

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division : Urban Development Division

TA No., Country and Name		Amount Approved: US\$500,000	
TA 4703-SRI: Strengthening Local Government Infrastructure Financing		Revised Amount: US\$500,000	
Executing Agency: Ministry of Provincial Councils & Local Government	Source of Funding TASF	Amount Undisbursed: US\$100,307	Amount Utilized: US\$399,693
TA Approval Date: 28Nov05	TA Signing Date: 06Feb06	Fielding of First Consultant(s): 31Mar2006	TA Completion Date Original: 30Sep2006 Actual: 30Jun2008 Account Closing Date Original: 30Sep2006 Actual: 13Dec2008
Description			
<p>The primary objective of the TA was to provide capacity building for Local Loans and Development Fund (LLDF) to equip it with a necessary business plan, guidelines, operational manuals and various model loan agreements to be able to perform the functions and responsibilities of a nodal agency in providing loans to local authorities (LAs). LLDF is a statutory body established under Local Loans and Development Ordinance No. 22 of 1916 and is one of the oldest financial establishments in Sri Lanka. LLDF's prime objective is to meet the capital investment needs of the LAs through lending. LLDF advances loans to LAs at a concessionary or market-based rate of interest, depending on the type of investment, as well as to any person or body for any purpose of public utility subject to limits on to the borrowing powers of the lenders. The strengthening of LLDF is much needed for implementing the ADB-financed Loan 2201-SRI: Local Government Infrastructure Improvement Project (LGIIP), approved on 24 November 2005.</p>			
Expected Impact, Outcome and Outputs			
<p>In addition to strengthening the capacity of LLDF, the TA aims to help LLDF meet the disbursement conditions for the infrastructure financing component of the LGIIP. The main expected outputs of the TA were: (i) a code of conduct; (ii) a business plan, spanning at least 5 years that would cover the vision of becoming an independent full-fledged LA nodal fund, including human resources and institutional strengthening to expand the services; (iii) operational guidelines in the immediate term for ADB's LGIIP for appraising LA proposals (lending policy), and disbursing and repayment procedures; (iv) model legal documents, including model loan agreements with LAs, Provincial Councils (PC) guarantee agreement, model performance agreement with LAs for a grant component; (v) organization chart and training needs assessment for LLDF staff to meet these objectives; (vi) financial projections for 10 years commencing 2006; and (vii) future business expansion recommendations.</p>			
Delivery of Inputs and Conduct of Activities			
<p>The objectives and terms of reference were adequate, relevant, and in alignment with the objectives of LGIIP. TA completion was extended for a total of 21 months from the original TA completion date of 30 September 2006. ADB had substantive comments on the Draft Final Report (DFR) submitted by the consultants, particularly on the operation manual, business plan, and human resources and capacity building report. In order to give ample time for consultants to amend and submit the revised DFR, an extension of the TA completion date was permitted. Additionally, at LLDF's request in October 2007, ADB agreed to engage individual consultants to assist LLDF in implementing the LGIIP, specifically in preparing environmental and social safeguard documents of the proposed subprojects pending the mobilization of the main consultant team being hired under LGIIP. Consequently, a minor change in TA scope and an eventual extension of TA completion date ensued.</p>			
<p>Following missions were conducted for the TA: Inception Mission (16-22 May 2006); Mid-term Review (23-30 August 2006); and Final Review (10-17 October 2006).</p>			
<p>Approximately 20% of the TA fund was not utilized mainly because: (i) the contract amount of the main consulting services was lower than expected with the firm from a DMC, and (ii) remaining budget from the preceding PPTA was</p>			

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also available.

Evaluation of Outputs and Achievement of Outcome

The Final Report, received on 16 March 2007, included (i) a model sub-loan agreement, (ii) a model PC guarantee agreement; (iii) a model performance agreement; (iv) Operational Manual of LLDF; (v) a 5-year Business Plan and a long-term vision of LLDF; (vi) future business expansion strategy; (vii) LLDF's financial projections for the next 10 years; (viii) LLDF organization chart, training needs assessment, human resources development and capacity building programs; and (ix) 5 sub-sector sample sub-project assessment reports. This was found satisfactory by ADB. These outputs were necessary and quite relevant to the operations of LLDF in smoothly implementing LGIIP.

The TA also conducted a study trip to India and an international workshop on Strengthening Local Infrastructure Financing. The 3-day study trip sent 21 persons from MPCLG, LLDF, and 8 Provincial Councils to Chennai and Bangalore at the end of July 2006. The group visited Tamil Nadu Urban Development Fund and Karnataka Urban Infrastructure Development Fund Corporation to learn lessons from very successful/similar funds arrangements in India. The participants found the tour very useful, as they have gained new knowledge in financial structuring, e-governance and community participation in a sewerage project in Allandur district. Participants were encouraged to replicate similar arrangements/projects in Sri Lanka. A total of 74 participants attended the two-day workshop held in Dambulla. The attendees included 5 resource speakers, and 11 participants from neighboring countries. The international participants were mostly Project Directors of other SAUD urban projects, which has components on municipal infrastructure and financing. Presentations and discussions were centered on: (i) innovative municipal infrastructure financing in South Asian context (municipal bonds, credit enhancing, LA credit-rating); (ii) improvement in cost recovery and revenue mobilization; and (iii) case studies from Tamil Nadu, Karnataka, Shanghai, Pakistan, and Bangladesh.

The assistance in preparing the subprojects' safeguard documents, including templates, has facilitated the smooth implementation of LGIIP by fostering the preparation of such documents for other subprojects and the LLDF's review process.

Overall Assessment and Rating

The TA is considered successful. Around 30 LA level urban infrastructure projects have been implemented. Groundwork prepared in the TA is now being implemented in the LGIIP. LLDF's appraisal unit, now strengthened to Project Management Unit, is starting to gain capacity in adhering to the project appraisal guidelines produced under the TA. LLDF is expected to make the best use of the TA outputs for its future strengthening and development.

Major Lessons

One major lesson learned is that a capacity building TA that is preparing the readiness of an agency to implement an ADB-financed project should be approved and implemented much earlier before the approval of the investment project.

Recommendations and Follow-Up Actions

Continuous capacity-building and training program for LLDF staff is provided under LGIIP. The implementation of this program needs to be closely monitored and followed up during the course of LGIIP implementation, to ensure that LLDF will evolve into a provider of long-term development financing based on sound commercial principles. It is also recommended that the implementation of the LLDF's medium-term business plan and long-term vision will be further supported by engaging qualified consultants under LGIIP.

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