

**ASIAN DEVELOPMENT BANK
Post-Evaluation Office**

COUNTRY SYNTHESIS OF POSTEVALUATION FINDINGS

IN

SRI LANKA

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EXECUTIVE SUMMARY

The 1996 Country Synthesis of Postevaluation Findings for Sri Lanka is a report integrating the major findings and lessons learned from the implementation of completed Bank-assisted projects in the country as presented in the respective projects' Project Performance Audit Reports and Project Completion Reports. The report aims to encapsulate and analyze the key factors affecting the implementation and operation of Bank-financed projects so that the lessons learned can be used to improve the design, implementation, and operation of future development projects.

The report highlights the Bank's operations in Sri Lanka as of 31 December 1996. This involves the approval of 78 loans amounting to \$1,822.4 million to finance or co-finance 73 projects. Almost all the loan funds were drawn from the Asian Development Fund with less than 1 percent of total Bank lending drawn from the ordinary capital resources. As such, Sri Lanka ranks tenth in terms of total Bank lending, and third highest with respect to Bank lending from the Asian Development Fund. The sectoral distribution of the Bank's assistance to Sri Lanka in terms of loan amounts consists of: agriculture and agro-industry, 40.9 percent; finance, 18.3 percent; energy, 14.6 percent; social infrastructure, 14.5 percent; transport and communications, 10.5 percent; and the combined assistance for one multisector, one non-fuel mineral, and one private sector project, 1.2 percent.

The report provides a sectoral/subsectoral presentation of the major findings and lessons learned from postevaluated and recently completed projects. It includes (i) an analysis of implementation delays; (ii) an analysis of deviations between appraisal and actual project costs (excluding development finance institution projects); (iii) an analysis of performance ratings of postevaluated projects; (iv) an analysis of major findings and lessons learned; and (v) a Conclusions section which attempts to link the major lessons learned with the current development issues and concerns in Sri Lanka. The report covers 42 completed projects, 26 of which have been postevaluated.

Except for one finance project, all the other postevaluated projects experienced implementation delays averaging 2.7 years or 65.5 percent behind the original completion period. Meanwhile, of the 16 non-postevaluated activities, one program was completed as scheduled while all others posted delays. The delays were primarily attributed to (i) changes in project scope, (ii) procurement problems, (iii) late fielding of consultants, (iv) shortage of counterpart funds, (v) poor performance of consultants and contractors, (vi) institutional weaknesses of executing agencies (EAs), and (vii) deteriorating security condition.

A majority of the postevaluated and non-postevaluated projects had cost underruns averaging 35 percent and 26 percent, respectively. The cost underruns were mainly due to reductions in project scope, overestimated project costs and contingencies at appraisal, and local currency fluctuations. Cost overruns for the rest of the projects averaged 52 percent in postevaluated projects, and 66 percent in non-postevaluated projects. The cost overruns were attributed to price escalation due to implementation delays, expanded project scope, and underestimated costs and contingencies at appraisal.

Of the 26 postevaluated projects, 11 projects and one program loan (46 percent) were considered generally successful, 10 projects and one program loan (42 percent) were rated

partly successful, and 3 projects (12 percent) were assessed as unsuccessful. Of the 16 non-postevaluated projects, 4 were not rated.¹ Seven projects representing 44 percent in number were rated generally successful, 4 projects or 25 percent were rated as partly successful, and one project was rated as unsuccessful. Projects in the energy and finance sectors performed best, while the weakest performance was from the agriculture and agro-industry sector which had most projects rated as partly successful or unsuccessful.

The study identified the most important success factors in the implementation of Bank-assisted projects among which were: (i) adequate preparatory studies during project formulation; (ii) institutional and management capabilities of the EA; (iii) significant consultant inputs to technical and institutional development; (iv) adoption of tested implementation mechanisms (e.g., for credit project); (v) beneficiary consultation and participation in project planning, design, and implementation; (vi) continuous policy dialogues and changes in macro policy environment; (vii) use of an imprest account to provide the necessary flexibility in implementation; and (viii) Bank's close involvement with the projects. Meanwhile, the major shortcomings experienced by the partly successful or unsuccessful projects stemmed from (i) poor project design; (ii) weak implementation arrangements; (iii) uncertain sustainability; (iv) declining international prices; (v) inadequate or delayed local counterpart resources; (vi) poor performance of consultants, contractors, and suppliers; (vii) institutional and project management weaknesses of EAs and implementing agencies; (viii) changes in the socioeconomic environment; and (ix) civil disturbances.

The study has identified major lessons that best correspond to the specific operational program focus of the Bank. The lessons which are common in the country include the following:

- (i) As project outcomes are highly influenced by economic policy, it is important that the policy environment be assessed during project formulation and that the impacts of policies and policy changes be considered throughout the project life. Additionally, there should be continuing policy dialogues focused on obtaining and sustaining Government commitment and on minimizing distortions and constraints in sectoral policies.
- (ii) Projects that involve new design options and technological changes would benefit from the use of the pilot project approach, as in the case of the fisheries, forestry, and land use planning projects. Another important lesson is that projects need to be process-oriented, and require an appropriate level of design flexibility to ensure that inputs and outputs remain optimal over the entire implementation period. This would be facilitated by mounting Bank monitoring and review missions at appropriate intervals.
- (iii) Beneficiary involvement during project preparation and implementation is critical to project success. This was highlighted in the coconut development project, and forestry sector project.
- (iv) For meaningful performance assessment, it is important that benefit monitoring mechanisms be considered and set up during project formulation.

¹ Rating of completed projects in the PCR was only made mandatory in 1995.

- (v) The performance and outcome of the Bank's completed projects were found to largely hinge on the capability and readiness of the respective EAs to take on project implementation and operation responsibilities. Thus, it is important that an in-depth assessment of the capabilities of EAs be made during project formulation.
- (vi) For emergency assistance projects, it is important to strike a balance between restoration and betterment, and between providing quick assistance and maintaining quality control standards.

On a sectoral basis, the following were some major lessons learned from all the completed projects:

- (i) There is a need to look beyond the immediate framework surrounding agriculture projects, including the macroeconomic policy environment, market conditions, and ecological implications in order to take into account their respective impacts on project performance and outcomes. Projects aimed at increasing private sector participation in the sector, e.g. in fisheries and industrial crops, would benefit more if the Government functions as a facilitator instead of actually participating in the production process.
- (ii) Projects aimed at reforming the finance sector would need to stimulate competition, reduce intermediation costs, and induce innovation; introduce new financial instruments to improve the finance sector's ability to sustain the expansion of the private sector; and promote the establishment of market mechanisms in the provision of credit for private sector investments.
- (iii) In formulating education projects, there is a need to focus on upgrading the skills of the labor force and addressing the mismatch between availability and requirements; increasing the utilization of facilities and equipment; providing adequate funds for operation and maintenance to enhance sustainability; and providing adequate staffing particularly in technical schools. Developing the management skills of agencies directly handling the implementation of Bank-financed education projects should be a priority, as well as ensuring institutional compatibility and timely provision of budgetary and staffing resources. Finally, the development of specific progress and performance indicators for assessing internal and external efficiencies of education projects, and the urgency of developing a national policy and detailed short- and medium-term plans on skilled manpower training should be primary concerns for the Bank.
- (iv) Projects in the health sector would benefit from an in-depth analysis of sectoral issues prior to project formulation; also, measures to ensure the availability of a sufficient budget for operations and maintenance.

The Bank's 1996 Country Programming Mission to Sri Lanka identified unemployment and poverty as the main developmental concerns in Sri Lanka at present. It noted, however, that in the short term, the resolution of the civil war is the issue of paramount importance. In the medium term, the Bank's operational strategy towards a reduction in unemployment and poverty includes: (i) acceleration of the rate of economic growth; (ii) improvement of access of the poor and underprivileged to productive assets; and (iii) protection or improvement of the environment. These strategies are embodied in the Bank's operational

program for Sri Lanka for the period 1996-1999 which provides for: (i) promoting sound macroeconomic policies in order to improve domestic resource mobilization and provide an attractive climate for domestic and foreign investments; (ii) deregulating the economy, reforming the financial sector, promoting export-oriented industries, and encouraging a more productive agriculture sector; (iii) rationalizing public sector enterprises to free resources for private sector growth; (iv) upgrading the skills of the labor force and addressing the mismatch between availability and requirements; (v) improving the physical infrastructure; and (vi) ensuring environmentally-sensitive development and contributing to environmental improvement.

I. INTRODUCTION

1. The main objective of the Country Synthesis of Postevaluation Findings (CSPF) for Sri Lanka is to encapsulate and analyze the key factors affecting the implementation and operation of Bank-financed projects¹ so that the lessons learned can be used to improve the design, implementation, and operation of future development projects. The CSPF is based primarily on the review of the findings of postevaluation reports prepared by the Post-Evaluation Office (PEO), including Project/Program Performance Audit Reports (PPARs), Impact Evaluation Studies, and Country Special Studies (Appendix 1). It also takes into account the information and data stored in the PEO's Postevaluation Information System, including the Abstracts of Postevaluation Findings. To capture important lessons learned from completed Bank-assisted projects not yet postevaluated by PEO, the Project Completion Reports (PCRs) of such projects are also reviewed (Appendix 2). The major findings and lessons learned provided in these PCRs are likewise analyzed and integrated in the CSPF.

II. BANK OPERATIONS IN SRI LANKA

2. The Bank began lending to Sri Lanka in 1968 with a loan of \$2.0 million for the First Modernization of Tea Factories Project. Since then, financing has been provided for projects in a range of subsectors in the fields of agriculture and agro-industry, energy, non-fuel minerals, finance, transport and communications, and social infrastructure. As of 31 December 1996, the Bank had provided 78 loans to Sri Lanka (including one loan to the private sector without Government guarantee) for 73 projects amounting to \$1,822.4 million (Appendix 3). The bulk of the Bank's lending to Sri Lanka had been mostly from the Asian Development Fund resources with only six loans amounting to \$14.1 million from the ordinary capital resources. With these figures, Sri Lanka ranks tenth in terms of total Bank lending, and third highest in terms of Bank lending from the Asian Development Fund. The agriculture and agro-industry sector accounted for 40.9 percent of total lending, with agricultural support services being the main recipient of Bank funds. The finance sector ranked second in proportionate share of Bank lending at 18.4 percent, the bulk of which was provided to development finance institutions (DFIs). The energy sector (primarily focused on electric power) and the social infrastructure sector (mainly focused on education) received almost equal amounts of assistance from Bank funds at 14.6 percent and 14.5 percent, respectively. Some 10.6 percent were channeled to the transport and communications sector, mostly for road projects. A very small proportion (1.2 percent) consisted of a multisector project, a non-fuel mineral project, and a private sector loan. As of 31 December 1996, the Bank had approved \$42.5 million worth of technical assistance (TA) to Sri Lanka. Thirty-seven percent financed 63 project preparatory TAs, 62 percent funded 84 advisory and operational TAs, and 1 percent financed one TA project for both purposes, for a total of 148 TA projects.

3. Of the 73 projects financed by the Bank in Sri Lanka, 42 have been completed and 26 have been postevaluated by PEO with PPARs as of 31 December 1996 (Appendix 1). The 26 postevaluated projects (including two program loans) were approved between 1968 and 1989 and completed during the period 1971-1992. These projects were from the agriculture and agro-industry sector (16 projects including two program loans, or 62 percent); the energy sector (4

¹ Unless otherwise stated, Bank projects and programs will be collectively referred to as "projects".

projects or 15 percent); the finance sector (3 projects or 11 percent); and the industry and non-fuel minerals, transport and communications, and social infrastructure sectors (1 project each or 4 percent each). The 16 non-postevaluated completed projects were approved between 1977 and 1991 and were completed during the period 1987-1996 (Appendix 2). The sectoral distribution of these projects were as follows: agriculture and agro-industry, five projects; finance, four projects and one program; transport and communications, three projects; education, two projects; and energy, one project. The postevaluated projects involved a total investment cost of \$887.7 million including Bank financing amounting to \$389.2 million or 44 percent of total investment. For the non-postevaluated completed projects, the total investment amounted to \$324.6 million (excluding Bank investment in finance projects) with Bank financing amounting to \$391.89 million (including Bank investment in finance projects).

III. MAJOR FINDINGS AND LESSONS LEARNED

4. This section examines the issues and overall impact of the postevaluated projects by sector and presents the lessons learned. A summary of postevaluation as of 31 December 1996 is given in Appendix 4. The major results and lessons learned from projects which have been completed but not postevaluated are also summarized (Appendix 5).

A. Agriculture and Agro-Industry

5. The 16 postevaluated projects (including two program loans) in this sector have an aggregate capital cost of \$731.5 million, inclusive of \$301.7 million in Bank financing. They comprised one project and one program loan in the irrigation and rural development subsector, six industrial crops and agro-industry projects, three fisheries projects, one project and one program loan in agricultural support services, and one project each in the areas of livestock, forestry, and fertilizer production. Of these, three were found generally successful, ten as partly successful, and three as unsuccessful.

6. In addition, five projects under the sector were completed but have not been postevaluated. Four were in the irrigation and rural development subsector, while one was in the agricultural support services subsector. Although project rating in the PCR was only made mandatory in 1995, only one of the completed projects was not rated. Of the remaining four, one was rated generally successful, two were partly successful, and one was rated unsuccessful.

7. All the completed projects in the sector suffered implementation delays. An analysis of the delays according to subsector and postevaluation status is shown in Table 1. The major causes of delays were late compliance with conditions prior to loan effectiveness; deficient designs; late fielding of consultants; poor performance of contractors; equipment breakdowns and shortage of construction materials; weak management; deteriorating security conditions and labor disputes; slow provision of counterpart funds; unfamiliarity of executing agencies (EAs) with the Bank's procedures; and changes in the Government's social and economic policies.

8. Six projects (five with PPAR and one without PPAR) have cost overruns ranging from 26.2 to 161.6 percent or an average of 49.1 percent. The rest had cost underruns averaging at 35.2 percent. Cost underruns are more common in agriculture projects because they have a higher local cost component which are normally disbursed in the local currency that had been experiencing a sharp and steady decline against the dollar. Other causes of cost underrun are

overestimation of costs and contingencies at appraisal; the considerable changes in project scope; and implementation delays.

Table 1. Implementation Delays

Subsector	Average Actual Implementation Period (no. of years)			Average Delay					
	P ¹	NP ²	All	No. of Years		Percent			
				P	NP	All	P	NP	All
Irrigation & Rural Dev.	6.7	9.6	8.6	4.3	4.3	4.3	158.8	80.6	98.2
Ind. Crops & Agro-Ind.	7.6	n.a. ³	7.6	2.5	n.a.	2.5	49.8	n.a.	49.8
Fisheries	7.9	n.a.	7.9	3.1	n.a.	3.2	66.5	n.a.	66.5
Livestock	8.6	n.a.	8.6	2.5	n.a.	2.5	40.8	n.a.	40.8
Forestry	9.0	n.a.	9.0	3.0	n.a.	3.0	50.3	n.a.	50.3
Agri. Support Services	4.0	8.0	5.3	1.8	3.0	2.2	81.9	60.4	70.5
Fertilizer Prod'n	5.7	n.a.	5.7	3.3	n.a.	3.3	133.7	n.a.	133.7
OVERALL	7.1	9.3	7.6	2.8	4.0	3.1	66.5	76.8	69.3

¹ P = Projects which have been completed and postevaluated.

² NP = Projects which were completed but have not been postevaluated.

³ n.a. = not applicable.

1. Irrigation and Rural Development

9. The agricultural development project and the program¹ for rationalization of fertilizer use postevaluated in this subsector involved a combined cost of \$86.9 million inclusive of Bank financing of \$41 million. The four Bank-assisted projects in the irrigation and rural development subsector which have not been postevaluated had a combined investment cost of \$151.8 million, including Bank assistance of \$69.9 million.

10. The first postevaluated Bank Project in the subsector aimed to increase production of rice and high-value cash crops through the improvement/provision of irrigation facilities, develop land for settlement, and provide facilities for community and agricultural development in the Walawe area. Project implementation was delayed by seven years due to incomplete designs, slow procurement, lack of local funds, the political upheaval in 1971, and ineffective implementation by the EA. At postevaluation it was found that the prevailing irrigation system was not improved as envisaged due to inadequate design and project preparation and was not providing adequate water to the service area. This resulted in lower rate of cropping intensities and yields. As such, the PPAR rated the Project as partly successful. It also concluded that the Project was not likely to realize the long-term objectives unless the irrigation system was improved and rehabilitated.

11. The postevaluated Program loan, which was the Bank's first for Sri Lanka's agriculture sector, was essentially a fertilizer import facility designed to support the balance of payments, stabilize paddy yields, and facilitate implementation of specific policy reform measures which included, among others, the elimination of price subsidies by 1990. The PPAR indicated

¹ Loan No. 820-SRI(SF): *Agricultural Inputs Program Loan*, for \$29 million, approved on 16 December 1986.

that the contribution made by the loan to these goals was not substantial, except for the early phase-out of the fertilizer subsidy, which was its main achievement. As such, the loan was assessed as partly successful. The weakened impact of the Program loan was attributed to such factors as weaknesses in the choice of policy content and in implementation arrangements, lack of well-defined policy commitments, the inclusion of irrigation and consequent loss of focus on fertilizer industry reform, and the lack of Bank follow-up and involvement.

12. Of the four non-postevaluated completed projects in the subsector, one project was rated generally successful, two projects were rated as partly successful, and one was not rated in the PCRs. The generally successful rating of the most recently completed Walawe Irrigation Improvement Project was mainly attributed to the attainment of the Project's benefits as appraised and their potential sustainability. This was supported by the adequate and equitable supply of irrigation water throughout the Project area combined with improved water management at the field level. These benefits were equated with the increase in the irrigated cropping area, cropping intensity, and crop diversification. The Kirindi Oya Irrigation Project Phases I and II that took about 18 years to be completed were rated partly successful.

13. The Projects' performance suffered a number of problems and defects, among which were: (i) ambitious project design; (ii) high expectations created among farmers which were not met; (iii) lack of continuous monitoring; (iv) low rainfall level and severe drought which adversely affected water availability in the reservoir; and (v) prolonged implementation period. The Anuradhapura Dry Zone Agriculture Project, although not categorically rated, was considered poorly implemented. The factors which contributed to the Project's poor performance were: (i) deficiencies in project preparation; (ii) deficiencies in implementation arrangements; (iii) EA's inadequate institutional capability in managing integrated rural development type of project; and (iv) the devolution of many field level responsibilities from national institutions to inexperienced and poorly equipped provincial councils.

14. Experience from the above projects underscored the following: (i) the need to include a pilot stage into the project design to ensure that the introduction of technological changes is correctly understood and accepted by farmers; (ii) the need to improve project design particularly in terms of a thorough examination of the project site and potential water resource, and sociological aspects associated with the settlement component; (iii) the importance of beneficiary participation in planning, design, and implementation; (iv) the need to establish and empower farmer organizations through training and orientation on specific project objectives and desired project outputs; (v) the need to conduct a critical review of tested alternative implementation arrangements, as well as a detailed survey of the institutional capability of prospective EAs; and (vi) that minimum political influence in resource allocation decisions would improve project implementation, particularly if decisions were based on sound technical analyses and socioeconomic factors. In program loans, the key issues identified at postevaluation were: (i) the need for thorough preparation of the policy base, which may include involvement in comprehensive sector work; (ii) the preferability of simple over multiple targets for economy and effectiveness; (iii) the need for analytical presentation of goals at appraisal; and (iv) the need for more attention to be given to implementing agency arrangements whenever policy work is coordinated by *ad hoc* program entities.

2. Industrial Crops and Agro-Industry

15. Of the six Bank-assisted projects in the subsector that have been postevaluated, two projects were for the development of the tea industry, two for sugar, one for coconut, and one for a plantation sector. The combined total investment cost of these projects amounted to \$319.4 million, including Bank financing of \$105.9 million.

16. The First Modernization of Tea Factories Project, which involved the provision of credit to help tea manufacturers modernize their factories, and the Plantation Sector Project, which aimed to reverse the decline in the country's production of tea, rubber, and coconut, were both considered generally successful. The former succeeded in improving the quality of tea, reducing manufacturing costs, and expanding credit availability, though it did not lead to a significant expansion in the national production. The latter succeeded in overachievement of physical targets in terms of facilities created, field development undertaken, and in the number of facilities rehabilitated. But its objective of reversing the decline in production is yet to be realized and would be dependent on two critical factors: (i) the long-term security of the transfer of estates to the private sector; and (ii) a favorable output-to-input ratio for tea, rubber, and coconut.

17. Three crop-specific projects which were aimed at rehabilitating the Sri Lanka sugar corporation's sugar plantation and factory, improving coconut production and processing, and enhancing the productivity of tea lands and the quality of processed tea, were rated partly successful in achieving their objectives. The PPARs cited inadequate maintenance and shortage of qualified personnel, inadequate technical and managerial capability of the EA, uncertain sustainability, and declining international prices as the major limiting factors to project success. Another sugar project, the Sevanagala Sugar Development Project, which aimed at import substitution for increased self-sufficiency in sugar and better usage of land and water in the Walawe area, was rated unsuccessful. Its dismal performance was mainly attributed to the production shortfall against appraisal targets, exacerbated by a sharp decline in sugar prices. Other factors cited were: (i) minimal level of operation; (ii) high value of wasted water; and (iii) less-than-favorable environmental impacts.

18. The lessons in the subsector generally reflect the difficulty of assisting agro-industries in a state-controlled, regulated environment, and highlight the need for market-oriented entrepreneurial approaches with in-depth project preparation. It also underscores: (i) that letting entrepreneurs select, reject or adapt components of a project on the basis of their assessment of profitability can be crucial to project success; (ii) the need to look beyond the project and to analyze the institutional framework, including the smallholder sector, policy environment, and ecological implications of Bank's activities; (iii) the critical role of an adequate project feasibility study in identifying the causes of the long-term decline of the tea sector and in designing more effective measures; (iv) the need to improve the agricultural side in addition to the manufacturing side of the tea industry in order to reduce costs; (v) the importance of proper staffing in an EA and the participation of experts in the project; (vi) the benefits of beneficiary participation in site selection and construction; and (vii) that the provision of a TA to improve practices of a well-established agency is difficult and that the creation of a new agency or a radical change in an existing one (e.g., through privatization) may be preferred.

3. Fisheries

19. The two fisheries and one aquaculture development projects have a combined cost of \$15.83 million, including Bank financing of \$11.4 million. The first Fisheries Development Project was intended to increase fish production, improve fishermen's incomes, and develop import substitution opportunities. The PPAR concluded that the 28-foot boats were technically sound and resulted in substantial benefits to fishermen, but the 38-foot vessels had technical defects which lowered their performance. Implementation delays associated with Project start-up, consultant recruitment, and the need for partial retender and allocation of vessels to sub-borrowers slowed Project completion by four years. The Project was classified as unsuccessful. The second Project aimed at the expansion of fishing operations in the private sector and involved extending credit to fishermen for the purchase of new vessels and the replacement of engines and sails, and to investor participants for the purchase of chill storage facilities and insulated trucks. As a follow-up project, the technical designs adopted by the second Project did not take full advantage of previous experience, which stressed the importance of consulting local fishermen before finalizing the designs. Hence, social resistance to buying new equipment and relative cost considerations made private investors unwilling to take up credit for these components. Nevertheless, Project benefits at postevaluation were found sustainable and, given the other non-quantified benefits, the Project was rated partly successful.

20. The findings of the Impact Evaluation Study on Bank Assistance to the Fisheries Sector, which was undertaken in 1984 and covered the completed first fisheries project and relevant aspects of the then ongoing second fisheries project, indicated that fishing vessel productivity under the completed projects had remained below expectations, resulting in considerable underutilization of the marketing and onshore facilities provided. Nevertheless, positive impact was observed in terms of improvement in the design of fishing boats and fishing methods, creation of institutional capabilities in fisheries development, generation of employment and income for fishermen, and introduction of new technology under the vessel mechanization components.

21. The Aquaculture Development Project sought to increase inland fish production from aquaculture, establish the basis for shrimp culture to earn foreign exchange, and strengthen the institutional infrastructure for the future development of aquaculture in Sri Lanka. The Project, which was delayed by 21 months, stimulated significant development in the aquaculture industry through improved extensions, skill training, and privatization of Project investments. The shrimp culture component has taken off rapidly and contributed to foreign exchange earnings. Indirect socioeconomic benefits were generated through private sector smallholder shrimp development. However, Project achievements were lower than envisaged due mainly to an abrupt and unexpected Government policy change in 1990 discontinuing state patronage of all inland fisheries activities. The Project was rated partly successful.

22. Experience from the three postevaluated projects showed that (i) incentive studies should be conducted prior to project design as cooperative ownership of boats in a fisheries project may involve disincentives and inefficiencies which can lower the performance of project participants; (ii) Government subsidies in fisheries projects should be avoided as much as possible; (iii) risks can be lowered initially by constructing and pilot testing a small number of boats; (iv) local fishermen must be fully consulted before new equipment or vessel designs are introduced and finalized; and (v) it is more effective if Government takes on the role of facilitator in private sector-led development, rather than as an active participant in the production process.

4. Livestock

23. The Livestock Development Project, the only Bank-assisted project in the livestock subsector, was completed in December 1991 following a delay of 2.5 years, and was postevaluated in November 1995. The Project's total investment cost amounted to \$16.67 million, including Bank lending amounting to \$14.15 million. The Project which was designed to improve smallholder dairy, pig, and poultry production in order to increase food supply and improve rural incomes and employment, was rated partly successful. Due to the civil unrest and changing conditions in the country, all of the components in the northern areas and some of the components for improving stockfeed supply were not implemented. Instead, 23 small components were added. The revised components were implemented satisfactorily except for the imported Sahiwal herd which had defective breeding stock, the unutilized credit component, and the failure of the cooperative societies to improve farm prices. This resulted in delay in realization of benefits and failure to reach the expected quality and level of outputs. Compared with the economic internal rate of return (EIRR) appraisal estimate of 40 percent, the ex-post EIRR was reestimated at only 6.7 percent. The Project was rated as partly successful.

24. The Project demonstrated the benefits of crossbreeding in improving dairy and pig production, and the viability of artificial insemination in increasing cattle production, particularly when private inseminators are involved and financial incentives are provided. It also highlighted (i) the lengthy process involved in promoting successful cooperative societies which can extend beyond the timeframe of a single project; (ii) the costs and risks of importing livestock; (iii) the need to complement improvements in livestock services infrastructure with improvements in operational systems for greater efficiency of operation; and (iv) the importance of Bank supervision during the early stages of project implementation to ensure adequate data collection for monitoring and evaluation.

5. Forestry

25. Completed at a cost of \$10.6 million including \$7.5 million in Bank financing, the Bank's first forestry project, which principally aimed at augmenting the supply of fuelwood and timber, supported (i) the continuation of conventional reforestation through block plantations, and (ii) social forestry which encouraged tree cultivation through community involvement. Tangible results were derived from the block plantations and farmers' woodlots which compensated for the less successful or failed trials in community forestry. Rated generally successful, the Project's beneficial ecological impacts included soil conservation and enrichment, hydrological system stabilization, and wind shelter.

26. The Project provided valuable lessons for Bank's future involvement in the forestry subsector, viz., (i) the merits of combining a lower-risk plantation component with smaller, more innovative components designed as pilot schemes; (ii) that community participation cannot be taken for granted and its possibilities must be assessed by professional sociologists who should be involved in the feasibility study, appraisal, and implementation; (iii) if initial efforts are to be sustained, an examination of the institutional framework and the policy environment is essential; (iv) for greater impact, awareness and motivational campaigns should be sustained over a long period and should involve several media; and (v) demonstration plots can be effective if they are

easily accessible, well-designed and well-maintained, and clearly demonstrate the technical and commercial viability of the trees.

6. Agricultural Support Services

27. The Rural Credit Project and the Agriculture Program were completed at a cost of \$90.5 million, including Bank lending amounting to \$89 million. The Rural Credit Project aimed at strengthening the rural credit system in the country through institutional development, and increasing farm production and income through the provision of institutional medium-term credit to farmers and rural entrepreneurs. Its completion was delayed by three years. It incurred cost overrun arising from substantial reduction in Project scope brought about, among others, by abnormal periods of drought, increased oil prices affecting operation costs, inadequacies in Project formulation and design, serious sociopolitical disturbances, and lack of coordination with other aid agencies during Project preparation. Despite major implementation constraints, parts of the farm power and irrigation components were well implemented, yielding benefits to the target group. The Project was considered partly successful. The Agricultural Program, on the other hand, was designed to support the Government's agriculture sector policy reforms which aimed at making agriculture more market-oriented, thereby increasing the efficiency of operations in the sector and improving resource allocation throughout the economy. The reform measures targeted the fertilizer sector, the plantation sector and the Paddy Marketing Board, tree crop taxation, rural credit, irrigation and agricultural extension services, and agricultural investment. The Program was rated partly successful because of the mixed results achieved in the implementation of both policy and institutional reforms, and the nonsustainability of some reforms. Political and security developments had hampered the full completion of the reform efforts.

28. The nonpostevaluated Land Use Planning Project had been rated as unsuccessful due to a combination of the following factors: (i) Project objectives were not fully realized since major equipment, e.g. geographic information system/landuse information system (GIS/LIS) computer systems and laboratory equipment for Land Use Division, were not procured; (ii) given the inexperience of the implementing agencies, the Project set ambitious targets in terms of scope, procurement, and effective utilization of highly technical equipment; (iii) the poor performance of the borrower and the EA in meeting their respective responsibilities during Project implementation; (iv) inadequate consulting services for Project management, and preparation and evaluation of tender documents; and (v) no directly quantifiable benefit has arisen from the Project.

29. Lessons from the projects highlighted (i) the importance of involving target groups during project preparation, design, and implementation; (ii) the need for agricultural or rural credit schemes to be complemented by advisory, training, and extension services that will improve the subprojects' sustainability and the EAs' project monitoring; (iii) the advantages of introducing complex technology (e.g., GIS/LIS) on a pilot basis; (iv) the need to carefully assess the absorptive capacity of the implementing agencies when designing projects involving highly technical equipment; and (v) the importance of providing for adequate consulting services for project management and procurement of highly technical equipment. In program lending, the success of introducing policy and institutional reforms was found to be highly dependent on certain factors which include (i) having clear and focused objectives and performance indicators, (ii) adequate emphasis on credibility and consensus building, (iii) proper balance between expenditure-reducing and growth-enhancing reforms, and (iv) ensuring that the number and type of reforms pursued do not overwhelm limited policy-change capacity of the country.

7. Fertilizer Production

30. Aimed at achieving self-sufficiency in nitrogenous fertilizer through the construction of a urea fertilizer plant, the only Bank-assisted project in this subsector was completed at a capital cost of \$191.7 million, including Bank financing of \$29.9 million. Throughout its operation, the urea plant, which produced at about 46 percent of its capacity, was unable to generate enough revenue to cover production costs. The poor financial and production performance of the plant, which closed after operating for about three and a half years, were attributed to the sharp price increases of the principal raw materials and high production costs arising from capacity underutilization. The Project was assessed as unsuccessful.

31. The PPAR presents the following major lessons: (i) where the production technology favors large projects and for which the product export market is limited, domestic demand (and to a larger extent the production technology) should be used to determine the break-even size of the project; (ii) when domestic demand is critical to a project's viability, its growth prospects need to be analyzed rigorously; (iii) where the aim is to initiate a transition from complete import-dependence to self-sufficiency, detailed consideration needs to be given to marketing arrangements; and (iv) when the original objectives of a project change and assumptions concerning price relationships and demand are no longer valid, there should be a thorough reassessment of the project's soundness and viability.

B. Energy

32. The total amount for the four postevaluated energy projects was \$129.4 million, of which \$49.7 million was Bank-financed. These consisted of two generation projects, one transmission project, and one distribution project. All four were rated as generally successful despite time and cost overruns. Although the energy output in the Bowatenna hydropower generating Project was below the expected levels due to inadequate water availability, the Project nonetheless produced higher financial and economic benefits than anticipated at appraisal. As the final part of a three-stage cascade development, the Canyon hydropower Project's objective was to help reduce the gap in the demand and supply of electricity in the early 1980s. The PPAR indicated that the Project had strengthened the country's power system and had helped displace more expensive thermal power generation. The Rural Electrification Project registered rapid growth in the number of connections and electricity consumption, with EIRR estimates yielding an average return of 15 percent for all schemes. The PPAR rated this Project as generally successful for having substantially achieved its main objective of supplying electric power to villages. However, a recent reevaluation of the Project noted that on equity grounds, the Government's policies on subsidies and tariffs have not been efficacious. The subsidies did not benefit lower income households who had to remain dependent on other more expensive fuels because they could not afford the high connection costs. With this finding and taking into account nonperforming schemes in areas affected by civil unrest, the Project's performance was assessed as partly successful. The last postevaluated project involved power distribution, which aimed at assisting the Lanka Electricity Company (LECO), a Government-controlled corporation, to take over, rehabilitate, and expand electric power distribution of local authorities in Sri Lanka in order to improve the quality of power supply and reduce system losses. Having achieved its target objectives, it was also rated generally successful.

33. The non-postevaluated follow-on Secondary Towns Power Distribution Project II had a total investment cost of \$52.2 million, including Bank assistance of \$35.13. The Project was designed to assist the continued expansion and growth of LECO which was started in the first Secondary Towns Power Distribution Project. The Project was rated generally successful in the PCR because of: (i) substantial growth in distribution sales and in the number of consumers in the Project area, (ii) reduction in distribution system losses from 20 percent to about 9 percent, (iii) improvement in operational discipline in the Project area, (iv) development of LECO into an efficient and consumer-oriented distribution company in spite of a difficult operations environment and lack of an adequate regulatory framework in the power sector, and (v) promotion of competition in power distribution between the Ceylon Electricity Board (CEB) and LECO, which promoted better performance of both agencies, particularly in consumer service and collections.

34. The factors contributing to the power projects' success included adequacy of project formulation, responsiveness and capability of the EA, significant contribution of consultants to technical and institutional development, Government's commitment, and Bank's close involvement with the projects. The major reasons for the implementation delays, which averaged three years or 79 percent, were: (i) delays in awarding of contracts, (ii) shortage of local currency funds, (iii) weaknesses in project management, (iv) inadequate/defective local resources (materials and personnel), (v) additional project scope, (vi) resistance from local officials, and (vii) adverse weather conditions and civil disturbances. Four out of the five completed projects experienced cost overruns averaging at 48.1 percent. These were mainly attributed to: (i) price escalation arising from implementation delays, and (ii) expanded scope of works.

35. Project experience in the power subsector demonstrated that (i) inadequate attention to the problem of water availability and upstream hydropower and irrigation developments can result in the underutilization of power generation capacity; (ii) soil conservation measures are necessary adjuncts to the development of river valley projects to ensure their full useful lives; (iii) Government procedures in reviewing and approving procurement contract awards tend to be slow and unwieldy; (iv) rural electrification projects have very poor cost recovery, even when they are economically viable, due to large subsidies for small residential consumers; (v) poor performance of the CEB was largely due to inadequate tariff increases and tariffs should be set on commercial rather than political grounds by the relevant utility agency and subject to review by an independent body; (vi) entrusting electric power distribution in well defined areas to a separate company with sufficient autonomy and operational flexibility can result in a substantial reduction in system losses, improved voltage supply, and better operational and financial performance; and (vii) difficulties in securing the necessary right-of-way and land for lines and substations should be addressed before construction work begins.

C. Industry and Non-Fuel Minerals

36. The Mineral Sands Project, which was completed at a cost of \$10.3 million, was designed to increase export of mineral sands products such as ilmenite, rutile, and zircon. The Project scope was subsequently reduced and comprised provision of equipment, installation of a new rutile/zircon recovery plant, and dismantling and re-erection of an existing recovery plant to form an integrated processing complex. Despite substantial implementation delays resulting in a cost overrun and a supplementary loan of \$1 million, operational problems due to weaknesses of the EA, insufficient technical capability of consultants, and inadequate project preparation and supervision, the Project was rated generally successful, based on a satisfactory EIRR.

Postevaluation experience showed that (i) where there is a substantial lack of technical capability within the EA, it may be necessary to give adequate implementation responsibility to a qualified contractor; and (ii) review missions may require additional inputs of specialized expertise to assist in reviewing complicated industrial processes such as those involved in this Project.

D. Finance

37. The finance sector ranks second in terms of total Bank lending to Sri Lanka, with a proportionate share of 18.6 percent or about \$335 million, and comprising nine DFI loan projects and one financial sector/capital market development project. To date, eight projects in the sector have been completed. Seven of the eight projects considered in this report were in the DFI subsector with a combined Bank investment cost of about \$142.97 million. The remaining completed activity is the lone Bank-assisted program in the financial sector/capital market subsector with Bank financing amounting to \$79.8 million. Two of the postevaluated projects and four of the non-postevaluated projects were rated generally successful. One postevaluated project was rated partly successful, while the financial sector program was not rated. Two projects were completed as scheduled, while the implementation of the other five were slightly delayed an average of less than a year. The delays were mainly attributed to: (i) cancellation of subloans from applicants who could not meet certain loan conditions; (ii) one year extension of subloan applications due to civil disturbances; and (iii) late reconciliation of imprest fund advances to the Export Development Board.

1. Development Finance Institutions

38. Two of the three postevaluated projects were implemented by the Development Finance Corporation of Ceylon (DFCC). They aimed at assisting in institution-building and augmenting the foreign currency resources of the DFCC for financing private investments in industry, agriculture, and tourism. One hundred fifty subloans were financed out of these two projects. However, their actual geographical and sectoral distribution was significantly different from that expected at appraisal. In both instances, the subloans were heavily concentrated in the western region, including Colombo. The first DFCC project was rated partly successful mainly because of large arrears which led to reduced earnings and a low return on equity. The second project, however, was rated generally successful, having benefited from the Government-initiated rescheduling of DFCC loans in arrears; another positive factor was institutional improvement, particularly in subproject appraisal performance. The third postevaluated project was implemented by the National Development Bank of Sri Lanka (NDBSL) and aimed at providing foreign exchange resources to private and public sector industry. A total of \$8.6 million was committed for 36 subloans. It was rated generally successful, since NDBSL's financial performance, as well as its record of loan and equity operations, was considered satisfactory and the quality of subproject appraisal adequate.

39. The combined Bank financing for the four non-postevaluated DFI projects amounted to \$120.7 million. These projects were rated generally successful. The first, second, and third Development Financing Projects aimed at (i) providing foreign currency resources for private sector industrial development; (ii) improving the capital market by establishing an investor's compensation fund, strengthening institutional capabilities of key institutions including the Capital Development and Investment Company, DFCC and NDBSL, and training their staff in securities

transactions for stock brokers and other relevant institutions; (iii) promoting financial and industrial sector reforms; (iv) promoting the increased involvement of private commercial banks in industrial term financing; and (v) undertaking a feasibility study for a domestic unit trust. The successful performance of the DFI projects was primarily attributed to the adoption of an "umbrella-type" credit line where the Government would be the borrower but the loan proceeds would be relent to participating credit institutions (PCIs) on a first-come-first-served basis. This approach stimulated competition and allowed the Bank to interact with the PCIs and help strengthen their institutional and resource bases. It also allowed the PCIs to have maximum authority in selecting subprojects for assistance based on market demand and consideration of sound portfolio diversification. There were 1,036 subprojects approved under the two projects. The last project was the Small and Medium Industries (SMI) Project, consisting of \$15.6 million in Bank financing. It aimed at providing needed resources for (i) term-financing of viable SMI projects, with an emphasis on new export-oriented ventures; and (ii) the balancing, modernization, and replacement requirements of existing enterprises. Following the format developed by the International Development Association, the Project adopted a new approach wherein NDBSL would act as apex EA in charge of administering the disbursement, recovery, and recirculation of the funds that would be channeled through seven PCIs. The credit component contributed successfully in the development of new and existing SMI in diverse sectors led by the food and beverage sector (25 percent); textiles, wearing apparel, and leather (19 percent); and the non-metallic minerals and chemical, the petroleum, coal, rubber, and plastics sectors (9 percent each). However, the geographical distribution was limited mainly due to civil disturbances in the country.

40. Significant lessons from the projects were: (i) the availability of feedback during project implementation will enhance the appraisal of subloan applications; (ii) mechanisms which allow the gauging of performance against targets should be introduced; (iii) credit lines, which intend to promote sectoral and geographical dispersal targets, may require support measures; (iv) while competition among financial institutions is desirable, DFIs should be encouraged to pool their efforts in common areas such as assessment of credit-worthiness and training; (v) future Bank assistance for DFIs in Sri Lanka should place special emphasis on expanding outreach capabilities of institutions, thereby enhancing equitable distribution of project benefits; (vi) the umbrella-type credit line and the apex EA approaches are effective credit mechanisms for DFI projects; (vii) free market forces should determine the location of a subproject; (viii) new financial market instruments should be introduced to deepen and widen the financial sector's ability to sustain the expansion of the private sector; and (ix) the Government should initiate measures to reduce the high intermediation cost of financial institutions and the dominance of state financial institutions.

2. Financial Sector/Capital Market Development

41. The Financial Sector Program Loan (FSPL) was the only Bank-assisted program loan in the finance sector in Sri Lanka. Completed in 1993, Bank financing of the Program amounted to \$79.8 million. FSPL objectives were: (i) increase the efficiency of the financial sector by reducing financial intermediation costs and rationalizing the interest rate structure, (ii) promote a secondary market for Government securities and issues of private sector bonds, (iii) promote the use of equity financing for investment projects, and (iv) expand and accelerate the privatization program. Although a success rating was not provided in the PCR, some indications of the Program's satisfactory performance were noted. Through FSPL's reform program, the capacity of the financial sector improved in terms of: (i) local financial resources mobilization; (ii) diversification of fund sources, with nonbank financial institutions providing an increasing

proportion of funds, and Government-owned or controlled institutions having less influence on the financial sector; and (iii) increased availability of credit to the private sector. The Program also succeeded in promoting the use of equity financing for investment projects through the Colombo Stock Exchange, and in strengthening the regulation and supervision of the securities market. However, FSPL had no immediate discernible impact with respect to the promotion of secondary market for term securities.

42. Based on the FSPL experience, the Bank's financial sector strategy in Sri Lanka would need: (i) a reduction in the role and influence of the state commercial banks; (ii) the development of financial intermediaries in both primary and secondary markets to stimulate competition, reduce intermediation costs, and induce innovation; (iii) improvements in the capacity and expertise of regulatory agencies; and (iv) promotion of the use of market price mechanisms in the provision of credit for private sector investments.

E. Transport and Communications

43. Among the major sectors in Sri Lanka, the transport and communications sector is the second least provided with Bank assistance. The sector's proportionate share of total Bank lending to the country is 10.7 percent, dispersed in eight projects (primarily roads and road transport). To date, only four projects in the sector had been completed, one of which had been postevaluated. These consist of three projects in the roads and road transport subsector, and one project in the telecommunications subsector. The last was the only project which was postevaluated. It was rated generally successful. Two of the three non-postevaluated road projects were not rated, while one was rated as partly successful. The combined actual capital investment for all four projects amounted to \$72.96 million, including Bank financing of \$52.9 million. One road project and the telecommunications project posted cost overruns at an average of 64.6 percent. They were due to: (i) substantial increase in project scope; (ii) high costs of consultants, retendering of contracts, and slow construction progress due to delays in implementation; and (iii) underestimation of costs of materials. Two projects posted cost underruns at an average of 33.4 percent mainly because of: (i) local currency fluctuations; (ii) reduction in works due to security problems; (iii) non-hiring of international consultants, also for security reasons; and (iv) savings in the cost of materials. All four projects experienced implementation delays at an average of 3.8 years, although the telecommunications project posted the shortest delay at 2.5 years. The delays were due to: (i) revisions in project scope, (ii) curtailment of works due to security problems and adverse weather conditions, (iii) delayed contract negotiations, (iv) lack of local currency resources, (v) delayed preparation of detailed design, (vi) delayed recruitment of consultants, (vii) lengthy decision-making processes in obtaining Government and Bank approvals for retendering actions, (viii) lack of qualified project staff, and (ix) delays in the procurement process for civil works.

1. Roads and Road Transport

44. Bank investment in roads and road transport amounted to \$143.5 million for financing five projects. The three completed projects aimed at the development, improvement, and restoration of roads. The road development project pursued the construction of a road network under the Mahaweli Gangs Development Program, serving target areas under the 1980-1984 accelerated development plan. The road improvement project, on the other hand, served

two objectives: (i) to improve two of the country's most important trunk routes to an economically maintainable state, and (ii) to reduce transport costs and contribute to the economic development of the central and northern provinces of the country. Lastly, the road restoration project was an emergency assistance to Sri Lanka which aimed at restoring selected roads and providing new ferry vessels for the main transport corridors of areas affected by the civil disturbances.

45. The PCRs of the road development and road improvement projects did not provide any rating. However, there were indications that the former project's performance was less than satisfactory mainly because of the 6-year delay in implementation. On the other hand, the road improvement project noted some success indicators in terms of achieving its principal objective of facilitating more efficient and less costly road transportation. The average driving speed on the roads had increased and travel time was reduced. For the emergency road restoration project, a partly successful rating was given. The conditions of the restored roads during the PCR mission was described as serviceable for all types of vehicle, although the riding surface was generally rough. In addition, the objective of the Project to bring the roads back to a maintainable state appeared to have only been achieved in the Eastern Province and in parts of the Northern province.

46. The lessons from these projects include: (i) tender bonds, performance bonds, advance payment guarantees and insurance should be required equally from Government and private bid participants; (ii) a comparative study of the relative costs and benefits of the alternative road improvement/construction should be made as early as the project feasibility stage; (iii) efforts should be made to encourage the better performers among the small contractors to improve their capabilities through investments in basic construction equipment such as bitumen heaters, sprayers, rollers, tractor-mounted excavators, and trucks; (iv) there is a need to encourage the larger construction firms to specialize in bituminous surface treatments and maintenance works; and (v) in formulating emergency assistance projects, the Bank should strive to achieve a balance between providing assistance expeditiously and exercising a high standard of quality control.

2. Telecommunications

47. The Communications Satellite Earth Station Project aimed at enabling Sri Lanka to change its overseas telecommunications services from high frequency radio links and submarine telegraph cables to satellite communications in order to effectively handle anticipated traffic and improve the quality of service. The Project had a capital cost of \$8.3 million inclusive of Bank financing of \$3.6 million. It provided for the design, procurement and installation of a communications satellite earth station, an International Switching Center, and a connecting microwave system. Because Project costs were underestimated at appraisal, the Bank had to provide a supplementary loan equal to nearly 40 percent of the initial loan. This was used to adapt the Project facilities to the actual volume of traffic, which was far greater than anticipated at appraisal. Despite large cost overruns and implementation delays, the Project achieved its major objectives and was rated generally successful. The Project experience highlighted the need for demand forecasting based on separate analysis of inward and outward traffic. There was also some imbalance in project service capabilities. At postevaluation, the earth station component had sufficient capacity to handle projected traffic volume, but the International Switching Center, International Direct Dialing, telex exchange capacity, and microwave multiplexing equipment required additional capacity to meet future demand.

F. Social Infrastructure

48. The social infrastructure sector received a proportionate share of 14.5 percent of the Bank's total lending to Sri Lanka amounting to about \$263.5 million. This amount covers part of the financing for 11 projects distributed as follows: five projects in the education subsector, and two projects each in the water supply and sanitation, urban development and housing, and health and population subsectors. Of these, two education projects and one health project had been completed with a combined capital cost of \$53.14 million, inclusive of Bank lending amounting to \$37.71 million. However, only the health project was postevaluated. All three completed projects experienced cost underruns at an average of 11.6 percent. These were mainly attributed to changes in project scope and lower administrative support costs and price contingencies. Implementation delays were also experienced by the three completed projects. These were due to: (i) lack of institutional and administrative capacities of the Government and EA, (ii) difficulties in site selection and land acquisition, (iii) security problems, (iv) difficulties in the recruitment of consultants, (iv) changes in implementation arrangements, and (v) delays in disbursements due to inadequate local currency budget.

1. Education

49. The two nonpostevaluated education projects had a combined investment cost of \$45 million, including \$31.1 million Bank assistance. The Technical Education Project was the Bank's first education project in Sri Lanka and was designed to improve the quality and efficiency of technical, craft, and commercial training provided by the Ministry of Higher Education through its technical colleges. This was in line with the Government's plans to ensure the availability of trained skilled workers needed to support planned industrial and economic development. The Project improved the quality and efficiency of technical education training offered by the Ministry. It had upgraded the technical colleges thereby providing more equitable training opportunities for the population. However, the Project was rated partly successful in the PCR because of underutilized and poorly maintained instructional facilities. A generally successful rating was given to the Emergency Schools Restoration Project. It aimed at assisting the Government in restoring the normal operations of 718 schools and related facilities in 17 selected districts of the country. The Project had significantly contributed to the Government's program of bringing normalcy to the districts and communities most affected by the civil disturbances.

50. The major lessons from these two projects include: (i) the urgent need for a comprehensive review of both private and public sector efforts in skilled manpower training, with a view to developing a comprehensive national policy and detailed short and medium-term plans for its implementation; (ii) during project preparation, strengthening of management skills of all agencies directly responsible for the implementation of Bank-assisted education projects should be a major concern; (iii) specific progress and performance indicators for assessing internal and external efficiencies of education projects should be developed; (iv) technical school design is a specialized activity and requires consultants to have the appropriate mix of technical and educational expertise; and (v) in evaluating benefits, total enrollment estimates should be based on the capacity for instructional purposes instead of capacity for residential students.

2. Health and Population

51. The only completed and postevaluated project in the health subsector aimed at assisting the Government to improve the health status of the rural population in eight selected districts, as well as in curbing the population growth rate. These objectives were to be achieved through the establishment of health care centers and upgrading of existing district hospital/peripheral units, central dispensaries, maternity homes and rural hospitals, and provision of in-service training to health personnel and consultant services to assist in developing a benefit monitoring and evaluation (BME) system. Assessed as generally successful, the Project was considered to have improved access to health care through the establishment of health centers in the disadvantaged rural areas and promotion of more cost-effective, efficient, and equitable use of resources, and in reducing fertility trends. Project implementation, however, was affected by delays associated with inadequate Project preparation, land acquisition difficulties, the security situation, and problems in consultants' recruitment. The Project, which was completed at a cost of \$8.1 million including \$7.2 million financed by the Bank, had a cost underrun of 33 percent arising from the depreciation of the rupee against the dollar, cancellation of major portions of the in-service training and consultant services on BME components, and lower than anticipated costs of civil works, equipment, and vehicles.

52. The Project highlighted (i) the importance of an in-depth analysis of sectoral issues before formulation of a project; (ii) the importance of an adequate understanding of the Government's procedures and management system during appraisal; (iii) the importance of effective project supervision by the Bank through frequent review missions; (iv) the need to take advance action for land acquisition and site selection to help minimize start-up delays; (v) the urgent need of improving health planning and management capability, and the importance of an effective BME system to sustain such capability; and (vi) the fact that optimal realization of project benefits can occur only with firm efforts to ensure sustainability, i.e., provide adequate budget for continued operation.

IV. CONCLUSIONS

A. Overall Assessment

53. The postevaluation of Bank-financed projects in Sri Lanka has so far found less than 50 percent (i.e., 46 percent) of reviewed projects to be generally successful, and almost an equal number (42 percent) of partly successful projects (Appendix 6). This proportion of generally successful projects was lower than the 49 percent average for other Group A countries, and the average of 58 percent for Group B countries. In terms of actual investment costs and loan amounts disbursed, the generally successful projects were even lower at 45 percent and 38 percent, respectively.

54. Notwithstanding the poor postevaluation results, Bank projects in Sri Lanka have contributed much to the overall economic and social development in the country. In agriculture and agro-industry, they have provided irrigation water which has resulted in increased irrigated cropping area, cropping intensity, and crop diversification. Through the Bank's two agriculture program loans, the sector has also become more responsive to market forces. In forestry, the

projects have re-established tree cover and provided quality-of-life enhancing impacts. Energy projects provided capacity and energy support to the country's power system and helped meet increasing demand. The Bank's assistance to Sri Lanka's DFIs also made considerable impact in augmenting the country's foreign currency resources for financing private industry investments (particularly SMIs), agriculture and tourism. Bank assistance was instrumental in accelerating the country's development process through expanding telecommunications facilities, restoring normal conditions to communities affected by civil disturbances, and in improving access to health care in the disadvantaged rural areas.

55. Most of the postevaluated projects were affected by implementation delays which ranged from 20.6 percent in the case of the DFI projects to 127.5 percent in the case of the non-fuel mineral project (Appendix 7). Among the 16 non-postevaluated projects, one program was completed as scheduled while all the projects experienced delays. The most common reasons for the implementation delays were changes in project scope, procurement problems, late fielding of consultants, shortage of counterpart funds, poor performance of consultants and contractors, institutional weaknesses of EAs, and a deteriorating security condition.

56. Excluding DFI projects, 10 of the 23 postevaluated incurred cost overruns averaging 52 percent, while 13 projects had an average cost underrun of 35 percent (Appendix 8). For the non-postevaluated projects (excluding all finance sector projects), three had cost overruns averaging at 65.8 percent, while nine posted cost underruns at an average of 26.5 percent. Cost overruns were mostly due to price escalation arising from implementation delays, expanded project scope, underestimated costs and contingencies at appraisal, and the depreciation of the dollar against SDR. Cost underruns resulted mainly from reduction in project scope, overestimated project costs and contingencies at appraisal, and local currency fluctuations.

57. Overall project performance was best in the energy sector, with all four postevaluated projects and one non-postevaluated power project being classified as generally successful (Appendix 6). The DFI subsector also exhibited successful performance, although for three of the subsector's completed projects this rating has not been validated through postevaluation. Because of the difficult nature and high susceptibility of agriculture projects to social, international, and environmental developments, the performance of projects in the sector was expectedly the weakest. Less than 20 percent (i.e. 3 out of 16) of the projects for which PPARs had been prepared were found generally successful, and all three of the unsuccessful postevaluated projects in Sri Lanka were in the agriculture and agro-industry sector.

58. Postevaluation and project/program completion reviews attributed project success to a number of factors, foremost of which were adequate project formulation, capability of EA, significant consultant inputs to technical and institutional development, adoption of tested implementation mechanisms (e.g. for credit projects), beneficiary consultation and participation in project planning, design and implementation (particularly for agriculture and finance projects) which facilitated implementation and ensured sustainability, continuous policy dialogues and changes in macro policy environment, use of an imprest account which provided necessary flexibility in implementation, and Bank's close involvement with the projects. On the other hand, the major shortcomings experienced by the partly successful or unsuccessful projects stemmed mainly from poor project design, weak implementation arrangements, uncertain sustainability, declining international prices, inadequate or delayed local counterpart resources, poor performance of consultants, contractors and suppliers, institutional and project management incapacities of EAs and implementing agencies, changes in the socioeconomic environment (including policy reversals), and civil disturbances.

B. Current Issues in Sri Lanka and Major Lessons Learned

59. The Bank's 1996 Country Programming Mission identified unemployment and poverty as the main developmental concerns in Sri Lanka. However, the Mission also noted that the issue of paramount importance in the short term is the resolution of the civil war, which has not only been costly in human terms, but has also led to high budget and external account deficits, inflation, and the erosion of investor confidence. In the medium term, however, the Bank's operational strategy towards a reduction in both unemployment and poverty includes: (i) acceleration of the rate of economic growth, (ii) improvement of access of the poor and underprivileged to productive assets, and (iii) protection or improvement of the environment. The Bank's operational program will focus on: (i) promoting sound macroeconomic policies in order to improve domestic resources mobilization and provide an attractive climate for domestic and foreign investment; (ii) deregulating the economy, reforming the financial sector, promoting export-oriented industries and encouraging a more productive agriculture sector; (iii) rationalizing public sector enterprises to free resources for private sector growth; (iv) upgrading the skills of the labor force and addressing the mismatch between availability and requirements; (v) improving the physical infrastructure; and (vi) ensuring environmentally-sensitive development and contributing to environmental improvement.

60. In addressing the immediate concern of resolving the civil war and its concomitant effects, some restoration and rehabilitation projects are still ongoing and a number had been lined up for Bank financing. As a major lesson that may be considered in designing, planning, and implementing emergency assistance, the Bank should strive to achieve a balance between providing a quick response to needs and exercising sufficient quality control. The use of imprest account and statement of expenditure procedures may need to be considered as they provide greater flexibility and allow more expeditious implementation.

61. The Bank's experience in Sri Lanka has also underscored the impact of changes in the macro policy environment on project success. It has shown the vulnerability of project outcomes to changes in economic policy and the economic environment.¹ The experience highlights the need to assess the policy environment during project formulation, and the importance of taking into account the impacts of policies and policy changes in project design. Additionally, the Bank should strive to play a more active role in policy formulation. There should be continuing policy dialogues focused on obtaining Government commitment on lessening distortions and constraints in sectoral policies, and on issues pertaining to expansion of policy reform programs. To be effective in influencing Sri Lankan economic policies, the Bank needs a clear strategy which will emphasize projects where the Bank's comparative advantage lies and where policies can be influenced. Areas where Bank intervention had not been too fruitful include cancellation of the fertilizer subsidy, privatization of state-owned banks, and reduction of the civil service. Areas where the Bank can have a substantial impact are in the plantation sector, tourism, manufacturing and non-traditional exports; infrastructure; private financing; and education.

62. Other major lessons from the completed projects include:

- (i) Projects that involve new processing methods and technological changes would benefit from the use of the pilot project approach. As illustrated in the fisheries,

¹ PEO Special Study: *Macroeconomic Environment and Project Performance*, December 1997.

forestry, and land use planning projects, an initial pilot test group would be advantageous in ensuring that the Project components are adequately understood and accepted by the target groups.

- (ii) Beneficiary involvement during project preparation and implementation is critical to project success. This was highlighted in the coconut development project which succeeded because the beneficiary entrepreneurs were allowed to choose project components based on their assessment of profitability. It was also illustrated in the first forestry sector project, and most of the finance projects implemented by the Bank.
- (iii) Institutional capability, particularly on the part of the EAs and implementing agencies, is necessary for project success. The performance and outcome of the Bank's completed projects were found to largely hinge on the capability and readiness of the respective EAs to take on project implementation and operation responsibilities. For example, the improved performance of the CEB and LECO under the Secondary Towns Distribution Project II had led to better consumer service and increased tariff collections. On the other hand, the insufficient capability of the implementing agency under the Land Use Planning Project to take on highly technical responsibilities contributed to the unsuccessful outcome. Thus, it is important that an in-depth assessment of the capabilities of the EAs be made during project formulation to enable setting of realistic implementation targets.
- (iv) For meaningful performance assessment of Bank projects, it is important that benefit monitoring mechanisms be considered and set up during project formulation. The presence of project benchmark data that could be compared with information obtained during and after project implementation would not only provide useful measures of target outcomes, but also give an insight of the rate and movement in the build-up in benefits. For example, in the case of DFI projects, the presence of benefit monitoring mechanisms would have been useful in enabling a more equitable sectoral and geographical distribution of credit.

APPENDIXES

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5	Sri Lanka: Summary of PCR Results (For Completed Projects Without PPARs)	25	2, 4.
6	Performance of Postevaluated Projects in Sri Lanka	26	16, 53.
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