Validation Report
July 2021

Sri Lanka: Fiscal Management Efficiency Project

Reference Number: PVR-781
Project Number: 38356-013
Loan Number: 2624

Independent Evaluation ADB

Raising development impact through evaluation

ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	gross domestic product
ICT	–	information and communication technology
IED	–	Independent Evaluation Department
IRD	–	Inland Revenue Department
ITMIS	–	Integrated Treasury Management Information System
MOF	–	Ministry of Finance, Economic and Policy Development
PCR	–	project completion report
PFM	–	public financial management
PMU	–	project management unit
PRM	–	public resource management
PSC	–	project steering committee
RAMIS	–	Revenue Administration Management Information System
RRP	–	Report and Recommendation to the President
TA	–	technical assistance

NOTE

In this report, "$" refers to United States dollars.

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PROJECT BASIC DATA

Project number	38356-013	**PCR circulation date**	9 Dec 2020	
Loan number	2624	**PCR validation date**	Jul 2021	
Project name	Fiscal Management Efficiency Project			
Sector and subsector	Public sector management	Public expenditure and fiscal management		
Strategic agenda	Inclusive economic growth			
Safeguard categories	Environment		C	
	Involuntary resettlement		C	
	Indigenous peoples		C	
Country	Democratic Socialist Republic of Sri Lanka		**Approved** ($ million)	**Actual** ($ million)
ADB financing ($ million)	**ADF:** 0.00	**Total project costs**	60.00	60.03
	OCR: 49.31	**Loan**	50.00	27.74
		Borrower	10.00	32.29
		Beneficiaries	0.00	0.00
		Others	0.00	0.00
Cofinancier		**Total cofinancing**	0.00	0.00
Approval date	15 Apr 2010	**Effectiveness date**	5 Sep 2010	5 Jul 2010
Signing date	7 Jun 2010	**Closing date**	30 Apr 2014	31 Oct 2018
		Financial closing date		5 Nov 2020
Project officers		**Location**	**From**	**To**
	K. Shin	ADB Headquarters	Apr 2010	Jan 2012
	T. Hayashi	SLRM	Jan 2012	May 2012
	J. Tsunoda	ADB Headquarters	May 2012	Sep 2013
	A. Tayyab	SLRM	Oct 2013	Nov 2015
	M. Amerasinghe	SLRM	Dec 2015	Dec 2019
IED review				
Director	J. Asquith, IETC			
Team leader	Hyun Son, Principal Evaluation Specialist, IETC*			

ADB = Asian Development Bank, ADF = Asian Development Fund, IED = Independent Evaluation Department, IETC = Thematic and Country Division, OCR = ordinary capital resources, PCR = project completion report, SLRM = Sri Lanka Resident Mission.
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I. PROJECT DESCRIPTION

A. Rationale

1. The long-standing civil war from 1983 to 2009 in Sri Lanka had serious consequences for the country's fiscal stability. The efforts of the Government of Sri Lanka to improve the quality of life and social protection for its citizens had been constrained by large expenditures for security needs. In addition to the overall resource constraints, there were intraregional disparities in incomes, employment, and social development. Therefore, improvement in public resource management (PRM) in Sri Lanka was focused, among others, on upgrading government capacities for revenue administration and expenditure management.[1]

2. The Fiscal Management Efficiency Project aimed to ensure greater sustainability of public investments in Sri Lanka, particularly in the less developed regions, through more effective PRM

[1] ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for the Fiscal Management Efficiency Project.* Manila.

and greater resource mobilization from improved tax administration and compliance, and more efficient public expenditure management (footnote 1).

3. On 15 April 2010, the Asian Development Bank (ADB) approved a project loan of $50 million to the government to address these shortcomings, and a technical assistance (TA) grant of $2.0 million to help the project management unit (PMU) support relevant agencies to implement the project. The financing modality was in accordance with the Independent Evaluation Department (IED) recommendation for project lending in Sri Lanka and the deliverables were well-defined, straightforward, and focused on the establishment of information and communication technology (ICT) systems and capacity building.[2]

B. Expected Impacts, Outcomes, and Outputs

4. The project's expected impact was greater sustainability of public investments, particularly in the less developed regions, through more effective PRM. The project's expected outcome was enhanced fiscal space for social and economic development resulting from improved tax administration and compliance, as well as efficient public financial management (PFM) system The project's three outputs were: (i) more accountable revenue management through completion of a fully operational Revenue Administration Management Information System (RAMIS); (ii) more efficient expenditure management through completion of a fully operational Integrated Treasury management information system (ITMIS), and (iii) more capable public resource managers.

C. Provision of Inputs

5. The project was approved on 15 April 2010 and declared effective on 5 July 2010, 2 months ahead of schedule. It closed on 31 October 2018, 4.5 years after the planned date and after three extensions of the closing date. The need for extensions were mainly caused by delays in the implementation of ITMIS for a number of reasons including: (i) inadequate preparedness and understanding of the system requirements by the contractor; (ii) delays in finalizing the design with frequent design changes by the executing agency; (iii) delays in establishing the local area network due to refurbishment work in the executing agency; and (iv) the unavailability of key users in government departments due to work commitments.

6. At appraisal the project costs were estimated at $60 million to be financed by a $50 million loan from ADB and $10 million from the government. A change in the funding arrangements occurred when ADB cancelled $19.2 million of the loan because the procurement decision for the RAMIS component violated ADB's procurement guidelines. A minor change in project scope in 2012 assigned the government to fund RAMIS. In 2014, the government entered into an agreement with the Government of Singapore to establish RAMIS, which was funded by the Government of Sri Lanka. As a result, the actual project costs totaled $60.03 million with $27.74 million in ADB funding and $32.29 million in government funding.

7. International competitive bidding and national competitive bidding were adopted for consultant recruitment and procurement. There were delays in the RAMIS procurement and the funding arrangements, for which the executing agency was responsible for selection of the vendor. Given the ITMIS contract complexities and risks associated with the number of implementing agencies, the system set-up experienced delay. The contract was amended in 2016 from a two-phase to a five-phase implementation approach. The contract was later revised in October 2017 with the main contractor being released from all operations and maintenance

[2] ADB. 2020. *Completion Report: Fiscal Management Efficiency Project in Sri Lanka.* Manila.

obligations and the work being contracted to a subcontractor from October 2018 to be funded by the government. The TA funds were insufficient to cover expenses of the consultancy to provide project management support until project closure. ADB thus agreed to the government's request to continue to fund the two consultancies from the loan savings. In 2017, ADB approved the recruitment of consultants on a single source selection basis with an international consultant from April 2017 to June 2018, and a national consultant from April 2017 to October 2018. Around 20 consulting service contracts were awarded following the single source selection procedure to undertake training under Output 3.

8. The project was categorized C for environment, involuntary settlement, and indigenous peoples. It was reported that the project had gender development benefits, for example, by configuring ITMIS to support gender-responsive budgeting using available sex-disaggregated data and gender-targeted allocations to line ministries to address identified vulnerabilities to ensure gender equity in fiscal policymaking, fiscal planning, and public expenditure. However, on its review mission in October 2016, ADB deemed the Output 2 target of collecting data on a sex-disaggregated basis as unfeasible as the ministry accounting systems were not designed to obtain this information.

9. The associated TA supported PMU in the implementation of the project. At appraisal, the TA project was estimated to cost $2 million to be funded by the Japan Special Fund. The TA's actual cost was $1.8 million.

D. Implementation Arrangements

10. As designed, the Ministry of Finance, Economic and Policy Development (MOF) was the executing agency with PMU, headed by a dedicated project director. To strengthen PMU, a full-time deputy project director was appointed in 2016 and the director-general of the Information Technology Management Department served in this capacity from 2017–2019. PMU would have four cells: RAMIS, ITMIS, an administration and accounting cell, and an information technology (IT) and procurement cell. During implementation, PMU had three permanent staff from MOF, three contractual staff, three permanent part-time staff, two cabinet appointed full-time staff, and one externally recruited staff managing the entire project. For managing the ITMIS implementation and other project-related procurement, PMU was also staffed by individual consultants, a project manager, a senior IT consultant and a procurement and infrastructure specialist supported by a consulting firm. For RAMIS, a total of 63 Inland Revenue Department (IRD) staff were deployed throughout project implementation.

11. At appraisal, a project steering committee (PSC), chaired by the Treasury Secretary, was to be established to provide policy guidance and oversee project implementation. PSC was to meet quarterly, with the first meeting to be held within 3 months of loan effectiveness in 2010 and when deemed necessary.[3] However, PSC was established late in 2014, did not meet regularly, and in some years never met. In lieu of PSC meetings, PMU conducted management review meetings chaired by the Treasury Deputy Secretary and attended by PMU officials and the contractor's senior management.

12. The TA project was expected to be completed by 31 October 2013 but was implemented over almost 7 years concurrently with the loan, with three extensions over 42 months. The TA

[3] ADB. 2010. Loan Agreement for Fiscal Management Efficiency Project between Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. 7 June. https://www.adb.org/projects/documents/loan-agreement-fiscal-management-efficiency-project-between-democratic-socialist-.

was designed to mitigate the risks of insufficient capacity in relevant agencies and to support PMU in: (i) reengineering business processes to align with RAMIS[4] and ITMIS applications, (ii) preparing the request for proposals for selecting the vendors for RAMIS and ITMIS, and (iii) adhering to the project timelines through technical backstopping and support in the procurement process and project implementation. The TA had five outputs: (i) preparation of functionality analysis for introducing internally acceptable RAMIS and ITMIS; (ii) development of architecture definition and design for RAMIS and ITMIS and improvement of ICT environment from regulatory and institutional perspectives; (iii) supporting the selection of vendors for RAMIS and ITMIS; (iv) implementation of quality control ensuring adequate and timely deliverables by vendors; and (v) rollout, post-implementation review, and capacity development under change management. The TA provided a total of 141 person-months of international consulting services (at appraisal, 44 person-months) and 75 person-months of national consulting services (at appraisal 140 person-months). In addition, 80 person-months of national consultants were mobilized as individual consultants. The TA project achieved the objectives of providing technical support to the government and PMU and was reasonably budgeted. Although it was rated less than efficient as it was extended three times, these extensions were mainly due to contractor performance and delays in sign off by the executing agency. On the whole, the TA project was rated successful.

13. Of the 24 loan covenants,[5] the project complied with 16 and partially complied with 5. It did not comply with two. One covenant[6] was considered not applicable. The two not complied with were: (i) the covenant to develop a comprehensive set of indicators for project performance monitoring and evaluation, and (ii) the borrower's policy on bonding trained personnel to be firmly applied to all RAMIS and ITMIS specialized training and external training recipients was not feasible because government requires staff to be rotated within a couple of years. The five partially complied covenants related to: (i) the PSC meetings were not held regularly; (ii) MOF found it difficult to obtain timely support and cooperation from user departments; (iii) MOF developed a project website, but it lacked necessary information and was not updated; (iv) quarterly progress reports showing the number of women staff participated in the various training programs, but these were submitted with delay; and (v) MOF did not establish a Human Resource Development Committee or the general criteria for selecting candidates for external training course acceptable to ADB. The project recognized risks that the current reform measures in revenue and expenditure management may not be sustained due to (i) capacity constraints in MOF, (ii) procurement delays owing to procedural barriers, (iii) the need for greater ICT, and (iv) capacity development plans that are too ambitious. These risks were to be mitigated by the TA project and capacity development support, continued consultation with MOF and technical experts on how to better target capacity enhancement measures, a well-staffed PMU with dedicated deployment of staff, quarterly reporting arrangements to minimize fiduciary risks, and continued robust policy dialogue with government on the broader agenda of fiscal management and other reforms. The risk before and after mitigation was not assessed.

[4] After RAMIS removed the RAMIS component from the project scope in 2012, the TA consultants also removed support for implementing RAMIS from the TA project.

[5] Ten Particular covenants (Article iv), and 14 Schedule 5 Execution of Project and Operation of Project Facilities: Financial Matters.

[6] Article iv Section 4.05 (b) 'The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Borrower pursuant to Section 4.05(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.' Footnote 3.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

14. The project completion report (PCR) rated the project relevant. At appraisal and completion, the project was aligned with the government's development framework at the time,[7] and two pillars of ADB's country partnership strategy for Sri Lanka, that of strengthening the investment strategy and achieving socially inclusive development ADB strategies and plans. In addition, the financing modality was appropriate as deliverables were well-defined and straightforward. The minor change in scope to allow the government to assume the cost of RAMIS was approved by management and accomplished in a timely manner,[8] and the project used the unallocated funds to purchase IT equipment and staff training for the Department of Customs. The PCR noted that there were weaknesses in the design and monitoring framework with outcome indicators covering only the generic quality indicators of revenue and expenditure management, which can be affected by many factors (e.g., macroeconomic situations) rather than IT system improvements. Institutional efficiency indicators (e.g., for MOF) could have been added to the project outcome indicators since these would have been more directly linked to the envisaged outputs (progress in IT system improvements).

15. This validation acknowledges that the project outcomes were aligned with ADB's country partnership strategy for Sri Lanka, 2009–2011;[9] the government's development policy framework at the time, and the 10-year development framework of a three-pronged approach (increasing investment levels, enhancing international competitiveness, and strengthening global connectivity) to stimulate economic growth and ensure that it trickles down equitably. The program built on the reforms that were initiated under the Fiscal Management Reform Program,[10] which achieved a more effective tax administration; an improved budget framework, improved public expenditure management, strengthened fiscal discipline, and improved fiscal coordination. It was developed in coordination with other development partners and drew on recommendations of a 2007 review of ADB support for PRM projects that recommended project lending to improve capacity development in Sri Lanka. The review also cautioned against ADB exiting from sectors where capacity had been effectively established since capacity would erode. Approval of the TA project designed to support PMU is considered relevant.

16. The validation considers that project design weaknesses were as follows: (i) underestimation in the scale and complexity of introducing the two management information systems simultaneously; (ii) an unrealistic optimism that PRM capability can be improved through courses and training programs alone, when the expected capacity improvement can only be gained through experience over a number of years; and (iii) weak linkages between output and outcome definitions or indicators (para. 14). Despite these shortcomings, the project's main strategic thrusts are consistent with the priority needs of the country. Automating and modernizing tax administration and PFM systems remain crucial initiatives in effectively and efficiently mobilizing revenues and managing expenditures. Sri Lanka's tax-to-gross domestic product

[7] Government of Sri Lanka. 2006. *Mahinda Chintana: Vision for a New Sri Lanka*. Colombo.

[8] ADB. 2013. *Request for Approval of Declaration of Misprocurement (ICB Procurement of Services for "Supply, Delivery, Installation, Commissioning, Operations and Maintenance of Application Software, System Software and Supporting IT Infrastructure for Revenue Administration Management Information System for Inland Revenue Department of the Government of Sri Lanka"). Fiscal Management Efficiency Project* (Loan 2624-SRI). Manila.

[9] ADB. 2008. *Country Partnership Strategy: Sri Lanka, 2009–2011*. Manila.

[10] ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Socialist Republic of Sri Lanka for the Fiscal Management Reform Program.* Manila.

(GDP) ratio at 11.6% lags behind its neighboring South Asian countries: Bhutan (16.0%), India (12.0%) and Nepal (18.6%).[11] The validation therefore assesses the project relevant.

B. Effectiveness in Achieving Project Outcomes and Outputs

17. The PCR rated the project less than effective. Of the 14 output targets, 9 had been achieved. The achievements are related to improving revenue management (Output 1) and capacity building (Output 3). Five targets for improved expenditure management (Output 2) were not achieved at project closing. As discussed in para. 14, the progress on all outcome indicators could not be fully attributed to the project outputs because RAMIS and ITMIS are still being rolled out at the time of project closing. Of the six outcome targets adopted, two were achieved: decrease in revenue deficit from 3.7% in 2009 to 1.2% of GDP in 2018, and an increase in the tax–to–GDP ratio. Another two outcomes were partly achieved: budget deficit percentage being progressively reduced for most of the period, and interest payments to GDP ratios were reduced but not halved as targeted. Two outcomes were not achieved as there were no annual decrease in total outstanding public debt stock to GDP and no year-to-year improvement in fiscal marksmanship in total expenditure.

18. The validation notes that all performance targets under Output 1 and 3 had been achieved although some with substantial delay. Under Output 1, RAMIS became operational from December 2017—7 years after the project started. Its rollout had been completed for 5 out of the 29 revenue agencies as of November 2020, the number of tax filers has increased by 35% from 2009 to the end of 2018, electronic filing of tax returns was introduced in March 2016, unique identification numbers for taxpayers were operationalized in 2016 and the computerized risk-based audit selection tool was implemented through RAMIS in 2017. For Output 3, over 1,500 (target was 300) government officials completed the specialized training courses; 2,300 users (target was 2,000) were trained on the use of the budget planning module of ITMIS and on RAMIS; 1,850 officials (target up to 1,500) received basic computerized training and trained on RAMIS and ITMIS; and 100% of IRD training attendees were retained for RAMIS and more than 50% of MOF training attendees were retained for ITMIS (target was at least 50% of the trained technical staff are retained for the project period).

19. In terms of Output 2, none of the performance targets were achieved with the rollout of ITMIS still ongoing and unlikely to be fully operational until December 2021. Although the project was classified some gender elements, the relevant Output 2 target for countrywide daily expenditure information, including on a sex-disaggregated basis, was deemed to be unfeasible to collect as the ministry accounting systems were not designed to obtain this data. Other indicators not achieved were: daily reconciliation of expenditure and bank accounts; set up of centralized physical asset database; and expenditure information on budget allocations that primarily benefit women. While planning shows that ITMIS should be operational at the end of 2021, given the lack of achievement in Output 2 performance indicators and roll out of ITMIS within the planned time frame, the validation assesses the project less than effective.

C. Efficiency of Resource Use

20. The PCR rated the project less than efficient. The economic internal rate of return was not calculated in the Report and Recommendation to the President (RRP) and during reevaluation because of difficulty in estimating direct and indirect project benefits from the project's capacity

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[11] Figures are latest available estimates from the World Bank's Open Data. World Bank. 2021. Open Data. Washington, DC. https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS (accessed May 2021).

building. The PCR assumed that economic internal rate of return was well beyond the economic opportunity cost—the time overrun was 100% for RAMIS and at least 150% for ITMIS (which was still incomplete).

21. In terms of the project deliverables, the project completion and the loan closing dates were 4 years and 5 years later than planned respectively, and there was a 10-year interval between the loan effectiveness date and the actual closing date. There were significant delays in the actual achievement of some of the key elements of the project. For example, all the IT infrastructure for implementation of RAMIS was installed in 2016 rather than 2014. The delayed implementation of the full ITMIS meant that other activities were also delayed. Users on ITMIS should have been trained by the first quarter of 2016 but the training is still ongoing and customization of ITMIS to suit requirements of relevant departments occurred in the third quarter of 2018 rather being finalized in the second quarter of 2015. On balance, given the substantial delays and inefficiency in the project activities and the promise of long-term economic returns from the installation of RAMIS and ITMIS—which still uncertain, this validation assesses the project less than efficient.

D. Preliminary Assessment of Sustainability

22. The PCR rated the project likely sustainable given the government's commitment to ensure improvement and continued use of RAMIS and ITMIS beyond project closure. Assuming ITMIS would be fully rolled out by December 2021, the project's financial internal rate of return was estimated to be 85.3% compared with the RRP estimate of 162% because of the delayed project benefits of increased revenues, more accurate economic data, and more realistic assumptions concerning ITMIS benefits.

23. The validation notes that support and funding for the use of RAMIS, ITMIS, and related capacity building have continued even with changes in government administrations have supported the project. RAMIS and ITMIS' infrastructure are already established and requires minimal outlays for operations and maintenance. IRD has committed funding and staff resources for the continued operations of RAMIS. Similarly, the government—despite three changes in administration during project implementation and closure of the ADB project—is financing the completion of ITMIS through its own sources. Furthermore, PMU in MOF is ready to take over managing ITMIS once the contractor leaves. MOF has designated 13 personnel released from its various departments as well as 2 cabinet-appointed staff to provide full-time assistance for ITMIS, while MOF's IT department will maintain the infrastructure.

24. There are other general indications that point to the government's ability to sustain its capacity building. Government revenue grew from 2011 to 2018, but fell slightly in 2019. Standard and Poor's credit rating for Sri Lanka stood at CCC+ in December 2020 with a stable outlook. External debt, which had begun to rise steadily since 2014, was reduced in 2020. The ease of doing business has improved in the last 2 years,[12] and the perceived level of corruption has been stable with the country ranked 94th out of 180 countries in 2020, which is consistent with its rankings over the last 10 years.[13] Although the impact of the pandemic has caused concern on the country's ability to repay foreign debt as the economy contracted 3.6% in 2020,[14] the validation assesses the project likely sustainable.

[12] Trading Economics. Sri Lanka data. Tradingeconomics.com

[13] Transparency International. *Corruption Perception Index 2020*. www.transparency.org/cpi

[14] Government of Sri Lanka, Ministry of Finance, Department of Census and Statistics. 2021. *National Accounts Estimates of Sri Lanka: Gross Domestic Product (and Other Macroeconomic Indicators*. 16 March. http://www.statistics.gov.lk/NationalAccounts/StaticalInformation/Reports/2020_Annual.

III. OTHER PERFORMANCE ASSESSMENTS

A. Preliminary Assessment of Development Impact

25. The PCR rated the expected development impact of the project less than satisfactory. None of its envisaged impact targets were achieved at project closing. The budgetary allocation for public investment, which was expected to have a year-on-year increase from a baseline of 6.5% in 2009. had been on a declining trend since 2009 and was 4.4% of GDP in 2018. No data was available for the other targets (increases in budgetary allocation for social and economic infrastructure, social protection, and welfare payments and subsidies for the poor). In theory, the project interventions (improved public finance systems and capacity building) are necessary for Sri Lanka to attain the envisaged impacts. However, given the shortcomings in project output completion and outcomes and impact monitoring, the validation assesses the project development impact less than satisfactory.

B. Performance of the Borrower and Executing Agency

26. The PCR rated the performance of the borrower and the executing agency less than satisfactory because of issues and delays in project implementation. MOF remains committed to fully completing ITMIS, PMU was adequately staffed. For RAMIS, IRD provided continued leadership despite changing funding arrangements and provided sufficient funding from its own resources to implement it. Delays in MOF's signings off on key activities had been partly related to problems with the quality of the contractors hired and the executing agency's inability to allocate staff with sufficient time and expertise to review the project documents and requests.

27. The validation also notes the following: (i) the project impact tracking could not be undertaken because of a lack of access to data, (ii) RAMIS procurement decision did not comply with ADB's procurement guidelines, and (iii) PSC was not formed in 2010 as required by the loan agreement. This validation assesses the performance of the borrower and executing agency less than satisfactory.

C. Performance of the Asian Development Bank

28. The PCR rated ADB's performance as less than satisfactory. ADB had six mission leaders in charge of implementation monitoring, but their review missions were not fielded sufficiently often. During the first 2 years, only one mission was fielded per year despite the complexity in developingRAMIS and ITMIS. In 2014, the year the project monitoring was delegated to the Sri Lanka Resident Mission, there was no review mission. The lack of ICT expertise in ADB teams also hampered prompt identification and correction of problems. From 2016 onwards (2 years after the original closing date), the performance of ADB improved with biannual missions and regular meetings with the government, consultants, and contractors to put the project back on track.

29. The validation notes there were indications that the goodwill between ADB and MOF had deteriorated during the RAMIS procurement with ADB being criticized for its slow procurement actions. The validation also notes the shortcomings in the design and monitoring framework (i.e., the weak links between outcome and outputs indicators, and the inability of the project to track its intended impacts). These should have been addressed during the project implementation period. For these reasons, the validation assesses the performance of ADB less than satisfactory.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

30. The PCR rated the project less than successful. The project was: (i) relevant at inception and conclusion with the need to increase revenue collection to improve PFM in order to increase fiscal space; (ii) less than effective as it only achieved 9 out of 14 output targets and two of the six outcome targets—although these may not be fully attributed to the project; (iii) less than efficient since the project was completed with significant time overrun; and (iv) likely sustainable given estimated financial internal rate of return of 85%, and commitment by the borrower to continue the operations and improvement of the IT systems and capacity building established under the project.

31. The validation assesses the project: (i) relevant as it supports the major strategic priorities of the country, although there were design weakness in (a) the underestimation of the scale and complexity of introducing two IT systems, and (b) the design of project monitoring; (ii) less than effective as none of the Output 2 targets related to public expenditure management were achieved; (iii) less than efficient due to the substantial delay in project implementation and unmonitored or unknown direct outcomes (benefits) linked to the project outputs; and (iv) likely sustainable given government's support for the project and completion of the project interventions. The validation assesses the project less than successful overall.

Overall Ratings

Validation criteria	PCR	IED review	Reason for disagreement and/or comments
Relevance	Relevant	Relevant	
Effectiveness	Less than effective	Less than effective	
Efficiency	Less than efficient	Less than efficient	
Sustainability	Likely sustainable	Likely sustainable	
Overall assessment	**Less than successful**	**Less than successfull**	
Preliminary assessment of Impact	Less than satisfactory	Less than satisfactory	
Borrower and executing agency	Less than satisfactory	Less than satisfactory	
Performance of ADB	Less than satisfactory	Less than satisfactory	
Quality of PCR		Satisfactory	Para. 36.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.
Source: ADB (IED).

B. Lessons

32. The PCR identified the following issues and lessons: (i) the RAMIS component is more simple compared with ITMIS which involved many stakeholders, thus, PFM projects should pay closer attention to the complexity of undertaking something similar to the ITMIS implementation; (ii) more time should be given for a project that develops government ICT systems as compared to hard infrastructure projects—this is due to associated business process changes required, and political or policy implications that usually take time to resolve; (iii) similar projects should allow adequate time to bridge language barriers and take into account local accounting regulations and adequacy of locally based technical staff; (iv) instead of implementing 13 IT modules sequentially (and independently) across many agencies, it would be more suitable to test and finalize each module first for one agency and then replicate it to others;

(v) when a project includes components with high level of implementation uncertainties, adequate provision for project supervision and prevention of staff turnover help to mitigate the risks of implementation delays; and (vi) a strong One-ADB team with expertise in key subjects, such as ICT, could provide timely advice to stakeholders in helping the executing agency in project preparation and implementation.

33. This validation offers three additional lessons. First, relating to lessons identified by the PCR, in developing new or reforming ICT systems in government institutions, a distinct and systematic risk assessment tool needs to be established at the outset at project design stage. This is because changes in an ICT system often entail short-cutting in business processes, changes in unit mandates, and power relations among different units. A good risk tracking system helps identify priority issues that warrant resolution from the highest authorities in the client-user institutions so these risks can be mitigated proactively. Second, for the purpose of results monitoring and evaluation, PFM capacity building (and ICT improvement) projects should develop and adopt more relevant outcome indicators that track institutional efficiency or capacity metrics. These can complement the broader PFM outcome metrics that are influenced by other factors such as the health of the country's economy. Third, TA resources could be used to strengthen the capacity of relevant government staff beyond PMU. TA resources are important to ensuring that government counterparts would have the necessary capacity, as well as adequate tax policy and revenue collection systems, to implement projects especially those that overhaul or introduce new systems for service delivery.

C. Recommendations for Follow-Up

34. The PCR's recommendations were that: (i) ADB should continue to monitor the implementation of ITMIS and to be engaged with the executing agency to ensure that the rollout is completed as scheduled by December 2021; and (ii) the project performance evaluation report for the project may be conducted after 2022 when the pending rollout of ITMIS has been fully completed. The validation recommends that in preparing future PFM projects in Sri Lanka, ADB needs to assess more holistically the works carried out by the government to improve and integrate RAMIS and ITMIS to other government systems and its related capacity building program.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Reporting

35. ADB conducted 10 loan review missions, 1 consultation mission, and 1 midterm project review mission during the period from February 2011 to September 2018. The mission size varied from one person with one person-day of work (November 2015) to six persons with 30 person-days of work in early 2016. Examples of the missions' works are as follows: (i) in June 2012, the mission discussed and reviewed the procurement-related issues relevant to RAMIS; [15] (ii) in May 2013, the mission sought to "turn over a new leaf" after the cancellation of the RAMIS contract, and take stock of the events that led to the slow progress in project implementation in 2012, noting that it had to do everything possible to recover the strong relationship enjoyed in the past; and (iii) in February 2016, the back-to-office report advised that MOF had not provided the

[15] ADB (South Asia Department). 2012. Consultation Mission to Sri Lanka: Fiscal Management Efficiency Project. Back-to-office report. 6–7 June (internal).

necessary leadership and allocated required staff to expedite progress.[16] On the whole, the validation considers that the ADB missions were not effective in solving the various project implementation issues that arose, and as a result, were unable to prevent delays in the project.

B. Comments on Project Completion Report Quality

36. The PCR provided a thorough description of the need for the project, a candid analysis of the weaknesses of the borrower's and ADB's performance, as well as good assessments on the lack of project effectiveness and efficiency and reasons why the project was less than successful. The evidence to substantiate the ratings were adequate. It would have been easier to read the PCR had the assessments in the section on the evaluation of performance included short explanations and cross-references rather than cross-references alone. The section on issues and lessons can be more precise in identifying the issues and observations and lessons. The validation assesses the PCR quality satisfactory.

C. Data Sources for Validation

37. The data sources for the validation were the RRP, back-to-office report, and other project documents; the PCR; Trading Economics Sri Lanka data; Transparency International Corruption Perceptions Index; and an article from The Economic Times.

D. Recommendation for Independent Evaluation Department Follow-Up

38. The validation is of the view that IED does not need to conduct follow-up in-depth evaluation on the project given the extent of post-project completion analyses that were performed at the PCR and validation stages. This is unless IED needs to assess more broadly the impacts and outcomes of its multiple PFM projects, including this project in the context of deepening its analysis of the public finance sector in Sri Lanka.

[16] ADB (South Asia Department). 2016. Project Review Mission to Sri Lanka: Fiscal Management Efficiency Project. Back-to-office report. 3 November (internal).