MANAGEMENT RESPONSE TO THE COUNTRY ASSISTANCE PROGRAM EVALUATION FOR SRI LANKA

On 17 May 2016, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. Management appreciates the Country Assistance Program Evaluation (CAPE) for Sri Lanka. It is noted that the sovereign and nonsovereign program for the 2006–2015 period is rated “successful”, and that ADB operations achieved their objectives, particularly with respect to infrastructure and education.

2. Our comments focus on the four recommendations in the CAPE report.

3. **Recommendation 1: ADB needs to intensify its policy reform work in the infrastructure sectors, including in the reform of state-owned enterprises.** We agree. ADB has engaged actively with the government on reforms across sectors. However, more can and should be done in this area. This is particularly the case when it comes to the role and functions, as well as the operational and financial performance of state-owned enterprises (SOEs). Past experience shows that reforms in this area have often met with strong resistance, especially from labor unions. ADB has already made a significant difference in the road sector. This includes removing the previous SOE monopoly over construction and maintenance work. Private contractors are now routinely invited to bid for the design and construction of projects. Efficiency and sustainability have also been at the core of our policy dialogue with government. In the energy sector, Ceylon Electricity Board (CEB), one of Sri Lanka’s most important SOEs, is improving its financial management systems, introducing cost recovery measures that will lead to greater financial independence, and better project execution and operational management. In the water and sanitation sector, Colombo Municipality Council has agreed to start collecting a wastewater tariff. The Government has also agreed to appoint an independent regulator for the water sector as a whole. ADB continues its discussions with the Water Board to introduce deeper and faster operational and financial efficiency measures, each linked to future investment proposals.

4. **Recommendation 2: ADB’s next CPS should set out a strategy for inclusive growth that draws on the success of its community-based projects.** We disagree. First, inclusive growth is a critical goal, but community-based projects are not the only ones that help achieve this objective. ADB will not move away from community-based projects. But following discussions with the government, ADB will be more selective in this area in future. The government has made it clear that it expects ADB to focus on other physical and human capital infrastructure. Secondly, in the past, community-based operations were mostly confined to conflict-affected areas and disaster situations. While most of these interventions were successful—and ADB is proud of having been associated with them—local institutions in these former conflict areas are now more capable at handling planning, financing, and implementing...
such investments on their own. Third, several other agencies, such as the World Bank, United Nations, and various nongovernment organizations are actively supporting livelihood development projects. To avoid duplication, maximize synergies and ensure complementarity, ADB will coordinate its work with these development partners in this and other areas.

5. **Recommendation 3:** The new Country Partnership Strategy (CPS) needs to define a clear approach to ADB’s support for private sector development, which establishes better synergies between work on the investment climate, public investments, and private sector operations. We agree. The new CPS will expand both time and resources directed at private sector development. Besides supporting financial sector and capital market reforms and domestic resource mobilization, ADB will also continue to target private-sector led investments, both in the financial sector and other industries. Public-private partnerships (PPPs) will also be actively pursued, both in terms of advisory work and project financing. Public and private sector teams will work closely with one another to achieve these objectives. The same will apply to the Office of PPPs. An economic corridor study is currently under preparation. The objective is to help the government prioritize infrastructure projects, redirect skills education sector interventions into areas with future market demand, and identify areas for legal, regulatory and tariff reforms.

6. **Recommendation 4:** ADB should grow its support for the education sector as a share of total operations over the next CPS period. We agree. Investments in the education sector will be increased gradually to meet the priorities of the government and emerging market needs. ADB will expand its support for higher education, in addition to retaining its existing assistance for secondary education and technical and vocational education and training (TVET). ADB will also help the Government design and finance a technology university with market-oriented degree programs work that at this point is likely to be structured around a public-private partnership.