



Validation Report

Reference Number: PCV: SRI 2008-84
Project Number: 29600
Loan Number: 1639-SRI (SF)
May 2009

Sri Lanka: Tea Development Project

Independent Evaluation Department
Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
BTOR	–	back-to-office report
CBSL	–	Central Bank of Sri Lanka
EA	–	executing agency
IED	–	Independent Evaluation Department
MPI	–	Ministry of Plantation Industries
NIPM	–	National Institute of Plantation Management
PCR	–	project completion report
PFI	–	participating financial institution
PMU	–	project management unit
PPTA	–	project preparatory technical assistance
RRP	–	report and recommendation of the President
STDP	–	Smallholder Tea Development Project
TRI	–	Tea Research Institute
TSHDA	–	Tea Small Holdings Development Authority
VESP	–	voluntary early separation package

NOTE

In this report, "\$" refers to US dollars.

Key Words

adb, asian development bank, extension officers, independent evaluation department validation, participating financial institution, oed, plantation, project implementation, tea board, tea development, tea plantation, tea small holdings

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PROJECT COMPLETION REPORT VALIDATION FORM

A. Basic Project Data		PCR Validation Date:	May 2009	
Project and Loan Number:	29600 1639-SRI(SF)		Appraisal	Actual
Project Name:	Tea Development Project	Total Project Costs (\$M):	93.8	73.9
Country:	Sri Lanka	Loan/Credit (\$M):	35.0	34.2
Sector:	Agriculture and Natural Resources	Total Cofinancing (\$M):	0.0	0.0
ADB Financing (\$M):	ADF : 35.0	Borrower (\$M):	24.3	15.4
	OCR: 0.0	Beneficiaries (\$M):	30.8	20.4
Cofinanciers (\$M):	0.0	Others (\$M):	3.7	3.9
Approval Date:	10 Nov 1998			
Loan Suspension:	Not applicable	Closing Date:	30 Jun 2005	10 Apr 2007
Project Officers:	L. Ai Tee	Location (HQ or RM):	From	To
	M. Mongiorgi		HQ	1998
Validator:	A. Morales Evaluation Officer, IED1	Director:	R. B. Adhikari, IED1	
Quality Control/Peer Reviewer:	G. Rauniyar Senior Evaluation Specialist, IED1			

ADB = Asian Development Bank, ADF = Asian Development Fund, HQ = headquarters, IED1 = Independent Evaluation Division 1, M = million, OCR = ordinary capital resources, PCR = project completion report, RM = resident mission, SF = special fund, SRI = Sri Lanka.

<p>B. Project Description (summarized from the report and recommendation of the President [RRP])</p> <p>(i) Rationale. Representing one of the oldest and most important tree crops in Sri Lanka, the tea subsector comprises public sector estates, regional plantation companies, private estates, and smallholdings. The contributions of tea smallholdings and private estates are 56% and 70%, respectively, to the country's total tea production and tea export earnings. About 50% of their land is tilled under old seedling tea that requires replanting, but the current replanting rate—1%—is insufficient to maintain the yield and, if disregarded, will have serious ramifications to overall tea productivity and the country's competitiveness versus other tea-producing countries. In essence, poor tea industry performance will have serious social implications in Sri Lanka, given the large number of people dependent on it.</p> <p>The precursor to the Tea Development Project (the Project),¹ the Smallholder Tea Development Project (STDP), approved in 1989 for \$25 million, was designed to prevent tea production decline by financing replanting and new planting measures on smallholdings, factory rehabilitation, and nursery establishment. However, the STDP was only partially successful in introducing credit to smallholdings due to implementation limitations.</p> <p>Building on lessons from the STDP, this Project aimed to address institutional framework weaknesses to provide an environment conducive to smallholdings development. The Project was also expected to trigger legislative changes and rationalization of administrative expenditures to ensure tea-related institutions' efficiency and to allow more cess funds to be directed to replanting on smallholdings. The tea industry's existing legislative and institutional frameworks were not tailored to the needs of smallholdings and privatized plantations. Further,</p>

¹ ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Democratic Socialist Republic of Sri Lanka for the Tea Development Project*. Manila.

boards of tea-related institutions lacked private sector representation and operated under similar control and terms of employment of public agencies.

- (ii) **Expected impacts.** Based on RRP, the Project was expected to improve Sri Lanka's comparative and competitive advantage in tea production (footnote 1, Appendix 1).
- (iii) **Objectives or expected outcomes.** The Project's objectives were to increase the income of tea smallholdings and private estates and to improve the environment. Project preparatory technical assistance (PPTA)² indicated that the Project's main objective would be to maximize income within a sustainable system. Although the PPTA did not directly mention environmental improvement, the Independent Evaluation Department (IED)³ finds that the Project's second objective was adopted or expanded to reflect the expected outcomes of some subcomponents, specifically replanting and infilling.

To attain the Project's twin objectives, it was expected to (a) undertake institutional reforms to improve the effectiveness of institutions associated with tea research and development, and rationalize the cess rebate to benefit smallholdings; (b) provide credit financing for replanting and infilling on smallholdings and private estates, establish nurseries, rehabilitate tea factories and green leaf handling; and (c) improve social infrastructure, such as workers' housing and rural feeder roads, as well as afforestation. The Project was designed to cover all tea-growing areas in 13 southwest districts of Sri Lanka.

- (iv) **Components and/or outputs.** The Project was composed of four components: institutional reform and strengthening, tea development, social infrastructure and afforestation, and project management and implementation. At appraisal, physical targets included (a) replanting 13,512 hectares (ha), (b) rehabilitating or relocating 85 private tea factories, (c) diversifying the manufacturing process by installing cut-tear-curl processing, (d) strengthening the Tea Small Holdings Development Authority (TSHDA) extension and field development, (e) establishing the National Tea Training Centre, (f) improving housing and sanitation for at least 3,000 families who reside at private estates, (g) afforesting some 1,000 ha to be used later for timber and fuelwood purposes, and (h) improving feeder roads in some areas.

C. Evaluation of Design and Implementation (PCR assessment and validation)

- (i) **Relevance of design and formulation.** IED assesses the PPTA as *satisfactory* and notes that it was a sound basis for project formulation. Accordingly, IED finds that the project design was relevant and consistent with both Asian Development Bank (ADB) and government development objectives. IED, thus, concurs with the project completion report (PCR) evaluation that the project design was in accordance with the government's Public Investment Program of 1996–2000. Under this program, the private sector was expected to act as the catalyst for growth while targeted assistance to needy sectors, such as smallholders and estate workers, was highly encouraged. The program also promoted environment-friendly and sustainable agriculture and industry, which is a project objective. IED also agrees with PCR findings that the Project was relevant and consistent with ADB's medium-term operational strategy (1998–2003) for the country. IED believes that the PPTA was instrumental in soliciting the views of various stakeholders, which was crucial given the Project's nature.⁴

² Asian Development Bank (ADB). 1997. *Technical Assistance to the Democratic Socialist Republic of Sri Lanka for the Second Smallholder Sector Development Project* (TA 2784-SRI, approved 24 April 1997 for \$0.6 million) Manila.

³ IED was named the Operations Evaluation Department, or OED, until December 2008.

⁴ The PPTA reported that two workshops were held to discuss the technical assistance operation's findings. The workshops included a broad cross-section of industry representatives, consisting of smallholders, producers, factory owners, brokers, traders, financiers, and representatives from relevant tea agencies and government departments.

The Project also followed the normal ADB process of PPTA followed by an appraisal mission. Project design also considered various lessons from the STDP and past IED studies.⁵ Overall, the design remained relevant at project implementation until completion.

(ii) **Project outputs.** The resulting project outputs demonstrated mixed results.

Institutional reform and strengthening component. The RRP and PCR cited the importance of this component, which was intended to improve cess fund access and availability for field development and to increase the efficiency of tea-related institutions in service delivery. The PCR identified the institutions involved in the reforms as (a) TSHDA, (b) the Sri Lanka Tea Board, (c) the Tea Research Institute (TRI), and (d) the National Institute of Plantation Management (NIPM). According to the PCR, reforms of cess-financed institutions were undertaken slowly and only partially. In addition, the proposed consultant-led study of reforms scheduled for the Project's first year did not commence until the fourth year. Only three of the agreed reforms have been partially implemented: (a) cess allocation to smallholdings development (26% for TSHDA, but none for research); (b) bill passage amending the board constitution of tea-related institutions (excluding TSHDA's board); and (c) provision of the voluntary early separation package (VESP). Main reforms that were not implemented were cess reallocation for the purposes of the Project; amendments to existing or new enabling legislation to promote the independence of tea-related institutions from the Government; and conversion of NIPM into an independent, self-financed training organization. Based on the PCR, insufficient support among the institutions and changes in political commitment were reasons for the nonimplementation of the component as per appraisal design.

IED observes that back-to-office reports (BTORs) beginning in August 2000 noted the impending problems arising from political interventions. For the VESP, its gains were negated, as there were employees who refused to accept the package. IED also notes that the hiring of 50 additional employees for TSHDA before the VESP was fully implemented contributed to the VESP's partial achievements. This observation was also noted in PCR but was not reported in the Government PCR.

Credit component. As stated in the PCR, the credit line from the loan proceeds was fully used, exceeding targets in terms of (a) the credit amount (\$25.4 million, as compared to the target of \$20.5 million), and (b) credit-financed activities. As per the PCR, a revolving fund was established using credit payments for further onlending for the same activities; operations began in June 2006. IED notes that is rather late considering that the targeted approval was December 2004. Cess-financed field development was partly implemented (achieving 76% and 45% of the target areas for replanting and infilling, respectively), due to some delays in the release of cess funds and a lack of demand from smallholdings for infilling activities.

Noncredit component. This included the mother bushes program, strengthening of the TRI, rehabilitation of workers' housing and sanitation facilities, rehabilitation of feeder roads, afforestation of degraded land, and training programs from various stakeholders. As per the PCR, 120%, 212%, and 109% of targets were achieved, respectively, for the establishment of nurseries, rehabilitation of factories, and improvement of feeder roads. IED notes, however, that under project performance indicators (PCR, Appendix 1), the mother bush program achieved 93% (83.7 ha of 90 ha) of the revised target.⁶ Afforestation, on the other hand, achieved 97% of the revised target of 1,300 ha (from 1,000 ha).

⁵ ADB. 1997. *Country Synthesis of Postevaluation Findings in Sri Lanka*. Manila; and ADB. 1996. *Impact Evaluation Study of Bank Assistance to the Industrial Crops and Agro-Industry Sector*. Manila.

⁶ The original target of 80 ha was achieved, but it fell short of the revised target of 90%.

(iii) **Project cost, disbursements, borrower contribution, and conformance to schedule** (as relevant to project performance). The PCR stated that at appraisal, total project cost was estimated at \$93.8 million equivalent, consisting of a foreign exchange cost of \$24.0 million and a local currency cost of \$69.8 million equivalent. The actual cost was \$71.0 million, including a foreign exchange cost of \$17.2 million and a local currency cost of \$53.7 million equivalent. The lower-than-estimated project cost was attributed to the depreciation of the Sri Lankan rupee against the US dollar, as well as cost savings and/or underachievement of envisaged targets in some activities. IED concurs with the reasons given but finds inconsistency between PCR Appendix 3 and the figure in the basic data, specifically part C (project data) that placed the total actual cost at \$73.9 million.⁷

The PCR indicated that at completion, total disbursement was \$34.2 million, or 97% of the loan proceeds. At the Government's request, the loan savings of \$1.0 million, which was due mainly to local currency depreciation, was reallocated to the Road Network Improvement Project⁸ in July 2004. Although the revised loan closing date was 31 December 2005 (from June 2005), actual closure was on 10 April 2007, as closure was delayed until the Secondary Towns and Rural Community-Based Water Supply and Sanitation Project⁹ became effective (see also the October 2005 BTOR).¹⁰ The Project used an imprest account and statement of expenditure procedures, which helped eliminate liquidity constraints and reduced the accounting burdens associated with implementation of project activities. The PCR also noted that the turnover ratio of imprest account use over the project period was 3.88, which is higher than the 2006 ADB-wide average of 1.60.

At appraisal, government contribution was estimated to be \$24.3 million. In practice, actual expenditure was recorded by the PCR (page iii) at \$15.4 million. The lower-than-estimated project cost resulted from currency depreciation and underachievement of envisaged targets in some activities. The closing date was extended by 6 months given the disbursement in phases of the loans for replanting and the retention money for civil works (June 2004 BTOR). The Project's conformance to schedule was *partly satisfactory* given the slow progress during the first 3 years due to issues in implementing reforms, lack of cooperation from TSHDA, and budget revisions because of currency depreciation.

(iv) **Implementation arrangements, conditions and covenants, and related technical assistance.** The PCR stated that the Project adopted the implementation arrangements designed at appraisal. The Ministry of Plantation Industries (MPI) was the executing agency (EA) for the noncredit component, while the Central Bank of Sri Lanka (CBSL) was the EA for the credit component. A project management unit (PMU) was established under MPI for overall supervision and project implementation, including coordination with the three Implementing Agencies—TSHDA, TRI, and NIPM. CBSL's rural credit department had nine participating financial institutions (PFIs) to implement the credit component. According to the PCR, the PMU was tasked to facilitate the implementation of reforms, and was monitored by the MPI. However, the absence of technical staff at MPI—indicating lack of capacity—resulted in dependence on professionals in other tea-related institutions, which were also targets of reforms. This weakened reform effectiveness, which was further exacerbated by the absence of mechanisms to ensure that reforms were being implemented.

⁷ The concerned operations department confirmed that the figures reported in the basic data section are correct.

⁸ ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance to the Democratic Socialist Republic of Sri Lanka for the Road Network Improvement Project* (Loan 1649-SRI). Manila.

⁹ ADB. 2006. *Report and Recommendation of the President to the Board of Directors on Proposed Supplementary Loans to the Democratic Socialist Republic of Sri Lanka for Secondary Towns and Rural Community-Based Water Supply and Sanitation Project* (Loan 2276-SRI). Manila.

¹⁰ The undisbursed balance of 659,172.3 special drawing rights (\$997,572 equivalent) was reallocated to the Community-Based Water Supply and Sanitation Project, as agreed with the Government.

The EAs and ADB agreed on minor changes during implementation, including the modification of criteria of PFIs to improve access to the credit scheme and the inclusion of a government agency in training tea societies and associations. Covenants concerning institutional reforms and cess fund allocation were not fully complied with as compared to major loan covenants, which in general were complied with. The PCR viewed noncompliance as a major threat to project sustainability.

- (v) **Performance of the Borrower and the Executing Agency.** Overall, the performance of the EAs is rated as *satisfactory* by IED. This concurs with the PCR rating, given that performances of PMU and CBSL resulted in the delivery of most project output targets, and the loan was only extended once for 6 months. The PCR reported that the beneficiaries also appreciated the PMU staff. Further, the performance of CBSL and PFIs contributed to the achievement of targets and to improving the efficiency of project implementation (PCR, para. 17 and various BTORs). The performance would have been better if segregation and enhanced recording of fund utilization by project activities had occurred to ensure better monitoring and evaluation and financial management.

In contrast, the government's performance in the context of implementing the agreed policy reforms was *less than satisfactory*, as several loan covenants related to policy and institutional reforms were partly complied with. The Government failed to follow through with its strong interest in reforming tea-related institutions, which was witnessed during appraisal. In fact, this seeming willingness largely influenced loan approval. The PCR also reported that there was a deliberate rescheduling of a tea industry strategy study under the Plantation Reform Project, resulting in a delay in consultant recruitment and final report submission. The PCR further noted that the 2004 change in government caused further delay in the acceptance of the recommendations on tea-related institution restructuring due to (a) Parliament's inability to pass any bills for the first half of 2004, and (b) the perceived weaker support for private sector participation by the new government. The reasons cited in the preceding paras. were verified by IED during the conduct of the country assistance program evaluation of Sri Lanka.

- (vi) **Performance of Asian Development Bank.** ADB mounted nine missions, from an inception mission in August 1999 to a final review mission in October 2005. Including the Special Administration Mission of June 2000, ADB averaged 1.3 missions per year. Based on the BTORs, the missions reviewed project progress, including project outcomes and impacts; met with stakeholders, especially key agencies involved; sought solutions for implementation changes; and recommended changes in project scope and implementation arrangements as necessary. IED observes that most of the proposed changes were readily reflected. The resident mission's participation in some review missions, as indicated in the BTORs, also denotes a harmonious relationship between the two institutions and was appreciated by the EAs. The assignment of the Project to two ADB officers also implies that there was less adjustment for the EAs and ADB officer herself in terms of project management. Despite the late delivery of the PCR, IED rates ADB's performance as *satisfactory*.

D. Evaluation of Performance (PCR assessment and validation)

- (i) **Relevance.** IED assesses the Project as *relevant*. At the time of design, the Project supported the National Agriculture, Food and Nutrition Strategy of 1984, which emphasized enhancing the export earnings from tree and other export crops and promoting agroindustries. Further, it is also in accordance with the Public Investment Program of 1996–2000 as stated in section C(i). Government efforts to increase incomes of smallholdings and private tea estates through increased tea productivity and improved environment considerations is also well attuned to ADB's medium-term operational strategy (1998–2003) for the country. Project objectives were in line with ADB's strategy to address unemployment and poverty through (a) faster growth rates, (b) better access of the poor to productive assets, and (c) environmental improvement and protection. At the time of completion, the Project remained relevant as support to the tea industry, particularly smallholders, is also espoused in the 10-year plan under *Mahinda*

Chintana.¹¹ IED concurs with the *relevant* rating given by the PCR and also recognizes that the addition of tea factory workers' housing during the midterm review added to overall project relevance. IED also agrees with the PCR's statement that the change in government affected the political will and commitment to institute reforms in the sector.

- (ii) **Effectiveness in achieving outcome.** IED agrees with the *effective* rating given by the PCR, because (a) targets for lines of credit to finance replanting have been achieved and equitably distributed, with 80% of project credit facilities reaching growers with less than 2 ha in landholdings; (b) average tea yields in some areas have increased to 2,254 kilograms per hectare (kg/ha) at project completion, exceeding the average target of 1,650 kg/ha for lowland and middle and high elevation areas; (c) based on a 2005 survey, green leaf prices have increased by 35% due to better leaf quality attributed to project activities; (d) the same survey also noted farmer income improvements by 33% in nominal terms and 12% in real terms; (e) annual total tea production increased by 27,000 tons relative to the targeted 20,000 tons under the Project; and (f) although only 97% (1,263 of 1,300 ha) of the revised targeted reforested areas have been achieved, this is already 126% of the original target of 1,000 ha. The training program, however, was of limited benefit, as it was not fully completed.

IED notes that the institutionalization of credit culture, however, was not well achieved, as PFIs failed to establish a strong relationship with technical and extension staff (tea inspectors) to expedite the approval of loans and to create a better atmosphere, especially at the grassroots level, in which credit procedures could be manageable and efficient. There was also a staff shortage in PFIs that could market and promote credit, particularly for small teaholders in remote areas. On the environment side, IED notes that afforestation targets were achieved due to currency depreciation that resulted in more funds available for expanding area coverage. This is also indicative of concrete contributions to environmental improvements that are espoused under ADB country operational strategy. Outputs pertaining to the development of social infrastructure, particularly housing, were expected to improve the living conditions of tea workers. However, based on selected September 2006 site visits by the Operations Evaluation Mission, only selected workers in private estates had improved facilities, as counterpart funding from private estates was limited. Nonetheless, the 95% achievement of targets for houses and the provision of restrooms improved workers' living conditions.

- (iii) **Efficiency in achieving outcome and outputs.** IED rates the Project as *efficient*, concurring with the PCR findings in terms of investment and project management. The PCR noted that the overall project economic internal rate of return of 18% at appraisal remained the same at project completion, although there were some slight differences in the economic internal rates of return of each activity due to changes in scope and targets. Although IED agrees with the PCR that project management by PMU and ADB were both efficient, IED notes that the PCR failed to mention that (a) the absence of a project coordinator for at least 1 year led to poor and insufficient coordination between EA and PMU, resulting in project delays; (b) further, the absence of appropriate technical staff, such as a forester to attend to the forest component and a qualified engineer for feeder road construction, contributed to delays in afforestation and road construction. The audited project accounts encountered also delays, although there were no problems with cost overruns, cofinancing, or disbursement delays. In July 2004, the Board voted to reallocate or reemploy loan savings of \$1.0 million to the Road Network Improvement Project (footnote 8) to avail funds for emergency flood rehabilitation activities, which were considered high priority in early 2004. Although the reallocation may indicate project savings and was justified, in general, IED believes that this practice may not be appropriate, as funds could have been used in the latter stages of the Project as required.

¹¹ The existing Government vision under the new administration at the time of project completion.

- (iv) **Preliminary assessment of sustainability.** IED rates sustainability as *less likely*. IED notes that fluctuations in international tea prices remain the greatest threat to sustaining benefits from increased tea productivity. Although credit facilities, replanting, and nursery establishment will sustain tea productivity in the long run, low world tea prices will negate the incremental benefits from higher tea production. IED also notes project gains in institutional reforms are expected to be less likely sustained unless legal statutes support them.

The effects of the institutional reforms should be studied in terms of their intended benefits in reducing administrative costs, strengthening institutions, and facilitating better management. For example, the removal of certain administrative positions through the VESP may have affected the productivity and focus of remaining staff. The sustainability of infrastructure, such as feeder roads, is highly unlikely as there was no clear fund allocation for operations and maintenance. Moreover, the potential of local communities to contribute to operations and maintenance of rural feeder roads was not completely harnessed. Lastly, IED notes that the revolving fund intended to provide credit for tea-related activities can only be sustained if cooperation between the PFIs and tea inspectors is improved. A shorter loan processing time provides assurance to creditors that their applications are being processed.

The PCR shared the same observations in terms of sustainability. However, the PCR noted that credit is likely to be sustained, as the revolving credit line is operational and began onlending to eligible subborrowers using proceeds recovered from the credit line. The PCR also noted that the mother bush program is expected to continue given private sector involvement in operations. It viewed the improvement of workers' living conditions as less likely sustainable due to challenges in funding for new infrastructure and maintaining those already existing. The PCR strongly noted that the restructuring of tea-related institutions is unlikely to be sustainable given the frequent reversals in government policy toward envisaged sector reforms.

- (v) **Impact.** The Project's goal was to improve the competitive and comparative advantage of Sri Lanka in tea production. Although the Project failed to meet the goal indicators set at appraisal, which include a 2.9% growth rate in the plantation sector (it achieved only 2.5%), a 20% increase in unit yield (only a 2.7% increase occurred 1999 to 2005), and 20% share in cut-tear-curl production (it achieved only 7%), the PCR noted that project interventions had a positive impact, particularly on participating smallholdings. IED notes the following from the Operations Evaluation Mission, and the government and ADB PCRs: (a) the average smallholdings tea yield increased from 1,800 kg/ha (1999) to 2,450 kg/ha (2007), making Sri Lanka's smallholdings crop productivity higher than the average yield of the commercial sector and comparable with major tea producers in South India and Kenya; (b) development of commercial nurseries increased local patronage; (c) rehabilitation and modernization of private tea factories translated to a 46% increase in the output of made tea and 9% in main grades indicating tea quality improvements; (d) workers' housing improvements in 900 private estates, including the construction of 215 restrooms, resulted in improved worker attendance and management-worker relations; (e) average yield among participants increased by 33% (from 1,686 kg/ha in 1999 to 2,254 kg/ha in 2005), which increased total tea production by 27,000 tons annually; and (f) the feeder roads reduced travel time, leading to better tea leaf quality and higher prices for farmers and pluckers.

E. Overall Assessment, Lessons, and Recommendations (validation of PCR assessment)

- (i) **Overall assessment.** IED rates the Project as *partly successful*, similar to the PCR rating. IED concurs with the PCR that the Project is relevant and consistent with Sri Lanka and ADB's development strategies, and that the Project was implemented as it was conceived, albeit with minor changes. However, other targets were partly achieved such as (a) increasing the share in the cut-tear-curl production, and (b) the envisaged institutional reforms due to policy reversals concerning government and private sector roles. The physical and the economic results of project implementation were rated *efficient*. However, sustainability is rated *less likely* due to

probable challenges in funding and policy environment uncertainties.

- (ii) **Lessons.** The PCR identified several lessons: (a) a sound policy environment and an agency that has adequate mandate and firm commitment to push for reforms should be involved, (b) institutional streamlining should be merit-based, (c) mechanisms to sustain and replicate successful project activities should be created prior to project completion, (d) PMUs should be given more flexibility in modifying staff positions based on actual needs, and (e) the need for segregating and recording fund utilization by project activities should be a requisite for better financial management practices and gaining confidence of concerned stakeholders.

IED concurs with the identified lessons. In addition, safeguards should be required when major policy reversals are expected from projects. Specifically, a clear course of action, including other viable measures, should be identified.

- (iii) **Recommendations.** The PCR makes a number of recommendations (paras. 35–40) that pertain to sustaining project gains and to aid future project design and development. IED agrees and supports the recommendations made by the PCR. In addition, IED suggests that:

- (a) ADB should study institutional reforms that are intended to become part of loan covenants. Unless ADB is committed to a firmer stand or pressure to ensure covenant compliance, covenants of this type should be minimized, particularly if they are prerequisites to other project activities. If this cannot be avoided, ADB should push legislation or institutional changes by funding a small-scale technical assistance activity to test the social palatability of such proposals before the related proposed loan is negotiated. Government ownership is crucial for these types of projects.
- (b) The EA should monitor the ongoing lending involving the revolving fund, as its success remains the only venue for some small tea holders to sustain financing for their operations.
- (c) ADB should study the practice of reallocating loan proceeds or savings from one project to another to determine if it is a good practice. This Project can be a good example.

F. Monitoring and Evaluation Design, Implementation, and Utilization (PCR assessment and validation)

The RRP (para. 88) outlined the benefit monitoring and evaluation design that was to be implemented in the Project, and the project framework was summarized in Appendix 1. IED believes that this system assisted the PCR team in providing the summarized information in the project framework (PCR, Appendix 1). Although the PCR did not explicitly discuss the Design and Monitoring Framework, it showed that the data were fully used to support the discussions. The surveys conducted during the Project also contributed to quantifying possible project impacts and changes.

G. Other (safeguards, including governance and anticorruption; fiduciary aspects) (PCR assessment and validation)

The PCR noted that the Project did not anticipate any indigenous people issues at the time of appraisal, and this remained valid throughout implementation as no indigenous people work in the tea sector. No evidence of corruption or fund mismanagement was reported.

Appendix 2 of the PCR was devoted to the institutional reform and strengthening component. It focused on the special study under the Project, which formed the basis of specific reform recommendations toward tea-related institutions. IED concurs with the study's conclusion that institutional reforms and strengthening were weak because of lack of ownership of the Government and respective institutions involved. This, and the lack of adequate arrangements for financial management (particularly those involving several implementing agencies), is a governance problem that appears to have related more to inexperience in management rather than corruption.

H. Ratings	Project Completion Report	Independent Evaluation Review	Reason for Disagreement/Comments
Relevance:	Relevant	Relevant	
Effectiveness in Achieving Outcome:	Effective	Effective	
Efficiency in Achieving Outcome and Outputs:	Efficient	Efficient	
Preliminary Assessment of Sustainability:	Less Likely	Less likely	
Borrower and Executing Agency:	Partly Satisfactory	Partly Satisfactory	The PCR did not indicate a combined rating for the Borrower and the EA. IED agrees with the individual ratings under the PCR. The Borrower's performance was <i>less than satisfactory</i> , as the intended institutional reforms did not fully materialize. On the other hand, overall EA performance was <i>satisfactory</i> . The EA implemented major project components, and some project targets were even exceeded. Hence, IED rates the combined performance as <i>partly satisfactory</i> .
Performance of the Asian Development Bank:	Satisfactory	Satisfactory	
Impact:	Significant	Moderate to Significant	The Project had a significant impact on smallholdings but had moderate impact on institutional reforms. Given that significant improvements were expected during the time of project intervention, it will be interesting to see if such gains can be sustained in the long term.
Overall Assessment:	Partly successful	Partly successful	
Quality of PCR:		Satisfactory	See section I.

I. Comments on Project Completion Report Quality

IED assesses the PCR quality as *satisfactory*. It presented a sound analysis of the problems afflicting the Project as well as a critical but balanced analysis of the government PCR. The PCR also provided a useful discussion of the challenges in promoting institutional reforms in the tea sector. The PCR is consistent with PAI 6.07,¹² and its discussions were well supported by evidence based on project records.

¹² ADB. 2006. *Project Administration Instructions*. PAI 6.07: Project Completion Report. Manila.

J. Recommendations for IED follow up

The Project is not recommended for project performance evaluation. However, given considerable ADB support provided to Sri Lanka's tea industry, IED may consider a comprehensive performance evaluation of the industry in 2012 covering the Project, along with the ongoing Plantation Development Project (Loan 1913-SRI), which is expected to be completed in 2009. The evaluation would potentially cover (i) a comparative analysis of smallholder versus plantation tea producers, (ii) impact of credit component on tea producers' wellbeing, and (iii) impact of institutional and policy reforms in tea industry.

K. Data Sources for Validation

- (i) ADB's 1998 RRP, and 2008 PCR *on the Tea Development Project in Sri Lanka*;
- (ii) ADB's project performance reports and back-to-office reports (various years);
- (iii) Government of Sri Lanka's 2005 PCR; and
- (iv) Interactions and interviews with ADB project staff and EAs' staff.

REGIONAL DEPARTMENT'S RESPONSE TO THE PROJECT COMPLETION REPORT VALIDATION REPORT

On 18 December 2008, the Independent Evaluation Department (IED) circulated a draft validation report for the project completion report (PCR) for interdepartmental comments. IED received the following comments from the Agriculture, Natural Resources and Social Services Division, South Asia Department, and all relevant comments have been duly incorporated by IED in the final report.

Overall, we noted that the assessment in the draft project completion report validation report (PVR) is fair enough, and we would agree with its assessment, including the ratings provided in section H. We are also pleased with the satisfactory rating that was given to the quality of our PCR. However, we would like to provide the information that would supplement some descriptions in the draft PVR.

Section C (ii), para. 3, line 4: the PVR states, "IED notes that the PCR, however, inadvertently failed to provide reasons associated with exceeding credit targets." Unlikely for other components, the amount of the loan proceeds to be allocated to a credit line is not determined to meet the entire demand from potential users. This is because it is almost impossible to estimate the demand of a number of smallholders and private estates in the entire country. The demand is very high and the credit amount that the Project could provide is very limited. The amount for a credit line is usually determined based on the allocation to other components and the available ADB resources that can be allocated for the Project (as provided in the country partnership strategy and the indicative program figures). We expect that the revolving fund and the participating financial institution's lending from its own resources would further fill the huge gap between demand and supply, but did not intend to satisfy the entire demand. We thought that it would not be needed to explain such general background.

Section C (iii), para. 1: Thank you for pointing out the different project cost amounts between the basic data and Appendix 3. We noted that in the course of compiling the PCR, we inadvertently used an old version of Appendix 3 table. The figures in basic data are correct. Accordingly, figures in para. 7 of PCR should also be amended, replacing "the actual cost was \$71.0 million, including a foreign exchange cost of \$17.2 million and a local currency cost of \$53.7 million equivalent (in third through fourth lines)" with "the actual cost was \$73.9 million, including a foreign exchange cost of \$17.9 million and a local currency cost of \$56.0 million equivalent."

Section D (ii), para. 3, last sentence: Regarding the reallocation of \$1.0 million to Loan 1649-SRI: Road Network Improvement Project, we would like comment that (i) this was to avail funds for emergency flood rehabilitation activities, and (ii) the "savings" were identified by the Ministry of Finance, without paying attention to the Executing Agency's (EA) opposition. ADB agreed to the request as the flood rehabilitation works were considered higher priority in the situation of early 2004.

Section D (iii), line 18: "applications are being process" should be read "applications are being processed."

Section H: The PCR's rating of the Borrower and EA is indicated as *satisfactory*. However, the PCR did not indicate the combined rating for the Borrower and EA (paras. 17 and 18 of PCR). The PCR actually rated the EA's performance as *satisfactory* and that of the Government (meant Borrower) as *unsatisfactory*. Therefore, the combined rating would be *partly satisfactory*, which coincides with IED's review. It is suggested that the different ratings for the EA and Borrower be mentioned in the comment column.