

# Inclusive Development and Conflict Resolution in Sri Lanka

- **Sri Lanka** is a **middle-income developing member country** with high social indicators. It is on track to achieving most **Millennium Development Goals** and ranked 93rd among 177 countries in the **human development index** in 2006.
- Sri Lanka's social accomplishments have not been accompanied by significant **poverty reduction**. After four years of relative peace, armed civil conflict resumed in July 2006.

## Background

In **Sri Lanka**, the Asian Development Bank (ADB) has operated in a challenging context marked by civil conflict, shifts in political coalitions, complex political and social structures, and changing government priorities.

Civil war has harmed the **population** and **economy** of the country. By the time a ceasefire was agreed to in 2002, an estimated 65,000 lives had been lost and 800,000 people displaced. The economic consequences of civil conflict have also caused: (i) a reduction in economic growth by 2–3% annually, (ii) 40% less per capita income than what could have been achieved, and (iii) foregone foreign investment. Despite these difficulties, to which natural disasters such as drought, floods, and the **Indian Ocean tsunami** of 26 December 2004 can be added as well as the **oil prices increases of 2004–2006**, the **economy** of Sri Lanka has remained resilient thanks to the liberalization reforms that began in the 1970s and the opening up of the trade economy.

Cumulative **loan approvals** from ADB amount to \$3.7 billion for 130 loans—of which \$3.3 billion for 90 loans were approved in the last twenty years. Lending has been supported by 195 **advisory and project preparatory technical assistance approvals** totaling \$87.6 million. **Private sector operations** have only comprised 11 transactions for \$86.6 million.

In 2006, the Operations Evaluation Department undertook the first **country assistance program evaluation** of ADB's **country strategies and programs** for Sri Lanka, covering the period 1986–2006 but with emphasis on the more recent decade.<sup>1</sup> It aimed to assess

the performance of ADB's operations, and identify forward-looking lessons for a new country partnership strategy to be prepared in 2008. Toward this, it evaluated ADB's operations in the **agriculture and natural resources, education, power, transport, and water supply and sanitation** sectors. It prepared papers on **policy-based lending, governance assistance, and operations in the conflict-affected north and east**. It surveyed perceptions of ADB's **Sri Lanka Resident Mission**.

## Summary of Findings

In keeping with the **Guidelines for the Preparation of Country Assistance Program Evaluation Reports**, the study conducted both bottom-up and top-down assessments. The first evaluated the performance of ADB's assistance programs using the criteria of relevance, effectiveness, efficiency, sustainability, and impact. The second took a broad view of the positioning of ADB's strategies, contribution to development results, and performance.

The study found that, in the last decade, ADB's country strategies and programs for Sri Lanka were responsive to the principal challenge of poverty reduction. In coordination with development partners, their overall thrust and long-term continuity gave coherence to portfolios informed by implementation risks. Their overall positioning at the time they were prepared was assessed "satisfactory". The development context altered thereafter: the change of government of April 2004, reversal in economic policy, and resurgence of civil conflict, rendered the positioning of the country

strategy and program for 2004–2008 "partly satisfactory".

The performance of ADB's sector and thematic assistance to Sri Lanka was rated "partly successful" overall. The better performing sectors were education, transport (mainly roads), and water supply and sanitation, which the study rated "successful". Sector assistance to agriculture and natural resources and power was rated "partly successful". ADB's policy-based lending operations were rated "partly successful". Thematic assistance to governance and conflict-affected areas was anticipated to rate "partly successful". Generally underlying "partly successful" ratings were partial achievement of expected outcomes, the existence of sustainability risks that may undermine gains, and the likelihood that impacts will be modest in the long term.

Trends per decade reveal that portfolio performance improved over time: the proportion of projects and programs rated "successful" or better increased from 43% in the 1970s to 50% in the 1980s to 62% in the 1990s. Over the study period, 56% of projects and programs were rated "successful" or better. The study identified enablers of and deterrents to portfolio performance and suggested how the latter might be improved further.

The perception survey showed that 72% of respondents believed that the resident mission is an effective development partner that responds to the country's development needs; 36% felt that it has enough delegated authority; 43% agreed that it provides valuable lessons and practices from other countries; and 78% judged that it adequately considers the development issues and priorities of Sri Lanka. Informant interviews showed that 38% of government officials agreed that the resident mission effectively provides inputs to development policy formulation in the country; 60% said that its staff members work closely with project directors to resolve issues and help reconcile differences between ADB and the Government; and 70% deemed that the resident mission provides timely responses to inquiries.

#### Overall Rating of ADB's Country Assistance Program

Item	Rating
<b>Top-Down Assessment, Countrywide</b>	
• Positioning of Country Strategies in the Last Decade	Satisfactory
• Contribution to Development Impacts/Results (Pro-Poor Growth, Inclusive Social Development, and Good Governance)	Modest

Item	Rating
• ADB Performance (Based on the Perception Survey)	Satisfactory
<b>Countrywide Rating</b>	<b>Successful (on the low side)</b>
<b>Bottom-Up Assessment, Sector Assistance Program</b>	<b>Partly successful</b>
<b>Overall Rating</b>	<b>Partly successful</b>

#### Recommendations

- ADB should review its development assistance to conflict-affected areas in the north and east from the perspectives of conflict sensitivity.
- ADB should review the focus of its development assistance, particularly within sectors that have fallen short of achieving significant results (e.g., agriculture, power, policy-based programs) but are extremely important for poverty reduction and economic growth.
- ADB should be prepared to remain engaged in policy dialogue during difficult times, when the implementation of ongoing programs is slow and may even stall.
- ADB should provide assistance to Sri Lanka for results-based monitoring and development evaluation to promote development effectiveness.
- ADB should assess the Sri Lanka Resident Mission's roles and functions in order to strengthen its capacity to (i) disseminate lessons and good practices from ADB operations in other countries, (ii) enhance its services in various areas of concern as identified through the perception survey, and (iii) provide timely decisions and technical support to project administration.

#### Feedback

At the time of preparation of these *Learning Curves*, **ADB Management's Response** and the **Chair's Summary of the Development Effectiveness Committee Discussions** were not yet available for disclosure to the public. The study was completed in August 2007.

<sup>1</sup> ADB. 2007. *Country Assistance Program Evaluation for Sri Lanka: Inclusive Development and Conflict Resolution: Major Challenges in the Future*. Manila. Available: <http://www.adb.org/Documents/CAPES/SRI/IN174-07.pdf>.