

Country strategy for development cooperation

January 2003 – December 2007



REGERINGSKANSLIET

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Country strategy for development cooperation with Sri Lanka, January 2003 – December 2007

1 Executive summary

The social indicators in Sri Lanka are relatively good in spite of the armed conflict between the Government and the Liberation Tigers of Tamil Eelam (LTTE). However, the country is experiencing difficulties in sustaining the level of social development that has been achieved. The number of poor people, measured in per capita income, rose in the 1990s despite annual growth averaging five per cent.¹ The conflict is the most serious obstacle to development in Sri Lanka. Some other important factors that affect the country adversely are inefficient governance, institutional and structural conditions that prevent anti-poverty economic development, and sub-standard social services, particularly in poor areas.

Sweden's development cooperation with Sri Lanka since 1998 has aimed to promote development characterised by peace and democracy and including pro-poor economic development. On account of the long build-up phase involved, several initiatives have started only recently and it is too soon to draw any conclusions regarding results.

In accordance with the priorities set by the government of Sri Lanka, future development cooperation should continue to promote peace, democracy and human rights, as well as anti-poverty economic development.

Support for peace can consist of measures to promote reconciliation between groups, security, including mine clearance and, the situation permitting, disarmament, demobilisation and reintegration into society of soldiers and other armed groups. It is also important to support structural peace-building action, such as improved basic services and promotion of respect for human rights.

Support for democracy and human rights should include measures that favour greater popular influence and democratic governance. It should also encompass initiatives that increase efficiency, transparency and responsibility in public administration. Special measures to promote a culture of democracy may be called for.

Support aimed at promoting anti-poverty economic development may consist, for example, of actions to develop entrepreneurship and the infrastructure (the transport sector) in poor regions, improve the conditions for business and trade development, and strengthen the financial sector. Another component may be cooperation on research.

IT support could well be integrated with other measures, whether associated with peace/democracy/human rights or with anti-poverty economic growth. There should

¹ The year 2001 was an exception, with growth being negative for the first time since independence.

also be scope for considering separate IT initiatives to benefit peace, democracy and human rights or anti-poverty economic growth.

In selecting measures, cooperation partners, geographical areas and target groups, it is essential to apply a conflict perspective. The conflict perspective must be taken into account in preparing initiatives.

2 Introduction

The present country strategy for Sri Lanka covers the period 1998–2002. The Swedish government has approved a proposal to draw up a new strategy for 2003–2007.

Sweden's cooperation with Sri Lanka, which began in 1958, has focused mainly on family planning, water power, education and rural development. The 1998 country strategy brought a reorientation of development cooperation, focusing on the development of peace and democracy and on pro-poor economic development. Sida has long conducted research cooperation with Sri Lanka. During the latest strategy period, this support has also included efforts to develop IT capacity at three of the universities covered by the cooperation. In addition there have been humanitarian initiatives to alleviate the effects of the conflict. Alongside grant assistance, some use has been made of development credits and assistance credits.

Swedish bilateral development cooperation with Sri Lanka amounts to just 1 per cent of all development assistance received by the country. Sweden also contributes via Swedish funds channelled to Swedish NGOs, the EU (the Commission), UN bodies (UNICEF, UNHCR, UNDP), the World Bank and the Asian Development Bank. The two latter organisations plus Japan are responsible for over 90 per cent of total support for Sri Lanka.

3 Summary of the country analysis

<u>Key development data</u>	<u>1990</u>	<u>1995</u>	<u>2001</u>
Total population (millions)	17	18	19.4
GDP per capita (USD)	470 (1989)	700	850
Inflation (per cent)	10.6 (1991)	8.9 (1997)	14.2
National debt as per cent of GDP	-	-	103.4
Debt service ratio (per cent)	12 (1980)	7.3	12.8
Budget deficit (per cent)	9.9	10.1	10.5
Literacy: age 15 + (per cent)	88	90	92
Average life expectancy (years)	71	72	73
Infant mortality (per 1000)	26	15	15
Poverty: < 1 USD/day (per cent)	4		7
Poverty: < 2 USD/day (per cent)	-	-	45
Poverty: 791 Rs/month (per cent)	20	25	27
Unemployment (per cent)	16	12	8

* The statistics are taken from ADB and the UNDP Human Development Report 2002.

3.1 Poverty

An ambitious welfare policy since independence has resulted in relatively high social indicators compared with other developing countries with a similar level of GDP. The majority of the population has access to free primary education and basic health care. The proportion of children attending primary school is approximately 95 per cent and 75 per cent of all girls and boys attend secondary school. Boys and girls have equal access to health care and education and in terms of economic welfare, the gender balance is relatively even. However, in recent years the relatively high level of social development has come under threat. The quality of social services, such as education and health care, has declined, particularly in poor areas, and there are great imbalances between different regions. Undernourishment or malnutrition is a problem, particularly in areas where there is conflict.

Despite annual growth of about five per cent per year during the 1990s and an extensive anti-poverty programme, poverty measured in per capita income grew during the decade.² About seven per cent of the population lives in extreme poverty (under one US dollar per day) and approximately 45 per cent live on less than two US dollars per day. It should, however, be noted that these figures do not include the areas in conflict, where poverty is believed to be very widespread. The gaps between the areas in conflict and areas not in conflict and between different regions in the southern parts of the country are wide, and they are growing. Poverty is greatest in rural areas, where nearly 90 per cent of the poor live. Many of them are smallholders who lack sources of income other than agriculture and are highly sensitive to external shocks (e.g. drought). Child labour does exist, but is relatively limited compared with other countries in the region.

There is a social safety net, albeit inadequate, which is intended for vulnerable groups such as orphans, widows and people with disabilities. The government's poverty programmes often fail to reach the very poorest groups (*Samurdhi*). The main reason for

² With the exception of the areas around Colombo, where poverty has decreased. One reason why poverty grew in the 1990s was that the country was affected by serious drought in 1996 and 2001.

this is that the programme is used partly for political purposes instead of for fighting poverty.³

There are no particular differences between the proportions of poor people in the different ethnic groups in society, though the Plantation Tamils are a particularly vulnerable group with limited access to social services and employment opportunities outside the tea plantations. Another highly vulnerable group consists of the close to 800 000 internally displaced persons. Many of these live in difficult conditions in refugee camps. People with disabilities are often excluded from education and employment. Extensive labour migration to the Middle East, mainly on the part of poor women, splits up families and reduces the social security of children.

The primary causes of the growth of poverty are the prolonged armed conflict and a range of institutional and structural factors that hinder economic development, such as inefficient agriculture, defective governance, an outdated educational system and a heavily regulated environment for business.

3.2 The armed conflict

The underlying cause of the conflict between the government of Sri Lanka and the LTTE (the Tamil Tigers) is that the policies pursued since independence in 1948 have discriminated against Tamils. In 1956 the government made Sinhalese the official language, effectively excluding the Tamils from education and employment. The inability of successive governments to guarantee the rights of Tamils in the course of the next 25 years resulted in growing dissatisfaction among Tamils. An increasingly violent conflict between militant Tamil groups and the government grew up at the beginning of the 1980s, and led to enormous human suffering. Since then, the conflict has been the greatest obstacle to social and economic development in Sri Lanka. Some 60 000 people have lost their lives, while hundreds of thousands have been forced to flee within the country or abroad and many have become invalids and suffer from trauma. The conflict has given rise to grave infringements of human rights. Women and children are at particular risk. Most groups in society are adversely affected by the conflict, though the areas in the north and east have suffered most. The conflict is a major burden on the economy, as it entails heavy defence expenditure and costs for humanitarian action, destruction of the infrastructure and loss of income from tourism and investment.⁴ The conflict is estimated to lower the growth rate by two percentage points per year.⁵ Another consequence is increased violence in society. There are large quantities of weapons in circulation, contributing to serious problems such as domestic violence against women and children, political violence and suicide. Apart from the LTTE conflict, there are other latent conflicts in Sri Lankan society, involving for example frustrated educated but unemployed young people in the southern parts of the country, and tensions between different Tamil groups, between Tamils and Muslims and between Sinhalese and Muslims.

The new government that took office after the election in December 2001 has made major advances in the peace process. With the assistance of Norway, a ceasefire was signed by the government and the LTTE in February 2002. The ceasefire is being monitored by a group of Nordic civil observers, including Swedes. Negotiations between the parties were inaugurated in 2002. These developments are positive, but the peace process is fragile and the risk of setbacks great. Peace efforts are complicated by the

³ It should, however, be noted that for many poor people, payments from the military are a bigger source of income than anti-poverty programmes.

⁴ Military expenditures have risen from 1.3 per cent of GDP to about 6 per cent in 2000 and 2001.

⁵ World Bank, *Sri Lanka: Recapturing Missed Opportunities* (2000), p. 12.

absence of trust and communication between different ethnic groups and the lack of cooperation between the government and the opposition. The primary challenge is to maintain the ceasefire and to arrive at a lasting political solution by means of negotiations. A long period of neither war nor peace is expected to follow. Peace, in the sense of trust and cooperation between different groups, will take a long time to build up. One precondition for lasting peace is a democratic society with equal rights, opportunities and responsibilities for all groups.

In the areas in conflict, the needs are many and great. Much of the infrastructure, including housing, schools and hospitals, has been destroyed and requires extensive rehabilitation. The electricity supply in the northern province is cut off from the national grid. There are no telephone networks in the areas under LTTE control and the people there live in great isolation. Large areas are mined. According to some estimates, approximately a million mines have been deployed in the northern and eastern parts of the country. There is widespread poverty. Social services such as schools and health care, including mental health services to treat the large number of people with trauma, are inadequate, both in quantity and quality. The lack of doctors and hospital staff is an urgent problem. A large number of internally displaced persons have returned and many more are expected to return if and when the situation permits.⁶ This means that housing and social services must be built up, that large areas must be cleared of mines, and that armed groups must be disarmed so that they can be reintegrated into society along with the returnees.

3.3 Government

Sri Lanka is a parliamentary democracy in which much power is held by the president. In the 1990s, democracy in the country has broadened, in spite of being under constant threat from the armed conflict. Since December 2001, the country has been ruled by a governing coalition, the United National Front (UNF).⁷ The president, who has executive power, belongs to the largest opposition party, the Sri Lanka Freedom Party (SLFP).⁸ The inability of the parties – and not least the President and Prime Minister – to cooperate poses a threat to the peace process. The public administration is centralised, hierarchical and inefficient. A small number of families dominate the political system. Despite a long tradition of general elections, large groups have had difficulty asserting themselves and feel excluded from both political influence and the labour market. In the southern parts of the country patron-client type relations predominate between governing and governed classes, and society is highly politicised. The LTTE regime in the north is marked by autocracy, with elements of coercion and threats.

3.4 Human rights

Widespread infringements of human rights have been committed in the wake of the conflict. However, the situation has improved in government-controlled areas in the later part of the 1990s and after the ceasefire in February 2002. In recent years a range of structures have been put in place to safeguard respect for human rights. Commissions, committees, task forces and agencies have been established, though their spheres of responsibility are not always clear and often overlap. These initiatives have brought

⁶ In September 2002, 183 000 displaced persons had returned.

⁷ The coalition is made up of the United National Party, the Tamil National Alliance (TNA) and the Sri Lanka Muslim Congress.

⁸ The president's mandate expires in 2005.

increased knowledge and debate about human rights and infringements of human rights. There is therefore hope for change.

The social system, whose deeply entrenched patron-client structure sets its stamp on relations at every level, is reflected in politics and the administration of justice. Though the laws themselves and the structures for their application are often excellent, the system as a whole may be regarded as ineffective and to some extent corrupt. It is difficult for those who are not well off to make use of the legal system; it takes time and costs money. One obstacle to an effective and efficient legal system is the existence of a culture of impunity. The low rate of participation by women in political life and domestic violence towards women and children also present major problems. In the areas controlled by the LTTE, the human rights situation is distressing. One alarming issue has been the recruitment of child soldiers.

3.5 The economy

In spite of the armed conflict, Sri Lanka's economy grew at a rate of approximately five per cent per year during the 1990s and the country's per capita GDP (USD 850) ranks second only to the Maldives in South Asia.⁹ However, the growth has been concentrated in and around Colombo and adjacent areas. In 2001, growth was negative (-1.3 per cent) for the first time since independence in 1948. The central government budget is threatened by a growing deficit, due to the high cost of interest on the central government debt and military expenditure, among other factors. Necessary reforms in such areas as labour legislation, education and state-owned enterprises are making slow progress. The narrow export base (clothes and textiles account for more than half of all exports) complicates the development of the economy. When the Multifibre Agreement expires in January 2005, Sri Lanka will face increased competition in the apparel sector from other countries on the world market and a dramatic fall in export revenues from this source can be foreseen.

Job creation in the country's various regions is a key issue for poverty alleviation and peace promotion, particularly in connection with the demobilisation of soldiers and LTTE units. In addition, a necessary reform of the public sector may result in large groups of people being laid off and needing to find alternative employment. Unemployment and under-employment among young people, particularly men, is a serious problem and a cause of social unrest in the country.¹⁰ The situation is exacerbated by the great imbalance that exists between the supply of and demand for educated labour, i.e. between the orientation and quality of the education that the present education system offers, on the one hand, and the need for educated labour on the other hand. On two earlier occasions, frustrated unemployed youths in the south have been behind very violent riots. Further disturbances cannot be ruled out if the position of this group does not improve in the near future. The private sector should be able to serve as an important motor for economic development and job creation. But the development of the private sector is hampered by the strict regulation of the business environment, including rigid labour laws, a lack of independent supervisory authorities and weak business organisations, such as chambers of commerce. Other adverse factors for business development include a lack of internal dynamism, skills shortfalls and obsolete corporate structures. An additional problem is posed by the lack of infrastructure (e.g. roads and electricity) and transport in poor regions, which cuts them off from dynamic markets. In order to promote economic development, it is required that the conflict be

⁹ www.worldbank.org/data/9/5/01.

¹⁰ Unemployment has been halved since 1990. This is due largely to the government tackling the problem by employing many people in the public sector and promoting the export of labour.

solved, the conditions for business improved and extensive infrastructure investments made throughout the country.

Since the end of the 1980s, Sri Lanka has implemented a series of trade reforms. The country has gone further than any other in the region in opening itself up to the world around. Reforms associated with tariffs and other trade barriers have been implemented within the framework of WTO membership and a number of bilateral trade agreements (preference agreements with India and the EU). Investments in an expansion of the country's infrastructure, along with market deregulation and higher education reform, should put Sri Lanka in a good position to make use of its advantageous geographical location and generate increased trade.

3.6 The environmental situation

Economic development and relatively high population pressure in combination have a negative impact on the environment. Increased activity in agriculture, mining and manufacturing, etc., has led to pollution of the country's watercourses, severe pressure on the marine ecosystem and air pollution. Other problems are deforestation, which in turn threatens the biological diversity of the country, soil erosion, which affects agricultural productivity, and the absence of waste management.

The high levels of pollution in the watercourses are due to ignorance, shortcomings in the legislation, and other factors. Land use is unregulated and the methods used are often poor from the point of view of sustainability.

Sri Lanka has signed several of the international conventions on the environment, but in some cases the application and implementation of policies, legislation and action plans has been slow.

3.7 International development cooperation

The World Bank (WB) and Asian Development Bank (ADB) account for the bulk of international support for Sri Lanka. Japan is the largest of the bilateral donors, followed by Germany, Sweden, the United States, Norway, the UK and the Netherlands.

Most of the international development cooperation with Sri Lanka is intended to promote economic development. WB support mainly targets energy, agriculture, transport and education. The ADB focuses on agriculture, the infrastructure (including the transport sector), natural resources and education, while Japan concentrates on energy, transport and telecommunications. EU cooperation with Sri Lanka has moved from traditional development cooperation to economic cooperation. In the course of the 1990s, increased support was given to NGOs working with human rights, peace promotion issues, the media and election monitoring. UN development cooperation focuses on poverty alleviation, governance and human rights.

Humanitarian efforts in the north and east are supported by the UN, WB, EU, Sweden, Norway, the United States and other actors.

4 Summary of the results analysis

Sweden conducted development cooperation with Sri Lanka in the following areas in 1998–2001.¹¹

¹¹ In accordance with the Government's directions, the results analysis covers the period 1998–2001. This is because the planned date of completion for this country strategy was June 2002, but developments in the peace process delayed its finalisation.

Area	Payments (SEK millions)	
Democracy/HR	47.5	
Social sectors	72.8	
Natural resources management	50	
Infrastructure/business sector/ financial systems/urban devt.	165.8	
Research	104.3	(of which 5.5 to IT)
NGOs	27.5	
Humanitarian aid/ conflict prevention	78	
The Swedish Consultancy Fund	4.5	
Total	550.4	

In the period 1998–2001, a total of SEK 550.4 million was disbursed to 33 projects under the cooperation agreement and to some 50 projects and programmes (including about 30 local NGOs and eight Swedish NGOs) financed out of other appropriations. Swedish development cooperation amounts to 1 per cent of all support to Sri Lanka.

4.1 Peace and democracy

Support for peace and democracy promotion has taken a long time to build up, partly because of the unstable internal political situation in Sri Lanka and partly due to an initial shortage of staff at Sida, Stockholm. Only a few projects conducted in cooperation with state institutions have got under way, and it is therefore too early to analyse the results of this support. Support is being given to education in democracy and peace, particularly for young people, further education/training for journalists, the Commission on Human Rights and children in need of special protection. At present, extensive support is being prepared to promote peace and a culture of democracy within the framework of primary and secondary education in the country. In addition, substantial support has been provided to civil society. Between 25 and 40 local NGOs involved in activities designed to promote democracy and human rights have received support each year. This support has largely yielded positive experiences and has had some impact in terms of opening up debate in society.

A consultant study has been produced on Sida's peace and conflict perspective in development cooperation with Sri Lanka. One conclusion of the study is that explicit peace-building measures emphasising security and dialogue are not necessarily more effective in mitigating conflict than long-term investments that achieve conflict mitigation by making a structural impact, e.g. education and integrated rural development. The study recommends that the area of peace/democracy should be interpreted broadly in the light of previous experience and that focused inputs to promote peace, which are often of a political nature, should be balanced by broader development activities that may contribute to structural conflict prevention, e.g. democratic governance or employment.

Swedish NGOs have received support for efforts devoted to human rights, people with disabilities, young people, agricultural projects and education, pursued in cooperation with local NGOs. The degree to which objectives have been realised has largely been good, though the security situation in the areas in conflict has complicated the work.

Humanitarian aid has been channelled via the government, the UN, Médecins Sans Frontières and the ICRC. The support has helped alleviate the consequences of the conflict and has supplied humanitarian needs in areas under both government and LTTE control. The international presence has helped to improve protection for the population.

4.2 Pro-poor economic development

Support has focused on the private sector, the infrastructure and the financial sector. The measures have a mainly indirect, long-term effect on poverty.

Support to the private sector has consisted of several different initiatives aimed at giving greater diversity to the export market, strengthening the chambers of commerce, educating entrepreneurs, improving environmental management by the private sector, strengthening organisations and institutions that work on quality and standards issues, and developing courts of arbitration. On the whole, this support has achieved good results.

Support to the infrastructure has included measures in two sectors: roads (a profitability study of the Colombo-Kandy highway and a highway safety component of the Southern Transport Development Project) and energy (rehabilitation of power stations and some contributions to reform in this sector). It is too soon to draw conclusions about the results of these initiatives. A developing country credit has been given for rural electrification (this project has not yet got under way).

Support to the financial sector has included support for a capacity development programme at the Central Bank, undertaken jointly with the World Bank – a project that has recently been launched. In addition, Sida has financed a programme of cooperation between the Swedish central bank (the Riksbank) and the Sri Lankan Central Bank, focusing on advice on bank supervision, government debt management, monetary policy, inflation reporting, and other matters. The cooperation with the Riksbank has been experienced as a very positive factor. It is seen by the Central Bank as a source of professional support in the reform of the financial sector in Sri Lanka. A developing country credit has been provided to the National Development Bank to allow local companies to take out loans at reasonable prices for the purchase of Swedish input goods.

The principal objective of research cooperation has been to augment research capacity at some of the country's universities and institutions in strategic areas such as biotechnology and social sciences. This research cooperation was evaluated by outside experts in 1996. The report made a positive assessment of the programme in terms of number of publications, number of Ph.D. and M.Sc. degrees awarded, number of dissertations completed, establishment of research environments and production of research results that are of significance for the country's development. The support has also included inputs to develop the IT capacity and IT infrastructure at some of the universities included in the programme of cooperation. An external evaluation of IT support was conducted in 2002. Among other results, the support has improved conditions for research and been partly responsible for more widespread inclusion of IT in the syllabi of departments of technology.

4.3 Sida's international courses

Sida's international courses have educated 346 Sri Lankans, 88 of them women, in such subjects as the environment, human rights and health.

5 Sri Lanka's development strategy

5.1 Government objectives

Sri Lanka has drawn up a *Poverty Reduction Framework*, which provides the basis for a *Poverty Reduction Strategy* (PRS) that is expected to be finalised in December 2002.

According to the government's PRS, conditions will be put in place for i) pro-poor economic growth, ii) a more efficient social safety net, iii) increased influence for the poor and improved governance. The government has also developed guidelines for the provision of assistance to and reconstruction of the areas in conflict, and for reconciliation between groups (*National Framework for Relief, Reconstruction and Reconciliation, RRR*). The RRR presents a range of measures – some of them short-term, some long-term – to alleviate the consequences of the conflict, rebuild the areas affected, remedy the underlying causes of the conflict and promote reconciliation between different groups. Furthermore, with the assistance of a number of UN bodies, the government has drawn up a strategy to meet the urgent needs of returnees in the northeastern parts of the country.¹²

5.2 Assessment of Sri Lanka's development strategy

The government has stated that its foremost priorities are to create peace, to improve governance and to put the economy in good order. The PRS and RRR presented by the government are ambitious, but the lack of coordination, prioritisation and implementation of measures are major problems. Another weakness is the absence so far of mechanisms for cooperation with the LTTE on the design and priority of measures for the northeastern areas. During the negotiations in Thailand in September 2002, the government and the LTTE did, however, decide that a joint working group should be set up for the purpose of coordinating efforts to identify needs and establish an order of priority for measures. Particularly high priority has been given to mine clearance and measures to facilitate the return of internally displaced persons. The working group can be seen as the embryo of an interim administration (provincial administrative structure) in the northeastern parts of the country. The establishment of this group should potentially have consequences for the administrative structures that have been discussed and that the government has begun to build up as a step in the implementation of the RRR.

With regard to the peace process – a sine qua non for the country's development – substantial progress has been made and both the government and the LTTE appear to be sincere about their attempts to achieve peace. Major questions still remain to be solved and the risk of setbacks is great. Nevertheless, there are probably grounds for optimism, even if a lasting peace based on a political solution to the conflict is likely to take a long time to achieve.

The government sees the private sector as the motor for economic development and is prepared to implement a range of institutional and structural reforms to improve the conditions for economic growth. An ambitious agenda for the work of economic reform is currently being prepared. Several of these reforms are controversial, e.g. the privatisation of state-owned companies and liberalisation of labour laws. It will probably be difficult to secure broad political support in parliament and implementation of the reforms is likely to be a painful process.

The government's plans to improve governance and give the poor increased influence in the transformation of society represent a difficult process and will probably take a very long time to implement. There are already indications that influential groups opposed to the government's ambitious reform programmes are beginning to mobilise their forces. Measures to delegate power and authority to local levels and to render the public sector more efficient (to downsize it) are controversial and can be expected to encounter considerable resistance from different political factions and trade unions.

¹² Government of Sri Lanka and United Nations Joint Strategy to Meet the Immediate Needs of Returned Internally Displaced Persons (IDPs). July 2002–July 2003.

6 General considerations

Although Sri Lanka's GDP per capita is relatively high, there is great poverty in certain parts of the country and major reforms need to be implemented. The donors, including Sweden, can play an important part in efforts by the government to combat poverty and carry out reforms. In the prevailing post-conflict situation, the presence of donors and international support are valuable factors in establishing and consolidating peace and in the reconstruction of the areas affected by the conflict.

Sustainable peace is vital to a positive social and economic development in Sri Lanka. It will probably be a long time before a lasting peace can be achieved. The most likely scenario for the strategy period is thus a situation in which neither war nor peace prevails, with a political solution to the conflict becoming possible only towards the end of the period. An alternative scenario is that the ongoing peace process will collapse and the parties return to armed conflict.

There is a possibility that the parties could arrive at a lasting political solution to the conflict during the strategy period. The need for development assistance is expected to remain substantial for a number of years even after a peace agreement has been signed. However, the possibility cannot be ruled out that within a few years, though hardly during the strategy period, the country will attain a level of development at which traditional development cooperation will no longer be justified.

The present general orientation of development cooperation with Sri Lanka should be retained as a main alternative. If the peace process crumbles, the situation in the country may become very troubled, and political crises and serious armed conflicts may result. Depending on the reasons for the collapse of the peace process and the situation in the country at the time, there may be cause to reconsider the orientation of Sweden's development cooperation with Sri Lanka.

One important consideration for donors is the geographical balance of development cooperation, so as to avoid giving rise to new tensions and conflicts. It is essential that all groups feel they benefit from the peace.

Cooperation with Sri Lanka during the strategy period should be shaped according to different time perspectives. One urgent issue in a short-term perspective is the design of support for all the internally displaced persons who are now returning to their homes in the northeastern parts of the country. It should be possible to provide humanitarian support for basic social services (e.g. health care, education, social protection), basic infrastructure (e.g. rehabilitation of schools, health clinics, water and sanitation) and security (e.g. mine clearance). In the slightly longer term there may be a case for broadening support to include development measures (including infrastructure reconstruction) in the north and east, to the extent the situation permits this. In the first instance, the development efforts being made in the south should be extended to encompass the northern and eastern province as well. Since there is a risk of setbacks in the peace process, development measures in the north and east should be limited until the parties have arrived at a permanent political solution to the conflict.

If the peace process continues to make progress, support for demobilisation, disarmament and the reintegration of soldiers and LTTE units will be crucial to building and preserving peace.

A monitoring mechanism, the Sri Lanka Monitoring Mission (SLMM), was established in March 2002 to monitor compliance with the ceasefire agreement, facilitate mediation in conflicts at the local level (in association with representatives of the parties), and report on the security situation. The SLMM is made up of unarmed observers from the Nordic countries, including Sweden.

The SLMM has been greatly appreciated by both the parties in conflict and the civilian population. The Swedish Government takes a positive attitude to an extension and enlargement of the SLMM's mandate.

Sri Lanka has high ambitions as regards building up and using information technology (IT) for purposes of economic and social development. Sweden, meanwhile, has comparative advantages when it comes to support in this area. IT could well be made an integral part of development assistance in the different areas of cooperation. There should also be scope for considering separate IT initiatives to benefit peace, democracy and human rights or anti-poverty economic growth. Where support for IT investments at universities is concerned, these should be limited to initiatives of major strategic importance that add to the effect of other undertakings included in Sida's strategy for Sri Lanka.

In accordance with Sida's policy, attention must be given to the environmental dimension when planning measures. In addition, specific environmental actions may be relevant, e.g. in connection with projects financed by developing country credits/guarantees.

Gender equality is a fundamental consideration in both the broad areas of cooperation; with regard to the consequences of present conflicts, women as a group are particularly vulnerable. Gender equality should continue to occupy a prominent place in the planning and implementation of measures.

Children and young people are severely affected by the conflicts and have little opportunity to influence events in society. These groups should continue to receive particular attention when planning initiatives.

There is widespread corruption in the country. Close attention should be paid to issues of corruption in planning and implementing programmes.

The spreading of HIV/AIDS in the country is still confined to certain groups in society. Official UNAIDS studies estimate that at least 4 800 members of the population are living with the virus (December 2001).¹³ HIV/AIDS is spreading very rapidly in the region; UNAIDS fears that Asia will develop the largest HIV/AIDS epidemic in the world. Moreover, the country exhibits a number of risk factors associated with the escalation of AIDS cases, such as increased mobility, tourism and prostitution. Unless forceful action is taken, targeting groups characterised by high-risk behaviour above all, at an early stage of a possible epidemic, there is a risk that Sri Lanka will move in the same direction as other countries in the region. In view of the risk factors mentioned, the dialogue on HIV/AIDS should be reinforced and the development of HIV/AIDS closely followed.

Anticipated developments in the peace process, the need for reconstruction in the areas in conflict and an expansion of development cooperation to include the north and east as well, may motivate increased Swedish support during the strategy period. Flexibility should be sought in the use made of allocations, so as to facilitate a smooth transition from temporary humanitarian measures to long-term development initiatives.

Sweden's development cooperation with Sri Lanka is limited both in absolute financial terms and in relation to the total development assistance received by the country. Because of this, coordination and cooperation with other donors are highly important. The UN and NGOs are important players in the process of reconstruction. On the other hand, there should be clear local ownership. There is a limit to how many cooperation projects can be managed, not least in view of the limited administrative resources available from both Sri Lankan and Swedish sources. The potential for sectoral support should be examined in areas where this is deemed to be appropriate.

¹³ According to UNAIDS, 0.07 per cent of the population (aged 15–49) is HIV positive.

For capacity reasons, support to NGOs working on peace, democracy and human rights issues needs to be reviewed. The number of organisations involved in cooperation should be reduced. In order to economise with embassy resources, it should be possible to try out models used in other countries, using a Swedish or other international NGO as an intermediary. If the peace process progresses well, an increased focus on such issues as violence against women and children and democracy and human rights in areas controlled by the LTTE may be called for.

Development cooperation is an important component of relations between Sweden and Sri Lanka. Having said that, trade and investment have expanded in recent years and interest on the part of the Swedish business sector is expected to grow if the peace process moves forward and economic reforms are carried out.

7 Proposals for development cooperation during the period 2003–2007

7.1 Objectives for development cooperation

The main objectives of cooperation with Sri Lanka are to promote peace, democracy and human rights, as well as anti-poverty economic development.

7.2 Volume

The development of the peace process and the needs that ensue (reconstruction of the areas affected by the conflict and an expansion of development cooperation to include the north and east) may lead to a need for a greater volume of development cooperation. It is proposed that cooperation in the upcoming three-year period should total SEK 350 million (this sum does not include developing country credits, humanitarian aid and support provided via Swedish NGOs). The cooperation agreement, which should run for a period of three years, should be in the amount of SEK 270 million. Over and above the measures covered by the cooperation agreement, there will be development assistance credits, reconstruction undertakings and human rights actions of more limited scope; these are not included in the agreement.

7.3 Dialogue issues

Sweden's dialogue with Sri Lanka should concentrate primarily on issues related to:

- Democracy and human rights: The importance of respect for democracy, human rights, including the rights of women and children, protection for minorities and the rule of law should be conveyed both to the government and to the LTTE.
- More effective and efficient administration: The importance of guaranteeing the autonomy of supervisory authorities (the legal system, inspection of banks, national auditing office, labour inspection, etc.) and separating responsibilities and roles in the administration.
- Economic reforms: The work begun by the government on structural and institutional reforms should receive support.
- HIV/AIDS: The importance of preventive measures to prevent the large-scale spreading of HIV/AIDS.

8 Orientation of development cooperation

Swedish development cooperation over the next five years will be conducted by means of measures to promote:

- *Peace/Democracy/Human Rights*
- *Anti-poverty economic development*

In view of the conflict situation in the country, the conflict perspective should permeate all development cooperation with Sri Lanka, irrespective of the particular sector involved. This means that when selecting measures, cooperation partners, geographical areas, target groups and means of implementation, account must be taken of the consequences in terms of alleviating conflicts and creating conditions for peace.

8.1 Peace/Democracy/Human Rights

- Peace-building measures should encompass support that promotes *tolerance and reconciliation* (e.g. dialogue between groups) and *security* (e.g. mine clearance and, the situation permitting, measures to support the disarmament, demobilisation and reintegration of soldiers and other armed groups). Support for institutional development in the area may also be relevant.
- Humanitarian measures should encompass support for the return and readjustment of internally displaced persons. There should be a preparedness to provide support for the rehabilitation of conflict areas, which could take the form of measures in social sectors (e.g. health care and education), the infrastructure (e.g. rehabilitation of schools and roads) and income-generating activities. In preparing humanitarian measures, close attention must be paid to their connection with and replacement by more long-term development support. Particular account should be taken of the vulnerable position of women and children in conflict areas.
- Measures relating to democracy and human rights should focus on democratic governance including popular participation and a culture of democracy. Sida should give priority to: 1) institutions and organisations that watch over and defend human rights, especially the rights of women and children; 2) efforts to promote a culture of democracy in the media, education, etc.; and 3) the development of the legal system (e.g. the police force). Particular attention should be given to the situation of young people. In addition, there should be openness to providing support for measures to promote greater efficiency and democracy in central and local public administration, provided suitable conditions and channels are available. Efforts should be made to achieve synergy effects between support to the political authorities and civil society.
- Special attention should be paid to issues relating to democracy and human rights in the northern and eastern parts of the country. In connection with such efforts, increased support to local organisations in the north and east is envisaged.
- IT support could well be integrated with the undertakings described above. There should also be scope for considering separate IT initiatives to benefit peace, democracy and human rights.
- Support can be extended to both government authorities and NGOs. Support should continue to be given to NGOs but should be concentrated to a limited number of organisations. Efforts should be made to use resources more economically.
- The goal is to gradually create a more coherent and focused programme.

8.2 Anti-poverty economic development

- Measures designed to encourage the development of enterprise in poor regions, focusing on SMEs and implemented by means of support to regional chambers of commerce, educational programmes for entrepreneurs, and support to provide guarantees and credit-worthiness for small entrepreneurs, etc.
- Support for the development of the transport sector in poor areas, so as to attach isolated regions to markets. Efforts can be directed, for example, towards investments financed by grants/credits. Their efficiency and sustainability can also be reinforced by means of support for reforms, restructuring and new regulatory frameworks in the sector.
- The situation permitting, infrastructure reconstruction in the conflict-hit areas in the north and east may come into question. There should be scope for considering support for the infrastructure in a broad sense in these parts of the country, the transport sector in the first instance but also short-term support in such areas as telecom, electricity, water and sanitation. Opportunities to create jobs should be heeded in connection with infrastructure construction and maintenance.
- There may be a case for providing developing country credits and guarantees on a reactive basis to other sectors as well, where Sweden has special competence (e.g. the environmental area).
- Measures to strengthen the financial sector, e.g. supervisory and regulatory functions for the banking and insurance sectors.
- Measures to improve conditions for trade and the growth of the private sector by developing/reforming state institutions and central regulatory frameworks.
- Research cooperation aimed at augmenting research capacity in strategic areas at some of the country's universities, giving long-term priority to areas that come into the sectors given priority in other aspects of the development assistance. Given the right conditions, it may be appropriate to provide support to the Government's reform process aimed at creating a system of higher education that better matches the needs of Sri Lankan society.
- IT support could well be integrated with the undertakings described above. There should also be scope for considering separate IT measures designed to promote anti-poverty economic development.
- Wherever possible, support should target poor regions outside Greater Colombo and should include measures that have a direct impact on poverty as far as possible. However, the sustainability of the efforts will benefit if support can also be provided for central or regional reforms and efficiency measures. Synergy effects and management efficiency should be sought, e.g. by allowing different measures to interact within the scope of the same programme/project.
- The goal is to gradually create a more coherent and focused programme. Coordination with other donors is to be sought.

9 Planning and administration

In August 2002, the number of Stockholm-based programme administrators at the embassy was reduced from three to two. At present there are also two locally engaged programme administrators. In connection with the plans for full-scale delegation, which

is scheduled for 1 January 2004, the staffing of the embassy is to be reviewed. Depending on how the peace process develops, and on the increased development cooperation that may ensue in both the short and long term, the need may arise for additional staff at the embassy. The prospects of meeting such a need by the recruitment of an additional locally engaged person and perhaps another Stockholm-based staff member will have to be analysed in the light of Sida's resources, among other factors.

At Sida's Stockholm office, about the same input of resources is expected overall as previously. Some reallocation of spheres of responsibility between the departments is planned.



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