

USAID/Sri Lanka

Annual Report

FY 2004

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Sri Lanka

Performance:

Background: Sri Lanka is grappling with not only one peace process but two. Until recently, peace negotiations between the Government of Sri Lanka (GSL) and separatist Liberation Tigers of Tamil Eelam (LTTE), parties to a 20-year war waged mostly in the North and East, were at center stage. Eclipsing the GSL-LTTE talks during 2003 was the President's move in November 2003 to reassert control over three key ministries, including defense, which led to the Norwegian government putting a hold on its mediation role in the peace process. The move precipitated high-stakes discussions between the President and Prime Minister, rivals from the two major political parties, to establish a more unified approach to key peace-related issues. Historically, the political opposition - whichever party it is - has been unwilling to compromise with the ruling party on peace proposals and related constitutional revisions. Likewise, the ruling party has not always felt compelled to put forward broadly acceptable proposals. In the uneasy cohabitation government that resulted from the 2001 elections, the task of generating and maintaining political support for the peace process has been difficult and delicate. Complicating the situation is the looming threat of elections, which the President could force at any moment by exercising her power to dissolve the government. The cohabitation crisis postponed serious dialogue and debate on the LTTE's counterproposal to the government's suggested plan for an interim administration in the North and East - the basis for resumption of formal peace talks. Negotiations have been on hold since the LTTE announced its temporary withdrawal from talks in April 2003. The standoff between the two most powerful figures in the Sri Lankan state highlighted the urgent necessity of building a more transparent and inclusive peace process in which a broad range of stakeholders not only have the opportunity to participate but recognize the importance of doing so constructively. That the 2002 ceasefire agreement between the GSL and LTTE has remained intact bodes well. Neither side seems eager to resume military engagement to resume the conflict.

During 2003, the international community pledged \$4.5 billion to support the GSL's efforts to address the immediate and longer-term needs of the war-affected North and East. Disbursement of these funds was made contingent upon resumption of negotiations, along with satisfactory progress against benchmarks related to human rights, security, and democracy. While humanitarian assistance programs continue, without resumption of the talks, implementation of development projects for the North and East remain at a standstill. Meanwhile, the urgent need remains to identify and fund durable solutions for more than 500,000 internally displaced persons (IDPs) and an estimated 85,000 refugees from India. Reintegrating IDPs into their communities of origin and resettlement villages will require significant human and material resources and resolution of thorny issues such as expropriation, compensation, and displacement. Other priority tasks include: eliminating the danger of landmines; rebuilding homes, schools and hospitals; water and sanitation facilities, and; providing sustainable livelihoods.

Long-term priorities focus on development to help sustain and consolidate the reconciliation process underway. Recognizing the links between unemployment, political exclusion, and social unrest, the government seeks to develop a workforce that will meet the demands of a modernizing and increasingly outward-looking employment market, while envisioning a future in which decision making is decentralized and shared with citizens and other stakeholders. Greater capacity to meet the physical, social, psychosocial and economic rehabilitation needs of the burgeoning population of conflict-affected and vulnerable Sri Lankans is required. Services must include improved, appropriate technology devices and employment training for the mobility disabled, interventions that improve function for torture affected individuals and communities, addressing threats to children's security and well-being, and targeted interventions to assist Sri Lanka's response to the HIV/AIDS epidemic.

Sri Lanka is endowed with generous human and natural resources, and well placed as a regional hub for

trade and investment. If the political-security situation were to remain stable, the economy is well-positioned to take advantage of international economic opportunities. Energized by a year of peace, the trade-based economy grew by 4.4 percent in 2002 after the 1.4 percent contraction in 2001. GDP is expected to grow by 5.5 percent in 2003. However, spending is required to renovate and construct essential infrastructure, create two million jobs, and provide social services to address poverty. The GSL's ability to respond is severely constrained by the continued high cost of maintaining its security forces and the burden of servicing its debt through interest payments that account for more than 30 percent of government expenditures. Key economic reforms will address the debt burden, privatization of key industries, revenue enhancing fiscal measures, downsizing of the central government, e-governance, the reduction of trade barriers, and job creation.

US Interests and Goals: Key U.S. national interests in Sri Lanka include supporting a negotiated settlement to the conflict, improving democratic institutions and processes, promoting respect for human rights, and enhancing economic growth through market-oriented policy reform and financial stability. The new government is one of the friendliest to the U.S. in Sri Lankan history and was very supportive of the U.S. in the aftermath of the events of September 11, 2001. By helping to resolve Sri Lanka's internal war, the U.S. is making an important contribution to regional stability and the global war on terrorism. U.S. national interests are also served by promoting free markets, transparency, intellectual property rights, rule of law and respect for workers' rights, in order to fully integrate Sri Lanka into the global political economy and provide greater opportunities for U.S. goods, services, and capital.

USAID's assistance program in FY 2003 supported these broad foreign policy interests. USAID's economic growth program focused on enhancing Sri Lanka's competitiveness in the areas of economic reform, strengthening key private sector industries, and developing the skills of the workforce. The Sri Lankan private sector has been the principal beneficiary of this program, particularly the members of the eight industry clusters supported under the competitiveness initiative. The skills development activities focused on Junior Achievement programs in rural schools. The democracy and governance program strengthened the management, outreach, and negotiation skills of the Government of Sri Lanka's Peace Secretariat, and built constituencies for peace by increasing and improving the quality of civil society participation in the ongoing process. Primary beneficiaries include the Peace Secretariat, peace negotiators, media organizations, civil society organizations involved in dialogues on the peace process, and the general public. USAID's humanitarian assistance program seeks to address the social and economic problems and needs of targeted disadvantaged groups, especially those affected by conflict and violence. Principal beneficiaries include people with mobility disabilities and vulnerable children and young people. Finally, the newly-developed Special Objective provided a vehicle for USAID to coordinate the provision of resources and technical assistance to support the peace process by delivering tangible benefits to those who might otherwise support resumption of the conflict as well as to those whose lives were affected by the conflict. The Special Objective provides benefits to youth, internally displaced persons and returnees, and war widows.

Donor context. Overall donor assistance to Sri Lanka was \$330 million in 2001. Japan is Sri Lanka's largest donor, followed by the Asian Development Bank, The World Bank, Germany and the United States. Donor coordination in Sri Lanka, criticized in the past, has improved with the need for better information sharing in a dynamic, high-stakes environment. Almost all donors provide some degree of assistance related to peace building and humanitarian assistance, although the level of resources and focus varies. The World Bank and the International Monetary Fund provide multi-year loans to support the Government of Sri Lanka's poverty reduction strategy and macroeconomic reforms. Japan and the Asian Development Bank provide loans and grants in the areas of infrastructure, reconstruction and rehabilitation, industrial development, agriculture, health, human resources, transportation, and power sector reform. In the area of democracy and good governance, the World Bank has a project supporting legal reform, while the United Kingdom, Germany, Sweden and Norway have programs related to conflict, human rights, civil society and media development.

USAID has a comparative advantage in a number of areas, including private sector development, trade capacity building, participatory governance, and providing a quick and flexible response for immediate reconstruction and rehabilitation needs. In humanitarian assistance, USAID will continue the lead role it

has occupied since the early 1990s in support for the civilian disabled.

Challenges. USAID's program in Sri Lanka face two challenges: The first is operating in an environment where political stability remains tentative as the two major parties jockey for power. Secondly, by US law and policy, the LTTE remains on the list of foreign terrorist organizations. This has a direct impact on how USAID carries out its work in Sri Lanka.

The dynamics of the cohabitation government, and the recurring threat of snap elections, provide challenges to push forward, quickly, significant economic and governance reform proposals which further privatization, civil service and ministry reform and devolution of power from the center. Continued suspension of the peace talks makes it more imperative to continue promoting the benefits of peace, but more difficult to maintain Sri Lankan enthusiasm and optimism that a long term solution can be reached. In addition, the unresolved issues between the President and the Prime Minister coupled with delays in the resumption of peace talks sends negative signals to the private sector. This in turn fosters a "wait and see" attitude in the private sector, limiting potential private sector expansion and foreign direct investment both important factors in fostering industry risk taking and job creation to meet the needs of unemployed youth, both key results in USAID's economic growth program.

USAID's ability to implement an island-wide program of support and assistance is constrained by legal and policy issues related to the LTTE's continued presence on the State Department list of Foreign Terrorist Organizations. Permission was granted in September 2003 for Mission staff to engage in "working level" discussions with the LTTE regarding operational issues, allowing USAID to explain its field-based OTI programs and obtain clearance for transporting project supplies through LTTE-controlled areas to Jaffna without paying taxes. Under current policy, however, USAID remains unable to implement even its humanitarian assistance programs in areas under LTTE control. How this policy is interpreted vis a vis the yet-to-be-decided interim administration arrangement in the North and East, in which the LTTE is likely to have an expanded role, could dramatically influence the scope and impact of USAID's program in Sri Lanka. Furthermore, withholding support and assistance from Tamil civilians in areas under the LTTE control could create the misguided impression that USAID's program is ethnically biased.

Key Achievements. FY2003 was a year of good progress for the USAID program in Sri Lanka. It was also a year of new challenges and opportunities that required realignments in activities. USAID made key contributions in the areas of improving policies facing key industrial sectors, and built the foundations for sector associations to carry on policy advocacy and competitiveness-enhancing activities after the cessation of USAID support. Under its democracy and governance program, USAID established itself as a catalyst in furthering the peace process in Sri Lanka. USAID helped local civil society groups, media organizations, political parties, and peace stakeholders to participate in national dialogues on peace, effectively expanding the peace process dialogue for the first time in the 20-year history of the conflict. While significant progress was made in laying the groundwork to build indigenous capacity in prosthetics, orthotics and physical therapy, innovative solutions to improve mobility devices, enhanced advocacy and focus on fostering employment opportunities for the disabled, delays in commodity procurement in the Disability Support Program resulted in only one of the four targeted rehabilitation centers geared up to implement polypropylene production. USAID continued support to long-standing local partners to address the psychosocial needs of children and young people affected conflict. A Victims of Torture Assessment in the fourth quarter of FY 2003 identified critical programmatic areas for USAID assistance to support community-based activities that improve function and reintegration of torture affected individuals. USAID also funded the training of three Sri Lankan psychosocial workers in skills and techniques of assisting individuals and communities in post-conflict settings.

1. Competitiveness. USAID's Competitiveness Initiative achieved impressive results during FY2003, building on previous success in forming sector cluster groups and identifying key policy and competitiveness issues of concern. In FY 2003, the program's accomplishments included contributions to major policy reforms. USAID technical assistance helped produce a final version of the Prime Minister's "Regaining Sri Lanka" economic development plan which became the working document for the June 2003 Donor Conference in Tokyo, Japan at which donors pledged \$4.5 billion. The program also provided input into the new national productivity policy. USAID technical assistance helped revise the labor law to

eliminate a ban on women working more than 35 hours per week - a ban that adversely affected many women working in the garment industry. Policy advisors also increased the Government of Sri Lanka's awareness of key provisions that will be included in a US-Sri Lanka FTA, and helped develop their abilities to analyze these issues.

The program developed graduation strategies for all eight assisted clusters, laying out the steps clusters would take to continue activities after USAID assistance ends. USAID also made advances in forming apex bodies for some clusters such as information and communication technologies (ICT), coir (coconut fiber), spices, and gems and jewelry. These apex bodies will continue the implementation of cluster strategies once USAID-funding ends. Legalizing these clusters as apex bodies or associations will also enable them to obtain funds from other donors or government institutions. USAID assistance also helped the Ceylon Sapphire Council add value to gemstones by selling them in jewelry and conduct an international campaign to enter upscale markets in the United States and the United Kingdom. With USAID assistance, the rubber cluster pursued a program to upgrade the quality of crepe rubber exports, and forged new links with customers in the United States for the higher grade product called Lankaprene. This initiative will generate approximately \$28 million in additional income. USAID's technical assistance also enabled the Tourism Cluster to develop and launch the Sinharaja Ecological, located in the only rainforest in Sri Lanka and classified as a world heritage site. This will be a model ecotourism initiative highlighting Sri Lanka's unique bio-diversity and raising conservation awareness, while generating tourism revenues. This initiative will be a model for future ecotourism developments in Sri Lanka.

Under the Young Entrepreneurs of Sri Lanka (YESL) component of the program, USAID developed junior achievement programs in sixty rural schools, benefiting more than 6,000 students.

2. Democracy and Governance. Under this strategic objective, Sri Lanka Peace Support Project has focused on strengthening the capacity of civil society to engage key stakeholders in the peace process, developing the capacity of civil society organizations and media institutions in conflict-sensitive reporting, and building the capacity of the negotiating team and its support staff to negotiate a lasting peace. The program has enabled USAID to develop strong relationships with GSL institutions, civil society and political parties, and promote outreach to various levels that play a catalytic role in peace process. The FY2003 program enhanced the communication and outreach skills and information technology capabilities of Government of Sri Lanka's Peace Secretariat, and increased public awareness at the national and grass roots levels of the tangible benefits and future directions of the peace process. USAID sponsored 36 multi-stakeholder meetings in eight provinces that brought together nearly one thousand key Sinhalese, Tamil, and Muslim stakeholders in the peace process. These meetings promoted a process of analysis and reasoned discussion that illuminated Sri Lankans' concerns and priorities regarding the conflict and the peace process. The program sponsored eight multi-stakeholder radio shows on various topics related to the peace process, excerpts of which were aired in regular news bulletins in Sinhala, Tamil, and English on several occasions, reaching several million listeners country-wide. The program also transcribed excerpts of the broadcasts and published them in a Sunday newspaper that has one of the largest circulations of any Sinhalese newspaper in the country. The program has also facilitated constructive bipartisan dialogue between the two main political parties on the restructuring of the GSL's Peace Secretariat and Government negotiating team into bipartisan entities. The program also facilitated the establishment of a committee of multi-ethnic journalists, representing the major newspapers in Sri Lanka and trained with USAID technical assistance in conflict-sensitive reporting. The committee met regularly to plan, develop and publish peace-related supplements that could be inserted in all the main newspapers at the same time. This outcome is significant in that newspapers in Sri Lanka represent rival political stakeholders and rarely agree on anything. This committee represents the first of its kind.

3. Humanitarian Assistance. This program focuses on the human costs of two decades of armed conflict in Sri Lanka - disabled civilians, children and young people affected by conflict, victims of torture and systematic violence, as well as populations that are made vulnerable by phenomena associated with conflict and the transition to sustainable peace. These disadvantaged groups require services and support to facilitate their return and integration into social, civic, economic and community life. Though essentially humanitarian in nature, this program strengthens the abilities of Sri Lankan institutions to meet

the social service needs of those vulnerable and disadvantaged populations. During FY2003, USAID's technical advisors helped four Sri Lankan rehabilitation centers develop international standards for quality of service delivery. USAID also commenced training for Sri Lankan nationals in prosthetics/orthotics, rehabilitation therapy, and physiotherapy in order to enhance and maintain quality standards. USAID activities also improved designs for cost-effective and locally-adapted wheelchairs and tricycles while maintaining international standards. Production will commence during 2004. USAID also provided job seeking skills training to more than 80 disabled job-seekers, and helped 37 disabled participants obtain jobs. In addition, USAID helped mobilize a consortium of Sri Lankan disability organizations which developed a new policy on disabilities that is currently under final review by the Government of Sri Lanka. A USPVO umbrella grant provided sub-grants to three long standing USAID partners to continue their work providing activities to help children affected by conflict better integrate back into their schools and communities. The Victims of Torture Assessment in the fourth quarter of FY2003 identified several critical programmatic areas to improve the services available to torture affected individuals and communities. Concomitantly, USAID funded training for three Sri Lankan psychosocial workers to improve their understanding of and skills to support torture affected individuals and communities in post-conflict situations.

4. Peace Support. USAID's Office of Transition Initiatives (OTI) program within the Special Objective bolsters public support for a negotiated peace settlement through fast, flexible, small-grants support for community-based activities that: deliver visible peace dividends, including small-scale infrastructure improvement and livelihoods development; decrease the level of violent incidents in targeted communities; and enhance quality and exchange of peace-related information to increase public ownership of the peace building process. The first six months of the OTI program, during the latter half of FY 2003 and funded exclusively with FY2003 Transition Initiative money, were focused on hiring staff, obtaining and equipping field offices, and demonstrating its utility by implementing 66 grants totaling more than \$1.63 million in the three focus areas listed above. ESF resources provided at the end of the FY 03 and additional ESF in FY 04 will deepen and expand the ability of the Peace Support project to provide small grants to local communities and organizations to promote the benefits of peace.

The Special Objective has helped establish USAID as one of the most operational donors in assisting efforts to create a blueprint for sustainable peace with widespread support and broad ownership. The OTI program's geographic reach has facilitated better targeting of support and provided greater insight for the USG into the fluid political, social, economic, and security environment outside Colombo. The speed and flexibility of the OTI small-grants mechanism has enabled USAID to resume a prominent role after years of downsizing and talk of close-out that left doubts about the Agency's level of commitment in Sri Lanka. The OTI program's activities continue to complement and inform other strategic objectives - in particular the peace support component of the Democracy and Governance program - in the Mission's newly revised country development strategy.

Gender. Gender concerns are integrated into USAID's strategy for assistance. Under, USAID's humanitarian assistance program, women's participation in training programs, women's access to technical assistance, and partnership with women's organizations are prioritized. The democracy and governance program encourages the participation by women and women's organizations in stakeholder dialogues on the peace process as well as providing technical review of media outreach products. USAID's competitiveness program identifies women entrepreneurs as key beneficiaries under the program. USAID provided training and technical assistance to the Women's Chamber of Industry and Commerce to help more women participate in the private sector as business owners and operators. USAID's Humanitarian Assistance program endeavors to address gender imbalances among the cadre of specialists who provide services to beneficiaries. USAID has supported the training of the first female prosthetist/orthotists in Sri Lanka. The program also seeks to address specific gender-based vulnerabilities among the beneficiaries. In implementing the Special Objective, USAID and contractor staff factor gender impact into all discussions with potential grantees, and to the greatest extent possible women and girls are targeted as both project implementers and beneficiaries.

Trade capacity building. Under the USAID-funded Competitiveness Initiative, expatriate policy advisors provided by the program made a significant contribution to the Government of Sri Lanka's work towards

understanding the steps required in order to enter into a Free Trade Agreement with United States. This included analysis of the US-Chile and US-Singapore FTAs. In collaboration with other United States Government agencies, USAID will increase and expand its TCB efforts in FY2004 and FY2005 under the newly revised and approved strategy. USAID will fund technical assistance to advance the Sri Lankan trade agenda, including conducting policy analysis, drafting legislation, and implementing trade standards in such areas as customs, intellectual property rights, sanitary and phytosanitary standards, and government procurement. USAID will fund technical assistance, training, and partnerships to promote cross-border trade and foreign investment in energy under the regional SARI/Energy program.

Country Close and Graduation:

Not applicable

Results Framework

383-001 Improved Framework for Trade and Investment

383-002 Citizens' Rights Better Protected in Law and Practice

383-003 Improved Social and Economic Integration of Targeted Disadvantaged Groups

SO Level Indicator(s):

Number of assisted rehabilitation centers adopting polypropylene technology

- 3.1 Community coping skills strengthened
- 3.2 Professional counseling and support services increased
- 3.3 Rehabilitation and mobility choices improved

383-004 Foundation Set for Rapid and Sustainable Economic Growth

SO Level Indicator(s):

Number of Cluster graduation strategies developed
Number of laws/policy reforms for which USAID provided input
Number of regional clusters formed to implement YESL program
Number of schools adopting YESL programs

- 4.1 Policy and regulatory framework improved
- 4.2 Private sector competitiveness improved
- 4.3 market responsive workforce created
- 4.4 Effective public and private partnerships established

383-005 Inclusive and Peaceful Approaches to Politics and Governance Strengthened

SO Level Indicator(s):

Multistakeholder dialogues on the peace process held
National newspaper supplement developed and published by major newspapers

- 5.1 Legal and political recourse expanded
- 5.2 Propensity for violent conflict reduced
- 5.3 Support and capacity for government strengthened

383-006 SPO - Peace Process Supported

SO Level Indicator(s):

Number of field offices opened and operationalized

- 6.1 Constituencies and institutions supporting peace strengthened
- 6.2 Livelihoods of constituencies improved
- 6.3 Small scale community infrastructure rehabilitated

383-007 Improved Social and Economic Integration of Targeted Disadvantaged Groups

SO Level Indicator(s):

Improved quality of services for identified target populations
Increased access to services in the selected communities

- 7.1 Rehabilitative services for disabled civilians developed and improved
- 7.2 Communities' capacity to address threats to children and young people's security improved
- 7.3 Services for selected especially vulnerable groups improved

383-008 Foundation Set for Rapid and Sustainable Economic Growth

SO Level Indicator(s):

Percentage change in GDP (constant)
Percentage change in rate of youth unemployment by age category (15-19) and (20-24)
World Economic Forum Growth Competitiveness Index (GCI)

- 8.1 Sound economic policy implemented
- 8.2 More competitive products sold in the global market
- 8.3 Improved quality and relevance of skills for private sector workforce

383-009 Inclusive and Peaceful Approaches to Politics and Governance Strengthened

SO Level Indicator(s):

Number of cases resolved through the mediation boards

Number of targeted multi-ethnic civil society organizations active in coalitions that support peace

Percentage of citizens in target local government units who believe that local government is addressing their needs

9.1 Civic foundations for a sustainable peace strengthened.

9.2 Key political institutions made more responsive to citizen input

9.3 Increased use of the law to protect and empower vulnerable groups

383-XXX 498-009 U.S. - Asia Environmental Partnership (US-AEP)

383-YYY Peace Process Supported (Special Objective-SPO)