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1. EXECUTIVE SUMMARY

The European Union (EU) has a long and substantial relationship with Sri Lanka, including sizeable development co-operation, extensive trade relations and an important political role.

The challenges facing Sri Lanka over the next seven years will be characterised by:

- The need to resolve a volatile political and conflict situation with the overall objective of realising a lasting resolution of the conflict through a peacefully negotiated political settlement which respects the legitimate demands of all the people of Sri Lanka including minority communities.
- The need to take forward a series of reforms and ensuring faster growth to achieve Millennium Development Goals (MDGs) on poverty reduction.
- The need to eradicate acute poverty in parts of central Sri Lanka and in the whole of the North and East of Sri Lanka.

The development assistance mapped out in this present Country Strategy Paper (CSP) seeks to assist Sri Lanka to meet these challenges. The CSP, for which an envelope of 112 MEURO has been set aside, is in line with the EU's established strategy of focusing on conflict prevention and poverty reduction and will support the EU scenario based strategy towards Sri Lanka.

The priority sector for 2007-13 will be support to the peace process and poverty reduction in the North and East through sustainable integrated district development of one to two Districts. In addition, the CSP will include a smaller allocation of support to two non focal sectors: trade and good governance. The trade support takes note of the fact that trade concessions such as GSP+ can have a major development impact but countries such as Sri Lanka have not managed to make maximum use of them in the past. Support under the second non-focal will focus on promotion of good governance through electoral reform, human rights monitoring and advocacy and conflict resolution.

Over the past seven years, Sri Lanka has experienced widely different political situations, including periods of positive climate towards peace/uneasy peace, of low intensity conflict and of high intensity conflict, the latter is arguably the prevailing situation in 2007. Conflict is clearly the single most important obstacle to successful implementation of the proposed EC programme and development activities will need to be adapted to suit what is feasible and appropriate. To this end, the CSP foresees three scenarios under which the EC's support and response strategy will change respectively:

a) Under a scenario of a positive climate towards peace/uneasy peace, integrated district development as foreseen in the strategy will be pursued and support for trade and good governance will follow normal channels, supporting both government and non government institutions.

b) Under a scenario of insecurity and low-intensity conflict, when regional development and road building are problematic, support will focus more on trying to keep vulnerable

communities in place, whereas for the two non focal sectors support will be directed via non state actors and, only if duly justified, aid could pass via government institutions.

c) Under a scenario of high intensity conflict with major displacement of population, support will tend to focus on the communities and people who have been uprooted, addressing their medium term needs in the conflict affected communities which cannot be addressed by the ECHO instrument. Under this scenario, support for governance and trade will be channelled exclusively via NGOs and the private sector.

Those scenarios need to be used with flexibility and judgment so that they allow account to be taken of the changing situation in the implementation of the CSP.

2. POLITICAL, SOCIO-ECONOMIC & ENVIRONMENTAL CONTEXT, PROGRESS TOWARDS MILLENIUM DEVELOPMENT GOALS

2.1. Analysis of the political situation

Sri Lanka's twenty-five year long internal conflict resulting from ethnic tensions is still to come to a final settlement.

The country has suffered from sporadic civil war since the early 1980s. Various national attempts failed to resolve the problem through to the 1980s. After the Indo-Sri Lanka Accord of 1987, conflict flared up again through the 1990s.

A Ceasefire Agreement (CFA) was signed in February 2002. The GOSL and the LTTE agreed under this document to a cessation of hostilities and, with the facilitation efforts of Norway, to move to a negotiated settlement. In a meeting between the two sides in Oslo in December 2002, the basic principles of such an agreement were set down: "*the parties agreed to explore a solution founded on the principle of internal self-determination in areas of historical habitation of the Tamil-speaking peoples, based on a federal structure within a united Sri Lanka. The parties acknowledged that the solution has to be acceptable to all communities.*" It is this line that the European Union continues to take as the basis for all its aid, trade and political relations with Sri Lanka – a political settlement within a united Sri Lanka.

In a follow-up meeting in Tokyo in mid-2003, a major aid programme was agreed to facilitate this CFA and the planned peace process. Also at that second meeting, a group of four Co-Chairs (Norway, US, Japan and EU) was established to help the work of the facilitator Norway and of Sri Lanka on the CFA and peace process.

However, the 2002 CFA has not progressed into substantive negotiation and agreement on a final political settlement on the north and east. At the date of preparation of this document in 2007, there had been an upsurge in violence and, the perspective of the CFA and peace process was gloomy.

Over recent years Sri Lanka has experienced widely different political situations – including periods of positive climate towards peace/ uneasy peace, low intensity conflict and high intensity conflict, the latter being the prevailing situation in 2007. Given this gloomy outlook in 2007, it is therefore possible and probable that, over the next seven

years (the duration of this CSP), similarly varied scenarios will be experienced.

In 2007, the main hopes for resuscitating the peace process lie in a political proposal for the north and east that is being defined at present by an All Party Representative Conference (APRC). A proposal is expected from this body and to be finalised by mid 2007.

The Constitution of Sri Lanka *de jure* ensures the protection of fundamental human rights. However, in recent years, Sri Lanka has seen a gradual erosion of human rights standards and a systematic increase of abuses and human rights violations (eg. arbitrary killings, use of torture, unlawful arrests and detention of persons, extra judicial killings, disappearances, documented cases of child soldiers recruited by the LTTE, etc). Reversing the deterioration of human rights while coping with conflict and striving for a political solution are the greatest political challenges facing Sri Lanka in the coming years.

The establishment of the National Human Rights Commission (HRC) back in 1997 was a positive step to facilitate the investigation of human rights violations, but it has failed to be effective. A new Commission of Inquiry (CoI) has been established in 2006 to investigate abuses. In 2006 Sri Lanka was elected member of the newly-established UN Human Rights Council. A recent (15/09/09) decision by the Supreme Court has ruled that UN Treaties are not binding on Sri Lanka unless enabling legislation had been passed in Parliament. This issue came up in relation to a specific case linked to the implementation of the International Covenant for Civil and Political Rights (ICCPR). At the time of preparation of this document it was not possible to anticipate the consequences of this decision but if taken to the extreme and confirmed the implication of this decision would be that not only the ICCPR but most of the other international conventions signed by Sri Lanka would be considered as non-binding until incorporated into the national law. This ruling raises serious questions about Sri Lanka's compliance and adherence to international law, including the full spectrum of international human rights and humanitarian legislation.

It is in this uncertain political context that this CSP for the next seven years has been prepared. There is continuing need for strong international support to the country, with a particular emphasis on offering potential 'peace dividends' through aid programmes if the peace process can gain momentum and on encouraging conflict resolution and dialogue. The EC programme foreseen is positioned in a positive manner as an incentive for peace. It will be adapted in a flexible way according to the scenarios set out above.

2.2. Analysis of the economic situation

Sri Lanka liberalised its economy in 1977, well ahead of other developing nations. Despite the twenty year conflict, the economy has remained in a good state. Since the 1980s, annual growth rates averaged 4%. Since 2001 economic growth has averaged 5% annually, close to the growth rates achieved in the 1990s.

This shows that Sri Lanka has a resilient economy, even in times of conflict. However, the economy is not immune to conflict. Growth clearly accelerated after the CFA was signed in 2002. Conflict escalation in 2006 has seen inflation increase considerably from single figures to double figures reaching 19.3 percent in December 2006 which further

increased to 20.5 percent in January 2007, growth forecasts cut and key growth components in the economy under pressure. It is generally accepted that Sri Lanka's growth rate could increase if conflict is avoided.

As a new middle income country, grant aid will decline because the Millennium Development Goals strategy of the UN steers grant aid to low income countries. However, this country-wide picture hides a major regional disparity within Sri Lanka since most wealth is focused in the south and west provinces. The north and east are clearly low income regions, held back by the conflict.

In a further positive direction, the rate of unemployment has progressively dropped (16% 1990, 7.6% 2000 and about 8.5% 2005), although it is again far higher in north and east. Price stability deteriorated seeing inflation reaching 20.5 percent in January 2007. The current account deficit was 2.7% in 2005 and projected at 2.4% of GDP in 2006. Large private remittances from Sri Lankans working abroad grew by 21 percent (approximately US\$ 2.3billion in 2006) helped ease the payments' situation, along with substantial tsunami fund inflows in 2005-2006. However, this cannot totally offset the dual burdens of substantial trade deficit (around \$ 164 million in December 2006 and the overall trade deficit in 2006 increased to USD 3,370 million) and heavy debt servicing (94% of GDP at the end of 2005 and 91.5 percent projected for 2006) that constrain the country's ability to address these long-term structural challenges through further borrowing. Much of the additional funds needed for ambitious government spending plans will need to come from maximising domestic resources for investment. However, the tax base is generally poor and, despite some efforts at fiscal consolidation (deficit was reduced from 10.8% of GDP in 2001 to 8.7% in 2005), fiscal adjustment during the period was short of original targets. Until tax revenue increases and budget expenditure is controlled (especially defence-related expenditures, reform of remaining State Owned Enterprises and subsidies on petrol and food), the deficit will remain high.

Sri Lanka's economic structure is that of most new middle-income countries, with a comparatively high level of services (54%). Industry (26%) is focused on garments, leather, food processing, chemicals and rubber goods. Agriculture accounts for a mere 20% of GDP, although three quarters of the population live in the countryside. In contrast with the 1990s, real GDP growth since 2002 has been fuelled by the services sector, mainly transport and telecommunications. Growth in the industrial sector has slowed down and the 3.6% average for 2002-04 is well below the rates achieved in the 1990s despite sizeable restructuring in the most competitive sectors e.g. textile.

The role of the private sector has been growing but the state still dominates economic and financial services such as power, transport, banking, key commodity inputs such as paddy and agricultural inputs, and factor markets such as land and labour. Employment in the public sector also accounts for half of formal employment. In the Export Processing Zones, on the other hand, where e.g. most of the clothing industry is located, some of the core labour rights such as the freedom of association are restricted. In parts of the economy, and notably in the informal sector, working conditions and health and safety standards are often unsatisfactory and access to social security systems is lacking.

Overall, poverty in Sri Lanka has declined markedly since independence in 1948. However, 1991-2002 saw the income of the poorest increasing much more slowly than that of the richest. Presently 23% of the population lies below the national poverty line.

The poorest 20% of the population have access to 8% of income, while the richest 20% have 42.8% of the income. Poverty remains entrenched in certain regions, particularly in the tea estates in the centre and in the North and East. As much as 45% of the population is estimated to live on less than US\$ 2 a day in these areas. Malnutrition is also a problem: 25% of the population is undernourished and 29% of children under the age of 5 are underweight.

The situation in the **North and East** bears no comparison with the rest of the country. The area has suffered destruction and massive population displacements from the twenty year civil conflict. There are cases of destitution that are almost unseen in the rest of the country. As an illustration, the rate of malnutrition for children under five reaches 46.2%¹ in the North and East (comparing with 29.4% for the rest of the country). Only 22% of people in the North and 40% in the East have access to the national electricity grid (national average is 56%). The same appears when comparing statistics for access to safe water (20% vs. 45% nationwide) or sanitation (25% against 72%). Education and health figures are believed to be much worse, despite the lack of proper statistics. Returnees are a particularly vulnerable segment of the population with an IDP population now exceeding 600,000 who live precariously away from their original homes, displaced by old periods of conflict, the tsunami or more recent conflict since 2005.

The **Tsunami** that hit Sri Lanka's coast in December 2004 killed some 35,000 persons, destroyed 80,000 households, displaced one million people, and led to the loss of approximately 200,000 jobs. It created a new group of extremely vulnerable people. In 2006, approximately 200,000² people were still displaced and more than a quarter of the affected population is estimated to be living below the national poverty line. The tsunami struck the North and East in a disproportionate manner adding further to the disadvantages of that part of the country. The tsunami response created new imbalances, particularly between the two categories of victims (tsunami and conflict victims), but it also provided the opportunity for a fresh look at reconstruction in the North and East.

Sri Lanka's economy is faced with four significant economic challenges over the coming seven years in order to keep on track with the Millennium Development Goals:

- Ensuring economic growth and social improvement in the North and East and other lagging regions.
- Further reform of the public sector and indeed the challenge of balancing public finances.
- Address the disparity between urban and rural areas. Although Sri Lanka has achieved considerable economic growth, over three quarters of it has been concentrated on urban areas.
- Addressing unemployment amongst the youth. In 2005, 40% of the unemployed were under 29 years. Women are also slightly more affected than men. It is worth noting

¹ Sources – central bank annual reports

² Estimates based on UNHCR and Tsunami Year 2 report

that approximately 10% of the labour force work abroad, in particular in the Middle East.

2.3. Analysis of the trade situation

Sri Lanka's healthy trade and investment regime has allowed the country to take at least some advantage of globalisation. Trade has grown at 6-8% per year despite a major but temporary setback in 2001, and has now reached a respectable USD 17.1 billion (in 2006). Investment has been similarly positive (US\$ 480 million were the projected figures for 2006) and focuses primarily on basic services (Telecommunications), construction, manufacturing and garments. However, the country's history shows that performance on attracting investment and, to a lesser but still substantial degree, on trade, is closely linked to the level of conflict in the country.

In 2005 Sri Lanka primarily exported to the United States and the EU (31% and 28.6% of total exports respectively), with India coming third (6.9 % only). The main import partners are the EU (15.5%) and India (17.2.5%) thus becoming the number 1 import partner. Garments account for more than half of the country's export value (52.4% for exports to the EU) with machinery, rubber-based goods, jewellery and agricultural products making up for the rest. The cumulative exports in 2006 grew by 8.4 percent from US dollars 6,347 million in 2005 to US dollars 6,883 million in 2006. Cumulative imports in 2006 grew by 15.7 percent from US dollars 8,863 million in 2005 to US dollars 10,253 million in 2006.

The main trade challenge for Sri Lanka is to diversify its export base and strengthen its competitiveness. The country is well placed to benefit from India's growth due to the bilateral free trade agreement that has been operational since March 2000. Sri Lanka also benefits from the most concessional trade regime offered by the EU. GSP+ grants full duty-free access for all its export products, an advantage that can substantially help the country's development if used to its full potential.

Free trade agreements with Pakistan, BIMST-EC³ Free Trade Framework Agreement and the South Asia Free Trade Agreement (SAFTA)⁴ by the countries of the South Asian Association for Regional Cooperation (SAARC) should enter into force and be implemented within the next few years. Yet South Asia's level of regional integration is likely to remain low in the time span of this CSP.

2.4 Analysis of the social situation

Sri Lanka was one of the first developing countries to promote universal health and education, gender equality and social mobilisation. As a result of this, Sri Lanka's human development indicators are significantly better than those of other South Asian countries, particularly for women, and compare well with other medium-income countries.

³ Bangladesh, India, Myanmar, Sri Lanka, Thailand-Economic Cooperation

⁴ SAFTA was implemented on 1 January 2006 and became operational on 1 July 2006 with the first half of the tariff reductions taking place

In the 2005 United Nations Development Programme (UNDP-Human Development Index), Sri Lanka ranked 93 out of 177 countries, while South Asian neighbours such as India, Bangladesh and Nepal ranked 127, 139 and 136 respectively. In terms of achieving the Millennium Development Goals, Sri Lanka is doing well in the areas of universal primary enrolment, gender equality, infant and maternal mortality.

A critical social aspect of Sri Lanka's recurrent conflict is the issue of **Internally Displaced Persons** (IDPs). These now total well in excess of 600,000 and are likely to climb further if conflict expands. These IDPs are often long term and often have little prospect for a sustainable return to their homes, reflecting the 25 year chronic internal conflict. The government provides help to the IDPs but it is generally not sufficient to meet all needs. As such, aid is still an important source of essential support for these IDPs – both short term (shelter, etc) but also longer term needs (eg. livelihoods, education and health). The communities that receive these IDPs are also put under strain so need support to absorb IDPs without creating tension and further conflict. Lastly, the communities IDPs could return to need reconstruction and support to entice IDPs to return when conflict conditions permit.

Sri Lanka provides universal education and health services to its people. In **education**, primary school enrolment is almost 100 percent, and the enrolment rate in secondary schools is about 75% for both girls and boys. This has contributed to a high literacy rate of 92.1% (89.6% female, 94.7% male). However more needs to be done. There is a number of children who belong to marginalised groups who are out of the schooling system. In addition, the quality of education needs to be improved.

In the field of **health** Sri Lanka has a very good record. There is a high life expectancy of 72.5 years (75.8% female, 69.8% male), and a low fertility rate of 2 births per woman. Infant mortality (17 per 1000 live births) and maternal mortality (92 per 100,000 live births) are lower than in other countries in the region, and so is the number of HIV/AIDS cases. Combating HIV/AIDS has been mainstreamed as a cross-cutting issue in the programming process by analysing the government's policy agenda on HIV/AIDS and sexual and reproductive health in particular, as well as the importance of the theme in the partner country. In the EC response strategy an assessment is made of the risks and opportunities in the proposed focal sectors for combating HIV/AIDS and other diseases. Also malaria and dengue have to be dealt more efficiently.

The status of women in Sri Lanka is far better than that in other developing countries. However, more needs to be done in order for Sri Lanka to meet the international standards of gender equality. Sri Lankan women enjoy a much better social position than most of their South Asian counterparts. There is no significant **gender** inequality either in access to health and education services or in economic welfare. School enrolment rates are equal for boys and girls, and women also account for approximately 50% of university enrolments. Universal health provision has led to good levels of health among women. Sri Lanka's women also have access to income and employment opportunities, but they are mainly employed in semi-skilled labour-intensive industries. Discrimination on the basis of gender is prohibited under Sri Lankan law, but discriminatory laws and practices still exist (land rights, inheritance, abortion, incest and rape) and social control over female behaviour (as well as female sexuality) continues to restrain balanced development of gender relations.

Sri Lanka is a country of both origin and destination for **human trafficking**. Commercial sexual exploitation of children, especially of boys, is common. Internal trafficking of persons for domestic servitude and other purposes has also been reported. In many cases, Sri Lankan women go to countries like Lebanon, Kuwait, Bahrain, the United Arab Emirates (UAE) or Saudi Arabia to work, and end up in situations of coerced labour or sexual exploitation. Small numbers of Thai, Russian and Chinese women have also been trafficked into Sri Lanka for sexual exploitation.

2.5. Analysis of the environmental situation

Sri Lanka's high population density and the continuing efforts to improve people's living standards have put great pressure on the country's environment. Sri Lanka's Ministry of Environment and Natural Resources (MoENR) identify five main problems: land degradation, waste disposal, and pollution of inland waters, loss of biodiversity and depletion of coastal resources.

One of the main areas of concern is the deterioration of coastal resources due to erosion and population pressure, particularly in the Western and Southern regions. This is due to the concentration of population in coastal areas, as well as unsustainable practices such as tiger prawn farming, sand-mining, collection of coral, and removal of coastal vegetation.

Soil erosion is severe in many parts in Central Sri Lanka, with landslides being a constant threat to the people living there. Pollution is also an increasing problem, with agricultural chemicals and agro processing by-products polluting soil, air and water. In urban and industrial areas, solid waste is a growing problem, as systems for collection and disposal are weak.

Groundwater quality is good in most areas. However, the increased demand for water has been met by heavy investments in irrigation, while rain-fed farming has been largely neglected. Water pollution is being addressed by improving sanitation, reducing the use of pesticides in agriculture and encouraging industry to install clean technology.

While relatively low in comparison to other Southeast Asian countries, Sri Lanka's emissions have increased rapidly over the past decade and this trend is expected to continue as the country's hydropower potential decreases, resulting in a greater reliance on fossil fuels. The rapidly expanding transportation sector is responsible for a large share of this increase.

Virtually the entire country is part of one of the world's 25 biodiversity hotspots. Over 20% of the flowering plants and 16% of mammals are endemic, with many threatened and endangered species identified, including several endemic monkeys and shrews. This can be explained by the facts that only about 1.5% of Sri Lanka's original forest cover remain.

Many of the environmental problems have a significant and disproportionate impact on the poor. Low-income urban settlements are particularly vulnerable to diseases caused by water pollution. The main causes of those diseases are the lack of water supply and sanitation facilities and the poor drainage conditions. The poor are also more vulnerable to the effects of air pollution, as many low-income settlements are located near roads and railways. Due to the lack of solid waste disposal facilities, many local authorities dump

solid waste on vacant lands, which are often found close to low-income settlements.

Tsunami reconstruction has offered an unprecedented opportunity to address the issue of environmental sustainability where the situation is most challenging i.e. in coastal areas.

Reconstruction and resettlement in Sri Lanka are severely hindered by landmines and unexploded ordnance (UXO), especially in the north-east part of the country. Landmines are a threat to the refugees and internally displaced persons who return to areas highly impacted by conflict. The Government has estimated that a million landmines were laid in Sri Lanka by both sides during the conflict and reported that more than 550 villages were affected, including 250 villages where demining had started and 307 that remained to be cleared. The northern Jaffna peninsula is the most severely affected area. About half of all landmines laid in Sri Lanka are estimated to be in the peninsula and to affect some 228 villages, excluding high security zones. The number of mine incidents, however, has fallen from 15 to 20 a month before the 2002 cease-fire to four to seven in 2004, and three to four in 2005. Incidents increased again in 2006 due to unexploded ordnance from the renewed conflict. The Government hopes to make Sri Lanka a mine-threat free country by the end of 2008. But renewed conflict is a major impediment to reaching this target.

3. THE POLICY AGENDA OF THE BENEFICIARY COUNTRY

3.1. General political and economic agenda

The Government presented a new strategy in 2006 derived from the Mahinda Chintana (President Rajapakse's election manifesto).

On the political front, the current policy is a combination of preparing a political proposal for the north and east (APRC – see above) while also pursuing military activities in the east to remove LTTE from this area. Other problematic issues are the status of the east which has been complicated for the GOSL by a Supreme Court ruling that the merger of the northern and eastern provinces in 1987 was not undertaken correctly in legal terms and the repeated violations of the CFA.

On the economic front, the new policy calls for higher levels of public investment and encourages Foreign Direct Investment (FDI). Industrial policy should strengthen the existing export orientation of the manufacturing sector, but the government also remains committed to a certain level of import substitution. Foreign trade is encouraged and the strategy foresees a strengthening of health, environmental and labour standards to comply with international standards. Time will tell however whether there is sufficient emphasis to ensure revenue generation that can match ambitious expenditure aspirations.

One of the main avenues of promoting pro-poor growth is a focus on improving rural infrastructure, as inadequate infrastructure facilities are seen as one of the biggest impediments to Sri Lanka's progress, including to FDI and rural development. Rapid agricultural productivity growth is also highlighted as fundamental for reducing poverty in Sri Lanka.

The new poverty reduction strategy will also focus on rebuilding backward regions,

including the North and East, the areas affected by the 2004 tsunami and the centre. The objective of this framework is to help strengthen Sri Lanka's capacity to: (1) ensure the basic needs of people affected by the conflict; (2) rebuild productive lives where feasible; and (3) facilitate reconciliation and partnership across ethnic lines. Rebuilding of damaged infrastructure is of highest priority as well as providing measures to support livelihoods and to promote lasting peace through economic progress and equal opportunities.

For the tsunami-affected people, the immediate requirements highlighted include livelihood support as well as reconstructing and rebuilding infrastructure facilities in underdeveloped areas.

Increasing the income of the poor is a main objective of the economic growth strategy. This will be achieved mainly through ensuring access to productive employment and decent work opportunities, although for particularly vulnerable groups, special income support will also be provided.

The pro-poor growth strategy requires greater decentralised implementation, in order to get the community involved in development. A core element of the strategy should be to strengthen Divisional Secretariats (DSs) as the co-ordination centre for the administration of poverty reduction programmes.

3.3. Fiscal Responsibility and Reform

Recognising the importance of attaining fiscal sustainability, the GoSL announced its intention to adhere to the targets by the Fiscal Management Responsibility Act, though on a delayed timetable. The 2005 and 2006 budget have failed to see the fiscal deficit brought back under control – as ambitious spending plans are not backed by an expanded revenue base.

Current policy on financial and economic reform is less liberal than in the past. The government has ruled out privatisation as an option and intends to restructure the remaining twelve strategic enterprises within a more autonomous corporate structure, under the oversight of a new Strategic Enterprise Management Agency (SEMA).

Sri Lanka's financial sector reflects a strengthened regulatory framework and greater private sector participation. The two state banks - the People's Bank (PB) and Bank of Ceylon - account for 46% of banking assets. Plans to resuscitate the banks through privatisation have been ruled out and the government intends to restructure the PB for instance under SEMA with Asian Development Bank (ADB) assistance. Although financial performance of the banks improved in 2004, their financial position is at risk owing to increased lending exposure to the Ceylon Petroleum Corporation (CPC) and Ceylon Electricity Board (CEB). The recent establishment of a state SME bank further raises the need for appropriate oversight in this sector.

3.4. Environmental Policy

The general framework of Sri Lanka's environment policy is contained in the National Environment Policy and Strategies (NEPS) of 2003, which paves the way for sustainable development and deals with all the sectors related to the environment. This programme

mainly deals with the preservation of land, water, atmosphere and biological diversity. It also refers to environmental strategies for the key economic sectors, namely forestry and wildlife, agriculture and mining, fisheries, tourism, energy and transport, health and urban development. The plan also mentions participation from the civil society in the field of education, awareness and communication programmes.

Sri Lanka's environmental problems are clearly linked to poverty and population pressure. As such, the country's policies seek to strengthen capacity at global, national and community levels through the implementation of international conventions and protocols, such as the Montreal Protocol, which involves the phasing-out of Sri Lanka's Ozone Depleting Substances (ODS) and the incorporation of sustainable development practices in policy planning.

During the last two decades, a number of improvements have been recorded within the environment-energy-development sector. However, overall achievements have not reached desired levels and the unsustainable use of natural resources has accelerated. Land degradation, declining water resources and water quality, loss of biodiversity and natural ecosystems, land and finally coastal and marine pollution remain major environmental concerns that could affect Sri Lanka's goal in achieving sustainability in the sphere of socio-economic development.

4. PAST EC CO-OPERATION, CO-ORDINATION AND POLICY MIX

Co-operation between the EU and Sri Lanka dates back to 1975 when the European Commission and the Government of Sri Lanka concluded a Commercial Co-operation Agreement. Relations are now governed by a third generation agreement, the Co-operation Agreement on Partnership and Development (CAPD) between the European Community and Sri Lanka, which came into force in April 1995.

EU political involvement has intensified since the 2002 Ceasefire Agreement and is likely to continue in one shape or form. The EU (represented by the Presidency and the Commission) is one of the four Co-Chairs that were appointed by the June 2003 Tokyo conference to support Norway's facilitation effort and monitor progress in the 2002 peace process.

There was a sizeable increase in EC development co-operation to Sri Lanka following the Ceasefire Agreement and the 2003 Tokyo donors' conference. This support to the peace process has been complemented by trade and economic assistance and a large tsunami response programme in 2006.

4.1. Support to stabilisation, peace and poverty reduction in the north and east

EC aid has mostly focused on the North and East of the country where poverty and under-development are most acute, particularly among war-affected populations. In addition, this is the part of the country where investment is needed to help in conflict resolution and prevention. Efforts were focused on basic infrastructure in line with the priority needs identified jointly by GoSL and the LTTE. It included a strong governance component in order to ensure sustainability and consolidate institutions in the North and

East which involved both local government and communities.

Over the 2002-2006 period, the EC has financed two programmes that have brought a substantial contribution to rehabilitation and reconstruction in the North and East:

- a programme encouraging resettlement of Internally Displaced Persons (IDPs) through improved housing and better governance (€ 10 million): this programme will be implemented with 2006 funds in addition to the €6 million committed in 2005 under the AUP facility.
- additional contribution to CARE's Dry Zone project (€0.98 million) in order to expand rural development operations into the conflict-affected areas in the north and east (Mannar district).

4.2. Trade and economic assistance

Recent EC-Sri Lanka economic co-operation aimed at:

- Assisting Sri Lanka in modernising its regulatory framework for trade and investment. The main purpose of the project was to strengthen Government's and other stakeholders' capacity to undertake WTO negotiations and meet commitments and challenges stemming from WTO and other international trade agreements. The project also enhanced the export potential in the key sectors of garments, gems and jewellery.
- Encouraging wider EU-Sri Lanka business linkages and investment. A Small Project Facility (SPF) promoted business linkages and investment (€1.6 million), promoted civil society dialogue and facilitated interactions in the areas of governance and economic reforms as well as in trade, investment-related matters and vocational training. It also provided Sri Lanka's private sector with capacity-building opportunities.

The 2003-05 economic co-operation programme also included a civil aviation component aimed at modernising and encouraging market-led investment in the area of domestic civil aviation. The identification mission deployed in 2004 concluded that the type of support required by this revenue-generating sector could not be met by grants and that partners other than the EC were better placed to support the sector. The issue was discussed during the October 2004 EC-Sri Lanka Joint Commission and GoSL accepted the project should be dropped.

4.3. EC tsunami response

The Tsunami Indicative Programme adopted by the Commission in May 2005 allocated €95 million to Sri Lanka over a two-year period (2005-06). The EC intervention focuses on restoring livelihoods and human and reconstruction of key economic infrastructure. The broad strategy has been:

- to bridge from short term emergency funding immediately after tsunami to longer term reconstruction with livelihoods support for affected communities throughout the north and east. The Livelihood Development Programme (€5,5 million) focused on

the 6 tsunami affected districts in the North and East and was implemented with UNDP.

- to rebuild a major road damaged by the tsunami from the south of the island (Matara) around the coast to the conflict affected east (Ampara). A €9 million allocation has been made and is being implemented with ADB.
- to reconstruct feeder roads to this main trunk road in the conflict affected Ampara District. This €30 million programme involves communities closely and is being implemented with UNOPS.
- to provide communities along these roads in Ampara with livelihoods and environmental support so that they have a sustainable developmental future. This €20 million is being implemented with UNOPS and IOM. The environment component addresses tsunami related and chronic solid waste management and environmental restoration priorities. The community support provides communities with productive infrastructure to help restore jobs and growth.

This geographic split permits a fair allocation between north/east and south/west which reflects the original estimates of damage which were some 60% in north/east and 40% south/west. The focus on Ampara reflects fact that this was perhaps the most damaged District by tsunami and has also been traditionally neglected.

The immediate livelihoods' bridging support programme was started immediately in 2005. However, the longer term road around the coast and Ampara focused programmes were delayed in 2005 as the EU waited for government agreement on the PTOMS instrument which was to have been a joint government and LTTE instrument to allocated tsunami reconstruction resources in the north and east. This was eventually rejected by the government, costing a year's delay for work in the north and east. Work has progressed since December 2005 but is affected also by the increasing conflict that has taken off in 2006.

The environmental concerns were integrated into coastal rehabilitation and reconstruction efforts through the Asia Pro Eco II- Post Tsunami Programme (around €5 million). This facility responded to urgent reconstruction and rehabilitation efforts of Tsunami affected countries by combining European and Asian expertise. Seven projects were approved for Sri Lanka which target environmental themes such as coastal zone management; urban environmental planning; water and waste management/sanitation etc.

4.4. Other thematic and regional support

The **Aid to Uprooted People** budget has been particularly active in Sri Lanka (€21 million programmed for 2003-06) because of the very large number of Internally Displaced Persons (IDPs). The civil war left 800,000 people displaced, including 172,000 in refugee camps. Half of these people are now estimated to have returned to the North and East, although not necessarily to their place of origin, and most of them are still destitute and in a very precarious situation (uncertain income, illegal occupation of land, psychological traumas, higher vulnerability).

Since the Ceasefire Agreement the European Commission has contributed €13.7 million

(\$16.5 million) for **mine action** in Sri Lanka, including support from both the European Commission Humanitarian Office (ECHO) and reconstruction budget lines. Mine action activities such as mine risk education, surveys, mapping, field fencing, humanitarian mine clearance and survivors assistance have been funded in order to allow for the safe return of the people of the northern and eastern part of the country. These interventions have contributed to a significant reduction in the number of landmine injuries, from around 20 to 3-7 incidents per month, and the safe return of over 400,000 IDPs since February 2002.

Sri Lanka has also received support under the **European Initiative for Democracy and Human Rights** (EIDHR) budget line. To date there have been four Electoral Observations Missions (EOMs) deployed over the last five years: in 2000, 2001, 2004 and recently for the November 2005 Presidential election. As concerns higher education, Sri Lankan students, scholars and universities can benefit from EC financing since 2004. Activities carried out in the field of higher education will be financed within the context of the regional programming for Asia.

Finally, since 2001, the European Commission has been supporting the improvement of the **migration management** system of Sri Lanka as well as facilitating the return and the reintegration of Sri Lankan citizens. These are citizens who have either decided to come back home at the end of a period of labour migration in the EU or have been obliged to leave the EU as irregular migrants. This was done through four projects of an overall amount of approximately €3.3 million which were implemented by the International Organisation for Migration (IOM) and the International Centre for Migration Policy Development (ICMPD). On 4 June 2004, the Government of Sri Lanka and the European Commission, acting on behalf of EU Member States, signed a readmission agreement in Colombo. The agreement entered into force on 1 May 2005. The AENEAS programme⁵ continues to consider Sri Lanka as a focus country and foresees to fund more projects there.

4.5. Donor co-ordination and harmonisation

The priorities for EC assistance have been discussed jointly by the EC and Sri Lanka authorities. EC aid has been allocated recognising national priorities (lagging regions) and reflecting where national funding and other donors' aid is focused. The EC has attempted to complement the actions of others and build on areas of natural EC competence (eg. development through trade). Government and international financial institutions have focused on the larger investment projects (World Bank) as well as the overall macroeconomic framework (IMF).

The European Commission (EC) has invested heavily in donor coordination, in line with the EU policy and Paris Declaration. The EC holds regular meetings with EU Member States Development Counsellors. The EC has also taken over the chairmanship of the Bilateral Donor Group which groups all bilateral donors operating in the country. The EC has also assumed the chairmanship (rotating with the IFIs) of the Development Partners group which includes all bilateral, multilateral, ICRC and NGO partners working in the

⁵ AENEAS covers the period 2004-2008 and replaced the programme funded under B7-667 as the main EC thematic budgetary line in the field of migration.

country. Separately, the EC also maintains a core coordination group with NGOs to ensure coordination and strategy discussion with the leading NGOs. This central position in coordination assists further in ensuring coherence of approach by EC.

In addition the EC has been instrumental in the establishment of a Committee for Coordination of Humanitarian Affairs which links key ministries and donors in monthly meetings to ensure that humanitarian issues are addressed in a coordinated manner. This has proved particularly effective in maintaining access and supplies for development partners into the north and east.

4.6 Analysis of the coherence with other EC policies ('Policy mix')

EC development assistance is one instrument to help implement the EU policy towards Sri Lanka as well as the EU's broader development strategies. Specifically, the EU policy towards Sri Lanka focuses on conflict resolution, reconstruction where possible in conflict affected areas, development through trade and good governance, including human rights and humanitarian assistance. These priorities have dictated the focal areas for EC assistance in the past and, as set out below, underpin the future interventions as well.

The conflict related and good governance support is fully in line with EU conflict prevention strategies and the EU's position and policy as one of the four Co-Chairs to the current peace process. The EC's development through trade support is fully in line with EU policies as regards the WTO and current trade round, the EU's internal policies on safety as well as Sri Lanka's status as a recipient of GSP+ trade concession.

The European Commission has invested heavily in coordination with EU member states to ensure coherence as well as to ECHO so that the mix and link of humanitarian aid to reconstruction is as effective as possible.

In implementing the present strategy, particular attention will be paid to developments in other EU policy areas such as trade and investment, education and culture, R&D, environment, justice and home affairs in order to ensure maximum coherence and synergies.

5. LESSONS LEARNED

5.1 Support to stabilisation, peace and poverty reduction in the north and east

The political situation, the increased conflict and chronic poverty has vindicated the earlier strategy of concentration on the North and East. However, the South and West of the country has benefited from EC aid support to development through trade and from the tsunami programme, particularly the highly visible road project.

Past EC interventions have addressed their immediate objective of assuaging situations of extreme poverty and re-starting livelihoods on a relatively small scale. The programmes have been assessed by Results Oriented Monitoring as being satisfactory. The elements that have worked well are a combination of infrastructure development (especially in

roads and environment) coupled to livelihoods support for communities to stabilise and grow in a self-sustaining manner. Roads and housing are still considered – including by GoSL - as the two sectors requiring urgent and considerable investment from donors in the North and East. On the basis of earlier experience in both sectors, housing appears to be better covered by grant aid donors, including the EC. Housing was a major focus for support in 2005-06, helping the return of IDPs. Roads, however, have been less focused upon, even though this can have a major impact on economic activity.

Past experience has shown EC future aid must accommodate two key determinants in its development efforts in Sri Lanka:

- efficiency: aid programmes from the EC are heavily constrained by conflict that constrains access for development agencies and partners to implement aid projects.
- effectiveness: aid programmes could have greater impact if there is greater focusing of resources on smaller areas. Implementing partners, including the most efficient ones, have felt the need in the past to maintain a balance between the eight districts. This has led aid to be spread too thinly across too many sectors and districts.

Therefore lessons from past co-operation point to:

- maintain focus on the North and East, as the EC's most effective contribution to helping Sri Lanka reduce poverty and resolve conflict;
- concentrate resources geographically within the north east to avoid spreading limited resources too thinly;
- recognise that only an integrated approach will produce sustainable results for reconstruction where infrastructure work (eg. roads and housing) need to be complemented by livelihoods support to help communities resettle and self sustain as well as flanking measures to improve district planning and governance, thereby strengthening long term local capacities for sustainable development;
- complement integrated development with stronger support to reconciliation activities and other aspects of good governance in order to facilitate the creation of an area of freedom, security and law and order. This will be the critical element in building trust between government and public and, within the public, between the three ethnic communities.
- take a flexible conflict-sensitive approach to development - recognise in times of conflict that ambitious integrated District development plans will not be feasible and that, in such periods, EC focus should be more on conflict affected communities and IDPs in particular;
- recognise that conflict also moves over time – where one area of north east may be inaccessible due to conflict, other areas may be relatively calm.
- recognise the particular chronic needs of IDPs – not only through short term aid but also medium term aid to livelihoods, reconstruction, education and so forth in both receiving communities and, where conditions permit, in sending communities.

5.2 Trade and economic co-operation

Past support has shown that development through trade is very effective - creating jobs and growth on a grand scale that aid alone cannot generate. It is also an area where the EU enjoys a unique comparative advantage. This “development-through-trade” policy works best when a favourable trade access regime (GSP+ in the case of Sri Lanka) is complemented by facilitating assistance programmes to ensure Sri Lanka can take advantage of its favourable trade access.

There is still scope for expanding co-operation to several strategic areas, *inter alia* human resource development, IT-related issues, services liberalisation or dispute-settlement mechanisms. The EU-Sri Lanka joint study on trade has provided a fine basis for future support plans. Export diversification and acceptability (through improved standards) has proved a valuable focus and one where new areas for co-operation can still be identified. Needs will have to be further refined depending on the final outcome of the Doha round. The resulting projects should seek to build on past successes, for example the Small Project Facility. They should be based on simple implementation mechanisms to ensure efficiency and give priority to areas where the EU can bring strong added value, such as Sanitary and Phyto-Sanitary measures (SPS), trade facilitation, Trade Development, Inward Investment, SME business and support services and export marketing. The Trade Needs Assessment (TNA) completed in September 2005 pointed to the following:

- Further technical assistance was recommended for the services sector and specifically on the benefits of liberalisation of services, also taking into consideration its implications on the current services negotiations under the regional and bilateral agreements. Such training should not only target the Department of Commerce but must reach beyond to Chambers of Commerce and other stakeholders as well.
- Assistance for diversification to new sectors and market penetration was indicated as a priority with delivery through private public partnerships for maximum effectiveness. During the last several years Sri Lanka’s competitors have gained competitive edge in several key product areas, e.g. in tea, ceramics, gems, footwear, garments, diamonds and jewellery etc. Sri Lanka’s traditional dependence on a limited export basket (tea and garments account for 63% of total exports) has exposed the country to volatility in these markets and price pressures.
- Support to customs was emphasised with the aim of bringing more efficiency and accelerating trade transactions. Proposals included the updating of the customs ordinance, the development of an information database for the registration of importers and exporters for customs valuation purposes, and the establishment of an operational ICT system to speed up the customs clearance procedures.
- In the area of Technical Barriers to Trade (TBTs), the priorities were support to accreditation bodies, strengthening of the TBT inquiry point and training of laboratory staff. In the area of Sanitary and Phyto-Sanitary Standards priorities included assistance to the development of a simplified guide to EU safety requirements.

Business co-operation is also broadly seen as positive by stakeholders in Sri Lanka. The Small Project Facility has helped to build on the strong dynamism of Sri Lanka’s

business community and cope with the unpredictability of government and policy changes. An evaluation of the Small Project Facility will be conducted once the first batch of projects has been completed in order to draw lessons for the future.

5.3 Future EC assistance: guiding principles

The CSP response strategy takes as its starting point the EU development strategy and EU policy towards Sri Lanka. This steers the focal areas for support. It also sets the scenario based approach to be used in this CSP, recognising that assistance will need to be adapted depending on which scenario Sri Lanka is in. These will need to be interpreted with flexibility and judgement. Lastly, the EU overall has certain principles on aid delivery in periods of conflict which also underpin this CSP, notably fungibility of aid (aid may benefit government but should not pass through the budget), conflict sensitivity (ensuring aid projects are designed be feasible in conflict and if possible alleviate conflict conditions) and peace dividend (ensuring aid acts as an incentive for conflict resolution and prevention).

In terms of harmonisation with other donors, the Commission will endeavour to translate, at the programme level, the principles of the **Paris Declaration**, ensuring it supports those sectors where the EC has a clear value-added and where there is a lack of other major donors (see section 4.5).

The EC's future development strategy for Sri Lanka will also aim to dovetail with other EU policies, notably in the area of trade and conflict prevention. This **policy mix** entails concessional trade agreements offered to Sri Lanka by the EU and support to Sri Lanka's WTO membership. The proposed interventions set out in this CSP under trade and economic assistance reinforce this broader policy framework. The EU development policy places great emphasis on conflict prevention and conflict resolution. The response strategy must be conflict sensitive and seek to bolster Sri Lanka's efforts to find a political solution to the conflict and development challenges in the north and east.

6. THE EC RESPONSE STRATEGY

The above analysis and lessons learned from past support leads to three main objectives for the EC Country Strategy Paper over the period 2007-13 – reconstruction and stabilisation of the north and east, support to good governance and conflict resolution, and development through trade programmes.

A total envelope of €12 million has been set aside for Sri Lanka for the period of the CSP 2007-2013.

The EC response strategy also seeks to ensure a concrete and effective relationship between the EC's longer term development cooperation and the EC's humanitarian aid (ECHO).

Given the conflict situation, the EC treats Sri Lanka as a “conflict country in crisis”, thereby ensuring flexibility in implementation to meet demands on the ground and maintain effectiveness and efficiency of aid.

6.1. A Flexible Scenario-Based Response Strategy

Over the past seven years, Sri Lanka has experienced widely different political situations – including periods of uneasy peace, of low intensity conflict and of high intensity conflict. In 2007, Sri Lanka is entering a new period of conflict. Conflict is clearly the single most important obstacle to successful implementation of the proposed EC programme.

In the next seven years, similarly different political situations can be expected. As such, the CSP uses a flexible approach under which the EC support and response strategy can be adapted to suit changing conditions. Three broad scenarios have been identified:

a) Scenario 1 “Positive Climate Towards Peace/Uneasy Peace”: there is a commitment to return to negotiations, there is a declining level of violence and a momentum is being built for full peace negotiations. This is a situation similar to 2002 and early 2006. Under this scenario, integrated district development will be pursued as foreseen; development through trade and good governance will follow normal channels and support government and non government institutions.

b) Scenario 2 “Low Intensity Conflict”: under this scenario, the level of violence is increasing and there is little momentum for peace negotiations but neither of the parties is ready to return to high intensity conflict. Under this intermediate scenario, integrated District development may be problematic and support will focus on areas where work is possible and on trying to keep vulnerable communities in place with support in livelihoods, service delivery and small infrastructure. For the two non-focal sectors, support may benefit both government and private bodies but will be implemented generally via non-state actors and, only if duly justified, could aid pass through government bodies.

c) Scenario 3 “High Intensity Conflict”: under this scenario there is no perspective for return to negotiations and parties pursue a hard military line. This is the scenario of 1997 and 1998 and arguably 2007. Support will tend to focus on the communities and people who have been uprooted, addressing their medium term needs in the host communities they flee to which cannot be addressed by the ECHO instrument. Support for governance and trade will pass exclusively through NGOs and private sector.

Recognising that the situation is fluid and that it may change rapidly, a tailored and flexible approach is required from the EC. To achieve this, the EC will adapt its aid through Annual Action Programmes (AAP), according to the scenario at the time.

6.2 Focal sector: stabilisation and reconstruction in the north and east

The analysis section identified disproportionate levels of poverty in the north and east plus the clear need to support Sri Lanka in its conflict resolution and prevention as two pressing development challenges. When coupled to the lessons learned from current and past programmes, this leads the main focus of EC funds 2007-13 to be on **integrated district development in one or two districts of the North and East**, when conditions permit (see scenarios above). This shall comprise an infrastructure component, including roads and associated community infrastructure, such as housing. This will be complemented with support for additional livelihoods’ measures involving local communities and the private sector to ensure sustainability to the reconstruction of the

region. The choice of the district will be based on criteria including the size of the population, the amount of tsunami aid received, and the capacity to implement. The efficiency of development in the North and East is also constrained by the weakness of existing governance structures. As such, there will be additional flanking measures to enhance governance capacity at district level and below, particularly for development planning and maintenance/sustainability.

Building on EU policies of co-ordination and efficiency, the implementation mechanisms will seek to co-operate directly with other donors (including international financial institutions) and with Sri Lankan bodies with proven implementation capacity (such as ADB, UN agencies, local government institutions and NGOs). Owing to the fact that such agencies are often overloaded, all actions must be complemented by ensuring the chosen institution has the capacity for implementation.

Given the high impact landmines and UXO have on reconstruction and resettlement in Sri Lanka, the EC may support actions in this area directly related to resettlement. However wide scale work on landmines will first require progress on the Ottawa Convention.

Under the three scenarios outlined above, EC support will change respectively. In the case of scenario 1, the integrated District development programmes as foreseen will be pursued. Under scenario 2 when integrated District development building may be problematic support will focus on areas where work is possible and on trying to keep vulnerable communities in place with support in livelihoods, service delivery and small infrastructure. For the two non-focal sectors, support may benefit both government and private bodies but will be implemented generally via non-state actors and, only if duly justified, could aid pass through government bodies. In scenario 3, the support will tend to focus on the communities and people who have been uprooted, addressing their medium term needs in the host communities they flee to which cannot be addressed by the ECHO instrument.

6.3. Non-focal sectors

In addition to the main priority above, both the analysis section and lessons learned lead to the identification of two non-focal sectors of EC support for the forthcoming period – development through trade and good governance – which shall receive substantial funds as well.

The development through trade support takes note of the fact that trade concessions such as GSP+ can have a major development impact on the country but countries such as Sri Lanka have not managed to make maximum use of them in the past. Support under the second non-focal will focus on promotion of good governance through electoral reform, human rights monitoring and advocacy and conflict resolution.

Future EC interventions in the area of “**development through trade**” will be in line with findings and recommendations put forward by the (September 2005) Trade Needs Assessment (TNA). The EC will continue to focus *inter alia* on technical assistance and trade diversification. The social dimension of trade liberalisation and globalisation will be duly considered.

Under the three scenarios outlined above, EC support will change respectively. Under scenario 1, assistance will be channelled both through Government institutions and private sector. In the case of scenario 2, support may benefit both government and private bodies but will be implemented generally via non-state actors and, only if duly justified,

could aid pass through government bodies. Finally in the case of scenario 3, beneficiaries will only be non state actors.

The second non-focal sector will be **good governance and conflict resolution**. Interventions under this heading shall be designed in order to support and reinforce conflict prevention and resolution priorities already pursued by the EC/EU through other instruments or programmes. Within the DCI area of cooperation on governance, democracy, human rights and support for institutional reform, in particular related to co-operation and policy reform in the fields of security and justice, the EC may carry out measures which shall fully respect OECD-DAC guidelines, taking also into consideration relevant European Council Conclusions. The three areas considered are human rights, conflict resolution activities aimed at further supporting the peace process and electoral reform in support of the recommendations following electoral observations undertaken in recent years.

On Human Rights, the EC will seek to strengthen the capacity of Sri Lanka to improve human rights standards as a fundamental dimension of good democratic governance. The objective is to support advocacy and monitoring activities to contribute to redress the negative human rights spiral and eradicate the widespread human rights violations and abuses characterised by a growing culture of impunity. Activities will seek to bolster national institutions for better observance of human rights, including the largely ineffective National Human Rights Commission and on following up and helping implement recommendations from the 2007 National Commission of Inquiry on human rights. Activities will be developed taking into account the findings and recommendations of the UN Human Rights missions, in particular the report prepared by the UN special rapporteur for extrajudicial killings.

On civil society, the EC will consider ways of supporting the dialogue between the three main communities in the country and strengthening the input of Sri Lanka's civil society in the peace process. Such confidence-building measures at community level will aim to overcome the lack of trust, and especially the lack of communication between the communities of the North and East and those of the South. The EC has successfully financed such measures in other conflict situations, such as Northern Ireland and the Balkans.

On electoral reform, the intention is to support the implementation of the actions recommended by the successive EU Electoral Observation Missions (EOMs) deployed in Sri Lanka (2000, 2001, 2004 and 2005). The GoSL agrees in principle with these recommendations and has committed to implementing them as soon as possible. One essential issue is the establishment of an independent Election Commission in accordance with the 17th Amendment to the Constitution. Support could include building the capacity of the Election Commission as soon as it has been established, with a view to supporting the implementation of other recommendations made by past and future EOMs.

Under scenario 1, funds will be channelled via both Government institutions and civil society (NGOs). The aim is to contribute to peace building efforts by promoting confidence building measures at various levels among the three main communities, including possibly through the promotion of language pluralism and the respect of language rights. In the case of scenario 2, particular emphasis will be given to interventions for bridging the inter-ethnic and inter-religious divide at the local and national level. The natural beneficiaries will be civil society and NGOs; the choice of

recipient government bodies will have to be carefully undertaken to avoid fungibility of funds. Finally in the case of scenario 3, while governance projects may benefit all parties, support will be implemented via non-state actors and will target civil society and NGOs to support mutual understanding, build a pro-peace lobby to facilitate return to negotiations and support independent human rights monitoring and advocacy. Under scenario 3, it is unlikely however that support for electoral reform will be appropriate or feasible.

6.4. Co-ordination with other donors

The co-ordination section above (4.5) indicates the main lines of co-ordination currently in place which shall be continued, notably co-ordination with EU member states and other agencies. However, some additional specific aspects should be considered:

- Assessment of needs with government and other donors. The EC identification stage for the assistance programmes (expected in 2006) will need not only to ensure the EC's activities still fit the overall plans of the government but also that EC activities complement those planned by other donors. This is especially important in terms of actions by the international financial institutions.
- Co-ordination of the implementation of planned activities with national agencies involved in the development area at national, provincial and district levels.
- Seeking cooperation with other donors. EU policy on aid efficiency has a key conclusion that teaming up with other agencies on projects increases efficiency and effectiveness. For this reason, the EC will continue to seek direct cooperation with other donors on the various projects.
- Government ownership and engagement of communities are key ingredients to successful past projects in Sri Lanka and elsewhere. As such, efforts will be made to ensure that both the government and the communities are actively involved in every stage.

ANNEX 1 EU/EC Co-operation objectives

1. The EC Treaty Objectives for External Co-operation

The European Commission's development programme in Sri Lanka is grounded in the objectives set out in Art 177 of the Treaty of the European Union (TEU),⁶ which sets out the following broad objectives for development cooperation:

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them.
- The smooth and gradual integration of the developing countries into the world economy.
- The campaign against poverty in the developing countries.

This is tied to the general objective of developing and consolidating democracy and the rule of law, and encouraging respect for human rights and fundamental freedoms. The Treaty also calls for coordination and consultation between the Community and the Member States on their aid programmes.

On the basis of Article 179 of the same Treaty, a new Development Cooperation Instrument (DCI) was adopted in December 2006. Sri Lanka is eligible to participate in cooperation programs financed under the DCI [European Parliament and Council Regulation (EC) No. 1905/2006 of 18 December 2006 establishing a financial instrument for development cooperation.

2. Objectives of the EU as laid down in other applicable documents

The 2001 Communication *Europe and Asia* (Commission Communication COM(2001)469 "[Europe and Asia: A Strategic Framework for enhanced partnerships](#)") further defines the framework the following 6 objectives: (i) contribute to peace and security in the region and globally, through a broadening of our engagement with the region; (ii) further strengthen our mutual trade and investment flows with the region; (iii) promote the development of the less prosperous countries of the region, addressing the root causes of poverty; (iv) contribute to the protection of human rights and to the spreading of democracy, good governance and the rule of law; (v) build global partnerships and alliances with Asian countries, in appropriate international fora, to help address both the challenges and the opportunities offered by globalisation and to strengthen our joint efforts on global environmental and security issues; (vi) and help strengthen the awareness of Europe in Asia (and vice versa).

3. Speeding up Progress towards the Millennium Development Goals

In its 12 April 2005 Communication on Speeding up progress towards the Millennium Development Goals, ⁷the Commission takes stock of the EU's contribution to

⁶ <http://europa.eu.int/abc/obj/treaties/en/entoc05.htm>

⁷ COM 2005/0132 final

development and identifies the necessary measures to accelerate achievement of the MDGs. The Commission aims at (a) setting new intermediate targets for growth in official aid budget by 2010 for both EU and Member States, ultimately achieving the 0.7% target of Gross National Income (GNI) by 2015, (b) speeding up reforms to improve aid quality, (c) re-evaluating EU's influence on the conditions for development and (d) ensuring Africa's primacy as the beneficiary of these approaches with a re-renewed impetus of partnership between the two continents. The proposals on Development Financing and Policy Coherence are set out in detail in two other communications. Together these contribute to the three pillars of sustainable development (economic, social and environmental).

4. Financing for Development and Aid Effectiveness

In its 12 April 2005 Communication on Financing for Development and Aid Effectiveness,⁸ the Commission outlines means of achieving interim targets of increased ODA volumes by 2010 and move towards the UN target of 0.7% GNI by 2015. It suggests new aid modalities, innovative finance sources and includes proposals in addressing the remaining post-HIPC debt problem of low income countries. It suggests redefining EU commitment regarding GPG. The main challenge on co-ordination and harmonisation is the credible implementation of the EU framework and results of the High Level Forum on aid effectiveness and complementarity in aid delivery. Commitment on reforming the International Finance System must be strengthened.

5. EU Policy Coherence for Development

In its 12 April 2005 Communication on Policy Coherence for Development,⁹ the Commission has defined coherence commitments in the overall framework of the EU sustainable development strategy and identified the following priority areas with high potential of attaining synergies with development policy objectives: trade; environment; security; agriculture and fisheries; social dimension of globalisation, employment and decent work; migration; research and innovation; information society; transport and energy. These commitments were endorsed by the Council (GAERC) on 24 May 2005. The Communication further calls on non-development policies to respect development policy objectives and on development cooperation to also contribute, where possible, to reaching the objectives of other EU policies.

6. The 'European Consensus' on EU Development Policy

In its meeting on 22 November 2005, the General Affairs and External Relations Council (GAERC) adopted the EU Development Policy Statement, also known as "the European Consensus",¹⁰ endorsed by the European Parliament on 15th December, substituting the development commitments of the Joint Declaration of the Council and European Commission from November 2000. The "European Consensus on Development" provides, for the first time, a common vision that guides the action of the EU, both at its

⁸ COM 2005/0133 final

⁹ COM2005/0134 final

¹⁰ Joint Statement on European Union Development Policy 'the European Consensus', Council of the European Union, 14820/05.

Member States and Community levels, in development cooperation. The Statement identifies the eradication of poverty in the context of sustainable development, including pursuit of the MDGs, as the primary and overarching objective of EU development cooperation. The Statement also emphasises that EU partnership and dialogue with third countries will promote common values of respect for human rights, fundamental freedoms, peace, democracy, good governance, gender equality, the rule of law, solidarity and justice and the EU's commitment to effective multilateralism.

The priorities from the 'European Consensus' are supported by a number of subject-specific communications, including the 2001 Communication on the Programme of Action for the mainstreaming of gender equality in Community development cooperation, the 2002 Communication 'Trade and development: assisting developing countries to benefit from trade', the 2003 Communication on Governance and Development and the Sixth Environmental Action Plan (Com (2001) 31, the Communication on "Fighting rural Poverty" (COM 2002, 429) and the EU Guidelines to support land policy design and reform processes in developing countries (COM (2004) 686).

ANNEX 2 Country at a Glance

The status of the country as to the likely achievement of the Millennium Development Goals at a glance

In October 2006, *United Nations Economic and Social Commission for Asia and the Pacific UNESCAP*, the *United Nations Development Programme UNDP* and the *Asian Development Bank ADP* have issued a report “Millennium Development Goals: Progress in Asia and the Pacific 2006”. This report is the latest update on the progress towards MDGs in Asia and the Pacific. It highlights the region's achievements and exposes issues on which much work remains to be done. The report looks in a more holistic way at overall country progress by assessing absolute MDG indicators in addition to MDG targets.

The report classifies the progress made by each country into 4 categories

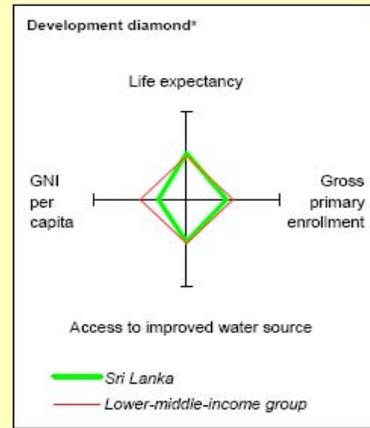
- *Early achiever* — Has already met the target
- ▲ *On track* — Expected to hit the target by 2015
- *Off track – Slow* — Expected to hit the target, but after 2015
- ▼ *Off track – Regressing* — Slipping backwards, or stagnating

Goal	1	2	3	4	6	7
	\$1/day poverty Underweight children Primary enrolment Reaching grade 5 Primary completion rate		Gender primary Gender secondary Gender tertiary	Under-5 mortality Infant mortality	HIV prevalence TBC prevalence TBC death rate	Forest cover Protected area CO ₂ emissions ODP/CFC consumption Water urban Water rural Sanitation urban Sanitation rural
Sri Lanka	▲ ●	●	● ●	● ●	▲ ● ● ●	▼ ● ▼ ● ● ● ▲ ● ● ●

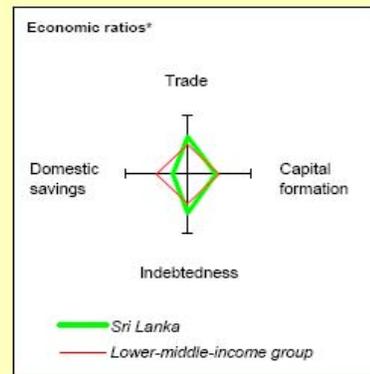
Sri Lanka at a glance

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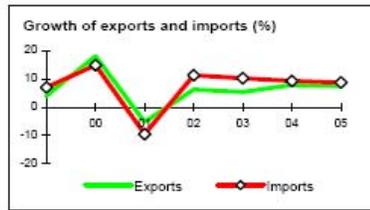
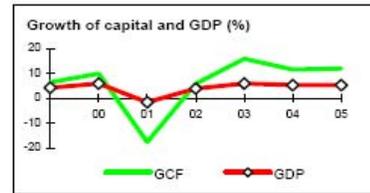
POVERTY and SOCIAL	Sri Lanka	South Asia	Lower-middle-income
2005			
Population, mid-year (millions)	19.6	1,470	2,475
GNI per capita (Atlas method, US\$)	1,160	684	1,918
GNI (Atlas method, US\$ billions)	22.7	1,005	4,747
Average annual growth, 1999-05			
Population (%)	0.5	1.7	1.0
Labor force (%)	0.6	2.1	1.4
Most recent estimate (latest year available, 1999-05)			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	15	28	50
Life expectancy at birth (years)	74	63	70
Infant mortality (per 1,000 live births)	12	66	33
Child malnutrition (% of children under 5)	30	45	12
Access to an improved water source (% of population)	79	84	82
Literacy (% of population age 15+)	91	60	89
Gross primary enrollment (% of school-age population)	98	110	114
Male	..	116	115
Female	..	105	113



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1985	1995	2004	2005	
GDP (US\$ billions)	6.0	13.0	20.1	23.5	
Gross capital formation/GDP	22.2	25.7	25.0	26.2	
Exports of goods and services/GDP	26.4	35.6	36.4	34.0	
Gross domestic savings/GDP	10.2	15.3	15.9	14.6	
Gross national savings/GDP	17.2	19.9	18.6	20.2	
Current account balance/GDP	-6.7	-5.8	-3.2	-5.3	
Interest payments/GDP	1.9	1.1	0.9	..	
Total debt/GDP	59.2	64.4	54.3	..	
Total debt service/exports	16.4	8.0	8.5	..	
Present value of debt/GDP	..	..	45.0	..
Present value of debt/exports	..	..	100.2	..
(average annual growth)					
GDP	4.4	4.2	5.4	5.3	6.0
GDP per capita	3.1	3.5	4.5	4.4	5.0
Exports of goods and services	7.5	5.6	7.8	7.5	4.7



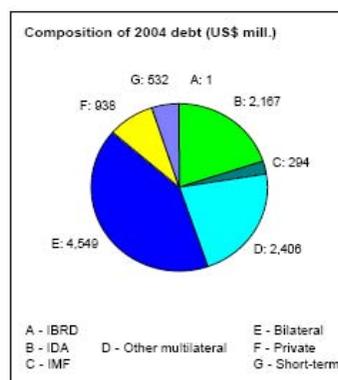
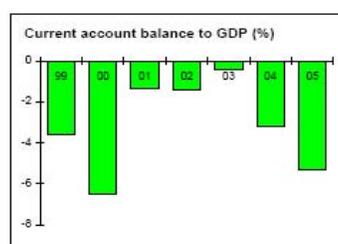
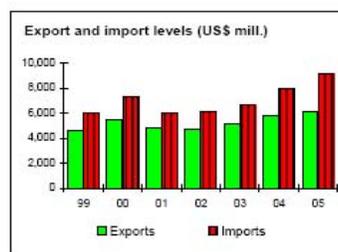
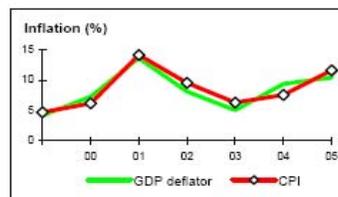
STRUCTURE of the ECONOMY	1985	1995	2004	2005
(% of GDP)				
Agriculture	27.7	23.0	17.8	16.8
Industry	26.2	26.5	26.8	26.1
Manufacturing	14.7	15.7	15.3	14.9
Services	46.1	50.5	55.4	57.1
Household final consumption expenditure	79.5	73.2	76.0	76.9
General gov't final consumption expenditure	10.2	11.5	8.1	8.5
Imports of goods and services	38.4	46.0	45.5	45.6
(average annual growth)				
Agriculture	1.8	1.2	-0.7	2.5
Industry	6.2	4.2	5.2	6.0
Manufacturing	7.6	4.3	5.1	6.0
Services	4.7	5.3	7.6	5.1
Household final consumption expenditure	4.0	..	..	..
General gov't final consumption expenditure	3.7	..	..	..
Gross capital formation	2.5	5.3	11.6	12.0
Imports of goods and services	5.6	7.3	9.3	8.7



Note: 2005 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE				
	1985	1995	2004	2005
Domestic prices				
<i>(% change)</i>				
Consumer prices	1.5	7.7	7.6	11.6
Implicit GDP deflator	0.6	9.3	9.4	10.4
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	22.3	20.4	15.3	15.6
Current budget balance	2.2	-2.7	-3.9	-2.9
Overall surplus/deficit	-9.7	-10.1	-8.2	-7.4
TRADE				
<i>(US\$ millions)</i>				
Total exports (fob)	1,333	3,807	5,757	6,098
Tea	442	481	740	870
Other agricultural goods and unclassified ex	94	369	392	421
Manufactures	233	1,853	2,809	2,799
Total imports (cif)	1,948	5,311	8,000	9,171
Food	..	720	596	683
Fuel and energy	..	387	1,209	1,386
Capital goods	..	1,189	1,670	1,896
Export price index (2000=100)	..	65	131	129
Import price index (2000=100)	..	69	127	133
Terms of trade (2000=100)	..	94	103	97
BALANCE of PAYMENTS				
<i>(US\$ millions)</i>				
Exports of goods and services	1,578	4,628	7,284	7,707
Imports of goods and services	2,296	5,980	9,108	10,338
Resource balance	-717	-1,352	-1,824	-2,631
Net income	-127	-138	-203	-224
Net current transfers	443	736	1,380	1,603
Current account balance	-401	-754	-647	-1,252
Financing items (net)	287	806	442	1,667
Changes in net reserves	115	-52	205	-415
Memo:				
Reserves including gold (US\$ millions)	..	2,063	2,211	2,571
Conversion rate (DEC, local/US\$)	27.2	51.3	101.2	100.5
EXTERNAL DEBT and RESOURCE FLOWS				
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	3,540	8,395	10,887	..
IBRD	62	49	1	0
IDA	397	1,463	2,167	2,095
Total debt service	320	452	766	..
IBRD	9	12	2	1
IDA	3	19	55	57
Composition of net resource flows				
Official grants	151	175	191	..
Official creditors	297	321	288	..
Private creditors	44	104	44	..
Foreign direct investment (net inflows)	26	56	233	..
Portfolio equity (net inflows)	0	0	-100	..
World Bank program				
Commitments	137	39	118	..
Disbursements	79	106	68	113
Principal repayments	5	15	40	41
Net flows	74	92	28	73
Interest payments	8	16	17	17
Net transfers	66	76	11	56



The World Bank Group. This table was prepared by country unit staff; figures may differ from other World Bank published data. 8/13/06

Source: The World Bank Group. This table was prepared by country unit staff. Figures may differ from other World Bank published data

ANNEX 3 Overview of EC's Assistance

Total EC grants to Sri Lanka 2000 – 2006 (€mio)

	2000	2001	2002	2003	2004	2005	2006
ECHO	1.2	1.2	6.3	8.8	7.3	37.7	20
ALA				1.976	13.15		
ALA - Small Projects Facility				1.6			
ALA - EU-Sri Lanka Trade Development project				1.4			
Aid to Uprooted People	1.52		7.25	4.5	4.5	6	10
EIDHR		0.495				0.490	0,375
NGO Co-financing	1.246	0.909	0.484	0	0	0.747	1,423
Rehabilitation			2		3.399		
Rehabilitation - tsunami						45	50
APL				0.8	1.239	1.3	
Migration		1.946	0.507	0.892		1.873	
Food Aid Counterpart Funds			0.7	7.3			
RRM			1.298	0.92		2.3 (tsunami)	1,650
Total	2.72	5.929	16.964	28.672	29.588	95.41	83.448

Grand total 2000 - 2006: €262,731 million

ANNEX 4 Country Environment Profile of Sri Lanka

SUMMARY

1. Introduction

The Country Environmental Profile (CEP) was undertaken by the EC during 2005. The main objective was to identify issues that needed to be considered for the Country Strategy Paper (2007-13). In addition it aimed at giving guidelines for regional cooperation. Members of the GoSL, the North East Provincial Council and other key stakeholders were consulted during the survey. The main findings are outlined below:

2 Key Findings

2.1 Overall Environmental Situation

Table 1 shows the predicted trends on the issues of water pollution, waste disposal, land degradation, coral reef damage, sand mining biodiversity loss, forest loss and drinking water.

The key environmental challenges for Sri Lanka are as follows:

- Surface and ground water pollution occurs in a number of regions of the country including urban and agricultural areas, lagoons and tsunami affected areas.
- Solid waste and sewage disposal in dense urban areas is a health problem that limits investment.
- Land degradation is a major ongoing issue in tsunami affected areas, as the damage has been done, as the tsunami remodelled the topography and ecology particularly in coastal areas.
- Pre-tsunami coastal degradation ranked amongst the world's highest with rampant mangrove, coral, and lagoon destruction. In addition, injudicious sand mining and pollution has killed most of the remaining plant life and animal communities in the area. It is too early to gauge the full effects of the tsunami on the coastal ecology but fish numbers have been negatively affected.
- Terrestrial biodiversity and forest loss has now slowed down due in part to long term donor assistance. Monitoring and law enforcement by government has improved. However, restoration work is still at a low level.
- The tsunami has affected the fresh water sources in areas of the North and East of the country with increased salination.

2.2 Environmental policy legislation and institutions including civil society

The dual problems of lack of law enforcement and environmental monitoring persist in the country.

The Ministry of Environment and Natural Resources has introduced new policies but there is a problem in enforcement. The most important institutional constraint is the lack of data on illegal land ownership. There is also very limited cooperation between the government and businesses for the protection of the environment. Moreover, there is a limited number of environmental

NGO's active in the establishment of better practice in sustainable development.

2.3 Planning and research

Environmental development is inadequate in Sri Lanka for a number of reasons including:

- The lack of an over-arching ministry where land use and environment policy can be modelled.
- The lack of a system of environmental development zones linking planning, biological and social issues.
- The lack of research initiatives by the government on how the private sector could play a role in sustainable management of resources, environmental monitoring and enforcement.
- The lack of major innovative research in appropriate technologies e.g. building and infrastructure in the tsunami zone.

2.4 Donor Responses

The major environmental donors in Sri Lanka are the Asian Development Fund, the World Bank, the UNDP and Dutch Aid. One critical issue is the delegation of environmental management responsibility to the appropriate local government level. Complementing this there needs to be greater fostering of public-private partnership in environmental management.

2.5 Future Issues

The CEP highlighted a number of issues of future importance in the environmental sector:

- Key areas that should be addressed are: land registry improvement and land law enforcement.
- Environmental development projects should focus on delegated management structures encouraging local authorities to take greater responsibility for managing the local environment.
- Where possible there should be a greater emphasis on European donors providing knowledge transfer for socially responsible enterprise.
- A further environmental assessment is necessary since tsunami recovery is likely to take between 5 and 10 years. In this vein, the survey recommended that the impact of the tsunami continue to be factored into programmes for the next 5 years.

Table 1: Predicted trends on environmental issues

ISSUE	2015 MDG TARGET	EFFECT OF WAR	EFFECT OF TSUNAMI	CURRENT EFFECT OF TSUNAMI REHABILITATION
Surface/ground water pollution	Reduce by 75%	Hampered improvement	Major salination effect on coast and agricultural land	Minimal effects in resettlement camps
Solid waste/sewage disposal	All municipalities ok	Hampered improvement	Major concrete rubble problem	Created new sewage problems in camps
Land degradation/erosion	Reduced by 30%	Made worse	Major change in coastal topography with increased erosion	Minimal effect
Coral reef damage	Reduce by 50%	No effect	Major damage in limited locations	Supplied non traditional boats need corridors cut into corral
Mangrove damage	Reduce by 50%	Made worse (military clearance)	:Limited effect initially but may die later due to environmental change	Minimal effect
Sand mining	Reduce by 50%	No effect	Major change in coastal topography with increased erosion	EA and EIA being relaxed so highly likely dunes will be reduced and mining will be increased
Biodiversity loss	Reduce by 50%	No effect	No accurate data	Minimal effect
Forest loss	Reduce by 50%	Net positive effect	No effect on dense forest only individual or plantation trees	Higher price for timber may increase illegal logging
Safe drinking water	Reduce of no of people without by 50%	No effect	Salination of wells. Most wells were toxic even before	Many examples of NGOs over extracting water leading to salination of wells

Source: CEP 2005

ANNEX 5 Other Donor Matrix

(Commitments 2000-2006, excluding Tsunami Reconstruction, shown in Annex 6- Note that not all donors have provided updated figures. (US \$ Millions))

Donor	Agriculture	Economic Infrastructure	Social Infrastructure	Private Sector Development	Science & Technology	Environment	Finance & Banking	Others	Total
EU									546,6
Denmark									
France	0	0	3,9	0	0	0	0	0	3,9
Germany	0	0	0	0	0	0	0	0	130
Greece (Hellenic Aid)									
Italy									
Netherlands	0	0	18,1	0	0	23,5	0	17	58,6
Sweden	0	1,5	6,5	0	2,1	0	1,6	1,1	12,8
UK									
EC (including ECHO)									341,5
BILATERAL	37,1	94	108	39,6	0	23,9	45,7	0	787,52
Australia									147,87
Canada	0	0	0	0	0	0	0	0	0
China	0	3,6	0	0	0	0	0	0	3,6
India	0	0	0	0	0	0	31,6	0	31,6
Japan									491,9
Korea	0	0,1	6,2	0	0	0	0	0	6,3
Kuwait Fund	1,9	2,7	0	0	0	0	0	0	4,6
Norway (only 2006)				8,3					32,7
Saudi Fund	0,1	0	0,2	0	0	0	0	0	0,3
United States									68,65
MULTILATERAL¹¹	70,3	43,3	107,8	60,1	7,8	3,3	21,6	3,8	1163,99
ADB	37,7	42	63,7	19,7	7,8	2,2	15,9	0	189
World Bank (IDA/IBRD)									902
IFAD	1,6	0	0	0	0	0	0	0	1,6
Nordic Fund	0	0,7	1,7	0	0	0	0	0	2,4
OPEC Fund	0,1	0,6	12,8	0	0	0	0	0	13,6
UN Agencies	0,8	0	12,8	0	0	0	0	0	13,6
UNDP									15,99
European Invest Bank		0	0	25,8	0	0	0	0	25,8
COMMERCIAL BANKS	0	0	0	0	0	0	0	0	0
EXPORT CREDIT	0	17	68,9	0	0	0	0	0	85,9
Total									2584,01

Empty cells means either no information is available or no contribution

Note that most of Multilaterals Budget comes from Bilaterals, which means that some of the figures might be double counted.

ANNEX 6 Tsunami Reconstruction Donor Matrix 2005-2006 (US \$)

Funding Agency	Committed (USD)		Disbursed (USD)	
	Grant	Loan	Grant	Loan
Total	1.778.957.758	826.280.707	949.485.597	292.561.051
Bilateral	544.337.261	425.094.500	403.162.714	23.678.211
Australia	10.121.454		10.689.636	
AusAid	7.339.552		7.339.552	
Canada	86.268.089		35.621.585	
USA (USAID)	112.211.414		55.543.666	
India	1.522.180		1.522.180	
Japan (Government)	256.293.429		236.493.429	
Japan (JBIC)		83.339.331		8.996.042
China		305.501.060		5.501.060
Korea, Republic of		36.254.109		9.181.109
Norway (MiFA)	44.355.000		44.355.000	
Norway (NORAD) Regional	6.775.000		6.775.000	
Switzerland (SDC)	19.360.365		4.822.666	
EU	689.337.261	113.236.207	345.455.428	4.482.840
Belgium	4.914.118		1.921.945	
Denmark	16.544.904		12.950.552	
Sweden	11.910.328		6.913.461	
Finland	4.368.159		4.368.159	
France	7.057.442	83.200.000	2.862.307	
Germany (Government)	119.072.287		58.578.462	
Germany (Other)	17.973.487		13.755.183	
Greece (Hellenic Aid)	9.750.000		2.853.398	
United Kingdom (DFID)	95.655.082		25.144.183	
United Kingdom	9.252.113		8.294.038	
Italy	105.000.000		95.000.000	
Netherlands	36.005.581	30.036.207	22.851.530	4.482.840
Spain	60.733.760		662.616	
EC	132.600.000		36.649.594	
ECHO	58.500.000		52.650.000	
Multilateral (1)	545.283.236	287.950.000	200.867.455	264.400.000
OCHA	3.321.548		3.321.548	
IFAD		16.550.000		
IMF		264.400.000		264.400.000
IFRC	164.776.140		48.560.030	
UNDP	14.855.981		13.182.987	
UNFPA	1.301.735		1.301.735	
UNHCR	15.838.287		15.838.287	
WFP	34.257.019			
WHO	3.932.526		3.932.526	
Asian Development Bank	157.000.000	7.000.000	20.568.629	
World Bank	150.000.000		110.000.000	

ANNEX 7

List of Abbreviations

ADB	Asian Development Bank
ADFs	Annual Development Forums
APRC	All Party Representative Conference
AUP	Aid to Uprooted People
BIMST-EC	Bangladesh, India, Myanmar, Sri Lanka, Thailand-Economic Cooperation
BOC	Bank of Ceylon
BOI	Board of Investment
CAPD	Cooperation Agreement on Partnership and Development
CARE	Cooperative for American Relief Everywhere
CEB	Ceylon Electricity Board
CEP	Country Environmental Profile
CFA	Ceasefire Agreement
CMA	Colombo Metropolitan Area
CPC	Ceylon Petroleum Corporation
DIC	Department for International Cooperation
ECHO	European Commission Humanitarian Aid Office
EIDHR	European Initiative for Democracy and Human Rights
EOMs	Electoral Observation Missions
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FMRA	Fiscal Management Responsibility Act
GAERC	General Affairs and External Relations Councils
GoSL	Government of Sri Lanka
GSP	Generalised System of Preferences
HAACP	Hazards Analyst of Critical Points
ICMPD	International Centre for Migration Policy Development
ICT	Information and Communication Technology
IDPs	Internally Displaced Persons
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IOM	International Organisation for Migration
JBIC	Japan Bank for International Cooperation
JVP	Janatha Vimukthi Perumuna
LRRD	Linking Relief, Rehabilitation and Development
LTTE	Liberation Tigers of Tamil Eelam
MDGs	Millennium Development Goals
MoENR	Ministry of Environment and Natural Resources
MoH	Ministry of Highways
MoT	Ministry of Transport
NDS	New Development Strategy
NECORD	North East Community Restoration and Development Project
NEPA	National Environmental Policy Act
NEPC	North East Provincial Council
NEPS	National Environment Policy and Strategies
NERF	North East Reconstruction Fund
NORAD	Norwegian Agency for Development Cooperation
NPRGS	National Poverty Reduction and Growth Strategy
NTC	National Transport Commission

ODS	Ozone Depleting Substances
OCHA	Office for Coordination of Humanitarian Affairs
PB	People's Bank
PCs	Provincial Councils
RDA	Road Development Authority
RRR	Relief Reconstruction and Reconciliation
RSC	Road Safety Council
RSDP	Road Sector Development Project
SAARC	South Asian Association for Regional Cooperation
SLDF	Sri Lanka Development Forum
SLFP	Sri Lanka Freedom Party
SOE's	State Owned Enterprises
SPF	Small Project Facility
SPS	Sanitary and Phyto-Sanitary Standards
TAFREN	Task Force for Rebuilding the Nation
TBTs	Technical Barriers to Trade
TDP	Trade Development Project
TEU	Treaty of the European Union
TNA	Trade Needs Assessment
TRTA	Trade Related Technical Assistance
UAE	United Arab Emirates
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNFPA	United Nations Population Fund
UNP	United National Party
WFP	World Food Programme
WHO	World Health Organisation
WTO	World Trade Organisation