

## MANAGEMENT RESPONSE TO THE COUNTRY ASSISTANCE PROGRAM EVALUATION FOR SRI LANKA

On 28 August 2007, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

### I. General Comments

1. We appreciate OED's Country Assistance Program Evaluation (CAPE) for Sri Lanka. We find it comprehensive and well prepared.

2. Overall, the CAPE rates ADB's assistance to Sri Lanka as 'partly successful'. We share this view. We also agree with the CAPE that continuing priority should be given to further improving project implementation and project readiness. However, we note that much has been achieved in Sri Lanka despite (i) a difficult political environment; and (ii) the conflict, a fact that is also acknowledged in the detailed sector reports of the CAPE. As indicated in the CAPE, while only 54% of all loans approved since 1968 to Sri Lanka are rated as successful, the trend is encouraging. The success rate improved from 43% in the 1970s, to 50% and 62%, respectively in the 1980s and 1990s.<sup>1</sup>

3. While we broadly agree with the CAPE findings, we disagree with the CAPE's rating for post conflict operations as 'likely to be partly successful, on the low side'. The CAPE rating is determined largely due to its assessment on efficiency ('less likely to be efficient') and on sustainability ('less likely to be sustainable'). Regarding efficiency, the CAPE could take into account the fact that providing assistance to 'post-conflict' or 'in conflict' areas often costs more than conventional support thereby reducing 'efficiency'.

4. We note that the decision to work in such environments, whether in Sri Lanka or elsewhere, is an institutional choice taken deliberately by ADB. We believe that while every effort must be made to remain cost effective, we must be willing to accept some degree of higher cost and indeed risk in such situations. The question of sustainability is also particularly complex in Sri Lanka. The sustainability concerns raised by the CAPE reflect to a considerable extent the resurgent conflict after August 2006. However, we note that damage to infrastructure supported by ADB, such as schools and hospitals, roads, has been minimal. At the same time, while the situation in the Eastern Province remains fragile and fluid, this region is once again moving towards a 'post-conflict' situation with fewer operational constraints.

### II. Comments on Key Recommendation

5. **Refocus ADB's priorities.** We agree with the CAPE suggestion to have a stronger focus in the next Country Partnership Strategy (CPS). We believe the next CPS will achieve this. However, the choice of sectors will include some where performance has not been fully satisfactory. One such case is the power

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<sup>1</sup> Since only one project has received a rating since 2000, it is not possible to assess whether this trend has continued.

sector. The reasons for the relative failure of ADB's support in the power sector were largely those of underestimating rapid political change and the complex political economy. Urgent assistance is needed to prevent imminent system collapse, and support the government in policy reforms where some progress is once again being made. Further investment is required over the medium to long term to avoid the lack of power becoming a major constraint on economic development. We believe that by adopting a cautious but realistic approach, ADB can help to sustain the new reform momentum and the sector's longer-term viability.

6. As for policy-based program lending, we note that reforms in Sri Lanka remain very important and in many instances, policy distortions remain a binding constraint to sector development and growth. While ADB could have easily disengaged from policy-based lending activities in Sri Lanka in the future, we believe that despite the difficulties, as a committed development partner, this would not be a responsible response. However, under the new CPS, policy reforms will be addressed primarily in conjunction with project investments and complemented by selective and limited program lending. As recognized by the CAPE, policy reforms will need to take proper account of Sri Lanka's complex political economy. The new CPS will look at more innovative ways to remain engaged in difficult areas such as economic reforms.

7. **Post-conflict operations.** We agree with the CAPE observation that ADB's operations in the North and East have to be 'conflict sensitive'. We note that this has been a basic operational principle in all ADB's support to Sri Lanka's conflict affected areas to date. However, the term 'conflict sensitivity' can mean different things to different people or groups and may vary over time and must, therefore, be kept under constant review. Equally, while the new CPS will look closely at the modalities ADB can employ to work effectively in both 'post conflict' and 'in-conflict' affected areas, existing modalities, whereby ADB primarily works through government agencies, has proven both effective and flexible. A notable feature of the Sri Lankan conflict is that government agencies have continued to operate in conflict affected areas. This is true even in Liberation Tigers of Tamil Eelam (LTTE) controlled areas.

8. **Results-based management and monitoring.** We agree with the CAPE suggestion that ADB provide assistance to the government for results-based monitoring. We note that the scope of RETA 6306-REG "Mainstreaming MfDR for Poverty Reduction in South Asia" was expanded to include Sri Lanka in early 2007. The Sri Lanka Resident Mission (SLRM) is working with the Ministry for Plan Implementation that is piloting the results based approach with education, health, highways, and agriculture.

9. **Strengthen capacity of SLRM.** We have carefully reviewed the CAPE's SLRM perception survey and found it very useful. We agree in principle with the CAPE suggestion that the roles and functions of SLRM need to be further strengthened. However, these are ADB-wide generic issues, which involve additional costs. We note that the ongoing review of RM policy will inform these recommendations.