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**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**



**Democratic Socialist Republic of Sri Lanka**

**Country Programme Evaluation**

**Evaluation Report**

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**Report No. 1239-LK**

Photo on cover page  
Kegalle Rural Development Project  
Women fill pots of clean drinking water at a water pump built with a project loan  
Source: IFAD Photo Library

# DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

## COUNTRY PROGRAMME EVALUATION

### Table of Contents

Acronyms and Abbreviations	iii
Map	v
<b>Agreement at Completion Point</b>	<b>vii</b>
<b>Executive Summary</b>	<b>xvii</b>
<b>I IFAD ASSISTANCE IN CONTEXT</b>	<b>1</b>
A. Sri Lanka as a Leader Among Developing Countries	1
B. The Persistence of Poverty and Gender Disparity	1
C. Agriculture and Poverty	3
D. Sri Lanka – IFAD Co-operation in the Perspective of Rural Poverty	4
E. The Current Context	7
F. The Country Programme Evaluation Objectives and Approach	8
<b>II ASSESSMENT OF IFAD PROJECTS</b>	<b>9</b>
A. Relevance of Project Objectives	9
B. Project Preparation and Design	11
C. Intervention Methods for Engaging Beneficiaries	12
D. Project Management and Supervision	14
E. Monitoring and Evaluation	15
F. Effectiveness in Achieving Project Objectives	16
G. Project Impacts	18
H. Sustainability and Quality	20
<b>III CONCLUSIONS AND RECOMMENDATIONS BY COMPONENT</b>	<b>21</b>
A. Agriculture and Natural Resources	21
B. Rural Infrastructure	23
C. Rural Microfinance	24
D. Gender Perspectives	26
<b>IV LESSONS LEARNED AND CHOICES FOR THE FUTURE</b>	<b>28</b>
A. Contradictions in Strategy and Implementation	28
B. Matching Institutions with their Comparative Advantage	29
C. Developing Ownership	30
D. Autonomous Support Mechanism(s) for Poverty Alleviation	31
E. Towards an Integrated Approach to Service Delivery	31
F. Towards Improved and More Inclusive Project Cycle Management	32

### List of Tables

Table 1: Poverty in Sri Lanka by Province, 1995/96	2
Table 2: Poverty and the Farming Systems of Sri Lanka	3
Table 3: Overview of Projects funded by IFAD (1978 – 2000)	5
Table 4: Objectives of Projects funded by IFAD (1978 – 2000)	10

\* Photos provided by the IFAD photo library and a Sri Lankan commercial photographer  
Annexes available upon request from IFAD's Office of Evaluation and Studies (m.keating@ifad.org)



## ACRONYMS AND ABBREVIATIONS

ADZAP	Anuradhapura Dry Zone Agriculture Project
AsDB	Asian Development Bank
BRDP	Badulla Rural Development Project
CDP	Coconut Development Project
CID	Central Irrigation Department
COSOP	Country Strategy and Opportunities Paper
DAS	Department of Agrarian Services
DOA	Department of Agriculture
FAO/IC	Food and Agriculture Organisation/Investment Centre
FO	Farmer Organisation
GOSL	Government of Sri Lanka
ha	hectare
ICO	Integrated Community Organisation
IFAD	International Fund for Agricultural Development
IPM	Integrated Pest Management
IRD	Integrated Rural Development
IRDP	Integrated Rural Development Project
JTF	Janasaviya Trust Fund
KOISP	Kirindi Oya Irrigation and Settlement Project
KRDP	Kegalle Rural Development Project
O&M	Operation and Maintenance
M&E	Monitoring and Evaluation
M&R	Maintenance and Repair
MTR	Mid-Term Review
MREAP	Matale Rural Economic Advancement Project
NCPPRDP	North Central Province Participatory Rural Development Project
NGO	Non Government Organisation
NWPDZPDP	North-western Province Dry Zone Participatory Development Project
PID	Provincial Irrigation Department
PMO	Project Management Office
REAP	Rural Economic Advancement Programme
SAARC	South Asian Association for Regional Co-operation
SANASA	Federation of Thrift and Credit Co-operative Societies
SBIRD	Second Badulla Integrated Rural Development Project
SEEDS	Sarvodaya Economic Enterprises Development Services
SFLCP	Small Farmers and Landless Credit Project
SPM	Special Programming Mission
SLR	Sri Lanka Rupees
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
USD	United States Dollars
WFP	World Food Programme

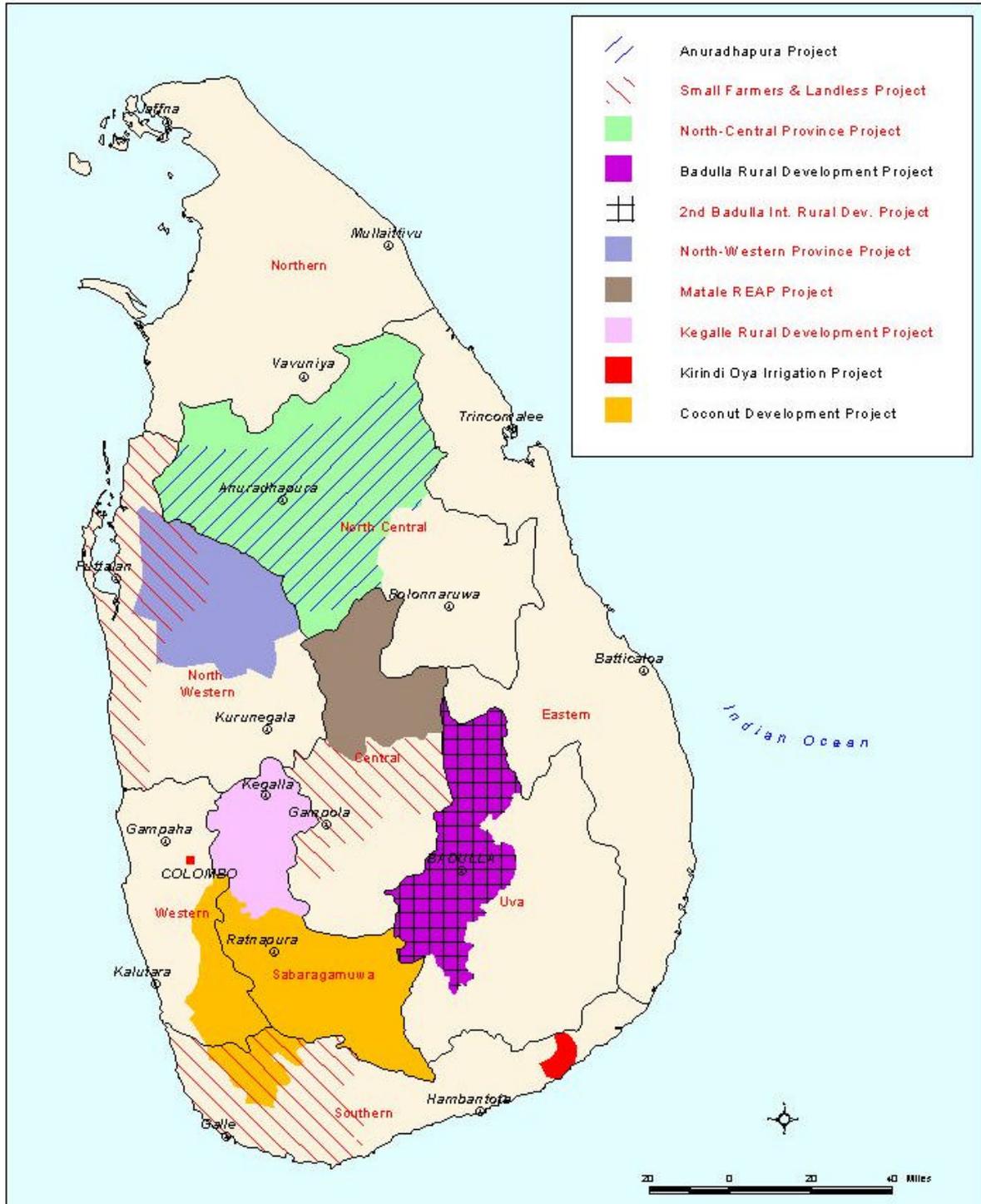




# SRI LANKA

## COUNTRY PROGRAMME EVALUATION 2001

Projects visited by the Country Programme Evaluation Mission



Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.



## Agreement at Completion Point Three Insights

This Agreement at Completion Point (ACP) is an understanding among core partners in the Country Programme Evaluation to adopt and use the insights and recommendations from the evaluation in the preparation of IFAD's Country Strategy and Opportunities Paper (COSOP) for Sri Lanka and in designing new activities aimed at rural poverty alleviation, as well as in ongoing operations. The core partners included: the Government of Sri Lanka (represented by the Ministries of Finance and Planning, Plan Implementation, Fisheries and Aquatic Resources, Agriculture, Irrigation and Water Development, Women's Affairs and Samurdhi), the Central Bank of Sri Lanka, the concerned (Central, North Central, North Western and Uva) Provincial Authorities, the IFAD-supported projects, NGO SEEDs, NGO Federations of Matale and Badulla, and IFAD (represented by the Asia and Pacific Division and the Office of Evaluation and Studies).



## 1. Proposal for Grant-funded Technical Assistance for Establishing an Autonomous Support Mechanism for Mobilising and Promoting Participation of the Poor



Picture 1: Kegalle Rural Development Project  
Women work in a vegetable garden initiated with a loan from the project.  
Source: IFAD photo library

The CPE observed that the approach adopted in IFAD-assisted projects for mobilising and promoting the participation of the rural poor was constrained in several ways, some of which were first pointed out in IFAD's 1993 Sri Lanka: Strategy Report. The most important areas are that:

- The government agencies engaged in project implementation are aimed at service delivery rather than empowering the poor. As a result, people's participation is sought for mainly meeting physical and financial targets rather than for harnessing their potential for poverty alleviation. And, while social capital is generally associated with voluntary association in civil society, in IFAD-assisted projects community organisations are used, in essence, as the lowest tiers of development administration.
- By virtue of its mandate and design, each government agency that is engaged in project implementation is limited to specific sectors and interventions, each working independently from others. By definition, therefore, a project being implemented by a number of agencies offers only a limited set of interventions to the poor, that are not co-ordinated nor complementary, thus not allowing for the required synergies to be created. The needs and sources of livelihood of the poor, on the other hand, represent a far greater range of activities than any one project has been able to address so far. While working with the poor requires a holistic approach, working primarily through the government leads to something considerably less.
- For purposes of budgeting and performance measurement, every agency included in a project requires a target that is defined strictly in terms of its sectoral mandate. Understandably, every agency strives to meet its own target but has no incentive to work in the same set of villages as another agency. Community development, on the other hand, often requires complementarity of effort across sectors in order to develop synergies between one investment and another.

- The undertaking of social mobilisation is not a core activity of government agencies. As for projects, when NGOs are engaged to undertake social mobilisation work, this is primarily perceived as an added activity rather than as a means to achieving empowerment of the poor. That is, NGOs are treated as contractors who are required to perform specific activities, rather than as partners in the development process. In addition, NGOs normally have expertise in specific sectors only and may not also be the best alternative for undertaking social mobilisation and building community participation that is required in the IFAD-type of multi-disciplinary interventions.

In searching for a solution to these problems, the CPE took note of several points made in the Sri Lanka Framework for Poverty Reduction that has been developed by the Government of Sri Lanka (GOSL) with the participation of development partners, the private sector and civil society organisations. In particular, the Framework speaks of the need for empowerment activities to shift to a “collaborative” approach to community-led development, one in which alliances would be formed between the poor and those who generate opportunities for development, including local government, the private sector and NGOs. The CPE noted the experience from socially stratified communities that the alliances into which the poor enter on their own turn out often to be unequal alliances. The poor are more likely to benefit, however, if the alliances they form with politicians, administrators, businesses and others are secured through the involvement of a credible “honest broker” committed to organising the poor, linking them to outsiders and securing their interest.

In view of this analysis, the CPE recommended the establishment, on a pilot basis in one province, of a self-governing non-profit body—an “honest broker”—for undertaking social mobilisation and community participation and promoting a holistic approach to poverty alleviation. Such a body would be formed on the basis of a strategic partnership, with representatives from the public and private sectors as well as those from civil society and other relevant development workers. Its management structure and operations would be strictly professional. It is believed that this type of organisation would contribute, in a more cost-efficient and effective manner, to promoting greater involvement of the rural poor in key stages of the development process.



Picture 2: Sri Lanka, CPE Workshop held at Mount Lavinia  
The opening of the Workshop  
Source: Sri Lankan Photographer

Participants at the CPE Workshop held in July 2001 agreed that the organisation of the poor into voluntary people's organisations is important for rural poverty alleviation. The workshop recommended that the support mechanism proposed for facilitating the organisation of the poor on a large scale should be established through a process of dialogue with GOSL and other partners. It is also proposed that IFAD actively participates in establishing the governance structure, organisational framework and operational policies for the proposed entity, with particular attention to the following steps:

- i) Identify potential "champions" among the political leadership and others in Sri Lanka who are willing to look at the best relevant examples in Sri Lanka and neighbouring countries and champion the establishment of the proposed organisation in at least one poor province.
- ii) Through documentation and exchange visits, demonstrate the value of such a mechanism to relevant decision-makers, particularly demonstrating its neutrality, continuity, flexibility, responsiveness, scale, and ability to forge partnerships and linkages.
- iii) With the help of the "champions" mobilise support from decision-makers, civil society, donors, academia, private sector, etc.
- iv) Obtain agreement to proceed from relevant decision-makers.
- v) Establish a non-partisan and credible governance structure.
- vi) Develop a professional organisational framework and operational policies for the new entity that would elicit support from government, donors and civil society.

Inputs that would help undertake this process would include:

- IFAD's support and facilitation role in order to internalise, as appropriate, this proposal within the framework of the Sri Lanka Country Strategy and Opportunities Paper (COSOP);
- A suitable national or international group (NGO, international agency or consultants) that would organise and facilitate the process outlined above for IFAD and GOSL, and that would be provided with:
- Resources for preparing documentation on the best relevant IFAD-assisted and non-IFAD organisations in neighbouring countries, conducting "champions" to these organisations, holding stakeholder workshops in Sri Lanka, incorporating the proposed support mechanism, developing its operational policies and initiating its recruitment.

## **2. Proposal for an Advisory (or Thematic) Study on Decentralised Development Administration That is Responsive to the Poor**

An autonomous support mechanism of the kind proposed above is one of the building blocks for pro-poor development recommended by the CPE and consistent with the Framework for Poverty Reduction. It is not, however, an institution that can replace the administrative and elected institutions whose decisions and resources play such an important part in the lives of the rural poor. Administrative institutions (including the line agencies) do not excel at social mobilisation, but they are the biggest repository of technical expertise and financial resources, particularly for public goods and services. Representative institutions do not organise households for broad-based participation in development, but they provide leadership in governance and thus have a strong impact on income generation and social development.

The CPE concluded that decision making by administrative and representative institutions need to function in an integrated and decentralised approach that could meet the needs of the poor, including the needs for participatory bottom-up planning, timely response and holistic development. Therefore, the CPE supports the Government's recommendation in its Framework for Poverty Reduction for local government to adopt transparent and participatory planning, resource allocation, implementation, and monitoring and evaluation processes at the local level, and disseminate information to the public on local government revenues and expenditures. The CPE Workshop held in July 2001 emphasised that:

- Decentralisation will only be meaningful if the poor get organised and form coalitions and when empowered.
- The rural poor must play a central role in decentralisation, for which grassroots institution building and training is essential.
- Decentralisation is ideal if the poor can become decision-makers in the system.

Some of the requirements for meaningful decentralisation that follow from these points, particularly those dealing with the organisation of the poor, are best approached through the autonomous support mechanism proposed above. These are requirements that focus on the organisation and voice of the beneficiaries, the rural poor. There are, however, other aspects of pro-poor decision-making for which changes may be required in the way administrative and representative institutions work. The lack of a pro-poor orientation in the work of these institutions has been pointed out anecdotally in a number of formal and informal reports reviewed during the CPE. What is needed, however, is a systematic study that advises decision-makers in IFAD and GOSL of how particular processes work against the poor, and what could be done to make them pro-poor. The proposed study would review and build upon the recent work of the Asian Development Bank and the Finance Commission on provincial budgeting, planning and programme execution. With specific reference to the operational requirements of IFAD-supported activities in Sri Lanka, the proposed study will:

- i) Focus on three selected provinces where IFAD-supported projects are currently under implementation, though relevant information from other provinces, projects and neighbouring countries would also be used for validation of findings and recommendations;
- ii) Describe the planning, budgeting, implementation and monitoring and evaluation processes followed by the Central and Provincial Governments for development activities at the local level in the context of the three selected IFAD-supported projects;

- iii) In each process, identify the role of various actors in decision making, the criteria employed for arriving at resource allocation decisions (during planning, budgeting and implementation), and the importance given directly or indirectly to the voice of the poor;
- iv) Highlight the strengths and weaknesses of the above-mentioned processes in relation to the interests of the poor and propose operational changes that would increase the participation of the poor in decision making and the benefits they obtain from public funds; and
- v) Be undertaken at the latest by June 2003.

Inputs that would help the conduct of this study are expected to include:

- Staff and financial resources from IFAD and GOSL to enhance the relevance and ownership of the study.
- A suitable international-cum-national team that would carry out the study, and that would be provided with:
- Resources for operational and comparative analysis of pro-poor decentralisation initiatives based largely on review of literature, field work and stakeholder workshops at IFAD and in Sri Lanka.



Picture 3: Small Farmers and Landless Credit Project  
A man and his wife weigh and package prawn crackers in Kundasale, Kandy district. They have received a loan from the project to start a small prawn cracker enterprise.  
Source: IFAD photo library

### 3. Ideas for Developing a Consistent Framework for Pro-Poor Project Management



Picture 4: Small Farmers and Landless Credit Project  
Women picking and bagging tea on a plantation.

Source: IFAD photo library

The CPE observed that selected IFAD interventions have not always benefited the poorest, in part due to the nature of project design, some of which tended to exclude the poorest from participating in development activities. For example, in some projects, the Fund promoted the development of large agro-wells requiring an initial contribution from the beneficiaries for them to benefit from the intervention. The CPE noted that the poorest have often been bypassed in such development activities, as they have not been able to muster the necessary initial contribution. In other cases, projects rehabilitated irrigation schemes in areas where the poorest were not in possession of land. Likewise, the emphasis on women has been limited. In general, the participation of the underprivileged in planning, implementation and M&E needs strengthening.

In addition to the above, discussions at the CPE workshop in Colombo in July 2001 highlighted the need for IFAD and Government to work in partnership to jointly create assets for the landless and the poor. In this regard, Workshop participants suggested for IFAD to devote attention to estate workers and reflect on the possibilities of intervening in the conflict areas.

These and similar conclusions brought out in the CPE draw attention to the need for including the poor at various stages of the project cycle. It is recommended, therefore, that GOSL and IFAD work in partnership to strengthen the pro-poor orientation of IFAD-funded projects. In this regard, they would, identify investment opportunities that aim at creating assets to the benefit of estate workers and other landless households. In addition, GOSL and IFAD would work towards identifying suitable development opportunities for interventions in the conflict and in upland settlement (e.g., Mahaweli) areas. In both instances, particular attention would be given to three areas highlighted by the CPE, namely, better targeting of the poor, design of pro-poor interventions and monitoring the participation of and the impact on the poor. These three aspects of project management are highly inter-dependent and require, therefore, to be addressed within a single, internally consistent framework. The development of such a framework would be reflected in the Sri Lanka COSOP and initiated during a future project formulation exercise and completed in the early stages of implementation. It is expected that an improved (more pro-poor) framework would include the following elements:

- A methodology for identifying poor households in a community during project implementation. Cost-effective approaches employed for this purpose in Sri Lanka and neighbouring countries include wealth ranking and poverty assessments that involve villagers in identifying households that are destitute, very poor, poor, well-to-do and better off according to location-specific criteria.
- A participatory planning process for developing pro-poor interventions and ensuring the participation of the poor in a holistic manner, taking into account their integrated requirements at household, group and village levels.
- A methodology for monitoring the inclusion of identifiable groups of poor, during implementation, in the range of activities illustrated in the table given above and evaluating the impact on the poor at project mid-term and completion. In addition to cost-effective participatory approaches such as wealth ranking, the methodology should include sample surveys at the beginning, mid-point and conclusion of a project for assessing the poverty situation and impact in the project area.

It is expected that the conceptual basis of the framework would be elaborated during a future project formulation exercise and resources for implementation allocated at that time.



## EXECUTIVE SUMMARY

### I. IFAD ASSISTANCE IN CONTEXT

1. **Sri Lanka as a Leader Among Developing Countries.** Sri Lanka has been a leader among developing countries in a number of ways—in terms of sustained growth, per capita incomes, achievements in health and education, and rural-urban and gender equity. It has carried out two rounds of economic liberalisation since 1977, seen peaceful transfers of power at regular intervals, introduced the idea of devolution ahead of many other countries, and diligently pursued peace negotiations even with separatist forces. The country's Gross Domestic Product (GDP) per capita is USD 870, more than twice the average for South Asia as a whole, while it was \$190 when IFAD assistance was initiated in 1978. The population of the country—about 20 million—is growing at the rate of only 1.2 percent per annum. The adult literacy rate is 91 percent (slightly lower among women) and primary school enrolment is 98 percent. Infant mortality is 16 per 1 000 live births, maternal mortality 24 per 100 000 and average life expectancy 73 years (higher for women).



Picture 5: Kegalle Rural Development Project  
People work in a vegetable garden initiated with a loan from the project  
Source: IFAD photo library

2. **The Persistence of Poverty and Gender Disparity.** Despite economic growth and increases in prosperity, poverty has persisted at high levels in recent years. Relevant trends have been analysed most recently in *Sri Lanka: A Framework for Poverty Reduction* (November 2000) prepared by GOSL with the participation of donors, non-government organisations (NGOs) and independent experts. The Framework observes that poverty levels fell sharply during the 1970s and 1980s, but little progress was made in the first half of the 1990s except in urban areas. Overall, excluding the North Eastern Province, between one-fifth and one-third of the population is estimated to be poor, depending on whether poverty is measured with a low or 20 percent higher poverty line. According to the *Framework*, nearly 90 percent of the poor live in rural areas and the incidence of poverty varies greatly among provinces and also across districts.

3. On UNDP's Gender Development Index, which compares male and female life expectancy at birth, educational attainment and income, Sri Lanka scores almost 70 percent, while gender parity is achieved at 100 percent and the average for developing countries is 56 percent. On the Gender Empowerment Index, however, Sri Lanka comes out at 31 percent, which is lower than the average

for developing countries (37 percent) and reflects the limited participation of women in politics and in senior positions in the public and private sectors.

**4. Sri Lanka – IFAD Co-operation in the Perspective of Rural Poverty.** IFAD has assisted Sri Lanka through 10 loans for 10 projects (listed in Table 1) for a total of approximately USD 112 million. At the time of the Country Programme Evaluation (CPE), four of the projects had ongoing status. UNOPS has been the co-operating institution in three projects, AsDB in four projects and the



World Bank in two projects. The Fund's co-financiers in Sri Lanka have been: AsDB (for an amount of USD 48.1 million), CIDA (USD 6.5 million), GTZ (USD 3.8 million), Japan (USD 50 000), KfW (USD 20.9 million), UNDP (USD 2.5 million), SIDA (USD 3.3 million), WFP (USD 2.16 million), the Government of Sri Lanka (USD 50.18 million), the private sector (USD 398 000) and the beneficiaries (USD 2.37 million).

5. The first five projects seem to have been designed under a strategy of co-operation and convenience that IFAD adopted in its early years. The strategy, in effect, was to take the lead in project design from the larger and more established financing institutions, namely, the AsDB and the World Bank. The five subsequent projects—those formulated by IFAD itself—have more direct pro-poor objectives than the previous ones. IFAD assistance has been significant, in particular, for local development in some of the poorest districts of the country, and for some of the poorest segments of the population, initially through sectoral projects and subsequently through the Integrated Rural Development Projects (IRDPs).

Picture 6: Kegalle Rural Development Project  
A man in the Kegalle area has received a loan from the project to open a welding enterprise.  
Source: IFAD photo library

**Table 1: Overview of Projects funded by IFAD (1978 – 2000)**

Project	Overall Objective	Year Approved	Approved Financing (MLN USD)	Formulation	Cofinancing	Supervision
KOISP	Increasing food production, employment and settlement prospects.	1978	18.00	AsDB	AsDB, KfW	AsDB
ADZAP	Raising production and incomes of subsistence and poor farmers.	1980	14.49	AsDB	AsDB	AsDB
CDP	To reverse the decline in coconut production.	1981	8.00	FAO/IC	AsDB	AsDB
BRDP	To support decentralised development and improve balance between slow and quick maturing projects.	1982	14.00	FAO/IC	N/A	World Bank
KRDP <u>a/</u>	To support decentralised development through quick-maturing projects.	1985	8.00	FAO/IC	N/A	World Bank
SFLCP <u>a/</u>	Testing the effectiveness of a delivery mechanism for institutional credit to the poor.	1988	6.71	IFAD	CIDA	UNOPS
SBIRD <u>a/</u> , <u>b/</u>	Improving allocation of developmental resources to poor households.	1991	14.00	IFAD	UNDP	UNOPS
NWPDZPDP <u>a/</u> , <u>b/</u>	Advance the socio-economic and living conditions of poor and upland farmers.	1992	8.85	IFAD	Gtz	AsDB
NCPPRD <u>a/</u> , <u>b/</u>	Assist target groups to exceed poverty level and improve their food security and nutrition; and reduce incidence of malaria.	1995	8.52	IFAD	SIDA, JICA, WFP	UNOPS
MREAP <u>a/</u> , <u>b/</u>	Raising and sustaining of the incomes of poor rural and farm families above the poverty line.	1998	11.71	IFAD	WFP, Gtz	UNOPS

Notes:

- a/ Indicates projects visited by the CPE Mission.  
b/ Indicates ongoing projects.

6. Analysis undertaken for the 1993 Sri Lanka: Strategy Report (IFAD Report No. 0488-SR) supported the idea of carefully identified target groups and pro-poor objectives. It acknowledged the usefulness of an area-based approach and highlighted the fact that a blueprint approach to the choice of interventions does not address the wide range of activities through which the poor sustain themselves. The *Strategy Report* questioned the capacity of bureaucratic agencies to respond to the poor in a flexible or integrated manner. With a view towards improved implementation arrangements, the *Strategy Report* recommended a specific role for NGOs but conceded the lead role to government agencies.

7. **The Current Context.** The Government's Framework for Poverty Reduction (November 2000) has been prepared with the participation of important stakeholders and establishes a wide-ranging framework within which Government and donor strategies are prepared. The framework is wide-ranging in institutional terms because of its expectation that "Government, its development partners, the private sector, non-governmental and community organisations could join forces to devise and act upon a Framework to combat poverty." It is also wide-ranging because of its pursuit of pro-poor growth through seven priority areas, namely, the contribution that peace can make to poverty reduction, a stable macro-economic environment, improved market access within the country, small- and medium-scale enterprise promotion, broad-based rural and urban development, improved education and health care, and innovative environmental management<sup>1</sup>. A social protection system aimed at those who do not benefit adequately from the planned growth is also outlined in the Framework. Finally, the Framework lays particular emphasis on empowering and mobilising the poor and strengthening governance, for which it seeks to promote community-driven development, decentralisation and governance reform, reversing gender discrimination, making the law accessible to the poor and other measures.

8. As IFAD embarks upon a strategy formulation exercise that will guide its assistance to Sri Lanka for the next few years, it faces a number of challenges in common with the GOSL and other donors in Sri Lanka as well as some that may be specific to IFAD. One of the most adverse developments is that the country's civil strife picked up momentum as negotiations for peace took place, off and on, without success. The cost of war is reflected only partly, but quite significantly, in increased defence expenditures that have helped push the budget deficit to 7.5 percent of GDP, high by any standards and the highest in South Asia. The quantity and quality of public services is, therefore, bound to be affected adversely, and there are signs (e.g., in relation to the maintenance of public works) that this has already happened.

9. The country now appears at a crossroads: economic growth may be slow, the pressures on the budget appear unrelenting, and a by-and-large centralised system of governance is faced with an unprecedented diffusion of power brought about by political and economic compulsions. The interplay between resource pressures and institutional complexity at various levels has created its own dynamic. In particular, the idea of devolving power to the Provincial Councils has resulted in duality rather than devolution and a set of complex and potentially conflicting administrative arrangements at the provincial and project levels. The idea of social mobilisation, generally associated with voluntary association through civil society organisations, has become the donor-aided mechanism for augmenting the human and financial resources of the line departments. And, NGOs appear too small and the line departments too slow in relation to the time between elections and the mass constituencies to which representative leadership is accountable.

10. IFAD projects have introduced concepts of change faster than the institutions concerned, including IFAD itself, have been able to manage change. IFAD has introduced rapid change at a conceptual level in calling for inclusive development, poverty alleviation, social mobilisation, decentralisation, bottom-up planning, integrated or holistic development, mainstreaming gender, sustaining more with community resources, and so on, but without eliciting commensurate responses from the institutions concerned. The assistance strategies of the other donors in Sri Lanka do not

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<sup>1</sup> Each of these priority areas includes several elements considered to be important for poverty reduction.

show IFAD a way out of this predicament, except insofar as the contribution of technical assistance to reform processes is concerned. There is a need therefore, to address not only the concepts of development that are important and familiar to IFAD but also the processes that it can facilitate in attaining its objectives with greater certainty.

## II. COUNTRY PROGRAMME EVALUATION (CPE)<sup>2</sup> OBJECTIVES AND APPROACH

11. The CPE was undertaken in the first half of 2001. Its main objectives were to: (a) evaluate the results, impact and sustainability of the Fund's programme in the country; (b) assess the compatibility between IFAD and its partner institutions in terms of their development strategies for poverty alleviation; (c) assess national strategies for inclusive development and the strategic role of IFAD in influencing policies and development strategies for improving the welfare of women, the poor and the vulnerable in Sri Lanka on a lasting basis; (d) develop a series of lessons learned and recommendations that would contribute towards improving current operations, as well as the design and implementation of future activities; and (e) provide building blocks for the preparation of the IFAD Country Strategy and Opportunities Paper (COSOP) for Sri Lanka.



Picture 7: Small Farmers and Landless Credit Project  
A project beneficiary was able to open a small retail shop in Attaragama, Kandy district  
Source: IFAD photo library

12. Rather than merely seeing the production of an analytical report as the principal output of the CPE, the exercise was conceived to provide maximum opportunity for all the stakeholders to jointly reflect, learn and express their opinion about past experiences and future options. A preparatory mission was undertaken in January 2001 by the lead IFAD evaluator to initiate the process. During this period, a CPE brainstorming workshop was organised to discuss and finalise the CPE Approach Paper and terms of reference. As a key input to this workshop, each ongoing IFAD-supported project prepared and presented a self-assessment report on the opportunities and constraints faced by their projects.

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<sup>2</sup> The Country Programme Evaluation (CPE) team was composed of the following members: Mr Tariq Husain (team leader/institution and policy), Mr Kingsley de Alwis (Agronomist), Mr Iain Francis (rural financial services), Ms Anuradha Rajivan (gender and participation), Mr Rashid Khan (rural infrastructure) and Mr Sarath Mananwatte (project management/M&E and CPE Facilitator). The evaluation was conducted under the overall responsibility of Mr Ashwani Muthoo, IFAD evaluation officer. Mr Muthoo participated in various stages of the CPE exercise. The CPE was steered by a Core Learning Partnership, which included representatives of the Govt. of Sri Lanka (Ministry of Plan Implementation), NGO Seeds, UNOPS, and IFAD (represented by OE and PI).

13. A CPE team then visited Sri Lanka from 4 to 30 March 2001. In addition to reviewing a series of documents, the team held discussions with various partners in Colombo, and travelled to 6 out of the 10 IFAD-assisted projects<sup>3</sup> in the country. During its field work, the evaluation team visited project areas, assessed field activities, conducted group and household-level discussions with the target group, and organised informal workshops at the local level. A wrap-up meeting was organised at the end of March and a multi-stakeholder workshop was organised in Colombo in July 2001 to discuss the evaluation report and formulate the CPE's agreement at completion point. The latter offered a unique opportunity to bring together various stakeholders and partners to discuss over two days the key evaluation findings and conclusions, as well as to agree on core issues that deserve special attention in the forthcoming COSOP.

### III. ASSESSMENT OF IFAD PROJECTS

14. **Relevance of Project Objectives.** Individual projects have tended to target provinces with the highest incidence of poverty and groups of poor identified in the IFAD country strategy. In general, all the projects have been relevant to the overall government priorities and IFAD objectives at that time and the specific objectives of the projects addressed the problems to be solved. The first five projects, however, did not have sharply articulated objectives in relation to the IFAD target groups.

15. **Project Preparation and Design.** Project preparation and design of IFAD-financed projects was undertaken by private consultants for the first two projects, the FAO Investment Centre for the next three projects, and by IFAD itself for the subsequent five projects. With the benefit of hindsight and an overview of ten projects, however, it is possible to identify across-the-board weaknesses in design including the following: too many project components and implementing agencies; over-optimistic in relation to the capacity and poverty orientation of implementing agencies; inadequate benefit and poverty monitoring and evaluation arrangements; lack of built-in flexibility for project management to make course corrections; fixed menu of interventions with little flexibility for adjusting to local needs; and, lack of design parameters to ensure sustainability. These features now appear as problems because the underlying assumptions and objectives of development changed rapidly, especially during the 1990s, without a commensurate change in Government and IFAD capacities for planning and implementation.

16. **Intervention Methods for Engaging Beneficiaries.** The strategies adopted in IFAD projects for engaging beneficiaries are one illustration of IFAD and the Government struggling to keep pace with the changing trends in development. Taken as a whole, IFAD projects appear to have followed three distinct models for engaging beneficiaries, though there have been additional experiments and improvisations in microfinance. The first few sectoral and IRD projects followed traditional top down approaches with minimal community involvement in planning, implementation or decision making. A second category of IRD projects actively promoted community participation with large project components for social mobilisation and capacity building to channel and sustain project services and development activities at the village levels. The third category of projects relies mainly on the existing social capital (a variety of village level organisations) with limited degrees of facilitation applied through the projects.

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<sup>3</sup> Kegalle Rural Development Project  
Small Farmers Landless Credit Project  
Second Badulla Integrated Rural Development Project  
North-West Province Dry Zone Participatory Development Project  
North-Central Province Participatory Rural Development Project  
Matale Regional Economic Advancement Project

17. Even among the second and third categories of projects, beneficiary participation in the project cycle has been generally weak and confined mainly to need identification and varying degrees of inputs toward project implementation. The role of beneficiaries in planning and decision making has remained marginal. Starting with the SBIRD, the projects have worked with multiple community organisations. These organisations, however, demonstrate no organisational or operational linkages to each other. Most Farmer Organisations (FOs)—the mechanism through which small irrigation schemes are executed—show limited organisational, technical and financial capacity and seem ill-prepared to take on the responsibilities of O&M for the large number of rehabilitated infrastructure scattered throughout the country. Reports from the line agencies indicate that a large majority of the registered FOs (as many as 80 percent) are inactive and exist only on paper.

**18. Project Management and Supervision.** Most projects have relied on a centralised project management system, typically working with a variety of existing central and provincial public sector agencies, administrative departments, non-governmental organisations, regional banks and a range of service providers in the private sector. While the sectoral projects and the earliest of the IRDPs focused mainly on meeting service delivery targets, the second generation of projects started addressing the need for enhancing institutional capacities. But the institutional strengthening initiatives have remained quite modest and have been dwarfed or undermined by the politico-administrative changes in the country and, upon closer examination, consistently show an emphasis on vehicles, equipment and physical infrastructure with insufficient focus on human resources or improvements in agency policies or procedures.

19. Although the IRDPs theoretically became a devolved subject in the post-1987 period, many sectors and sub-sectors (within the IRDP portfolio) remained centrally controlled. Several agencies provide services in agriculture and the rural infrastructure sectors, and a number of agencies show duplication of responsibilities. These factors have impacted negatively on the overall management and implementation of project activities, as a great deal of energy and time was consumed in straddling or responding to the multiple layers of authorities at the divisional, provincial and central levels. Despite the obvious complexity of the agenda, most PMOs do not show evidence of the required capacity and more critically the freedom to steer and shape the direction of projects.

20. Under the circumstances, project supervision has to be seen as a particularly demanding task for IFAD and its co-operating institutions, made all the more difficult by the fact that, unlike other donors, IFAD does not have a presence in the country. Not surprisingly, each of IFAD's co-operating institutions for project supervision—AsDB, the World Bank and UNOPS—has managed the task in its own distinctive style. In particular, UNOPS supervision reports show greater sensitivity to targeting of beneficiaries and related approaches. The fact that UNOPS does not have a presence in the country seems, however, to have created delays in communication with IFAD projects, which depend on joint decision making and, therefore, approvals from IFAD/UNOPS, in order to make course corrections and bring about changes during implementation. The absence of an in-country office has also greatly inhibited information sharing, co-ordination and participation in policy dialogue.

**21. Monitoring and Evaluation.** Monitoring and evaluation (M&E) has remained a weak area in most projects and appears to have focused on traditional inputs and output level assessments. This remains true even for the second generation of projects (starting in the late-1980s) that show a sharper focus on poverty and vulnerable groups. Except in SFLCP, the emphasis on poverty that emerged as a feature of project design since the late-1980s is not reflected in reliable data on how the poor improved their lives and livelihoods. Though women's participation in IFAD projects improved over the years, indicators of the economic and social gains made by women have not been assessed systematically in project records. In general the projects have no documentation on process monitoring and very little information on impacts. If targeting women and the poor and enhancing their participation in the development process are institutional imperatives for IFAD and its partner organisations, then failure to document their participation and benefits can be considered an institutional failure.

22. **Project Impacts.** A review of documents and visits to six project areas confirms that project achievements in terms of infrastructure development, agricultural development and credit have been significant. In the first few projects, beneficiary and development targets were significantly below what was projected at appraisal. In more recent projects, however, the number of beneficiaries invariably exceeds the appraisal target, especially after re-structuring of the project through the mid-term review process, but the inclusion of target groups has not been established systematically.

23. As indicated above, most projects did not have proper arrangements for monitoring and evaluation and it is difficult to make assessments of the outcomes and impacts on poverty, incomes, etc. of the projects themselves, leave alone their individual components and sub-components. On the basis of assessments made in project completion reports of projects that have closed, however, it may be said that the outcomes (increases in yield, cropping intensities, farm incomes, employment, poverty reduction and institutional strengthening) of agricultural development components were generally significant but below expectations.

24. In relation to savings and credit, the limited amount of evaluation findings there are on income changes point to quite modest effects amongst the poorer families and difficulties in establishing clear casual relationships for the changes that were seen. Significantly, however, the beneficiaries value their empowerment, through coming together, through the introduction of the habit of regular saving, and a new route to dealing with borrowing and debt. Similarly, women's groups have generated a new way of thinking and co-operation among the poor, building personal initiatives and mutual help, even though projects have tended to see groups as limited purpose institutions to serve as units for receiving and recovering credit. Though income increases for women's economic activities have been reported, women also reported doing more work than before as a result of project credit.

25. In relation to specific interventions in agriculture, paddy and tea production initiatives attract praise for contributing to small farmers' welfare, while crop diversification has been slow and gains in upland farming systems, though promising, are not yet widespread. While agricultural research has had little to contribute through IFAD projects (except in the CDP), the lack of extension and seed and planting material appear as recurring constraints on agricultural development. Outcomes associated with livestock development present a mixed picture, with the goat package being cited as a particular success and the lack of access to veterinary care a major handicap. Lack of co-operation among projects and line agencies inhibited farmers and livestock owners from developing more of their potential, and the continuity of project-sponsored interventions beyond project closure remains questionable.

26. The rehabilitation of irrigated tanks has contributed significantly to small farmer incomes, though benefit-cost assessments suggest that interventions were not always designed to generate benefits exceeding the cost. Be that as it may, micro tanks had the added benefit of serving as an incentive for farmer organisation. Even in the IRDPs, however, there is little to show that agricultural extension, credit, marketing and other interventions helped small farmers capitalise on the investment in irrigation and farmer organisation. On the other hand, the subsidised investment in agro-wells, often supported by extension and subsidised planting material from the project, benefited a small number of relatively better-off farmers and raised questions about its effects on the aquifer. Access roads built under IFAD projects are reported to have resulted in tangible benefits including increased land values, but their contribution to linkages with larger markets has been weak. As observed by many before this mission, the maintenance and repair of infrastructure remains problematic in view of the resources available to the beneficiaries and agencies responsible.

27. Although agreeing to the generally positive impacts of the IRDPs on productivity, incomes and employment in agriculture and off-farm sectors, independent evaluators have described these gains as "level effects" rather than "growth effects." The project interventions are seen to have led to one-off increases in productivity, incomes and employment but failed to help generate the growth dynamic needed to set the rural poor on an autonomous growth dynamic. The gains are described as relatively short term (limited mainly to the duration of project interventions) and likely to have been eroded by

inflation and other factors: the impact on poverty, if any, is passing. As suggested in its Framework for Poverty Reduction, the Government is not as sanguine about the impact of the IRDPs on poverty reduction as it was when these projects were designed. The overall finding is that single-sector and IRDP-type initiatives are necessary for a region's development but not necessarily the best way of approaching poverty alleviation.

#### IV. MAIN CONCLUSIONS AND RECOMMENDATIONS BY COMPONENT

28. **Agriculture and Natural Resources.** The selection of beneficiaries for several activities supported by IFAD projects tends to favour better-off farmers. For example, in the SBIRD, the support programmes for tea and export agriculture crops were not extended to farmers with less than half an acre of land as the number of such small farmers is too large for the staff of the line agencies to handle in their subsidy schemes. Credit for cattle purchases is also not extended to very poor farmers on the grounds that they cannot afford to provide the care (vaccines, etc.) that the cattle need. Recommendation: In future projects, greater attention should be paid to selecting pro-poor agricultural interventions (and technologies), and to implementing them in such a way that even farmers with only micro holdings or home gardens and landless farmers would also benefit.

29. With the liberalisation of markets, input subsidies and floor prices will disappear. Furthermore, agricultural commodity prices in general and rice prices in particular will almost certainly decline while factor prices rise. Sri Lankan farmers will then have to compete on equal terms with farmers of other countries. Recommendation: In future projects it is recommended that only crops in which Sri Lanka has a comparative and competitive advantage using existing technology or new improved technology proposed under the project should be promoted.

30. **Rural Infrastructure.** Most projects are biased towards water sector interventions that benefit only some of the target groups. Certain interventions were not pro-poor and had little spread effect: large agro-well programmes with 20-30 percent subsidy mainly benefited the well off and household level water supply schemes (rain-water harvesting type) were subject to elite capture. Recommendation: Ensure the relevance of infrastructure interventions to respective target groups. The scope, size and nature of such interventions should be flexible and address the needs of all groups.

31. Rigidity in infrastructure "menus" clashed with participatory, demand led approaches and reduced relevance and potential impact on several target groups. Recommendation: Flexibility could be built in through flexible "Village Development Fund" type programmes demonstrated under some projects. The scope and size of such components may vary, but appropriate criteria may need to be developed to ensure that the benefits reach the poor target groups.

32. Maintenance and repair of project assets has also remained a major concern on all projects. There is a high likelihood that the planned benefits of various infrastructure interventions may have dropped to unacceptable levels. Recommendation: Future programmes may consider a detailed review of past projects to draw specific lessons, including continued focus on simple, rugged and community friendly designs, a larger focus on the strengthening of local organisations aimed at resource generation and capacity building and continued dialogue with the central, provincial and local governments to ensure resource allocations for the required M&R.

33. **Rural Microfinance.** The IRDP as the main intervention method embodied significant weaknesses as a vehicle for developing rural financial services. These included weaknesses of a more general nature including a lack of clarity of objectives, insufficient technical bias in supervision arrangements, and the strangulation of project management in rigid frameworks. Above all else shortcomings arose through the rate of change in the rural finance sector and the serious lack of sector expertise in projects. Such expertise will be more important in future projects as problems of sustainability are now at the front of the agenda. Recommendation: Future IFAD support for the sector be implemented through projects specifically for the rural financial services sector as opposed to integrated projects.

34. Microfinance sector issues are to be addressed through an AsDB project preparation technical assistance mission to identify key issues in policy and institutions and thereby improve the enabling environment for sustainable operations, with a follow on rural finance sector project to commence in 2003. Recommendation: Future projects should take into consideration the priorities for sustainability in the sector identified through the forthcoming AsDB assisted Rural Finance Project. Opportunities for a collaborative approach through the piloting, accelerated or intensified implementation of strategies in districts may be the subject of future discussions with AsDB and the Government.

35. **Gender Perspectives.** Projects with neither a women's component nor village level organisations created through social mobilisation have tended to exclude benefit flows to women and the poor. In such cases benefits, if any, have been incidental, and the absence of village institutions prevented implementers from getting a wider beneficiary perspective, resulting in wrong choice of persons identified for resettlement and excluding the perspectives of the worse off and women in infrastructure choices, training and income generating activities. Recommendation: Future projects intended for poverty alleviation and rural development should invariably be based on supporting village institutions and social capital.

36. There is an absence of knowledge about gender issues among project staff, line departments and bankers even though is a cross cutting issue across project components. Recommendation: Internal capacity building on gender should be taken up within IFAD without delay. The capacity of local institutions should be built on gender issues, promoting capabilities to carry out gender analysis, design and implement projects and carry out monitoring and evaluation in a gender disaggregated and gender sensitive manner.

## V. INSIGHTS AND CHOICES FOR THE FUTURE

37. **Contradictions in Strategy and Implementation.** As with some other donor-assisted initiatives, the central point of tension in IFAD strategy arises from the tension between working with the government and working with participatory institutions. This tension is illustrated most comprehensively in the 1993 Strategy Report but is also present in several project design documents and other reports. It has been addressed in practice, to the extent possible, by engaging NGOs and project staff (including social mobilisers) to organise rural communities, introducing participatory planning techniques, giving some responsibility to the beneficiaries and linking beneficiaries to commercial institutions. The lead role in implementation, however, has always remained with a central government agency. In effect, the tension that is unresolved at the strategic and project design levels is transferred to the operational level, and that is where contradictions give rise to problems during implementation.

38. Though the CPE has identified several issues for the attention of IFAD and its partners, the question of balance in working with the government and the people is fundamental in view of IFAD's poverty alleviation focus and project mode of assistance. It is also a more manageable issue for IFAD and its partners than matters of policy on which national debate and consensus may take place over a period of several years. With the experience that is available, from Sri Lanka as well as other relevant countries, it is possible and desirable to make a fresh attempt to resolve some of the basic contradictions observed in the past.

39. **Matching Institutions with their Comparative Advantage.** The point of departure is to recognise the comparative advantage of different types of institutions in addressing poverty alleviation. In specific terms, there are clear differences in the orientation and effect of representative, administrative, commercial and participatory institutions. A delineation of institutional roles that is consistent with the findings and recommendations of the CPE and the reviews undertaken for it is presented as follows:

- Agencies such as the Ministry of Plan Implementation and the line departments are well suited for service delivery in support of regional development objectives. They

are not, however, oriented towards mobilising people for poverty alleviation and linking them to other government organisations, banks and markets.

- NGOs do not have the scale and resources to address poverty alleviation on a large scale or perform the functions required in support of rural microfinance.
- Commercial banks and microfinance institutions need broad-based community outreach in order to sustain operations in support of poverty alleviation.
- Unlike some other countries in South Asia and East Asia, Sri Lanka does not have autonomous support mechanisms that foster broad-based voluntary associations on a national or provincial scale<sup>4</sup>. And, its only large-scale experience with a social investment fund—the Janasaviya Trust Fund—became an international metaphor for mismanagement.

40. Future IFAD projects are likely to be more efficient and more effective, and generate broader and more lasting impact on the poor, if they are guided by rational and realistic expectations of what specific institutions can and cannot do.

41. **Developing Ownership.** IFAD projects would also be more successful if they generated greater ownership at all levels. Greater ownership is required at the highest levels of Government because poverty alleviation cannot be undertaken on a large scale without this kind of commitment. It is required at the project management level because IFAD projects are implemented by host country managers. And it is required at the community and household levels because harnessing the potential of the people is vital for all aspects of their development.

42. Developing ownership at the highest levels implies that IFAD should include interested central and provincial policy makers in identifying and formulating poverty alleviation initiatives. In order to be responsive to policy makers, IFAD may have to work increasingly (though not exclusively) at the provincial level. The choice among provinces may be based, as in the past, on poverty indicators but should give primacy among poorer provinces to those whose political and administrative leadership can demonstrate a long-term commitment to poverty eradication. Taking an area-based approach, as in the past, and working with the Sri Lanka Framework for Poverty Reduction, IFAD can offer policy makers a number of concrete options for poverty alleviation in a given area, including the following:

- The establishment of an autonomous support mechanism for mobilising villagers and linking them to public and private sector agencies, including microfinance institutions. (This concept is illustrated below.) Additional IFAD assistance should be focused on the area in which such an entity is established, so that a permanent mechanism for social mobilisation is available for all projects in that area.
- Support for rural microfinance in co-operation with the SEEDS and Central Bank-AsDB initiatives in this sector.
- Multi-sectoral initiatives for regional development, emphasising rural infrastructure, possibly in collaboration with AsDB and WFP.
- A range of single-sector projects, particularly those that focus on the target groups of interest to IFAD (e.g., smallholder tea growers and estate workers).
- Local development (or local trust) funds for facilitating holistic development through a decentralised mechanism. (This idea is introduced below).

43. Having an IFAD presence in the country is an important corollary of the importance of developing ownership. An in-country presence would greatly improve communication with stakeholders in the country, reduce operational delays, facilitate information sharing and co-ordination, and significantly enhance IFAD's participation in policy dialogue. These are some of the more obvious ways of developing greater ownership and the conditions that help projects improve

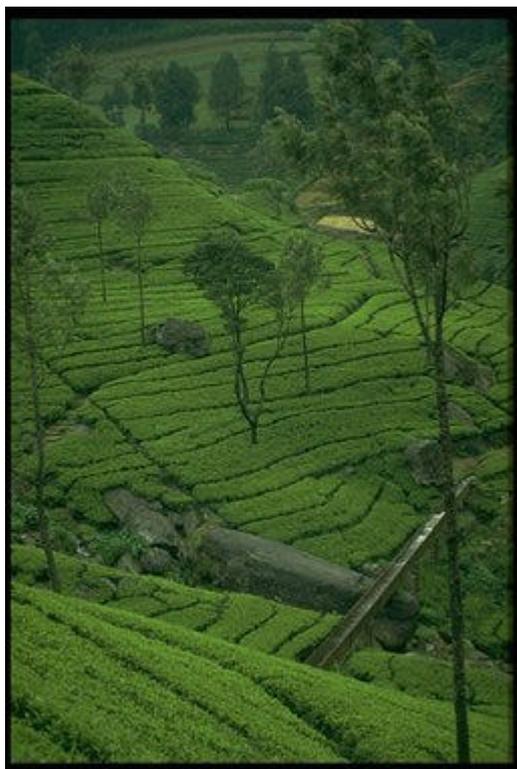
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<sup>4</sup> Reference is made to the Saemaul Undong Movement in South Korea, the farmer associations and co-operatives in Taiwan and Japan, and Rural Support Programmes (including the UNDP-assisted South Asia Poverty Alleviation Programme) in Pakistan, Bangladesh, Nepal and Andhra Pradesh (India).

their impact. IFAD should, therefore, consider allocating adequate resources for establishing an effective presence in the country by means of more intensive project supervision and follow-up through programmed technical assistance or ad hoc missions.

**44. Autonomous Support Mechanism(s) for Poverty Alleviation.** The experience from several countries is that permanent autonomous support mechanisms are needed to further the cause of the rural poor, particularly by fostering local organisations, local leadership and skills and linkages to service providers and policy makers, and protecting the poor from vested interests. This experience has unfolded differently in different settings, the most recent being that of the Rural Support Programmes (RSPs), a term used generically to describe autonomous support mechanisms that are extant in some of the South Asian countries. Unlike social investment funds that are controlled by the government, the RSPs are established with support from the highest levels of government, but their corporate governance is autonomous of the government and the management is strictly professional. The organisation may be established as a private company limited by guarantee. An endowment fund whose income sustains the recurrent costs of the organisation may be contributed by the government and supplemented by donors. Government ownership, autonomy and professionalism facilitate donor support and responsiveness to the community across a wide range of sectors, and the concept has been replicated on a large scale with variations that take account of local circumstances. IFAD and its partners in Sri Lanka may wish to determine the conditions under which it is realistic to expect that one or more (central, provincial or district) autonomous support mechanisms could be established in order to facilitate a holistic approach to poverty alleviation.

**45. Towards an Integrated Approach to Service Delivery.** In some innovative cases, particularly in project settings, a co-ordinating function is assigned at each level of operation to or on behalf of an official local entity that funds and focuses only on participatory local development. In addition to ensuring co-ordination at each level through control over the flow of funds, a methodology for co-ordination is agreed with all concerned and responsibilities assigned for important stages of the planning and implementation process. The entity controlling the funds for local development may be supported through a permanent endowment such as the Local Trust Funds observed in Nepal, though extreme care has to be taken to ensure that funds are utilised for the target groups. Planning and implementation is undertaken by organised communities with the technical and financial assistance of relevant agencies. IFAD and its partners in Sri Lanka may wish to determine the conditions under which it is realistic to expect that dedicated local development funds will be committed to local development co-ordinators for facilitating the requisite alliances and a holistic approach to poverty alleviation.



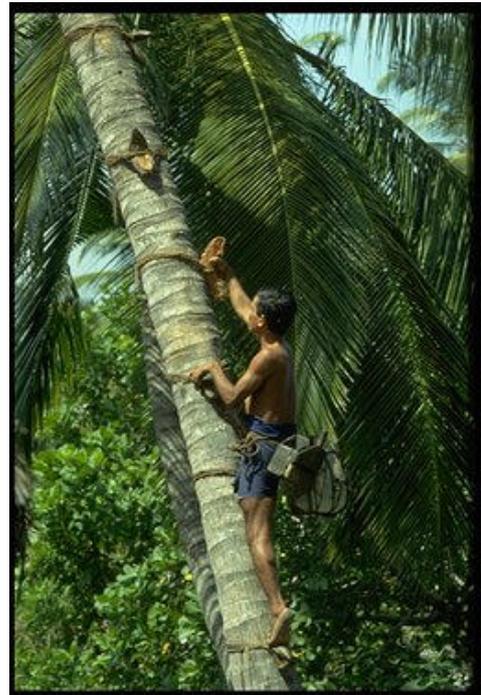
Picture 8: A steep hillside is terraced for tea cultivation in Nuwara Eliya, Central Sri Lanka.  
Source: IFAD photo library

**46. Towards Improved and More Inclusive Project Cycle Management.** For developing ownership at the project management level, it is vital that project formulation, appraisal and approval include the project team designated for implementing the project. IFAD should insist on this condition in the future, with the expectation that decision makers (such as the Minister and Secretary of Plan Implementation) who are interested in working with IFAD would be supportive. Institutional analysis for determining the poverty orientation of possible implementing partners should be an integral part of project identification, formulation and appraisal. Specific components and interventions, particularly those carrying a subsidy for individuals, should be reviewed critically in terms of their suitability for the poor, the poorest and women and their impact on equity and sustainability. A clear exit strategy entailing

zero or minimal recurrent cost liability for the Government should be built into project design from the outset. For each intervention, Benefit Monitoring and Evaluation should be designed at the design stage with a clear focus on identifiable groups of women and poor beneficiaries and mechanisms for regular beneficiary participation. Staff training and orientation in project management and in accordance with the other requirements for capacity building identified during project design should be the foremost priority for implementation. Additional opportunities for improving upon project cycle management and making it more inclusive are illustrated in the concluding chapter of the report.

47. It is worth emphasising in this context that selected IFAD interventions have not always benefited the poorest, in part due to the nature of project design, some of which tended to exclude the poorest from participating in development activities. For example, in some projects, the Fund promoted the development of large agro-wells requiring an initial contribution from the beneficiaries for them to benefit from the intervention. The CPE noted that by and large the poorest have been bypassed in such development activities, as they have not been able to muster the necessary initial contribution. In other cases, projects rehabilitated irrigation schemes in areas where the poorest were not in possession of land. Likewise, the emphasis on women has been limited. In general, the participation of the underprivileged in planning, implementation and M&E needs strengthening.

48. These and similar conclusions brought out in the CPE draw attention to some aspects of policy that are best approached through the COSOP and policy dialogue. There is also a need, however, for greater attention to the inclusion of the poor at various stages of the project cycle. It is recommended, therefore, to assist implementers in at least one province to strengthen the pro-poor orientation of project management, with particular attention to the three areas highlighted in the CPE, namely, better targeting of the poor, design of pro-poor interventions and monitoring the participation of and impact on the poor. These three aspects of project management are highly inter-dependent and require, therefore, to be addressed within a single, internally consistent framework. The development of such a framework through a dialogue with selected implementers is the first step towards assisting them during implementation



Picture 9: A man who makes liquor from coconut sap is called a 'toddy tapper'. He climbs coconut trees, makes incisions and places pots under them to collect the sap. From fermented sap 'arak' or sap liquor is produced in Maradawella. He has received a loan for his venture from the project. Source: IFAD photo library



## SRI LANKA

### COUNTRY PROGRAMME EVALUATION

#### I. IFAD ASSISTANCE IN CONTEXT

##### A. Sri Lanka as a Leader Among Developing Countries

1. Sri Lanka has been a leader among developing countries in a number of ways. Alone among the region's developing economies, Sri Lanka has sustained growth in per capita incomes at a rate of more than three percent per annum since the mid-1960s (which is more than twice the average for low-income countries). Gross Domestic Product (GDP) per capita was \$190 when IFAD assistance was initiated in 1978 while today it is USD 870, more than twice the average for South Asia as a whole. The economy recorded a real growth rate of 6 percent in 2000, compared with 4.3 percent in 1999 and 4.7 percent in 1998. The rate of inflation has been around 9.5 percent per year in the last three years.

2. In terms of social development, the country has been recognised for many years for its broad-based investment and achievement in the education and health of its people. It is more advanced in terms of rural-urban and gender equity than most other developing countries and the majority of its overseas migrant workers are women. The population of the country—about 20 million—is growing at the rate of only 1.2 percent per annum. The adult literacy rate is 91 percent (slightly lower among women) and primary school enrolment is 98 percent. Infant mortality is 16 per 1 000 live births, maternal mortality 24 per 100 000 and average life expectancy 73 years (higher for women).

3. Since 1977, the Government of Sri Lanka (GOSL) has carried out two rounds of economic liberalisation and, more recently, agreed bilateral trade promotion measures when progress was slow in the context of the South Asian Association for Regional Co-operation (SAARC). Though politicised in the past, an elaborate system of social safety nets is in place that reaches far and wide across the society and is the subject of ongoing reform. Peaceful transfers of power have taken place regularly since independence (with voter turnout in recent elections being 75 – 85 percent) and in 1987, ahead of the other countries of South Asia, the idea of devolution was introduced in Sri Lanka. In recent years, in a bid to end civil strife in the north and east of the country, the Government has diligently pursued negotiations even with separatist forces, an approach to peace that is not often adopted by states facing similar situations.

##### B. The Persistence of Poverty and Gender Disparity

4. Despite economic growth and increases in prosperity, poverty has persisted at high levels in recent years. Relevant trends have been analysed most recently in *Sri Lanka: A Framework for Poverty Reduction* (November 2000) prepared by GOSL with the participation of donors, non-government organisations (NGOs) and independent experts. The *Framework* observes that poverty levels fell sharply during the 1970s and 1980s, but little progress was made in the first half of the 1990s except in urban areas. Overall, excluding the North Eastern Province, between one-fifth and one-third of the population is estimated to be poor, depending on whether poverty is measured with a low or 20 percent higher poverty line. According to the *Framework*:

- Nearly 90 percent of the poor live in rural areas, but rural areas, since the early-1990s, include areas under town councils that were previously classified as urban.
- Farmers cultivating small plots of land with few off-farm sources of family income account for a large share of the poor.

- Outside of agriculture, the poor occupy a wide range of low-skill jobs including: workers and self-employed individuals living in remote, isolated areas; casual labourers in mining, quarrying, construction, agriculture, petty trades and informal sector work; workers employed in coastal fisheries; workers employed in small, cottage industries; petty traders; and crafts persons in construction.
- The estate sector shows a lower incidence of poverty than rural areas if poverty is estimated with the lower poverty line, but a higher incidence if the higher poverty line is used.
- Based on very limited sources of information, the incidence of poverty in the North Eastern Province is estimated to be 25 – 55 percent of those still residing there.

5. The incidence of poverty varies greatly among provinces and also across districts. Though strictly comparative data are not available for the North Eastern Province, other provincial comparisons are given in Table 1.

**Table 1: Poverty in Sri Lanka by Province, 1995/96**

	<u>Incidence of poverty (percent)</u>			
	<u>Lower poverty line</u>		<u>Higher poverty line</u>	
	<u>= LKR 791/person/month</u>		<u>= LKR 950/person/month</u>	
	<u>Index</u>	<u>Contribution</u>	<u>Index</u>	<u>Contribution</u>
Western	14	17	23	19
Central	28	17	43	17
Southern	26	16	41	16
North Western	34	18	52	18
North Central	31	8	47	7
Uva	37	11	55	10
Sabaragamuwa	32	14	47	14

Source: Department of Census and Statistics, Household Income and Expenditure Survey 1995/1996.

6. The Framework points out that “there isn’t strong evidence to suggest that female-headed households are any poorer than male-headed households.” Measures of gender disparity and gender empowerment show a somewhat mixed picture. In terms of the UNDP’s Gender Development Index, which compares male and female life expectancy at birth, educational attainment and income, Sri Lanka scores almost 70 percent, while gender parity is achieved at 100 percent and the average for all developing countries is 56 percent<sup>5</sup>. In terms of the Gender Empowerment Index, however, Sri Lanka comes out at 31 percent, which is lower than the average for all developing countries (37 percent) and reflects the limited participation of women in politics and in senior positions in the public and private sectors. The Framework concludes that that “the gender dimension of poverty is less one of incomes and consumption (except in the conflict zones), and is instead more closely related to strong regional and national differences in gender empowerment.”

<sup>5</sup> The average for industrialised countries is 86 percent.

### C. Agriculture and Poverty

7. Nearly 90 percent of the poor live in rural areas and almost 40 percent of the labour force work in the agricultural sector. Agriculture contributed 31 percent of the country's GDP in 1977 and accounts for 21 percent of the GDP and 23 percent of export earnings now. Agricultural GDP grew at about 2.4 percent per annum during the period 1978 – 1996 compared with an annual average GDP growth rate of 4.9 percent for the economy as a whole.

8. Climatic conditions as well as the farming systems influence the causes and patterns of rural poverty across the country. There are three climatic zones, namely, the wet zone, the intermediate zone and the dry zone, while the more important farming systems are the Rice-based Farming System, the Rainfed Mixed Farming System, the Dry Rainfed Farming System, the Highland Mixed Farming System, and the Tree Crop Farming System. Crop production is the main agricultural activity of these farming systems, while livestock, fishing and forestry are important only in specific localities. The principal livelihood activities in each farming system, the incidence of poverty, the potential for poverty reduction and the potential for agricultural growth are summarised in Table 2.

**Table 2: Poverty and the Farming Systems of Sri Lanka**

<u>Farming System</u>	<u>Principal Livelihood</u>	<u>Incidence of Poverty</u>	<u>Potential for Poverty Reduction</u>	<u>Potential for Agricultural Growth</u>
Rice-based Farming System	Rice (both seasons), vegetables, legumes, off-farm activities including <i>chena</i> cultivation	Extensive severe poverty	Moderate	Moderate
Rainfed Mixed Farming System	Cereals, legumes, fodder crops, livestock, off-farm activities	Extensive poverty, severity varies seasonally	Moderate	Moderate
Dry Upland Rainfed Farming System	Coarse cereals, dry and irrigated cereals, legumes, off-farm activities including <i>chena</i> and home gardens	Moderate Poverty	Moderate	Moderately high
Highland Mixed Farming System	Cereals, horticulture, livestock, seasonal migration	Moderate to severe poverty	Moderate	Moderate
Tree Crop Farming System	Export or agro-industrial crops, cereals, wage labour, livestock	Moderate poverty, mainly of agricultural workers.	Moderate	High

Source: Adapted from Global Farming Systems Study: Challenges and Priorities to 2030 – Regional Analysis: South Asia, FAO, Rome, 2001.

## D. Sri Lanka – IFAD Co-operation in the Perspective of Rural Poverty

9. The earliest attempt by IFAD to address poverty issues strategically in relation to the above-mentioned production systems was in the recommendations of the Special Programming Mission (SPM) of 1979. As quoted in the 1993 *Sri Lanka: Strategy Report* (IFAD Report No. 0488-SR), the SPM took the view that “rural poverty could only be alleviated by helping people participate in surplus-generating economic activities. Development programmes were proposed which were to be tailor-made for more or less homogeneous groups of the poor: (a) farmers holding less than 0.4 ha of irrigated or 0.8 ha of dry land; (b) landless agricultural labourers; (c) estate workers; and (d) small fishermen.” In 1993, a more elaborate analysis of poverty and sources of livelihood led IFAD in its *Strategy Report* to a more comprehensive description of target groups, described as follows: (a) small rainfed farmers in the Dry Zone; (b) the estate workers; (c) coconut smallholders; (d) all assetless and occupational groups in poverty who can be reached by non-farm employment, including the landless and near landless, estate workers as well as the landless in the adjoining villages, micro-farmers in the paddy, rubber and coconut sub-sectors, home gardeners, poor fishermen with traditional craft and heavy seasonal unemployment, poor women, unemployed youth and displaced rural artisans; (e) tea smallholders in the mid-country; (f) small farmers and the near landless on steeply sloping lands (tea and rubber smallholdings) and in the uplands in the Dry Zone; and, (g) small fishermen in their communities.

10. By the time IFAD prepared its *Strategy Report*, it had already approved nine projects in Sri Lanka (the tenth and most recent project was approved in 1998). The objectives, amounts and co-operating institutions associated with all ten projects are summarised in Table 3. The first three projects listed in Table 3 were taken from the pipeline of AsDB. In IFAD’s assessment (dated 1990) “none of the three fully adhered to the SPM’s recommendations” (*Strategy Report*, Annex D). The next two projects (Badulla and Kegalle Rural Development Projects) were considered to have followed the SPM’s proposals. Although IFAD’s internal assessment states that the design of these projects was influenced heavily by IFAD, the *Strategy Report* observes, correctly, that these projects were “in the genre of the World Bank IRDP projects of those times.” Thus, the first five projects seem to have been designed under a strategy of co-operation and convenience that IFAD adopted in its early years. The strategy, in effect, was to take the lead in project design from the larger and more established financing institutions, namely, the AsDB and the World Bank. The five subsequent projects—those formulated by IFAD itself and approved after 1988—have more direct pro-poor objectives than the previous ones.

11. The ten projects listed in Table 3 have been supported through ten loans for a total of approximately USD 112 million. Four of the projects have ongoing status. Of these four projects, the most recent one is directly supervised by the Fund. UNOPS has been the co-operating institution in three projects (two ongoing), AsDB in four projects (one ongoing) and the World Bank in two projects. The Fund’s co-financiers in Sri Lanka have been: AsDB (for an amount of USD 48.1 million), CIDA (USD 6.5 million), GTZ (USD 3.8 million), Japan (USD 50 000), KfW (USD 20.9 million), UNDP (USD 2.5 million), SIDA (USD 3.3 million), WFP (USD 2.16 million), the Government of Sri Lanka (USD 50.18 million), the private sector (USD 398 000) and the beneficiaries (USD 2.37 million).

12. In relation to GOSL programmes and some of the other donors, IFAD assistance over the years has been small. It has been significant, however, for local development in some of the poorest districts of the country, and for some of the poorest segments of the population, initially through sectoral projects and subsequently (and in large part) through the mechanism of the Integrated Rural Development Projects (IRDPs)<sup>6</sup>. The IRDPs, the last of which are now close to completion, were multi-sectoral initiatives, some of them donor-assisted, co-ordinated among various agencies and partly directly implemented by the Ministry of Plan Implementation. IFAD and the GOSL viewed

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<sup>6</sup> A palmyrah development project had been identified for the North and East of the country but could not be undertaken because of the conflict in the region.

investment in IRDPs as part of the country's commitment to rural-urban, socio-economic and gender equity. They used the modality of the IRDP and its successor concept, the Rural Economic Advancement Programme (REAP), for developing a variety of rural infrastructure and agricultural development opportunities.

**Table 3: Overview of Projects funded by IFAD (1978 – 2000)**

Project	Overall Objective	Year Approved	Approved Financing (MLN USD)	Formulation	Cofinancing	Supervision
KOISP	Increasing food production, employment and settlement prospects.	1978	18.00	AsDB	AsDB, KfW	AsDB
ADZAP	Raising production and incomes of subsistence and poor farmers.	1980	14.49	AsDB	AsDB	AsDB
CDP	To reverse the decline in coconut production.	1981	8.00	FAO/IC	AsDB	AsDB
BRDP	To support decentralised development and improve balance between slow and quick maturing projects.	1982	14.00	FAO/IC		World Bank
KRDP <i>a/</i>	To support decentralised development through quick-maturing projects.	1985	8.00	FAO/IC		World Bank
SFLCP <i>a/</i>	Testing the effectiveness of a delivery mechanism for institutional credit to the poor.	1988	6.71	IFAD	CIDA	UNOPS
SBIRD P <i>a/</i> , <i>b/</i>	Improving allocation of developmental resources to poor households.	1991	14.00	IFAD	UNDP	UNOPS
NWPDZPRD <i>a/</i> , <i>b/</i>	Advance the socio-economic and living conditions of poor and upland farmers.	1992	8.85	IFAD	Gtz	AsDB
NCPPRD <i>a/</i> , <i>b/</i>	Assist target groups to exceed poverty level and improve their food security and nutrition; and reduce incidence of malaria.	1995	8.52	IFAD	SIDA, JICA, WFP	UNOPS
MREAP <i>a/</i> , <i>b/</i>	Raising and sustaining of the incomes of poor rural and farm families permanently above poverty line.	1998	11.71	IFAD	WFP, Gtz	UNOPS

Notes:

- a/* Indicates projects visited by the CPE Mission.  
*b/* Indicates ongoing projects.

13. The components and interventions contained in the early (pre-1988) IFAD projects were influenced by the SPM of 1979. For the four target groups identified in the SPM, the recommended programmes were minor tanks rehabilitation, selected home and line garden crops, draught animal development, institutional credit, and interventions for the rural poor in two particular districts (Badulla and Mannar). According to the Strategy Report of 1993, an IFAD country strategy (formulated *circa* 1990) “made only minor modifications” to the SPM. It recommended concentrating on three areas, namely, integrated rural development, credit for the rural poorest for agricultural intensification and diversification of enterprises, both on and off farm, and rainfed farming in the Dry Zone with special emphasis on soil and water conservation.

14. Shortly thereafter, however, the 1993 Strategy Report observed that studies in Sri Lanka confirmed “a direct relationship between a smaller size of farm and a greater dependence on non-farm employment, which in the case of the near-landless and landless can be over 80 percent of total income or employment.” It also observed that it is not adequate to plan interventions based solely on the main source of income of the household head, as the sources of income and employment in a poor household are many and income is earned by many members of the household. Based on these and other observations the Strategy Report highlighted a number of short-comings in IFAD’s choice of project components and interventions, pointing out, in particular, that:

- There had been a mismatch between IFAD’s identification of target groups and the instrumentalities it had sought to use for the alleviation of their poverty. The main reason for the mismatch was that IFAD-assisted interventions were land- or agriculture-based (except in the case of the Small Farmers and Landless Credit Project) and, therefore, contributed little to the incomes of the poor and poorest.
- IFAD had been unable to formulate multi-sectoral interventions based on the needs (particularly the multiple sources of livelihood) of target group households.
- IFAD had been unable to strategise multi-layered activities, in particular, those that combined area based development with household-level (including non-farm) activities promoted through credit.

15. The Strategy Report also highlighted a fact about integrated rural development projects that has been brought up in other countries. It concluded that project activities “were in no way integrated in a functional sense of meeting the needs of the poor or of their communities in an integrated manner. Their only ‘integration’ lay in the eye of the bureaucratic beholder, who saw ready means for project co-ordination and co-ordinated delivery of project inputs.” The Strategy Report did not, however, object to the concept of integrated area development, concluding that “past experience has shown the advantages of a multi-component and multi-sectoral set of interventions within a given geographical area, with a focus on the poor.”

16. Consistent with this conclusion, and with the disenchantment it had noted with “bureaucratic and technocratic agencies,” the Strategy Report recommended that “the general approach, where this is appropriate and feasible, should, therefore, be to involve relevant and capable national NGOs, working as appropriate with district- or division-based NGOs, or directly with people’s organisations at the village level, to enlist the poor in the planning and implementation of their activities. While this possibility of implementation through NGOs should be investigated in all cases, it may be necessary to involve relevant administrative or technical agencies as the primary implementation agencies, according to the nature of the project. But even in these cases, it would be possible and desirable for such agencies to work through NGOs in respect of those operations involving social mobilisation, people’s participation and action.”

17. In sum, analysis undertaken for the 1993 Strategy Report supported the idea of carefully identified target groups and pro-poor objectives. It acknowledged the usefulness of an area-based approach and highlighted the fact that a blueprint approach to the choice of interventions does not address the wide range of activities through which the poor sustain themselves. The Strategy Report

questioned the capacity of bureaucratic agencies to respond to the poor in a flexible or integrated manner. With a view towards improved implementation arrangements, the Strategy Report recommended a specific role for national and local-level NGOs but conceded the lead role to government agencies. This, more or less, is how IFAD-assisted projects have been implemented in Sri Lanka.

## **E. The Current Context**

18. The Government's Framework for Poverty Reduction (November 2000) has been prepared with the participation of important stakeholders and establishes a wide-ranging framework within which Government and donor strategies are prepared. The framework is wide-ranging in institutional terms because of its expectation that "Government, its development partners, the private sector, non-governmental and community organisations could join forces to devise and act upon a Framework to combat poverty." It is also wide-ranging because of its pursuit of pro-poor growth through seven priority areas, namely, the contribution that peace can make to poverty reduction, a stable macro-economic environment, improved market access within the country, small- and medium-scale enterprise promotion, broad-based rural and urban development, improved education and health care, and innovative environmental management<sup>7</sup>. A social protection system aimed at those who do not benefit adequately from the planned growth is also outlined in the Framework. Finally, the Framework lays particular emphasis on empowering and mobilising the poor and strengthening governance, for which it seeks to promote community-driven development, decentralisation and governance reform, reversing gender discrimination, making the law accessible to the poor and other measures.

19. As IFAD embarks upon a strategy formulation exercise that will guide its assistance to Sri Lanka for the next few years, it faces a number of challenges in common with the GOSL and other donors in Sri Lanka as well as some that may be specific to IFAD. One of the most adverse developments is that the country's civil strife has picked up momentum as negotiations for peace have continued without success. The cost of war is reflected only partly, but quite significantly, in increased defence expenditures that have helped push the budget deficit to 7.5 percent of GDP, high by any standards and the highest in South Asia. Even if war is replaced by peace in the near future, the cost of relief and reconstruction in the strife-affected areas will be substantial and there may not be a peace dividend to relieve the short-term pressures on the budget.

20. The large civil service, with the highest ratio of civil servants to population in Asia, is another source of pressures on the budget. The need for more and better infrastructure is recognised to be pressing and improvements in the quality of social sector services are thought to be overdue. While economic growth may be slow, the incidence of poverty, estimated at between one-fifth and one-third of the population in the mid-1990s, remains high. With substantial progress already made in liberalising product markets, the agenda for economic liberalisation is now topped by more vexing policy issues in factor markets, including land and water, in which progress has been slow or non-existent.

21. A by-and-large centralised system of governance is faced with an unprecedented diffusion of power brought about by political and economic compulsions. At the central level, the need for coalition-building after the most recent elections has led to the appointment of 45 ministers. Born out of the need for peace among the ethnic groups of the country, the idea of devolving power to the Provincial Councils has resulted in duality rather than devolution and a set of complex and potentially conflicting administrative arrangements at the provincial and project levels. At the grass roots level, the need to devolve insolvency through community participation, codified in cost-sharing and maintenance requirements for development activities, has resulted in a multiplicity of officially-sponsored local level institutions for groups of households and clusters of villages.

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<sup>7</sup> Each of these priority areas includes several elements considered to be important for poverty reduction.

22. The interplay between resource pressures and institutional complexity at various levels has created its own dynamic. In particular, the idea of social mobilisation, generally associated with voluntary association through civil society organisations, has become the donor-aided mechanism for augmenting the human and financial resources of the line departments, and that is how project officials describe it. Like social mobilisation and decentralisation, the idea of public-private partnership has also found a bureaucratic home sustained by Government and donor funds. Faced with an uncertain and resource-short environment, political leaders at the central, provincial and local levels are looking increasingly for development initiatives with which to respond effectively to their constituents. They are finding that NGOs are too small and the line departments too slow in relation to the time between elections and the mass constituencies to which representative leadership is accountable.

23. As the following chapters of this report illustrate, IFAD projects have introduced concepts of change faster than the institutions concerned, including IFAD itself, have been able to manage change. IFAD has introduced rapid change at a conceptual level in calling for inclusive development, poverty alleviation, social mobilisation, decentralisation, bottom-up planning, integrated or holistic development, mainstreaming gender, sustaining more with community resources, and so on, but without eliciting commensurate responses from the institutions concerned. The assistance strategies of the other donors in Sri Lanka do not show IFAD a way out of this predicament, except insofar as the contribution of technical assistance to reform processes is concerned. This evaluation, therefore, aims to address not only the concepts of development that are important and familiar to IFAD but also the processes that it can facilitate in attaining its objectives with greater certainty.

## **F. The Country Programme Evaluation Objectives and Approach**

24. The CPE was undertaken in the first half of 2001. Its main objectives were to: (a) evaluate the results, impact and sustainability of the Fund's programme in the country; (b) assess the compatibility between IFAD and its partner institutions in terms of their development strategies for poverty alleviation; (c) assess national strategies for inclusive development and the strategic role of IFAD in influencing policies and development strategies for improving the welfare of women, the poor and the vulnerable in Sri Lanka on a lasting basis; (d) develop a series of lessons learned and recommendations that would contribute towards improving current operations, as well as the design and implementation of future activities; and (e) provide building blocks for the preparation of the IFAD Country Strategy and Opportunities Paper (COSOP) for Sri Lanka.

25. Rather than merely seeing the production of an analytical report as the principal output of the CPE, the exercise was conceived to provide maximum opportunity for all the stakeholders to jointly reflect, learn and express their opinion about past experiences and future options. A preparatory mission was undertaken in January 2001 by the lead IFAD evaluator to initiate the process. During this period, a CPE brainstorming workshop was organised to discuss and finalise the CPE Approach Paper and terms of reference. As a key input to this workshop, each ongoing IFAD-supported project prepared and presented a self-assessment report on the opportunities and constraints faced by their projects.

26. A CPE team then visited Sri Lanka from 4 to 30 March 2001. In addition to reviewing a series of documents, the team held discussions with various partners in Colombo, and travelled to 6 out of the 10 IFAD-assisted projects in the country. During its field work, the evaluation team visited project areas, assessed field activities, conducted group and household-level discussions with the target group, and organised informal workshops at the local level. A wrap-up meeting was organised at the end of March and a multi-stakeholder workshop was organised in Colombo in July 2001 to discuss the evaluation report and formulate the CPE's agreement at completion point. The latter offered a unique opportunity to bring together various stakeholders and partners to discuss over two days the key evaluation findings and conclusions, as well as to agree on core issues that deserve special attention in the forthcoming COSOP.

## II. ASSESSMENT OF IFAD PROJECTS

### A. Relevance of Project Objectives

27. In 1978, when IFAD co-financed its first project in Sri Lanka, the Kirindi Oya Irrigation and Settlement Project (KOISP), the State dominated the agricultural sector. Project objectives fell in line with government priorities for creating employment opportunities and increasing food production through the development of irrigation and settlement in the dry zone. With a fledgling private sector just beginning to emerge and only a few NGOs in existence, strong central government departments such as the Departments of Agriculture and Irrigation (and the Land Commissioner's Department where there was a settlement component) were the main executing agencies of projects. The two projects that followed—the Anuradhapura Dry Zone Agriculture Project (ADZAP) and the Coconut Development Project (CDP)—were launched in 1981-1982 when the economy was undergoing rapid liberalisation and the government was preoccupied with feasibility studies for the Accelerated Mahaweli Development Programme. These projects too had a sectoral focus and emphasised increasing food production and the incomes of smallholders and settlers. The focus on poverty, women and other disadvantaged groups was muted and there was no sociological input into project design.

28. With the decentralisation of planning and development through the election of District Development Councils, the appointment of District Ministers and provision of decentralised capital budgets, the focus of the government as well as IFAD shifted to more multi-sectoral integrated rural development projects (IRDPs) at the district level. There followed a second generation of projects (Badulla Rural Development Project, BRDP, initiated in 1983, and Kegalle Rural Development Project, KRDP, initiated in 1986) that were more specifically aimed at improving the living standards of poorer segments of the rural population. The target group included landless labourers on estates, peasant households on smallholdings, small fruit/vegetable gardeners and shifting (*chena*) cultivators. Project components now dealt not only with agricultural development, but also with rural infrastructure, rural credit, small-scale rural industries, income generating activities for women, etc.

29. Initiated in 1989, the Small Farmers and Landless Credit Project (SFLCP), together with the IRDPs initiated during 1992 – 1996—Second Badulla Integrated Rural Development Project (SBIRD), North-western Province Dry Zone Participatory Development Project (NWP DZPDP) and North Central Province Participatory Rural Development Project (NCP PRDP)—constituted the third generation of IFAD projects. The poverty focus of these projects was sharper and they recognised the importance of social capital and working with NGOs. Social mobilisation became an important component and a pre-requisite for planning and launching other project activities. Agricultural components typically included more permanent-crop development, participatory research, extension and training, land regularisation, upland farming, small-scale irrigation and agro-wells, and livestock. The most recent development is the Matale Rural Economic Advancement Project (MREAP), initiated in Matale District in 1999, which stresses economic activities and the role of private-public partnerships in rural development. The role of social mobilisation has been down-played under the assumption that sufficient social capital already exists and what is needed now is more economic mobilisation.

30. Individual projects have tended to target provinces with the highest incidence of poverty and groups of poor identified in the 1993 IFAD strategy for Sri Lanka. In general, all the projects have been relevant to the overall government priorities and IFAD objectives *at that time* and the specific objectives of the projects addressed the problems of to be solved. As mentioned in Chapter 1, however, the first five projects did not have sharply articulated objectives in relation to the IFAD target groups. Table 4 indicates, for each project, the general objectives, the project-specific objectives and the problems that needed to be addressed.

**Table 4: Objectives of Projects funded by IFAD (1978 – 2000)**

Project	<u>Objective</u>	<u>Specific</u>	<u>Problems to be Solved</u>
	<i>Overall</i>		
KOISP	Increasing food production, employment and settlement prospects.	Rehabilitate and expand irrigation.	Lack of self sufficiency in food. Lack of employment.
ADZAP	Raising production and incomes of subsistence and poor farmers.	Provide viable farming system in rainfed area. Reducing shifting cultivation.	Lack of viable farming system for dry zone farmers. Land degradation caused by shifting cultivation.
CDP	To reverse the decline in coconut production.	Increase incomes of smallholder coconut growers.	Decline in coconut production and increased domestic consumption.
BRDP	To support decentralised development and improve balance between slow and quick maturing projects.	Increase incomes and living standards of the rural population in the district.	Preponderance of long gestation projects (e.g. Mahaweli) in government's investment portfolio.
KRDP	To support decentralised development through quick-maturing projects.	Increase incomes and employment of the smallholders and landless in the district and create institutional framework for rural development.	Low incomes and unemployment of landless, near landless, small farmers and women-headed households.
SFLCP	Testing the effectiveness of a delivery mechanism for institutional credit to the poor.	Promote credit-group formation, provide credit for agriculture and off-farm income-generating activities, especially among women.	Non-availability of acceptably priced collateral-free credit to landless and near-landless.
SBIRD	Improving allocation of developmental resources to poor households.	Community mobilisation for development, participatory planning and implementation, support for government devolution programme.	Need to complement Janasaviya poverty programme with well-targeted interventions at micro level.
NWPDZPRDP	Advance the socio-economic and living conditions of poor and upland farmers.	Introduce community-based participatory planning and implementations of development activities. Improve land and water resources management and strengthen local institutions.	Communities not organised for service delivery; need for upland farming systems to replace chena cultivation; and need to increase incomes of near landless.
NCPPRDP	Assist target groups to exceed poverty level and improve their food security and nutrition; and reduce incidence of malaria.	Sustainable land and water resources management, improving efficiency of water use, and increasing incomes of small farmers, landless and women.	Communities not organised for service delivery; lack of viable upland cultivation system; poor management of water resources.
MREAP	Raising and sustaining of the incomes of poor rural and farm families permanently above poverty line.	Ensure that 30 percent of the target group (with emphasis on women and youth) have access to profitable economic activities in agriculture as well as non-farm sources of income.	Lack of linkages to markets; lack of access to profitable technologies and improved seed, need to improve land and water management.

## B. Project Preparation and Design

31. Project preparation and design of IFAD-financed projects was carried out by private consultants (KOISP, ADZAP), the FAO Investment Centre (CDP, BRDP, KRDP), and more recently, by IFAD itself (SFLCP, SBIRDP, NWPDP, NCPPRDP, MREAP). With the evolution of participatory approaches to project formulation, IFAD took charge of the process and the project preparation involved more participation by stakeholders through consultations, workshops, etc. With the benefit of hindsight and an overview of ten projects, it is possible to identify across-the-board weaknesses in design that may not be obvious when individual projects are being designed. Some of the more common weaknesses in design identified during the CPE include the following:

- too many project components and implementing agencies;
- assuming inter-agency co-ordination will take place without binding commitments or agreed arrangements for planning and implementation;
- optimism in estimating the time needed for project implementation in general and start-up in particular;
- over-estimation of the capacity of implementing agencies and failure to assess institutional capacity against the incremental work to be undertaken;
- over-confidence in the participatory and poverty orientation of line agencies and commercial banks;
- inadequate benefit and poverty monitoring and evaluation arrangements;
- lack of built-in flexibility for project management;
- fixed menu of interventions with little flexibility for adjusting to local needs; and,
- lack of design parameters to ensure sustainability.

32. Most of these features now appear as problems because the underlying assumptions and objectives of development changed rapidly, especially during the 1990s, without a commensurate change in Government and IFAD capacities for planning and implementation. There was rapid change at a conceptual level in calling for inclusive development, poverty alleviation, social mobilisation, decentralisation, bottom-up planning, integrated or holistic development, mainstreaming gender, sustaining more with community resources, and so on. But there was not sufficient time and attention given to what institutions at various levels needed to work with these concepts. The design weaknesses mentioned above are, therefore, symptoms of change not keeping pace with expectations.

33. In relation to specific interventions, the following issues observed during the CPE could have been addressed at the design stage:

- The agricultural development components failed to introduce any new technologies (e.g., IPM, IPNS, hybrid seeds, organic farming), and gave inadequate attention to linkages to markets for project outputs and possible environmental consequences (e.g. salinity build-up under irrigation).
- The agriculture and infrastructure components largely focused on land-based (and predominantly water sector) interventions that tended to benefit a small sub-set of the target groups that concern IFAD.
- The substantial investments in water resource development have been aimed primarily at existing irrigated areas rather than the rainfed uplands that host the bulk of the poorer farmers.
- The size of irrigation schemes (covering the minor, medium and major tanks, typically 10 ha to over 400 ha) has also tended to work against the near landless and micro-land holders whose landholdings are scattered around the thousands of micro tanks, each commanding less than 10 ha of land.
- The cost-sharing or equity requirements for virtually all irrigation sector schemes proved unrealistic and beyond the capacity of most farmers in the target groups. In particular, the 30 percent equity requirement for an average agro-well translates

into a farmer contribution of over SLR 60,000, which is widely believed to be well beyond the capacities of the poorest farmers.

- The needs of women, the constraints that they face and planned project benefits for women along with men were not taken into account in projects where the objectives themselves did not include any recognition of gender as a significant variable. This was the case under the KOISP, ADZAP and CDP: their project designs omitted women's needs and gender considerations.

### **C. Intervention Methods for Engaging Beneficiaries**

34. The strategies adopted in IFAD projects for engaging beneficiaries are one illustration of IFAD and the Government struggling to keep pace with the changing trends in development. Taken as a whole, IFAD projects appear to have followed three distinct models for engaging beneficiaries, though there have been additional experiments and improvisations in microfinance. The first few sectoral and IRD projects—the KOISP, ADZAP, CDP, BRDP and KRDP—followed traditional top down approaches with minimal community involvement in planning, implementation or decision making. A second category of IRD projects—SBIRD and NCPDR—actively promoted community participation with large project components for social mobilisation and capacity building to channel and sustain project services and development activities at the village levels. The third category of projects—NWPDR and MREAP—rely mainly on the existing social capital (a variety of village level organisations) with limited degrees of facilitation applied through the projects (though NWPDR also helped create small groups through its beneficiary participation programme).

35. Even among the second and third categories of projects, beneficiary participation in the project cycle has been generally weak and confined mainly to need identification and varying degrees of inputs toward project implementation. The role of beneficiaries in planning and decision making has remained marginal. Even where the beneficiaries were actively involved in need identification (e.g., through participatory appraisal exercises), the eventual prioritisation and outcomes appear to have been heavily influenced by local political considerations. Further, the projects did not contain mechanisms that would have allowed responding to the diversity of such needs through re-adjustments, networking or tapping alternative partners and resources.

36. In general, and particularly in the context of infrastructure development, the conceptual basis for Village Development Plans (under most IRDs) remains questionable. These typically reflected the aspirations of a sub-set of the village community, at times a small project sponsored group (such as in SBIRD and NWPDR), and could not qualify as a “village” development plan acceptable or useful to the larger community. Field discussions also show that these plans had no relationship with the Divisional, District or Provincial planning process and typically evolved in isolation to satisfy a project specific requirement. Indeed some PMOs confirmed that most plans were shelved and forgotten after the closure of a given Annual Work Plan.

37. Starting with the SBIRD, the projects have worked with multiple community organisations. Some of these, such as the women-dominated small groups and their federations (Integrated Community Organisations, or ICOs, and Village Organisations) have typically worked in parallel with the existing Farmer Organisations (FOs) that are also located in close vicinity and at times even in the same village. However, quite surprisingly, these organisations demonstrate no organisational or operational linkages, even though a significant majority of the men and women confirmed concurrent membership in virtually all village level organisations. Beneficiaries in microfinance groups including those under IFAD projects typically have savings in two, three or four other groups in the village.

38. The larger irrigation sector interventions were typically handled through traditional departmental approaches and the use of private contractors, while the smaller schemes were executed through the existing FOs. The FOs have the legal mandate (for farmers' representation, field level water regulation and limited implementation) under the Agrarian Services Act. Field interviews indicate

that while implementation responsibilities were given to the FOs, the technical nature and the required standards of work were generally beyond the capacity of local farmers. Most FOs show limited organisational, technical and financial capacity and seem ill-prepared to take on the responsibilities of O&M for the large number of rehabilitated infrastructure scattered throughout the country.

39. Reports from the Department of Agrarian Services as well as the Provincial and Central Irrigation Departments indicate that a large majority of the registered FOs (as many as 80 percent) are inactive and exist only on paper. Although the projects claim to have momentarily activated these FOs for implementation of irrigation sector interventions under the IRDPs, the inactivity trends are widespread and span long periods. Most projects appear to have focused on implementation (only), with a highly inadequate concern for capacity building. While this is true for all projects, the issue could be especially problematic for projects that work on the premise that adequate social capital exist in the project areas.

40. A number of intervention strategies have been employed for rural microfinance in IFAD projects. In the NCPPRDP, at design stage the Janasaviya Trust Fund (JTF) was to be engaged as a wholesale service provider and financier to nine different NGOs already working in villages. This could not be put into effect as the JTF was disbanded and strategy changed, eventually to base on the formation of project Integrated Community Organisations. The SBIRDIP included two strategies for microfinance at design stage: ICOs, and the provision of re-financing to NGOs, SANASA and SEEDS. The NGOs work to their own format in villages separately from the ICOs. The ICO is very different from a simple savings and credit group or village bank. Projects using the model seek not only to integrate the provision of resources and services within a single framework at the district level, but also to establish a counterpart multifunction village level institution. In addition to the much higher level of ambition on which the promotion of these organisations rests, there is an inherent conflict between the need for self-reliance and specialisation in microfinance and dependency type responses to donor projects. Project social mobilisers were the only strategy for organisational support for the microfinance activities of the ICOs. The closure of a project would leave no arrangement for the remuneration of the social mobilisers and no base organisation for them to work from.

41. In NWPDPZPDP, the project design was based on the engagement of a wholesale financing and development services provider to manage an existing network of service providers in the field, to target the poorest of the poor. This did not take off. A women's NGO was then engaged to carry out social mobilisation and financing tasks. After the Mid-Term Review (MTR) there was a second major change in the direction of re-finance facilities for SANASA, with a limited engagement of the formal sector, using a linkage solidarity group as model as well as individual direct lending. The SFLCP project was conceived with the intention of working exclusively through SANASA but reverted to a broad scatter NGO approach aimed at mobilising as many competent NGOs as were available. Only the major on-lending ones principally SEEDS and SANASA sustained their operations, as well as one minor Women's NGO in Kandy. The Central Bank also formed and developed groups as a service provider to the development banks on a linkage model. A major process of re-engineering started after the MTR. The success of the project derived ultimately from the strength of the Central Bank in the linkage model leading to the formation of village banks.

42. Intervention methods in the three earliest projects—KOISP, CDP and ADZAP—did not result in reaching benefits to women or the poor, except incidentally. A new intervention method of putting in place a separate component for women was introduced under the first two IRDPs, the BRDP and the KRDP. This ensured that project management paid attention to specific benefit flows to women. It also enabled separate assessment of women's participation and benefits at least for the women specific activities. Under both the projects the planned targets were met and exceeded. Later projects, without a separate women's component, used the alternate intervention method of social mobilisation to form small primary groups of beneficiaries which, in turn, were facilitated to develop into member based organisations at the village (Grama Niladhari Division) level. The groups were formed as grass roots beneficiary institutions with strong internal affinity to receive and repay credit without financial or physical collateral, relying instead on the social collateral of the groups. This

technique succeeded in generating an enormous women's participation in terms of numbers and quality, securing for them access to resources, training and reward for their labour. Field visits and reports on grass roots organisations confirmed that social mobilisation was an efficient tool to bring about women's participation with a poverty focus even in the absence of any gender sensitivity among project implementers. However, a near complete indifference to women's participation across project components other than social mobilisation and participatory credit is observed in project after project.

#### **D. Project Management and Supervision**

43. Most projects have relied on a centralised project management system, typically working with a variety of existing central and provincial public sector agencies, administrative departments, non-governmental organisations, regional banks and a range of service providers in the private sector. While the sectoral projects and the earliest of the IRDPs were focused mainly on meeting service delivery targets, the second generation of projects started addressing the need for enhancing institutional capacities. This was considered necessary in view of the multi-sectoral, and increasingly decentralised and participatory orientation of the IRDPs for which the divisional, district and provincial level partners had little capacity. But the institutional strengthening initiatives have remained quite modest and have been dwarfed or even undermined by the major politico-administrative changes in the country. Various reports confirm that the partial devolution to the Provincial Councils (1987) led to a highly complex hierarchy of technical and administrative authorities and lines of responsibilities. In effect, there is duality of controls rather than devolution, and this has adversely affected the management and implementation of all IRDPs.

44. Although the IRDPs theoretically became a devolved subject in the post-1987 period, many sectors and sub-sectors (within the IRDP portfolio) remained centrally controlled, complicating the system of development administration. Under the new system, the Divisional Secretariats became the key focus for all administrative and development co-ordination. However, while maintaining parallel co-ordination with the Provincial Councils, they remain answerable to the Central Government only. This is also true for several infrastructure agencies such as the Department of Agrarian Services (DAS) that is responsible for the bulk of the rural infrastructure interventions. Likewise the PMOs themselves continue to be heavily influenced by the Central Government rather than the Provincial Councils to whom they are theoretically responsible.

45. Several agencies are engaged in providing services in agriculture and the rural infrastructure sectors, a number of agencies also show duplication of responsibilities. This has impacted on the overall management and implementation of project activities. The situation is best illustrated by the history of the water sector development programme, which shows that the sector was managed by at least half a dozen different organisations. Frequently working in the same area and at the same time, these included the Central Irrigation Department (CID), the Provincial Irrigation Department (PID), the Department for Agrarian Services (DAS), the Agriculture Development Authority (ADA), various NGOs, the project PMOs themselves as well as various local government organisations. Some were responsible for large schemes, others for medium schemes and others still for minor and micro irrigation systems. They also differed in their respective lines of authority. Some reported to the local governments, others to the provincial councils and yet others to the Central Government. Managing several such organisations (in one sub-sector alone) with different styles of working, technical and management capacities and different lines of authorities remained a challenge under the best of times. Indeed some PMOs reported that the task of orienting and managing a large number of project partners with little familiarity or commitment to participatory development became a project unto itself.

46. Despite the obvious complexity of the agenda, most PMOs do not show evidence of the required capacity and more critically the freedom to steer and shape the direction of projects. The very nature of IRDPs required flexibility, innovation and an effective mandate to respond to people's needs. However many PMOs appear to have adopted a reactive rather than a proactive role. Field discussions and the various evaluations also show that a great deal of energy and time was consumed

in straddling or responding to the multiple layers of authorities at the divisional, provincial and central levels.

47. The devolution exercise also did not see a commensurate building of the required capacities critical for local management and service delivery. Many of the newly created agencies continue to work with limited technical cadres, material resources or finances to plan, effectively implement or maintain the rural infrastructure. A closer review of the IRDP institutional strengthening components consistently shows a high emphasis on vehicles, equipment and physical infrastructure with insufficient focus on human resources or improvements in agency policies or procedures. Unsurprisingly, after nearly two decades of exposure and investments, most PMOs continue to report adversely on the capacities and orientation of partner agencies that are still seen to be top down, target driven and largely unsympathetic to participatory approaches.

48. Field interviews also indicate a high degree of politicisation in the work of the line agencies. Many officials (including members of the PMOs) reported frequent interference from the local politicians and elite aimed at influencing and even undermining project operations. Village level meetings and those held with several groups of implementers highlight the extent of such interference that typically translated in neglect of the villagers identified needs, abuse of the projects' screening criteria or outright opposition and even harassment of small groups and village level organisations created under various projects.

49. Under the circumstances, project supervision has to be seen as a particularly demanding task for IFAD and its co-operating institutions, made all the more difficult by the fact that, unlike other donors, IFAD does not have a presence in the country. Not surprisingly, each of IFAD's co-operating institutions for project supervision—AsDB, the World Bank and UNOPS—has managed the task in its own distinctive style. A review of various project documents shows that the quality of the project completion reports and mid-term reports prepared under the supervision of the two banks has been generally better than similar documents prepared under IFAD/UNOPS supervision. UNOPS supervision reports, on the other hand, show greater sensitivity to targeting of beneficiaries and related approaches. AsDB and World Bank supervision reports appear to be written in a more institutionalised style compared with UNOPS reports in which individual authorship is relatively more influential. UNOPS supervisory mission reports are also much more detailed and prescriptive than similar reports by the other co-operating institutions. The fact that UNOPS does not have a presence in the country seems to have created delays in communication with IFAD projects, which depend on joint decision making and, therefore, approvals from IFAD/UNOPS, in order to make course corrections and bring about changes during implementation.

## **E. Monitoring and Evaluation**

50. Monitoring and evaluation (M&E) has remained a weak area in most projects and appears to have focused on traditional inputs and output level assessments. This remains true even for the second generation of projects (starting in the 1990s) that show a sharper focus on poverty and vulnerable groups. The project documentation also does not show any data on baseline surveys of the targeted groups and areas, while the earlier projects do not even define the target groups. In general the projects have no documentation on process monitoring and very little information on impacts. If targeting the poor is an institutional imperative for IFAD and its partner organisations, then failure to document their participation and benefits can be considered an institutional failure. Project Completion Reports are available for only a few projects, but these are limited by the data size and the absence of baseline data. Impacts are also complicated by questions of attribution. Virtually all IFAD funded projects have typically worked along side other projects and/or government led initiatives in the same areas.

51. Three of the IFAD projects have attempted to establish M&E systems. In the SBIRDP, there is no separate M&E unit with competent staff responsible for poverty alleviation monitoring. Therefore, a poverty focus is missing from the M&E activities that are being currently undertaken. Process

indicators have not been developed for monitoring participation by target groups. There is a lack of beneficiary involvement in monitoring and poor feedback to the beneficiaries. Quantitative benefits from such successful interventions as tea development, export agriculture, introduction of strawberry and rural infrastructure (especially minor tank rehabilitation) have not been established. Qualitative benefits from home garden cultivation on nutrition and daily dietary habits have not been well illustrated. Several attempts to establish a management information system have not been successful.

52. In the NCPPRDP, the project has developed a three pronged system of monitoring system—financial, physical and benefit monitoring. The methodologies for physical and financial monitoring have been initiated by the PMO and are being executed in conjunction with the line agencies. The task of monitoring is carried out by an Assistant Director Planning attached to the PMO and by subject specific officers of the respective line departments. Monitoring is done regularly; either monthly or quarterly by the respective stakeholders. The project staff also carries out cross inspections. The notable absence is beneficiary participation in all these exercises. The type of monitoring described above is basically confined to input and output monitoring of the project and a poverty focus is missing.

53. A baseline survey was carried out at the commencement of the project. Several other thematic studies have been carried out by the project, e.g., studies on social mobilisation, agro-wells, credit utilisation, etc. The results of these studies have been exclusively used to adjust certain aspects of the project delivery system (e.g., the payment of final instalments) rather than to achieve project objectives. Quantifiable benefits from such successful interventions as; cashew development, livestock development, training has not been well established.

54. The presence of a separate unit for monitoring and evaluation is a striking feature of the MREAP, the newest IFAD project in Sri Lanka. There is a qualified and experienced poverty-monitoring manager with other supporting staff head this unit. The unit has developed a comprehensive M&E plan, a feature that was not observed in other IFAD assisted projects. The PMO has developed four systems of monitoring—financial, physical, impact assessment and process monitoring. Technical assistance was provided by the Evaluation Division of IFAD at the beginning of the first year of the project implementation to streamline the M&E plan prepared by the unit.

## **F. Effectiveness in Achieving Project Objectives**

55. The effectiveness<sup>8</sup> of the agricultural development components varied according to the intervention. Those concentrating on institution- or capacity-building could show only limited results at the end of the disbursement period. In the CDP, all the capacity building sub-components were implemented completely and are now paying good dividends in the successful on-going countrywide “Kapruka Ayojana” programme to rehabilitate the coconut industry. Agricultural extension, however, has not been very effective in many of the projects. Devolution (1987), institutional upheavals (1991) and changing government extension approaches (1993) have adversely affected agricultural extension. Extension was also sometimes ineffective because the technologies being promoted were not suitable for farmer conditions or the recommended inputs were not available. Participatory research sub-components have mostly been ineffective in developing technologies acceptable to farmers, among other reasons due to the failure of DOA to commit adequate manpower resources.

56. Although lacking in transparency, land regularisation has generally been successfully implemented. The satisfactory rate of implementation in some of the projects has been partly due to the incentives that were paid to staff to expedite work they would otherwise have done at their normal pace! Upland development sub-components aimed at arresting soil degradation, conserving soil moisture and developing sustainable rainfed farming systems proved effective in improving the

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<sup>8</sup> Effectiveness: whether objective has been fulfilled; the extent to which a project succeeds in achieving its purpose. (Examples: Water consumption. Latrines in use. Understanding of hygiene.)

incomes and living standards of poor farmers and stabilising chena cultivation. Livestock development, comprising mainly goat and chicken rearing, has also been very successful in improving incomes of beneficiaries across almost all agro-ecological regions. An important issue in regard to livestock rearing is the non-availability of emergency care for sick animals. Seed and planting material production, storage and processing and marketing are best suited to implementation by the private sector but are also being successfully implemented by other projects at the smallholder level.

57. While the IRDPs moved from a general area development and sectoral focus to an emphasis on income generation and eventually to the poverty alleviation, the infrastructure components did not show a corresponding shift in the scope or composition across the various projects. With minor variations, most IRDPs continued with the same set of activities, assumed to satisfy the changing focus and requirements of successive projects. The lack of innovation or relative stagnation in infrastructure is owed to a number of factors. In addition to the lack of clarity of the target groups themselves (at least until 1993), project documentation shows little comparative analysis on the kind of infrastructure that could best serve the interests of the poorer target groups. The bulk of the infrastructure investment has gone into water sector development that by default could only benefit a limited number of the target groups. For the landless or near landless, Estate workers, poor fishermen, women headed households, artisans and the unemployed youth, water sector interventions were obviously not appropriate in relation to project objectives.

58. Within the water sector development, the emphasis has remained on improvements to irrigated agriculture in the midlands and lowlands. However, the ground conditions undermined the usefulness of the programmes for the target groups in question. Firstly, the poorest farmers are not located on irrigated lands but carve out a living through *chena* cultivation or rain fed farming. Secondly, most projects were constrained by the limitations on thresholds of infrastructure (and other investments) required to lift any one village or hamlet out of poverty. Thirdly, most project designs and implementation approaches failed to appreciate the inter-sectoral linkages and largely worked within a sectoral frame. These factors together with weak project mandates to influence and adjust project interventions, a high emphasis on targets and disbursements, weak community participation and to an extent the limitations to what could be feasibly done for the poor within given a project design, adversely affected the effectiveness of rural infrastructure interventions.

59. The effectiveness of the rural finance activities undertaken in projects depended very much on the institutional strategy. In general, where professionalised service providers were engaged including SANASA, SEEDS and the Central Bank, project objectives were more or less fulfilled. The services they provide are relevant to the needs of the poor, they have been responsive both in terms of products and organisational set-up, and they are relatively immune to adverse factors in the local political environment. In contrast, in the IRDP-sponsored community organisations there is a dependency culture, relatively weak village organisations and problems of sustainability.

60. In relation to gender issues, effectiveness addresses the questions to what extent did the results of the projects contribute to (a) greater benefit flows to women, (b) increased women's participation in quantity and quality, (c) enabling women to access benefits across project components, and (d) move towards mainstreaming of gender considerations?

61. Focussed attention to women is first seen in the two early IRDPs—the BRDP and the KRDP—that introduced women's components that ensured benefit flows to women. Unlike the first three projects (KOISP, ADAP and CDP), the BRDP and the KRDP addressed women as a specific (but separate) target group for training and facilitating supplementary income generation. Planned targets were exceeded and the women's components ensured a certain minimum participation. The component was thus effective (though limited in size and scope) in that, for the first time in the project areas, women felt they were receiving official attention. They gained from the training, the small subsidies (e.g. SLR 700 per unit under the BRDP) helped them start small productive activities that gave them access and independent control over incomes, and there was demand for increasing the women's component from project savings elsewhere.

62. An enormous increase in women's participation came about in later projects—SFLCP and the three IRDPs—that were based on the foundation of social mobilisation. This was very effective in promoting far greater women's participation than ever before. The group approach sharply tilted the scales in favour of women's participation. Even without much effort or understanding of women's issues by the staff, social mobilisation tended to bring women together, far more than men, as members of primary groups and their associations. The group approach was very effective in bringing women out, pooling small savings, providing them access to rural financial services, training access and building social capital. It has also been effective in providing enormous visibility and acceptability to women's mobility, desire to control incomes and triggering attitudinal changes among the beneficiaries to better their own lives together with those of their families. Men have largely been supportive of this.

63. Without the self imposed restrictions of separate women's components, projects like the SFLCP and the three IRDPs carried the potential for greater mainstreaming across components. However, this took place to a very limited extent. For example, women's share in project components like infrastructure has been limited. Plans for community infrastructure submitted by groups were not acted upon and often groups did not even know whether their requests were included in the divisional plan or not. Integrated Community Organisations, largely consisting of poor women, found it difficult to contribute their share in works. Women tended to be excluded from the agriculture component, including training, even though they had a primary role in chena and homestead cultivation as well as in Maha and Yala crop production. Women were not identified as 'model farmers'. While farmer organisations did have some women as members, as office bearers they were infrequent. The NWPDP virtually sidelined women—the livestock and farming systems aimed only at the man in the household, even though (as also observed under the SBIRD) the actual work under livestock development was done by the women and children of the household, but the documentation was in the man's name.

## **G. Project Impacts**

64. A general observation regarding most projects is that they did not have proper arrangements for monitoring and evaluation and it is difficult to make assessments of the outcomes and impacts<sup>9</sup> on poverty, incomes, etc. of the projects themselves, leave alone their individual components and sub-components. On the basis of assessments made in project completion reports of projects that have closed, however, it may be said that the outcomes (increases in yield, cropping intensities, farm incomes, employment, poverty reduction and institutional strengthening) of agricultural development components were generally significant but below expectations. In general, interventions intended to increase yields and incomes of farmers in irrigation projects but did not achieve their objectives on account of failures in the irrigation and settlement aspects.

65. Among the more successful agricultural interventions were the planting of tea and MECs, and livestock raising. Through the ADZAP and other projects with upland development components (SBIRD, NWPDP, NCPDR) the upland development interventions developed viable sustainable rainfed farming systems suitable for the dry zone. One of the more significant beneficial long-term impacts not mentioned in project completion reports was the capacity building that accompanied direct production interventions. For example, the real beneficial impact of the CDP was probably the establishment of a well-trained, effectively functioning extension service and diagnostic laboratories for the coconut industry, along with increased capacity for seedling production. As mentioned before, the impact of this capacity building is seen in the ongoing coconut smallholder development programmes.

66. A general comment on many projects is that they had too many components and could not have an adequately deep impact on the rural poor. The more recent projects resulted in considerable build-

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<sup>9</sup> Impact: the positive and negative changes produced, direct or indirect, by the project. (Examples: Reduction in water related diseases. Increased working capacity. Conflicts in use/ownership of wells.)

up of social capital, which could be considered a real benefit for implementing future agricultural activities at community level. Beneficial environmental impacts included reduced erosion under the upland development programmes. However, irrigated areas already show increased water logging, and gradual development of salinity and the use of pesticides have increased. Uncontrolled digging and exploitation of agro-wells could cause depletion of water tables. There is no continued monitoring of environmental impacts in any of the projects.

67. Field impressions and the large volume of literature on the IRDPs show that investments in physical infrastructure have had a favourable impact on beneficiaries, although it is difficult to determine the extent to which such impacts can be attributed to the IFAD supported projects alone. Although project completion reports for completed projects show that impacts were generally less than expected, a number of project evaluations maintain that the projects' interventions have resulted in increased acreage and yields, land use efficiency, improved crop management and to a lesser degree crop diversification. Likewise, the road construction projects have helped improve the quality of life of rural residents, improved the flow of supplies and access to social services, reduced the cost of transporting agriculture produce, enhanced land values and opened new opportunities for employment and small enterprise. Rural households have also benefited from improved water supply conditions. These have brought cleaner potable water closer to home and have particularly benefited the women who were generally responsible for fetching and ensuring household water supplies. With improved water quality, the incidence of water borne diseases is also reported to have decreased.

68. The evaluation by beneficiaries of the impact of the introduction of savings and credit in poor communities is somewhat different from that carried out by the projects. The beneficiaries value their empowerment, through coming together, through the introduction of the habit of regular saving, and a new route to dealing with borrowing and debt. In all the available evaluation findings the importance of qualitative rather than quantitative change is emphasised. Project monitoring systems in contrast were designed to record in quantitative terms although staff were clearly awakened to the overwhelming importance of institutional change ('releasing the energies of the people'). The limited amount of evaluation findings there are on income changes point to quite modest effects amongst the poorer families and difficulties in establishing clear casual relationships for the changes that were seen.

69. Women's perspectives are also important in understanding the impact of IFAD projects. One significant impact has been that women have generated a new way of thinking and co-operation among the poor, building personal initiatives and mutual help, even though projects have tended to see groups as limited purpose institutions to serve as units for receiving and recovering credit. There have been attitudinal changes generated purely through group formation. Women began to see new options for themselves. Women benefited from mutual support, which they valued more than the subsidies. Women helped each other in clearing/fencing each other's lands, constructing sheds, helping in house building, repairs, etc. Cleaning of local schools and hospital premises, renovating roads, school buildings and services to temples has helped to strengthen the fabric of rural society. The local communities benefited as women's groups spontaneously took up social and community work.

70. While it is difficult to reasonably measure the extent of income increases due to poor book keeping by the micro entrepreneurs, some estimates have been made. By and large income increases for women's economic activities due to projects have been reported. Moreover, due to the increasing adoption of non-agricultural activities by women, one can expect some income smoothing effects to have taken place (though this was not separately assessed). (Nutrition impacts could not be assessed due to absence of data.) Surveys showed that women have retained control over their incomes generated through the projects.

71. Women reported doing more work than before as a result of project credit. To the extent there was underemployment, this is positive, through a gain in paid productive work as was observed in the SFLCP. Under the KRDP and the SFLCP a shift from unpaid family labour to work for cash has been

observed for women. But women were working for remuneration in addition to household tasks. Of the various activities, women in animal husbandry reported workload increase of 3-4 hours a day; the overall picture being of women working 6-7 hours a day in financially remunerative work and 4-5 hours a day in unpaid household work. Yet, because of control over incomes they were positive about the work

72. Although agreeing to the generally positive impacts of the IRDPs on productivity, incomes and employment in agriculture and off-farm sectors, independent evaluators have described these gains as “level effects” rather than “growth effects”. The project interventions are seen to have led to one-off increases in productivity, incomes and employment but failed to help generate the growth dynamic needed to set the rural poor on an autonomous growth dynamic. The gains are described as relatively short term (limited mainly to the duration of project interventions) and likely to have been eroded by inflation and other factors: the impact on poverty, if any, is passing. As suggested in its Framework for Poverty Reduction, the Government is not as sanguine about the impact of the IRDPs on poverty reduction as it was when these projects were designed. At the Ministry of Plan Implementation, IFAD’s long-time implementation partner, REAP—the Rural Economic Advancement Programme, which IFAD supports in Matale District—is the successor to IRDP.

## **H. Sustainability and Quality**

73. IFAD projects have used government agencies, NGOs and private sector firms as implementing agencies or service providers. Where a particular service (e.g. agricultural extension), which is a continuing substantive function of a government line agency (the Provincial Department of Agriculture, DOA, in this case), is provided by that agency itself or by staff from that agency seconded to the project, the service is likely to continue, albeit at reduced level, after the project closes. On the other hand, if the service is rendered by a contracted NGO or private firm, or is provided by the PMO using contractual staff (worst case), it will cease with the project. Institutional sustainability is, therefore, an aspect that needs to be taken into account in project design to ensure its continued success. Unfortunately, in several IFAD projects (SBIRD, NCPDRP, MREAP) technical staff has been recruited directly to carry out the technical functions, ignoring the existing line departments.

74. Likewise, it is important to ensure fiscal sustainability of project interventions so that improved services and investments that have resulted from the project could continue at the same level after the disbursement period. This would require that the government, private sector or beneficiaries should bear a progressively increasing share of the incremental recurrent costs during project implementation and take over the whole responsibility at the end of the disbursement period. Such a financing plan was never used in any of the projects and, unsurprisingly, there has been a collapse in services (research, extension, livestock services) in all projects after the funding stopped. The large investments in irrigation sector are seriously threatened by the absence of effective arrangements for grass roots water management and maintenance of the existing assets. The Farmer Organisations are in theory responsible for such functions, but most have neither the capacity nor the resources to discharge these responsibilities. In addition, the absence of a premium on “water usage” and/or systems for rewards and sanctions, present little incentive for Farmer Organisations to reform and take responsibility. Visits to selected sites in Kegalle and Uva showed that the road sector investments are threatened by the limited financial and technical capacities of the Pradeshia Sabhas. These local government organisations are responsible for O&M of bulk of the rural roads. However data on the annual trends of provincial sanctions to the Pradeshia Sabhas showed receipts that are barely 10 percent of the required maintenance budgets. The physical condition of the roads demonstrates the ground realities.

75. Equally important is financial and economic sustainability. In the case of new technologies being promoted for use by farmers, the financial profitability should be assessed excluding existing subsidies, which would be unsustainable anyway. Furthermore, in view of the impending liberalisation of markets, it would be necessary to assess the farmer’s resulting improvement in

productivity in relation to import and export parity prices rather than financial prices in the local market. Long term forecasts suggest that prices of agricultural commodities in general and of rice in particular would decline significantly over time. It is important, therefore, that the comparative and competitive advantage of Sri Lanka (using both existing and improved technology) to produce particular commodities be considered in selecting the interventions in future projects. Such considerations do not appear to have entered into the preparation of previous and ongoing projects.

76. Agro-well development is an activity supported by almost all the more recent IFAD projects in the dry zone. The unplanned and uncontrolled proliferation of agro-wells that has been triggered by this intervention would have adverse cumulative environmental consequences such as declining water tables and disturbance of the hydrology of the reservoir cascades, which are already evident in some areas. Unless careful monitoring of water tables is carried out and further expansion of agro-well development regulated, the whole system could cease to be environmentally sustainable. The excessive or improper use of fertilisers in shallow water conditions across much of Sri Lanka is also a potential area of concern.

77. In the IRDPs in general institutional strategy towards sustainability in pro poor rural finance activities was not emphasised sufficiently at design stage. Design stage institutional strategies in any case broke down in the majority of projects. In some cases there was a retreat to conservative lending practices with no effort to focus on the poor. Or there was a tendency to obscure the issue of sustainability by promoting increasingly ambitious village level institution building strategies. The IRDP project management framework on repeated occasions proved incapable of absorbing and acting upon the need to put sustainability at the forefront in the strategy to mobilise the poor to form microfinance institutions, despite the increasing importance of this as projects progressed.

78. The prospects for the development in future of a coherent national strategy for rural financial services sector may have been advanced by the involvement of the Central Bank of Sri Lanka in the Small Farmers and Landless Credit Project. Since IFAD involvement terminated the Central Bank has handed over management to the Regional Rural Development Banks but maintains a supervisory and strategic role through continuing relations with the member organisations at the district level. The lessons learnt by the Central Bank are now being carried forward to six new districts. The concerned Central Bank staff are now an experienced group that will have important contributions to make to policy formulation in the forthcoming ADB Rural Finance Sector Project.

### **III. CONCLUSIONS AND RECOMMENDATIONS BY COMPONENT**

#### **A. Agriculture and Natural Resources**

79. The agricultural components of the projects appear to have been fairly successful in increasing production and incomes of poor farmers and in reducing poverty. However, the proportion of project investments allocated for agricultural interventions has been relatively low in some cases (e.g. less than one percent of project costs in KOISP). In the absence of well-designed systems of benefit monitoring and evaluation which could disaggregate the impact of the agricultural components, no definite assessment can be made in regard to the weight to be given to direct investments in agriculture in future projects. Recommendation: Well-designed BME and impact evaluation systems should be incorporated in future projects, which could separately assess the impacts of individual components.

80. Sometimes, implementing agencies/ service providers, particularly for research and extension activities, end up failing to deliver the promised services. Failure of service providers to achieve project targets is often due to inadequate spare capacity (over and above that required to fulfil their own substantive functions), particularly in terms of the manpower needed to carry out the incremental tasks or services. Recommendation: The institutional capacity of service providers and implementing agencies should be carefully evaluated before identifying them as suitable partners. If they have a comparative advantage in terms of sustainability of the service after the project or if they have a good

track record, measures to build up their capacity to the required levels might be considered under the project itself. Likewise, early action to change non-performing service providers is also essential for efficient project implementation and the course of action to be taken by the PMO for this purpose needs to be specified.

81. The selection of beneficiaries for several activities supported by IFAD projects tends to favour better-off farmers. For example, in the SBIRDP, the support programmes for tea and export agriculture crops were not extended to farmers with less than half an acre of land as the number of such small farmers is too large for the staff of the line agencies to handle in their subsidy schemes. Credit for cattle purchases is also not extended to very poor farmers on the grounds that they cannot afford to provide the care (vaccines, etc.) that the cattle need. Recommendation: In future projects, greater attention should be paid to deliberately selecting pro-poor agricultural interventions (and technologies), and to implementing them in such a way that even farmers with only micro holdings or home gardens and landless farmers would also benefit.

82. Supervision missions and mid-term reviews of some projects have noted that the potential qualitative benefits of agricultural interventions, e.g. development of tea small-holdings, appeared to have been sacrificed in favour of meeting quantitative targets. Recommendation: It is recommended that designs of M&E components should include indicators for monitoring the quality of agricultural interventions in addition to the quantity.

83. Many projects (CDP, KRDP) failed to meet targets for intercropping due to the non-availability of planting materials. Recommendation: Future projects involving intercropping programme should include a carefully designed sub-component, based on private enterprise, for an appropriately timed supply of planting material in the project.

84. One of the major constraints to livestock development, particularly in remoter areas is the lack of veterinary care. Under some projects, e.g. SBRDP, some para- *veterinarians* have been trained to alleviate this problem, but they are unable to provide their services to farmers owing to opposition from the veterinarians. Recommendation: Better-educated farmers could be given the same training as the para-veterinarian and could be made responsible for providing emergency care for sick animals in their own village. They could charge for this service but could be given a title to which veterinary officers do not object.

85. Environmental concerns were not addressed proactively enough, especially in the early IFAD projects. KOISP is having serious salinity/sodicity problems, yet it was recognised by local scientists as being at risk even before the project was formulated. Similarly, there are early warning signals in the form of falling water tables in areas with high concentrations of agro-wells. Recommendation: An environmental screening and if found necessary a full-scale environmental impact assessment should be insisted on for every future project, especially if it involves irrigation.

86. Forestry and crop-livestock-forestry interactions were neglected as possible innovative interventions for poverty alleviation as well as preservation of the resource base and the environment in all the projects. Recommendation: Future project preparation teams should look closely at possible innovative interventions involving forestry, especially as an essential ingredient of participatory integrated watershed management for improving living standards and providing employment.

87. Fiscal and institutional sustainability issues of project interventions such as research and extension should also be addressed at the design stage. Recommendation: The financing plan should ensure that the government, private sector and/or beneficiary organisations implementing project interventions should bear a progressively increasing share of their incremental recurrent and replacement costs so that at the end of the disbursement period they would be bearing the full cost. In this way, the project activities could continue without coming to an abrupt end when the project closes. Institutions used by the project as service providers, especially for agricultural research and extension, should be those that have responsibility for continuing these service after the project closes.

88. With the liberalisation of markets, input subsidies and floor prices will disappear. Furthermore, agricultural commodity prices in general and rice prices in particular will almost certainly decline while factor prices rise. Sri Lankan farmers will then have to compete on equal terms with farmers of other countries. Recommendation: In future projects it is recommended that only crops in which Sri Lanka has a comparative and competitive advantage using existing technology or new improved technology proposed under the project should be promoted.

## **B. Rural Infrastructure**

89. Most projects are biased towards water sector interventions that could benefit only some of the target groups. Certain interventions were not pro-poor and had little spread effect: large agro-well programmes with 20-30 percent subsidy mainly benefited the well off and household level water supply schemes (rain-water harvesting type) were good programmes for elite capture. Recommendation: Ensure the relevance of infrastructure interventions to respective target groups. The scope, size and nature of such interventions should be flexible and address the needs of all groups.

90. On the other hand, in the context of infrastructure, the “poor household” focus tends to constrain village level options and reduce the prospects of larger gains to the village economy. Recommendation: Future projects should allow for possibilities of infrastructure interventions at the household, group, village, hamlet and watershed levels. As a rule, household-level interventions should be financed through credit-based arrangements rather than grants.

91. Rigidity in infrastructure “menus” clashed with demand led approaches and reduced relevance and potential impact on several target groups. Recommendation: Flexibility could be built in through flexible “Village Development Fund” type programmes demonstrated under some projects. The scope and size of such components may vary, but appropriate criteria may need to be developed to ensure that the benefits reach the poor target groups.

92. Integration of sectoral interventions, in particular those in the water sector and NRM are critical to maximise returns to infrastructure investments. Most infrastructure interventions did not follow an integrated development strategy. Recommendation: Future projects could concentrate resources on fewer people and areas and maintain a higher level of investment thresholds, than those provided in past projects.

93. Beneficiary participation in infrastructure planning has remained weak for most of the infrastructure components. This is largely due to weak commitment of the implementing partners, the scope and nature of interventions, inadequate emphasis on orientation and capacity building of implementers and grass roots organisations (particularly FOs), weak social mobilisation processes and multiplicity of village organisations that weaken the collaborative spirit. Recommendation: Future project implementation must recognise local dynamics and its variations across communities and regions. It must allow minimum time to meaningfully solicit and ensure local support. Projects must also allow reasonable timeframes for physical implementation, ensuring that the schedules are commensurate with local capacities for adequate participation, equity contributions and technical know how.

94. Project planning processes (Annual Work Plan and Budget and others) focused heavily on physical targets. These do not seem to allow for adequate social mobilisation efforts, institutional development and post project sustainability. Unrealistic timeframes and target driven approaches result in weak communities and/or poor infrastructure that is difficult to sustain. Recommendation: Future projects should re-consider the rigid annual work planning and budgeting process that places a high premium on achieving pre-conceived targets over a twelve-month period. At a minimum, within an approved overall budget for the year, the process should allow for course corrections to be made during the year in response to beneficiary perceptions and circumstances and the on-the-ground realities of implementation.

95. The large number of components and partners affected the PMO's capacity to effectively manage projects. Most projects appear to be relying on partner agencies that were typically understaffed and over-worked or had no inclination for participatory development and poverty alleviation. In addition, despite sizeable infrastructure components, most projects do not show a commensurate level of in-house technical capacity to review or guide the project processes in relation to infrastructure. Several projects were adversely affected due to lacking capacities that were further diluted by the draw down from multiple projects operating in the same areas. Recommendation: Given the continuing ambiguities in centre-province controls and the potential impacts on project management, new initiatives may consider improved in-house capacities for technical management. In general, PMOs would benefit from greater flexibility and enhanced powers for guiding and decision making. Household and group level interventions could be implemented directly through the PMOs directly, while technical agencies that are directly controlled by the provinces or the local governments could implement other (and larger) infrastructure projects in the water, road and other sectors. Future projects may also benefit from a better appraisal of the capacity of implementation agencies and a review of other initiatives in the same project areas.

96. Several projects required higher levels of technical capacity and closer supervision than were generally available. The scope of capacity development programmes (in infrastructure areas) remained very small in relation to the project objectives. Most projects equated capacity building with ad hoc HRD or hardware inputs. Random field inspections indicate quality issues in tank rehabilitation and road works, etc. Recommendation: There is a need to view capacity development as a holistic and on-going process. Future projects should consider more credible programmes for capacity building of implementers and village organisations, including a better blend of investments in HRD, systems development (institutional development, policies and procedures), networking as well as systems for resource allocation and/or generation to sustain local requirements.

97. The lesson from SBIRD DP ICOs is that many of the poor were excluded because of their inability to provide the minimal cash contributions. Likewise, a number of water sector projects also showed unrealistic equity requirements, thus forcing compromises during implementation, both in terms of participation and overall quality. Recommendation: Inclusive development may require a more compassionate and rational policy for beneficiary participation, particularly for infrastructure for which large and unrealistic equity shares, in a specified manner or at a specified time may not work.

98. Maintenance and repair of project assets has also remained a major concern on all projects. Appropriate management, technical and financial capacities of the community organisations as well as of the local institutions that is key to sustainable infrastructure has eluded most projects. There is a high likelihood that the planned benefits of various infrastructure interventions may have dropped to unacceptable levels. Recommendation: Future programmes may consider a detailed review of past projects to draw specific lessons, including continued focus on simple, rugged and community friendly designs, a larger focus on the strengthening of local organisations aimed at resource generation and capacity building and continued policy dialogue with the central, provincial and local governments to ensure resource allocations for the required M&R.

### **C. Rural Microfinance**

99. The provision of financial services and beneficiary training programmes for the poor through a participatory approach is a necessary (although not sufficient) condition for assisting them in overcoming poverty and ensuring their benefit from any wider process to promote income growth in rural areas. The well developed level of human resources in rural areas and the positive results gained from the projects that were implemented well, lead to the conclusion that pro poor participatory models for the provision of rural financial services have high potential as a development strategy in Sri Lanka. Recommendation: Projects for the intensified development of pro poor rural financial services should be included in an IFAD Sri Lanka country strategy.

100. The IRDP as the main intervention method embodied significant weaknesses as a vehicle for developing rural financial services. These included weaknesses of a more general nature including a lack of clarity of objectives, insufficient technical bias in supervision arrangements, and the strangulation of project management in rigid frameworks. Not a great deal of responsibility for shortcomings can be placed at the feet of the project managers. They were insufficiently empowered within the management framework to step back from the situation and seek change even in that which they perceived to be over ambitious and impractical. But above all else shortcomings arose through the rate of change in the rural finance sector and the serious lack of sector expertise in projects. Such expertise will be more important in future projects as problems of sustainability are now at the front of the agenda. Recommendation: Future IFAD support for the sector be implemented through projects specifically for the rural financial services sector as opposed to integrated projects.

101. Divergent strategies existed between service providers in respect of village level institutions within IFAD projects, including on the one hand groups exclusively for the poor, and on the other a community wide inclusive approach. This is in the context of a mood of reassessment within government and donors of the emphasis that has been placed on social mobilisation in rural development programmes in Sri Lanka over the last twenty years, and the complex of different organisations and groups that now seek to function in villages. It is beyond the scope of the CPE to reach distinct conclusions on the implications for future strategy of the different approaches taken in the past. Recommendation: It is however recommended that future projects be designed in the context of a matured and well informed village level institutions policy.

102. The IRDP as an intervention method had little positive impact on the NGO service providers and this is an important conclusion in view of the need to improve their efficiency as well as their outreach. Only the Small Farmers and Landless Credit Project showed signs of positive impact in this regard and again better results could have been obtained had there been a more technically orientated approach during supervision and follow-up work. Recommendation: For each service provider a detailed appraisal be made at formulation stage of areas for co-operation to achieve efficiency gains and a flexible system of resourcing be created so these can be exploited under projects. Automation and the integration of accounting and management information systems may be at the forefront in this regard.

103. Projects have had only limited positive impact in areas of clear need for efficiency gain in branch level operations in the formal sector. These areas include but are not limited to an effective role in linkage models, the re-engineering of micro and small enterprise lending techniques, product development, and last not but not least accounting and management information systems up-grading in the context of the exacting requirements of the sector. Recommendation: The need for transformations within the formal banking sector at branch operations level be recognised as necessary at the design stage in future projects, to achieve more depth in the engagement of the sector.

104. Micro, small and medium scale enterprises exist within a continuum and the REAP strategy requires further examination of the opportunities for the design of programmes to promote non-land based opportunities in this continuum. Recommendation: Initiatives promoting non-land based opportunities should be given due consideration in the design of future IFAD strategies, taking consideration of the specialised mandate of IFAD and the possibilities for collaboration with other donors.

105. The sustainability of microfinance institutions cannot in the eyes of beneficiaries be considered separately from their effectiveness, as it is the continuing availability of services that is valued above the specific outputs from such services. Furthermore it is strategies towards sustainability on which the future of microfinance as a development strategy is now balanced. These issues are to be addressed through an AsDB project preparation technical assistance mission to identify key issues in policy and institutions and thereby improve the enabling environment for sustainable operations, with a follow on rural finance sector project to commence in 2003. Recommendation: Future projects should take into consideration the priorities for sustainability in the sector identified through the

forthcoming AsDB assisted Rural Finance Project. Opportunities for a collaborative approach through the piloting, accelerated or intensified implementation of strategies in districts may be the subject of future discussions with AsDB and the Government.

#### **D. Gender Perspectives**

106. Projects with neither a women's component nor village level organisations created through social mobilisation have tended to exclude benefit flows to women and the poor. In such cases benefits, if any, have been incidental, and the absence of village institutions prevented implementers from getting a wider beneficiary perspective, resulting in wrong choice of persons identified for resettlement and excluding the perspectives of the worse off and women in infrastructure choices, training and income generating activities. Recommendation: Future projects intended for poverty alleviation and rural development should invariably be based on supporting village institutions and social capital.

107. There was an enormous increase in women's participation in projects based on social mobilisation, promotion of social capital through the group approach. Though there was no bar to men's participation, in practice, the percentage of women members was almost always above 50 percent, and even going beyond 90 percent in several cases). Even in projects that were otherwise weak in implementation women's groups were the most vibrant and liveliest part, and more women than men accessed credit (though it was low end). Social mobilisation has also been effective in providing enormous visibility and acceptability to women's mobility, desire to control incomes and triggering attitudinal changes among the beneficiaries to better their own lives together with those of their families. Men have largely been supportive of this. Recommendation: Social mobilisation and the group approach should be fully supported and strengthened in future.

108. Projects with a separate women's component have ensured some minimum benefit flows to women but with severely restricted size and scope, in spite of being considered successful and generating greater demand not only within the women's component, but also outside. Recommendation: Separate add-on women's components should be given up. Rather, women's access should be consciously facilitated under every project component, explicitly recognising the Sri Lankan situation of women being already fairly well integrated into the rural economy through their paid and unpaid work.

109. Women were treated as a near homogeneous category of 'supplementary' income earners, in most cases at the low end of economic activities and training. Projects did not take into account the heterogeneity of women's circumstances. There were differing potential and interests among rural women as many, especially among the younger age groups, had 10 to 12 years of schooling. Standardisation at a low level is particularly inapplicable in Sri Lanka where women have had equal access to education for over four decades, schooling is near universal and the economic returns on education are understood. Recommendation: Projects should take a more differentiated approach in respect of women. While a majority may continue to need lower end training and economic activities, increasing numbers should be encouraged to graduate to higher surplus generating work to enable women to earn more for the same time spent.

110. Women (and the poor) have tended to be in low income, low technology activities, with low technology and low skill training inputs. Evaluation reports and discussions in the field revealed that women were also interested in higher margin activities. Recommendation: Projects should respond to women's needs and preferences, recognise the premium on women's time and continuously encourage higher end training and income generation options so as to facilitate a graduation higher incomes for the same time spent. Even when initially low income activities are taken up, wherever women are ready to make a transition, projects should encourage graduation. Supply driven training and economic activities should be totally given up.

111. The training of beneficiaries, support services and staff training form the foundation of capacity building among beneficiaries and project personnel was not always well understood. Training for economic activities tended to be supply driven, limited and stereotyped with little access for women to training in relatively higher technology based activities. The need for business, entrepreneurial and marketing skills was not well understood, goods and services produced by women (and the poor) being sold in limited local markets. Shortages of adequately skilled trainers also hampered training delivery as the numbers of groups and membership increased. Beneficiaries received no inputs under nutrition education. Technical support after training from line departments for income generation was inadequate, suffered from weak institutional arrangements and did not exist for non-farm micro enterprises in spite of growing interest. Staff training also was not strong, many left after training, staff were not trained in discussing and transmitting information on health and nutrition, financing agencies and their credit officers lacked the mindset and skills needed for micro finance. There was no training and capacity building across the board among implementers on gender issues, or even a basic orientation. Recommendation: Human resources development should be the aim of all training effort in the interest of poverty alleviation and rural development. Project staff should be oriented to take a differentiated view of trainees so as to respond to their different education levels, pre-existing skills and interests. While a substantial number of the poor women may continue to need training in traditional activities, projects should combine this with newer inputs even for traditional activities with value addition (e.g., training in boys clothes under tailoring). Projects should increasingly facilitate a transition to higher technology market oriented training which has the potential for higher income generation by providing realistic options to the beneficiaries. The content of training should be completely reoriented from theoretical to practical—the primary aim being to enable starting or strengthening of an enterprise. Training of trainers should be systematic and based on an assessment of arising needs as membership increases take place. Operational convenience and needs of the trainees should be the primary consideration in finalising administrative arrangements (e.g., location and duration). Training in group functioning including accounts and leadership rotation should go hand in hand with training for income generation.

112. There is an absence of knowledge about gender issues among project staff, line departments and bankers even though is a cross cutting issue across project components. IFAD itself has lacked the capacity to bring in mainstreaming of gender perspectives into project cycles from formulation to review. Many factors, quite independent of an understanding of gender issues, have resulted in the enormous women's participation in IFAD funded projects: expediency, convenience, administrative arrangements, women considered more suitable for lower end credit and economic activities, apart from a concern with advancing women's interests. Recommendation: Internal capacity building on gender should be taken up within IFAD without delay. The capacity of local institutions should be built on gender issues, promoting capabilities to carry out gender analysis, design and implement projects and carry out monitoring and evaluation in a gender disaggregated and gender sensitive manner. An explicit gender policy with guidelines on how to respond to the needs of women and men should be built into project design. Building gender orientation is a relatively low cost but critical strategic input (already explicitly recognised by the Government's Framework for Poverty Reduction).

## IV. LESSONS LEARNED AND CHOICES FOR THE FUTURE

### A. Contradictions in Strategy and Implementation

113. As discussed in Chapter 1, the first five projects that IFAD funded in Sri Lanka (1978 – 1985) were designed and implemented under a strategy of convenience: IFAD took the lead from the more established AsDB and the World Bank in its early years, and project objectives did not have a sharp focus on the poor. The subsequent five projects (1988 – 1998) were formulated by IFAD itself and paid considerable attention to objectives and interventions aimed at its target groups. The first eight projects (1978 – 1992) were influenced by the targeting criteria and areas of intervention recommended by the Special Programming Mission of 1979 and modified slightly circa 1990. A thoughtful strategy report was prepared in 1993 (Sri Lanka: Strategy Report, IFAD Report No. 0488-SR) that reviewed the first eight projects, analysed information related to specific groups of poor, and recommended interventions and implementation arrangements in line with its assessment of the needs of the poor.

114. As with some other donor-assisted initiatives, the central point of tension in IFAD strategy arises from the tension between working with the government and working with participatory institutions. This tension is illustrated most comprehensively in the 1993 Strategy Report but is also present in several project design documents and other reports. It has been addressed in practice, to the extent possible, by engaging NGOs and project staff (including social mobilisers) to organise rural communities, introducing participatory planning techniques, giving some responsibility to the beneficiaries and linking beneficiaries to commercial institutions. The lead role in implementation, however, has always remained with a central government agency (in recent projects the Ministry of Plan Implementation).

115. In effect, the tension that is unresolved at the strategic and project design levels is transferred to the operational level, and that is where contradictions give rise to problems during implementation. The evaluation findings reported in earlier chapters confirm that problems may arise in all the ways in which development is pursued, including the way in which projects are designed, interventions and service providers selected, resources co-ordinated, communities organised, activities and results monitored and evaluated, and so on. Some of the more important contradictions that give rise to these problems may be described briefly as follows:

- The objectives, policies, procedures, resources and structure of the government agencies engaged in project implementation are aimed at service delivery rather than empowering the poor. As a result, people's participation is sought for the sake of administrative convenience (mainly for meeting physical and financial targets) rather than for harnessing their potential for poverty alleviation. And, while social capital is generally associated with voluntary association in civil society, in IFAD-assisted projects community organisations are used, in essence, as the lowest tiers of development administration.
- By virtue of its mandate and design, each government agency that is engaged in project implementation is limited to specific sectors and interventions. By definition, therefore, a project consisting of a specified set of agencies can offer only a limited set of interventions to the poor. The needs and sources of livelihood of the poor, on the other hand, represent a far greater range of activities than any one project has been able to address so far. While working with the poor requires a holistic approach, working through the government leads to something considerably less.

- For purposes of budgeting and performance measurement, every agency included in a project requires a target that is defined strictly in terms of its sectoral mandate. Understandably, every agency strives to meet its own target but has no incentive to work in the same set of villages as another agency. Community development, on the other hand, often requires complementarity of effort across sectors in order to develop synergies between one investment and another.

116. Though the CPE in the previous chapters has identified several issues for the attention of IFAD and its partners, the question of balance in working with the government and the people is fundamental in view of IFAD's poverty alleviation focus and project mode of assistance. It is also a more manageable issue for IFAD and its partners than matters of policy on which national debate and consensus may take place over a period of several years. With the experience that is available, from Sri Lanka as well as other relevant countries, it is possible and desirable to make a fresh attempt to resolve some of the basic contradictions observed in the past.

## **B. Matching Institutions with their Comparative Advantage**

117. The point of departure is to recognise the comparative advantage of different types of institutions in addressing poverty alleviation. In specific terms, there are clear differences in the orientation and effect of representative, administrative, commercial and participatory institutions. While no one set of institutions can replace another, the experience is that participatory development (including social mobilisation) is best nurtured and sustained by permanent autonomous support mechanisms, rather than by representative, administrative or commercial institutions. Administrative institutions (including the line agencies) need to be engaged because they are the biggest repository of technical expertise and financial resources, particularly for public goods and services. Commercial institutions (including banks) also need to be engaged in poverty alleviation but they can seldom if ever build and sustain social and physical capital for broad-based development. Representative institutions provide leadership in governance but do not organise households for direct broad-based participation in income generation and social development.

118. This delineation of institutional roles is consistent with the findings and recommendations of this evaluation and the reviews undertaken for it, particularly the following:

- Agencies such as the Ministry of Plan Implementation and the line departments are well suited for service delivery in support of regional development objectives. They are not, however, oriented towards mobilising people for poverty alleviation and linking them to other government organisations, banks and markets.
- NGOs do not have the scale and resources to address poverty alleviation on a large scale or perform the functions required in support of rural microfinance.
- Commercial banks and microfinance institutions need broad-based community outreach in order to sustain operations in support of poverty alleviation.
- Unlike some other countries in South Asia and East Asia, Sri Lanka does not have autonomous support mechanisms that foster broad-based voluntary associations on a national or provincial scale<sup>10</sup>. And, its only large-scale experience with a social investment fund—the Janasaviya Trust Fund—became an international metaphor for mismanagement.

119. Future IFAD projects are likely to be more efficient and more effective, and generate broader and more lasting impact on the poor, if they are guided by rational and realistic expectations of what specific institutions can and cannot do.

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<sup>10</sup> Reference is made to the Saemaul Undong Movement in South Korea, the farmer associations and co-operatives in Taiwan and Japan, and Rural Support Programmes (including the UNDP-assisted South Asia Poverty Alleviation Programme) in Pakistan, Bangladesh, Nepal and Andhra Pradesh (India).

### C. Developing Ownership

120. Organisational change is a top-down process and developing ownership at the highest levels of Government is a pre-requisite for the kind of institutional change that IFAD projects invariably require and will continue to require in the future. Social change, however, is a bottom-up process. The success of IFAD projects is based on both top-down and bottom-up processes, and ownership is required at all levels. It is required at the highest levels of Government because poverty alleviation cannot be undertaken on a large scale without this kind of commitment. It is required at the project management level because IFAD projects are implemented by host country managers. And it is required at the community and household levels because harnessing the potential of the people is vital for all aspects of their development. Developing ownership at different levels requires different approaches, but committed leadership, pro poor institutions and inclusive processes are common features in all cases. The management of the project cycle is the most powerful instrument available to IFAD for developing ownership at all levels.

121. Developing ownership at the highest levels implies that IFAD should include interested central and provincial policy makers in identifying and formulating poverty alleviation initiatives. In order to be responsive to policy makers, IFAD may have to work increasingly (though not exclusively) at the provincial level. The choice among provinces may be based, as in the past, on poverty indicators but should give primacy among poorer provinces to those whose political and administrative leadership can demonstrate a long-term commitment to poverty eradication. IFAD should facilitate policy makers in understanding and demonstrating what such a commitment entails in practical terms for Sri Lanka, particularly in relation to the role of autonomous institutions that cater to social mobilisation, promote holistic development and pursue a professional approach to microfinance. In the process, interested central and provincial policy makers may wish to observe relevant poverty alleviation initiatives in neighbouring countries that have received long-term commitment from policy makers and donors at the highest levels (for example, in Andhra Pradesh, India, and in Nepal and Pakistan).

122. Taking an area-based approach, as in the past, IFAD can offer policy makers a number of concrete options for poverty alleviation in a given area, including the following:

- The establishment of an autonomous support mechanism for mobilising villagers and linking them to public and private sector agencies, including microfinance institutions. (This concept is illustrated below.) Additional IFAD assistance should be focused on the area in which such an entity is established, so that a permanent mechanism for social mobilisation is available for all projects in that area.
- Support for rural microfinance in co-operation with the SEEDS and Central Bank-AsDB initiatives in this sector.
- Multi-sectoral initiatives for regional development, emphasising rural infrastructure, possibly in collaboration with AsDB and WFP.
- A range of single-sector projects, particularly those that focus on the target groups of interest to IFAD (e.g., smallholder tea growers and estate workers).
- Local development (or local trust) funds for facilitating holistic development through a decentralised mechanism. (This idea is introduced below).

123. Having an IFAD presence in the country is an important corollary of the importance of developing ownership. An in-country presence would greatly improve communication with stakeholders in the country, reduce operational delays, facilitate information sharing and co-ordination, and significantly enhance IFAD's participation in policy dialogue. These are some of the more obvious ways of developing greater ownership and the conditions that help projects improve their impact. IFAD should, therefore, consider allocating adequate resources for establishing an effective presence in the country by means of more intensive project supervision and follow-up through programmed technical assistance or ad hoc missions.

#### **D. Autonomous Support Mechanism(s) for Poverty Alleviation**

124. Articulating a common challenge, the Sri Lanka Framework for Poverty Reduction speaks of the need for empowerment activities to shift to a “collaborative” approach to community-led development, one in which alliances would be formed between the poor and those who generate opportunities for development, including local government, the private sector and NGOs. The experience from socially stratified communities is that the alliances into which the poor enter on their own turn out often to be unequal alliances. The poor are more likely to benefit, however, if the alliances they form with politicians, administrators, businesses and others are secured through the involvement of a credible “honest broker” committed to organising the poor, linking them to outsiders and securing their interest.

125. The experience from several countries is that permanent autonomous support mechanisms are needed to further the cause of the rural poor, particularly by fostering local organisations, local leadership and skills and linkages to service providers and policy makers, and protecting the poor from vested interests. This experience has unfolded differently in different settings, the most recent being that of the Rural Support Programmes (RSPs), a term used generically to describe autonomous support mechanisms that are extant in some of the South Asian countries. Unlike social investment funds that are controlled by the government, the RSPs are established with support from the highest levels of government, but their corporate governance is autonomous of the government and the management is strictly professional. The organisation may be established as a private company limited by guarantee. An endowment fund whose income sustains the recurrent costs of the organisation may be contributed by the government and supplemented by donors. Government ownership, autonomy and professionalism facilitate donor support and responsiveness to the community across a wide range of sectors, and the concept has been replicated on a large scale with variations that take account of local circumstances. IFAD and its partners in Sri Lanka may wish to determine the conditions under which it is realistic to expect that one or more (central, provincial or district) autonomous support mechanisms could be established in order to facilitate a holistic approach to poverty alleviation.

#### **E. Towards an Integrated Approach to Service Delivery**

126. The idea of autonomous support mechanisms is one of the essential building blocks that IFAD and its partners should consider with the Framework for Poverty Reduction. What the Framework refers to as a collaborative approach to community development requires, in addition, an approach to service delivery that is integrated not only in name but also at the point of delivery, that is, the village. The experience in Sri Lanka, as in many other developing countries, is that line agencies work within their own vertical chain of command but seldom with other agencies. It is also observed that agencies working with different mandates and objectives seldom work together in the same set of villages.

127. In some innovative cases, particularly in project settings, a co-ordinating function is assigned at each level of operation to or on behalf of an official local entity that funds and focuses only on participatory local development. In addition to ensuring co-ordination at each level through control over the flow of funds, a methodology for co-ordination is agreed with all concerned and responsibilities assigned for important stages of the planning and implementation process. The entity controlling the funds for local development may be supported through a permanent endowment such as the Local Trust Funds observed in Nepal, though extreme care has to be taken to ensure that funds are utilised for the target groups. Planning and implementation is undertaken by organised communities with the technical and financial assistance of relevant agencies. IFAD and its partners in Sri Lanka may wish to determine the conditions under which it is realistic to expect that dedicated local development funds will be committed to local development co-ordinators for facilitating the requisite alliances and a holistic approach to poverty alleviation.

## **F. Towards Improved and More Inclusive Project Cycle Management**

128. Commitment to poverty alleviation, reflected not only in stated objectives but also in pro poor operational policies, procedures, structures and resource allocations, should be the over-riding consideration in selecting implementing partners. This implies that institutional analysis for determining the poverty orientation of possible implementing partners should be an integrated part of project identification and formulation. For developing ownership at the project management level, it is also vital that project formulation, appraisal and approval include the project team designated for implementing the project. This appears to be standard practice in China but has not been possible in Sri Lanka so far. IFAD should insist on this condition in the future, with the expectation that decision makers (such as the Minister and Secretary of Plan Implementation) who are interested in working with IFAD would be supportive.

129. There are additional opportunities for improving upon project cycle management that may be illustrated as follows in relation to project planning and implementation:

130. **Project formulation and appraisal.** The reviewed projects invariably had unrealistic expectations at the time of appraisal that were revised downward at the time of the mid-term review (or subsequently). In many cases, there was little progress during the first two-to-three years as projects went through their recruitment, deployment, procurement and other start-up processes and faced predictable problems. Significant restructuring in mid-course appears to be the norm rather than the exception. While this provided flexibility during implementation, it also suggested weaknesses in planning.

131. Future formulation exercises should engage experienced implementers as resource persons and use project management software (e.g., Microsoft Project) to develop realistic and detailed project management plans, anticipate implementation constraints and propose solutions in advance of implementation. Formulation should also include a capacity assessment of implementing agencies including their poverty orientation, organisational structure and staffing, and a critical review of relevant human resources policies and administrative and financial rules. Implementation arrangements for decentralised project management and integrated work planning at the lowest levels should be agreed with implementers and policy makers. Specific components and interventions, particularly those carrying a subsidy for individuals, should be reviewed critically in terms of their suitability for the poor, the poorest and women and their impact on equity and sustainability. Gender sensitisation training for project personnel (including social mobilisers) should be planned for the implementation stage. A clear exit strategy entailing zero or minimal recurrent cost liability for the Government should be built into project design from the outset. Future interventions in the rural finance sector should be clearly based on a demand led approach and an appreciation of the longer-term needs for the development of the sector as a whole. For each intervention, benefit Monitoring and Evaluation, largely missing in the reviewed projects, should be designed at this stage with a clear focus on identifiable groups of women and poor beneficiaries and mechanisms for regular beneficiary participation.

132. **Implementation.** Staff training and orientation in project management and in accordance with the other requirements for capacity building identified during project design should be the foremost priority for implementation. The project management plan prepared during formulation and appraisal should be updated continuously by project management and changes agreed with IFAD and/or its co-operating institutions in real time, rather than once in a few months. Actions agreed during supervisory and mid-term missions should be duly reflected in updated project management plans and follow-up monitored regularly in line with the best practices for project management. Annual work plans and budgets should be prepared by implementers in consultation with each other. Quarterly and/or monthly work plans of participating agencies, including identification of a common set of villages for as many as possible of the project activities, should be co-ordinated at the Divisional level. The participation of identifiable groups of poor and vulnerable households should be monitored

and reported regularly, with gender dis-aggregation, and their response to specific interventions documented from time to time.