Sri Lanka: Strengthening Public Management and Governance

Project Name: Strengthening Public Management and Governance
Project Number: 57035-002
Country / Economy: Sri Lanka
Project Status: Approved
Project Type / Modality of Assistance: Technical Assistance
Source of Funding / Amount: TA 10141-SRI: Strengthening Public Management and Governance
Technical Assistance Special Fund: US$ 1.50 million

Operational Priorities:
OP2: Accelerating progress in gender equality
OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability
OP6: Strengthening governance and institutional capacity

Sector / Subsector:
Public sector management / Public expenditure and fiscal management - Reforms of state owned enterprises
Gender: Effective gender mainstreaming

Description:
The technical assistance (TA) aims to strengthen Sri Lanka's public management and governance to support and complement the implementation of the comprehensive economic reform program, underpinned by a new 48-month International Monetary Fund (IMF) Extended Fund Facility (EFF), with the objective to restore macroeconomic stability and debt sustainability, mitigate the economic impact on the poor and vulnerable, safeguard financial stability, and strengthen governance and medium-term growth potential. The TA focuses on (i) strengthening public financial management, (ii) enhancing domestic resource mobilization, and (iii) promoting state-owned enterprise (SOE) reforms.

Project Rationale and Linkage to Country/Regional Strategy:
Policy missteps and exogenous shocks aggravated the macroeconomic vulnerabilities predating the pandemic, leading to a sovereign debt and balance-of-payments crisis in Sri Lanka. The country's repeated fiscal and current account deficits resulted in the accumulation of large and ultimately unsustainable public debt, along with elevated gross financing needs and external debt servicing posing high rollover risks. Low revenue collection, a rigid expenditure structure, and a weak public financial management system contributed to the deterioration of Sri Lanka’s public finance. Exacerbating the country's debt distress are its generally inefficient and loss-making SOEs in various sectors. Sri Lanka needs to focus on macroeconomic adjustments to address the current economic crisis and introduce structural reforms to achieve inclusive economic recovery and growth. The IMF Board approved an EFF of SDR2.86 billion (about $3.0 billion) on 20 March 2023. The EFF-supported program, which is being implemented over 4 years from March 2023, focuses on stabilization measures in the initial phase, followed by governance and structural reform measures in the latter phase. The ADB Board of Directors also approved a special policy-based loan (SPBL) on 29 May 2023 to provide budget support on the condition that the government completes prior actions under the IMF EFF to restore macroeconomic stability. Given that policy advice, capacity building, and knowledge transfer are required on several policy aspects to achieve the ambitious reform agenda in a timely manner, ADB has been closely coordinating with the IMF, the World Bank, and other development partners to harmonize technical assistance support and leverage each other's support.

Impact:
Macroeconomic stability restored and foundation for sustainable and inclusive growth established

Project Outcome
Description of Outcome:
The government capacity for public management and governance enhanced

Progress Toward Outcome
Implementation Progress
Description of Project Outputs:
Public financial management strengthened
Domestic resource mobilization enhanced
State-owned enterprise reforms promoted

Status of Implementation Progress (Outputs, Activities, and Issues)
Geographical Location:
Nation-wide

Summary of Environmental and Social Aspects
Environmental Aspects
Involuntary Resettlement
Indigenous Peoples
Stakeholder Communication, Participation, and Consultation
During Project Design
During Project Implementation

Business Opportunities
Consulting Services:
ADB will engage consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.
Procurement:
Not applicable.
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<th>Responsible ADB Officer</th>
<th>Hoshino, Takuya</th>
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