

OED comments on CAS Completion Report on Sri Lanka

1. This is the first CAS Completion Report by a Country Team and the first time OED is commenting on the effort. We expect that future CAS Completion Reports and OED reviews will evolve in form and substance as we learn what is feasible and reasonable.
2. The CAS Completion Report (CAS CR) for Sri Lanka follows the outline recommended by OPCS. It reviews the objectives of the 1996 CAS and relates them to the Millennium Development Goals which have emerged as central to the Bank's overarching mission of poverty reduction.

The Bank's Assistance in Sri Lanka: Products and Services

3. The CAS CR notes that actual lending over the FY97-02, at about \$62 million per year, comes closer to the low case scenario proposed in the 1996 CAS than to the base case, mainly because of the escalation of the conflict and weak progress on reforms for most of the latter part of the period. ***The list of projects and the relatively intense ESW suggests general consistency with the original 1996 CAS objectives, with a relevant shift in the last part of the period to issues of governance and post-conflict rehabilitation efforts***, consistent with the expanded focus of the FY99 CAS Progress Report.

4. How does Bank assistance over the CAS period relate to the major CAS objectives, and what has been the outcome of specific interventions? Existing evaluative findings—ICRs, OED evaluations of ICR, PPARs, and supervision reports for open projects—can make a substantial contribution to the evaluation of the CAS outcome and Bank performance, and can also provide lessons for the subsequent CAS. In addition, the CAS CR could discuss the extent to which the recommendations of OED's 1998 Country Assistant Note were incorporated into Bank assistance in the past four years.

5. Twenty-one projects have closed since FY97, of which 18 have been evaluated by OED. While most of these projects were approved before the 1996 CAS, those that closed two or more years after the CAS (FY99-02) could be considered more relevant to a CAS evaluation, since those that were not consistent with the CAS could have been closed or restructured. Attachment 1 shows OED's ratings of these projects, along with equivalent ratings for the Region and the Bank as a whole: ***the recent OED ratings for Sri Lanka fall substantially below those for the Region and the Bank, and except in the case of institutional development impact, they are lower in the last four years (FY99-02) of the CAS period than in the first two years.***

6. The CAS CR (Section B and Table 1) lists achievements in the four focus areas of the 1996 CAS, but does not relate them to Bank assistance, nor does it discuss why some Bank interventions failed. Examples of findings that would contribute to such an analysis are shown in the following paragraphs.

7. The Bank supported improved fiscal discipline through ESW and TA on public expenditures, civil service reform, and tax and tariff reforms. Outcome indicators show little progress (see para. 11 below), but it would be useful to have evidence on whether the outcome of specific Bank efforts in this area had the intended effect.

8. Several projects evaluated since FY96 had private sector development objectives. Two telecommunications projects, both rated satisfactory, contributed to the divestiture of Sri Lanka Telecom, as well as to the introduction of competition, an increase in jobs and improved service in the sector. Regulation, on the other hand, remains weak. The Colombo Environmental Improvement project failed to generate any private interest in urban infrastructure, and the Private Finance Development project left a financial sector still dominated by state-owned financial institutions. These projects also yield lessons, for example, on methods for effective regulatory reform and approaches to privatization and competition. The CAS CR could also review the experience of the more recent initiatives relevant to this objective, including the Mahaweli Restructuring project, diagnostic work on the agricultural, petroleum and power sectors, the private sector update, and the privatization TA.

9. The CAS CR notes the limited progress in enhancing social protection/building human capital. The Poverty Alleviation project, although it closed in late 1997 and was rated marginally unsatisfactory, did achieve some of its objectives (creation of employment and of rural assets, improved nutritional status of children), and OED's review noted that it provided a good lesson learning opportunity for the Bank. The General Education II, Teacher Education and recently closed Health Services projects, all approved since the 1996 CAS, could be evaluated to determine why they did not contribute to greater progress. The Bank also carried out studies of unemployment, social sectors, health strategy, and poverty.

10. The CAS CR reviews actions to improve the Bank's portfolio performance and presents a number of indicators. Additional indicators could include: OED ratings on institutional development, Bank performance, and Borrower performance (see Attachment 1), and the disconnect between supervision and completion ratings and between ICR and OED ratings for the 1997-2002 period. For example, there was no disagreement between the Region and OED during the period, compared to a Bank-wide net disconnect of 4 percent.

Development outcomes as related to CAS objectives

11. Economic data indicate that progress towards key CAS objectives was limited during the CAS period (see Attachment 2). GDP growth averaged about 5 percent p.a. between 1996-2000, declining to -1.4 percent in 2001. ***Progress on the fiscal front—one of the CAS objectives—has been much weaker than expected***, partly due to the civil conflict. Defense expenditures contributed to the deterioration in the fiscal performance. Expenditure pressures also arose from the Government's inability to control public employment—another CAS objective—as the number of government employees increased from 752,000 in 1996 to 864,000 in 2001. Revenues, which were an objective in the FY99 CAS Progress Report, declined steadily from 19 percent of GDP to 16.1 percent in 2002. These factors pushed the fiscal deficit to 10.9 percent of GDP in 2001, declining to an estimated 9 percent in 2002, compared to CAS targets of 6-8 percent of GDP by 2000.

12. ***Progress on promoting private sector development is difficult to judge, given a lack of measurable performance indicators, but available evidence suggests that***

progress was limited until 2002. The heavy reliance on domestic financing of the budget deficit has driven up real interest rates and this, combined with the civil conflict, has adversely affected the environment for private sector development and domestic investment. Both public and private investment declined as a percent of GDP during 1996-2002. As noted in the CAS CR, progress slowed on privatization after 1998 and picked up again in mid-2002. Overall, there has been slow progress in SOE, labor, and agricultural reforms in the period since the 96 CAS.

13. Sri Lanka has impressive social indicators for its level of development and it is well advanced in meeting the MDGs. Nevertheless, ***there is limited evidence on progress toward meeting the CAS objectives of improving targeting of the transfer programs and the quality of health and education services*** (Attachment 3). The Government has only recently made an effort to improve targeting with the passage of the new Welfare Benefits Act. Moreover, there are no monitoring and evaluation tools in place to measure the quality of social services.

Conclusions

14. This brief review of the progress towards the Bank's Country Assistance Strategy objectives and of the Sri Lanka CAS CR has yielded the following six main findings and recommendations:

- The overall assistance to Sri Lanka since the last CAS appears generally consistent with the evolving strategy reflected in both the CAS and the CAS Progress Report.
- The performance of Bank projects in Sri Lanka exiting the portfolio for the period FY99-02 falls below the South Asia Region and the Bank.
- To provide a complete picture of the extent to which Bank assistance has contributed to meeting the objectives of the CAS, the CAS CR needs to discuss Bank lending and non-lending activities delivered since the last CAS as they relate to specific CAS objectives, and assess the extent to which they have had or are likely to have an impact on meeting those objectives.
- The lack of fiscal discipline has undermined macroeconomic stability and the ability of the Government to achieve its poverty reduction objectives. It also indicates that the Bank's dialogue in this area has had limited impact.
- The absence of benchmark and monitoring indicators for private sector development and social achievements is a key bottleneck to using a results-based approach to the Country Assistance Program.
- The conclusions and lessons for the CAS need to be clearly linked with evidence on Bank assistance in the CAS CR.

15. OED will be working with OPCS and the pilot regions in the next few months to refine the structure and methodology of the CAS Completion Report.

Sri Lanka—OED Evaluation Findings, FY97-02 Exits^a

	<i>FY97-98</i>	<i>FY99-02</i>	<i>SAR FY98-02</i>	<i>Bank- wide, FY98-02</i>
No. of projects closed	10	11		
No. of projects rated	10	8		
Satisfactory outcome ^b (%)	80	63	77	74
Likely sustainability (%)	60	50	61	59
Substantial/high IDI (%)	20	38	45	44
Satisfactory Bank performance ^b (%)	78 ^c	75	79	77
Satisfactory Borrower performance ^b (%)	78 ^c	63	74	74

^a The Sri Lanka findings are presented for two time periods, since it could be argued that the projects exiting shortly after the 1996 CAS are less relevant for evaluative purposes. It would also be possible to provide data for countries that are similar to Sri Lanka in terms of size, level of development, or level of conflict.

^b Includes ratings of highly satisfactory, satisfactory, and marginally/moderately satisfactory.

^c Only 9 of the 10 projects were evaluated for Bank and Borrower performance.

Sri Lanka - Economic and Social Indicators, 1997-2001

Series Name	1997	1998	1999	2000	2001	Average for 1997-2001				
						Sri Lanka	Bhutan	Cote d'Ivoire	Morocco	Nepal
GDP growth (annual %)	6.30	4.70	4.30	6.00	-1.40	4.82	7.13	1.62	2.51	4.85
GDP per capita growth (annual %)	5.19	3.46	2.83	4.27	0.98	3.37	4.05	-1.14	0.82	2.38
GNP per capita, Atlas method (current US\$)	800.00	810.00	820.00	850.00	830.00	822.00	566.00	720.00	1212.00	234.00
GNI per capita, PPP (current international \$)	3010.00	3090.00	3250.00	3460.00	3560.00	3274.00	1370.00	1504.00	3428.00	1318.00
GDP per capita (constant 1995 US\$)	775.70	802.54	825.23	860.46	868.93	826.57	513.01	757.85	1382.97	235.45
Investment/GDP ratio	24.40	25.10	27.30	28.00	22.10	25.38	..	..	..	..
Gross domestic savings (% of GDP)	17.30	19.10	19.50	17.20	15.30	17.68	22.18	19.60	18.58	14.95
Inflation, consumer prices (annual %)	9.57	9.36	4.69	6.18	14.16	8.79	7.96	3.25	1.40	5.29
Agriculture, value added (% of GDP)	21.87	21.11	20.67	19.54	18.85	20.41	35.49	23.57	15.45	40.17
Manufacturing, value added (% of GDP)	16.41	16.54	16.40	16.94	15.32	16.32	10.77	19.87	17.36	9.73
Services, etc., value added (% of GDP)	51.23	51.35	52.06	52.98	55.32	52.59	28.02	53.51	52.46	37.32
Exports of goods and services (% of GDP)	36.54	36.24	35.51	39.71	37.93	37.19	31.15	40.06	29.69	23.83
Imports of goods and services (% of GDP)	43.60	42.25	43.29	50.50	44.47	44.82	50.15	32.74	34.24	33.02
Current account balance (excluding official transfers, % of GDP)	-2.62	-1.44	-3.70	-6.70	-2.50	-3.39	-18.55	-0.81	-0.72	-6.68
Total debt service (% of exports of goods and services)	8.00	8.03	9.95	9.62	..	8.90	5.38	25.27	25.05	7.07
External debt (% of GNI)	53.46	56.60	63.59	56.66	..	57.58	38.34	125.59	58.35	52.02
Gross international reserves in months of imports	3.51	3.39	2.76	1.70	2.33	2.74	13.01	2.01	5.20	5.89
Current revenue, excluding grants (% of GDP)	18.50	17.20	17.70	16.80	16.50	17.34	18.62	18.68	28.52	10.61
Government current expenditure (% of GDP)	20.80	19.60	18.70	20.20	21.40	20.14	16.82	15.24	23.85	..
Interest payments	6.20	5.40	5.60	5.70	6.70	5.92	0.57	3.87	4.80	1.25
Government capital expenditures (% of GDP)	4.90	5.30	5.50	5.40	4.80	5.18	19.90	4.13	6.42	..
Overall budget balance including capital grants (% of GDP)	-4.52	-8.01	-6.90	-9.48	-9.46	-7.94	-3.84	-0.61	-1.72	-4.03
Overall budget balance, excluding capital grants (% of GDP)	-7.90	-9.20	-7.50	-9.90	-10.90	-9.08	-3.84	-0.92	-1.76	-5.84
Primary deficit (% of GDP)	-1.70	-3.80	-1.90	-4.20	-4.10	-3.14	-3.28	2.95	3.04	-4.59
Government debt (% of GDP)	85.90	90.80	95.10	96.80	103.60	94.44	39.66	111.11	70.50	63.86
of which Domestic debt	43.60	45.50	49.10	53.80	58.30	50.06	0.00	14.03	19.83	13.92
Domestic financing as % of GDP	3.40	7.01	6.77	9.44	8.46	7.30	1.07	-0.08	3.25	1.72
Financing from abroad as % of GDP	1.12	1.00	0.13	0.04	1.00	0.64	2.77	0.68	-1.53	2.31
Capital grants and proceeds from privatization (% of GDP)	3.38	1.19	0.60	0.42	1.44	1.14	0.00	0.31	0.04	1.81
Government employment ('000 persons)	762.00	790.00	822.00	857.00	864.00	819.00	..	..	..	..
Illiteracy rate, adult total (% of people ages 15 and above)	9.20	8.92	8.64	8.36	8.13	8.65	..	54.58	52.10	59.39
Immunization, DPT (% of children under 12 months)	97.00	94.00	99.00	..	..	96.67	87.00	60.28	93.00	76.00
Improved water source (% of population with access)	..	..	..	83.00	..	83.00	62.00	77.00	82.00	81.00
Life expectancy at birth, total (years)	71.78	..	..	73.14	..	72.46	61.47	46.25	67.04	58.11
Mortality rate, infant (per 1,000 live births)	15.90	15.90	..	14.95	..	15.58	60.30	111.40	49.30	76.30
Improved sanitation facilities (% of population with access)	..	..	..	83.00	..	83.00	69.00	..	75.00	27.00
School enrollment, primary (% gross)	..	105.91	..	..	..	105.91	20.36	74.75	88.40	124.71
School enrollment, secondary (% gross)	..	72.12	..	..	..	72.12	9.45	21.70	38.73	53.64
Population, total	18.55	18.77	19.04	19.36	19.65	19.08	0.78	15.58	28.24	22.51
Population growth (annual %)	1.15	1.19	1.42	1.65	1.49	1.40	2.96	2.79	1.67	2.41

Source: SIMA database as of 02-27-2003.

Sri Lanka CAS draft as of 02-28-2003.

Growth rate of population, GDP, and GDP per capita is least-squares growth rate.

Development results related to CAS objectives: suggestions for measuring performance (some information may not be available in Sri Lanka)

<i>CAS objectives</i>	<i>Indicators and targets that were or could have been identified to measure outcomes</i>	<i>Completion Report: availability of indicators</i>
Improving fiscal discipline and ensuring sustainable macro balances	Reducing entitlements and subsidies to below 2% of GDP Reducing safety nets to below 11% of total public expenditures Reducing public employment to below 800,000 Overall budget deficit of 6% - 8% of GDP by 2000 (base - low case for IDA lending)	Some information on overall budget deficit for selected years.
Developing/promoting private sector	Privatization: government owned assets privatized as % of total government owned assets; or by employment; transfers to SOEs as % of GDP; Private investment as percent of total investment; as percent of GDP; Ease of entry (time, cost) for private firms as measured by survey data; Credit to private sector as % of GDP	Information not available
Enhancing social protection/building human capital	Social protection: Evidence of proportion of and social protection going to targeted population Human capital: years of schooling completed; literacy rates; health indicators, especially incidence of diseases	Information not available
Improving portfolio performance	-QAG data FY02 (first QAG ratings would form baseline): Quality at entry; Supervision quality; Portfolio at risk; ESW quality; -Problem projects as % of total portfolio -Disbursement ratio by year -Average age of projects - OED data for 97-02: Ratings (outcome, sustainability, institutional development, Bank performance, Borrower performance) -Net disconnect between OED outcome ratings and ICR ratings for projects exiting FY97-02	Some QAG data provided (not clear which years covered); Portfolio at risk provided; Problem projects provided; Disbursement ratios provided; Average age of projects provided; OED data: DO mentioned, may mean outcome rating; sustainability rating given, but not clear what years covered. Other OED ratings missing; Net disconnect not provided.