



Thematic Paper

Sri Lanka Country Assistance Program Evaluation:
Evaluation of Thematic Governance
Assistance

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CURRENCY EQUIVALENTS

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Currency Unit — Sri Lanka rupee (SLR)

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ABBREVIATIONS

ADB	—	Asian Development Bank
CIABC	—	Commission to Investigate Allegations of Bribery and Corruption
CPI	—	corruption perception index
GDP	—	gross domestic product
OECD	—	Organisation for Economic Co-operation and Development
SOE	—	state-owned enterprise
TA	—	technical assistance
WGI	—	worldwide governance indicator

NOTE

In this report, "\$" refers to US dollars.

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A. Scope and Purpose

1. This evaluation is part of the Country Assistance Program Evaluation for Sri Lanka.¹ This paper (i) reviews the Asian Development Bank's (ADB) governance and anticorruption concerns in past and existing country strategies and programs² for Sri Lanka, (ii) examines various governance and anticorruption measures in the assistance program, and (iii) assesses the contribution of the assistance program to governance and anticorruption efforts in Sri Lanka.³ Situations discussed herein were updated in April 2007.

B. ADB's Governance and Anticorruption Policies

2. **Good governance is a central pillar of the poverty reduction strategy of ADB, along with pro-poor growth and inclusive social development.** Governance is defined as the manner in which power is exercised in the management of social and economic resources for development.⁴ In broad terms, it is about the institutional environment in which the government, the private sector, and civil society interact. The economic dimension of public sector governance addresses the efficient management of public resources. It excludes corporate governance in the private sector. In dealing with the fundamental governance pillars of accountability, participation, predictability, and transparency (Table 1), as articulated in the Governance Policy (1995), ADB is guided by its mandate for accelerating the economic development process in developing member countries. Forming part of ADB's broader effort on governance and capacity building is anticorruption. The Anticorruption Policy (1998)⁵ defines corruption as the abuse of public or private office for personal gain and builds on the cornerstones of quality and effectiveness of public administration. It aims to (i) support competitive markets and efficient, accountable, and transparent public administration; (ii) support promising anticorruption efforts on a case-by-case basis and improve the quality of dialogue on governance issues; and (iii) ensure that ADB's projects and staff adhere to the highest ethical standards. Improving governance and fighting corruption are fundamental to reducing resource leakages, increasing the stability of the socioeconomic and political environment, and reducing poverty.

3. **A review in 2005 of the implementation of ADB's governance and anticorruption policies highlighted that these policies have remained relevant.**⁶ However, the review emphasized that further efforts are needed to mainstream governance and anticorruption initiatives in ADB operations. In line with the recommendations of this review, the ADB Second Medium-Term Strategy underscored the need for ADB's governance interventions to accord priority to public financial management, including procurement, public expenditure management,

¹ Referenced as Supplementary Appendix H in the main country evaluation report.

² In 2001, ADB introduced the country strategy and program through the integration of country operational strategy study and country assistance plan processes and documents. For the purpose of the discussion in this paper, country strategy and program refers to ADB's country strategies and assistance programs. For the period following the approval of the ADB governance policy in 1995, this paper analyzed three country strategy and programs: (i) part of the 1993–1997 Country Strategy and Program, (ii) 1998–2003 Country Strategy and Program, and (iii) 2004–2008 Country Strategy and Program.

³ ADB. 2006. *Guidelines for the Preparation of Country Assistance Program Evaluation Reports*. Manila. Available: <http://www.adb.org/Documents/Guidelines/Country-Assistance-Program/default.asp>

⁴ ADB. 1995. *Governance: Sound Development Management*. Manila. Available: <http://www.adb.org/Documents/Policies/Governance/govpolicy.pdf>

⁵ ADB. 1998. *Anticorruption Policy*. Manila. Available: <http://www.adb.org/Documents/Policies/Anticorruption/anticorruption.pdf>

⁶ ADB. 2006. *Review of the Implementation of ADB's Governance and Anticorruption Policies*. Manila. Available: <http://www.adb.org/Governance/Review/review-Report-final.pdf>

and institutional development in sectors where ADB is active.⁷ The Second Governance and Anticorruption Action Plan,⁸ which ADB approved in 2006, highlighted the need to address four critical areas for action: (i) filling gaps in compliance with ADB's governance and anticorruption policies, operations manuals, and project administration instructions; (ii) building stronger partnerships with multilateral and bilateral development institutions, particularly in accessing country diagnostics and strengthening country procurement systems and public financial management; (iii) effectively applying institutional knowledge and country/sector diagnostics to determine focus and priorities; and (iv) instituting more flexible, long-term institutional development arrangements to tackle systemic weaknesses in sector governance and corruption.⁹ Moreover, it called for risk assessments and formulation of risk management plans.

Table 1: Pillars of the Asian Development Bank's Governance Policy

Pillars of Governance	Dimensions	Specific Areas of Action
1. Accountability means making public officials answerable for their's and government behavior, and being responsive to the entity from which they derive authority	<ul style="list-style-type: none"> Establishing criteria to measure performance of public officials Institutionalizing oversight mechanisms to ensure that standards are met 	<ul style="list-style-type: none"> Public sector management Public enterprise management and reform Public financial management Civil service reform
2. Participation refers to enhancing people's access to and influence over policy and decision making	<ul style="list-style-type: none"> Undertaking development for and by the people 	<ul style="list-style-type: none"> Participation of beneficiaries and affected groups Public sector/private sector interface Decentralization of public and service delivery functions (empowerment of local government) Cooperation with nongovernment organizations
3. Predictability refers to the existence of laws, regulations, and policies to regulate society, and their fair and consistent application	<ul style="list-style-type: none"> Establishing and sustaining appropriate legal and institutional arrangements Observing and upholding the rule of law Maintaining consistency of public policies 	<ul style="list-style-type: none"> Law and development Legal frameworks for private sector development
4. Transparency refers to the availability and accessibility of information to the general public and clarity about government rules, regulations, and decisions	<ul style="list-style-type: none"> Ensuring access to accurate and timely information about the economy and government policies 	<ul style="list-style-type: none"> Disclosure of information

Source: Summarized from ADB. 1995. *Governance: Sound Development Management*. Manila.

⁷ ADB. 2006. *Medium-Term Strategy II 2006–2008*. Manila.

Available: <http://www.adb.org/Documents/Policies/MTS/2006/Medium-Term-Strategy-II.pdf>

⁸ ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

Available: <http://www.adb.org/Documents/Policies/Governance/GACAP-II.pdf>

⁹ The four key result areas include (i) improved identification and management of governance, institutional, and corruption risks in country strategies and programs, midterm reviews of these country strategies and programs, and annual country portfolio review missions; (ii) strengthened governance and anticorruption components in project design; (iii) strengthened program and project administration and portfolio management; and (iv) improved organizational structure, human resources, and access to expertise.

C. Country Context

4. **Governance in Sri Lanka may be understood, in part, in terms of the political system that underwent major changes over time, specifically in 1972, 1977, 1987, and 2001.**¹⁰ The constitutional changes of 1972 brought the bureaucracy under the direct management of the political executive at the center.¹¹ The constitutional changes of 1978 introduced (i) an executive presidency that derived its legitimacy through a countrywide election, and (ii) proportional representation that conferred advantages on small political parties. A series of coalition governments emerged afterwards. The multiplicity of political parties of varying strengths has led to post-election bargaining in the formation of Cabinets of Ministers that could command majorities in Parliament.¹² The third constitutional change, which emerged from the 13th Amendment to the Constitution (1987), sought to introduce a devolved political system. It was a response to satisfying political aspirations of the minority communities for a greater voice in the management of their affairs. However, ineffective devolution has resulted in devolved structures having to cope with processes designed for a centralized system. The 17th amendment to the Constitution in 2001 led to the fourth constitutional change. It set up the Constitutional Council to restrain the almost unfettered discretion of the President in making key appointments, such as judicial appointments. Moreover, it changed the character of seven important institutions: (i) Public Service Commission, (ii) Judicial Services Commission, (iii) National Police Commission, (iv) Elections Commission, (v) Human Rights Commission, (vi) Commission to Investigate Allegations of Bribery and Corruption (CIABC), (vi) Finance Commission, and (vii) Delimitation Commission. The appointment of each of the Commissioners to these Commissions is still made by the President, but now must be made only upon a recommendation of the Council. These Commissions, which are constitutional commissions, are directly accountable only to Parliament.¹³

5. The Public Service Commission, the National Police Commission, and CIABC are among key institutions that have direct bearing upon good governance and anticorruption. The Public Service Commission is responsible for the appointment, promotion, transfer, disciplinary control, and dismissal of civil servants. The 17th amendment removed the Public Service Commission and the National Police Commission from political control by the Cabinet of Ministers. As a result, the public service (except the Head of Department) is under the direct control of the Public Service Commission, thus conferring independence from ad hoc political interference. The National Police Commission has equivalent responsibilities with respect to the police, and the Judicial Service Commission has equivalent responsibilities for judicial officers (except for judicial appointments to the appellate courts). CIABC, which is responsible for anticorruption efforts, is established under a single act of Parliament that provides for CIABC to have in-house investigation as well as prosecution capabilities. CIABC does not depend on external concurrence for its actions and has the power to initiate prosecution for instances of bribery and corruption by direct indictment. Capacity development in CIABC is important to

¹⁰ ADB. 2004. *Review of Governance and Public Management: Sri Lanka*. Manila. Available: http://www.adb.org/Governance/sri_report.pdf

¹¹ This led to politicized decision making of the bureaucracy with orientation to political party interests. (Constitutional Reforms Since Independence in Sri Lanka. Available: <http://www.priu.gov.lk/Cons/1978Constitution/ConstitutionalReforms.htm>)

¹² With a population of about 20 million, Sri Lanka has a Parliament (unicameral legislature) of 225 members. On 28 January 2007, a cabinet reshuffle appointed 52 cabinet ministers, 33 non-cabinet ministers, and 19 deputy ministers. This represented the largest number of ministerial positions (104) in the history of Sri Lanka.

¹³ To date, the minority parties in Parliament have not nominated their Constitutional Council member. Thus, the Council has not been appointed since the end of 2005. In the absence of this appointment, the President has made appointments to the relevant Commissions based upon necessity.

address *ex post* instances of bribery and corruption, complemented by provision of infrastructure, and skills upgrading in procurement and forensic accounting.

6. In addition to the central level commissions, each provincial council introduced by devolution in the 13th Amendment has a provincial public service commission. The provincial public service commissions have powers that are similar to those of the Public Service Commission, but are limited to the provincial public servants.

7. **The Government recognizes that effective governance is critical for sound development management.** Improving the quality of governance makes institutions more transparent, more accountable to the people, and less susceptible to corruption.¹⁴ In the Government's Ten-Year Horizon Development Framework (2006–2016), inadequacies and the need for improvement in the public administration system were highlighted in several areas: (i) public policy management, (ii) client orientation in the delivery of public services, (iii) system-wide accountability and transparency in the conduct of government business, (iv) systems and procedures, (v) management of resources, (vi) matching of task demands with available knowledge and human resources, and (vii) horizontal consultation and engagement in decision making.¹⁵ The Government's current strategy for public administration reform seeks to reorient public service, minimize procedural delays and structural inefficiencies in public institutions, and improve responsiveness to the demand for quality services. Development challenges lie in four key areas: (i) strengthening fiscal performance and economic management toward enhancing the ability of the country to fund economic and social development; (ii) achieving greater congruence between economic and social performance and the aspirations of the people, especially the vulnerable; (iii) reducing regional disparities in the provision of basic and social infrastructure and services; and (iv) reducing poverty and unemployment that have deprived the poor of access to economic opportunities. The Government recognizes that fighting poverty needs to consider the population's socioeconomic dimensions and access to justice.¹⁶ Capacity development of judiciary aspects of economic regulatory dimensions can also contribute to sound development management. Addressing limitations in this area can promote equitable delivery of public goods and services as well as public policy management.

8. **The Government has embarked on several key anticorruption efforts.** To curb corruption, the Government created CIABC in 1994. To date, CIABC lacks the necessary legal powers and resources to act against offenders and has been unable to initiate investigations in the absence of a formal complaint. In the past, CIABC had faced internal management issues such as political pressure for commissioners to resign, natural deaths of commissioners (who, constitutionally, are required to be retirees), delays in reappointing commissioners, and shortfall of investigative officers (footnote 9). In early 2004, the President appointed three new commissioners, and since then, under the leadership of the new chairman, the operation of CIABC has functionally improved. However, weak capacity, lack of facilities, and lack of powers referred to above have hampered its operation. New measures to improve the operations of CIABC have been proposed under the Anticorruption Initiative for Asia and the Pacific supported by ADB and the Organisation for Economic Co-operation and Development

¹⁴ Ministry of Finance and Planning. 2005. *New Development Strategy: Framework for Economic Growth and Poverty Reduction*. Colombo.

¹⁵ Ministry of Finance and Planning. 2006. *Mahinda Chintana: Vision for a New Sri Lanka. A Ten-Year Horizon Development Framework 2006–2016*. Discussion Paper. Colombo. Available: <http://www.treasury.gov.lk/EP/PRM/npd/pdfdocs/budget2007/MahindaChintanaTenYearDevelopmentPlan.pdf>

¹⁶ At present, the Government is implementing a World Bank-assisted project on judicial capacity enhancement and commercial law reforms.

(OECD).¹⁷ By the end of 2006, a total of 27 countries (including Sri Lanka) have committed to action against corruption.¹⁸ CIABC plans to (i) create a professionally organized and fully trained office for informing the public about the working of CIABC; (ii) encourage public discussion through awareness campaign; (iii) prepare and implement education programs, encourage public participation, and promote legislative and other measures for whistle blower protection; and (iv) involve nongovernment organizations in monitoring public activities and procurement functions. In March 2007, the Government launched an anticorruption campaign dubbed “*Clean Hands: An Alliance of Sri Lankan Public Sector Officers against Corruption*.”¹⁹

9. **Current government efforts to combat corruption are notable but these can be made more effective with a holistic approach to *ex ante* and *ex post* measures.** Such measures include (i) awareness raising (promoting a culture of zero tolerance toward corruption); (ii) prevention (establishing the administrative rules and procedures, separation of functions, and conflict of interest rules to limit opportunities for corruption); (iii) detection (establishing internal controls and administrative complaint mechanisms as a precursor to judicial review); and (iv) routinely ensuring prosecutions and the imposition of sanctions for both petty and high level corruption, including criminal sanctions and disciplinary measures. Coordination among the independent constitutional commissions, including CIABC, is also vital to advance governance and anticorruption efforts in Sri Lanka.

10. **Learning from privatization experience (1989–1994), the Government created the Public Enterprise Reform Commission in 1996.** The commission was established to carry out privatization activities in a more transparent and structured environment. Publication of annual reports, press notices, and posting of transaction details on the web site had been done.

11. **In 2004, the Government created the Strategic Enterprise Management Agency to professionally manage and restructure state-owned enterprises (SOEs) into profitable ventures.** This was in keeping with the shift in the policy of the Government from privatization to improvement of the efficiency and viability of SOEs that provide essential services to the country.²⁰

12. **The responsibility for the financial audit of government organizations and of SOEs rests with the Auditor General’s Department.** The audit results are presented to the Public Accounts Committee of the Parliament in the case of ministries and departments, and the Committee on Public Enterprises of the Parliament in the case of SOEs. However, observers have questioned the independence of the Auditor General’s Department because it depends on

¹⁷ Available: http://www.oecd.org/pages/0,2966,en_34982156_34982385_1_1_1_1_1,00.html

¹⁸ On 27 March 2006, the Government of Sri Lanka endorsed the anti-corruption action plan.

Available: <http://www.oecd.org/dataoecd/51/28/36759373.pdf>

¹⁹ Daily Mirror. 21 March 2007. *New Move for Clean Hands*. Colombo.

Available: <http://www.dailymirror.lk/2007/03/21/news/01.asp>

²⁰ These strategic enterprises include four banks (People’s Bank, Bank of Ceylon, National Savings Bank, and State Mortgage and Investment Bank), two energy suppliers (Ceylon Electricity Board and Ceylon Petroleum Corporation), four transportation providers (Sri Lanka Ports Authority, Airports and Aviation Authority, Sri Lanka Railways, and the Sri Lanka Central Transport Board), the National Water Supply and Drainage Board, and the State Pharmaceutical Corporation, among others. A committee was established to draft the Strategic Enterprise Management Act (SEMA) to (i) clarify SEMA’s responsibilities in managing the strategic enterprises and setting out the responsibilities of relevant line ministries, and (ii) set out the responsibilities of SEMA in management oversight over the People’s Bank and Bank of Ceylon. At present, the passage of the SEMA Act is not a priority of the Government. Alternative measures are being considered, including tripartite agreements involving line ministries, strategic enterprises, and SEMA.

the Treasury for its budget, and it does not have independence over its financial and administrative affairs.²¹

D. Governance and Corruption Indicators

13. Since the upsurge of empirical research on governance in the 1990s, good governance has been increasingly accepted as one of the key determinants of growth, development, and poverty reduction. A number of indicators have been developed by international agencies, think-tanks, civil society groups, and various other organizations in promoting good governance worldwide. Problems of defining and measuring governance and the unintended misuse of governance indicators have been subjected to debates. A recent report prepared by the Development Center of OECD concluded that even the most carefully constructed governance indicators lack transparency and comparability over time, suffer from selection bias, and should not be used to compare governance across countries.²² That report concluded that governance indicators are often misused by foreign investors for country-risk analysis, donors for aid allocation purposes, and academics for regression analysis.

14. The most widely-used governance indicator is the worldwide governance indicators (WGI) developed by Kaufman, Kraay, and Zoido-Lobaton of the Policy Research Department of the World Bank. In the 2006 update of the WGI, 213 countries were ranked against the six pillars of governance, namely, (i) voice and accountability, (ii) political stability and absence of violence, (iii) government effectiveness, (iv) regulatory quality, (v) rule of law, and (vi) control of corruption.²³ Among the countries included in the latest WGI (2005), Sri Lanka was positioned in the midrange (between 40th and 60th percentile ranks) for all indicators except for political stability and absence of violence, where Sri Lanka was ranked in the bottom 20%. In terms of the WGI ratings, Sri Lanka scored best on the rule of law (0.0) and regulatory quality (-0.12) and scored the least on political stability and absence of violence (-1.25).²⁴ Over time (1996–2005), Sri Lanka's ratings on all WGI indicators, except for political stability and absence of violence, have been relatively stable within the midrange from -0.5 to 0.5. Sri Lanka's scores on political stability and absence of violence have fluctuated at the lower end of the scale (-2.5 to -1.0). The lowest ratings were posted during earlier periods from 1996 (-1.91) to 2000 (-1.93). A significant improvement in the perception of political stability was observed in 2002 (-1.08) and 2003 (-1.02), before slightly declining again in 2004.²⁵ Figures 1, 2, and 3 illustrate the position of Sri Lanka based on the 2005 WGI and WGI trends during 1996–2005.

²¹ Daily Mirror. 6 March 2007. *More Power to the Auditor General: Retired Auditor General S. C. Mayadunne speaks out on the inadequacy of this key state department*. Colombo.

Available: <http://www.dailymirror.lk/2007/03/06/ft/14.asp>

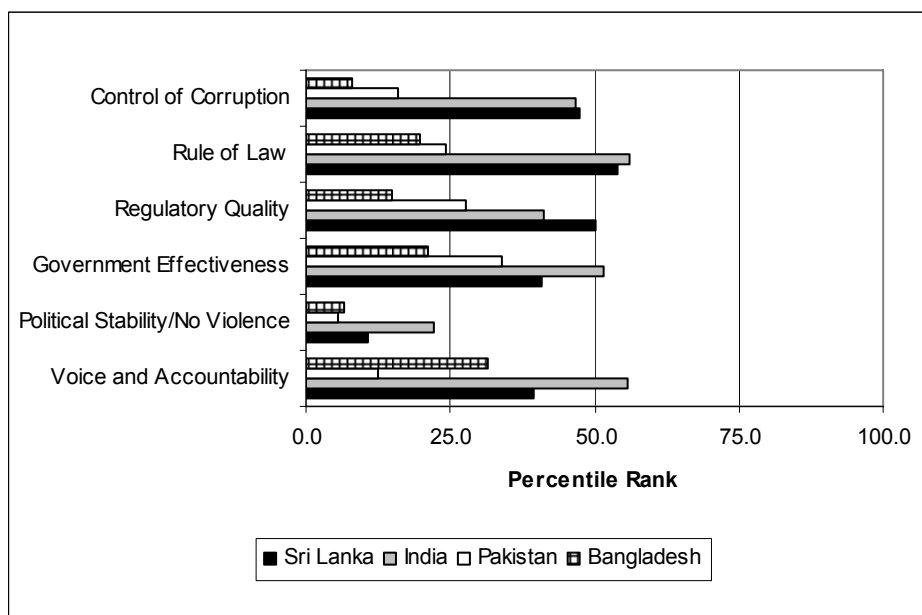
²² Arndt, Christiane and Charles Oman. 2006. *Uses and Abuses of Governance Indicators*. Paris: Development Center of the OECD. page 49.

²³ These indicators rely on 31 sources of surveys and polls from 25 different institutions. Definitions of the indicators and discussions on methodology are available online at <http://www.worldbank.org/wbi/governance/govdata/>.

²⁴ The score for each dimension ranges from -2.5 to +2.5, where high positive numbers reflect better performance. Year-to-year changes in ratings should be interpreted with caution because changes can result either from a change in perception or simply from a change in the sample and methodology. Since the WGI is based on surveys, the most reliable way to compare a country's rating over time is to go back to the individual survey sources.

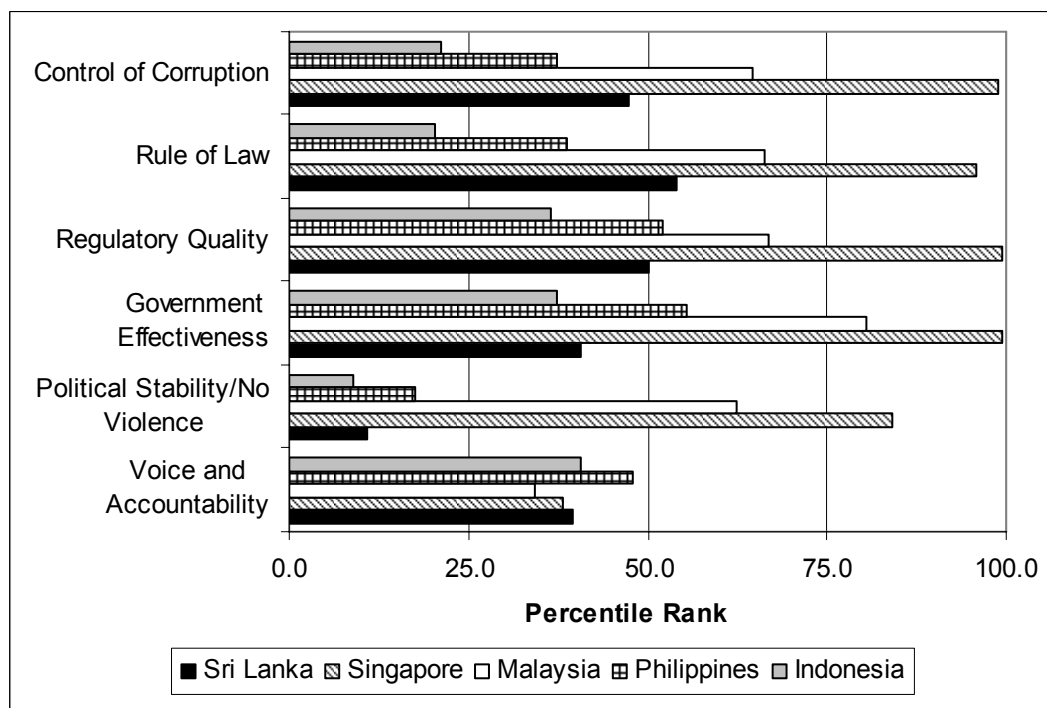
²⁵ The investment climate assessment indicated that political instability continues to impede investment and growth. ADB/World Bank. 2004. *Investment Climate Assessment: Sri Lanka—Improving the Rural and Urban Investment Climate*. Manila. Available: http://www.adb.org/Statistics/reta_4018.asp

Figure 1: Perceived Governance Indicators of Selected Countries in South Asia, 2005

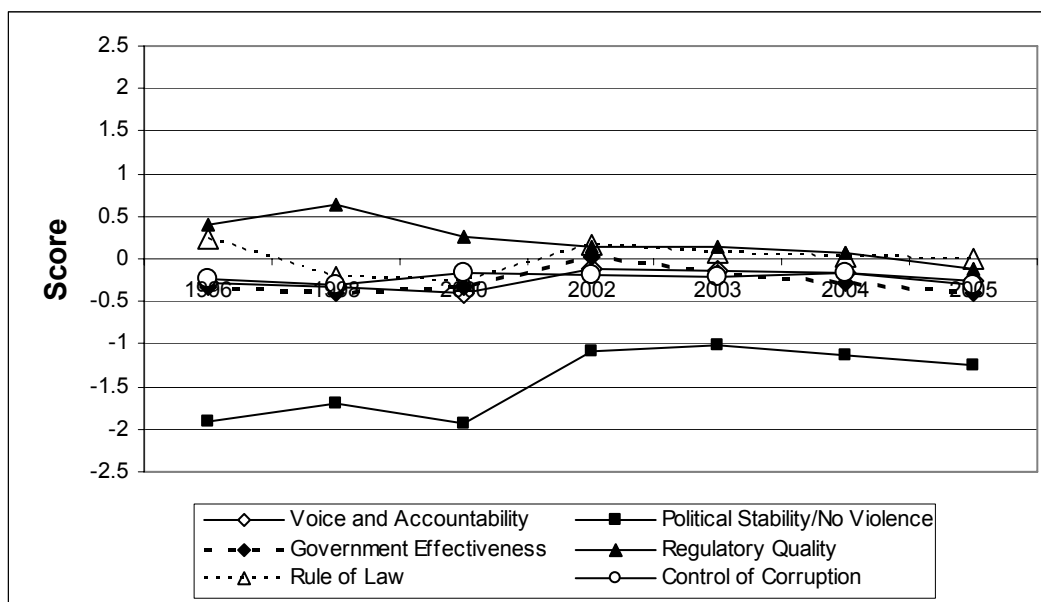


Source: World Bank. 2005. *Worldwide Governance Indicators 2005*. Washington, DC.
Available: <http://www.worldbank.org/wbi/governance>

Figure 2: Perceived Governance Indicators: Sri Lanka vs. Selected Southeast Asian Countries, 2005



Source: World Bank. 2005. *Worldwide Governance Indicators 2005*. Washington, DC.
Available: <http://www.worldbank.org/wbi/governance>

Figure 3: Perceived Trends in Governance Indicators in Sri Lanka, 1996–2005

Source: World Bank. Various years. *Worldwide Governance Indicators*. Washington, DC.

15. A perception study conducted by the Transparency International in 2002 indicated that public services and sectors perceived to be the most corrupt in Sri Lanka were the police, health, and education.²⁶ Discretionary powers and political influence were cited as key factors contributing to corruption. In the health sector, 92% of the users of public health services reported encountering corruption after admission, particularly for obtaining prescribed medicines and receiving proper treatment. In the education sector, 55% of the respondents cited payment of illegal fees to gain access to the educational institutions. Among the victims of corruption, 62% reported that money was directly demanded from them. In the power sector, the most common form of corruption was paying bribes to secure an electricity connection (63%) and to ensure proper power supply (42%). Repairmen and officials were identified as the key facilitators of corruption. Extortion cases accounted for 33%. A recent report (January 2007) by the parliamentary Committee on Public Enterprises indicated that inefficiencies are pervasive in many sectors.²⁷ This report included allegations concerning (i) fraudulent transactions; (ii) non-adherence to tender procedures, accounting standards, and internal audit procedures; (iii) non-disclosure of appropriations; and (iv) noncompliance with rules and procedures of public enterprises, among other cited cases.

16. The corruption perception index (CPI) by Transparency International ranked 163 countries in 2006.²⁸ The CPI scores of 2002–2006 for Sri Lanka have been stable within

²⁶ Transparency International. 2002. *Corruption in South Asia: Insights and Benchmarks from Citizen Feedback Surveys in Five Countries*. Berlin.

Available: <http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN019883.pdf>

²⁷ (i) Committee on Public Enterprises. 2007. *Parliamentary Series: First Report from the Committee on Public Enterprises*. Colombo.

(ii) Related news articles on the findings of the Committee on Public Enterprises.

Available: <http://www.sundaytimes.lk/070114/News/106.html>

Available: <http://www.asiantribune.com/index.php?q=node/4121>

²⁸ CPI was first released in 1995 but Sri Lanka was not included until 2002. For a country to be included in the CPI, at least three surveys were required. Each country is given a score of 0–10. Based on the score benchmark,

the 3.0-4.0 range. Compared with countries in South Asia, Sri Lanka (84th) was ranked behind Bhutan (32nd) and India (70th), but ahead of Nepal (121st), Pakistan (142nd), and Bangladesh (151st). Sri Lanka was ahead of several Southeast Asian countries such as the Philippines (121st) and Indonesia (130th). However, comparison of CPI rankings should be interpreted cautiously. Perception ranking can change simply because of changes in the number of countries surveyed. Both the WGI and CPI are composite indexes using surveys and polls administered by various independent institutions working for economic and political development.²⁹ Sri Lanka has fared better in the WGI and CPI than many other countries. In the past decade, perception of the quality of governance in the country has changed very little.

E. Governance in ADB Country Strategies and Programs

17. The positioning of ADB's governance strategies, as articulated in the country strategy and programs for Sri Lanka after the issuance of the Governance Policy (1995), may be assessed in terms of several criteria. These include (i) sufficient basis for the strategy, (ii) government ownership, (iii) ADB's comparative advantage and harmonization of governance strategies with other development partners, (iv) focus/selectivity and synergies, (v) long-term continuity of the governance strategies, and (vi) risk assessments and monitoring mechanisms to achieve the envisaged governance results.³⁰ For the purpose of this evaluation, governance also includes anticorruption, economic management, public finance, and expenditure management.

18. **The governance component of the country strategy and programs for Sri Lanka underwent major shifts over two distinct periods.** These periods covered (i) 1995–2003, or the period immediately following the approval of the Governance Policy in August 1995 and (ii) 2004–2008, or the current country strategy and program period. Prior to the 2004–2008 Country Strategy and Program, ADB did not have a detailed governance strategy and framework for Sri Lanka. For illustrative purposes, the evaluation team constructed a framework (Figure 4) to illustrate ADB's governance and anticorruption efforts during 1995–2003, based on information extracted from ADB country strategies and assistance programs. While ADB did not have an elaborate country strategy for Sri Lanka to guide its governance assistance during 1995–2003, several dimensions could be distilled from the 1995–2003 assistance program based on the governance pillars of accountability, participation, predictability, and transparency. These included (i) public enterprise reform, (ii) public sector management, (iii) local government strengthening, and (iv) regulatory and policy reforms. ADB's country strategy recognized that weaknesses in public administration were rooted in excessive government employment, deterioration of the quality of services, political interference in the civil service, outdated organizations at the central government level, and an ambiguous division of responsibilities between the center and the provinces. Thus, a dynamic public administration was crucial for managing complex issues such as the creation of an appropriate policy environment and the shift in the role of the Government from direct producer/service provider to regulator in many areas. The country strategy (1998) supported continuing dialogue with the Government in the

10 reflects a clean society while the closer the score is to 0, the more a country is perceived to be corrupt. The 2006 CPI and past indicators are available online. Available: <http://www.transparency.org/>.

²⁹ The Global Competitiveness Survey sponsored by the World Economic Forum and Index of Economic Freedom by the Heritage Foundation also deal with a number of governance-related issues. In the latest survey (2006–2007), out of 125 countries Sri Lanka was ranked 79, behind India and major economies in East and Southeast Asia, whereas Bangladesh, Nepal, and Pakistan all trailed behind Sri Lanka. In the 2006 Index of Economic Freedom, with a score of 3.19, Sri Lanka scored best in South Asia, within a ranking range of 1.0 (best) to 5.0 (worst).

³⁰ ADB. 2006. *Guidelines for the Preparation of Country Assistance Program Evaluation Reports*. Manila. Available: <http://www.adb.org/Documents/Guidelines/Country-Assistance-Program/default.asp>

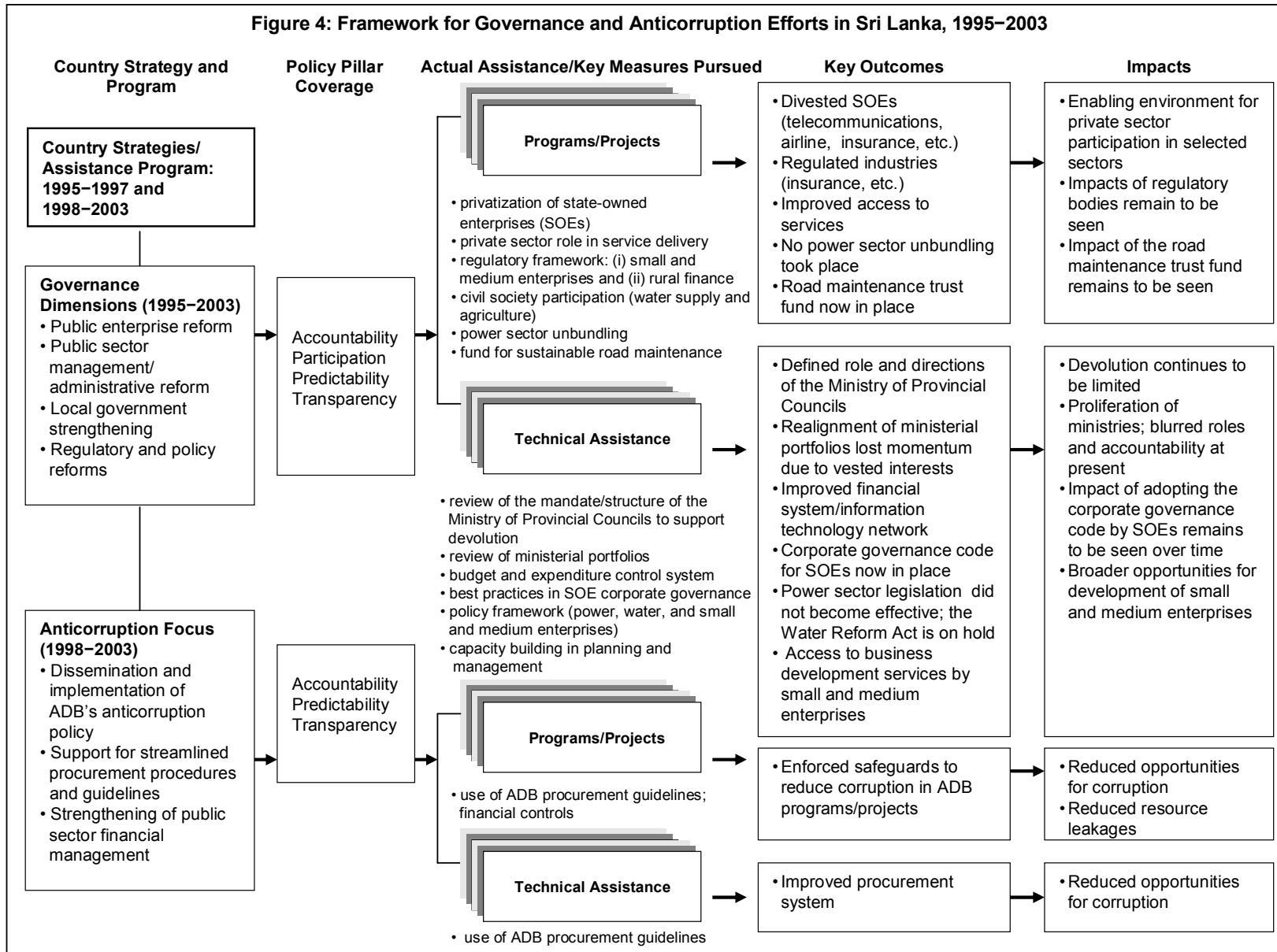
pursuit of public administration reform: (i) streamlining government organizations; (ii) progressively reducing and/or redeploying employees to other government entities; (iii) restoring government service to improve the quality of performance; (iv) improving material resources at the disposal of government employees; and (v) ensuring that provincial councils and local governments benefit from a clear delegation of authority, appropriate and prudent financial management systems, adequate resources, and sufficient administrative capacity.³¹ Policy and regulatory reforms were vital in strengthening economic management, improving access to services and infrastructure, and in the long run, providing an enabling environment for private sector participation.

19. The positioning of the governance strategies in the 1995–2003 country strategy and programs was coherent and was closely linked to economic management and policy reforms. During 1995–2003, economic management issues amid a growing budget deficit and public debt formed the basis for ADB's assistance in economic management. At that time, the Government's vision of faster growth was primarily anchored on macroeconomic stabilization policies and structural reforms. In this context, the governance focus of the country strategy and programs was selective, given its choice of public enterprise reform as a key strategic option, mainly in terms of support for privatizing SOEs and sector restructuring. Although civil service reform was important to the country, the country strategy and program recognized that ADB was not well-equipped to provide this assistance. In general, economic management assistance was coordinated with the World Bank, specifically in relation to removing market impediments, and with bilateral organizations in terms of private sector development and public service delivery. Long-term continuity was evident in the country strategy and program support for policy and regulatory reforms. Public enterprise reforms, for example, were carried out in the 1980s and early 1990s through policy-based programs, initially in the agriculture sector and subsequently in the financial sector. With the privatization of SOEs in agriculture, financial reforms in the early 1990s complemented efforts to mobilize resources for the private sector. The country strategies during 1995–2003 supported further reforms, and from 2000 thereafter, a new round of policy-based programs was approved for private sector development, small and medium enterprise development, rural finance, and power sector reforms. Improvement in service delivery was highlighted since late 1990s, mainly through projects involving water supply, education, and agriculture and natural resources.

20. The 1998–2003 country strategy identified performance indicators and assessed risks that could affect governance-related reforms. This was a major improvement, considering that prior to 1998, risk assessment and results-based indicators were absent from ADB's country strategies. The country strategy (1998–2003) recognized that early elections to strengthen parliamentary majority could affect politically sensitive reform measures if a political party with a different policy orientation gained power. On the macroeconomic front, risks could arise from the relaxation of fiscal discipline that could adversely affect credit availability for private sector development, and start a vicious cycle of more debt, a higher fiscal burden, and higher future deficits. The drafting and subsequent enactment by the Government of the Fiscal Management Responsibility Act (2004) provided a safeguard against these risks, given its targets for reducing the overall budget deficit and total debt and its promotion of fiscal transparency and accountability. In addition, the country strategy recognized the risk from the civil conflict that could shift the policy focus from medium and/or long-term structural reforms to short-term macroeconomic instability. The country strategy indicated that if properly monitored, these risks were quite manageable.

³¹ ADB. 1998. *Sri Lanka: Country Operational Strategy (1998–2003)*. Manila.

Figure 4: Framework for Governance and Anticorruption Efforts in Sri Lanka, 1995–2003



ADB = Asian Development Bank, SOE = state-owned enterprises.
 Source: Extracted from ADB country strategies and assistance programs.

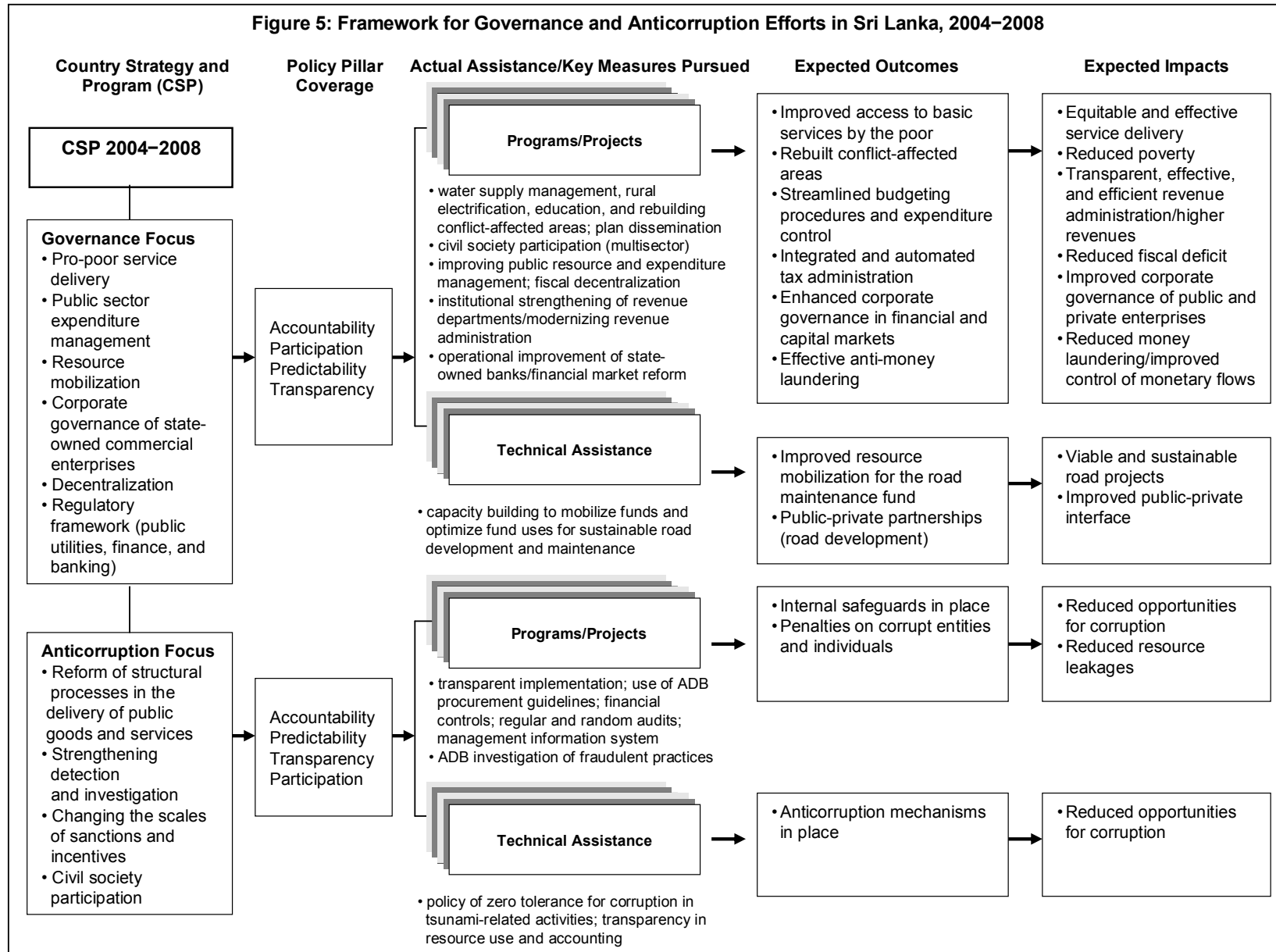
21. **The positioning of the governance strategy in the subsequent 2004–2008 Country Strategy and Program was coherent, and anchored on the broader goals of poverty reduction, reconstruction of conflict-affected areas, and development.** The 2004–2008 Country Strategy and Program also recognized that improving governance was an important pillar of ADB’s strategy in supporting the Government’s reform agenda.³² It went much further than the previous country strategies by articulating a strategic framework and by drawing on the findings of the comprehensive review of governance and public management in Sri Lanka that called attention to a number of challenges. Among these challenges were (i) rationalization and strengthening of public policy management, planning, budgeting, and performance management; (ii) fiscal decentralization; (iii) safeguarding the independence of all branches of the public service from political interference; (iv) human resources management; (v) enhancing effectiveness of service delivery; (vi) improving access to information; (vii) widening use of information technology and e-governance; (viii) maintenance of law and order; (ix) removal of impediments to enhanced private sector participation in economic activities and service delivery; (x) access to justice; (xi) enhancing the role of civil society; and (xii) addressing the needs of reconstruction, rehabilitation, and reconciliation in conflict-affected areas of the North and East (footnote 9). Thus, a broad range of challenges were identified in the review of governance and public management in Sri Lanka (2004).

22. The governance agenda of the 2004–2008 Country Strategy and Program was selective. It gave priority to (i) improving the effectiveness and efficiency of public services and (ii) public policy management. Its choice of focal areas included (i) pro-poor service delivery, (ii) improved public sector expenditure management, (iii) resource mobilization, (iv) local and corporate governance, and (v) regulatory framework in public utilities, banking, and finance. The country strategy excluded assistance for legal and judicial reform and law enforcement. Admittedly, this area is extremely challenging but it is fundamental to promoting accountability and predictability and to sustaining governance and anticorruption efforts in the country. Strengthening capacity, addressing legal loopholes, and enhancing knowledge within law enforcement authorities are important in dealing with the growing complexity of corruption and other related governance challenges.

23. The evaluation team constructed a framework (Figure 5) to illustrate governance efforts (including anticorruption) for 2004–2008. These efforts are consistent with ADB’s corporate objectives on poverty reduction and delivery of services to the poor, and ADB’s attention to public resource management. Synergy also marked the choice of the governance focal areas. Improving service delivery to the poor called for complementary efforts to develop effective institutional structures, enhance resource mobilization, promote sound expenditure management, and achieve effective policy management. In this regard, the governance pillars of accountability, transparency, predictability, and participation are relevant.

³² ADB. 2004. *Sri Lanka: Country Strategy and Program (2004–2008)*. Manila.

Figure 5: Framework for Governance and Anticorruption Efforts in Sri Lanka, 2004–2008



ADB = Asian Development Bank, CSP = country strategy and program.
 Source: Extracted from ADB country strategies and assistance programs.

24. The 2004–2008 Country Strategy and Program places the formulation of a service delivery policy framework as part of programs to improve public services, and to mainstream governance in sector investments. The country strategy proposed a twin-track approach: (i) a core service delivery reform by introducing an evolving service delivery policy framework through pilot projects in selected priority services, and subsequent scaling up of these projects; and (ii) mainstreaming this approach in ADB-financed projects in roads, power, and water supply. Effective public management was seen as vital in ensuring that optimal benefits flow to the citizens. The 2004–2008 Country Strategy and Program also supported institutional strengthening, civil society participation, and developing partnerships with bilateral organizations to promote and strengthen governance efforts. Connectivity with the governance efforts of previous country strategies was manifested in the support for public resource management and policy management. Overall, ADB's governance assistance was expected to contribute to such outcomes as improved access to basic services by the poor, streamlined budgeting procedures and expenditure control, integrated and automated tax administration, enhanced corporate governance in financial and capital markets, and effective anti-money laundering. In the longer term, the expected effects will include effective service delivery, improved revenue administration, reduced fiscal deficit, and improved control of monetary flows.

25. The 2004–2008 Country Strategy and Program identified several risks that could affect ADB-supported governance assistance program (including initiatives aimed at economic management). These risks include (i) dilution or deferment of public administrative reforms due to opposition from political parties and vested interests, (ii) resumption of hostilities, which could thwart development efforts by undermining the investment climate and raising defense expenditures, and (iii) social consequences on the poor of the Government's reform package (labor law, privatization, etc.) and over-ambitiousness of the reform package in its expectations, which could contribute to social instability and vulnerability for those directly affected. However, the 2004–2008 Country Strategy and Program did not anticipate a change in government and policy stance. A new government led by the Sri Lanka Freedom Party under the United People's Freedom Alliance came to power in April 2004. Subsequently, a new President was elected in November 2005. Guided by the presidential manifesto *Mahinda Chintana*,³³ the current Government has emphasized that it will not pursue privatization as a way of improving the performance of SOEs. Thus, efficiency improvement initiatives (rather than the change of ownership) would be used as a means to improve SOE performance. In its 2006 Annual Report, the Central Bank of Sri Lanka cautioned that *"the assurance by the government of nonprivatisation of SOEs should not be considered as a cover by those SOEs to continue enjoying monopolistic or large market shares in providing those services without concentrating on improvements of their services for the general public while ensuring efficient and cost effective infrastructure services. The nonprivatisation policy imposes serious corporate commitment on these enterprises to operate more efficiently, and thereby generating a reasonable rate of return to the government, while providing good quality services to the public without being a burden on the taxpayers."*³⁴

26. **After the approval of the Anticorruption Policy (1998), ADB's country strategies for Sri Lanka provided support to anticorruption efforts.** The 1998–2003 Country Strategy and Program supported anticorruption efforts through (i) dissemination and promotion of awareness of the Anticorruption Policy, (ii) procurement procedures and guidelines, and (iii) strengthening financial management in the public sector. Subsequently, the 2004–2008 Country

³³ Available: <http://www.mahindarajapaksa.com/MahindaChinthanaEnglish.pdf>

³⁴ Central Bank of Sri Lanka. 2007. *Annual Report 2006*. Colombo.

Available: http://www.cbsl.gov.lk/pics_n_docs/10_publication/_docs/efr/annual_report/Ar2006/Content.htm

Strategy and Program recognized that the delivery of public goods and services was generally affected by varying levels of corruption, and that fighting corruption would require other measures: (i) reexamination and reform of the structural processes affecting the delivery of public services and goods, (ii) strengthening institutions involved in detecting and investigating corruption, (iii) changing the scales of sanctions that are attached to proven instances of corruption, and (iv) enhancing awareness and participation of civil society in corruption-related issues.

27. **Overall Rating.** Based on the positioning criteria (para. 17), this evaluation assessed the overall positioning of the ADB governance strategies in Sri Lanka during 1995–2006 “satisfactory”. Table 2 summarizes the ratings for each set of strategies over time.

Table 2: Rating of the Positioning of the Governance Strategies in Sri Lanka

Strategy	Criteria for Positioning						Risk Assessment and Monitoring Mechanisms to Achieve Envisaged Results	Average ^a
	Sufficient Basis for the Strategy	Government Ownership	ADB's Comparative Advantage and Strategy Harmonization with Other Development Partners		Focus/ Selectivity and Synergies	Long-Term Continuity		
1995–2003	2 (S)	2 (S)	2 (S)	2 (S)	2 (S)	3 (HS)	1 (PS)	2.00 (S)
2004–2008	3 (HS)	2 (S)	2 (S)	2 (S)	2 (S)	3 (HS)	2 (S)	2.33 (S)
Overall								2.16 (S)

ADB = Asian Development Bank, HS = highly satisfactory, PS = partly satisfactory, S = satisfactory, US = unsatisfactory.

^a Note: HS = 3 points; S = 2 points; PS = 1 point; and US = 0 point. An equal weight is applied to each of the six criteria for positioning. The ratings are as follows: (i) $HS > 2.5$, (ii) $2.5 \geq S \geq 1.6$, (iii) $1.6 > PS \geq 0.6$, and (iv) $0.6 > US$.

F. Lending Operations: Programs and Projects

28. **Key Governance Measures.** A review of ADB-assisted programs and projects after the approval of the Governance Policy (17 August 1995–thereafter) indicated the pursuit of several governance measures that included (i) improving the efficiency and responsiveness of public sector operations; (ii) establishing policy, legal, and institutional frameworks and delivering governance assistance under existing frameworks; and (iii) enhancing participation in planning and implementation, among others. Table 3 lists some examples of ADB-assisted programs and projects that have governance dimensions.

29. In the past, ADB provided support for public enterprise management through three completed (closed) policy-based program loans on private sector development (Loan 1800-SRI), small and medium enterprise sector development (Loan 1894-SRI), and power sector development (Loan 1929-SRI), which all sought to provide an enabling policy and business environment. This included the establishment of an independent regulator in several sectors (finance, power, water supply, and industry and trade). These efforts led to the creation of the Insurance Board of Sri Lanka (2000), the Public Utilities Commission (2002), and the Consumer Affairs Authority (2003), as well as the broadening of the jurisdiction of the Securities and Exchange Commission. All of these regulatory bodies have been operational, except for the multisector Public Utilities Commission (for power, water, and petroleum) that will be empowered to execute regulation only after the enabling regulations are enacted and made effective. To date, the Public Utilities Commission has not been empowered to regulate the specific industries due to delays in the issuance of the enabling industry legislation.

Table 3: Examples of Programs and Projects after the Approval of the Governance Policy (1995–2006)

Loan Title	Approved Amount (\$ Million)	Approval Date	Governance Dimensions of Approved Programs/Projects in Relation to the Governance Dimensions of the Country Strategies and Programs for Sri Lanka							Status	
			PEM	PSEM	SD	RM	LG ^a	CG	RPF		
Law, Economic Management, and Public Policy Sector											
1. Loan 1800-SRI: Private Sector Development Program	85.0	12 Dec 2000							√	√	Completed (Rated in the PCR as successful)
2. Loan 2130-SRI: Fiscal Management Reform Program	45.0	14 Dec 2004		√					√	√	Ongoing
Industry and Trade											
1. Loans 1894/1895/1896-SRI: Small and Medium Enterprise Development Program	86.0	20 Dec 2001							√	√	Loan 1894-SRI has been completed. The rest are ongoing.
Power Sector											
1. Loans 1929/1930-SRI: Power Sector Development Program	130.0	31 Oct 2002	√		√					√	Loan 1929-SRI was closed in 2006. Loan 1930-SRI is ongoing.
Finance Sector											
1. Loans 2040/2041/2042-SRI: Rural Finance Sector Development Program	50.0	11 Dec 2003								√	Ongoing
2. Loan 2138-SRI: Financial Markets for Private Sector Development	60.0	15 Dec 2004							√	√	Ongoing
Multisector											
1. Loans 2043/2044-SRI: Conflict-Affected Areas Rehabilitation Project	80.0	11 Dec 2003			√						Ongoing
2. Loan 2084-SRI: North East Community Restoration and Development Project	10.0	15 June 2004			√						Ongoing
3. Loan 2167-SRI: Tsunami-Affected Areas Rebuilding Project (with a grant of \$150.0 million under Grant 0007-SRI)	7.0	14 Apr 2005			√					√	Ongoing
4. Loan 2168-SRI: North East Community Restoration and Development Project II	26.0	14 April 2005			√						Ongoing

Loan Title	Approved Amount (\$ Million)	Approval Date	Governance Dimensions of Approved Programs/Projects in Relation to the Governance Dimensions of the Country Strategies and Programs for Sri Lanka							Status
			PEM	PSEM	SD	RM	LG ^a	CG	RPF	
Water Supply and Sanitation										
1. Loan 1575-SRI: Third Water Supply and Sanitation Project	75.0	06 Nov 1997			√		√			Ongoing
2. Loan 1993-SRI: Secondary Towns and Rural Community-Based Water Supply and Sanitation Project	60.3	16 Jan 2003			√		√			Ongoing
3. Loan 2275/2276-SRI: Secondary Towns and Rural Community-Based Water Supply and Sanitation Project	60.0	29 Nov 2006			√		√			Ongoing
4. Loan 2201-SRI: Local Government Infrastructure Improvement	50.0	24 Nov 2005			√		√			Ongoing
Education										
1. Loan 1707-SRI: Skills Development Project	18.8	28 Oct 1999			√					Ongoing
2. Loan 1756-SRI: Secondary Education Modernization Project I	50.0	12 Sep 2000			√					Completed
3. Loan 2096-SRI: Secondary Education Modernization Project II	35.0	25 Oct 2004			√		√		√	Ongoing
4. Loan 1999-SRI: Distance Education Modernization Project	45.0	11 Jun 2003			√					Ongoing
5. Loan 2197-SRI: Technical Education Development Project	20.0	21 Nov 2005			√				√	Ongoing
Transport and Communications										
1. Loan 1986-SRI: Road Sector Development	56.5	19 Dec 2002					√		√	Ongoing
2. Loan 2217-SRI: National Highways Sector Project	150.0	15 Dec 2005					√		√	Ongoing
Agriculture and Natural Resources										
1. Loan 1639-SRI: Tea Development Project	35.0	10 Nov 1998			√				√	Ongoing
2. Loans 1913/1914-SRI: Plantation Development Project	30.0	13 Sep 2002							√	Ongoing
Total	1,264.6									

CG = corporate governance, LG = local governance, PCR = program completion report, PEM = public enterprise management, PSEM = public sector expenditure management, RM = resource mobilization, RPF = regulatory and policy framework, SD = service delivery.

^a Local governance in the context of this table pertains to decentralization of public and service delivery functions, including empowerment of local governments.

Source: Asian Development Bank database.

30. In terms of the governance focus on resource mobilization, the ongoing Fiscal Management Reform Program (Loan 2130-SRI), for example, aims to strengthen revenue departments, modernize revenue administration, and promote fiscal decentralization. Reforming and improving the rural finance system and improving the private sector's access to financial markets to propel the growth of enterprises are being addressed through the ongoing Rural Finance Sector Development Program (Loan 2040-SRI) and the Financial Markets for Private Sector Development (Loans 2138-SRI). Rural finance institutions suffer from weak governance, poor repayment rates, high transaction costs, weak supervision, and recurring losses. Inefficiencies add to the fiscal burden. The Government's dominance in rural finance is exercised through ownership and control over pricing of services.

31. Several ADB-financed interventions have supported pro-poor service delivery, including improving access to water supply, rural electrification, education, and rebuilding conflict-affected areas. Making services available to communities, including the poor, have called for the participation of (i) nongovernment organizations in strengthening rural communities, and in implementing small-scale projects in conflict-affected areas; (ii) community-based organizations and local governments in water supply management; and (iii) the private sector in providing information and communication technology for secondary and tertiary education. Except for the first Secondary Education Modernization Project (Loan 1756-SRI), most projects with a prominent service delivery dimension are still ongoing. A positive outcome of the Secondary Education Modernization Project was access to education by 50,000 secondary students, mainly through a stipend scheme for students from disadvantaged families.

32. **Key Anticorruption Measures.** An analysis of ADB lending operations in the post-anticorruption policy period (2 July 1998–thereafter) indicated that anticorruption measures have been pursued through (i) compliance with ADB procurement guidelines for ADB-financed operations, (ii) transparent project implementation, (iii) regular auditing of annual financial statements, (iv) auditing of the use of statements of expenditures for loan disbursement applications, (v) use of management information system to minimize fraud, and (vi) ADB investigations of allegations of fraudulent practices. The Office of the Auditor General of ADB responded to complaints and allegations of corruption. From 1998 to 2006, there were 61 cases related to Sri Lanka filed with ADB's Office of the Auditor General, representing about 5.8% of the 1,048 total cases filed.³⁵

33. Specific anticorruption measures have been included in several projects. The National Highways Sector Project (Loan 2217-SRI) includes relevant sections of the Anticorruption Policy (1998) in all documents related to bidding and contracts, and specified the right of ADB to audit and examine the records and accounts of the Road Development Authority and of all contractors, suppliers, consultants, and other service providers as they relate to the project. This project underscores the need for transparency and for a management information system to minimize corruption. Likewise, the Secondary Towns and Rural Community-Based Water Supply and Sanitation Project (Loan 1993-SRI) stipulated the implementation of the Anticorruption Policy and the mandatory use of standard bidding documents, as well as the right of ADB to investigate any alleged corrupt, fraudulent, collusive or coercive practices relating to the project. Similar anticorruption provisions were reiterated in other projects, including the

³⁵ When only project cases are counted, the number of Sri Lanka cases filed from 1998 to 2006 reaches 54 cases (7.13%) out of a total of 757 cases. Of the 54 Sri Lanka cases filed, 52 had been concluded and 2 cases were still open by the end of 2006. Of the closed cases, two cases (3.85%) resulted in sanctions by the Integrity Oversight Committee.

Local Government Infrastructure Improvement Project (Loan 2201-SRI) and the Technical Education Development Project (Loan 2197-SRI).

34. The ongoing Tsunami-Affected Areas Rebuilding Project and the Northeast Community Restoration and Development Project II (Loans 2167/2168-SRI and Grant 0007-SRI) recognized corruption risks and built in specific anticorruption measures to mitigate these risks. They are among the few ADB projects that could provide a model for designing such anticorruption features. The mix of governance and anticorruption interventions included pro-active measures directed at (i) providing legal assistance services in the regions to help tsunami victims assert their rights; (ii) establishing a decentralized mechanism for tsunami victims for private dispute resolution and grievance review against public officials, including working with CIABC; (iii) training and awareness programs in the regions, as well as television clips on anticorruption with CIABC; (iv) promoting accountability and transparency; (v) reestablishing identity registration for tsunami victims; (vi) special and random financial and performance audits; (vii) establishing community participation in planning, implementation, and monitoring; (viii) attaching Corruption Sentinel Officers to each of the Regional Legal Aid Commission Officers under the project, which is the first instance of a formalized corruption sentinel system in Sri Lanka at the regional level; and (ix) penalizing corruption. This intervention signified a major positive step toward curbing corruption and promoting good governance and local empowerment that went beyond the conventional use of ADB procurement guidelines. In the finance sector, the Rural Finance Sector Development Program (Loans 2040/2041/2042-SRI) stipulated that the Government would acquire and instill accounting capability to ensure tracking and minimize corruption in program implementation. The anticorruption measures in ADB's grant and lending operations are required under the Anticorruption Policy to put safeguards in place and penalize corrupt entities and offenders. Reduced opportunities for corruption and reduced resource leakages are among the anticipated effects in the long term. The outcomes of these anticorruption efforts of ongoing projects need to be assessed in the future.

35. So far, specific mitigation strategies based on identified corruption risks have been limited to the Tsunami-Affected Areas Rebuilding Project and the Northeast Community Restoration and Development Project II (Loans 2167/2168-SRI), and the proposed Regional Small and Medium Enterprise Development Project. The requirement of the Second Governance and Anticorruption Action Plan to carry out risk assessments and formulate risk management plans is a notable development that if implemented could assist in curbing and preventing corruption, particularly in sectors in which ADB is engaged. People must have access to information, opportunity to participate in projects, and tangible mechanisms for holding public officials accountable. Moreover, support for physical infrastructure alone without supporting the underlying institutional and governance structures may not lead to enduring development. Such structures include upstream (apprehension and prosecution) and downstream (administrative and judicial) enforcement mechanisms. Capacity development, legal and judicial reforms and assistance, and enforcement of penalties are essential to (i) improve governance, (ii) increase accountability and people's empowerment, and (iii) reinforce the probability of prosecution and conviction for offenders. Support for governance interventions, either as separate interventions or as part of mainstreaming governance efforts, are relevant as seen in legal and dispute resolution measures in the tsunami projects and the Small and Medium Enterprise Development Program. A well planned program for legal assistance, coupled with raising awareness, would help empower the public to hold government officials accountable for the delivery of public services.

G. Technical Assistance

36. **Governance Measures.** From 1995 to 2006, measures to support governance efforts through technical assistance (TA) covered several areas: (i) a review of the mandate and institutional strengthening of the Ministry of Provincial Councils and Local Government to foster devolution; (ii) a review of ministerial portfolios; (iii) improvement of the budget and expenditure control system; (iv) identification of good practices in corporate governance; (v) capacity development in planning and management; (vi) formulation of a policy framework for key sectors such as power, water supply and sanitation, and small and medium enterprises; and (vii) resource mobilization for sustainable road development and maintenance. Positive institutional outcomes were initially generated by the TA for public administration reform (TA 2616-SRI), mainly in terms of realignment of ministerial portfolios in 1997 and introduction of a performance evaluation system for senior staff. The Office of the President strongly supported ministerial realignment at the outset but vested political interests contributed to the loss of momentum in implementing the realignment directive. The subsequent proliferation of ministries and the blurring of their roles and responsibilities have negated attempts at public administration reform. In support of the devolution policy, TA 3263-SRI provided for the institutional strengthening of the Ministry of Provincial Councils and Local Government in early 2000. Under the governance and institutional reform component, TA 3263-SRI sought to (i) carry out a review of the framework regulating the roles and responsibilities of the provincial councils and local authorities; (ii) assess the capacities and resource capabilities of the provincial councils and local authorities to discharge their responsibilities; and (iii) recommend comprehensive measures to reinforce local governance, in addition to assessing the structure and operations of the Ministry. It also provided for capacity building of the Ministry in providing guidance and coordination support to the provincial councils and local authorities. The TA completion report noted that the Ministry's mandate and directions were defined, particularly in relation to providing policy guidance and planning support to provincial and local authorities. However, the contribution of the Ministry to devolution was limited because it tended to focus on procedural and administrative activities (processing approval of staffing in provincial councils and releasing funds to these councils). Moreover, promoting effective local governance was hampered by shortfalls in the 13th Amendment to the Constitution (1987). This constitutional amendment established the legal underpinning for devolution of power from the center to the provinces, but its fiscal framework did not address the fiscal requirements and self-reliance of subnational governments, and the efficiency at all government levels. To date, devolution continues to be limited due to a dissonance between the stated devolution objectives and the administrative realities on the ground.

37. A corporate governance code for commercial SOEs resulted from the Governance and Institutional Support for Private Sector Development (TA 3567-SRI), which identified good practices in corporate governance. This code is now in place but its outcomes and impacts will need to be assessed in the future. Policy and regulatory reforms were attempted in the power and water supply sectors through the TAs for Restructuring the Power Sector Phase II (TA 3857-SRI) and Strengthening the Regulatory Framework for Water Supply and Sanitation (TA 4049-SRI), largely to facilitate more efficient functioning of the sector institutions and improve service quality and financial viability. The Electricity Reforms Act did not become effective while the development of water resources legislation stalled due to political opposition. In the transport sector, the Road Maintenance Budgeting and Expenditure Control (TA 3691-SRI) reviewed and analyzed the budgeting and expenditure control systems for road maintenance of the Road Development Authority and the provincial councils. This TA aimed to increase resource mobilization and promote greater public-private partnerships in future road development. A road maintenance trust fund is now in place, partly as a result of this TA. In the

financial sector, a TA loan for capacity development (TA 2139-SRI) complements the ongoing Financial Markets Program for Private Sector Development, mainly by strengthening the People's Bank and the Insurance Board of Sri Lanka. Similarly, project TAs are supporting the ongoing Fiscal Management Reform Program through the strengthening of fiscal management institutions and modernization of revenue administration.

38. Anticorruption Measures. Measures to fight and prevent corruption through TA operations have centered on (i) compliance with ADB procurement guidelines, (ii) adopting the policy of zero tolerance for corruption in tsunami-related projects, and (iii) transparency in resource use and accounting. For example, the Post-Tsunami Needs Assessment and Preparation for Emergency Assistance Implementation Strategies (TA 4567-SRI) supported the use of mechanisms that would permit full accounting to Parliament, development partners, civil society, and the disaster-affected communities of resources deployed from all sources, along with zero tolerance for corruption. A recent report (December 2006) on post-tsunami recovery and reconstruction claimed that corruption on a grand scale has not been a major issue, perhaps because tsunami reconstruction did not involve many large-scale infrastructure projects that are typically associated with significant levels of corruption.³⁶ The report noted that most corruption identified has been petty corruption associated with discretionary decisions by officials. A research paper on post-tsunami recovery published by the ADB Institute indicated that transparency and accountability in aid disbursement are desirable but in practice not an easy task.³⁷ In the immediate relief phase of a natural disaster (such as the tsunami), humanitarian assistance inevitably takes precedence over formal aid accountability. For example, irregularities and lapses in the clearance of relief goods, management of aid goods and funds received, and cash payments of allowances, were highlighted in an interim report (2005) by the Auditor General's Department.³⁸

39. Regional Anticorruption Initiatives Involving Sri Lanka. ADB and OECD launched the Anticorruption Initiative for Asia and the Pacific in 1999 to raise awareness of the seriousness of corruption in the region. Subsequently, 17 countries endorsed an anticorruption action plan in 2001 that provided for a comprehensive set of actions that governments would take to develop effective and transparent systems for public service, strengthen anti-bribery actions and promote integrity in business operations, and support active public involvement. Specific actions under the Anticorruption Action Plan for Asia and the Pacific include (i) establishing effective and transparent systems of government hiring of public officials that assure openness, equity, and efficiency; (ii) establishing ethical and administrative codes of conduct that proscribe conflicts of interest, ensure the proper use of public resources, and promote the highest levels of professionalism and integrity; (iii) safeguarding accountability of public service through effective legal frameworks, management practices, and auditing procedures; (iv) effective prevention, investigation, and prosecution; (v) promotion of corporate accountability and responsibility; (vi) public discussion of corruption; (vii) access to information; and (viii) participation of civil society in anticorruption activities. In May 2006, Sri Lanka became the 26th member of the Anticorruption Initiative for Asia and the Pacific.³⁹

³⁶ Ministry of Finance and Planning, and the Reconstruction and Development Agency of the Government of Sri Lanka. 2006. *Post-Tsunami Recovery and Reconstruction Report*. Colombo.

Available: http://www.rada.gov.lk/portal/resources/Reports/23012007_2ndYearReportFinal.pdf

³⁷ Jayasuriya, Sisira, Paul Steele, and Dushni Weerakoon. 2006. *Post-Tsunami Recovery: Issues and Challenges in Sri Lanka*. ADB Institute: Tokyo.

Available: <http://www.adbi.org/files/2006.06.rp71.tsunami.recovery.english.pdf>

³⁸ Government of Sri Lanka. 2005. *Interim Report of the Auditor General on the Rehabilitation of the Losses and Damages Caused to Sri Lanka by the Tsunami*. Colombo.

³⁹ Related news article. Available: <http://www.adb.org/Media/Articles/2006/9874-regional-anticorruption/default.asp>

40. A regional TA supports the second phase of the anticorruption action plan.⁴⁰ For 2004–2006, it aimed to (i) consolidate the results of the first implementation phase of priority reforms by shifting the emphasis toward implementation of the second generation of anticorruption reforms, (ii) collaborate with the United Nations authorities to assist endorsing countries in meeting their commitment under the United Nations Convention against Corruption, and (iii) enhance capacity and knowledge for effective implementation of the action plan.

41. Sri Lanka is a signatory to the United Nations Convention against Corruption and a member of the ADB/OECD-sponsored Anticorruption Initiative. The country recognizes the need to intensify efforts to combat corruption and address legal loopholes. CIABC has been unable to initiate investigations and look into acts of corruption reported in the media in the absence of a formal complaint. Corruption convictions have been rare, despite CIABC's existence since 1994.⁴¹ Laws to protect whistleblowers are not yet in place, dampening incentives to report corruption cases.⁴² A recent proposal by the Government for the Anticorruption Initiative for Asia and the Pacific outlines the creation of a public affairs division/communications office in CIABC. Proposed activities in 2007 include (i) identification of the amendments to Act No. 19 of 1994, which created CIABC; (ii) design of information kits and manuals; (iii) regular press releases and conferences; (iv) dissemination of CIABC annual reports; and (v) improvement of CIABC website. All of these are in harmony with the third pillar of the anticorruption action plan—supporting active public involvement. Expected outcomes include whistleblower protection through legislative and other measures, heightened awareness by the public of corruption issues, and increased participation by nongovernment organizations in monitoring public activities and procurement functions. CIABC has indicated its willingness to extend its implementation of the ADB-assisted initiative but has limited resources to do so. Exploring new ways for citizens to interact with the state and empowering broad-based coalitions to demand greater public accountability and transparency is crucial for sustaining anticorruption efforts. This requires ample room for civil society participation and for media freedom in exposing anomalies.⁴³

H. Contribution of the ADB Assistance Program

42. **The overall outcomes of ADB's assistance program for governance and anticorruption in Sri Lanka are too early to assess.** Most programs/projects with significant and explicit governance dimensions are still ongoing. In general, approvals of programs/projects with specific governance-related components took place during the first half of this decade. These comprise improvement of service delivery, public sector management, public enterprise reform, corporate governance of SOEs, regulatory/legal frameworks, and provision of legal assistance and dispute resolution. There have been attempts to promote good governance through investment projects covering water supply, roads, power, education, agriculture, environment, and reconstruction. Similarly, anticorruption measures have been integrated in these projects. Support for governance and anticorruption efforts is expected to (i) improve access to effective service delivery; (ii) foster private sector-led development; and (iii) promote transparency and accountability in public sector management.

⁴⁰ TA 6196-REG: *Implementation of the ADB-OECD Anticorruption Initiative for Asia-Pacific*, for \$250,000, approved on 2 November 2004.

⁴¹ Transparency International. 2003. *National Integrity Systems Country Study Report: Sri Lanka*. Berlin.

⁴² Kirinde, Chandani. 2006. *A Strategy to Combat Corruption*. Sunday Times Online. Colombo.

Available: <http://www.sundaytimes.lk/061112/News/nws4.0.html>

⁴³ Center for Policy Alternatives. 2006. *War, Peace and Governance in Sri Lanka: Overview and Trends 2006*. Colombo. Available: http://www.cpalanka.org/research_papers/War_Peace_Governance.pdf

43. **Making headway in improving service delivery (such as in water supply and education) is possible, particularly in areas outside of the conflict-affected zones.** However, public enterprise reforms that promote restructuring may not progress at the pace expected at appraisal. The performance of governance-related reforms through policy-based programs has been uneven, partly due to variation in policies, changes in government, and political economy⁴⁴ contexts. For example, the implementation of the Private Sector Development Program (Loan 1800-SRI) and Small and Medium Enterprise Development Program (Loan 1894-SRI) occurred under a government that was committed to market reforms, and led to the deregulation of telecommunications, insurance, petroleum distribution, and airlines. The elimination of the monopoly of the Sri Lanka Telecoms, mainly through the issuance of external gateway licenses to independent operators, spurred private sector investments in the sector and subsequently led to improved service quality and broader service coverage. At present, the telecommunications industry in Sri Lanka is one of the most deregulated in Asia. In the power sector, attempts to improve the performance of institutions through sector restructuring had stalled partly due to political opposition and lack of consensus among stakeholders. Restructuring efforts in agriculture and rural finance have also faced resistance. Overall, the results of economic management reforms may not have been optimum, but the situation could have been worse in the absence of policy reforms. Fiscal imbalance, in particular, would have been worse without the proceeds from the sale of divested SOEs.

I. Overall Assessment of the Governance Assistance Program

44. **Relevance.** ADB's governance assistance program for Sri Lanka has been "highly relevant". Over the past decade, the governance assistance program has been commensurate with the evolving context and challenges in the country, and with greater relevance and coherence with the inception of the 2004–2008 Country Strategy and Program. It has been consistent with ADB's governance and anticorruption policies. Moreover, the assistance program has been in harmony with the Government's vision of establishing transparent, accountable, and responsive public services. It supports the strengthening of public policy management. As expressed in the Ten-Year Horizon Development Framework (2006–2016), the priorities of the Government include (i) promoting partnerships in the delivery of public services; (ii) reforming public financial management through fiscal discipline, strategic resource allocation, and establishment of results-based reporting systems; and (iii) improving the quality of public service. These are supported by ADB through investment projects, policy-based programs, advisory TAs, and TA loans. Prior to 2004, ADB aligned governance assistance with improving access to services and infrastructure, and providing an enabling environment for private sector participation, which were consistent with government priorities at that time.

45. **Effectiveness.** Overall, the governance assistance program is "likely to be less effective" due, in part, to changes in the political landscape, risks related to discontinuity of economic management policies, and potential macroeconomic problems. Major governance efforts during 1995–2006, particularly those relating to regulatory and institutional reforms, have been pursued largely through six policy-based programs, of which three are still ongoing. The completed (closed) policy-based programs on private sector development and small and medium enterprise development helped dismantle government monopolies, reduced the fiscal burden from operating SOEs, and retired part of the public debt by using the proceeds from the

⁴⁴ Political economy refers to interrelationships between political and economic institutions and processes, as they relate to policy decisions and reforms.

privatization of several SOEs.⁴⁵ Public debt as a percentage of gross domestic product (GDP) declined from 103.2% in 2001 to 93.0% in 2006. The divestment process opened up opportunities for rent-seeking due to asset underpricing and inadequate safeguards in terms of monitoring and regulatory arrangements.⁴⁶ In the power and water supply, reforms that aimed to improve cost recovery, efficiency, and service quality have encountered opposition from powerful vested interests.

46. Two ongoing policy-based programs are supporting financial sector reforms and development of rural financial markets (Loan 2138-SRI and Loan 2040-SRI). In general, the financial sector reforms are expected to lead to such outcomes as enhanced corporate governance in financial and capital markets and effective anti-money laundering, among other outcomes. Fiscal management reforms are expected to bring about (i) a well-functioning, coordinated, and semi-autonomous revenue administration; (ii) streamlined budgeting procedures and expenditure control processes; and (iii) fiscal discipline through increased transparency and accountability, results-based budgeting, and e-government. Significant measures have been implemented to address these various reforms.⁴⁷

47. Prospects for achieving the expected outcomes of ongoing programs/projects are mixed. Service delivery-oriented projects, particularly those outside of the conflict-affected areas, are likely to achieve their envisaged outcomes. The fiscal management reform program is likely to improve revenue administration, streamline processes, and bring about transparency and accountability. The Government regards it as a flagship program and is fully behind the reforms. Total revenue in 2006 reached 17.0% of GDP, up from 16.1% in the previous year. Tax revenue continued its increasing trend for the third consecutive year amounting to 15.3% of GDP in 2006 compared to 14.2% in 2005, reflecting a response to reforms in tax administration and timely enactment of legislation.⁴⁸ These positive outcomes took place amid a difficult working environment where tax administration has become increasingly complex due to more tax exemptions, more value added tax bands, and lack of a computerized refunding mechanism for value added tax. Notwithstanding these improvements, several drawbacks continue to prevail, such as (i) high recurrent expenditure, (ii) high borrowings from the banking system, and (iii) high public debt burden. In its 2006 Annual Report, the Central Bank of Sri Lanka noted that the increasing recurrent expenditure warrants special attention. The high recurrent expenditure is often associated with the continued increase in expenditure on salaries and wages, pension

⁴⁵ Based on the program completion report (Loan 1800-SRI), the Private Sector Development Program generated proceeds of SLR24.5 billion over 2000–2004 from the sale of SOEs (telecommunications, insurance, petroleum distribution, national airline, etc.).

⁴⁶ For example, exclusivity provisions without adequate monitoring and regulatory arrangements in the divestment of telecommunications, gas, and airlines and underpricing of assets became part of the Government's privatization strategy. Knight-John, Malathy. Privatization and Regulation. In Saman Kelegama, editor, *Economic Policy in Sri Lanka: Issues and Debates*. Colombo: Institute of Policy Studies.

⁴⁷ Loan 2138-SRI: Financial Markets for Private Sector Development is part of continuing efforts to reform the financial sector and reduce the costs of financial intermediation. It has implemented important measures: (i) drafting pertinent legislation on secured transactions, on permitting insurance companies to invest in securities, and on ensuring the commercial and political independence of the People's Bank; (ii) amending the Finance Companies Act to permit leasing companies to transfer assets to a special purpose vehicle; (iii) providing additional powers to the Central Bank of Sri Lanka to take action against fraudulent schemes; and (iv) combating money laundering, among other measures. Loan 2040-SRI: Rural Finance Sector Development Program is in the process of establishing an institutional framework for rural finance, with good governance and sustainability as core values. Loan 2130-SRI: Fiscal Management Reform Program, whose comprehensive reform initiatives are built on a core of actions, included tax administration reforms and decentralization arrangements. It is developing criteria for intergovernmental transfers through the introduction of an incentive-based grant system that combines equalization objectives with rewards for fiscal efforts and fiscal discipline. A reform of the budget process is being carried out to foster transparency and accountability, and to enhance information flows across revenue departments.

⁴⁸ Source: Central Bank of Sri Lanka. Available: <http://www.cbsl.gov.lk>

payments, and transfers to households and public corporations and institutions. This situation tends to negate the positive achievements in the revenue front, as expenditure on these three items absorbs about 67% of the total revenue. The overrun in the recurrent expenditure amounted to SLR38 billion (or 1.4% of GDP) in 2006 compared with the budgeted expenditure. The Central Bank estimated that the overall public debt service amounted to a level equivalent to 93.1% of total government revenues and 15.9% of GDP in 2006.⁴⁹ The country uses its revenues for recurrent expenditures, and borrows for its public investment program.

48. Many regulatory reforms in the financial sector are likely to occur, but ongoing restructuring reforms will remain a challenge, including restructuring the People's Bank. Ensuring the commercial and political independence of state-owned banks, such as the People's Bank and the Bank of Ceylon, does not rank high on the policy agenda of the current Government. Restructuring and divestment of state-owned finance institutions are likely to be either delayed or not undertaken due to recent shifts in government policies. The Government has emphasized the role of the public sector in development and stated that it would not pursue privatization of SOEs. In the agriculture sector, institutional and policy reforms in tea development and plantation development under ongoing investment projects face uncertainty. The project performance report (February 2007) noted that the progress of institutional reforms in tea development has been limited.⁵⁰ In relation to plantation development, the project performance report indicated that compliance with the divestment of plantations (Elkaduwa Plantations and Kurunegala Plantation Limited) has been unsatisfactory due to the new government policy that no estate-owned land would be privatized. Consequently, certain outcomes may not be realized as envisaged at appraisal, given implementation odds against the backdrop of a relatively volatile political environment.

49. TA performance has been mixed. The completion report (2001) rated TA 2950-SRI: Establishing the Sri Lanka Tender Bureau as generally successful. It led to an operational Procurement Support Bureau and to revised guidelines on government tender procedures, which are now in general use within the government system. Similarly, TA 1900-SRI: Management Strengthening of the National Water Supply and Drainage Board was rated as generally successful. It improved the Board's management capacity in financial management, accounting, inventory management, and monitoring and helped put in place computerized systems to improve service delivery. However, other TA projects did not lead to significant outcomes. For example, the realignment of ministerial portfolios in mid-1997, which was addressed by the Public Administration Reform (TA 2616-SRI), was accepted at the highest executive level of the government—the Office of the President. However, the implementation process subsequently lost momentum and direction due to resistance from vested interests. To date, administrative fragmentation continues alongside blurred accountabilities. Public administration reform is a difficult area to succeed, partly due to its political sensitivity. In support of the devolution policy, the mandate and directions of the Ministry of Provincial Councils and Local Government were defined with TA assistance, but the TA completion report indicated that the contribution to the devolution process was limited because the Ministry tended to focus on procedural and administrative activities relating to staffing and fund releases. Many of the provincial councils have not approved statutes for levying the relevant devolved taxes, resulting in dependency on the center.⁵¹

⁴⁹ Source: Central Bank of Sri Lanka 2007. *Annual Report 2006*. Colombo. Available: <http://www.cbsl.gov.lk>

⁵⁰ A salary increase in December 2004 and non-application for the early separation package by senior staff and other staff negated the intended outcomes of the voluntary early separation package.

⁵¹ ADB. 2004. *Report and Recommendation of the President to the Board of Directors on Proposed Loans to the Democratic Socialist Republic of Sri Lanka for the Fiscal Management Reform Program*. Manila.

50. In the transport sector, a road maintenance trust fund is now in place, after more than 20 years of efforts with support from ADB and other aid agencies to address maintenance issues, including through TA 3691-SRI: Road Maintenance Budgeting and Expenditure Control. However, it is too early to assess the sustainability of this trust fund. In addition, the establishment of the road maintenance trust fund has been a contentious issue from the viewpoint of public revenue and expenditure management, primarily because of the earmarking of tax proceeds from the sale of gasoline and diesel for road maintenance. However, this earmarking represents a small fraction of the public revenues accruing from road transport. The trust fund is an interim option for financing road maintenance that ADB and the World Bank have supported. TA 3691-SRI is expected to lead to increased resource mobilization and greater public-private partnerships in future road development.

51. **Efficiency.** Overall, the governance assistance program is “likely to be efficient”. In general, more resources have been allocated to service delivery-oriented projects where implementation bottlenecks are less likely to be more difficult than those of politically sensitive policy reforms. Based on project performance reports, the implementation pace has been generally satisfactory particularly for service delivery-oriented projects that are being implemented outside of the conflict-affected zones. In conflict-affected areas, reasonable delays are expected in the transport of materials and personnel due to security problems, along with cost escalation of infrastructure contracts due to higher risks. For ADB-assisted programs/projects, close interaction with government officials is maintained, and review missions contribute to keeping implementation on track. Certain policy-based programs may face possible implementation delays. For example, the Ministry of Finance and Planning indicated that the amendment to the People’s Bank Act to ensure the bank’s commercial and political independence is unlikely to materialize. The Government has proposed alternative policy measures to issue a People’s Bank corporate charter consistent with (i) good practices in corporate governance for public enterprises, (ii) the Central Bank’s guidelines for corporate governance of banks, and (iii) responsibilities and duties of directors and officers under the Companies Act (2006). Similar action has been offered by the Government as an alternative to amending the Bank of Ceylon ordinance.

52. **Sustainability.** The outcomes of ADB’s governance assistance program are “likely to be sustainable”. There are risks that can undermine this sustainability. Remaining engaged in certain areas, including service delivery and public resource management, and looking out for workable ways to address governance challenges are crucial. Box 1 summarizes several factors that can compromise the sustainability of governance outcomes. Notwithstanding the positive measures in making a service delivery policy framework an integral part of programs for improving services and mainstreaming governance in specific sector investments, the resurgence of civil conflict, diversion of policy attention, and politicization of the public service may impede progress in governance and economic management. The civil conflict is a main long-term challenge to development. In 2006, budgeted current

Box 1: Impediments to Sustainable Governance Outcomes

- Politicization of public service
- Change in government and its effects on continuity of policies
- Expansion of the number of ministries with overlapping, fragmented, and unclear mandates, roles, and functions
- Diversion of attention due to the resurgence of civil conflict
- Potential macroeconomic destabilization from high fiscal deficits and high public debt
- Opposition from trade unions and stakeholders to restructuring and efficiency improvement initiatives
- Shortcomings in accountability and transparency of public sector operations
- Weak civil society voice and participation
- Inadequate enforcement of penalties on perpetrators of corruption

Source: Evaluation team.

expenditures for defense, public order and safety amounted to 18.6% of the Government's current expenditure budget of SLR509.8 billion, compared to allocations for education (11.4%), health services (7.9%), and economic services (7%). The total public debt stood at SLR2,606.6 billion (93% of GDP) at the end of 2006.

53. **Expected Impact.** In broad terms, the anticipated impacts of the governance assistance include (i) an equitable and effective service delivery; (ii) reduced poverty; (iii) reduced fiscal deficit; (iv) transparent, efficient, and effective revenue administration and public resource management; (v) an improved enabling environment for private sector participation in divested industries such as telecommunications and insurance; and (vi) reduced anti-money laundering and improved control of monetary flows, among others. Although there is a downward trend in the fiscal deficit (from 10.1% to 8.4% of GDP over 1995–2006), the fiscal deficit is still much higher than the target set by the Fiscal Management Responsibility Act (2004).⁵² Public debt as a percentage of GDP declined from 96.5% to 90.8% over 1990–1998 and from 103.2% to 93.0% over 2001–2006. The likely risks to sustainability, as discussed in the preceding section, could affect achievement of expected impacts. Thus, the overall impact of the ADB assistance program in the areas of governance is “likely to be modest”.

54. **Overall Rating.** In light of the overall assessment of relevance, effectiveness, efficiency, sustainability, and impact, the ADB assistance program for governance in Sri Lanka is rated “likely to be partly successful” (Table 4).

Table 4: Overall Performance Rating of the Governance-Related Assistance Program

Rating	Relevance	Effectiveness	Efficiency	Sustainability	Impact	Overall Rating
Score	3	2	2	4	2	13
Rating	Highly Relevant	Likely To Be Less Effective	Likely To Be Efficient	Likely To Be Sustainable	Likely To Be Modest	Likely To Be Partly Successful

- (i) Relevance: highly relevant (3 points), relevant (2 points), partly relevant (1 point), irrelevant (0 point).
(ii) Effectiveness: highly effective (6 points), effective (4 points), less effective (2 points), ineffective (0 point).
(iii) Efficiency: highly efficient (3 points), efficient (2 points), less efficient (1 point), inefficient (0 point).
(iv) Sustainability: most likely (6 points), likely (4 points), less likely (2 points), unlikely (0 point).
(v) Impact: high (6 points), substantial (4 points), modest (2 points), negligible (0 point).
(vi) Overall rating: highly successful (20 points and above), successful (16–19 points), partly successful (11–15 points), unsuccessful (10 points or less).

Source: ADB. 2006. *Guidelines for the Preparation of Country Assistance Program Evaluation Reports*. Manila. Available: <http://www.adb.org/Documents/Guidelines/Country-Assistance-Program/default.asp>

⁵² The objectives of the Fiscal Management Responsibility Act include (i) ensuring that the budget deficit at the end of 2006 would not exceed 5% of the estimated GDP and to ensure maintenance of such levels thereafter; (ii) prudent management of fiscal risks, paying attention to changing economic circumstances; (iii) adoption of policies on government spending and taxation with a reasonable degree of stability and predictability; (iv) ensuring that at the end of 2006, the total liabilities of the Government do not exceed 85% of GDP; (v) in 2013, the total liabilities of the Government do not exceed 65% of the estimated GDP; and (vi) ensuring that government policy decisions pay attention to the financial impact of such decisions on future generations.