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Sida Country Report 2004

Sri Lanka

Content

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1. Introduction and Summary

The 26th of December 2004 will forever be remembered as the day when a Tsunami hit three quarters of the Sri Lankan coast with devastating force and took over 40,000 lives, destroyed more than 100,000 houses and robbed half a million people or more of their normal livelihoods. In relation to the size of the population and the damage done, the Tsunami is the worst natural disaster ever to hit any one country. The full damage caused is difficult to assess, but it will clearly define most developments in the country in the years to come. This is a report on trends and events recorded in Sri Lanka in 2004. The Tsunami and its aftermath are therefore not in the forefront. For Tsunami related information, the reader should consult other reports and also the forthcoming 2005 country reports.

In general, and ignoring the still uncertain impacts of the Tsunami, Sri Lanka fares rather well in terms of some Millennium Development Goals, in particular in social areas such as primary education and health. But nation-wide statistics tend to hide underlying regional inequalities and discrepancies. While the Western Province has already attained its MDG poverty target, the incidence of poverty in the rest of the country is today higher than it was in 1990. Even if most people are better off than fifteen years ago, the gap between rich and poor keeps widening at an alarming rate. Sri Lanka is also a striking example of absent trickling down effects from the economic growth centres of the Colombo and Kandy areas to the rest of the country.

2004 saw a gradual slowing down of the economy, but the per capita growth of around 4% is still remarkable given that the overall stability of the country was increasingly at risk. A new government took office after parliamentary elections in April 2004, based on an unstable coalition mainly between the President's SLFP party and the JVP.

The stalled peace process did not progress in 2004. An internal LTTE conflict became evident in March when its eastern command defected and was crushed by the LTTE one month later. A wave of assassinations of non-LTTE political activists followed, also in the Western and Southern provinces. In July there was even a suicidal bombing attempt at a Tamil minister of the government.

Meanwhile, the Southern political elites had continued difficulties agreeing on a peace agenda.

The Swedish development co-operation continued as planned, despite the shift of political power and the challenges to peace and stability. In

2004, the volume of Sida funded activities within the country allocation was 104.5 MSEK, up from 61.7 MSEK in 2003. The total volume of Sida funded activities in Sri Lanka was 153 MSEK.

The basic Sida strategy is to have a portfolio consisting of large programmes channelled through multilateral agencies, also creating room for support in smaller and strategically important areas, but all within the broad frames of pro-poor growth, peace, democracy and human rights. In 2004, consolidation to this end continued successfully.

2. Strategic Development Trends

2.1 Poverty Trends and Perspectives

In May 2004, a national poverty line was announced by the Sri Lankan government, based on absolute poverty expressed as real total food and non-food consumption expenditure per person and month (1,526 SLR in 2004). This poverty line implied minor adjustment to the conclusions of the 2002 Household Income Expenditure Survey. Colombo is still the district with the smallest proportion of poor people (6%). But Badulla and Moneragala districts in the South East are now considered to have the largest proportions (37%), not counting the eight districts in the conflict-affected areas of the North and East generally considered to be the poorest in the country.

In early 2005, a special report on the current status of the Millennium Development Goals (MDGs) was published (see Annex 2 for a summary). On an overall national level, Sri Lanka fares rather well. The MDGs for universal primary education, reduced child mortality and water and sanitation are well on track and with the current rates of development likely to reach their targets by 2015. The target to halve the number of poor people by 2015 is also on track, although not at a quick enough rate. For example, the number of households below the national poverty line dropped from 26.1% in 1990 to 22.7% in 2002, implying 26% goal attainment. While not fast enough for the MDG target, it is still significant but also remarkable given years of conflict, generally bad governance and widespread corruption.

Still, positive nation-wide statistics hide often drastic regional and other kinds of discrepancies. As indicated, some districts have shares of poor households that are up to six times that in the Colombo district.

- The share of households with access to safe drinking water in the Central Province is half of that in the Western Province.
- Women earn almost half the amounts as men across the board, and these inequalities are particularly pronounced in urban sectors.

One big discrepancy in Sri Lankan society is that between the conflict affected areas of the North and East and the rest of the country, but much of the statistics about these differences are yet to be collected. It is widely felt that West and South get more resources for development than the rest of the country, and this is in itself a driving force of the latent conflict. The relief and recovery responses to Tsunami affected coastal areas are likely to add new dimensions of inequality, not least given that the marginalised Muslim community in the East was disproportionally affected.

In sum, the steady economic growth recorded in recent years in and around Colombo and Kandy has not translated into growth and poverty reduction in the rest of the country. Sri Lanka is a striking example of trickling down effects being limited to the immediate locality of growth centres and to little or no benefit of the poor and less privileged. This is underscored by Gini-coefficient trends: 0.43 (1990), 0.46 (1995) and 0.48 (2002), where 1,0 represents maximum inequality in terms of household income.

According to Transparency International (TI), Sri Lanka scores poorly in terms of corruption, an important root cause of poverty in the country. In a survey of the South Asia region made by TI in 2002, Sri Lanka stands out as a bad case. For example, 100% of the survey respondents that had interacted with the Sri Lankan police and judiciary had also encountered corruption and paid bribes. More recently, Sri Lanka has earned the dubious reputation of doing little or nothing to curb what is generally felt to be an increasing trend of corrupt practices. The donor response to the Tsunami is widely believed to quickly deepen and widen such practices

Corruption in Sri Lanka largely has its origins in the nationalisation process and state controls imposed due to the deterioration of the economic situation of the country in late 1950s and early 1960s. State involvement in many economic activities continue even after the adoption of the open economic policy in 1977, providing grounds for corruption and nepotism. In relation to the population, the Sri Lankan bureaucracy is today one of the largest in the world. As such, it has become a main tool for patron-client relationships that serve the interests of political elites and their supporters rather than the general public.

2.2 Macro-economic Development

The two most significant trends and events in 2004 with respect to macro-economic developments were the higher international crude oil prices and the impacts of drought on agricultural production. The Tsunami will have important consequences too, but these will mainly be seen in 2005 and beyond. GDP growth was 5.5% in the first three quarters of 2004, or just above that in 2003 for the corresponding period. Growth slowed down somewhat in the second half of the year, ending up in growth of about 5,2%.

The service sector continued as the major source of growth, mainly due to expanded international trade, a concurrent increase of port activities, booming telecom markets, and a sharp increase of tourist arrivals. Industrial exports, generating about a third of GDP growth, grew by 9% during the first seven months of 2004. Exports of textiles and garments, which dominate exports, grew by 5% despite hardened international competition due to the expiry of the Multi Fibre Agreement.

Sri Lanka exports mainly to the United States and the European Union while most imports are from Asia. Given its small domestic market, Sri Lanka has strived to be part of numerous trade groupings in Asia, but with little success in terms of higher exports. It has reaped more benefits through a free trade agreement with India increasing exports to and investments from India. A similar agreement with Pakistan is on its way.

Inflation, which has recorded downward trends since early 2002, inched upwards in mid-2004. Consumer price inflation in 2004 was

7.6%, or back to the mid-2003 rate. In November and December, inflation increased at a rate of around 13%. These trends were again mainly due to drought and higher international prices on crude oil and other imported goods such as wheat flour, sugar and milk powder. But it will also be enforced in 2005 by the massive inflow of aid funds because of the Tsunami.

The Rupee depreciated against all major trading currencies in 2004, including 8.5% against the US Dollar. Interventions of the Central Bank on foreign exchange markets and debt service payments on foreign loans reduced gross official reserves in the first three quarters to 1.9 billion USD.

On the fiscal front, the new UPFA government embarked on a less than prudent track. Total government revenue in 2004 is projected to be 312 billion SLR, compared to expenditure of 485 billion. The budget deficit figure excluding grants and privatisations is expected to be 8.6% of GDP. Higher oil prices are having a negative effect also in this respect. Fuel tax, earlier one of the biggest sources of government revenue, was offset by costly subsidies. The government is expected to have spent a total of SLR 10 billion on subsidising fuel prices in 2004. But it also had to start reducing these subsidies during the year, making transport prices inflate.

The 2005 budget was released in November. It was less populist than expected, but still much geared to boost popularity with farmers and SMEs, including large scale renovation of irrigation tanks and the setting up of a new SME bank. Government tax revenue was targeted to increase by 24% and expenditure by some 15%.

In November, the Central Bank tightened its monetary policy, raising the repo and reverse repo rates by 50 points to 7.5% and 9% respectively, citing faster than anticipated growth in monetary aggregates. 2004 saw increased investment expenditure, expansion of private sector credits and more imports of investment goods. It is expected that post-Tsunami reconstruction will lead to much amplified fixed investment growth in the years to come, and that the Central Bank will be inclined to loosen its monetary policy to help stimulate such growth.

The Colombo Stock Exchange indices performed remarkably well. The All Share Price Index rose by 44% during the first ten months of 2004, increasingly because of sound company fundamentals and demands for tourism and leisure stocks.

2.3 Political Development

Major political events in 2004 are the general and provincial elections in April and July respectively, the new Government's policy orientation, the internal LTTE conflict, the wave of political killings, and the continued challenges to the peace process.

In the general elections held in April, the incumbent UNF government was defeated by the United People's Freedom Alliance (UPFA). The big loser of the election was the United National Party (UNP), that dominated the UNF alliance. But the winner was not the People's Alliance (PA), but the Marxist-oriented People's Liberation Front (JVP) and other nationalistic and extremist parties such as the Tamil National Alliance (TNA) and the Monkparty (JHU). The latter wants to transform the Sri Lankan state according to Buddhist dogma.

The elections resulted in a coalition government, comprising of both PA and JVP ministers, but still short of a parliamentary majority. In September the government succeeded in forming a parliamentary alliance with the Ceylon Workers Congress (CWC) which had run together with the UNP in the elections. In July, the UNP suffered another humiliating defeat in the elections to six provincial councils, and in the South again mainly to the JVP.

The April election was widely considered to be one of the most free, fair and peaceful elections in recent decades, especially in the southern, western and central regions. Coercion in the North and East was however widely reported. The election did not produce a stable government with a clear agenda for peace and development.

The peace process is at a standstill and the Norwegian facilitators, despite great efforts, have not been able to get the conflicting partners to the negotiation table. Also, the two parties that form the UPFA government have so far been unable to form a common position regarding the peace process. The government maintains that ISGA needs to be discussed in relation to a final solution to the conflict (which LTTE opposes), but its ideas for such a final solution remain elusive.

In July, the new government presented an economic policy statement, based on its election manifesto. This was reiterated in the budget presentation in November 2004. It pointed at renewed attempts at reform of hugely loss-making state-owned enterprises (rather than privatisation), revival of agricultural production, and the promotion of small and medium sized enterprises, in particular in rural areas in order to address the problems of regionally unbalanced developments. While some policy implementation appears underway, many observers conclude that this policy package is vague and insufficient. Still, the shifted focus away from big business and the growth areas of the Western Province (the focus of the previous government), is certainly serious, also given the policies and powers of the JVP.

The difficulties of the major Southern political parties to overcome their particular power interests and join hands in matters of vital national importance continued to mark Sri Lankan politics. After the elections, President Kumaratunga and the PA-dominated government began to backtrack on their previous critical stance against the peace process and Norway's and SLMM's involvement. But this does not mean that the President, the SLFP, the UNP and other Southern parties are now tuned in for a joint position to peace negotiations. The major parties either cannot or do not want to agree even on rather simple procedural matters related to the peace process.

The surge of JVP as the third biggest party and coalition partner in the government is hardly helpful in this respect. The JVP has consistently said no to any negotiation on the basis of ISGA, to a federal solution on the basis of the Oslo declaration or to any solution of the conflict based on devolution of state power to the LTTE. On top of that, the JVP also opposes Norway's peace facilitation and the monitoring mission of the SLMM. Towards the end of the year, it was generally felt that the peace process was at an all time low. There was even unconfirmed intelligence that the LTTE was preparing for war. The Tsunami effectively changed whatever plans the conflicting parties had at that time.

The government's plan to pass a new constitution through a constituent assembly in the absence of the required qualified majority in Parliament continues to be debated and speculated on. The idea is to abolish the executive presidency, make the prime minister the head of government with the same powers as today's presidency, and introduce new election procedures based on majority rule (first past the post system). The plan is perceived as a way for the President to extend her executive powers also after the second and final presidential term, which is likely to add further disharmony to the Southern polity, even if constitutional change as such may make sense.

Disharmony is evident also in the LTTE. In early March its Eastern commander, known as Karuna, split from the main body of the LTTE. With around 6,000 LTTE cadres (of an estimated 15,000) under his control, Karuna's rebellion represented one of the biggest internal challenges ever to the LTTE. In April, the LTTE cracked down on the rebellion with typical ruthlessness, forcing the rebel leader into hiding under the protection of the Sri Lankan Army (which the LTTE maintains) or into exile, but anyway with an LTTE price on his head.

The impacts of the internal LTTE power struggle on the prospects of the peace process remain to be seen. But it is clear that the crackdown went (and still goes) hand in hand with an intensified killing spree targeting a variety of non-LTTE Tamil activists, such as Karuna loyalists and informers to the Sri Lankan Armed Forces. Around 150 politically motivated assassinations have taken place in government controlled areas, including Colombo. This has caused additional concern about the conflicting parties' respect for the cease-fire agreement and their commitment to the peace process at large. In July, there was a failed suicidal bombing attempt at the Minster for Hindu Affairs who is also the chairman of the Eelam People's Democratic Party (EPDP), a number one target for the LTTE since many years back.

Child soldiers have been a special concern to human rights observers in 2004. The LTTE has a history of forcibly recruiting children and placing them on the frontlines during combat operations. In April, after much pressure from human rights lobbyists, more than 1,000 children were returned to their families, mainly by the Karuna faction after the failed rebellion. But in June, the LTTE was reported by Human Rights Watch to intensify its efforts to recruit child combatants, including those that were previously released by Karuna. According to UNICEF, the LTTE was abducting children from their homes and threatening parents who dared resist or complain. It is believed that the LTTE focuses on abducting small groups of children so as to rebuild and strengthen its forces without attracting attention and whistle blowing. The levels of fear and repression in LTTE controlled areas, but also in the parts of the North and East that are under government control, are alarmingly high by any standard.

2.4 Partnerships and Co-ordination

The change of government and the policy orientation this implied caused the donor community to share more information and seek out further possibilities for co-ordinated dialogue and support. A main venue for information sharing between donors in 2004 (as in 2003) were the monthly "triple-R" meetings that focused on rehabilitation, reconstruction and reconciliation, but that also served as an important ground for general networking and co-ordination.

The Development Assistance Co-ordination Committee (DACC), which was established under the previous government but which turned out to be an information sharing exercise only, was revived in mid-2004 through pressure from the donor group. Three sub-groups on economic growth, reconstruction and governance, and access to social services were initiated, chaired by senior government officials and facilitated by donor representatives. The purposes of these groups are geared towards a shared understanding of government and donor policies, gradual replacement of project funding by programmatic funding, and coherence of donor activities with Sri Lankan programmes, strategies and standards. After the Tsunami, these groups became dormant, and focus shifted to the government task forces for Tsunami relief, rehabilitation and reconstruction.

In line with the global activities of the Multilateral Organisations Performance Assessment Network (MOPAN), a perceptions study of the performance of the UNDP and FAO in Sri Lanka was carried out in 2004. The study was managed jointly by Canada, Denmark, the Netherlands, Norway, Sweden and the UK. As such, it also helped strengthen contacts and networking between major bilateral donors. The Swedish Embassy took the lead in this work and was responsible for reporting.

3. Swedish Development Co-operation

3.1 Strategic Assessment and Considerations

The 2003-2007 country strategy for Sri Lanka has the main focus to promote pro-poor economic growth and peace, democracy and human rights. These areas also represent most of the activities covered by the 2003-2005 Development Co-operation Agreement, but also Sarec financed research co-operation are covered by that agreement. New general terms and conditions for development co-operation were agreed on and signed with the government in June 2004.

Country Strategy Relevance

In view of the poverty situation and recent political developments, including the policy changes that the new government implements, the country strategy has continued relevance. The strategy for pro-poor growth is more in line with the UPFA government's focus on regional imbalances and SME-development in rural and relatively disadvantaged areas, than it was with the previous UNF government's orientation to larger industries in the high-growth areas of the Western Province.

The uncertainty concerning the stalled peace process, but also the much related aftermath of Tsunami, points at continued relevance of the rights and equity perspectives that characterise the portfolio for peace, democracy and human rights

Strategic Adjustments, Alternatives and Choices Ahead

Clearly, strategic adjustments and choices ahead mainly relate to the post-Tsunami reconstruction that very much will define trends and developments in Sri Lanka during the remainder of the current country strategy period. As mentioned, the basic thrust of the country strategy is still (or even more) relevant today, not least given that peace, post-conflict reconstruction and general poverty reduction continue to be fundamental issues, and that an overly and short-sighted focus on post-Tsunami reconstruction is likely to create further disparity, conflict and poverty. To the extent possible and reasonable, there are nevertheless good reasons to transform some ongoing and planned projects in the Sida financed portfolio to make them Tsunami-relevant. These and other medium-term strategic considerations are elaborated in an Embassy document titled *Support to Post-Tsunami Reconstruction in Sri Lanka*.

Dialogue Issues

Dialogue during 2004 focused on the same basic issues listed in the 2003 country report: peace, democracy, human rights and HIV/Aids, and also donor coordination, corruption and MDGs. The prospects for pursuing productive dialogue before and after the April national elections were limited however. The new government spent much time and energy on restructuring ministries and government agencies, and less on developing policies about which dialogue campaigns could be pursued.

Dialogue in 2005 will be much defined by the Tsunami and the guiding principles for rehabilitation and reconstruction that were advocated by the bilateral donor group: conflict-sensitivity, subsidiarity, consultation and empowerment, transparent information and coordination, and anti-corruption.

3.2 Overall Country Programme Review

The consolidation and focus of the country programme continued in 2004. Three main clusters of support for pro-poor growth (transport sector development, financial sector reform and MSME promotion) took a more coherent shape. In the area of peace, democracy and human rights, the orientation of core support through UNICEF and the UNDP came well on its way.

The basic Embassy strategy is to have a portfolio consisting of fairly large programmes channelled through multilateral agencies, which creates room for support in smaller and strategically important areas within the broad frames of pro-poor growth, peace, democracy and human rights. It is in this context smaller and seemingly disparate projects fit, such as those for population registry, intercultural democracy education and the Central Bank. These kinds of projects address structural problems and promote developments on which much pro-poor economic growth, democratic governance or peace-building depend. Consolidation is good only if it makes development sense given available alternatives, and if it releases Embassy capacity to provide support also in other relevant sub-areas.

The country allocation for 2004 was 110 MSEK. By the end of the year, 104,5 MSEK (or 95%) had been disbursed, by far the largest annual volume in at least five years. The area of democracy and human rights recorded 48 MSEK, pro-poor growth around 23 MSEK, and peace and humanitarian assistance some 20 MSEK. Disbursements under the Development Co-operation Agreement were just below the annual target of 90 MSEK, including Sarec-financed research co-operation.

The forecasts made by the Embassy for full 2004 country allocation disbursements were reasonably accurate throughout the year. From March onwards, the monthly forecasts were more than 90% correct, and from August onwards more than 95% correct. A detailed follow up of the 2004 country plan is presented in Annex 3.

3.3 Follow-up of Country Programme Performance

Pro-poor Economic Growth

Support for pro-poor economic growth is concentrated on private sector development, financial sector reform, transport sector development and ICT. Preparations for programmes in all areas have taken place during 2004 and resulted in three agreements, two in financial sector reform (ADB and Central Bank) and one in private sector development (ILO). For the remaining programmes agreements will be signed during 2005, or early 2006. In some cases there have been delays, and the change of government in April was one delaying factor. Total disbursements for 2004 were 23 MSEK compared to an estimated 35 MSEK for 2005.

Private sector development mainly focuses on the development of micro, small and medium enterprise development by strengthening their organisations. There have been attempts to include interventions at the institutional framework level, for example in the area of accreditation, but without success.

A mid-term review of the capacity building programme of the regional chambers of commerce and industry was done during the second half of 2004.[1] The review team recommended that Sida should finance a second phase of the programme but that the focus and content of the programme should be changed in some major aspects. The chambers are elaborating a project document based on the recommendations.

The responsibility for the SIYB programme has been transferred from the ILO project office, which has phased out its operations, to the SIYB Association, which is an NGO established by the local partner organisations. Capacity building of the association will be part of the regional micro and small enterprise development programme in cooperation with the ILO that will start mid 2005. In dept-assessment was finalised at the end of 2004. The support to Jobsnet, an employment sourcing and delivery system, seem to be on track after some problems due to the change of government.

An agreement to continue the staff exchange programme between Riksbank and the Sri Lankan Central Bank (CBSL) for a further three years was signed in March 2004. The exchange programme facilitates cooperation between the two central banks on inflation targeting, financial stability analysis, debt management; development of financial markets and primary dealer system and the financial law reforms that are being undertaken in Sri Lanka. An agreement has been signed with the Asian Development Bank to co-finance its programme to adopt appropriate products and services to catalyse the debt market of Sri Lanka. Sida's co-financing to the training component of the World Bank-led project for restructuring CBSL came to an end in 2004 and a number of CBSL staffers were trained on many of the core functions of the CBSL through relevant programmes in Sri Lanka and abroad. Another Sida's project with CBSL, the High-level Training programme, enabled CBSL to obtain the services of eminent personalities in finance and economics from many parts of the world, including Sweden, exposing larger numbers of staff to contemporary practices through in-country programmes.

Two missions have taken place together with the GTZ in the preparations of a joint programme in microfinance. Hopefully the preparations will result in a programme addressing different levels in the sector. A killing factor might be the legal difficulties in entering partnership agreements with GTZ.

The country strategy for 2003-07 proposes greater involvement in the *road sector*. In 2004 support was provided for the road safety project, co-financed with the Nordic Development Fund. This programme would come to an end in 2005. The possibility of an institutional twinning arrangement with the Swedish National Road and Transport Research Institute (VTI) to take the road safety initiative forward was raised and is being assessed. In preparation for possible support to community led minor road/access programmes three locations for pilot projects were

1 Mid term review: Capacity Building and Competence Development for the FCCISL and Selected regional Chambers of Commerce and Industry in Sri Lanka: January 2005, Cecilia Karlstedt & Gamini Herath

identified during 2004 and the pilot projects will be carried out during 2005. Discussions were held with ADB and government on a co-financing agreement to assist in the rehabilitation of provincial roads in the North and East of Sri Lanka. In terms of strategic issues, Sida initiated a study on overloading and this would become an input to the ADB assisted road sector master plan to be prepared during 2005.

Concerning *credit related programme*s, agreements were signed with the government to renovate and expand around 420 plantation schools inline with the new educational reforms of Sri Lanka and assist the government in its objective of ensuring grid connected electricity to the whole of Sri Lanka through rural electrification programme in May and October 2004, respectively. A conditional credit agreement was signed with Suntel in December 2004 to expand telephone services to the war affected North and East. Negotiations on the credit programme to support waste water treatment facilities in the North (Ja-ela/ Ekala) and South (Ratmalana/ Moratuwa) of Colombo will be completed during 2005 and tenders called enabling construction work in 2006.

ICT development is a relatively new area for Sida, except for initiatives within the research co-operation. Preparations for support to two programmes are underway; e-learning in cooperation with Colombo School of Computing and the IT University of Sweden and the establishment of a population registry in cooperation with ICT Agency and the Swedish Tax Authority.

Peace, Democracy and Human Rights

The most important areas of support for peace, democracy and human rights are the media, children and youth, access to justice and peace-building, reconciliation and humanitarian interventions.

In the areas of *media and journalism*, the Sri Lanka Press Institute (SLPI), the Press Complaints Commission of Sri Lanka (PCCSL) and the Sri Lanka College of Journalism (SLCJ) – co-funded by Sweden and Norway – have successfully completed the first year of operations, in partnership with FOJO (the Swedish Institute for Further Education of Journalists). The PCCSL received and entertained a total of 267 complaints, almost all resolved through mediation or conciliation. It actively promoted, through regular meetings with newspaper editors, owners and journalists, the PCCSL "ombudsman" system of self-regulation and codes of conduct, and received fairly broad recognition in the industry. The College of Journalism held its first diploma course, with 26 students (out of targeted 30) sitting the exam in early 2005. FOJO was a crucial partner, providing advice and also implementation capacity, especially in the training programme for working journalists. The advocacy role of SLPI, on relevant issues of media freedom, quality of reporting, etc, has been less visible, and needs more attention from SLPI's Board and management in 2005. The need for broadening of the SLPI membership within the media sector has also been highlighted as urgent for achieving further recognition as a credible and effective institution.

The rights of the *child and youth* is an area supported by Sida in several ways. A major contribution was agreed with UNICEF for Swedish support to its Sri Lanka programme 2004-06. Since the ceasefire agreement in 2002, UNICEF has been able to scale up activities for early childhood development, education/learning years, adolescence (including HIV/AIDS), and child protection in an impressive way. It has effectively adopted a "one-country approach", integrating activities in the war-affected districts in the North and East with the national programme. In

2004, the mid-term review was carried out as planned by UNICEF and the Government (incl. five relevant ministries), pointing at important achievements in policy-setting, e g with an Early Childhood Development Policy (incl. national guidelines for pre-schools); child protection, e g the establishment of District Child Protection Committees; and education, e g the piloting and expansion of the Child Friendly School concept and the adoption of a Sector-wide Approach by the Ministry of Education. UNICEF was very instrumental in Sri Lanka's launch in 2004 of a National Plan of Action for Children 2004-2008, which is expected to raise the Government's priority and budgetary allocation for social investment in children. Also, in 2004 UNICEF effectively pursued the Action Plan for Children Affected by War, which it had entered the year before with the Government and the LTTE. As a result, some 10,000 children were enrolled back to school and over 50,000 children received catch-up education; hundreds of school buildings damaged or destroyed by war were repaired or reconstructed; between 1500 and 2000 underage recruited children (LTTE) and their families received social work assessments, and at least 500 children engaged in hazardous labour and street children benefited form social work support.

Further, in this area, support to the Sri Lanka Foundation Institute (SLFI) to train and promote youth in democratic leadership – the *Democratic Youth Leadership Programme* launched in March 2002 – continued to deliver interesting results. The programme is implemented in co-operation with the National Council of Swedish Youth Organisations (LSU). Targeted youth organisations have used the training as platforms for continued networking with relevant actors and promoting youth involvement in their respective environments. Previous internal problems at SLFI were addressed effectively, including appointments of new Director and Chairman and restructured financial routines.

Sida has also supported the setting up of an *Early Childhood Development Centre* at the Eastern University (Batticaloa), in co-operation with Save the Children. The increased tensions in the East during 2004, after the Karuna fractions break-away from LTTE, negatively affected the project. In addition, several of Save the Children's audits gave evidence of financial irregularities, which the university has still to fully address before the project can be continued.

Preparations for the planned support for "democratic and intercultural education" were intensified from mid-2004, after the new UPFA government announced renewed commitment to the project. Efforts are being made to integrate it with the national preparations for an education sector (SWAp) programme. Together with the democratic youth leadership programme, this project addresses the structural problems of democratic culture in Sri Lanka, on which also the country's long term and overall prospects for peace and democratic governance depend crucially.

In the area of *access to justice*, support to two new projects, UNDP's access to justice, and the capacity- building of the Sri Lankan Police, was prepared, with the agreements expected to be signed in early 2005. They will replace the previous support to the *Human Rights Commission*, which ended in 2004.

The programme for *support to Civil Society Organisations (CSOs)* started off in January 2004 with a portfolio of mainly core support to seven individual organisations. Three new CSOs have been added to the portfolio during the year, including one international NGO (Forut), and long standing agreements with three partners were renewed. The programme is governed by the Guidelines for Support to Civil Society Organisations approved by the Embassy in December 2003.

The Embassy requests strategic plans as a condition for continued support. Two capacity studies (out of a planned six) are currently being conducted in preparation for future funding cycles. 2004 has also seen continued strategic planning for the pooling of resources through the Consortium of Humanitarian Agencies (CHA) to small community based organisations in the North and East as well as bordering areas.

Peace-building and conflict sensitivity are mainstreamed into all the relevant interventions of the Country programme. Overall the CSO-portfolio includes many strategic interventions as regards conflict transformation and peace-building. The recent prepared support to the CHA's "Peace and Development Programme" is an attempt to support peace-building at the grass-root level. More explicit peace-building interventions are the support to the Sri Lanka Monitoring Mission (SLMM), and to the government's Secretariat for Co-ordination of the Peace Process (SCOPP).

Regarding *humanitarian assistance*, Sida supports de-mining in the East through the Mines Advisory Group (MAG). The support to FORUT (mentioned above) includes support to rehabilitation in the conflict affected areas.

In February, the Embassy made an in depth assessment of transitional recovery assistance to flood-affected areas in Southern Sri Lanka. An agreement was signed in August, and the project implementation under UNDP supervision is on-going.

Research Co-operation

The research programme, which was delayed by a series of audits and their results in the beginning of 2004, is now basically on the right track. The programme covers support to eleven distinct projects, and five Sri Lankan universities. A lot of Embassy time in 2004 has been spent on assisting the projects in all sorts of project and financial management aspects. Adequate budgeting, reporting and external auditing continue to be conditions for support. A special event in 2004 was the inauguration of the Institute for Biomedicine, Molecular Biology and Biotechnology at the Colombo University, financed by an INEC credit and whose scientific research Sarec continues to support.

The projects supported by Sarec cover a wide range of scientific research, from biochemistry and electronic engineering to social geography and health. There is also more general support to the university libraries, staff development and travel grants. After several decades of research co-operation with Sri Lanka, Sarec took the decision in 2004 to phase out during the current agreement period 2003-2007. The two projects that were initiated with the current agreement will however have the option of continued support also after 2007.

Preparations for a possible renewal of support to the two universities for which new agreements could not be signed because of negative audit results, have also been carried out. Before new agreements can be considered, substantial amounts of money unspent from the previous agreements have to repaid to Sida however.

3.4 Office and Administrative Issues

A new Head of Administration arrived in May 2004. This helped stabilise the administrative work at the Embassy which has been much strained because of vacancies due to the retirement and dismissal of two staff during the period of summer holidays.

The dismissal in early June of the Housing and Transportation Officer was made after evidence of corrupt practices in his official duties. Because of these events, the Embassy initiated a full overview of its administrative function and recent history undertaken by Sida's Legal Department.

Annex 1

Financial Plans and Forecasts 2004

Agree-ment nr (Contr)	Financial follow-up SRI LANKA country program	Sta-tus	Agree-ment period	Agreed amount	Planned amount	Disb'd up to & incl 2003	Disb'd 2003	Disb'd 2004 per 1231	Estm'd 2004	Estm'd 2005	Estm'd 2006	Estm'd 2007	Estm'd 2008 & after	Low forecast 2004	High forecast 2004	Low forecast 2005	High forecast 2005
	1. Budget allocated for Sri Lanka																
	1A. Dev Coop Agr.			**220 215**	**487 499**	**57 305**	**25 202**	**74 399**	**74 399**	**90 779**		**92 250**	**50 500**	**72 170**	**72 170**	**70 216**	**98 279**
	Infra, PSD, capital, IT			**87 315**	**273 151**	**32 671**	**14 881**	**23 473**	**23 473**	**47 302**	**64 455**	**61 750**	**43 500**	**22 757**	**22 757**	**37 239**	**51 802**
71005119	Quality infrastructure for fisheries	C	0005-0406	4 200	3 964	3 893	572	71	71					71	71		
71800107	Colombo-Kandy Highway, Study	A	0307-0412	2 615	2 372	0	0	2 277	2 277	95				2 350	2 350	95	95
A7100812	Restructuring, Central bank	A	0201-0412	10 000	10 000	7 500	2 500	2 500	2 500					2 500	2 500		
A4500007	High Level Training,Central Bank	A	0104-0412	4 500	4 197	3 133	2 680	607	607	457				600	600	457	457
A7101062	SYIB II, ILO	A	0112-0506	11 500	11 500	7 587	2 680	3 481	3 481	432				3 481	3 481	432	432
71800047	Road Safety, Southern Corridor	A	0104-0606	10 000	9 827	2 937	1 719	1 627	1 627	4 263	1 000			1 610	1 610	3 000	4 263
71005152	Fed Chamber of Comm, FCCISL	A	0112-0706	21 500	21 898	7 621	4 730	4 177	4 177	3 600	3 000	3 500		3 412	3 412	3 600	3 600
A4500016	Jobsnet, ILO	A	0402-0701	17 000	17 000	0	0	3 250	3 250	5 000	5 000	3 750		3 250	3 250	0	5 000
45000034	Central Bank, Exchange Programme	A	0402-0706	6 000	5 825	0	0	515	515	2 655	2 655			515	515	2 655	2 655
45000045	ADB Financial Reform	A			9 468			4 968	4 968	4 500				4 968	4 968	4 500	4 500
45000031	CAARP E	P			35 000					8 000	15 000	12 000		0	0	8 000	12 000
45000032	Rural access	P			33 500					0	3 500	10 000	20 000	0	0	500	1 000
45000028	Debt Management	P			6 000					0	500	3 000	2 500	0	0	0	0
71005104	Accreditation	P			7 500					0	2 500	2 500	2 500	0	0	0	0
71400071	Fisheries - Stock Assessment	P			2 800					1 500	1 300			0	0	1 500	1 000
45000033	Regional MSME Development	P			30 000					7 500	10 000	10 000	2 500	0	0	7 500	7 500
45000048	Population registry	I			7 300					2 300	5 000			0	0	0	2 300
45000035	Microfinance	I			35 000					5 000	10 000	10 000	10 000	0	0	5 000	5 000
45003891	E-learning	I			8 000					2 000	3 000	3 000		0	0	0	2 000
45003892	ICT Programme	I			12 000					0	2 000	4 000	6 000	0	0	0	0
	Democratic Governance & HR			**123 774**	**204 452**	**21 983**	**7 670**	**47 681**	**47 681**	**39 477**	**57 811**	**30 500**	**7 000**	**46 881**	**46 881**	**29 477**	**41 977**
45003887	Democratic Youth Leadership	A	0109-0512	8 691	6 846	3 852	1 936	1 744	1 744	1 250				1 744	1 744	1 250	1 250
45003886	Human Rights Comm, UNDP	A	0110-0410	9 800	9 700	8 400	3 000	1 300	1 300					1 300	1 300		
72603009	UNICEF,children-special protect	A	0112-0506	9 200	9 200	4 000	0	5 200	5 200					5 200	5 200		
72600269	Media, SLFI	A	0210-0409	4 913	3 421	3 621	2 734	-200	-200					-200	-200		
72603010	Early Childhood Development	A	0112-0506	5 830	4 270	2 110	0	1 860	1 860	300				1 860	1 860	300	300
45000042	Flood rehabilitation	A			10 000			10 000	10 000	0				10 000	10 000	0	0
72600366	Media Support	A	0310-0706	9 340	8 015	0	0	2 777	2 777	2 927	2 311			1 977	1 977	2 927	2 927
74002358	UNICEF	A	0401-0630	76 000	76 000			25 000	25 000	25 000	26 000			25 000	25 000	25 000	25 000
72600266	Educ for inter-cult democracy	P			23 000					2 500	6 000	7 500	7 000	0	0	0	7 500
72600268	Civil Police Training	P			20 000					2 500	10 000	7 500		0	0	0	5 000
72600367	UNDP Access to Justice + HRC	I			15 000					5 000	5 000	5 000		0	0	0	0

Agree-ment nr (Contr)	Financial follow-up SRI LANKA country program	Sta-tus	Agree-ment period	Agreed amount	Planned amount	Disb'd up to & incl 2003	Disb'd 2003	Disb'd 2004 per 1231	Estm'd 2004	Estm'd 2005	Estm'd 2006	Estm'd 2007	Estm'd 2008 & after	Low forecast 2004	High forecast 2004	Low forecast 2005	High forecast 2005
	Transitional recovery	I			5 000						2 500	2 500					
	Support to peace secretariats	I			2 000						1 000	1 000					
	DDR and weapons control	I			4 000						2 000	2 000					
45003890	Modernisation survey	I			8 000					0	3 000	5 000		0	0	0	0
74001455	NERF	I			0					0	0	0		0	0	0	0
	Other			**9 126**	**9 896**	**2 651**	**2 651**	**3 245**	**3 245**	**4 000**	**0**	**0**	**0**	**2 532**	**2 532**	**3 500**	**4 500**
A4500014	Cons Services Fund 2003-2005	A	0301-0606	9 126	9 896	2 651	2 651	3 245	3 245	4 000				2 532	2 532	3 500	4 500
	TOTAL DEV COOP AGR			**220 215**	**487 499**	**57 305**	**25 202**	**74 399**	**74 399**	**90 779**		**92 250**	**50 500**	**72 170**	**72 170**	**70 216**	**98 279**
	Developm Coop Agreement	A	0301-0512	270 000					*2003					*2003	*2003	*2003	*2003
	Annual amount								90 000	90 000	90 000	90 000		90 000	90 000	90 000	90 000
	BBF					Total disbursed dev coop agr 2003: 48 623 tSEK			0	41 377	40 598	8 332		0	0	0	0
	Tot Available for year								90 000	131 377	130 598	98 332		90 000	90 000	90 000	90 000
	Disbursed all projects								48 623	90 779	122 266	92 250		48 623	48 623	48 623	48 623
	BCF								41 377	40 598	8 332	6 082		41 377	41 377	41 377	41 377

** including all projects, also those finalized during 2003*

Agree-ment nr (Contr)	Financial follow-up SRI LANKA country program	Sta-tus	Agree-ment period	Agreed amount	Planned amount	Disb'd up to & incl 2003	Disb'd 2003	Disb'd 2004 per 1231	Estm'd 2004	Estm'd 2005	Estm'd 2006	Estm'd 2007	Estm'd 2008 & after	Low forecast 2004	High forecast 2004	Low forecast 2005	High forecast 2005
	1 B. Outside dev coop agreement			**68 755**	**131 854**	**66 131**	**11 178**	**30 137**	**30 137**	**33 586**	**1 000**	**1 000**	**0**	**27 843**	**29 530**	**24 350**	**35 741**
	Democratic governance and HR			**49 425**	**61 718**	**7 942**	**7 942**	**24 990**	**24 990**	**28 786**	**0**	**0**	**0**	**22 416**	**24 077**	**20 500**	**30 191**
78000148	Parliamentary elec-tions	C	0403-0407	225	83			83	83					83	83		
A4500015	CSO's 2003	A	0301-0512	30 000	33 575	6 295	6 295	11 994	11 994	15 286	0			11 694	11 994	13 000	15 191
78101184	SLMM	A	0306-0410	19 200	14 560	1 647	1 647	12 913	12 913					10 639	12 000		
A7800138	SLMM 2005	I	0410-0603		13 500					13 500						7 500	15 000
	Soft loans			**0**	**45 000**	**45 000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
A7101146	Plantation Schools (upgrading)	A	0202-0511		45 000	45 000											
	Other			**19 330**	**25 136**	**13 189**	**3 236**	**5 147**	**5 147**	**4 800**	**1 000**	**1 000**	**0**	**5 427**	**5 453**	**3 850**	**5 550**
A2120000	KTA 2004	A	0401-0412	324	470			270	270	200				204	230	100	200
A4100400	SRI-SAK (PROG)	A	9801-0403	17 440	20 989	13 189	2 920	4 300	4 300	3 500				4 630	4 630	3 200	4 000
A4100305	SRI-SAK (LOK)	A	0101-0403	1 566	677		316	327	327	350				343	343	350	350
45000030	Programme Development	A	0401-0712		3 000			250	250	750	1 000	1 000		250	250	200	1 000
	TOTAL COUNTRY ALLOCATION			**288 970**	**619 353**	**123 436**	**61 737***	**104 536**				**93 250**	**50 500**	**100 013**	**101 700**	**94 566**	**134 020**
	Prel country al-location													**110 000**	**110 000**	**110 000**	**110 000**

Agreement nr (Contr)	Financial follow-up SRI LANKA country program	Status	Agreement period	Agreed amount	Planned amount	Disb'd up to & incl 2003	Disb'd 2003	Disb'd 2004 per 1231	Estm'd 2004	Estm'd 2005	Estm'd 2006	Estm'd 2007	Estm'd 2008 & after	Low forecast 2004	High forecast 2004	Low forecast 2005	High forecast 2005
	2. Outside country allocation			**211 881**	**393 585**	**132 470**	**13 247**	**47 966**	**48 957**	**41 098**		**11 663**	**0**	**47 710**	**48 957**	**49 052**	**56 850**
	Research Cooperation			**79 790**	**73 297**	**5 934**	**5 934**	**15 205**	**15 205**	**22 503**	**17 992**	**11 663**	**0**	**14 949**	**15 205**	**19 300**	**23 503**
75007285	Administration and evaluation	A	0310-0709	2 580	2 100	0	0	300	300	100	100	1 600		300	300	100	100
75007321	Biotechnology (Colombo)	A	0310-0709	5 000	6 450	205	205	1 550	1 550	2 420	1 920	355		1 550	1 550	2 000	2 420
75007324	Library support (Colombo)	A	0310-0709	6 000	5 425	0	0	2 225	2 225	1 500	1 500	200		2 225	2 225	1 500	1 500
75007322	IT PhDs (Colombo)	A	0310-0709	14 000	11 634	1 167	1 167	1 134	1 134	3 500	3 500	2 333		1 134	1 134	3 500	3 500
75007323	IT networking (Colombo)	A	0310-0709	11 000	10 400	1 667	1 667	4 400	4 400	3 666	667	0		4 400	4 400	3 666	3 666
75007325	Staff development (Colombo)	A	0310-0709	3 250	3 243	0	0	513	513	1 250	1 000	480		257	513	1 250	1 250
75007316	Biotechnology (Jaffna)	A	0310-0709	6 000	4 505	490	490	15	15	1 500	1 500	1 000		15	15	1 500	1 500
75007329	Engineering (Peradeniya)	A	0310-0709	8 500	7 862	517	517	1 845	1 845	2 000	2 000	1 500		1 845	1 845	1 500	2 000
75007328	Sociology (Peradeniya)	A	0310-0709	6 750	5 875	1 395	1 395	742	742	1 533	1 142	1 063		742	742	750	1 533
75007318	National Science Foundation	A	0310-0709	3 000	2 825	0	0	775	775	750	750	550		775	775	750	750
75007327	Geography (Sri Jay)	A	0310-0709	6 910	5 502	383	383	730	730	1 700	1 700	989		730	730	1 000	1 700
75007326	Medicine (Sri Jay)	A	0310-0709	6 800	6 676	110	110	976	976	1 784	2 213	1 593		976	976	1 784	1 784
75007319	Geography (Keleniya)	I	0406-0709		800			0	0	800	0	0		0	0	0	800
75007320	Marine Science (Ruhuna)	I	0406-0709		0			0	0	0	0	0		0	0	0	1 000
	"U" Credits			**129 295**	**304 288**	**126 536**	**3 313**	**26 761**	**27 752**	**15 000**		**0**	**0**	**26 761**	**27 752**	**27 752**	**27 752**
21113010	Creditline NDB	A	0309-0603	31 000	31 000	31 000											
71000960	Rural Electrification CEB	A	0004-0601	92 230	92 223	92 223											
71001359	WWT Consultancy	A	0301-0406	6 065	6 065	3 313	3 313	1 761	2 752					1 761	2 752	2 752	2 752
71010331	Waste Water Treatment	P			135 000						135 000						
71001436	Suntel N&E Expansion	A			40 000			25 000	25 000	15 000				25 000	25 000	25 000	25 000
	Humanitarian aid			**2 796**	**16 000**	**0**	**4 000**	**6 000**	**6 000**	**3 595**	**3 000**	**0**	**0**	**6 000**	**6 000**	**2 000**	**5 595**
74001449	MAG	A	0305-0505		10 000		4 000	6 000	6 000					6 000	6 000	0	4 000
74002482	ICRC Appeal Sri Lanka 2004	A	0401-0506	2 796						595						0	595
	Continued mine-action	I			4 000					1 000	3 000					0	2 000
	ICRC Appeal Sri Lanka 2005	I			2000					2000						2000	3000
	GRAND TOTAL Sri Lanka			**500 851**		**255 906**	**79 237**	**152 502**					**50 500**	**147 723**	**150 657**	**143 618**	**190 870**

Annex 2

Current Status of Millennium Development Goals

The following information, published in Sri Lanka's MDG report in March 2005, is the most reliable account of MDG related trends in the country.

An effort to calculate MDG attainment so far has been made by the Embassy, given the respective targets set for each goal and indicator. For example, the poverty gap ratio should be halved according to MDG 1 from 5.6% in 1990 to 2.8% in 2015. In 2002, this ratio had been reduced to 5.1%, which means that about a fifth (22%) of the MDG had been attained, but on almost half of the time available. A much quicker, more than double, rate of reduction is necessary to reach the goal of 2.8% by 2015.

Statistics about MDGs 1-5 allow for relevant trends to be recorded and assessed against set targets. But for MDGs 6-8 only scant statistics have been collected. Also, these MDGs do not have targets with specific rates of development. For example, the incidence of malaria per 100,000 (indicating MDG 6), dropped from 1,520 in 1994 to 350 in 2001. While certainly a significant drop, it is unclear if it is good enough for MDG attainment.

MDG 1: Eradicate extreme hunger and poverty

1) Share of population below the national poverty line:
   26.1 (1990) → 22.7 (2002)
   MDG attainment: 26%
2) Poverty gap ratio: 5.6 (1990) → 5.1 (2002)
   MDG attainment: 22%
3) Share of poorest quintile in national consumption:
   7.7 (1990) → 6.2 (2002)
   MDG attainment: 39%
4) Prevalence of underweight children under five:
   37.7 (1993) → 29.4 (2000)
   MDG attainment: 44%
5) Population below minimum dietary energy consumption:
   50.9 (1990) → 51.3 (2002)
   MDG attainment: -2%

MDG 2: Achieve universal primary education

6) Net enrolment ratio in primary education: 91.7 (1990) → 96.4 (2002)
   MDG attainment: 57%
7) Proportion of pupils in grade 1 who reach grade 5:

92.7 (1990) → 97.6 (2002)
MDG attainment: 67%

8) Literacy rates of 15-24 year olds: 92.7 (1990) → 95.6 (2002)
MDG attainment: 40%

MDG 3: Promote gender equality and empower women

9) Ratio of girls to boys in primary education: 93.1 (1990) → 95.3 (2001)
MDG attainment: 32%

10) Ratio of literate women to men 15-24 years old:
100.0 (1990) → 101.0 (2001)
MDG attainment: -1%

11) Share of women in non-agricultural wage employment:
29.0 (1990) → 31.0 (2001)
MDG attainment: 6%

12) Proportion of seats held by women in Parliament:
5.3 (1994) → 4.9 (2004)
MDG attainment: -1%

MDG 4: Reduce child mortality

13) Under five mortality rate per 1,000 live births:
22.2 (1991) → 18.8 (2002)
MDG attainment: 23%

14) Infant mortality rate per 1,000 live births: 19.3 (1991) → 12.2 (2000)
MDG attainment: 55%

15) Proportion of one year children immunized against measles:
80.0 (1990) → 88.0 (2000)
MDG attainment: 60%

MDG 5: Improve maternal health

16) Maternal mortality per 1,000 live births: 0.5 (1991) → 0.47 (2001)
MDG attainment: 1%

17) Proportion of births attended by skilled health personnel:
94.1 (1993) → 97.0 (2001)
MDG attainment: 66%

MDG 6: Combat HIV/Aids, malaria and other diseases

18) HIV prevalence among 15-24 old pregnant women: N/A
MDG attainment: N/A

19) Share of sex workers using condoms in last commercial sex:
10 (2001) → 50 (2004)
MDG attainment: N/A

20) Ratio of school attendance orphans/non-orphans aged 10-14: N/A
MDG attainment: N/A

21) Incidence of malaria per 100,000: 1,520 (1994) → 350 (2001)
MDG attainment: N/A

22) Share of population using effective malaria prevention and treatment:
N/A
MDG attainment: N/A

23) Incidence of TB per 100,000: 39.1 (1994) → 44.1 (2001)
MDG attainment: N/A

24) Proportion of TB cases detected and cured: N/A
MDG attainment: N/A

MDG 7: Ensure environmental sustainability

25) Protection of land area covered by forest: N/A (17.4% in 1999)
MDG attainment: N/A

26) Ratio of areas protected to maintain biological diversity to surface area: N/A (13% in 1999)
MDG attainment: N/A

27) Energy use per PPP dollar of GDP: N/A
MDG attainment: N/A

28) Carbon dioxide emission per capita: 0.201 (1994) → 0.382 (2001)
MDG attainment: N/A

29) Percentage of population using solid fuels: 89 (1999) → 80.2 (2001)
MDG attainment: N/A

30) Proportion of population with access to improved water sources: 72.0 (1994) → 82.0 (2001)
MDG attainment: 71%

31) Proportion of population with access to improved sanitation: 73.4 (1994) → 80.0 (2001)
MDG attainment: 50%

32) Proportion of households with access to secured tenure: 93.8 (1994) → 95.0 (2001)
MDG attainment: N/A

Annex 3

Follow-up of the 2004 Country Plan

The 2004 country plan for Sri Lanka covered 42 distinct projects within the country allocation, mainly in the areas of pro-poor economic growth, democratic governance, and humanitarian assistance. For these 42 projects, disbursements at a rate of 176.7 MSEK were planned, but only 104.5 MSEK (59%) were disbursed.[2] The follow up of the country plan reveals that:

1) four projects received larger disbursements than actually planned (SIB, Colombo-Kandy highway, media support, and UNICEF's protection programme),
2) four ongoing projects were correctly forecast (the restructuring of the Central Bank, UNICEF's Sri Lanka programme, transitional recovery of flood affected areas, and early childhood development),
3) two indicative projects (by late 2003) were correctly planned for zero disbursements (regional SME development and microfinance),
4) five agreed and basically concluded projects were correctly planned for zero disbursements (journalist training, UNICEF's 2002-2003 programme, plantation schools, biotech centre, and the 2000-2003 Sarec programme),
5) two planned projects were rejected (arbitration and quick impact recovery),
6) five projects received between 60-95% of the planned amounts (SLMM, the CSO programme, the Human Rights Commission, and the respective costs for local and Swedish programme officers),
7) eight projects received around 20-50% of the planned amounts (Chambers of Commerce, the Central Bank exchange project, youth leadership, Jobs net, road safety, the high level training for the Central Bank, the consultancy fund, and the fund for programme development),
8) the remaining twelve projects record zero disbursements despite forecasts in the range of 0,5-15 MSEK, and
9) four projects that were not included in the country plan will still receive total of 5.9 MSEK before the end of 2004 (quality infrastructure for fisheries, ADB financial sector reform, parliamentary elections, and KAT).

[2] The forecast amount in the country plan was in fact 182.3 MSEK. The difference is mainly due to a complex and not entirely correct calculation of costs for sent out staff that is irrelevant to this follow up.

The last five of the above bullet points explain why a total of 72.4 MSEK (176.7 MSEK minus 104.5 MSEK) is likely to be incorrectly forecast. But that projects turn out to be rejected is just a normal part of project planning, and not really something that the Embassy could do much about (the two rejected projects were planned to receive 9 MSEK in 2004). Also, that five out of 42 projects receive 60-95% of the forecast amounts is not particularly alarming.

Instead, what the Embassy should learn from are the plans and forecasts made in relation to the projects covered by points 7-8 above, and particularly point 8. Too much optimism with respect to the eight projects that disbursed around 20-50% of the forecast amounts is evident. Changing exchange rates explain some of the discrepancies, but such fluctuations could also be made part of annual forecasts.

Money wise, the main forecasting problem is reflected in point 8 above. Twelve projects recorded zero disbursements, but had still a total forecast of 57.1 MSEK, or almost 79% of the value of all wrong forecasts within the country allocation in 2004. Here is mainly where the Embassy should analyse the reasons why forecasts turn out inaccurate.

Such analysis could start by noting that all twelve projects had an indicative or planned status by early 2004. It could also be noted that the total amounts that were forecast for these projects in late 2003 were basically correct. The amounts today agreed, or still planned or indicated, for these projects in fact are slightly higher than those expected in the 2004 country plan.

In other words, the forecasts are not wrong because of inflated figures, but because of insufficient attention paid to the timing and scheduling of disbursements for projects in the Embassy pipeline. Compared to what was anticipated, or rather just hoped for, it takes longer time, typically one or two years longer, for indicative and planned projects to record disbursements at the expected rate.

Annex 4

Current Rating Status

Problems related to access to the rating system made it difficult or impossible for the Embassy to rate in 2004. These problems have now been sorted out, and there are eleven projects in the current portfolio that should be rated during 2005. Two projects have already been rated. The remaining projects will be rated according to the schedule below, depending on the timing of project reports, monitoring missions and annual review meetings.

Contribution	Project Title	Amount (SEK)	Rating Deadline
72600366	Media Support	9 340 000	Rated
45003886	Human Rights Commission	9 800 000	Rated
45003887	Democratic Youth Leadership	8 691 000	April
74002358	UNICEF	76 000 000	April
45000027	Jobs net	17 000 000	April
45003885	Central Bank Training	4 500 000	April
45000034	Central Bank Exchange	10 000 000	April
71800047	Roads Safety	6 000 000	March
71005176	SYIB II	11 500 000	March
71005152	Chambers of Commerce	21 500 000	March
72603010	Early Childhood Development	5 830 000	May

Annex 5

Local Project Appraisal Committee Work in 2004

The Local Project Appraisal Committee (LPAC) was formed in early 2004, based on a set of instructions and working procedures developed by the Embassy. During the year, project documents, assessment memos and draft agreements were appraised for eleven projects. All but one project were recommended for either continued asssessment or signing of agreements, but always with a varying number of recommendations for these purposes.

When initial assessment memos are appraised by the LPAC, focus is on the project document and the design and budget of the project at hand rather than on the initial assessment memo as such. The purpose of the appraisal is to arrive at a general recommendation to the Embassy on in-principle support to the project based on its relevance. It also provides recommendations for further assessment. When in depth assessment memos are appraised, focus is on the memo itself but also the draft agreement. Recommendations are typically geared to facilitate the finalisation of the agreement and to help guide Embassy dialogue during implementation. Changes in the way assessment memos are written are considered to have little or no importance by the LPAC unless they make a difference in the way projects are actually planned, designed and implemented.

The recommendations provided by the LPAC in 2004 have to a large extent concerned poverty perspectives and pro-poor orientations, likely effectiveness of proposed project activities, budget analysis and the role and substance of dialogue and follow up activities during implementation. Minutes of all LPAC meetings held so far can be requested from the Embassy (goran.schill@sida.se).

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.

SWEDISH INTERNATIONAL
DEVELOPMENT COOPERATION AGENCY

SE-105 25 Stockholm Sweden
Phone: +46 (0)8 698 50 00
Fax: +46 (0)8 698 56 15
sida@sida.se, www.sida.se