

1. Project Data:		Date Posted : 09/30/2008	
PROJ ID : P077586		Appraisal	Actual
Project Name : Economic Reform Technical Assistance Project	Project Costs (US\$M):	USD18.75 Million	USD18.73 Million
Country: Sri Lanka	Loan/Credit (US\$M):	USD15 Million	USD16.73 Million
Sector Board : FPD	Cofinancing (US\$M):	USD3.75 Million	USD2 Million
Sector(s): General energy sector (40%) General finance sector (25%) General transportation sector (15%) Water supply (10%) Central government administration (10%)			
Theme(s): Regulation and competition policy (29% - P) Legal institutions for a market economy (29% - P) Other financial and private sector development (14% - S) State enterprise/bank restructuring and privatization (14% - S) Infrastructure services for private sector development (14% - S)			
L/C Number: C3722			
	Board Approval Date :		12/10/2002
Partners involved : Government of Sri Lanka	Closing Date :	06/30/2008	06/30/2008
Evaluator :	Panel Reviewer :	Group Manager :	Group :
Ashok Khanna	Konstantin Atanesyan	James Sackey	IEGCR

2. Project Objectives and Components:

a. Objectives:

The objective of the Economic Reform Technical Assistance (ERTA) project was to assist the Government of Sri Lanka (GOSL) in strengthening its capacity to implement economic reforms aimed at expanding the role of the private sector and enhancing economic growth.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

Project components are :

(a) Strengthening Government Capacity : Appraisal US\$ 1 million: Actual US\$.98 million. Provision of technical advisory services, staff training and equipment for various government ministries, departments, institutes and agencies.

(b) Consulting Technical Assistance : Appraisal US\$ 5 million: Actual US\$ 3.15 million. Provision of technical and advisory services to enhance private sector participation in the infrastructure (transport, telecommunications, urban water supply and sanitation, electricity and petroleum) and finance (banking, insurance, pensions and superannuation) sectors and strengthen economic regulation .

(c) Strategic Communications : Appraisal US\$ 1million: Actual US\$.21million. Conducting a communications campaign for the government's economic reform agenda by organizing workshops, supporting discussions with stakeholders and periodically surveying them to assess changes in knowledge and attitudes .

(d) Challenge Fund : Appraisal US\$ 8 million: Actual US\$5.1million. Pool of funds to support activities relating to the government's reform agenda allocated flexibly to approved projects .

(e) Tsunami Support : Appraisal US\$ 0: Actual US\$ 7.38 million. Although the project components were not formally altered during implementation, US\$5 million was disbursed to support Tsunami reconstruction in March 2005. At that time it was not clear if the funds would be returned to the project when additional financing for Tsunami relief was approved by the Board. A further amount of US\$2.38 million was disbursed in early 2007 for the same purpose as funds were not being utilized for the project .

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

At appraisal, the government was expected to contribute US\$ 3.75 million (US\$2.75 million for the Challenge Fund, US\$.5 million for Strengthening Government Capacity and US\$.5 million for Communications Strategy). Actually, the government contributed US\$2 million, but details for the components' share of those funds are not given . Although the economic reforms envisaged at appraisal ground to a halt because a newly elected government in 2004 changed the direction of economic policy, the project was kept open to enable the use of its funds for post -Tsunami reconstruction. The project closed as originally scheduled .

3. Relevance of Objectives & Design:

The Sri Lankan government, elected at the end of 2001, put emphasis on the private sector as the main engine for future growth and employment. It developed an agenda for structural reform to reduce the public sector's role in the economy and improve the enabling environment for private sector development . The Bank's Country Assistance Strategy of 1996 and progress report of 1999 were also based on promoting private sector led growth . These reforms were outlined in the PRSP in September 2002 and supported by the World Bank's PRSC and IMF's PRGF . With substantial impending reforms, the government needed technical assistance for successful implementation in the proposed time frame. Thus, the project's objectives were relevant to Sri Lanka's conditions and the Bank's strategy . Also, although funding post-Tsunami reconstruction was not a project objective, it was badly needed for economic recovery and resumption of reforms by Sri Lanka and expedited the Bank's support for that purpose .

Strengthening government capacity began with the PPF . The consulting technical assistance sub-projects were appraised and had funds pre-allocated. Building a constituency to support reforms by establishing communication among stakeholders was considered essential for success . A pool of unallocated funds for technical assistance provided flexibility to support reforms that could ebb and flow and proceed at a varied pace . The project's design was also relevant to Sri Lanka's conditions and the Bank's strategy .

The project's objectives and design remain relevant to the Bank assistance strategy, but they diverged from GOSL's policy objectives after the change of government in 2004. This situation created dilemmas and difficulties during project implementation.

Although there is a link between bank funding, policy implementation and private sector development, it is not quantifiable or timebound and is subject to the substantial risks that were discussed in the PAD . Thus, the monitoring and evaluation framework largely focuses on inputs, processes and subjective reports .

4. Achievement of Objectives (Efficacy):

Overall Objective

The overall project objective was to strengthen the government's capacity to implement its economic reform agenda to expand the private sector's role in the economy by funding priority technical assistance . The project's sub-objectives included strengthening the government's capacity in key economic reform units; infrastructure sectors; the financial sector, strategic communications and economic regulations . An added objective was to respond to the Tsunami.

(a) Strengthening Government Capacity in Key Economic Reform Units : Negligible

The newly created Ministry of Economic Reforms, Science and Technology (MERST), which subsumed some existing organizations such as the Public Enterprise Reform Commission (PERC), External Resources Department (ERD) and the Public Interest Program Unit (PIPU) was responsible for implementing the reform program . It received substantial funding from the project for consultants with expertise in reform areas . After initial progress, the reform process stalled following the change in government . Before project closing, MERST was disbanded and staff distributed to other ministries . PERC continues but is focused on state enterprise restructuring rather than privatization . PIPU staff formed the original cadre for the Public Utilities Commission of Sri Lanka (PUCSL), but it has a much narrower mandate than envisaged . Thus, strengthening capacity in key economic reform ministries was not achieved.

(b) Infrastructure Reforms : Modest

Technical assistance was provided to implement reforms and private sector participation in priority infrastructure sub-sectors: transport (rail and bus services), telecommunications, petroleum, power, port and airport services and urban water supply and sanitation services . Studies were completed and some legislation passed, but most reforms were either not implemented or reversed . Some progress was registered in telecommunications, which helped to expand services, and petroleum products where one-third of the Ceylon Petroleum Corporation's retail outlets were divested . Thus, reforms in infrastructure envisaged at appraisal were only modestly achieved .

(c) Financial Sector Reforms : Modest

In the financial sector, the project provided support for reforms (and privatization) of state-owned banks, pension industry reforms, capacity building for the insurance and non -bank financial institutions regulator and the independent Public Debt Office . The privatization of People's Bank was abandoned, but some progress was registered in its operations . Establishing an Asset Management Company was dropped . Assistance was given for drafting a new Banking Act, monetary law and a Superannuation Fund Regulatory bill that improved the Central Bank's prudential oversight . Support was provided to the Insurance Board of Sri Lanka to improve sector regulations and an insurance company was privatized without project assistance . In a reversal of policy, two new public banks were established and farmer debt write-offs adversely affected credit culture . Thus, reforms in the financial sector envisaged at appraisal were modestly achieved .

(d) Strategic Communications : Negligible

The project provided assistance for a country -wide effort to create a constituency that would support economic reforms and increase awareness of the benefits of privatization . Although this component was considered vital for the project's success, it never really got off the ground . Initial staff was considered inappropriate for political reasons and replacement staff was inadequate for the task . Indeed the only websites that facilitated stakeholder access were not from this unit.

(e) Economic Regulation : Modest

The project provided support to establish a multi-sector regulator for infrastructure and the Public Utilities Commission for Sri-Lanka . PIPU made good progress in implementing the new regulatory framework for infrastructure by training staff, preparing legislation and establishing the PUCSL . Because of hesitation in transferring authority to PUCSL and other delays, it had a very restricted scope of operations . The project funded it for a further two years . Eventually, it was allowed to regulate downstream petroleum products, but with funding support from the Treasury, compromising its independence . Establishing PUCSL and training its staff suggests that this objectivity was partially achieved .

The project also supported capacity building at the Auditor General's Department of Census and Statistics and the newly created National Procurement Agency, but this assistance was not foreseen in the PAD .

(f) Tsunami Support : Substantial

Although not an objective, funds diverted from the project expedited much needed support for Tsunami reconstruction . Subsequent forensic audits confirm that the funds were used appropriately .

Based on the assessment of project sub-objectives, the overall objective of strengthening the government's capacity to implement economic reforms aimed at expanding the role of the private sector is unlikely to be achieved .

5. Efficiency (not applicable to DPLs):

No rate of return information is available for the project.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

Although the project was initially relevant to GOSL and the Bank's Country Assistance strategy, after the change of government in 2004, it became inconsistent with GOSL's development priorities. Primarily for that reason, and despite initial success, it did not achieve most of its objectives. In its later years, while the project made a contribution to Tsunami reconstruction and capacity building in some public sector oriented agencies, this support was not directly related to its objectives. Moreover, the project appears not to have been cost-effective for reasons stated in Section 5. Thus, the project's outcome is rated as unsatisfactory.

a. Outcome Rating : Unsatisfactory

7. Rationale for Risk to Development Outcome Rating:

The risks to the achievement of the project's development outcome have already materialized. The government that came to power after the 2004 elections does not place a priority on relying on the private sector for future growth. It prefers to concentrate on improving the public sector's efficiency. Thus, most of the initial reforms under the project have already been rolled back or delayed. While it is unlikely that legislation passed with project support will be reversed, it is possible given the government's policy preferences. Thus, the risk to development outcome is rated as significant.

a. Risk to Development Outcome Rating : Significant

8. Assessment of Bank Performance:

QAG did not review the project's quality at entry. The project was prepared expeditiously in cooperation with the government to support its reform agenda. It included design elements that were innovative, allowing flexibility in the use of resources. PPF funds were used to review a substantial number of sub-projects before Board presentation. Implementation arrangements were complicated, requiring substantial coordination and involvement by senior officials. The monitoring and evaluation was mostly measuring and tracking inputs rather than outcomes, normal for this type of operation. While a number of risks to the project's success were assessed, the main one of political ownership was not analyzed sufficiently and appropriate mitigation actions were not specified. While the Prime Minister was committed to the project, the President, who belonged to a different party and has executive powers, was apparently not as committed. Subsequently, their uncomfortable cohabitation unraveled and political consensus on reforms evaporated. As this risk was not fully estimated, no mitigating strategy, such as project closure or amendment, was specified. Thus, quality at entry is rated as moderately satisfactory.

Considerable resources were used to field six supervision missions that included multisectoral skilled staff and consultants. A local co-task team leader and the subsequent relocation to Colombo of the team task leader, who remained with the project throughout, ensured close project supervision. Even though the October 2004 mission ISR noted that the government had changed its policy course and reforms had stalled, subsequent ISRs continued to rate the achievement of project development objectives as satisfactory through the May 2006 mission, when this issue was flagged by the sector manager. Also, the December 2006 ISR mentions that the project has been inactive in 2006 as the current government does not want to continue with the reforms agreed with the previous administration. In this situation, the project objectives should have been changed or the project closed in early 2006. Also, several supervision reports show that the PIU's financial statements and special opinions were qualified, but this issue was not explained. The quality of supervision is rated as moderately unsatisfactory.

Although the quality of entry is rated moderately satisfactory and the quality of supervision is rated as

moderately unsatisfactory, because Bank staff did not respond effectively to changing circumstances during implementation, overall bank performance is rated as moderately unsatisfactory .

a. Ensuring Quality -at-Entry: Moderately Satisfactory

b. Quality of Supervision : Moderately Unsatisfactory

c. Overall Bank Performance : Moderately Unsatisfactory

9. Assessment of Borrower Performance:

Although the project had strong commitment from the Prime Minister, support from the President was weaker . Repeated changes in government resulted in a hiatus in implementation and then a turn away from the project's objectives. Stakeholder consultation and involvement was minimal throughout . GOSL did not request restructuring the project. Instead, in later years, it distanced itself from it, but utilized the resources to support Tsunami reconstruction and public sector capacity building, which were not included in the project 's objectives. While these were valid development goals, they were not specified for this project . The government declined to comment on the ICR.

An experienced team was assembled as early as the PPF . It included the skills required to implement the project, complying with the Bank's fiduciary and project oversight requirements and successfully procuring more than one hundred consultancies . Because the unit was disbanded, the final audit was delayed .

The implementing unit's satisfactory performance mitigates the government's unsatisfactory performance

a. Government Performance : Unsatisfactory

b. Implementing Agency Performance : Satisfactory

c. Overall Borrower Performance : Moderately Unsatisfactory

10. M&E Design, Implementation, & Utilization:

The M&E framework consisted of supervision reports, quarterly reports, consultants' reports and some approved legislation. Supervision reports have been discussed above, but no mention is made of the quarterly reports . Although some legislation was approved and discussed in the ICR, it does not contain a systematic discussion of the quality of consulting services. It does, however, refer to some consultancies that were ineffective or inappropriate . Thus, it is not clear how the data collection strategy outlined in the PAD was used .

a. M&E Quality Rating : Non-evaluable

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

The project received an environmental B rating . The task team produced a comprehensive Environment Action Plan that outlined the process for environmental screening of sub -projects, but such issues did not arise during implementation so it was not used .

The project maintained an effective rating for fiduciary compliance for procurement and financial management . Financial management reports were delivered on time (except for the final audit) and accounts were audited annually by the Auditor General's Office. IDA procurement audits during supervision found no issues . Funds allocated to Tsunami reconstruction were subjected to a forensic accounting review with no issues, but the Bank 's procurement rules may have been violated .

12. Ratings :	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Moderately Unsatisfactory	Unsatisfactory	See Section 6.
Risk to Development Outcome:	Significant	Significant	

Bank Performance :	Satisfactory	Moderately Unsatisfactory	See Section 8.
Borrower Performance :	Moderately Unsatisfactory	Moderately Unsatisfactory	
Quality of ICR :		Satisfactory	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate .

13. Lessons:

In countries that have Prime Ministers and Presidents with executive authority, its advisable to obtain commitments for a policy reform agenda from both, especially if they belong to different political parties . A mutually acceptable reform agenda would have a better chance of being implemented .

When a project cycle is longer than the government's mandate, and elections can result in a change of government and policy agenda, an "exit strategy" that includes project closure, should be incorporated in the project design in case the new policy agenda is not consonant with the Bank's assistance strategy .

An innovative project design component, such as the challenge fund, which introduces flexibility in the use of resources, can become a flaw when a government changes its policy agenda and can use funds for purposes that do not directly address the project objectives .

Although it's difficult to design a good M&E framework for technical assistance projects, it is possible as private consulting firms have demonstrated. A weak M&E system can have a detrimental impact on the performance and quality of a project.

14. Assessment Recommended? Yes No

15. Comments on Quality of ICR:

The ICR adhered to the guidelines and provided adequate evidence and analysis in an internally consistent manner to assess the project, but the lessons it drew are in fact "findings". It did not, however, address some output and outcome indicators specified in the PDO in assessing achievement of objectives . Also, it was repetitive and far from concise. If ratings for ICRs were more nuanced, this ICR would be rated as moderately satisfactory .

a.Quality of ICR Rating : Satisfactory