

SECTOR ASSESSMENT (SUMMARY): WATER AND OTHER URBAN INFRASTRUCTURE AND SERVICES¹

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. While 20% of Sri Lanka's population lives in urban areas, cities contribute more than an estimated 40% of gross domestic product (GDP).² The proportion of urban population is projected to increase to 30% by 2050, highlighting the growing importance of cities to the economy.³ The government's Vision 2025 identifies inadequate infrastructure as a key growth constraint.⁴ To achieve their growth potential and meet the needs of their growing population, cities urgently need to address the challenges of providing adequate infrastructure and services.

2. **Limited long-term strategic investment planning.** Urbanization to enable agglomeration, drive innovation, and boost economic growth involves strategic planning and up-front engagement.⁵ While demand to improve urban services in city centers remains, demand is growing for peri-urban and greenfield development to support planned urbanization in strategic economic corridors. Planning for large trunk infrastructure with links to satellite townships is needed to enhance city and regional competitiveness. Incorporating climate and disaster resilience, high technology, gender equality, and social inclusion, as well as addressing governance issues, adds more considerations in project planning.

3. Experience in Sri Lanka shows limited long-term strategic investment planning and weak engineering capacity in urban departments, leading to (i) lack of investment-grade projects ready for appraisal, (ii) slow start-up and implementation delays, (iii) multiple scope changes, (iv) cost overruns, and (v) delays in the delivery of benefits to the people.⁶ Poor planning is exacerbated by shifting government priorities, weak interagency coordination, and insufficient data for project planning. Broader government strategies often do not translate into concrete investment projects. External funding support for urban development has been focused on smaller local authorities and the Greater Colombo region. These factors have contributed to unbalanced urbanization, with lack of investments in secondary towns and strategic cities that have lagged.

4. **Local governance.** The 13th amendment to the constitution in 1987 was a step toward devolution and created nine provincial councils.⁷ Although under the purview of provincial councils, local authorities continue to be governed by laws enacted by the central government before 1987. National policies formulated at the center are also binding on them. In its commitment to improve local governance, the government released a gazette notification on

¹ This assessment is based on M. Fan. 2015. Sri Lanka's Water Supply and Sanitation Sector: Achievements and a Way Forward. *ADB South Asia Working Paper Series*. No. 35. Manila: Asian Development Bank (ADB); and Independent Evaluation Department. 2016. *Country Assistance Program Evaluation: Sri Lanka*. Manila: ADB.

² Central Bank of Sri Lanka. October 2017. Colombo. (<https://www.cbsl.gov.lk/en/node/2190>).

³ United Nations, Department of Economic and Social Affairs. 2014. *World Urbanization Prospects: The 2014 Revision*. New York.

⁴ Government of Sri Lanka. 2017. *Vision 2025: A Country Enriched*. Colombo.

⁵ Up-front engagement in all areas of project design is highly relevant to project preparation, such as climate change, disaster risk, investment sustainability, high-level technology, land acquisition, and governance.

⁶ This is accentuated when the implementing agency is new to Asian Development Bank (ADB) and where subprojects are dispersed across the country and partially managed by municipal entities.

⁷ Sri Lanka has nine provinces, 25 districts, and 336 local authorities (23 municipal councils, 41 urban councils, and 272 *Pradeshiya Sabhas* [third tier municipalities in the country]).

National Policy on Local Government in 2009 to establish an institutional and legal framework and enabling environment to achieve local self-government.⁸ The central government supplements the budgets of provincial councils, as the revenue raised by local and provincial governments is insufficient. Local authorities are to diversify patterns of finance by (i) accessing private capital and retaining earnings; (ii) improving the management and sustainability of investments through better operation and maintenance; (iii) improving the reliability of services; (iv) fostering environmental protection and conservation; and (v) enhancing the financial and managerial autonomy of public providers, private participation, and incentives for efficiency. The government focuses on (i) strengthening local authorities' responsiveness to citizens' needs, and (ii) the need to upgrade infrastructure. Local authorities require substantial capacity strengthening to be able to deliver these mandates.

5. **Weak implementing agencies.** Urban agencies require significant hand-holding support to address issues critical for good project design, implementation, operation and maintenance of infrastructure, and strategic investment planning.⁹ Support is particularly needed in detailed engineering, procurement, contract management, safeguards, and enhanced disaster risk management capabilities, given the vulnerability to hydro-meteorological hazards such as floods, landslides, and droughts. Capacity for economic and financial management, revenue generation, and ensuring sustainability also needs to be strengthened.

6. Weak local governance and institutional capacities lead to weak project planning and poor project execution (including poor operation and maintenance of facilities), which result in low service indicators. National coverage of piped borne water supply is 45.9%, while nonrevenue water averages 27.8% and piped sewerage coverage is 2.4%.¹⁰ To address these issues, the country partnership strategy of the Asian Development Bank (ADB) recognizes the need to support executing and implementing agencies, particularly new ones, through targeted capacity building.¹¹

7. **Economic corridors and strategic cities.** The government is emphasizing the development of economic corridors and strategic cities in its new approach to urban development.¹² One big step in this direction is the constitution of the Ministry of Megapolis and Western Development with a mandate for the planning and development of Colombo, the Western Province, and strategic cities across the country. To facilitate balanced economic development and growth beyond the Western Province (where Colombo is located), ADB is undertaking a study to develop a comprehensive plan for the Colombo–Trincomalee Economic Corridor (CTEC). A multisector approach is being adopted by integrating industry, infrastructure, logistics, and urbanization. The government intends to develop Trincomalee region as an economic gateway to East Asia and beyond. The technical assistance (TA) loan will support planning and project development in three strategic cities (Dambulla, Kurunegala, and Trincomalee) located in the CTEC and other important urban centers with economic potential.

2. Government's Sector Strategy

⁸ The Gazette of the Democratic Socialist Republic of Sri Lanka—Extraordinary dated 18 December 2009 on the National Policy on Local Government.

⁹ Local authorities have poor institutional setup with limited technical staff.

¹⁰ Independent Evaluation Department. 2016. *Country Assistance Program Evaluation: Sri Lanka, 2006-2015*. Manila: ADB.

¹¹ ADB. 2017. *Country Partnership Strategy: Sri Lanka, 2018–2022—Transition to Upper Middle-Income Country Status*. Manila.

¹² Many studies and plans are in progress for the development of identified economic corridors across the country. The National Planning Department has conducted a study and identified 13 strategic cities for developing as counter magnets for Colombo.

8. The government's development policy framework envisages emerging urban centers will grow in population and economic activities.¹³ It identifies the development of water and sanitation infrastructure to support the long-term demands of these growing urban centers as a key to achieving the desired economic success of the country. In its Vision 2025 (footnote 4) and Public Investment Program (2016–2018), the government articulates its goals and strategy for stimulating inclusive and balanced geographic development for achieving upper-middle-income status.¹⁴ As part of this strategy, the government prioritizes (i) 24-hour water supply and full sanitation coverage, especially in underserved urban areas; (ii) improving environmental and disaster management in and around cities; and (iii) strengthening the capacity of local institutions for improved service delivery. The government identifies climate change mitigation and adaptation as priorities in its national policy on disaster management.¹⁵ As part of Sri Lanka's nationally determined contribution, it aims to reduce greenhouse gas emissions by 20% through renewable energy initiatives. The government also aims to build resilience against climate change in vulnerable communities by improving urban infrastructure planning and designs considering climate change. With ADB's support, the government has made strides in business process engineering in local authorities by conducting many capacity building programs, coupled with local governance system improvements through information technology interventions to enable better service delivery by these agencies.¹⁶

9. To lead the country toward upper-middle-level development, the government plans to allocate about 70% of public investment to economic infrastructure, including urban infrastructure and services. For asset development, all water and sanitation organizations are undertaking significant levels of investment to meet the sector goals. For sanitation, a program to install piped sewerage in 16 major urban areas across the country is identified in the Public Investment Strategy, 2014–2016.

3. ADB Sector Experience and Assistance Program

10. ADB has responded to the country's evolving development priorities by taking a balanced approach to integrating infrastructure development, inclusiveness in planning and design, and institutional development. ADB support to the sector consisted of loans, grants, and TA projects worth about \$1.09 billion, covering 14 of the 25 districts across eight of the nine provinces. ADB programs have stressed the importance of basic urban service delivery, investment sustainability, and the need to integrate these into institutional reform; and have focused on smaller urban centers and the Greater Colombo region.¹⁷ ADB has supported mostly third tier local governments (*pradeshiya sabhas*) through the Local Government Infrastructure

¹³ Government of Sri Lanka, Ministry of Finance and Planning, Department of National Planning. 2010. *Sri Lanka: The Emerging Wonder of Asia; Mahinda Chintana—Vision for the Future; The Development Policy Framework*. Colombo. p. 61.

¹⁴ Government of Sri Lanka, Ministry of Finance and Planning, Department of National Planning. 2013. *Unstoppable Sri Lanka 2020: Public Investment Strategy, 2014–2016*. Colombo.

¹⁵ Government of Sri Lanka. 2010. *National Policy on Disaster Management*. Colombo.

¹⁶ ADB. [Democratic Socialist Republic of Sri Lanka: Local Government Enhancement Sector Project](#). Manila supported the Ministry of Provincial Councils, Local Government and Sports in (i) conducting training for local authorities on business process reengineering; (ii) implementing e-local governance initiatives; and (iii) preparing legal amendments for improved service delivery in local authorities.

¹⁷ ADB. [Democratic Socialist Republic of Sri Lanka: Local Government Infrastructure Improvement Project](#); ADB. [Democratic Socialist Republic of Sri Lanka: Greater Colombo Wastewater Management Project](#); ADB. [Democratic Socialist Republic of Sri Lanka: Local Government Enhancement Sector Project](#); ADB. [Democratic Socialist Republic of Sri Lanka: Greater Colombo Water and Wastewater Management Improvement Investment Program](#); and ADB. [Democratic Socialist Republic of Sri Lanka: Additional Financing: Local Government Enhancement Sector Project](#).

Development Project, the Local Government Enhancement Sector Project, and its additional financing (footnote 17), while supporting governance reforms such as business process reengineering in local authorities (para 8, footnote 16). The ongoing projects focus on water supply and sanitation improvements in larger towns (particularly in dry zone towns) and improving access to safe drinking water in areas affected by chronic kidney disease, which is a high government priority. There is also a heavy focus by ADB and the government on improving water and wastewater coverage in Colombo through two ongoing loans: the Greater Colombo Wastewater Management Project and the Greater Colombo Water and Wastewater Management Improvement Investment Program (footnote 17). The government recognizes the need to extend support to other strategic towns for promoting balanced economic development. In line with the government's vision, ADB's country partnership strategy (footnote 11) states that ADB will extend support to secondary cities with growth potential, including those in the CTEC.¹⁸

11. Sri Lanka's major development partners in the water and other urban infrastructure and services sector are ADB, Japan International Cooperation Agency, Agence Française de Développement, and the World Bank. The development partners coordinate their strategies, collaborate on key focus areas, and harmonize project design and implementation arrangements—including sharing project preparatory studies, ensuring wide geographic coverage, and avoiding overlaps to spread the benefits equitably. They coordinate implementation arrangements in line with the resource capacity of the government agencies.

12. The main lessons learned from ADB's operations in Sri Lanka in the urban sector include (i) developing high project readiness for immediate start-up and timely delivery of benefits; (ii) building the implementation capacity of project agencies, (iii) commencing land acquisition during the planning stage of projects, (iv) incorporating disaster and climate resilience into project designs, (v) achieving more equitable outcomes by mainstreaming gender, and (vi) demonstrating smart urban solutions through innovative pilot projects.¹⁹

13. The design of the TA loan incorporated these lessons and intends to support infrastructure development and strengthening of local authority capacities, including enhanced project design and implementation capacity, local fiscal improvement, and governance reforms.

¹⁸ The strategy will support growth by boosting urban agglomerations to attract high-quality investments and improve urban governance, including exploring the development of smart urban infrastructure.

¹⁹ ADB. 2017. *Experience with Donor Coordination: The Case of Water Supply and Sanitation in Sri Lanka*. Manila (points ii, v and vi). Under point (vii), these may include new technologies for reducing greenhouse gas emissions and improving operational efficiencies in the urban sector.

Problem Tree for Water and Other Urban Infrastructure and Services

