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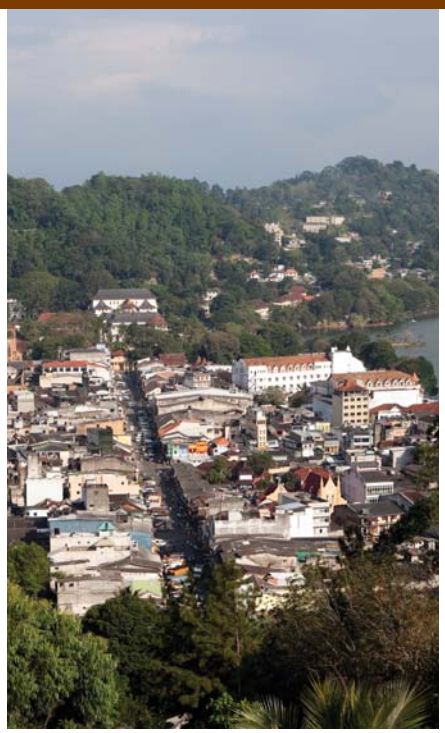
Turning Sri Lanka's URBAN VISION INTO POLICY AND ACTION



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Turning Sri Lanka's Urban Vision into Policy and Action

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FOR A BETTER URBAN FUTURE

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Foreword

Sri Lanka is urbanizing as it continues its transition from a rural economy to one based on services and manufacturing. By acting now, Sri Lanka has the potential to achieve its Urban Vision, as defined in the government's development policy framework – the Mahinda Chintana – to develop as a system of competitive, environmentally sustainable, and well-linked cities and to provide every family with affordable and adequate urban shelter by 2020. This policy note provides an initial assessment of Sri Lanka's urban characteristics, outlining the challenges ahead and broad policy directions for turning the Urban Vision into action.

Rather than provide a comprehensive assessment of the urban sector, the objective of the policy note is to stimulate and facilitate evidence-based policy dialogue on Sri Lanka's urban agenda and to identify priority areas where sector knowledge needs to be expanded through new data and studies. The policy note draws largely on readily available information and the findings of extensive consultations carried out in October 2011 and February 2012. It is thus a "living document" – to be revised and enriched as the dialogue evolves and sector knowledge expands.

The policy note has six main sections. Section I briefly outlines Sri Lanka's urban characteristics today. Section II discusses the main economic drivers of Sri Lanka's cities. Section III presents the main themes of Sri Lanka's Urban Vision (which includes the System of Competitive Cities Vision and the Adequate and Affordable Urban Shelter for All Vision) and discusses its economic rationale and viability given the urban characteristics and economic drivers of the country's cities. Section IV outlines the main challenges for achieving the Urban Vision, based on the results of a diagnostic assessment carried out as an input to the policy note. Section V discusses recent government initiatives for implementing the Urban Vision, and how they have helped tackle the challenges. And Section VI offers broad policy directions and priority actions to achieve the Urban Vision.

We hope that this policy note will foster timely dialogue on Sri Lanka's urban transition and support the government as it translates its Urban Vision into reality.

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Executive summary

Sri Lanka's Country Vision is to become a global hub between the East and the West and an upper middle-income country by 2016. Sri Lanka's Urban Vision, as defined in the government's development policy framework – the Mahinda Chintana – is to develop a system of competitive, environmentally sustainable, well-linked cities clustered in five metro regions and nine metro cities and to provide every family with affordable and adequate urban shelter by 2020.

Envisioning the future

Sustained productivity growth in the Colombo Metropolitan Region (CMR) is crucial for Sri Lanka becoming an upper middle-income economy by 2016. The high productivity of the CMR, or Western Province (with 28 percent of the country's people but producing 45 percent of GDP), is one of Sri Lanka's most valuable growth engines. But the CMR needs to become more competitive with other Asian cities. Strengthening its most dynamic service sectors (information technology and financial services) and shifting from low to high value-added manufacturing should take priority. Improving the CMR's infrastructure, its citizens' quality of life, and its human resources, through a close partnership with the domestic and international private sectors, will be essential.

Sri Lanka's urban structure can evolve into a system of competitive, well-linked cities, as envisaged in the country's National Physical Planning Policy and Plan 2011–2030.[1] The plan will be facilitated by Sri Lanka's small size, easy topography, and government's plan to enhance connectivity by building an expressway network that would closely link most cities. It will also enable Sri Lanka to tap the resource-based comparative advantages of its cities in tourism, agroprocessing, and fisheries – among the most dynamic export sectors with a wide territorial distribution that particularly benefits urban centers outside the Western Province.

Enhanced connectivity will give rise to new urban centers. The challenge is to ensure that their growth is economically, socially, and environmentally sustainable. The ambitious population targets of the new metro cities need to be considered in light of Sri Lanka's economic geography. It is also important to carefully assess the impact of rapidly growing populations in emerging urban centers on the sustainability of the urban transition and the growth prospects for ecotourism development, as large migratory flows would put increasing pressure on environmental assets.

The priority for urban centers outside the Western Province is to develop appropriate long-term strategies to support their sustainable development based on a common vision with broad stakeholder buy-in. While most of the emerging urban centers are at a nascent stage, several urban settlements outside the CMR are growing fast, so it is critical to ensure their economic and environmentally sustainable growth. Kandy – Sri Lanka's second-largest city outside the CMR – plays an important

economic role in the Central Province, but its environmentally fragile location has prevented it from reaching its full potential. Jaffna, once the country's second-largest city, could be revived as a thriving commercial center.

Sri Lanka is well placed to reach its goal of ensuring adequate and affordable shelter for all urban dwellers, given its record in achieving the Millennium Development Goals and providing basic services to the underserved. Realizing this vision rests on preventing the formation of informal settlements. This requires removing the constraints on the supply of land and housing finance that keep formal shelter out of reach for most of the urban population, while addressing the needs of the poorest through well-targeted housing assistance and livelihood programs.

The challenges ahead

The government is implementing connectivity improvements, urban renewal, and green city initiatives in the CMR and urban centers outside the Western Province, but challenges remain in planning, finance, city management, and land and housing development.

The limitations on the functions, capacity, and resources of Urban Local Authorities (ULA) delay the implementation of urban plans and inflict inefficiencies in service provision. Achieving the Mahinda Chintana Urban Vision is contingent on repositioning ULAs as competent and accountable service providers. Today, ULAs exercise limited planning and service delivery functions and have inadequate financial and human resources. Planning responsibilities are fragmented among the Urban Development Authority (UDA), provincial councils, and ULAs, and sectoral plans are not integrated with the urban plans. And responsibilities for providing urban services are fragmented among central government agencies and two parallel systems of government (devolved and deconcentrated), resulting in overlapping mandates and inefficient use of public resources.

Low-density urban sprawl and ribbon development, characteristics of Sri Lanka's urban development, are uneconomical to service, raising environmental concerns and constraining cities' economic drivers. Urban sprawl is the result of regulatory and institutional constraints in land markets and inadequate incentives to stimulate efficient and sustainable land use and property development. Private developers struggle to mobilize land for development in major city centers, limiting large-scale development. Efficient and environmentally sustainable land use – supported by high-density urban transportation – could deliver sizable economic benefits by reducing vulnerabilities to natural disasters, lowering infrastructure costs, limiting the negative impacts on environmental assets, stimulating private investment in land and housing, and expanding municipal own-source generation.

Sri Lanka's urban centers face constraints in connective and municipal infrastructure and need to be prepared to manage the risks and impacts of natural disasters. Connectivity is essential for developing a system of well-linked cities and improving "time-measured distance" to enhance access to markets. Municipal solid waste collection is not keeping up with urban growth, and drainage investments lag, exposing urban centers to flooding. The urban water supply systems are at risk, and water quality needs improvements, especially in the north and east. The largest cities, particularly the tourist destinations, need an integrated approach to environmental management, including sewerage, wastewater treatment, drainage, and solid waste management. Urban transport is a key contributor to city competitiveness, but much work remains to improve public transport in the main cities and to enable more efficient use of urban roads. Amid global climate change, Sri Lanka's urban areas are becoming more vulnerable to natural disasters, and adaptation strategies need to be mainstreamed into urban plans to manage the risk.

Informal settlements result from fragmented housing policy, regulatory and transport bottlenecks inhibiting land development, and limited housing finance. There is no coherent long-term policy defining the government's and sector agencies' role in the housing market. As a result, agencies perform multiple, often overlapping, functions. Regulatory bottlenecks inhibit the supply of land. Developers in urban areas depend largely on the release of land by government agencies. The information systems for land transactions are inadequate, and processing times for building and condominium permits can be long and uncertain. The lack of adequate transportation linking the core to the periphery force low-income households to live in informal settlements in the central city, close to where they work. That makes it difficult for developers to attract low-income buyers to housing outside the central city. Buyers, developers, and financial institutions all face constraints in tapping and providing low-income housing finance. Private commercial banks are not eager to finance housing development because of the complications in obtaining a clean title to the land. And in the absence of credit guarantees, they are reluctant to provide funding to microfinance institutions for incremental housing.

Policy directions

Achieving Sri Lanka's Urban Vision calls for systemwide institutional and policy reforms to leverage the economic benefits of improved connectivity and urban infrastructure. Addressing institutional and policy constraints in planning, finance, city management, and land and housing development requires a multipronged strategy based on four pillars:

- Moving toward strategic and integrated national, regional, and urban planning.
- Ensuring the sustainable financing and improvements of regional and urban infrastructure.
- Repositioning ULAs as accountable service providers by developing new tools for performance-based city management and finance.
- Promoting efficient and sustainable land and housing development for improved city livability.

Pillar I: Strategic and integrated national, regional, and urban planning

Sri Lanka has much to gain by integrating economic and environmental considerations into national, regional, and urban plans. A national- and provincial-level vision and strategy for Sri Lanka's cities is needed to support economic specialization and complementarities among regions and urban areas. Such strategies need to be based on a sound assessment of the economic drivers of the metro regions and cities. Mainstreaming low-carbon high-efficiency technologies into city planning is a win-win solution to reduce costs and mitigate the impacts of climate change. Reforms are also required to realign planning functions at the regional and urban levels by strengthening the role of the provinces in preparing and implementing regional plans and delegating urban planning functions to ULAs as their capacities increase.

Pillar II: Sustainable financing and improvements of regional and urban infrastructure

Policy and institutional reforms need to be supported by interventions to develop and implement a financing strategy and plan for sustainable improvements of regional and urban infrastructure. Catalytic regional investments are needed for improved connectivity and regional competitiveness, and urban infrastructure investments for greater city efficiency and higher quality and inclusive urban services. For instance, South America's positive experience with bus rapid transit and its success

in reducing car trips and congestion in Curitiba, Brazil, argues for its consideration in the CMR. Sri Lanka needs to expand the menu of financing instruments for regional and urban infrastructure with a focus on leveraging private capital and expertise in partnership with the public sector. Land-based finance is widely used internationally to share the gains in land values created by public infrastructure investments (for example, in Brazil, Chile, China, Colombia, and India). Sri Lanka can consider a centrally sponsored scheme for infrastructure finance to mobilize private capital for projects with high economic returns but that are not financially viable without government support.

Pillar III: New tools for performance-based city management and finance

Building municipal capacity to plan and deliver services requires institutional and policy reforms to reposition ULAs as competent and accountable service providers. Integrated capacity-building is needed to build the basic functions of city management. Municipal capacity-building is not just about building systems or technologies. It is also about providing incentives to make ULAs relevant actors for urban development and to strengthen accountability for local service delivery. A gradual shift to a performance-based model of municipal finance is needed, while ensuring equity in the provision of basic services. In parallel, institutional coordination mechanisms need to be strengthened for more efficient provision of metropolitan and urban services. International experience suggests that there is no single model for metropolitan government, but a broad spectrum of models tailored to local conditions.

Pillar IV: Efficient and sustainable land and housing development for improved city livability

Policy directions for efficient and sustainable land and housing development include encouraging more efficient land use in urban areas and providing the enabling environment for better and more affordable shelter options for all. Market-based land disposal and conversion tools, such as land pooling and land banks, are broadly used internationally to stimulate efficient land development (as in Brazil, India, and the Republic of Korea). Land-bank models are used in some U.S. cities to acquire vacant or underused land plots and convert them to productive use.

Goals and priority actions for each pillar are summarized in table E.1.

Table E.1 Turning Sri Lanka's Urban Vision into Policy and Action – priority actions

Pillar I: Strategic and integrated national, regional, and urban planning		Pillar II: Sustainable financing and improvements of regional and urban infrastructure			Pillar III: New tools for performance-based city management and finance		Pillar IV: Efficient and sustainable land and housing development for improved city liveability	
Goals		**Goals**			**Goals**		**Goals**	
I.I Develop strategic and integrated national, regional, and urban plans	I.II Realign planning functions at the regional and urban levels	II.I Develop and implement a financing strategy and plan for sustainable improvements of regional and urban infrastructure	II.II Promote catalytic regional investments for improved connectivity and regional competitiveness	II.III Prioritize urban infrastructure investments for greater city efficiency and high-quality, sustainable, and inclusive urban services	III.I Reposition ULAs as competent and accountable service providers	III.II Enhance coordination for the more efficient provision of metropolitan and urban services	IV.I Encourage efficient and sustainable land use	IV.II Provide the enabling environment for better and more affordable shelter options for all
Priority actions		**Priority actions**			**Priority actions**		**Priority actions**	
Prepare regional economic development strategies for the main metro regions consistent with national growth targets and priorities Fast-track preparation of integrated urban development plans for strategic cities with strong stakeholder buy-in	Initiate a strategic review of the UDA, incorporating best practice Institutionalize integrated planning processes at the urban level	Prepare an urban infrastructure finance strategy and plan Set up an urban infrastructure finance cell linked to high levels of government	Plan ahead for increased urban infrastructure requirements around the main transport nodes Prioritize strategic regional investments based on regional development plans	Prioritize urban investments based on city development plans and financial and environmental sustainability	Prepare a strategy and roadmap for strengthening the capacity and accountability of ULAs as service providers Roll out a performance-based municipal grant system	Carry out preparatory studies for metropolitan management Pilot coordination mechanisms for urban service provision at the provincial level	Develop policy and identify suitable instruments for market-based land disposal	Prepare a government action plan to mobilize formal private capital to increase the supply of adequate and affordable housing Conduct an evaluation of the credit guarantee scheme piloted as part of LFSUS for affordable housing schemes

Chapter 1

Sri Lanka's urban characteristics today

Sri Lanka's economic geography is characterized by concentration of economic production: its "urban footprint" is low in density, with sprawl and ribbon development along the main roads and coastal belt. Sri Lanka is urbanizing, if at a slower rate than other South Asian countries. By acting now, it can take full advantage of the economic benefits of the urban transition, while mitigating the problems associated with fast urbanization found elsewhere in South Asia.

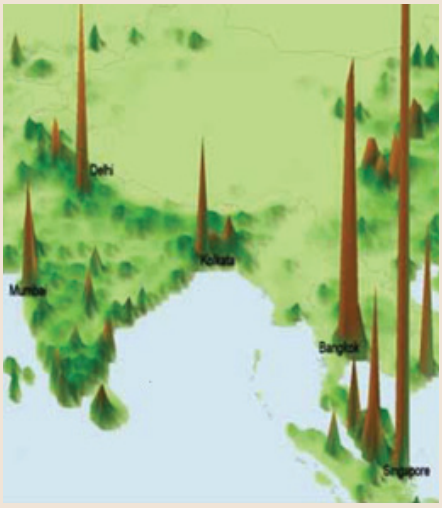
Sri Lanka's urban landscape is dominated by small urban settlements clustered along the coast. More than 25 percent of the population lives within 1 kilometer of the coast, a strip of land constituting only 5 percent of the country's area (see map 4 in chapter 3).[2] The size distribution of urban areas is dominated by small settlements: there are only 6 cities with a population of more than 100,000, 34 intermediate or medium-size towns of 20,000–100,000, and 94 small towns of fewer than 20,000.[3] Based on the 2001 Census definition of urban areas, only 15 percent of the population lives in urban areas, suggesting that Sri Lanka has very low urbanization relative to its per capita income.[4] However, many areas that were not defined as "urban" for the 2001 Census show increasingly urban characteristics, such as high population and building density.[5] In addition, the country's largest cities have a large floating population that may not be counted as urban. Colombo[6] attracts, on any working day, an estimated 400,000–500,000 people. Kandy has 150,000 daily commuters but a local population of 124,000.[7]

Sri Lanka has become a middle-income country, with per capita gross national income of $2,290 (2010). Its economic geography is characterized by the concentration of economic production in the Colombo Metropolitan Region (CMR), whose geographic area coincides with the Western Province.[8] The CMR has the highest rate of urbanization in the country, and its urban concentration has been accompanied by higher economic density and higher productivity.[9] The CMR has seen its population climb from 3.9 million in 1981 to 5.8 million in 2012, equivalent to 35 percent of the national increase.[10] While the CMR covers only about 6 percent of the land area of the country and has 28 percent of its population, it accounts for 45 percent of GDP and 73 percent of industrial value added. The second- and the third-highest contributions to GDP are from the Southern and Central Provinces, far behind at 10.7 percent and 10 percent of GDP. Per capita income in the Western Province – $3,808 – is 1.6 times national per capita income.[11] Most of Sri Lanka's foreign trade passes through Colombo Port, and the CMR generates much of the capital, human resources, technology, and advanced services to drive economic growth and job creation in the rest of the country. From a wider Asian perspective, the "economic mountains" around Colombo look like a small hill, suggesting that Sri Lanka's pattern of growth is not uncommon in Asia, and that economic density is expected to rise further as the country transitions to upper middle-income status (maps 1 and 2).

Map 1 Economic mountains, Sri Lanka

Source: World Bank 2010a.

Map 2 Economic mountains, Asia



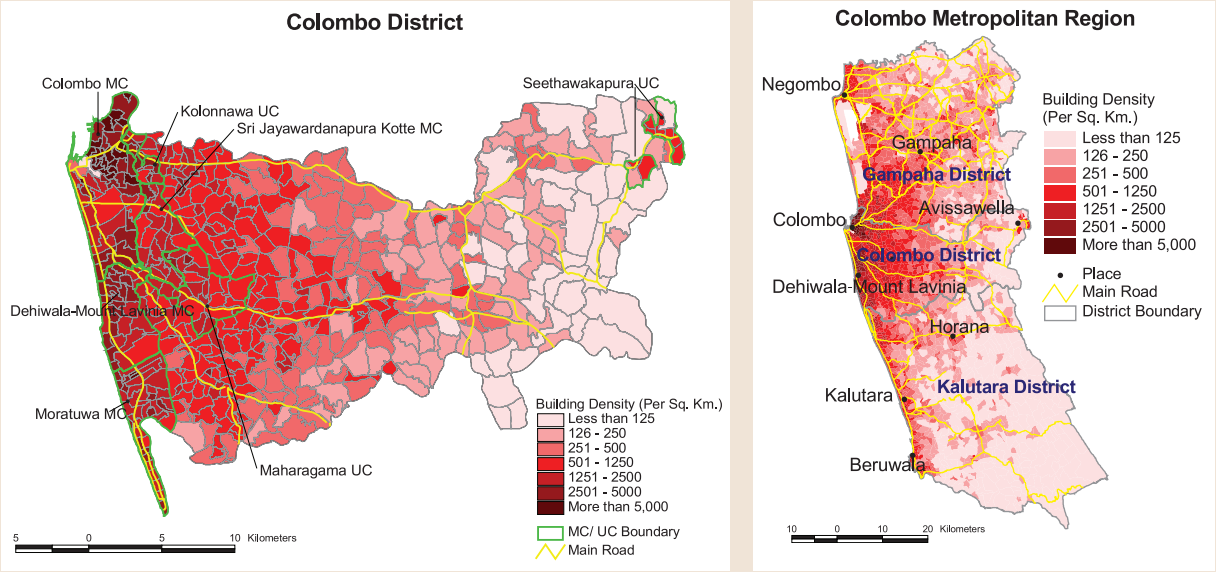
Source: World Bank 2010a.

The distinct feature of Sri Lanka's urban footprint is low-density sprawl and ribbon development along the main roads and coastal belt. This urban structure has allowed the country to preserve most of its natural and rural environment and to offer ample greenery, even in its denser urban areas such as central Colombo. The main drawback to low-density development is that urbanization has often taken place through sprawl and ribbon development along the coastal belt and the main roads connecting urban centers. This is particularly noticeable in the western and southern coastal areas.[12] The highest concentration of urban population is along the West Coast, where a contiguous urban belt encircles Colombo and spreads north and south (map 3).[13] Sprawl is also common along the arterial roads connecting the main urban centers, such as the Colombo–Kandy road.

Sri Lanka is urbanizing as it continues its transition from a rural economy to one based on services and manufacturing. It has not endured the problems associated with fast urbanization found elsewhere in South Asia. The country has one of the slowest population growth rates among developing countries (1.0 percent a year), and urban population growth averaged 0.3 percent a year over 2005–10, according to official statistics.[14] While urbanization data in Sri Lanka are much debated, there is consensus that the country is urbanizing faster than the statistical figures suggest, although more slowly than other South Asian countries.[15] Empirical evidence suggests that Sri Lanka's agrarian land restrictions may have slowed the economic diversification out of agriculture. But the restrictions have not discouraged floating populations or temporary rural–urban labor migrants, whose families remain in rural areas to retain the households' land earnings (box 1).[16]

With the end of the civil unrest, the government estimates that the urbanization rate will accelerate to 3–4 percent a year from the current 0.3 percent, and by 2020, about 60 percent of the population will be living in cities.[17] Whether this envisaged acceleration is attainable given past trends is subject to debate, but urbanization will undoubtedly continue as the country reaps the benefits of the peace dividend and its transition from a rural economy to one based on services (58 percent of GDP) and manufacturing (30 percent of GDP).[18] By acting now, the government can take full advantage of the economic benefits of the urban transition to the benefit of the entire country, while mitigating the problems associated with fast urbanization elsewhere in South Asia.

Map 3 Building density, Colombo District and Colombo Metropolitan Region, 2002



MC is municipal council; UC is urban council.

Source: The TMS Company 2011.

Box 1 Agrarian land market restrictions and the rural–urban transformation

Land market restrictions can have far-reaching effects on the rural–urban transformation by altering incentives to invest or to move from rural to urban areas. Evidence suggests that the removal of land market restrictions increases long-term investments in agriculture, improves participation in nonfarm activities, and generally allows land-poor households to gain better access to land. For example, the inalienability of land rights under the "household responsibility system" in China increased migration costs, slowing sectoral transformation, so when controls were removed in 1988 migration surged. From the 1950s to the late 1980s, the Vietnamese government enforced a policy of migration control, especially for rural–urban migration. After a long period of very slow economic growth, the government began to apply *Doi Moi*, a policy of economic reform that fostered faster economic development and urban renewal. Rural–urban migration emerged in response.

Sri Lanka has strict agrarian land market restrictions. Public ownership is widespread – of Sri Lanka's 6.6 million hectares of land, about 82 percent is owned by the state. Large tracts of land without private title came under government ownership following the Crown Lands Encroachment Ordinance of 1840 and were subsequently distributed to landless farmers under the Land Development Ordinance (LDO). Recipients of LDO land have the right to occupy and cultivate the land in perpetuity, subject to restrictions on sale, leasing, and mortgaging, and on conditions related to abandoning or failing to cultivate the land. LDO land is prevalent in the North-Central Province, and less common in the urban Western Province.

Agrarian land market restrictions are slowing the rural–urban transformation. Empirical evidence indicates that LDO restrictions have contributed to slowing the transformation out of agriculture. A regression analysis shows that employment in locations with strict land regulations is less diversified toward nonfarm activities in manufacturing and services, and those employed in nonfarm labor earn much less on average. Estimates from the regression model show that the proportion of the area under LDO leases lowers the probability of participation in all types of nonagricultural employment. Land market restrictions have, however, not prevented temporary migrants from moving to cities for a job while their families stay in rural areas to retain the households' land earnings.

Source: Dudwick and others 2011; Shilpi 2010.

Chapter 2

The growth drivers of Sri Lanka's cities

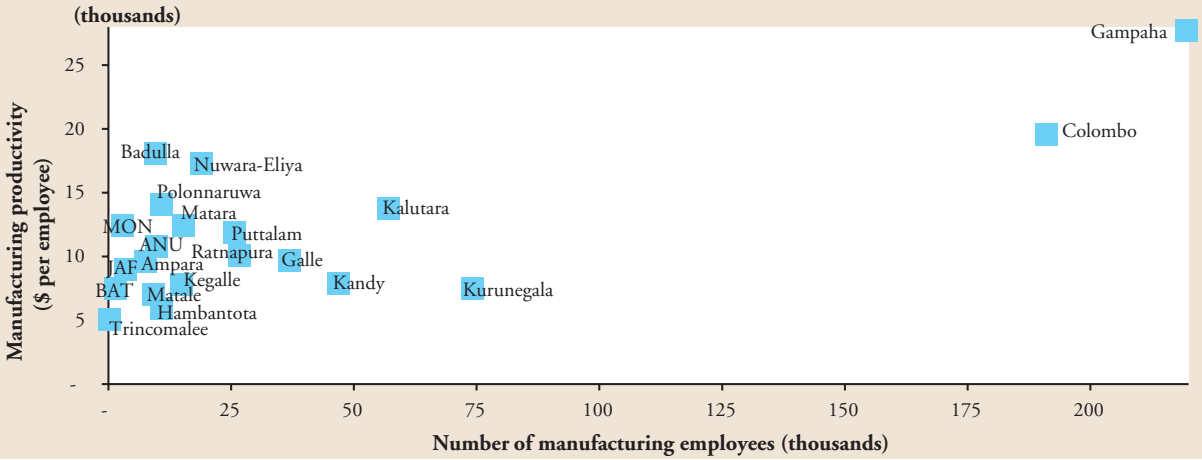
The CMR is Sri Lanka's most productive region, with a comparative advantage in services. But since the recent global economic downturn, it started losing competitiveness as a manufacturing hub. Fisheries, agroprocessing, and tourism are important and growing economic drivers in urban centers outside the Western Province, and the end of the conflict provides a unique opportunity to strengthen cities' comparative advantages in these sectors.

The CMR is the most productive region.[19] Manufacturing productivity in the CMR was estimated at $23,000 per employee in 2008, against a national average of $17,000. Gampaha is the most productive of the CMR districts with a labor productivity of close to $28,000 per manufacturing employee.[20] The large concentration of manufacturing in the Kurunegala District, next to the CMR, suggests that the CMR might be larger than the administrative boundaries of the Western Province as an economic entity. The three cities of Colombo, Gampaha, and Kalutara in the CMR are by far the country's most competitive. Labor productivity in manufacturing is much lower in adjacent districts than in the CMR (figure 1). Galle in the south and Dambulla in the center, ranked as the most competitive urban centers outside the Western Province according to a recent survey, are far behind the Western Province on important competitiveness factors, such as infrastructure and quality of life.[21]

The shift to high value-added jobs has been modest, though Sri Lanka has witnessed a major employment shift from agriculture to manufacturing and services. Services are the largest contributor to GDP, and manufacturing now accounts for 75 percent of exports, up from only 6 percent in 1975.[22] However, nonfarm job creation has been confined largely to the less productive and insecure informal sector, and the quality of jobs has not been rising as expected.[23] Formal nonfarm jobs fell 3 percent in 2008–09.[24] The average annual increase in real wages is among the lowest in South Asia, at only 0.1 percent over 2000–08, compared with 2.8 percent over 1983–2010 in India.[25] Further, the productivity of industrial establishments with over five employees fell 16 percent in 2007–08.[26] The quality of a country's exports is a good predictor of productivity trends.[27] Sri Lanka's exports are less sophisticated than those of comparable countries, such as Indonesia, Malaysia, the Philippines, and Thailand.[28]

The CMR lags behind the most competitive Asian cities. Hot Spots – a research program of the Economist Intelligence Unit – ranks the competitiveness of 120 of the world's major cities by their ability to attract capital, talent, visitors, and businesses. The ranking is based on the recognition that to truly become globally competitive, cities need to develop soft infrastructure – including institutional effectiveness, social character, financial maturity, and global appeal – in addition to physical infrastructure.[29] Colombo is ranked among the bottom 10 in the 120-country ranking – its low score driven largely by the city's low financial maturity compared with word-class cities. The Global Competitiveness Index 2011, prepared by the World Economic Forum, provides a more favorable picture for national competitiveness, ranking Sri Lanka 52 of 142 countries, placing it above India and the Philippines, but still behind countries such as Indonesia and Thailand.[30]

Figure 1 Manufacturing employment and productivity, by district, 2008–09



ANU is Anuradhapura; BAT is Batticaloa; JAF is Jaffna; MON is Moneragala.

Source: Analysis based on data from Sri Lanka Department of Census and Statistics (2008b, 2009b).

The Colombo Metropolitan Region

Services are the CMR's main economic driver, accounting for 65 percent of the region's GDP, against 58 percent nationally.[31] Based on location quotient analysis (table 1 and annex 1), relative to the national average the CMR has a competitive advantage in knowledge services, and in transport and communications – particularly information technology (IT) and logistics (figure 2). The CMR has a young but vibrant IT-business process outsourcing (BPO) industry – poised for rapid growth – that could emerge as a global IT-BPO destination in several key areas. Commerce, finance, and tourism are three other important services subsectors with the potential to generate high-return jobs, but their competitiveness needs to improve, as their employment growth in the CMR is below the national average. Most of the fast-growing services are in Colombo – the main transport, communications, and knowledge hub in the CMR. Colombo was ranked among the Top-20 Emerging Cities for IT-BPO by *Global Services Magazine*.[32]

The CMR has a large manufacturing base, but has started losing competitiveness as a manufacturing hub. The CMR is a global manufacturing base exporting mainly to the United States and European Union markets.[33] The most important manufacturing subsectors are garments and rubber-based products. The garment industry accounts for 40 percent of national industrial production and two-thirds of national industrial exports. Since the 1990s, manufacture of rubber products (in particular tires and surgical gloves) has been on a fast path to growth and competitiveness. Rubber products accounted for 9.5 percent of exports in 2006, up from 5.8 percent in 2000, and represent one of Sri Lanka's most dynamic export sectors.[34] However, industry in Sri Lanka has been severely affected by the recent global economic downturn, with a decline in total industrial employment of 95,000 in 2009–10.[35] The CMR's manufacturing employment has performed worse than the national average, falling 7 percent in 2008–09 against 5 percent across the country (see figure 2). The sharp decline in the CMR's manufacturing base is associated with employment losses in garments – the largest contributor to manufacturing employment in the CMR – while the rubber sector and other smaller industries (such as machinery and equipment, and publishing) have been able to withstand the economic crisis.

Table 1 Growth drivers – selected provinces, 2007–09

Province or region	Main urban centers	Growth drivers	Emerging sectors	Important sectors that need attention
Colombo Metropolitan Region	• Colombo	• Transport and communications • Wholesale and retail trade • Education • Rubber-based products • Publishing		• Garments • Textiles • Finance and real estate • Tourism • Chemicals
Central Province	• Kandy • Nuwara Eliya • Dambulla	• Tourism • Agroprocessing • Handicrafts (ceramics, wood-carving, leather)	• Garments • Textiles • Education • Transport and communications • Finance and real estate	• Agriculture
North-Central Province	• Anuradhapura • Polonnaruwa	• Agriculture	• Agroprocessing • Garments • Nonmetallic minerals	• Public administration
Eastern Province	• Trincomalee • Ampara • Batticaloa	• Agriculture and fisheries • Education	• Tourism • Transport and communications • Nonmetallic minerals	
Southern Province	• Galle • Matara • Hambantota	• Tourism • Agroprocessing	• Garments • Wholesale and retail trade • Transport and communications	• Agriculture and fisheries
North-West Province	• Kurunegala • Puttalam	• Agriculture	• Transport and communications • Finance and real estate • Health	• Manufacturing
Uva Province	• Badulla • Moneragala		• Manufacturing • Wholesale and retail trade • Transport and communications • Education	• Agriculture
Sabaragamuwa Province	• Kegalle • Ratnapura		• Transport and communications • Finance and real estate • Manufacturing	• Agriculture

Note: Excludes Northern Province due to lack of data. The location quotient measures the degree of employment concentration of an economic activity in a region relative to the entire country. A regional economic/growth driver is a sector that has higher employment concentration and is growing faster in the region than the national average. (Annex I gives detailed results.)

Source: Location quotient analysis based on Sri Lanka Department of Census and Statistics (2002, 2008a, 2009a,b).

Colombo Harbour, from World Trade Center Colombo

With these recent trends, manufacturing employment, traditionally concentrated in the peri-urban areas of the CMR, has started deconcentrating outside its administrative boundaries. In 2009, the CMR accounted for 43 percent of Sri Lanka's manufacturing employment, down from 52 percent in 2001. Outside the Western Province, manufacturing is an economic driver in Galle, Kegalle, and

Figure 2 Colombo Metropolitan Region location quotient, by industry, 2002–09

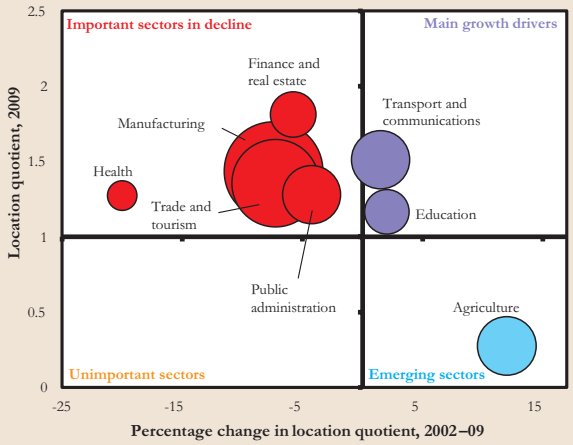
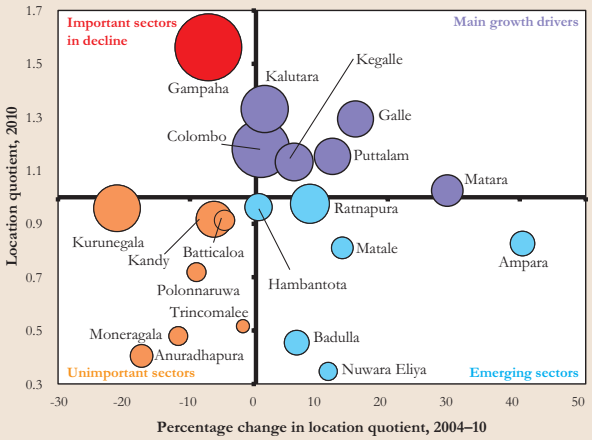


Figure 3 Industry location quotient, by district, 2004–10



Source: Analysis based on data from Sri Lanka Department of Census and Statistics (2002, 2004, 2009b, 2010b).

Puttalam and an important emerging economic driver in Matara and Ratnapura. These districts, which experienced strong employment growth in manufacturing, are all adjacent to the CMR (figure 3 and annex I). The slow but steady expansion of economic boundaries of the CMR may be partly explained by the increasing costs of inputs – such as land and buildings – associated with the suburbanization of the CMR.

Urban centers outside the Western Province

The end of the conflict provides a unique opportunity to exploit the competitive advantages of urban centers outside the Western Province. The three-decade long conflict had a devastating impact on the urban economies outside the Western Province, particularly in the Northern and Eastern Provinces, where most of the infrastructure was destroyed or damaged and the traditional livelihoods of the people disrupted by security measures. Jaffna in the Northern Province lost almost half its population due to out-migration during the conflict.[36] The contribution of the Northern Province to GDP declined from 4.4 percent in 1990 to 2.4 percent in 2001, though it increased slightly to 3 percent in 2005.[37] Fishery production in Jaffna stalled in the 1990s at about 20,000 metric tons a year, and it is still far below its early-1980s high of more than 40,000 metric tons a year.[38] The Asian Development Bank's competitiveness survey for selected Sri Lankan urban centers identifies Trincomalee in the Eastern Province as by far the least competitive and Ampara, also in that province, as having the lowest infrastructure competitiveness (figure 4).

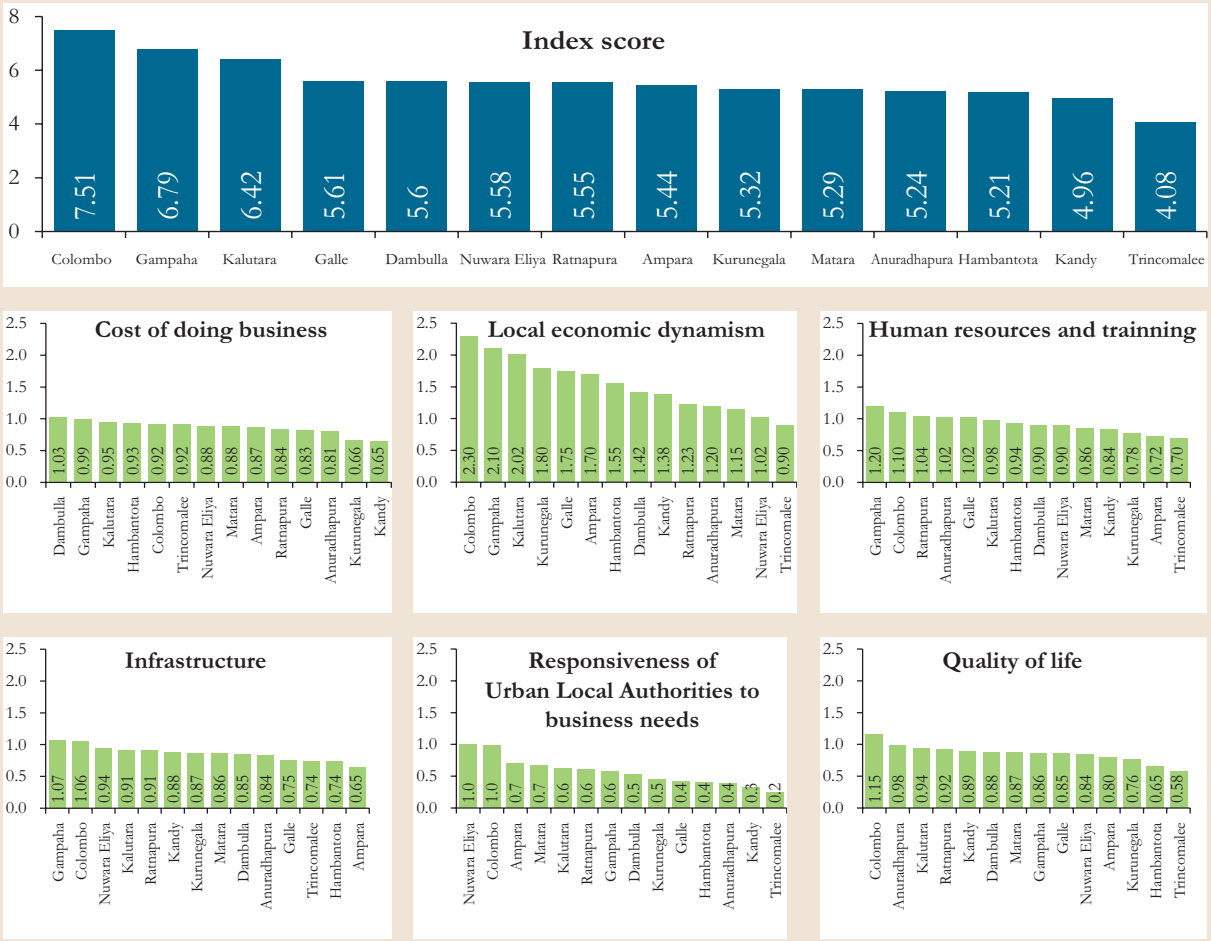
Once a thriving commercial port and the second-largest city in the country, Jaffna has strong potential to revive as a major trade, agroprocessing, fishery, and tourist center. Before 1983, it had a vibrant small- and medium-enterprise sector and a dynamic industrial base including salt-processing plants, cement and chemical factories, and weaving mills. With the end of the conflict, Jaffna started rebuilding its economy. The area's main agricultural crops (paddy, red onion, chili, potato, and tobacco) and livestock produce offer large untapped potential. Next to farming, the largest employer is fisheries, accounting for 12 percent of employment. Jaffna has about 8.7 percent of national fish production, steadily growing since 2000 but down dramatically from 29 percent before the conflict. It also boasts historically important sites, as well as sites of religious worship, which could attract thousands of people to the peninsula if the infrastructure to support tourism were put in place.[39]

Tourism is a growth driver in several urban locations, such as the Central and Southern Provinces, and is an emerging sector in the Eastern Province. Kandy – the main urban center of the Central Province and now the largest city outside the CMR – is one of the country's most important tourist destinations and is a UNESCO World Heritage Site. Galle, the largest city in the Southern Province, is also a World Heritage Site and a main tourist destination. Trincomalee, the main urban center of the Eastern Province, is the country's most attractive destination for beach tourism, featuring pristine white sand beaches and one of the largest and finest deep-sea natural harbors in the world.[40]

Manufacturing, in particular agroprocessing, has strong potential for growth outside the Western Province. Agroprocessing is one of the most dynamic export sectors in Sri Lanka – the main exports are teas, spices, coconut products, and fish (chilled and frozen).[41] It is an important growth driver for urban centers in the Central, Southern, and Sabaragamuwa Provinces. It also has the potential to develop in the North-Central and Eastern Provinces if the existing competitiveness bottlenecks are removed, because agriculture is an important growth driver in both provinces. Handicraft manufacturing (in particular wood carving and ceramics) is a large and growing sector in the Central Province, with important economic linkages to tourism. Manufacturing is an emerging growth driver in the Central, Southern, Sabaragamuwa, and Uva Provinces, according to the location quotient analysis.

A detailed assessment of the economic base of Sri Lanka's main provinces and urban centers, based on the results of the location quotient analysis, is provided in table 1 and annex I. Box 2 presents an in-depth overview of the economic base of selected regions and cities to exemplify the economic diversity and potential of the country's urban centers outside the Western Province.

Figure 4 Competitiveness index – selected urban centers, 2010



Note: The overall index is calculated as the sum of the individual scores for the six primary drivers of economic competitiveness, as shown. The assessment for each component comes from interviews with randomly selected informed local entrepreneurs and officials. The scores were averaged to reduce the error response rate. Where possible, the qualitative assessment scores were appraised against available data.

Source: Samarappulli and Dickman 2010.

Box 2 The economic base of urban centers outside the Western Province – Kandy, Trincomalee, Galle, and Jaffna

Kandy, now the largest city in Sri Lanka outside the CMR with a population of an estimated 124,000, is the most important city in the Central Province. Tourism is the main growth driver in the Central Province, and handicraft manufacturing is emerging as an important sector, but traditional agriculture-related industries are in decline. A location quotient analysis for the province shows that, like the rest of the country, the economic structure is changing. For a long period, its economy was centered on the tea plantation industry. Although the industry remains important to the national economy, its contribution is declining and services are replacing agriculture as the main growth driver in the province. Tourism is highly concentrated in the province and that concentration is growing. The ancient royal capital of Kandy is one of Sri Lanka's historical cities, as are Anuradhapura, Polonnaruwa, and Sigiriya, forming Sri Lanka's Cultural Triangle.[1] Another emerging growth driver in Kandy is manufacturing – particularly handicrafts. While manufacturing remains less concentrated in the Central Province (and in Kandy) than in the rest of the country, concentration is increasing rapidly.

Trincomalee, a town of 52,000 inhabitants on the coastal belt, is the capital of the Eastern Province. Fisheries and agriculture are the main growth drivers in the Eastern Province, and tourism is emerging as a high-growth sector. A location quotient analysis shows that agriculture-related activities and fisheries are the province's main economic growth drivers. The sector has been growing fast, estimated at 8 percent in 2008, compared with a 1 percent decline nationally. Agroprocessing activities have strong potential for development in Trincomalee due to their linkages with the region's vast agricultural production. Tourism also has strong potential to emerge as a growth sector for Trincomalee, as the city boasts miles of pristine white-sand beaches, one of largest and finest natural deepwater harbors in the world, and the largest Dutch fort in Sri Lanka. Tourism is expected to revive now that the area is no longer affected by conflict. Construction has recently been the largest contributor to the province's industrial output and is expected to remain important until reconstruction ends.

Galle's main growth drivers are tourism and manufacturing, and the city has the potential to emerge as an important logistics hub in the south. Galle, the largest urban center in the Southern Province with an estimated population of 97,000, has established itself as a tourism hub for the country. The main attraction is Galle Fort, a large Dutch fortress declared a World Heritage Site in 1988. Galle is also gifted with many natural resources, such as beautiful beaches, coastal beds, coral reefs, and tropical rain forests. Galle is well positioned as a tourist center because of its good rail and road connections to other economic centers in the country.[2] In Galle District, manufacturing is the largest contributor to employment after agriculture, accounting for 16 percent of the district's labor force. Galle District has the third-largest concentration of industrial firms outside the Western Province.[3] Galle's main large enterprises (10+ employees) produce mill rice and cement of hydrated lime and bricks. Galle Port is one of the three places where the country's five main cement firms operate.[4] The Koggala Export Processing Zone in Galle is the only such zone outside industrially developed districts.[5] Small enterprises are particularly vibrant in Galle, in 2004 accounting for 27 percent of industrial jobs.[6]

Jaffna is the most important city of the Northern Region, but most of the economic infrastructure in the area is now in disrepair as a result of the conflict. About 45 percent of the families in Jaffna depend on remittances and transfers as their main source of income.[7] With the end of the conflict, Jaffna and the Northern Province have strong potential for revival. Jaffna's main assets are its port, proximity to India, coastline, fertile land, cultural heritage, and unique landscape. Jaffna is well placed to revive its high-value vegetables and fruits, agroprocessing, and fishery industries. The production of lime and possibly cement offers some potential. Before 1995, agroprocessing generated a wide range of products, including processed food, packaging, and salt processing. Reviving these agroprocessing facilities would add value to Jaffna's agricultural production. Marine fish production has already increased, from 5,000 metric tons in 2007 to more than 13,000 in 2009 – an annual 50 percent growth rate. When indirect employment in fishery-related sectors is added, fishing accounts for 25 percent of the district's employment.

The Jaffna peninsula retains at least a dozen Portuguese, Dutch, and British fortifications. The finest of these – and a potential World Heritage Site – is that of Jaffna. The medieval character of the "grid city" and Jaffna Port need to be resurrected, and the houses inside the grid city need to be restored to their original character. Before the conflict, Jaffna Port was the province's principal source of revenue. Jaffna now needs improved connectivity through investments in transport and communications to revive its economy. A start has been made – Jaffna City and District have seen a construction boom since 2010, with significant multiplier effects on the local economy.

(box continued)

(box continued)

Notes:

1. In 2009, the share of employment in hotel and restaurant services in Kandy District alone was also 2.4 percent compared with the country's 1.8 percent.
2. The Colombo–Tissamaharama highway passes through Galle close to the coastal belt. The railway line from Colombo also runs along the Galle coast.
3. Behind Kurunegala and Kandy Districts.
4. The other two are Colombo Port and Trincomalee Port.
5. Aggarwal 2005.
6. Galle's main small cottage industries are jewelry, pottery, wood carving, lace, and metal working.
7. WFP and ILO 2008.

Source: Analysis based on data from Sri Lanka Department of Census and Statistics (2002, 2004, 2009b, 2010b). Population figures based on Sri Lanka Department of Census and Statistics (2010a).

Kandy

Chapter 3

Envisioning the future – Achieving Sri Lanka's Urban Vision

Sri Lanka's Country Vision is to become a global hub between the East and the West and an upper middle-income country by 2016. Realizing this vision requires a leap in urban competitiveness, and thus capitalizing on the high productivity of the CMR – one of Sri Lanka's most valuable assets for becoming an upper middle-income country by 2016. The Urban Vision is to develop a system of competitive, environmentally sustainable, and well-linked cities (its System of Competitive Cities Vision). Achieving this vision will be facilitated by Sri Lanka's urban centers' diverse economic assets and by the country's small territory. The challenge is to ensure that the growth of new urban centers is economically, socially, and environmentally sustainable.

Sri Lanka also aspires to provide every family with adequate and affordable shelter by 2020 (the Adequate and Affordable Urban Shelter for All Vision). Achieving this vision will require innovative market-based solutions to develop better and more affordable housing options for the informal and low-income housing market.

The government's Urban Vision

Sri Lanka needs to tap the economic potential of its urban areas to realize its Country Vision – to become a global hub between the East and the West and an upper middle-income country by 2016. Realizing this vision calls for a structural shift in the economy and a doubling of per capita income to $4,000 by 2016. To reach upper middle-income status by 2016, Sri Lanka needs sustained high economic growth of 8 percent a year, which requires an increase in investment from the current annual 28 percent of GDP to 33–35 percent. The government's development policy framework – the Mahinda Chintana – recognizes that Sri Lanka needs to leverage the economic potential of its urban areas for achieving its Country Vision. The economic significance of cities will grow and the diversification of the economy out of agriculture will continue, as the country transitions to a fast-growing upper middle-income economy.[42] The government's target is to consolidate the share of agriculture in GDP at around 12 percent, industry at 28–30 percent, and services at around 60 percent.[43] Sri Lanka thus needs to achieve its Urban Vision to realize its Country Vision.

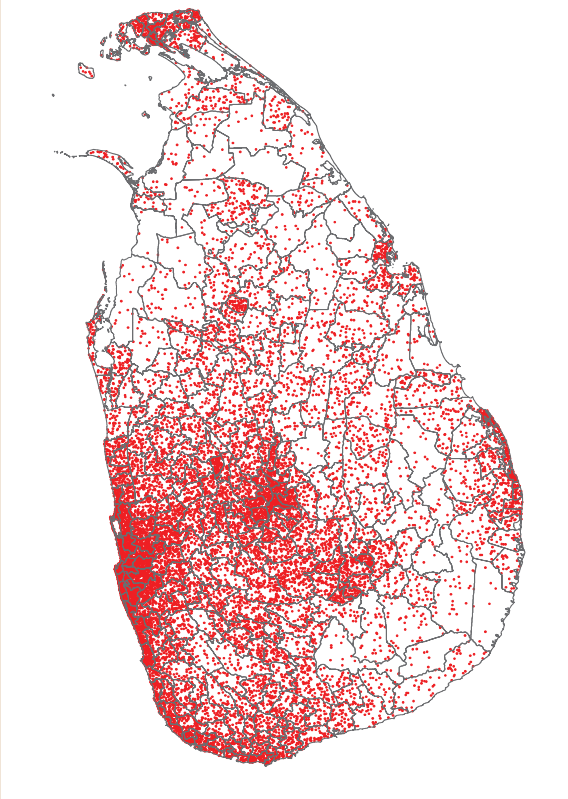
System of Competitive Cities Vision

The Urban Vision is to develop a countrywide system of competitive and well-linked cities in five metro regions (Colombo, North-Central, Southern, Eastern, and Northern) and nine metro cities (Ampara, Anuradhapura, Batticaloa, Colombo, Dambulla, Hambantota, Jaffna, Polonnaruwa, and Trincomalee).[44,45] The metro regions are conceived as "economic spaces." The institutional or administrative equivalent of the metro region is the province. [46,47] Apart from the CMR, which is evolving and growing as a metro

region in the traditional sense of the term – that is, as an agglomeration of contiguous urban centers – the other planned metro regions are envisaged as regional systems of urban centers of different sizes and economic specializations, with forest and green areas in between cities.[48] The metro cities – the principal urban areas of the metro regions – are expected to become thriving growth centers endowed with high-quality municipal, administrative, and social services and to reach target populations ranging from 500,000 to 1.5 million, counterbalancing the current migratory trends toward the CMR.[49] The vision is to connect all urban areas so that metro regions can grow and ultimately evolve into an integrated countrywide system of cities, connecting the five metro regions with district and provincial capitals and towns. (Map 4, map 5, and annex II compare the current urban geography of Sri Lanka with the Mahinda Chintana System of Competitive Cities Vision.)

Environmental sustainability is one goal of the Urban Vision. Sri Lanka is endowed with world-class cultural and environmental assets, most of which are fairly close to urban settlements. Examples are the ecosystem of the Central Fragile Area in the heart of the country, the Coastal Fragile Area, and the World Heritage Sites of Kandy and Galle. The Mahinda Chintana recognizes that the success of Sri Lanka's cities will depend not only on their ability to increase their economic productivity to upper middle-income country standards but also on their capacity to integrate and reconcile the ecological

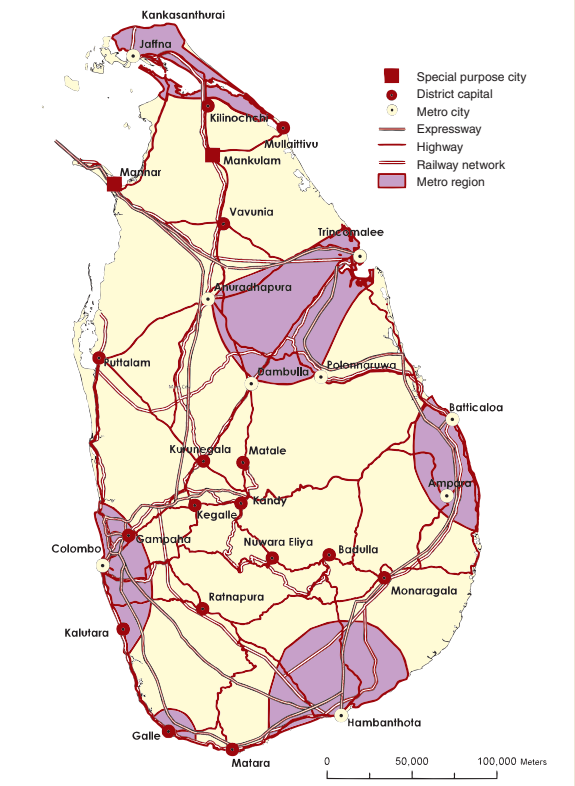
Map 4 Urban settlements, 2002



Note: One dot = 1,000 people. Population density estimates were made by exponential interpolation (and extrapolation to 2002) of 1994 and 2001 data from the Sri Lanka Department of Census and Statistics.

Source: Briet and others 2003.

Map 5 Sri Lanka Urban Vision, 2030



Source: Sri Lanka National Physical Planning Department 2011. See also annex II.

dimension with the urban transition. Eco- and agrotourism are markets with strong economic potential for private investment.[50] Protecting the environment and greening the cities are strategic government priorities for improving livability and the resilience of cities to natural disasters, given that urban concentration along the coast contributes to coastal erosion, destruction of sand barriers, and loss of ecosystems.[51]

Adequate and Affordable Urban Shelter for All Vision

Sri Lanka aspires to provide adequate and affordable shelter to all by 2020 – with every family having decent, comfortable housing with required common amenities. The government has set a housing supply target of 100,000 houses a year, nationwide, until 2020 to replace housing units of substandard quality and achieve the target of ensuring housing for all.[52] Particular attention will be paid to promote equitable urban development by addressing the housing needs of vulnerable groups. The transformation and substantial improvement of underserved settlements in urban areas, in Colombo and in other cities, will be given priority. The government has committed to upgrading all underserved settlements in Colombo by 2020[53] and is pledging to expand housing in a sustainable manner – to ensure resilience to the challenges posed by changing climatic conditions.

The government also aspires to develop a housing strategy that better meets the growing demand for more diversified and higher quality housing. The Mahinda Chintana calls for new policy initiatives in the housing market in four areas. It advocates for a changing role of the government from that of a developer and financer to that of a facilitator actively involved in low-income housing, including strategic public housing investments targeted at vulnerable households. It supports initiatives by government housing institutions to stimulate more dynamic housing for low-income households through concessionary financing and social housing and encourages private investments to address the housing needs of middle- and upper middle-income households. It pledges to develop better and more efficient housing options, including more efficient land use. And it plans to strengthen the rental housing market by addressing the regulatory impediments to market growth.

Achieving the Urban Vision

A leap forward in the competitiveness of urban areas is required to achieve Sri Lanka's economic growth and investment targets. Only globally competitive cities can generate high value-added jobs and mobilize the private investments required to double Sri Lanka's per capita GDP by 2016. The agglomeration economies characterizing urban areas are essential for services to grow and diversify into modern, high value-added export-oriented activities, such as IT. Other services subsectors with steep growth potential – tourism and logistics – also depend on the competitiveness of urban areas for growth. The country's most dynamic manufacturing exports – garments, rubber-based products, and agroprocessing products (fish, teas, spices, and coconut products) – are either urban-based or benefit from proximity to urban areas.[54]

Sri Lanka needs to capitalize on the high productivity of the CMR to become an upper middle-income economy by 2016. Agglomeration forces, if well managed, benefit economic growth; migration, when driven by the pull of economic opportunities, tends to have positive economic returns countrywide by integrating product and labor markets.[55] The agglomeration forces that led to economic concentration in the CMR will most likely persist, aiding the country's transition to upper middle-income status. The high productivity of the CMR – driven by agglomeration economies – is one of Sri Lanka's most valuable assets, as it is the growth engine for achieving the vision by 2016. The competitiveness of urban centers outside the Western Province in export-oriented agroprocessing, fisheries, and

tourism also depends heavily on access to Colombo's port and airport facilities. To support Sri Lanka's transition to upper middle-income status, the CMR should strengthen its competitiveness in its most dynamic services subsectors (IT and financial services), promote a shift from low- to high value-added manufacturing, and reduce the competitiveness gaps with the leading South Asian cities. Improving the CMR's infrastructure, its citizens' quality of life, and its human resources in a close partnership with domestic and international private sectors will be essential elements of policy actions.

System of Competitive Cities Vision

Sri Lanka's urban structure has the potential to evolve into a system of competitive and well-linked cities. This move will favor an urbanization pattern that best exploits the diverse assets of Sri Lanka's cities – in particular, their comparative advantages in tourism, agroprocessing, and fisheries. These sectors are widely distributed throughout the country (particularly benefiting urban centers outside the Western Province), are highly dependent for growth on urban areas' competitiveness, and are among the most dynamic export segments in the country.[56] Achieving the Urban Vision will be facilitated by Sri Lanka's small territory, easy topography, and government plan to improve connectivity by building an expressway network that would allow most cities to be well linked.

Enhancing connectivity will give rise to the emergence of new urban centers. The challenge is to ensure that their growth is economically, socially, and environmentally sustainable. The ambitious population targets of some of the new metro cities – ranging from 500,000 to 1.5 million – need to be considered in light of Sri Lanka's economic geography and demographic trends. The targets should also be considered in light of the sustainability of the urban transition and the growth prospects for developing ecotourism, because large population flows would put increasing pressure on the country's environmental assets (table 2). This is particularly true for the environmentally sensitive North-Central Metro Region, where heavy migration could jeopardize the very environmental assets that make this region unique and attractive, such as the Minneriya National Park.

Urban centers outside the Western Province require long-term strategies based on a unified vision to develop sustainably and fully according to their potential. While most of the emerging urban centers are at a nascent stage, several urban settlements outside the CMR are growing fast and playing an important economic function because of their competitive advantages. For example, Kandy plays an important economic role in the Central Province, but its environmentally fragile location has prevented it from developing to its full potential.[57] Jaffna has the potential to be revived as a thriving commercial center. The priority is to develop appropriate long-term strategies to support the sustainable development of growing urban centers outside the Western Province based on a unified vision with broad stakeholder buy-in.

The vision's economic sustainability rests on harnessing the growth potential of Sri Lanka's urban settlements *as a system.* When there is evidence of unrealized economic potential, the government has a role to play in providing the enabling environment for cities to hit their full potential, while reinforcing the economic linkages and complementarities among the entire spectrum of urban areas – from metropolitan areas to small towns – and between urban and rural areas. Given the resource-based economic drivers of most of Sri Lanka's urban centers, improvements in both connective and value-adding infrastructure can strengthen backward and forward production linkages in such growth sectors as tourism, agroprocessing, and fisheries. The optimal exploitation of fisheries' resources, for instance, has the potential to generate employment opportunities in urban ancillary industries and services, particularly in the Northern and Eastern Provinces. However, the sector growth is constrained by lack of local infrastructure (such as storage facilities), inadequate harbors, missing support services, postharvest losses, and inadequate transport networks.[58]

Table 2 Actual (2001 and 2009) and planned population (2030) of main urban centers

	District urban population (2001)	District urban population (2009)	Planned population (2030)	Compound annual growth rate, % (2001–09)	Target compound annual growth rate, % (2009–30)
Colombo MR					
Colombo	1,229,046	1,819,069	2,000,000	4.9	0.5
Gampaha	301,344	390,235	750,000	3.2	3.1
Kalutara	112,996	134,103	750,000	2.1	8.2
North-Central MR					
Anuradhapura	52,895	51,034	1,500,000	–0.4	16.1
Polonnaruwa	NA	NA	500,000	NA	NA
Trincomalee	NA	NA	1,000,000	NA	NA
Dambulla	36,162	40,086	1,000,000	1.3	15.3
Southern MR					
Hambantota	21,566	22,599	1,000,000	0.6	18.1
Galle	110,001	149,604	300,000	3.8	3.3
Northern MR					
Jaffna	NA	134,134	1,000,000	NA	9.6
Eastern MR					
Ampara	112,670	121,495	500,000	0.9	6.7
Batticaloa	NA	139,497	500,000	NA	6.1
District capitals					
Kandy	156,038	172,571	100,000	1.3	–2.6
Kurunegala	35,040	33,488	200,000	–0.6	8.5

MR is metro region; NA is not available.

Source: Sri Lanka National Physical Planning Department 2011; Sri Lanka Department of Census and Statistics 2001.

The social sustainability of the vision rests on reducing the gap in access and quality of basic services between the CMR and the main urban centers outside the Western Province. Sri Lanka needs to maintain a system of well-served cities across the country, accepting that the CMR will remain – at least for the years to come – an important magnet for economic migration.[59] Narrowing the access and quality gap between Colombo and the main urban centers outside the Western Province could lower the pressure that is pushing migrants to Colombo in search of better services.[60] Migration decisions in the 1990s were influenced by district-level differences in access to water and electricity, particularly for the less educated.[61] However, such evidence also shows that improving the quality of education in urban centers outside the Western Province tends to increase, rather than decrease, the pull migratory flows to Colombo, as skilled labor moves in search of better economic opportunities, with important economic spillovers to the sending economy thorough increased, skill-based remittances.[62]

Fishermen harbor in Jaffna

Adequate and Affordable Urban Shelter for All Vision

Sri Lanka is in a good position to ensure adequate and affordable shelter for all urban dwellers, given its track record in achieving the Millennium Development Goals, providing basic services, and expanding access to the underserved population. The country's urban areas rank high for livability by South Asian standards, and Sri Lanka is the only country in South Asia that is close to achieving, or has surpassed, the Millennium Development Goals. Sri Lanka's access to improved sanitation reached 91 percent in 2008, well higher than the average of South Asian countries (36 percent). Attendance at primary school is universal in both urban and rural areas.[63] Access to improved water and sanitation is high in urban areas: about 91 percent of the population there has access to "improved and sufficient water within 200 meters," and 87 percent has "improved and private sanitation access."[64]

Sri Lanka does not have informal settlements as large as those in other Asian countries, but substandard housing is becoming worrisome in both Colombo and urban areas outside the Western Province (box 3). Only 15–20 percent of planned low-income settlements in urban areas are financed through formal sector initiatives, with the balance funded through informal initiatives with private resources. Own-building is the norm, making the quality of every house both unique and problematic. In addition, most low-income households are not "bankable" and cannot afford access to formal housing finance. The banks classify about 80 percent of the nation's earners as low income. Only 20 percent of all low-income earners have regular employment, potentially allowing them access to bank loans for finished housing.[65]

Given past trends, addressing the backlog of substandard housing and meeting additional housing requirements in urban areas will be demanding. The government's target is to increase the supply of

Underserved settlements in Colombo

adequate housing to 100,000 units a year (including the improvement of existing stock) to address the backlog[66] and ensure adequate and affordable housing for all by 2020. A substantial share of these annual new buildings, possibly around 40–45 percent in the initial years and then an even larger proportion, will be in urban areas. But meeting this target will be challenging given past trends. For example, the two largest municipalities – Colombo and Kandy –approve 1,000 building permits a year on average, and Galle 500. In 2010, only about 12,000 housing units were estimated to have been financed by government agencies; in 2011, only about 16,000.[67]

Achieving this long-term vision rests on preventing informal settlements from forming – by developing a functioning housing market that meets the need of all segments of the population. This in turn requires the removal of constraints on the supply of land and housing finance that limit the production of formal housing by the private sector and that keep formal shelter beyond the reach of most of the urban population. The needs of the poorest people must also be met, through well-targeted housing assistance programs (for example, credit enhancement for affordable housing and home improvements).

Box 3 Underserved settlements in Sri Lanka's urban areas

Based on the 2011 UDA's survey of Colombo, an estimated 68,812 households live in 1,499 underserved settlements, equivalent to more than half the city's population. These settlements tend to be small and scattered, and about 74 percent of them have less than 50 housing units.[1] The living conditions and the status of the housing stock are generally not comparable to those in the slums of other South Asian megacities, such as Mumbai and Dhaka. Still, available evidence indicates that substandard living conditions in underserved settlements has become a pressing issue in Colombo.

A survey of the city's flood-prone underserved settlements, which are among the worst in living conditions, finds that 81 percent of the housing structures in the shanty areas are permanent. The materials used for walls, flooring, and roofing are largely bricks, cement, and asbestos, respectively. However, the quality of construction varies and the infirmity of the ground on which it has been built (canal reservations) is perceived to damage the cement floors, with observed tilting of houses and cracks on the floor and walls. Lack of security of tenure is the norm in the shanties. About 90 percent of the surveyed communities live on land owned either by the municipal council or the government, though 56 percent of them claim to have a user permit.

The facilities available in the surveyed shanty areas have improved, when comparing results with those from the Colombo City Poverty Profile of 2001.[2] Water is one of the services that has most improved. Of the surveyed households, 82 percent (44 percent in 2001) reported that they now have individual connections and 90 percent (55 percent in 2001) receive adequate water throughout the day. Inner access roads, a more serious concern in the surveyed communities, are much worse than in 2001. Many inner access roads in the shanties are narrow and have been further narrowed by encroaching communities who extend their houses onto the pathway. Latrines and sewerage constitute one of the biggest issues faced by shanty dwellers. The sharing of toilets results in many difficulties, and the poor connection to the sewerage system results in overflows, especially during rain and flood periods, creating health hazards. Seventy-six percent of the residents surveyed have been affected by recent floods. Households have developed coping mechanisms that help them reduce the economic losses associated with flooding. For example, houses are being built at raised levels or a raised wall is built where water can seep, such as through doors. In addition, to reduce the impact of floods on household items and to manage limited space, many of the surveyed households are building additional floors.

Evidence indicates that cities and towns outside the Western Province are not spared from the challenge of underserved settlements. For example, in Matara, 17 percent of the housing stock is deemed to be unsanitary, due to the use of low-quality material and unsafe locations. In Kandy, 18 percent of the population lives in 3,602 low-income housing units in 45 underserved settlements.[3] Nuwara Eliya has more than 7,000 temporary houses constructed with nonpermanent materials, equivalent to about 20 percent of the total housing stock.[4] The suburban cities of Colombo, such as Dehiwala-Mount Lavinia, Kollonnawa, Kotte, Moratuwa, and Wattala, have on average 10–15 percent of their urban housing stock at substandard quality.

Notes:

1. Sri Lanka Urban Development Authority 2011; Sevanatha 2002.
2. The 2001 Colombo City Poverty Profile however includes all settlements.
3. Sri Lanka Urban Development Authority 2002.
4. Sri Lanka Urban Development Authority 2004.

Source: UN-HABITAT, CEPA, and Sevanatha 2012; Urban Development Plans of Sri Lanka's cities.

Chapter 4

The challenges ahead

The System of Competitive Cities Vision is challenged in three main areas. First, the limitations of functions and resources, under which Urban Local Authorities (ULA) operate, are not conducive to efficient urban planning or the delivery of municipal services. Second, urbanization patterns, characterized by low-density sprawl and ribbon development, are inefficient for service delivery, environmentally unsustainable, and a constraint for exploiting the economic drivers of cities. Third, cities face bottlenecks in connective and municipal infrastructure due to investment backlogs and growing demand.

Challenges facing the Adequate and Affordable Urban Shelter for All Vision also fall under three main heads. First, the government lacks a coherent long-term policy that defines its role in guiding, stimulating, and regulating the low-income housing market. Second, supply constraints affecting land management and regulation, as well as transport infrastructure bottlenecks, inhibit the development of a housing market. Third, the housing-finance system for both bankable and nonbankable households has weaknesses. Together these factors drive up the cost of low-income housing, forcing most low-income families to find informal solutions.

Systemic institutional and policy constraints – in city management and finance, planning, land, and housing development – and physical infrastructure bottlenecks are the main challenges for developing Sri Lanka's cities to their full potential.

System of Competitive Cities Vision

Limitations of municipal authority and resources

ULAs operate under limitations of functions and resources. Achieving the Mahinda Chintana Urban Vision depends on the ULAs having the capacity to carry out their functions and deliver high-quality services to their constituents. Yet ULAs are constrained because urban service delivery and planning are largely centralized and fragmented and have inadequate incentives, funds, and human resources to carry out their functions.

Responsibilities for urban service delivery are largely centralized. The allocation of functions across tiers of government follows the 13th Amendment to the Constitution in 1987, with the provision that local authorities retain their powers and functions under existing laws.[68] In practice, the exercise of functions across government tiers is the result of a complex adjustment between imperatives of centralization and decentralization. The scope of services provided by urban authorities in reality varies greatly among ULAs, based on their financial situation. Central government agencies have gradually taken over most of the public utility functions that had been assigned to ULAs by law, such as water supply.[69] The National Water Supply and Drainage Board (NWSDB) is responsible for water

supply in most urban locations, for example. ULAs generally retain responsibilities for providing basic amenities, local roads, drainage, and solid waste management. The resulting ambiguity in the public sector's roles and responsibilities has created a suboptimal environment for management of urban services, undermining the scope of the functions assigned to ULAs.

These responsibilities are also highly fragmented, with overlapping mandates and limited coordination among tiers of government. By creating the province as an intermediate tier of government, the 13th Amendment superimposed a new devolved structure on an existing deconcentrated one and de facto established two parallel independently operating forms of government: center–district–division (deconcentrated) and center–province–local (devolved). Coordination between these two is weak, resulting in overlapping mandates and inefficient use of public resources. While the 13th Amendment brought the supervision of the administration of local authorities under the purview of provincial councils, these councils play only a small role in strengthening and building capacity at the local level, and no provincial council has taken statutory steps to enhance the powers of the local authorities under its supervision.[70] In addition, at the central level 16 ministries and several government agencies (such as the NWSDB) operate in urban areas with little coordination among themselves or with the provincial councils and ULAs.[71] The institutional mandate for urban development has been shifted from various ministries, and at present is under the Ministry of Defence and Urban Development. The fragmented responsibility among central ministries is a major deterrent to institutional coordination across ULAs.

The primary responsibility for preparing urban development plans lies with the Urban Development Authority (UDA). ULAs exercise limited planning functions,[72] and their planning capacity is inadequate due to staffing constraints. As the national planning agency, regulator, and land developer, the UDA has primary responsibility for this, as well as land-use policy and regulation, and is also active in land development. In spite of its sweeping powers, however, the UDA has been slow in fulfilling its statutory obligations to prepare development plans for all municipal and urban councils. For example, the latest plan for Colombo – the Metropolitan Region Structure Plan – was prepared in 1998 and updated in 2004. Strategic cities like Jaffna and Trincomalee do not yet have a statutorily completed urban development plan. The UDA's broad mandate may cause resources required for planning and enforcing land-use patterns to be diverted to competing priorities. In addition, all urban planning functions of the UDA are carried out internally, and managing such a high volume of planning activity poses challenges for its human resources. Even when urban development plans are approved, ULAs seldom follow through with implementation, for a lack of financial resources and human capacity constraints.

Planning responsibilities are fragmented among the UDA, provincial councils, and ULAs. The UDA has planning responsibility for areas that it declares suitable for development. In UDA-declared areas, the UDA is responsible for preparing urban development plans. Peri-urban areas, where sprawl and ribbon development are becoming a critical problem, are often not integrated into the ULAs' plans, even though they may have been UDA-declared. Peri-urban areas are separated from the main urban centers for planning purposes, so the UDA prepares a standalone development plan for each. Beyond the UDA-declared areas, statutory responsibility for planning lies with the ULAs, where urban planning and enforcement capacity of zoning and land-use regulation is virtually absent because of staffing shortages. In addition, there are no land-use controls in non-UDA declared areas that have urban characteristics but are administratively rural. The limited coordination among infrastructure development agencies nationally and between ULAs and development agencies has further aggravated the fragmentation of planning responsibilities.

Sri Lanka lacks an integrated policy and institutional framework for urban infrastructure finance. Urban infrastructure projects are almost exclusively financed through the traditional public procurement route. The nation's experience with private participation has been confined to projects managed by line ministries and central agencies in the telecom, energy, and port sectors.[73] Building a long-term partnership with the private sector for managing and financing large urban infrastructure projects will be crucial for achieving the Urban Vision – solid waste management is, for instance, a sector with much untapped potential for private participation. This in turn calls for building an integrated policy and institutional framework for urban infrastructure finance with a focus on expanding the menu of "tested" financing instruments to leverage private capital and expertise. An attempt has been made to mainstream private participation across sectors through establishing, in 2006, a unit for public–private partnerships (PPPs) – the Bureau of Infrastructure Investments – as a facilitating body within the Board of Investment. The Bureau of Infrastructure Investments has completed eight large PPP projects, including a container terminal and several independent power plants, with an estimated total investment of $700 million. More recently there has been a shift to PPP transactions negotiated with line ministries. The PPP unit is often bypassed by line agencies, and its responsibilities are now confined mainly to small build-operate-transfer projects initiated by the Board of Investment.[74] The PPP unit has also not fully succeeded in its task of facilitating PPPs nor addressing the regulatory and institutional bottlenecks that have retarded private participation in infrastructure.[75]

Municipal finance and other resources are inadequate for efficient urban service delivery. ULAs accounted for less than 2 percent of total annual government revenue and expenditure in 2008.[76] When examined by spending shares for national, provincial, and local tiers of government, the local expenditure proportion is inadequate for substantial local engagement in providing urban services – ULAs therefore remain marginal players as public service providers. In their budgetary operations, ULAs focus almost exclusively on maintenance rather than capital development, and even local resources allocated to maintenance are often inadequate. The capital program of ULAs is limited and relies heavily on capital grants and central allocations for financing. The ULA's share of capital spending in total municipal outlays varies significantly across ULAs, and it was as low as 4 percent in Jaffna in 2010 (table 3).

Table 3 Capital expenditure, share of total expenditure (2010 – budgeted) – selected Urban Local Authorities

Urban local authority	Expenditure ($ thousands)		Capital expenditure/ total (%)
	Capital	Total	
Colombo MC	12,088	60,425	20.0
Dehiwala-Mount Lavinia MC	1,204	8,690	13.8
Sri Jayawardenapura-Kotte MC	4,947	9,018	54.8
Kollonnawa UC	115	1,212	9.5
Jaffna MC	142	3,805	3.7
Galle MC	292	2,761	10.7
Trincomalee UC	97	1,009	9.6

MC is municipal council; UC is urban council.
Source: Budgets of local authorities.

The local revenue–generating potential of property taxes and stamp duties is largely untapped. In 2008, the share of own-source revenue in the expenditures of ULAs averaged 33 percent for municipal councils and 28 percent for urban councils. Property tax is the biggest source of revenues for ULAs, at about 78 percent of their own-source revenues and 51 percent of their recurrent revenues, but is still vastly underused as a resource-management tool. While local authorities have the power to set property tax rates, collection efforts are modest: ULAs have little incentive to increase revenue collections and limited capacity to carry out regular evaluations because of shortages in tax assessors.[77] ULAs face problems in revenue collection, notably over the regular valuation of properties, and in most of them property values have not been revised since the 1980s. Some revenues come from stamp duties and court fines, levied and collected by provincial councils and remitted to local authorities, after long delays. Other revenue sources include trade licenses, a tax on trades, market rentals, and regulatory, service, and vehicle parking fees. User fees are only a minor source of cost recovery for ULAs and are levied mainly on regulatory services. There are no specific taxes shared between central and subnational governments.

The trend of local authority financing suggests increasing dependence on transfers. Own-source revenues as a share of total recurrent revenues are highest for municipal councils (56 percent), followed by urban councils (40 percent) and *pradeshiya sabhas* (23 percent; table 4). Own-source revenues as a share of total revenues show a falling trend for all local authorities. In municipal councils over 2003–08, own-source revenues as a share of total recurrent revenues declined from 60 percent to 56 percent, and in urban councils from 44 percent to 40 percent. Among individual ULAs, variations in own-source revenues as a share of total revenues reflect differences in the status of the local urban economy and in that ULA's revenue collection effort. Own-source revenues as a share of total recurrent revenues range from 17 percent in Jaffna to around 64 percent in Colombo (table 5). Property tax as a share of total own-sources revenues ranges from 20 percent in Jaffna to about 80 percent in Colombo.

The current gap-filling grant system discourages efficient budget behavior at the subnational level. In Sri Lanka, the intergovernment transfer system seeks to establish horizontal financial equity among ULAs, as the block grant fills the gap between subnational recurrent expenditures and available revenues. About a quarter of local finances come from government transfers for reimbursement of salaries and wages, giving subnational governments an incentive to increase, rather than control, recurrent expenditures because marginal expenditures are funded by the center.[78] They also have no incentive to increase own-source revenues, since that would lead to lower transfers. Thus gap-filling transfers provide little incentive for ULAs to adopt innovative solutions to finance capital development expenditures through, for example, fee-based services. And ULAs have no incentives to look for external sources of financing, whether through partnerships with the private sector or borrowing. For example, most ULAs have limited incentives to rationalize staff or contract out the collection and transport of solid waste to the private sector, given that a reduction in staff would automatically reduce central funding.[79] And despite local authorities having a dedicated financing institution – the Local Loans and Development Fund (LLDF) – ULAs' borrowings from the LLDF constituted less than 1.4 percent of their total receipts in 2008. Current operations of the LLDF are minimal due to inadequate funds, limited management capacity, and a lack of focus on developing bankable projects. The largest LLDF portfolio is with urban councils: borrowing represents 4.5 percent of urban councils' receipts, against 0.5 percent for municipal councils (see table 4). Box 4 overviews the fiscal transfer system.

ULAs face human resource constraints in key positions, such as planning, tax assessment, and engineering due to limited power and resources. While all local authorities have powers to recruit their own staff, hiring is subject to central regulations on approving posts and on replacing personnel when vacancies arise. ULAs experience gaps in human resources in both numbers and technical skills

Table 4 Local revenues by source, 2008 ($ thousands)

Type of local authority	Revenue sources					Total revenue
	Own-source	Stamp duty	LLDF borrowings	Government transfers	Other	
Municipal council	56,624 (55.7%)	13,870 (13.6%)	541 (0.5%)	24,104 (23.7%)	6,599 (6.5%)	101,737
Urban council	12,336 (39.9%)	2,801 (9.1%)	1,388 (4.5%)	7,707 (24.9%)	6,689 (21.7%)	30,922
Pradeshiya sabha	25,286 (23.0%)	18,903 (17.2%)	1,427 (1.3%)	25,987 (23.6%)	38,363 (34.9%)	109,956
Total	94,246 (38.8%)	35,574 (14.7%)	3,355 (1.4%)	57,789 (23.8%)	51,651 (21.3%)	242,616

LLDF is Local Loans and Development Fund.

Note: Share of total revenues in parentheses. Percentages might not sum to total because of rounding.

Source: Provincial councils.

Table 5 Own-source revenue (2010 – budgeted), selected Urban Local Authorities ($ thousands)

Urban local authority	Own-source revenues			Total recurrent revenue
	Property taxation	Other	Total	
Colombo MC	24,887 (50.6%)	6,735 (13.7%)	31,622 (64.2%)	49,221
Dehiwala-Mount Lavinia MC	1,372 (17.5%)	1,153 (14.7%)	2,525 (32.3%)	7,820
Sri Jayawardenapura-Kotte MC	1,313 (26.5%)	615 (12.4%)	1,928 (38.8%)	4,964
Kollonnawa UC	277 (22.7%)	102 (8.4%)	379 (31.1%)	1,219
Jaffna MC	120 (3.4%)	480 (13.6%)	600 (17.0%)	3,525
Galle MC	425 (15.4%)	836 (30.3%)	1,261 (45.7%)	2,756
Trincomalee UC	195 (19.9%)	234 (23.9%)	429 (43.9%)	976

MC is municipal council; UC is urban council.

Note: Share of total recurrent revenues in parentheses. Percentages might not sum to total because of rounding.

Source: Budgets of local authorities.

– particularly in planning, tax assessment, and engineering – and struggle to find candidates to fill approved positions.[80] Most local authorities are up to 10 percent short staffed for approved positions, usually in technical grades. In addition, the staffing of "scheduled posts" is made out of the provincial public service, making ULAs dependent on the availability of required personnel at the provincial level. Local authorities usually compensate for their lack of adequate staff by contracting out technical positions to retired personnel and by recruiting "unscheduled" operational staff with their own funds.

Local staffing needs are not properly assessed. The current system provides ULAs with a cadre of staff that does not meet their needs as service providers. There is a protocol for assessing staffing needs across ULAs, but it is rarely implemented. Also, the absence of horizontal equity in allocating staff undermines the capacity of weaker ULAs. Because central transfers are earmarked for staff salaries and wages, creating posts and hiring personnel have financing implications that have created unbalanced human-resource capacities across ULAs. The current system also introduces a focus on staff numbers rather than on technical qualifications.

Box 4 The fiscal transfer system

The fiscal transfer system introduced by the 13th Amendment to the Constitution was designed as a set of grants to provincial councils and local authorities for recurrent and capital expenditures. The transfers to local authorities are incorporated in the grants to provincial councils and channeled to local authorities through these councils. Transfers are provided through three grants.

- *"Gap-filling" block grants* – unconditional block transfers for assessed recurrent expenditure needs of the provinces. These needs are estimated from the gap between the assessed recurrent expenditures for the fiscal year and the revenue collection target for the year. Block grants amount to about 84 percent of total grant transfers.
- *Criteria-based grants* – formula-based block grants for development expenditures of the provinces. The allocation is based on a provincial index calculated from a set of indicators reflecting population, per capita income, and socioeconomic disparities.
- *Province-specific development grants* – conditional grants for provincial infrastructure development.

The amendment established a Finance Commission to consult with and recommend to government how to allocate annual budget funds to meet the needs of the provinces. The Commission is required to recommend how to apportion these funds among the provinces based on considerations of balanced regional development.

The fiscal transfer system does not address the needs of local authorities directly, being subsumed under the fiscal transfers to the provinces. Further, the fiscal needs of local authorities are assessed from the costs of salaries and wages of staff without an assessment of the overall fiscal requirements for local service provision. Transfers to local authorities are to reimburse the salaries and wages of staff approved by the central government and are incorporated in the block grant as an item of recurrent expenditure needs.

Neither the provinces nor the local authorities engage in systematic medium-term planning and budgeting. Lacking medium-term plans, the provinces' "requests" are only a weak proxy for provincial needs. Locally, the legal requirement to ensure that revenue meets expenditure has resulted in the preparation of balanced budgets.

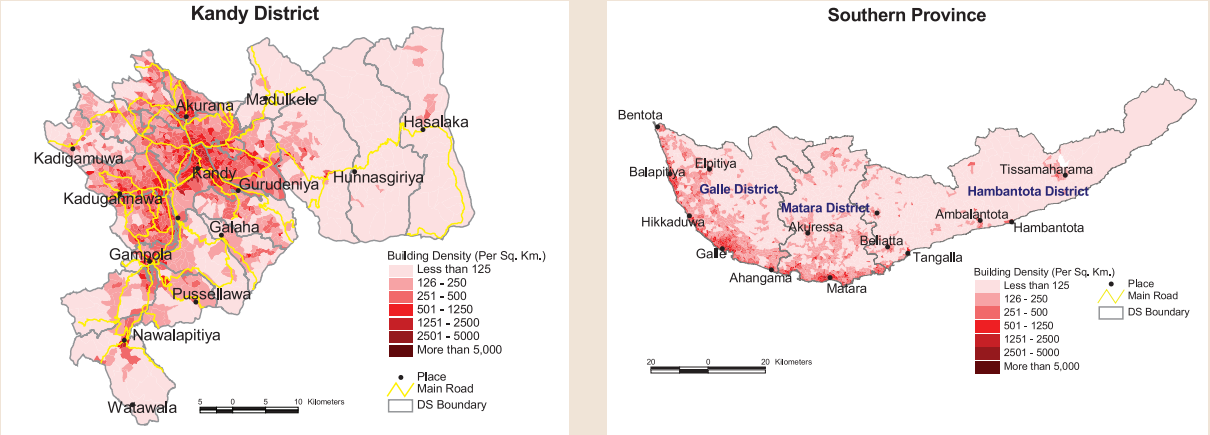
Even though the UDA prepares physical plans, the budgeting process is rarely informed by them, as the investments required to implement the plans' proposals are beyond the ULAs' capacity. The focus of capital expenditure is on small, local infrastructure. Local authorities rely almost completely on capital grants and allocations for financing capital spending. Although the fiscal transfer system does not provide transfers to local authorities for capital spending, local authorities receive capital allocations for specific expenditure items from other sources, such as provincial councils and the decentralized budget allocations of Members of Parliament.

The rising economic and environmental costs of low-density urban sprawl and ribbon development

Low-density sprawl and ribbon development are economically inefficient and environmentally unsustainable. Urban sprawl is transport-intensive and inefficient to service, as vast coverage and low density make infrastructure service delivery uneconomic. Sprawl is difficult to plan and manage, given conflicts over regulatory authority and enforcement of land-use controls. It also raises environmental concerns, as the haphazard expansion is increasing urban settlements' vulnerability to disasters. Cities such as Galle and Colombo are frequently flooded, due partly to haphazard planning that led to inadequate drainage and the poor positioning of settlements. Sprawling settlements are also fragmenting and degrading forests, increasing the number of human–animal conflicts and threatening the country's rich biodiversity – a critical economic asset and a leading draw for tourists. The typical sprawling development pattern is seen in map 6 (and map 3 in chapter 1).

Sprawl and ribbon development also lead to missed economic opportunities. The compact development of cities, supported by high-density urban transport, increases the opportunities for agglomeration economies to form. Promoting efficient land use can also deliver sizable economic benefits by stimulating private investments in land and housing development and by expanding municipal own-source revenue (through greater property taxation). Low-density sprawl and ribbon development are

Map 6 Building density, Kandy District and Southern Province, 2002



MC is municipal council; UC is urban council.
Source: The TMS Company 2011.

reducing the competitiveness of the CMR by raising transport costs for export-oriented manufacturing firms. They are also major constraints for exploiting the resource-based economic drivers of urban centers outside the Western Province (tourism, fisheries and agroprocessing). Kandy is a prime example: it is a World Heritage City that faces unplanned development (apart from the handful of buildings earmarked for conservation).

Urban sprawl stems from regulatory and institutional failures in land markets. Core city areas are short of buildable land and face constraints in mobilizing land efficiently. Private developers find it difficult to assemble large parcels of land for residential, commercial, and industrial development in these areas. The available land is highly fragmented, which limits large-scale development and weakens the potential for local revenue generation. The horizontal expansion of urban centers and their unplanned growth into the suburbs have lifted the costs of providing urban services. Compounding the problem, approval procedures for property development are very complex and time consuming.[81] Still, some actions have been taken to release tracts of land to private developers for urban renewal in the Colombo Metropolitan Area (CMA)[82] (for the Beira Lake development, for example), and administrative functions that occupy large areas in central Colombo are planned to be gradually shifted to Kotte, releasing buildable land for more economically viable purposes.

Sprawl is also caused by inadequate incentives for efficient housing development. Constraints in housing markets have contributed to gentrification of city centers and to sprawling, low-density development on the fringe. In the CMA, most private-led real estate development falls into two categories: high-end condominiums in the center, generally sold for cash in installments during construction;[83] and land subdivision and sale with basic services targeted primarily at upper middle-income groups on the urban fringe. Development of middle-income housing on a large scale is limited, and the formal rental market for the middle class has not yet developed. Another bottleneck to efficient land use is too little serviced land to support compact city development. Beyond that, international evidence indicates that efficient land-use planning is only part of successful compact city strategies, which need support from infrastructure planning and provision, particularly public transport, to prevent the living environment from deteriorating.[84] Moves to increase density with too little infrastructure investment will have a negative impact on urban sustainability.

Kandy is home to The Temple of the Sacred Tooth Relic (Sri Dalada Maligawa), one of the most venerable places for the Buddhist community in Sri Lanka and around the world. It was declared a World Heritage Site by UNESCO in 1988.

Connective and municipal infrastructure bottlenecks – investment backlogs and growing demand

Connectivity needs to be improved, particularly for journey times, between urban nodes. Sri Lanka has a widely spread road network of about 112,000 kilometers (km), which is high for a land area of 65,000 square km and a population of 20 million. The railway network, though not as extensive, has over 1,200 km of track. However, connectivity needs to be improved in "time-measured distance" (rather than physical distance) among the main urban nodes. Three hours to Kandy from Colombo (120 km away), five hours to Anuradhapura (200 km), and six or seven hours to Trincomalee (250 km), for example, are unacceptable, especially if the country is to maintain its competitiveness. The far higher unemployment and poverty rates in the Central Province than in the Western Province, in spite of their physical proximity, exemplify the heavy economic costs of weak connectivity. There is currently no formal arrangement for integrated planning and coordination of the transport sector. Informal arrangements for coordination, planning, and segregation among transport sector institutions have led to piecemeal solutions to integrated transport planning.[85]

The environmental infrastructure of Sri Lanka's cities, including solid waste, drainage, and sewerage, is inadequate. It must be strengthened to help cities develop as ecotourism destinations and to protect the nation's environmental assets. In tourist areas an integrated package of these activities – municipal solid waste collection and disposal, flood and drainage management, and expansion of sewerage facilities – is needed to ensure that national and international visitors find the areas attractive.

Municipal solid waste collection is not keeping up with urbanization, and unsanitary disposal of municipal waste is a serious environmental hazard. On average, only 30 percent of solid waste generated is collected by truck, with rates of 9–64 percent and a wide variation between rural and urban areas.[86] Sri Lanka has no environmentally acceptable waste disposal facilities, and toxic waste is not safely disposed.[87] Colombo produces about 700–800 tons of garbage a day, and there are no proper sanitary landfill sites for disposal.[88, 89] In Colombo, as well as Galle, Kandy, and many other cities, solid waste disposal has reached its saturation point, and the municipal councils do not have suitable land for it, nor enough employees and vehicles for daily collection and transport, in spite of the fact that some cities, including Colombo, have started outsourcing waste collection to the private sector.[90] Uncontrolled dumping also constitutes a major environmental hazard, as the unsanitary disposal of solid waste tends to block natural drainage – reducing flood-retention capabilities, increasing the likelihood of urban flooding, and degrading land due to leachate seepage. In Kandy, the dumping site at Gohagoda is only 63 meters from the Mahaweli River and is next to a water intake. In Jaffna, two dumping sites are in low-lying areas, and another is right in Jaffna's lagoon.[91] In Galle, the disposal site is on the coastal belt.

Better flood and drainage management is needed to reduce the economic costs of repeated urban flooding. The CMA and other cities on the coastal belt – such as Galle, Trincomalee, and Jaffna – are vulnerable to flooding. While rainfall frequency has almost doubled in Sri Lanka over the last 30 years, investments in drainage systems have lagged, rendering cities vulnerable (box 5). Sri Lanka's National Climate Change Adaptation Strategy identifies drainage improvement as a high priority for investment in virtually all urban settlements. It states that more than 1 million people live in areas highly vulnerable to floods – around 25 percent of them in temporary dwellings – and that the rainfall intensity curves used by engineers for planning and designing drainage infrastructure, dating

Box 5 Vulnerability of Sri Lanka's cities to disasters

Several of Sri Lanka's cities are vulnerable to natural disasters. The main hazards are floods, landslides, coastal erosion, drought, and cyclones. Flooding is the most recurrent. In 2010–11, Sri Lanka had four major floods in less than a calendar year. In May 2010, flooding hit 672,000 people in southern and western Sri Lanka, killing 22 and damaging 900 homes. In November 2010, the densely populated western plains had their second flood in under six months, affecting more than 315,000 people. In January and February 2011, low-lying areas on the eastern coast saw the worst flooding yet, as torrential rain forced more than 1.2 million people from their homes.

These recent floods have had a high socioeconomic impact on large segments of the population and economy in the CMA. Vulnerability of housing and transport infrastructure to flooding is higher in the CMA than anywhere else in Sri Lanka. A postflood assessment in May 2010 estimated the overall economic cost of the flooding at $50.6 million, including destruction of physical assets and economic costs. The economic losses accounted for 54 percent of the total impact, mainly borne by the private sector. The causes of the increased severity and frequency of urban flooding are complex, spanning from inadequate land use and planning to underdeveloped and poorly maintained drainage systems and changes in climate patterns. In the CMA, urban growth – coupled with unplanned patterns of human settlements and land use – has led to encroachment on canal reservations, further raising risks of flooding.

Urban centers outside the Western Province are not spared. The aftereffects of flooding are especially dire in densely populated urban coastal settlements, especially Ampara, Batticaloa, Galle, Jaffna, and Trincomalee. The eastern cities of Ampara and Batticaloa were among the worst affected by the recent flooding. Vulnerability to natural disasters is also high in Galle, Hambantota, Jaffna, Kalutara, Moratuwa, Ratnapura, and Trincomalee. Galle, for example, floods an average of four times a year, as it is below sea level.[1] In the hill areas, landslides caused by heavy rainfall are a major natural hazard. In Kandy District, more than 670 places have been identified as at risk of landslides, 50 percent of them as high risk.

Note:

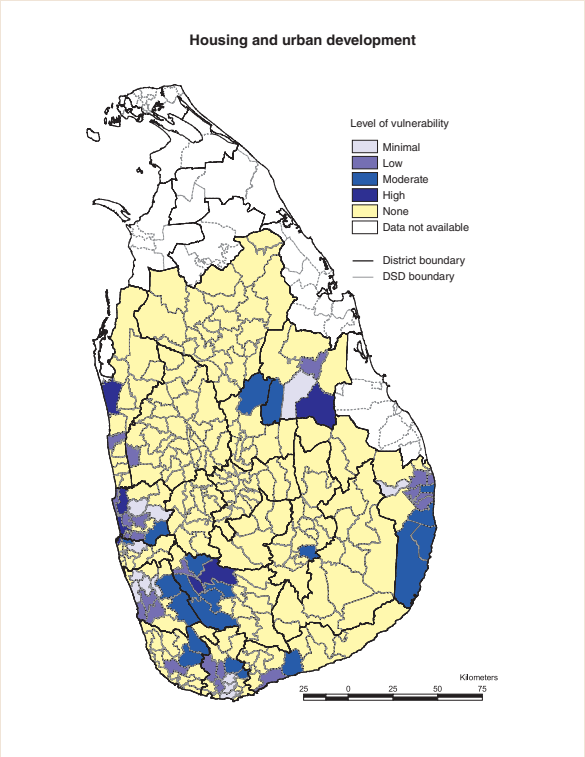
1. Asian Disaster Preparedness Center 2008.

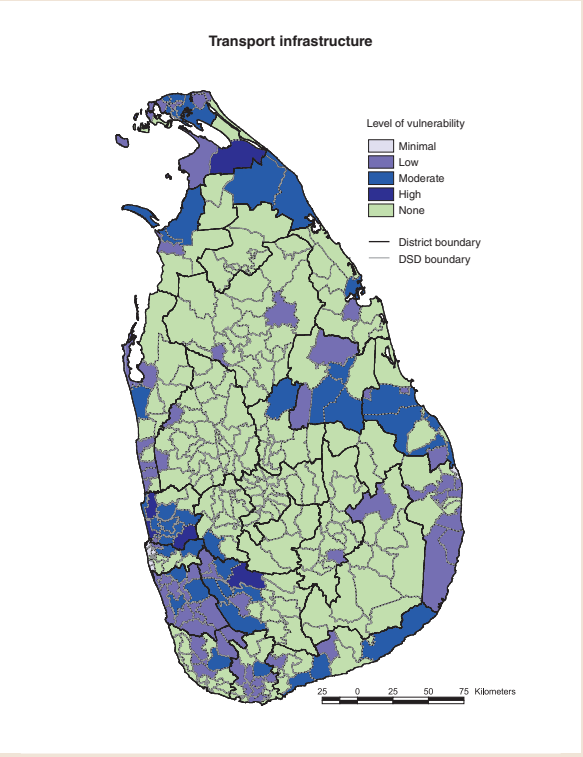
Source: UN 2010.

from 1976, urgently need updating to account for changing climate patterns.[92] These patterns and associated higher rainfall also pose threats to urban transport infrastructure (map 7).

Sewerage facilities need to be expanded to cope with rising population densities. Sri Lanka's access to improved sanitation reached 91 percent in 2008, with the highest in Colombo and Gampaha (96 percent) and the lowest in Batticaloa (57 percent).[93] But though access is high, the system cannot cope with cities' growth. The Colombo Municipal Council is the only local authority with a sewerage network; its access rate is estimated at 80 percent, and part of the system requires urgent repair.[94] The Asian Development Bank–funded Colombo Sewerage Project to rehabilitate the system is now under way. This investment, however, only covers Colombo. In most other areas, the current system of septic-tank sewerage management is becoming less and less sustainable due to a lack of regulation of septic systems, contamination of groundwater, and improper sludge disposal. Inadequate sewerage services also encourage uncontrolled discharge of sewage into waterways and marshes, and the discharge of pollutants by factories is poorly controlled. In Colombo, domestic wastewater in the sewered part of the city is discharged to the ocean after only primary treatment. While most urban centers outside the Western Province have not yet reached the minimum density required to make a sewerage network economically viable, investments in sewerage infrastructure to cope with increasing densities will be required in a number of cities over the coming years, in particular tourist centers. Sewerage systems are being developed in Kandy, Pasikkuda, and Hikkaduwa.[95] Tariff

Map 7 Housing and urban development and transport infrastructure vulnerable to flooding, 2011





DSD is District Secretary's Division.

Source: Sri Lanka Ministry of Environment and Natural Resources 2011.

structures and sustainable management arrangements for sewerage systems are critical challenges that need to be addressed as sewerage networks are developed in the cities.

The sustainability of urban water supply systems requires better management of available water resources. The absence of integrated and systematic management of water resources at a macro level is a concern for sustaining urban water supply systems nationally. While access to water supply is high across the country, there is a need to continue to improve the efficiency, financial sustainability, and accountability of urban service providers, primarily the NWSDB, and to upgrade the quality of water supply, primarily in the Northern and Eastern Provinces. Most of the population in the Jaffna area relies on water from open and shallow wells on their premises. Less than half the population is supplied with piped water through standposts from two wells. Because of Jaffna's unique topography and morphology, the peninsula depends primarily on groundwater resources, not only for drinking water but also for many other uses, including agriculture. The aquifer is at risk because of bacterial contamination resulting from inadequate sanitation and nutrient contamination from agricultural runoff. Excessive extraction of groundwater has also led to salinity intrusion. The NWSDB has investment projects, funded by the Asian Development Bank, to improve water supply and sanitation in Jaffna, Kilinochchi, and parts of Trincomalee District, and they are expected to yield improvements in supply infrastructure within the next three to four years.[96]

Urban transport is a key contributor to city competitiveness, but much has to be done to improve public transport in the main cities. As per capita income is expected to continue climbing, most families will be able to afford a private vehicle. This will put enormous pressure on the transport infrastructure, especially the road network in urban and suburban areas where economic growth is concentrated. The share of public transport among different vehicle modes remains very high in

Sri Lankan people on a street in Colombo

Sri Lankan cities compared with other cities in South Asia, but it has been falling because quality and reliability are insufficient. And although pollution and traffic congestion have yet to become major problems in most cities, in the CMR alone the annual costs of congestion are estimated at $286 million.[97] Quality, reliability, and frequency of public transport – in both the CMR and major cities across the country – need to be stepped up, including for bus and train services. Additionally, road safety has been deteriorating due to lack of pedestrian facilities, of road safety awareness, and of enforcement of traffic rules. Accident costs in the country are estimated at $275 million a year, with about 2,600 road traffic fatalities.[98]

Substantial interventions are required to enable efficient use of urban roads. The World Bank (2011a) estimates an annual investment requirement in urban roads of about 0.2–0.3 percent of GDP over the next decade. Maintenance and rehabilitation of roads should be given priority. Beyond that, regulation of buses and three-wheelers, promotion of public transport, construction of suburban multimodal passenger and freight nodes (to divert traffic from congested economic centers), better traffic management, and intelligent transport systems are required to promote efficient use of road space and to reduce congestion, pollution, and road accidents. Road user fees and congestion pricing (fuel taxes, parking fees, peak-hour charges) could also be adopted to make users pay for the public costs of private vehicles' use.

Adequate and Affordable Urban Shelter for All Vision

Lack of coherent long-term policy on the role of government in low-income housing

The government performs multiple functions in the low-income housing markets as a policymaker and regulatory authority, a housing promoter and financer, and a housing and infrastructure developer. In addition to urban local governments, the National Housing Development Agency, the UDA, and the Urban Settlements Development Authority are the main government agencies involved in low-income housing, but their mandates often overlap and their functions evolve as a result of changes in government funding and the lack of a coherent long-term policy on housing (box 6). In

Box 6 Low-income housing – institutional setting and main government programs

Three main agencies are involved in low-income housing:

- The National Housing Development Agency (NHDA) is the national government entity that implements government housing policy. It was established in 1979 to help expand housing by providing small, subsidized loans and the necessary infrastructure in new housing developments, including roads and water. After government subsidies were curtailed in the mid-1990s, the NHDA had to redirect most of its operations to middle-income groups.
- The UDA is, among its other functions, responsible for addressing low-income housing needs, but with an exclusively urban focus. It does not receive budget transfers, except for special projects. It manages and develops government-owned land and infrastructure, frequently working with private developers (in which case it provides the land) or municipal governments (for which it develops municipal government land). The UDA has the power to designate "special development areas" for land parcels below six perches (150 square meters). As with the NHDA, most low-income programs were curtailed until the recent launch of the new low-income housing program for Colombo, as part of the urban regeneration agenda for the CMA.
- The Urban Settlements Development Authority operates under the Ministry of Housing and works with the UDA in Colombo for community mobilization. Its resources used to come from a development levy (cess) on UDA property development, but this is no longer the case and its resources are limited.

the past and until the recent launch of the new low-income housing program in Colombo, cuts in government funding led to relative neglect of the lowest income groups, as agencies shifted their focus to commercially viable income groups.

Regulatory and transport bottlenecks inhibiting housing development

The regulatory environment is holding back development of a land market. A workable legal and regulatory framework is central to providing the enabling policy environment for developing a land market. The main prerequisites are an efficient mix of public and private land ownership, a functional land registration and titling system, and an information system on land prices and property valuation. In Sri Lanka, the government is the primary landowner in urban areas, and most land that can be developed is owned by the government. Developers looking to assemble tracts of land are therefore highly dependent on the release of land by government agencies, especially to deliver clear titles to land. There is no appropriate information system on land transactions. Sri Lanka does have a comprehensive land registration system that records transactions to serve as evidence of rights, but it provides no guarantees of rights.[99] Additionally, processing time for permits can be long and uncertain – for example, it takes 18 months to get a building permit and another 7–8 months to get a condominium permit and land title. Property registration is lengthy and cumbersome, at an average of 83 days and eight procedures and costing 5.1 percent of the property value. Registration fees and stamp duties are high.[100] Finally, supply of formal low-income rental housing has not developed, partly because of strong tenant protection against eviction in laws such as the Protection of Leaseholders Act (1959), the Rent Act (1972), and the Ceiling on Housing Property Law (1973).

Uncertainty related to the security of land tenure is widespread in underserved settlements. Only 10 percent of urban land parcels are either legally occupied but not registered or surveyed, or informally occupied without any legal title.[101] However, in practice there are several gradations in the types of recognition of rights to land in underserved settlements, each providing different levels of security of land tenure. Underserved settlements are broadly classified by the legal status of occupancy in slums and shanties. Slums are tenements of permanent structures in run-down condition where dwellers have legal status of occupancy; shanties are improvised shelters built without any legal rights of occupancy and spread along canal reservations, low-lying areas, and other hazard-prone sites. The range of tenure arrangements creates uncertainty over the "quality" of the right to land and reflects the absence of a coherent, national policy to rationalize tenure regularization. In Colombo, different tenure arrangements stem largely from the variety of programs carried out over the last 30 years. A recent survey of flood-prone low-income settlements in Colombo shows that 90 percent of the surveyed shanty community lives on land owned by the municipal council or the government.[102]

The absence of an adequate urban transport network linking core areas to the periphery is an obstacle to developing an affordable low-income housing market. A transport policy that focuses on the mobility needs of low-income households is essential for developing such a market. A 2007 survey of transport and housing options in Colombo indicated that available and affordable land for low-income communities on the periphery was far from the main transport corridors and not served by public transport. Commuting time between residence and work was highly correlated with income, proving that only those who had higher incomes could afford to seek employment away from their community. The majority of low-income households worked in core urban areas as casual laborers. Poor core–periphery transport forced low-income households to live in informal settlements – the only affordable option in the city center – and made it hard for developers to attract low-income buyers or renters to housing outside the city center.[103]

Limited supply of housing finance for the low-income housing market

Financing options for bankable low-income households are few. Buyers, developers, and finance institutions all face difficulties in accessing and providing finance for low-income housing. The 20 percent of low-income earners who have regular employment could potentially access loans for finished housing from private commercial banks,[104] though they have limited options. This is because banks are not eager to finance housing development, due to the complications of obtaining clean title to the land (given uncertainty on land tenure) and to low profits from such small loans. The formal housing market thus caters to buyers who can pay cash from savings or can obtain a personal loan until the title is assigned on completion, leaving the developer market largely inactive in the bankable low-income housing segment. Low-income housing schemes are not commercially viable projects for private developers because of the limited access to finance and the high price of land in major cities.

The formal market for "incremental housing" is underdeveloped. About 60 percent of the country's population cannot afford housing finance and so cannot access the market for finished houses.[105] Housing microfinance institutions respond to the needs of these households by offering small loans for home repair, incremental home construction, or home improvements. Yet total deposits of the entire industry in Sri Lanka are only about 0.1 percent of the assets held by financial institutions.[106] The main blockage for products for incremental housing is the uncertainty over secure tenure in underserved settlements. So here, too, banks are reluctant to provide funding without credit enhancements or guarantees.

The risk-management system for low-income housing finance is inadequate. Poor mechanisms for credit information and scoring are hampering housing finance, preventing a private mortgage-default insurance market from building. High rates of nonperforming loans reflect the inability of financial intermediaries to manage risks well, particularly for state housing banks. A recent pilot, however, suggests that enhancing credit to banks could unlock capital for low-income housing. Lanka Financial Services for Underserved Settlements (LFSUS) – a company specializing in credit guarantees – was established as a partnership between the government and UN-HABITAT. LFSUS mobilizes resources for financing countrywide affordable housing initiatives to improve the living standards of low-income settlers, through the development of bankable projects that promote affordable low-income housing. It operates independently as a credit enhancement facility, encouraging both public and private investments to support microfinance institutions by providing guarantees for housing credit from commercial banks and other financial institutions. LFSUS has an initial capital of $1.4 million (provided as seed capital by UN-HABITAT), and up to now guarantees have been provided to 1,400 families so that they can gain access to formal housing credit.[107]

Chapter 5

The government's recent urban initiatives

The government has taken steps to realize the Mahinda Chintana Urban Vision by improving connectivity and launching urban renewal initiatives in the CMA and urban centers outside the Western Province. The initiatives' long-term sustainability will depend on the government's commitment to addressing fundamental institutional and policy constraints, as well as physical infrastructure needs. The initiatives also require a strong long-term economic vision for urban areas at national, regional, and urban levels.

The government has recently renewed its attention to low-income housing by launching a new Sustainable Township Program in Colombo. To succeed, this program needs to solve the design problems that plagued the original Sustainable Housing Program in the 1990s and must be backed by policy initiatives that address institutional and policy failures in housing.

System of Competitive Cities Vision

The achievement of Sri Lanka's System of Competitive Cities Vision depends on connecting the metro regions and cities to each other and to global markets. Sri Lanka has taken important steps in this direction. The construction of a countrywide expressway network is proceeding, together with accelerated rehabilitation of both national and provincial roads across the country. The first link – the Southern Expressway from Colombo to Galle – was completed in 2011 and is expected to reduce travel time by one hour. The expressway is planned to be extended to Matara and to Hambantota. In the north, the road network is being upgraded. There are proposals to build expressways and improve highways to Kandy and to Jaffna – and in the longer term to link Hambantota and Trincomalee. Rehabilitation of the Northern railway and construction of domestic airports will also improve connectivity.

Moves to improve external connectivity are afoot. The ongoing South Port Expansion project in the Colombo Port is expected to increase capacity from 4 million twenty-foot equivalent units today to 12 million by 2020. An international seaport has been constructed in Hambantota, where the country's second international airport is to be opened in November 2012. Port-related services are also planned to be improved in the northern and the eastern parts of the country. For example, an inland container depot is being planned in Peliyagoda on the northern outskirts of Colombo.[108]

The government has made important strides to implement the Mahinda Chintana Urban Vision in the CMA. It has launched a metrowide integrated urban renewal initiative, under the Ministry of Defence and Urban Development, for transforming Colombo and its metropolitan area into a modern, world-class, slum-free economic hub. The focus of the program is rehabilitating and enhancing environmental and transport infrastructure in Colombo and its neighboring municipalities, regenerating the historic city center, beautifying the city, and developing the waterfront. As part of this initiative, the local

authorities forming the CMA have launched a green city growth program to develop a comprehensive metrowide transformation program with monitorable emissions reductions that will provide the CMA with greater access to development finance, such as carbon funds (see box 11 in chapter 6). Improving the livelihoods of the urban poor is also a core component of the urban renewal initiative, in line with the Mahinda Chintana goal of sharing the benefits of growth across all segments of the population.

The government's policy in support of urban centers outside the Western Province changed with the end of the conflict. Previously, government attempts to revitalize the economies of lagging regions focused on incentives to relocate economic activities to distant locations. The incentives did not achieve the intended results (box 7). While the Mahinda Chintana proposes to continue granting special incentives for industrial relocation outside the CMR, some urban renewal initiatives to help urban centers outside the Western Province realize their economic potential have recently been launched, marking a change in policy direction. The National Physical Planning Department, coordinating with the provinces, has started to prepare metro region plans at the provincial level; urban renewal programs are either in the pipeline or being implemented by the UDA in several urban centers outside the Western Province (box 8).

Box 7 Past initiatives: lagging regions' relocation incentives

The Board of Investment has offered incentives under the 200 Garment Factory Program and the 300 Enterprise Development Program to locate industrial activities in backward areas and spread the benefits of industry more evenly around the country.

But these initiatives have not generated the expected results. For example, 80 percent of investments approved under the former program were made in Western Province, not in lagging areas, and investments in the latter program – of more than SL Rs 21 billion out of the SL Rs 44 billion available – were approved in North-Western Province (which is next to Western Province).[1]

Note:

1. Samarappulli and Dickman 2010.

Source: World Bank 2010a, 2011a.

To succeed, the urban renewal initiatives need to be based on a long-term unified and strategic economic vision at the national, regional, and urban levels. They should also reflect the country's and cities' comparative economic advantages and be based on a strong partnership with the private sector and local stakeholders. Although the metro regions are conceived as economic entities rather than administrative areas in the National Physical Planning Policy and Plan 2011–2030,[109] the economic dimension of regional and urban development is seldom given adequate prominence. For example, although urban renewal programs have already been launched in several urban centers, regional strategic plans to develop the metro regions and cities in line with their national priorities and comparative advantages have not been finalized. Without long-term economic visions in the regions, the outcome of urban renewal may be inconsistent with those for the province and the country. The Southern Province is a case in point. Three urban centers are emerging as main growth drivers there – Galle, Hambantota, and Matara. While the UDA has drafted urban development programs for each city, a unifying strategy that identifies the cities' regional economic functions (including complementarities and economic linkages) is still needed.

A unifying economic vision from the country to the city level is also critical for avoiding suboptimal economic outcomes that are environmentally unsustainable. Trincomalee is a prime example. The vision is to transform the urban center into an ecotourism destination and industrial hub,

Box 8 The government's urban regeneration programs – urban centers outside the Western Province

The government has launched several high-priority regional development programs to create the enabling environment for revitalizing cities outside the Western Province, focusing on revamping connective and municipal infrastructure and improving the regional investment climate. Each has its own vision.

Greater Hambantota Development Program. Develop Greater Hambantota as a regional industrial, transport, and tourism hub. The vision for this program is to transform Hambantota into a southern growth pole, the second international gateway through ports and airports, and a tourism hub due to its proximity to national parks and archaeological sites. Infrastructure projects include an international port and airport, a highway to Colombo, an extension of the railway, industrial estates, an oil refinery, power stations, and social infrastructure (such as schools and hospitals).

Greater Galle Development Program. Promote the conservation of Galle's cultural heritage within a policy framework of sustainability. Galle Heritage City, including Galle Fort and its environs, is one of the seven sites in Sri Lanka with World Heritage status. Infrastructure projects include Galle Port, investments in the cement industry and tourism, and education services, such as schools, a technical college, and branches of universities.

Greater Dambulla Development Program. Transform Dambulla into a metro area based on agriculture and tourism. The program aims to convert Dambulla into a regional tourist hub, a domestic transit and logistics hub, and a trade city based on primary agriculture, by tapping into its direct links to major regional agricultural centers.

Greater Matara Development Program. Create an urban region that stimulates sustainable economic growth in Southern Sri Lanka. The vision here is to strengthen the role of Matara City as a regional trade and service center, supporting the many companies based in Colombo that have already opened branches in Matara. Some of the infrastructure projects are in social infrastructure reconstruction, tourism development, housing, and physical infrastructure (water supply, electricity, roads).

Trincomalee Metro Development Program. Create peace, harmony, and integrity through economic development, while retaining the environmental and sociocultural heritage of the city. The program intends to convert Trincomalee into a port and industrial zone, providing opportunities to develop industries in port-related activities, oil refining, power generation, and fisheries. Infrastructure projects include a coal-fired power plant, a special economic zone, roads, tourist resorts, the development of commercial farming, improved market facilities, and upgraded fisheries.

Source: Sri Lanka Urban Development Authority website (www.uda.page.tl).

but combining these two functions in one city requires an in-depth economic and environmental assessment of options to ensure efficient and sustainable outcomes. For example, the plan to build heavy industries, such as cement plants and oil storage facilities, in Trincomalee as well as the country's second-largest coal-fired power plant in Sampur, on the outskirts of the city, will greatly dim prospects of developing Trincomalee as a beach and ecotourism destination. The economic losses to the tourism sector would therefore need to be weighed against the benefits of the power plant. Costa Rica is a good example of a resource-rich country that has mainstreamed its "eco-country vision" into its development strategy, turning it into reality (box 9).[110]

The long-term sustainability of urban renewal initiatives will depend on the government's commitment to addressing institutional and policy constraints to leverage the benefits of infrastructure investments. The urban renewal programs are important steps in pursuing the government's vision for Sri Lanka's cities. When there is evidence of unrealized economic potential – as with most of Sri Lanka's cities – central and local public agencies can play an important role by coordinating private actors' initiatives around emerging clusters and by helping cities capitalize on their natural competitive advantages. The move from public relocation incentive schemes to regional development programs is a welcome change in government policy. While the renewal initiatives focus mainly on improving physical urban infrastructure, their long-term sustainability will depend on the government's commitment to leveraging the benefits of urban infrastructure investments by addressing fundamental institutional and policy constraints in city management and finance, urban planning, and land and housing development.

Box 9 Costa Rica's ecotourism model

By the early 1990s, Costa Rica had become one of the first world-class ecotourism destinations, harnessing the economic opportunities nested in its unique and diverse ecosystem. Tourism had surpassed banana and coffee production to become the country's leading foreign exchange earner. Tourism has since evolved, shifting its focus from small ecolodges toward a broader range of services, including hotels, tour operators, and attractions while ensuring adherence to high environmental and social standards centered on long-term sustainability. The Certification for Sustainable Tourism, a voluntary government program for hotel and tour operators, and the Ecological Blue Flag – the counterpart to measure beach safety and water quality conditions – were two tools to ensure compliance with environmental and social standards.

The ecotourism industry has benefited from large infrastructure projects, financed with public and private resources, that have transformed the socioeconomic landscape of Costa Rica's Pacific coast. Regions such as Playa Grande–Tamarindo, Puntarenas, and Herradura–Jaco have seen a heavy influx of foreign and public investment in economic (roads, airport), water, and social (housing, police, education, health) infrastructure. Several highways linking local road networks have improved mobility between regions. Construction of the Liberia international airport, part of the ecotourism strategy, was key in helping reduce poverty and create jobs in the Guanacaste region.

Costa Rica has fortified its conservation efforts by creating national parks and by supporting private parks such as the popular Monteverde Cloud Forest Reserve. Entry fees and other types of revenue give protected land more economic value than if it were deforested.[1] Costa Rica's travel and tourism contribution to total employment rose from 8.8 percent in 1988 to 15.4 percent in 2007, and the sector's contribution to GDP increased from 9.8 percent to 16.6 percent over the same period. Although the global economic crisis subsequently hindered growth, the sector bounced back in 2011.

Note:

1. Weaver 1999.

Source: Center for Responsible Travel 2010; World Travel and Tourism Council 2011.

Adequate and Affordable Urban Shelter for All Vision

The government recently renewed its attention to low-income housing by launching a new Sustainable Township Program in Colombo, as part of the urban renewal initiative for the CMA. The program aims to build approximately 41,000[111] housing units over a five-year period[112] to rehouse shanty and slum dwellers and release valuable land for urban development. Funds for this program are expected to come from sales of released land and from government. The new initiative mirrors the design of the Sustainable Township Program of the 1990s, in which slum dwellers could voluntarily exchange their dwellings and occupied land for high-rise apartment blocks.[113] But that program did not succeed because of inadequate building maintenance – mainly due to lack of professional property management companies – and delays in providing the resettled households with access to basic services. Two successful earlier projects stand out, however: the Clean Settlements Project – a slum upgrading initiative piloted in the mid-1990s under the World Bank–funded Greater Colombo Environment Improvement Project – and the Lunawa Project, which put Sri Lanka's National Involuntary Resettlement Policy into practice (box 10).

To succeed, the new Sustainable Township Program needs to find solutions to the problems that plagued the earlier program and address institutional and policy failures in the housing sector. The new program departs from the previous initiative in its stronger political commitment to regenerating the CMA and to provide all urban dwellers with adequate housing within the city limits. Yet its long-term sustainability requires an equal commitment to addressing the basic institutional and policy failures in the low-income housing market. Developing successful products that meet the demand of people in this market requires a coherent national housing policy that addresses these failures – outlined in the next section.

Box 10 The Lunawa Project

Developing creative and sustainable solutions to tackle the twin pressures of infrastructure needs and affected communities' interests is a challenge that has been met by the innovative Lunawa Environment Improvement and Community Development Project.

In 2001, Sri Lanka took the lead in the developing world by formulating a state-of-the-art National Involuntary Resettlement Policy aimed at minimizing the impacts of involuntary resettlement. The new policy was put into practice through the Lunawa Project.

Project innovations began with criteria used to define project-affected persons. Not only were those with formal legal rights to land entitled to compensation, but also those with claims to the land and those who had been occupying the land at the time of the project's socioeconomic survey. The project also changed the approach used to determine compensation packages: resettled households received security of title, entitlements were determined through consultation with the people affected, and resettlement sites were prepared through community contracts. Under the contracts, these people were responsible for construction of the new housing units, with technical inputs from project staff. Entitlement packages were designed to restore livelihoods.

The Lunawa Project also raised community involvement in infrastructure projects to a new level, using community development committees. These committees became legal entities to help with project tasks and to implement their own development activities.

Source: UN-HABITAT 2009a.

Colombo

Chapter 6

Policy directions

Achieving the Mahinda Chintana Urban Vision calls for systemwide institutional and policy reforms to leverage the economic benefits of improved regional and urban infrastructure, with the objective of moving toward strategic and integrated regional and urban planning; ensuring the financial sustainability of the infrastructure investments; repositioning ULAs as competent and accountable service providers while improving regional coordination in urban service provision; and promoting efficient and inclusive land and housing development for improved city livability.

Systemwide institutional and policy reforms are needed to leverage the economic benefits of regional and urban infrastructure investments. The focus on physical infrastructure is essential for achieving the Urban Vision, but it is not sufficient. Achieving the Vision will ultimately depend on the government's commitment to implement systemwide institutional and policy reforms to ensure the long-term sustainability of the recent urban renewal initiatives. This in turn calls for an integrated approach based on the four pillars listed below and in table 6, along with their associated goals, policy directions, and priority actions.

- ***Strategic and integrated national, regional, and urban planning.*** Moving toward a strategic and integrated planning approach, at the national, regional, and urban levels, is a priority to enable the efficient growth and environmentally sustainable development of metro regions and cities.
- ***Sustainable financing and improvements of regional and urban infrastructure.*** Policy and institutional reforms need to be accompanied by a financing strategy for sustainable improvements of regional and urban infrastructure for greater city efficiency, competitiveness, and high-quality, sustainable, and inclusive urban services.
- ***New tools for performance-based city management and finance.*** Achieving the Mahinda Chintana Urban Vision is contingent on the capacity of the ULAs to deliver high-quality services to their constituents. Given the systemic constraints faced by cities in performing their functions, building such capacity requires institutional and policy reforms.
- ***Efficient and sustainable land and housing development for improved city livability.*** Developing land and housing – both efficiently and sustainably – can deliver sizable economic benefits by stimulating private investment. A solution to inclusive housing can only be found in the context of a coherent long-term housing strategy and policy that targets the housing needs of all income groups and spells out the role of public and private actors in the market.

Pillar I: Strategic and integrated national, regional, and urban planning

I.I Develop strategic and integrated national, regional, and urban plans

Mainstream economic considerations into the preparation of the national, regional, and urban plans. The strategic plans for the metro regions – currently being prepared by the National Physical Planning Department coordinating with the provinces – need to be anchored on a national- and provincial-level vision and strategy for Sri Lanka's cities that support economic specialization and complementarities among regions and urban areas. Such anchoring will require that economic considerations be mainstreamed into the planning through assessing in detail the growth drivers of the metro regions and cities and closely involving the private sector in the planning. This approach will ensure that the physical and economic regeneration of the metro regions are mutually reinforcing processes – and based on coherent and environmentally sustainable economic visions for the country, regions, and cities. A sound assessment of the economic drivers of the metro regions will also help identify catalytic regional investments for enhancing competitiveness and avoiding the risk of "overdesigning" infrastructure for nascent metro cities.

Integrate environmental factors in the development of urban plans and land management guidelines. The increasing vulnerability of Sri Lanka's cities to natural disasters and their high socioeconomic losses calls for a shift in environmental planning for disaster management. This would require moving from a response-based approach to a proactive strategy focused on disaster preparedness and risk mitigation, mainstreaming risk mitigation in urban development plans and promoting a multisectoral approach to disaster management. The urban plans should pay special attention to the increased incidence of disasters associated with changing climatic conditions, such as landslides, floods, and droughts. In expanding urban centers, special regulations should be introduced and enforced to encourage land use that protects and enhances the surrounding environment and reduces vulnerability to disasters. Careful management of environmental impacts is particularly important in the central fragile hill area and urban coastal areas. Mainstreaming low-carbon, high-efficiency technologies into city planning and management is a win-win solution to reduce costs and mitigate the impact of climate change (box 11).

I.II Realign planning functions at the regional and urban levels

Strengthen the leadership role of the provincial councils in the preparation and implementation of regional plans. The leadership of the provinces needs to be strengthened in planning for metro regions' sustainable development. Provinces are the best equipped tier of government for preparing and implementing these plans. And entrusting provincial councils with metro planning is consistent with the Mahinda Chintana goal of strengthening regional planning to foster the economic growth, infrastructure endowment, and administrative capacity of the provinces.[114] It will also allow the metro regions to capture synergies and economic linkages between their urban and rural areas. Since one of the metro regions – the North-Central – straddles the territorial jurisdiction of three provinces (the Central and Eastern Provinces are the other two), joint territorial planning and development mechanisms for the provinces would need to be established as per the planning laws.

Delegate urban planning functions to ULAs, while refocusing the UDA's mandate on its high-level strategic role as a regulator. Planning functions need to be gradually delegated from the UDA to the ULAs tasked with implementing the plans as local capacity improves.[115] Refocusing the UDA's mandate would allow the central agency to concentrate its resources on two, more strategic tasks: providing planning advice as well as technical and financial assistance to ULAs in preparing urban development plans; and developing the national regulatory framework for efficient land management. In the short

Box 11 Green growth programs in cities

Cities and urban agglomerations, housing more than 50 percent of the global population, contribute more than 70 percent of global greenhouse gas emissions. As the share of the urban population grows, sustainable urban development becomes an essential component in addressing climate change. Mitigation often comes with high costs, and carbon finance has an important role to play in reducing them.

The global carbon market is going through a paradigm shift, from before 2012 when the Clean Development Mechanism was the single major instrument, to the post-2012 period when various new market instruments for greenhouse gas emission reductions are being developed. Some of the new instruments, especially policy-crediting instruments, are much more easily accessible to city authorities. Many cities in developed and developing countries, such as Amman, Mexico City, New York City, and Rio de Janeiro, are voluntarily adopting mitigation targets as they realize the direct local benefits of these measures to cut costs, save energy, and meet the broader goal of addressing climate change.

A green city growth program is a greenhouse gas mitigation program at the urban/metropolitan level, covering from one to all of energy, transport, solid waste, water and wastewater, and urban forestry. It also helps municipal authorities bring together various sources of financing and coordinate with multiple implementing agencies within the municipal boundaries. As city budgets are generally limited, it is important for city authorities to identify dedicated sources of revenue (such as carbon finance) to raise resources and justify expenditure on high-efficiency/low-carbon technologies. Amman, Mexico City, and Rio de Janeiro have set up green growth programs. Typical low-carbon projects in such programs are in the box table.

Transport	Energy	Waste
• Bike sharing • Bus rapid transit (modal shift) • Retrofit of existing vehicles • Electric vehicles, fuel-switching • Integrated citywide transport emissions inventory	• Compact fluorescent lamps, light emitting diode bulbs • Street lighting, water pumping • Building energy efficiency	• Landfill gas • Decentralized small composting plants • Recycling plastic • Integrated solid waste management

The Mexico City Climate Change Action Plan, a green city growth program, aims to "integrate, coordinate, and encourage public actions in the capital city to diminish environmental, social, and economic risks stemming from climate change and to promote the welfare of the population through the reduction and capture of greenhouse gas emissions." The targets are to reduce carbon dioxide equivalent emissions by 7 million tons over 2008–12 and implement a fully integrated program for adaptation to climate change in Mexico City by 2012.

The Colombo Green Growth Program, currently in preparation, is an initiative of the local authorities forming the CMA. It gives to the CMA the flexibility to create a greenhouse gas mitigation program as part of a single, comprehensive effort. Once a program is established, sector departments and agencies would propose low-carbon, high-efficiency technology interventions over the lifetime of the program. Developing a comprehensive citywide "transformation program" with monitorable emission reductions would provide the CMA with greater access to development funds, such as carbon funds. The CMA could use these funds to recover the additional cost of financing low-carbon interventions, support effective implementation of mitigation policies and regulations, and develop the capacity to carry out rigorous assessment and monitoring of emission-reduction benefits.

Source: World Bank Institute 2010.

term, given the need to fast-track preparation or updates of strategic plans for all cities, private sector expertise could be mobilized for the preparation of urban development plans, to ease the UDA's human resource constraints. In parallel, measures to enable sustained participation of ULAs in the planning process could be introduced to help build stronger local ownership, such as ensuring wider stakeholder participation and developing implementation tools for ULAs.

Priority actions

- *Prepare regional economic development strategies for the main metro regions consistent with national growth targets and priorities* with the objective of piloting and testing a template for integrated and multijurisdictional regional planning.
- *Fast-track preparation of integrated urban development plans for strategic cities with strong stakeholder buy-in,* while identifying some "quick-win" investments that can be done before the city development strategy is finished.
- *Initiate a strategic review of the UDA, incorporating best practice* to extract lessons of experience relevant to Sri Lanka.
- *Institutionalize integrated planning processes for urban areas* by developing and mainstreaming a template for integrated city planning based on the fast-track pilots.

Pillar II: Sustainable financing and improvements of regional and urban infrastructure

II.I Develop and implement a financing strategy and plan for sustainable improvements of regional and urban infrastructure

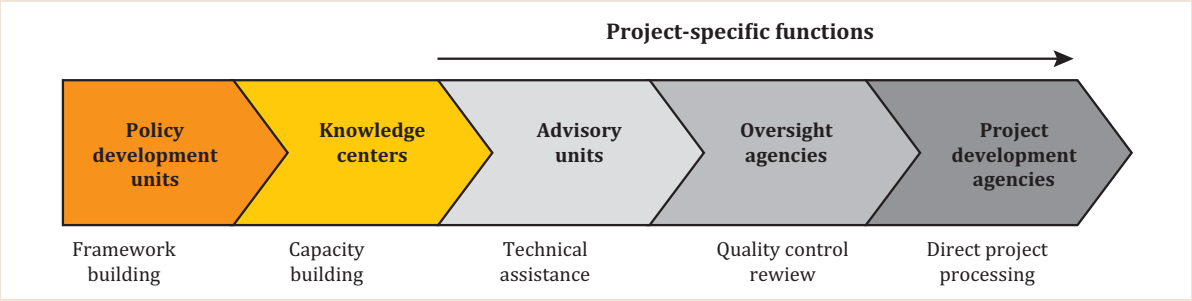
Expand the menu of financing instruments for large-scale regional and urban infrastructure investments, with a focus on leveraging private capital and expertise in partnership with the public sector. The high urban infrastructure investments required to meet the Mahinda Chintana Urban Vision call for new revenue streams, as public programs alone will be unable to meet the demand–supply gap in urban services. Leveraging private capital and expertise is therefore imperative to support the CMR's urban regeneration. Screening all large urban projects for viability for private sector participation before they are sanctioned for implementation through the conventional public procurement route is an effective way to identify options for viable PPP projects. Land-based finance, perhaps the biggest opportunity for PPPs involved in urban infrastructure investment in the cities, is widely used in developed and developing countries to share the gains in land values created by public infrastructure investment. The most commonly used techniques for land-value capture include betterment fees and infrastructure taxes (as in Bogota and Cali, Colombia), value capture via land sale for major urban projects (China and India), sales of development rights (São Paulo, Brazil), and developer exactions and impact fees (Santiago, Chile).[116] Sri Lanka can consider a centrally sponsored scheme for urban infrastructure finance to mobilize private capital for projects with high economic return but that are not financially viable without government support.

Establish institutional arrangements to mainstream new PPP instruments for urban infrastructure finance. To gradually streamline PPPs for large-scale urban infrastructure and land development investments, the government must remove binding regulatory constraints to PPPs, and, more important, build public sector capacity in line ministries, central agencies, and the largest cities to allow them to engage with the private sector on an equal footing. The existing PPP unit, under the Board of Investment, has been unable to function as a cross-sectoral agency. A lean urban infrastructure finance cell – with high convening power by virtue of being attached to higher levels of government – could help leverage private finance and expertise for the management and financing of large-scale urban infrastructure and land development projects, while addressing institutional and regulatory bottlenecks and building capacity for engaging with the private sector. Initiatives for the finance cell could include developing a PPP framework and associated sector policies, creating a PPP pipeline, reviewing the legal, institutional, and regulatory framework for PPPs, developing contract

templates and risk management toolkits for urban projects, and implementing a capacity-building program.[117] Several countries have established central and cross-sectoral PPP units to facilitate and scale up PPP markets (box 12).

Box 12 Public–private partnership units – a review of international experience

A number of countries have set up central PPP units to enhance the government's ability to manage PPP programs. A review of PPP models can provide valuable lessons of experience for establishing an urban infrastructure finance cell. Although the mandates and functions of PPP units vary by country, they have two characteristics. First, central PPP units are cross-sectoral agencies, with a mandate spanning several sectors. Their jurisdiction depends on the type of PPPs that are allowed in a specific country context, and may cover infrastructure, health, education, and justice. This distinguishes central PPP units from sector-specific PPP agencies created within a line ministry. Second, PPP units are established as permanent agencies, with a lasting mandate to implement the PPP program. This differentiates them from ad hoc committees created to support a specific PPP transaction. Five broad categories of PPP units can be identified from their core functions (box figure).



- *Policy development units* (such as the Treasury Task Force, United Kingdom). PPP units with the mandate to develop the PPP policy environment are generally tasked with supporting enactment of the PPP legal framework, producing PPP guidelines, methodologies, templates, and procedures, and drafting and disseminating standard contract templates.
- *Knowledge centers* (such as the PPP Centrum, the Czech Republic). PPP units that operate as knowledge centers are often the institutional champions of the PPP program. They may be responsible for a broad range of functions, such as disseminating PPP information, developing a PPP research agenda, organizing awareness campaigns and stakeholder meetings, and developing PPP capacity-building programs.
- *Advisory units* (such as the Partnership Victoria, Australia). PPP units may be established as advisory units with the mandate to provide technical assistance to line agencies at the various stages of the project cycle. Such assistance can either be provided on demand or to all line agencies involved in PPP transactions. The first option is preferred when the PPP expertise varies widely across sectors.
- *Oversight agencies* (such as the PPP Unit, South Africa). One of the most important functions of PPP units is quality assurance, regulation, and oversight. They rarely have sanctioning powers or clearance authority, as decision-making powers generally rest with the Ministry of Finance. However, PPP units often support sanctioning agencies by exercising quality control and oversight over line ministries. The degree of oversight functions vary greatly among agencies. The oversight powers of the PPP unit may be limited to the quality control review of feasibility studies and bidding documents, or expanded to include the screening of unsolicited proposals and the drafting of nonbinding recommendations to the sanctioning agencies.
- *Project development agencies* (such as Partnership UK, United Kingdom, and the Public and Private Infrastructure Investment Management Center, the Republic of Korea). PPP units may also be established to play a direct role in structuring PPP transactions. For example, they can be responsible for recruiting consultants or preparing feasibility studies for PPP projects. PPP units that undertake project development functions often manage their own project development facility with earmarked funds for project preparation.

Source: Muzzini 2010.

II.II Promote catalytic regional investments for improved connectivity and regional competitiveness

Rehabilitate, integrate, and improve the road, rail, and airfreight networks connecting the main urban nodes to each other and to export markets. Improved connectivity on "time-measured distance" is a prerequisite for developing a system of integrated cities countrywide and leveraging the comparative advantages of Sri Lanka's cities. Travel time can best be cut by improving connectivity between the main urban nodes in the country rather than the poorest and remotest areas. This would require institutionalizing mechanisms for integrated transport planning across modalities. A simulation exercise shows that improving transport connectivity between Kandy and Colombo by building a linking expressway could reduce transport costs in the Central Province by SL Rs 22 per kilometer, resulting in overall transport savings of SL Rs 7 million a day.[118] Railways could be further developed, particularly for suburban commuting, fast long-distance services, and freight transport, where global experience shows their comparative advantage over other modes. Transport infrastructure needs also to be closely linked to urban infrastructure to plan for increased densification around the main transport nodes. For example, investment requirements for basic service provision are expected to increase sharply in the three towns of Kaduwela, Kottawa, and Kadawatha where the three interchanges of the Outer Circular Highway Project for the CMA will be developed.[119]

Prioritize strategic regional investments to enhance metro region competitiveness and rural–urban linkages. Regional investments need to be geared to unlocking the economic potential of the metro regions (in line with their comparative advantages), leveraging private investments, and strengthening economic linkages between urban and rural areas within metro regions. New tourism products, for instance, depend heavily on regional infrastructure, such as the road network, regional airports, harbors (for cruise tourism), and tourist facilities in wildlife areas. Similarly, the optimal exploitation of fisheries requires rebuilding fishery infrastructure at the national, regional, and local levels in the Eastern and Northern Provinces and providing supporting services, such as water and fuel supply.[120]

II.III Prioritize urban infrastructure investments for greater city efficiency and high-quality, sustainable, and inclusive urban services

Prioritize environmental and transport infrastructure investments to improve the competitiveness and livability of the CMR. The priorities for solid waste management are to find suitable land for a regional engineered landfill, promote a more efficient way to handle solid waste through recycling and composting, enhance ULA's capacity and equipment for solid waste collection, and introduce partial cost recovery mechanisms and a clear policy for private involvement in waste management with modern technologies. For sewerage, the network in Colombo needs to be rehabilitated and extended to adjacent areas.[121] In drainage, the priorities are to rehabilitate the drainage system (canals, retention areas, and outfall structures) and develop an integrated flood management system to safeguard the capacity of the Colombo basin to cope with floods. For water supply, there is a need to continue the focus on improving the efficiency, financial sustainability, and accountability of service provision. In transport, to divert traffic from the main congested economic centers, priorities are higher quality and greater reliability of public transport, stronger bus and three-wheeler regulation, an efficient mass rapid transit system (consisting of bus rapid transit and light rail in high-traffic corridors), demand management to reduce car use, and suburban multimodal transport passenger and logistics nodes. The success of bus rapid transit in Brazil argues well for its consideration in the CMR (box 13). Economic road pricing (ERP) is a recommended strategy for demand management on urban roads. While Singapore took the lead in ERP in Asia, Japan and Hong Kong Special Administrative Region, China, have followed, together with London and several other European cities. China, India, and Indonesia are also proposing several urban ERP systems.[122]

Box 13 Bus rapid transit – a success story in Curitiba, Brazil

Brazil's positive experience with bus rapid transit (BRT) and its success in reducing car trips and congestion in Curitiba argues well for its consideration in the CMR. BRT combines the advantages of a rail system (a partly or completely dedicated right-of-way, so that punctuality and reliability improve) with the advantages of a bus system (low construction and way maintenance costs, low vehicle costs, segregated right-of-way not required for entire length, and the ability of feeder bus services to join a bus corridor). BRT is similar to metro-quality rail, with enclosed stations featuring smartcard turnstiles and level-platform boarding.

When available, the dedicated right-of-way lanes of BRT systems allow an increased average vehicle speed bypassing congestion, to increase passenger-kilometers with the same number of vehicles and personnel as conventional bus services. A smoother ride can also be expected, because BRT does not have to deal with stop-and-go traffic. BRT systems usually feature higher frequency service than conventional routes and rely heavily on short headways to achieve their ridership capacity. Prepurchase of tickets, boarding of the bus at one end and alighting at the other, and all doors being wide and at the level of the platform keeps dwell time to a minimum. But the addition of BRT dedicated lanes requires wider roads or a reduction of mixed traffic lanes. As such, they cannot be implemented everywhere. The ideal road width for a two-way BRT operation is 30 meters (or six lanes). However, when the required width is not available on a single road, there have been some substandard designs on four lanes as well as route splitting (where directions are split to two adjacent parallel roads).

The popularity of Curitiba's BRT has led to a reduction of some 27 million private vehicle trips a year, saving about 27 million liters of fuel annually. Twenty-eight percent of BRT riders previously traveled by car. Compared with eight other Brazilian cities of similar size, Curitiba uses about 30 percent less fuel per capita and has one of the lowest rates of air pollution in the country. Today, about 1,100 buses make 12,500 trips daily, serving more than 1.3 million passengers – 50 times the number from 20 years ago. Eighty percent of travelers use the express or direct bus services. Best of all, Curitibanos spend only about 10 percent of their income on travel – well below the national average.

Source: World Bank 2012b.

Enhance environmental infrastructure and services in urban centers outside the Western Province. The largest urban centers outside the Western Province, particularly the tourist destinations, need an integrated approach to environmental management including sewerage, wastewater treatment, drainage, solid waste management, and better enforcement of existing policies and regulations. This is important not only as a response to rising population densities but also to make the tourist areas attractive to foreign and domestic visitors. Improving solid waste management – particularly composting, recycling, and environmentally safe disposal of solid waste – is a priority in all of Sri Lanka's major urban centers. Rehabilitating the drainage network and encouraging improved urban management to reduce the run-off (including, for example, rainwater harvesting) is a pressing requirement in all major coastal cities, as higher rainfall is straining the infrastructure. Investments in sewerage networks are needed to cope with increasing population densities in some of the largest cities, such as Galle and Kandy. Better management of groundwater resources is also critical to ensure sustainability of water supply in urban areas. And the development of a water supply network is a high priority in the urban areas of the Northern and Eastern Provinces.

Upgrade basic infrastructure facilities in underserved settlements both to improve the habitat and livelihoods of the urban poor when relocation is not required nor possible – for example, settlements located in peri-urban areas with no environmental hazard – and to maximize the housing stock in underserved settlements. International experience suggests that low-income households are generally able to mobilize the savings required for home improvement and repairs when they are provided with basic services and security of tenure and with access to housing-improvement loans. This approach could be used in Jaffna, for example, where the urban poor are predominantly fishermen living in underserved settlements on the coastal belt, and relocation would not be an option. In-place upgrading of underserved settlements would require coordinated interventions by urban local governments and service providers working with civil society organizations to help integrate

the poor into the urban economy through a participatory approach. With the comprehensive Poverty Profile of Colombo's underserved settlements in 2001, the Colombo Municipal Council developed a management tool by which the most poverty-stricken settlements and their specific needs could be prioritized based on a participatory approach as part of in-situ upgrading initiatives. The Poverty Profile (being updated) could be introduced as a management tool for slum upgrading in cities facing similar challenges, such as Jaffna.

Priority actions

- *Prepare an urban infrastructure finance strategy and plan,* based on an "expanded" menu of infrastructure financing instruments.
- *Set up an urban infrastructure finance cell linked to high levels of government,* to build and mainstream PPP capacity.
- *Plan ahead for increased urban infrastructure requirements around the main transport nodes.*
- *Prioritize strategic regional investments based on regional development plans.*
- *Prioritize urban investments based on city development plans and financial and environmental sustainability.*

Pillar III: New tools for performance-based city management and finance

III.I Reposition ULAs as competent and accountable service providers

Clarify, and gradually expand, the functions of subnational governments as their capacity increases. On the one hand, a clarification and redefinition of authority and expenditure responsibility of governments at various levels is necessary to create clear lines of accountability and avoid overlapping mandates. On the other, ULAs' mandates need to be gradually expanded in two ways:

- Broadening ULAs' responsibilities, as their capacity improves, to include urban planning functions currently performed by the UDA and the delivery of urban services institutionally assigned to local authorities but in fact performed by central agencies.[123]
- Moving toward coherent, more efficient, and more sustainable service delivery models, with an emphasis on local accountability and adequate management and maintenance of infrastructure assets.

Roll out a performance-based system for municipal finance, while ensuring equity in the provision of basic services. Municipal capacity building is not only about building systems or technologies but also about providing incentives to make ULAs relevant actors for urban development and to strengthen accountability for the delivery of local services. The limitations in functions, finances, and functionaries at the municipal level make for only short-term incentives. A gradual shift to a performance-based model of municipal finance is needed, while ensuring equity in the provision of basic services. The shift can only be achieved through systemwide reforms. A three-tier performance-incentive, municipal-finance system tailored to the different needs and capacity of Sri Lanka's cities would comprise: the design of performance-based block grants (either unrestricted grants or grants tied to small-scale infrastructure) for small towns and municipalities; reliance on financial intermediaries, such as the LLDF, to channel funds (grants and loans) linked to technical assistance for improved creditworthiness to small and medium cities; and reforms to gradually move the CMA to more sophisticated forms of infrastructure finance with a focus on leveraging private capital. The possibility of expanding the LLDF as the dedicated funding agency for small and medium

ULAs should be explored, as it could constitute an important element of a new urban financing model. The mainstreaming of a new performance-based system for municipal finance would require a reassessment of the intergovernment fiscal transfer system, particularly the "gap-filling" budget allocation process that provides a disincentive for raising local revenue but an incentive for overstaffing. The inclusion of incentives based on performance (fiscal efforts, for example) into a formula-based transfer system, combined with sector-specific transfers, could be explored.

Strengthen ULAs' capacity and accountability for service delivery. The strategic focus should be on strengthening local capacity for improving ULAs' financial, operational, and planning performance in the short term – and expanding their mandates in the long term. Capacity building needs to be approached in an integrated manner to build the basic functions of city management, with a focus on spatial planning, resource planning (medium-term financial framework and annual budgets), resource management (asset management, land administration, and management including digitization of property registration and cadastres), resource mobilization and property taxation (covering valuation accuracy, collection efficiency, and systems for rate setting, revaluation, and indexation), spending (the procurement policy), and citizens' voice (reporting to citizens and grievance mechanisms). In parallel, more flexible staffing options would need to be introduced and tailored to the needs of municipalities, with a focus on addressing staffing shortages, particularly in planning, engineering, and tax assessment. Norms and benchmarks for each of these functions could be established, and capacity building provided to cities to help them reach these benchmarks.

Promote local partnerships with the private sector for improved city management and urban service delivery. Efficient and sustainable urban service delivery models are based on financially viable strategies to fund infrastructure and services. User-pay approaches, such as local user and beneficiary charges as well as betterment levies, need to be introduced as a first step toward a sustainable financing strategy for municipal service delivery. For example, in Hikkaduwa, the cost of building the sewerage network has been partly recovered by adding a surcharge to the water bill. In the medium to long term, stronger participation of the private sector in providing local services is a priority for improving efficiency and leveraging private capital. To gradually streamline PPPs in urban infrastructure financing, there is a need to build local capacity to contract out services to the private sector, starting with basic functions such as collecting and transporting municipal solid waste. Beyond establishing a central urban infrastructure finance cell to mainstream PPPs for large investments, nodal PPP agencies at the provincial level could be set up to provide technical assistance and financial support to municipalities in managing small PPP transactions. The LLDF could also play an important role in supporting and facilitating PPPs in municipal service provision.

III.II Enhance coordination for the more efficient provision of metropolitan and urban services

Institutionalize coordination mechanisms for improved metropolitan management. Reinforcing the capacity of local authorities to plan and deliver local services is a priority, but a strong economic rationale remains for institutionalizing coordination mechanisms at the metropolitan level to improve the delivery of services with metro-level externalities, such as metropolitan transport and solid waste disposal. To ensure effective metropolitan coordination, important decisions need to be taken to define and institutionalize the governance model for metropolitan management; define the roles and responsibilities of different levels of government operating in the metropolitan area, as well as their expenditure and revenue assignments; strengthen intergovernment coordination; and forge new partnerships with the private sector and civil society. There is no "one size fits all" governance model for managing metropolitan areas, and the best approaches are those tailored to the local context (box 14).

Box 14 Metropolitan governance models – a review of international experience

Sri Lanka's National Physical Planning Department has identified five metro regions that are expected to contribute to national growth targets. Economically dynamic regions necessarily outgrow formal subnational government boundaries. Institutionalizing new models of metropolitan governance is, however, an arduous task, as it requires proper capacity for reforming traditional institutional and financial structures of major urban centers, to change the roles and responsibilities of different levels of government operating in metropolitan regions, to strengthen intergovernment coordination, and to forge new partnerships with the private sector and civil society.

An international review of metropolitan governance arrangements shows that there is no single institutional model for these regions. The discussion of how to effectively manage metropolitan regions revolves instead around a spectrum of models ranging from relatively "heavy" to relatively "light" for the scope of reform that the model implies.

- At the relatively heavy end of the spectrum are functional models where governance structures are reshaped to fit the functional economic area of the metropolitan region (as defined by commuting and regional cluster patterns). Examples include the creation of a metropolitan government and the amalgamation of municipalities. Among the best-known examples are the Greater London Authority, the Stuttgart Regional Association and the Portland metropolitan district in Oregon. This model has also been adopted by provincial policymakers in Canada, where it led to mergers in large metropolitan areas (Halifax in 1996, Toronto in 1998, and Montreal in 2002).
- At the mid-position are a wide range of cooperative arrangements through inter-municipal joint authorities, often on a voluntary basis, such as sectoral or multisectoral agencies whose main functions generally include transport, urban planning, and economic development. An example of a successful multisectoral arrangement is Canada's Greater Vancouver Regional District, a voluntary partnership between the more than 20 municipalities that make up the Greater Vancouver metropolitan area. It has formal responsibility for providing metrowide services such as drinking water, sewage treatment, recycling, and garbage disposal, as well as regional planning and environmental protection.
- At the light end are informal coordination bodies, such as platforms, associations, and strategic planning partnerships crossing territorial and administrative boundaries and often relying on existing networks of relevant actors to build consensus on a common vision for developing the metropolitan area. The Association of the Lyon Urban Region, for instance, has been created as a forum of exchanges and cooperation among other more formal intermunicipal cooperative structures, such as the Urban Community of Lyon.
- In addition to these different categories, there are purely fiscal arrangements such as equalization mechanisms and tax-base sharing, whose main purpose is to deal with fiscal disparities and territorial spillover within the metro area. Some large metropolitan areas such as Istanbul, Seoul, and Tokyo have districts with substantial responsibilities and rely on intrametropolitan equalization schemes to allocate funds to the districts.

Even within a country, different solutions often coexist. Flexible and informal forms of cooperation are increasingly advocated as the appropriate response for metropolitan areas, which are evolving in space and time. Yet experience indicates that voluntary cooperation arrangements are most often difficult to implement when there are conflicting relationships between territorial layers or high disparities within a metropolitan area, as in Milan and Paris. Challenges of metropolitan management can also be so significant – as in Istanbul and Mexico City – that any solution requires a governance structure with a more permanent institutional status.

Source: OECD 2006.

Strengthen the role of the province for improved regional coordination in municipal service provision. Provinces can play a pivotal role in enforcing regulations and promoting greater coordination and complementarities between tiers of government in urban service provision. For example, provincial councils could facilitate agreements between ULAs for regional solid waste treatment and disposal, set service standards, provide technical assistance, and fill human resource gaps in the weakest municipalities. While there are institutional mechanisms to resolve conflicts and to negotiate partnerships among ULAs in providing services, provincial councils often lack the leadership and procedures to implement them. In the short term, interventions could focus on making current coordination mechanisms more effective – and more responsive to the public.

Priority actions

- *Prepare a strategy and roadmap for strengthening the capacity and accountability of ULAs as service providers,* establish norms and benchmarks for the main municipal functions, and provide capacity building to cities to help them reach the benchmarks.
- *Roll out a performance-based municipal grant system* for cities that make progress in implementing city management functions according to preset milestones, while ensuring equity in the provision of basic services.
- *Carry out preparatory studies for metropolitan management* with a focus on the system of governance and functional responsibilities.
- *Pilot coordination mechanisms for urban service provision at the provincial level,* with the objective of identifying best practice and scaling up the approach countrywide.

Pillar IV: Efficient and sustainable land and housing development for improved city livability

IV.I Encourage efficient and sustainable land use

Improve land administration and management. Sri Lanka needs a well-functioning land administration system for productive and sustainable land use, security of tenure, land market choices, and efficiency and fairness in titling and land transactions. This would require the state to put in place a land titling and title registration system through a process of adjudication, and to realign institutional responsibilities and functions for land administration and management. More specifically, land disposal policies would need to be modified to give ULAs responsibility for mobilizing and releasing land to the private sector within their jurisdiction, with the UDA retaining responsibility for land mobilization for special projects. In parallel, the UDA's land development function could be spun off and corporatized to improve its access to finance.

Facilitate market-based land disposal and conversion. The productivity of land and labor are constrained by government restrictions on land markets. Divestiture of publicly held land, particularly in the CMR, is a priority to ensure more efficient land management. Public land is an asset that municipalities can use strategically to finance infrastructure development, including the servicing of land, through auctioning parts of their holdings for either sale or lease to private developers. Equally, an effective and transparent process of land conversion is essential to manage new growth on the fringe. Options for market-based land disposal and conversion include land pooling/readjustment and land banks. While the two models rely on different mechanisms, they have similar preconditions for success: good land-use plans to determine infrastructure requirements and develop a realistic financing plan, adequate knowledge of market demand in various locations, and a lead agency with the authority and mandate to negotiate and implement land pooling and land auctioning, with buy-in from various government agencies. Countries that have relied on land pooling to develop and finance infrastructure include Brazil and the Republic of Korea. A more recent example of land readjustment for green field development is the Town Planning System implemented in the State of Gujarat, India. Many U.S. cities have land bank models to acquire vacant, underused land plots and convert them into productive areas. Examples of both models are in box 15.

Strengthen, and enforce, the regulatory and incentive framework for efficient land use. This would require measures in three main areas: providing incentives to the private sector for efficient land use by developing the enabling infrastructure to support compact city development and providing

monetary incentives (such as tax rebates) to ease small private developers' financial constraints from limited access to finance; developing tighter regulation and stricter enforcement to control urban sprawl and ribbon development through, for example, stricter zoning and minimum floor area ratio regulations; and, to manage sprawl and reduce unplanned development, formulating policies for promoting integration of urban plans (generally confined to a given administrative boundary) with adjacent areas, rural or urban.

Box 15 Market-based land disposal and conversion options

Land banks. Land banks aim to return vacant or abandoned property to productive use. International experience highlights the following three elements as best practice: a narrow focus of the land banks in the goals and objectives for vacant land reuse to eliminate conflicting land-use goals and clarify the functions of the land bank vis-à-vis other departments and agencies (planning, housing, zoning); a corporate structure, because land banks established as independent legal entities from city authorities tend to have more control and flexibility over the pursuit of their objectives; and an integrated management information system to streamline title, acquisition, and disposal. Most examples of successful land bank operations are in the United States, of which two may be highlighted.

Baltimore has formed an innovative initiative to dispose publicly owned land called the Selling City Owned Properties Efficiently program. It allows realtors in Greater Baltimore to market city-owned properties as they would private properties, once the property has had city council approval for that. Realtors receive a standard commission for the sale, and the city receives a market price for the property, which otherwise may never have been marketed.

Portland METRO is a regionally elected government responsible for, among other functions, land use and transport planning, environmental protection, and garbage collection and recycling. While the METRO does not operate a land bank as such, it developed technology to support local development and planning efforts – the Regional Land Information System. Started in 1988 as a growth management and planning tool and now maintained by METRO, it is a geographic information system database used by more than 150 agencies throughout the greater Portland region. After the land inventory for the region is updated, the available parcels are included in a regionwide planning information database that allows potential developers, and individual municipal governments, easy access to land that is available for new development.

Land pooling. Land pooling brings together a group of land owners and replans the area by readjusting each land parcel to give it a regular shape and access to roads and services. A portion of the land is reappropriated to provide for infrastructure and amenities. If well implemented, land pooling is an infrastructure-financing tool, as the valuable land parcel created can be used to finance infrastructure investments. The approach can also be used in introducing innovative planning concepts and in building accurate maps and land records for the city.

The State of Gujarat, India, has much experience in land-pooling and readjustment schemes for managing new growth. They have been a win-win proposition for landowners and land development authorities, as both sides stand to gain from the appreciation of land values. The cost of infrastructure is paid by the owners themselves through betterment fees. This approach to urban planning sees development authorities as coordinators and facilitators rather than providers of infrastructure. The many reasons for its success include a democratic and participatory approach with a built-in mechanism for dispute resolution; the fairness and equity of the process, as a portion of the land is appropriated for accommodating urban poor; and a transparent and well-tested process.

Source: Great Lakes Environmental Finance Center and the Maxine Goodman Levin College of Urban Affairs for Cleveland State University 2005; Ballaney 2008.

IV.II Provide the enabling environment for better and more affordable shelter options for all

Regularize security of tenure. Lack of, or uncertain, security of tenure is one of the main supply constraints for developing a fully functioning housing market. Addressing it requires a commitment from municipal authorities to mainstream and scale up tenure regularization, particularly in underserved settlements, based on transparent norms and procedures, including the provision of clear guidelines for capturing a notional value of the public land transferred to households. São Paulo, Brazil, for instance, established the *Barrio Legal* (Legal Neighborhood) Programme to provide security

of tenure and improve living conditions for slum dwellers. The municipality's HABISP information system, a centralized database on the city's precarious settlements, has become a valuable tool for urban development.[124]

Unlock access to housing finance for both bankable and nonbankable low-income households. The introduction of title- and mortgage-insurance options could be considered in the short term to encourage banks to lend to bankable low-income households. As the market expands, an apex banking institution could be appointed to mobilize a larger pool of funds at the central level. In parallel, incentives for attracting domestic capital for microfinance institutions through credit enhancement guarantees, such as LFSUS, along with plans to increase the provision of affordable serviced land with proper tenure security, could be developed to help the more upwardly mobile segments of the urban poor access housing finance. An assessment of the necessary policy, institutional, and financial support for the LFSUS initiative is required, including a plan for strengthening the capacity of microfinance institutions to mobilize low-income communities. If successful, LFSUS could be scaled up and its coverage expanded to more cities. Chile succeeded in providing well-targeted housing subsidies to low-income households, without crowding out private financing. These subsidies helped boost demand and created the conditions for expanding private involvement in the financing and production of low-income houses.[125]

Provide incentives for private developers to increase the speed and volume of housing development. Even households with access to finance and security of tenure may not be profitable clients for private developers (either large or small) unless these have an incentive to enter that market. Beyond the necessary regulatory changes, there is substantial scope for increasing the pace and volume of formal housing supply by simplifying approval processes for building permits and substantially reducing the time required for approvals. Incentives to stimulate private investments range from tax rebates, cross-subsidization through promotion of mixed development, commitment to provide trunk infrastructure to serve low-income housing developments, and more lenient regulations. Examples of lenient regulations include the right to build at greater densities than would normally be allowed by zoning rules or height restrictions – and a smaller minimum size of plots. With a budget of $18 billion and a target of 1 million homes, Brazil launched the *Minha Casa Minha Vida* (My House My Life) housing program in 2009 to stimulate the private sector's housing developments for low- and middle-income households.[126] The Brazilian public bank, *Caixa Econômica Federal*, provides supply-side subsidies to developers of qualifying projects and low-interest mortgages and cash subsidies to qualifying families who are free to buy the house of their choice. A guarantee fund is established for participating families who lose their income and thus cannot pay their mortgage.[127]

Priority actions

- *Develop policy and identify suitable instruments for market-based land disposal* on the basis of effective and transparent systems and processes.
- *Prepare a government action plan to mobilize formal private capital to increase the supply of adequate and affordable housing.*
- *Conduct an evaluation of the credit guarantee scheme piloted as part of LFSUS for affordable housing schemes* and make provision for scaling up if that is justified.

Table 6 Turning Sri Lanka's Urban Vision into Policy and Action – policy directions and priority actions

Pillar I: Strategic and integrated national, regional, and urban planning		Pillar II: Sustainable financing and improvements of regional and urban infrastructure			Pillar III: New tools for performance-based city management and finance		Pillar IV: Efficient and sustainable land and housing development for improved city livability	
Goals		**Goals**			**Goals**		**Goals**	
I.I Develop strategic and integrated national, regional, and urban plans	I.II Realign planning functions at the regional and urban levels	II.I Develop and implement a financing strategy and plan for sustainable improvements of regional and urban infrastructure	II.II Promote catalytic regional investments for improved connectivity and regional competitiveness	II.III Prioritize urban infrastructure investments for greater city efficiency and high-quality, sustainable, and inclusive urban services	III.I Reposition ULAs as competent and accountable service providers	III.II Enhance coordination for the more efficient provision of metropolitan and urban services	IV.I Encourage efficient and sustainable land use	IV.II Provide the enabling environment for better and more affordable shelter options for all
Policy directions		**Policy directions**			**Policy directions**		**Policy directions**	
Mainstream economic considerations into the preparation of national, regional, and urban plans Integrate environmental factors in the development of urban plans and land management guidelines	Strengthen the leadership role of the provincial councils in the preparation and implementation of regional plans Delegate urban planning functions to ULAs, while refocusing the UDA's mandate on its high-level strategic role as a regulator	Expand the menu of financing instruments for large-scale regional and urban infrastructure investments Establish institutional arrangements to mainstream new PPP instruments for urban infrastructure finance	Rehabilitate, integrate, and improve the road, rail, and airfreight networks connecting the main urban nodes to each other and to export markets Prioritize strategic regional investments to enhance metro region competitiveness and rural–urban linkages	Prioritize environmental and transport infrastructure investments to improve the competitiveness and livability of the CMR Enhance environmental infrastructure and services in urban centers outside the Western Province Upgrade basic infrastructure in underserved settlements	Clarify, and gradually expand, the functions of subnational governments as their capacity increases Roll out a performance-based system for municipal finance, while ensuring equity in the provision of basic services Strengthen ULAs' capacity and accountability for service delivery Promote local partnerships with the private sector for improved city management and urban service delivery	Institutionalize coordination mechanisms for improved metropolitan management Strengthen the role of the province for improved regional coordination in municipal service provision	Improve land administration and management Facilitate market-based land disposal and conversion Strengthen, and enforce, the regulatory and incentive framework for efficient land use	Regularize security of tenure Unlock access to housing finance for both bankable and nonbankable low-income households Provide incentives for private developers to increase the speed and volume of housing development

Priority actions		Priority actions			Priority actions		Priority actions	
Prepare regional economic development strategies for the main metro regions consistent with national growth targets and priorities Fast-track preparation of integrated urban development plans for strategic cities with strong stakeholder buy-in	Initiate a strategic review of the UDA, incorporating best practice Institutionalize integrated planning processes for urban areas	Prepare an urban infrastructure finance strategy and plan Set up an urban infrastructure finance cell linked to high levels of government	Plan ahead for increased urban infrastructure requirements around the main transport nodes Prioritize strategic regional investments based on regional development plans	Prioritize urban investments based on city development plans and financial and environmental sustainability	Prepare a strategy and roadmap for strengthening the capacity and accountability of ULAs as service providers Roll out a performance-based municipal grant system	Carry out preparatory studies for metropolitan management Pilot coordination mechanisms for urban service provision at the provincial level	Develop policy and identify suitable instruments for market-based land disposal	Prepare a government action plan to mobilize formal private capital to increase the supply of adequate and affordable housing Conduct an evaluation of the credit guarantee scheme piloted as part of LFSUS for affordable housing schemes

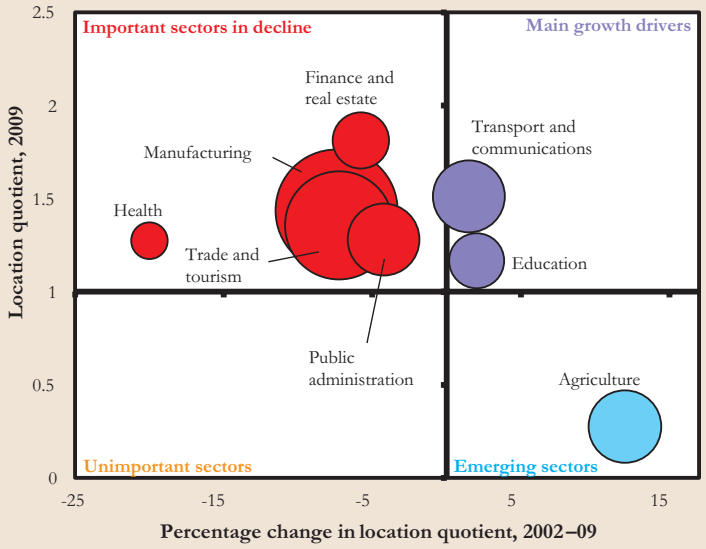
Annexures

Annex I: Regional economic drivers – location quotient analysis

A location quotient analysis was carried out to assess the economic base and identify the main growth drivers of selected provinces. The location quotient measures the degree of employment concentration of an economic activity in a region relative to the entire country. A location quotient of above 1 indicates higher concentration in the province than in the rest of the country (Northern Province excluded). The change in the location quotient over time measures the change in the degree of concentration of a given economic activity in a given region (whereby a positive percentage change indicates that the sector is growing faster than the national average). A regional economic/growth driver is a sector that has higher employment concentration and is growing faster in the region than the national average. The size of the bubbles in figures I.I–I.XVI indicates the employment size of the sector (total number of employees). For further details on the methodology, see Dinc (2002).

Location quotient: main economic sectors, 2002–09

Figure I.I Location quotient, Colombo Metropolitan Region, 2002–09

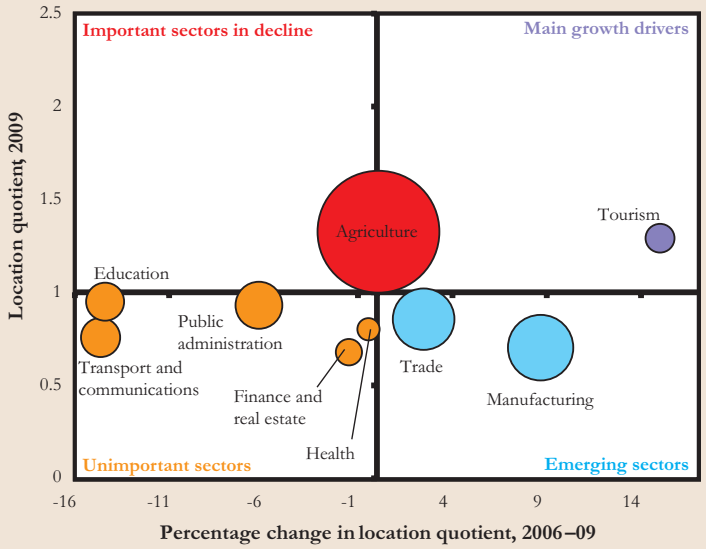


Transport and communications and logistics are important growth sectors – accounting for 2.3 percent of CMR's employment in 2009, against 1.9 percent nationally, and local concentration increased by close to 3 percent over 2002–09.

Education is an important growth sector – accounting for 5.2 percent of CMR's employment in 2009, against 4.4 percent nationally, and local concentration increased by close to 3 percent over 2002–09.

Manufacturing continues to be highly concentrated in the CMR, but it started losing competitiveness – CMR's manufacturing employment decreased by 7 percent over 2008–09, compared with a 5 percent decrease nationally. The CMR's concentration of manufacturing decreased by 10 percent over 2002–09.

Figure I.II Location quotient, Central Province, 2006–09

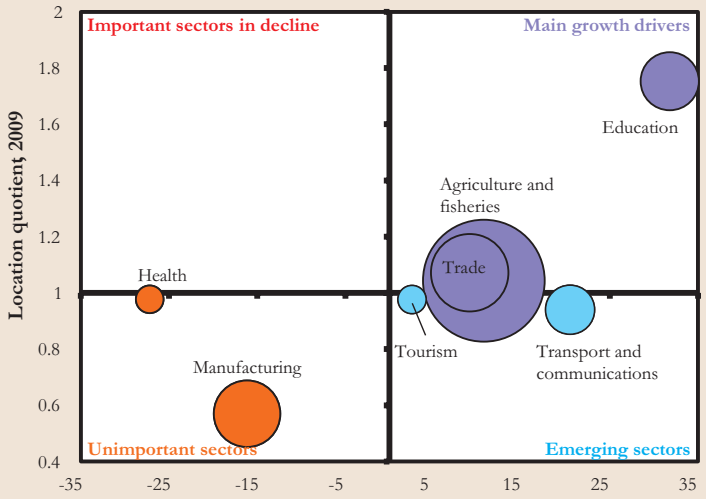


Tourism (hotel and restaurant services) is an important growth sector – accounting for 2.4 percent of the province's employment, against 1.9 percent nationally in 2009, and the sector's local concentration increased by more than 15 percent in 2006–09.

Manufacturing is an important emerging sector. Although it remains less concentrated locally than in the rest of the country, its degree of concentration in the province increased by 9 percent in 2006–09.

Agriculture remains highly concentrated locally, but it is no longer growing – its level of concentration experienced a close to 1 percent decline in 2006–09.

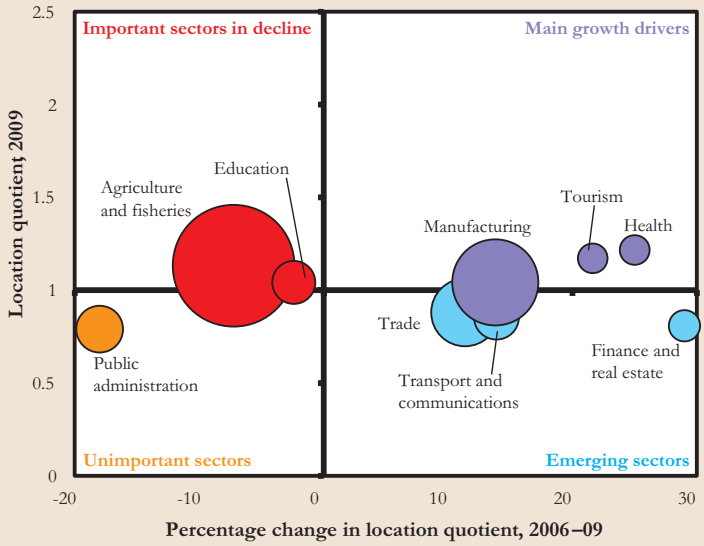
Figure I.III Location quotient, Eastern Province, 2008–09



Agriculture and fisheries is the region's main growth driver – accounting for 34 percent of provincial employment, against 33 percent nationally. The sector is the main source of employment in the province (157,000 jobs) and employment increased 8 percent in 2008, compared with a 1 percent decline nationally.

Tourism has the potential to emerge as a growth sector. Although employment in hotels and restaurants remains slightly less concentrated in the province than in the rest of the country, the sector's employment growth rate is above the national average (29 percent compared with 28 percent nationally over 2008–09).

Figure I.IV Location quotient, Southern Province, 2006–09

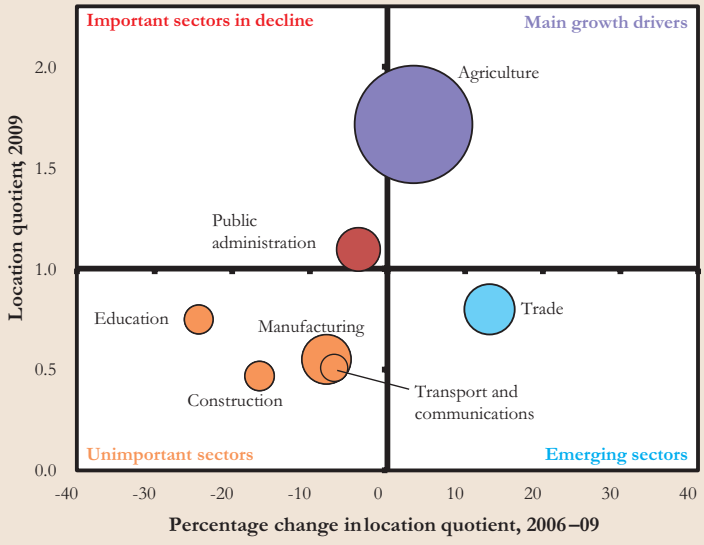


Tourism is an important growth sector in the province, and the sector's concentration increased by more than 20 percent over 2006–09.

Manufacturing is another important growth sector. The concentration of manufacturing employment in the province increased by more than 10 percent over 2006–09.

Transport and communications, logistics, and financial services are emerging as important sectors. Although these activities remain less concentrated in the Southern Province than in the rest of the country, they are growing fast in several southern cities.

Figure I.V Location quotient, North-Central Province, 2006–09

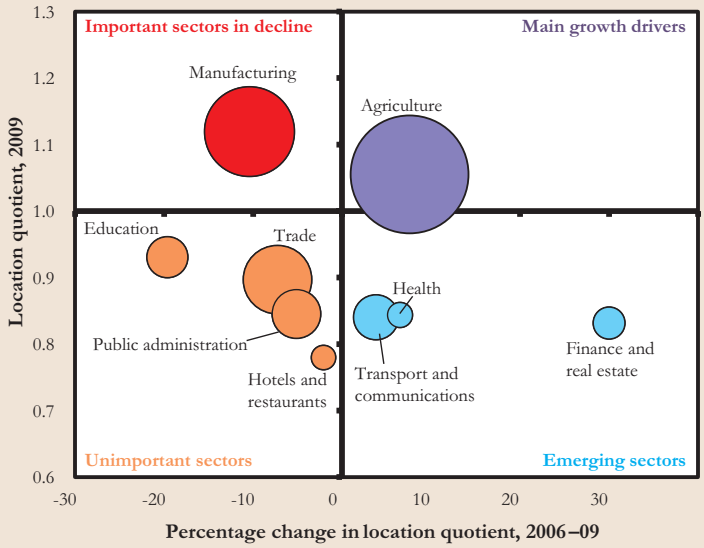


Agriculture accounted for 56 percent of the province's employment in 2009, against 33 percent nationally. Agricultural employment in the province grew by 2.3 percent a year over 2006–09, which is only slightly above the average for Sri Lanka at 2.25 percent.

Trade (retail and wholesale services) is still less concentrated in the province than in the rest of the country, accounting for 10 percent of provincial employment, against 13 percent nationally. However, it is an important source of job creation (55,000 jobs), and local concentration has increased over 2006–09.

Manufacturing accounts for 10 percent of provincial employment, against 18 percent nationally.

Figure I.VI Location quotient, North-West Province, 2006–09



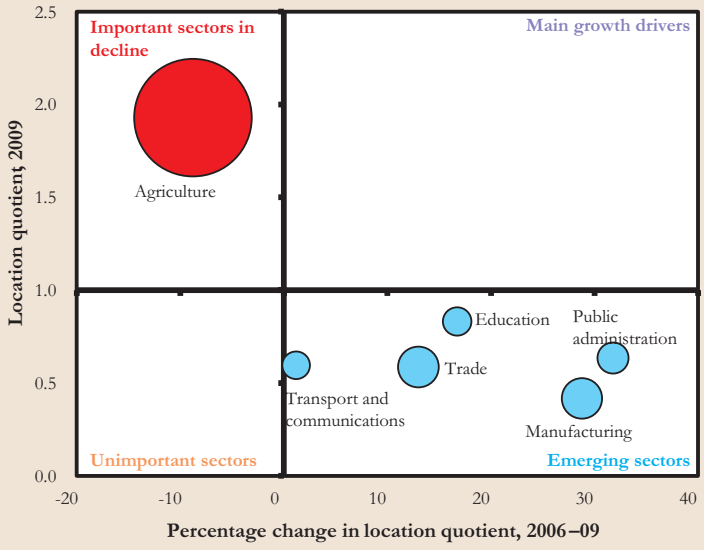
Agriculture is a growth sector. It accounted for 34 percent of provincial employment in 2009, against 33 percent nationally. Agricultural employment in the province increased at almost 2 percent a year.

Manufacturing is concentrated in the North-West Province – it accounts for 20 percent of province employment, against 18 percent nationally. Manufacturing employment in the province declined at a rate of 7 percent a year.

Transport and communications accounts for 5 percent of employment in the province (50,000 jobs).

Finance and real estate accounts for 2 percent of employment in the province (24,000 jobs).

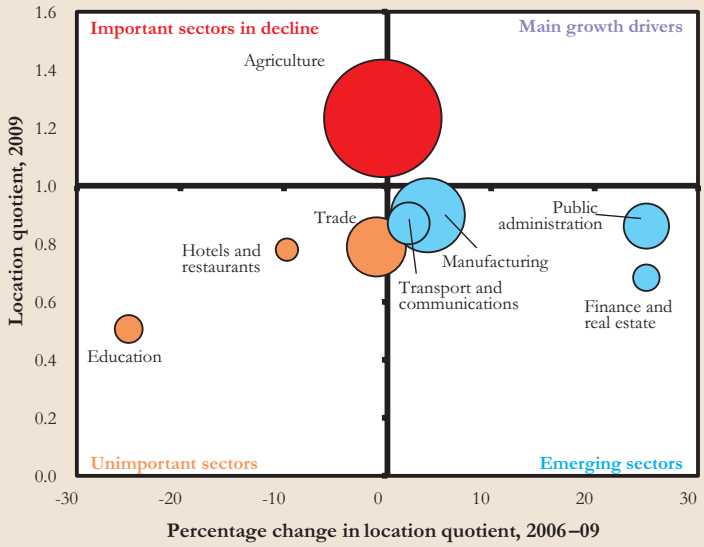
Figure I.VII Location quotient, Uva Province, 2006–09



Agriculture is declining. It accounts for 63 percent of the province's employment, against 33 percent nationally. Agriculture employment decreased by more than 1 percent a year over 2006–09, against a 2.6 percent increase nationally.

Manufacturing is an emerging sector. However, it is still less concentrated in the province than in the rest of the country. It accounted for 7 percent of provincial employment, against 18 percent nationally. Manufacturing employment in the province increased by 7 percent a year, while it declined for the rest of the country.

Figure I.VIII Location quotient, Sabaragamuwa Province, 2006–09



Agriculture is declining. Agriculture accounted for 40 percent of provincial employment, against 33 percent nationally in 2009.

Manufacturing is an emerging sector. It accounts for 16 percent of local employment, against 18 percent nationally.

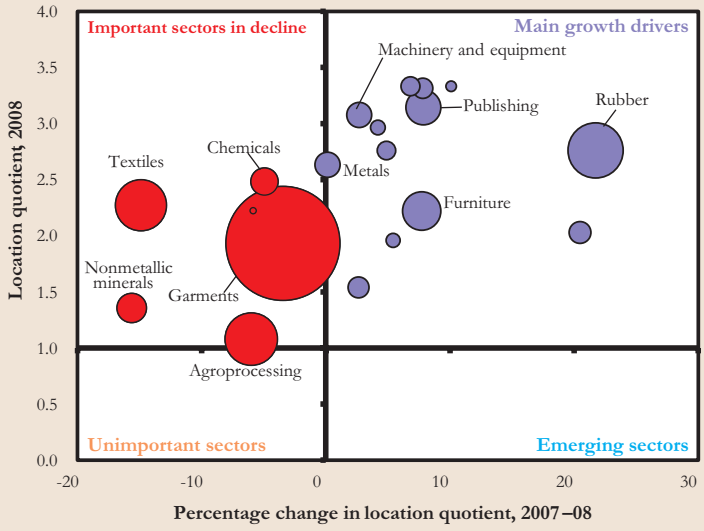
Transport and communications is an emerging sector, accounting for 5 percent of the province's employment, against 6 percent nationally.

Finance and real estate is an emerging sector, accounting for 2 percent of provincial employment, against 3 percent nationally.

Note: Data for Northern Province are unavailable. Data for Eastern Province are unavailable before 2008.
Source: Analysis in figures I.I–I.VIII is based on Sri Lanka Department of Census and Statistics (2002, 2006, 2009b).

Manufacturing location quotient, 2007–08

Figure I.IX Manufacturing location quotient, Colombo Metropolitan Region, 2007–08



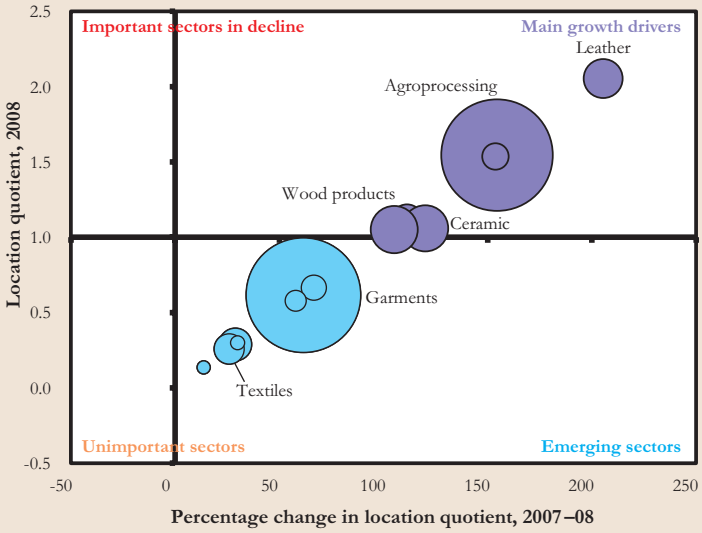
Rubber is an important growth sector. As of 2008, rubber accounted for 10 percent of CMR's manufacturing employment, against 7 percent nationally.

Garments is the largest contributor to manufacturing employment in the CMR (more than 200,000 jobs). However, the CMR is losing competitiveness in this sector.

Textiles is declining in the CMR. The sector is still more concentrated in the CMR than in the rest of the nation. However, textiles employment declined by 64 percent in the CMR over 2007–08, against a 55 percent decline nationally.

Machinery and equipment, publishing, and furniture still account for a small share of employment. However, they are highly concentrated in the CMR, and concentration is growing in all of these sectors.

Figure I.X Manufacturing location quotient, Central Province, 2007–08

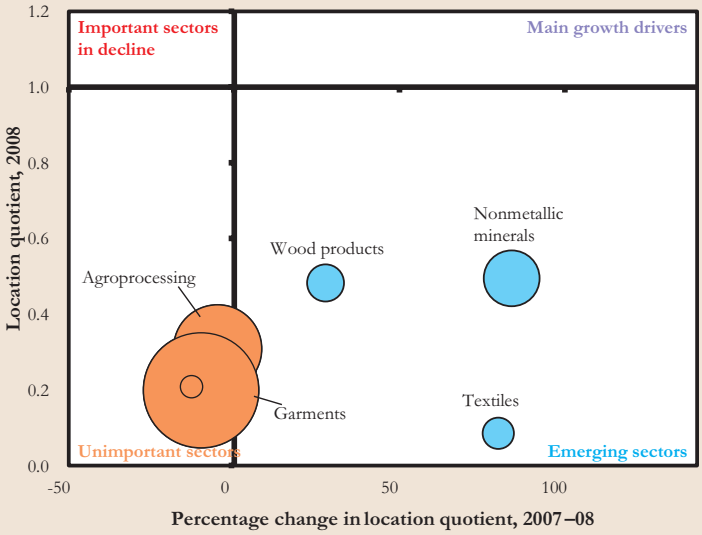


Agroprocessing is an important growth sector. It accounts for 33 percent of the province's manufacturing employment, against 16 percent nationally. Agroprocessing employment increased by 14 percent in the province, against 3 percent nationally.

Handicraft manufacturing (wood and ceramics) is another important growth sector. It is more concentrated in the province than in the rest of the country and its local concentration is increasing.

Garments is the second-largest manufacturing subsector in terms of job creation, but the province's employment in this sector is still small relative to the rest of the country. The sector accounts for 34 percent of the province's manufacturing employment, against 42 percent nationally.

Figure I.XI Manufacturing location quotient, Eastern Province, 2007–08

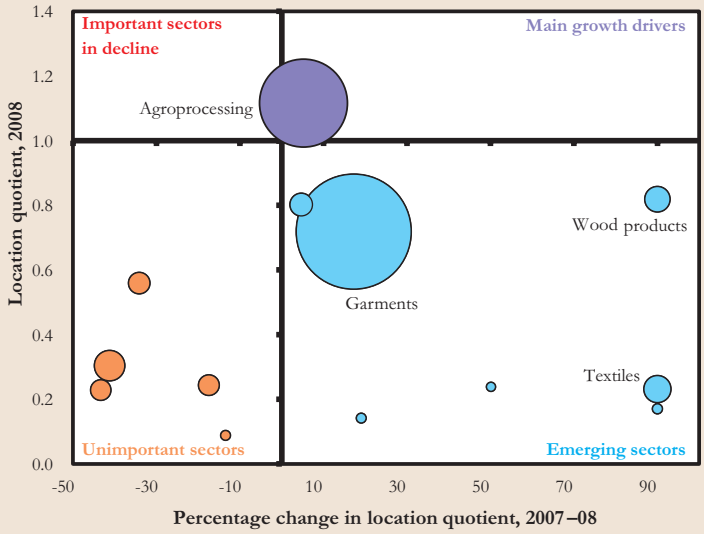


Garments is the largest manufacturing subsector, accounting for 42 percent of manufacturing employment (4,000 jobs). However, this sector is less concentrated in the province than in the rest of the country, and concentration is decreasing.

Agroprocessing is also large a large subsector in terms of employment generation, accounting for 24 percent of manufacturing employment (3,000 jobs). However, this sector is less concentrated in the province than in the rest of the country.

Nonmetallic minerals is an emerging sector, more concentrated in the province than in the rest of the country. This sector accounted for 10 percent of manufacturing employment in 2008.

Figure I.XII Manufacturing location quotient, Southern Province, 2007–08

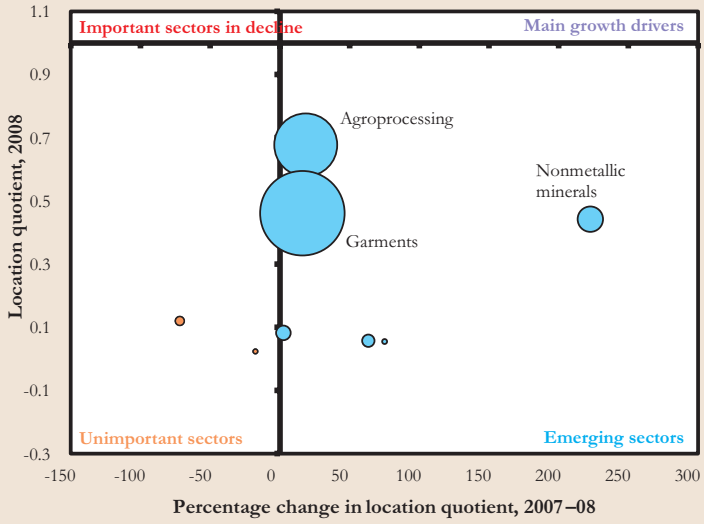


Agroprocessing is an important growth sector. In 2008, it accounted for 29 percent of the province's manufacturing employment, against 16 percent nationally. Agroprocessing employment is growing in line with the national average at 6 percent a year.

Garments is an emerging sector. It is the largest source of manufacturing employment (32,000) in the province. Garment employment increased by 2 percent over 2007–08, above the national average. However, the sector remains slightly less concentrated in the province than in the rest of the country.

Textiles and wood products are emerging sectors. However, these sectors remain small in terms of employment generation.

Figure I.XIII Manufacturing location quotient, North-Central Province, 2007–08

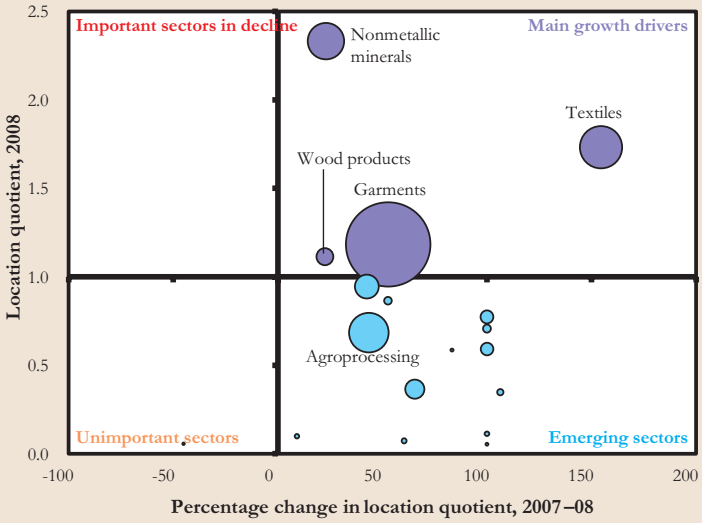


Garments is the largest manufacturing subsector, accounting for 54 percent of the province's manufacturing employment.

Agroprocessing employment has begun to concentrate in the province over 2007–08. Agroprocessing accounts for as much as 30 percent of manufacturing employment in the province.

Nonmetallic minerals (ceramics) remains a small sector, but its degree of concentration is growing fast.

Figure I.XIV Manufacturing location quotient, North-West Province, 2007–08

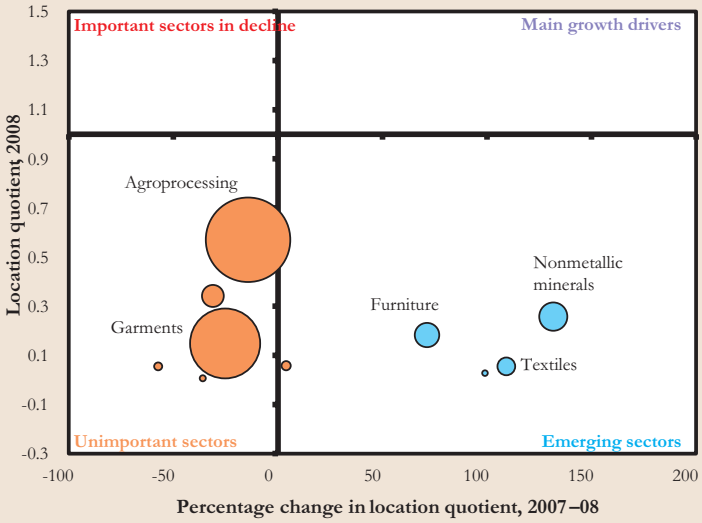


Garments is the largest manufacturing category in the province. It accounts for 51 percent of provincial manufacturing employment, against 42 percent of national manufacturing employment as of 2008.

Textiles is an important contributor to employment in the province. Textiles account for 13 percent of provincial manufacturing employment against 7 percent nationally.

Nonmetallic minerals accounts for 9 percent of manufacturing employment in 2008, against 4 percent of manufacturing employment nationally.

Figure I.XV Manufacturing location quotient, Uva Province, 2007–08

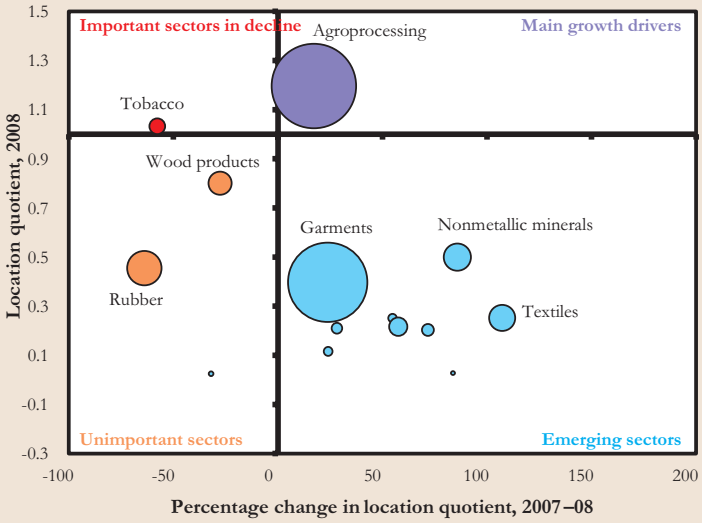


Agroprocessing is the largest manufacturing category. It accounts for 44 percent of manufacturing employment in the province. However, it is far less concentrated in the province than nationally.

Garments is the second-largest manufacturing category in terms of job creation. It accounts for 30 percent of manufacturing employment but is less concentrated locally than in the rest of the country.

Nonmetallic minerals is an emerging sector as concentration increased over 2007–08.

Figure I.XVI Manufacturing location quotient, Sabaragamuwa Province, 2007–08



Agroprocessing is an important growth driver. This sector is the province's largest contributor to manufacturing employment, accounting for 36 percent of manufacturing employment in the province (17,000 jobs).

Garments is an emerging sector, accounting for 31 percent of manufacturing employment in the province (15,000 jobs).

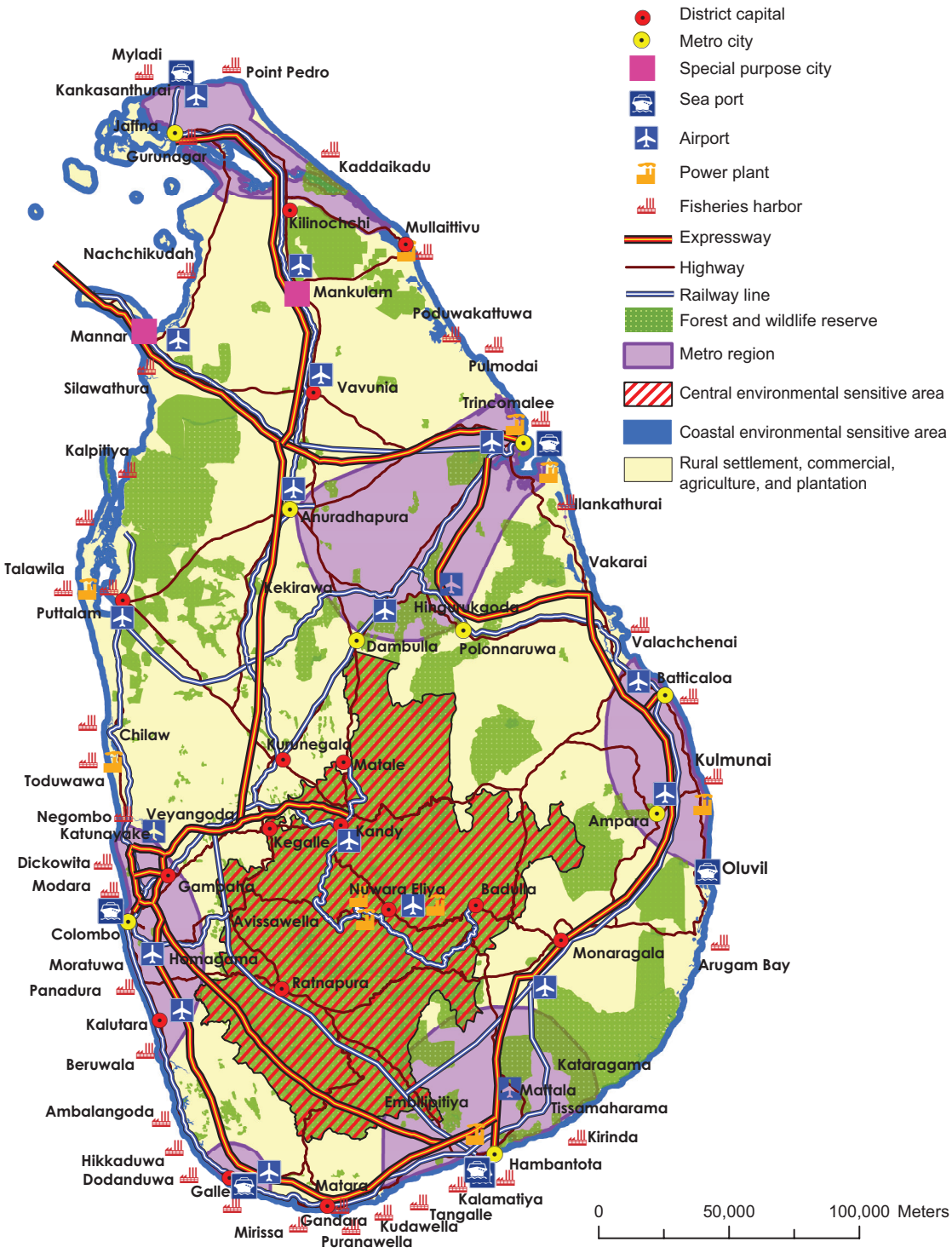
Nonmetallic minerals is an emerging sector. It accounts for 4 percent of manufacturing employment in the province (2,000 jobs).

Textiles is an emerging sector. They account for 3 percent of manufacturing employment in the province in 2008 (1,600 jobs).

Note: Data for Northern Province are unavailable.

Source: Analysis in figures I.IX–I.XVI is based on Sri Lanka Department of Census and Statistics (2008a, 2009a).

Annex II: Sri Lanka Vision 2030



Source: Sri Lanka National Physical Planning Department 2011.

Notes

1 Sri Lanka National Physical Planning Department 2011.

2 Samarappulli and Dickman 2010.

3 Based on 2001 census data, six cities have more than 100,000 inhabitants: Colombo, Dehiwala-Mount Lavinia, Moratuwa, Sri Jayawardenapura-Kotte, Negombo, and Kandy (World Bank 2011a). Based on 2009 population estimates, Jaffna and Kalmunai have also surpassed 100,000 inhabitants (Sri Lanka Department of Census and Statistics 2010a).

4 The classification of Sri Lanka's urban areas is based on their administrative functions rather than on population size or employment structure. Areas that were originally counted as urban included municipal councils, urban councils, and town councils. The 13th Amendment of 1987, which created the pradeshiya sabhas (rural councils), by amalgamating previous rural and town councils led to the reclassification of 87 town councils from urban to rural, thus reducing the country's urbanization.

5 Sri Lanka Department of National Planning and Ministry of Finance and Planning 2010, p. 84. Based on the pre-1987 definition (municipal, urban, and town councils), the total urban population in 2001 would have been 22 percent of the population. Based on a less stringent definition of urban areas – including expanding urban areas and new emerging urban centers – the urban population may have been in a range of 23–43 percent of the total population in 2001. See World Bank (2011a).

6 Unless otherwise noted, Colombo refers to the city itself, not the metropolitan region or area.

7 Abeysinghe 2007.

8 The Western Province comprises the three districts of Colombo, Gampaha, and Kalutara.

9 Sri Lanka Department of Census and Statistics 2012.

10 Samarappulli and Dickman 2010; Sri Lanka Department of Census and Statistics 2012.

11 GDP statistics are for 2010, based on data from Sri Lanka Central Bank (2011); value-added statistics are for 2008, based on Sri Lanka Department of Census and Statistics (2009a).

12 Samarappulli and Dickman 2010.

13 Sri Lanka National Physical Planning Department 2006.

14 National population growth is expected to decrease further (UN-DESA 2009).

15 The average expected annual urbanization rate for South Asia is 2.4 percent a year (UN-DESA 2009).

16 Shilpi 2010.

17 Sri Lanka Department of National Planning and Ministry of Finance and Planning 2010. The forecasts are twice as high as estimates from UN-DESA, which estimates that Sri Lanka's urbanization will increase to about 17 percent in 2020 and 21 percent in 2030.

18 Sri Lanka Central Bank 2011.

19 World Bank 2010a.

20 Sri Lanka Department of Census and Statistics 2009a.

21 Samarappulli and Dickman 2010.

22 World Bank 2010a.

23 Sri Lanka Institute of Policy Studies 2010.

24 Sri Lanka Department of Census and Statistics 2008b, 2009b.

25 World Bank 2011.

26 Sri Lanka Department of Census and Statistics 2008a, 2009a.

27 Rodrik and Haussman 2006.

28 World Bank 2009.

29 Economist Intelligence Unit 2012.

30 World Economic Forum 2011.

31 Sri Lanka Central Bank 2011.

32 *Global Services Magazine* 2009.

33 World Bank 2011a.

34 USAID 2008.

35 Sri Lanka Institute of Policy Studies 2010; Sri Lanka Department of Census and Statistics 2008b, 2010b.

36 From a population of 118,224 in 1981 to 78,781 in 2007, based on the 2007 North-East census (Sri Lanka Department of Census and Statistics 2007).

37 Sarvananthan 2007.

38 Jaffna District Secretariat 2006.

39 Sri Lanka Secretariat for Coordinating the Peace Process 2009.

40 About 80 percent of the tourists arriving in Sri Lanka visit the Galle District every year (University of Ruhuna n.d.).

41 World Bank 2011a.

42 Sri Lanka Department of National Planning and Ministry of Finance and Planning 2010.

43 Sri Lanka Department of National Planning and Ministry of Finance and Planning 2010.

44 "By 2020, Sri Lanka will have well-planned, economically productive, environmentally sustainable, culturally vibrant, safe, and a well-linked network of cities and towns throughout the country." (Sri Lanka Department of National Planning and Ministry of Finance and Planning 2010, p. 38). The concept of city competitiveness is used in this policy note to summarize the Mahinda Chintana concept of well-planned, economically productive, environmentally sustainable, culturally vibrant, and safe cities.

The System of Competitive Cities Vision, as defined in the Mahinda Chintana, is based on the National Physical Planning Policy and Plan 2006–2030 (Sri Lanka National Physical Planning Department 2006). The plan was updated in 2011 (the National Physical Planning Policy and Plan 2011–2030; Sri Lanka National Physical Planning Department 2011).

45 Sri Lanka National Physical Planning Department 2011.

46 Apart from the North-Central Metro Region, which straddles the territorial jurisdiction of three provinces (the Central and Eastern Provinces are the other two).

47 Sri Lanka National Physical Planning Department 2011.

48 The government's definition of metro region is used hereafter.

49 Sri Lanka Department of National Planning and Ministry of Finance and Planning 2010.

50 Sri Lanka Department of National Planning and Ministry of Finance and Planning 2010, p. 170.

51 Sri Lanka National Physical Planning Department 2006.

52 Sri Lanka Department of National Planning and Ministry of Finance and Planning 2010, p. 173.

53 Sri Lanka Department of National Planning and Ministry of Finance and Planning (2010): "By 2020, every family of the country will have decent, comfortable housing with required common amenities in culturally vibrant, environmentally sustainable and economically productive human settlements" (p. 173). "The slums in cities, particularly in Colombo city, will be converted to environment friendly settlements through provision of better houses in suitable places" (p. 157). "By 2020, the city of Colombo will have no more shanty dwellers" (p. 175). "Improving the housing conditions of vulnerable groups is a key priority of the Government. The transformation and substantial improvement of underserved settlements in urban areas, in Colombo and in other cities, are to be given special attention" (p. 173).

54 World Bank 2011a.

55 Empirical evidence suggests that migration in Sri Lanka has contributed to reducing differences in nonagricultural wages among provinces (World Bank 2010a).

56 World Bank 2011a.

57 Housing construction data collected from municipal councils indicate that Kandy issues an average of 1,000 building permits a year, as many as Colombo.

58 Sri Lanka Institute of Policy Studies 2010.

59 Sri Lanka Department of National Planning and Ministry of Finance and Planning 2010, p. 179.

60 World Bank 2010a.

61 For individuals with secondary or education or less, a 1 percent difference in the share of well water coverage between origin and destination increased the likelihood of moving by 0.5 percent (World Bank 2010a).

62 World Bank 2010a.

63 UN 2012.

64 World Bank 2012a.

65 The low-income limit is determined based on the mean household income of SL Rs 17,109 (rounded to SL Rs 20,000). Low-income households can be segmented based on their "bankability" and risk profile for housing finance. Most low-income households – comprising casual and self-employed workers – have no potential to access housing products from banks. Only 20 percent of all low-income earners have regular employment and could potentially access loans for finished housing from banks (UN-HABITAT 2006).

66 The National Housing Development Authority estimates that of the total housing stock in the country, 23 percent is semi-permanent (Jagoda 2006).

67 Data collected from government agencies – National Housing Development Authority, Urban Development Authority, and the Urban Settlements Development Authority (World Bank 2011a).

68 The current laws are the Municipal Councils Ordinance, the Urban Councils Ordinance, and the Pradeshiya Sabha Act. The de jure functions performed by local authorities are usually organized around five programs: general administration and revenue services; health services; physical planning, buildings, and thoroughfares; public utility services; and welfare services.

69 The institutional arrangements for basic service provision also vary widely among cities. For example, the NWSDB plays a major role in providing pipe-borne water supply and treatment to people in urban areas. However, only a handful of municipal councils, including Colombo, operate pipe-borne water systems. See World Bank (2006).

70 World Bank 2006.

71 The relevant Ministries are: Defence and Urban Development, Ports and Highways, Urban Affairs, Irrigation and Water Resources Department, Water Supply and Drainage, Local Governments and Provincial Councils, Power and Energy, Construction, Engineering Services, Housing and Common Amenities, Economic Development, National Heritage, Land Development, Transport, Culture and the Arts, Disaster Management, Resettlement, and Private Transport Services.

72 Based on Part II, Section 9 (1) (a), of the Town and Country Planning Ordinance No.13 of 1946, the planning authority for preparing any outline scheme or detailed scheme for any urban development area can be the local authority for that municipality or town. However, per Part VI, Section 23 (1), of the UDA Law of 1978, if an area is declared a development area through a gazette notification by the Minister under which the UDA comes, any other planning schemes or development activity under the Town and Country Planning Ordinance in that area are null and void. The UDA Amendment Act of 1982, Part II, Section 8J, provides delegated authority to a government agency or person to issue permits on behalf of the UDA. Under this section, ULAs are delegated the authority to issue permits for areas that the UDA has declared as development areas. The UDA Amendment Act n. 4/1982 also allows the UDA to delegate planning functions to local authorities falling under the UDA's jurisdictions (that is, areas that the UDA has declared suitable for development) under Section 23 (5): "The Authority may delegate to any officer of a local authority in consultation with that local authority, any of its powers, duties, and functions relating to planning, within any area declared to be a development area under Section 3, and such officer shall exercise, perform, or discharge any such power, duty, or function so delegated, under the direction, supervision, and control of the Authority." In practice, planning functions have not been delegated to ULAs.

73 World Bank 2012a.

74 World Bank 2012b.

75 World Bank 2012a.

76 Gunawardena 2011.

77 For example, the rate on residential property is 25 percent in Colombo, 10 percent in Galle, and 6 percent in Maharagama Urban Council (Gunawardena 2011).

78 Gunawardena 2011.

79 The central government – through provincial councils – subsidizes wages of permanent employees of local authorities based on their number of staff. But a few ULAs (including Colombo) have started contracting out solid waste collection and transportation to the private sector.

80 The Report of the Commission of Inquiry on Local Government Reforms 1999 identified human resources as a binding constraint to making local governments efficient and effective (Sri Lanka Presidential Secretariat 1999).

81 World Bank 2006. The planned relocation of central government activities to the new government center west of downtown is expected to open considerable development opportunities.

82 The Colombo Metropolitan Area comprises Colombo and the adjacent local authorities consisting of Dehiwala-Mount Lavinia Municipal Council, Sri Jayawardenapura-Kotte Municipal Council, Kolonnawa Urban Council, and Kotikawatta-Mulleriyawa Pradeshiya Sabha.

83 Nenova 2010.

84 Jenks and Burgess 2000.

85 World Bank 2010a.

86 World Bank 2012a.

87 Except for a few small landfill sites constructed on a pilot basis.

88 Colombo is using a temporary dumping site made available by the UDA in Kolonnawa. The site will reach the end of its useful life in less than two years, and an alternative site has not been identified.

89 Colombo Municipal Council 2011.

90 Sri Lanka Urban Development Authority 2009.

91 Jaffna Municipal Council 2008.

92 Asian Development Bank 2007.

93 Asian Development Bank 2009.

94 Based on information provided in Colombo Municipal Council (2011).

95 The Kandy City Waste Water Disposal Project is expected to start implementation in 2012 with funding from the Japan International Corporation Agency. See the Media Center for National Development of Sri Lanka website (www.development.lk).

96 The Asian Development Bank approved, in December 2010, the Jaffna and Kilinochchi Water Supply and Sanitation Project ($70 million) to provide safe drinking water to Jaffna and its surrounding urban and rural areas – an estimated 250,000 people – and sanitation facilities to about 50,000 people (Asian Development Bank 2010).

97 Kumarage and Weerawardena 2008.

98 Kumarage, Abeywickrema, and Wickremasinghe 2004; Sri Lanka Ministry of Finance and Planning 2012.

99 For example, there could be multiple deeds for a given property, or unregistered transactions. Further, there is not a clear link between the information in the registered document and the actual situation on the ground (World Bank 2007).

100 Although country comparisons should be treated with caution given differences in country conditions, registration fees and stamp duties amount on average to about $1,846 per property in Sri Lanka, compared with $113 in India and $1,300 in Pakistan, based on available statistics. Stamp duties alone represent 3–5 percent of the transaction price (Nenova 2010).

101 Nenova 2010.

102 UN-HABITAT, CEPA, and Sevanatha 2012.

103 Kumarage 2007.

104 UN-HABITAT 2006.

105 Nenova 2010.

106 Nenova 2010.

107 See LFSUS (2009, 2010) and UN-HABITAT (2009b) for more details on the pilot.

108 World Bank 2012b.

109 Sri Lanka National Physical Planning Department 2011.

110 Samarappulli and Dickman 2010.

111 Of the 68,812 housing units identified by the government in 1,499 underserved settlements, 41,603 are identified as slums and shanties, making up the core requirement for resettlement.

112 Sri Lanka Department of National Planning and Ministry of Finance and Planning, 2010, p. 175.

113 The land was then sold or developed, recovering the cost of the apartments offered. This process was carried out through a government-owned company, Real Estate Exchange Limited.

114 Sri Lanka Department of National Planning and Ministry of Finance and Planning 2010, Section 8.3.

115 The UDA is allowed to delegate planning functions to ULAs under the UDA Amendment Act n. 4/1982.

116 Peterson 2009.

117 World Bank 2012a,b.

118 World Bank 2010a.

119 The outer circular highway is a ring road or beltway that encircles a city with the objective to redistribute traffic and avoid unnecessary traffic entering the city.

120 Sri Lanka Institute of Policy Studies 2010.

121 Sewerage costs are currently recovered through taxation by the Colombo.

122 World Bank 2012b.

123 Expansion of local authorities' mandate is provided for in the Constitution. Local authorities have powers vested in them under existing law, the Municipal Councils Ordinance, and the Urban Councils Ordinance. It is open to a provincial council to confer additional powers on local authorities but not to take away their powers.

124 Cities Alliance 2008.

125 Rojas 1999.

126 The second stage of the program, included in the government's Growth Acceleration Program (Programa de Aceleração do Crescimento) was announced in March 2010. This stage foresees the construction of 2 million more homes.

127 www.myhomemylifebrazil.com.

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Sri Lanka's Country Vision is to become a global hub between the East and the West and to transition to an upper middle-income country by 2016. Sri Lanka's Urban Vision is to develop a system of competitive, environmentally sustainable, well-linked cities clustered in five metro regions and to provide every family with affordable and adequate urban shelter by 2020. Achieving this vision entails capitalizing on the high productivity of the Colombo Metropolitan Region – one of Sri Lanka's most valuable assets for making the transition. Developing Sri Lanka as a system of cities will be helped by its diverse economic assets and resource-based competitive advantages in tourism, agroprocessing, and fisheries and by its small territory. The agglomeration forces that have led to the concentration of economic activity in the Colombo Metropolitan Region will most likely persist in the near future, benefiting the transition.

Systemic institutional and policy constraints and infrastructure bottlenecks are the main challenges for developing Sri Lanka's cities to their full economic potential. Limitations of Urban Local Authorities' functions, capacity, and resources (resulting in inefficiencies in urban planning and service delivery), high costs of sprawl, and infrastructure bottlenecks are the three main constraints for developing a system of competitive cities. Providing affordable and adequate urban shelter will require preventing informal settlements from developing, by removing the constraints that limit the supply of land and housing finance while providing targeted assistance to the poorest people.

Achieving the Urban Vision calls for systemwide institutional and policy reforms to leverage the economic benefits of improved regional and urban infrastructure – with the objectives of moving toward strategic and integrated regional and urban planning, repositioning Urban Local Authorities as competent and accountable service providers (while improving metropolitan and regional coordination in service delivery), and enhancing city livability through efficient and inclusive land and housing development.

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