



DEVELOPMENT EFFECTIVENESS BRIEF

SRI LANKA

BUILDING ON SUCCESS

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Note: In this publication, “\$” refers to US dollars.

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ABBREVIATIONS

ADB	Asian Development Bank
ADF	Asian Development Fund
ICPS	Interim Country Partnership Strategy
ICT	information and communication technology
km	kilometer
kV	kilovolt
OCR	Ordinary Capital Resources

Note: In this publication, “\$” refers to US dollars.

SRI LANKA DEVELOPMENT INDICATORS

Non-Millennium Development Goals

Population (million, 2014)	20.7
Annual population growth rate (% , 2009—2014)	0.9
Adult literacy rate (15 years and above, %, 2013)	92.5
Population in urban areas (% of total population, 2013)	18.0

Millennium Development Goals

Population living on less than \$1.25 a day (% of total population, 2009)	4.1
Population living below the national poverty line (% , 2012)	6.7
Under-5 mortality rate, per 1,000 live births (2013)	10.0
Population using an improved drinking water source (% of urban population with access, 2012)	99.0

Sources: Central Bank of Sri Lanka. *Annual Report 2014: Department of Census and Statistics of Sri Lanka Household Income and Expenditure Survey 2012*; World Bank. World Development Indicators Dataset. <http://data.worldbank.org/indicator> (accessed 25 August 2015).

SRI LANKA AND ADB: REMARKABLE GAINS

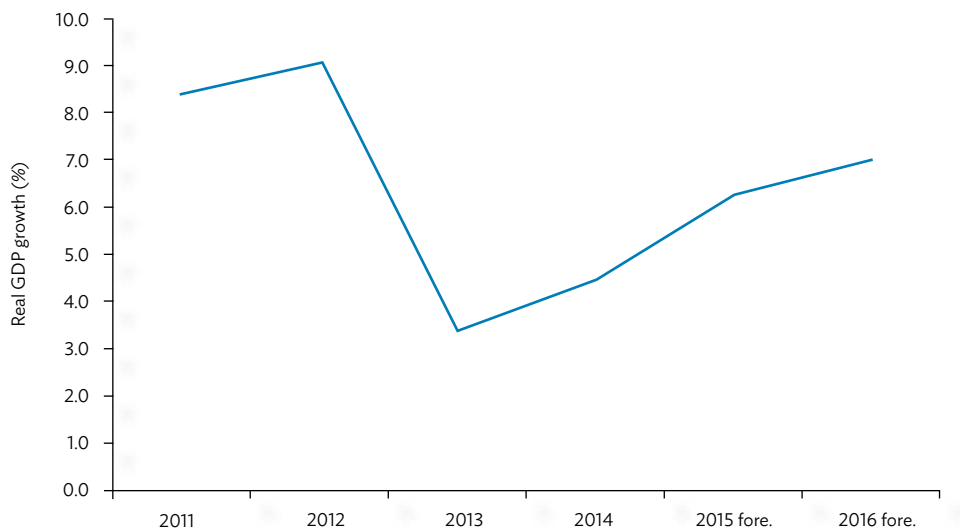
Sri Lanka has emerged in recent years as one of the most dynamic countries in South Asia. With a rich cultural heritage, an increasingly sophisticated work force, and a strategic location that links Asia to Europe, the country is well positioned for strong economic growth for years to come.

The country's transportation systems and other infrastructure are being upgraded to move goods and people more efficiently. An increasing number of international tourists are finding their way to the country as well.

The economic data illustrates this strong performance. The country has enjoyed high economic growth in recent years with expansion of gross domestic product of 8.4% in 2011 and 9.1% in 2012. Growth is projected at 6.3% for 2015 and 7.0% for 2016, according to the *Asian Development Outlook Update 2015* (Figure 1). Inflation has remained moderate despite the surging economic growth.

At 98%, Sri Lanka enjoys one of the highest rates of primary school students moving into secondary school. Adult literacy is at 92% and about 99% of people in urban areas have access to safe water. The government in recent years has increased investment in infrastructure.

Figure 1: Growth of Sri Lanka's Gross Domestic Product from 2011 to 2016



GDP = gross domestic product, fore. = forecast.

Sources: Asian Development Bank. 2015. *Asian Development Outlook 2015 Update: Enabling Women, Energizing Asia*. Manila.
Central Bank of Sri Lanka. 2014. *Central Bank Annual Report 2014*. Colombo.

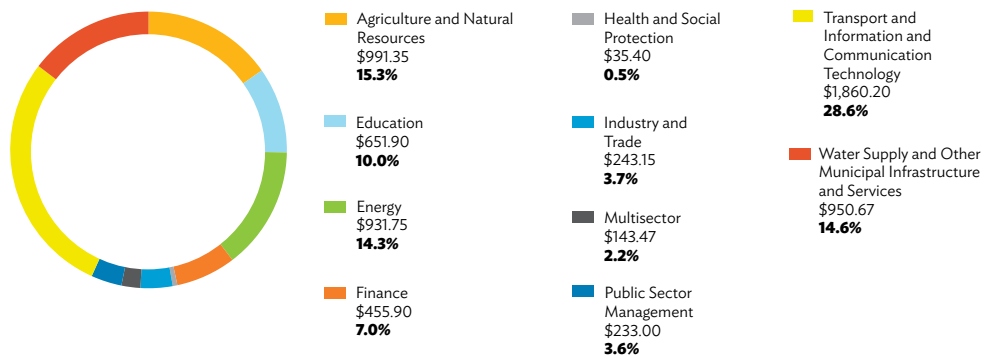
ADB is helping Sri Lanka to further advance its education system to develop valuable skills needed in a knowledge-driven economy.



In 1966 the Asian Development Bank (ADB) and Sri Lanka became development partners, with the country being one of ADB’s founding members. Over the years, the two have worked together to realize the goal of changing the country’s status from low to middle income. As of December 2014, ADB had invested more than \$6.5 billion in project- and policy-based loans (Figure 2), \$357.8 million in grants, and \$127.7 million in technical assistance.

In 2014, ADB was Sri Lanka’s second largest development partner in terms of the amount of development funding disbursed, with Sri Lanka rupees (SLRs)44,131 million, or about \$338 million. This was second only to the People’s Republic of China.

Figure 2: Sector Distribution of Cumulative ADB Lending to Sri Lanka
(as of 31 December 2014)



Note: Includes sovereign and nonsovereign loans, equity, guarantees, Asian Development Fund (ADF) grants, and grants from other special funds.

Source: Loans, Technical Assistance, Grant, and Equity Approvals database.

ADB has worked with Sri Lanka to assist the areas in the north and east affected by 3 decades of conflict, and was instrumental in bringing critical assistance after the 2004 tsunami that heavily damaged two-thirds of the country's coastline.

ADB and its many partners in Sri Lanka have worked together to help move the country to greater prosperity. In practical terms, the result of this partnership is that many Sri Lankans are able to earn more and invest in their families and communities (Table 1).

Table 1: Loan Approvals and Disbursements in Sri Lanka (\$ million)

Loan Approvals

Loan	1968—2008	2009	2010	2011	2012	2013	2014
OCR	928.84	215.00	350.00	199.30	200.00	240.00	269.00
ADF	3,327.19	115.00	107.17	82.30	152.00	123.00	188.00
Total	4,256.03	330.00	457.17	281.60	352.00	363.00	457.00

Loan Disbursements

Loan	1968—2008	2009	2010	2011	2012	2013	2014
OCR	319.09	101.50	198.11	173.31	224.33	208.70	205.00
ADF	2,760.68	144.05	105.62	98.48	69.05	70.79	121.73
Total	3,079.77	245.55	303.73	271.79	293.38	279.49	326.73

ADF = Asian Development Fund, OCR = ordinary capital resources.

Note: Loan approvals and disbursements include both sovereign and nonsovereign lending.

Source: Asian Development Bank. Listing of Loan, TA, Grant and Equity Approvals database (accessed 25 August 2015).

ADB'S CONTRIBUTION TO DEVELOPMENT AND POVERTY REDUCTION

ADB worked with the Government of Sri Lanka and other development partners in the country to invest in different aspects of the economy and society. The partnership helped educate students, turn the lights on in remote communities, improve the water supply in homes, and lay down modern roads. ADB supported public sector management in Sri Lanka through fiscal reform programs, including the ongoing Fiscal Management Efficiency Project (approved in 2010 and funded by an Ordinary Capital Resources [OCR] loan of \$30.8 million).

Working together, ADB and Sri Lanka improved educational facilities for over 2,830,000 students, including 1,443,000 girls and women (Table 2). About 130,000 people, more than half of them (78,000) women, who had little chance of getting loans, were given access to microfinance.

Table 2: Development Outputs from ADB-Supported Projects in Sri Lanka

Sector or Indicator	Outputs Achieved (2010–2014)
Education	
Students who benefitted from new or improved educational facilities (number)	2,830,141
Students educated and trained under improved quality assurance systems (number)	140,000
Teachers trained with quality or competency standards (number)	41,560
Energy	
New households connected to electricity, rural (number)	189,234
Distribution lines installed or upgraded (kilometers [km])	1,850
Transport	
Roads built or upgraded (kilometers)	2,473
Expressways and national highways built or upgraded (km)	766
Provincial, district, and rural roads built or upgraded (km)	1,707
Water	
Households with new or improved water supply, rural (number)	56,572
Households with new or improved sanitation (number)	5,018
Land improved through irrigation, drainage, and/or flood management (hectares)	3,279
Finance	
Microfinance loan accounts opened or end-borrowers (number)	129,897
Microfinance loan accounts opened or end-borrowers (female, number)	77,833
Microfinance loan accounts opened or end-borrowers (male, number)	55,064

Source: Asian Development Bank. Project Results Data. <http://www.adb.org/projects/results-ADB-supported-operations>



ADB helped Sri Lanka transform the Colombo port into a world-class facility that acts as a regional transshipment hub.

Though ADB is active in a variety of sectors, including education, it has mainly focused on the large infrastructure projects that helped propel Sri Lanka toward greater prosperity. ADB and the government worked together to make Sri Lanka sustainable and livable by building Sri Lanka's first expressway, and improving the port, water, and sanitation systems throughout the country.

Currently, ADB is working with the government to transition the partnership to serving the needs of a middle-income country and pushing it to the next level of prosperity. This includes, according to the ADB Country Partnership Strategy for 2012—2016, maintaining infrastructure support but also focusing more on human resource development.

Transport: Connecting Sri Lankan Communities to the World

ADB's work in the transport sector focused primarily on upgrading national and provincial roads, and improving the country's premier container port in the commercial capital of Colombo.



The upgraded Udatenna–Mahiyangana Road

As a result of this work, 30 kilometers (km) of expressways and 700 km of national highways were built or upgraded, and another 30 km of expressways were supported through earthwork. In addition, 1,707 km of provincial and local authority roads were built or upgraded.

One such example is a 14-km stretch along the Udatenna—Mahiyangana Road, developed under the National Highways Sector Project (approved in 2005, funded by an OCR loan of \$150 million, and the project closed in 2013). The project supported Sri Lanka’s efforts to improve road sector management and its national highways. The project upgraded about 223 km of key highways and piloted a performance-based maintenance program. Supplementary financing was later approved to rehabilitate an additional 62 km of highways that provide access to the new Southern Highway in the Western and Southern provinces. Travel time on several roads, including the Udatenna—Mahiyangana Road, was reduced by more than 25% from the base year 2006.

Under this project, the Udatenna—Mahiyangana Road was upgraded and retaining walls were constructed, to reduce the landslide risk and increase the stability of slopes.

W. Nelson Wickramasekara in his shop along the Udatenna—Mahiyangana Road



For 55-year-old W. Nelson Wickramasekara, this means that his children will grow up free of the burden of debt. He has sold fruit for nearly 30 years along the Kandy—Mahiyangana National Highway. Before the ADB-supported National Highways Sector Project enabled the road to be upgraded, it was a dusty thoroughfare with limited traffic and very few tourists.

Today, it is a modern road with steady traffic, including a growing number of tourists who use it to get to the historic sites in the area. The friendly fruit vendor’s sales have increased by 30% since the road was improved. He has invested that money in buying a van that his son uses to operate a school transport service that generates additional income.

“I have been able to pay off my obligations,” Wickramasekara said. “I can build a financial foundation so that my children grow up without being in debt.”

For Kanapathipillai Manikkawasan, a 55-year-old farmer, the effect is felt in the countryside. He used to spend an entire day getting his rice harvest to the market. The old Hensman Road, in Batticaloa town, was in such rough condition that he had to use an elaborate system of trucks and ox carts to transport his rice. He paid separately for each mode of transport.

Today the road has been upgraded through the ADB-supported Eastern and North Central Provincial Roads Project (approved in 2009, funded by an Asian Development Fund [ADF] loan of \$70 million, and project closed in 2014), and has made a major difference in the lives of farmers in the area. What used to be a day-long journey now takes Manikkawasan about 45 minutes direct to the market driving a single tractor that can reach the area near his farm.

Manikkawasan’s family of six relies on the farm and the added income from the reduced transport costs has helped pay for his children’s education.

“Without the extra income, we could not have kept up with the increased costs of education and electricity,” he said. “This is helping us pay our bills.”

The project rehabilitated about 370 km of provincial roads in Eastern Province and North Central Province. Pavements were strengthened; and bridges, drainage, and culverts were improved or replaced as necessary.

In addition to the work on national and provincial roads, ADB is now moving into the difficult area of bringing roads to Sri Lanka's smallest and most remote villages. These “last mile” roads improve the lives of some of the country's poorest people.

To increase Colombo's attraction as a regional transshipment point for cargo to benefit people throughout South Asia, ADB helped increase the capacity and efficiency of the capital city's port. The Colombo Port Expansion Project (approved in 2007, funded by an OCR loan of \$300 million, and project closed in 2013), through a landmark public—private partnership financing scheme, supported the building of a protective breakwater and dredging of an approach channel that allows some of the world's largest ships to enter. Since the new terminal opened in April 2014, the improvements have helped bring in more ships plying the Asia to Europe route, lowered port costs, and increased efficiency for importers and exporters in Sri Lanka.



Kanapathipillai
Manikkawasan
working in his farm



The Colombo port

Nordtex Limited,
a garment factory
south of Colombo



For Nordtex Limited, a garment factory south of Colombo that produces tents and uniforms for European clients, the improved port resulted in quicker turnaround for imported raw materials. The increased efficiency of the port helped the company employ about 130 people.

Chathurika
Nishamali working
at the factory



Chathurika Nishamali, a seamstress at the company for 4 years, was able to save enough to build a house with the help of her husband, a mason. Formerly a renter, she now owns her own home and feels that her 10-year-old son has a brighter future.

“I feel more secure having my own home,” she said. “I can focus on educating my son instead of paying rent.”

Energy: Clean Power to the Countryside

Sri Lanka is a success story in bringing electricity to its people. The country's electrification rate is 97% and the work to provide electricity to rural communities is almost complete. However, the cost of electricity is still high in the country for many reasons, including that during peak demand, supply largely comes from costly oil-based generation.

ADB played a major role in bringing electricity to communities across Sri Lanka. ADB projects helped develop the country's transmission network, making it more efficient and reliable. These efforts—including the construction or upgrading of about 850 km of 220 kilovolt (kV) and 132 kV transmission lines, and building or augmenting 35 grid substations—brought new electricity connections to 189,234 households between 2010–2013. In addition, ADB supported the installation of 163 megawatts of energy generation capacity.

At the small SBTex fabric shop in the town of Mahiyanganaya, 22-year-old Geethika Samanthi recalls when the power would go out three or four times per day in her shop. When the electricity went off, customers could not see the intricate woven fabrics sold by the shop and they did not want to shop in the sweltering heat.

To keep the lights on, the shop (her principal source of income and run by her relatives) had to use expensive and dirty diesel-powered generators. That would sometimes cost more than what the store was earning, she said.

In the last year, the shop's situation has improved. Lights stay on and fans steadily run to keep customers cool and comfortable. The reliable supply of electricity has increased business and the shop, which supports three families, is earning more.

"I use my salary to pay my tuition," Samanthi said. "I'm studying to be a beautician. I don't want my parents to have to pay for my education."

The fabric shop benefits from a power substation built as part of the ADB-supported Clean Energy and Access Improvement Project (approved in 2009, funded by an OCR, and with an ADF loan of \$160 million). The project has three investment components: energy efficiency improvement, renewable energy development, and access for the poor. The energy efficiency improvement component focuses on system control modernization, transmission system strengthening, distribution substations augmentation, demand-side management for municipal street lighting, and consulting services for system control modernization. The clean energy development component augments network capacity renewable energy projects; and the access for the poor component includes strengthening the transmission system in the Eastern Province and providing rural household connections.

Chandrika Srimathie Serasinghe, who works at a nearby grocery store, has also seen the powerful impact of having reliable electricity. The 43-year-old woman said during the power outages that used to frequent the area, the store would have to keep freezers closed to save the food from spoiling.

Generators would keep the lights and cash registers working, but the heavy freezers containing meat and other items use so much power that these need electricity from the main power grid



Geethika Samanthi
in the textile shop

Chandrika
Sreemathie
Serasinghe at
the Food City in
Mahiyanganaya



to stay on. When the power would go off, the freezers could not be opened because the cool air would escape, thus, the items inside could not be sold. In some cases, ice cream packed in freezers had to be thrown away because the ice cream would melt.

Due to the Clean Energy and Access Improvement Project, the freezers now work 24 hours a day, 7 days a week, Serasinghe said. This has increased her job security.

“I support my family with my income from this store,” she said. “When the power was unreliable, business was down and I was worried I could lose my job.”

The switchyard of
Mahiyanganaya
Grid Substation
at Dambarawa-
Mahiyanganaya



Water and Urban Development: Modernizing Cities and Towns

Most of ADB's work in the urban sector involves upgrading water and sanitation systems to ensure higher quality standards and lower rates of water leakage. Sri Lanka has a large public water management agency, with more than 10,000 employees, and ADB is working with the government to help the agency operate more efficiently.

In addition to connecting 56,572 homes in Sri Lanka to safe, reliable water, ADB projects provided 5,018 households between 2010 and 2013 with new or improved sanitation systems.



The office building and the water tank of the Polonnaruwa-Ikiriwewa rural water supply system

For Herath Mudiyansele Bisso Menike, a 57-year-old widow in the town of Polonnaruwa, a historic place in central Sri Lanka that sits beside a UNESCO World Heritage site, the introduction of clean, piped water into her home ended 2 decades of difficulties and heartbreak.

Her water supply previously came from a well near her home. The well would dry up for several months each year during the dry season and force her and her family to venture to a nearby river to bathe. Bathing in the river made her teenage daughter uncomfortable and her father had to accompany her for security.

Once, a wild elephant entered her village and blocked access to the river for a few days, she said. More troubling was that her husband and many of their neighbors had kidney ailments she believes were linked to drinking contaminated water from the well. Her husband passed away in 2013 from kidney ailments.

Though Menike still struggles to maintain her rice farm without her husband, life has improved for her family with the introduction of piped water into her home. The improved water system was installed as part of the ADB-supported Secondary Towns and Rural Community-Based

Herath
Mudiyanselage Biso
Menike pouring
water into a pot in
her home



Water Supply and Sanitation Project (approved in 2003, funded by an ADF loan of \$60 million, and project closed in 2014).

“Our water is clean and safe now, and available 24 hours a day all year around,” she said. “I feel confident having my family drink the water now.”

Project outputs include the construction of rural water schemes to provide drinking water (piped, rain-fed, and protected well) to 322,000 people in Polonnaruwa and Anuradhapura; construction of two water networks to provide 47,000 cubic meters (m³)/day and 9,800 m³/day in Batticaloa and Muttur; and extension of two existing water networks to provide 17,500 m³/day in Hambantota and 17,800 m³/day in Polonnaruwa.

ADB also supported projects other than water and sanitation that improve the lives of people in urban areas and towns, such as the expansion of the Yakkalamulla Ayurvedic Centre, a public clinic in the town of Galle, that provides ayurvedic treatments, an ancient herbal-based type of medical therapy widely used in Sri Lanka.

Soma Ellawala
obtains medicine
from the
Yakkalamulla
Provincial Council
Ayurvedic Centre



The improvement of the center's facilities means that people such as Soma Ellewala, who lives nearby, has greater access to medicine and can come more frequently for medical care. Before ADB's intervention through the Local Government Infrastructure Improvement Project (approved in 2005, funded by an ADF loan of \$50 million, and project closed in 2013), the center often did not have adequate medicine in stock and patients would have to wait for medicine to be ordered.

"They always have my medicine now," Ellewala said during a recent visit to treat a sinus problem. "Now, I can wait comfortably for the doctor."

Other project outputs include basic local government infrastructure and services delivery; improved community health facilities; improved provision of water supply, sewerage, and drainage; and human resource development.

Education: Beyond the Basics

Sri Lanka has made impressive gains in achieving universal education. The country is now working to provide greater opportunities for secondary and higher education, and more sophisticated skills training.

ADB partnered with the government in the area of education. This partnership resulted in the construction and renovation of 1,000 schools located in the poorest divisional secretariats in the country to offer General Certificate of Education Advanced Level subjects. Around 140,000 students, more than half of them female, were educated and trained with improved quality assurance systems. ADB also supported the training of 41,560 teachers, including 20,805 females.

ADB expanded its support for education and vocational training to provide a high quality and relevant workforce for Sri Lanka's fast growing economy. This includes supporting increased funding for science, English, and technology at the secondary school level.



Students study in the laboratory of the Hakmana Methodist Central College which serves more than 5,000 students in the area.

Ranjith Kumarasiri,
an education
specialist assisting
with the Education
for Knowledge
Society Project



The Hakmana Methodist Central College benefited from ADB's Education for Knowledge Society Project (approved in 2007, funded by an ADF loan of \$65 million, and project closed in 2014). Under training related to information and communication technology (ICT) for teachers, 50,270 scholarships were awarded and 48,985 completed training; 439 schools were selected for the award of National ICT Excellence under the scheme, and 2,149 Type 2 secondary schools received at least five computers, uninterruptible power supply units, and printers. With input from consultants, competency-based standards were developed.

The upgrading of science laboratories, provision of computer education programs, and other assistance provided under the project serve a large number of students between Grades 6 to 13 in Sri Lanka's Southern Province.

"As a nation, we are trying to switch our human capital from being primarily unskilled labor to that of a knowledge economy," said Ranjith Kumarasiri, an education specialist with the Ministry of Education. "This school is in line with that objective."

Witharanage Thilini Maduwanthi, a 16-year-old student at the school, is evidence of the benefits of the improved science lab and other facilities. She is an only child living with her parents, who are rice farmers. She is studying in the technology stream at the school and hopes to obtain a university degree in the future.

Witharanage Thilini
Maduwanthi,
a student at
the Hakmana
Methodist Central
College



Engineering is still a male-dominated field, but she is undeterred. She said she wants to work with the environment and help her country develop public works projects. Engineers hold a respected place in society and it would be a substantial achievement for her family if she were to pursue such a career, she said. "I am the only one who is there to support my parents when they grow old," she said. "A career in engineering will allow me to look after them."

Post-Conflict Assistance: Improving Lives

One of the areas that involves many aspects of assistance—including water, roads, energy, education, and other sectors—is support for the parts of the country affected by the conflict in Sri Lanka that ended in 2009. ADB has been active in working with the government to help these communities rebuild and revive the local economies.



An ADB-supported project improved the Vavunikulam reservoir.

In the Northern and Eastern Provinces affected by the conflict, economic activity has been rapidly increasing, growing at twice the rate of other provinces in the country. This translates into more jobs and income, and a return to normalcy for many.

Near the hard-hit town of Mullativu, the ADB-supported Conflict Affected Region Emergency Project (approved in 2010, funded by an OCR loan of \$150 million, and project closed in 2014) improved irrigation systems so that farmers who returned to work the land can earn more.

The project also reduced travel time by 30% and vehicle operating cost by 20% from 2009 levels in the road network in conflict-affected areas. It improved access to power supply to 750,000 people and provided reliable national grid power supply to about 800,000 people in the Northern Province. In the Northern and Eastern Provinces, 35,000 people gained access to safe drinking water, and 6,000 families restarted cultivation in 6,500 hectares of irrigated land in conflict-affected areas.

Tharmalingam Vasanthiradevi, a 64-year-old widow who farms three acres of rice paddies in the area, can remember when artillery shells would land on her property. Fighting raged in the areas around her farm, and sometimes spilled into the farm itself until it became so dangerous that she was forced to flee with her family in 2008.



Tharmalingam Vasanthiradevi returned home to rebuild her farm with the help of an ADB-supported project.

A farmer in
Sivapuram village



They loaded one truck of belongings, but abandoned it in the chaos, leaving them with nothing more than they could carry.

In 2010, when it was safe to return to the farm, the family had lost nearly everything and had to start from scratch. The government helped them obtain fertilizer and some farming equipment to begin planting again.

To support farmers in the area, ADB financed the improvement of an irrigation canal that was leaky and unreliable. The project lined the canal with concrete and allowed water from a nearby reservoir to flow easily and reliably to farms throughout the area.

“We can get water more easily now and cultivate more,” said Vasanthiradevi. “It is still difficult to farm due to droughts and flood, but the irrigation canal has made work easier.”

IMPROVING OPERATIONAL EFFECTIVENESS AND SERVICES

ADB and Sri Lanka are working together to adjust to the requirements of Sri Lanka's transition to a middle-income economy. Most of ADB's work in the last 40 years has been in helping the poor and very poor, but some of its members have reached middle-income status. This includes Sri Lanka which is in the process of transforming into a country that drives innovation and creates value based on knowledge rather than on providing laborers for factories.

ADB has knowledge and expertise in both infrastructure and social development. In Sri Lanka, ADB's country strategy emphasizes the development of science and technology in schools, and supports secondary and higher education to create globally competitive graduates.



Students in a newly renovated computer laboratory of the Hakmana Methodist Central College

Because Sri Lanka's booming economy is mainly powered by traditional fuel sources, ADB is working with the government to help make the transition to renewable and cleaner energy. This is a long-term effort where ADB is able to apply considerable expertise.

In addition to these broader challenges, ADB is working with the government at the operational level to prepare and deliver its projects faster and more efficiently. ADB maintains strict controls over procurement in its operations in all countries to reduce the risk of corruption.

ADB is also working with the government to carefully design projects that avoid procurement and funding delays. Based on the Midterm Review action plan of Strategy 2020, ADB reformed its procurement oversight system in 2014 to increase operational efficiency and flexibility. With these reforms, ADB's decision authority has become more decentralized. Where appropriate, national competitive bidding is adopted more than international competitive bidding. This reduces the required time and provides more opportunities to local industries. In close dialogue with governments, ADB will continue to improve the oversight system to deliver project outputs in time.

As of 1 July 2015, ADB approved a total of 194 loans (both sovereign and nonsovereign) to Sri Lanka, with cumulative lending of \$7.06 billion. ADB also provided \$358 million in grant assistance and \$127.78 million in technical assistance projects. ADB assistance supports the development of energy security, roads, education and training, the finance sector, and water supply and sanitation, including a renewed involvement in water resource management.

The active sovereign portfolio includes 50 ongoing loans and grants for 27 projects with a net loan amount of \$2.63 billion, with cumulative contract awards of \$1.56 billion and disbursements of \$1.07 billion. As of 31 December 2014, ADB has a 70% success rate for projects in Sri Lanka, based on an analysis of 40 project completion reports since 2007.

Some of the implementation issues that ADB and the government are focusing on in Sri Lanka include (i) ensuring project readiness by completing detailed designs and advance action for procurement to avoid initial startup delays, and (ii) training project management staff in contract administration and project management to strengthen their capacity in these aspects.

Through the successes and challenges of implementing projects, ADB has learned important lessons in Sri Lanka. Managing the public relationship is an important part of successful project management in the road sector, together with a combination of solid government ownership and strategic vision; the long-term partnership between the government, ADB, and other development partners; and the high level of advocacy of civil society groups. In education, sustainability of initiatives beyond the lifetime of the project rests heavily on the level of reinforcement provided by the line ministry. Lessons related to community engagement from the water sector include that (i) demand-driven and community-based development requires a flexible design to accommodate community preferences and (ii) enhancing community ownership requires that beneficiaries contribute cash and labor and give communities more responsibility for operations and maintenance. Careful assessment and due diligence need to be maintained in projects at all times, and close consultation with stakeholders is critical.

FUTURE CHALLENGES AND GOALS

Sri Lanka has moved beyond being a place to find low-cost labor to manufacture goods for export. The country achieved middle-income status in the mid-2000s and could become an upper middle-income country in a few years.

This steady march out of poverty puts Sri Lanka in an enviable position, but also creates challenges for the country. Sri Lanka can no longer compete as effectively with low-cost labor countries. Therefore, it must develop expertise, products, and services, and increase the productivity of workers to compete with the world's innovators in high-income countries.

If Sri Lanka is not able to adequately develop the expertise and innovation of its people and industries, it could be stuck in what economists call the “middle-income trap”—where the country breaks out of poverty but cannot move to the next level of prosperity.

For Sri Lanka to achieve a higher-income status, the country needs to invest heavily in physical and financial infrastructure as well as in the skills and education of its people. These two factors played an important role in other Asian nations to push them into upper middle- and high-income status. The Government of Sri Lanka recognizes this and is working to prioritize education, particularly science and technology; and at the same time building world-class highways, ports, telecommunications, and other infrastructure facilities resilient to disasters and climate change impacts.

An additional challenge is that Sri Lanka is vulnerable to extreme weather events such as floods and droughts. Climate change worsens the impact of these events. To address these challenges, the government is pursuing policies that support disaster risk management, climate change, and adaptation.

ADB's Interim Country Partnership Strategy (ICPS) for Sri Lanka (2015—2016) is an update of CPS 2012—2016, which is based on the same priorities, but includes agriculture and natural resources as a new sector. The current ICPS is based on three pillars: (i) inclusive and sustainable economic growth, (ii) catalyzing private investment and enhancing the effectiveness of public investment, and (iii) human resource and knowledge development. While the first pillar focuses on infrastructure, including roads, energy, and water supply; the second pillar supports private sector development. Under the third pillar the major focus is on improving the quality of education and developing skills with a focus on reducing gender disparities. The ICPS is closely aligned with the country's priorities and will continue to bring in expertise that will help Sri Lanka grow to become an upper middle-income country.

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Development Effectiveness Brief: Sri Lanka

Building on Success

Sri Lanka became a founding member of the Asian Development Bank (ADB) in 1966 and has since received \$6.9 billion in loans, \$358 million in grants, and \$130 million in technical assistance (as of 31 December 2015). Early assistance focused on agriculture then shifted to transport, energy, water supply, urban development, and education as the economy progressed. ADB has consistently promoted gender equality and social inclusion in development, and environmental safeguards and governance form part of all ADB-supported projects and programs in Sri Lanka. ADB continues to support Sri Lanka in new areas such as private sector development, knowledge solutions, and development of advanced infrastructure as the country transforms into an upper-middle-income country.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to the majority of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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