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IMPLEMENTATION COMPLETION REPORT
(PPFI-Q2200 IDA-34690)

ON A

LOAN/CREDIT/GRANT

IN THE AMOUNT OF SDR 1.5 MILLION

TO THE

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

FOR THE

SRI LANKA: DISTANCE LEARNING PROJECT

OCTOBER 25, 2005

CURRENCY EQUIVALENTS

(Exchange Rate Effective September 30th 2005)

Currency Unit	=	Sri Lanka Rupee
SLR 100	=	US$ 1
US$ 1	=	SLR 100

FISCAL YEAR

January 01 December 31

ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy
CEOs	Chief Executive Officers
DeL	Distance E-Learning
FM	Financial Management
GDLN	Global Development Learning Network
GTZ	German Agency for Technical Cooperation
HNS	Hughes Network Systems
HR	Human Resources
ICR	Implementation Completion Report
ICT	Information and Communication Technologies
ICTA	Information Communication Technology Agency
IDA	International Development Association
ISG	Information Solutions Group
IT	Information Technology
JICA	Japan International Cooperation Agency
LIL	Learning and Innovation Loan
MIS	Management Information System
MM	Multimedia
MOUs	Memorandum of Understanding
NGOs	Non-Governmental Organizations
PAD	Project Appraisal Document
PERC	Public Enterprises Reforms Commission
PPF	Project Preparation Facility
PSD	Private Sector Development
QAG	Quality Assurance Group
SLIDA	Sri Lanka Institute of Development Administration
TERI	India DLC
UNAIDS	United Nations for Programme on HIV/AIDS
VC	Video-Conference
VSAT	Very Small Aperture Terminal
WBI	World Bank Institute

Vice President:	Praful C. Patel
Country Director	Peter C. Harrold
Sector Manager	Simon C. Bell
Task Team Leader/Task Manager:	Ismail Radwan

SRI LANKA
Sri Lanka: Distance Learning Project

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Project ID: P069784	*Project Name:* Sri Lanka: Distance Learning Project
Team Leader: Ismail Radwan	*TL Unit:* SASFP
ICR Type: Core ICR	*Report Date: October 25, 2005*

1. Project Data

Name:	Sri Lanka: Distance Learning Project	*L/C/TF Number:*	PPFI-Q2200; IDA-34690
Country/Department:	SRI LANKA	*Region:*	South Asia Regional Office

Sector/subsector: Adult literacy/non-formal education (100%)

Theme: Education for the knowledge economy (P); Technology diffusion (S)

KEY DATES			*Original*	*Revised/Actual*
PCD: 06/15/2000		*Effective:*	03/01/2001	05/11/2001
Appraisal: 10/16/2000		*MTR:*	06/30/2003	10/13/2003
Approval: 03/05/2001		*Closing:*	12/31/2004	06/30/2005

Borrower/Implementing Agency: SOCIALIST DEMOCRATIC REPUBLIC SRI LANKA/DISTANCE LEARNING CENTER LTD.

Other Partners:

STAFF	Current	At Appraisal
Vice President:	Praful C. Patel	Mieko Nishimizu
Country Director:	Peter C. Harrold	Mariana Todorova
Sector Manager:	Simon C. Bell	Marilou Jane D. Uy
Team Leader at ICR:	Ismail Radwan	Naresha Duraiswamy
ICR Primary Author:	Ismail Radwan	

2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome: U

Sustainability: L

Institutional Development Impact: M

Bank Performance: U

Borrower Performance: U

	QAG (if available)	ICR
Quality at Entry:	U	
Project at Risk at Any Time:	Yes	

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:

The development objective was to pilot a distance learning initiative to (a) strengthen the environment for policy reforms and (b) build capacity in the public and private sectors.

The Learning and Innovation Loan (LIL) was undertaken within a context of a draft CAS that was never presented to the board. However, the draft CAS emphasized the importance of policy reform and dialogue. In particular the draft CAS supported efforts to (i) improve fiscal discipline, (ii) promote private sector-led growth, (iii) enhance the institutional and policy framework for increased investment in infrastructure and (iv) address second generation human resources issues. Within such a context the Distance Learning Center (DLC) appeared to offer a promising channel for providing such support.

A later CAS dated March 2003, was focused on peace, growth and equity with capacity building as a cross cutting theme. The project was expected to contribute to capacity strengthening through leveraging information technology for knowledge transfer.

Sri Lanka was, at the time of appraisal, and continues to be a fairly insular and somewhat isolated society that has not been exposed to international best-practice in many areas. Many local decision-makers remain focused on the development and economic paradigms prevalent 30 or 40 years ago. Thus the core objectives were relevant to the development needs of the country. But it was not clear how the DLC would contribute to the broader objectives, especially improving fiscal discipline and increasing investment in infrastructure. Even in the area of public sector training, the project documentation acknowledged that establishing a DLC alone would not be sufficient to successfully address existing challenges.

The project should have been focused on the secondary objective of building capacity in the public and private sectors and providing distance learning opportunities and knowledge sharing events rather than attempting to have a significant impact on the environment for policy reforms. The objectives stated in the PAD were too ambitious regarding the level of impact the DLC and its program of activities could have had. They should have described instead what contribution its program could make to policy reform, i.e. by enabling knowledge exchanges among policy makers and their teams.

3.2 Revised Objective:

The original objectives were not modified during implementation.

3.3 Original Components:

Component 1: Support for the establishment and operation of the DLC Company

Cost: US$3.1 million. The project consisted of a single component which included several activities i.e. (a) selection and relay of distance learning course material; (b) financing the DLC operating costs on a declining basis over the first four years of operations; (c) technical assistance for staff training, a market survey, development of a business plan and a marketing campaign, (d) establishment of financing accounts/annual audits, (e) civil works and (f) purchase, installation and initial maintenance of distance learning technology.

A decision was taken to house the new facility at the Sri Lanka Institute of Development Administration (SLIDA). An additional floor was constructed on an existing building at the SLIDA campus to house the new center. It was also decided that IDA would procure all the equipment on behalf of the client to ensure technical compatibility with the Global Development

Learning Network (GDLN) and economies of scale.

3.4 Revised Components:

The original component was not modified during implementation.

3.5 Quality at Entry:

Quality at entry is rated as **moderately unsatisfactory**. The project objectives were too broad and many of the objectives were not clearly tied to the establishment of a DLC. Moreover given the objective of reforming government policy, the three-year time-frame was far too short.

Other weaknesses at entry included the absence of a strong monitoring and evaluation framework which made it difficult to measure progress and capture key learning. The key indicators used were too broad and very difficult to measure e.g. (i) the number of private sector directors trained, and implementing best practice guidelines on corporate governance and (ii) the number of specific initiatives introduced and that impact on sector reform in designated areas covered by distance learning.

By definition a LIL requires a flexible approach to implementation and results monitoring in order to learn from the implementation experience and make mid-course corrections as required. All these areas were lacking in the project.

A QAG review in October 2004 rated the project as moderately unsatisfactory. The report cites the isolation of the task team from Bank management and the highest levels of government. The task team worked closely with the Ministry of Public Administration but needed Bank management support to bring in a broader buy-in from government and address the change management aspects of such a program.

At the outset, the idea of requiring the DLC to become financially self-sustainable appeared to be a good way of ensuring a demand-driven service-provision. However, in practice, the DLC responded to the need for financial self-sustainability by providing internet-based training programs for the private sector in middle and lower level ICT skills, a training format that is widely available in the private sector. There was little demand for WBI offered courses in Sri Lanka. Moreover, the high prices of video-conference (VC) training put it out of reach for most government civil servants except for those funded by donors. Had the project/DLC assured some base funding from government (for instance a retainer of 20 percent of operating costs), the pressure on the DLC to be self-sustainable would have been reduced. This would also have reduced the time and resources required for marketing and would have allowed the DLC to devote more time to providing a solid course of training for government civil servants and advancing the development agenda. It would have also served to increase interest from the Treasury in the DLC operations.

More positive was the establishment of the DLC as an autonomous company. The Bank team ensured its independence from the Sri Lanka Institute of Development Administration (SLIDA) and insisted on a subsidiary loan agreement to give the DLC increased procurement flexibility. This allowed the company to hire staff from the private sector and adopt a somewhat more flexible management practice (although as a wholly-owned public company there were always limits to its operations). This allowed the DLC to hire an excellent training coordinator who provided continuity to the Company throughout a period in which the CEO position experienced high turnover. However, despite its independence the original and subsequent business plans developed by the DLC were weak.

The decision to undertake civil works to house the new facility created additional challenges for the project in terms of additional supervision expertise required and resulted in almost one year delay in getting started. The project became effective in May 2001 but DLC operations did not start until March 2002.

At entry, the PAD identified the following risks: (i) significant costs, (ii) supply-driven training, (iii) revenue deficiencies, (iv) weak management and (v) lack of familiarity with the technology. Almost all of these risks came to pass during the implementation, and unfortunately the remedies suggested in the PAD were not able to resolve these issues. The PAD suggested that DLC operating shortfalls would be covered by private sector shareholders despite the fact that there were no private sector shareholders, only private sector representation on the DLC board. Despite the generous initial funding from the Bank, the project did not manage to get the government to allocate part of its training budget for the program. Furthermore the government budget would not have been able to cover the costs of a major training program delivered by videoconference. The management of the DLC was hampered by a frequent turnover of CEOs (four in as many years); there appears to have been insufficient incentives to attract and retain good CEOs. Moreover several staff including some of the CEOs were recruited from the public sector and the task team had little say over their selection. The task team could have pushed for a place on the DLC board, at least at observer status to oversee these issues.

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:

The primary objective of the project to pilot a distance learning initiative is considered **satisfactory**. The project successfully established the Distance Learning Center (DLC) Company in Sri Lanka to increase local access to global knowledge using state-of-the-art communications technology. Since commencing its operations on March 26, 2002, the DLC has offered a series of distance learning courses to a large number of public and private sector participants, including many senior officials. Several NGOs have also used the DLC facilities. The number of participants rose from approximately 616 in 2002 to 2,348 in 2004; representing a 400% increase. The DLC is currently running its Internet based/Multimedia (MM) facilities at full capacity and has considerably improved demand for its Video Conference (VC) services (see Table 2, Annex 2). The DLC's outreach to a wider client base is also progressing satisfactorily, with a total of 240 public and private institutions and NGOs using the facility in 2004.

In addition to its distance learning mandate, the DLC also successfully pioneered the use of VC technology to facilitate public and private transactions. For instance, the Public Enterprises Reforms Commission (PERC) used the DLC facilities to identify the third international player in the domestic petroleum market while Fitch Ratings relied on its facilities to rate a company in Sri Lanka. PricewaterhouseCoopers, JICA, GTZ, the Canadian High Commission, the Sri Lanka Institute of Standards, the Ceylon Chamber of Commerce, and the Ministry of Education have also used the DLC services. With expiration of the Multi Fiber Agreement, several garment factories have approached the DLC in order to better market their products to a North American audience.

Sustainability: The sustainability of the DLC is **likely**. Although the DLC was successful in delivering a broad range of services to a wide range of clients over the first 3½ years, it was not able to break-even during the project implementation period (see Table 4, Annex 2). However, the DLC has managed to rapidly increase its cost-recovery ratio from 20 percent in 2002 to close to 70 percent in 2004. There are indications that the DLC will be close to operational break-even in 2005.

The DLC's financial performance was weakened in 2004 when it sought to partner with the Information Communication Technology Agency (ICTA), the implementing agency of the IDA funded e-Sri Lanka project. ICTA sought a partnership arrangement with the DLC to: i) provide technical assistance to the regional Distance E-Learning (DeL) centers, ii) act as a hub for network management, and iii) help develop training plans and conduct training programs for the DeL centers. To meet the ICTA requirements, and at the recommendation of the Bank, the DLC purchased a bridge and increased their Bandwidth from 384kbps to 768kbps, effectively doubling the connectivity costs for the DLC. Due to various delays this arrangement is still under negotiation. In the meantime the DLC has cut its Bandwidth back to 384kbps in early 2005, but nonetheless the significant connectivity costs were incurred during the period.

The PAD estimated that the DLC would reach 100% financial sustainability in its 4th year of operations. The DLC's financial performance during the first six months of 2005 shows that the DLC may not be able to fully cover its operating expenses by year end. However, the DLC has already undertaken various cost-cutting measures and there is a possibility that the satellite connectivity prices could be substantially reduced in the coming months by moving to a local service provider.

It is expected that these efforts will substantially reduce the financial loss expected in 2005, but not eliminate it entirely. In addition to covering its operating costs, the DLC will also have to cover the costs of a Subsidiary Loan Agreement signed during project implementation which casts doubt its long-term viability (see below).

4.2 Outputs by components:

The performance of the project's single component; support for the establishment and operation of DLC Company, is rated as **moderately satisfactory**. A Project Preparation Facility (PPF) of US$100,000 was approved in April 4, 2000 to start project preparation activities including the construction of the DLC building, establishment of the DLC Company, and preparation of a business plan and course curricula in relevant subjects. The DLC Company (a public-private partnership) was incorporated on September 11th, 2000 under the Companies Act of 1982 to manage and implement the project. The Company faced a number of challenges at the start of the project, including incurring a delay of more that eight months in construction of the DLC building when the original contractor defaulted and the department of building was forced to take over the work. Recruiting qualified staff especially the Project Director and Accountant, and forming an effective Board to oversee the implementation of the project, and timely furnishing of the DLC were also challenging. The project overcame these challenges with the support of the World Bank team and commitment of the Government.

In the first few months of its operations, the DLC Company primarily relied on the World Bank Institute (WBI) for course content. Later, with IDA's support, it increasingly diversified its content providers to include; the University of Southern Queensland in Australia, UNAIDS in Geneva, PADECO in Japan, Tokyo Development Learning Center, Asian Institute of Management of Philippines, Islamic Development Bank in Jeddah, TERI in India, Ghana Institute of Management, and other reputable learning institutes worldwide. Through these institutions, the DLC prepared high-quality training programs which attracted participants from a broad range of public and private sector organizations and NGOs.

Partnership approach: The DLC was established within the context of a partnership with the fledgling Global Development Learning Network. To extend its relationships with other partners and tap into new markets, the DLC Company signed MOUs with the Global Development Learning Network; Sri Lanka Institute of Development Administration; Ceylon Chamber of Commerce; and Open University of Sri Lanka. There was a plan form a partnership with ICTA of Sri Lanka, and with several public sector institutions including Ministry of Finance & Planning (Inland Revenue, Customs); Ministry of Foreign Affairs; Ministry of Education; Ministry of Health Care & Nutrition Uva Wellassa Development; and Ministry of Trade Commerce & Consumer Affairs. The latter partnerships had however not materialized before the project closing, though some of these may be concluded in the near future. There have also been short-term partnerships on a case-by-case basis for conducting joint programs with various institutions, such as the Board of Investment.

Staffing difficulties: The DLC encountered extensive difficulties with respect to the posts of Project Director and Accountant, two critical positions for the management of the project and the Company. It appears that their salaries were not sufficient to attract and retain talented professionals. The Company had four Project Directors and four Accountants within a 4-year period. This significantly impacted the project's implementation performance by continually disrupting marketing operations and execution of the overall business strategy.

Business planning: The business plans consistently aimed at achieving financial sustainability and outlined potential programs to achieve this objective. However, the market demand and customer segmentations were weak and the business strategy did not adequately capture the market dynamics nor was it able to provide a more demand-driven approach. The value proposition for DLC services vis-à-vis the alternatives was not clearly formulated or articulated. The plans also suffered from being prepared by external consultants without sufficient consultation with key DLC staff, including the accountant, IT specialists, and the business development officer. Often the staff was not well sufficiently aware of the business plan nor their role in its implementation.

Marketing: The DLC was successful in marketing the offerings from program providers and they were delivered with high enrollments. The DLC was much more successful in marketing the multimedia facilities to the private sector, efforts that resulted in almost 100% utilization. The marketing efforts to promote the videoconferencing facilities themselves were less successful, due in large part to the project's underestimation of how difficult it was to sell the concept of distance learning to new clients and the cost of the facilities, offered in a market with limited purchasing power. In large part, the DLC has not yet realized its full potential as a development-enabling institution due in part to the lack of an authorizing environment which undermined its credibility with potential clients.

Financial irregularities: In September 2004, the CEO and the Accountant of the DLC were asked by the DLC's Board to resign following the detection of financial management irregularities. The DLC Board appointed an independent investigator to carry out a detailed enquiry of all transactions dating back to 2002. The investigation was finalized in November 2004 and shared with IDA in early March 2005. The report highlighted improper cash handling procedures and delays in depositing cash received from participants, however, it showed no evidence of misuse or loss of IDA funds. Six months later, financial management practices at the DLC remain weak and the Bank has moved to help recruit a consultant to strengthen this area (see section 10).

Board performance: A Board of Directors, consisting of public and private sector representatives, was constituted in February, 2001 to define corporate policy, oversee management, approve the annual business plan, assess financial statements and ensure that the DLC is financially self sustaining. Daily management of the Company was entrusted to a Chief Executive Officer. The Board was committed and worked hard to make the DLC a success in Sri Lanka. The Board members also provided continuity through to late 2004, when the Chairman of the Board and one of the members (both from the private sector) resigned from the Board for personal reasons. This, coupled with departure of CEO and Accountant, substantially slowed project activities and monitoring in 2004 and the first six months of 2005. Due to the frequent staff turnover at key management and control positions, the lack of training on DLC's financial management system, and the lack of documented processes and procedures, the center did not keep proper, detailed, and consistent records of its operations and training activities. Some data was collected by the training coordinator independently, which may not be consistent with data logged into the accounting software (Quick Books) which was used differently by the various accountants.

Comparison with other DLCs

The evaluation of the performance of the Sri Lanka DLC must be viewed, in part, in the context of the GDLN initiative as a whole, and in comparison to other Centers around the world. On comparative performance indicators, the only reliable figures are those for videoconferencing utilization, which are based on the number of hours in the scheduling system at the Bank. The comparisons are based on Financial Year 2005 figures.

Among all 74 Centers in the network, the average utilization rate was 12.43% compared to 25.28% for Sri Lanka. While this seems to be a very favorable figure for Sri Lanka it is not a realistic comparison. Many of the affiliates in GDLN are what could be termed "part-time" centers, i.e., only a part of their business is the GDLN program. A more realistic comparison would be to compare the DLC performance to those centers that were funded by Bank credits, notably those in Africa. The average for the six African Centers that were funded by Bank loans was 27% utilization, slightly higher than Sri Lanka.

However this small difference in performance must be put in the perspective of the varying support that centers in different regions received from the Bank. The majority of WBI activities were aimed at Anglophone Africa Centers (Ghana 24%, Ethiopia 15.5%, Tanzania 31% and Uganda 24%), while, for Francophone Africa, WBI employed a person in the Paris office whose sole function was to business development among potential French providers to those centers (Cote d'Ivoire 25%, Senegal 40%, Mauritania 21%, Benin 28% (when operational)). Having four centers in the Africa Region provided a critical mass in terms of cost effectiveness for providers, i.e., providing one course to four centers. Finally, all of the Francophone Centers had the same CEO from the beginning of the project. They also had the opportunity to participate in the two initial training courses offered in India and Washington for new Managers of DLCs.

In comparison, the South Asia region of the Bank was the only region that did not, until recently, have a GDLN coordinator to support the business development of the centers. Having only three centers, in very different socio-economic settings (Afghanistan, India, and Sri Lanka) there was no critical mass to act as an incentive for a provider to deliver courses in a cost effective manner. The number of WBI course delivered to the South Asia Region was much smaller than that to Africa. Given the above circumstances and comparisons with other centers, the utilization rates for the Sri Lanka DLC, 25% for VC and 98% for multimedia in FY '05 are commendable.

Conclusion: The project successfully created and equipped the DLC. The center provided high quality training and managed to increase its utilization despite numerous challenges. Responding to market demand, the center expanded its internet-based and multi-media training to its maximum potential. The VC facilities remain under utilized. The company has a good chance of reaching its operational break-even point next year, although this has not been achieved during the project lifetime.

4.3 Net Present Value/Economic rate of return:
The DLC is able to offer high-quality training and knowledge-sharing sessions at a lower cost than sending participants on comparable programs overseas or flying-in instructors from abroad. The project proved to be cost effective for the target market and comparable programs and facilities, (see Annex 3 for more details). With increasing capacity utilization, the unit cost of training programs delivered by DLC will continue to decline, making the center even more cost effective over time as the overheads are spread across a wider revenue base.

As foreseen in the PAD, the programs delivered by the DLC are, however, more costly than some technical computer training courses offered in local training institutions, mostly conducted face to face. However, the DLC was not designed to compete in this market segment and should instead be focused on providing access to information that is not readily available locally and that supports national development objectives.

4.4 Financial rate of return:
During its 3½ years of operation the DLC achieved a financial coverage (revenues, less operating

costs excluding depreciation) of 23% in the 9 months of 2002, 44% in 2003, 68% in 2004, and 42% in the first 6 months of 2005. This is compared to the PAD projections of 42% in 2002, 63% in 2003, 91% in 2004. The DLC was projected to breakeven in its fourth year of operation with 50 percent capacity utilization. The DLC currently projects it will cover its operating costs in 2005, but some key long-term expenses need to be considered. There is no current plan for the replacement of the VC and multimedia equipment, much of which has a life-span of around five years due to technical obsolescence.

The Subsidiary Loan Agreement signed between the Ministry of Finance and the DLC Company on April 29, 2003 requires the Company to reimburse 50% of the total investment of US$3.0 million (i.e. US$ 2.0 million from IDA and US$1.0 million for the Government) within a 10-year period from January 2010 at an interest of 1% on the outstanding debt balance. This implies that the DLC Company will need to pay back US$150,000 each year starting January 2010 in addition to the interest. While the DLC Company's financial performance is improving, the Company will have to market its services more aggressively to raise sufficient revenue, meet its average annual expenses, replenish its equipment, and repay its debt. While this might be achievable over the next five years, the DLC Company will nonetheless need to be cognizant of certain constraints. The DLC Company has space constraints vis-à-vis its internet/multimedia programs given the current 99% capacity utilization. It needs to increase its emphasis on its videoconference facility and try innovative approaches to increase its income from this segment.

This brief financial analysis indicates that there are three basic hurdles that DLC must overcome to become fully financially sustainable; (i) cover its operating costs, (ii) cover its operating costs and provide a surplus that covers the cost of depreciated equipment and (iii) fulfill both items (i) and (ii) and generate a sufficient surplus to successfully service the subsidiary loan agreement. Currently the DLC does not meet the first criterion. (see Annex 2).

4.5 Institutional development impact:

The institutional development impact of the project is **modest**. The project was highly successful in introducing and piloting emerging interactive multi-media, internet-based, and video conference techniques of training programs in Sri Lanka. The "public-private partnership" arrangement to manage and operate the DLC proved to be successful and helped to raise awareness of this state-of-the-art technique for program delivery among a wide range of local institutions and stakeholders as well as the NGO community. The DLC established partnerships with a number of important local institutions and influential universities; more partnerships are planned for the future.

In addition, being a partner in the GDLN helped the Sri Lanka DLC to connect to many reputable and leading regional and global training institutions and universities and take advantage of the distance learning network to develop and deliver knowledge sharing and learning activities, beyond its own boarders.

The project did not manage to realize enough ownership and buy-in by key actors in the government to make it more successful. Despite high expectations and government attention at the beginning this level of interest was not sustained throughout the project lifetime.

Constant changes in management and a lower than expected supply of content from providers along with weak marketing meant that the DLC was not able to attract more than 2,348 participants in any year of its operation as against targets in the PAD of attracting more than 5,000 in the first year rising up to 10,425 in the fourth year of operation. This limited outreach has hindered the DLC's institutional impact as a development instrument.

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

The Sri Lanka DLC was the first in the South Asia Region for some time before the Afghanistan DLC was established in 2003. Not having many GDLN partners in the South Asia Region, on the one hand created challenges for the DLC to interact with centers outside the region, but on the other hand it provided an opportunity for the center to go beyond the South Asia Region and interact at the global level.

5.2 Factors generally subject to government control:

Ownership: Although there were high expectations and interest at the time of the project launch, this interest was not sustained throughout the implementation period. The task team worked well with the Ministry of Public Administration, but were not able to catalyze wider support for the DLC from key ministries and institutions such as the Ministry of Finance or the Central Bank.

Staffing: Repeated changes of the DLC CEO resulted in a loss of continuity and direction for the DLC. Government and Bank officials should have spent more time reviewing the pay and incentive package for the CEO of the DLC to ensure that it could attract the appropriate skills and provide a strong incentive framework for generating satisfactory performance.

5.3 Factors generally subject to implementing agency control:

Role of the DLC Board: Due to inexperienced management and a lack of decision-taking culture, many basic decisions were passed onto the DLC board for resolution. With a focus on operational and day-to-day management issues, the Board did not function well as an oversight body; it was not well informed on the major strategic choices. Despite this "hands-on" approach, without an audit or HR committee the board was not able to influence recruitment nor was it able to prevent the financial irregularities that occurred during project implementation.

Marketing Activities: Using video-conferencing technology to provide distance learning is a new field for Sri Lanka. Making this segment successful was always going to be the most challenging area for the DLC. Visits to donors, academics, and NGOs in Colombo as part of the ICR mission revealed that several of the potential stakeholders were not aware of the facilities available and the existence of the DLC itself. The DLC could have made more use of the board members and their public and private sector contacts to market its facilities in a targeted manner.

5.4 Costs and financing:

Total financing for the project amounted to US$3.14 million, of which IDA provided 2.01 million on standard IDA terms. Due to currency fluctuations during the life of the project, the total amount allocated to the project in US dollars increased slightly to US$2.31 million of which US$2.26 million was disbursed as of October 30th 2005. An amount of US$47,272 or less than 2 percent of the credit amount remained undisbursed.

6. Sustainability

6.1 Rationale for sustainability rating:

The longer term sustainability of the DLC is **likely** for the following reasons:

Cost-cutting: On the cost side, the DLC has implemented significant cost-cutting measures. There is no further room to reduce personnel costs, however, the Company may be able to reduce its connectivity costs and a test of an alternative and much cheaper, locally-provided solution was scheduled shortly after the ICR mission in October 2005.

Government support: On the demand side, more could still be done to improve the Company's operations. Firstly the Company could make an effort to ensure a measure of continued government support. As an integral part of government's own training strategy, the Company warrants support from government either by way of an annual retainer or a guaranteed volume of distance training courses to be provided by the center. There is a large element of "public good" in the establishment of such a training institute and government should recognize this with an explicit subsidy.

ICT training: One potential initiative that could ensure the DLC's survival in the medium term is the potential partnership with ICTA. ICTA is undertaking a large program to train 650 government civil servants as ICT change mangers. The training required ranges from basic ICT literacy and awareness to high-level business process re-engineering and strategic management. Much of this program could be delivered through the DLC.

Partnership with ICTA: Furthermore, ICTA has established four regional Distance E-Learning (DeL) centers around the country with the objective of being able to provide distance learning opportunities through the regions. The DLC Company could play a key role in providing hub services for the DeL network management and content scheduling. This initiative has the potential to provide a core load of business and revenue for the DLC and provide the Company with the opportunity to expand its operations in the future, help establish regional links. Negotiations on this possibility were ongoing at the time of the ICR mission and looked likely to succeed.

6.2 Transition arrangement to regular operations:

The DLC experienced a seamless transition to regular operations following the end of Bank support to the project. The ICR mission was a useful exercise that added a lot of value to the DLC operations by way of (i) convening a stakeholder workshop to market the DLC facilities and gather feedback from previous participants which will be used to improve DLC operations, (ii) a thorough evaluation and strengthening of the financial management of the DLC (see section 10), (iii) comments on the business plan and future strategy of the Company and (iv) mediating the potential partnership agreement between the DLC and the ICTA both of which are/were Bank funded initiatives.

It is clear that the successful future of the DLC depends on its ability to fulfill three major functions: (i) continue providing good quality internet-based and other training for the private sector, (ii) become a national hub for distance learning networks within Sri Lanka including the

ICTA funded DeL centers and the LEARN network and (iii) secure its status as a premier location for government training and knowledge-sharing events.

One issue, concerning the transition arrangements, that remained outstanding at the time of writing is the connectivity arrangement. As with all of the GDLN centers that were funded by Bank credits, the arrangement for connectivity was through a VSAT link, operating at 384 Kbps to the Bank's Global Communications system on Intelsat satellites. The connectivity for each center was made under the same contract with Intelsat that the Bank had signed. The maintenance of the earth terminal equipment was also through the Bank's contract with Hughes Network Systems (HNS). While each center was responsible for paying for its bandwidth and maintenance, the ultimate responsibility, in the case of default on payments, lay with the Bank. This arrangement was declared unacceptable by a recent Bank audit, and the Centers have to make their own contracts with Intelsat and EMC or with other providers. (HNS was not willing to enter into individual contracts with Centers).

It has been agreed between ISG and the Regional VPs concerned that a six month period would be allowed to give the Centers a chance to weigh the options. A Technology Assessment, funded by the Bank, on alternative connectivity, bridging, and maintenance services is being carried out by external consultants. Their final report is nearing completion, but there are early indications that alternative providers of all of these services may be available at competitive rates.

During the last days of the project implementation period, the DLC submitted a request for project funding to cover an additional two-years of connectivity under the Intelsat arrangement. This request has been rejected by the Bank.

7. Bank and Borrower Performance

Bank

7.1 Lending:

The Bank's lending performance is rated **moderately unsatisfactory** for two major reasons.

Firstly, there was little reason to structure the DLC as a stand-alone Bank project with all the associated overheads. Management's choice of a LIL was inappropriate as there was no possibility of scale-up or replicability and several other centers were being started at this time around the world. The project could have been financed as a component of another project or rolled into a technical assistance project as was done successfully in some other countries. Although the Bank preparation team did a good job of putting together the project, supported government in selecting the site and preparing the ground through a PPF, this type of support could have been procured locally by government at much lower cost.

Secondly, the Bank's decision to procure the technical equipment for the DLC centrally by IDA, through a sole source contract was unjustified. The equipment required by the DLC included VSAT connectivity, videoconferencing system, microprocessor equipment, and computers. The rationale given in the PAD for this decision to procure the equipment centrally was to ensure technical compatibility with the GDLN and economies of scale. However, the economies of scale were not evidenced in the prices of the equipment procured and the compatibility could have been specified in a tender process. Unfortunately the decision to follow this route has cast doubt on the Bank's institutional integrity and made it extremely difficult to promote best practice IT procurements for other Bank projects.

7.2 Supervision:

The Bank's supervision performance was **moderately satisfactory.**

The Bank's task manager was based Colombo and this allowed him to provide real-time advice and guidance to the project counterparts. The Bank's supervision team identified issues and problems during mission visits –for instance the delays in construction that led to the project being rated as a problem project in late 2001, or the financial irregularities that led to the CEO and the accountant resigning.

Over the implementation period, the supervision team also highlighted several issues that have yet to be addressed by DLC management e.g. (i) Marketing their services to the donor community, (ii) the need to prepare a strong business plan, (iii) the need to examine cheaper sources of connectivity and (iv) the need to diversify from WBI provided courses.

The team reflected these major challenges to project implementation, in their aide-mémoires but these issues were not given enough attention by Bank management nor, during the early years, were they communicated to the DLC board.

The Bank could have made more effort to engage a broader set of government stakeholders in a dialogue to improve ownership and implementation performance and learn lessons from this LIL. The team could also have brought in more support to help DLC develop a strong business plan in addition to flagging the weaknesses of successive plans.

The QAG report highlighted that Bank management should have paid more attention to the Task Team. However, it should be noted that the QAG review team did not request a meeting with management nor did they debrief management at the end of the review and their final report was not accepted by management. The QAG team suggested that management could have supported the task team through extensive debriefings to identify changes in the project and respond flexibly to the situation as it evolved. This was especially necessary given the context of a relatively inexperienced team, with little knowledge of distance education or ICT related issues, that required mentoring and support. Given these shortcomings the supervision performance falls short of fully satisfactory.

7.3 Overall Bank performance:

Overall the Bank's performance is rated as **moderately unsatisfactory**.

Borrower

7.4 Preparation:

Borrower performance during preparation was **moderately satisfactory**. The government was fully engaged in the preparation stages, with the initial request for the facility coming directly from the President herself. A location was quickly selected in consultation with the Bank and the government made efforts to construct and equip the required site. However, closer supervision of the construction could have reduced the construction delays. Government also missed the chance for a grand opening ceremony that could have highlighted the facility and its possible uses to a broad audience. Instead the center was launched with little fanfare with a WBI sponsored course in March 2002.

7.5 Government implementation performance:

On the whole, government performance has been **moderately unsatisfactory**. Government provided all the counterpart funding that was required. Government put in place the DLC board and reappointed the members to include more private sector representatives as recommended by IDA.

During the preparation phase there was high visibility from the government side especially the Ministry of Finance. However, this evaporated quickly during the implementation stage for a number of reasons; (i) limited Bank management attention, (ii) limited engagement by Bank management and (iii) high pricing of DLC training which limited its use by the public sector.

The DLC suffered from benign neglect as it was set up as a company and did not clearly report to any ministry although nominally it came under the Ministry of Public Administration. Furthermore there was little government action outside the DLC to upgrade civil service training and coordinate public sector demand for the DLC's services. This problem continues to hamper DLC services. For instance, the Company has negotiated with Australian universities to offer master's degrees in areas such as ICT through distance learning but the Ministry of Education has not responded favorably on the grounds that there is local expertise available. Without the power to issue certificates, the training itself is far less valuable.

7.6 Implementing Agency:

The DLC's performance was **moderately satisfactory**. The Company was successful in introducing distance learning techniques to Sri Lanka. It carefully managed to grow both its VC and multimedia facilities and move gradually towards financial sustainability. Its performance was hampered by constant changes at the CEO level which is perhaps a consequence of inadequate remuneration. The training coordinator did an excellent job in maintaining continuity and in executing the Company's day-to-day operations. However, the DLC remained weak in key business skills such as strategic planning, marketing and financial management. Despite the exposure of financial irregularities in 2004, financial management arrangements remain unsatisfactory. And the DLC has not yet managed to meet its performance targets in terms of utilization or sustainability.

7.7 Overall Borrower performance:

Overall the Borrower's performance is rated as **moderately unsatisfactory**.

8. Lessons Learned

Public good: There is an inherent tension between the financial sustainability and the capacity development objectives of this and other DLC projects. This project was task-managed from the Bank's Private Sector Development (PSD) unit and as such received a strong emphasis on (i) including private sector training in the DLC's remit and (ii) ensuring financial sustainability. Although there is a large public good element to this type of training there was no attempt to secure an explicit ongoing government subsidy in the program beyond the counterpart funds required during the project implementation. This goes against the Bank's own internal culture where the World Bank Institute is almost entirely subsidized by the Bank as an indication of the value that the Bank puts on knowledge sharing activities. In pursuing the sustainability objective, there was pressure to increase capacity and raise revenues by focusing on internet based training programs for the private sector and supply driven courses offered and funded by WBI.

Managing relationships: From the beginning the relationship between the DLC and SLIDA was problematic. The decision to base the DLC within the SLIDA premises compounded the influence that SLIDA had on the new organization. At first the DLC benefited from this oversight and the ability to use the SLIDA tender board to take the main procurement decisions. There appeared to be synergies to be captured by having the SLIDA faculty in the same location. However, these synergies did not materialize. Despite funding and constructing their own facilities, SLIDA imposed a market rent on the DLC.

Target markets: To some extent there was a gap between what the DLC was offering and what the civil service could afford from its own budget which led to low demand from the traditional government training departments. The reasons for low demand included; (i) low training budgets (limited at 2% of a civil servant's salary), (ii) availability of more traditional programs at lower cost, (ii) fear of technology and lack of computer literacy, (iii) language barrier (see below), (iv) absence of short certificate programs. The task team, and to some extent the DLC, realized that multi-lateral and bi-lateral donor funded projects were the major market segment that had both the demand and the funds to pay for the kinds of activities the DLC could provide but they were not able to adequately exploit this market and the problems identified above are yet to be overcome.

Reliance on WBI/GDLN: A heavy reliance on WBI provided courses, especially at the beginning of operations, hindered the effective use of the DLC as it produced the following difficulties; (i) lack of courses suitable to meet local demand, (ii) inappropriate times when the courses were relayed from Washington, (iii) high interconnection charges for going through Washington. The relationship with WBI also developed a dependency culture of "waiting" for offerings from international providers. This was not totally the fault of the DLC, but was largely due to the expectations that it received from some Bank sources.

Sustainability: From the beginning, the Sri Lanka DLC was geared towards covering its operational costs. However, there was no plan to cover the costs of equipment renewal and there was no "plan B" what to do in the case that the facility was not able to cover its costs. Therefore, now that Bank funding to the DLC has ceased, its future remains uncertain.

Pricing: Almost all stakeholders of the DLC complain that the price for a VC session at Rs20,000 (US$200) is extremely high and limits usage of the DLC facilities. DLC's practice of including a room change and a VC charge discourages all but the largest of private sector firms in Sri Lanka – many of which already have or are considering operating their own VC facilities in-house. Until recently, little attention was paid to pricing or the structuring of packages for the DLC facilities based on volume discounts or off-peak utilization. Several stakeholders prefer the hotels' approach to offering the meeting room for free and charging only for connectivity and catering. However, DLC has now introduced a discounted package for local users as follows; connecting to SAARC countries 50%, Asia 45%, Asia pacific 20% and the rest of the world 30%. The DLC's standard rate of US$200 is inclusive of connectivity and room charges.

Alternative Designs: Recently, private sector companies have been embarking on offering local and regional training courses. Often these courses are being run from major hotels in the Colombo area. It is reported that the hotels are cheaper than the DLC, that they offer a higher standard of catering and that they have facilities that the DLC cannot offer e.g. break out rooms, and a large conferencing facility to cater for 100 or more participants (with additional seating the DLC has catered for upto 90 participants). However, the DLC has moved to improve catering and now offers outsourced catering options from local hotels. At entry, the project designs included capacity for break out rooms and this was subsequently dropped, however, combining the DLC with a larger conferencing facility was not considered feasible from the start. However, the lobby area can provide for break out rooms.

Project Development Objective: In the context of the GDLN, in view of the pilot nature of the DLC, and most importantly the instrument used to finance the project (LIL), the stated objectives of the project should simply have been the introduction of emerging state-of-the-art technology to deliver high quality training programs and facilitate knowledge sharing among the countries, with the aim of contributing to the capacity of decision makers and their teams. The stated development objectives; namely strengthening of the environment for policy reform and capacity building in the public and private sector were rather ambitious for a US$3.0 million pilot project and did not materialize within the life of the project. These objectives were beyond the scope and capacity of a LIL. Moreover, the project outcomes were constrained to some extent by being part of a global initiative in which the World Bank itself was learning.

Civil Works: Including civil work in the Sri Lanka DLC project delayed the actual implementation by over eight months. Given the duration of the project (4 years), nature of the project activities (procurement and installation of heavy IT facilities), expected performance outcomes and outputs, and required initial investment in administration and management of the DCL center, the project should have avoided the civil works and attempted to occupy an existing facility. This approach resulted in significant delays and diverted attention needlessly from the project objectives.

Project management quality: Management and administration capacity is critical for the success of a project of this nature. The DLC Company (a public private partnership) was established and mandated to manage the DLC in line with commercial practice. However, it suffered from lack of strong leadership for its day-to-day management and administration. Frequent turnover of two critical posts (Project Director/CEO and Accountant) significantly affected the project performance. The project management on the Bank side was handled by the Colombo office and it proved to be helpful to have staff close by for continuous collaboration. However, the project did not receive sufficient attention from Bank management.

Management Systems: A Management Information System (MIS) and good accounting practices are critical for the DLC to effectively monitor its operational and financial performance. These tools are also important for business planning and marketing exercises. The chart of accounts in use bears little resemblance to the DLC business model- as a result the system does not support informed decision making. The DLC did not systematically collect and analyze data on their operations (VC and MM programs), the course evaluation, capacity utilization, and other indicators and ensure that all payments due were collected. While some data was collected, the reporting format and consistency of the data was weak. Despite repeated recommendations from the World Bank supervision missions, and at times, even technical assistance from the team, this monitoring and evaluation aspect of the project was not improved.

Given the objective of the project to introduce an emerging method of delivery of the training program using modern information communication technology in the country, the issue of immediate financial sustainability, cost effectiveness, and using cost per student per day as an indicator to measure comparative costs should be re-examined.

9. Partner Comments

(a) Borrower/implementing agency:

The borrower submitted its report on October 14th 2005. It is attached in Annex 8. The current CEO of the DLC is the main author of the report. The report raises the issues of (i) high pricing of DLC offerings compared to purchasing power of the local market, (ii) the name of the DLC putting off higher level executives as "distance learning" is usually associated with students, (iii) the difficulty of establishing internal controls in a company which sits in no-man's land between the public and private sectors. The major issue raised by the Borrower, concerning the role of the World Bank Group, is that the DLC lost a significant amount of time, effort and money in pursuing a partnership with the ICTA at the Bank's recommendation. Members of ISG persuaded the DLC to expand its bandwidth and purchasing expensive bridging equipment for the partnership before it materialized. This money was largely wasted. Almost two years later, at the time of the ICR mission, this partnership is still under negotiation. The report concludes with an excellent summary of the financial and operational status of the DLC as well as a coherent plan for tackling the future challenges.

(b) Cofinanciers:

There were no cofinanciers for this project.

(c) Other partners (NGOs/private sector):

A stakeholder workshop convened during the ICR mission highlighted the following issues:

- *Price:* All participants agreed that the cost of DLC VC operations at more than Rs200,000 (US$200) per hour was very high and effectively put the facility out of reach for many local bodies. The price of VC-based training should be compared to the average salary of a mid-level civil servants which is about Rs1,000 (US$10) per day.

- *Language difficulties:* NGOs that had sessions funded by donors through the DLC highlighted the fact that English is not widely spoken outside of Colombo and therefore their regional and rural members had difficulty following the conversation. The DLC is planning on introducing simultaneous translation services into Sri Lanka's two local languages.

• *VC Training:* Most of the participants in VC-based training are not familiar with the technology and they suggested that a pre-training familiarization session would have been useful to explain to the audience the key concepts and how to work the technology in order for them to get the maximum benefit from the session.

• *Interaction:* Stakeholders come to the VCs as much to speak as to listen. A high-level of interaction is the key to a successful session and as such being allowed to participate as observers was counter-productive as were very large group sessions that did not allow the majority of the audience to participate. It was suggested that web-seminars could be recorded and played back at more convenient times – although there might be IP issues associated with this possible solution.

On the whole the participants that had experienced training and knowledge-sharing sessions at the DLC agreed that it offered a high-quality of relevant training. They appreciated the staff's helpful attitude and willingness to work late hours (although the center is not open on weekends unless there are training programs). They appreciated the center's improved catering, central location and comfortable surroundings.

10. Additional Information

Overall financial management performance of this project has been **marginally unsatisfactory** with significant difficulties encountered in systems, staffing, and processes. Throughout project implementation financial management considered the LIL to be low risk and did not pay enough attention to this aspect. However, as the project was closing, significant improvements were underway to remedy this situation.

Over the course of the project, deficiencies in internal controls and financial reporting hampered management decision-making. Recommendations to remedy these deficiencies were offered during supervision missions and some early progress was made in the area of cash handling. But many areas have yet to be addressed. Project financial reports and financial statements for 2004 have been audited and persistent deficiencies were noted in the audit report and management letter relating to internal controls related to irregular collections and receipts management for the 22 JAVA programs, and payments made for expenses that appear to be unrelated to DLC operations.

In 2005, in order to strengthen controls in these areas, a new CEO and new accountant have joined DLC and are currently working together to remedy the remaining financial management deficiencies. In addition, independent internal auditors have been appointed by the Board of DLC to carry out a continuous audit of the systems, compliance with agreed procedures etc. The auditors will report on a quarterly basis directly to the Board. The key outstanding issues faced by the implementing agency at the close of the project are effective financial accounting and asset management. Positive developments include; compilation of monthly financial statements and development of a limited fixed assets register which lists each asset by group, location, and serial number to improve tracking and control.

Four areas that need improvement based on FM supervision activities and audit findings are to: i) revise the chart of accounts to provide meaningful financial reports, ii) re-configure Quick Books to accommodate DLC transactions under the new chart of accounts and train the accountant in its operation, iii) update the fixed asset register to carefully monitor fixed assets, and iv) enter all program sales into the invoice module to improve collections management. Terms of reference to have these areas remediated with the help of a consultant have been drafted and the work is to be completed before December 2005.

Lessons learned include the importance of setting up an effective financial management system early on to capture and report on essential accounting information and ensure a solid foundation. Secondly, prompt and systematic follow-up on audit findings by the implementing agency and the Bank supervision team would help to ensure that problems that are identified are subsequently addressed in a timely manner and are not repeated.

Annex 1. Key Performance Indicators/Log Frame Matrix

Outcome / Impact Indicators:

Indicator/Matrix	Projected in last PSR[1]	Actual/Latest Estimate
Number of private sector directors, trained in the distance learning program, implementing best practice guidelines on corporate governance.	n.a.	1,931 private sector officials, including 232 senior officials. No data is available on the application of knowledge.
The DLC's ability to cover operating expenses through fees (100% of operating expenses to be covered by revenue generation in the 4th year of project implementation).	100% coverage by end of 2005, that is fourth year of operations	Cost recovery of 68% in 2004 and 42% for the first 6 months of 2005. Year 2005, is the fourth year of DLC operation.

Output Indicators:

Indicator/Matrix	Projected in last PSR[1]	Actual/Latest Estimate
Capacity utilization at the DLC Company		52% in 2004 78% in first 6 months of 2005.
Number and variety of public and private sector organizations using DLC		240 institutions in 2004. Ministries, academic, bilateral, multilateral, private companies, Chambers, and NGOs.
Number of central public sector, provincial civil servants and private sector professionals trained		4,320 officials were trained, including 900 senior officials.
DLC Company is self-financing at the end of its fourth year of operations		DLC covered 68% of its costs in 2004 (third year of operations). Self-financing may be achieved by April 2006, the 4th year of operations.

[1] End of project

1/ The last PSR was prepared two weeks before the project closing, and there was no point in making any projection. The PSR reported actual on outcome and impact indicators as of the date of supervision.

2/ The figures are as of June 30, 2005, where applicable.

Annex 2. Project Costs and Financing

Notes:

1. The DLC commenced it operations on March 26, 2002. Therefore, the 2002 data refer to April to December.

2. The 2005 financial figures for January to June is cumulative calculated from monthly figures on cash basis. Both Bandwidth costs and depreciation figures were calculated on annualized basis for the purposes of comparison with previous years.

Table 1
Capacity Utilization of Videoconference and Internet/Multi-media

Capacity Utilization	2002	2003	2004	2005
				January to June
Videoconference	6.2%	5.8%	21.7%	26.6%
Internet/Multi-Media	4.3%	45.5%	65.3%	99.7%
Total Average MM and VC	4.9%	33.5%	52.1%	78.2%

Table 2
Number and Profile of Participants

	2002	2003	2004	2005
				January to June
Private Sector Officers	193	343	1289	106
Of which: Senior Officers	53	52	83	44
Public Sector Officials	355	410	954	374
Of which: Senior Officials	160	171	178	159
NGO Sector	68	44	105	79
Total	**616**	**797**	**2348**	**559**

Table 3
Calculation of Per Unit Cost (US$)

	2001	2002	2003	2004	2005 January to June
Operating Cost (US$)	41,941	189,287	178,490	266,045	91,325
Capacity Utilization (%) 1/	0%	4.9%	33.5%	52.1%	78.4
Student Participation (No of Student)	0	616	797	2,348	559
Cost Per Student (US$)	0	307	224	113	163

Table 4
DLC Financial Performance (LKRs)

	2001	**2002**	**2003**	**2004**	**2005 January -June**
Program Revenue		**4,126,948**	**7,840,362**	**16,660,345**	**3,834,506**
GDLN Programs		2,485,348	2,487,560	1,953,880	**1,048,780**
Other Programs		1,290,500	4,635,500	13,094,815	**2,442,876**
Rental of Video Conference/ Multimedia Rooms		351,100	717,302	1,611,650	**342,850**
Other Income	**361,780**	**279,399**	**27,979**	**1,488,817**	
Interest Income from Treasury Bills			115,881	389,233	
Gian/Losses from Exchange rate variations	361780	279,399	(87,902)	1,099,584	
Total Revenue	**361,780**	**4,406,347**	**7,868,341**	**18,149,162**	**3,834,506**
Total Operating Expenses	**4,194,093**	**18,919,243**	**17,812,199**	**25,567,060**	**9,108,004**
Personnel Cost	1885509	3,278,965	3,655,567	4,719,516	2,496,096
Satelite Bandwidth Rent and Maintenance 1/		11,187,236	3,737,883	6,958,982	2,000,000
Administration and Other Operating Costs	2308584	3,588,232	9,106,722	13,562,780	4,530,373
Marketing Expenses		864,810	1,312,027	325,782	81,535
Other Expenses		**9,494**	**36,827**	**1,037,415**	**24,471**
Provison of Bad debts				1,000,000	
Finance Costs/Bank Charges		9,494	36,827	37,415	24,471
Total Operating Expenses	**4,194,093**	**18,928,737**	**17,849,026**	**26,604,475**	**9,132,475**
Net Operating Profit/(Loss)	**(3,832,313)**	**(14,522,390)**	**(9,980,685)**	**(8,455,313)**	**(5,297,969)**
Depreciation of fixed Assets		1,441,980	10,395,973	10,542,531	5,271,266
Lease Rent for the Year			1,433,679	1,433,679	716,840
Total Expenses including Depreciation	4,194,093	20,370,717	29,678,678	38,580,685	15,120,580
Net Profit/(Loss) for the year	(3,832,313)	(15,964,370)	(21,810,337)	(20,431,523)	(11,286,074)
Revenue/Operating Costs	8.63%	23.28%	44.08%	68.22%	41.99%

1/ Monthly figures are on cash basis. For 2005 January to June, the cost estimated for the bandwidth of 384kbps and annualized to be comparable to the annual data.

Table 5
DLC Project Disbursement Data (US$)

	Allocated (USD)	% of Total Allocated	Disbursed	Percentage Disbursed vs. Allocated
Goods and Equipment	187,448	8%	188,292	100%
Consultant Services	259,544	11%	230,852	89%
Civil Works	129,772	6%	69,772	54%
Operating Costs	720,955	31%	775,793	108%
Refund PPF	1,009,337	44%	1,006,239	100%
Other			(11,165)	
Total	2,307,056	100%	2,259,783	98%

Annex 3. Economic Costs and Benefits

The original cost effectiveness analysis in Annex 4 of the Project Appraisal Document (PAD) compared the cost of delivering DLC training courses with that of other training and course delivery practice in the "target market". There are several training institutions in Sri Lanka offering various short and long term training programs catering to the needs of the public and private sectors. However in the absence of reliable and comprehensive data, preliminary data on the cost of offering courses in these institutions was used to compare the cost of training programs conducted in the country at the time with that of the programs for the Sri Lanka DLC.

One of the indicators of comparing costs of course delivery is the unit cost of course delivery per student day of professionals with that proposed in the DLC. The unit cost was calculated based on the measurable indicators, and did not reflect the quality of content and methods of training delivered through the DLC with that offered locally. These qualitative benefits are hard to measure.

Implementation experience of the DLC project indicates that it is difficult to estimate unit cost per student for the use of VC and MM. The VC facilities are charged per hour and not by the number of students, and the unit cost is charged regardless of capacity usage of the VC room. Similarly, the MM room is charged per hour per number of computer/internet used in the room plus the room charge.

The PAD estimated that as the capacity utilization of the DLC increases, the unit cost of training would decrease. This is confirmed by implementation experience. While the anticipated capacity utilization did not materialize during project implementation, the DLC managed to raise the utilization of its combined facilities to about 52% in 2004 not far off from the PAD estimate of 58%. Annex 2 shows that as the participation rate and capacity utilization increased over the three years implementation period, the cost of training per student declined. It should, however, be noted that the unit cost of DLC training was actually higher than anticipated in the PAD mainly due to the fact that actual capacity utilization was much lower than estimated at appraisal.

Implementation experience confirms that the DLC is more cost effective compared to foreign training with comparable training quality. When DLC utilization rises to 80 to 90 percent of its capacity, the unit cost of training will fall. DLC courses are particularly beneficial for senior level management and decision makers who may be pressed for time and prefer a time effective program. However, during implementation, one of the factors that deterred the participants, in particular those from the public sector, from utilizing the DLC facilities was the high cost of training compared to the traditional methods of training programs offered by the local institutions at much lower costs.

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle Month/Year	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.) Count	 Specialty	Performance Rating Implementation Progress	 Development Objective
Identification/Preparation				
12/1999	*3*	WBI Specialist ISG Specialist DLC Specialist		
Appraisal/Negotiation				
11/2000	*7*	Institutional Development Specialist (TTL) Operations Officer, PSD and Finance ISG/DLC Specialist Lawyer Procurement Specialist		
Supervision				
7/23/2001	*4*	Institutional Development Specialist (TTL) Operations Officer, PSD and Finance Education Specialist IT Specialist	U	S
11/19/2001	*3*	Institutional Development Specialist (TTL) Operations Advisor IT Specialist	S	S
3/27/2002	*3*	Institutional Development Specialist (TTL) Operations Advisor IT Specialist	S	S
5/24/2002	*3*	Institutional Development Specialist (TTL) Operations Officer, PSD and Finance Sr. WBI Information Officer	S	S
12/06/2002	*1*	Institutional Development Specialist (TTL)	S	S
6/23/2003	*5*	Institutional Development Specialist (TTL) Procurement Specialist Financial Management Specialist Consultant, Finance	S	S
12/07/2003	*3*	Senior Operations Officer (TTL) Operations Officer, PSD and Finance Lead Distance Education Specilist	S	S
6/18/2004	*3*	Senior Operations Officer (TTL)	S	S

			Operations Officer, PSD and Finance Procurement Specialist		
	12/17/2004	*2*	Operations Officer, PSD and Finance Financial Management Specialist	S	S
	5/17/2005	*2*	Operations Officer, PSD and Finance Financial Management Specialist	S	S
ICR	10/2005	*3*	Sr. Private Sector Specialist (TTL) Operations Officer, PSD and Finance Lead DLC Specialist FM Specialist		

During last 2 missions (12/17/2004 and 5/17/2005), FM was rated Unsatisfactory and Marginally Unsatisfactory respectively.

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US$ ('000)
Identification/Preparation		33,318
Appraisal/Negotiation		32,257
Supervision		222,885
ICR		26,604
Total		315,064

*Some work in the Identification/Preparation stage had been completed prior to initiating the AIS and is not captured in this estimate.

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	Rating
☐ *Macro policies*	○ *H* ○ *SU* ○ *M* ○ *N* ● *NA*
☐ *Sector Policies*	○ *H* ○ *SU* ○ *M* ○ *N* ● *NA*
☐ *Physical*	○ *H* ○ *SU* ● *M* ○ *N* ○ *NA*
☐ *Financial*	○ *H* ○ *SU* ● *M* ○ *N* ○ *NA*
☐ *Institutional Development*	○ *H* ○ *SU* ● *M* ○ *N* ○ *NA*
☐ *Environmental*	○ *H* ○ *SU* ○ *M* ○ *N* ● *NA*
Social	
☐ *Poverty Reduction*	○ *H* ○ *SU* ○ *M* ○ *N* ● *NA*
☐ *Gender*	○ *H* ○ *SU* ● *M* ○ *N* ○ *NA*
☐ *Other (Please specify)*	○ *H* ○ *SU* ○ *M* ○ *N* ○ *NA*
☐ *Private sector development*	○ *H* ● *SU* ○ *M* ○ *N* ○ *NA*
☐ *Public sector management*	○ *H* ○ *SU* ● *M* ○ *N* ○ *NA*
☐ *Other (Please specify)*	○ *H* ○ *SU* ○ *M* ○ *N* ○ *NA*

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance	*Rating*			
☐ *Lending*	○ *HS*	○ *S*	● *U*	○ *HU*
☐ *Supervision*	○ *HS*	● *S*	○ *U*	○ *HU*
☐ *Overall*	○ *HS*	○ *S*	● *U*	○ *HU*

6.2 Borrower performance	*Rating*			
☐ *Preparation*	○ *HS*	● *S*	○ *U*	○ *HU*
☐ *Government implementation performance*	○ *HS*	○ *S*	● *U*	○ *HU*
☐ *Implementation agency performance*	○ *HS*	● *S*	○ *U*	○ *HU*
☐ *Overall*	○ *HS*	○ *S*	● *U*	○ *HU*

Annex 7. List of Supporting Documents

Project Appraisal Document
Development Credit Agreement
Supervision Aide-Mémoires
Implementation Status Reports (ISRs)
Borrower’s Completion Report
Distance Learning Center Business Plans 2001, 2002 and 2004
DLC Misappropriation of Funds Investigation Report
DLC Annual Accounts 2000, 2001, 2002, 2003, 2004.

Identification and Assessment of Technology Options for the World Bank’s Global Development Learning Network, Detecon Consulting Study, Draft September 15th 2005.

Additional Annex 8. Borrower's Report

IMPLEMENTATION COMPLETION REPORT - (DLC POINT OF VIEW)

Project Concept

Distance Learning Centre Facility provides the country with the necessary infrastructure to share global knowledge without leaving the country. Therefore the facility could be considered as a timely output. Hence the project rationale is sound. The decision to locate it at Sri Lanka Institute for Development Administration, which is the premier public sector training institute is also sound, considering not only the possibilities of partnership between the two institutes, but also because of secondary reasons such as higher visibility of the centre, centrality, spacious parking space and pleasant surroundings.

The facilities developed are superior in terms of technology, dependability, functionality, aesthetically, etc.

WBI and GDLN has provided the centre with programs, introduced other content providers, facilitated technology services, which were vital, especially of a project of this nature (where the facility developed is not familiar to the staff, users and people and also had to depend on geographically distributed agencies around the world for its operations).

Cost imperatives

Though cost of global knowledge sharing has been reduced by the facility still the cost was high compared to the cost of locally available global knowledge and this had been a major obstacle from the very beginning. At the same time the cost of the global knowledge sharing through the VC facility was also higher than the other web-based and CD-based e-learning opportunities. However as the DLC was equipped with the facilities (multi-media rooms) to provide learning opportunities through different e-learning modes there was a cheaper alternative to the customers even within the DLC. However DLC was not a monopoly in this area and there were cheaper (but at the same time poor quality) facilities to compete with. There is increasing number of customers that appreciates the quality and except that quality is associated with a cost (recently Dialog GSM, a leading telecommunication provider rented out the facilities for 30 days, though the DLC was the highest bidder).

On one hand the DLC had to fix higher rates for use of its facility because of the higher cost associated with a superior facility. On the other hand it had to lower the cost to attract enough customers to use the facility. This was the dilemma faced by the DLC though it is tilting towards quality provide by DLC.

Themes of Program and Nature of the Clientele

There were issues connected with the programs provided to the DLC by WBI. Most of those were on development themes, which align with the GDLN and DLC both. The interest to these themes could mainly come from development administrators who worked for the various government organizations in implementing various development agendas. Large majority of them lacked enthusiasm or when they had enthusiasm the power to change. Out of those who had power very few were enthusiastic. On top of it those also did not have money to spend on programs. What ever money they had were kept for more lucrative foreign training abroad.

The suggestion was to approach donors and most of the time they also could not help as they had little leverage over the decisions of the Government on training. Usual reply of donors was that they don't have separate funds for this kind of training and funds should come from the projects they fund.

It would be necessary that Donors and Project Directors of Donor Funded Projects be addressed to resolve this issue.

DLC expect the World Bank to give the DLC the opportunity of addressing the Project Directors of the WBI funded projects in this regard. It also expects the Bank to encourage the Project Directors, at least those who are funded by the Bank, to use this facility. Bank had responded to this already but requires continuing its effort. The use of this facility by a project would be an indicator of their genuine interest in obtaining knowledge and skills from a foreign training. Though the foreign exposure is important genuine interest to acquire knowledge should be established before a person is sent abroad spending huge amounts of project money. Use of DLC facility by individuals at least would be an indicator to measure this interest.

Private Sector and Demand Driven Programs

DLC did venture in to the private sector training area on the assumption that the private sector would be me more interested in getting the global knowledge.

Here again there were difficulties. They have their training scheduled in their annual plans and they normally like to train their employees in an in-house environment (probably to give their employees the knowledge what others don't give their employees). One other reason for this is probably their training divisions have to rationalize their own presence. Therefore, what ever money available for training should be kept unspent to be used for internally developed programs. They also like to participate in more skill oriented training where lectures are supplemented by actions, which is not the way VCs are normally done. In a way they want ready to use solutions than solutions that they need to formulate by themselves before use (they want off the shelf products or ready to eat products).

Issue of Local Adaptation

DLC had tried to introduce a local adaptation session after the VC. The idea was to discuss the applicability of what was deliberated in the VC in the local context. There had been some success as many such discussions has generated interest and made the participant to repeat their attendance. This local adaptation session can be organized properly only if there is a lead time, which is not available most of the time. It might be necessary to identify pool of facilitators who could be called upon in a short notice to conduct such a session. DLC already have such a pool in certain areas.

Limitation of the Name and Getting in to Partnerships as a Solution

The name “Distance Learning Centre Ltd” is also an issue. It sounds like an open university where education can be undertaken by post. To earn a valued name for such a broad outfit among specialized professional institutions has been a challenge always. Our invitation to the organizations to send their nominees to the programs has not led to much success as a result. DLC has adopted a new strategy to counter this. We now launch programs after getting in to a partnership with specialist organizations such as BOI, Sri Lanka Press Institute, Central Bank, etc. Partnerships are possible only when we have a lead time to persuade an institution to a partnership and organize the event. By the time the partner is convinced there is hardly any time left for circulation to prospective participants because of the lower lead time that is given by the content providers right now. This needs to change.

Language Barrier

Though there is a significant number of Sri Lankans who can understand and speak in English, there is still a large number who cannot. The difficulty of attracting all categories and sections is an issue because of the language barrier. DLC is going to install a translator unit with headphones for the use of those individuals. Translations could be offered in future by the DLC. Equipment to this have been purchased and the work order had been given to a internal décor contractor for the necessary modifications.

Technological Services

Up to the end of the project the WB provided technical support to the DLC. However it had been indicated that there is not going to be such support in future. This need to be reviewed as this is the most vital link.

Alternative Networks

The advice of the World Bank to go for public networks such as academic networks will create problems and the competitive advantage the DLC enjoying currently will not be available as a result. It is suggested that the maintaining of the GDL network be the responsibility of WBI for the next five years. During which alternative technology options should be assessed by WBI.

Search for Content Sources

It would be helpful if the WBI could maintain a service of providing content sources on enquiry, as it is not always easy for a peripheral DLC to make a global search and find out best sources on their own (efficiently). Especially assessing the credentials would be best made at a central location of the GDLN.

All the three services mentioned above will create a stronger bond between DLCs and WBI.

Internal Controls

The DLC is neither a "fully state owned" entity nor a private entity as at present. It is a strength as a well as a weakness.

Being a private entity DLC could be flexible and being a government institution it could command a trust among the public.

However there is a weakness being in no-state no-private zone. A fully state owned entity is scrutinized by number of state agencies and a private entity is scrutinized by the shareholders having a direct interest. When one is neither a "fully state owned" entity nor a private entity, it is in its own. Unless the CEO is a person with self controls (a value driven person) things can go out of hand. Members of the Director Board, having their own vocations and interests hardly will have time to go through all the transactions. Hence it is necessary to have a good set of controls and appointed internal auditors reporting to the Board directly to check whether the controls are applied. Board of Directors having considered above has taken steps to appoint internal auditors directly reporting to the Board and DLC now have a system of internal controls, approved by the Board, in place.

The internal controls include distribution of different financial responsibilities among number of different individuals, identifying the responsibilities of each one clearly, documenting the decisive processes (receipt, petty cash, cash and cheque payments, etc.) identifying each one's role in each step of the process. It also includes how the documentation is done and maintained, how different registers should be maintained and managed, etc. A new set of circulars have been issued in July, 2005 addressing most of these issues and it is now being implemented.

Marketing

The challenge of the DLC would be to market it self. As mentioned already there are various issues that should be resolved in a marketing program. In addition to those mentioned earlier following should be raised and resolved.

1. The appointments to position in Sri Lanka are not always based on merit, but on other criteria such as loyalty (even in the private sector to some extent). Hence there is little incentive for people to acquire knowledge. Therefore more often the knowledge has to be forced upon on individuals holding position by external forces (donors do this by providing a package of compliances).
2. The decisions are also not always based on rational criteria supported by information (this is less evident in the private sector as they cannot afford to do it). Therefore information is less important. The information is often forced upon on the individuals holding positions by external forces (pressure groups do this through agitations and people holding higher positions do this through directives).

Hence people respond to directives from those who wield power (donors and higher in the hierarchy).What ever the marketing campaign is going to be launched should take these in to consideration. Hence it is necessary that World Bank be in the forefront of the marketing campaign and assist the DLC in getting the support of highest positions in the Government to use their power on people to use the DLC facility, on a continual basis, until the DLC facility is known to a larger clientele.

Focal Points as a Marketing Mode

In marketing the programs it would be productive to have a person, as a focal point, in partner organizations with whom we could transact directly. Selecting the focal point is decisive for success. A nominee from the top might not be the most appropriate person while a nominee without the patronage of the top (with whatever abilities) will not be able to do much within the organization.

There should be a way for selecting a person with a drive and interest on global knowledge sharing, probably DLC also having a hand in the selection. There should be a way of measuring the performance of these focal points and they should be changed or remunerated in a non-monetary manner (to avoid ethical implications) on a continuous basis depending on their performance.

This requires support from the highest level of the Government and Private sector organizations.

Role of the World Bank

World Bank has played a positive role during the project and need to continue to play it even beyond the project (non-financial contribution). The latter had been articulated at various places in (this part of) the report and hence will not be repeated.

It is necessary that the World Bank take action to honor the withdrawal application for the satellite band width for the next two years (the application submitted before the end of the project, but hold back because it is for a service outside the project period). This payment is emphasized as it would compensate the expenditure the DLC has incurred on enhanced satellite band width and bridging equipment purchased to cater for the ICTA funded dell project on the advice of the World Bank, which did not bring any income for the DLC as indicated. Argument that the services are for a period beyond the project does not hold as the benefits of the equipment purchases too will be of use beyond the project period.

Apart from this small controversy the World Bank advice and support in general had been really useful and should be very much appreciated.

Expecting ICTA to compensate for the bridging equipment is unlikely to be realized (judging by the latest proposal received from ICTA to DLC, which proposes a contract that does not exceed

Rs. 3 million, which is far less than Rs. 8.7 million that have been spent by the DLC and also by looking at the deliverables the ICTA expect from DLC in return of Rs. 3.0 million).

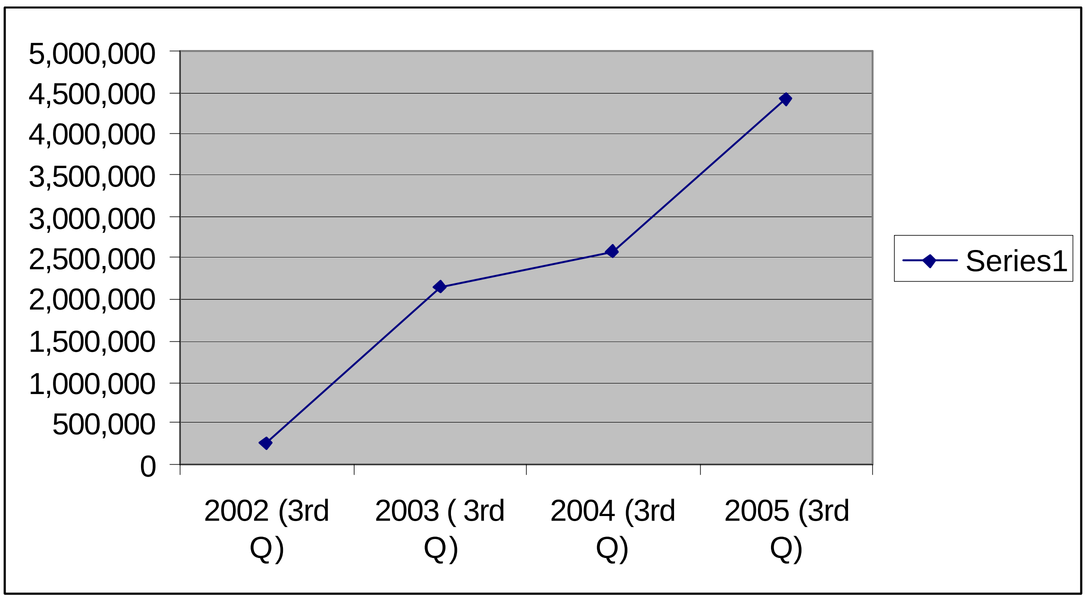
Past Trends and New Directions

With the strategies adopted **since July, 2005** DLC has been able to raise its revenue significantly.

The Following figures for third quarter for three consecutive years show the trend and direction.

		2002 (3rd Q)	2003 (3rd Q)	2004 (3rd Q)	2005 (3rd Q)
Revenue from operating activities	July	48,000	632,540	1,330,141	1,388,527
	August	105,000	600,600	903,507	1,339,374
	September	123,050	914,950	1,253,098	1,700,333
	Total	276,050	2,148,090	2,586,746	4,428,234

Source: Quarterly Reports Sent to WB



The following annual figures show that DLC will be able earn a marginal profit at the end of 2005, as there is a marginal profit earn for the first three quarters and as there is a firm committed stream of revenue for the rest of three months that creates a clear profit margin. Though the revenue figures of 2005 given are comparatively less than 2004 (even extrapolated for the whole year), better financial controls are indicated in the figures of 2005, which helps to generate an operating profit. But with the confirmed revenue commitments alone the total revenue for 2005 is also going to exceed that of 2004.

	2002	2003	2004	2005 up to Sept
Revenue from operating activities	4,126,948	7,040, 362	16,660,345	8,215,936
Direct expenses	339,400	2,036,805	6,060,470	2,016,110
Contribution	3,787,548	5,803,557	10,599,875	6,199,826
Other income	279,399	27,979	1,488,817	500,000 (estimated on the lower side)
Total Revenue	4,066,947	5,831,536	12,088,692	6,699,826
Administrative expenses	18,589,337	17,245,900	21,977,684	6,635,064
Operating profit (loss)	(14,522,390)	(11,414,364)	(9,888,992)	64,762
Depreciation	1,441,980	10,395,973	10,542,531	8,193,154
Net profit	(15,964,370)	(21,810,337)	(20,431,523)	(8,128,392)

Future

DLC work Plan, which had been formulated considering the repayment of loan to World Bank, is now available.

It includes following

1. Demand driven VC programs targeted at donor funded projects
   (By addressing the Project Director's Forum; DLC has already secured programs from Health sector projects)

2. Demand driven VC programs for Organizations
   (Door to door canvassing; DLC has already secured a program on securitization for Banks)

3. Supply driven VC programs for Individuals
   (Canvassing through Chambers, Associations, Professional Bodies, NGOs, etc; DLC has already secured high participation for number of such programs using the Chamber of Commerce and Chamber of Exporters, Women Chamber of Commerce, Bergof Foundation, etc. During the months of September and October, 2005, DLC secured high participation for more than 10 such programs)

4. Supply driven programs for Organizations
   (Personal canvassing; DLC has secured partnerships with BOI, Sri Lanka Press Institute,

Central Bank in launching supply driven programs in September and October, 2005)

5. Supply driven program with local sponsorships
(DLC during last three months have been get sponsorship from Norwegian Embassy, Bergof Foundation, CIDA, WB, UNDP, etc. for some of the supply driven programs)

6. Demand Driven and Supply driven MM programs
(By seeking partnerships to launch e-learning initiatives; DLC ran a country course with ADBI in October, 2005)
(By seeking partnerships to launch computer based training; DLC will be running a call centre program with Textcentric)
(By seeking partnerships to launch blended programs)
(Offering programs developed by DLC)

7. Hiring the facilities
(By aggressive marketing; DLC in October has secured a $16,000 worth of renting with a leading telecom provider; 30 day renting)

In year 2006, it is envisaged to raise Rs. 45 million ($450,000) worth of programs through these actions, which will bring a contribution of Rs. 30 million. Taking in to account of the fixed cost of Rs. 18 million likely to incur in 2006, the DLC is likely to create a marginal net profit too. If the target of the work plan could be met the DLC could not only survive but grow as a fruitful organization in future. However the success of this depends on number of factors (rather assumptions).

1. There will not be any competitor equipped with better facilities that could provide better service at a lesser cost in near future.
2. The personnel network of DLC that includes prospective participants and tried out facilitators will remain with the DLC because of the personal links we maintain.
3. More and more organizations in the Government sector will feel the pressure to change and will embark upon on various change management programs which might consider global knowledge as one important input
4. The world bank will continuously give non-financial support (technical and information) to DLC and GDL network

If these assumptions remain valid the targets of the work plan will be achieved. Both World Bank and DLC need to do their part to ensure that those would be valid and hope for the best with regards to what is beyond their control.