

USAID/Sri Lanka
ANNUAL REPORT FY 2003

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Related document information can be obtained from:
USAID Development Experience Clearinghouse
1611 N. Kent Street, Suite 200
Arlington, VA 22209-2111
Telephone: 703-351-4006 Ext 106
Fax: 703-351-4039
Email: docorder@dec.cdie.org
Internet: <http://www.dec.org>

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A. Program Level Narrative

Program Performance Summary:

Background: After two decades of a war that has stalled development and torn apart the nation's social fabric, Sri Lanka finds itself with a pivotal opportunity to achieve sustainable peace. The change of administration in December 2001 put back on track the search for a negotiated settlement that had derailed earlier: A ceasefire agreement between the new Government and Liberation Tigers of Tamil Eelam (LTTE) was signed in February 2002, and formal talks began seven months later. Throughout the process, both parties to the conflict have demonstrated willingness to take risks and make compromises. A key factor in bringing them to the negotiating table - severely depleted economic resources - is also a significant post-conflict constraint to building a lasting peace.

The new Government is committed to facilitating private sector- led growth. Energized by a year of peace, the trade-based economy bounced back slowly in 2002 after a 1.4-percent contraction in 2001, the first since independence in 1948. The ceasefire agreement and economic reform efforts are key factors contributing to a projected growth rate of 3 percent in 2002. Increased investment is required island-wide to rehabilitate critical rural infrastructure and to create the 2 million jobs needed to cement the return to a peace-time footing. The Government of Sri Lanka's (GSL's) ability to respond is severely constrained by its military expenditures, about 16% of the national budget, and the requirement to service the \$1.5 billion in external debt that generates interest payments alone which are 30% of the national budget.

Clearly the short-term focus of donor support must be on the war-ravaged North and East to where more than a ¼ of an estimated 800,000 internally displaced persons (IDPs) have returned despite extensive destruction, the lack of infrastructure and support services and the continued menace of land mines and unexploded ordinance. The successful reintegration of IDPs and upwards of 85,000 refugees from India into communities of origin and resettlement villages will require human and material resources beyond what the GSL on its own can provide. Priority tasks include removing landmines; rebuilding homes, schools and hospitals; rehabilitating water and sanitation infrastructure; and providing sustainable livelihoods.

Despite the enormity and urgency of needs in the North and East, peace dividends must be perceived as benefiting all Sri Lankans uniformly in order for the process to be sustained and deepened. This will require island-wide, economic and social development under a devolution arrangement responsive to all groups within the nation's pluralistic society. Having learned from post-independence history that high unemployment is likely to result in social unrest, the GSL intends to better align the supply of adequately trained labor with the demands of a modernizing and increasingly outward-looking job market; the need for job creation, particularly for youth, will be critical during the next few years.

Sri Lanka is one of the more densely populated countries in the world, with roughly the population of Texas occupying an island the size of West Virginia. Of its 20 million inhabitants, 75 percent are Sinhalese (mostly Buddhist), 18 percent Tamils (mostly Hindu) and about 7 percent ethnic Muslims. With a per-capita income of \$823 (GNP), life expectancy of 72.1 years, infant mortality of 17 per 1,000 live births, and adult literacy rate of 92.6 percent, Sri Lanka ranks 89th of 173 countries on the latest UNDP Human Development Index. However, the country's high social indicators relative to the rest of South Asia and most of the developing world mask the reality of life in conflict-affected areas and the full impact of 20 years of war . Reliable data from the North and much of the East have not been available since 1990.

Substantial international assistance will be required to meet the enormous reconstruction, rehabilitation and reconciliation needs that have been identified. For donors, however, questions about the sustainability of peace and the legitimacy of funding mechanisms in which the LTTE is involved continue to condition the commitment of resources.

U.S. Goals and Interests - U.S.-Sri Lanka relations are excellent. Key U.S. national interests in Sri Lanka include supporting democratic institutions and processes, finding a peaceful solution to the 20 year

war and curbing terrorism. As part of humanitarian assistance goals, the U.S. seeks to minimize the human costs of the conflict and address the needs of vulnerable groups. In addition, promoting free markets, transparency, financial stability and rule of law to integrate Sri Lanka fully into the global economy can provide greater opportunities for U.S. goods, services, and capital.

Donor Relations: Response in support of the peace process, facilitated by Norway at the GSL's request, has been robust. Donors continue to seek ways to redirect existing, flexible program funds and make new commitments to address the substantial immediate relief and reconstruction needs of the North and East. Consensus regarding the imperative for conflict-sensitive programming is improving donor coordination.

The 6th largest donor in Sri Lanka, USAID's development assistance program occupies a unique niche. In humanitarian assistance, the Mission has played a lead role since the early 1990s in support for the civilian disabled; a recently signed cooperative agreement with an international NGO will greatly expand the range and quality of products and services to be provided, as well as the numbers of beneficiaries served. In economic growth, USAID's continued support for the private sector, aimed at increasing global competitiveness of selected industry clusters, and technical assistance to the GSL has led to significant progress on key economic reform issues through public-private collaboration. Earlier, the DG program focused on support for the provision of legal aid to disadvantaged groups and strengthening the national court system's capacity to mete out justice expeditiously. That orientation shifted with the cessation of hostilities when the GSL requested assistance to improve the negotiation skills and public affairs capacity of the Peace Secretariat.

Challenges: Working with the minimal resources of a Mission in the final year of a close-out strategy, USAID confronted significantly increased demands for assistance from a new, pro-U.S. government attempting to resuscitate an economy on the verge of collapse while negotiating peace with a group on the State Department's list of terrorist organizations. In order to determine the way forward, the Mission requested two assessments. One explored opportunities in economic growth and the other looked at ways to support the next steps of the peace process by providing a "peace dividend" and supporting medium- to long-term measures to address the root causes of the conflict. Increased program resources in FY 2003 will help the mission meet some of the most urgent needs and continue key programs while the stock-taking exercises are completed.

Programmatically, the Mission is on the threshold of a new beginning. A new five-year Country Development Strategy, based on recommendations from these economic, democracy and conflict mitigation assessments, will be reviewed in Washington by mid-year. Given the array of reconstruction, rehabilitation and reconciliation needs resulting from the continuation of the peace process, the greatest single challenge is deciding on the programs that are the most strategic and will provide the greatest impact without exceeding the Mission's operational capabilities.

The USAID Program

Key Achievements: During a year in which Mission resources were insufficient to meet growing demands, USAID continued to develop and support activities in its three core programmatic focus areas, while responding flexibly and appropriately to a dramatically changed and evolving environment. The Mission supported two assessments by USAID/Washington staff, and initiated plans for a third, which will inform the new Country Development Strategy to be developed by the end of the second quarter of FY 2003.

Economic Growth: USAID's competitiveness initiative continued to make significant gains over the past year, during which eight industry clusters became fully operational and developed strategies and roadmaps of regulatory reform for consideration by the GSL. The information and communication cluster strategy became the basis of the GSL's E-Lanka initiative, promoting a broad, youth-oriented and employment-specific integration of IT as part of the nation's post-conflict recovery plan. In addition, a number of alliances between the public sector, private sector and academia resulted from cluster activities. USAID-funded advisors to two key GSL ministries made significant contributions to the development of the keystone national post-conflict economic recovery strategy, the draft national

productivity strategy, and a cabinet-level paper proposing the creation of a national competitiveness council with government, business, labor and academic representation. USAID organized a trade mission for 11 Sri Lankan IT firms to develop reciprocal commercial agreements with American partners and a study tour of the U.S. for leading GSL, private sector, Parliament and labor union representatives to build support for future productivity and labor reform activities.

Democracy and Governance: USAID technical assistance enhanced the functional and analytical capacity of the newly formed Peace Secretariat to respond to specific needs of the negotiators and to build support for the peace process through a proactive media management effort. A South African journalist, who played an active role in his country's peace and reconciliation process, helped develop a media unit capable of delivering solid, real-time information on the progress of the peace process and laid the groundwork for future training and peacebuilding projects with local journalists and news broadcasters. USAID assistance contributed to the design of the EU-funded Secretariat web site, which has become a key source for balanced and timely news and links to other sites. Former international peace negotiators from Guatemala, El Salvador and Northern Ireland were made available to work with the Peace Secretariat staff and negotiators, sharing strategies and lessons learned and providing a sounding board to facilitate preparations for the first round of negotiations in September 2002. Lastly, USAID assistance helped organize the Peace Secretariat to better handle public opinion of the peace process

Humanitarian Assistance: Although two cooperative agreements slated to be signed in FY 2002 were delayed, USAID was able to move forward on both programs. A \$100,000 bridge grant to the Motivation Charitable Trust funded an initial assessment, followed by a program strategy and implementation plan to introduce improved prosthetic, orthotic and wheeled mobility devices and provide a more holistic approach to rehabilitation. In addition, the Mission sent five Sri Lankans to Cambodia for a three-year, internationally recognized course for certification as prosthetists and orthotists; currently only two Sri Lankans, both working for the military, are thus qualified. Toward its objective of providing support for the psycho-social needs of children and youth affected by conflict, Mission staff continued to share information with other donors and NGOs, and began to plan programs in anticipation of awarding an umbrella grant to an international NGO during the second quarter of FY 2003. Upon receiving funding in late FY 2002 for the victims of violence program, Mission staff conducted site visits to potential grantees.

U.S.-Asia Environmental Partnership (US-AEP) and South Asian Regional Initiative SARI/Energy: The subset of activities under these two USAID regional programs continue make a strong contribution to the Mission's Economic Growth objective through improving efficiency, quality, and affordability of energy, and facilitating environmentally friendly policy reforms and technology transfer. During FY 2002, USAID-funded support, training and exposure visits informed government power-sector reform efforts, initiated a project to map the potential of solar and wind power and identified methods that could enhance Sri Lanka's existing hydropower capacity by up to 15% and provide electricity to the 40% of the population that remains without it. In addition, the Mission facilitated dialogue among a broad range of public and private stakeholders that led to adoption of several key policies - including the phasing out of leaded gasoline -- to reduce pollutants in automobile emissions.

Local Currency Resources - USAID Sri Lanka has P.L. 480 Title III local currency generations (\$7,000,000 as of 12/31/02) that may be used to support programs implemented by non-governmental and private voluntary organizations. The Mission is examining ways to more effectively use these resources without tremendously increasing the management burden of numerous small grants.

Conflict Assessment - By all indications, Sri Lanka is on the brink of emerging from two decades of armed conflict. The ongoing negotiations process remains fragile, however, and is prone to sabotage by spoilers who stand to benefit more from war than peace. The intensity of hostilities and political instability during the late 1990s, coupled with the fact that USAID's program was contracting, limited the range and scope of Mission activities. This trend is now reversed. Given the expectation of additional resources in coming years, USAID is well-placed to respond to some of the emerging opportunities and challenges resulting from the peace process. The recently completed Conflict Mitigation and Democracy Assessment carried out by a team from USAID Washington will greatly inform a new Country Development Strategy scheduled to be drafted during the second quarter of FY 2003.

Gender - Addressing gender disparity is a cross-cutting theme in all program areas. A number of activities in each SO are aimed at increasing the degree to which women benefit from and participate in the development process. Under the Mission's economic growth program, gender-sensitive activities include providing technical assistance to women's chambers of commerce and ensuring equitable representation under the Young Entrepreneurs Sri Lanka program in rural schools; furthermore, two of the eleven firms participating in the information technology match-making trip to the U.S. are owned by women. In democracy and governance, most of the post-graduate attorneys receiving assistance under the training program in intellectual property rights are women. In humanitarian assistance, focusing on the needs of women and children is an integral element of every component. Through the South Asia Regional Initiative (SARI), USAID is supporting Sri Lanka's greater involvement in a program aimed at preventing the trafficking of women and children. Considerable room for progress remains, however. Despite the fact that the President of Sri Lanka is the daughter of the first female Prime Minister in the world, women otherwise play a limited role at senior, decision-making levels of government and the private sector.

Trade Capacity Building - While not a specific objective under the Mission's strategy for economic growth, increased trade is one of the benefits expected from efforts to improve Sri Lanka's market competitiveness and labor productivity. The macroeconomic-level reform efforts supported through USAID-funded advisors also impact positively on trade and economic growth. Presently, Sri Lanka sells to the U.S. 10 times more than it buys, a lopsided trade relationship that the U.S. would like to see more balanced. Political instability has cost the nation considerably in forgone investment; a negotiated settlement to the conflict and rehabilitation of the national infrastructure will greatly increase the level of investment, both domestic and foreign.

Environmental Compliance: USAID signed three new strategic objective agreements in mid-2002. Currently, there are no new activities requiring a new or amended IEE or EA in FY 2003. However, as the program advisors become more closely engaged in the discussion and consideration of government decisions and private sector investment potentially impacting on the environment, the Mission will identify necessary compliance issues related to 22 CFR 216, including requesting support from USAID Washington as appropriate. The new Country Development Strategy will include fuller consideration of these and other environmental concerns that may develop.

Country Closeout & Graduation: USAID Sri Lanka is not scheduled to exit between FY 2004 and 2005.

D. Results Framework

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

SO Level Indicator: Targeted segments of the population of disadvantaged persons are more fully participating members of society and are economically more self-reliant.

3.1 The range of rehabilitation choices available to the physically impaired and disabled, including alternatives for better access and mobility, are improved.

3.2 The ability of the community to cope with the psychological needs of abused children, the war-affected and those adolescents in need of protection and support is strengthened.

3.3 The availability of professional counseling and mental health support services for victims of torture is increased.

Discussion: The cooperative agreements forming the basis for authorizing many activities scheduled to take place under this strategic objective will be signed in early FY 2003 and program implementation will begin. Once the negotiations with the Mission's partners are successfully concluded, these indicators will be confirmed and a baseline established for subsequent performance monitoring and reporting.

383-004 Increased Sri Lankan Competitiveness in the Global Marketplace

SO Level Indicator: Increased Sri Lankan Competitiveness in the Global Marketplace

- 4-1 Policy and regulatory framework improved
- 4-2 Effective public and private partnerships established
- 4-3 Private sector competitiveness improved
- 4-4 A workforce responsive to market demands created

Discussion: At year end, this Strategic Objective's main component - The Competitiveness Initiative - was at a cross roads. Eight industry clusters had been formed, "road maps" laying out the schedule of their further organizational maturation had been prepared, and the implementation of identified actions increasingly characterized the activity. In the area of policy reform, TCI's advisors made major contributions supporting the GSL's initiatives in private sector reform, national productivity, market competitiveness, and information technology to name but a few.

During the next reporting cycle, the Mission will elaborate on its decision to continue this activity in the context of the new Country Development Strategy. This will likely result in a modification of the indicators and the intermediate results reported above.

383-005 Peace, Good Governance, and Respect for Citizen's Rights Promoted

SO Level Indicator: Peace, good governance and respect for human rights promoted

- 5-1 The propensity for violent conflict among key groups is reduced.
- 5-2 Avenues of legal and political recourse available to selected vulnerable groups expanded.
- 5-3 Support and capacity for government reform strengthened.

Discussion: The three intermediate results (IR) reported above represents a distillation, from four IRs into three, of the intermediate results first described in the Democracy and Governance Strategic Objective Agreement signed in mid-2002.

These three new IRs are based on the DG Assessment of November 2002 and will be subject to further scrutiny and refinement during the deliberations surrounding the design of the new Country Development Strategy during the second quarter of FY 2003.

383-006 Promoting the Benefits of Peace

SO Level Indicator: Extending the peace dividend

- 6-3 Livelihoods of peace-supporting, economically-disaffected constituencies improved.
- 6-1 Constituencies and institutions supporting the peace process strengthened
- 6-2 Small scale community infrastructure rehabilitated.

Discussion: This Special Objective (SPO) is new and reported for the first time in this Annual Report. Implementation of this activity depends on the availability of Economic Support Funds and the involvement and support of USAID's Office of Transition Initiatives. Field activities are scheduled to begin during the second quarter of FY 2003. At that time, the above reported indicators and intermediate results will be reviewed and realigned as appropriate.

Selected Performance Measures - Sri Lanka

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Indicator (all data should pertain to FY or CY 02)	OU Response	Significant Result: Description of the significant result for a strategic objective	Data Quality Factors: Information relevant to the collection of this indicator data, e.g. "this data was not collected last year because it is only collected every five years."
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Pillar I: Global Development Alliance

Did your operating unit achieve a significant result working in alliance with the private sector or NGOs?

383-004 Increased Sri Lankan Competitiveness in the Global Marketplace	Yes			Eight industry clusters were identified, promoted and organized along vertical lines of integration.	The data supporting this significant result needs to be confirmed.
a. How many alliances did you implement in 2002? (list partners)	95				The composition of this data needs to be verified.
b. How many alliances do you plan to implement in FY 2003?	95				The objective will be to support those clusters that are organizationally viable.
What amount of funds has been leveraged by the alliances in relationship to USAID's contribution?	1100000				This represents cash and in-kind contributions associated with the participation of the industry represents in a cluster. This needs to be confirmed

Pillar II: Economic Growth, Agriculture and Trade

USAID Objective 1: Critical, private markets expanded and strengthened

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

USAID Objective 2: More rapid and enhanced agricultural development and food security encouraged

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

USAID Objective 3: Access to economic opportunity for the rural and urban poor expanded and made more equitable

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

USAID Objective 4: Access to quality basic education for under-served populations, especially for girls and women, expanded

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

a. Number of children enrolled in primary schools affected by USAID basic education programs (2002 actual)	Male	Female	Total	
b. Number of children enrolled in primary schools affected by USAID basic education programs (2003 target)	Male	Female	Total	

USAID Objective 5: World's environment protected by emphasizing policies and practices ensuring environmentally sound and efficient energy use, sustainable urbanization,

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

a. Hectares under Approved Management Plans (2002 actual)				
b. Hectares under Approved Management Plans (2003 target)				

Pillar III: Global Health

USAID Objective 1: Reducing the number of unintended pregnancies

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

Percentage of in-union women age 15-49 using, or whose partner is using, a modern method of contraception at the time of the survey. (DHS/RHS)	%			
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USAID Objective 2: Reducing infant and child mortality

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

Percentage of children age 12 months or less who have received their third dose of DPT (DHS/RHS)	Male	Female	Total	
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Percentage of children age 6-59 months who had a case of diarrhea in the last two weeks and received ORT (DHS/RHS)	Male	Female	Total	
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Percentage of children age 6-59 months receiving a vitamin A supplement during the last six months (DHS/RHS)	Male	Female	Total	
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Were there any confirmed cases of wild-strain polio transmission in your country?				
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USAID Objective 3: Reducing deaths and adverse health outcomes to women as a result of pregnancy and childbirth

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

Percentage of births attended by medically-trained personnel (DHS/RHS)	%			
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USAID Objective 4: Reducing the HIV transmission rate and the impact of HIV/AIDS pandemic in developing countries

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

a. Total condom sales (2002 actual)				
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b. Total condom sales (2003 target)				
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National HIV Seroprevalence Rates reported annually (Source: National Sentinel Surveillance System)	%			
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Number of sex partners in past year (Source: national survey/conducted every 3-5 years)per DHS or other survey)				
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Median age at first sex among young men and women (age of sexual debut) ages 15-24 (Source: national survey/conducted every 3-5 years) per DHS or other survey)	Male	Female	Total	
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Condom use with last non-regular partner (Source: national survey/conducted every 3-5 years)per DHS or other survey)	%			
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Number of Clients provided services at STI clinics				
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Number of STI clinics with USAID assistance				
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Number of orphans and other vulnerable children receiving care/support				
Number of Orphans and Vulnerable Children programs with USAID assistance				
Number of community initiatives or community organizations receiving support to care for orphans and other vulnerable children				
Number of USAID-supported health facilities offering PMTCT services				
Number of women who attended PMTCT sites for a new pregnancy in the past 12 months				
Number of women with known HIV infection among those seen at PMTCT sites within the past year.				
Number of HIV-positive women attending antenatal clinics receiving a complete course of ARV therapy to prevent MTCT (UNGASS National Programme & Behavior Indicator #4)				
Number of individuals reached by community and home-based care programs in the past 12 months				
Number of USAID-assisted community and home-based care programs				
Number of clients seen at Voluntary Counseling and Testing (VCT) centers				
Number of VCT centers with USAID assistance				
Number of HIV-infected persons receiving Anti-Retroviral (ARV) treatment				
Number of USAID-assisted ARV treatment program				
a. Number of individuals treated in STI programs (2002 actual)	Male	Female	Total	
b. Number of individuals treated in STI programs (2003 target)	Male	Female	Total	
a. Is your operating unit supporting an MTCT program?				
b. Will your operating unit start an MTCT program in 2003?				
a. Number of individuals reached by community and home based care programs (2002 actual)	Male	Female	Total	

b. Number of individuals reached by community and home based care programs (2003 target)	Male	Female	Total	
a. Number of orphans and vulnerable children reached (2002 actual)	Male	Female	Total	
b. Number of orphans and vulnerable children reached (2003 target)	Male	Female	Total	
a. Number of individuals reached by antiretroviral (ARV) treatment programs (2002 actual)	Male	Female	Total	
b. Number of individuals reached by antiretroviral (ARV) treatment programs (2003 target)	Male	Female	Total	

USAID Objective 5: Reducing the threat of infectious diseases of major public health importance

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

a. Number of insecticide impregnated bed-nets sold (Malaria) (2002 actual)				
b. Number of insecticide impregnated bed-nets sold (Malaria) (2003 target)				
a. Proportion of districts implementing the DOTS Tuberculosis strategy (2002 actual)	%			
b. Proportion of districts implementing the DOTS Tuberculosis strategy (2003 target)	%			

Pillar III: Democracy, Conflict and Humanitarian Assistance

USAID Objective 1: Strengthen the rule of law and respect for human rights

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

USAID Objective 2: Encourage credible and competitive political processes

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

USAID Objective 3: Promote the development of politically active civil society

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

USAID Objective 4: Encourage more transparent and accountable government institutions

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

USAID Objective 5: Mitigate conflict

Did your program in a pre-conflict situation achieve a significant result in the past year that is likely to contribute to this objective?

383-002 Citizens' Rights Better Protected in Law and Practice	N/A			Are you kidding ?	Dunno
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Did your program in a post-conflict situation achieve a significant result in the past year that is likely to contribute to this objective?

Number of refugees and internally displaced persons assisted by USAID	Male	Female	Total	
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USAID Objective 6: Provide humanitarian relief

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

383-003 Enhanced Economic and Social Opportunities for Disadvantaged Groups				
Number of beneficiaries				
Crude mortality rates	%			

Child malnutrition rates

Did you provide support to torture survivors this year, even as part of a larger effort?

Number of beneficiaries (adults age 15 and over)

Number of beneficiaries (children under age 15)

%			
Male	Female	Total	
Male	Female	Total	