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NORTH EAST LOCAL SERVICES IMPROVEMENT PROJECT



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1.1 THE CASE FOR LOCAL SERVICES IMPROVEMENT IN NORTH EAST SRI LANKA

The northern and eastern provinces of Sri Lanka constitute a lagging region of the country that has experienced armed conflict for nearly three decades. Though the economy has continued to grow even during conflict, growth remains skewed with more than 50% of the country's GDP coming from the Western Province, which includes the Colombo area. Per capita incomes in the north and east are 50% less than in the Western Province. The decades of fighting have negatively impacted growth in the region and the country at large. The armed conflict in the Eastern Province ended in July 2007 and in the Northern Province in May 2009, bringing to an end 26 years of armed conflict. During this period, starting in the early 1980s, people in the North and East have been repeatedly displaced and their houses, public facilities, and basic infrastructure damaged or destroyed. There is a considerable, conflict induced backlog of local infrastructure and services in the Northern and Eastern provinces. Rural roads that provide connectivity, and village level infrastructure, such as drainage systems, primary health clinics, schools and markets, were all severely damaged during the conflict. Most urban, peri-urban, and rural drinking water schemes were in disrepair and needed to be reconstructed. Essential local services, such as street lighting and solid waste management, were either not available or were insufficient in many locations in this region.

The major challenge after initial resettlement of the displaced families was to restore and sustain the vital economic infrastructure and services needed for communities to ensure their livelihood. The destruction of property and basic infrastructure had severely undermined the capacity of people to rebuild their lives and develop their local economies. Without restoration and development of local infrastructure,

these regions would continue to lag behind the rest of the country in terms of poverty, income, education, and other MDG indicators. Years of civil conflict and natural disasters have traumatized populations, resulting in a lack of trust in many communities. Provision of basic local infrastructure and services along with avenues for voice and participation and holding local governments accountable for service delivery, can help the healing process and build confidence in the local state.

Local governments are best placed to deliver basic services according to community priorities. The Local Authorities (LA) comprise the middle and lower tiers of government in Sri Lanka. The 13th Amendment of the Constitution created a sub-national system with Provincial Councils (PCs) at the provincial level and below them, the Pradeshiya Sabhas (PSs) in rural areas, and Urban Councils (UCs) and Municipal Councils (MCs) in urban areas. These institutions together constitute "Local Authorities." The LAs as elected bodies mandated to deliver services, could play a vital role in participatory planning, prioritization, execution and maintenance of local facilities and services. LAs in the North-East however face several impediments in delivering services. These include lack of administrative and technical capacity, inadequate resources, and poor responsiveness to citizen's needs and priorities. Central government transfers, the main source of funding, are insufficient and often unpredictable. The central government makes two types of grants, through the PCs to the LAs Criteria-Based Grants (which are allocated on the basis of a formula encompassing population, level of poverty, and other socio-economic indicators) and Province-Specific Development Grants.

Actual transfers are often lower than agreed allocations due to cash flow problems, revenue short falls or other problems affecting national finances. This hampers effective planning and implementation of local infrastructure investments. LAs are the front line of service delivery at the local level. Due to their closeness to citizens, they offer opportunities for community participation in local decision-making. However, participation and dialogue with communities needs to be institutionalized and strengthened to enhance accountability and responsiveness.

Lessons learned from post conflict regions in Asia and Africa indicate the importance of rebuilding the local state from bottom up through community participation and ownership, and providing basic local level infrastructure facilities. Extensive information and communication to inform citizens about project design, work plans, and a grievance redressal mechanism are necessary ingredients for successful implementation of projects. Experience from local government operations in South Asia and elsewhere attest to the positive impacts of improved resource allocation at the local level, along with enhanced accountability in planning and expenditure management based on community needs and priorities. These aspects are inter-related. To hold local governments accountable, it is important that these agencies have the resources to deliver services in a transparent and accountable manner. The upward and downward accountability relationships between the

higher tiers of the state and the local community need to be enforced through institutionalizing participatory approaches for the planning and management of local development. Increased fund flows designed to enhance the role of local government also need to be accompanied by improvements in operational systems, management procedures and accountability mechanisms for local government to deliver results.

The GoSL strategy in the north-east region stresses relief, resettlement and rehabilitation, along with the restoration and development of livelihoods and reconstruction of basic infrastructure. It also focuses on the restoration of services and establishment of effective administration and service delivery arrangements. AusAID and World Bank strategies also stress the need for reconstruction and improvement of services in the region. After the initial humanitarian activities are over and once the displaced people return to their villages, it was important to quickly improve local infrastructure and services in the north and the east and to restore confidence in local governments by allowing communities to participate and hold their LA accountable. It was in this background that the World Bank designed the North East Local Services Improvement Project (NELSIP). The project which became effective from December 15, 2010 will be operational until December 2015.

1.2 PROJECT DESIGN AND OBJECTIVES

NELSIP, which was designed and prepared in the aftermath of the conflict in the north-east, addresses many of the issues noted above. The primary objective of the project is to improve the delivery of local infrastructure services by local authorities in the Northern and Eastern Provinces of Sri Lanka in an accountable and responsive manner. It provides much needed support for local infrastructure services, such as rural roads, drinking water supply, drainage and waste disposal that are provided and maintained by LAs in the Northern and Eastern provinces. By building the legitimacy and capacity of the local state, it also addresses the causes and consequences of the conflict in Sri Lanka. Besides targeting development, NELSIP also addresses issues of voice and empow-

erment of the different communities in the Northern and Eastern Provinces. Strengthening local government institutions and the ability of LAs to respond to local needs will help advance a durable solution to the concerns of citizens in the North-East region. The basic components of the project address the infrastructure gap through additional resources for service delivery, along with accountability measures to ensure resources are expended in a transparent and accountable manner. They also build the capacity of local governments to deliver services and of higher tier agencies and communities to hold them accountable. The three components are expanded upon below.

INFRASTRUCTURE SERVICE DELIVERY

This component funds the reconstruction of infrastructure and services by providing resources to improve local service delivery in a transparent and predictable manner within the context of a sound inter-governmental fiscal framework. It provides predictable and transparent capital grants to the LAs through the country's budget system in accordance with the GOSL's guidelines for participatory planning. The use of country systems to deliver aid is an integral part of the global aid effectiveness agenda. These grants cover infrastructure and services such as rural roads, drains, culverts and bridges, community buildings, markets and fairs, waste disposal, rural water supply, parks, recreation facilities and libraries, nursery schools, playgrounds, and dispensaries. The funds can also be used to improve local government utility services.

INSTITUTIONALIZING ACCOUNTABILITIES

This component ensures that LAs undertake public expenditures and deliver local services in a transparent and accountable manner. It strengthens upward and downward accountability systems at the local level. Activities under this component include improving accountabilities by instituting sub committees, standing committees and advisory committees to enable participation and oversight by stakeholders. It also includes an education and communication campaign to disseminate project information to various stakeholders. Preparation of participatory LA Development Plans that prioritize community development needs are another feature.

BUILDING CAPACITIES

This component strengthens the service delivery systems and capacities of LAs to deliver services. It also strengthens the monitoring capacities of provincial and national level institutions. It supports improvements in systems and processes related to planning, budgeting, financial management, revenue management and procurement at the LA level. It strengthens the audit of funds by improving the efficiency, timeliness and follow up of the internal and external audits of LAs. The funds under this component support the training of elected representatives and staff of LAs on financial management, procurement and project management.

Better and more effective technical support to LAs provided by the district local government staff is also funded. Another important feature is the development of a long-term capacity building strategy for LAs including the Organizational Development Unit (ODU) of local government departments. The project covers all the Local Authorities in the Northern and Eastern Provinces of Sri Lanka. The 79 LAs include 66 Pradeshiya Sabhas, out of which 28 are located in the 5 districts of the Northern Province and 38 in the 3 districts of the Eastern Province. In addition, it covers 9 Urban Councils – 5 in the North and 4 in the East and 4 Municipal Councils namely Jaffna, Kalmunai, and the newly created Akkaraipattu and Batticaloa. NEL SIP will result in an increase in the quantity and quality of public goods delivered and maintained by Local Authorities. Improved infrastructure connectivity will enable post-conflict communities in the north-east to benefit from enhanced access to social services and economic opportunities. The capacity of Local Authorities to deliver services will also be strengthened. Through these steps the project will help reduce poverty in the project implementation areas.

TABLE 1 - NEL SIP COVERAGE OF LOCAL AUTHORITIES IN THE NORTHERN AND EASTERN PROVINCES

PROVINCE	DISTRICT	URBAN COUNCIL	PRADESHIYA SABHA	MUNICIPAL COUNCIL	TOTAL
NORTHERN PROVINCE	JAFFNA	3	13	1	17
	KILINOCHCHI	-	3	-	3
	MULLAITIVU	-	4	-	4
	VAVUNIYA	1	4	-	5
	MANNAR	1	4	-	5
SUB TOTAL		5	28	1	34
EASTERN PROVINCE	TRINCOMALEE	2	11	-	13
	BATTICALOA	1	10	1	12
	AMPARA	1	17	2	20
SUB TOTAL		4	38	3	45
TOTAL		9	66	4	79

1.3 CO-FINANCING BY AUSAID

AusAID is co-financing the project to the tune of AUD 24.86 million. Co-financing provides AusAID with the opportunity to support the development of a lagging post conflict region and of the vulnerable communities within this region. It will also help deepen the engagement with the Bank at the country level. Greater engagement with multilateral partners is a key recommendation of the Government of Australia's Independent Aid Effectiveness Review, 2011. It also enables AusAID to leverage the Bank's resources, both financial and non-financial including the expertise of its staff, relationship with the client, and Bank processes and systems, and thus minimize administrative costs.

NEL SIP covers the entire Northern and Eastern Provinces of Sri Lanka, including the 79 Local Authorities in these two provinces. The fund requirement of a LA is between LKR 200 to 600 million of which, only a small portion is covered by government transfers. The Bank's funding of NEL SIP provides a total of approximately LKR 80 million over four years. AusAID funds will support the overall development objectives of NEL SIP and all the three components discussed above. The co-financing by AusAID enables some of this funding gap to be bridged. It will enable the project to be scaled up and will help increase the size of fiscal transfers to LAs. Along with increased capacity building it will lead to more and better service delivery by LAs. It will also improve local accountability both upward to Provincial Councils and downward to the community.

The higher-level outcomes from this partnership and project are expected to be a reduction in poverty, improved health and well-being, new economic opportunities, and more efficient and effective delivery of infrastructure and services. The project can also be replicated and scaled up to other lagging regions of the country, and GoSL has expressed interest in expanding the project to other provinces.

AusAID was to initially co-finance the project to the tune of AUD 37.77 million. These funds were to be delivered in three tranches, of which the first tranche of AUD 9.47 million was received in June 2011. However there has been considerable delay in the signing of the Grant Agreement (GA) by GoSL. Both the Bank and AusAID have been actively following up with government on this. The government wanted the project to be restructured after the Mid-Term Review (MTR). The MTR mission originally scheduled for December 2012 was finally approved by GoSL for March 2013. It has since taken place and AusAID staff from the Colombo Post participated in the MTR. On the basis of the MTR and subsequent discussions with GoSL, steps are underway to restructure the project to include areas in adjoining provinces that were also impacted by the conflict in the north-east. Due to the delay in signing the GA, the second tranche has been withheld by AusAID. The co-financing has thus been reduced to AUD 24.86 million and will be limited to two tranches. The second tranche is now to be transferred in 2014. Government has agreed to sign the GA for the reduced amount. The GA is now expected to be signed after the restructuring takes place.

1.4 RESULTS TO DATE

The mid-term review of the project has taken place from March 12 to 25, 2013. All three components received a satisfactory rating though areas of weakness in monitoring and evaluation and project management were noted. Though cumulative disbursement to date is 74% there has been delay in project approval and implementation in the Northern Province which does not have an elected Provincial Council, this has resulted in the project implementation being noted as moderately satisfactory. Action is being taken to improve the approval of

projects in the Northern Province. A key positive outcome noted is the high level of satisfaction among communities with regard to their LAs. Table 2 Results Framework and Monitoring shows high satisfaction among citizens with regard to LA performance. The targets for participation have been exceeded at the midpoint in the project lifecycle. The preparation of annual financial statements within 3 months of closure and acceptable audits of LA accounts are both outcome indicators that have been exceeded at the time of the MTR.

TABLE 2 - NEL SIP RESULTS FRAMEWORK AND MONITORING MTR MARCH 2013

PROJECT OUTCOME INDICATORS	TOTAL TARGET	MTR TARGET	MTR ACHIEVEMENT
Rural and village roads (km)	1,000	618	303
Drainage systems (km)	245	32	16
Rural water supply schemes	439	6	2
Playgrounds, markets and nurseries	405	112	21
Rural electrification	79	16	16
% capita grants released against allocations (IDA)	70	90	70
Rising satisfaction of local people on LAs (%)	80	60	87
LAs preparing annual financial statements within 3 months of closure	60	40	75
Acceptable financial audits of accounts	60	40	75
LAs with budgets prepared in a participatory manner	60	40	45
LAs whose revenues, expenditures and procurement decisions are publically disclosed	40	15	79

In little over two years, the project has shown that when local authorities are provided with resources and held accountable by the communities they serve, they can provide quality service in an accountable manner. NEL SIP has empowered both local governments and citizens. Elected local governments are increasingly seen as an integral element of the local service delivery framework by both the upper tiers of

government and by the communities they serve. The capacity of local governments to deliver basic services is no longer in doubt, and a positive practice of constructive interaction between citizens and LAs to prioritize community needs has emerged. This is no mean achievement in a post conflict environment, particularly in this short a period.



KULANAI ROAD, KARAVEDDI



COMMUNITY CONTRIBUTION,
KILINOCHCHI



MARKET STALL, MALLAVI



SERUWILA MARKET



UYILANKULAM WATER SUPPLY

GEMUNUPURA WATER SUPPLY



MARKET COMPLEX, MUTHUR



AARAYAMPATHY
CHILDREN PARK



ELECTRICITY EXTENSION, POTTUVIL