Public Disclosure Authorized

Report Number : ICRR0021426

1. Project Data

Operation ID	Operation Name
P157804	Sri Lanka Competitiveness DPL
Country	**Practice Area(Lead)**
Sri Lanka	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IDA-58910	30-Sep-2017	100,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
29-Jul-2016	30-Sep-2017	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	100,000,000.00	0.00
Revised Commitment	100,000,000.00	0.00
Actual	100,000,000.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Policy Areas

a. Objectives

As per the Program Document on p.4, the Program Development Objective (PDO) of this Development Policy Financing (DPF) operation is " to support the long-term development of the Sri Lankan economy through a renewed engagement on reforms for: (i) enabling private sector competitiveness, (ii) enhancing transparency and public-sector management, and (iii) improving fiscal sustainability. The Financing Agreement did not provide a statement of the program objective. This was a stand-alone operation, and aimed to provide limited contribution to the long-term outcomes of the country's development. This review will assess the performance achieved toward the PDO under the three pillars of the program, which will be analyzed as sub-objectives.

The single tranche stand-alone program was supported by an IDA credit from the World Bank, and a budget support by the Japan International Cooperation Agency (JICA). It was implemented in parallel with a three-year IMF Extended Fund Facility (EFF) for US$1.5 billion, approved in June 2016. The two last financiers complemented the DPF's reform agenda, and provided the needed medium-term macroeconomic framework for the stand-alone DPF.

b. Were the program objectives/key associated outcome targets revised during implementation of the series?

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c. Pillars/Policy Areas

The program was supported by three pillars with policy areas under which specific actions and reforms were to be accomplished as follows:

Pillar 1: Enabling Private Sector Competitiveness:

Under this pillar, the operation covered three policy areas aimed at (i) increasing the efficiency of trade facilitation; (ii) removing obstacles to foreign investment entry and establishment, and (iii) enhancing access to finance. Under each policy area, there were prior actions that had to be accomplished before the reform program approval. Under the first policy area, the Government of Sri Lanka had to ratify the Protocol annexing the World Trade Organization (WTO) Trade Facilitation Agreement to the WTO Agreement; and to create a National Trade Facilitation Committee. Under the second policy area, the Cabinet of Ministers had to approve the establishment of a one-stop-shop (OSS) for foreign investors aimed at reducing the processing time for investment approval. Under the third policy area, the Cabinet of Ministers had to authorize the drafting of a new Secured Transactions Bill, which includes provisions to facilitate the use of movable assets as collateral for bank loans, and to repeal the Secured Transactions Act 49 of 2009.

Pillar 2: Enhancing Transparency and Public-Sector Management:

Under this pillar, there were two policy areas with measures aimed at (i) establishing a Right to Information (RTI) Framework, and (ii) strengthening Public Financial Management. The two prior actions were that (i) the Government of Sri Lanka submit to Parliament a Right to Information Bill with wide applicability, extensive proactive disclosure, an independent appeals process, and limited exceptions, and that (ii) the National Audit Bill be submitted to the Cabinet of Ministers.

Pillar 3: Improving Fiscal Sustainability:

Under this pillar, there were two policy areas with actions aimed at (i) reducing the granting of new tax holidays and clarifying the investment regime, and (ii) increasing the efficiency of debt management. Prior actions under the above policy areas aimed to have (i) the Cabinet of Ministers decide to submit to Parliament a proposal to repeal the Strategic Development Project Act of 2008, and (ii) the Cabinet of Ministers approve setting up a debt management unit in the Ministry of Finance.

d. Comments on Program Cost, Financing, and Dates

Cost and Financing: The operation was funded by an IDA credit in the amount of US$100 million equivalent, which was fully disbursed in July 2016. The Japan International Cooperation Agency (JICA) provided parallel financing of US$100 million on the basis of a single set of documents and the World Bank policy matrix" (ICR, page v, Data Sheet). Finally, in June 2016, the International Monetary Fund (IMF) approved a 36-month arrangement under the Extended Fund Facility (EFF) for an amount equivalent to about US$1.5 billion.

Dates: The DPF operation was approved on July 29, 2016, became effective on November 04, 2016, and closed on schedule on September 30, 2017.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The 2007 vision document of the Government of Sri Lanka (GoSL) sets out the goal of transforming Sri Lanka into a high middle-income country by the 2025 horizon. The vision aims to transform Sri Lanka into an 'export-oriented economic hub at the center of the Indian Ocean', with 'a knowledge-based highly competitive, social market economy'. The vision document recognizes the need to entice private investment away from real estate and toward productive sectors, notably by removing a persistent anti-export bias in the economy, reducing the high levels of public debt accumulation, and eliminating regulatory barriers to local and foreign investment, as well as labor market rigidities.

Similarly, the priorities outlined in the Country Partnership Framework (CPF) for 2017–2020 support a package of reforms that was innovative and articulated around transforming the economy's foundations in the areas of fiscal sustainability and competitiveness in the private sector. The CPF on page 17 and the Systematic Country Diagnostics (SCD) identified fiscal sustainability and competitiveness as the key priority areas of the country. The first pillar of the CPF aims at "improving macro-fiscal stability and competitiveness", for which the key objectives pursued are: (i) improving public finance management, and (ii) enhancing the enabling environment for private investment and trade. The reforms supported by the DPF aimed to address well-identified obstacles to the country's competitiveness, transparency, and fiscal sustainability.

The short-term nature and the timeline of this operation was dictated by the country's political context and the nascent dialogue existing between the country and the key donors that provided funding to support the DPF (the IMF, the World Bank, and JICA). The country had emerged from a long internal conflict, had enjoyed a period of stability and peace, and had just recently developed a policy dialogue with external donors, but had no prior experience with a DPF operation. The program outcomes were expected to be limited given the short-term nature of the operation. The Government's Letter of Development Policy, together with the IMF's three-year EFF, provided a sound framework for the longer term goals to which the DPF-supported reforms will contribute. The Australian Department of Foreign Affairs and Trade provided technical assistance (TA) to support the program reforms, and most particularly those related to trade and competitiveness.

The proposed pillars and the underlying prior actions supported by the DPF arose from recent diagnostic work outlining key priority reform areas to attain the GoSL's development objectives. In particular, the design of the DPF leveraged on the findings of the SCD as well as on specific diagnostic and policy dialogue conducted by the World Bank teams. Due to the congruence among the macro-fiscal issues, the identified agenda of program reforms, the Government priorities, the technical assistance provided by other donors (IMF and JICA), and the pillars of the CPF, the relevance of the objectives is rated as high.

Rating
High

b. Relevance of Design

By design, this operation was a single tranche and stand-alone program of prior actions, as opposed to a programmatic DPF, which is generally composed of successive programs, with multiple tranches disbursed over a longer period. Political uncertainties at the time made it difficult for the Government to publicly initiate a program with long-term reform intentions. The theory of change of the operation was underpinned by a logical policy and results framework as delineated in Annex 1 of the Program Document (PD). Under each pillar of the reform program, areas of intervention were identified, with each prior action associated with a performance indicator, together with a baseline and a target. The results framework was constrained by the reduced timeframe of program implementation, and the program design could not incorporate medium-term results, as it was designed to last only twelve months.

The results chain of the operation was strengthened by the medium-term framework provided by (i) the Government's Letter of Development Policy annexed to the PD, and (ii) the IMF's EFF approved concomitantly with the DPF in June 2016. The Letter of Development Policy (for which the World Bank and JICA each provided US$100.0 million of support) gives a strategic path setting out the priorities for the

Government in the medium term and aimed to: (i) facilitate a more competitive private sector as the engine for generating jobs and increasing incomes; (ii) improve the efficiency and effectiveness of the public sector; and (iii) ensure longer term fiscal sustainability (PD, p.46). The IMF's program provided a policy anchor for macroeconomic stability and structural reforms, including in the areas of fiscal consolidation, revenue collection, public finance management reform, state enterprise reform, and reforms in the trade and investment regime (PD, p.58). In summary, while the DPF operation had short-term goals, the Letter of Development Policy and the IMF's EFF set in motion the pursuit of the reform agenda toward long-term goals.

As a single tranche and stand-alone operation, expected results were not strictly linked to medium-term impacts, but the Program Document provided an adequate road map of expected results from the prior actions (which the operation supported) toward longer-term goals. Each prior action ensured a significant advance and directly enabled the corresponding result. For instance, associating the WTO Facilitation Agreement to the WTO Agreement and creating the National Trade Facilitation Committee (NTFC) was the right course of reform to make Sri Lanka WTO-compliant on trade facilitation. Moreover, submitting the RTI Bill to Parliament and its subsequent enforcement directly permitted its implementation by over 89 percent of government agencies. The careful design of prior actions was relevant for the completion of the results and outweighed the effect of accelerated preparation and ambitious targeting (see below). Any attempt to link the reform program to medium and long-term results would have been artificial, since the DPF's results framework was short-term in essence.

The timeline envisaged for the passage of deeper reforms in various items of legislation and the completion of reforms was highly challenging given the complexity and broad agenda of the reforms. Initiating a short-term and single tranche operation, with a front-loaded program targeting long-term goals was overambitious. At appraisal, the overall risk rating of the operation was substantial, as most risks were rated substantial to underscore the fact that pursuing results through a one-year operation was risky.

To address this, the World Bank and the Government worked together to provide extensive TA and analytical support to all components to facilitate their completion. Consequently, the design focus of the TA support was narrow enough and the targets specific enough to ensure the completion of the range of specified results--while pulling in further reforms that significantly change the policy direction in a manner consistent with the three DPF pillars. Thus, on balance, the relevance of design is rated substantial.

Rating
Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To support the reforms enabling private sector competitiveness.

Rationale

- **Prior actions and associated reforms:**

Three prior actions were completed in support of the above sub-objective as follows: (i) the ratification by the Government of the Protocol annexing the World Trade Organization (WTO) Facilitation Agreement to the WTO Agreement and the creation of a National Trade Facilitation Committee (NTFC), (ii) the approval by the Cabinet of Ministers of the establishment of a One-Stop Shop (OSS) for foreign investors, and (iii) the authorization by the Cabinet of Ministers of the drafting of a new Secured Transactions Bill that includes the use of movable assets as collateral for bank loans, and the repeal of the Secured Transactions Act of 2009.

Additional reforms completed in the context of this operation and in support to the above objective were: (i) the adoption by the Cabinet of the National Plan for implementation of the WTO Trade Facilitation Agreement, including specific roles and responsibilities, time frame for implementation, and required human and financial resources; (ii) the enactment of new Secured Transactions Act (STA) repealing the Secured Transactions Act 49 of 2009, facilitating the use of movable assets as collateral for bank loans; (iii) the adoption of a new National Trade Policy 2017, and the elimination of about 1,200 para-tariff lines in the 2017 Appropriations Act; and (iv) substantial progress on Free Trade Agreement negotiations, a Trade Adjustment package, a Trade Information Portal, and a steering committee and operator for the National Single Window established in August 2018.

In supplement, the repealing of the earlier Exchange Control Act and the enactment of the Foreign Exchange Act in 2017 have greatly enhanced the tradability and availability of foreign currency in the country. Broader business-enabling reforms include an online business registration portal, a single window for accepting and issuing licenses on construction permits, an integrated electronic property registration system, and e-tax filing, and experimentation with local e-government is also ongoing.

Additional measures enabled by this operation include the following: (i) the Cabinet Committee for Economic Management (CCEM) approved the establishment of an OSS for FDIs, (ii) the OSS had established an integrated FDI approval simplification process in a virtual platform, and (iii) the Board of Investment (BOI) designed and deployed a new information portal and the tracking system. and (iv) the Cabinet approved a revised mandate for the OSS, now known as the SWIFT (see below), and simplified standard operating procedures and Memoranda of Understanding among the agencies involved in the FDI approval process.

- **Results:**

(i) This operation contributed directly to reducing the time for approval of foreign direct investment (FDI) by supporting the Board of Investment (BOI) reforms needed to establish the Single Window for Investment Facility Taskforce (SWIFT). The SWIFT is now operational and preliminary estimates of early impact indicate reduced processing time by at least 20.6 percent (the equivalent of a reduction from 63 to 50 days). The objective of removing obstacles to FDI entry has served to facilitate the entry of new investments, paving the way for more substantive reforms to the laws and regulations governing FDI.

(ii) The passage of the new STA resulted in an increase in the proportion of new bank loans collateralized by movable assets, providing access to much-needed finance to asset-poor technology, innovative, and smaller firms. Banks have already started issuing such loans on their own accord, but the new law would scale-up this line of business by providing the relevant financial infrastructure.

(iii) Doing Business 2017 and 2018 recognized progress in the five reform areas (registering property, construction permits, enforcing contracts, trading across borders, and paying taxes); moreover, land ownership and visa restrictions have been eased, allowing eventual foreign investors to interact more easily with national businessmen.

Achievements under this sub-objective are to be attributed primarily to this operation, but also to the JICA, the European Union, and the Department of Foreign Affairs and Trade (DFAT), which supported directly or indirectly some aspects of the reform program through policy funding and/or provision of technical assistance.

Rating
Substantial

Objective 2
Objective

To support the reforms aimed at enhancing transparency and public-sector management.

Rationale

- **Prior actions and associated reforms:**

Three prior actions were completed in support of the above sub-objective as follows: (i) the Government submitted to Parliament a Right to Information (RTI) Bill; (ii) the National Audit Bill was submitted to the Cabinet of Ministers, and (iii) the Cabinet of Ministers authorized the Ministry of Finance to draft a Public Finance Bill.

Other structural reforms enabled by this operation include the following: (i) the establishment of a National Audit Office, which was approved by the Parliament, and granted with the administrative and financial independence required for a supreme audit institution. An independent National Audit Office will significantly increase the checks and balances as well as the transparency and accountability of the Government, and (ii) a Public Financial Management Bill is under preparation in an inclusive manner involving numerous stakeholder consultations and the package is currently being finalized with an expert committee appointed by the Cabinet.

- **Results:**

(i) The vast majority of government agencies (89 percent) have websites where they disclose information, with 15 percent of ministries disclosing medium- to high-quality information. The Government published RTI regulations in February 2017, and ministries appointed more than 3,000 information officers to oversee implementation. The right of citizens to petition any government body and obtain information pertaining to their activities has strengthened the democratic process and generated a flurry of activities by the civil society, and stimulated broad policy debate in the traditional and social media. This has provided a valuable public feedback mechanism for the Government to fine-tune its social and economic policies.

(ii) The new Public Finance Bill provides a stronger legal basis for greater accountability and discipline and reasserted the core principles of fiscal transparency, budget unity, and efficiency, and clarifed roles and responsibilities along the expenditure chain; strengthened the selection and vetting of public investments; and introduced new accountability mechanisms for SOEs. The RTI, the Audit Act, and the PFM Act improved accountability, efficiency, and transparency in the Government’s finances, freeing up space for more pro-growth public and private investment.

Achievements under this sub-objective are attributable primarily to this operation, but also to the IMF and JICA, which supported directly the reform program through policy funding and/or provision of technical assistance.

Rating
Substantial

Objective 3
Objective
To support the reforms aimed at improving fiscal sustainability.

Rationale

- **Prior actions and associated reforms:**

Two prior actions were completed in support of the above sub-objective as follows: (i) the Cabinet of Ministers has decided to submit to Parliament a proposal to repeal the Strategic Development Project Act of 2008, and (ii) the Cabinet of Ministers has approved setting up of a debt management unit in the Ministry of Finance.

In the context of the revenue-led fiscal consolidation program agreed with the IMF under the EFF program, there was an enactment of a new Inland Revenue Act with a simplified income tax regime and a single investment incentives regime, which aim to increase income tax revenue.

- **Results:**

(i) With the passage of the Inland Revenue Act (IRA), the provisions of the 2008 Strategic Development Projects (SDP) Act for corporate income tax holiday incentives are no longer applicable to new projects. The DPF helped to move toward a rules-based system of performance-based incentives. The new IRA introduced scaled tax incentives, which increased with the investment amount. The World Bank has further provided the Government with a tax incentive simulation tool, which will help it assess the impact of the new incentives regime and facilitate the transition to the new regime.

(ii) The Cabinet approved a new external debt management strategy as part of the IMF EFF program and the Government has confirmed the creation of a Debt Management Unit by March 2019 and a Medium Term Debt Strategy (MTDS) by October 2018 as new structural benchmarks under the EFF. These measures, in addition to CBSL's internal debt management strategy, constitute a full set of basic building blocks for a debt management policy. Finally, the Parliament approved a new Liability Management Act (March 2018), which enshrined in law the debt management reform agenda.

(iii) The elimination of distortive SDP tax incentives and a debt management policy will equip the Government with a stronger tool-set on the path to fiscal sustainability, reassuring private sector investors in the stability of the Sri Lankan economy.

Achievements under this sub-objective are to be attributed primarily to this operation, but also to the JICA and the IMF, which supported the reforms directly or indirectly through policy funding and/or provision of TA that supported key activities related to fiscal consolidation, revenue mobilization, as well as state enterprise and public financial management reforms.

Rating
Substantial

5. Outcome

This was a front-loaded and single tranche DPF operation, with a wide-ranging and challenging reform program, but with limited depth given the ambitious time frames for delivery of results. The review found that the DPF objectives were highly relevant, and the relevance of design was substantial. While the program was short-term in nature, other donors (IMF and JICA) provided the needed comfort in terms of the medium-term macroeconomic framework to warrant the sustainability of the outcomes achieved and progress toward long-term goals. The performance toward each of the three sub-objectives was substantial, resulting in an overall outcome rating of Moderately Satisfactory.

a. Outcome Rating
Moderately Satisfactory

6. Rationale for Risk to Development Outcome Rating

The ICR identified three significant risks susceptible of negatively impacting the development outcome as follows:

(i) the political and governance risk, as the coalition that came to power after the February 2018 elections might not command sufficient cohesion to carry out the ambitious reform agenda launched in the context of this operation;

(ii) the sector policy and institutional risk, because the continuation of the reform program requires the introduction and implementation of new laws, entities, and regulatory simplification, all of which lack the implementation capacity; and

(iii) the macroeconomic policy management risk, because the country’s credit rating was downgraded in 2016 by all three rating agencies (Fitch, Standard and Poor’s, and Moody’s), based on concerns over the refinancing and significant debt obligations, weaker public finances, and a decline in foreign exchange reserves. Despite the Government's concerted efforts to control inflation, enhance revenue generation, and contain the deficit, the country's macroeconomic conditions remain unsteady and not conducive to the continuation of the reform agenda initiated in the context of the operation.

This review concurs with the identified risks and rates the risk to development outcome as Substantial.

a. Risk to Development Outcome Rating

Substantial

7. Assessment of Bank Performance

a. Quality-at-Entry

The design of the DPF drew from a diverse body of economic and sector studies prepared in 2015, which included: (i) the Systematic Country Diagnostic; (ii) the Sri Lanka Competitiveness Report; (iii) the Sri Lanka-World Trade Organization: Trade Facilitation Agreement, Validation and Reform Map; and (iv) a Doing Business Reform Memorandum. All those studies and reports were prepared by the World Bank, or in conjunction with other external donors and the Government.

The World Bank worked closely with the IMF in the design and the implementation of the DPF to ensure consistency and take advantage of strong complementarities. At the same time, the World Bank and the IMF teams provided capacity-building assistance in the key areas of reforms supported by the IMF's program and/or the World Bank's DPF.

The World Bank used its convening capacity to involve other external donors, and the achieved outcome appears to have resulted from many contributions including: (i) the Government's' existing efforts to transform its economic structure; (ii) the IMF's EFF; (iii) other Bank projects; and (iv) other bilateral donors, including Australian aid, JICA, and the Nordic Trust Fund.

The World Bank was pragmatic and swift in the preparation of the DPF, which was designed as a stand-alone operation because of political uncertainties at the time, making it difficult for the Government to publicly announce its long-term reform intentions. Building on existing analytical work, the Bank team prepared the operation at an accelerated pace, and despite the short preparation time and the context, the design of the operation was substantially relevant from a strategic perspective. However, the implementation timeline of the stand-alone operation was inadequate, and the Results Framework and anticipated schedule for delivery of results was ambitious.

The DPF operation underestimated the time necessary to convert reform actions into actual legislation, given the need for the extensive consultation and maturation that such significant reforms required.

Quality-at-Entry Rating
Moderately Satisfactory

b. Quality of supervision

The World Bank team worked closely with counterparts across several Government agencies and ministries to move the reform program forward, and carried out four field-based supervision missions, including high-level dialogue meetings with the authorities. In addition, the Department of Foreign Affairs and Trade (DFAT)'s technical assistance project allowed the World Bank team to provide capacity building support to the Government in a number of areas supported by the operation. The World Bank funded several implementation support missions in the areas of reform agreed upon with the Government (tax incentives, Doing Business reforms, SME finance), and the World Bank teams worked closely with other development partners, especially with JICA, which provided financing on the same policy matrix.

Although the World Bank and other donors provided extensive TA to support the reform efforts, institutional capacity and coordination among multiple agencies were cumbersome and affected the pace of key steps in the reform process.

Quality of Supervision Rating
Moderately Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

Because the Government is the implementing Agency for this operation, only the Government performance will be assessed. The GOSL showed strong commitment by engaging public and private stakeholders through extensive consultations that laid the foundations of the overall strategic direction and priorities of the reforms needed to promote private sector competitiveness. A monthly regulatory simplification forum hosted by the Minister of Finance encouraged private entrepreneurs to provide their views and feedback. Policy statements and prior actions of the DPF reflected key issues discussed during the consultations. The overall coordination of the interactions among the multiple stakeholders was led at the highest level at the Prime Minister’s office.

During DPF implementation, there were delays in implementing specific activities, such as the OSS until its turnaround in mid-2017, the rationalization of the SDP incentives, the introduction of a Medium-Term Debt Strategy (MTDS), and the establishment of a Debt Management Unit (DMU), but the borrower displayed consistent coordination efforts (which were successful) and achieved high-quality reforms in a broad range of areas despite capacity constraints of the administration.

Most importantly, the Government has shown commitment in pursuing reforms supported by the DPF despite the challenges, including the reforms on private sector competitiveness, and business-enabling reforms, as detailed earlier. The three laws under the transparency pillar—the RTI Act, the Audit Act, and the PFM Act—are some of the fundamental reforms that have the potential to deepen Sri Lanka's democracy when fully implemented. The fiscal consolidation policy has seen strong, and commitment to follow-up on further reforms as well, including the fuel subsidy reform.

Government Performance Rating

Moderately Satisfactory

b. Implementing Agency Performance

Implementing Agency Performance Rating

Overall Borrower Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

M&E design is summarized in the Annex 1 of the Program Document entitled "Policy and Results Matrix" and organized in four columns as follows: (i) the areas of intervention, (ii) the prior actions, (iii) the indicator, and (iv) the baseline and target. The Program Document indicates on p. 40 that the Department of Project Management and Monitoring at the Ministry of National Policies and Economic Affairs was to coordinate and monitor the implementation of the actions supported by this operation in the respective ministries and agencies. The World Bank team was to review progress of the implementation and track results through frequent interaction with implementing agencies and constant communication with authorities.

b. M&E Implementation

M&E implementation for the DPF program took the form of continuous dialogue with counterparts from the Government. The World Bank team monitored progress against the baselines agreed at appraisal and undertook work that provided improved baseline estimates and time frames. Collaboration with the IMF helped to focus attention on the progress toward the goals of the operation.

A key weakness in the Policy and Results Framework was that the time frames for delivery of results were overly ambitious. Particularly, the baseline for Action 2 (average time required for foreign investment approval of 63 days) was subsequently revised to a higher range from 73 to 116 days depending on the sector, and the target for Action 7 (zero projects receiving SDP tax holidays after January 2016) did not explicitly consider projects in the pipeline.

Finally, aide-memoires of supervision and TA missions informed all stakeholders on the progress of the reform agenda supporting the program.

c. M&E Utilization

During the four field-based supervision missions, the Bank team worked with the Department of Project Management and Monitoring and other government ministries and agencies to review available information and data pertaining to progress toward the program results. At these occasions, adjustments were made in the results framework to ensure that the targets can be achieved when the program closes. In particular, the targets for Actions 2 and 7 were revised, which contributed to having a realistic results framework for achieving the program objectives.

M&E Quality Rating

Substantial

10. Other Issues

a. Environmental and Social Effects

Social and Environmental compliance: At appraisal, the operation was screened against OP 8.60 and none of the policy reforms to be supported by the DPF was expected to result in significant social and environmental impacts, and no long-term climate change or environmental impacts were identified on areas directly related to the operation.

b. Fiduciary Compliance

The ICR did not qualify the level of fiduciary compliance. The Public Expenditure and Financial Accountability (PEFA) assessment of January 2013 had found that the Government's public financial management (PFM) and public procurement systems were adequate for the operation, although there were areas in Sri Lanka’s PFM systems and policy that needed to be improved. For instance, line ministries do not receive timely information on the actual resource availability to plan and manage the procurement-expenditure cycle. During the period of the DPF's implementation, the Government's PFM systems together with its commitment to improve PFM performance through various planned and ongoing initiatives provided reasonable assurance that the country's budget resources were managed appropriately. The ICR did not raise any fiduciary issues that occurred during the period of implementing the DPF operation.

c. Unintended impacts (Positive or Negative)

The ICR did not report any unintended imapact.

d. Other

The ICR did not report any other impact.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Substantial	Substantial	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

The ICR identified two lessons as rephrased below:

(i) E**conomic and sector work (ESW) and technical assistance (TA) are the essential building blocks that pave the way for the design, implementation and performance of a DPF operation.** This operation became possible because there was sizable completed or ongoing ESW in the areas of reform. The reform agenda was able to be sustained due to the TA provided by the Bank and external donors. In this case, the DFAT technical assistance supported by the World Bank has been effective in maintaining the reform momentum under the Development Policy Financing operation.

(ii) When the conditions for a programmatic DPF are not met, it is worth identifying windows of opportunities that can make a stand-alone and short-term DPF feasible . This stand-alone DPF operation created the space to achieve substantial results in the context of political uncertainties. The World Bank’s operation was able to provide strategic support to the reform momentum generated by a coalition Government. Careful consideration is important to ensure that targets for progress indicators are achievable within the shorter implementation time frame of the operation.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is well written and provides a candid account of the DPF design, implementation and achievements. The efficacy analysis of a stand-alone and single-tranche DPF operation was particularly difficult, and underscored the role played by a theory of change for a short-term operation--based on the existing knowledge base, the technical assistance and the policy funding from external donors (IMF and JICA)--that link the achievement of short-term results with supporting the pursuit of longer-term program goals. The ratings are consistent with Bank's guidelines and are supported by the performance of the completed prior actions and other reforms enabled by the DPF operation. Two aspects could have been presented in a different way: (i) the outcome attribution could have been discussed more clearly by showing the respective roles played by the Government, the external donors, and the DPF, and (ii) the ICR could have provided more comprehensive information related to fiduciary, and social and environmental compliance. Upon request, the team prepared a note on the two issues of outcome attribution and fiduciary compliance. Overall, the ICR quality is Substantial.

a. Quality of ICR Rating

Substantial