

VII. Donor Assistance

This chapter describes donor coordination mechanisms and discusses donor activities in relation to financial management and governance arrangements. It is structured as follows:

- 1 – Overview
- 2 – Coordination Mechanisms
- 3 – Asian Development Bank (ADB)
- 4 – International Monetary Fund (IMF)
- 5 – The World Bank
- 6 – United Nations Development Programme (UNDP)
- 7 – Canada (CIDA)
- 8 – Japan
- 9 – United States (USAID)

1. Overview

Japan, ADB and the World Bank are the largest donors to Sri Lanka. Significant assistance also continues to be provided by bilateral funding agencies (see Table 16).

2. Coordination Mechanisms

The External Resources Department of the Treasury is responsible for coordinating external assistance. The principal donor coordination mechanism in Sri Lanka is the Development Forum, chaired by the World Bank. The Development Forum is held every one to two years. ADB actively participates in the Development Forum, and since the opening of the Resident Mission in Colombo in October 1997, has been prominent in local donor coordination, particularly in the sectors where ADB has a major role, such as water, roads, energy, urban development, and natural resources and environment.

3. Asian Development Bank (ADB)

To 30 June 2000, ADB had provided 150 loans totaling \$7,549 million, since Sri Lanka joined ADB in 1966. Technical Assistance (TA) grants totaling \$113 million for 268 projects were provided in the same period.¹²¹

¹²¹ ADB. 2000 June. *Loan and Private Sector Operations Approvals for the Period Ending 30 June 2000*.

Table 16. Overall External Assistance to Sri Lanka¹²²

External Source (US\$ million)	1994 – 1998 (annual average)		1999 Approvals	
	Loan	Grant	Loan	Grant
Multilateral				
ADB	131.5	3.7	148.8	7.2
European Union (EU)	2.3	2.2	..	..
Nordic Development Fund	..	..	14.0	..
UN Group	..	14.0	..	5.3
World Bank Group	75.4	2.3	57.4	0.4
Other	2.8	0.2	11.1	0.3
Subtotal	211.9	22.4	231.3	13.2
Bilateral				
Australia	..	4.4	..	1.5
Canada	..	2.2	..	..
China, People's Republic of	1.0	1.0	..	..
Finland	3.7	..	..	..
France	2.9	..	..	..
Germany	28.5	11.7	37.5	10.6
India	5.3	..	..	..
Japan	331.0	58.2	206.7	23.1
Korea, Republic of	24.0	1.0	12.0	..
Kuwait	16.8	..	..	..
Netherlands	8.5	8.8	..	..
New Zealand	..	..	..	0.3
Norway	11.3	8.2	..	..
Sweden	8.6	0.2	..	2.6
United Kingdom	5.0	5.5	..	..
United States	45.5	32.9	..	9.9
Subtotal	492.1	134.1	256.2	48.0
Total	704.0	156.5	487.5	61.2

A country portfolio review was most recently undertaken in October 2000. Portfolio performance was characterized by delays in start-up and project implementation, caused by cumbersome and time-consuming contracting and procurement rules and procedures, and noncompliance with some major financial loan covenants.¹²³ As of 30 June 2000, audited accounts and financial statements were due for 34 loans, of which 26 complied, seven complied late and one did not comply.¹²⁴

¹²² ADB. 2000 December. *Country Assistance Plan (2001-2003): Sri Lanka*. p. 32.

¹²³ ADB. 2001. *ADB Annual Report for 2000*. Manila: ADB. p. 34.

¹²⁴ ADB. 2000 September. *Semi-Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 30 June 2000*. Manila: ADB. p. 70.

Loan Projects

The following loans are directly related to improving financial management and governance arrangements.

Loans 1800 and 1801: Private Sector Development Program (2001-2004)

ADB's Private Sector Development Program¹²⁵ is the latest attempt to promote private initiative and enhance the performance of financial markets. The first component of this loan aims at privatizing a number of large (and loss-incurring) public enterprises. The second component aims to encourage private sector investment in infrastructure. The third component focuses on strengthening competition policy and consumer protection. The fourth component seeks to reduce labor market rigidities, and the fifth to liberalize access to non-bank financial services.

Loan 1275: Financial Management Training (1994-1999)

This loan for \$13 million, approved on 29 November 1993, provided basic computing expertise and skills to a substantial number of civil servants at the national and sub-national levels. The project had three components: (i) development of the Sri Lanka Accountants Service and associated accountancy training; (ii) specialized training in financial management, auditing, and computers; and (iii) professional development and training. The project supported the development of InGAF and the preparation and delivery of a variety of training materials.

Technical Assistance

Along with assistance provided to executing agencies to strengthen their financial management capacity, assistance has been provided to coordinating agencies to improve their loan administration and accounting procedures (in relation to ADB projects). The relevant initiatives that ADB has supported, or is supporting, in relation to accounting and auditing include:

TA No. 3301-SRI: Public Expenditure Management Systems (2000-2002)

This TA for \$3 million, approved on 16 November 1999, aimed to support

¹²⁵ ADB Loan No. 1800(SF)-SRI: *Private Sector Development Program*, for \$85 million, approved on 12 December 2000 and Loan No. 1801-SRI: *Private Sector Development Program*, for \$15 million, approved on 12 December 2000.

the country in improving public expenditure management by addressing five closely related subprojects. These were: (i) public expenditure information system, (ii) public investment program, (iii) medium-term expenditure framework, (iv) human resource management, and (v) revised Public Finance Act and internal audit. However, in 2001 the TA was refocused in terms of both scope and objectives. The TA is intended to initiate a comprehensive program of reform in public expenditure management in the medium to long term. During 2002-2004, two loans and one project preparatory TA are included in ADB's country program for Sri Lanka. The planned assistance covers the implementation of a modern public expenditure management system and the decentralization of expenditure management at the provincial and local levels.

TA No. 2616-SRI: Public Administration Reform (1996)

This TA for \$275,000, approved on 24 July 1996, assisted the government to review public administration structures, identify key issues and problems, and formulate a number of strategic design alternatives based on the identified problems.

TA No. 705-SRI: Accounting and Auditing Education Master Plan (1986)

This TA for \$158,000, approved on 13 September 1985, assisted the government to develop an accounting and auditing education master plan. The Government noted the master plan recommendations regarding the need for middle-level financial personnel, and the AATSL was established in 1987.

4. International Monetary Fund (IMF)

The IMF has provided technical assistance to the Central Bank for modernization and training.

5. The World Bank

The World Bank is supporting modernization of the Central Bank of Sri Lanka (CBSL) through a \$30.3 million credit. The World Bank limited lending to the financial sector during the 1990s, due to the "Government's unwillingness to privatize the two large state banks."¹²⁶

¹²⁶ World Bank. 1998. *Country Assistance Strategy: Sri Lanka*. World Bank. p. 9.

Assistance to strengthen government auditing and accountability processes is also planned for 2002. The objectives of the assistance are to: (i) strengthen and reorganize the department, and (ii) develop a separate Audit Act to underpin these activities.

6. United Nations Development Programme (UNDP)

Although a UNDP-funded project supported activities to initiate broad-based civil service reforms, other considerations—including the attention and resources absorbed by the civil conflict—limited the effectiveness of these activities.¹²⁷

7. Canada (CIDA)

The CMASL was registered in June 1998 and launched in June 2001—it had 638 members as of June 2001. The Society was established with technical assistance from CMA Canada, funded by the Canadian International Development Agency (CIDA).

8. Japan

Japan is the largest donor to Sri Lanka. It provides official development loans and untied loans through the Japan Bank for International Cooperation (JBIC), and grants and technical assistance through the Japan International Cooperation Agency (JICA). Japan's country strategy for official development assistance emphasizes (i) strengthening economic infrastructure, especially in power, transport and industry, (ii) poverty reduction and regional development through promoting rural development and improving basic social services, (iii) environmental conservation and disaster management, and (iv) human resource development. Although Japan does not directly support financial management and governance activities, it provides indirect support through Japan-based education and training on financial and public management.

9. United States (USAID)

The United States Agency for International Development (USAID) provided support for the development of financial markets through the

¹²⁷ SRL/97/201: Public Sector Improvement.

Financial Markets Project (FMP)(1992–1997). Among other things, the FMP provided technical assistance to ICASL to enhance the accounting and auditing standards of large and small audit firms, and improve the compliance and monitoring activities of the SEC.