



# Validation Report

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Reference Number: PCV: SRI 2008-70  
Project Number: 29601  
Loan Number: 1552-SRI (SF)  
May 2009

## Sri Lanka: Second Perennial Crops Development Project

Independent Evaluation Department  
**Asian Development Bank**

## ABBREVIATIONS

|      |   |  |
|------|---|--|
| ADB  | – | Asian Development Bank                     |
| CBSL | – | Central Bank of Sri Lanka                  |
| IA   | – | implementing agency                        |
| IED  | – | Independent Evaluation Department          |
| M&E  | – | monitoring and evaluation                  |
| PCDP | – | Perennial Crops Development Project        |
| PCR  | – | project completion report                  |
| PFI  | – | project financial institution              |
| PMO  | – | project management office                  |
| PPTA | – | project preparatory technical assistance   |
| RRP  | – | report and recommendation of the President |
| SDR  | – | special drawing rights                     |
| TA   | – | technical assistance                       |

## NOTE

In this report, “\$” refers to US dollars.

### Key Words

adb, asian development bank, ied, independent evaluation department, oed, private sector agricultural extension, project implementation, second perennial crops, sri lanka, validation

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|---------------------|--|
| <b>Director</b>     | R. B. Adhikari, Independent Evaluation Division 1, Independent Evaluation Department (IED)   |
| <b>Team leader</b>  | G. Rauniyar, Senior Evaluation Specialist, Independent Evaluation Division 1, IED  |
| <b>Team members</b> | A. Morales, Evaluation Officer, Independent Evaluation Division 1, IED<br>V. Melo, Operations Evaluation Assistant, Independent Evaluation Division 1, IED |

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## PROJECT COMPLETION REPORT VALIDATION FORM

|  |   |                                   |                      |               |
|--|---|-----------------------------------|----------------------|---------------|
| <b>A. Basic Project Data</b>                   |   | <b>PCR Validation Date:</b>       | May 2009             |               |
| <b>Project and Loan Number:</b>                | 29601<br>1552-SRI (SF)                            |                                   | <b>Approved</b>      | <b>Actual</b> |
| <b>Project Name:</b>                           | Second Perennial Crops Development Project        | <b>Total Project Costs (\$M):</b> | 35.77                | 31.38         |
| <b>Country:</b>                                | Sri Lanka   | <b>Loan (\$M):</b>                | 19.98                | 18.84         |
| <b>Sector:</b>                                 | Agriculture and Natural Resources                 | <b>Total Cofinancing (\$M):</b>   | 0.00                 | 0.00          |
| <b>ADB Financing (\$M):</b>                    | <b>ADF:</b> 19.98                                 | <b>Borrower (\$M):</b>            | 5.09                 | 2.84          |
|  | <b>OCR:</b> 0.00                                  | <b>Beneficiaries (\$M):</b>       | 7.54                 | 6.08          |
| <b>Cofinancers:</b>                            | 0.00  | <b>Others (\$M):</b>              | 3.16                 | 3.62          |
| <b>Approval Date:</b>                          | 25 Sep 1997                                       | <b>Effectiveness Date:</b>        | 2 Jul 1998           | 28 Aug 1998   |
| <b>Signing Date:</b>                           | 3 Apr 1998  | <b>Closing Date:</b>              | 30 Jun 2004          | 10 Apr 2007   |
| <b>Project Officers:</b>                       | <b>Name:</b>                                      | <b>Location (HQ or RM):</b>       | <b>From</b>          | <b>To</b>     |
|  | A. T. Loh   | HQ                                | 1998                 | 2004          |
|  | P. Heytens  | HQ                                | 2004                 | 2004          |
|  | D. Walton   | HQ                                | 2004                 | 2004          |
|  | M. Mongiorgi                                      | HQ                                | 2005                 | 2007          |
| <b>Validator:</b>                              | J. Cook<br>Consultant                             | <b>Director:</b>                  | R. B. Adhikari, IED1 |               |
| <b>Quality Control Reviewer/Peer Reviewer:</b> | G. Rauniyar<br>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, SDR = special drawing rights, SF = special fund, SRI = Sri Lanka.

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| <p><b>B. Project Description</b> (summarized from the Report and Recommendation of the President [RRP])</p> <p>(i) <b>Rationale.</b> Although perennial crops (e.g., spices, fruits, and beverage crops) contributed only 3.4% to Sri Lanka's agricultural gross domestic product, it was the fastest growing subsector in terms of contribution to agricultural exports, growing at an average of 8.3% during 1990–1995.<sup>1</sup> Therefore, a need arose to improve research, extension, seed quality, and other support services for this sector. The Second Perennial Crops Development Project (the Project),<sup>2</sup> which followed the first Perennial Crops Development Project (PCDP),<sup>3</sup> was developed to assist the Government in its effort to promote crop diversification in Sri Lanka.</p> <p>(ii) <b>Impact.</b> The Project was expected to grow Sri Lanka's agricultural sector by raising the annual growth in production of the perennial crops subsector to 3.4%. It was also anticipated that the Project would contribute substantially to the Government's objectives, at the time of design, relating to privatization of agricultural extension services.</p> |
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<sup>1</sup> The project completion report (PCR) is incorrect in its summary of the Project's rationale as included in RRP. The PCR noted that the subsector's contribution to the agricultural gross domestic product was 16%, as well as its overall growth rate as 8.3%. The RRP indicated a contribution of 16% to agricultural exports and an export value growth rate of 8.3%.

<sup>2</sup> Asian Development Bank (ADB). 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to Sri Lanka for the Second Perennial Crops Development Project*. Manila.

<sup>3</sup> ADB. 1988. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to Sri Lanka for the Perennial Crops Development Project*. Manila.

(iii) **Objectives or expected outcomes.** The Project aimed to (a) support further perennial crops development through a more commercial approach to farming, and (b) institute measures to ensure sustainability of credit facilities and extension services for perennial crop farmers. These objectives were reported by the RRP to be in line with the Government's objectives to increase enterprise profitability and farms' income, broaden the agricultural export base, and promote greater private sector participation in agriculture. The Project targeted three perennial crop subsectors: fruits, spices, and flowers and foliage. Plantation crops (e.g., tea, coffee, and rubber) were excluded. The Project extended to 17 of Sri Lanka's 25 districts and seven of its nine provinces. At appraisal, project activities were expected to expand to the Northern and Eastern Provinces when peace was restored in these areas. However, despite the signing of a 2002 peace agreement, the Project remained confined to the seven provinces, probably due to most of the planned project period having elapsed.

(iv) **Components and outputs.** The Project had five components:

- (a) a credit line for perennial crop development and processing;
- (b) provision of farm advisory, marketing, and technical extension services on a commercial basis;
- (c) research on perennial crops;
- (d) seed and planting materials development; and
- (e) institutional strengthening, including support to the project management office (PMO) and Central Bank of Sri Lanka (CBSL), training of farmers and implementing agency (IA) staff, as well as consultancy services.

At appraisal, physical targets included (a) providing subloans to 10,000 subborrowers (farmers and agroprocessors) for crop development, nursery operations, and agroprocessing; (b) providing technical and advisory services to 10,000 farmers and agroprocessors; (c) diversifying 20,000 hectares (ha) into perennial crops and intercropping with short- and medium-term crops to produce around 40,000 tons of high-value crops; (d) generating 12,000 person-years of employment during the development stage and 1,300 person-years of employment during the mature stage; and (e) establishing a private entity to provide extension services to farmers and agroprocessors.

### C. Evaluation of Design and Implementation (Project Completion Report [PCR] assessment and validation)

(i) **Relevance of design and formulation.** The project design built on the PCDP experience, with lessons learned from that project included in RRP. The design followed the typical Asian Development Bank (ADB) project preparatory technical assistance<sup>4</sup> (PPTA) process followed by appraisal in June–July 1997. In addition to designing the Project, the PPTA developed a concept for a useful seed production subproject, which was not realized. The Government's PCR (sections 2–2.3) criticizes the PPTA for its lack of assessment of collaborating institutions' needs. However, in other respects, the PPTA report provided a sound basis for project design.

Although the Project was designed prior to the PCDP's closure, the overlap had significant advantages, particularly in the Project's ability to recruit extension officers from the PCDP (back-to-office report, November 1998, para. 7) as well as overall continuity in the PMO. However, the Inception Mission's back-to-office report notes that loan signing was delayed "because the Government had changed three staff (members) in the PMO."

The Independent Evaluation Department (IED)<sup>5</sup> notes that the Project's design monitoring framework was weak. It was clearly undertaken after project design was completed and was, consequently, not used as a design tool. The project's objectives and targets were poorly

<sup>4</sup> ADB. 1996. *Preparing the Second Perennial Crops Project*. Manila.

<sup>5</sup> IED was named the Operations Evaluation Department, or OED, until December 2008.

defined, while almost every objective had project monitoring, review, and completion reports as the mechanism for monitoring performance. In practice, no relevant monitoring reports were prepared, except for information on lending by project financial institutions (PFIs). Analysis of available secondary data sources at the time of design could have assisted project management to obtain more relevant information. Similarly, the assumptions column of the design monitoring framework had a major focus on “strengthened implementation capacity of PMO,” which was not very useful, since it was well within the Project’s capacity to undertake and was, in fact, an activity.

(ii) **Project outputs.** Outputs were largely in line with appraisal targets.

**Credit component.** The Project’s major activity was the credit line, which provided low-cost credit to farmers to carry out such eligible subprojects as (a) perennial crop field development, including intercropping with short- and medium-term crops and livestock development in association with perennial crops; (b) nursery operations; (c) post-harvest processing and agroprocessing; and (d) market development by wholesalers and exporters. The progress of the credit component was slow during the Project’s first 2 years due to (a) credit officers’ inadequate agricultural knowledge (especially regarding the suitability of crops suggested in development plans, their costs, and returns); (b) PFIs’ inadequate knowledge of the Project and unclear operating instructions prepared by CBSL for the credit scheme; and (c) reluctance of credit officers at some PFIs to appraise and approve agricultural and small loans, as well as to accept relaxed collateral requirements for them. After conducting seminars for the PFIs’ credit officers and awareness programs for potential borrowers, demand for the credit line picked up in the Project’s third year. However, although the Project’s credit line was fully utilized, it only attracted around half the planned number of subborrowers.

In addition, the area developed for perennial crops was approximately 36% of the envisaged 20,000 ha. The PPTA report did not indicate how the estimated area linked to the available need for credit, which is significant since the area actually covered was low compared to the target. Several reasons for this may exist—e.g., the underbudgeting of crop establishment costs and, thus, the demand for credit per ha; the fact that 41% of lending was for nurseries and agroprocessing, limiting a need for farmland; and/or a lack of precision by the PPTA and appraisal in calculating area that could be developed with planned credit resources. Perennial crop development funded by the credit lines was also lower than planned, with SLRe0.04 billion or around \$14 million of total credit allocated out of a total estimated cost of credit approaching \$24 million. Around 23% of credit was allocated to agroprocessing, and 17% to nursery development with, respectively, no or limited demand for land area. The extent of the credit component’s underperformance in terms of area coverage was, therefore, less significant than implied by the low percentage of target area covered.

If subborrowers were existing clients of PFIs, the Government PCR (sections 2–7) indicated that they could approach the PFIs directly. In such situations, the PMO often had no record of the purpose of a loan or location of the investment. The PCR reported that a common system for approval of subloans was suggested to avoid this problem during subsequent projects.

No reliable data were obtained by the PCR on loan recovery at project completion. However, the overall loan recovery rate was reported by CBSL to have been above 90%, on average. The National Development Bank had the highest recovery at 95%, and Sampath Bank had the lowest at 90%. The lack of detailed analysis of subloan performance is a significant weakness of the PCR.

Moreover, establishment of the planned revolving fund using credit repayments was substantially delayed from its planned commencement in 1999 until 2006, reportedly due to the long process of gaining Treasury approval. Even then, the approved amount of the fund was limited to SLRe300 million or less than 20% of the credit line of SLRe1.76 billion. At the time of the Project Completion Review Mission, 1,127 borrowers had applied for new loans totaling SLRe444 million.

**Noncredit components.** A major aim of the Project was to test the potential to introduce private extension services. Following initial expressions of interest by 30 organizations, a short list of 12 was drawn up from which three were awarded contracts covering all except one of the Project's 17 districts. In practice, the companies did not charge for their services, apart from an initial fee of 2.5% of the loan value for preliminary loan assistance, and the Project was, thus, not able to demonstrate the feasibility of a "user-pays" extension.

During the Project, extensive training programs were conducted, with attendance numbers exceeding the target. Major extension activities implemented by the PMO included (a) awareness and promotional programs (909 programs for 22,830 attendees); (b) advisory services for subborrowers for preparing loan applications, subproject proposals, cash flow forecasts, and other documents needed by PFIs; (c) training programs (652 programs for 11,352 farmers), field days and practical demonstrations (40 sessions with 704 participants), seminars on marketing and processing (12 programs for 414 participants), and similar skill development programs for farmers; and (d) seminars for investors and bank officers (56 seminars for 1,124 participants). Many of the training programs occurred during the last year of the Project, and ADB staff members expressed concern that the trainings were rushed (back-to-office report, September 2005).

The Project's research component also funded relevant institutions, such as the Coconut Research Institute of Sri Lanka, Department of Agriculture, Department of Animal Production and Health, and National Botanic Gardens. It also promoted contract research in perennial crops by awarding grants to potential researchers through the Council for Agricultural Research Policy and the National Agribusiness Council. Through the Department of Export Agriculture, Seed Certification Service, and Seed & Planting Material Development Center of the Department of Agriculture, the Project strengthened seed production programs by supporting (a) institutional strengthening, research, and development activities relating to agricultural crops for export (e.g., pepper, coffee, and vanilla); (b) production of quality planting materials from mother plants; and (c) training on seed production for farm managers.

The Project assisted the Department of Animal Production and Health in upgrading the sheep flock by issuing 483 quality breeding animals to farmers and establishing four regional sheep breeding units. It supported the goat improvement program by importing 1,592 Jamnapari goat does and goat semen from India for artificially inseminating goats.

Laboratory facilities were acquired for the general virology, molecular virology, tissue culture, and virus epidemiology laboratories. The Coconut Research Institute of Sri Lanka administered an adaptive research program to evaluate perennial intercrops with coconut for different agro-ecological zones and established 125 research sites in 15 districts. The activities of the National Botanic Gardens, undertaken to overcome the most important factors limiting the industry's expansion (i.e., the supply of quality planting material and dissemination of technical know-how) included upgrading nursery facilities to increase the production of basic plant material as well as training of growers. The Council for Agricultural Research Policy and the National Agribusiness Council approved and administered 46 and 13 research programs, respectively, for 10 different institutions and 39 researchers.

The Department of Export Agriculture, Seed Certification Service, and Seed and Planting Material Development Center undertook extensive plant propagation, certification, support, and extension activities. The Department of Export Agriculture, for example, trained around 26,000 farmers through programs and field days, established 180 export agriculture demonstration plots, and maintained 600 ha of export crop cultivation in 14 districts using improved agricultural practices.

(iii) **Project cost, disbursements, borrower contribution, and conformance to schedule.**

At appraisal, the total project cost was estimated at \$35.8 million equivalent, consisting of \$9.5 million in foreign exchange costs and \$26.3 million equivalent in local currency. Actual costs amounted to \$31.4 million, with the reduction due to devaluation of the Sri Lankan rupee against the dollar. There were savings in activities relating to farm advisory, marketing and technical services, research, and seed and planting materials, but the PMO's spending was higher than estimated because its envisaged restructuring into a smaller unit during project implementation did not occur. The cost of local training activities was overestimated at appraisal, while the cost of equipment and vehicles was underestimated.

(iv) **Implementation arrangements, conditions and covenants, related technical assistance, and procurement and consultant performance.**

Implementation arrangements appear to have been appropriate, with the PMO following on from the successful implementation of PCDP. The Project worked with a large number of IAs, and the PMO should be commended for implementing a complex project over much of the country with few reported problems. Covenants were mainly complied with. However, full privatization of the extension services was not feasible following a change in the Government and a reduced emphasis on the privatization of rural support services. In addition, long delays were experienced in approving the credit revolving fund.

Technical assistance (TA) was provided for privatization of advisor services for perennial crops from February 1999 to October 2003 at a cost of \$550,000.<sup>6</sup> The TA was expected to (a) conduct a feasibility study for privatization of extension services, (b) facilitate consultation between sector stakeholders, (c) assist in the formation of a new private sector entity, and (d) monitor the activities of the new entity. Although components c and d were not undertaken, the PCR rated the TA as *successful*, as it demonstrated that the private sector is capable of providing extension services. While in principle, farmers are prepared to pay for extension services, the three extension service providers did not charge directly for extension advice, apart from the provision of assistance in preparing loan documentation, which was charged at a standard fee. The PCR was, thus, optimistic in claiming that the recipients of extension were prepared to pay. This may be true, but was not demonstrated by the Project.

Only 3 months of consultant input was planned to assist the PMO in monitoring and evaluation (M&E) system design, among the lowest amounts in all of ADB's rural sector projects. In practice, an international consultant could not be located during the Project, and a local consultant was recruited late in the project period. The PMO considered its performance to be *satisfactory*, despite the fact that M&E during the project period was inadequate.

(v) **Performance of the Borrower and Executing Agency.**

IED rates the overall performances of the Borrower, executing agencies, and IAs as *satisfactory*. The PMO's performance during the first year of the Project was weak but improved over the course of the Project (back-to-office report, September 1999, para. 5). Following a slow start, implementation proceeded smoothly, though with a bunching of loan approvals and training activities late in the project period. Changes in the Government led to a need to modify project approaches; for example, the new government that was elected in 2004 did not support the privatization of extension services, resulting in less emphasis being placed on full privatization.

<sup>6</sup> ADB. 1997. *Technical Assistance for Privatization of Extension Services for Perennial Crops*. Manila.

(vi) **Performance of the Asian Development Bank.** ADB responded to requests from the PMO and Government for changes in scope—for example, the financing of additional items such as poly-tunnels and fertigation (i.e., fertilization through irrigation water). Review missions were conducted regularly, with eight missions between the inception and completion missions, a period of 8 years. The missions were well resourced according to the PCR (page iv), averaging 19 days per mission, far above the average for ADB review missions. IED concurs with PCR that ADB's performance as *satisfactory*.

#### D. Evaluation of Performance (PCR assessment and validation)

(i) **Relevance.** The Project was relevant under ADB's country operational strategy (1993–1997) at the time of approval, as agriculture and rural development were the first of seven priority areas and also proposed public–private partnerships in rural extension. However, it specifically mentioned the plantation sector but not perennial crops. The Project also supported the economic growth objective of Sri Lanka's Public Investment Program. IED considers that most project components and activities are considered to have been *relevant* or *highly relevant*. However, the sheep breeding and goat upgrading program as implemented at the Department of Animal Production and Health was considered only marginally relevant to project objectives (Government PCR, chapter 12).

Improving agricultural productivity remained a priority in ADB's country strategy and program (2006–2008) at the time of project completion. However, post-tsunami- and post-conflict-related developments, by then, were higher priority. The reemergence of armed conflict in 2006 (continuing through 2008) further changed priorities for all stakeholders. The core of the Government's current 10-year development plan (known as *Mahinda Chintana*) is to achieve high growth rates through investment in large-scale infrastructure and the knowledge economy and also to focus on rural development to help lagging regions. Despite this reduced focus on national agricultural development, IED believes that the Project remained relevant at completion and overall merits a rating of *relevant*, the same as in the PCR.

(ii) **Effectiveness in achieving outcomes.** The PCR rated the Project as *less effective*, “as it did not achieve a majority of its envisaged outcomes in the time period allotted” (para. 26). IED, however, believes that this is not a sufficient reason to rate the Project, since delay is more a function of process efficiency than reduced effectiveness. Implementation delays can also reduce the economic internal rate of return and, thus, economic efficiency, but even this issue is less significant in a credit project. Based on IED's evaluation guidelines, effectiveness “describes the extent to which intended project outcomes have been achieved.”<sup>7</sup> The number of subborrowers was around 46% of the target (10,000) due to the higher than anticipated average loan size, while the area developed was 36% of the planned 20,000 ha. The shortfall in the area was due largely to the appraisal estimate being a broad—rather than a detailed—estimate and to the high level of lending to processing and nursery activities, with limited demand for land.

Similarly, the PCR estimated that that the Project will generate 40,000 tons of high-value crops during 1999–2010. Perhaps coincidentally, this is also equal to the estimated annual production of the 20,000 ha expected at appraisal. It is not clear how the PCR estimate was reached or whether it refers to the entire period or to annual production. Considering that the yield of bananas can exceed 50 tons per ha, and in many developing countries averages more than 20 tons per ha, the total production of crops may be much higher than estimated. It is unfortunate that no data were available on the cropping patterns or production of subborrowers, a significant weakness of both the Government and ADB PCRs and the project monitoring system.

<sup>7</sup> ADB 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila.

It is considered that (a) overall production of perennial crops per ha is likely to have been substantially higher than the 2 tons per ha estimated, (b) the extensive training and extension support should have substantial benefit beyond the project credit component participants, and (c) the activities conducted by the IAs should have beneficial impact on many perennial crop producers and not only those with subloans. Overall, based on available information, IED rates the Project as *effective*. Further assessment of the performance of subborrowers and their farms, together with assessments of the overall production of perennial crops during and after the project period is necessary to confirm this conclusion.

- (iii) **Efficiency in achieving outcome and outputs.** The Project's process efficiency was moderate. Loan effectiveness was delayed by almost 2 months due to late compliance with loan effectivity conditions. Project implementation lasted 8.7 years compared to the 6.0 years planned. Implementation was slow during 1998 and 1999, with the government PCR reporting that credit delivery was delayed due to (a) PFI branch staff not being fully conversant with the project or its credit systems; (b) inadequate knowledge on agriculture by credit officers of some branches; (c) reluctance of credit officers of some branches to lend for agriculture; (d) reluctance of banks to accept relaxed collateral such as personal guarantees, especially for large loans; (e) reluctance of some banks to consider small loans; and (f) insufficient number of bank branches. The PMO also experienced problems during the early project period, but performance appears to have improved thereafter, and overall implementation efficiency was satisfactory, particularly given the complex implementation arrangements.

Based on the economic assessment undertaken by the PCR, the financial and economic returns to example enterprises were high. The financial internal rate of return ranged from 19% to 214%, and the economic internal rate of return from 29% to 229%. However, it is noted that these were essentially theoretical, since no monitoring or survey data appear to have been available during or post-project to assess actual performance. No estimate was made of the likely economic contribution of noncredit components, and no overall economic assessment was conducted, though this is reasonable for a primarily credit-focused project. While there is doubt over the economic performance of the agricultural enterprises, it is likely that overall returns have been high. This is supported by the high demand for subloans and loans under the revolving fund once it started, combined with the reported high repayment performance. Despite a lack of hard data on project component outcomes, IED rates the Project as *efficient*, the same as the PCR.

- (iv) **Preliminary assessment of sustainability.** IED assesses the Project to be *likely sustainable*, the same as the PCR. Many smallholders and commercial farmers who commenced or expanded enterprises under the Project are likely to continue production of perennial crops, particularly given the high reported profitability. The PCR reported that two of the three agricultural service companies supported under the Project continue to provide extension support to farmers. While no information is available on the further development of the revolving fund, the PCR believed that it was likely to expand.
- (v) **Impact** (both intended and unintended). Based on the high rates of financial return indicated above, the Project's socioeconomic impact should have been high. Half of project subloans were for less than SLRe75,000 (around \$1,000 at average exchange rates) and 85.5% for less than SLRe500,000 (around \$7,000). Just over 7% of the number, but more than 57% of the value, of all loans was for loans greater than SLRe1 million, suggesting that project credit activities had a largely commercial focus. While this probably promoted good overall economic performance, it limited the poverty reduction impact of the project. In the absence of Ruhunu Development Bank and, to a lesser degree, the Bank of Ceylon; both of which were added to the list of PFIs after inception and focused on smaller farmers, the imbalance would have been even greater.

The Project's institutional impact was significant but less than planned. The Project was reported to have had a positive impact on the attitudes of its participating financial institutions in relation to lending for agriculture, which several had previously considered too risky, and on their appraisal capacity. Less progress than planned was achieved in the establishment of fee-for-service extension, though two of the three extension service providers continued to operate post-project. The skills developed in the PMO did not carry forward into government institutions.

The PCR contained a limited assessment of the Project's environmental impact, but reported that "the Project was expected to have a favorable impact on the environment through soil and water conservation farming and increased vegetative coverage. This has been valid throughout the Project period, and no adverse impact has been observed" (para. 34). No significant negative impacts can be identified, and IED expects the overall project impact to be *positive*.

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

- (i) **Overall assessment.** IED rates the Project as *successful*, the same as the PCR. IED allots the Project the same ratings as the PCR for all evaluation criteria except for effectiveness, where the rating has been upgraded from *less effective* to *effective*.
- (ii) **Lessons.** According to the PCR (para. 37), the Project confirmed the high development potential for perennial crops and reconfirmed the creditworthiness of smallholder farmers. The experience of the pilot activity under the Project showed that potential exists in Sri Lanka for a gradual introduction of a fee-levying private extension services among commercial farmers with a better ability to pay, leaving scarce government resources to serve the poor and subsistence-level groups of farmers more effectively. However, to be profitable, private sector extension services must be integrated into other commercial operations, such as the sale of farm inputs. A company set up solely to provide extension services may not be viable in the long term.

The PCR summarized a further nine lessons. An additional lesson relates to Treasury approval of the revolving fund. A project's design should assess the desirability of making revolving fund approval a condition for loan effectiveness in situations where problems with approval are anticipated.

- (iii) **Recommendations.** The PCR identified around nine project-specific and nine general recommendations, which appear sound.

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

The Project's M&E were *unsatisfactory*. The recruitment of an international consultant had been planned to assist in M&E, but establishing a short list was impossible. Therefore, a local consultant was recruited late in the project period and was not used effectively (government PCR, sections 2–3).

According to the PCR (para. 22), the PMO was entrusted with the Project's M&E tasks in addition to its own terms of reference. The M&E system to collect data on key variables of the Project's various components was established late, and no data on a without-project situation were available. The system was limited to monitoring project activities, produced only periodic progress reports, and included no impact assessment. Although a database of subborrowers was established, the collection of key data—such as increases in income due to project investments

and actual gains in output and yields—did not occur. No data were available on subborrower or farm performance, or, for example, on the crops grown, their production, or their profitability. Although project management agreed that an impact assessment study would be completed within 3 months of project completion, this study was never undertaken.

**G. Other** (e.g., safeguards, including governance and anticorruption; fiduciary aspects; government assessment of the Project, as applicable) (PCR assessment and validation)

No issues relating to safeguards or corruption were reported in the project documentation reviewed by IED.

| H. Ratings   | Project Completion Report | Independent Evaluation Department Review | Reason for Disagreement/Comments  |
|--|---------------------------|--|---|
| <b>Relevance:</b>                                    | Relevant                  | Relevant                                 |   |
| <b>Effectiveness in Achieving Outcomes:</b>          | Less effective            | Effective                                | The lending program was generally successful, although there was a shortfall in the area developed for perennial crops due to overestimation of the area by the PPTA and appraisal. Noncredit activities were generally effective, although training activities were bunched late in the Project. |
| <b>Efficiency in Achieving Outcomes and Outputs:</b> | Efficient                 | Efficient                                |   |
| <b>Preliminary Assessment of Sustainability:</b>     | Likely sustainable        | Likely sustainable                       |   |
| <b>Borrower and Executing Agency:</b>                | Satisfactory              | Satisfactory                             |   |
| <b>Performance of ADB:</b>                           | Satisfactory              | Satisfactory                             |   |
| <b>Impact:</b>                                       | Not rated                 | Positive                                 |   |
| <b>Overall Assessment:</b>                           | Successful                | Successful                               |   |
| <b>Quality of PCR:</b>                               |                           | Satisfactory                             |   |

#### I. Comments on Project Completion Report Quality

IED assesses the PCR as *satisfactory*.

The PCR follows PAI 6.07<sup>8</sup> and generally provides sufficient evidence to support its ratings. However, the lack of information on outcomes—e.g., credit performance, subborrower performance, and crop yields due to problems with the M&E system noted in section F—prevented a detailed analysis by the PCR and a full assessment of the Project's effectiveness and sustainability. Conducting a small-scale survey at the time of the PCR could have greatly increased confidence in the assessment of project outcomes.

Lessons and recommendations are relevant and follow the analysis of project performance and outcomes.

<sup>8</sup> ADB. 2006. *Project Administration Instructions. PAI 6.07: Project Completion Report*. Manila.

**J. Recommendation for Independent Evaluation Department Follow-Up**

The subloan (credit) was a major activity of the project which provided low-cost credit to farmers. However, due to unavailability of relevant data at project completion, PCR was unable to confirm reported loan recovery rate of 90% provided by the Central Bank of Sri Lanka. Also, the sustainability and impact of the Project, particularly on small farmers, has not been quantified. IED may consider the Project for project performance evaluation report in 2010 to (i) identify factors explaining high loan recovery rate, and (ii) the project's contribution to the socioeconomic wellbeing on small holder households. Lessons from the evaluation can be used by ADB in designing development interventions aimed at perennial crop-based small farmers in Sri Lanka and potentially in other countries with similar environmental and socioeconomic conditions.

**K. Data Sources for Validation**

The primary data sources were the ADB and government PCRs, Board papers, ADB missions' back-to-office reports and aide-mémoires, PPTA reports, and RRP.

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

On 19 November 2008, the Independent Evaluation Department (IED) received the following comments from the Agriculture, Natural Resources, and Social Services Division of the South Asia Regional Department.

We have reviewed the Validation Report, which was circulated to us on 12 November 2008, and are pleased to note that IED finds the project completion report (PCR) of good quality; and that IED agrees with the PCR's findings that the project was *relevant, effective, efficient, and likely to be sustainable*, resulting in an overall rating of *successful*. The report is well prepared and provides a good assessment of the Project. We have no further comments to make.