III. Participating Country Backgrounds

1. Introduction

The ADB has 41 DMCs. In 2001, five were approached and invited to participate in a Diagnostic Study of Accounting and Auditing (DSAA). All accepted the invitation. The decision to invite this particular group was based on several factors including their willingness to participate, geographical location, involvement in the World Bank Country Financial Accountability Assessment (CFAA) exercise, stage of development and the extent of ADB assistance. It was intended that the participating countries should represent a cross-section of all ADB DMCs.

This chapter presents background information on the five DMCs. It provides context for the following chapters, which examine individual country accounting and auditing practices.

2. Comparative Information

The information presented in Table 1 illustrates the social and economic similarities and differences between the five DMCs.

Table 1: Comparative Information on the Participating DMCs[28,29]

Indicator	Azerbaijan	Fiji Islands	Philippines	RMI	Sri Lanka
General					
Population *(thousands, 2000)*	8,049.0	811.0	78,400.0	52.0	19,359.0
Population density *(people per km^2, 2000)*	93.0	44.0	263.0	282.0	295.0
Urban population *(% of total, 2000)*	57.3	42.3	58.6	71.9	23.6
Average annual population growth rate *(%, 1995-2000)*	1.0	1.1	2.2	1.5	1.3
Social					
Under-five mortality rate *(per 1000, 1999)*	16.0	18.0	31.0	63.0	15.0
Life expectancy at birth *(years, 1999)*	71.0	67.0	69.0	65.0	74.0
Adult literacy rate *(15-yr+, %, 1999):*					
– Females	97.0	90.0	95.0	97.0	89.0
– Males	97.0	95.0	95.0	97.0	94.0
Population in poverty *(%, 1995-99)*	68.1	25.5	40.0	...	26.7
Human Development Index *(1999)*	0.74	0.76	0.75	0.56	0.74

28 ADB. 2001. *Key Indicators of Developing Asian and Pacific Countries*. Volume XXXII. Manila: ADB.

29 ADB. 2001. *Asian Development Outlook 2001*. Manila: ADB. pp. 139-140.

Table 1: Comparative Information on the Participating DMCs *(continued)*

Indicator	Azer-baijan	Fiji Islands	Philip-pines	RMI	Sri Lanka
Economic					
Gross National Product (GNP)(*$million, 1999)*	3,705.0	1,848.0	77,967.0	99.0	15,578.0
GDP per capita *($, 2000)*	654.0	1,978.0	959.0	1,890.0	842.0
GDP growth rate (%) – 2000	11.4	-9.3	4.0	-2.3	6.0
– 1999	7.4	9.6	3.4	0.8	4.3
– 1998	10.6	1.4	-0.6	-16.0	4.7
– 1997	8.8	-0.9	5.2	-9.4	6.3
Consumer Price Index *(Annual % change, 2000)*	1.9	1.1	4.4	-1.9	6.2
Fiscal Balance / GDP *(%, 2000)*	-1.0	...	-4.2	-35.5	-9.9
Total External Debt / GNP *(%, 1999)*	30.0	9.3	64.8	...	60.3
Official Development Flows					
$ million *(1999)*	207.2	23.2	295.0	62.9	343.6
Dollars per capita *(1999)*	25.7	28.6	3.8	1,219.0	17.7
Percentage of GNP *(1999)*	5.6	1.3	0.4	63.5	2.2

3. Azerbaijan

Azerbaijan is located in the South Caucasus region, on the western shore of the Caspian Sea. In the 19th century, it experienced an unprecedented oil boom and—by 1900—was supplying almost half of the world's oil.

This oil-rich country's population of about 8 million comprises different ethnic groups, including Azeris, Dagestanis and Russians. It gained independence from the Soviet Union in 1991 amid war and political turmoil—a 1994 ceasefire agreement ended an armed conflict with Armenia. However, about one-seventh of Azerbaijan's territory remains occupied, while around 800,000 refugees and internally displaced persons are scattered throughout the country. Almost 70 percent of the population lives in poverty.

In 1994, Azerbaijan signed a 30-year contract worth $7.4 billion with a British Petroleum-led consortium. A number of production-sharing arrangements have since been negotiated with foreign firms, which have thus far committed $60 billion to oil field development. Oil production under the first production-sharing agreement began in November 1997.

Azerbaijan shares all the problems of other Former Soviet Union (FSU) countries, but its economic reforms were delayed by the unstable domestic situation. Since the mid-1990s, it has made progress towards establishing a market economy and restoring macroeconomic stability. A privatization program was introduced in September 1996. Within three years, over 21,000 small enterprises had passed into private hands. Inflation of 1,500 percent in 1994 was reduced to just 2 percent in 2001.

Overall economic performance has been consistently strong—real GDP growth for 2001 was estimated at 9.9 percent. However, this growth is concentrated in the oil and oil-related sectors. Other sectors remain weak and unemployment was estimated at 18 percent in 2000.

The unresolved conflict impedes economic progress and deters foreign investment. Long-term prospects depend upon world oil price levels, the location of new regional pipelines and Azerbaijan's ability to manage its oil wealth. Maintaining the competitiveness of non-oil exports is a serious long-term challenge.

4. Fiji Islands

The Fiji Islands are located in the southwest Pacific Ocean. Seventy percent of Fiji Islanders reside on the large island of Vitu Levu. The Fiji Islands became a British colony in 1874 and around 60,000 indentured laborers were brought from India to work in the sugarcane fields.

The country's population is now around 811,000 and mainly comprises (indigenous) Fijians (50 percent) and Indo-Fijians (45 percent). The Fiji Islands became independent 1970. In 1987, a military-backed coup d'état removed an elected government from office. Although democracy was restored in 1999, an Indo-Fijian-led government was forced from office in May 2000. Democracy was again restored at the end of 2001.

Since 1987, emigration levels have been extremely high; particularly of skilled and professional personnel. More than 70,000 people emigrated in the aftermath of the 1987 coup. Emigration increased significantly following the events of May 2000.

Although the Fiji Islands is one of the most developed Pacific Island economies, it remains a developing country with a large subsistence agriculture sector. Tourism has expanded rapidly since the early 1980s and is now the leading economic activity. Other significant sectors include sugar and garments; each makes up about one-quarter of export revenues.

The government-owned National Bank of Fiji (NBF) nearly collapsed in the mid-1990s. The subsequent government bailout, while politically inevitable, cost the economy dearly. NBF's collapse was largely due to poor supervision and poor corporate governance.

Aside from political uncertainty, the key economic management issues include the instability of the sugar industry due to expiring land leases and the expected cessation of the Lomé Agreement, poor productivity in the sugar industry, and uncertainty in the garment industry over the future of preferential trading agreements with Australia.

5. Republic of the Marshall Islands

The Republic of the Marshall Islands (RMI) has a population of 51,600. It is situated in the Central Pacific Ocean, between Hawaii and Papua New Guinea. Like several other smaller Pacific countries, RMI is remote from major markets, deficient in both the quality and quantity of land resources, and acutely short of skilled labor, although it does possess potentially rich marine resources built on fish and seabed minerals.

In 1986—after about four decades as a United States (US)-administered United Nations Trust Territory—RMI became a freely associated state with the US, through a Compact of Free Association (CFA). Since then, RMI has received considerable economic and technical assistance from the US. However, the first 15-year CFA expired in September 2001 and a new CFA is currently under negotiation.

In the past 15 years, RMI has made significant progress in developing infrastructure but the economy has been largely stagnant—although GDP increased by 17 percent from 1986 to 1999, the population increased by 35 percent at the same time; the net effect was a decline in per capita income of about 12 percent.

6. Philippines

Around 80 million people live in the Republic of the Philippines—12 million of these reside in the capital Manila. Ethnicity is diverse with people of Chinese, Malay and Spanish descent; more than half the population is aged less than 20 years.

Foreign powers governed the Philippines for almost four centuries up until independence in 1946. The country has had a rocky ride since then. In 1972, President Ferdinand Marcos declared martial law, ostensibly in response to growing unrest, prevalent corruption and high crime levels. Changes were noticeable as crime decreased and public health services improved. But dissatisfaction grew with the dictatorial regime and a nonviolent campaign of civil unrest and national protest culminated with Marcos's exile in February 1986. The Supreme Court and a democratic parliament were subsequently reestablished.

Following economic and financial crises in the late 1980s and early 1990s, the Philippines launched a robust economic reform program—including improved debt management, trade liberalization, privatization, deregulation and financial reforms—that contributed to declining public sector deficits, accelerating growth and rising capital inflows after 1992. By 1996, real GNP was growing at 6.9 percent and poverty had been significantly reduced.

The Philippine economy was among the first to be hit by the Asian financial crisis. The initial symptoms were similar to those in Indonesia, Korea, Malaysia and Thailand and included a loss in investor confidence resulting in large capital outflows, a decline in reserves, stock market collapses and a large currency depreciation. However, the Philippines weathered the crisis relatively well. There was no need for the Government to recapitalize private banks and most large corporations remained solvent. This has been attributed to: (i) relatively sound precrisis capital positions and portfolio quality among banks; (ii) a relatively strong banking regulatory and supervisory framework due to reforms after the 1980s banking crisis; (iii) low debt-equity ratios—by regional standards—in the corporate sector; (iv) less overheated real estate markets; and (v) strong export growth and remittance flows.

Joseph Estrada was elected president in 1998. However, the Japanese economic deterioration combined with uncertainties over the Estrada administration's policies, caused a new downturn that culminated in the September 1998 emerging market crisis. Financial markets subsequently recovered with equity prices up twofold, peso appreciation, a large increase in official reserves and significant declines in interest rates. But, President Estrada, amidst political turmoil in January 2001, was forced out of office. The administration of President Gloria Macapagal Arroyo has professed commitment to economic reform. In the meantime, the Philippines slipped from being one of East Asia's richest countries at independence to one of its poorest today.

7. Sri Lanka

Sri Lanka is located in the Indian Ocean (just off India's southern tip). In 1948—after more than three centuries of colonization—Sri Lanka gained independence from Britain. Back in the 1960s, Sri Lankans had the same per capita income as Koreans, Malaysians and Singaporeans. With a strategic location, strong institutions, sound infrastructure and comparatively high education standards, they faced a promising future.

Indeed, Sri Lanka has achieved human development outcomes more consistent with those of high-income countries. There are now about 19 million Sri Lankans comprising Sinhalese (74 percent), Tamils (18 percent) and Muslims (7 percent). For almost two decades, attempts have been made to resolve a separatist Tamil insurgency in the island's north and east.

Over 60,000 lives have been lost and more than 170,000 people are living in welfare centers. Indirect costs of the conflict include disruptions to commerce, distortions to labor markets and missed revenues from potential investment and tourism—it is estimated that the conflict reduces GDP growth by 2-3 percentage points each year.

The per capita incomes of Koreans, Malaysians and Singaporeans are now several times higher than those of Sri Lankans. Several factors contributed. First, the conflict has taken a heavy social and economic toll. Second, until recently, Sri Lanka had an extremely high population growth rate. Third, public institutions and governance arrangements have gradually weakened since the 1970s. Fourth, Sri Lanka has for many years assigned the public sector a significant role in creating jobs and transferring resources across groups. The size of the public sector has declined slightly over the years, but it continues to dominate the financial sector and utilities, and includes many commercial enterprises. Per capita employment in the public sector is Asia's highest. With public sector productivity typically well below that of the private sector, this has meant missed growth and employment opportunities.

Despite these factors, Sri Lanka is today South Asia's most open economy, and has a relatively well-developed capital market infrastructure. Its per capita income remains the highest in the region, after Maldives. Sri Lanka posted high economic growth rates during the 1990s and weathered the 1997-98 Asian financial crisis reasonably well. However, the global economic slowdown threatens prospects for further improvements.