

Sri Lanka



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1. Summary

Sri Lanka continues to be a relatively well-off developing country with a middle-income status and a range of impressive social achievements. At the same time, it is a country with a deep-rooted ethnic conflict, huge income disparities, and many downward trends in key social, political and economic indicators. Above all, Sri Lanka is a country with a great development potential that is largely untapped because of its modern history of missed political opportunity.

2005 was a tumultuous year when Sri Lanka slowly recovered from the worst natural disaster in its recorded history, when the ethnic conflict escalated to alarming levels, and when a new President, Mahinda Rajapakse, took office in alliance with parties on the nationalistic left of Sri Lankan politics.

The Tsunami killed an estimated 36,000 people, and half a million were displaced when almost 100,000 houses were partially or completely damaged. Income opportunities, public infrastructure and private assets were destroyed along two thirds of the Sri Lankan coastline, leaving millions of people seriously affected. The Tsunami brought hopes for constructive cooperation between the Sri Lankan Government and the LTTE for relief and recovery in the North East, areas also affected by decades of civil war. However, early disagreements over the distribution of aid quickly helped increase rather than defuse existing political and social tensions. The security and human rights situation, especially in the North East, deteriorated rapidly, and by the end of the year, Sri Lanka was widely considered to be on the verge of full-scale war.

Sida's development cooperation with Sri Lanka continues to be focused on selected areas of conflict transformation and peace-building, democratic governance and pro-poor economic development. In 2005, Sida disbursed a total of 386 million SEK to Sri Lanka, of which 138 million within the country allocation managed by the Swedish Embassy in Colombo. The Embassy's special Tsunami plan, which is largely built into the regular portfolio, covers a total of 136 million over a four year period, out of which 33 million were disbursed in 2005. No further funding for Tsunami recovery is envisaged.

2. Social, Political and Economic Developments

2.1 Poverty Reduction: Overall Trends and Perspectives

The 2002 household and income expenditure survey and the 2005 millennium development report, both reviewed in the 2003 and 2004 country reports, are still the two corner stones for general poverty assessments in the country. However, in March 2005, the World Bank published its own report on MDG-attainment in Sri Lanka.

The World Bank report notes that only a few developing countries in the world, such as China, Vietnam and Costa Rica, can list as many achievements on the social front as Sri Lanka. However, Sri Lanka's performance on income-poverty reduction lags behind its performance in health and education, largely because the country has been a slow grower during much of its past, although not its most recent past.

Also, Sri Lanka has experienced a diversity of outcomes even among the various social indicators. For example, while infant, child and maternal mortality has been reduced sharply, Sri Lanka has not done anywhere as well in reducing child malnutrition.

Here are a few important points made by the report on consumption poverty and child malnutrition related to the first MDG, which complement the MDG and poverty reviews made in the 2003 and 2004 country reports:

- As indicated by its Gini score, Sri Lanka has a more unequal distribution of consumption expenditure than any other country in South Asia.
- Poverty in Sri Lanka is positively and strongly associated with its pattern of consumption inequality.
- Worsening consumption inequality has substantially off-set and even reversed the beneficial effects of economic growth on poverty reduction.
- Attainment of the poverty MDG is plausible, but only if strong economic growth is maintained and further consumption inequality prevented.
- There is a child underweight rate that is three times as high as would be expected from a country with Sri Lanka's level of infant mortality.
- Provision of nutritional counselling to expectant mothers and adolescent girls is likely to have large pay-offs in terms of reduced child malnutrition rates.

Putting Sri Lanka in a wider regional context is important for an understanding of its relative poverty situation and trends. Annex 3 provides scores for the South Asian countries against 31 social, political and economic indicators monitored by reputed institutions such as the UNDP, Transparency International and Freedom House. Looking at the static picture emerging from these scores, Sri Lanka performs remarkably well. In terms of governance indicators, Sri Lanka scores better than India, and more than twice as well as Bangladesh, Pakistan and Nepal. It is also the least corrupt country in the region, the highest ranking one in terms of human development, and the second best on political, civil and press freedoms. Still, although Sri Lanka has by far the highest per capita GDP (at PPP) and performs fairly well in terms of economic freedoms, it is also, as indicated, the most unequal country in the region. Such inequality is a driving factor behind the current ethnic conflict and the continuous disharmony in the Sri Lankan polity, two of the most basic reasons for the country's under performance and untapped potential.

While the static picture is important, the trends over the recent past are crucial. In this respect, Sri Lanka's performance over the last decade is less reassuring. The scores against key governance indicators are worsening, and so are those for corruption, inequality and certain economic freedoms. These trends are necessary to monitor carefully, not least during the planning phase of 2008–2012 cooperation strategy.

An important example of negative trends in Sri Lanka is the human rights situation which has worsened in recent years but clearly deteriorated in 2005. Killings, particularly in the North and East, have reached an alarming rate, especially during the end of the year. The LTTE has continued to recruit child soldiers. Torture and mistreatment by police, military, paramilitaries and LTTE continues to be reported. The overall climate of fear has increased, with serious impacts on human security, especially in the North and East.

2.2 Political Developments

The most significant political developments in 2005 are (a) the political game-making after the Tsunami, including the failed attempts at using Tsunami relief and recovery as a window of opportunity for conflict transformation, (b) the increased tensions between the conflicting parties and their paramilitary proxies, and the concurrent violations of the cease-fire agreement, in particular in the East, (c) the lack of political progress in addressing the incompatibilities and grievances underlying the conflict, and (d) the run-up and outcome of the presidential election held in November.

The Tsunami brought hopes for constructive cooperation between the Sri Lankan Government and the LTTE for relief and recovery in the North East, areas also affected by decades of civil war. However, early disagreements over the distribution of aid quickly helped increase political tensions. A joint mechanism, known as P-TOMS, between government and the LTTE for managing funds and projects in the North East was on the agenda since February. The P-TOMS became hotly contested in the South, because it would give political legitimacy to the LTTE. But also because it was expected to further a peace process based on a federal solution to the ethnic conflict, with perceived but also orchestrated fears in the South that such a solution would be just a precursor for a separate Tamil Eelam state.

An agreement between the Government and the LTTE on the P-TOMS was signed after much delay and filibustering in June, but was

later challenged in court as unconstitutional by leftist and nationalistic Southern-based parties such as the JVP and JHU. Just days after the presidential election, won by Mahinda Rajapakse on an anti-P-TOMS ticket in alliance with the JVP and JHU, the Supreme Court ruled that the proposed arrangement was partly unconstitutional, and that further hearing of the case was postponed indefinitely.

The P-TOMS story was viewed by the international community as indicative for a future solution to the ethnic conflict. If the conflicting parties cannot agree to a joint mechanism for Tsunami relief and recovery, how can they be expected to agree on political dynamite such as power-sharing in the legal and security areas?

The security situation in the North and East worsened steadily during 2005. The reasons for the escalation are controversial. But it is clear that in December a vicious circle of tit-for-tat violence erupted just after the November elections, with the LTTE blowing off landmines that killed several dozens of army soldiers, and which spurred further paramilitary violence against the LTTE and the Tamil civil population. It was only in late January 2006, with the agreement that talks would be held the following month on cease-fire implementation, that this latest round of violence was controlled.

It is probably fair to say that the paramilitary groups have little to gain from exclusive peace talks between the LTTE and the government, and that they will do anything they can to spoil such talks. Whatever the underlying rationales guiding the violent LTTE and paramilitary, or government proxy, behaviour in late 2005 and early 2006, it must be regarded as advanced brinkmanship, dangerously close to a complete breakdown of the fragile and stalled peace process, and a return to full-scale war.

The candidate of the incumbent UPFA government, Mahinda Rajapakse, won the presidential election in November with a tiny margin over his rival, the opposition leader Ranil Wickremasinghe. Before the election, Rajapakse had allied himself with two parties on the nationalistic left, the JVP and JHU. This alliance quickly became contested as it was based on a manifesto called Mahinda's Vision, which included populist spending plans but also assurances that the mentioned P-TOMS would not be implemented, and that the national question, the preferred euphemism for the conflict, could only be solved through a unitary and non-federal Sri Lankan state.

The latter caused concern within the international community, since it meant backtracking even from the basic Oslo principle on federalism as a ground for negotiations. However, it would so far appear that Rajapakse's new policy approach mainly entails attempts at broader consensus building within the Sri Lankan South, including with the JVP and JHU, something that is widely considered necessary for any sustainable peaceful solution to the conflict. The option of a bipartisan approach with the UNP, the main opposition party, has not been attempted.

The outcome of the election was effectively manipulated by the LTTE, which managed to discourage almost all people living within LTTE territory from voting. In Killinochchi district, only one single person voted. There can be no doubt what made people refrain from voting: well-founded fear to go against the informal yet clear LTTE orders to stay home. It was also obvious that through this measure, LTTE revealed its own preferences. If people in the LTTE controlled areas would have been allowed to exercise their democratic rights, it is widely believed that they would have generally voted for Wickremasinghe, and thereby given him the election victory.

There has also been speculation that the LTTE has not given up its agenda for a separate state, and considers negotiations to be futile but anyway useful tools to show the wider world that the South does not have the political will to pursue a peaceful solution, thereby justifying the return to armed conflict.

In 2005, Sri Lanka also experienced constitutional problems since the Constitutional Council was not in place for three quarters of the year. The Council appoints individuals to independent commissions on public service functions. The delay caused the National Police Commission and the Public Service Commission to close down since their mandate expired during the year. The Constitutional Council is still not in place and this is considered by different political parties and civil society organisations to be a major infringement of the constitution, human rights and good governance.

2.3 Economic Developments

The Sri Lankan economy is projected to have grown by 5.5% during 2005, but still less than what is required by current development plans and policies. The 2004 Tsunami mainly affected the tourism and the fisheries industries, and the outputs from these sectors dropped quite drastically. Given that the main export base of the country, namely the garments and perennial crops, were not affected, the effect of the Tsunami was marginal on the economy. In addition, the post-Tsunami recovery activities boosted the growth figure.

The budget deficit in 2005 is projected at 8.5%. The expenditure on Tsunami rehabilitation, as well as the subsidies afforded for fuel, agricultural inputs and electricity made the achievement of the medium term objective of reducing the budget deficit difficult. This also made the government shy away from reporting to Parliament on the budget deficit as expected by the Fiscal Responsibility Act.

The trade deficit widened during 2005 mainly on account of increased fuel import costs. However, the overall balance of payment position showed a surplus because of the debt moratorium given by bilateral donors in 2005 as a means of recovering from the Tsunami, inflows for Tsunami relief and rehabilitation, increased private remittances, and Central Bank purchases of foreign currency loans mobilised by the government.

Sri Lanka's public debt is around 105% of its GDP. Foreign loans account for 48% of the total public debt, mainly from multilateral and bilateral donors taken at extremely concessionary terms. The monetisation of the domestic debt of the government during the early parts of 2005 pushed up inflation rates which peaked at 12.8% in August and were subsequently reduced to 11.6% at the end of the year. The increased fuel prices significantly contributed to the increased inflation rates.

Sri Lanka's stock exchange was rated up to October as the best performing exchange in Asia, with a gain of almost 67%. However, the election of a more pro-socialist government in November, and the subsequent hostilities and violence in the North and East that extended until end of December resulted in the gains being reduced.

Foreign direct investment to Sri Lanka is estimated to be around 200 million USD in 2005. Even though the country offers considerable incentives to investors and has a quite well educated workforce, the political instability and the possibility of escalation of violence have meant that Sri Lanka attracts less than its investment potential.

2.4 Tsunami Relief and Recovery

The Tsunami is one of the worst natural disasters in recorded history, and it was particularly destructive in Indonesia and Sri Lanka. In Sri Lanka, an estimated 36,000 people lost their lives, and half a million were displaced when 100,000 houses were partially or completely damaged. Income opportunities, public infrastructure and private assets were destroyed along almost two thirds of the Sri Lankan coastline, leaving millions of people seriously affected.

Less privileged groups such as poor fishermen living close to the shore suffered the brunt of the negative impacts. Apart from striking already comparatively poor coastal communities, the Tsunami compounded previously existing vulnerabilities resulting from ethnic conflict by making the North East of the country the hardest hit region.

The world-wide, massive and speedy mobilisation of resources for relief and recovery makes the Tsunami disaster response spectacular and unique. Never before have such vast amounts of privately donated funds been made so readily available in the wake of a natural or man-made disaster.

Even if nobody knows the exact amount of private donations for Sri Lanka, it is assumed that well over 1.5 billion USD has been collected from around the world, and channelled through hundreds or perhaps even thousands of foreign and local NGOs. On top of that, over 2 billion were committed by bilateral and multilateral agencies, excluding funds for immediate relief operations. A good guess is that at least 4 billion has been committed for Tsunami related support to Sri Lanka, despite the fact that the total reconstruction needs is usually estimated in the range of 2 billion.

These figures underscore the well-established fact that funds were never a constraint in the relief and recovery phases. Problems were instead manifested in terms of poor coordination and direction of overwhelming numbers of NGOs, weak planning and implementation capacities on local administrative levels, elusive or bad strategic planning and oversight from the central level, and inadequate consultation with those affected by the Tsunami. General over-funding also meant unhealthy competition between donors, and funds chasing projects rather than the other way around.

To illustrate, UNICEF Sri Lanka saw its budget increase six times in the first two quarters after the Tsunami, district secretariats were suddenly tasked to coordinate hundreds of individual donors without even adequate computer facilities, and the central government imposed buffer zones to prevent people from rebuilding their houses within 100 or 200 meters from the sea and force them to relocate sometimes far away from their normal income opportunities.

Inequitable distribution of funds to Tsunami and conflict affected communities was stark. For example, funding for Tsunami housing programmes was in many cases three times as high and construction also speedier. The inability of implementing agencies to broaden the beneficiary base to include also conflict affected communities, especially in the North and East, further exacerbated the inequity, and particularly in the case of privately funded donors who carried out support activities earmarked for Tsunami recovery.

Clearly, there have also been lots of serious efforts by government, civil society and foreign donors to support those affected by the Tsunami. Managing relief and recovery after a major disaster is never going to be easy, but, to conclude, one should really have expected more in terms of effectiveness and efficiency from a multi-billion dollar disaster response in a country such as Sri Lanka.

2.5 Development Cooperation Partnerships and Harmonisation

Sri Lanka is a country where the Paris Agenda has had obvious difficulties of being realised. Until recently, aid effectiveness as defined by the agenda has not been subject to specific and systematic debate within the donor community or with the Sri Lankan government. In early 2006, a small working group of donor representatives, on behalf of the wider donor community, initiated consultations to identify areas where practical work could be carried out with respect to procedures for procurement, disbursement, and reporting and auditing.

Such aid effectiveness procedures mean internal difficulties for many individual donor agencies, since they are often bound by capital or headquarter requirements that in fact go against the spirit and letter of the Paris Agenda. But the government is supportive of ownership, harmonisation and alignment of the mentioned procedures. The government is however unlikely to be similarly committed to the principles of the Paris Agenda when it comes to its own obligations, such as openness and adequate consultation in the ongoing planning of a new national development strategy.

The convoluted and complex architecture of donor coordination in Sri Lanka can be summarised in the following way. The main government led structure in place prior to the Tsunami was the donor assistance coordination committee (DACC). Senior representatives of donors and the government met quarterly in this forum, although not in the year after the Tsunami. DACC had three sub-committees, where real coordination could take place, but these too disappeared after the Tsunami.

A large number of donor coordination groups were quickly established in January 2005 to direct Tsunami relief and recovery efforts, some of which mainly large-scale task shops, while others with a good deal of positive impacts on policy planning and to a lesser extent implementation.

The only example of a sector approach is the Education Sector Development Framework Programme developed by the Ministry of Education. This programme is mainly funded by the World Bank. Other donors engaged in the programme prefer individual project funding within the sector programme rather than broader sectoral support.

3. Assessment of the Overall Country Programme

3.1 Country Strategy Relevance

The current 2003–2007 country strategy has continued relevance. The focal development problems in Sri Lanka are the conflict with its underlying political and governance problems, and the inequity that reduces the poverty reduction benefits of economic growth and that even makes growth rates of 5–6% basically anti-poor.

Still, as indicated in section 2.1 and annex 3, Sri Lanka is a middle-income country with a tremendous potential if there was a political commitment and wider democratic demand to deal with the structural power relations that underlie and fuel conflict and inequity. In other words, the solutions to these development problems have a lot to do with democratic empowerment. Also in this sense is the strategy relevant.

3.2 Key Issues for Dialogue

The country strategy lists four prioritised dialogue issues: democratic governance and human rights, public administration reform, economic reforms, and HIV/AIDS control. However, because of the Tsunami, most dialogue efforts have in 2005 concerned relief and recovery matters, in particular focusing on the so-called guiding principles of e.g. conflict-sensitivity, consultation with affected people and zero-tolerance of corruption. Main fora for such dialogue efforts have been the recurrent bilateral donor group meetings, and the Tsunami steering committee lead by the World Bank and the ADB which normally meets with the Ministry of Finance and various disaster management authorities every second week.

It is important to note that dialogue campaigns pursued by the Swedish Embassy, whether they concern pro-poor economic development, democratic governance or the management aspects of a disaster response, mean liaising with other donor agencies, building coalitions for a certain position, and preparing and expressing joint positions in relevant but selected fora to targeted audiences.

The Embassy has however entered into individual and focused dialogue with relevant Ministries and Agencies on overall legislative and governance issues in relation to some of the development cooperation agreements. For example, the impact on the Swedish-Sri Lankan Police cooperation with the absence of the National Police Commission and also the Police falling under the Ministry of Defence especially in a

conflict affected country. Another example is the conflict sensitivity of registering race/ethnicity in regard to the Swedish-Sri Lankan cooperation on population registry.

3.3 Disbursement Volumes

In 2005, Sida disbursed a total of 386 million SEK to Sri Lanka, of which 138 million within the Sri Lanka country allocation. Low first (8 million) and second (26 million) quarter disbursements were recorded as usual, mainly due to Sida's disbursement routines to the UN-system and the ADB. See annex 1 for a detailed financial follow up of the country plan for 2005.

Tsunami-related commitments within the full Sri Lanka programme amount to some 170 million, but over a number of years. 136 million are planned within the country allocation during 2005–2009, out of which 33 million were disbursed in 2005.

The Sri Lanka country allocations for 2006–2008 amount to 330 million in total. Yet the current disbursement plans for the same period, which to a large extent are already agreed, cover around 450 million. This means a budget gap of 120 million that may cause problems if not managed properly in 2006–2008. The reason for this gap is the financial side of the Embassy's Tsunami response, which was planned in spring 2005, formalised through a Swedish Government decision, and approved by Sida through an amended country plan.

Sida has chosen to not provide additional country allocations at the beginning of each year to cover for the Tsunami response (except so far for 10 million in 2006), but instead to fill the budget gaps at the end of each year. This means that during each year, the Embassy is under budgeted at the same rate as it spends on Tsunami recovery, and has to trust that money will cover the deficit just before the books close in December. While workable, this way of budgeting implies a risk for the implementation of both the Tsunami response and the regular country programme for which the Embassy is responsible.

Therefore, additional Tsunami budgets need to be allocated to the Embassy at the beginning of each year in 2006–2008, and on top of the regular country allocations for these years, all in line with the Swedish Government decision in June 2005 which stated that 120–140 million should be added to the regular country allocations for Sri Lanka over a four to five year period.

3.4 Strategic Adjustments and Choices Ahead

Irrespective of the budget constraints mentioned in the previous section, but instead because the regular and pre-Tsunami plans are already agreed to a large extent, there are not much scope for choices ahead. The main job is to assess and implement what is already indicated, planned and agreed as per 2006–2008 country plan. Additional contributions are possible to identify in certain sub-sectors according to the country plan, but these cannot translate into disbursements until 2008.

However, the area of democratic governance, including human rights and peace-building, should continue to be consolidated. There has been a division of labour within the Embassy that corresponded to the administrative and budgetary set up of Sida's support. For example, the portfolios of democratic governance, peace building and civil society support were being managed separately by three programme officers. The present structure is now being broken up with a view at the substance and efficiency of the administration of the support, and Embassy respon-

sibilities are being assigned according to that substance. This will enable the Embassy to increase its focus on strategic planning within the democratic governance portfolio, but also to strengthen the mainstreaming of the rights- and conflict perspectives into all programmes and policy dialogues funded and carried out by the Embassy.

2006 and 2007 will also be the years when the new cooperation strategy for 2008–2012 will be planned. A number of political and socio-economic analyses and other kinds of preparations will be made, as much as possible in line with the Paris Agenda, to enable the approval of an informed and well-based strategy proposal in December 2007. Even if it is too early to tell what the main strategy options will entail, it is foreseen that the strategy will concern a mix of the following two basic choices:

- a continuation of the current strategy focus, but with a much sharpened focus on Sri Lanka's conflict and the underlying political and governance problems, as well as on the inequity that impedes the poverty reduction benefits of economic growth, and
- a gradual phase-out of conventional cooperation and Sri Lanka as a Sida programme country, coupled, but only if found reasonably feasible, with attempts at a specified form of broadened cooperation in the spirit of the Swedish policy for global development.

3.5 Main results in relation to the country strategy in 2005

The Sida-funded country programme in Sri Lanka is relatively small in relation to the overall goals of the country strategy, and decisive and attributable results on that goal level are hard to identify in a meaningful and reliable way. Somewhat lower in the strategy's goal hierarchy, results reporting become more feasible, but also clearly overlapping with the information generated by the rating system. In 2006, an account of the results produced during the strategy period will be prepared. That account is likely to elaborate on the following type of results as well as their own wider effects as far as possible:

- The police project has as a side-effect generated an internal steering committee within the Sri Lankan police that will guide urgent self-assessment and reform.
- Local media institutions have established a Press Institute and Press Ombudsman which are playing a role for press freedom and quality in the country.
- UNICEF is leading the watch dogging of child soldier recruitment in the North and East, and in a way that works as a downer on such human rights violations.
- Twelve local chambers of commerce with nation-wide coverage provide opportunity for local businesses to express demands in a coordinated way.
- Nineteen Jobs Net offices all over the country provide consultation and advice to anyone who wants to improve his or her employment and income opportunities.

4. Specific Country Programme Overview

4.1 Sector Follow up

4.1.1 Pro-poor economic development

As a consequence of the Tsunami, it was decided to substantially increase the support for rehabilitation of provincial roads in the North and East to include not only roads damaged by conflict but also by the Tsunami and its aftermath. The support of 120 MSEK during a four year period was agreed with the government and the ADB in December 2005. The possibility of supplying a stock of emergency bridge material continues to be investigated.

The Embassy proposes to engage in a project to provide access in rural areas with latent economic potential through community participation. Piloting of this effort commenced during 2005 and is being implemented by Practical Action (formally Intermediate Technology Development Group). Evaluation of the effort will be carried out in 2006 to determine pilot success prior to scaling up the project.

The agreement with ILO on Regional Micro and Small Enterprise Growth and Development was signed in April, and one of the first activities was to conduct a peace and conflict assessment (PCIA). It resulted in comprehensive recommendations on how to improve the design of the project and increase its conflict sensitivity. It was agreed at the first steering committee meeting in early December to include the most important recommendations of the PCIA. In general, the experience of this exercise was very positive and it is proposed that similar assessments resulting in practical recommendations are made also for other project. However, it is important to be realistic about the extent to which the recommendations are feasible within the resources available to the programme.

The JobsNet programme has picked up well in term of numbers of job registration and job matches confirmed. The ownership, and the management of JobsNet, which is based on a public-private partnership is presently discussed to develop a more efficient model and with a higher potential of sustainability.

Preparations for microfinance support with the Ministry of Finance and GTZ developed only to a limited extent in 2005 but will restart during the first quarter of 2006. GTZ has taken the role as coordinating donor in the microfinance sector which has been very valuable given the high number of often uncoordinated players in the area, including a

large number entering the sector after the Tsunami. CGAP made an assessment of the sector in October, where Sida's strategic partnership with the GTZ in the lead is well recognised as a good attempt at harmonisation.

As regards support to financial and capital market reform, the staff exchange project between Riksbanken and the Sri Lanka Central Bank is continuing with regular visits between the two banks. For the co-financed project focusing on the debt market, managed by the ADB, the consultants were recruited in May 2005. Staff from the Swedish Debt office have been engaged by ADB to assist the Central Bank to improve its management of the government debt.

Another support of structural reform is in the trade area where preparations have been made to support the establishment of a Sri Lanka Accreditation Board (SLAB). This will also be an institutional cooperation between SLAB and the Swedish Board of Accreditation and Conformity Assessment (SWEDAC). A visit by SWEDAC to Sri Lanka in November will be followed by a report which will guide the further preparations for the implementation.

In relation credit programmes, the assistance to Plantation schools is proceeding as per plan while the progress of the Rural Electrification Project is somewhat slow and procurement is expected to be initiated during spring 2006. The negotiations in terms of the wastewater treatment facilities at Ratmalana, Moratuwa and Ja-ela/ Ekala were completed during 2005 with signing to take place in 2006.

4.1.2 Peace and democratic governance

Support within the areas of peace and democratic governance has focused on four distinct areas: peace building, strengthened access to justice, enhanced rights of women and children, and increased democratic culture.

Peace-building interventions include the support to the Sri Lanka Monitoring Mission, monitoring the cease-fire agreement, and Mines Advisory Group, supporting de-mining activities in the Eastern parts of the country. The deteriorated security situation, beginning in the latter part of 2005, affected the work in the conflict areas. The support to civil society organisations includes working with key-political stakeholders and raising the capacity of civil society at the grassroots level.

2005 also saw the birth of an integrated strategic conflict assessment, a joint initiative by Sida, DfID, the Netherlands, the World Bank and the Asia Foundation. This study includes useful recommendations to the international community working in the country and will therefore have bearing on both the Swedish current and future development cooperation with Sri Lanka.

To support strengthened access to justice, the Embassy has agreed on three new projects within the legal sector (Equal Access to Justice, Enhancing the Capacity of Civilian Policing and Computerisation of the Population Registry). These programmes are in their initial phases and intense discussions with ministries, departments and agencies have taken place, focusing on human rights and conflict sensitivity with regard to legal and governance structures. The Equal Access to Justice Programme developed an extra component to assist the Tsunami-affected with replacing lost legal documentation. Donor coordination has been put in place which however could be further developed. There is also support to several CSOs within the area of access to justice that enables good synergies.

Enhanced rights of women and children are supported through UNICEF's country programme including the thematic areas of: girls' education, early childhood development, child protection and HIV/AIDS. The UNICEF thematic programme has to some extent been affected by the large engagement by the UNICEF for Tsunami recovery.

The Democratic Youth Leadership Programme implemented by the Sri Lanka Foundation Institute has produced interesting results and networks. It will be extended up to December 2006 to enable consolidation of achieved results and handing over to relevant organisations. The CSOs supported have worked in the area of legislation and social consequences in regard to the abuse of women and children.

Within the area of increased democratic culture, the support to Sri Lanka Press Institute has continued. Donor coordination has been strengthened between the Scandinavian countries during 2005, and Danida entered into funding, focusing on the Radio and TV unit at the college within the Institute. The Swedish National Institute for Further Training of Journalists (FOJO) is acting as the technical advisor to the project. Three CSOs were supported in the area of promoting a democratic culture.

Preparations for education for peace and democracy within an education sector programme funded by the World Bank are in its final stages with the aim to sign an agreement in the summer of 2006.

During the last quarter of 2005 the Embassy started the process of revising the Guidelines for support to Civil society organisations to make the support more efficient and also less administrative burdening for the Embassy. Therefore a strategy was developed to look for an organisation that could partner through a framework agreement and take over the bulk of the CSO portfolio in the following year.

4.1.3 Humanitarian assistance

With regard to the humanitarian assistance and Tsunami funds channelled through FORUT, 2005 was a year of relief operations, including shelter programmes, and preparations to initiate housing and livelihood programmes. Part of the project implementation was delayed during the year.

Non-tsunami related humanitarian assistance include the UNDP flooding project, initiated in 2004 after the floods in 2003, and has been finalised during 2005. The flooding project experienced some delays during the year, much due to the tsunami, although not targeted directly by the tidal wave.

The SEKA-funded UNDP project in cooperation with the Disaster Management Centre of the Government, for recovery support and local level capacity building in the area of risk reduction in response to the Tsunami, started in 2005 and continues.

4.2 General Comments on Project and Programme Ratings

Due to a variety of technical problems of the rating system as such, the Embassy's rating was stalled for much of the year. Since the use of rating depends on trends that can be identified through a series years, there is not much to report on in this regard.

5. Office and Administrative Issues

5.1 Quality Assurance

As a quality assurance the Embassy has, as a complement to Sida's procurement guidelines, written a procurement guideline in order to simplify the procurements made within the administration. Following these guidelines the Embassy has procured services for maintenance and repair of the Embassy building and staff houses, security services, and cleaning and gardening at the Embassy.

In order to reduce handling of cash in the reception, the Embassy has introduced that all visas should be paid directly into a bank account. For payments of invoices and requisitions within the administration and development cooperation direct banking has been introduced in order to reduce the amount of cheques.

Specially commissioned audits are another important quality assurance measure that continues to be taken on a more or less routine basis. In Sri Lanka, audits carried out by the Auditor General are irrelevant to Sida's follow up and control purposes: they are belated, classified and, on top of that, not project or performance oriented.

5.2 Current Resources and Staffing

The Embassy has seven sent-out staff and eleven locally employed staff. Of the locally employed staff, two are national programme officers. During 2005, four sent-out staff were replaced. One locally employed staff was employed within the administration.

During the first half year the Embassy hosted two high level visits from Sweden. In February the Minister for Development Cooperation visited Sri Lanka together with a group of parliamentarians and Sida's Director General. In April, Crown Princess Victoria made a short visit in connection with her travel to Bangladesh. In May, the Embassy arranged a regional seminar on "Making Markets Work for the Poor" in cooperation with INEC. In June a Swedish trade mission visited Sri Lanka. The purpose of the mission was to increase the knowledge about the reconstruction plans of the countries affected by the Tsunami disaster, and to promote trade and investments between Sweden and Sri Lanka.

5.3 Administrative Changes and Bottlenecks at the Embassy

A re-organisation of the administration took place in the first half of the year. A new person was employed for the visa work in the reception. The

administrative part of the visa-section also went through a major re-organisation with assistance of the migration attaché in Islamabad.

The housing for the sent-out staff has been reviewed. Old houses with serious plumbing and electricity problems have been replaced by newer houses and apartments which will reduce maintenance costs.

In order to improve the working environment, ergonomic office chairs have been purchased from Sweden for all staff. The IT-platform was also upgraded to XP and a new server unit was installed. One bottleneck for the Embassy is the time difference between Sri Lanka and Sweden. For severe IT-problems the Embassy has to wait 4–5 hours before a contact can be established with the IT-division at Sida.

Annex 1

Financial Follow up of the 2005 Country Plan

The amended 2005 country plan covered 38 projects within the country allocation.¹ For these projects, a total of 146,0 million was planned. Out of this planning amount, 138,5 million (95%) were disbursed by the end of the year. A follow up of disbursements within the country allocation and the amended country plan reveals the following:

- Twelve projects received smaller amounts than planned. The more substantial planning errors were those for the emergency bridges (15 million wrongly planned), the 2002–2004 UNICEF programme (5,1 million), education for social cohesion (2,5 million), and ADB financial sector reform (1,2 million). The total value of these planning errors is 28,5 million.
- Twelve projects received larger amounts than planned. The value of this miscalculation is 21,0 million, including 10 million for FORUT which was included in the country allocation only in November 2005.
- Eight projects were correctly forecast for zero disbursements.
- Six projects received the same amounts as forecast by the amended country plan.

The first two points explain the why a total of 7,5 million (146.0 minus 138,5) were incorrectly forecast by the amended country plan. In other words, the two planning errors, in both negative and positive directions, more or less off-set one another.

It must be noted that budget planning in a year just after the Tsunami is necessarily a shaky thing. The fact that 95% of the budget was disbursed is mainly due to a good deal of luck, but also rushed but still justifiable “backloading” disbursements to four projects in November and December. These disbursements were made in response to the announcement by Sida in November that no additional funds to cover the Embassy’s Tsunami response would be allocated on top of the regular budget of 110 million in 2006.

¹ The amended country plan was approved in June and included the necessary changes to the original 2005 country plan because of the Sri Lankan Tsunami. Note also that the number of projects is based on a calculation of the civil society programme and the consultancy fund as two separate contributions, not of their large numbers of distinct components.

Annex 2

List of Strategic Documents Received

Aid, Conflict and Peace Building in Sri Lanka; Goodhand, Klem, Fonseka, Keethaponcalan and Saredesai; 2005. This document is widely considered to be one of the best conflict analyses ever made. It also has a range of special annexes which are of great interest and use, for example on the politics in the North and East of Sri Lanka.

Millennium Development Goals: Sri Lanka Country Report; Government of Sri Lanka and the UNDP; 2005. A comprehensive review of all millennium development goals, targets and indicators.

Attaining the Millennium Development Goals in Sri Lanka: How Likely and What It Will Take to Reduce Poverty, Child Mortality and Malnutrition, and To Increase School Enrolment and Completion; The World Bank, March 2005. An in depth statistical exercise that complements the broader MDG report by the Government and the UNDP, but which also dig deeper into the underlying causes of real and possible MDG attainment.

Sri Lanka Development Forum: The Economy, the Tsunami and Poverty Reduction; The World Bank, May 2005. Surprisingly the only document of broader interest that was produced for the Development Forum held in Kandy in May.

Post Tsunami Recovery and Reconstruction: Progress, Challenges and Way Forward; Joint Report of the Government of Sri Lanka and Development Partners, December 2005. A good and relatively frank account of Tsunami relief and recovery efforts during the first year after the Tsunami, and with special references to the agreed guiding principles for the Tsunami response.

Selected Social, Political and Economic Indicators for the South Asian Countries

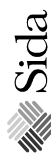
Country	Governance Indicators 2004 (1)							Economic Freedom 2003 (5)							Index of Economic Freedom 2006 (6)							Global Competitiveness Index 2005 (9)							Human Development Index 2005 (10)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
	9,1	1,0	2,5	3,9	11,2	3,4	31,1	26,4	22,2	13,3	10,3	28,6	11,7	112,5	53,4	59,9	51,7	75,4	14,6	73,8	328,8	55,8	50,7	26,6	47,3	53,9	24,3	258,6	66,8	36,7	51,7	60,6	19,9	72,3	308,0	17,8	24,2	25,1	33,5	22,3	5,3	128,2	117	32,7	26,1	15,8	20,2	11,7	6,3	112,8	144	11	61	69	68	38	5	11	66	68	68	5,7	117	0,31	0,52																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						

Sources:

- (1) Governance Indicators: www.worldbank.org. The higher the scores (between 0-100), the better. Iceland best on the total average score, and Somalia worst. Out of 203 countries scored, Sri Lanka ranks number 93.
- (2) Corruption Perceptions Index 2004: www.transparency.org. The lower the score (a relative ranking of most countries in the world), the better. Iceland best (1), and Bangladesh and Tchad worst (both 158).
- (3) Freedom in the World 2005: www.freedomhouse.org. The lower the score (between 2-14), the better. Most Western countries best (2) and Burma, Turkmenistan, Libya, North Korea and Cuba worst (all 14).
- (4) Global Press Freedom 2005: www.freedomhouse.org. The lower the score (between 0-100), the better. Finland best (9) and North Korea worst (97).
- (5) Economic Freedom 2005: www.freetheworld.com. The higher the scores (between 0-10), the better. Hong Kong best (average 8.7) and Burma worst (average 2.8). Out of 127 countries scored, Sri Lanka ranks number 76.
- (6) Economic Index of Freedom 2005: www.heritage.org. The lower the scores (between 1.0-5.0), the better. Hong Kong best (average 1.28) and North Korea worst (average 5.00).
- (7) GDP per capita at PPP in Human Development Report 2005: hdr.undp.org. Obviously, the higher the PPP GDP, the better. Luxembourg best (62,298) and Sierra Leone worst (548).
- (8) Gini Coefficient Index in World Development Report 2006: econ.worldbank.org. The lower the score (between 0-1), the better. Hungary best (0.24) and Haiti worst (0.68). Sri Lanka is the world's median-equal country.
- (9) Global Competitiveness Index 2005: www.weforum.org. The higher the score (up to 6), the better. Finland best (5.94) and Chad worst (2.37).
- (10) Human Development Index 2005: hdr.undp.org. The higher the score (between 0-1), the better. Norway best (0.963) and Niger worst (0.281).

Annex 4

Planning Overview



Country report - Sri Lanka

Outcome and forecast in TSEK

Delimitation:
Status: I, P, A and C (agr end > 200400 or Outcome < 0)
Region/Country: Sri Lanka
Other:

Responsible Unit	(All)
Main Sector	(All)

Allocation Frame	Allocation Account	Sub Sector	Data			
			Outcome 2004	Outcome 2005	Forecast 2005	Forecast 2006
Inside country allocation	15515 Sri Lanka	-	0	0	0	19 500
		111 Education, level unspecified	0	0	0	6 000
		112 Basic education	1 505	1 722	1 722	1 790
		151 Government & civil society	51 392	50 289	50 320	59 234
		152 Government & civil society	12 756	14 512	17 002	0
		160 Other social infrastructure	10 000	0	0	500
		210 Transport and storage	4 176	22 279	22 281	13 090
		220 Communications	231	1 106	1 109	10 263
		230 Energy generation & supply	0	0	0	0
		240 Banking & financial services	9 023	6 251	6 221	13 292
		250 Business and other services	11 442	19 339	19 408	24 250
		313 Fishing	259	0	0	0
		323 Construction	0	0	0	0
		331 Trade	0	0	0	2 650
		410 General environmental protection	0	6 000	6 000	0
		430 Multisector/Cross-cutting	0	0	0	0
		720 Emergency and distress relief	0	12 700	12 700	20 000
		910 Administrative costs	1 653	1 317	1 317	1 390
		998 Unallocated/unspecified	454	3 018	3 018	436
15515 Sri Lanka	Total	102 889	138 534	141 098	172 395	
Inside country allocation Total		102 889	138 534	141 098	172 395	
Outside country allocation	15519 Regional Asia	321 Industry	0	0	0	0
	15519 Regional Asia	Total	0	0	0	0
	15536 Program development					
	15536 Program development	220 Communications	0	0	0	0
15536 Program development		Total	0	0	0	0

Allocation Frame	Allocation Account	Sub Sector	Outcome 2004	Outcome 2005	Forecast 2005	Forecast 2006
Outside country allocation	15541 Concessionary credits	-	0	0	0	19 000
		112 Basic education	0	555	577	800
		140 Water supply and sanitation	2 175	210 834	210 834	35 106
		220 Communications	25 000	0	0	15 000
		230 Energy generation & supply	0	0	0	0
		910 Administrative costs	34	0	0	0
	15541 Concessionary credits	Total	27 209	211 389	211 411	69 906
	15551 Research	114 Post-secondary education	0	0	0	0
		140 Water supply and sanitation	0	280	280	0
		321 Industry	10 281	8 769	10 111	9 975
		430 Multisector/Cross-cutting	7 585	4 777	5 744	17 778
	15551 Research	Total	17 866	13 827	16 135	27 754
	15561 Non-governmental organisations	111 Education, level unspecified	1 050	-21	0	0
		112 Basic education	0	0	0	0
		121 Health, general	275	-7	0	0
		122 Basic health	0	139	139	145
		130 Population & reprod. health	77	89	89	94
		140 Water supply and sanitation	0	0	0	0
		151 Government & civil society	2 510	2 648	2 710	2 821
		160 Other social infrastructure	0	46	46	45
		160 Other social infrastructure	247	-2	2	2
		161 Culture	0	64	64	63
		220 Communications	0	28	28	27
		240 Banking & financial services	0	32	32	34
		321 Industry	0	7	7	7
		430 Multisector/Cross-cutting	609	888	889	927
		998 Unallocated/unspecified	976	1 214	1 218	1 313
	15561 Non-governmental organisations	Total	5 745	5 126	5 224	5 478
Outside country allocation	15571 Humanitarian assistance	152 Government & civil society	5 434	5 000	5 000	5 000
		720 Emergency and distress relief	7 441	12 587	12 587	5 000
		720 Emergency ass. refugees	0	0	0	0
	15571 Humanitarian assistance	Total	12 874	17 587	17 587	10 000
Outside country allocation Total			63 694	247 928	250 357	113 138
Grand Total			166 583	386 463	391 455	285 534

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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