

# Country Policy Evaluation Study Case of Sri Lanka

## Summary Report

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### 1. Purpose of evaluation study and methods used

#### 1.1 Background and purpose of study

Japan's ODA—the core of its international contributions—ranks in the largest levels on a global scale, but recent domestic financial constraint require that this aid be implemented with greater efficiency and effectiveness. The role of evaluation becomes more important. The Ministry of Foreign Affairs (MOFA) has traditionally evaluated several projects in the target country. However, the demand for evaluations on ODA policies and programs has been increased in accordance with the involvement with sector wide or country wide development assistance in the international venue. The Government Policy Evaluation Act (GPEA) was executed in 2002. For these reasons, MOFA has started country specific evaluation of Japan's ODA policy in a targeted country, namely ODA country policy evaluation.

Given that the main purpose of ODA evaluation is to facilitate effective ODA management and ensure accountability to taxpayers, the two main purposes of this evaluation are as follows:

- i. To learn lessons and generate recommendations that will make Japan's future aid more effective and efficient;
- ii. To ensure transparency and accountability by publicizing this evaluation's results.

#### 1.2 Scope of Evaluation

MOFA has set Japan's aid policies in specific countries as the subject of the country evaluations. The study evaluates "ODA Country Policy for Sri Lanka," one of the most representative of Japan's aid policy. Sri Lanka was chosen because it is one of the major recipient countries of Japan's aid, and Japan is one of its principal donors. (since "ODA Country Policy" will be replaced to "Country Assistance Plan," results of this evaluation will be helpful in the future "Country Assistance Plan").

The study is ex-post evaluation and comprehensively evaluates the aid policy from three perspectives: basic idea, process and effect. Since it generally takes two to three years before the effect reveals, projects or programs executed from 1995 to 1999 were targeted for the evaluation.

### **1.3 Evaluation method**

The study adopted a comprehensive evaluation method, examining the subject in terms of its basic idea, process and effect. The "ODA Country Policy for Sri Lanka" was reviewed from these three perspectives as described below.

#### **(1) Basic Idea**

"Relevance" is an evaluation issue. The study verified whether the basic idea of "ODA Country Policy" is consistent with Japan's basic economic cooperation policies and the recipient country's needs.

#### **(2) Process**

"Appropriateness" and "efficiency" are evaluation issues. The evaluation verified whether the staff and organizations participating in the policy planning and implementation processes were appropriate, whether a process was adopted in a way that needs of Japan and Sri Lanka are reflected and whether there was any duplication of process.

#### **(3) Effect**

"Effectiveness" and "impact" are evaluation issues. Trends in Sri Lanka's macroeconomic indicators are analyzed, both nationwide and by sector. However, the study does not examine to what extent Japan's ODA contributes to Sri Lanka's macro economy, because there is no well-established method for that.

This study was implemented by consultants, with the supervision of academics and cooperation from concerned organizations (MOFA, JICA and JBIC) to ensure objectivity and accuracy. To properly understand the idea and process of "ODA Country Policy," documents were collected with the cooperation of the Sri Lankan government, MOFA, JICA and JBIC, and interviews were conducted to get more information in lieu of needed documents. However, this study faced several limitations since it was not possible to clarify all past situation and the study had to rely on information currently available.

## **2. Macro economic trends in Sri Lanka during targeted evaluation period**

Although Sri Lanka was suffering from ethnic warfare during the second half of the 1990s, the country's macroeconomic indicators improved.

- The GDP growth rate was about 5%. From 1995 to 1999 the unemployment rate fell from 12.3% to 8.9% and the inflation rate fell from 7.7% to 4.7%, with some fluctuation.
- The current account deficit fell from 6% to 3.6% of GDP, and the fiscal deficit fell from 10.1% to 7.5% of GDP. The balance of foreign debt was reduced from 75% to 63.5% of GDP, and the debt service ratio remained high, although it fell from 16.5% to 15.2%.

The industrial structure can be characterized as follows:

- While the share of agricultural, forestry and fishery industries against the GDP fell from 23% to 20.7% and against exports fell from 21.8% to 20.5%, these industries continue to account for a significant proportion of employment, at 36.7% in 1995 and 36.3% in 1999.
- In the same period, manufacturing's growth rate went from 4.4% to 9.1%, its proportion was increasing from 15.7% to 16.4% against the GDP and from 75.4% to 77.0% against exports. However, compared to ASEAN countries, manufacturing against the GDP is still low.

The Sri Lankan government's development plan prioritized the "acceleration of economic growth" and "the equitable distribution of the benefits of growth" as its overall goal during this period, with four principal policies: (i) the promotion of growth led by the private sector, (ii) reform and rationalization of the public sector, (iii) stabilization of the macro-economy and (iv) welfare for the poorest groups. As evidenced by its generous welfare policy of providing free education until college, Sri Lanka's economic and social policies still retain some remnants of socialism. However, the government made significant efforts during this period to reform the economic structure, including administrative reform and appears to be gradually shrinking the government's role in society.

- Public companies were privatized and the number of public officials was reduced.
- Government subsidies were cut, including fertilizer subsidies.
- Government emphasized private sector-driven growth and the increase of foreign investment to adjust to the global economy and liberalization.

However, the government's role in providing economic infrastructure continues to be large—even with the inclusion of the private sector and greater privatization—until the private sector is fully involved in the areas such as regional transportation. This will be necessary to ensure equality. Other key policies are reconstruction and development for the war-torn north and eastern region and development in the southern region, where much of the poor population is concentrated.

Other important issues, by sector, are as follows:

- Improve agricultural production and income. Diversify and modernize industries that focus on textiles and others
- Nurture small to medium-sized companies and promote regional industrialization
- Alleviate regional disparities in education and medicine and improve their quality
- Increase education levels to meet labor market's demands
- Upgrade living standards and protect the environment

### **3. Evaluation**

#### **3-1 Basic perspective of aid policies**

Relevance will be used to evaluate the basic idea of "ODA Country Policy." The ideas of "ODA Country Policy for Sri Lanka" are reorganized systematically on an illustrated figure and are then reviewed to determine whether they are consistent with Japan's general ODA policy and Sri Lanka's expressed needs (in its main development plans).

##### **(1) Consistency with the ODA charter**

The goal of "ODA Country Policy" is economic development, with a focus on the development of economic infrastructure, human resources and basic needs of living. In this respect, it is consistent with the priorities of the ODA Charter. The basic doctrine of the ODA Charter includes paying attention to trends in military expenditures and basic human rights in recipient countries. The "situation regarding the ODA charter" in "ODA Country Policy" refers that it will continue to monitor the human rights situations following the wartime transfer of systems and temporary suspension of development expenditures. In this respect as well, the Country Policy is consistent with the ODA Charter and its relevance is high.

##### **(2) Consistency with Medium-term ODA Policies**

The overall policy goal and priority sectors in the "ODA Country Policy" are generally consistent with the basic concepts, priority issues and region-specific assistance methods in the Medium-term ODA Policy. However, mining and industrial development are not priorities in the Medium-term ODA Policies. Further, in "ODA Country Policy" to improve health and medical systems, the emphasis is on upgrading state and regional base hospitals, providing diagnostic and medical equipment, and providing training for diagnostic technicians and nurses. There are no inconsistencies with training health sector personnel, but there are some discrepancies between "ODA Country Policy" which emphasizes strengthening medical services at hospitals, and Medium-term ODA Policy, which prioritizes prevention and access to basic health services. There is room for improvement here.

##### **(3) Consistency with needs and priorities in Sri Lanka's development plan**

The six priority sectors of "ODA Country Policy" are consistent with the priority sectors described in Sri Lanka's public investment plan at that time (fostering regional hubs for ports, agriculture, industry, infrastructure, education, health and the environment). However, the goal of "ODA Country Policy" to improve basic food self-sufficiency has ambiguity about its consistency since Sri Lanka achieved self-sufficiency in rice in the mid 1980s. This area also has room for improvement.

### **3-2 Process of aid policies**

The i) process in which policies are formulated and reviewed and ii) the process by which policies are implemented in "ODA Country Policy" are reviewed in terms of appropriateness and efficiency. Using information from documents and interviews, a flow chart is prepared to better understand the process of "ODA Country Policy." The "implementation process of aid policies" is the process in which those policies are reflected on formulating work policies, plans and implementing projects of JICA and JBIC (at that time, OECF).

#### **(1) Appropriateness of policy formulating process**

The appropriateness of the policy formulation process is examined in terms of 1) the appropriateness of the organizations involved, 2) reflection of needs from the organizations involved and the recipient country, and response to changes in those needs, and 3) considerations of sustainability of the recipient country.

##### **1) Appropriateness of organizations involved in establishing policies**

In drafting "ODA Country Policy," MOFA, the Embassy of Japan, JICA and JBIC headquarters and their local offices hold discussions. Also, Japanese government discuss with the recipient country's government on priority sectors and project ideas in annual policy discussions and other venues. However, interviews have revealed a general consensus that NGOs and the private sector were not consulted on "ODA Country Policy," rather, policy was formulated by the Sri Lankan government, MOFA, JICA and JBIC. Accordingly, in this process, there remains room for setting a wider range of opinions.

##### **2) Reflection of needs from the organizations involved and recipient country, and response to changes in those needs**

###### *A) Reflecting needs*

In the process of setting "ODA Country Policy," detailed studies are conducted to determine Sri Lanka's development needs. For example, the Sri Lankan Government consults the Comprehensive Economic Cooperation Study Mission of Japan. Further, since this process ensures that each party's needs are considered, the appropriateness of policies is enhanced.

### *B) Response to change in needs*

Changes and additions were made to sub-sectors in "ODA Country Policy" in response to changes in Sri Lanka's macroeconomic indicators and needs. This demonstrates that the process ensures changing needs are reflected in policy. However, ODA stakeholders at that time stated that it was difficult to change priority sectors and the level of priority. This suggests that a review process and new criteria should be set to ensure a flexible response to Sri Lanka's needs.

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#### 3) Consideration of recipient country's sustainability

Consideration of recipient country's sustainability is ensured through country study for Japan's ODA and annual policy dialogues, as well as through the evaluation of Sri Lanka's aid recipient system in the country survey sheet prepared during the preparation stage of "ODA Country Policy." However, "ODA Country Policy" itself does not refer to sustainability, and should indeed be included to reflect the importance of sustainability.

## **(2) Appropriateness of policy implementation process**

Appropriateness is examined in terms of whether processes are adopted to ensure that "ODA Country Policy" reflects the implementing agency's work policies and plans, and the extent to which they are reflected in project implementation.

#### 1) Reflection on implementing agency's work policy and plans

This study showed that JICA and JBIC discuss with the Embassy of Japan in the process of establishing their aid policies, in which "ODA Country Policy" is reflected. However, there were some cases in which the overall goal of "ODA Country Policy" and those of the implementing agencies were different. Of course, "ODA Country Policy" can be flexibly utilized, but the difference of policies between government and agencies could cause obscurity of overall goals in Japan's ODA policy. Accordingly, this should be improved. For example, the overall goal of the JICA 1996 project implementation plan were "to promote sustainable economic growth," "to reduce poverty by creating jobs," "to alleviate disparities between regions," and "to improve living standards." The plan includes purposes other than just economic growth, which is the overall goal of "ODA Country Policy."

#### 2) Reflection on the process of formulating and implementing projects

Reorganizing the aid projects completed during 1995-99 shows that almost all the projects fit into the sub-sectors of "ODA Country Policy." It can be said that "ODA Country

Policy” is appropriately reflected. However, the project to revitalize the agro industry--included in the agricultural sector of “ODA Country Policy”--was not implemented. This study was not able to ascertain whether this was due to the absence of any request for it, or whether there was a request but the project was not ready. In either case, however, a revision should be made to “ODA Country Policy.” This is an area requiring improvement.

### **(3) Efficiency of formulating process**

The efficiency of the process of establishing “ODA Country Policy” is reviewed here for any duplication of process and time efficiency. Overlap is considered in terms of the relationship with the recipient country, the implementing agencies, and other donors.

#### **1) Overlap**

“ODA Country Policy” is formulated by following a process in which Embassy of Japan prepares the draft and MOFA discusses it with implementing agencies and other stakeholders, before decisions are made. Any overlaps, such as duplicate discussions with recipient countries, were not found here. There is also organic cooperation with the implementing agencies, such as the use of the agencies’ research results in setting “ODA Country Policy.” Efforts are also made to avoid overlap in the exchange of opinions with donors. This process is generally deemed to be efficient.

#### **2) Swiftness**

“ODA Country Policy” was set for two years in total although there was a break and subsequently reviewed on a yearly basis. Therefore, there was no delay, and the establishment and review of “ODA Country Policy” was generally efficient.

### **(4) Efficiency of implementation process**

Here, the efficiency of the process in which “ODA Country Policy” is implemented is reviewed in terms of 1) the swiftness with which it is integrated in an implementing agency’s aid policies and plans, as well as its project planning and implementation, and 2) the existence of cooperation or coordination with other organizations and institutions.

#### **1) Swiftness with which implementing agencies integrate “ODA Country Policy” in assistance policy and plans, as well as project planning and implementation.**

This study attempted to examine the consistency of the implementing agency’s aid policy and plans, as well as project planning with priority sectors in “ODA Country Policy.” It was concluded that there was no difficulty in maintaining this consistency and that it was done quickly.

However, some interviews indicated that the process between project formulation and implementation was long. They suggested possible reasons of the delay in describing that

the Embassy of Japan and local offices of the implementing institutions had little discretion and need to ask headquarters for instructions. They also pointed out significant delays in the Sri Lankan government's domestic approval procedures. Japan and Sri Lanka held discussions to address these problems, but local staff should be augmented and the quality of project screening and decision-making ensured, since the authority of Japan's local offices is not greater compared to other donors.

## 2) Cooperation and coordination with each organization and institution

Exchanges of ideas between the Embassy of Japan, JICA offices and JBIC offices were active at that time. There were many examples of cooperation for more efficient ODA between JICA and JBIC on development studies, yen loans and dispatches of experts and JOCV. In this area, they achieved efficiency.

Coordination and cooperation with other donors, development forums, working group conferences by sector, and cooperative financing projects through JBIC and ADB were implemented—also an evidence of efficiency.

## 3-3 Effect of aid policies

Aid policies were evaluated in terms of "effectiveness" and "impact." However, "ODA Country Policy" did not set targets or establish indicators, and it was difficult to analyze effectiveness (the extent to which the goals are achieved) quantitatively. The study examined the results of aid policies by following trends in major economic indicators and clarifying external factors. It was also difficult to analyze "impact" quantitatively, so the study examined any influence that "ODA Country Policy" could have had on Sri Lanka's development policies and Japan's ODA overall policies. It is also important to analyze the extent of Japan's contribution and the outcome evaluation (which evaluates the effect of assistance). However, these methods were not adopted, due to validity of the model and difficulties in analyzing the study in a short time.

### (1) Effectiveness

Changes in major indicators during the targeted evaluation period are as follows:

- External factors such as aggravated terrorist activities by LTTE and increasing military expenditures made an influence during the targeted period. However, economic development was stable, with the GDP growth rate in the 5% range, increasing trade, and a fall in the ratio of foreign debt to GDP, the inflation and unemployment rates.
- Improvements and upgrading of the economic and social infrastructure helped increase the volume of cargo at ports, the number of fixed telecommunications lines, the number of mobile phones and the number of people receiving electricity.
- There were increases in production in the mining industry, exports, added value, volume of exports in the agriculture, forestry and fishery industry, education, the number of university entrants, and the number of health and medical hospitals.



- Although the agricultural sector was affected by drought in 1996, there was almost no change in the rice crop per acre—a key indicator of productivity.

## **(2) Impact**

- Although the study attempted to determine if “ODA Country Policy” might have had an impact on the overall policies of economic cooperation (ODA Charter and Medium-term ODA Policies) and the Sri Lankan government’s development measures and system development, no clear impact could be identified.

## **4. Recommendations on future aid policies**

Considering the above evaluation results, the recommendations described below would improve future country assistance policies. It was decided that the “Country Assistance Plan” would take over the role of “ODA Country Policy,” and these recommendations will likely be utilized in future “Country Assistance Plans.”

### **(1) Clarify the role of “ODA Country Policy,” in relation with ODA Charter and Mid-term ODA Policies, and criteria in formulating “ODA Country Policy”**

To ensure consistency between “ODA Country Policy,” Japan’s overall ODA policies and the recipient country’s needs, the role of “ODA Country Policy” in Japan’s overall country assistance policies should be clarified, and criteria should be considered in formulating “ODA Country Policy” including prioritization of the criteria.

### **(2) Promote and maintain a wider range of opinions**

A wider range of opinions should be included to establish more transparent, open and effective ODA.

### **(3) Clarify the role of “ODA Country Policy” and implementing agency’s assistance policies**

To clarify the prior goal of Japan’s aid policies, the roles of “ODA Country Policy” and the implementing agency’s aid policies should be clarified. For example, if “ODA Country Policy” is positioned above the implementing agency’s aid plan, and it is clearly confirmed, the overall goals of the “ODA Country Policy” will be reflected in the implementing agency’s aid policies and plans.

### **(4) Systematize the goals of “ODA Country Policy”**

The substance of “ODA Country Policy” should be more specific to ensure its implementation. For example, goals for priority sectors and sub-sectors are clearly set with indicators that measure the extent to which aid policy is achieved (quantitative and qualitative indicators). If, in

addition, methodology and priorities that would help achieve the development purpose were described in greater detail, the projects could be designed based on the stakeholder's common understanding. All of this would contribute to more efficient aid and more proper implementation of "ODA Country Policy."

**(5) Clarify review process of "ODA Country Policy" and establishing criteria for it**

A specific review process and criteria should be established to enhance the effectiveness of aid through responding flexibly to changes in Sri Lanka's needs and Japan's aid policies.

**(6) Execute evaluation of "ODA Country Policy"**

To ensure effective implementation of "ODA Country Policy," its progress should be regularly measured and evaluated. This will make aid more transparent to Japanese people and others.

**(7) Improve content of "ODA Country Policy"**

To upgrade the content of "ODA Country Policy," it should include the recipient country's administrative measures (the necessity of coordination with related ministries and agencies) and notes on the experiences of implementing agencies and experts, as well as descriptions of methods that would boost the sustainability in the implementation process.