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SRI LANKA TRANSITION INITIATIVES PROGRAM

QUARTERLY REPORT

APRIL 2009 – JUNE 2009

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PROJECT OVERVIEW

The genesis of the OTI program in Sri Lanka dates back to late 2002 when an assessment mission concluded that the peace initiative taking shape at that time had the best chance of any to date in bringing sustainable peace to the country: after 20 years of civil war, the Government of Sri Lanka (GoSL) and the Liberation Tigers of Tamil Eelam (LTTE) signed a Cease Fire Agreement in February of 2002. Facilitated by the Government of Norway, formal peace talks began seven months later. In the weeks that followed the commencement of the talks, the parties demonstrated willingness to compromise on controversial issues in an effort to make tangible progress towards a negotiated settlement. OTI concurred with the assessment and the Sri Lanka program was opened in February of 2003.

On 29 July 2004, Development Alternatives, Inc. (DAI) signed contract number OTI-D-00-04-00023-00 with USAID's Office of Transition Initiatives (OTI) to continue implementation of the OTI Sri Lanka program. The contract replaced Contract No. AOT-I-03-98-00199-00 executed under the SWIFT I IQC.

OTI's overall objective in Sri Lanka was to generate greater support for a negotiated settlement of the conflict. The program planned to achieve this objective through the funding of activities under two sub-objectives. The first sub-objective was to increase awareness and/or understanding of key transition issues; illustrative activities included workshops on federalism, peace-themed arts performances and interactive dialogue. The second sub-objective was to increase collaboration and participation among diverse groups to set and/or address priorities; activities funded under this sub-objective included rehabilitation of community infrastructure with active local stakeholder participation, community dialogues, and advocacy campaigns.

The December 26, 2004 tsunami created unprecedented destruction to over two-thirds of the coastline of Sri Lanka including many of the conflict-affected and conflict-vulnerable communities targeted by SLTI's grant-funded activities prior to December 2004. SLTI responded in the immediate aftermath of the tragedy, and then transitioned towards recovery programs –first with funds from OFDA, followed by supplemental funding earmarked by Congress– which fully incorporated SLTI's peace-building mandate into the grant-funded activities designed for tsunami-affected communities.

After the initial thirty-two months of implementation of contract OTI-D-00-04-00023-00 (August 2004 – March 2007), OTI handed over the management of the program to the USAID Sri Lanka Mission from March 15, 2007 onwards.

In July 2008, USAID, with funding from the U.S. Department of Defense's Overseas Humanitarian Disaster and Civic Aid (OHDACA) appropriation, through the U.S. Pacific Command (PACOM), directed the Sri Lanka Transition Initiatives (SLTI) program to support the return of displaced persons to their Eastern Province communities of origin after armed hostilities in 2006 and 2007 between the LTTE and the GoSL. The aforementioned funds support the rehabilitation of schools and health facilities that directly or indirectly meet critical humanitarian needs – including the restoration of livelihoods – of affected populations in these areas, which are now under GoSL control. SLTI contract was extended until July 31, 2009 to meet this objective.

The initial tranche of \$2.42 million from PACOM is intended to cover the cost of designing, building or rehabilitating, and providing quality assurance for projects located within the Batticaloa and Trincomalee districts. Projects were identified in collaboration with the U.S. Army Corps of Engineers and selected based on needs identified by relevant government authorities and international agencies, coupled with OHDACA funding criteria. The Contracting Officer Technical Representative (COTR), in consultation with PACOM, decided the final allocation of resources among the proposed projects for PACOM funding FY08-09 based on the recommendations DAI put forward.

The primary objective of this particular funding is to ensure the timely completion of high-quality infrastructure projects that have a humanitarian impact. The process to ensure positive results include fostering community participation and ownership, and engaging the local and regional government authorities responsible for serving these communities.

PROGRAMMING

COUNTRY SITUATION DURING THE PERIOD

The political and security situation was dominated by an exponential increase in the intensity of the war during these months.

The reporting period witnessed heavily intensified military operations aimed at completely destroying all LTTE bases and strongholds, and recapturing of areas under LTTE control. With continuous firing and shelling from both government and the LTTE, a massive exodus of civilians from war-ravaged townships continued during the months of April and May.

The scale of the destruction and human casualties prompted an international outcry backed by constant demands for a humanitarian cease-fire to afford hapless civilians a chance to move to safe zones.

Disregarding the intense pressure from western nations and the UN, the government continued on the focused effort to bring about the complete defeat of the LTTE. A cursory 48-hour cessation of hostilities was announced by the government during the Sinhala and Tamil New Year –the single largest national festival in Sri Lanka. With estimated numbers of over 250,000 people displaced and brought over to government-controlled areas, the final thrust and offensive carried out during the May 5 - 18 period destroyed all LTTE bases and killed several hundred LTTE cadres, including the top ranking leaders.

The government of Sri Lanka declared the end of the decades-long conflict with the proclamation of victory on May 19. Patriotic fervor in the areas of the country outside the conflict zone reached fever pitch, with large-scale celebrations and revelry lauding the President and armed forces for their resounding victory. A national holiday, and a war heroes commemoration public event presided over by President Rajapakse, put an end to several days of celebrations.

This quarter continued to witness incidents of assault, killings, abductions and robbery on a daily basis, with more cases of child kidnapping and killing for high-value ransom payments within the Batticaloa district. As in the past, checkpoints and routine round ups continued within the district and were intensified immediately following any significant attack or incident of violence.

The ruling political party in government (UPFA) continued its winning streak at the local government elections, and came out a clear winner in the Western Provincial Council election held on April 25. Following this victory, and the military successes in completely defeating the LTTE, the Uva Provincial council was dissolved and nominations to the council commenced on June 19; the election is set for August 8. Preparations are also underway for the holding of local government elections in the month of August in the Jaffna and Vavuniya districts.

OVERALL PROGRAMMING

Subsequent to the award of the construction subcontracts, ground breaking ceremonies, preparatory works, and completion of the initial phases of construction on all eight projects during the previous reporting period, the construction subcontractors were fully operational to achieve maximum progress during the period covered by this report.

DAI staff continued the frequent field visits to the project sites for monitoring, evaluation and further discussions with the stakeholders. DAI, together with the Architectural and Engineering consultants from MMGS, focused all efforts on ensuring that project implementation achieved progress as per the approved timelines, dealing with problems and potential sources of delays proactively, and also ensuring that high-standard quality was attained on all aspects of construction across the eight projects.

In terms of additional programming beyond the scope of the eight projects about to be completed, the reporting period was particularly complicated: preparations and plans were put together to carry out additional activities following USAID's indications, only to be abandoned at a later stage when the required contractual modifications and additional funding announced didn't materialize.

DAI developed initial assessments, technical proposals, budget estimates, and implementation strategies in response to USAID's requests for SLTI's involvement in the following programs: the procurement of medical equipment, furniture and materials for schools and students for the eight PACOM-funded construction projects underway; the supplemental construction activities on the eight projects suggested by PACOM representatives during their visit in January 2009; the implementation of two large rehabilitation projects (Karadiyanaru Hospital and Kallady Police Academy); and, specific additional works, small in scale, on several projects funded with tsunami-supplemental monies and carried out under SLTI in previous years.

All the work devoted to the above initiatives will not bear fruit under the SLTI program, but will not be lost either. At the end of the reporting period, USAID is indicating that all these activities will in fact be carried out, using contractual mechanisms other than SLTI, and the work done to date will inform these endeavors in the future.

On April 30, DAI staff members Dr. Joseph Thanarajah, Anton Thambimuttu and Richard Wellington accompanied USAID Mission Director, Rebecca Cohn, USAID/HATI Deputy Office Director, Kristin Joplin, USAID Engineer, Mr. Auff, and the US PACOM team comprising LTC Nelson Chang, LTC Max Diaz-Belmar, Mr. Ted Gehr, Mr. Jeffrey Harris, MAJ Matt Gebhard, CPT Jeff Han on a field visit to the two completed PACOM FY08 projects, namely Amman Nagar and Arafar Nagar schools in the Muthur division of the Trincomalee District.

In addition to the visit of the PACOM officials, DAI staff members Dr. Joseph Thanarajah, Anton Thambimuttu and Richard Wellington accompanied USAID Engineer, Mr. Auff, on field visits to all the project sites on May 27, and on June 16.

IMPLEMENTATION

Implementation activities on project sites continued with steady momentum achieving noteworthy progress during this reporting period. Seven of the eight projects, namely reconstruction activities at Arafar Nagar School, Amman Nagar School, Thiruvalluvar School, Illangathurai Mugathuvaram School, Punneyadi Namagal School, Pulipanjakal School and Arasadathivu School were completed during this reporting period. All these projects were issued the certificate of practical completion, and handed over to the school authorities as soon as construction and site restoration was completed. All the new classrooms built were immediately occupied by students of the school, and each new facility was utilized without delay.

As for the eighth project, the Navatkadu Central Dispensary and Maternity Hospital, works were at 90% completion by the end of the reporting period. This project is expected to be completed in July.

DAI staff continued to closely monitor progress at all project sites; MMGS, the A&E consultancy firm, also continued its regular site visits to evaluate the construction contractors' performance. DAI engaged on daily basis with MMGS and the four construction contractors regarding all technical and non-technical aspects of the projects implementation, ensuring that progress was attained according to the timelines, that the quality controls in place were effective, and that required safety measures were observed on the construction sites at all times.

The reporting period saw the disbursement of USD 570,058.15 in the form of interim payments to the construction subcontractors and the A&E subcontractor for work completed during the period.

The security situation in the country and in the eastern province in particular, as describe above, did not pose a direct and immediate danger to SLTI's work, although more stringent security checks resulted at times in delays for construction materials to reach project sites. Working in the eastern province continues to be a challenge also for construction contractors; the difficulties they face on a daily bases and the incidents occurred were communicated to both USAID and PACOM. DAI continues to follow closely any developments that may have the potential to hamper progress on the projects.

OPERATIONS

CONTRACTS

During the reporting period, DAI continued to engage in preparatory activities –listed in the Overall Programming section of this report– to carry out the additional scope of work USAID had communicated its intention to implement through SLTI. To make this possible, an additional obligation in excess of USD 2 million was meant to be executed bringing the program close to its contractual ceiling of USD 45,000,000. The funds USAID intended to obligate into SLTI comprised three different sources. A tentative April 2010 contract end date was agreed in discussions with USAID as appropriate to complete this additional scope of work.

However, DAI was informed on the last day of May that not all three funding streams were coming to SLTI and, in subsequent days, the remaining funding streams also became uncertain. As a result and in consultation with USAID, DAI prepared a three-month No Cost Extension request, submitted on June 12. Ensuing discussions between USAID's Contracting Officer and COTR resulted in a request to DAI to submit a revised two-month No Cost Extension request; this request remains pending approval at the end of the reporting period.

DAI activated SLTI's closedown phase and initiated operational closedown-related activities the moment USAID informed about the change of plans for the program. Therefore, SLTI entered into its closedown phase on June 1.

On June 11, Sarah Stemmler replaced Vince Broady as the project coordinator for SLTI. Ms. Stemmler's experience in organizational administrative support coupled with her experience in working with refugees from Sri Lanka during her internship with the UNHCR in Malaysia, positions her well to serve as the Project Coordinator for SLTI. Vince Broady transitioned to provide support for a USAID project in Equatorial Guinea .

On June 9, Kristin Joplin, USAID's HATI Deputy Office Director accepted her appointment as the COTR for the SLTI program and assumed responsibilities accordingly with immediate effect.

PROCUREMENT

No further procurement activities were carried out during this reporting period for the reasons exposed above.

ADMINISTRATION

One quarterly VAT report was submitted to USAID on June 10, covering the months of March, April and May 2009.

The VAT exemption renewal was obtained during this reporting period and, as a result, procurement of all goods and services is exempted from VAT until October 9, 2009.

STAFFING

The reporting period continued with the stabilized staffing levels and operations established after large downsizing exercises and restructuring efforts carried out in previous months to fully adjust to the current program needs. SLTI's organizational chart shows ten staff by the end of this reporting period.

Operating from the Colombo and Batticaloa project offices, no new recruitment took place within the reporting period, and with no further procurement activities required, the role of the Procurement Assistant in the Batticaloa office was made redundant. As such, Mr. Ahilan Gunasngam left the program on April 30, 2009.

SECURITY

This reporting period saw a complete upheaval in the security situation in the northern region of the country as a result of the all-out military offensive to defeat the LTTE. The LTTE initially controlled an area of 15,000 square kilometers in the Northern and Eastern Provinces. The ongoing phase of battle commenced in August 2006 when the LTTE closed down the Mavil Aru sluice gates denying water for more than 30,000 civilians. In August 2007, The GoSL defeated LTTE forces and declared the entire Eastern Province liberated and under GoSL control. Military land operations commenced in the Northern Province (Vavuniya area) in March 2007. The second offensive, in the Mannar region, commenced in September 2007, and the final decisive military battlefront was initiated from Welioya in January 2008. This offensive continued until May 19, 2009 when the GoSL declared the total military defeat of the LTTE bringing under government control the entire island nation.

No major security incidents were reported from within the western, southern, and central regions of the country, but the situation in the eastern province continues to be volatile. However, to-date, these incidents of continued violence, abductions and killings within the eastern province, have not impeded DAI staff to travel to and from SLTI project sites regularly.

Parallel to the intensive search operations being conducted in the north, continued Army and STF searches in the eastern province result in the finding of large hauls of arms, ammunition, suicide jackets and other items hidden by terrorists in areas such as Valachenai, Verugal, Ampara, Vakara, Thoppigala and Sooriyadi within the Ampara and Batticaloa districts.

Civilian reports indicate that, at the end of this reporting period, the checking for public transport has been reduced between the Batticaloa and Polonnaruwa transport route. The check points remain but far less vehicles are stopped for checking. No such reduction has been observed on the south of Batticaloa roads.

A brief chronological record of the main incidents –outside of the war zone– during the period is summarized as follows:

- March 25 – Suspected LTTE members attack SLAF road patrol in Trincomalee, seriously injuring one airman.
- March 25 – Suspected LTTE attack kills four farmers and injures four more in Welikanda.
- April 03 to 13 – STF kills LTTE cadres including an explosives expert in Lahugala, Ampara.
- April 05 – Unidentified armed men shot and killed H. L. Jamaldeen, the Superintendent of Police of Kalmunai police division and the Director of Kalladi Police Training College, as he was returning from Kalmunai Mosque. Following the killing, shops, schools and offices in Sainthamaruthu, Kalmunai and Maruthamunai were closed on April 06.
- April 12 – Suspected group of LTTE cadres hack to death five villagers in Mahagoddayaya on the Buttala – Moneragala Road.
- April 26 – Suspected group of LTTE cadres shot five farmers in Panama, Pottuvil.
- May 18 – The GoSL officially declares the end of the war with the LTTE after completely freeing all civilians held captive within the safe zones, followed by the killing of Prabakharan and all the other LTTE top leaders.
- May 20 – SL Army troops shot dead five LTTE suspects who attempted an ambush in the jungles of Periyapillumalai, Batticaloa. Further reports indicated three more suspected cadres were shot dead in Kachikudichchiaru, Ampara.
- May 27 – Army troops attack and kill eleven Tigers hiding in Kalavanchikudi, Batticaloa. A cache of arms, ammunition, and medical supplies were found during the search and clear operations conducted in the area subsequent to the attack by Army commandos.
- June 15 – GoSL eases restrictions on fishing in the eastern seas and starts permitting fishermen in Trincomalee Harbor to fish between 6.00 pm and 4.00 am.
- June 22 – GoSL announces an amnesty period until July 2nd for armed groups in the east to hand over arms without being subjected to punishment.