

PN-AB-737
96082

A Strategy for the Strengthening of Public//Private Partnership for Infrastructure Development of Local Authorities in Sri Lanka

**Infrastructure Finance Regional Workshop
Sponsored by USAID Indonesia
Project No.: 940-1008**

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**for the
Research Triangle Institute
(RTI Task No.: 6598-03)**

November 1997

**Environmental and Urban Programs Support Project
Contract No.: PCE-1008-I-00-6005-00
Project No.: 940-1008
Contract Task Order No. 02
Sponsored by the Office of Environment and Urban Programs (G/ENV/UP)
U.S. Agency for International Development
Washington, DC 20523**

A Strategy for the Strengthening of Public/Private partnership for Infrastructure Development of Local Authorities in Sri Lanka.

The development of Local Government in Sri Lanka can be traced back to very ancient time. The revival of the Local Authority administration began in 1865 with the enactment of "An Ordinance for Establishing Municipal Council in the Island. The present Local Government system in Sri Lanka consists of three institutions, i.e.

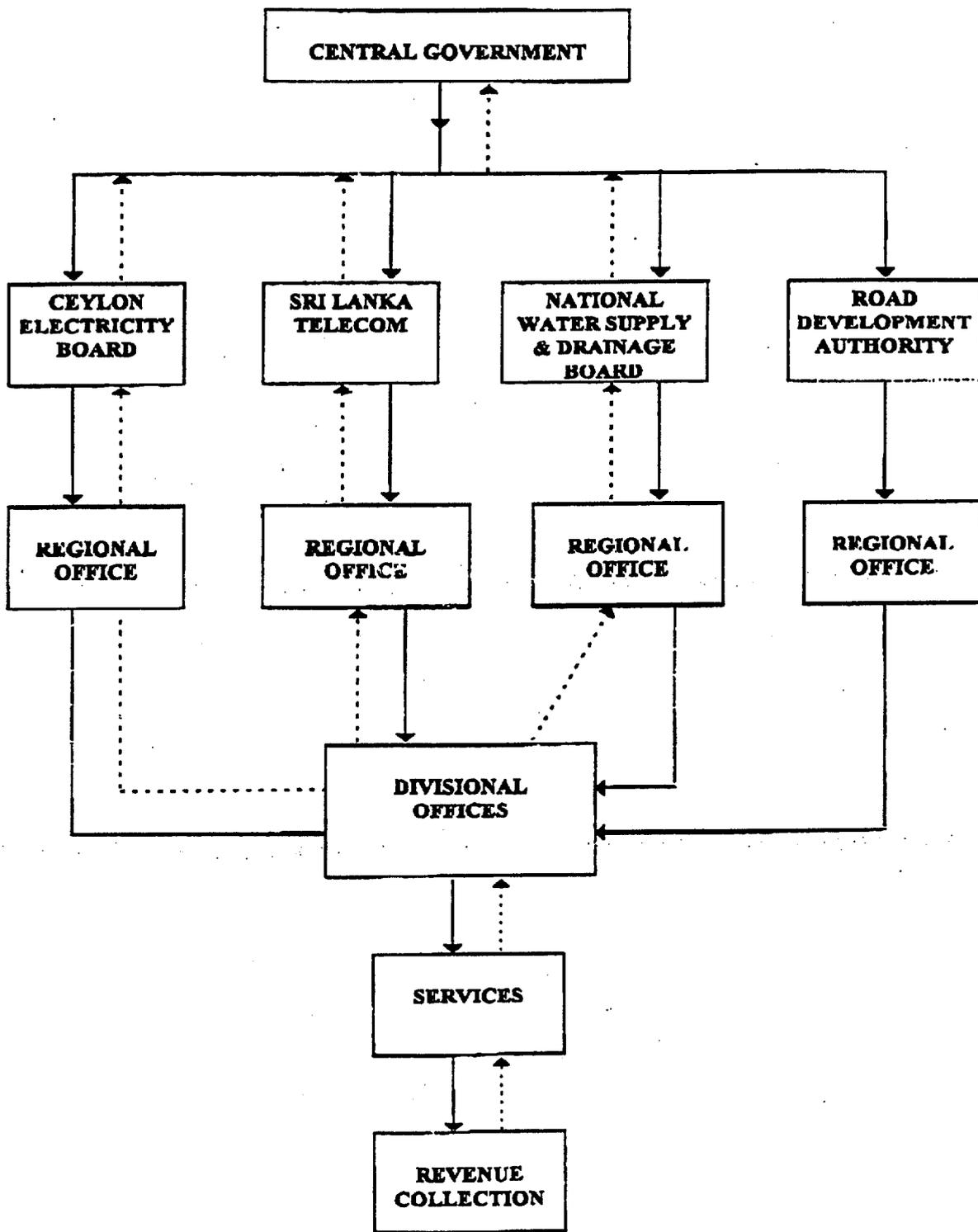
- (a) Municipal Council - Large Town
- (b) Urban Council - Medium Size Town
- (c) Pradeshiya Sabha - Mostly in Rural Characters.

Sri Lanka LG system until very recent times was highly centralized with most powers vested in Central Government. Provision of infrastructure has been a function of Central Government Agencies. The devolution of powers to LG system was started in 1980s; with the objective of giving more responsibilities to LA's. Nevertheless still most of the functions in relation to provision of infrastructure is with the Central Government Agencies. (See Flow Chart No. 01...).

Storm water drainage, sanitation, solid waste management & construction of local roads are the responsibilities of LA's. Local Authority does not earn money from above services. Hence, revenue of LA's is based on only two sources.

- (1) Income from rates taxes, rents, trade licenses, fees for services, warreant cost, fines and penalties.
- (2) Central Government grants.
But income generated from above sources are not adequate to undertake capital investments.

FIGURE 1



—————> Investment
- - - - -> Revenue Inflow

This system still prevails to a great extent due to;

- (i) Poor financial, management, & technical capability of LA's
- (ii) Control of the LA's by Provincial Councils under the decentralized functions.

Three methods have been implemented so far for improving the financing system of LA's to undertake capital investments in infrastructure with direct public sector intervention, i.e.

- (1) Local Loan Development Fund (LLDF)
- (2) Urban Programme Unit (UPU)
- (3) Urban Development Sector Project (UDSP)

Local Loan Development Fund (LLDF)

The LLDF was created in 1916 as a financial institution for providing loans to Local Authorities. The loans are granted for the following purposes.

- (a) For revenue generating projects such as market building, office buildings, workshops etc.
- (b) For physical infrastructure namely roads and bridges, auditoriums, stadiums, solid waste disposal, vehicles, crematorium etc.

Loans will be granted up to a maximum of Rs. 5 Million.

Urban Programme Unit (UPU)

The UPU was originally established in 1985 under the then, Ministry of Local Government to assist in the management and financial strengthening of the Local Authorities. The main objectives are,

- (a) Emphasize operation and maintenance of existing facilities over new Municipal Investment.
- (b) Improve performance in revenue collection.
- (c) Attain sound financial management and budgeting and
- (d) Achieve affordability of municipal services.

Urban Development Sector Project (UDSP)

The UDSP was established under a ADB financial assistant programme to develop small & medium site towns. Initially 24 towns have been selected. The objectives of this project are;

- i. Strengthen the technical and financial capabilities of ULGs and local communities in about 24 high-priority secondary towns;
- ii. Provide urgently needed urban infrastructure in these secondary towns;
- iii. Accelerate the socioeconomic and environmental development of these towns; and
- iv. Help implement the Borrower's Policy Action Plan for the urban sector.

Financial assistance provided are in different forms as follows:

- (a) 100 percent loan project.
- (b) 50 percent loan, 50 percent grant project.
- (c) 100 percent grant project.
- (d) 40 percent loan, 40 percent grant and 20 percent equity.

Strengths and weaknesses of the above systems are;

- (a) The LLDF was practically defunct due to heavy arrears, (arrears up to 31.12.1995 is Rs. 189 Million) a low level of government funding and staff deficiencies.
- (b) UPU was mainly engaged in improving performance of the Local Authority financing and management: It did not introduce a funding programme.
- (c) UDSP is much broader in perspective. In addition to providing financial assistance, it also strengthen the institutional set up towards making ULGs financially sustainable. Management action plans prepared in collaboration with ULGs are aimed at getting them adjusted to new capital investment & financial management. In the implementing stage of this programme, following constraints are experienced.
 - (a) Land acquisition for infrastructure services.
 - (b) Unwillingness of local politicians to increase taxes.
 - (c) Incapability of repaying loans.

STEP - 2

Implementation:

It is intended here to discuss the private / public participation for environmental infrastructure development of Local Authorities since it has been realized as a weaknesses of the previous system.

Proposed Institutional Changes:

UDA being the main public agency responsible for urban development in the country, has been selected as the executive agency of this proposed system, to assist the Govt. of Sri Lanka to develop a market for private financing and management of infrastructure through private sector. In this case, An agency " Environmental Infrastructure Project" (EIP) has been established under UDA in order to achieve above objectives.

Proposed regulatory changes:

The environment in which Municipal and Urban Councils operate in Sri Lanka is complex given the devolved Provincial Council structure and the various ministries/agencies involved in the management of infrastructure of Local Authorities. The EIP will coordinate the formulation of a policy paper to be approved by Cabinet and endorsed by all central and provincial govt. authorities with respect to urban environmental infrastructure and the promotion of public / private partnerships. The policy paper will cover the following aspects.

- * Establishment of UDA/EIP Authority to coordinate and assist the local Govts.
- * Concept of Public/Private partnership.
- * Land use policy.
- * Environmental Laws.
- * Individual policies of Local Authorities.
- * Fees. Tariffs and subsidy policies.
- * Local Government Revenue Generations.

Public Awareness and involvements:

The EIP will implement a participatory action research communications process that will identify the needs, concerns and opportunities of the affected populations of a demonstration project. This process will involve workshops as well as research, quantitative and / or qualitative, to identify desired behaviors that would need to be changed to make the project implementation successful. The communication design will speak to the concerns raised in the participatory process so as to involve the people in assuring the project's success. The plan will outline the targeted communications that are aimed at changing the key behavior necessary to implement the project with difficulties. The participatory action research approach to behavior change will then become a country - wide model for future implementation of environmental infrastructure projects.

Coordination:

The EIP will develop a coordination plan that shows other bilateral and multilateral agency work in the field of environment infrastructure. This plan should include the names of all donor agencies involved, contact persons, type of aid or programme, Sri Lankan counterparts and a description of how these programmes relate and interrelate with the EIP's goal. The purpose of this plan is to prevent misallocation of resources through the duplication of efforts by donor agencies.

Institutional capacity changes:

To be able to deliver services properly, the EIP will be staffed by professionals and will be given the required training needed to carry out their responsibilities. At a minimum, the EIP will be comprised of 3 professionals, qualified to deal with private sector counterparts in their respective fields.

Major constraints in presenting implementation measures:

It has been shown that the differences in actual priorities and the priorities of politicians are not the same.

Negative attitudes of residents in the local authority areas towards involvement of private sector participation in provision of infrastructure services.

Risk in cost recovery for the investment on infrastructure services by private sector.

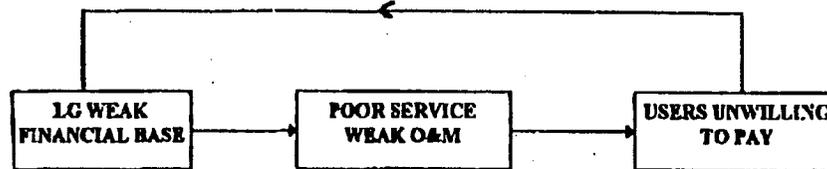
Next Steps :

- Preparation of management action plan for local authorities to enable them to encourage private investments on infrastructure developments in own Authority area.
- Identification and listing out of respective services on environmental infrastructure services that could be undertaken by the private sector.
- Implementation and completion of several identified action pilot projects as model and to introduce the same to other local authorities for consideration.

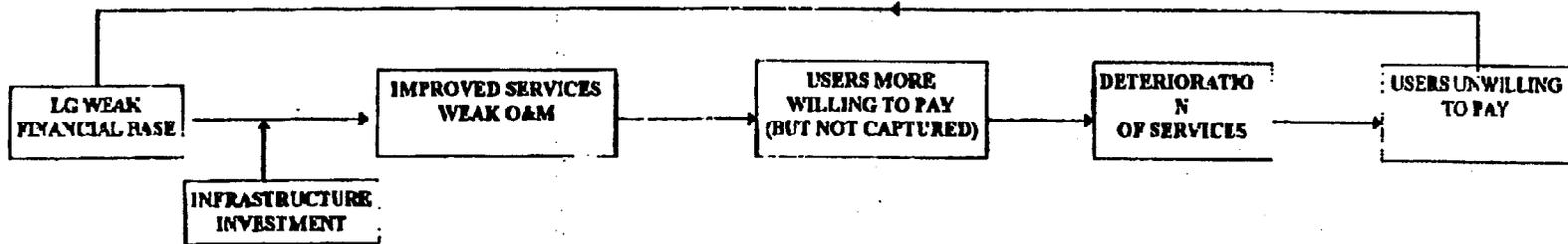
(Proposed flow chart is attached hereto for easy reference.)

THE NECESSITY OF INSTITUTIONAL STRENGTHENING

WITHOUT PROJECT



WITH INFRASTRUCTURE INVESTMENT PROGRAMME ONLY



WITH INFRASTRUCTURE INVESTMENT PROGRAMME AND INSTITUTIONAL STRENGTHENING

