



DEVELOPMENT EFFECTIVENESS COUNTRY BRIEF

Sri Lanka

Selected Country Indicators

Country Indicators	Comparison year	Most recent year
Gross domestic product per capita	\$870 (2002)	\$1,355 (2006)
Human Development Index rank	93 (2004)	93 (2006)
Poverty incidence (% below poverty line)	35 (1999)	27.9 (2002)
Population living on less than \$1 a day (%)	1.0 (2003)	5.6 (2004)
Primary education net enrollment (%)	–	97.0 (2004)
Ratio of literate females to males (% , 15–24 years)	94.5 (2001)	97.0 (2004)
Primary completion rate to grade 5 (% of relevant age group)	92.0 (1991)	109.0 (1998)
Ratio of girls to boys in primary and secondary education (%)	1.0 (2000)	1.0 (2004)
Population growth rate (%)	1.4 (2001)	1.1 (2006)
Maternal mortality ratio (per 100,000 live births)	92 (2000)	12 (2004)
Births attended by skilled health staff (% of total)	94.0 (1990)	96.0 (2004)
Under-5 child mortality (per 1,000 live births)	14 (2004)	14 (2005)
Underweight children under 5 years of age (%)	38.0 (1999)	29.0 (2004)
Urban population with sustainable access to basic sanitation (%)	55 (1990)	85 (2006)
Contraceptive prevalence rate (%)	70 (2000)	70 (2004)
Prevalence of HIV/AIDS (% , 15–49 years)	<0.1	<0.1
Tuberculosis cases (per 100,000 people)	109 (1990)	91 (2004)
Population with access to an improved water source (%)	78 (2002)	79 (2004)
Fixed line subscribers (per 1,000 people)	7 (1990)	51 (2004)
Household electrification rate (% of households)	–	78.1 (2006)
Cost required for business start-up (% of GNI per capita)	–	9.2 (2006)
Time required for business start-up (days)	–	50 (2006)

GNI = gross national income.

COUNTRY DEVELOPMENT SETTING

Overview of Country Achievements and Development Challenges

- Poverty and Human Development.** Sri Lanka's percentage of the population below the national poverty line is 22.7%. There are large variations in poverty levels between regions, ranging from 9.2% in Western Province where Colombo is located, to 31.8% in Uva Province. Poverty levels dropped significantly in Western Province from 1992 to 2002, while they increased in some provinces over the same period. As a result of two decades of conflict, poverty levels are particularly high in the north and east. Conflict-related issues in these regions are displacement, lack of security, and restrictions on movement. Sri Lanka's free education and health care systems have yielded high scores in basic human development indicators, and the country is generally seen as a success story in human development. It is, in fact, on track to achieve most of the Millennium Development Goals (MDGs). There are, however, many problems, with the quality of services varying significantly between regions both in health and education. While enrolment is high up to the secondary level, tertiary education enrolment is very low. There are also issues of educational relevance with regard to labor market demands and the employability of graduates.

7.4%. The service sector has led the growth with a significant contribution from telecommunications. Growth has been mainly concentrated in Western Province, which accounts for about 50% of gross domestic product (GDP). While economic activity has been seriously affected by the conflict in the north and east, some of the other provinces have experienced very modest growth rates even below those in conflict areas. In terms of fiscal discipline, the Government is facing increasing current expenditures due to rising salaries and wages and security expenditures. While subsidies on diesel and petrol were largely eliminated in 2006, kerosene and fertilizer subsidies continue to drive up recurrent expenses, though attempts have been made to target fertilizer subsidies more effectively. The electricity subsidy is also a considerable fiscal burden. Inflation has been in double digits since May of last year, but fell from its peak of 20% in January (year on year) to 13% in June 2007. While there has not been any major change in external trading policies, the present Government has not hesitated to tax imports to raise revenue, such as the mark up on the cost, insurance, and freight value of imports from 5% to 10% in two stages in 2006 for calculating value-added tax. This move is, however, also meant to prevent under-invoicing. The balance of payments continues to be supported by the inflow of private remittances, which has been steadily rising over the last few years.
- Economic Growth and Macroeconomic Policy.** Sri Lanka has maintained an average growth rate of 4.86% over the last decade (1997–2006) in spite of the conflict. The growth rate for 2006 was

3. **Development Challenges.** The country's civil conflict is undoubtedly the main long-term challenge to Sri Lanka's development. Though national growth has been resilient, the north and east have been held back for over two decades. The current policy focus of the Government is on infrastructure development to improve electricity supply and roads. This is crucially important, but should go hand in hand with preparing the ground for higher productivity gains. The number of ministries makes coordination of development initiatives challenging. Continuous high fiscal deficits threaten to crowd out the private sector and

reduce the space for investment in public infrastructure (all of which the government has to borrow for, as revenues can only cover recurrent expenditures). To achieve high rates of economic growth and at the same time promote income equality and equal opportunities, Sri Lanka needs a well-educated labor force and better access of the underprivileged to high-quality education. Sri Lanka reportedly has one of the highest brain drain ratios in the world. Creating jobs attractive enough to retain highly skilled people and modernizing the education system to train workers for the knowledge economy are key challenges.

ADB'S CONTRIBUTIONS TO DEVELOPMENT RESULTS

Volume and Performance of ADB Operations

4. ADB began assistance to Sri Lanka in 1986. By 2005, ADB had cumulatively approved 128 loans totaling \$3.6 billion for 110 projects and 232 technical assistance projects totalling \$91.6 million.

5. There has been clear growth in the portfolio size from 24 loans in 2000 to 47 by December 2006 for a total net loan amount of \$1.7 billion including \$215 million in program loans. Of these 47 loans, 11 were financed from ordinary capital resources and 36 were from the Asian Development Fund (ADF). As of 31 December 2006, 48% of the total approved amount had been disbursed. Figures 1 and 2 provide details of ADF loans and grants from 1995 to 2006 by sector.

6. From January 1995 to December 2006, a total of 35 project completion reports were produced of which 37% were rated highly or generally successful, 29% were successful, 31% were partly successful, and 3 % were unsuccessful (figure 3).

7. **Impact of ADB Assistance.** The country assistance program evaluation (CAPE) conducted by ADB's Operations Evaluation Department found that ADB's assistance programs for Sri Lanka have been consistent with stated national strategies and have been successful in three sectors: transport (mainly roads), education, and water supply and sanitation. Sustained and uninterrupted ADB engagement in these key sectors enhanced service delivery. The performance of ADB's assistance program was found to be partly successful in other sectors, including finance (policy-based), energy, law and economic management, agriculture, and multisector projects. In large part, this was due to Sri Lanka's highly complex political economy.

Figure 1

Asian Development Fund Loans and Grants Approved, 1995–2006 (\$ million)

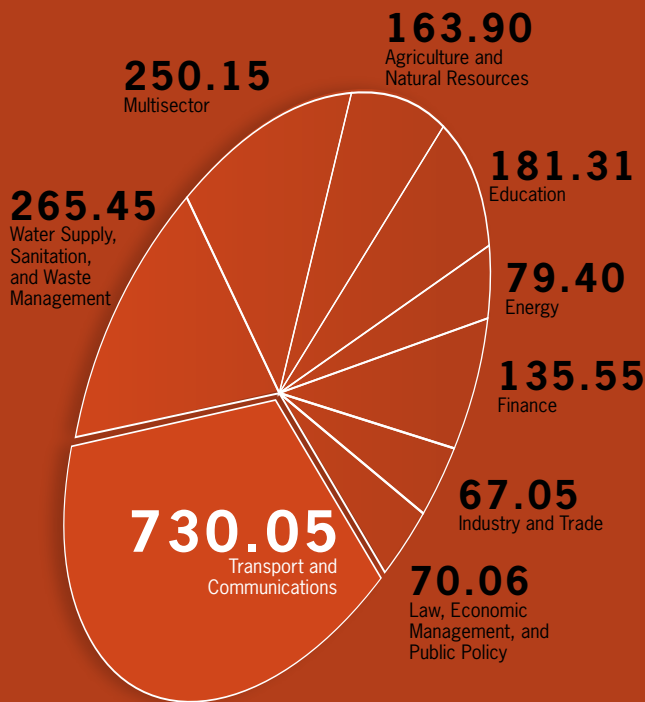


Figure 2

Asian Development Fund Loans and Grants Approved, 1995–2006 (number of projects)

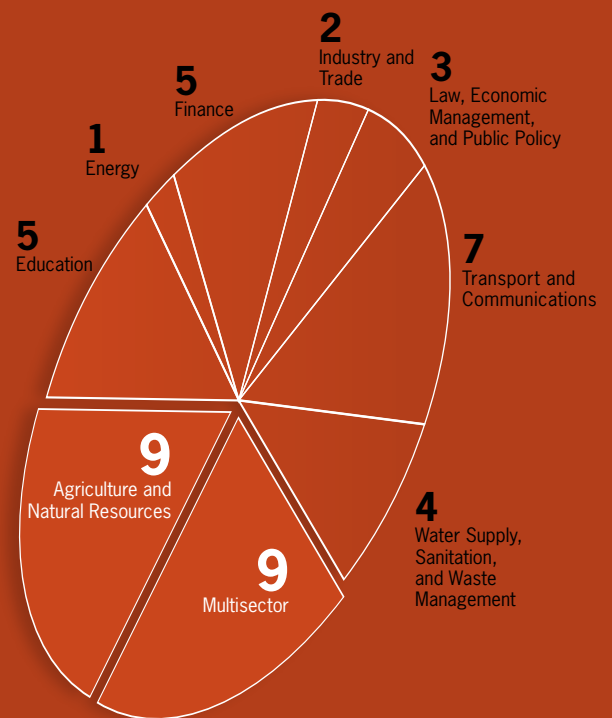


Figure 3

Project Completion Report Ratings, 1995–2006



ADB's Education Assistance Program: Contributions to Key Outcomes and Policy Changes

Secondary Education

- improved pass rates in national examination from 37% in 2001 to 47.3% in 2004 (ordinary level) and from 50.5% to 55.0% (advanced level);
- increased entry to higher education: 72.7% of the students who received scholarships under the Secondary Education Modernization Project I qualified for entry to grade 12 and 58.1% qualified for university education;
- access to senior secondary education (grades 10–13) by nearly 50,000 children from economically disadvantaged families;
- improved access of students, teachers, and administrators to information and communication technology through computer learning centers, multimedia equipment, and interactive learning.

Technical Education and Vocational Training

- established a national vocational qualification framework as a unifying policy mechanism for bringing coherence to the sector and for formulating qualification standards;
- institutionalized and competency-based training organized around 45 trades; the revamped national vocational system offers career paths and alternative avenues to higher education;
- streamlined technical education and vocational training under the Ministry of Vocational and Technical Training, bringing multiple institutions under a single umbrella;
- strengthened Tertiary and Vocational Education Commission as a policymaking and regulatory body, including for accreditation of vocational training centers;
- promoted self-employment of graduates of the entrepreneurship development program through small loans;

Tertiary Education

- recognized role of distance education in the national education system: improved access to tertiary education through distance learning, quality assurance mechanisms established for distance learning, opening up of distance education to both private and public providers;
- employment rate of 71.5% for graduates of the ADB-assisted science and technology institutions in 2002 based on tracer studies;
- established quality assurance framework for higher education standard setting.

Key factors for success include responsiveness to development needs, a clear and common understanding of the objectives and expected results of the assistance, and shared commitment and ownership from design to implementation. One major lesson from the CAPE regarding project or program design with significant reform components is the need for focus and selectivity while exploring various options to achieve the similar final results of sustainable maintenance of public infrastructure, increased efficiency, and less political interference in the public sector.

Highlights of ADB Results

8. **Education.** For decades, investment in education has been a central pillar of Sri Lanka's development policy to promote equity and social mobility, to enhance human development, and to contribute to economic growth. The introduction of free education in 1945 along with subsequent education reforms helped Sri Lanka to achieve an adult literacy rate of 90.7% in 2001. Sri Lanka was an early achiever of the MDG for universal primary education as the net primary enrollment rate was nearly 100% in the early 1990s, a target to be achieved by 2015 in most developing countries. ADB's education assistance program, comprising 10 loans for \$287 million and 8 technical assistance projects for \$2.8 million, has contributed to some significant national outcomes and policy changes and innovations in secondary education, technical education and vocational training, and tertiary education (see box).
9. **Transport Connectivity and Rural Access.** Recognizing that the condition of the transport network poses constraints to social and economic development, ADB has been a major

provider of assistance to the road sector. While responding to critical needs, project outputs in some cases have fallen short of expectations, but all completed road projects have resulted in reduced user costs and improved accessibility and connectivity. The poor typically benefited from rural roads through improved access to services such as health and education, agricultural extension, and proximity to markets. One significant result of ADB assistance was the creation of the road maintenance trust fund to ensure sustainable maintenance for national highways.

10. The Southern Provincial Roads Improvement Project, completed in 2004, successfully rehabilitated 611 kilometers of 105 provincial roads in the secondary network and built institutional capacity in road maintenance. As the project was the first major attempt to comprehensively address the constraints on the secondary road network, it became a demonstration model for other provinces. The result was improved rural access to basic services, markets, and employment opportunities for poor people living in the project area.
11. ADB has continued to help the Government to develop Colombo Port on a public-private partnership basis to become a competitive transshipment hub (see box).
12. **Water Supply and Sanitation.** Safe water supply and improved sanitation accessible to all is a major goal of Sri Lanka's poverty reduction strategy. ADB assistance has helped two million people get access to safe water under the first, second, and third water supply and sanitation projects. ADB has also contributed to develop institutional capacity and supported sector reform (see box on next page).

Public-Private Partnership for Colombo Port

Since 1999, ADB has helped to improve efficiency at Colombo Port through its public and private sector operations. That year, ADB support paved the way for Sri Lanka's first build-operate-transfer (BOT) concession to a private company for a modern container terminal. Subsequent ADB technical assistance (TA) helped the Government to plan and develop public-private partnerships to expand port capacity and enhance port efficiency and service levels. The TA also enabled the Government to prepare a public-private partnership strategy for assessing and selecting options, for preparing port master plans and designs, and for introducing competitive bidding.

This partnership includes public support for dredging and breakwater construction carried out by the Sri Lanka Ports Authority to accommodate three terminals. The first two terminals will be constructed by operators chosen through open competitive bidding under a BOT concession agreement. The first terminal will be operational in 2010.

An evaluation conducted in 2003 found that water supply and sanitation projects in Sri Lanka have achieved considerable success and have raised the standard of living of beneficiaries. Despite improved household access to safer water through pipes, however, the study noted that water is not yet available 24 hours a day to most people. In addition, wide disparities in access still exist across provinces and between urban and rural populations.

13. **Power.** The Second Power System Expansion Project, that included components for rural electrification and for the expansion of transmission and distribution systems, was successfully completed in 2003. Although the project encountered delays in implementation, 130,000 service connections were provided under the rural electrification component, which exceeded the appraisal target of 110,000. Similarly,

Results of ADB's Assistance in Water Supply and Sanitation

Service Coverage

- access to safe water for two million people under the first, second, and third water supply and sanitation projects;
- access to sanitation services for 30,000 people under the Second Water Supply and Sanitation Project;
- 1 million people in rural areas and 0.4 million people in urban centers gained access to water supply under the Third Water Supply and Sanitation Project;
- about 969,000 people are expected to gain access to safe water and 171,500 people will benefit from improved sanitation under the ongoing Secondary Towns and Community-Based Water Supply and Sanitation Project.

Capacity Development

- upgraded project management capacity of the National Water Supply and Drainage Board (NWSDB);
- functional financial reporting and management systems at NWSDB;
- improved financial and operational efficiency of NWSDB through (i) private sector outsourcing of metering, billing, and tariff collection in greater Colombo; (ii) staff rationalization; and (iii) adoption of commercial practices;
- improved capacity of community-based organizations to manage water supply schemes.

Sector Reform

- establishment of the Public Utilities Commission, a multisector regulator for electricity, petroleum, and water;
- policy to recover recurrent costs plus debt service and depreciation costs at NWSDB.

output targets were exceeded for the transmission and distribution components. The project thus increased access to electricity for poor people at the time, when only 44% of households had connections to a public power supply (see box below).

14. **Assistance in the Conflict-Affected North and East.** ADB's post-conflict assistance, which started with the North East Community Restoration and Development Project (NECORD), has yielded some tangible results despite difficult circumstances. The participatory approach used in the project has been followed by other development partners, and some of them have routed their financial assistance through NECORD. The communities determine the type of small-scale infrastructure they need for economic growth and poverty reduction, and the selections are then screened by a provincial committee for consistency and strategic value. Over 58 village development plans and hundreds of small-scale rehabilitation projects have been approved for roads, hospitals, schools, water supply and sanitation, irrigation, and shelter. The use of existing government structures and the participatory approach that involves all stakeholders largely explains the successful implementation of NECORD and subsequent similar projects.

Key Results of ADB's Assistance in Rural Electrification

- The Lanka Electricity Company (Private) Limited (LECO) was set up with ADB assistance, and reduced its system losses from 21.2% in 1986 to 8.4% in 1998 to 5.3% in 2005.
- LECO succeeded in connecting 75,585 new consumers and improving services to 53,888 consumers in previously electrified areas during the implementation of the Secondary Towns Power Distribution Project II.
- Two subsequent power projects resulted in 292,805 new consumer connections: (i) 116,310 by the Ceylon Electricity Board (CEB) through the Power System Expansion Project, and (ii) 176,495 through the Second Power System Expansion Project, of which 130,000 were done by CEB and 46,495 by LECO.

ADB'S AGENDA FOR ENHANCING PARTNERSHIPS AND AID EFFECTIVENESS

Current ADB Portfolio and Assistance Pipeline

15. Figures 4 and 5 show projected approvals by sector for the period 2005–2008. ADB's

current assistance portfolio consists of 45 ongoing loans and 2 grants with an overall net loan amount of about \$1.86 billion. Of the 47 loans and grants, 79% are rated satisfactory, 15% partially satisfactory, and the remaining 6% unsatisfactory (figure 6).

Figure 4

Projected Approvals, 2005–2008 (\$ million)

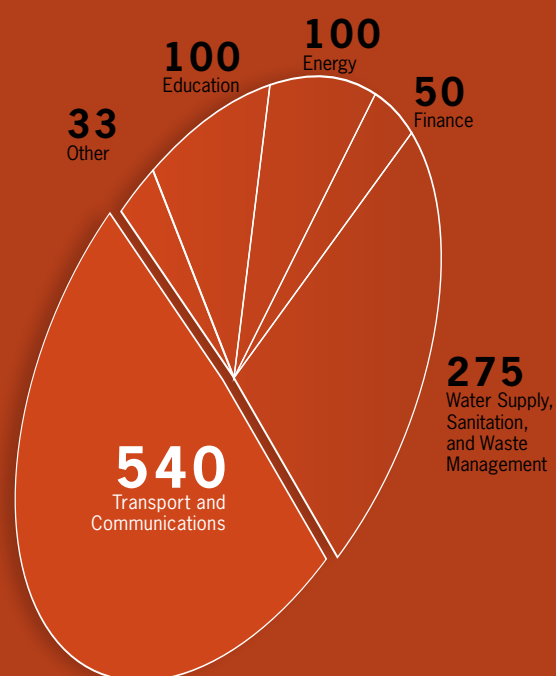


Figure 5

Projected Approvals, 2005–2008 (number of projects)

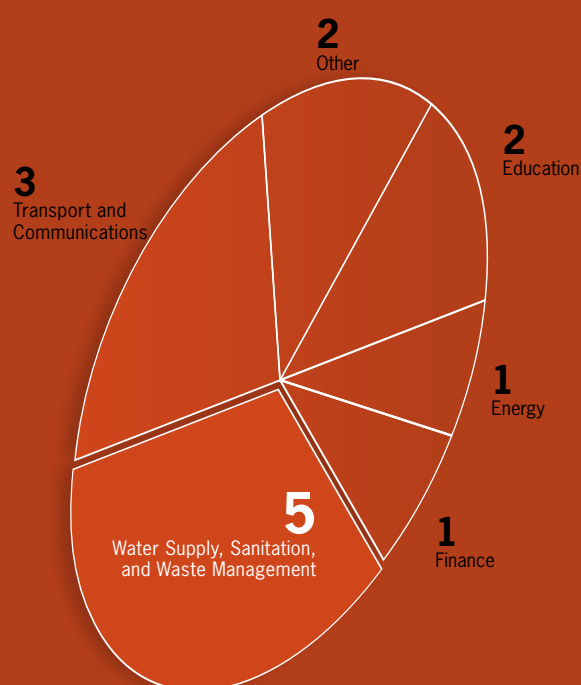
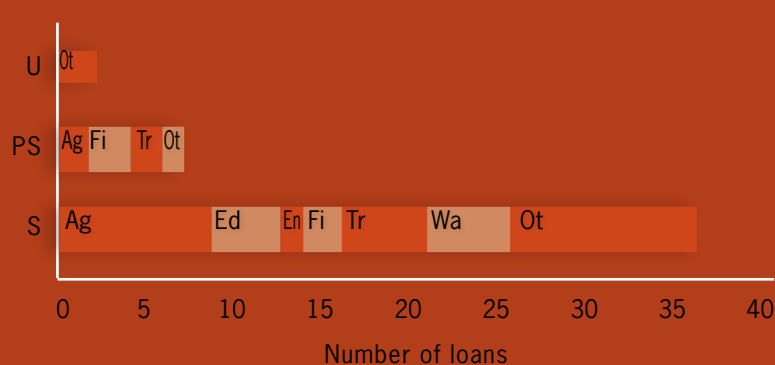


Figure 6

Project Performance Report Ratings (current)



Ag Agriculture and Natural Resources
 Ed Education
 En Energy
 Fi Finance
 Tr Transport and Communications
 Wa Water Supply, Sanitation, and Waste Management
 Ot Other

U = unsatisfactory, PS = partially satisfactory, S = satisfactory.

Ownership, Alignment, and Managing for Results in ADB Operations

16. **Strategic Focus and Alignment of the Country Partnership Strategy.** ADB is actively encouraging and supporting the Government's efforts to adopt MfDR while involving other donors in the process. The new Country Partnership Strategy for Sri Lanka, expected to be presented to the ADB Board toward the end of 2007, is results-based. Country portfolio reviews will also be results-based using indicators developed in consultation with the Government and other stakeholders.
17. The conflict is an important element in shaping ADB's assistance strategy because it reduces the scope for poverty reduction and economic development. In recognition of the difficult environment and uncertainty it creates, the CPS will cover 3 years instead of 5; this will give ADB an opportunity to review the results of its operations both during the mid-term CPS review and in 2010. The 3-year program will be implemented very cautiously and proposed projects could be postponed or cancelled if security deteriorates. At the same time, ADB plans to devote more effort to enhance its effectiveness and deliver results through the implementation of the ongoing portfolio. The CPS is likely to focus on two main pillars: strengthening the investment climate and promoting socially inclusive development. Governance and private sector development are the two major cross-cutting themes of the CPS. It will also introduce a results-based approach aligned with the Government's emphasis on investment-driven growth to firm up the country's middle income status and to reduce regional inequalities.

18. **Use of Country Systems.** A major step in harmonizing procurement procedures was taken by establishing the National Procurement Agency (NPA) in 2004. NPA is reviewing the present procurement system with a view to streamlining and simplifying processes. While ADB has extended support in this area, NPA is undertaking an Organisation for Economic Cooperation and Development Development Assistance Committee baseline survey of procurement indicators led by the World Bank. ADB plans to carry out a study on procurement risk analysis.

ADB'S Role in Donor Coordination and Harmonization Initiatives

19. **Donor Coordination and Harmonization.** ADB continues to harmonize and coordinate its assistance to Sri Lanka with other development partners. Regular meetings are held with the wider development community in which ADB plays a leading role. Established steering committees and sector-oriented working groups work closely with the Government. The new CPS is being prepared in close consultation with other development partners, including the World Bank. Since the World Bank is also preparing a new country assistance strategy, some preparatory work and inputs such as an environmental assessment are being done jointly. Other assessments, such as the country poverty assessment that the World Bank completed in 2007, will be supplemented by additional data and insights from ADB's poverty assessment that is under way. ADB and the World Bank are also closely coordinating on key policy issues, including on economic policy.

20. **Use of Program/Sector-Wide Approaches.**

ADB is leading a coordinated approach for tsunami assistance in Sri Lanka while supporting government ownership. The tsunami emergency assistance fund is seeking development partner support and alignment with government systems. Assistance is earmarked for mutually agreed areas and activities. Donor funds are pooled and managed jointly by the participating development partners including ADB, the European Union, the Netherlands, and Switzerland.

21. **Cofinancing.** For the ongoing loan portfolio ADB mobilized cofinancing through arrangements with the United Kingdom's Department for International Development, the Swiss Agency for Development and Cooperation, the European Union, the Swedish International Development Agency, and the Organization of Petroleum Exporting Countries fund. Several externally financed trust funds within ADB such as the Poverty Reduction Fund, the Japan Fund for Poverty Reduction, the Managing for Development Results Cooperation Fund, the Gender Development Cooperation Fund, and others have been tapped to provide technical assistance to the Government mainly for capacity building and institutional strengthening.

CONTACT

Richard Vokes
Country Director
Sri Lanka Resident Mission
Asian Development Bank

49/14 Galle Road
Colombo 3, Sri Lanka
Tel +94 11 238 7055
Fax +94 11 238 6527
adbslrm@adb.org
www.adb.org/slrm