the most notable beneficiary of the PSEDF. The Project, a 1,292 MW oil fired power station, comprised of 4x323 MW units, located at the mouth of the Hub River in Baluchistan, Pakistan, will be designed, constructed, owned and operated by a limited liability company (the Project Company)

The Project Company will arrange for base financing to cover the estimated construction costs, financing costs during construction and Project Company pre-operating costs, e g , general and administrative costs, consumables, initial fuel supply, start-up costs and insurance. The financing structure is set at 75 percent committed debt and 25 percent committed equity. The PSEDF will provide approximately 40 percent of the debt, which will be subordinate to the balance of the debt (the Senior Debt) to be provided by export credit facilities and local and foreign commercial loans. It was anticipated that 42 percent of the equity would be subscribed by offshore investors including members of the Group, who would provide about 30 percent of the equity.

The Project Company will enter into a contract with Mitsui under which Mitsui will commit to complete the design and construction of the Project for a fixed price within an agreed schedule and agreed specifications. The turnkey contract will require Mitsui to satisfy PSEDF requirements, for example, concerning international competitive bidding in respect of equipment to be purchased with loans from the Fund.

All revenues under the Power Purchase Agreement will be paid to an escrow agent under the Escrow Agreement to which the Project Company, its lenders, WAPDA and the escrow agent will be parties. Under the escrow agreement, a Debt Reserve Escrow Account will be established from revenues under the PPA, to be built up to, and thereafter maintained at a level equal to all project Company debt service payments falling due in the following six months. A standby loan facility will be available from PSEDF to meet any shortfall in the Debt Reserve Escrow Account.

It was agreed with the World Bank that the GSL would create a fund with the PSEDF providing a special temporary fund (STF) to the project company with a fixed amount from a standby facility made available by the World Bank for the following purposes:

- Repair of the plant damaged due to political force majeure
- Payment of debt service if construction period is extended due to political force majeure

The World Bank has also indicated an interest in creating an extended co-financing (ECO) scheme which would underwrite GSL's foreign exchange liabilities for the project in the case of political force majeure

To date, the agreements for Hab River project have not been consummated. Part of the problem appears to be the large size of the project. The "Lessons Learned" from this experience is to avoid this problem by initiating a BOT program with smaller projects

Economic and Financial Analysis

THE COLOMBO STOCK EXCHANGE

This attachment on the Colombo Stock Exchange is intended to provide additional information on

- (i) A successful project intervention in the capital markets area
- (ii) An example of policy reforms the government was willing to undertake in support of a project
- (iii) The dynamics of the Sri Lankan equity market

The Colombo Stock Exchange Prior to 1990

To better appreciate the remarkable transformation that has occurred at the Colombo Stock Exchange over the last two years, one should consider its condition prior to 1990. In 1985 the perennially moribund stock market was reorganized as the Colombo Securities Exchange. (It is now called the Colombo Stock Exchange, or CSE). In 1987, the Securities Council Act created, for the first time, a regulatory body charged with ensuring orderly markets and protecting buyers of listed equity and debt securities. The Securities Council (now called the Securities and Exchange Commission or SEC) also advises the government on the development of the capital markets.

Operations on the Colombo Stock Exchange were initially slow and cumbersome, mainly because they were manual and paper-based. This limited the efficiency and timeliness of share transfers. Even before the recent rise in trading in 1990 and 1991, the CSE experienced settlement difficulties.

Other, more daunting, problems were of a structural nature. Many Sri Lankan companies were unwilling to list, thus limiting the supply of shares on the market and reducing liquidity. Interest rate and tax policies actually encouraged companies to favor debt over equity financing. Most of the companies which did list did not trade actively, and there was little float in the market. None of the brokers operated outside of Colombo, and the services they provided to clients were limited. Investment research and portfolio management skills were virtually non-existent.

The demand for shares was also severely limited. The Sri Lankan public was generally unaware of the potential benefits of investing in shares. If aware, it frequently lacked confidence in the market, and tended to prefer less risky, albeit lower-yielding, bank deposits. Institutional investors, which should have been a significant source of demand, were typically government owned, and served as

captives for low yielding (in real terms) government debt Foreign portfolio investment was effectively eliminated by a 100 percent tax on purchased shares

The Exchange after 1990

Since then, the changes at the Exchange have been dramatic, both technically and in terms of trading activity In other areas, particularly with respect to regulatory and institutional development, the process has necessarily been more evolutionary In 1990, the CSE was the second best performer in the world after Venezuela and has continued to appreciate strongly since then

Several government decisions were vital to the market's "takeoff " The most important of these occurred in 1990 In June of that year the government liberalized foreign portfolio investment by abolishing the 100 percent tax on share purchases by foreigners (subject to the limitation that their aggregate share holding not exceed 40 percent of the issued holding)

Almost immediately, this triggered a surge in foreign interest in the market This captured the attention of the CSE, the brokerage firms and the Sri Lankan investing public, and led to a rapid rise in shares that had previously been undervalued Officials at the CSE report that there are now over fifty foreign funds approved to invest in the market

The government implemented other supportive measures as well For example, it revised the capital gains tax on listed shares, abolished the ad-valorem stamp duty on shares, withdrew the withholding tax of 15 percent on dividends, and withdrew the wealth tax on listed company shares

Progress on the regulatory front was substantial during 1991, though more remains to be done The key amendments to the Securities Act include the following

- The SEC was given responsibility for regulating unit trusts
- Responsibility for insider trading was put under the SEC Previously, this area was addressed in the Companies Act
- A takeovers and mergers code has been drafted, approved by the MOF and the FTC, and is being reviewed by the Legal Draftsman It is expected to help reduce instances of "creeping" takeover abuses

Domestic Securities Firms

Brokers and others readily admit that corporate finance is still not well developed in Sri Lanka, but are interested in exploring its potential further Essentially, securities

firms earn all of their revenues from brokerage. In response to the rising trading volume, these firms expanded rapidly during 1991 in terms of staff, business volume and number of offices. This would be the ideal way of addressing the problem of distributing shares outside of Colombo and is bound to stimulate more activity in the stock market.

Technical Developments.

The Central Depository System (CDS) went into operation on September 2, 1991. The share prices of all companies can be readily viewed on any of several terminals. The system also provides investors with monthly account statements and information generated by the CDS is sent to individual companies on an as-needed basis, for example, when dividends need to be paid. Moreover, because the CDS records the time sequence of trades as well as the identity of which brokers are transacting those trades, the CSE has unprecedented ability to monitor insider trading.

Supply of Shares

While demand for shares in Sri Lanka has grown steadily, the supply, with the exception of those created through privatization, has lagged. The CSE is attempting to encourage as many new companies as possible to list.

As in other markets, Sri Lankan companies in deciding whether to list or not, must consider the benefits and costs. There is a direct fiscal incentive to list, namely, the corporate tax rate in Sri Lanka is only 40 percent for listed companies, as compared with 50 percent for private companies.

The difficulties in getting companies to list in other emerging markets have been well documented. Generally, there is widespread reluctance to widen the ownership of family owned and run companies for fear of loss of control. Certain firms also fear the disclosure requirements of being listed, especially in instances where they have a history of underpaying their tax obligations. In Sri Lanka as elsewhere these concerns have limited new company listings and the availability for sale of shares held by family members in existing listed companies.

Another significant problem in Sri Lanka is the relative cost of debt and equity finance. After allowing for inflation, the net-of-tax real cost of debt has often been negative. (The easy availability of debt and poor debt recovery legislation are additional factors favoring debt financing by firms.) Equity financing, on the other hand, can be quite expensive.

As other countries have demonstrated, some of the reasons for reluctance begin to ease once prices on the stock market begin to increase. However, an additional constraint is often that the corporate finance skills needed to take a company public

are as yet poorly developed. Many companies are still poorly informed about both the process and possibilities.

Demand for Shares

Domestic brokers generally contend that foreign investors have been the driving force behind the exchange during the last year. They describe their domestic clients as "speculative." That is, they do not invest on the basis of the fundamental value or earnings potential of a firm. Thus, to date they have seen little need to undertake research on the market. The result is that, with the exception of John Keells, Forbes and Walker, and the Merchant Bank of Sri Lanka, local research is still not available. However, given the strong foreign interest in the market, there is a growing incentive for local brokerage firms to develop these capabilities. And gradually that seems to be happening. The main constraint at this point is a severe shortage of trained securities analysts.

Institutional Investors

Still missing from the demand side of shares are domestic institutional investors. The largest pension funds in the country are the Employees Provident Fund (EPF) and the Employees Trust Fund (ETF). These are still captive instruments of government policy. EPF is by far the larger of the two. The labor commissioner estimates that the EPF collects roughly 400 million rupees per month. Currently, both EPF and ETF invest all their funds in either treasury bills or government owned corporations.

Although technically these funds could diversify, both are subject to directives from the Ministry of Finance which basically determines investment policy. To give an idea of how dependent the government is on the EPF, its director estimates that the EPF funds 60 percent of the government deficit. In that light, it seems unlikely that the investment policy will be allowed to change soon. Unfortunately, both funds earn a negative real return on their investments. Obviously, this is unfair to the beneficiaries of these funds and ironically, the directors of both funds readily acknowledge that the situation should change.

There are some provident funds that pre-date the ETF and EPF, but compared to the EPF they are very small. Although there are about 150 accounts in total, the aggregate inflow of funds per month is less than 100 million rupees. Unlike the EPF, these funds can invest in high yield securities but there are caveats to this. Every year, for example, the labor commissioner must approve the accounts to ensure they are sound investments. He notes that in the past there have been instances where funds have been mismanaged.

The government has recently begun to address the Exchange's obvious need for greater institutional participation, by passing legislation which permits the formation of unit trusts, which are expected to play an important role in generating demand.

Several firms, including the DFCC and Capital Development and Investment Corporation, Ltd (CDIC), are applying for licenses to set up unit trusts. The incentives offered under the legislation include a five year tax holiday, no capital gains tax and no withholding tax.

Private insurance companies are just beginning to invest in the CSE but they are still small and subject to limitations on the percentage of paid in capital they are allowed to commit to equity. Meanwhile, the two largest insurers remain state owned and, like the state pension funds, are captives of government policy with respect to their investment decisions.

Clearly, rules governing the investments of private sector insurance companies need to be adjusted to allow more equity investment. Public insurance companies can be privatized, and the investment policies can also be changed to permit greater equity in their portfolio.

(d) Social Analysis

The thrust of this project is to promote economic growth, by creating a climate facilitating public/private partnerships to undertake infrastructure investments. This objective is compatible with the widely supported national development objective of transforming Sri Lanka into a Newly Industrialized Country (NIC) by the year 2000, and follows the sequence of reform that have contributed to creation of the current market oriented socio-cultural setting.

Sri Lanka has adopted policies which reflect a significant departure from earlier decades, which were marked by heavy state involvement in the economy and extensive nationalization of private investments. The market policies first embarked upon at that political turning point fifteen years ago, have been directed at disengaging the state from its dominant economic role. The thrust of national policy today is promotion of an increasingly larger role for the private sector, a philosophy now embodied in the popular culture, and repeatedly confirmed in pronouncements of top political leaders. This now includes protection of property rights, limitation on government exercise of eminent domain without adequate compensation, and legal mechanisms for dispute resolution and orderly redress of grievances against the government.

Government emphasis on the promotion of market-driven policies has been increasing. The programs for investment attraction conducted by the Greater Colombo Economic Commission, and the Sri Lankan privatization program have resulted in new non-traditional light industry being set up, and the divestiture of a wide range of largely commercial enterprises, including the national bus company. While there has been resistance to these efforts in some quarters, for example among labor groups facing reductions in the size and influence of their memberships, the public as a whole has endorsed the program. The political leadership has successfully justified these policies to their constituencies.

Sri Lanka is a highly literate, articulate society with a sophisticated and well-informed population, enjoying a vigorous and lively free press. Most groups perceive the existence of and participate in a reasonably open political system. The population expects their political leaders to justify and defend decisions taken by Cabinet in the Parliament where they are subject to debate and questioning in a classic Westminster style forum. The parliamentary system, press freedom, and use of the electoral process, are manifestations of legitimacy and popular consensus.

The political leadership responsible for growth of the economy, face the daunting challenge of coping with regional competition for new private investment from larger countries offering attractive factor costs, established track records of rapid growth, relative political tranquillity, broader market access, lower cost and more reliable support functions in transport, energy, communications, and the other utilities and services that influence factory siting decisions by international businesses.

Given general public support for the private sector-led economic development goals, the BOO/BOT program enjoys widespread leadership sponsorship and endorsement throughout the government. Cabinet has already approved the program. A Committee appointed by the Minister of Industries, Science and Technology has drafted Guidelines for BOO/BOT implementation that have been endorsed by the Industrialization Commission. These Guidelines designate the Secretariat for Infrastructure and Development (SIDI) within the Ministry of Policy Planning and Implementation as the focal point for carrying out the program. Key officials in the line ministries, and those concerned with capital market growth are all familiar with and supportive of BOO/BOT, and the compelling reasons for its adoption.

These needs are widely acknowledged. The public is fully aware that Sri Lanka is suffering from inadequate infrastructure. During the recent extended drought, power outages occurred and the public generally came to understand that this resulted from the fragility and insufficient capacity of the system. In a country where there is a six year waiting period for installation of a new phone, it is no mystery that major new investments are urgently required in the telecommunications sector.

Traffic congestion, accumulation of garbage in the streets, overcrowded public transport, intermittent shortages of key imported goods that need to transit through overburdened ports, and lack of readily accessible water for irrigation and domestic uses, are increasingly becoming a familiar part of the public's everyday experience. While everyone would benefit by the correction of these problems, public demand for these improvements has been subdued, given generally widespread appreciation of the fact that budget stringency and lack of further borrowing capacity constrain the government from making the requisite capital investments on a traditional donor-financed basis. Private business willingness to undertake these investments is therefore welcomed.

Private businessmen looking for markets and competitive advantage of factory locations, and especially those government officials responsible for programs to induce new investment, are aware of the urgency to expand the availability and improve the performance of infrastructure services. Therefore the linkage between the need for new investment to halt the critical erosion of services, and the potential of BOO/BOT investments to respond to these requirements, has been established. It is apparent that infrastructure improvements will encourage more rapid private sector growth throughout the economy.

Improved infrastructure in Sri Lanka will therefore become a rising tide that raises all ships, and will offer a win-win rather than a win-lose paradigm, thus making it quite unlikely that any major groups in the society will become adversaries of the program. Benefits for the government and public will accrue by avoiding costs of undertaking projects not easily afforded, government and the public at large will benefit from private delivery of investor-provided services. This will result in a more efficient use of government resources which can then be concentrated on more distinctively governmental welfare and administrative functions.

The downside adverse consequences likely to affect the public are transitory and limited in scope to those individuals whose homes and businesses are in locations that will need to be taken over by the government to provide access or construction sites for the new infrastructure facilities. This will entail exercise of eminent domain, acquisition and compensation to the individual owners. To date, GSL has demonstrated its ability to conduct such proceedings with transparency and equity. The Government has the legitimacy to present and defend the rationale that new infrastructure investments are long overdue, and will result in a greater benefit to the society while individual rights will be preserved.

Beneficiary impact resulting from implementation of the project will be widespread. The initial and most direct beneficiaries will be the staff of SIDI, both existing officials of the Ministry of Planning and Implementation that will be assigned to SIDI and new employers and consultants who will be hired to undertake project activities.

All of them will be exposed to the cost-conscious, market-driven concerns that motivate business investment decision-making. Consequently at the end of the project, they will have valuable insights and appreciation of international business issues, and knowledge of how major capital projects proceed in the private sector from concept to completion. This will certainly enhance their value as employees for future employers, either in private sector or government employment.

The next significant group of direct beneficiaries will be managers and employees of construction contracting firms, equipment and raw material suppliers, and the owners and stockholders of these and other companies whose services will be employed to build the BOO/BOT capital projects that would not have been constructed without the existence of the program.

Completion of these projects will add to the stock of full-time permanent jobs that will contribute to reducing unemployment, as well as providing 'state of the art' skills in operating and maintaining the new facilities. Women would be expected to have high participation rates in the employment rosters of the newly established enterprises, in the technical, administrative, service, managerial and professional positions.

Another category of direct project beneficiaries are the men, women, and children living both urban and rural areas, whose quality of life will be enhanced by improved services in public transport, telecommunications, potable water, waste disposal, etc. This will include market women served by improved farm-to-market feeder roads, for example.

Yet additional beneficiary impact will be felt by employees, managers, owners and stockholders of financial, accounting, insurance, and related business service firms that will contribute to and profit from the new business activity generated by the project. Other indirect beneficiaries are the merchants, store keepers, factory workers and service employees of small and medium business establishments patronized by the new employees for necessities of life for such needs as food, clothing, medicine, shelter, transport, etc. that the new capital projects workers and their families will require.

Another benefit to government under BOO/BOT is that with private investors, there is little likelihood of neglect of on-going maintenance, since the costs of spare parts and service will be budgeted and controlled as an element in the commercial risk being assumed by the owner/investors. These costs will be built in to the tariff structure, rather than being a recurrent government budget item that needs to be addressed separately, and is so often given short shrift by hard pressed fiscal officers.

With the private firm responsible for collection of tariffs, rents, user charges, and other revenue generation, and particularly in those cases where these are collected directly from users, the possibilities of large arrearage occurring and being tolerated for political reasons are minimized. Threat of denial of service to non-payers and energetic pursuit of accounts payable will lead to the adoption of more responsible user practices.

BOO/BOT is of course beneficial to the private investors who are awarded concession agreements under the program. In most cases, franchise provisions will incorporate either limited competition or market exclusivity, thus diminishing the risk of the investment during the duration of the amortization period. In some sectors, there will be "take or pay" or similar arrangements, and assurances of foreign exchange, assuring timely servicing of debt obligations.

Clearly the beneficiary impact of improved services will be experienced by members of households throughout the entire income spectrum, and they will be widely dispersed geographically. New private infrastructure investments will have clearly

perceivable consequences not only directly during construction in new employment generation, increased business for the raw materials, parts, and service industry suppliers, but will also result over time in encouraging broadly based new investment in manufacturing, processing and services, which will increase productivity and generate further quality of life improvements

In some cases, especially where services have been heavily subsidized by government in the past, there may be some resistance to payment by end users of market-based (higher) tariffs, reflecting the true costs of service delivery. It is expected that public awareness campaigns will help to clarify the public understanding that those subsidies provided in the past were akin to indirect taxes whose incidence is borne inequitably, impacting most heavily on the poor

The way that the society adjusts to the undoubted increases in tariffs that will result from BOO/BOT investments, will be sector specific, and are expected to be manageable. For example, a new toll road may not have to reflect in the individual vehicle charge, the full capital costs of the new facility, if the concession agreement is so structured to permit the concession awardee additional revenue for commercial or industrial real estate, leasing out of petrol sheds, snack bars and other amenities, etc whose utilization would be increased and customer base "captured" by virtue of its location on the tollway. Alternative routes will remain available to those unwilling to pay the tolls

With respect to the energy sector, the concession agreement can include "take or pay" compensation for installed capacity, additional revenue for actual gigawatts of energy delivered to the grid, and special arrangements with respect to assuming all or a portion of the fuel costs, so that the new facility and the shifting of its costs and benefits that its commissioning will entail, can be phased in to the Ceylon Electricity Board system and customer rate structure adjustments made in orderly fashion

Social consequences of each of the other BOO/BOT capital investments can be managed in such a way as to maximize the beneficial impact on the economy, and as required, to time-phase the adjustment period to permit users to incorporate the changes in their own cost structures

All of the above should ensure that the new public/private partnership being forged will be seen to have a favorable impact on virtually all facets of the society, and the benefits from an improved and more reliable infrastructure will be widely diffused

Participation and Motivation

This project will have a cumulative number of participants. As individual concession agreements are carried out, the beneficial results will be shared among the users of the infrastructure facilities. This will include, for example, motor vehicle operators and passengers, domestic and commercial customers using telephones, energy, piped

water, and passengers in all transport modes. As described above, the investments which will be facilitated by this program would either not have occurred at all or would have taken place much later.

The avoided cost to government, and the assumption of commercial risk by private investors for BOO/BOT projects, will release scarce government resources and capabilities, permitting more attention to be paid to uniquely governmental functions. With private sector performing more efficiently in operation of the concession services, and government having more resources, there will be general improvements in growth rates, degree of capacity utilization, and efficiency in resource allocation felt throughout the economy. As government subsidies diminish, performance will improve and Sri Lanka will become more competitive internationally.

e) Environmental Analysis.

The environmental consequences of this project are inherent in the method of its operation - establishing a central government authority or focal point to review and authorize detailed programs of private investors who will be undertaking construction and operation of major infrastructure projects. This will establish at the outset, clear guidelines for all prospective investors that proposals being considered for possible award of long term concession agreements, will have to conform fully with accepted environmental standards.

The implementing agency, SIDI, will incorporate in every project that it prepares for tendering, an Initial Environment Examination (IEE) in the pre-feasibility studies that it will perform as part of each bid package. Proposers will thus be put on notice that full Environmental Assessments or Environmental Impact Statements will need to be undertaken for each project during completion of the full feasibility studies which will disclose the technical, administrative, economic and financial program and plans of the proposers.

By inclusion in their basic evaluation criteria the requirement that all projects will be scrutinized for environmental impact, the requirement for proposers to address these concerns will be built into the basic operating procedure of SIDI. This will assure that no projects will be brought forward for consideration, that have not been thoroughly vetted for environmental impact.

An important feature of the project will be the establishment of a private sector window, a facility by which businessmen on their own initiative, prepare and submit proposals for Government consideration, rather than responding to invitations to bid or propose. SIDI intends early on to establish Terms of Reference guiding the requirements which need to be met in these unsolicited proposals. SIDI will stipulate that all such proposals incorporate attention to environmental concerns.

The above features of the project address measures to minimize or avoid any potential adverse environmental impact in the technical design and financial costing of projects being submitted. For example, if in the energy sector, a proposal is either solicited or received for a coal-fired thermal electricity generation plant, the proposer would be obliged to describe in detail sourcing of the fuel. This would include an analysis of its potential for atmospheric pollution, mode of transport and unloading in Sri Lanka, methodology for bringing the fuel to the boilers, and the systems to be installed for mitigating by electronic precipitators, etc., any adverse content in stack gases.

Also included would be drawings and engineering details on the recording, control and monitoring equipment and arrangements that would be put into place for on-going government observation and oversight of its use.

All construction plans for proposers will be required to include assessments of the environmental impact likely to occur during both construction and operational phases of the project, as well as onward plans for operation and maintenance.

In most cases, these Environmental Assessments will be incorporated in the submissions presented by proposers seeking approval and awards, and the requirements for their inclusion will be spelled out in the performance specification and criteria for selection that will be the basis for the tender and evaluation procedure.

The other positive environmental consequence of this project will result from the additional investments in environment improving projects such as solid waste disposal, water supply and waste water treatment projects, one of the major sectors for which private interest in undertaking infrastructure projects is expected. These projects would not be undertaken by Government and the program will facilitate these investments to go forward encouraging the private sector to undertake them. Both in responding to invitations for bid, and in unsolicited proposals received, projects in this sector will include leading edge technology from U S and other foreign firms that have world-wide reputations for contributing to the state of the art in environmental controls.

PROCUREMENT PLAN

ANNEX 6

IMPLEMENTATION SCHEDULE

ANNEX 7

Function	Year 1/Calendar 1993				Year 2/Calendar 1994				Year 3/Calendar 1995				Year 4/Calendar 1996			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Component 1 PI Network																
Meet Lit P p on																
Proj t Ranking																
BOO/BOE W k hop																
Pre feasibility studies																
Tendering P kag																
Bid s l t i o d A ard																
Contract Negotiated																
P g am E al tion																
Component 2 P bil A en																
Bro h Pr p ti																
PR P oq m D lq																
Topi l W k hop																
Component 3 M k ting																
Design Marketing Strategy																
Program Marketing																
Project Marketing																
Topi l W k hop																
Component 4 P l t e s ct or W l d w																
Design R lpt f Uns l l t ed Pr p eal /U																
Design PSIDP/Us																
Develop feasibility Fund/Us																

Function	Year 1/Calendar 1993				Year 2/Calendar 1994				Year 3/Calendar 1995				Year 4/Calendar 1996			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Component 1 PI Network																
Meet List Preparation																
Roll Ranking																
BOO/ or Workshop																
Pre Feasibility studies																
tend (q) Preparation																
Bid Eligibility Ad																
Contact Negotiated																
Program Eligibility																
Component 2 Public Awareness																
Brochure Preparation																
PR Program Design																
Topic Workshop																
Component 3 Marketing																
Design of Marketing Strategy																
Program Marketing																
Project Marketing																
Topic Workshop																
Component 4 Pilot Study																
Design Report Finalized																
Proposal /U																
Design PSIDP/Us																
Develop Feasibility Fund/Us																

Function	Year 1/Calendar 1993				Year 2/Calendar 1994				Year 3/Calendar 1995				Year 4/Calendar 1996			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Component 1 - PI Network																
Meet lit P r t t i o n																
Proj t Rankin g																
800/807 W k hop																
Pr fee ibility st diee																
Tend ri g P chag																
bid E l t i n d AW rd																
Cont act Mag Si ted																
Prog am E l t i																
Comp ne 2 P bil A on																
ro huc P p lio																
Prog m D ig																
Topl 1 W k hop																
Comp ne 3 M k ting																
Desig f M k ting st tagy																
Prog am M k ting																
Proj t Mark ti g																
Topl 1 W k hop																
Comp ne 4 P l c s t wld																
Pr l ala 800/807 Window D sign																
Pr l ala 800/807 W k hop																
Desig PSIDR/VSC																
Dev lop Fee ibility Fund/ct																

DESIGN RECEIPT OF
UNSOLICITED PROPOSALS/USE

12/2

ITWORK

AWARENESS

ITWORK

SPREADSHEET

Function	Year 1/Calendar 1993				Year 2/Calendar 1994				Year 3/Calendar 1995				Year 4/Calendar 1996			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Component 1 -																
Master List Preparation																
Project Rankng																
BOO/BOT Workshop																
Pre-Feasibility Studies																
Tendering Packages																
Bid Evaluation and Award																
Program Evaluation																
Component 2 -																
Brochure Preparation																
PR Program Design																
Topical Worksh ops																
Component 3																
Design of Marketing Strategy																
Program Marketing																
Project Marketing																
Topical Worksh ops																
Component 4 -																
Private Sector Window Design/Use			USE			USE										
Design PSIDF						USE										
Develop Feasibility Fund						USE										

TRAINING STRATEGY

ANNEX 8

ANNEX 8 - TRAINING STRATEGY

This project will require the staff of the core Secretariat on Infrastructure Development and Investment (SIDI) and the network BOO/BOT Liaison officers in the proponent line ministries, not only to familiarize themselves with operational procedures, but also be able to view the overall program from a private investor's point of view

Accordingly, a rigorous staff development training program will be conducted. The training will be multidimensional and practical, grounded in exposition of basic BOO/BOT concepts, and illustrated with case studies from Sri Lanka and other country empirical experience

The training will define fundamentals of private investment in infrastructure, identifying key factors which prevail irrespective of the sector, or contemporary economic conditions. Trainees will be made mindful of the need to sustain transparency, providing a "level playing field" without favoritism or prejudice

The underlying training theme will be definition of the differences between public sector approaches to infrastructure investment characterized by donor financing and sovereign guarantees, compared to market-driven considerations in private assumption of commercial risk, using non-recourse financing

The methodology for conducting the training program will be to hold a major, high-visibility, intensive BOO/BOT Workshop shortly after start-up of the program, once the principal officials have been designated and the office is fully operational. After this kick-off program, there would follow a regular series of shorter, workshops each comprised of particular topical modules keyed as closely as possible to the initiation of new program components

The start-up major workshop would include such commercial criteria of project feasibility as financial internal rate of return (IRR), foreign exchange, inflation, and other country risks, cash flow analysis including discounting future revenue streams to calculate present value, licensing, insurance, tax, and other business expense analyses, business perceptions of government approvals, legal compliance and dispute resolution matters

Subsequent topical workshops would be keyed to particular functions to be performed by SIDI including project design and formulation, prioritizing and rank-ordering (using shadow pricing, social discount rates, and other forms of opportunity cost calculation), tendering package preparation, program and project marketing techniques, proposal evaluation and award methods, and techniques of negotiation

Training/Workshop Plan for Life of Project (LOP) (383-0118)				
Project Component	LOP Training			LOP Project
	US	TC	IC	Training Fund (US\$ 000)
1 Private Infrastructure Network	12	06	60	171
2 Public Awareness	-	-	125	25
3 Marketing	02	04	75	57
4 Private Sector Window	02	10	25	83
TOTAL	16	20	285	336

* Please note LOP Training indicates number of persons trained Includes Foreign Exchange and Local Currency for LOP

US Training - 04 persons in groups of two will participate in workshops of 3 weeks per year during LOP (3 years)

- On-the-job training for 3 weeks for 4 persons during the LOP

TCT - On-the-job training for 2 weeks for 20 persons during LOP

IC - 285 persons will participate in Boo Bot workshop 11 workshops will be organized during the LOP

US - United States

TC - Third Country

IC - In Country

LOP - Life of Project

6II CERTIFICATION

ANNEX 9

ANNEX 9 - 6II CERTIFICATION

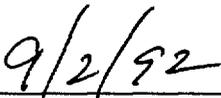
CERTIFICATION PURSUANT TO SECTION 611(E)
OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Richard M Brown, the principal officer of the Agency for International Development in Sri Lanka, having taken into account, among other things, the maintenance and utilization of projects in Sri Lanka previously financed or assisted by the United States, and the technical assistance to be provided under the Project to further the country's capacity to maintain equipment and support economic growth, do hereby certify that in my judgment, Sri Lanka has both the financial capability and the human resources to maintain and utilize effectively the capital improvements and facilities to be financed in the four priority sectors as identified in this proposed Sri Lanka Promotion of Private Infrastructure Project

This judgment is based upon the project description and analyses as detailed in the Sri Lanka Promotion of Private Infrastructure Project Paper and is subject to the conditions imposed therein

for


Richard M Brown
Director, USAID/Sri Lanka


Date

WAIVERS

ANNEX 10

ANNEX 10 - WAIVERS

Waiver Control No 383-92-016

ACTION MEMORANDUM FOR THE DIRECTOR

Through DD George Jones
From PRJ William A. Jeffers
Subject Source/Origin Waiver for Project Procurement of
Right-hand-drive Vehicles
Date September 1, 1992

Problem Your approval is required to authorize a source/origin waiver from Code 000 (the U S) to Code 935 (Special Free World) for the procurement of two sedans and two 4-WD, Right-Hand-Drive, air-conditioned vehicles costing approximately U S \$45,000 (exclusive of transportation costs) These vehicles are part of the commodities being procured under the Promotion of Private Infrastructure Project and are to be used in connection with the technical assistance and other support provided to the Ministry of Policy Planning and Implementation's Private Infrastructure Unit

- (a) Cooperating Country Sri Lanka
- (b) Project Name & Number Promotion of Private Infrastructure
(383-0118)
- (c) Nature of Funding Grant
- (d) Description of Vehicles Two sedans and two 4-WD, Right-Hand-Drive Vehicles
- (e) Value U S \$45,000
(exclusive of transportation costs)

Discussion A source/origin waiver is being sought for the purchase of the above mentioned vehicles under the Promotion of Private Infrastructure Project This procurement is being conducted in accordance with procurement procedures set forth in AID Handbook 11, Chapter 3

The vehicles are urgently needed in order to accomplish the transportation requirements for the Promotion of Private Infrastructure Project They will be used by the AID financed technical assistance team, consultants and the staff of the Secretariat on Infrastructure Development and Investment (15 full-time staff) to carry-out the activities described in the project paper They will also be used to provide the transportation support for the 261 person-months of short term technical assistance planned under the project The GSL is dependent on USAID funds for financing these vehicles given its serious budget constraints and the fact that the FY 1992 budget does not include any provision for these vehicles Without these vehicles work will be seriously hampered

The authorized Geographic Code for this procurement is Code 000 (the U S) Vehicles with right-hand drive are not available from the authorized Geographic Code and therefore a source/origin waiver is required to permit procurement from Geographic Code 935 countries

Right-Hand-Drive vehicles are required mainly for road safety considerations. This category of light-duty right-hand drive vehicles are generally not manufactured in the U S. In addition ready availability of spare parts and servicing facilities is specially important as the vehicles are to be used on very poorly maintained roads. Due to the extremely warm and humid weather of Sri Lanka plus dirt on the road and in the air these vehicles require air-conditioning to maintain both the health and productivity of project personnel.

The vehicles will be subject to the conditions established by U S A I D in its new Mission vehicle policy.

Justification and Authority Pursuant to AID Handbook 1, Supplement B, Section 4C2d(1), a waiver of source-origin from Code 000 to Code 935 is justified when "circumstances which may merit waiving the requirement are (a) inability of U S manufacturers to provide a particular type of needed vehicle, e g , light weight motorcycles, right-hand drive vehicles, or (b) present or projected lack of adequate service facilities and supply of spare parts for U S manufactured vehicles". The waiver of source/origin requirements is justified for the two reasons given above. Chapter 4C2a(5)(b) of Handbook 1B states that the Mission Director may make a determination that air-conditioning is justified taking into account the climate in which the vehicles will operate, the capabilities for servicing air-conditioning equipment, and the need for austerity and economy in project accomplishment.

Under Amended and stated Delegation of Authority dated August 9, 1991 from AA/APRE to Mission Directors in the Asia Region, and in accordance with the criteria prescribed in AID Handbook 1B, Section 4C2, you have the authority to waive source/origin requirements and approve air-conditioning for AID-financed project vehicles. By your approval of this waiver, you will be certifying that "Exclusion of procurement from free world countries included in Code 941 would seriously impede attainment of the U S foreign assistance program".

Recommendation Based upon the justification presented above, it is recommended that you approve the requested source/origin waiver from AID Geographic Code 000 to AID Geographic Code 935 and permit the procurement of four air-conditioned vehicles.

Approved George Jones

Disapproved _____

Date 8/21/92

Clearances

PRJ MWijesinghe MW Date 8/21/92

PRJ AJayatilleke AJ Date 8/21/92

CTR AAKers AA Date 8/21/92

RLA ISmyer IS Date 8/21

PRJ WJ dm/08/21/92

Legal Prerequisites for BOO and BOT Projects in Sri Lanka

INTRODUCTION

The principal reasons that lead governments to enter into BOO/BOT contracts with private-sector sponsors, both local and foreign, are well known. These days, many governments simply lack the money or access to credit that major infrastructure projects require. By their very nature, BOO/BOT projects seek to harness the profit motive of the private sector for the public good. The challenge for both governments and private-sector sponsors is to structure BOO/BOT projects in such a way that harnessing can occur. That is, such structuring must, first, identify the individual needs of the parties to the project and, second, protect those needs in an implementation document and appropriate supporting documents, and this must all be done within the context of the host country's legal and regulatory regime.

Generally, it is not difficult to identify host government's needs -- the public purpose intended to be achieved by a proposed BOO/BOT project. For example, the country may need a modernized port to more effectively compete with more advanced ports in the region. Or, the country may need an improved road or highway to open up the interior. Perhaps the host-country need most typically addressed by BOO/BOT projects is for more electrical power, more effectively distributed: more power-generating plants, improved transmission facilities, or even more dams. A need which many countries have today is a modernized telecommunications system, and they are increasingly considering BOO/BOT projects to meet that need.

Similarly, identifying the needs of the private-sector sponsor and its commercial lenders is generally not difficult. They need several things. Typically, the private sponsor organizes a private "project company," usually comprising construction and engineering companies and equipment suppliers as partners or shareholders, to implement the project. The project company must have reasonable assurances that, over the project's timespan and before it is formally transferred to the government, the project company will be able to recoup its costs and realize the projected return on its investment.

Financing for BOO/BOT projects is typically provided by commercial lenders, frequently backed by export credit guarantee agencies such as the U.S. Export-Import Bank and multilateral financial institutions such as the World Bank. These lenders need to have their loans secured, and this can be a problem because such financing is almost always on a "non-recourse" basis. This means that the lender's security lies not with the host government or the individual participants in the project company, but with the assets of the project.

company itself, such as whatever real estate, host-government guarantees, performance bonds, and plant and equipment the project company has managed to obtain

Various strategies have been pursued by lenders to BOO/BOT projects to address their need for security. For example, project revenues are frequently collected and held in escrow accounts which are outside the control of the project company. Payments from such accounts are made according to instructions and priorities which usually require that senior debt service be paid before any distributions to project company shareholders are made. Also, payments on performance bonds, supplier warranties, or other insurance contracts can be assigned to a trustee for the benefit of senior lenders. In some projects, the stock of the project company is pledged to senior lenders under terms which permit them to step in and replace management if the project fails to meet specified performance objectives. In some cases, lenders and export credit agencies succeed in obtaining the equivalent of host-government guarantees in the form of, for example, standby subordinated loan facilities.

With the foregoing considerations in mind, the question to be addressed in this section of the consultant's report is whether the existing Sri Lankan legal regime will permit BOO/BOT projects to be structured so as to protect both the interests of the GSL and the potential project sponsors and their lenders and, at the same time, facilitate the implementation of the projects. We conclude that the answer to both questions is in the affirmative with the proviso that, where changes in the legal regime are indicated, they be made in accordance with the procedures set forth below.

I Review of Legal Relationships Currently Governing Potential BOO/BOT Projects in Sri Lanka

There are four general categories of Sri Lankan law which must be considered when one seeks to assess whether the legal regime is adequate to support BOO/BOT projects. They are (a) laws of general application to commercial activities, (b) laws governing specific sectors of the economy, as authorized by State Industrial Corporations Act No. 49 of 1957, (c) laws on investment incentives, and (d) the Constitution.

The major laws of general application to commercial activities are these:

- * Companies Act No. 17 of 1982
- * Inland Revenue Act No. 28 of 1979
- * Exchange Control Act
- * Land Acquisition Act No. 9 of 1950

- * Industrial Promotion Act No 46 of 1990
- * Various Bi-Lateral Investment Promotion and Protection Treaties
- * Various Bi-Lateral Treaties against Double Taxation

The major laws governing specific sectors of the economy, as authorized by State Industrial Corporations Act No 49 of 1957, are these

- * Ceylon Electricity Board Act No 17 of 1969
- * Transport Board Law No 19 of 1978
- * Sri Lanka Ports Authority Act No 51 of 1979
- * Water Resources Board Act No 29 of 1964
- * Industrial Estates Corporations (established by State Industrial Corporation Act No 49 of 1957, with functions transferred to the Industrial Development Board by the Industrial Development Act No 36 of 1969)
- * Road Development Authority Act No 73 of 1981
- * Sri Lanka Telecommunications Act No 25 of 1991, which repealed Telecommunications Ordinance No 50 of 1944, established corporation "Sri Lanka Telecom" under Section 2 of State Industrial Corporations Act No 49 of 1957, and transferred telecom functions to Sri Lanka Telecom

The law governing investment incentives is Greater Colombo Economic Commission Law No 4 of 1978, supplemented by GCEC Regulations No 1 of 1978 as amended, and GCEC Regulations No 1 of 1991

The constitution provision of most importance to potential BOO/BOT projects is the 13th Amendment, 1987

None of the four categories of laws, nor individual laws within the categories, exclude private-sector participation or BOO/BOT projects. Indeed, as regards state corporations, all of them are specifically authorized to delegate their powers in a manner which is best calculated to achieve their statutory objectives. This includes delegation to the private sector. As we said in the Introduction, the challenge for both the GSL and the private-sector promoter of BOO/BOT projects will be to legally structure the proposed project so that it fit it comfortably within the matrix of laws and regulations which govern the economic sector of

the project

BOO and BOT in Sri Lanka How would a project Advance?

A useful way to illustrate this process is to consider a hypothetical BOO/BOT project to build a toll road in Sri Lanka. The promoters and GSL would have to review all of the laws of general application to commercial activity in light of the proposed legal structure of the project itself. For example, they would have to --

- * select the most appropriate legal structure from those permitted by the **Companies Act**-- public corporation, private corporation, partnership, or joint venture,
- * take into account the taxation provisions of the **Inland Revenue Act** as they might be modified or expanded by separately negotiated investment incentives provided by the **GEC Act**,
- * determine how the provisions of the **Exchange Control Act** would affect the project's operations and chances for success, and
- * review the provisions of relevant bi-lateral investment promotion and protection treaties and double-taxation treaties, if any exist between the GSL and the home countries of the private-sector promoters

However, unlike promoters of other BOO/BOT projects, those in our hypothetical case would also have to pay strict attention to the **Land Acquisition Act**. If the project could not acquire the land it needs to build the toll road, there will be no project.

Similarly, when our hypothetical promoters turn their attention to the laws of specific application to the sector of their interest, they will be particularly interested in the provisions of the **Road Development Authority Act**. If any of this Act's provisions would impede the activities of the proposed toll road project, the project's promoters, both private- and public-sector, would have to consider how the Act might be appropriately amended (more on this subject below).

We have already noted that the project might benefit from the provisions of a separately negotiated agreement with the GCEC. Tax holidays and exemption from import duties, for example, might mean the difference between success and failure for the project. The promoters might also wish to determine whether the entire route of the proposed toll road could be designated as a "licensed zone" or "licensed enterprise" within the terms of the GCEC Act, thereby making the project eligible for additional incentives and benefits.

Perhaps the most important inquiry of our hypothetical promoters would be to determine how the proposed toll road would be affected by the 13th Amendment to the Constitution. Articles 154A to 154T of the Amendment established eight Provincial Councils and devolved upon them certain subjects over which they have exclusive jurisdiction (Ninth Schedule, List I, largely regarding local law enforcement), and certain powers which they share with the central government (List III, largely regarding advisory matters in fields such as education and agriculture). List II covers matters over which the central government has exclusive authority: national defense, foreign affairs, monetary policy, foreign trade, ports and harbors, aviation and airports, and (of vital importance to our hypothetical promoters) national transport. This constitutional inquiry would proceed as follows:

Ninth Schedule, List I, Paragraph 18, reserves for provincial control "rights in or over land, land tenure, transfer and alienation of land, land use, land settlement and land improvement, to the extent set out in Appendix II." Appendix II concerns land and land settlement. It reaffirms provincial control of matters pertaining to land, with several key exceptions. For example, with respect to state land "required for the purposes of the [central] Government in a Province", the central government, after consultation with the Provincial Council, may use the land.

What might such a central government purpose be? Appendix III, List II, under "National Transport," states that the central government shall have exclusive control of "[h]ighways declared by or under law made by Parliament to be national highways."

To summarize, then, private-sector promoters of specific BOO/BOT projects and the GSL must, first, decide how to **legally structure** the project so as to best achieve its objectives and, second, formulate a rational way to fit the chosen legal structure into the context of all applicable laws so that it can survive legal challenge. In our hypothetical case of the toll road, it would be critical that the legal structure of the project be one that brings it within the 13th Amendment's definition of "national highways." This might be done via an amendment to the Road Development Authority Act which specifically designated the toll road a "national highway." Failing this, the project might well fall victim to provincial and other local roadblocks.

II Sector-By-Sector Review of Acts Authorized by State Industrial Corporations Act No. 49 of 1957

This Act (Vol. III, Legislative Enactments of the Democratic Socialist Republic of Sri Lanka, Revised Edition 1990, at page 112, cited as III/112) authorized the central government to establish and capitalize state corporations for carrying out certain national objectives that had been previously implemented by corporations established under the Government-Sponsored Corporations Act. The new state corporations were empowered to acquire, lease, and sell property, but not "immovable" property unless they first obtained approval by the

government. The state corporations were given exclusive authority over their respective sectors.

Section 5 (2) of the Act gave state corporations the power to do anything necessary for, "or conducive or incidental to," the carrying out of their objectives. They can mortgage any of their properties so long as they do not borrow or guarantee payments which exceed previously prescribed limits as set by the central government. Ostensibly, State corporations pay regular corporate income taxes. Our concern is whether the several Acts establishing state corporations in the country's major economic sectors have, in fact, carried out the mandate of Section 5 (2) of the State Industrial Corporations Act to affirmatively authorize contracting with the private sector. If so, then amending any particular Act to accommodate BOO/BOT contracts should be relatively easy in that such amendments would not introduce an unfamiliar private-sector philosophy into Sri Lankan law.

Brief looks at some of the major state corporations show that the Section 5 (2) mandate has been implemented in the establishing legislation.

Ceylon Electricity Board Act No 17 of 1969 (XVII/31) Section 58 captures the open and non-restrictive nature of these Acts. It provides that "[a]ny company or other body of persons may, notwithstanding anything to the contrary in any written law or instrument relating to its functions, enter into and perform or carry out all such contracts and agreements with the Board as may be necessary for the performance of the duties and exercise of the powers of the Board."

Transportation Board Law No 19 of 1978 (XVI/89), as amended by Law No 6 of 1981 (supplement to I/258). This law covers inland transport of all kinds, including automobiles, railroads, water traffic, boats, launches, and various taxes on transportation. It supervises regional transportation boards, which provide bus and ferry services. (Bus transport was recently consolidated and privatized.) Section 8 (1)(ix) of the law confers on the Board the power to enter into and perform, directly or through agents, all such contracts as may be necessary for the performance of its duties and the exercise of its powers. Section 8 (1)(xiv) gives the Board general powers to take all legal acts to perform its functions.

Sri Lanka Ports Authority Act No 51 of 1979 (X/232) The Act gives the Authority the power to develop and regulate the activities of the ports of Colombo, Galle, Trincomalee, and any other port that the government may specify. Section 7 (1)(m) permits the Authority to enter into any contract necessary to carry out its mission.

Water Resources Board Act No 29 of 1964 (XI/224) The Act gives the Board the power to control, develop, conserve, and utilize water, to provide for reforestation, to construct irrigation systems, to provide for drainage and flood control and hydropower. The Board is advised by an interdepartmental advisory committee. While there is no language in the Act specifically permitting the Board to contract with the private sector, it may be assumed that such contracting is permitted, an opposite conclusion would run counter to the general

practice adhered to in other such Acts and violate the openness common to them all

A subject that would have to be addressed by the promoters of BOO/BOT projects in the water resources area is that of **water rights**. Sri Lankan law is silent on the subject of the priority which various segments of the population -- farmers, homeowners, industry -- have to water. Legislation in this field, probably as an amendment to the Act, would have to precede any major water collection and distribution project.

One corporation established by the Act was the **Industrial Estates Corporation**, which subsequently had its functions transferred to the Industrial Development Board by Section 54 of Industrial Development Act No. 36 of 1969 (IX/101). By their nature, industrial estates serve the private sector.

Road Development Authority Act No. 73 of 1981 (supplement to II/350). The Authority established by the Act carries out integrated road planning for the GSL. Section 9 (e) permits the Authority to "enter into, perform or carry out, whether directly or by way of joint venture with any person inside or outside Sri Lanka, all such contracts or agreements as may be necessary for the purpose of carrying out any road development project or scheme approved by the Government."

Telecommunications Ordinance No. 50 of 1944 (XVI/23). As discussed above, this Act was repealed by the Sri Lanka Telecommunications Act No. 25 of 1991, which, in February 1990, transferred telecom functions to a new state corporation, Sri Lanka Telecom, which, in turn, began operations in September 1991. Sri Lanka Telecom has the official mandate to develop telecom throughout the country and would be the official partner in any BOO/BOT project in this sector.

Two other Acts, both related to the tourism and hotels sectors, deserve mention. **Tourist Development Act No. 14 of 1968 (IX/256)** established a Tourist Board that may acquire land under the Land Acquisition Act; it also has jurisdiction over specially designated "National Holiday Resorts." **Ceylon Hotels Corporation Act No. 14 of 1966** and No. 8 of 1970 (IX/291) set up a state corporation which was recently privatized, with 20% retained the GSL and 80% being sold to the public.

III Some Comments on Laws of General Application to Commercial Activity

The Companies Law is based on the familiar British and Commonwealth model and constitutes a comprehensive legal framework for private sector business.

Effective dispute resolution procedures are essential in any legal system whose objectives include the encouragement of private investment. Sri Lanka has adopted the United Nations-sponsored regime for the recognition of arbitral awards and permits arbitration in a wide range of fora, including the World Bank's International Centre for the Settlement of

Investment Disputes (ICSID) These actions are extremely important to potential foreign investors

The Land Acquisition Act, previously discussed, permits the GSL to take land for public purposes It provides both a method for valuation of land and a mechanism for aggrieved landowners to appeal takings

The Inland Revenue Act and the Exchange Control Act are typical of such acts found in Commonwealth countries They do not prejudice nor prohibit the private sector and would not, of themselves, impede BOO/BOT projects

IV Some Comments on Investment Incentives

The Greater Colombo Economic Commission (GCEC) governs this area Its jurisdiction extends to its "Area of Authority" (greater Colombo), "licensed zones," and "licensed enterprises " It is governed by a five-member Board of Directors, which is headed by a Director General

The GCEC may contract with any government agency or any "person " Arbitration of investment disputes is in ICSID unless otherwise agreed by GCEC and private parties

GCEC has specific authority to take all acts necessary to obtain the objectives of the GCEC Act, which is to promote foreign investment It may acquire land, lay out industrial estates, and enter into agreements with enterprises The Law states that the GCEC "shall have the power to enter into agreements with any enterprise in or outside the Area of Authority, and grant exemptions from [specified laws] or vary the application of any such laws, to such enterprises in accordance with such regulations as may be made by the Minister " All such agreements must be in writing and registered with the GCEC

The GCEC may make its own rules and regulations To quote the GCEC's own Foreign Investors' Guide

"The fiscal incentives and other concessions granted to foreign investors depend on the type of Agreement which the enterprise has entered into with the GCEC The principal source of these incentives and concessions is the Inland Revenue Act as varied by the [GCEC] Law and the Regulations made under the Law The fiscal incentives and concessions currently in force under the Inland Revenue Act are clearly set out in the booklet Tax Incentives and Fiscal Policies (1991) for Promoting of Investments, issued by the Ministry of Industries, Science and

technology "

V Recommended Approach to New Legislation, When Needed

Because the existing framework of Sri Lankan law already provides a relatively cordial environment for the private sector, proposed BOO/BOT projects may require no additional legislation to proceed. Whether or not additional legislation is required will, of course, depend on the nature of the proposed project and its legal and financial structure. That structure, in turn, may well be determined, at least in part, after the sponsors of the project have reviewed the relevant laws and arrived at a preliminary decision on how to proceed.

But even if the sponsors decide that the existing legal framework is adequate for their purposes, they may well wish to have some "legal insurance" in the form of amendments to the relevant state corporation law. There are two basic reasons why this might be desirable:

1. To minimize the likelihood of future legal challenge, the sponsors might wish to make quite explicit that their BOO/BOT project is permitted by Sri Lankan law, and that where the project may conflict with existing law, the project's legal requirements will prevail.
2. To have on the "official record" the fact that the project has the formal support of the GSL.

Only in the most unusual cases should the sponsors of the project seek the enactment of a separate Act authorizing the project. A political reason for this recommendation is that the introduction of new legislation would afford opponents of the project specifically and opponents of privatization generally a welcome opportunity to reopen past debates about the GSL's "selling the country to foreigners." A practical reason for this recommendation lies in the nature of the Sri Lankan legislative process itself.

Unlike other Commonwealth countries, the Constitution of Sri Lanka combines elements not only of British common law, but also of Roman-Dutch law, civil law, and local customary law. One result is that the constitutionality of any bill introduced in the Parliament must be determined in advance of its enactment. See, generally, Articles 120-126 of the Constitution. Once bills become law, their constitutionality cannot be questioned. This process reverses the usual practice in which the constitutionality of legislation may be legally challenged only after its enactment into law.

In determining a bill's constitutionality, the Supreme Court must inquire whether it would contravene the provisions of Lists I, II, or III of the 13th Amendment to the Constitution, regarding matters reserved to Provincial Councils, or reserved to the central government, or concurrently handled by the Provincial Councils and the central government.

With respect to some bills, the Supreme Court's role is restricted to determining whether it should be passed by a "special majority" (2/3 of the vote) or referred to the voters in a referendum

Therefore, to avoid the uncertainties inherent in the foregoing process, the introduction of new free-standing enabling legislation for BOO/BOT projects should be avoided. Where the sponsors think that new legislative language would be helpful, such language should be offered in the form of amendments to existing legislation, the constitutionality of which has been assured

VI Some Encouraging Indications for the Future

Perhaps the GSL's determination to modernize its commercial laws and facilitate private investment in its infrastructure can best be seen in Sri Lanka Telecommunications Act No. 25 of 1991, which is mentioned above. The GSL wants to expand its telephone capacity from its current base of 350,000 lines to 750,000 lines by 1995-96, an objective whose cost will be far beyond the capacity of the government. Consequently, the GSL established Sri Lanka Telecom and gave it the necessary authority and flexibility to not only meet the near-term objectives in the telecom field but also to handle longer-term expansion. Sri Lanka Telecom was also given authority to set up a regulatory regime in the telecom field, a matter whose importance will increase in direct relationship to the increase in private-sector investment in the field.

Specifically, the key provisions of Sri Lanka Telecommunications Act No. 25 were these:

- * Section 72 Repeals Telecommunications Ordinance No. 50 of 1944. This ordinance was obsolete in that it dealt principally with outmoded technology and was a totally inadequate framework for modern telecommunications.
- * Section 5 (x) Vests broad powers in a new Director General of Telecommunication (the "Authority") to implement the Act. These powers include blanket authority "to do all such acts which may be incidental or conducive to the attainment of the objects of the Authority or the exercise or discharge of his powers and duties under this Act."
- * Section 17 (1) With minor exceptions, requires anyone operating a telecommunications system to obtain a license from the Authority. This section spells out the conditions and procedures for obtaining a license and constitutes the initial quasi-regulatory framework for the sector.
- * Section 28 Prescribes a progressive, humane, and efficient way to handle the staffing and personnel issues which inevitably arise when official bureaucracies are eliminated or restructured. It deserves quotation at some length.

staff, ensure that the new corporation, Sri Lanka Telecom, has experienced and motivated staff, and minimize bureaucratic opposition to needed changes

Interviews with Messrs A de Z Gunasekera, Secretary, Ministry of Posts & Telecommunications, and P K Wickramarachi, Managing Director, Sri Lanka Telecom, confirmed the GSL's overall strategy in the field and provide a model that could apply in other sectors of the economy Mr Gunasekera said that any BOT/BOO project in the telecom sector would be between the project company and a subsidiary of Sri Lanka Telecom organized specifically to represent the GSL's interests The Secretary also indicated that it was his intention to eventually privatize Sri Lanka Telecom through the sale of shares on the Colombo Stock Exchange (Of course, the Corporation would first have to be restructured as a private share corporation)

VII Summary and Conclusions

This section of the consultant's report has considered several legal aspects of BOO/BOT projects

We looked first at the needs and requirements of the various participants in such projects Among these are the needs of the host government to provide major new infrastructure in a time of limited resources In short, having to provide such infrastructure and not having the money to pay for it, the host government decides to invite private-sector participation in the project, using the BOO/BOT mechanism The host government must be assured that the project will be implemented on time and in an efficient manner, and that the project's benefits to the people will be realized in a politically acceptable manner The legal regime of the host country must be one which permits, even encourages, these results

For its part, the project sponsors's needs are to recoup its costs and realize its projected return on its investment The governing legal regime must also permit this to occur

Finally, the project's lenders -- the commercial banks and any participating multilateral financial institutions and export-credit guarantee agencies -- need to have their loans secured A legal system which is flexible enough to permit this to occur -- and also permit the extension of facilities approximating but not actually constituting government guarantees -- is ideal

We looked next at the four relevant categories of Sri Lankan law to explore whether they would help or hinder BOO/BOT projects These were the laws of general application to commercial activities, laws governing specific sectors of the economy, the law governing investment incentives, and the Constitution Overall, we concluded that none of the relevant laws in these categories would be hostile to BOO/BOT projects Specifically, the various state corporations, which govern specific sectors of the economy, are affirmatively authorized by their establishing legislation to use whatever commercial means as are

"[T]he following provisions shall apply in relation to the employment in the Corporation [Sri Lanka Telecom] of public officers in the Department of Telecommunications --

"(a) every public officer of the Department not being any such officer in a transferable service of the Government shall, before the transfer date, give notice in writing to the Director of Telecommunications that such officer intends, on the transfer date, --

"(i) to continue in office as a public officer of the Department,

"(ii) to retire from the public service and become an employee of the Corporation if, being a pensionable officer of the Department, he would on that date have had not less than ten years' pensionable service, or

"(iii) to leave the public service and become an employee of the Corporation if, being a pensionable officer of the Department, he would on that date have less than ten years' pensionable service, or

"(iv) to leave the public service and become an employee of the Corporation if he is a contributor to the Public Service Provident Fund, or

"(v) to both retire or leave the public service and not become an employee of the Corporation,

"(b) a notice given to the Director of Telecommunications before the transfer date by a public officer of the Department under paragraph (a), shall be final "

The foregoing menu of employment options is an enlightened way to eliminate unnecessary

memorandum

DATE August 4th, 1992

REPLY TO Siraj Abeysekera, Financial Analyst
ATTN OF

SUBJECT Review of the Administrative capability and the Financial Management System of the Secretariat on Infrastructure Development and Investment (SIDI) unit established within the Ministry of Policy Planning and Implementation

TO Andrew A Akers, Controller

Discussions held with Dr P Ramunujam, Director General, SIDI unit and the Director Co-ordination & Evaluation of the Mty of Policy Planning & Implementation

Mr E H Dissanayake, Director, Co-ordination and Administration of the SIDI unit

PURPOSE

The SIDI unit of the Ministry of Policy Planning and Implementation will be the main Host Country Implementing Agency of the Public-Private Partnership in Infrastructure Development Project. The purpose of the review was to assess the adequacy of the Administrative capability and Financial Management procedures of the SIDI unit.

ORGANIZATION**(A) Legal Status**

The SIDI unit approved by the Cabinet on July 15th, 1992, within the Ministry of Policy Planning & Implementation will serve as the focal point for the Private Sector Participation in the Infrastructure Development program.

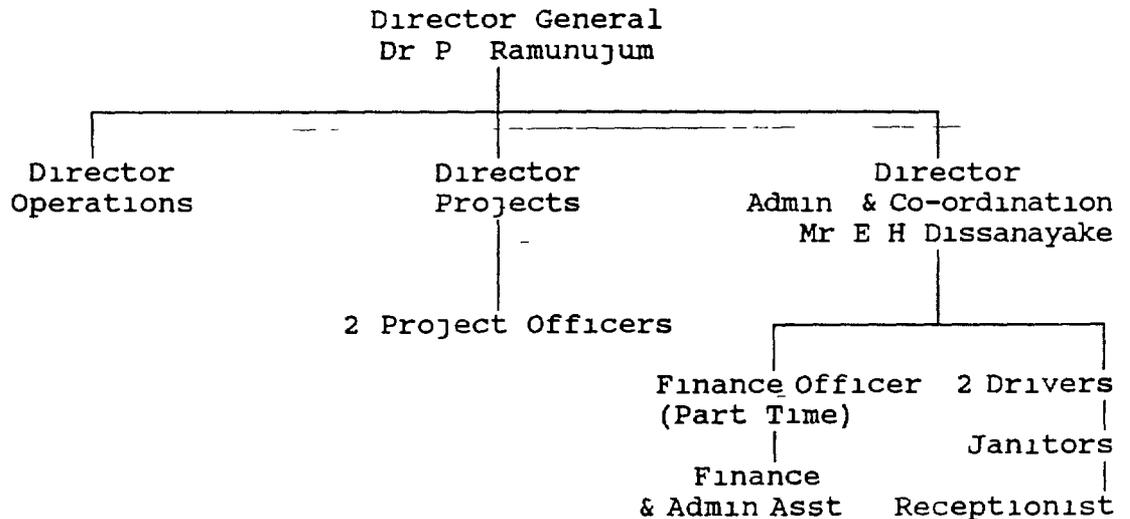
It will be headed by a Director General (Dr P Ramunujam, who is also the Director, Co-ordination & Evaluation of the Ministry of Policy Planning & Implementation), will work in close co-ordination with the line ministries/agencies concerned and be responsible for overseeing and monitoring the program.

SIDI will be responsible to the Infrastructure Development sub-committee of the Industrialization Commission. The sub-committee comprises of Mr Asoka Gunasekera, Secretary Ministry of Post & Telecommunication as the Chairman, Dr P Ramunujum, Director General of SIDI, Mr Anton Wijegunawardena, Representative from the Private Sector, Mr D N Thuraiajah, Attornet-At-Law, and Mr G L Perera, Director G C E C

A copy of the Guidelines approved by Cabinet, and the Policy Statement on Private Sector Participation in Infrastructure Development issued by the Ministry of Policy Planning & Implementation are in the official files

(B) Organization Structure

The proposed Organization Structure of SIDI is given below



The SIDI unit will have the above three Directors working under the Director General. Of the three Directors, the Director Administration & Co-ordination has already been employed. A Deputy Director of the Ministry of Policy Planning has been identified to fill the vacancy of Director, Projects. The other posts are vacant. The salaries of the Director, Operations and the two Project Officers will be funded out of AID funds, and the salaries of the balance positions are funded by GSL. In addition to the above there will be several local and expatriate consultants funded by an AID direct Technical Assistance contract working for the SIDI unit on the project

necessary to accomplish their respective objectives. This includes using the private sector

We concluded further that when specific projects require additional legislation, such legislation should be in the form of amendments to existing state corporation acts, not in the form of free-standing, new legislation. This is true for two principal reasons:

1. By amending existing legislation, the GSL and the sponsors of BOO/BOT projects avoid having to re-open past popular and legislative debates about the wisdom of involving the private sector in certain sectors of the economy.

2. Peculiarities in the Sri Lankan legislative process pertaining to the determination of the constitutionality of proposed legislation make it politically preferable to amend existing legislation rather than introduce new legislation.

Finally, we concluded that the prevailing attitude of the GSL toward private investment is positive. This is best illustrated by Sri Lanka Telecommunications Act No. 25 of 1991, which could become a useful model for the restructuring and modernizing of the law governing other sectors of the economy.

(C) Budget

The GSL (SIDI) expenditure on the project will be included in the annual budget of the Ministry of Policy Planning & Implementation. During the review it was noted that no provision had been made in the Ministry Budget for the expenditure of the project for calendar years 1992 & 1993 as yet. However, I was told the Ministry would obtain the required funds for the project from the treasury, shortly.

FINANCIAL MANAGEMENT SYSTEM AND INTERNAL CONTROLS

At present the SIDI unit does not have a financial management system, nor have they employed any financial management staff. The amount of AID funds budgeted for the project to be handled by the unit is approximately \$ 203,000 under logistical support, and the method of payment planned for this is the reimbursement method. As per the Director Administration, the unit intends to open a separate bank account, and maintain a separate set of accounts for these funds. It also intends to hire a Finance Officer on a part time basis (from the Ministry of Policy Planning and Implementation), and a Finance & Administration Assistant on a full time basis. During the review the accounting and internal controls of SIDI could not be assessed due to the above reason.

The expenditures relating to the GSL contribution of the project will be handled by the accounts department of the Ministry of Planning & Implementation and will be governed by the Financial Regulations of the Government of Sri Lanka.

CONTRACTING AND CONTRACT MONITORING

As per the Director Administration SIDI will be responsible for all Host Country Contracting, and contract monitoring of the project, and it will be handled by himself together with the line Ministry officials for which the contract is carried out. It is also planned to hire a Legal Consultant for the project through the AID Direct Technical Assistance Contract.

PROCUREMENT OF COMMODITIES

SIDI will follow the GSL Tender procedures in relation to procurement of commodities. However, a SIDI Tender Board has not yet been constituted.

INVENTORY CONTROL

There are no Inventory Control procedures relating to the receipt, distribution, recording, utilization and disposition of commodities formulated as yet by SIDI

AUDITS

SIDI's contribution to the project which will be recorded through the accounts of the Ministry of Policy Planning & Implementation will be subjected to the Ministry's annual Audit carried out by the Auditor General. The accounts which will be maintained by the SIDI unit will be subject to an annual audit carried out by an independent firm of Chartered Accountants approved by AID

SUMMARY

The SIDI unit which was approved by the cabinet in July 1992, has yet to strength the Administrative capability and Financial Management system in the following areas

(A) G.S.L. Budget.

No provision has been made as yet, in the Government of Sri Lanka budget for the operations of the SIDI unit, for the years 1993 and 1994. However, the Director Administration confirmed that this will be done shortly

(B) Staffing

Other than for the Director General and the Director Administration, all other positions in the proposed Organization Structure are vacant

(C) Financial Management.

SIDI intends hiring a GSL accountant on a part time basis. This is not adequate. It might be useful to explore the possibility of hiring a full time accountant, funded out of AID funds. As stated above, at present there is no Financial Management System at the unit. Therefore, this review did not cover this area

(D) Contract Management

There is no provision in the proposed staffing of the SIDI unit for a Contract Management Officer

(E) Tender Procedures

SIDI will follow standard GSL tender procedures. However, a Tender Board has not yet been set up in the unit.

(F) Inventory Control.

There are no Inventory Control procedures formulated at the unit. They intend following standard GSL procedures on commencement of operations.

However, as it is intention to provide initial logistical support to start an operational technical unit for the project, it is recommended that the strengthening of the above weaknesses be included in the conditions of the project grant agreement.

AID CTR SA 08/04/92
SIDII1

---cc.PRJ.WJeffers---

PROJECT PROFILE



PUBLIC/PRIVATE PARTNERSHIPS INFRASTRUCTURE INVESTMENT OPPORTUNITIES IN SRI LANKA

COLOMBO-KATUNAYAKE EXPRESSWAY

The following is a brief description of the proposed Colombo Katunayake Expressway Project. The Government of Sri Lanka is interested in allowing the private sector to participate in the development of this project on a BOO or BOT basis. This project profile is intended to provide brief information on the structure of the project and the opportunities that it may present to an interested and qualified developer in advance of a public bidding. It is anticipated that the project will be tendered and awarded to a credible developer through an open process and that the successful developer will propose a project structure that best serves the requirements of the Government, the public and the operator in conformance with the Government of Sri Lanka's Program Guidelines on BOO and BOT.

A. PROJECT SUMMARY

1. PROJECT TITLE

COLOMBO KATUNAYAKE EXPRESSWAY

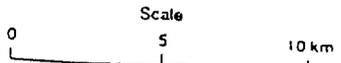
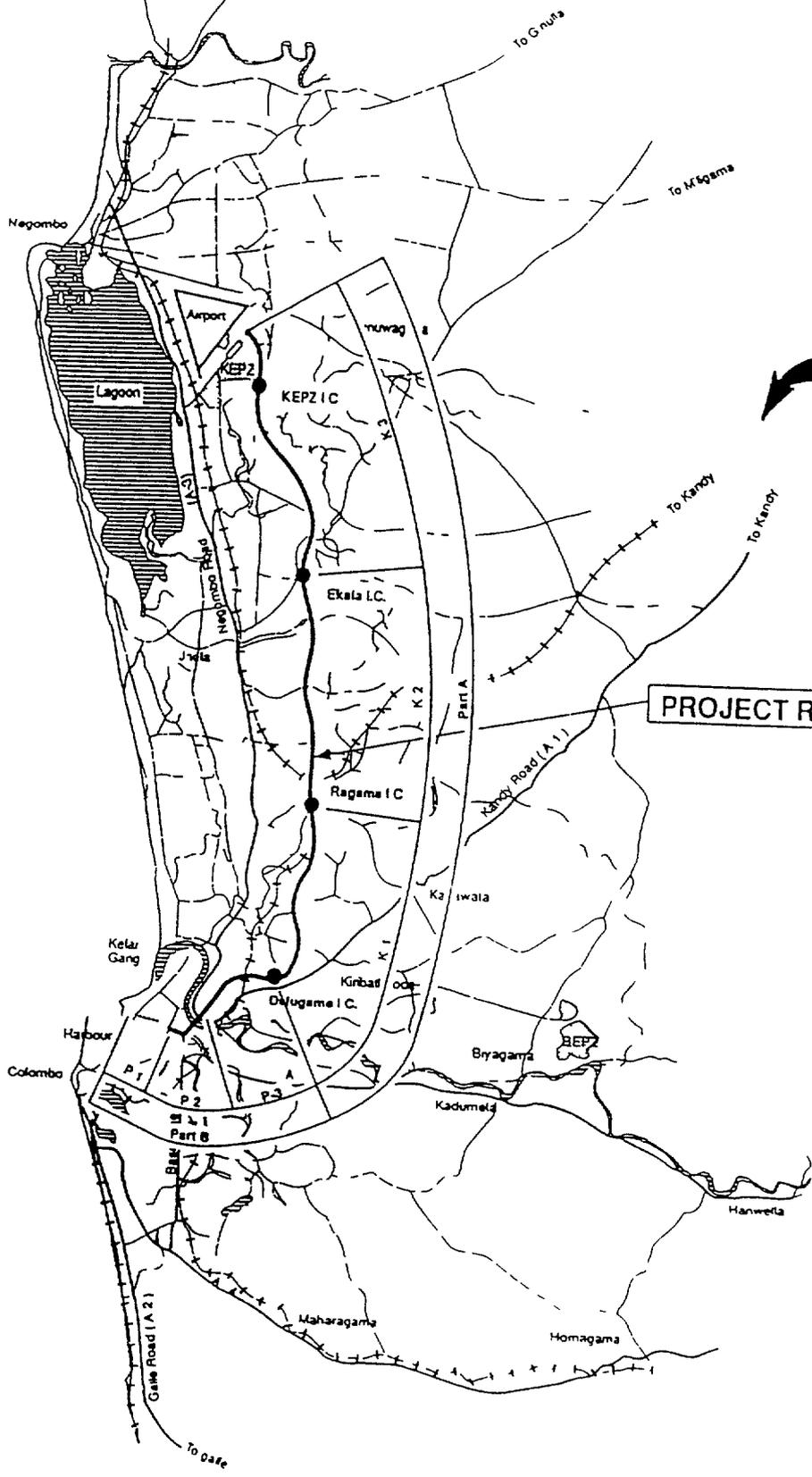
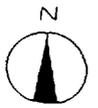
2. LOCATION/ROUTE

Ingurukade Junction on the Colombo Port Access Road - Pelivagoda - Dalugama Interchange - Ragama Interchange - Ekala Interchange - Katunayake Export Processing Zone - Katunayake International Airport (See Map - Following Page)

3. PROJECT OBJECTIVES

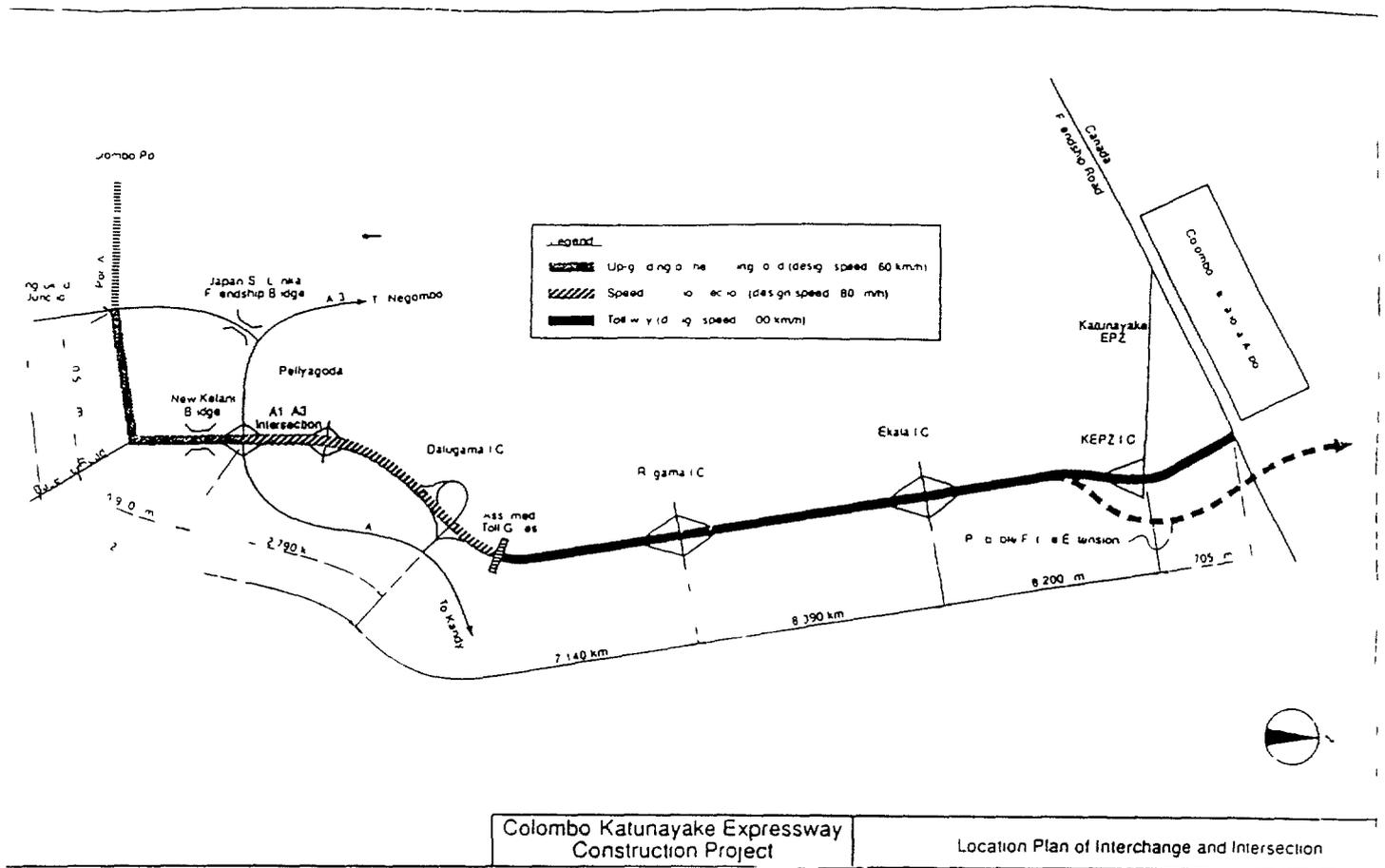
The Colombo Katunayake Expressway is intended to provide a more direct alternative route between the Port of Colombo and the International Airport and Export Processing Zone in Katunayake. The project's specific objectives are:

- o To provide faster road travel between the Port of Colombo and the Katunayake area
- o To relieve traffic pressure on the existing Colombo - Pataani route connecting the Port with Katunayake.



Colombo-Katunayake Expressway
Construction Project

Project Location Map



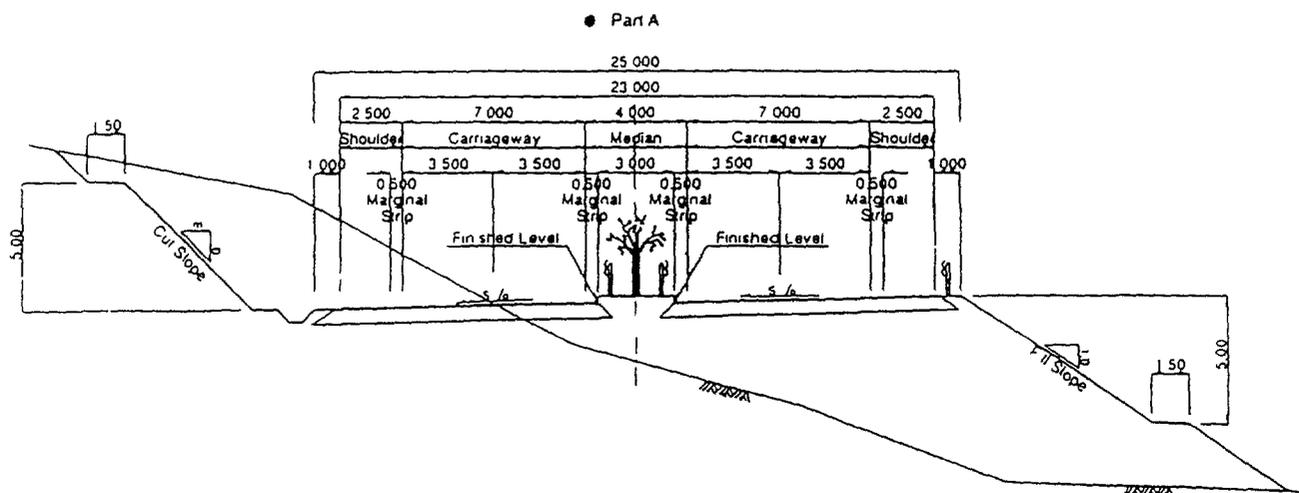
o To provide a faster and safer route for the heavier commercial cargo vehicles traveling between the Port, the Airport, and the EPZ

4 PROJECT DESCRIPTION

The Colombo-Katunayake Expressway is intended to be offered by the Government of Sri Lanka to the private sector under a BOO, BOT or suitable scheme. The 29.6 Kms Highway - Expressway Project calls for the following:

- o Construction of 1.3 Kms of at-grade four-lane highway following the existing road from the Ingurukade Junction of Prince of Wales Avenue with the Port Access Road to the Full Diamond A-1, A-3 Intersection on the north side of the existing New Kelani bridge in Peliyagoda
- o Upgrading of 2.9 Kms of the existing four-lane highway from the A-1, A-2 Intersection in Peliyagoda to the Dalugama trumpet-style Interchange, including construction of the full diamond Peliyagoda Interchange
- o Construction of 25.4 Kms of fully access-controlled four-lane Expressway between the Dalugama interchange and the International Airport at Katunayake. The Expressway portion of the project includes construction of a barrier-system toll plaza adjacent to the Dalugama Interchange, two full diamond interchanges at Ragama and Ekala, and one half diamond interchange at Katunayake Export Processing Zone

STANDARD CROSS SECTION FOR EXPRESSWAY PORTION OF THE PROJECT



5 PROJECT SCHEDULE

The construction period is estimated to be approximately 54 months (4 years and 6 months). The successful bidder will be expected to meet or exceed this construction schedule. The Government will consider contractual arrangements that reward expedience in the construction as well as penalize delays.

B PROJECT DOCUMENTS/PREPARATION STATUS

The Colombo-Katunayake Expressway Project was initiated in December 1982 when, at the request of the Government of Sri Lanka's Road Development Authority, the Japan International Cooperation Agency sent a technical assistance team to Sri Lanka to conduct feasibility study on both the Colombo-Katunayake Expressway Project and a New Port Access Road Construction Project. This feasibility study was completed in January 1984. Since that time the Port Access Road Project has been undertaken separately. The Government of Sri Lanka received a loan from Japan's OECF for engineering services to review the 1984 Feasibility Study and to carry out the Detailed Engineering Design for the project.

The Review of the Previous Feasibility Study was completed by the Japan Bridge & Structure Institute, Inc. in October 1991. A Supplemental Study of the project as a toll road was completed in March 1992, and Detailed Engineering Designs for the entire project as a toll road are scheduled for completion by early summer 1992. Complete copies of the feasibility studies will be made available to credible bidders for a modest fee.

C ESTIMATED PROJECT/INVESTMENT COSTS

	(Million Rs)
Project Cost	
Construction Cost	4,805 7
<u>Land, Engineering, & Contingencies</u>	<u>1,763 6</u>
Total Project Cost	6,565.7
Maintenance Costs	
Annual Maintenance	23 3
Periodic Maintenance (every 10 years)	196 6

It is estimated that 27% of the Project Cost will be in local currency, 57% in foreign currency, and 16% of the Project Cost will be in the form of tax

D INVESTMENT FACTORS

The estimated Economic Internal Rate of Return for the project is 19 08% This is largely due to the high direct benefit in terms of vehicle operating costs for the 63,000 average vehicles which already cross the New Kelani Bridge each day

The Financial Internal Rate of Return for the project as a toll road range between 0 51% and 11 18% based upon differing escalation rates for operation costs and toll increases However, this calculation of the FIRR has not included other BOT project structuring alternatives, such as concessions for advertising space along the expressway or concessions for reclaiming and developing real estate adjoining the interchanges which would increase the project's FIRR

The Benefit/Cost Ratio for the project is estimated at 2 00

The financial and economic factors indicate that the project is economically justifiable and has strong potential to be even more attractive financially when structured on a Build-Operate-Transfer basis

E PRIVATE DEVELOPMENT OF THE EXPRESSWAY

Following the supplemental Feasibility Study of the project on a BOO or BOT basis, Project Bid Documents would be prepared outlining the general and minimum standards and specifications for the completion and operation of the project The Government of Sri Lanka's Secretariat for Infrastructure Development and Investment (SIDI) will hold a Consultative Conference prior to the completion of the bid documents This Conference would provide the SIDI with the views of interested private bidders on the BOT scheme for the expressway project Such a Conference would ensure a faster and higher success rate for the bidding and implementation of the Expressway Project

Although this project profile summarizes the project details as identified in the feasibility studies, SIDI will consider bids that propose alternative project structures and or characteristics if they are viewed to enhance the viability of the project and its attractiveness to the Government **The government welcomes the ingenuity and creativity that the private sector may bring to this project if it is in compliance with the parameters of the project specifications contained in the bidding documents and the GSL Program Guidelines on BOO and BOT**

F CRITERIA IN THE EVALUATION OF BIDS:

While BOT project bid documents for the Colombo-Katunayake Expressway have not yet been developed, the SIDI intends to utilize the following general criteria in the evaluation of private sector bids

- 1 Clear expertise in constructing and operating expressways
- 2 Low estimated project cost and operating cost
- 3 Financial backing and clear, viable plan to obtain financing for the project both locally & abroad
- 4 Ability to comply with environmental objectives of the project
- 5 Realistic plans for completing project in an expeditious manner, including accessing supplies, utilizing viable technologies
- 6 Demonstrated commitment to the project

G CONCERNED AGENCIES.

For more information of this and other opportunities for public-private partnerships in Sri Lanka please contact

Secretariat for Infrastructure Development & Investment
Ministry of Policy Planning & Implementation
Sethsiripaya
Battaramulla, Sri Lanka

**PUBLIC-PRIVATE PARTNERSHIP IN
INFRASTRUCTURE DEVELOPMENT**

GUIDELINES FOR BOO-BOT PROJECTS

MINISTRY OF POLICY PLANNING & IMPLEMENTATION

JULY, 1992

Public - Private Partnership in
Infrastructure Development

Program Guidelines for BOO-BOT Projects

1 Background and General Policy

1.1 There is an urgent need to improve the infrastructure facilities in Sri Lanka to match international standards in order to cope with the higher levels of anticipated investments in industry, agriculture and the service sectors. Further, it is widely accepted that a well developed economic infrastructure, among other things, creates employment, promotes local and foreign investment, fuels business productivity and expansion and contributes greatly to raising standards of living and access to social and economic services. Conversely, an inadequately developed or inefficiently performing infrastructure stifles economic activity and affects the quality of life of every section of the community.

1.2 The ability of the Government to finance the required infrastructure facilities is limited by the amount of revenue that can be generated from the available low income base of the country and increasing world wide competition for funds through donor assistance. Also, there are competing demands on government resources arising from the need to maintain a reasonable standard of social welfare. Hence, in pursuance of the accepted policy of the Government of encouraging private investment in the economic development of the country, it is now envisaged to attract private investment in the development of infrastructure facilities in the future.

1.3 The Government therefore seeks the collaboration of the private sector, domestic and foreign, on mutually beneficial terms in the development of the infrastructure on Build - Own - Operate (BOO) and Build - Operate - Transfer (BOT) or other Public - Private partnership arrangements.

1.4 In promoting private investments, the Government will endeavour to maintain a proper balance between the need to provide a satisfactory service to the public at reasonable cost while safeguarding their rights to existing alternative services and to ensure an adequate return on investment.

2 4 Normally, the Government will identify a project and invite the private sector to submit proposals in conformity with program guidelines and project specifications together with their own technical, organisational and financial approach. Private sector investors may also advance proposals on their own initiative. If such a proposal appears to have the potential to make a significant contribution to infrastructure development while meeting the criteria applicable to BOO-BOT projects, the Government may enter into negotiations with a view to developing a viable project.

3 Institutional Framework

3 1 The focal point of the BOO-BOT program will be the Secretariat on Infrastructure Development and Investment (SIDI) established within the Ministry of Policy Planning & Implementation as the focal point of the BOO-BOT programme. SIDI will be responsible for all aspects of project development in collaboration with key policy and implementing Ministries. The operations of SIDI will be supervised by a Sub Committee of the Industrialisation Commission.

The SIDI will primarily be responsible for

- 1 Identifying appropriate projects and preparing profiles that may be suitable for implementation under BOO-BOT or other basis, in co-operation with implementing agencies and building an inventory of such projects,
- 11 Ensuring that proposed projects meet established socio-economic, technical, and environmental policy criteria,
- 111 Ensuring that proposed projects conform to the Program Guidelines and governing legislation,
- 1v Administering, in collaboration with the relevant Ministries and key implementing agencies, the process of project development, and,
- v Negotiating with Investors, with input from relevant Ministries and other implementing agencies, on project proposals, and providing recommendations on decisions to accept or reject.

6 The Process of Project Development and Approval

The process of project development and approval takes two forms depending on whether the proposals are solicited or unsolicited

6 1 Solicited Proposals

6 1 1 In this type of project, the Government through SIDI and the relevant line Ministries/agencies will identify eligible and viable project candidates, develop bid documents, and tender eligible projects to the private sector through a competitive bid process using public advertisement. SIDI and the relevant line Ministry/agency will then review, evaluate, rank and determine project candidacy and bidders using established bid evaluation criteria

6 1 2 After the bid evaluation stage, the best proposal will be selected and approved in principle, and a Letter Of Intent (LOI) issued. LOI will enable the bidder to move to the second stage of the project process. In the second stage, the bidder will take the following steps

- i Establish project company incorporated or registered in Sri Lanka
- ii Seek required approvals and consents,
- iii Conduct an environmental and social impact study,
- iv Prepare implementation plan,
- v Finalise equity and loan arrangements,
- vi Prepare and submit the final proposal,

6 1 3 Upon compliance with all aspects of project development in the second stage, bidders will go through the negotiation stage, at the end of which the Government, if satisfied with regard to project viability and compliance with established criteria, may grant approval of terms and conditions of contract and execute agreements binding parties to financial arrangements and construction of the facility in question

6 2 4 At this stage, SIDI will also provide the proposer with a letter acknowledging the submission and a Terms of Reference (TOR) to prepare a detailed proposal. In the interest of promoting program transparency and integrity, SIDI will announce publicly the receipt of the proposal and that the Government has offered TOR to move to the second stage.

6 2 5 The issue of TOR, letter of acknowledgement, and public announcement, do not represent in any way a commitment by the Government to the Project. Only after a final and more detailed proposal is evaluated and approved will the Government provide the proposer of an unsolicited project with a Letter Of Intent (LOI).

6 2 6 In the case of proposals submitted in response to an SPR, SIDI will consider reimbursing a portion of the cost incurred in carrying out project feasibility studies as a means to further encourage the active participation by the private sector in the project development cycle.

7 Evaluation of Proposals : Solicited and Unsolicited

The evaluation of proposals, solicited or unsolicited will be guided by the same criteria. The initial stage in the evaluation of proposals is to determine whether

- 7 1 the bidders or proposers have the technical, financial and operational expertise and experience to successfully implement the project. Greater weight will be given to bidders or proposers who have experience in the sector in question and with public/private partnerships,
- 7 2 the project can be successfully financed in conformity with the Program Guidelines, i.e., on a non or limited recourse basis with no state financial guarantees required,
- 7 3 the project can stand the rigorous test of compliance with all social and environmental impact guidelines,
- 7 4 the project can yield significant social, economic, and financial returns and provide product or service to users at the "least cost" possible and with acceptable terms and conditions,

9 Pre-qualification Criteria and Minimum Standards

In all cases, bidders or proposers wishing to undertake infrastructure development in partnership with the Government must meet certain pre-qualification criteria

9 1 Ownership

The bidders or proposers can be domestic or foreign or joint ventures. However, they must have some legal domicile in Sri Lanka (e.g. a company incorporated in Sri Lanka) and are governed by the same regulations as other enterprises which qualify for concessions under the Greater Colombo Economic Commission (GCEC). ✓

9 2 Experience or Track Record

The bidders or proposers must possess adequate experience in the sector in question as well as with projects structured and operated of this kind. Consortia arrangements will be evaluated on the basis of the individual and collective experience and expertise of the firms in question. Key personnel must also demonstrate experience in managing and implementing projects of this kind.

9 3 Financial Capability

In all successful public/private partnerships, financial stamina and strength of the bidders or proposers are key ingredients to project success. Successful bidders or proposers will demonstrate an ability and experience to structure and complete financial packages that are viable and that are designed on a non-recourse or limited recourse basis. Evidence of financial capacity to mobilize domestic and foreign resources, debt and equity, will be a de rigueur element in the advancement of any project.

9 4 Minimum Standard and Specifications

All bidders and proposers must meet certain minimum standards regarding specifications and performance and the delivery of certain goods and services as determined by SIDI and the relevant line Ministries/ agencies. In the case of solicited proposals, SIDI and the relevant line Ministries/ agencies will outline the minimum standards and performance levels that successful bidders must meet.

12 Bidding Procedures

12 1 A pre-bid conference shall be conducted by SIDI at least sixty days before the deadline for the submission of bids. At this conference, potential bidders will have the opportunity to seek clarifications on the scope of work, bid documents, bid evaluation procedures, contract terms and conditions, and any other non-proprietary information that may be required to submit high quality bids.

12 2 SIDI will be responsible for receiving and publicly opening the bids at the stipulated time and place and will evaluate all bids as to their conformance with the requisite standards, criteria, and prices.

13. Awards

13 1 Upon evaluation, SIDI and the relevant Line Ministry/Agency will recommend to the Cabinet, for approval the award of the contract to the bidder with the lowest cost and most favourable technical, economic, and social value proposal.

13 2 The Government reserves the right to reject any and all bids that are not in compliance with the interests of this program and accept any offer that is most advantageous to the government. Moreover, if no bids are viewed to be in compliance, the bidding could be declared suspended.

14. Performance Bonds and Bid Bonds

14 1 In submitting bids for projects, bidders are required to submit authentic bid bonds as specified in the bid documents, and serves to guarantee that the bidder, if selected, will enter into a contract with the Government, according to the terms and conditions of the tender.

14 2 In some cases, performance bonds will be required in order to ensure and guarantee compliance with meeting certain project milestones by the contractor throughout the life of the concessions. In other cases, performance will be governed by fluid arrangements, whereby penalties and rewards are contractually a part of meeting or failing to meet pre-determined project performance standards.

15.3 Financial or Equity Contributions

Depending on the nature of the project and the structuring of the security package to ensure project success, it may be in the interest of the public good as well as the project, to have the Government provide certain levels of financial, direct or indirect, or equity participation in projects on a case by case basis

15.4 Logistical or Physical Facilities to be Provided by the Government

In some cases the Government may be required to provide certain logistical or physical facilities or support to contribute to project success. This can include, but is not limited to acquisition of rights of way and other servitudes, part of a physical structure, donation of certain land or assets etc

15.5 Approval of Designs

The Government will approve appropriate designs and plans prepared by bidders or proposers and/or other contractors, if SIDI and the relevant Line Ministry/Agency are satisfied with their conformity to program and project objectives

15.6 Approval of Tolls/Fees/Tariffs/Charges, etc

The Government will approve all tolls and fees determined as fair and appropriate to project viability in accordance with the "least cost/high profit" concept of the bid award. Moreover, in recognition that long term arrangements require adjustments in fees and tolls, the Government will provide, in the bidding documents and contracts, a formula where adjustments to tolls, fees, charges, etc can be instituted as required