



Validation Report

Reference Number: PCV: SRI 2008-15
Project Number: 32188
Loan Number: 1757
July 2008

Sri Lanka: Water Resources Management Project

Operations Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	executing agency
NWRA	–	National Water Resource Authority
NWSDB	–	National Water Supply and Drainage Board
OED	–	Operations Evaluation Department
PCR	–	project completion report
TA	–	technical assistance
WRM	–	water resources management
WRS	–	Water Resources Secretariat

Key Words

adb, asian development bank validation, pcr validation, project completion report, sri lanka water resources management project

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OED PCR VALIDATION REPORT

A. Basic Project Data		PCR Validation Date:	June 2008	
Project Number:	32188; Loan No. 1757		Appraisal	Actual
Project Name:	Water Resources Management Project	Total Project Costs (\$ million):	\$28.20	\$3.15
Country:	Sri Lanka	Loan/Credit (\$ million):	\$19.70	\$2.25
Sector(s):	ANR/WRM	Cofinancing (\$ million):	0.00	0.00
Financing (\$ million):	ADF: 19.7 OCR: 0.0	Borrower Contribution (\$ million):	\$8.50	\$0.90
		Beneficiaries (\$ million):	0.00	0.00
		Board Approval Date:	19 September 2000	
Cofinanciers:	–	Closing Date:	30 June 2006	
Project Officers:	P. Bozakov T. Panella K.H. Ryu M. Dembinsky P. Logan	Designation:	From:	To:
		Senior WRM Specialist	June 2006	2007
		Water Resources Specialist	2003	2006
		Project Specialist (WR)	2003	2006
		Rural Development Specialist	2001	2003
		Irrigation Engineer	2000	2001
Evaluator:	W.A.M. Kolkma	Director:	R. Keith Leonard, OED1	
Team Leader:	W.A.M. Kolkma Senior Evaluation Specialist			

ADF = Asian Development Fund, ANR = agriculture and natural resources, No. = number, OED = Operations Evaluation Department, OCR = ordinary capital resources, PCR = project completion report, WR = water resources, WRM = water resources management.

B. Project Description (as stated in the Report and Recommendation of the President)

"The Project is designed to improve the management of water resources in Sri Lanka. It will support the implementation of policy and institutional reforms that the Government has recently approved, which include setting up a new apex body, the National Water Resource Authority (NWRA). The Project will build capacity in the NWRA to fulfill its mandate of managing the country's water resources and establishing working linkages with key partner agencies in the water sector. Capacity will be developed through practical exercises to resolve existing conflicts in three river basins. Infrastructure will also be constructed under the Project to improve water resources management (WRM)."

- (i) **Rational.** "Rapid industrial growth, urbanization, and increasing water demands in the agriculture sector in recent years have caused increasing stress on Sri Lanka's water resources and highlight the importance of more efficient and holistic management of the resource. Inefficiencies have been exacerbated by the fact that a number of agencies exploit the water resource but operate more or less independently of each other, with no single agency having a mandate for overall management. Both the Government and the Asian Development Bank (ADB) place a high priority on establishing the NWRA, and ensuring that it functions effectively with existing water resources agencies so as to rectify the current inadequacies. During project preparation, the Kelani Conservation Barrage will protect the water supply to Greater Colombo, which is threatened by increasing salinity intrusion into the mouth of the Kelani River and lowered river levels at the pump intakes. To accurately quantify the available river flows at critical times, it is also proposed that low flow weirs be constructed at strategic locations in the key rivers. Undertaking these activities

will prepare the country for sustainable and equitable management of its water resources in the future. It will meet the development objectives of both the Government and ADB by furthering the potential for rational and sustainable economic development, and improving the well-being of a significant number of the poorer citizens of the country."

- (ii) **Objectives or expected outcomes.** "The objective of the Project is to strengthen the Government's capacity to manage its water resources in a sustainable, participatory, and transparent way. It will be implemented in two parts: (a) capacity building to assist in establishing NWRA, and strengthening existing agencies in the water sector (Part A); and (b) construction of urgently needed infrastructure for control and measurement of water resources (Part B)."
- (iii) **Components.** "Part A: (a) establishment of NWRA and its operational links to other water agencies, including provision of office facilities, transport, specialized technical equipment, and related technical assistance; (b) database improvement for water resource data collection and information management by modernizing and expanding the monitoring and data management and sharing facilities; and (c) strengthening of WRM by supporting the implementation of plans in three pilot river basins. Part A will build capacity by providing practical exercises in the resolution of real water use problems and covering the activities that NWRA will be expected to undertake as a full-fledged operational agency. A substantial part will be demand-driven training and demonstrations, designed in response to needs as the work progresses. The training will include twinning arrangements with established river basin organizations in developed or ADB's regional countries.

Part B (construction): (a) the Kelani Conservation Barrage to restore the capacity of the water supply intake for Greater Colombo at Ambatale, and (b) six low flow measuring weirs for accurate measurement of low flow in selected critical rivers where there is competition for water."

C. Evaluation of Design and Implementation (evaluation assessment of actual versus envisioned)

- (i) **Relevance of design and formulation.** The assessment by ADB's project completion report (PCR) of the relevance of the Project's purpose can be validated, and this PCR validation reinforces the PCR's misgivings about the soundness of the design. The PCR regards the design of part A as sound by itself. Given the unexpected public opposition against the proposed legislative changes and creation of a new apex water body, as supported by part A, this assessment may be too positive. The PCR rightly questions the linkage between parts A and B; and the centrality of the covenant in Schedule 6, para. 9 (c) that prevents implementation of part B unless progress with part A is satisfactory. Part B could have been undertaken and succeeded without part A, as posited by the PCR and supported by this validation. The rigid covenant doomed most of part B and with it the whole Project, rather than only part A of the Project. The PCR probably rightly mentions: "with the establishment of NWRA as the major loan covenant, even other supporting activities in part A (such as database development and capacity building) failed to be accomplished."

A question is why a major scope change relinquishing the covenant on the linkage between parts A and B never took place. The PCR states the following: "If the covenant had been changed at that stage to a less stringent condition, such as creating a strong organizational unit within the existing institutional framework, the Project would have had a chance of proceeding as planned." But "the system was too intransigent to react properly." The project officer has clarified that for a long time the originally approved reforms were set to be implemented. The Government had approved a national water policy/law. But due to public opposition that developed later on, actual parliamentary approval was delayed time and again. The opposition focused on the deletion in the new law of cost sharing for WRM through charges for bulk water entitlements, which were construed as additional charges hurting the

poor. Since the law was perceived as promoting privatization of water resources that could conceivably lead to a sell-off to multinationals, a decision on cost-sharing could not be reached over the years. By the time that ADB needed to take a final decision on implementation of the Kelani Barrage (already designed, and at the stage of award of contract for construction), new factions within Government were questioning the earlier feasibility studies and asking for additional studies for entirely new water management investments upstream, meanwhile delaying implementation of the Kelani Barrage.

- (ii) **Outputs and Costs as Envisioned during Appraisal as Compared to Actual Costs and Achievement of Outputs; Reasons for Any Deviation.** The total expenditure incurred by the Project was \$3.15 million, compared to the estimated cost at appraisal of \$28.2 million. This shows that the Project failed due to lack of implementation, rather than to failed implementation with loss of investment due to either low quality output or low use of output. The loan savings were transferred to other projects. Most of part A was not undertaken. Some expenditures were incurred on awareness workshops, and surface and groundwater monitoring. For part B, the smaller of the two components was accomplished; the construction of low-flow weirs, with years of delays, which the PCR explains very well.
- (iii) **Project Cost, Disbursements, Borrower Contribution, and Conformance to Schedule** (as relevant to project performance). As indicated, disbursements were exceedingly low, and the loan was closed on schedule by 30 June 2006; although the Project was not completed by then. Part A had been suspended for some time; and part C, which was added by September 2004 to help draft a revised NWRA policy with the needed consultation, had been suspended since 2005. Part A was suspended once again when the Government decided not to provide an operating budget for the executing agency (EA) in 2006.
- (iv) **Implementation Arrangements, Conditions and Covenants, and Related Technical Assistance (TA).** The implementation arrangements made at appraisal were adequate, but after approval confusion set in about implementation of the policy and institutional reforms. This was compounded by the fact that the EA for part A was shifted from one ministry to another, six times. Furthermore, too many staff were seconded from other institutions, and could leave the Water Resources Secretariat (WRS) on short notice. The recruitment of contractual staff, with far higher salaries than regular government staff, was a mistake. This made the creation of an integrated team to implement part A very difficult. Part B was implemented by the National Water Supply and Drainage Board (NWSDB).

The PCR states that the main covenant was not complied with. In fact, seven of the 44 covenants were not complied with, and six were only partly complied with. Most of these were derived from the main covenant, but there were some other noncompliant covenants as well.

The PCR assessed that the TA that preceded the Project was sound and provided a relevant basis for the project design; but that its work had not been sufficient to generate the necessary public acceptance of the reform agenda. This report disputes this assessment—the mixing and linking of the two parts of the Project was inappropriate from the start, and seems to have been typical of a time in ADB when there was a strong push for leveraging policy reform at a high risk of jeopardizing an investment project whose success was not directly dependent on the policy reform.

- (v) **Performance of the Borrower and EA.** The PCR rates the overall performance of the Borrower and EA as *partly satisfactory*, which this validation confirms. Part of the public outcry could not have been predicted; but in general, the Government was too optimistic, as was ADB. The continuous shifting of the EA was disappointing, as was the lack of assignment of operating budget to the WRS from 2006 onward. Another disappointment was the development of a new draft act, which mixed regulatory and development functions of the new authority to be created. The shifting of the Government's priority by 2006 to a new large-scale

dam upstream from the Kelani Barrage was also unsatisfactory. ADB rejected the Government's Irrigation Department proposal for ADB financing of a feasibility study for upstream reservoirs, as it deviated from the project scope at a very late stage (June 2006). ADB did not find the terms of reference of satisfactory quality. ADB received a Government PCR for only part B of the Project, prepared by the NWSDB. It rated the component as partly successful, as only 47% of part B was implemented.

- (vi) **Performance of ADB:** The PCR rates ADB's performance as satisfactory, although "ADB could have involved the Sri Lanka Resident Mission more to assess the political implications of the emerging objections." In the view of the Operations Evaluation Department (OED), ADB could have changed the Project more radically. At the stage of management review, discussion of the crucial covenant regarding the linkage of parts A and B was insufficient. ADB fielded eight review missions; this was satisfactory. By February 2006, a review mission was preparing to save part B by proposing the cancellation of parts A and C. But "until the Government indicated in February 2006 that alternative solutions to the Kelani River constraints had to be explored, ADB was considering continuing at least with the implementation of some of the project components." Changing the project scope in 2006 was essentially already too late. ADB appropriately canceled the Project in 2006 when it realized that the Government had not budgeted operational budget for the interministerial WRM task force for 2006. ADB performance is viewed here as *partly satisfactory*.

D. Evaluation of Performance (Evaluator assessment)

- (i) **Relevance.** The PCR rates the Project as *relevant*. OED regards this Project as *partly relevant*. The Project's two purposes—policy and institutional reform, and the water resource investments—are both clearly relevant. However, the actual design of the Project linked the two, which in retrospect was not essential. Two projects, or perhaps one investment project and a TA for the reform process, would have been better.
- (ii) **Effectiveness in Achieving Outcome.** Only the low-flow measuring weirs component could be rated as effective, but this component is minor. The PCR rates the Project as *ineffective*, and this validation concurs with that rating.
- (iii) **Efficiency in Achieving Outcome and Outputs.** The PCR rates the Project as *inefficient*, and this validation concurs with that rating.
- (iv) **Preliminary Assessment of Sustainability.** The PCR rates the Project as *less likely to be sustainable* as almost no project outcomes were achieved. This validation concurs with that rating. "Despite a number of attempts to initiate less sensitive project components (such as database improvement, initial river basin planning, and infrastructure development), the Project failed to complete any of these activities."
- (v) **Impact** (both intended and unintended). The PCR assesses that the only impact was creation of awareness among concerned water professionals, nongovernment organizations, and water sector officials.

E. Overall Assessment, Lessons, and Recommendations (Evaluator assessment)

- (i) **Overall Assessment.** OED concurs with the PCR's rating of the Project as *unsuccessful*, and also with the view that the Project generated some interest about WRM and some other issues; and that under part B, some small achievements were made.
- (ii) **Lessons.** The PCR's lessons are succinct and to the point, and OED has little to add. A recent OED study (Special Evaluation Study on Asian Development Fund VIII and IX Operations) highlighted the conclusion that very diverse project objectives in the reform area and infrastructure development should be put in each other's critical path only if absolutely

necessary. Reform requires extended periods of stakeholder consultation, public awareness campaigns, and political consensus creation—activities that are to a large extent political.

- (iii) **Recommendations.** The recommendations of the PCR flow well from the discussion in the main text, and OED supports these.

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

The PCR reflects the following loan agreement covenant on benefit monitoring and evaluation: "For Part A of the Project, monitoring activities by the Policy and Planning Division of WRS/NWRA shall include: (i) an annual review and evaluation of the implementation and results of the training program and general assessments of performance outputs by the recipients of training, including staff effectiveness, to conduct assigned tasks once staff return to their regular duties; and (ii) an annual review of the data collected through the Database Improvement component. For Part B of the Project, the benefits of the Kelani Conservation Barrage will be assessed by NWSDB through (i) regular monitoring of the quantity and quality of water being supplied to Greater Colombo, through the Ambatale pumping station; (ii) measuring salinity and water levels below the Kelani Conservation Barrage while it is in operation (during low flow periods), and comparing these with records taken at the point of intake; and (iii) measuring the quality and quantity of water reaching domestic users." The PCR then reports appropriately: "Not complied with for Part A. Assessment and monitoring reports for the Kelani Conservation Barrage need not be submitted since the Kelani Conservation Barrage was not constructed." One of the main recommendations is that sufficient resources must be allocated to monitoring the implementation of reforms.

G. Other (safeguards, fiduciary, unintended impacts—positive and negative)

The PCR states that no issues were connected to involuntary resettlement, environment, and indigenous peoples safeguards in the components that were executed, such as the low-flow weirs; and this PCR validation agrees with this explanation.

H. Ratings	PCR	OED Review	Reason for Disagreement/Comments
Relevance:	Relevant	Partly Relevant	The design of the Project was ultimately unsatisfactory in spite of the need for policy, institutional reform, and investments in water management.
Effectiveness in Achieving Outcome:	Ineffective	Ineffective	
Efficiency in Achieving Outcome and Outputs:	Inefficient	Inefficient	
Preliminary Assessment of Sustainability:	Less likely to be sustainable	Less likely to be sustainable	
Borrower EA:	Partly satisfactory	Partly satisfactory	
Performance of ADB:	Satisfactory	Partly satisfactory	ADB should have taken a more radical decision in about 2004.
Impact:	No significant direct impacts	No significant direct impacts	
Overall Assessment	Unsuccessful	Unsuccessful	
Quality of PCR		Highly satisfactory	

I. Comments on PCR Quality

The PCR is of high quality with very insightful analysis of what went wrong with the Project. The lessons and recommendations are very much appreciated. The role of ADB could nevertheless have been analyzed in a more incisive fashion. The PCR rates ADB's performance as satisfactory, although in terms of project design and decisive follow-up when a radical change in the Project was needed, ADB's project administration did not rise to the challenge.

J. Recommendations for OED Follow-up

The Project is not recommended for a project performance evaluation report or other type of study by OED.

K. Data Sources for Validation.

Back-to-office reports, PCR, report and recommendation of the President, and consultations with South Asia Department staff.

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

On 25 April 2008, the Operations Evaluation Department (OED) circulated a draft validation report for the project completion report for interdepartmental comments. OED received the following comments from the Agriculture, Natural Resources, and Social Services Division of the South Asia Regional Department:

“Thank you for sharing the draft validation report with us and for your kind words regarding the quality of the project completion report (PCR is highly satisfactory in OED opinion). While we generally agree with the OED validation, we have different views regarding the following:

- (i) **Relevance of Project Design** (OED proposes less relevant as against relevant in PCR). It may be noted that as the time of project preparation, the Project was consistent with the Government's policy for establishing policy and institutional framework for sustainable water resources management, and financing of prioritized water management infrastructure. Since the Government continues to pursue improvements of water sector performance and, through broad consultations, is seeking the consensus for adopting a commonly accepted National Water Policy, in our opinion, the project design could be considered relevant.
- (ii) **Asian Development Bank (ADB) Performance** (partly satisfactory in OED review as against satisfactory in PCR). OED is of the opinion that ADB should have taken a more radical decision regarding the project implementation in 2004. Please note that by that time ADB has approved the creation of Part C, aimed to revise the draft National Water Resources Policy, and commence broad consultative activities to solicit public support; and the Government had confirmed their commitment to this process. Therefore, this decision was considered the best option to continue supporting the Government in implementing the key principles of integrated water resources management.”