1. Project Data:

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<th>Country:</th>
<th>Sri Lanka</th>
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<tr>
<td>Project ID:</td>
<td>P097329</td>
</tr>
<tr>
<td>L/C Number:</td>
<td>C4412</td>
</tr>
<tr>
<td>Sector Board:</td>
<td>Public Sector Governance</td>
</tr>
<tr>
<td>Cofinanciers:</td>
<td>Board Approval Date: 06/05/2008</td>
</tr>
<tr>
<td>Cofinancing (US$M):</td>
<td>Loan/Credit (US$M): 22.6 13.75</td>
</tr>
<tr>
<td>Sector(s):</td>
<td>Central government administration (100%)</td>
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<tr>
<td>Theme(s):</td>
<td>Managing for development results (33% - P); Public expenditure; financial management and procurement (33% - P); Administrative and civil service reform (17% - S); Economic statistics; modeling and forecasting (17% - S)</td>
</tr>
</tbody>
</table>

2. Project Objectives and Components:

a. Objectives:

According to the Project Appraisal Document (PAD, p. 4), the project's objective was "to enhance the effectiveness, efficiency and productivity of two key public sector agencies (the Department of Census and Statistics, DCS, and the Auditor General's Department, AGD) through an investment package that includes organizational strengthening, capacity building, information management, communication improvements, physical and information technology infrastructure, and Information and Communication Technology (ICT) support."

According to the Financing Agreement of July 21, 2008 (p. 6), the objective of the project was "to enhance the effectiveness, efficiency and productivity of the Recipient's DCS and AGD."

In 2012, the project development objective was revised. According to the Financing Agreement (p. 1), the objective was revised: "to enhance the effectiveness, efficiency and productivity of the recipient's AGD."

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

If yes, did the Board approve the revised objectives/key associated outcome targets? Yes

Date of Board Approval: 07/23/2012

c. Components:

The project consisted of two components:

Component 1: Upgrading Statistical Capacity (appraisal estimate US$ 14.05 million, actual US$ 5.79 million): The objective of this component was to support the development of tools for demand-driven core data collection
Component 1: Technical Assistance and Dissemination: This component was to finance technical assistance and activities in the following areas: i) organizational development; ii) statistical and information technology (IT) infrastructure and client service; iii) data development; iv) physical infrastructure; and v) project management.

Component 2: Improvement in Audit Standards (appraisal estimate US$ 12.05 million, actual US$ 11.46 million): The objective of this component was to strengthen the financial management of public resources, the effectiveness of the public audit function, and the availability of public access to information. This component was to finance technical assistance and activities in the following areas: i) audit methodology; ii) human resource development; iii) communications and external relations; iv) IT and equipment/fittings; v) physical infrastructure; and vi) project management.

During the project restructuring on July 23, 2012, the PDO was revised because Component 1 was closed on December 31, 2011 and the Government of Sri Lanka requested the cancellation of US$ 7.33 million of the IDA loan. The construction of a new DCS building could not be completed within the planned time frame due to implementation challenges: delays in Bank procurement clearances; difficulties in retaining DCS procurement staff; a request by the Ministry of Finance and Planning to have additional office space in the building, which required a redesigning of the building plans; and flooding of the building site. Therefore, the government of Sri Lanka decided to finance the second phase of the construction of the DCS building from domestic resources. During the restructuring, due to cost savings two additional activities were also added to Component 2: i) the construction of an AGD regional residential training center in Ratnapura, Sri Lanka; and ii) the hosting of an international seminar of the Asian Organization of Supreme Audit Institutions in June 2013.

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

Project Cost: At appraisal the project was estimated to cost US$ 26.1 million. Actual cost was US$ 17.25 million (66% of appraisal estimate).

Financing: The project was financed as follows:

- A US$ 22.6 million IDA credit, of which US$ 13.75 million was disbursed (61% of project appraisal).
- A US$ 99,500 Trust Fund, of which US$ 84,317.53 was disbursed.

The difference of US$ 1.52 million between the original planned credit and the amount disbursed and cancelled is explained by variations in the USD/XDR exchange rate.

Borrower Contribution: According to the PAD (p. 42), the Government of Sri Lanka was to contribute US$ 3.5 million equivalent through providing land for the construction of the DCS and AGD buildings (US$ 2 million for the DCS building, and US$ 1.5 million for the AGD building). The government also provided land for the Ratnapura training center building. The ICR (p. 25) states that the government fulfilled these counterpart contributions, and they are included in both the final costs by component and total final costs cited above.

Dates: The project was restructured four times:

- On October 21, 2010, an adaptation of the Financing Agreement was made to allow, in addition to the Auditor General, any other person nominated by the Government of Sri Lanka and acceptable to the Bank to serve as the Project Director of the Project Management Unit of the AGD.
- On December 19, 2011, the closing date was extended from December 31, 2011 to December 31, 2012 to allow AGD to use all resources allocated under the human resources and communications and external relations sub-components. Also, US$ 7.33 million under component 1 was cancelled, and no more activities were implemented under this component after December 31, 2011.
- On July 23, 2012, the PDO was revised to reflect the cancellation of Component 1, and adjustments were made in the Results Framework. Also, support to the regional training center at Ratnapuru and hosting an international seminar of the Asian Organization of Supreme Audit Incitations were added as activities under Component 2.
- On December 14, 2012, the closing date was extended from December 31, 2012 to December 31, 2013 to allow AGD to compete the two activities that were added under Component 2 during the restructuring in July 2012, and to continue activities intended to support AGD's improvements in effectiveness, efficiency and productivity.

At the time the PDO was revised, US$ 9.74 million (71.8% of project appraisal) of the IDA credit had been disbursed.
3. Relevance of Objectives & Design:

a. Relevance of Objectives:

   Relevance of the original objective: Substantial  
   Relevance of the revised objective: Substantial

   Original Objectives: "enhance the effectiveness, efficiency and productivity of the Recipient's DCS and AGD."

   The original objectives were substantially relevant given Sri Lanka's increasing demand for high quality data to design policy and monitoring programs and strengthen its audit function. Initial steps had been taken in this direction, and the government asked the Bank for assistance in continuing this reform process. The original objectives were in line with Sri Lanka's national development strategy, which aimed to improve the flow of budget information by improving statistics and audit functions. Also, the objectives were in line with the Bank's country assistance strategy (2004-2007) which outlined capacity building, improved governance, macroeconomic stability, and pro-poor service delivery as core areas for Bank assistance, and with the Bank's current Country Partnership Strategy (2012-2016), which includes a pillar focusing on increasing fiscal space and efficiency of public spending.

   Revised Objectives: "to enhance the effectiveness, efficiency and productivity of the recipient's AGD."

   The revised objective that focused only on improving effectiveness, efficiency and productivity of the recipient's AGD continued to be substantially relevant with respect to the government priorities and the Bank's Country Partnership Strategy.

b. Relevance of Design:

   Relevance of design under the original objective: Modest  
   Relevance of design under the revised objective: Modest

   The planned activities related to the DCS included providing technical assistance and strengthening the IT system to improve survey design, data collection, transmission, processing, management, and dissemination compatible with international standards. Planned activities also included the construction of an office building to improve efficiency in coordination and communication between the 18 DCS divisions and to avoid costly transportation of physical data to storage.

   The planned activities related to the AGD included implementing various trainings to increase AGD's capacity, developing manuals and guidelines to conduct different types of audits, equipping AGD with the necessary IT hardware and software, and construction of an office building. The building that AGD had been occupying had to be demolished under an environmental plan of the government, and the construction of a new building was identified as the lowest cost option moving forward.

   However, the causal relationship between some of the planned interventions and underlying assumptions about how these project activities would lead to intended outcomes was not clear. Planned activities were not mapped specifically to enhancements of effectiveness, efficiency, and productivity. Approximately 50% of project financing was allocated to the construction of the DCS and AGD buildings, and it is not clear in the results chain to what extent the construction of two buildings would contribute to the achievement of the project's specific objectives of increased effectiveness, efficiency, and productivity of either agency.

   The results chain retained the same level of relevance for AGD-related activities, even after the DCS-related activities were dropped. Given the significant shortcomings in the results chain, relevance of design is rated Modest.

4. Achievement of Objectives (Efficacy):

   Original PDO: Enhance the effectiveness, efficiency and productivity of the Recipient's DCS and AGD is rated Modest.

   Revised PDO: Enhance the effectiveness, efficiency and productivity of the Recipient's AGD is rated Modest.

   Enhance the effectiveness, efficiency and productivity of DCS: Modest (before and after restructuring). This
PDO was dropped after the project disbursed 56.5% of the actual project cost.

Outputs
- Technical assistance facilitated the development of strategies and implementation plans related to statistical system development, IT infrastructure, and data development.
- 52% of technical staff was trained in relevant areas, surpassing the target of 50%.
- A user needs survey on intended to underpin a new data sharing policy was conducted, two user education workshops were conducted, and 18 statistical procedure manuals were developed. However, the new data sharing policy was not revised during the project, and therefore the target was not achieved.
- DCS developed a fully operational meta- and data catalog that is compatible with international standards.
- The DCS building was only partially constructed, not achieving the target of the construction to be completed.

Outcomes:
- In 2012, the processing time for a pilot census was decreased from 24 months to seven months. However, this achievement cannot be attributed entirely to the project, since the pilot took place during project implementation and the actual census scanning was outsourced and not financed by the project.
- The percentage of field offices sending Household Income and Expenditure Survey (HIES) data electronically increased from 25% in 2008 to 58% by December 2011. Prior to project implementation, data collection was largely centralized and manual. The data processing period for the HIES decreased from 18 to five months between 2008 and 2011.

Even though the target for HIES was achieved, the lack of overall information and the attribution challenge related to the pilot census result in a modest efficacy rating.

Enhance the effectiveness, efficiency and productivity of AGD: Modest (before and after restructuring). This PDO was in effect throughout the entire project period.

Outputs:
- More than 75% of technical staff was trained, meeting the revised target of 75%.
- Audit manuals for financial audits, performance audits and investigative audits were developed, field tested and approved by AGD.
- A performance audit unit and an investigative audit unit were established.
- 17 performance audits and 42 investigative audits were conducted, surpassing the target of a total of 50 audits.
- IT hardware and software, for planning, and human resource communications, and other purposes, were implemented.
- The construction of the main AGD building was completed and 80% of the construction of the additional training building was completed, not achieving the revised target of both buildings being completed.

Outcomes:
- 68% of state owned enterprises submitted accounts in a timely manner in FY 2012, not achieving the target of 100%.
- A backlog of audits was cleared in 2009 68% of audits were completed within the annual plan in FY 2012, not achieving the target of 100%.
- The enactment of the National Audit Act did not take place during project implementation as planned.

5. Efficiency:

Modest

The PAD calculates a Net Present Value and Internal Rate of Return based on time and cost saving on existing activities for AGD and DCS. The estimated time saving was set at 50%, since the expected project results were supposed to halve the time for major surveys conducted by DCS and double the capacity and coverage of audits by AGD. The analysis assumed that current activities by these two agencies could therefore be conducted with half of the budget, and the other half could be used to implement further activities. These assumptions led to a Net Present Value of US$ 700,000 and an Internal Rate of Return of 25%.

The ICR does not conduct an Economic Efficiency Analysis, but it does provide a qualitative analysis of the two components. The ICR (p. 17) observes that Component 1 could not complete certain planned activities within the planned time frame, experienced delays in project implementation, and faced several implementation issues, leading to the cancellation of US$ 7.33 million. Component 2 almost completely disbursed by the end of project
closing, even though it took two extensions of the project closing date to do so. On balance, overall efficiency is rated modest.

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

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<thead>
<tr>
<th>Rate Available?</th>
<th>Point Value</th>
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<td>Appraisal</td>
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<td>25%</td>
</tr>
<tr>
<td>ICR estimate</td>
<td>No</td>
<td>100%</td>
</tr>
</tbody>
</table>

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

**6. Outcome:**

Relevance of the original objectives is rated substantial due to Sri Lanka’s need to improve its statistical and audit functions. The relevance of the revised objective remains substantial. Relevance of design under both the original and revised objectives is rated modest, as the causal relationship between some of the planned interventions and underlying assumptions about how these project activities would lead to intended outcomes was not clear. Achievement of both the original and revised objectives is rated modest due to shortcomings in reaching key outcome targets. Efficiency is rated modest. Taken together, these ratings are indicative of significant shortcomings under both the original and revised objectives, and therefore an outcome rating under both sets of objectives of Moderately Unsatisfactory. Overall outcome is therefore also rated Moderately Unsatisfactory.

**a. Outcome Rating:** Moderately Unsatisfactory

**7. Rationale for Risk to Development Outcome Rating:**

The government and implementing agencies continue to be committed to the reforms supported under the project. However, there are several challenges that will need to be addressed. There is a risk that AGD will not be able to keep sufficient technical staff to perform its operations. A strategy that allows for independent and direct hiring was developed, but it is uncertain when that strategy will be approved by the Salaries and Cadre Commission. Also, it is uncertain if AGD will have the necessary funds to pay for the high annual licensing fee for its auditing program. In addition, the enactment of the National Audit Act, a key activity under the project, has not yet taken place. In regards to DCS, there is a need to develop a statistical roadmap and allocate additional resources to ensure that the capacity built will be sustainable. Therefore, the risk to development outcome is significant.

**a. Risk to Development Outcome Rating:** Significant

**8. Assessment of Bank Performance:**

**a. Quality at entry:**

The Bank based the project's design on prior analytical work and its experience from previous technical assistance in Sri Lanka. However, there were several shortcomings during project preparation. The project’s implementation time frame of three years was too short for the project to achieve its objectives, targets were overly ambitious, and the results framework had several significant shortcomings (see Section 10a). In addition, no mechanism for overall project coordination was identified.

The Bank identified several risks during project preparation; however, mitigation efforts were not sufficiently robust. The Implementing Agencies did not have sufficient capacity both to manage the reform and to continue performing their daily work commitments outside the reform. The lack of procurement capacity within the Implementing Agencies and issues of hiring specialists led to delays. Also, no risk mitigation was in place for challenges for the Implementing Agencies related to the construction of the two buildings.
b. Quality of supervision:

Two different Bank teams supervised the implementation of the two components. During the initial phase of the project, there was little coordination between these two teams. However, according to the ICR (p. 20), this situation improved over time.

The Bank team for Component 2 conducted regular supervision missions and timely support to AGD counterparts. When AGD lacked capacity for hiring consultants, the Bank provided the project staff with training. However, according to the ICR (p. 20), there was a lack of project documentation, such as regular aide-memoires and records of communication with the government. This was an even bigger issue for Component 1.

The Bank's support for Component 1 had several shortcomings during the first two years of project implementation. The Implementation Status Reports between 2009 and 2010 stated that the Bank did not provide sufficient support and was not responsive to the needs of DCS counterparts. The Bank did not review and approve procurement documents in a timely manner. Also, the Bank did not hire any consultants who were experienced in statistical capacity development projects.

From late 2010 until project closing, supervision improved, and the Bank was more responsive and restructured the project several times. The Bank teams took several actions that had a positive impact on project implementation. These actions included putting a stronger supervision team in charge, improving the Bank approval time for procurement, setting baselines and adding M&E indicators to support progress tracking, producing more regular project documentation, and ensuring that DCS and AGD complied with implementation requirements. However, the procurement issues related to the construction of the DCS building were never resolved, and the government requested that the Bank close Component 1 and cancel US$ 7.33 million in December 2011. It took the Bank seven months to restructure the PDO to reflect the closing of Component 1.

9. Assessment of Borrower Performance:

a. Government Performance:

The government was committed to achieving the project's development objective throughout preparation and implementation. According to the ICR (p. 21), the government addressed challenges in a timely manner and complied with the Bank’s fiduciary requirements. The government provided its counterpart funding through contributing land for the construction of the AGD and DCS buildings.

The government approvals for the construction of the DCS building were slow, and the fact that the Ministry of Finance and Planning requested space in the building, which had not been planned for, led to delays. There were also some shortcomings regarding audit activities. The government has not presented the National Audit Act to the parliament, and the new human resource strategy has not yet been approved.

The government decided to cancel Component 1 and formally restructure the project after over half of the project funds had been disbursed.

Since the DCS building is only 80% completed, the government has allocated funds to ensure its completion.

The ICR does not comment on the government’s use of M&E data for decision making and resource allocation.
b. Implementing Agency Performance:

The project was implemented by two Implementing Agencies, AGD and DCS.

AGD was committed to achieving the PDO. At the beginning of project implementation, a lack of implementation readiness led to some delays. However, according to the ICR (p. 21), performance picked up and was strong throughout the rest of the project period. AGD ensured that a qualified procurement expert was part of the team, which supported the timely construction of the office building. Also, AGD benefited from a strong project director who provided guidance and strategic direction in a timely manner. AGD took advantage of cost savings to implement additional activities during the project extension and ensure that it has sufficient funds to cover operation and maintenance costs for the building. Also, AGD integrated project-related activities into its daily operation. However, AGD experienced a high turnover of staff and delays in the submission of state owned enterprise statements, which did not allow AGD to complete its audit on time. Also, there was a delay in recruiting a consultant for developing manuals and providing training, which slowed project implementation.

The DCS was committed to achieving the PDOs and demonstrated leadership. The DCS trained 50% of its staff in relevant areas, completed a Household Income Expenditure survey according to a new data collection scheme, and conducted quarterly/bi-annual National Data Committee meetings. However, it also faced several challenges during project implementation. DCS experienced high turnover of staff, especially in procurement, and had difficulties in finding new financial management and procurement experts. This led to delays in project implementation and procurement challenges, and ultimately the incomplete construction of the DCS building by the end of 2011. Also, the DCS lacked sufficient capacity for staff to perform both their daily and project-related tasks such as the national census and other surveys. In addition, DCS faced challenges in resolving land boundary and squatting issues and was not able to hire superstructure contractors according to Bank guidelines. According to the ICR, DCS further improved its performance in 2010 following improved Bank support and the recruitment of international consultants.

The ICR does not comment on DCS’s transition arrangements for regular operation of supported activities after project closing.

Implementing Agency Performance Rating : Moderately Satisfactory
Overall Borrower Performance Rating : Moderately Satisfactory

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

a. M&E Design:

The Results Framework in the PAD (pp. 27-28) included three PDO indicators and 8 intermediate outcome indicators.

M&E had several weaknesses. Some baseline values were incomplete, and several indicators were not clearly defined, were difficult to measure (not quantifiable), and/or lacked specific targets to measure progress. In particular, two of the primary PDO-level indicators (“evidence of the improved effectiveness, efficiency, and productivity for the key public sector agency DCS/AGD”) were not well specified and measurable. Also, the construction of the two buildings was not reflected in the Results Framework, even though a substantial part of financing went towards them.

The ICR does not comment on the extent to which the proposed data collection methods and analysis were appropriate or if the M&E design was well embedded institutionally and had sufficient stakeholder ownership.

b. M&E Implementation:

M&E implementation experienced significant delays during the initial phase of project implementation due to weaknesses in the Results Framework (see Section 10a). In particular, the M&E for Component 1 was delayed until January 2010, 14 months after project appraisal. During the Mid-Term Review on February 2, 2011 the Bank
addressed these challenges by defining additional sub-indicators. The intermediate outcome indicators were not formally revised, but the added sub-indicators supported the measuring of progress.

c. M&E Utilization:

The ICR does not comment on whether M&E results were used in monitoring implementation progress and influenced decision making, or the extent to which the results of the M&E were communicated to various stakeholders.

M&E Quality Rating: Modest

11. Other Issues

a. Safeguards:

The project was rated as environmental category B. The project triggered the Bank’s safeguard policy on Environmental Assessment (OP 4.01) due to the construction of buildings. An Environmental Assessment was implemented and an Environmental Management Action Plan was developed. Mitigation efforts were monitored on a regular basis, and no significant negative environmental impacts were identified. At the construction site of the Ratnapura training center, there were a few issues related to site management, safety to workers, and drainage. The Implementing Agency resolved these issues.

The project also triggered the safeguard policy on Involuntary Resettlement (OP 4.12) due to land squatters on one of the building sites. This issue was addressed through compensation to relocate the squatters.

b. Fiduciary Compliance:

Financial Management

The project faced some financial management challenges. There were some reporting delays at the beginning of the project and in the spring of 2013. State Owned Enterprise statements for auditing were submitted late, which led to delays in AGD’s audit completion. The DCS had some difficulties in keeping a financial management specialist for its Project Management Unit. Internal and external audits were submitted satisfactorily to the Bank.

The ICR does not comment on planning and budgeting procedures and flow of funds arrangements.

Procurement

The project experienced procurement-related challenges for the implementation of Component 1 due to a high turnover rate of procurement specialists at the DCS. Also, the DCS faced delays in the tendering of the building construction. Ultimately, challenges related to the procurement of the DCS building construction could not be resolved, and the government requested the closing of Component 1 and cancellation of US$ 7.33 million in December 2011. The Bank addressed this cancellation by restructuring the project to adapt the PDO accordingly in July 2012, seven months later.

AGD did not face any procurement challenges, and the Bank conducted some training for AGD to improve the hiring process for consultants.

c. Unintended Impacts (positive or negative):

None reported.

d. Other:

12. Ratings:

<table>
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<tr>
<th>ICR</th>
<th>IEG Review</th>
<th>Reason for</th>
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</table>
Outcome: Moderately Unsatisfactory

Risk to Development Outcome: Significant

Bank Performance: Moderately Unsatisfactory

Borrower Performance: Moderately Satisfactory

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:

The ICR (pp. 22-24) identifies several valuable lessons, including the following:

- The Implementing Agencies' leadership is critical for the successful implementation of a project and should be addressed by the Bank accordingly. In this project, the two Implementing Agencies performed differently despite being in the same operating environment. This was mainly due to AGD’s strong leadership and ability to retain staff. It would have been useful if the Bank had assessed the leadership abilities of the Implementing Agencies during project preparation and tailored capacity building efforts and supervision accordingly.

- Discussions with a range of stakeholders to choose appropriate performance indicators will ensure that indicators are measurable and realistic and will be owned by all different parties. In this project, many of the indicators were not clearly defined, lacked baseline values, and/or were not measurable leading to M&E challenges.

14. Assessment Recommended? ☐ Yes ☒ No

15. Comments on Quality of ICR:

The ICR provides a solid overview of project implementation. The ICR is appropriately critical. However, the ICR could have provided more in-depth information on critical areas such as M&E, financial management, and procurement, and the processes by which the Bank and the Implementing Agencies addressed challenges in these areas. The ICR’s sub-ratings for the achievement of intermediate outcome indicators in section 3.2 are confusing. No formal economic analysis is provided.

Quality of ICR Rating: Satisfactory