

Strategy for development cooperation with

Sri Lanka

July 2008 – December 2010



REGERINGSKANSLIET

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of Sweden



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Phase-out strategy for Swedish development cooperation with Sri Lanka 2008–2010

Summary

Development cooperation with Sri Lanka is to be phased out in accordance with the Government's decision to focus bilateral development cooperation on certain countries. During the phase-out stage cooperation will focus on consolidating the results that have already been achieved and on ensuring their sustainability.

The overarching objective of Sweden's development cooperation with Sri Lanka is to improve the conditions for achieving a long-term sustainable solution to Sri Lanka's ethnic conflict – a solution based on equal rights for all citizens.

During the phase-out stage cooperation will focus on continued support to two main areas: *human rights and democratic governance* and *regionally balanced economic development*. Within these areas, activities that contribute to improved conditions for peaceful conflict resolution will be integrated into initiatives. Current research support and concessionary credit initiatives are to be ended.

The overarching process objective for the strategy period is to conclude bilateral development cooperation in a responsible and controlled manner.

The overarching issues for strategic dialogue during the strategy period are to improve conditions for a long-term sustainable solution to the conflict and protection for vulnerable groups by conveying the message of responsibility for and the importance of complying with international conventions on human rights and humanitarian law.

The 25-year-long conflict between the Sri Lankan state and the Tamil separatist organisation *Liberation Tigers of Tamil Eelam* (LTTE) has been steadily escalating since 2006, and a peaceful solution appears to be very distant. The human rights situation has become markedly worse, and the humanitarian situation in certain parts of the country is a great

cause for concern. The conflict is having a negative impact on the country's economy; but at the same time, Sri Lanka is a lower middle income country with a high level of education and relatively well-functioning institutions by regional standards. Sweden has a long tradition of development cooperation with Sri Lanka, but is a relatively small donor.

The total planned volume for the phase-out stage up to and including 2010 is SEK 152 million. In addition to this, concessionary credits and research initiatives account for a total of SEK 86 million. Payments and the number of initiatives will gradually decrease during the phase-out stage.

Part 1. Objectives and focus of cooperation

1.1 Objectives and priorities for cooperation during the phase-out stage and for the phase-out process

The overarching objective of Sweden's development cooperation with Sri Lanka is to improve the conditions for achieving a long-term sustainable solution to Sri Lanka's ethnic conflict – a solution based on equal rights for all citizens.

Cooperation will thus help to achieve the goal of Swedish development cooperation – to create the conditions for poor women and men to improve their lives – and the goal of Sweden's policy for global development (PGD), which is to contribute to equitable and sustainable global development. Cooperation is based on the two PGD perspectives: poor people's perspectives on development and the rights perspective.

Sri Lanka's development plan for 2006–2016 (*Mahinda Chintana – Vision for a New Sri Lanka*) cannot be regarded as a national PRSP (Poverty Reduction Strategy Paper) even though it is the Sri Lankan Government's official development plan. This plan is not the result of a consultation process with civil society, nor does it contain any references to the conflict, precise regional objectives or concrete action plans. Therefore, it does not form the basis of Sweden's considerations in this strategy.

The Swedish Government's thematic priorities for development cooperation policy – democracy and human rights, and the promotion of gender equality and the role of women in development – will be mainstreamed in the entire country programme, but they are especially prominent in the cooperation area concerning human rights and democratic governance. The environment and climate priority is most clearly apparent in certain credit initiatives, but it will also be integrated, wherever possible, in work on regionally balanced economic development. In the entire country programme, no initiatives will be allowed to have a negative impact on the environment and the climate.

The overarching process objective for the strategy period is to conclude bilateral development cooperation in a responsible and controlled manner.

Priorities that are particularly important for the phase-out process are:

- Compliance with agreements already entered into.
- Ensuring maximum viability and the best possible results through limited additional financial support to initiatives already agreed upon.
- Support to vulnerable organisations through targeted measures to seek alternative donor financing, consolidate activities, cut costs and generate independent income.
- Ensuring that the phase-out process is implemented in a conflict-sensitive way.
- Well-planned and partly more in-depth audit of all initiatives so as to ensure a fully completed follow-up, including repayments, if any, at the end of 2010.

The overarching issues for strategic dialogue during the phase-out stage are to improve conditions for a long-term sustainable solution to the conflict and protection for vulnerable groups.

During the phase-out stage cooperation will focus on continued support to two main areas: human rights and democratic governance, and regionally balanced economic development.

Activities that help to improve conditions in society for conflict resolution are to be integrated into each area. In accordance with the Swedish Government's strategy for Sida's humanitarian aid, initiatives in each cooperation area should be complemented by humanitarian initiatives with a particular emphasis on protection for and access to areas affected by conflict.

Sweden should consistently work for concrete and practically oriented coordination and harmonisation with bilateral and multilateral donors, in accordance with the Paris Declaration and the EU Code of Conduct for Complementarity and Division of Labour in Development Policy. Sweden will also make use of the expertise and experience to be found at Swedish government agencies, in civil society and in the private sector.

1.2 Focus and scope

1.2.1 Cooperation areas

The Swedish Government has decided that Sweden's bilateral development cooperation with Sri Lanka will be concluded by 31 December 2010 at the latest. During the phase-out stage it is crucial that the results that have already been achieved are consolidated and that their sustainability is safeguarded as far as possible.

i) Human rights and democratic governance

The objective for this cooperation area is:

- Improved respect for human rights, the rule of law and independent media, and strengthened protection for particularly vulnerable groups such as women, children, internally displaced persons, journalists and human rights defenders.

The Swedish objectives for this cooperation area are not contained in any of Sri Lanka's development plans. The military conflict and the deteriorating situation with regard to human rights and general rule of law in Sri Lanka mean that initiatives in this area are particularly important.

Sweden intends to finance and conclude seven previously agreed initiatives in this area. These initiatives are primarily concerned with core support to some fifteen local civil society organisations that are working in different ways for greater respect for human rights and improved democratic governance with a focus on protection for particularly vulnerable groups such as women, children, internally displaced persons, journalists and human rights defenders. Activities are targeted at supporting a long-term solution to the conflict, defending the freedom of the media, examining human rights abuses, promoting the participation of ethnic minorities in political processes, and improving children's rights and welfare. This area also includes an initiative for the external and independent monitoring of human rights and improved rule of law (OHCHR).

The local organisations that Sweden supports are working under very problematic conditions due to the conflict and the deteriorating human rights situation. For many of them Swedish support is very important, especially as it is provided in the form of core support and not project support. This gives them both greater financial security and better opportunities for flexibility. Norway and Switzerland are currently the only other donors providing core support. Moreover, Norway's role in Sri Lanka is controversial, and this is making it difficult for local organisations to have Norway as a financier. Sweden will therefore, during the strategy period, make an effort to improve these organisations' chances of obtaining continued core support from other donors.

ii) Regionally balanced economic development

The objective for this cooperation area is:

- Higher regional pro-poor economic growth in areas affected by conflict, and in provinces and districts that are underprivileged in other ways.

As a result of Sri Lanka's MDG process in 2005 which identified major income and welfare differences between districts and provinces, there has been a growing focus on regionally balanced development. It is one of the priority areas in the Sri Lankan Government's development plan for 2006–2016, even though no precise objectives have been formulated.

In this cooperation area Sweden will finance and conclude eight previously agreed initiatives with a focus on investment in infrastructure and private sector development in the conflict-affected northern and eastern provinces. Even though some of these initiatives are being carried out by Colombo-based institutions, they can yield results that are of benefit above all to poor men, women and children in conflict-affected and underprivileged districts and provinces. All initiatives are thus relevant to the overarching strategy objective as the conflict is perpetuated by the huge regional differences in income and welfare that exist in Sri Lanka. One condition that applies to all of these initiatives is also that all goods and services must be conflict-sensitive, that is to say, they must not lead to aggravated local or national conflict. Efforts should be made to ensure that these initiatives promote, in particular, the role of women in development.

Sweden will strive to ensure that these initiatives find continued financial support from other donors that are active in this area, such as the Asian Development Bank (ADB), the World Bank, Japan and Norway.

iii) Research and concessionary credit initiatives

The current research cooperation that has already begun to be phased out will gradually come to an end during the period 2009–2010. The same applies for one of the two concessionary credit initiatives currently underway. The concessionary credit for a wastewater management project is an exception from the conclusion of the country programme by 2010 as the agreement period runs until 2013.

1.2.2 Forms of cooperation

The various recipients of country programme funding are: multilateral bodies (20 per cent of total payments planned), the Sri Lankan state (36 per cent), local civil society organisations (26 per cent) and Swedish companies and institutions (13 per cent).

The cooperation partners are divided across the different cooperation areas as follows: multilateral bodies dominate regionally balanced economic development (48 per cent), local civil society organisations are active in the area of human rights and democratic governance (70 per cent) and the Sri Lankan state is the primary recipient in the area of research cooperation and concessionary credit initiatives (85 per cent).

The dominant form of support during the phase-out stage will be project support (72 per cent) for 14 of the 19 initiatives where payments are planned (research cooperation and credit initiatives are counted as two separate initiatives here).

1.2.3 Dialogue issues

A dialogue will be held at various levels, depending on purpose, context and circumstances. It will be held primarily with other donors, Swedish cooperation partners and other relevant actors. Dialogue with the Sri Lankan Government will be based on the message of responsibility for and the importance of complying with international conventions on human rights and humanitarian law.

Dialogue should be especially targeted towards helping to achieve the Swedish objectives for development cooperation and improving the opportunities for continued support from other donors for the effective initiatives that Sweden is currently financing. The thematic priority of democracy and human rights is to underpin the dialogue. Synergies and coherence with Sweden's policy for human rights must be sought.

1.2.4 Scope (volume)

The total planned volume for the phase-out stage up to and including 2010 is SEK 152 million. In addition to this, concessionary credits and research initiatives account for a total of SEK 86 million. An overview of the indicative volume and number of initiatives per year, including concessionary credits and research initiatives, is provided in tables 1 and 2 below.

Table 1. Indicative volume and number of initiatives for the country programme

Year	2008	2009	2010
No. of initiatives	16	11	5
SEK million	87	47	17

Table 2. Indicative volume for concessionary credits and research initiatives

Year	2008	2009	2010
SEK million	49	23	14

So as to achieve the objective of a responsible phasing out of cooperation, and so as to achieve economic viability and sustainable results, additional grants totalling a maximum of SEK 43 million may be given to existing initiatives during 2008–2010. These grants will be allocated primarily to the cooperation area concerning human rights and democratic governance. In light of the importance of honouring agreements already entered into, one initiative will run until 2013.

1.3 Implementation of support and the phase-out process

Development cooperation with Sri Lanka is to be concluded by December 2010 at the latest, with the exception of one initiative. Just like during the period 2006–2007, the country programme for 2008–2010 will be in operation in circumstances that will markedly hamper results, and it will probably be implemented in difficult and unsafe conditions due to the armed conflict. During this period, implementation will focus on the initiatives that concentrate on the monitoring and promotion of human rights and long-term conflict resolution. Since 2006, particular consideration has been given to reducing the risk of Swedish support enabling the Sri Lankan Government to free up funds for other purposes.

The phase-out process makes it more difficult to ensure that unused funds are repaid and increases the risk of assistance funding not being used for the purposes intended. The conclusion of bilateral cooperation therefore requires continuous, well-planned follow-up and external control, and the contracting of the audit for the periods 2009 and 2010 should be planned well in advance.

1.3.1 Cooperation with other donors and multilateral actors

To promote sustainable results, Sweden, together with other donors, will continue to work towards harmonisation, adaptation and ownership in accordance with the Paris Declaration. Coordination with the European Commission and the other EU Member States will continue, as will close cooperation with Norway. Several bilateral donors have already phased out their development cooperation with Sri Lanka (e.g. Denmark and the United Kingdom) and some others have begun this process (the Netherlands and Germany). There are a few Swedish civil society organisations active in Sri Lanka with funding from the special NGO appropriation which will not be affected by the bilateral phase-out process.

One of the largest projects in the country programme is an agreed road construction initiative in the north and the east worth SEK 40 million and managed by the ADB. Cooperation with the ADB is regarded as good, but the initiative's implementation has been severely delayed due to warfare in the area. If fighting in the eastern province does not resume, the ADB estimates that it will be possible to use the entire remaining sum during the agreement period.

Several initiatives are channelled via UN bodies (primarily the ILO and UNICEF); Sweden has positive experience of close and constructive cooperation with these bodies. Sweden values the UN's role and will therefore support, above all through dialogue, UN organisations in their work to ensure that humanitarian law and principles are complied with in areas affected by war. In addition, Sweden provides support to a number of UN bodies working on humanitarian initiatives out of the special

appropriation for humanitarian assistance, which is based on a separate strategy and needs assessment, and which is therefore not affected by the decision to phase out bilateral cooperation.

1.3.2 Capacity, staff and division of roles

The phase-out process will gradually reduce the need for locally stationed staff. A detailed analysis of and plan for staffing and division of roles between the Embassy and Sida will be drawn up within the framework of a special resources and capacity plan. The idea is to ensure good risk management and a responsible and controlled conclusion of bilateral development cooperation.

1.4 Follow-up

Only when the final audit has been completed and repayments, if any, have been made can individual initiatives, and therefore the entire country programme, be regarded as concluded. This entails a particular risk for the five initiatives within the country allocation where there are plans for payments to be made in 2010.

A concluding results assessment should be carried out continuously and must be finished in 2011. This assessment will be made by summarising follow-up reports and evaluations, as well as by updating the results assessments of the country programme for 2003–2008 that the Embassy will have completed by June 2008.

So as to provide a clear overview of cooperation, the 50 years of Swedish development cooperation with Sri Lanka should be documented. To this end, there are plans for joint events in Sweden and Sri Lanka in the years up to and including 2010 to highlight the results of Swedish development cooperation with Sri Lanka. These activities will be prepared in more detail in a separate communication plan.

Part 2: Background

2.1 Summary analysis of each cooperation area currently receiving support

The 25-year-long conflict between the Sri Lankan state and the Tamil separatist organisation *Liberation Tigers of Tamil Eelam* (LTTE) has been escalating since 2006, and a peaceful solution appears to be very distant.

Independent organisations estimate that at least 3 000 people, including at least 1 000 civilians, were killed in war-related incidents in 2007. Their estimates also point to at least 200 000 internally displaced persons in the country as a result of the conflict. The humanitarian situation is worsening due to the fact that humanitarian law and principles are not being respected in the war-affected areas. The UN and international aid organisations have difficulties gaining access to the northern parts of the

country where the needs are greatest. Sri Lanka's humanitarian crisis was one of the world's seven largest in 2007.

The main objectives of cooperation with Sri Lanka during the latest strategy period have been to promote peace, democracy and human rights, as well as pro-poor economic development. (Specific objectives at sector level have not been given.)

2.2 Human rights and democratic governance

Respect for rule of law and human rights has decreased since the armed conflict gained momentum in 2006. The number of extrajudicial executions and political murders has increased and impunity is very widespread. Independent organisations have reported approximately 600 cases of disappearances in 2007 alone. Torture is a common occurrence and the judicial apparatus is characterised by inefficiency and corruption. The recruitment of child soldiers remains a serious problem. Freedom of expression and freedom of the media have also been negatively affected. The number of cases of harassment, kidnappings and murders of journalists has risen, above all in the northern and eastern parts of the country, but also in Colombo. According to Reporters Without Borders, freedom of the media has deteriorated to a greater extent in Sri Lanka than in any other country in the world since 2002.

The situation regarding the rule of law and respect for human rights is therefore a serious one making it important to promote a strong and independent civil society that will strive to defend these values and work towards a peaceful solution to the conflict. It is similarly important to contribute to independent international monitoring of respect for human rights, as a complement to action by Sri Lanka's own institutions.

Support within this cooperation area has been relevant to the objective of promoting peace, democracy and human rights, but the political circumstances have made this work more difficult and led to mixed results. Thanks to core support local civil society organisations have had the flexibility to successfully, quickly and forcefully lobby against several draft bills and police measures that would have restricted people's rights. Support to the media has been successful, with a large number of trained journalists having been quickly recruited by the local media houses and a well-functioning press complaints commission having been established. The results of support via UN bodies to local authorities are less positive, however there are some exceptions, such as a drop in the recruitment of child soldiers.

2.3 Regionally balanced economic development

No other country in South Asia has such unequal economic distribution as Sri Lanka, and poverty in the country's various districts is strongly linked to this inequality. The proportion of poor people in certain districts in the central and south-eastern parts of the country is, for example, more than six times higher than that in the capital Colombo.

This data is based on official statistics that only partly include the eastern province and do not cover the Northern province at all. These two areas are considered to have the highest proportion of poor people in the country as a consequence of the long conflict.

Since 2007 it has been possible in practical terms to prioritise the reconstruction of the eastern provinces as the area is no longer an arena for conventional warfare. However, the political situation in the east is unclear and potentially unstable.

This cooperation area is dominated by the initiative already agreed upon and that is channelled via the ADB to reconstruct the provincial road network in the north and the east. This also includes support for an amalgamation of local chambers of commerce and an employment project under the auspices of the ILO; both of these have a regional focus on the conflict-affected northern and eastern provinces.

The initiatives in the cooperation area of regionally balanced economic development – which follow from the objective to promote pro-poor economic development – have tended to produce positive results, partly because of their less political nature. This is especially true of credit initiatives which are often managed in a more responsible manner than grant initiatives. All credit initiatives implemented have achieved the highest results assessment. For example, 25 000 telephone lines have been installed for families and companies in the conflict-affected northern and eastern provinces. The results of targeted initiatives for private sector development have been good, with an estimated 3 000 companies established and 15 000 new employees.



REGERINGSKANSLIET

**Ministry for Foreign Affairs
Sweden**

103 39 Stockholm

Telephone: Int+46-(0)8-405 10 00, fax: Int+46-(0)8-723 11 76, web site: www.ud.se

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