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EUROPEAN COMMISSION - DIRECTORATE GENERAL FOR
DEVELOPMENT AND COOPERATION – EUROPEAID

MULTIANNUAL INDICATIVE PROGRAMME (MIP) 2014-2020 FOR SRI LANKA

1. The overall lines for the EU response

1.1. Strategic objectives of the EU's relationship with Sri Lanka

The EU's relationship with Sri Lanka is founded on the Cooperation Agreement of 1995, which provides that "Cooperation ties between the Community and Sri Lanka and this Agreement in its entirety are based on respect for democratic principles and human rights" and which aims "to enhance and develop, through dialogue and partnership, the various aspects of cooperation between the Contracting Parties".

While the implementation of this agreement actually came to a standstill, as the Joint Commission which under the agreement was supposed to meet once per year to take stock and discuss cooperation in the areas of politics, economy, trade, development cooperation and global goods did not meet since 2008, the resumption of formal dialogue between EU and Sri Lanka through holding the 18th session of the Joint Commission in Brussels on 3 December 2013 proved timely for discussing the future priorities of EU assistance to Sri Lanka.

These priorities are guided by The Agenda for Change. The main lines of action put forward by these conclusions namely to support political and economic reforms and good governance; to help creating economic growth and jobs that will genuinely benefit society and; to focus on sectors with a high impact on development will be adapted to Sri Lanka's specific needs and context.

The EU support to the UN's call on the government to firmly engage into reconciliation and accountability after the publication of the UN panel report pointing to serious violations of human rights and war crimes during the final phase of the war, and slow progress in implementing the recommendations of the "Lessons Learnt and Reconciliation Commission" established by the President in 2010 have casted their shadow over the relationship between the EU and Sri Lanka in recent years.

Only a few visits from high level EU and Sri Lankan officials took place from 2010 onwards, and the few areas of cooperation showing concrete results were the signature of an Aviation Agreement and the first meeting of the Committee under the Readmission Agreement in early 2013.

Against this un-easy backdrop, the long term objective of EU assistance remains to help Sri Lanka to become a democratic, stable, secure and economically prosperous country, which should:

-function according to the rule of law and the protection of the human rights of all Sri Lankans, demonstrating the values of equality, inclusion and justice as essential towards strengthening peace and security, participatory democratic governance which allows for all Sri Lankans to realise their substantive freedoms, and actively promote unequivocal non-discrimination, transparency, accountability and fairness in all legal, political and administrative mechanisms and proceedings at national, provincial and local level.

- have an inclusive and comprehensive political reconciliation process, and

- become a more equitable society, in particular through poverty reduction and inclusive growth targeting pockets of poverty.

Apart from the UN Development Action Framework – UNDAF- 2013-2017 signed on 12/10/2012, no Joint Action Plans between the donor community and Sri Lanka on Aid Effectiveness have been signed.

While the EU remains strongly attached to Aid Effectiveness principles as laid down in the Paris and Busan Declarations, these principles had only little relevance in Sri Lanka in the recent post-conflict period. At best

there is an increasing orientation by donors towards better alignment with Government priorities, notably the "Mahinda Chintana – Vision for the Future", Sri Lanka's Socio Economic Development Strategy for 2011-2020.

Donor coordination takes place in the context of a Donor Partner Forum and Bilateral Donor Group, without government presence and leadership. Although sector approaches are being developed, be it not without difficulty, particularly by the World Bank and Asian Development Bank ADB in the areas of education, health and vocational training, most bilateral donors refrain from using government systems. Pressure by the Government on donors to stop contracting and implementing their assistance through NGO's, international agencies and private sector but to channel their funds through the Treasury instead has been on the rise, against the backdrop of a deteriorating debt situation.

In spite of the difficult overall context, engaging with Civil Society and Local Authorities remains a strategic objective for the EU in Sri Lanka, in line with Council conclusions on "The roots of democracy and sustainable development"¹, as an empowered civil society can contribute to more effective policies, equitable and sustainable development and inclusive growth and on "Empowering local authorities in partner countries for enhanced governance"², as local authorities are closer to citizens and can act as catalyst for change.

The still precarious political and human rights situation in Sri Lanka and the limited level of engagement of some "Like minded" bilateral donors with the Government inevitably has a bearing on the implementation modalities for the next programming cycle. Flexibility will be required so as to be able to adapt EU assistance as required to changing circumstances in Sri Lanka.

1.2. Choice of sector: Support to Integrated Rural Development.

The Sri Lankan economy remains primarily rural in nature, and empowering the rural Economy features at the heart of "Mahinda Chintana" (MC). According to MC, 80% of the people live in rural areas and 70% work in agriculture, which accounts for one fifth of GDP and one third of export revenues. Vulnerability assessments and mapping studies conducted by international organisations have shown that over 90% of Sri Lanka's identified poor live in rural areas of the North, East and on Tea/Rubber estates in the Central and southern Uva regions.

The continuing poverty levels in Sri Lanka can largely be attributed to failure to achieve a sustained acceleration in economic growth across the country. There is no doubt that the conflict largely contributed to slow growth. However another factor was the lack of a clear national development policy framework. While services and manufacturing showed a strong pace of development, the rural agricultural economy has been neglected and lagged behind. The lack of adequate rural infrastructure, low productivity and insufficient markets for agricultural production has further weakened the sector. As a result, industrial and service activities are concentrated around urban centres in the western province and to a lesser the extent Kandy District and rural incomes have stagnated. Due to lack of opportunities in industry, the rural region is also causing unemployment and low absorption of excess agricultural labour surplus.

In response to weakening rural development and vulnerability of rural communities, the government policy framework "Mahinda Chintana" proposed a strong emphasis on rural economic development through support to agriculture, SME development and private sector development as a vehicle for generating 'growth and equity'. Food security, small farmer development and livelihood empowerment receive particular attention. Overall competitiveness of the sector is expected to be achieved through development of modern technology, improved cultivation practices in the sector and steering for commercially viable

¹ COM (2012) 492 final of 12.9.2012

² COM (2013) 280 final of 15.5.2013

agriculture. The government has also developed specific programmes for accelerated rural development in lagging regions.

While economic development is key to poverty alleviation, clearly it should not come at the cost of environmental degradation due to unsustainable consumption and production practices. The *Haritha (Green) Lanka Programme* is the national strategy which incorporates an environmental dimension into the economic development process to ensure the long term sustainability of human development, and includes meeting the challenges of climate change as a focal area of action. While Sri Lanka is not a major emitter, although a regression of MDG indicators on forest coverage is noted, it is highly vulnerable to the impacts of climate change. These may include *inter alia* increases in the frequency and intensity of disasters such as droughts, floods and landslides causing soil erosion; variability and unpredictability of rainfall patterns (increase in areas such as Nuwara Eliya and decrease in dry zone areas such as Batticaloa, Mannar, Vavuniya, Anuradhapura having serious impact on paddy cultivation); increase in temperature; and sea level rise (a 10m shoreline retreat by 2050, degradation of eco-systems and increase of salinity affecting waterways and agriculture) among others. This will likely aggravate existing development disparities impacting economic growth, food security, public health and social stability. The National Climate Change Adaptation Strategy which mirrors the *Mahinda Chintana*, lays out a prioritized framework for action and investment for the 2011- 2016 period aimed at systematically moving Sri Lanka and its people towards a climate change resilient future. A LKR 4.3 trillion investment is planned for the period of which investments in key economic drivers such as agriculture (including plantations) and fisheries, water, health, tourism, human settlements among others are the largest strategic sectors identified.

Challenges in different subsectors justifying EU assistance are as follows:

Agriculture

Of the total cultivable land (2.9 million ha), 65% (1.9 million ha) is cultivated with agricultural crops. Paddy occupies 40% of the agricultural land. Coconut, tea and rubber together account for 39% . The remainder (21%) is accounted for all other crops (other field crops, horticultural crops and other export crops).

Many factors have stifled the development of this sector. In addition to the effects of the 30 year war and continued displacement of communities, other challenges include low productivity due to outdated farming practices and lack of knowledge of new technology, poor rural road network and infrastructural facilities, high labour costs, high post-harvest losses, poor quality of produce, lack of value additional and poor market organisation. The government has noted that these unfavourable conditions contribute much to increase the risk, raise the unit cost of production and or limit productivity which leads to low profit margins and inconsistent farm income. Therefore it recognises the need to promote crop intensification and diversification, improve on-farm productivity, diversification of the cropping patterns and empowered farmer organisations.

Fisheries

The fisheries sector contributes an estimated 70% of the animal protein consumed in the country. The annual per capita availability of fish and fishery products is around 18 kg. Fisheries constitute an important livelihood for the people living in the coastal belt, and around the irrigation tanks and reservoirs in the dry zone. The sector currently provides direct employment to about 650,000 people comprising 150,000 in fishing, 100,000 in associated service activities and 400,000 in fish trade. Thus the sector provides sustenance to an estimated 2.4 million persons. Due to the war, this sector suffered tremendously and in certain areas of the north and east fishing is still restricted because of the high security zones. Persisting conflicts with Indian fishing vessels and cultural factors further exacerbate these often precarious livelihoods. The government recognizes the need to revitalise this sector and to enhance the capacities of fisheries societies and other stakeholders to meet future national and export needs. The main components of the government's ten year plan for the fisheries sector aims to improve the nutritional status and food security of the people by increasing the national fish production, to minimize post-harvest losses and improve quality and safety of fish products, to increase employment opportunities in fisheries and related industries and to improve the status of the communities.

Food Security & Nutrition

The constraints to food security in Sri Lanka are intertwined with the need to improve livelihood and employment opportunities, resilience to shocks (natural disasters and price inflation) and the agriculture and fisheries sectors in the country. According to a recent assessment conducted by the World Food Programme in the Northern and Eastern Provinces, of a total population of 1.2 million in the north, nearly 44% are food insecure. Moreover existing food insecurity is associated with high under nutrition rates in the both provinces. Low productivity in crops, livestock and fisheries and the inadequate supply of protein-rich foods in the local diet, contribute to food insecurity which results in health affecting mothers and causing low birth weight and stunting of children. Reduction in stunting, underweight and wasting among children under 5 is a priority objective that requires a solid and durable response. The government policy on Food Security recognizes these issues and focusses on programmes that empower the poorest members of the rural/urban communities and contribute towards food security and household nutrition of the rural population, through intensification and diversification of cropping systems for agriculture, livestock and aquaculture production and increased productivity and income of the small farmers. The Mahinda Chintana aims at reducing the malnutrition rate of children from a third to 12-15% by 2020.

Water and Irrigation

Throughout the history of Sri Lanka, water has played a key role in development of the economy of the country. As Sri Lanka is an agricultural country, the need for adequate water resources is essential, and proves increasingly problematic notable in Sri Lanka's semi-arid zones, particularly in the North and South (notably Moneragala). Most of the Country's power is also supplied through hydro power increasing the dependency on water as an essential resource. The government has recognised the need to improve this sector urgently, against the backdrop of increasing power shortages. Over 80% of the surface water in the country is used by the irrigation sector. The remaining 20% is used for other essential services such as power generation, drinking and domestic and industrial usage. The government's policy in the water sector is therefore aimed at reducing the level of water usage by the irrigation sector to around 60% by improving efficiency in the use of scarce water resources, by improving technology and by changing farmer practices that reduce wastage.

The role of private sector and SME's and job-creation

Over 70% of businesses in Sri Lanka fall under the SME umbrella, contributing 52% of GDP and 35% of total employment in 2011. However, in the lagging districts of the four provinces which will receive EU support, general problems which SME's are facing such as a business-unfriendly environment, inadequate regulatory framework, difficult access to credit, technological backwardness (which hurts productivity, competitiveness and environmental sustainability), and limited access to larger markets are exacerbated by the traditional and low-added value nature of the local economy, heavily depending on small-scale agriculture and fisheries. There is a need for diversification, job creation through to facilitating new start-ups and allowing existing enterprises to expand, to improve the administrative and legal environment for business development, as well as access to high quality and market-relevant vocational training, particularly for women and youth.

Governance – Institutional Strengthening (government, local authorities, civil society and community based organisations)

In the above context a cross cutting priority is the issue of good governance in the institutions responsible for local development planning and implementation. The government has recognised the need for strong institutions to support and sustain the outcomes of their development policies. The need for building capacities of local government and community based institutions and structures throughout the country are an evolving priority for both the government and international donors. The EU has already started to engage with the government and to work closely with local and district level government institutions in conflict affected areas to support their planning capacity, including the capacity to integrate Disaster Risk reduction priorities and implementation of district development plans through strengthened capacity of all relevant stakeholders.

The government also prioritized the development of provincial and district development plans. However, so

far the Eastern province is the only province with a well-articulated development plan covering the period 2012- 2016. This plan maps out the needs and priorities of the people of the eastern province and was developed with the technical assistance of UNDP. It consists of sector analysis documents on agricultural development, housing and infrastructure development, industrial development, human development, provincial governance, service delivery, and environment and disaster management. This model seems suitable for replication for the Central, Uva and Northern provinces.

Overall the government's 10 year development framework and attached sub programmes have articulated clear objectives and priorities in the areas of rural development, although some of the targets look over-ambitious. However, multi-annual expenditure as well as monitoring and evaluation frameworks are missing. In addition, while most of the policy issues in the identified sectors have been addressed, it does not provide for an implementation strategy to achieve its objectives.

In addition to challenges inherent to the rural development sector, regional disparities constitute a huge hindrance to overall harmonious socio-economic development of the country as a whole, justifying EU assistance focusing on the poorest districts.

Regional Disparities – Geographical Scope

The "balanced regional development" envisaged in Mahinda Chintana (MC) would allow to narrow the gap between the prosperous Western province – contributing on its own 45% of the national GDP – and lagging primarily rural regions in other parts of the country for which the agricultural sector represents the main source of income for the large majority of the population. While according to MC, it is expected that by 2016 only 4.2% of the population will live below the national poverty line of LKR 3028 per person per month (source: National census 2009/10), coming from 15.2% in 2005 and 7.6% in 2010, the war-affected Northern and Eastern provinces and adjacent border regions, but also the "plantation areas" in poor districts in the Central and Uva provinces are identified and recognised as lagging, and will constitute the Sri Lankan priority on which this indicative programme will align.

Northern and Eastern Province

Statistics in the *UNDAF 2013-2017* and the *UN Human Development Report of 2012* shows that although limited data are available for the Northern and Eastern provinces, the incidences of poverty is especially high.

In the Northern Province, mainly due to effects of the protracted 30 year conflict, an estimated 43% of the population in the Vavuniya district remain under the poverty line. Poverty levels in other districts in the Province such as Killinochchi and Mullaitivu are expected to be even higher as they were the districts directly and most recently affected by the conflict.

As to the Eastern Province, 53% of the population in the Ampara district (one of the three districts in the Eastern province and the largest district in Sri Lanka), lives under the poverty line. These populations suffered multiple displacements over the last 30 years due to the conflict and were also affected by the Tsunami.

While infant mortality rates declined in seven out of the nine provinces during the past decade, they contrastingly increased in the Eastern and Northern provinces. Youth unemployment rates remain very high as there are only very limited economic and employment opportunities due to limited private sector and foreign investment in the region. Decades of conflict and displacement have also prevented many thousands of youth from these areas to attend school regularly and many of them lag behind their fellow students in other parts of the country. The available opportunities for further education either within the formal or informal sector are also extremely limited. The sole Jaffna peninsula counts around 100,000 unemployment youth which, if not properly addressed, has the potential to cause much discontent, unrest and conflict in the future.

The majority of communities in these provinces are still living on Government subsidies (Samurdhi benefits)

and humanitarian assistance. Women-headed households constitute a particularly vulnerable group, often having limited access to and control over assets, resources and other entitlement and suffering from lack of human security and protection.

Intertwined with the need for socio-economic development in the North and East, there is an equally high need for psycho-social support, reconciliation and support to protection of human rights and fundamental freedoms.

The still very substantial presence of the Army in the North, and the perceived intrusion of farmers and fishermen from the South, adds up to the mistrust and lack of security of local populations. Therefore, reconciliation and confidence/trust- building will be mainstreamed in all development interventions in the North and East.

Central and Uva Provinces

The Central and Uva Provinces consist of some of the poorest and least developed districts in the country.

The Nuwara-Eliya District in the Central province and the Badulla and Moneragala Districts in the Uva Province record a HDI value of respectively 0.634 and 0.650, against the national 0.692 average. This low HDI value is explained by the large Indian Tamil estate populations and pockets of rural poor (Sinhala farmer communities) living in isolated and extremely vulnerable areas in these districts often plagued by drought, landslides and other environmental challenges. These communities have lived in severe conditions of poverty and vulnerability for decades.

The UNDAF 2013-2017 states that management of malnutrition also remains a major concern in this province. According to the last *Demographic and Health Survey (DHS 2006)* 17% of babies are reported with a low birth weight with variations across Districts ranging from 11% in the Colombo district to 34% in Nuwara Eliya district. Other indicators point to similar regional disparities with 19% children stunted with a variation between 8% in Colombo to 41% in Nuwara Eliya.

The Moneragala District in the Uva Province is the second largest district in Sri Lanka. Communities that live here are predominantly rural, with 73.4% of labour force engaged in agriculture, cultivating paddy, sugar cane and maize. People in the district are engaged in various forms of agricultural activities as farmers or wage labourers, but as the majority of the crops are seasonal, their income solely depends on the seasonal harvest. They don't have any other productive employment opportunities for the rest of the year. High postharvest losses can also be observed since the farmers don't have access to storage facilities, new technologies, insurance and national markets. For the families which don't engage with agricultural activities there are little or no alternative employment opportunities due to the poor infrastructure facilities and the absence of private sector investment.

The Badulla (Uva Province) & Nuwara-Eliya (Central Province) districts consist mainly of tea plantations and are known as the 'estate sector'. The estate sector is a unique feature of the Sri Lankan economy. It consists of Tamil descendants of workers brought mostly from southern India during the middle of the 19th century to work on tea and coffee estates. Trapped in generational, long term poverty, due to historical circumstances and many other factors such as geographic isolation, language and limited access to government services, they have poor health and education conditions compared to the rest of the country. The workers live in congested and unsanitary housing, with little access to social services. Since nationalisation of the estates in the early 1970's the government has implemented several projects to improve health, housing and sanitation, but progress has been slow.

It is estimated that 1.25 million or 6.2% of the population is living on plantations in the central province. Indebtedness, poor nutrition, poor housing, high school drop outs and poor quality education. Estate communities are predominantly patriarchal, there are few women in leadership positions in trade unions and alcoholism, domestic violence and child abuse/incest are rampant.

Across these provinces, and their vulnerable populations, the elderly and people with disabilities are often

facing the most hard core poverty, due to respectively lack of social security, equitable access to health, education and employment. Migrant workers employed overseas, primarily in the Gulf States, are another category of vulnerable people facing lack of protection, especially unskilled female workers, and the welfare of the children and families left behind are causing growing concerns

2. Financial overview

Up to EUR 210 million will be allocated with the exact amount subject to the developments in the country, notably as regards human rights and the implementation of development cooperation.

Sector	Indicative allocation %
Sector 1: Integrated Rural Development	95-100
Support measures	Up to 1
Total	100

3. EU support per sector

3.1 Support to integrated rural development

Based on the above analysis of needs identified in the rural development sector combined with the requirements of lagging districts in four provinces, it is proposed to provide support, over the period 2014-2020, to sustainable, integrated rural development in Sri Lanka with special focus on the most vulnerable provinces and districts as identified above.

The EU has been providing substantial amounts of humanitarian assistance to Sri Lanka, after the Tsunami which hit Sri Lanka with devastation on Boxing Day 2004, and from the final phase (2007-2009) of the civil war onwards.

EU humanitarian assistance has been followed and completed by post-humanitarian and development assistance mainly provided under the Development Cooperation Instrument (DCI) but also the Food Facility. Assistance has been focused on the needs of Internally Displaced People (IDP) in North and East Sri Lanka returning to their places of origin after decades of war, and has been implemented by NGO's, World Bank and UN agencies.

The new programme will build on past EU experience and draw lessons from three successive programmes implementing the 2007-2013 CSP namely (1) the "Assistance to Conflict Affected People" – EU ACAP, 2009-2013, (2) "Socio-Economic Measures" – EU SEM 2010-2014 and (3) the ongoing "Support to District Development Programme" (EU SDDP 2012-2017), while ensuring the Link between Relief, Reconstruction, Rehabilitation and Development (LLRD). LLRD received particular attention through dedicated workshops, mapping and technical working groups involving implementing partners for both humanitarian and DCI-funded assistance.

The EU has been carefully calibrating and building-up effectiveness, impact and sustainability of its interventions while moving from post-humanitarian assistance under the ACAP and SEM programs towards support to long term, integrated regional development at district level (Support to District Development Program – EU SDDP).

Independent Monitoring and Evaluation reports for ACAP and SEM confirmed that the programmes produced good results, while also pointing to certain weaknesses particularly as regards donor coordination, gender and sustainability. These weaknesses have been taken into account when designing and implementing SDDP, notably through moving towards a more programmatic approach and through the choice of gender-relevant indicators.

The EU SDDP programme continues to support populations in North and East Sri Lanka that suffered most during three decades of war. However, while under EU ACAP and EU SEM, projects were generated through

Calls for Proposals, EU SDDP has been designed in a "programmatic" and result-oriented mode with a view to improve Aid Effectiveness and sustainability. Alignment with government priorities at central and local level, and better donor coordination and Division of Labour through implementation by UN Agencies and IFC in a "One UN mode" represent key improvements compared to our past, project-oriented assistance.

A limited number of districts, and bordering villages in adjacent districts, have been selected, so as to ensure sufficient leverage and impact and to avoid that EU funds would be spread too thinly, while respecting conflict sensitiveness. The SDDP aligns with the district development priorities of four districts, namely Vavunya and Mannar the Northern and Batticaloa and Ampara in the Eastern province, which were selected on the basis of needs and capacity criteria, in close consultation with the government. It has been extended to the bordering villages of adjacent provinces, in a spirit of conflict sensitiveness. EU visibility will be ensured through one single service contract covering the full SDDP programme.

Like its predecessor the SDDP, the new programme for supporting integrated development at district level, will also align with the "Mahinda Chintana" and its declared objective "Towards a balanced regional development with diversity". The aim of the programme is, first and foremost, to consolidate EU humanitarian and development assistance already provided in North and East Sri Lanka and adjacent border villages while further strengthening an integrated programmatic approach. However, in addition to support to districts in North and East Sri Lanka and bordering villages, similar support will also be considered to poor districts in the Central and Uva provinces, and their bordering villages.

The Government has announced its intention to prepare a sector wide rural development plan. Should this materialise, it may request donors to take a '*sector approach*' when programming development assistance.

The EU assistance will support sustainable, integrated rural development through the preparation and implementation District and –where possible, provincial - Development Plans in a comprehensive and inclusive manner notably through supporting disaster resilient livelihoods, social infrastructure and services; food and nutrition security; private sector development and SME's and institutional strengthening and good governance at sub-national and local level.

The new programme and its objectives, results and indicators as outlined below will build on earlier and ongoing interventions and will respond to the sectoral and geographical needs identified under section 1.2. Particular attention will be paid to cross-cutting issues such as conflict sensitiveness and reconciliation, respect for human rights, good governance and inclusive green growth, gender and disabled persons, protection and efficient use of environmental resources, promotion of sustainable practices as well as Climate Change and Disaster Risk Reduction so as to mitigate effects from climate change in the natural capital and losses in investment due to natural disasters.

As concerns the **selection of districts**, to be decided in consultation with the Government, the following needs and performance **criteria** will be considered:

- poverty related indicators as per Mahinda Chintana, MDG reports and other surveys available;
- institutional capacities at local level;
- progress under the current SDDP; it is expected that some of the four districts may "graduate" after the end of SDDP in 2017, while for others continued support may be needed, maybe for a few years only;
- the need for a balanced geographical coverage of northern, eastern, central and southern lagging districts, while keeping the focus on a limited number of districts to ensure impact and sustainability.

As to the **themes and areas of support** in the context of rural development programmes, these will be drawn specific needs in each district as per their development plans while actualising those identified under the current

SDDP. In certain poor districts in the North and East, the need for support to livelihoods, rural infrastructure and social services, food and nutrition security may still be very high, while in other districts such support may be less relevant and the emphasis should be put on private sector development and value chains. For the Central and

Uva provinces, specific needs of plantation populations will need specific responses notably with regards to access to housing, education, health and to empowerment.

Given the lack of institutional capacities at local level, it is anticipated that in all districts, support to local governance including district and division secretariats, local authorities under the stewardship of the provinces, CSO's, CBO's, farmer associations and women's groups, will be provided and mainstreamed throughout the programme.

Where applicable, further progress on resilience and Link between Relief, Reconstruction and Development (**LRRD**) will be aimed at building on experience gained in districts on which EU humanitarian and post humanitarian assistance has been focused until the end of 2013 such as Batticaloa, Mullaitivu and Kilinochchi. Work initiated under DIPECHO in terms of DRR will be consolidated, notably in terms of mainstreaming Disaster Risk Reduction (DRR) priorities into district development planning as recommended by the National Policy on Disaster Management. Environmental Impact Assessment (EIA) and Strategic Impact Assessment (SIA) will be an integral part of the capacity building activities in the context of specific objective and expected results no. 4.

3.1.1 The following overall and specific **objectives** will be pursued:

- The **overall objective** is to support Sri Lanka's National Development Strategy "Mahinda Chintana" and more particularly its objective of a "Balanced Regional Development with Diversity" through fostering poverty reduction, social inclusion and reconciliation, economic development and good governance in lagging regions while improving the sustainable use of natural resources, thereby contributing to improving the quality of life in rural areas and encouraging diversification of the rural economy as a mean of socio-economic cohesion throughout the country.
- The **purpose** is to support the transition from early recovery or socio-economic backwardness to more sustainable development in lagging districts, or to further consolidate emerging sustainable development, in a limited number of selected districts, in line with local development plans.
- In line with local development plans, the **specific objectives** are to:
 - (1) Sustainably improve the living conditions and promote poverty reduction of vulnerable rural communities through the provision of basic infrastructure and social services ;
 - (2) Contribute to the enhancement of food and nutrition security of communities in target areas through the promotion of inclusive sustainable agricultural practices that bring economic growth and improved climate change resilient livelihoods. The promotion of an integrated water management approach will be important in this context;
 - (3) Foster inclusive and sustainable economic development through strengthening the role of private sector and SME's and job-creation;
 - (4) Strengthen capacities and good governance of inclusive and sustainable local development involving all relevant stakeholders.

3.1.2. For each of the specific objectives the main expected **results** are:

- (1) Improved living conditions and reduced poverty of vulnerable rural communities; improved, environmentally sound and disaster resilient rural infrastructure; and improved quality and access to of social services.
 - Income generation improved and poverty reduced so as to approach the national target of 4.2% by 2016, with particular attention for infant and maternal mortality and for the poorest and most vulnerable groups; environmentally sound and disaster resilient rural road network and access to transport, telecommunications, electricity and water supply.
 - Improved and disaster resilient access to social services particularly to safe water, electricity and health, including mental health, psycho-social support and assistance to victims of Gender Based

Violence.

(2) Improved food and nutrition security of communities in target areas through the promotion of inclusive sustainable agricultural practices and efficient natural resources management, which promote economic growth and improved livelihoods.

- Livelihoods have sustainably expanded, diversified and improved through storage and processing facilities, post-harvest and post-catch technology and diversification of small scale primary production
- Increased adaptation to climate change shocks in agriculture, while reducing greenhouse gas emission and increasing the food production
- Stunting, underweight and wasting among under-5 years old children reduced

(3) Economic development has accelerated in an inclusive and sustainable way through increased number of jobs and expanded private sector and SME activity.

- The number of small scale enterprises has increased in a sustainable manner and diversified, and jobs were created at a faster pace than the national average
- Existing enterprises have been able to expand sustainably and improve their business results while creating new jobs
- Improved administrative and legal environment for business development
- Improved access to high quality and market-relevant vocational training particularly for women and girls

(4) High quality planning, systemically involving EIAs and SIAs, integrating Disaster Risk Reduction priorities, such as of flood risk management plans and drought management plans in river basins, and implementation of district development plans through strengthened capacity of all relevant stakeholders.

- Improved quality of district development plans, inclusive of DRR, through increased planning capacity and involvement of a representative group of key stakeholders such as the district and division secretariats, assistant government agents, local authorities, CBO's, CSO's.
- Improved comprehensive and sustainable implementation, including monitoring and evaluation and the mainstreaming of DRR into planning, of the district development plans through strengthened capacities of key stakeholders such as the district and division secretariats, assistant government agents, local authorities, CBO's and CSOs. The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in Annex.

3.1.3. Donor coordination and policy dialogue:

Donor coordination in Sri Lanka remains difficult due to the specific nature of the donor landscape and different attitudes and policies followed as regards relations with the Government. China's rise as main credit provider obviously leaves its mark on both government and donor attitudes.

With the two EU Member States which still have a limited bilateral programme in Sri Lanka (DE-GIZ and FR-AFD) regular information-sharing takes place.

With the European Investment Bank which signed a EUR 90 million loan agreement for investment support to SME's and in renewable energy, synergies and possibly blending in the selected districts covered by the new programme will be explored.

A Donor Partner Forum (DPF) meets monthly and offers a platform for mutual information on donor strategies and programmes, government sector policies, horizontal issues such as overall poverty/MDG related issues, GBV, malnutrition etc. Several thematic subgroups have been established under the purview of the DPF and report back to it.

Coordination of the new programme with other donor initiatives is ensured through regular dialogue with the Bilateral Donor Group, ad hoc coordination with other relevant other donors such as India and Japan, as well as with World Bank and ADB. With the UN family, a privileged dialogue and coordination takes place

through SDDP management and coordination structures.

Communication – rather than policy dialogue - with the government is gradually improving, with the Ministry of Economic Development (MED) at the center, in close association with the National Planning Department (NPD) and the External Relations Department (ERD) at the Treasury. The Ministry declared that it will first ensure with the Government Agent (GA) of the selected districts that overlaps and gaps with other donor activities are avoided and further onwards leave the overall leadership and coordination to the GA concerned. In practice, however, oversight and control by the Ministry remain quite strong.

Civil society has been an active player in implementing the EU's ACAP and SEM programmes. A certain disappointment was noted after contracting of the full SDDP programme with UN Agencies/IFC. Space for NGO's working on sensitive issues such as human rights remains limited, with the Ministry of Defense in which the NGO Secretariat is located exerting strict controls. Civil society was consulted on the new programme 2014-2020. While expressing concern about the shrinking space in Sri Lanka for politically sensitive matters, it expressed its strong willingness to continue to be associated in implementing EU assistance in Sri Lanka. It is keen to see its role enhanced notably with regards to support to local governance.

At regional and local level, good policy dialogue structures already exist in the district steering committees under the chair of the Government Agent and bringing together the EU Delegation, implementing partners and local departments. "Technical Working Groups" comprising the EU delegation, implementing partners and whenever possible civil society partners implementing EU thematic projects also regularly meet and pay particular attention to internal coordination and LLRD.

3.1.4. The Government's **financial and policy commitments** are:

The "Mahinda Chintana" being a strategy rather than a genuine development plan has no multi-annual indicative expenditure framework attached to it, nor has it a monitoring and evaluation matrix allowing to measure in a comprehensive manner whether the achievement of the projected targets is on track. The same applies to most of the district development plans, which are of un-even quality and of which implementation is mainly funded through financial transfers from the center. However, Mahinda Chintana explicitly refers to the MDG's, and even localizes them into "Mahinda Chintana Goals". While nearly all MDG's are on track, or even ahead of schedule (except for malnutrition), the Government recognizes important disparities at regional, provincial and district level and across sectors. However, measurement of progress and improvement towards better regional and social cohesion are hampered by the lack of baselines and data for the Northern and Eastern provinces

The Government's budget, while comprehensive and adhering to the majority of international standards, has been criticized for its unpredictable implementation and lack of inclusiveness during the preparation phase. As in recent years, the government's budget for 2014 emphasis is on supporting growth and decreasing the budget deficit. The sectoral focus is on agriculture revival, healthcare, education and ICT sectors as well as the Government's five hub (maritime, aviation, knowledge, energy and commerce) and tourism strategy. Ministries of Defense and Urban Development, Ports and Highways, and Economic Development continue to receive the largest shares of the budget. Together with the Ministry of Finance, these ministries receive 47% of the total budget in 2014, similar to the levels in previous years. A continuing trend is high levels of military spending. In 2014, the budget allocation for the ministry – also covering urban development - amounts to nearly 20% of the government's budget. The share of spending in defense has been gradually increasing from around 12% of the budget in 2009 (to which non-budget military expenditure needs to be added).

The public sector has a gradually reducing role in the education sector, which is historically an important

social infrastructure in Sri Lanka. Total allocation for all education (3) in 2013 was 1.88% of GDP. A downward trend is apparent, and the share of direct expenditure on education (4) has decreased from 1.81% in 2010 to 1.51% of GDP in 2013. Health, on the other hand, accounts for 7.6% of the budget, and has seen a 25% increase from 2013. At the same time, the share of public health spending by Provincial Councils has declined from 41% in 1991 to 25% in 2011. The Ministry of Social Services' budget has been increasing since 2010, and most recently by 188% compared to the previous budget year. Budget allocations for Ministry of Child Development and Women's Affairs, and the Ministry of Resettlement are showing a declining trend.

Provincial Councils and Local Governments receive some 9% of the budget, which is an increase from the previous years. Budgetary allocations to the – newly elected - Northern Provincial council amount to Rs17.3bn, up from Rs14bn in 2013. This, some argue, is not sufficient to ensure the reconstruction and development needed. Eastern, Uva and Central Provinces show similar trends in terms of budget allocations.

Gender equality receives very little attention in the Mahinda Chintana, and women are portrayed in a very traditional manner, 'holding the prime place in the family' and as the 'pioneer who drives the family towards a disciplined society'. Mahinda Chintana recognizes that conducive environment is needed for women to fully 'utilize their knowledge in emerging opportunities', and targets to increase women's labour force participation from 34.4% to 40% by 2016. Specific programmes for disabled persons, children, the elderly and vulnerable women are presented, but specific baselines, milestones and targets are missing. Overall, data and targets presented in the Mahinda Chintana are not disaggregated by sex, or by region, disguising regional and societal differences.

In terms of Environmental protection, the government's '*Haritha Lanka*' or "Greening Lanka" programme for sustainable development was adopted to deliver on the overall government commitment towards environmentally sustainable development under the *Mahinda Chintana*. Sri Lanka has already achieved four of the six indicators of the MDG 2015 targets for Goal 7: Ensuring environmental sustainability. The Government has enacted key environmental legislation for implementing the 'Haritha Lanka' notably with support from the SWITCH programme. Renewable energy is rising on the Government's agenda notably to decrease its dependency on imported oil and coal.

3.1.5 The overall **risk assessment** of the sector intervention:

The main, overall risk for the programme to be successful will be a stagnation or even further regression in the overall political situation, particularly as concerns respect for human rights and good governance, as well as lack of progress in terms of reconciliation and accountability. This may render the gradual re-engagement between the EU and the government, as well as mutual trust, communication, dialogue and consensus on the programme more difficult. This risk will be mitigated by supporting reconciliation and conflict sensitiveness throughout our aid portfolio; close monitoring, notably of implementation of the Government's LLRC Action; continued gradual re-engagement in non-sensitive areas such as higher education, RTD, aviation; the resumption and intensification of dialogue and communication with the government notably through the EU-Sri Lanka formal dialogue in the context of the Joint Commission.

The choice of the districts and areas of intervention needs to be based on a consensus between the EU and the government. While the EU intends to limit the number of districts in which it wants to engage for reasons of efficiency and impact, the government may wish to extend the number of districts, thus diluting the impact of the programme. Also, while the EU intends to further work in the North and East to consolidate its earlier interventions, and also agrees to expand its interventions to other districts in the

³ Inclusive of total government expenditure on education such as education expenditure through other ministries, vocational training, scholarships and staff training programmes.

⁴ Allocations made to the Ministry of Education, Higher Education and Provincial councils.

Central and Uva provinces, government may urge the EU to substantially reduce its assistance to the North and East and also to intervene elsewhere in the country. This risk may be mitigated through selecting districts on the basis of the criteria mentioned above under section 3. The government may also be reluctant towards EU support in the area of governance, more particularly support to elected local authorities. Discussions and consensus will be needed as regards the requirement of institutional strengthening, including for provincial and local authorities, without which the programme's sustainability may be affected. Furthermore the government may further reduce the space for CSO's.

The Government may follow "stop-and-go" attitudes as regards the implementation of donor assistance, and continue to poorly communicate with the donor community. Donors, including the EU, need to step up their efforts towards systemic and structured communication with the Government.

The Government increasingly expects donors, including the EU, to use government systems and to channel their funds through the budget. The President underlined this during his speech for the 2014 Budget. The EU will need to assess whether conditionality for such approach can be met by the government. It is assumed that eventually the continuation of working directly with the districts under the overall coordination of the Ministry of Economic Development will be possible.

4. Support measures

An indicative **amount** of EUR 1.0 million will be set aside for measures aimed at supporting the preparation and implementation of actions under the MIP including through feasibility studies, consultation and planning workshops, outreach, audits, evaluations and other activities as necessary to ensure a high quality design and implementation of actions

Annexes

1. Country at a glance.
2. Donor matrix showing the indicative allocations per sector
3. Sector Intervention Framework and Performance Indicators
4. Indicative timetable for commitment of funds