



<b>1. Project Data:</b>		<b>Date Posted :</b> 06/16/2004	
PROJ ID: P034212		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Mahaweli Restructuri	<b>Project Costs (US\$M)</b>	74.2	68.7
<b>Country:</b> Sri Lanka	<b>Loan/Credit (US\$M)</b>	57.0	57.0
<b>Sector(s):</b> Board: RDV - Irrigation and drainage (60%), Sub-national government administration (36%), Other social services (4%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> C3058; CQ007			
	<b>Board Approval (FY)</b>		98
<b>Partners involved :</b>	<b>Closing Date</b>	12/31/2003	06/30/2004
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**

According to the Project Appraisal Document "The primary objective of the project is to shift the focus of the Mahaweli Authority of Sri Lanka from project implementation to river basin management, thereby ensuring that the natural resources in the Mahaweli river basin/watershed are managed more efficiently, productively and sustainably...A secondary objective is to improve agricultural productivity through rehabilitation, improvement and better operation and maintenance of the irrigation facilities in System H".

In January 2000, these two objectives were further elaborated; *but the changes did not, contrary to what the ICR suggests, amount to a revision*. The primary objective was expanded to specify more precisely the role of the Mahaweli Authority: namely, "to take the lead in planning, developing and managing in a participatory manner, current and remaining economic water resource development opportunities in the Mahaweli and adjoining connected river basins, fully integrating environmental, social, economic technical and resource sustainability considerations ". The secondary objective was restated as "increasing farm production and income by transforming System H into a more productive, commercially oriented production system, less dependent on government assistance ". During implementation measures to strengthen dam safety were added . This could be construed as a separate development objective but the scale of the initiative was so small it did not change the overall development thrust of the project .

**b. Components**

(i) **Institutional Restructuring** (estimated cost, US\$29.5 million; actual cost, US\$24.2 million). This included a 35 percent reduction in staff of the Mahaweli Authority through a Voluntary Early Separation Pacakage, privatization of the Authority's commercially non-viable business units, handover of non-irrigation infrastructure to appropriate line agencies and strengthening of water-user groups (Farmer Organizations).

(ii) **System H Upgrade** (estimated, US\$44.7 million, actual, US\$37.9 million). This entailed rehabilitation and improvement to the irrigation infrastructure and the eventual handover of operation and maintenance to Farmer Organizations.

(iii) **Village Self-Help Learning Initiative** (actual, US\$0.5 million). This was a pilot to test approaches to community-driven development in a small number of villages in the Mahaweli and adjoining areas .

(iv) **Dam Safety** (actual, US\$0.7 million). This aimed to improve the capacity of three dam caretaker agencies to assure dam safety.

(v) **Resettlement of Conflict -Affected Persons** (actual, US\$5.4 million).

Components (iii) to (v) were added during implementation.

### c. Comments on Project Cost, Financing and Dates

See Section 9 below for cost errors and omissions. There were two mid-term reviews, the first in January 2000 (components (iii) and (iv) added) and the second in June 2002 (component (v) added). Implementation of component (v) will not be completed until June 2005; therefore, it is not evaluated in the ICR. Implementation of component (iii) is also not rated in the ICR as it is still underway with retroactive financing from another project.

### 3. Achievement of Relevant Objectives:

**Refocusing the Mahaweli Authority (Partially Achieved).** A bill to transform the Mahaweli Authority into a river-basin planning agency has been prepared but has not been tabled in Parliament. Until this bill is passed the project's primary objective cannot be achieved. The staffing reform was badly implemented. About 6,300 staff (57 percent) departed but many of these were highly-skilled people whose expertise would be needed to carry forward the Authority's transformation. Little use was made of the technical assistance provided early on by the Tennessee Valley Authority. Handover of non-irrigation infrastructure to line agencies has been partial. Privatization of the Authority's seven business units has stalled. Handover of operation and maintenance functions to Farmer Organizations proceeded in System H but not in other systems, contrary to appraisal expectations.

**Increasing the Productivity of System H (Achieved).** Cropping intensity rose from 135 percent to 163 percent and water productivity increased by over 30 percent. Farm incomes have increased around 25 percent compared to an appraisal estimate of 20 percent, partly based on diversification into vegetables, grain and fruit crops. The net irrigated area improved and partly modernized is 28,790 ha of which 85 percent (about 25,000 ha) has been handed over to Farmer Organizations (the appraisal target for the area to improve was 31,500 ha). But the Farmer Organizations are not financially self-sustaining and, contrary to expectations, they do not bear a significant part of the cash cost of operating and maintaining the system, continuing to depend on government. The Authority's cost for operating in System H was expected to fall by 70 percent in relation to the pre-project level but this has not happened, partly because staff salaries rose by 60 percent during implementation.

**Improving Dam Safety (Achieved).** Operation and maintenance practices were reviewed and improved, staff were trained, an action plan was prepared, and awareness of the need for improved dam safety was raised.

### 4. Significant Outcomes/Impacts:

- Within System H, the economic rate of return, based solely on increased farm revenues, was 15 percent, compared to the 14 percent estimated at appraisal.
- Savings from Mahaweli Authority staff reductions are about 35 percent higher than what was expected at appraisal.
- The Transition Plan was approved; scaled-down river basin planning initiated on a pilot scale.
- Farmer Organizations were set up to manage water within the distributaries.
- Equipment/facilities for bulk measurement of water were installed and training was initiated.
- In April 2004, just before the project closed, the newly-elected government created, for the first time in Sri Lankan history, a cabinet-level ministry in charge of river basin development and management. This development, which was greatly facilitated by the Bank's efforts, was consistent with the spirit of the project.

### 5. Significant Shortcomings (including non-compliance with safeguard policies):

- The Transition Plan for the Mahaweli Authority was approved by Cabinet in July 2003 but there is no move to implement it.
- It is not certain that the national water policy that has been prepared will be implemented by government.
- Transfer of operation and maintenance responsibilities to farmers has generated only 15 percent of the savings expected.
- The Mahaweli Authority's contribution to a sounder strategy of natural resource management has not been enhanced.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments

<b>Outcome :</b>	Unsatisfactory	Unsatisfactory	
<b>Institutional Dev .:</b>	Modest	Modest	
<b>Sustainability :</b>	Unlikely	Unlikely	
<b>Bank Performance :</b>	Satisfactory	Unsatisfactory	QAG rated quality at entry as satisfactory, based on the Bank's perseverance with a difficult long-term program and its willingness to adopt a fresh approach (radical restructuring). But, as the ICR notes, the project design did not allow for appropriate linkage to the broader framework of water sector policy, did not properly arrange for staff retrenchment at the Mahaweli Authority, and gave insufficient attention to agricultural development. During the supervision phase the Bank wrestled with these problems but, despite a high level of expenditure, it was not able to push forward the project's primary development objective: it shares responsibility with the Borrower for mismanaged implementation of the retrenchment program; project supervision costs were US\$ 134,550 per year, more than double the average .
<b>Borrower Perf .:</b>	Unsatisfactory	Unsatisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

#### 7. Lessons of Broad Applicability:

- Before a project of this nature is approved it is necessary to make a detailed analysis of the legal and institutional requirements for satisfactory transformation of existing irrigation agencies; experience from other countries suggests that better results may be obtained by changing the incentive structure, particularly creating a competitive environment for finance. Measures could include results-based budget release and divestiture to the private sector. Setting up a new public agency is another option but should probably only be pursued as a last resort.
- The key institutional and policy reforms need to be implemented before a large investment loan is made; alternatively, a structural adjustment operation may be appropriate, backed up by a parallel technical assistance credit.
- Expert technical assistance is vital for the design of complex institutional restructuring .
- Institutional reform of this type presupposes a programmatic approach, with appropriate donor coordination; a single investment project funded by one donor agency is not an appropriate vehicle .

8. Assessment Recommended?  Yes  No

#### 9. Comments on Quality of ICR:

The material in the ICR is sound enough to back up the ratings . Annex 2 of the ICR contains some errors: the component cost information is incomplete; sizeable co-financier funding is shown (US\$68.4 million, actual cost) but there is no reference to co-financiers in the main body of the report---although the beneficiary contribution is given as US\$1.5 million of the actual cost.