



1. Project Data :
OEDID: C2231
Project ID: P010368
Project Name: Poverty Alleviation Project
Country: Sri Lanka
Sector: Social Assistance
L/C Number: C2231
Partners involved : KfW
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2. Project Objectives, Financing, Costs and Components :
Major project objectives were to (i) increase employment and income-earning opportunities among the poor and unemployed youth and, (ii) improve the nutritional status of pregnant and nursing mothers and children under 3 years of age (raised to 5 at mid-project stage). Sub-objectives were (a) to reorient and expand institutional capacity to serve the poor; (b) develop credit and other services for promoting self-employment and SME development; (c) expand productive wage employment for the poor through rural works projects; (d) develop programs for nutrition interventions and (e) create policy research and program formulation capacity on poverty and unemployment issues. Objectives were to be addressed through the establishment of a semi-autonomous apex agency, the National Development Trust Fund (NDTF), which would administer four separate funds - a Credit Fund, a Human Resources Development Fund, a Rural Works Fund and a Nutrition Fund. The Trust would receive and disburse designated project funds to Partner Organizations and NGOs. In addition, the project would establish an Employment and Policy Planning Unit in the Ministry of Policy Planning and Implementation. **Total project cost** was US\$57.2 million, 67% of the appraisal estimate of US\$85 million. The IDA contribution was originally US\$57.5 million but in December 1996 IDA canceled \$10 million of the credit. By project closing the IDA contribution was US\$41.2 million, 72% of the estimate at appraisal. Cofinancing of US\$10 million was to be provided by KfW but KfW canceled US\$6.5 million, making their contribution 35% of the estimate at appraisal. UNDP also provided a grant for technical assistance to the NDTF.

3. Achievement of Relevant Objectives :
 Despite considerable difficulties the project did manage to create over 3 million person days of temporary employment; support the creation of rural assets (from about 3100 rural works programs) that led to the appreciation of land values, improved marketing and enhanced short-term employment prospects notably in the Dry Zone; and improve the nutritional status of over 700,000 children leading to a reduction of serious malnutrition in project areas. The project also on-lent funds to some 150 NGOs/POs for delivering financial services to the poor. Approximately 114,000 loans were given to beneficiaries at a recovery rate of 95% and 117,000 microenterprises were promoted, although the survival rate beyond the third year was only 37%. Gender objectives were largely met, with social mobilization efforts contributing to women's self-reliance and bargaining power. However, only one-third of women participants who received credit were able to operate successful microenterprises.

4. Significant Achievements :
 The project did achieve a number of its quantitative targets, especially in the Nutrition Fund. Qualitative achievements include: increased presence and capabilities of NGOs working in rural villages to assist the poor; increased social capital and improved social networks among the poor; mobilized low-income communities to improve nutritional status among young children and mothers and greater attention to participatory approaches responsive to beneficiary needs. The nutrition interventions had a considerable impact on the ability of low-income communities to understand nutrition problems and encourage behavioral changes to improve nutritional status. Project targeting was also an achievement, with about 76% of direct beneficiaries falling below the project income cut-off line and 35% of all beneficiaries coming from the unemployed youth and unskilled laborers.

5. Significant Shortcomings :

Political factors worked to the detriment of the project . It became strongly identified with the incumbent government and opponents actively sought to hinder project operations . The new government of 1994 expressed ambivalence toward the project in its closing years because of its association with the previous government . The relationship between GOSL and NGOs was also problematic during the project's lifetime . This weakened implementation, given the large role envisaged for partner organizations in the delivery of project services . SAR recommendations for developing NGO/PO capacity and institutional strengthening were inadequately implemented, and guidance was insufficient. Technical assistance contracted by IDA to administer the UNDP grant to the NDTF was considered inadequate by GOSL and UNDP . Overall, capacity building in the NDTF was weak . Weak monitoring and evaluation mechanisms also hampered the project throughout its lifetime . The Employment and Poverty Policy Unit undertook several studies on poverty monitoring and policy research, although GOSL failed to develop a mechanism through which such studies could consistently inform policy formulation and resource allocation for poverty reduction .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Unsatisfactory	Marginally Unsatisfactory	Despite major implementation problems the project did achieve at least some of its relevant quantitative and qualitative objectives.
Institutional Dev .:	Partial	Modest	
Sustainability :	Unlikely	Uncertain	Although the GOSL does not intend to continue operation of the NDTF, some of the project's benefits, including the increased presence of NGOs working in rural villages to assist the poor plus the nutrition benefits, may be sustained . It is not clear that the GOSLs retreat from the project approach sweeps away all prospects of sustained benefit .
Bank Performance :	Deficient	Unsatisfactory	
Borrower Perf .:	Deficient	Unsatisfactory	
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

- (i) Establishing a semi-autonomous agency to manage the flow of funds to NGOs and other service delivery organizations to ensure greater responsiveness and decentralization of service provision, is a logical response to the inherent weaknesses of a highly centralized and rigid government machinery . However, the managerial, administrative, technical and monitoring skills and competencies required to effectively operate such an agency are considerable. The availability of these skills cannot be taken for granted, especially in the context of a large national program.
- (ii) The governance structure of any semi-autonomous agency, the institutional framework linking the apex agency to partner organizations, as well as establishing minimum standards for accountability and transparency, need to be fully worked out before funds are disbursed . Participation and training are essential .
- (iii) Pilot projects, as a basis for testing strategies and approaches, can play a central role in facilitating overall project success.
- (iv) Effective monitoring and evaluation, together with research and beneficiary studies are essential to ensure efficient project implementation and the drive for development impact .

8. Audit Recommended? Yes No

Why? This was an important and complex project with many controversial and nuanced dimensions which deserve more in-depth and rigorous evaluation . The ICR deals with many of the problems encountered by the project, these deserve more in-depth review for future lesson learning .

9. Comments on Quality of ICR :

The ICR provides a very thorough and honest evaluation of the achievements and shortcomings of this project . The effort taken to provide detailed argument and evidence and to ensure that the borrower's comments are comprehensive is commendable . The richness of the story suggests that this project is a good lesson learning opportunity for the Bank .

