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**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
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**DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA**

**COUNTRY STRATEGIC OPPORTUNITIES PAPER**





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## CURRENCY EQUIVALENTS

Currency Unit	=	Sri Lankan Rupee (LKR)
USD 1.00	=	LKR 96.10
LKR 1.00	=	USD 0.0104

## WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric ton (t)
1 pound (lb)	=	450 grams (gr)
1 kilometre (km)	=	0.62 miles (mi)
1 meter (m)	=	1.09 yards (yd)
1 square meter (m <sup>2</sup> )	=	10.76 square feet (ft)
1 acre (ac)	=	0.405 hectares (ha)
1 hectare (ha)	=	2.47 acres

## ABBREVIATIONS AND ACRONYMS

AsDB	Asian Development Bank
COSOP	Country Strategic Opportunities Paper
CPE	Country Portfolio Evaluation
CSO	Civil-Society Organization
DFID	Department for International Development (United Kingdom)
FAO	Food and Agriculture Organization of the United Nations
IRDP	Integrated Rural Development Project
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
LTTE	Liberation Tigers of Tamil Eelam
NGO	Non-Governmental Organization
M&E	Monitoring and Evaluation
PRS	Poverty Reduction Strategy
UNDP	United Nations Development Programme
WFP	World Food Programme
WUA	Water Users' Association

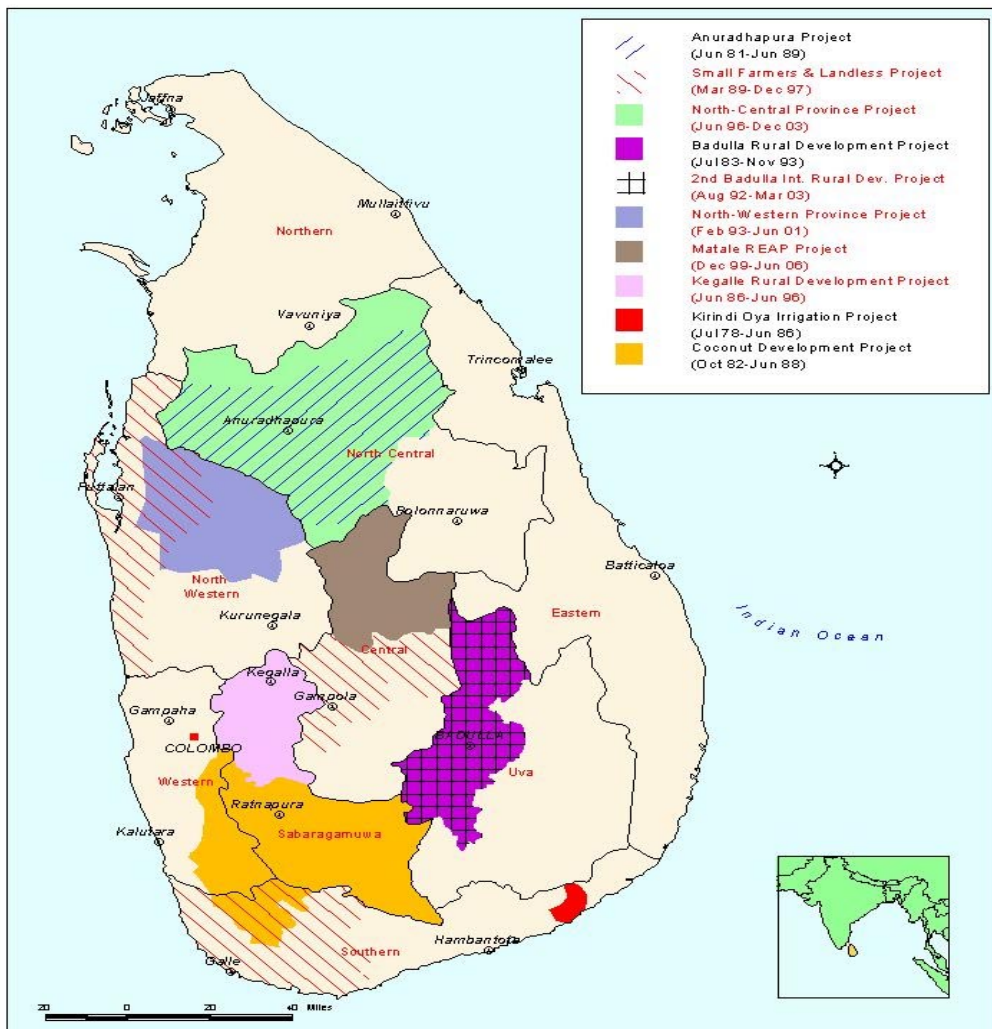
## GOVERNMENT OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

### Fiscal Year

1 January-31 December



LOCATION OF IFAD PROJECTS IN SRI LANKA



Source: IFAD  
The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof

## IFAD PORTFOLIO

<b>Project Id</b>	<b>Project Name</b>	<b>Initiating Institution</b>	<b>Cooperating Institution</b>	<b>Lending Terms</b>	<b>Board Approval</b>
1	Kirindi Oya Irrigation and Settlement Project	AsDB	AsDB	HC	12 Apr 78
58	Anuradhapura Dry Zone Agriculture Project	AsDB	AsDB	HC	05 Dec 80
85	Coconut Development Project	AsDB	AsDB	HC	17 Dec 81
111	Badulla Rural Development Project	IFAD	World Bank IBRD	HC	09 Dec 82
179	Kegalle Rural Development Project	IFAD	World Bank IBRD	HC	05 Dec 85
219	Small Farmers and Landless Credit Project	IFAD	UNOPS	HC	26 Apr 88
283	Second Badulla Integrated Rural Development Project	IFAD	UNOPS	HC	04 Apr 91
309	North-Western Province Dry Zone Participatory Development Project	IFAD	AsDB	HC	09 Sep 92
473	North-Central Province Participatory Rural Development Project	IFAD	UNOPS	HC	13 Sep 95
1113	Matale Regional Economic Advancement Project	IFAD	UNOPS	HC	03 Dec 98

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## EXECUTIVE SUMMARY

The present Country Strategic Opportunities Paper (COSOP) is the result of a two-year consultative process that included a Country Portfolio Evaluation (CPE) and a series of preparatory studies and surveys. This culminated in a stakeholder workshop and high-level meeting attended by senior government advisors and staff, and representatives of civil-society organizations, non-governmental organizations (NGOs) and of bilateral/multilateral donors active in Sri Lanka.

Sri Lanka is a relatively small island state situated off the south-eastern tip of India. It extends over a surface area of just over 65 000 km<sup>2</sup> and has an estimated population of 19.4 million (2000) growing at the rate of 1.3% per annum. More than 80% of the population live in rural areas. A typical tropical country with an average precipitation in the wet zone of 2 500 mm and 1 200-1 900 mm in the so-called dry zone, Sri Lanka is predominantly Sinhalese by ethnicity and Buddhist by religion, but with large Tamil (generally Hindu), Muslim and Christian communities. The country's human development index is good, with average adult literacy rates of 92% and a life expectancy of 73 years and with women enjoying a relatively favourable status. However, the 19-year civil conflict that pitched the Sinhalese against the Tamils led to the loss of over 65 000 lives and 800 000 displaced persons.

Despite the insurgency and a number of external shocks, Sri Lanka's economy performed well in the 1990s, registering a real growth in the Gross Domestic Product of 5.3% per annum accompanied by lower unemployment and inflation. The driving force behind this performance was the manufacturing sector (textiles and garments), which dominates the country's exports. Sri Lanka has the most liberal economy in south Asia, but the state of its public finances gives rise to serious concern. Several years marked by a lack of fiscal discipline, an oversized civil service, an inefficient tax collection system and other exogenous factors have resulted in an unsustainable fiscal deficit. Therefore, the 2002 budget included the key themes of fiscal consolidation, deregulation, liberalization and privatization.

Sri Lanka's agricultural sector comprises four broad subsectors, namely: the plantation sector that produces crops (such as tea); the domestic sector, dominated by paddy; and the forestry and fisheries sectors. However, since the 1990s, the manufacturing sector's contribution to the national economy has overtaken that of agriculture although the latter is still important inasmuch as it accounts for 21% of the national output, employs more than 35% of the workforce and provides an important stimulus to other sectors. Furthermore, as the major employer in the rural areas, where over 90% of the poor live, agriculture represents the best chance for reducing poverty throughout the country. While smallholders produce most of the agricultural output and are by far the most dynamic actors in the sector, their production systems are hampered by neglect, poor economies of scale, low investment levels and inappropriate technology. The Government's current agricultural policies, therefore, aim to improve agricultural-sector productivity, raise farm incomes and achieve family food security by transforming traditional agriculture into a commercially viable enterprise. To this end, the Government plans to improve land markets and tenure arrangements, upgrade extension services and marketing channels, harmonize rural financial services, promote decentralization and more efficiently target social welfare programmes to the needy.

About 5 million people or 25% of the population live below the poverty line of USD 12 per person/month. This figure dramatically increases to 8 million people, or 32%, when those living on only USD 15 per person/month are included in the poor category. However, the country's social indicators are generally good due to large investments made by past governments. About 42% of all rural inhabitants are small farmers concentrated in the Central, Uva, Sabaragamuwa and Southern Provinces where agricultural growth had been sluggish and rural infrastructure is extremely poor or





lacking. The civil conflict significantly worsened the plight of the poor, as it deprived people of their livelihoods and produced tens of thousands of orphans and woman-headed households with few or no coping strategies.

Sri Lanka has a long history of providing safety nets for its poor, from the Food Stamps and Jana Saviya Programmes in the 1970s and 1980s to the ongoing Samurdhi Welfare Programme launched in 1994. Despite their weaknesses, these programmes bear witness Sri Lanka's commitment to reducing poverty. At the Sri Lanka Development Forum of June 2002, the Government presented a new poverty reduction strategy (PRS), which is now being strengthened by more specific strategies for relief (the *National Framework for Relief, Rehabilitation and Reconstruction (3Rs)*) and economic growth (*The Future – Regaining Sri Lanka*) following peaceful resolution of the civil conflict. The emerging PRS has six key objectives, i.e. to: (i) build a macroeconomic environment to boost private investment; (ii) reduce conflict-related poverty by fostering development and social harmony; (iii) enable the poor to participate in, and benefit from, economic growth; (iv) improve social services and safety nets for the poor; (v) empower the poor and ensure better governance; and (vi) implement an effective monitoring and evaluation (M&E) system to assess progress in meeting the Millennium Development Goals that inspired the PRS.

Since 1978, when Sri Lanka was the first beneficiary of an IFAD loan, the Fund has provided 10 loans to the country on highly concessional terms for a total commitment of USD 112 million. The Asian Development Bank (AsDB), United Nations Development Programme, World Food Programme and the Governments of Canada, Germany and Japan provided cofinancing for a total of USD 161 million. Seven projects have already closed and another two are expected to do so by the end of 2003. Some 69% of all funds committed have been disbursed, but about 27% have been cancelled. IFAD's earliest attempts to define a country strategy for Sri Lanka date back to the Special Programming Mission of 1979, which put forward proposals for tailor-made projects targeted at homogenous groups. In 1993, a thorough analysis of the causes of poverty led to the adoption of a more holistic approach, which allowed for the targeting of broad groups of poor people (landless, small farmers, artisanal fisherfolk, etc.). Moreover, for the first time, emphasis was placed on off-farm income-generating activities, development of enterprises, community participation and inclusion of NGOs.

The CPE for Sri Lanka concluded that project implementation had been generally satisfactory inasmuch as they had had a significant impact in terms of empowering target groups, especially women, and in reaching many targets (notably infrastructure development, agricultural production, and delivery of credit), despite the fact that, in many cases, achievements had been below expectations. The main weaknesses were found to include complex and inflexible project design, over-optimistic expectations, inadequate M&E and questionable built-in sustainability. Beneficiary participation in, and ownership of, project activities has slowly improved from the traditional top-down approaches of the first integrated rural development projects to the more participatory and demand-driven approaches adopted for later projects. Notwithstanding, the CPE concluded that the management structures of many projects were too centralized, with multiple (divisional, provincial, central) layers of decision-making.

The initial results of the COSOP consultations included a set of critical criteria for IFAD to consider in prioritizing future interventions in Sri Lanka: the likelihood of the intervention having an impact on the poor; sustainability of the intervention through empowerment of the target group; focus on women; and a high degree of innovation and potential role. To meet these criteria, the best strategic niche and thrust for IFAD interventions is to focus on three rural sectors: (i) the dry zone, where the majority of the 'structurally poor' are still to be found; (ii) the estate sector and surrounding villages, where pockets of extreme and chronic poverty persist among the workforce and small farmers; and (iii) the coastal areas and their hinterland, where poor fisherfolk and other poor people eke out a



living, notably in areas affected by the conflict. Given the large amounts of under-utilized donor commitments that were earmarked for relief and reconstruction in the conflict areas, it was agreed that while IFAD would not focus on these areas it would not ignore them completely.

In accordance with the PRS and IFAD's regional strategy for the Asia and the Pacific region, innovative approaches in the following crucial domains will be supported: (i) access to resources (abandoned or under-utilized land on plantations and in the dry zones, coastal water bodies, etc.) for the rural poor and marginalized groups; (ii) women, as the preferred entry point, but with care not to overburden them; (iii) social mobilization techniques (e.g. the 'appreciative enquiry' method used elsewhere in Asia); (iv) simple methods of transferring funds directly to the poorest communities; (v) flexible programme- and process-based design and implementation; (vi) market links with, and between, the rural areas; and (vii) partnerships among the rural poor and private- and informal-sector operators. In addition, four possible project interventions were identified for entry into the IFAD pipeline, as follows: a sustainable livelihoods support programme in the dry zone that will consolidate IFAD's past experiences and make it possible to cover a large population, notably women; a rural initiatives development fund focusing on women, which should facilitate gender mainstreaming and capitalize on women's strengths to a greater extent; a smallholder out-growers' estates development programme that will target the most marginalized strata of the population and allow them to integrate into society; and a resource management programme in the coastal zones, targeting the most isolated societies that both live in a fragile ecology and are seriously threatened by external factors.

Various possibilities for partnerships with development partners were identified during the COSOP consultations. These include partnering with World Bank and the Food and Agriculture Organization of the United Nations to improve access both to land and coastal resources, and to extension services; AsDB in supporting microfinance and linking up smallholder estate out-growers and commercial estates; the Japan International Cooperation Agency, Department for International Development (United Kingdom), the Oxford Committee for Famine Relief (United Kingdom) and the Co-operative for Assistance and Relief Everywhere in developing sustainable livelihood approaches; and the German Agency for Technical Assistance in microenterprise development. The main areas of policy dialogue with the Government and others will include land tenure and access rights for IFAD's target group; targeting and implementation of social welfare programmes to allow communities to assume responsibility for selecting the beneficiaries thereof; decentralization and devolution of power; and strengthening of the rural- and agricultural-sector focus of the PRS.

Based on portfolio performance, Sri Lanka has shown that it is a good borrower of IFAD resources. Moreover, despite the 19-year civil conflict, it is also one of the ten developing countries that have made the greatest contributions to IFAD resources. Therefore, to continue supporting the country's rural development, peace consolidation and conflict prevention efforts in the aftermath of the civil conflict, the indicative volume of IFAD financial assistance to Sri Lanka for the five-year period 2003-2007 has been set at USD 60 million, subject to availability of resources, to fund three new operations selected from the four mentioned above. Of this, USD 1.5 million would be set aside for funding grants (technical assistance, Special Operations Facility, IFAD/NGO Extended Cooperation Programme and project-related grants) to undertake pilot activities or preparatory/design support activities for future projects and programmes. In addition, and in order to provide further support to these interventions, more grant resources should be mobilized from the Post Conflict Fund currently under consideration.

## I. INTRODUCTION

1. In close consultation with concerned stakeholders, IFAD's Office of Evaluation and Studies undertook a Country Portfolio Evaluation (CPE) on Sri Lanka that was successfully concluded in July 2001. In mid-2001-October 2002, a new consultative process was launched by the Asia and the Pacific Division for the purpose of preparing a Country Strategic Opportunities Paper (COSOP) for the country. This was initiated by a series of studies and surveys on IFAD's portfolio, and included such themes as sustainable livelihoods on tea estates, mainly in the Central region; a review of land tenure arrangements and practices in rural Sri Lanka; and issues and options for developing tea out-growers' schemes. In addition, general reviews were made of the current macroeconomic and country setting and, in particular, of the impact of the 19-year civil conflict on the economies of the north and north-east provinces of the country. The consultations culminated in a stakeholder workshop<sup>1</sup> followed by a high-level meeting<sup>2</sup> in Colombo, Sri Lanka, in mid-October 2002, both of which endorsed the findings and recommendations of the COSOP.

2. The consultations benefited from the promise of real peace, as evidenced by the success of dialogue between the Government and the Liberation Tigers of Tamil Eelam (LTTE), as well as three recent Government policy papers<sup>3</sup> on poverty reduction; conflict resolution, peace building and consolidation; and growth-based macroeconomic development. The fact that these policies were developed in parallel with the COSOP created opportunities for constructive dialogue and for the forging of partnerships with many development partners. In addition, the COSOP benefited from the United Nations Development Assistance Framework document, completed in early 2001 and now being implemented by the United Nations family as a whole.

3. The COSOP is expected to form the basis of all new IFAD interventions and grant-funded project-related activities in Sri Lanka over the next several years.

## II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT

4. Sri Lanka is a pear-shaped island state situated off the south-eastern tip of India. It is a relatively small country by Asian standards, covering a surface area of just over 65 000 km<sup>2</sup>. Its estimated population of 19.4 million (2000), about 80% of which is rural, is growing at the modest rate – for a developing country – of 1.3% per annum. Population density is about 300 per km<sup>2</sup>. The country has an irregular, dissected topography with a central massif. A coastal belt (of less than 100 m elevation), succeeded by rolling plains (of 100-500 m elevation) of varying widths extends to the foothills of the central massif. The climate is equatorial and tropical depending on elevation. Rainfall is uneven and broadly divides the country into two climatic zones, namely, a so-called wet zone in the south-west of the country and a dry zone that covers the remainder of it. Annual precipitation in the wet zone averages 2 500 mm and 1 200-1 900 mm in the dry zone. Sri Lanka is predominantly Sinhalese by ethnicity and Buddhist by religion, with large Tamil (generally Hindu), Muslim and Christian communities. Friction between the Tamils and Sinhalese disrupted the last 19-or-so years of the country's long history.

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<sup>1</sup> Attended by representatives of government departments, civil-society and non-governmental organizations (CSOs and NGOs), and several bilateral and multilateral donors.

<sup>2</sup> Attended by senior advisors to the Prime Minister, concerned Ministers, Secretaries of all concerned Ministries, and the Directors-General for National Planning and for External Resources (Ministry of Policy Development and Implementation).

<sup>3</sup> See: (a) *Connecting to Growth: Sri Lanka's Poverty Reduction Strategy*, June 2002; (b) *National Framework for Relief, Rehabilitation and Reconstruction (3Rs)*, June 2002; and (c) *The Future – Regaining Sri Lanka*, October 2002.

5. The country has good human development indices, with adult literacy rates of 92% (1998), 98% primary school enrolment and an average life expectancy of 73 years (higher for women). It also has relatively favourable indicators in terms of women's status, with literacy rates of 88% and a life expectancy of 75 years. Women's presence in the labour force has increased from 26% in 1971 to 37% in 2000. However, gender discrimination in Sri Lanka persists due to socio-cultural factors that have not yet been entirely overcome.

6. The 19-year conflict between LTTE and the Sinhalese majority had a devastating impact on all facets of life in Sri Lanka. More than 65 000 people were killed and as many as 800 000 displaced. Thousands of people from all ethnic and religious groups have been subjected to serious violations of their human rights, the heaviest burden of which was borne by vulnerable groups such as women, children, young people and the poor. The war caused large-scale destruction of economic and social infrastructure and diverted a large proportion of the country's national resources for military purposes. The Central Bank of Sri Lanka estimates that the conflict has reduced the country's annual economic growth by 2-3% per year. The peace process launched by the new government and LTTE in December 2001 is already beginning to reap dividends for the population.

### **A. Country Economic Background**

7. Despite the escalating civil conflict and several external shocks from the global economy, Sri Lanka managed to maintain an annual Gross Domestic Product (GDP)<sup>4</sup> growth rate of 5.3% per annum during the 1990s, before the sudden slump of 2001. The estimated Gross National Income (GNI) per capita was USD 870 in 2000. Unemployment fell from 16% in 1990 to less than 8% in 2000-01. Inflation was limited to single digit figures during most of that period and fell to 5-6% in 1999-2000 before then jumping to 14% in 2001. The driving force behind this performance has been the manufacturing sector, which grew at an annual average rate of 8% in 1990-2000. Although its importance has declined, the agriculture sector is still a significant contributor to GDP, especially in view of the stimulus it provides to manufacturing (tree-crop processing) and services. Moreover, the agricultural sector still employs more than 35% of the total labour force, compared with only 23% working in the manufacturing sector.

8. Sri Lanka has the most liberal trade environment in all of south Asia. Quantitative controls exist for only a handful of items, where they have been retained for security or environmental purposes. The trade/GDP ratio increased from 60% at the beginning of the 1990s to an average of 70% during the last five years. Imports are historically more important than exports, resulting in a persistent trade deficit that has, on average, been above 8% during the last five years. Exports are dominated by the manufacturing sector, particularly textiles and garments that generate more than 75% of total export earnings. Agriculture is gradually losing its importance in exports, having contributed an average of only 20% over the period 1996-2000 mainly because of the poor growth in the rubber and coconut sectors. Tea, the leading net foreign exchange earner until the early 1990s, is performing well, representing the second largest exporting subsector and accounting for about 70% of all agricultural exports.

9. The state of Sri Lanka's public finances is a major issue. Several years of fiscal excess, an oversized civil service, an inefficient tax collection system and the practice of using fiscal measures to gain political and electoral advantage have led to serious, unsustainable fiscal deficits. This was reportedly one of the major causes of the 2001 slump in the country's economic performance. For the first time after Independence in 1948, the country experienced a negative GDP growth rate (-1.4%), in sharp contrast to projections of +4.5%. Other factors that contributed to this poor performance include: the widespread global recession since 2000 that

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<sup>4</sup> See the Country Data in Appendix I.

worsened the terms of trade for developing countries, particularly those with an open economy like Sri Lanka; the 'drought' of 2000 and 2001; and, until the end of 2001, the worsening internal security situation.

10. The Sri Lankan economy was liberalized in the late 1970s – ahead of other developing countries – but has since lost its competitive edge due to the half-hearted implementation of reforms and the 19-year civil conflict. After GDP growth slumped to 3.8% in 1996, the reform process was jump-started and significant progress was achieved in deregulating and liberalizing the economy. Several large privatization schemes, including plantations, have since been undertaken. However, the pace of reform faltered again in 1999-2001 as the civil war escalated and elections distracted the Government's attention away from the economy, but in January 2001 the Sri Lankan Rupee was floated ahead of International Monetary Fund balance-of-payments support. The key themes of the new government's 2002 Budget refocused on fiscal consolidation, extended deregulation, liberalization and privatization. In 2002, the Government started to seek further donor support for its poverty reduction and growth strategy, under which it has committed itself to broader and deeper economic reforms, notable among which is the gradual shift from low-productivity subsistence agriculture to commercial-oriented agriculture. The challenge here is to help the poor obtain their share of the expected benefits of growth.

### **B. Agricultural Sector and Rural Development**

11. The agricultural sector (including forestry and fisheries) grew at an average rate of 2.5% over the period 1990-2000, even though its relative significance in the economy is still declining overall. Like the rest of the economy, the sector registered a negative growth rate of (-3%) in 2001. Nevertheless, it remains an important determinant of GDP, directly accounting for 21% of national output and employing about 35% of the workforce. The indirect stimulus it provides to other sectors, such as manufacturing (tree-crop processing) and services, makes the agricultural sector even more important than suggested by these data. Furthermore, agriculture represents the best chance for reducing poverty throughout the country because it absorbs the largest portion of the poor workforce .

12. The agricultural sector is divided into four broad subsectors: (i) the plantation sector that among other things produces the three main export crops (tea, rubber and coconut); (ii) the domestic agricultural sector, which mainly produces paddy but involves a whole range of other annual field crops, vegetables and some livestock; (iii) the forestry sector; and (iv) fisheries. Of the main plantation crops, only tea has any potential for real growth. Tea plantations were privatized in 1995 and, for the next five years, registered new production highs, except in 2001 when the trend was reversed due to severe drought. Low-grown teas (62% of total production in 2001), produced mainly by private smallholders, remain the most dynamic category, with yields at 2 212 kg/ha – nearly double those of the larger plantation companies. Over 66% of the rubber holdings and 75% of all coconut cultivation are in the hands of smallholders, and both activities suffer from neglect, poor economies of scale and lack of investment capital due to poor financial services. The domestic agricultural sector is hampered by low productivity due to a host of problems, including limited credit and the scarcity, or poor adoption rates of, appropriate modern technologies and high-quality seed. Other negative factors include fragmentation of land holdings, post-harvest losses estimated at as much as 40%, inconsistent produce pricing and trade policies, and market constraints.

13. Plantation crops account for about 20% of all agricultural output. Paddy (unmilled rice) dominates the non-plantation sector and accounts for 15-20% of total agricultural output, depending on climatic conditions. Other crops, including field crops and a number of high-value export crops, account for about 40%, and the remainder is shared between fisheries (about 10%) and forestry (slightly more than 5%).



14. **Agricultural policy.** The aims of the current agricultural policy framework are to improve agricultural productivity, raise farm incomes, and ensure supplies of food at affordable prices.<sup>5</sup> A secondary goal is to facilitate the transformation of traditional agriculture into a commercially and economically profitable enterprise. At the same time, this framework recognizes the importance of small-scale agriculture as a means of reducing poverty in rural areas. Government proposals for maximizing the agricultural sector's contribution to poverty reduction involve: improving land markets and strengthening land tenure arrangements; making improved technology available to small farmers through intensive adaptive research on technologies that have proved successful elsewhere; shifting responsibility for commercial seed production, veterinary services, etc., to the private sector; rationalizing government extension services at the local level, using private management where possible; introducing partial cost recovery and other local financing mechanisms to enhance the responsiveness of research and extension services to the needs of small farmers; and upgrading the agricultural marketing system.

15. **Marketing and agricultural commodity prices.** Connecting poor and marginalized communities to the growing domestic and national markets is an important part of the Government's poverty reduction strategy. To that end, the Government intends to create an enabling environment for the **private sector to engage in marketing and processing** activities so as to stimulate the rural economy. Furthermore, the Government is committed to developing a more market-oriented pricing and incentive system, reducing its direct involvement in commodity markets and the use of administrative prices, gradually decreasing the level of protection of agricultural domestic markets, rationalizing fertilizer subsidies and rendering its agricultural trade policy more stable and transparent. However, in a context of growing globalization and stiff competition on international markets, ever more attention must be paid to World Trade Organization negotiations and bilateral or regional trade agreements with the express aim of protecting the domestic agricultural sector against the volatility of the global market.

16. **Access to land.** Of all Sri Lanka's agricultural land (about one third of the total area), approximately 1.38 million ha (61%) is owned by the state, while 880 332 ha (39%) is under private ownership. The growth in population has led to smaller average holdings. By 1982, almost two thirds of all holdings were under two acres (0.8 ha), but this will have since fallen even further with inheritance and losses of productive agricultural land to settlement use and degradation. Access to plantation land for the resident and non-resident workforce ranks high in negotiations between the trade unions and plantation company employers (namely, Janatha Estates Development Board; Sri Lanka State Plantations Corporation; and the Regional Plantation Companies). Furthermore, with the return of peace throughout the country another question relates to what will happen when the large numbers of internally displaced people return to reclaim their land and homes. The Government has two main ongoing initiatives in land reform and regularization: the World Bank-supported pilot Land Titling and Related Services Project launched in early 2002; and development of a national land-use policy with the involvement of the Food and Agriculture Organization of the United Nations (FAO). Specific policies within the overall national land-use policy include a land allocation programme to meet genuine demands for agricultural and residential land, and the distribution of underutilized and unutilized land vested with state authorities.

17. **Rural financial services.** Since the late 1980s, the Government has accorded a central role to microfinance in its poverty reduction programmes. However, this was done by admitting

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<sup>5</sup> Public Investment Plan 1999–2001.



a wide array of actors, including formal financial institutions, cooperatives, non-governmental organizations (NGOs), other informal organizations and different government agencies and projects – without, however, adequate controls. As a result, financial institutions in Sri Lanka may be classified into three main categories: financial institutions regulated by the Central Bank under the Banking Act of 1988, including all commercial banks, the eight regional development banks and two savings and development banks; the cooperatives, regulated by the Department of Cooperatives; and formal NGOs that operate under a ‘softly regulated’ framework under the Societies Ordinance Act and the Voluntary Social Services Organization Act. This situation poses a risk for dynamic microfinance institutions and for the protection of clients’ savings and deposits. The Government is currently restructuring the microfinance sector with the help of partners such as the Asian Development Bank (AsDB). A key goal of that effort is to harmonize and increase the transparency of the existing legislative and regulatory framework and promote best practices and rigorous financial management in order to foster the emergence of an efficient and sustainable microfinance sector.

18. **Rural decentralization.** Guided by the 13<sup>th</sup> Amendment to the Constitution, devolution of authority to the provinces was initiated in 1987. However, efforts to achieve meaningful devolution and decentralization have been hindered by the lack of clear delegation of administrative and fiscal authority to local levels<sup>6</sup>. A major challenge in the area of political and social governance is the need for more effective participation by all citizens in decision-making, in the management and delivery of social goods and services, and in monitoring and evaluating public-sector activities. The challenge of improving accountability and transparency of public institutions is also of considerable importance.

19. **Civil-society organizations (CSOs) in rural areas.** Sri Lanka has a long tradition of village-based societies and organizations with varying levels of activity and effectiveness. The oldest groups are the farmers’ organizations, although successive government programmes and projects have promoted others, including Samurdhi groups, village organizations, and integrated community organizations. Various other societies and groups operate in the country, including some for credit and rural finance and for other social services such as the widely respected traditional ‘*death donation societies*’. Multiple memberships (in several organizations) are common. Despite a long history of operations, most grass-roots organizations are reported to be lacking in management, technical and financial capacity. To some extent past governments have contributed to this state of affairs: the long history of government subsidies in the water sector, large social welfare programmes, absence of rewards and sanctions, continuing reluctance to adopt participatory approaches, reduced reliance on agriculture, and the lack of resources to provide funding for capacity-building are understood to be the key reasons for weak farmers’ organizations<sup>7</sup>.

20. **Environment.** Land degradation, coastal erosion and depletion of forest cover have a negative effect on Sri Lanka's biodiversity, and industrial waste and sewage run-off from urban centres are polluting freshwater resources and coastal habitats. Weak enforcement of environmental regulations has reduced the effectiveness of the existing well-defined environmental policy, which includes mandatory environmental impact assessments of all infrastructure and industrial projects. In rural areas, the poor are the victims of land degradation although they contribute to it as many of them encroach on state lands to obtain a subsistence livelihood. The lack of ownership of these lands and poor access to credit or training schemes cause people to adopt unsustainable land-use practices. Furthermore, poor rural people spend a significant part of their day in collecting firewood, thereby increasing pressure on protected areas.

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<sup>6</sup> Sri Lanka United Nations Development Assistance Framework (2002-2006), January 2001.

<sup>7</sup> IFAD Country Portfolio Evaluation: Sri Lanka, January 2002.

### C. Rural Poverty

21. About 5 million people or 25% of the population live below the poverty line of LKR 1 153.2 (USD 12 per person/month), and another 3 million people live on LKR 1 441.5 (USD 15) per person/month. However, despite such widespread poverty, the country's human development index – which takes account of other aspects, including access to services – is relatively good. Some 90% of the poor in Sri Lanka reside in the rural areas and about 42% of them are small farmers<sup>8</sup>. Apart from the areas affected by the conflict, most of the poor are concentrated in the Central, Uva, Sabaragamuwa and Southern Provinces where agricultural growth has been sluggish and expansion of non-farm activities restricted by major infrastructure deficiencies, especially in terms of roads, electricity, irrigation and communication facilities. Malnutrition among children is also prevalent in these provinces. In six of the seven provinces (excluding the north and eastern provinces), and with considerable variations among them, about 60-75% of the population has no access to electricity, 27-48% to safe drinking water and 20-34% to safe sanitation.

22. The civil conflict in the north and east of the country has had a major impact on poverty, leading to the displacement of about 800 000 people from their homes and sources of livelihood and to thousands of children losing one or both parents. It has also led to increased numbers of woman-headed households that are more likely to be exposed to economic hardship. According to the 1981 census (latest figures available), about 2.8 million people or 15% of the country's population live in the north and eastern provinces.

### D. National Strategy for Rural Poverty Reduction

23. Sri Lanka has a long tradition of providing income support and assistance for economic advancement to poor groups. Almost 20% of the Government's current expenditures are used for transfers to households. The Government has sponsored its own programmes for poverty reduction, including the Food Stamps Programme (FSP) in 1979, the large Jana Saviya Programme (JSP) in 1989 and its variation in the form of the nationwide Samurdi Welfare Programme in 1994. While the FSP and the first phase of JSP were primarily aimed at ensuring food security for vulnerable groups, successive variants of these programmes had multiple objectives. The JSP linked benefits to participation in productive programmes such as rural works, community services and/or skills development and training. The Government recently launched a consultative process to obtain the participation and involvement of civil society, the private sector, donors and all relevant government agencies in the preparation of a national framework for poverty reduction. The resulting poverty reduction strategy (PRS) was officially presented at the Sri Lanka Development Forum of June 2002.<sup>9</sup> That strategy is now being further strengthened by two others, namely, the *National Framework for Relief, Rehabilitation and Reconstruction (3Rs)*, now being broadened to the *National Framework for Repatriation, Reconciliation, Recovery and Reconstruction (4Rs)*, plus the *The Future – Regaining Sri Lanka* that focuses on economic growth (8-10%) as its main theme. The resultant PRS is based on six main axes:

- building a supportive macroeconomic environment and boosting private-sector investment by removing barriers to productivity and improving economic and social opportunities for the poor;

<sup>8</sup> *Connecting to Growth: Sri Lanka's Poverty Reduction Strategy (PRS)*: Government of Sri Lanka, 2002.

<sup>9</sup> The 2002 Development Forum, usually known as the Consultative Group Meeting, was held in Colombo for the first time and attended by representatives of 39 donor agencies.



- reducing conflict-related poverty by fostering development and social harmony by negotiating a political settlement to the conflict, working out an acceptable constitutional framework for all, and expediting development in the war-torn areas;
- creating opportunities for the poor and marginalized communities to participate in economic growth through investments in rural infrastructure that link them to markets, and promoting structural change in the rural economy from low input-output production systems to commercially oriented development;
- investing in people to build up the human resources for a just and prosperous society through increased access to quality social services (public health, education, safe drinking water, careful targeting of social safety nets like the Samurdhi Welfare Programme, etc.);
- empowering the poor and strengthening governance to improve accountability, transparency, predictability and popular participation in public affairs, while discouraging political patronage and interference; and
- effective monitoring and evaluation (M&E), using well-defined targets and indicators, to assess whether Sri Lanka is meeting the Millennium Development Goals that formed the basis of the Government's long-term poverty reduction strategy.

24. The PRS is based on the assumption that a stable and competitive macro economy is a prerequisite for sustained poverty reduction. In the medium term, the main macroeconomic challenge is to reduce the size of the fiscal deficit given the large public debt and the diminishing recourse to concessional sources of finance. Other challenges include the need to complete the privatization of commercial parastatals; enhance commercial management and governance standards in government-owned banks and public enterprises; introduce more flexible labour market regulations; improve the sustainability of public pensions; and increase the scope for private-sector initiatives in non-bank services. These are technically complex reforms with potentially large and unpredictable adjustment costs. Progress in these areas will call for sustained investment support, technical assistance and policy dialogue over a period of years. Furthermore, there is uncertainty about the effect that the reforms will have on the poor and the extent to which the expected growth will actually be pro-poor, as envisaged in the PRS. For instance, pressure to reduce fiscal expenditure and less-than-expected benefits from the envisaged reforms (tax system, subsidy schemes, etc.) may force cuts in other public expenditure items such as social services or the dismantling of the pro-poor transfer system with harmful effects on the poor. In addition, evidence from many Asian countries points to growing **income inequality** in environments of high economic growth. On the other hand, moreover, while globalization and economic liberalization have led to rapid economic growth they have **increased the vulnerability** of these economies to external shocks. Therefore, IFAD's contribution to the PRS will aim at mitigating the identifiable negative effects that the growth agenda may have on the poor by keeping the dual need for pro-poor growth and institutions on the development agenda and seeking to build coalitions in their favour.

### III. LESSONS FROM IFAD EXPERIENCE

#### A. Present Strategies and Operations

25. Since 1978, when Sri Lanka was the first country to benefit from an IFAD loan, the Fund has provided it with 10 project loans on highly concessional terms for a total commitment of

USD 112 million. Seven projects have already closed and another two are expected to do so by end-2003. While IFAD assistance to Sri Lanka is relatively small compared with the larger donors like AsDB, Japan and World Bank, it has made a significant contribution to developing some of the poorest districts and segments of society and in testing innovative approaches that were frowned upon by other donors. Some USD 77.3 million, or 69% of total commitments, had been fully disbursed as of October 2002, while about 27% of the initial allocations for the closed loans had to be cancelled at closure. In addition to IFAD resources, the ten aforementioned projects benefited from USD 161 million in cofinancing from AsDB, United Nations Development Programme (UNDP), World Food Programme (WFP) and the Governments of Canada, Germany and Japan. The cooperating institutions used for loan administration include AsDB (four projects, all of which are closed), World Bank (two, both of which are closed) and the United Nations Office for Project Services (four, one of which is closed). The average life of the projects is 8.2 years and, on average, they have been extended 1.4 times for seven months. The ten operations included four agricultural development projects, four integrated rural development projects (IRDPs), one irrigation development activity and one microfinance development project. Three of the projects were located in the dry zone.

26. IFAD's earliest attempts to define a country strategy for Sri Lanka date back to the Special Programming Mission of 1979. The mission concluded that rural poverty could only be reduced by helping people to participate in surplus-generating economic activities, and proposed tailor-made projects for more or less homogenous groups (equal farm sizes, of similar status, and with similar occupations). In 1993, a thorough analysis of the causes of poverty and of livelihoods led IFAD to adopt a more comprehensive and inclusive approach that allowed it to target groups as broad as "**all resource-poor categories**" in rural areas, including the landless, small farmers, artisanal fisher-folk, etc. The strategy recommended that:

- area-based rural development projects should be continued but with increased emphasis on non-farm activities through microenterprise components;
- every effort should be made to promote community participation with associated credit delivery;
- strong emphasis should be placed on including NGOs; and
- participatory planning tools should be developed through decentralization and devolution.

27. The projects that evolved from this second-generation strategy, including the latest operation, the Matale Regional Economic Advancement Project, have more specific, pro-poor development objectives than the first-generation projects that were all cofinanced<sup>10</sup> from the AsDB and World Bank pipelines.

## B. Lessons Learned

28. Project implementation has been generally satisfactory. The CPE reported that there had been significant tangible achievements and impact in terms of empowering the poor (especially women), infrastructure and agriculture development and credit delivery, even though achievements were below expectations in many cases. While the first few operations missed their initial targets by significant margins, the more recent projects have reached many more beneficiaries than were foreseen at appraisal. Specific interventions in agriculture, land regularization, irrigation (tank rehabilitation and agro-wells), livestock (goats), and paddy and

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<sup>10</sup> See Country Portfolio Evaluation Report, January 2002.

tea production have been singled out for their contribution to improving small farmers' welfare and incomes. The operations, especially those in the dry zone, have succeeded in arresting soil degradation, conserving soil moisture and developing sustainable rainfed farming systems to replace shifting cultivation. In addition, the beneficiaries reported greater empowerment as a result of their grass-roots savings and credit institutions. The major design weaknesses encountered were that the operations were sometimes complex and over-optimistic in terms of expectations, that they did not take sufficient account of the absorptive capacity of the implementing agencies or their poverty orientation, and that they had inadequate M&E, inflexible design and questionable sustainability, especially with regard to tank rehabilitation.

29. With respect to strategies for involving beneficiaries in the operations, three main phases and models were observed. Between 1978 and 1982, the first-generation IRDPs adopted the traditional top-down approach with minimal community involvement in planning, implementation and decision-making. Later, from 1983-1995, the second-generation projects used the modified participatory IRDP approach based on actively promoting community participation. And lately, from 1995 on, the operations have increasingly relied on existing social capital (a variety of village-level organizations) with limited facilitation through the projects. In terms of management and organization experience, some projects have relied on a heavily centralized management structure, typically involving existing central and provincial agencies and administrative units, NGOs, regional banks and private-sector service providers. The multiple layers of authority at the divisional, provincial and central levels, the result of several unsuccessful attempts at decentralization, decentralization and devolution of power, have resulted in a duplication of effort. To overcome some of these weaknesses, the CPE proposed that consideration be given to supporting appropriate mechanisms to foster local leadership and to build up the capacity of grass-roots institutions to become effective, responsible partners in development.

#### IV. STRATEGIC FRAMEWORK FOR IFAD

##### A. IFAD's Strategic Niche and Proposed Thrusts

30. During the consultative process that led up to COSOP preparation, consensus was first reached on a number of **critical criteria** that should be used to prioritize future IFAD interventions in Sri Lanka. These criteria include the according of priority to operations with the following characteristics (but not in any order of ranking): operations with a reasonably tangible impact on the livelihoods of the poor; sustainability of initiatives by fully empowering local communities to be responsible for the management and maintenance of their own investments; focus on women and the least favoured areas of Sri Lanka; and operations with a high degree of innovation and a potentially catalytic role.

31. Based on further analysis using the above criteria, three sectors emerged as niche areas for IFAD operations. The first is the **dry zone**, where three of IFAD's ten operations have been located. Furthermore, the majority of the structurally poor rural people, including near landless farmers in marginal uplands and marginalized woman-headed households, are reported to be found in these areas. The second is the **estate sector and surrounding villages**, where pockets of chronic and/or extreme poverty are encountered among estate workers and smallholder tea producers poorly linked to markets. And the third is the **coastal zone and surrounding hinterland**, where poor fisherfolk and other poor people eke out a living, notably in the conflict areas of the north and northeast. While these communities are often only considered as conflict poor (as opposed to structurally poor), it is obvious that they will need support in the careful and balanced management of the natural resources (fish in particular) around them, now that the conflict (that may have inadvertently protected these resources) has come to an end. During the COSOP consultations, it emerged that a number of donors, such as World Bank, AsDB, UNDP



and the Office of the United Nations High Commissioner for Refugees (to name just a few), have already committed themselves to large-scale relief and reconstruction activities in areas in the north and north-east affected by the conflict. If anything, the Government appears to be experiencing difficulty in absorbing commitments made under the various programmes and projects supported by donors. Therefore, at this juncture, IFAD was advised not to focus on the conflict zones that seem to need assistance of a more ‘emergency’ type. Nevertheless, consensus was reached that, wherever possible and appropriate, conflict-prevention and peace-consolidation activities should be included in all IFAD operations.

32. Of the three sectors considered as niche areas for IFAD interventions, first priority will be accorded to a sustainable livelihoods support programme focusing on women in the dry zone, immediately followed by one in the smallholder estate sector and a resource (fisheries in particular) management operation in the coastal zone. However, given the Fund’s preparatory work in the plantation sector and surrounding villages and the continued interest of both IFAD and the Government regarding a possible intervention in this area, a number of pilot actions will be carried out while the first project for the dry zone is being processed. To this end, a technical assistance grant will be provided to test different options for intervention, which will help in the process of learning from hands-on experience with regard to access to natural resources, reducing vulnerability and improving food security and nutrition, and in community (plantation/villages) integration, women’s empowerment, etc. Such lessons can then be fed into the design of the second-priority project. Similar preparatory activities may be also promoted in preparation for a possible intervention in favour of the coastal poor.

## **B. Main Opportunities for Innovations and Project Interventions**

33. Based on the consensus that emerged at the end of the consultative process, three opportunities for future interventions, selected from the following four ideas discussed during the COSOP consultative process<sup>11</sup>, will be included in IFAD’s pipeline of projects and programmes for Sri Lanka.

### **Sustainable Livelihoods Support Intervention in the Dry Zone**

34. In the **dry zone**, where 40% of the rural poor live, the aim would be to consolidate some of the results obtained by past IFAD interventions and, at the same time, introduce a number of innovative approaches and pro-poor technologies. Strengthening of a number of existing, viable grass-roots organizations would result in additional social capital that could be effectively mobilized to train other targeted communities. Support may be provided to encourage and facilitate access to resources and markets in the dry zone through improving land-use rights for the poor, developing productive and social infrastructure, and providing vocational training for the creation of off-farm employment, rural finance schemes for women’s initiatives, etc. An IFAD intervention in the dry zone would also promote the development of appropriate technology through participatory research and dissemination under extension schemes suitable for sustainable rainfed farming systems based on natural resources management, water harvesting techniques, crops/livestock integration and integrated pest management practices. Innovative social mobilization approaches, such as the so-called ‘appreciative enquiry’ techniques used in other parts of south Asia, may be introduced and adapted. Since the dry zone covers about two thirds of the country, the precise geographical location of any project proposal would need careful consideration. However, it was recommended that priority be given to marginal upland villages and areas that border, or are inside, the areas affected by the conflict and that as a consequence have so far received very little or no external assistance.

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<sup>11</sup> See matrix attached in Appendix V for a summary of the main opportunities for intervention identified.

### **Estate Sector Intervention**

35. A new IFAD intervention to support poverty reduction activities in the plantation sector is justified by the extreme and worsening poverty of plantation workers and smallholder farming communities in the surrounding villages. The need for such action is particularly acute on heavily indebted marginal plantations that have tended to be excluded from mainstream development efforts and where most wage labourers are women. A number of preparatory studies leading up to the COSOP were conducted by IFAD with the help of resources from the Department for International Development (DFID) (United Kingdom), to analyse the sustainable livelihood strategies of estate workers, smallholder tea and rubber growers, and communities living in neighbouring villages. These studies identified a number of interventions that could have a significant impact on the poorest segments of the communities. The proposed intervention in the estate sector is, however, somewhat delicate in several aspects. First, critical issues such as access to non-productive or unallocated estates for the landless and smallholders are involved. Second, competition for the same workforce by both the smallholder out-grower schemes and the large plantations might pose problems for both groups. Third, potentially conflicting political considerations related to relations between plantations and nearby (and equally poor) villages might be sensitive.

36. There is, however, sufficient scope to develop a pilot smallholder plantation operation for tea, rubber and spice production in order to pave the way for a much larger operation in the future. This would capitalize on the output of the ongoing World Bank-financed Land Titling and Related Services Project and support the Government's agrarian reform initiatives. The pilot project would target estate workers and marginalized households from neighbouring villages. It may also be used to overcome institutional constraints, develop a policy framework, and draft regulations and procedures for collaboration between the private sector (plantation management agents) and smallholders (cooperatives) on such matters as leases, sub-divisions and nucleus estate arrangements that can then be fed into a larger operation.

### **Resource Management Intervention for the Coastal Areas**

37. Coastal fishing communities were severely affected by the civil war, particularly in the north and north-eastern parts of the country. Bombing of the fishing villages forced many families to leave, and both remaining and returning families face severe problems due to the destruction of their homes, boats and fishing gear. However, since they have no land for farming, fisheries is the only income-generating activity possible for such families. The coastal communities not affected by the civil war are mainly isolated groups that face the progressive depletion of fish resources due to overexploitation. Other external factors such as pollution from sewage and agricultural inputs, uncontrolled tourism development, etc., has aggravated the problem even further. A possible IFAD-supported intervention focusing on coastal communities would help these people to identify ways of nurturing their fragile environment, maximize and diversify their income-earning opportunities and improve internal and external social relations. Such an intervention, which is not expected to mature for at least two years, might seek synergies and build upon pre-investments now being planned in the area by various donors, such as the FAO Coastal Fishing Community Development Project. This would allow for access to relevant technical information derived from ongoing community initiatives and, at the same time, help to develop common elements of policy dialogue<sup>12</sup>. Priority interventions might include: the strengthening of former marketing cooperatives and creation of new ones; income-diversification activities (for men and women) away from fishing; eco-tourism development; rehabilitation of infrastructure (landing sites); provision of equipment for improving product quality; natural resources management practices, etc.

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<sup>12</sup> For instance with respect to implementation of the Code of Conduct for Responsible Fisheries.

## **Intervention Focusing on Rural Women as an Entry Point**

38. On several occasions, it has been demonstrated that initiatives supported by poor rural women register higher rates of success and that they often have a sustainable impact at the household level in terms of improved food security and social and economic development. In Sri Lanka, there are many success stories about rural women's involvement in microfinance, agro-industries, home gardening, agriculture and livestock development, generation of off-farm incomes, etc. It is also widely recognized that such operations have an impact on nutrition and health and help to reduce alcoholism. However, it is also well known that women are not properly represented in decision-making and power structures in their communities or in society at large, due to their lack of proper institutional organization and representation. A programme to support rural women's poverty reduction initiatives might lend itself to the use of IFAD's Flexible Lending Mechanism (FLM), which would allow for a phased approach to strengthening women's grass-roots institutions and procedures in the first cycle to ensure that they effectively control their own resources and the fruits of their labour. A large-scale investment programme in favour of women might be implemented during the second phase, to include such aspects as market links, agro-processing and technology transfer.

### **C. Outreach and Partnership Possibilities with NGOs and the Private Sector**

39. IFAD has acquired considerable experience in Sri Lanka of working with NGOs and promoting local initiatives, including Sarvodaya Economic Enterprise Development Services, Movement of Thrift and Credit Co-operative Societies in Sri Lanka (SANASA), and several smaller NGO service providers. One of the aforementioned strategic thrusts involves promoting grass-roots organizations and building up social capital among the poor, as this is seen as the only sustainable strategy for eliminating poverty. For this purpose, strong partnerships will need to be forged between IFAD and local government, NGOs and CSOs. Of the international NGOs active in Sri Lanka, there appears to be good potential for collaborating with the Co-operative for Assistance and Relief Everywhere in promoting sustainable livelihood approaches in the dry zones, and with the Oxford Committee for Famine Relief in supporting estate-sector development to the benefit of poor wage labourers. However, these possibilities have still to be explored fully.

### **D. Opportunities for Strategic Links with Other Donors**

40. The Government of Japan, AsDB and World Bank, the largest donors to Sri Lanka, tend to concentrate on macroeconomic policy and structural reforms, large infrastructure projects and budgetary support interventions – even though they support some pro-poor interventions in the rural sector. Significant assistance is also provided by United Nations agencies<sup>13</sup> and several bilateral donors, including Australia, Canada, Germany, European Union, Norway, The Netherlands, Sweden and the United Kingdom. Some of the latter tend, however, to focus more on reducing conflict-related poverty, on pro-poor governance and empowerment issues, and social services. IFAD continues to play a leading role in agriculture and rural development in the poorest regions of the country and for the poorest segments of society.

41. The COSOP consultative process made it possible to engage in discussions with relevant donors to identify areas for possible collaboration. In particular, agreement was reached with the Government to seek synergies and build partnerships between IFAD and other members of the United Nations family, AsBD and World Bank. In addition, a number of key bilateral donors that support the Government's poverty reduction strategy were identified for further discussions and consultations, as and when new IFAD projects and programmes are prepared over the

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<sup>13</sup> Refer to Appendix IV.



coming years. The possibilities<sup>14</sup> thus identified include, in particular, World Bank and FAO with regard to improving access to land and coastal resources, agricultural extension services, and village self-help group activities. With AsDB, the most likely areas for collaboration relate to financial-sector reforms, notably the promotion of microfinance services, and to developing links between the smallholder estate out-growers and the large private estate-sector development they support. From preliminary discussions, the Japan International Cooperation Agency (JICA) appears willing to seek synergies with IFAD on sustainable livelihood approaches in the dry zones, for which it is now designing a new intervention. There is also the possibility of obtaining supplementary grant funds from DFID for the promotion of sustainable livelihood approaches under the proposed interventions, while the German Agency for Technical Cooperation has a comparative advantage in microenterprise development and in poverty impact monitoring. Contacts were established with the Dutch and Swedish Embassies in Colombo, although no specific areas of collaboration have been identified as yet for further discussion.

### **E. Areas for Policy Dialogue**

42. In order to strengthen IFAD's lending operations in the rural areas of Sri Lanka, every effort will be made to establish policy dialogue with the Government and its development partners on four major fronts. This will involve issues such as land tenure and access for the marginal and landless poor, the Samurdhi Welfare Programme, decentralization and devolution of decision-making powers to the grass-roots level, and, finally, the strengthening of rural- and agricultural-sector activities under the Government's poverty reduction strategy. These issues are explained briefly below.

#### **Land Tenure and Access**

43. Since deficiencies in the country's land tenure structure are the main causes of weak agricultural-sector performance, land tenure and access constitute important crosscutting areas for IFAD involvement in policy dialogue with the Government and its partners. IFAD has valuable field experience to contribute to such dialogue, particularly as a result of land regularization activities in its dry zone projects. Moreover, IFAD participation in such dialogue would be particularly useful in the present context, where gender-neutral land tenure arrangements and equitable access to land are gaining ever greater importance as the country emerges from a historically restrictive, state-centrist policy regime. In only a few areas is this new direction towards a more flexible, open market-oriented approach more apparent, or important, than land resource tenure and access, as up to 85% of all land and 61% of agricultural land are still under state ownership. In addition, land tenure and access is an important area of potential and innovative partnerships among IFAD, World Bank, FAO and the Government of Sri Lanka.

#### **Samurdhi Welfare Programme**

44. There is growing consensus in the country about the need for a structural reform of the Samurdhi Welfare Programme, which, despite its weaknesses, bears witness to the Government's commitment to provide safety nets for the extremely poor and vulnerable groups living in marginal and least-favoured areas of the country. Surveys and studies show that the programme, which covers more than 50% of the population, suffers from targeting problems: only 60% of households in the lowest expenditure quintile benefit from income transfers, and less than 60% of the total Samurdhi food stamp budget accrues to the two lowest quintiles. If restructured properly, the programme (whose total annual expenditures run at nearly 2% of

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<sup>14</sup> For other detailed possibilities, refer to the section on policy dialogue (paragraphs 42 to 46) and to Appendix IV.

GDP) could become a valuable tool for reducing poverty. For this to happen, the Government will need to pursue its commitment (under the PRS) to improve the effectiveness and targeting (and reduce the number) of income transfers and increase the ownership of communities with respect to investments in village infrastructure. There is an opportunity for IFAD to assist the Government to pursue these objectives on a pilot basis in selected parts of the country. This could be done by testing, within IFAD-supported projects, a number of innovative mechanisms and approaches for allowing communities to decide on beneficiary eligibility criteria and for strengthening the planning, management and execution of community infrastructure development activities.

### **Decentralization/Devolution Processes**

45. While the Government has put in place policies and appropriate legislation for decentralization, devolution of power and the transfer of decision-making to the grass-roots level, implementation of such reforms lags far behind. Minimal support has been provided to communities under various welfare schemes and social infrastructure development, but in the absence of careful targeting they tend to breed rural communities' dependency on handouts. The schemes are looked upon as government investments and not part of community assets. The organization of water users' associations (WUAs) and other special interest groups concerned with development at the community level, and the drafting of a legal framework defining the groups' roles and responsibilities, are areas where IFAD has and will continue to have a constant policy dialogue with the Government. Efforts aimed at empowering rural communities will be a core design feature of any proposed IFAD intervention. Furthermore, dialogue will be initiated with the Government with the aim of strengthening the decentralization process and empowering poor communities through **direct funding mechanisms**. This innovative feature of project design will require new formats to facilitate budgetary control, record-keeping and transparency in operational procedures, and to develop mechanisms to accommodate M&E.

### **Strengthening the Rural and Agricultural Sector Focus of the PRS**

46. The key thrusts mentioned in the PRS include strategies for macroeconomic management, structural reforms, pro-poor growth, investing in people and good governance. However, since the PRS was finalized shortly after the new Government came to power and before the recent advances in the peace process, it is weak in a number of areas. The **first** such area is the lack of focus on strategies for the north and north-east, which now look set to become accessible. The **second** is the need to accelerate even further the country's economic growth to overcome the massive debt burden and other barriers to increased and sustainable productivity. The **third and last** is the need to further strengthen government strategies focusing on rural and agricultural-sector activities. The first two of these missing links in the PRS are being addressed through *The Future – Regaining Sri Lanka* released in October 2002, and through efforts to reduce the gap between relief and development through the *National Framework for Repatriation, Reconciliation, Recovery and Reconstruction (4Rs)*. With regard to the latter, IFAD, FAO and others could support efforts focusing on institution-building and policy frameworks that will enable poor segments of society, who choose to remain and live in the rural areas, to increase their **access to assets, technology and markets** so that they can contribute constructively to economic growth.

## **F. Action Areas for Improving Portfolio Management**

47. In order to improve the management of IFAD's portfolio in Sri Lanka based on lessons learned during the CPE, IFAD will play a proactive role in promoting innovative and simple ways to facilitate the transfer of funds directly to the poorest rural communities. To this end, participatory processes will be promoted to identify and prioritize grass-roots



initiatives/investments and progressively transfer management responsibility to the communities. In addition, practical training and learning opportunities will be provided, so as to rapidly build up the capacity of local organizations and local and central government institutions that deliver services directly to the poor. Similarly, IFAD will promote simpler project designs that rely more on the capacity of the stakeholders to establish local partnerships and thereby raise their absorptive capacity.

### **G. Links with Corporate and Regional Strategic Thrusts**

48. The strategic niche and thrusts to be supported under IFAD's current strategy for Sri Lanka are linked to various pillars of both IFAD's Strategic Framework (2002-2006) and the recently (2002) approved regional strategy for the Asia and the Pacific region. These include, in particular, the following key themes: enhancing equitable access to productive assets, especially natural resources (such as estate land, irrigation water, etc.), technology and markets; strengthening human and social capital through capacity-building and empowerment efforts; concentrating on women and other marginal groups such as plantation workers and poor smallholders in villages surrounding the estates; and focusing on the least favoured areas (dry zone, estates, coastal zone and surrounding hinterlands). Another crosscutting theme that should figure largely in the design and implementation of programmes involves conflict-prevention and peace-consolidation efforts, wherever appropriate.

### **H. Tentative Lending Framework and Rolling Programme of Work**

49. Sri Lanka is seen as a good borrower of IFAD resources. According to the CPE, the country has succeeded in making a significant impact with the interventions, which have often become catalysts for attracting funds from other sources in risky environments. A case in point here is JICA, which continued to replicate the achievements of the Small Farmers and Landless Credit Project long after it was closed in December 1997. Moreover, Sri Lanka has consistently met its debt-service obligations and is among the ten developing countries that have made the largest contributions to IFAD's resources, even during the 19-year civil conflict. However, by the end of 2003, there will be only one IFAD-supported intervention operational in Sri Lanka. The Fund's pipeline of projects will therefore need to be quickly replenished to assist the country as it emerges out of the long and devastating civil war.

50. Based on the conclusions and recommendations that emerged from the COSOP consultative process, IFAD will develop three new operations for Sri Lanka in the five-year period 2003-2007. The indicative volume of financial assistance to be provided under these operations is set at USD 60 million, subject to the availability of resources. This allocation will include a grant component totalling USD 1.5 million, to be used for funding grants (technical assistance, Special Operations Facility, IFAD/NGO Extended Cooperation Programme and project-related grants) to undertake pilot or preparatory/design support activities related to the operations. Extra grant resources should be mobilized from other sources, including the Post Conflict Fund, if and when it becomes operational. Counterpart funds and cofinancing from other development partners will also be mobilized where appropriate and feasible. The operations will be selected from the four opportunities for project interventions and innovations mentioned above, or a combination of their various elements. The volume of IFAD financing for each intervention will be allocated according to the needs and absorptive capacity of the institutions used to implement them.

51. The **first** operation, in the dry zone and focusing on women (but not necessarily the only target group), should be processed before the end of 2003. The operation will build upon IFAD's experience in the area. The closing date of the single remaining operation, namely, the North-Central Province Participatory Rural Development Project, will be extended by one year to the



end of 2003 to allow for smooth transition to the new generation of IFAD-supported operations in the sector. The **second** operation, in the smallholder estate sector, should be ready for implementation as of 2006-2007. Start-up will depend largely on the success of pilot activities identified during the stakeholder consultations, which should be supported by IFAD during an interim period preferably starting before end-2004. It is further recommended that the pilot operation, which would build on experience with smallholder out-grower schemes in the southern provinces, should be implemented in the areas of intervention of the Matale Regional Economic Advancement Project. The **third** operation, along the coastal zones and focusing on fishery resources management by coastal communities (notably artisanal fisherfolk), while important will need further study and review by partners. For this purpose, IFAD should consider partnering with others to undertake a number of preparatory activities prior to the launching of a full-fledged operation. The aim should be to start on its preparation not later than 2007.

APPENDIX I

COUNTRY DATA

SRI LANKA

<b>Land area (km<sup>2</sup> thousand), 2000 1/</b>	65	<b>GNI per capita (USD), 2000 1/</b>	870
<b>Total population (million), 2000 1/</b>	19.4	<b>GNP per capita growth (annual %), 2000 1/</b>	2.4 a/
<b>Population density (people per km<sup>2</sup>), 2000 1/</b>	300	<b>Inflation, consumer prices (annual %), 2000 1/</b>	4.7 a/
<b>Local currency</b>	Sri Lanka Rupee (LKR)	<b>Exchange rate: USD 1.00</b>	LKR 96.10
=			
<b>Social Indicators</b>			
Population (average annual population growth rate), 1980-99 2/	1.3	<b>Economic Indicators</b>	
Crude birth rate (per thousand people), 2000 1/	17 a/	GDP (USD million), 2000 1/	16 402
Crude death rate (per thousand people), 2000 1/	6 a/	Average annual rate of growth of GDP 2/, 1980-90	4.0
Infant mortality rate (per thousand live births), 2000 1/	15 a/	1990-99	5.3
Life expectancy at birth (years), 2000 1/	73 a/	Sectoral distribution of GDP, 2000 1/	
Number of rural poor (million) (approximate) 1/	4.0	% agriculture	21 a/
Poor as % of total rural population 2/	27	% industry	27 a/
Total labour force (million), 2000 1/	8.4	% manufacturing	16 a/
Female labour force as % of total, 2000 1/	37	% services	52 a/
<b>Education</b>			
School enrolment, primary (% gross), 2000 1/	109 a/	Consumption, 2000 1/	
Adult illiteracy rate (% age 15 and above), 2000 1/	8	General government final consumption expenditure (as % of GDP)	9 a/
<b>Nutrition</b>			
Daily calorie supply per capita, 1997 3/	2 302	Household final consumption expenditure, etc. (as % of GDP)	71 a/
Malnutrition prevalence, height for age (% of children under 5), 2000 1/	n.a.	Gross domestic savings (as % of GDP)	20 a/
Malnutrition prevalence, weight for age (% of children under 5), 2000 1/	n.a.	<b>Balance of Payments (USD million)</b>	
<b>Health</b>			
Health expenditure, total (as % of GDP), 2000 1/	3.1	Merchandise exports, 2000 1/	5 410
Physicians (per thousand people), 1999 1/	n.a.	Merchandise imports, 2000 1/	7 205
Population using improved water sources (%), 1999 4/	83	Balance of merchandise trade	-1 795
Population with access to essential drugs (%), 1999 4/	95	Current account balances (USD million)	
Population using adequate sanitation facilities (%), 1999 4/	83	Before official transfers, 1999 1/	-1 401
<b>Agriculture and Food</b>			
Food imports (% of merchandise imports), 1999 1/	15	After official transfers, 1999 1/	-493
Fertilizer consumption (hundreds of grams per ha of arable land), 1998 1/	2 683	Foreign direct investment, net 1999 1/	193 a/
Food production index (1989-91=100), 2000 1/	116.9	<b>Government Finance</b>	
Cereal yield (kg per ha), 2000 1/	3 191	Overall budget deficit (including grants) (as % of GDP), 1999 1/	-6.9
<b>Land Use</b>			
Arable land as % of land area, 1998 1/	13.5	Total expenditure (% of GDP), 1999 1/	24.1
Forest area (km <sup>2</sup> thousand), 2000 2/	19	Total external debt (USD million), 1999 1/	9 473
Forest area as % of total land area, 2000 2/	30.0	Present value of debt (as % of GNI), 1999 1/	46
Irrigated land as % of cropland, 1998 1/	34.5	Total debt service (% of exports of goods and services), 1999 1/	7.9
		Lending interest rate (%), 2000 1/	6.3
		Deposit interest rate (%), 2000 1/	12.9

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database

2/ World Bank, *World Development Indicators*, 2001

3/ UNDP, *Human Development Report*, 2000

4/ UNDP, *Human Development Report*, 2001

## LOGICAL FRAMEWORK

Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions/Risks
<p><b>A. Strategic goal</b></p> <ul style="list-style-type: none"> <li>Poverty reduction in rural communities and improved household food security.</li> </ul>	<ul style="list-style-type: none"> <li>Per capita GDP</li> <li>Human morbidity rates</li> <li>Proportion of vulnerable population</li> <li>Families support under Samurdhi Programme</li> </ul>	<ul style="list-style-type: none"> <li>National statistics</li> <li>Socio-economic surveys</li> </ul>	<ul style="list-style-type: none"> <li>Continued Government focus on poverty reduction as a priority</li> </ul>
<p><b>B. Programme development objectives</b></p> <ul style="list-style-type: none"> <li>Promote sustainable livelihoods among communities living in least-favoured areas (dry zone, estate sector, coastal zone, and surrounding hinterland) through equitable access to productive resources (natural resources and technology); identifying opportunities for income and employment diversification, and access to markets</li> </ul>	<ul style="list-style-type: none"> <li>Income and asset levels</li> <li>Agricultural and off-farm income sources</li> <li>Income stability</li> <li>Calorie and protein intake</li> <li>Crop yields and productivity</li> <li>Reduced use of agro-chemicals</li> <li>More efficient water use in command area</li> <li>Stabilized upland production systems</li> </ul>	<ul style="list-style-type: none"> <li>Household income and expenditure surveys</li> <li>Subsector studies</li> <li>Beneficiary self-assessments</li> <li>Mid-term reviews/evaluations</li> <li>Final project evaluation</li> </ul>	<ul style="list-style-type: none"> <li>No multi-seasonal drought</li> <li>Resolution of civil strife</li> <li>No major outbreak of human disease</li> <li>No major market disruption in export crops (spice and horticultural crops)</li> <li>No external economic shocks</li> <li>Macroeconomic and political stability</li> </ul>



## STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

**Table 1: Priority Areas and Issues for Policy Dialogue**

Priority Area	Major Issues	Actions required
<b>Smallholder agriculture, livestock and fisheries production</b>	<ul style="list-style-type: none"> <li>• Small and diminishing size of holdings;</li> <li>• Importance of off-farm employment/income-generating activities as livelihood strategy for large majority of smallholder farmers</li> <li>• Poorest concentrated in the dry zone, where soils are less fertile and no irrigation facilities are available;</li> <li>• Low incomes in most rainfed cropping systems</li> <li>• Limited effectiveness and sustainability of past investments in productive infrastructure and extension</li> <li>• Research/demonstration focus not farmer-led</li> <li>• Scope exists for diversification into higher-value crops</li> </ul>	<ul style="list-style-type: none"> <li>• Capitalize on IFAD's (and other donors') successful experience in developing alternative sustainable farming systems in dry marginal areas</li> <li>• Invest in land improvement schemes, including small-scale irrigation but with renewed efforts directed at WUAs</li> <li>• Facilitate private/NGO/cooperative sector goods/services provision</li> <li>• Encourage, foster and support farmer groups, self-help initiatives and the creation of higher-level associations</li> <li>• Support the introduction of, and diversification into, new alternative high-value crops;</li> <li>• Invest in education and promote off-farm income-generating activities</li> </ul>
<b>Land tenure and access to resources</b>	<ul style="list-style-type: none"> <li>• 85% of all land and 61% of agricultural land still currently under state ownership; land tenure and people's access are in a dynamic phase</li> <li>• the slow, costly and uncertain deeds-based system still prevails</li> <li>• landless workers do not have access to land for home gardens and food security, even in the proximity of unutilized or underutilized plantations</li> <li>• inaccessibility of marginal areas</li> </ul>	<ul style="list-style-type: none"> <li>• Create assets for the poor by supporting land distribution plans</li> <li>• Implementation of land titling</li> <li>• Support transition from deeds-based system to an efficient survey-based land registry that would facilitate the preparation of a new national land-use policy</li> <li>• Draw lessons from ongoing pilot initiatives and partnerships</li> </ul>
<b>Focus on women</b>	<ul style="list-style-type: none"> <li>• High degree of vulnerability among women and children</li> <li>• Lack of higher-level organizations</li> <li>• Limited access to assets and employment opportunities</li> <li>• Limited understanding of their legal rights as citizens, wives and mothers</li> <li>• Excessive workload in rural areas</li> <li>• Women play an essential role in the livelihood of the poor; they represent great potential for improvement in terms of family food security, social and economic development</li> <li>• Although success stories and innovative experiences are spearheaded by women groups, representation at the higher level is still weak</li> </ul>	<ul style="list-style-type: none"> <li>• Greater emancipation for women in social and community affairs; invest in social capital-building and women's group empowerment to participate in decision-making at various levels</li> <li>• Enhance education, literacy and skills/income-generation training</li> <li>• Improve provision of water, power supply and health services</li> <li>• Better access to financial services and related marketing/business advice</li> </ul>



Priority Area	Major Issues	Actions required
<b>Marketing</b>	<ul style="list-style-type: none"> <li>• High level of post-harvest losses (poor storage/handling facilities, etc.)</li> <li>• Low farmgate prices, many steps in marketing chain, high profit margins for traders</li> <li>• Limited market access/trade competition in new/remote areas</li> <li>• Lack of transport and collection/marketing facilities</li> <li>• Market information/know-how inaccessible to farmers</li> </ul>	<ul style="list-style-type: none"> <li>• Improvement of market infrastructure and organization</li> <li>• Organize farmers to enhance their negotiating power/skills and to become more involved downstream in marketing/processing</li> <li>• Improve the transport network in remote rural areas</li> <li>• Set up simple and sustainable market information systems for farmers</li> </ul>
<b>Rural finance services</b>	<ul style="list-style-type: none"> <li>• Soft and non-transparent regulatory framework for microfinance institutions outside the mandate of the Central Bank</li> <li>• Concern about sustainability and soundness of financial practices of a number of important microfinance operators (e.g. Samurghi Banks)</li> </ul>	<ul style="list-style-type: none"> <li>• Policy dialogue with Government (participation in dialogue already initiated by AsDB)</li> <li>• Promote best practices and invest in capacity-building of existing microfinance operators (AsDB project)</li> </ul>
<b>Conflict affected areas</b>	<ul style="list-style-type: none"> <li>• High levels of poverty among population in conflict-affected areas;</li> <li>• Problems related to the return of internally displaced people to their original home areas</li> <li>• Large coastal areas in the conflict-affected areas and relative importance of the fishing community</li> <li>• Limited access to essential services</li> </ul>	<ul style="list-style-type: none"> <li>• Support local government and other stakeholders to restore economic and social services, including education, health and water</li> <li>• Support the resolution of problems related to land tenure issues</li> <li>• Restore fisheries and agricultural activities;</li> <li>• promote small-scale income-generating activities</li> <li>• Support microcredit/revolving funds (in-kind) schemes as start-up capital for economic activities</li> </ul>
<b>Decentralization and empowerment of vulnerable groups</b>	<ul style="list-style-type: none"> <li>• Limited participation of the population in local governance</li> <li>• Poor accountability and transparency of planning process</li> <li>• Insufficient organization and representation of civil society</li> </ul>	<ul style="list-style-type: none"> <li>• Build up community organizations and improve their capacity for self-reliance</li> <li>• Involve communities in participatory identification, planning and management of rural infrastructure, facilities and services</li> </ul>

**Table 2: Typology of Poverty, Causes, Priority actions**

Typology	Poverty Level And Causes	Coping Actions	Priority Interventions	Project / Programme Response
<b>Rural families in the dry zones (40% of the rural poor)</b>	<b>Severe</b> <ul style="list-style-type: none"> <li>Conflicts over land rights</li> <li>High vulnerability to climatic conditions (food insecurity)</li> <li>Limited access to basic services</li> <li>Low productivity;</li> <li>Poor diversification of agricultural production</li> <li>Insufficient off-farm employment;</li> <li>Lack of training and skills</li> <li>Lack of farmers' organisations</li> </ul>	<ul style="list-style-type: none"> <li>Food aid</li> <li>Migration</li> <li>Wage labour if possible</li> <li>Limit costs to essentials</li> <li>Support from relatives</li> <li>Take on debt</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening participatory process with existing and new CSOs, local government</li> <li>Scaling up successful interventions: CBO, land rights, micro irrigation, marketing, off-farm income-generating activities</li> <li>Community-based extension for sustainable agriculture and natural resources management</li> <li>Information and communication</li> <li>Agro processing</li> <li>Microfinance</li> <li>Water harvesting and management</li> </ul>	<ul style="list-style-type: none"> <li>Provide assistance for returnees</li> <li>Promote peoples' organization and local development initiatives</li> <li>Support social and economic infrastructure rehabilitation, including upgrading of houses</li> <li>Support self-help initiatives and promote people's participatory processes for critical social infrastructure – schools, clinics, etc.</li> <li>Adopt a sustainable livelihood and programme approach to ensure flexibility to respond to peoples' initiatives and secure long-term impact</li> <li>Community-based extension and 'appreciative enquiry' techniques for social mobilization</li> </ul>
<b>Landless farmers and plantation workers in marginal dry areas</b>	<b>Severe social poverty and economic poverty, particularly in deteriorating estates</b> <ul style="list-style-type: none"> <li>Lack of land</li> <li>Low wages and decreasing purchasing power</li> <li>Increasingly difficult to find off-farm employment</li> <li>Lack of training and skills</li> <li>Food insecurity</li> <li>Lack of organizations</li> <li>Social exclusion/marginalization</li> </ul>	<ul style="list-style-type: none"> <li>Migration</li> <li>Loss of assets</li> <li>School drop-out/child labour</li> <li>Decreased number and quantity of food consumed</li> <li>Alcoholism</li> </ul>	<ul style="list-style-type: none"> <li>Invest in social capital building and community empowerment, both within the estates and in neighbouring villages</li> <li>Estate land reallocation to target groups</li> <li>Invest in small-scale irrigation and land development in general</li> <li>Promote diversification into high-value crops</li> <li>Provide training for non-farm income-earning activities to plantation workers and landless families in neighbouring villages</li> <li>Savings, credit and insurance schemes</li> <li>Support to development of sustainable rainfed farming systems</li> <li>Support tea industry's plan to upgrade product quality and marketing approaches and plan for greater long-term involvement of the estate workforce in the plantations</li> <li>Invest in rural electrification schemes and rural feeder roads</li> </ul>	<ul style="list-style-type: none"> <li>Test land redistribution schemes on a pilot basis</li> <li>Involve neighbouring villages, and support small-scale and low-cost technology improvements – particularly in deteriorating estates, seed and plant multiplication</li> <li>Provide support for improved housing</li> <li>Promote income-generating activities and microenterprises</li> <li>Facilitate employment in agriculture and enterprises</li> <li>Advise on access to social welfare/development funds</li> <li>Group empowerment and sensitization campaigns</li> </ul>

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Typology	Poverty Level And Causes	Coping Actions	Priority Interventions	Project/Programme Response
<b>Women spouses, Youth and other vulnerable groups</b>	<p><b>Moderate-to-severe</b></p> <ul style="list-style-type: none"> <li>• Insufficient employment opportunities</li> <li>• Low wages and work overload for women</li> <li>• Lack of skills</li> <li>• Limited assets</li> <li>• Limited organization</li> </ul>	<ul style="list-style-type: none"> <li>• Migration and remittances</li> <li>• Loss of assets;</li> <li>• Limit costs to essentials</li> <li>• Social support and welfare payments</li> </ul>	<ul style="list-style-type: none"> <li>• Skills training: literacy, home economics, health, management, marketing and business</li> <li>• Better access to rural finance and assets</li> <li>• Women's development; more women's organizations</li> <li>• Assured social services</li> </ul>	<ul style="list-style-type: none"> <li>• Undertake gender-oriented village/community consultation</li> <li>• Develop women's/disadvantaged group organizations</li> <li>• Set up credit and village banking initiatives, as appropriate</li> <li>• Construct, equip and operate social infrastructure via women's groups in collaboration with local government and appropriate agencies/ministries</li> </ul>
<b>Coastal fishing communities</b>	<p><b>Moderate-to-severe</b></p> <ul style="list-style-type: none"> <li>• Fishing communities in the north were particularly affected by the civil war; elsewhere they suffer from social isolation and deprivation of basic assets (education, health, infrastructures)</li> <li>• The coastal eco-system (except in the north) is fragile and severely degraded by over-fishing and external factors (sewage, uncontrolled tourism, agriculture pollution, erosion)</li> </ul>	<ul style="list-style-type: none"> <li>• Food aid</li> <li>• Migration</li> <li>• Wage labour if possible</li> <li>• Limit costs to essentials</li> <li>• Support from relatives</li> <li>• Take on debt</li> </ul>	<ul style="list-style-type: none"> <li>• Building and strengthening existing social capital (former marketing cooperatives), and the creation of new women and youth groups</li> <li>• Provision of vocational training and sensitization campaigns (income-diversification opportunities in agriculture, irrigation (including aquaculture), livestock, agroforestry, eco-tourism, marketing, nutrition, health, etc.)</li> <li>• Technical and financial support to rehabilitate essential infrastructure (landing sites) and equipment for improving product quality (cold storage, transport, artisanal processing)</li> <li>• Community-based capacity-building to assist in the identification and design of self-help natural resource management initiatives (land improvement, agro-forestry, fishing, etc).</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable livelihood and natural resources management approach</li> <li>• Community-based extension</li> </ul>





**Table 3: Institutional Capabilities Matrix**

Institution	Strengths	Weaknesses	Opportunities/Threats	Remarks
1. <b>Multi/bilaterals/ NGOs</b>	<ul style="list-style-type: none"> <li>• Accumulated knowledge of the functioning of CBOs</li> <li>• Working in atmosphere of conflict resolution</li> <li>• Wide range of organizations operating at the field level</li> <li>• Country representation/presence</li> </ul>	<ul style="list-style-type: none"> <li>• Inability to cover large areas</li> <li>• Programmes concentrated in location-specific areas</li> <li>• Vested interests for development not always in concert with IFAD philosophies</li> <li>• Tendency to focus on commercial sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce the sustainable livelihood approach to rural poverty eradication</li> <li>• Donor collaboration for wider coverage and extension of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Rapid expansion of development and rehabilitation in former conflict areas following peace</li> </ul>
2. <b>Central government ministries<sup>1</sup></b>	<ul style="list-style-type: none"> <li>• Project implementation experience</li> <li>• Similar ongoing projects in the dry zone</li> <li>• Clearly defined national programmes for providing social security safety nets</li> <li>• Wide ministerial range concerned with rural development, primary industry and social service delivery</li> <li>• Well trained staff</li> <li>• Staff concentrated in Colombo</li> <li>• Well developed information technology and communications sectors</li> <li>• Most infrastructure, transport and equipment in place</li> </ul>	<ul style="list-style-type: none"> <li>• Poor targeting spreads available resources thinly among the needy</li> <li>• Political interference and patronage at all levels</li> <li>• Overlapping roles and responsibilities</li> <li>• Highly bureaucratic procedures</li> <li>• Difficulties in working as an inter-ministerial team</li> <li>• Policy of setting up parallel institutions to 'manage projects'</li> <li>• Chronic staff shortages</li> <li>• Slow disbursement of project funds</li> <li>• Suspicious of private sector</li> </ul>	<ul style="list-style-type: none"> <li>• Sharpened targeting would have an accelerated impact on poverty reduction</li> <li>• Confusion and turf wars over roles</li> <li>• Streamline flow of funds between central government and project beneficiaries</li> <li>• Strong and expanding private sector responding to commercial opportunities</li> <li>• Continuation of civil conflict draining government finances</li> <li>• Undeveloped policy and supporting legislation</li> <li>• Difficulties in raising counterpart funding</li> <li>• Government not prepared to transfer ownership of community assets to communities</li> <li>• Engineering/infrastructure lead development</li> </ul>	<ul style="list-style-type: none"> <li>• Common ground for development of IFAD's strategic framework for poverty reduction</li> <li>• General tiredness following civil conflict and optimism of lasting resolution and peace</li> <li>• Policy development needed</li> </ul>

<sup>1</sup> A total of 13 Ministries involved in rural development and poverty reduction

Institution	Strengths	Weaknesses	Opportunities/Threats	Remarks
3. <b>Agricultural research</b>	<ul style="list-style-type: none"> <li>Reasonable facilities and equipment available to support donor development programmes</li> <li>National agro-ecological zone coverage, including dry lowlands</li> <li>Highly trained scientists</li> <li>Progress made in upland farming systems with IFAD support</li> </ul>	<ul style="list-style-type: none"> <li>Limited experience in dryland farming technologies</li> <li>Funding has been limited in recent years due to war effort</li> <li>High turnover of staff</li> <li>Commodity-orientated programmes</li> </ul>	<ul style="list-style-type: none"> <li>Erosion of accumulated knowledge through emigration of staff overseas</li> <li>Poor selection of venues for study tour/skills training</li> <li>No institutional twinning with dry zone technology development</li> <li>Capitalize on technology generation in similar south-east Asian agro-economic environments (shifting agriculture)</li> </ul>	<ul style="list-style-type: none"> <li>Study tours/cross visits to neighbouring countries</li> </ul>
4. <b>Financial services</b>	<ul style="list-style-type: none"> <li>Adequate funds available</li> </ul>	<ul style="list-style-type: none"> <li>Small-scale farming sector and poor households lack assets to offer as collateral</li> <li>Poor households have little experience in credit discipline with formal sector</li> <li>High cost of credit delivery and loan supervision</li> <li>Limited outreach</li> <li>Predatory nature of private moneylenders</li> </ul>	<ul style="list-style-type: none"> <li>Poor credit ratings with formal sector</li> <li>Group lending peer pressure for credit discipline</li> <li>Use women's groups as the entry point</li> </ul>	
5. <b>Regional development administrations</b>	<ul style="list-style-type: none"> <li>Well placed for normal routine administrative functions</li> <li>No vested interests in development</li> </ul>	<ul style="list-style-type: none"> <li>Newly created institutions with ill-defined roles and responsibilities</li> <li>No environmental knowledge</li> <li>Poor understanding of development opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Regional administration feedback can influence policy in favour of rural poor</li> <li>Inability to operate effectively across cultural divides</li> </ul>	<ul style="list-style-type: none"> <li>Appoint coordination staff</li> <li>Mix of ethnic groups</li> </ul>
6. <b>Provincial public sector services</b>	<ul style="list-style-type: none"> <li>Cadre of well trained staff</li> <li>Willingness to work in collaboration with local groups</li> </ul>	<ul style="list-style-type: none"> <li>High extension ratios</li> <li>Limited development budget</li> <li>Poor pay/conditions</li> <li>Low incentives</li> </ul>	<ul style="list-style-type: none"> <li>Competition from other line ministry staff</li> <li>Inject new ideas after skills acquisition</li> <li>Guide/supervise community programmes</li> </ul>	<ul style="list-style-type: none"> <li>Conflict in roles between ministry (project) staff and provincial staff</li> </ul>



Institution	Strengths	Weaknesses	Opportunities/Threats	Remarks
7. <b>Private-sector support services</b>	<ul style="list-style-type: none"> <li>• Locally recruited staff</li> <li>• Keen to establish links with farmers/farming community</li> <li>• Extensive programme area coverage</li> <li>• Strong local entrepreneurial capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Suspicious of government involvement in development activities</li> <li>• Highly bureaucratic procedures exclude direct collaboration</li> </ul>	<ul style="list-style-type: none"> <li>• Use agro-suppliers as resource persons and trainers</li> <li>• Knowledge of district resources</li> <li>• Familiarity with production system</li> <li>• Some limited project exposure</li> </ul>	<ul style="list-style-type: none"> <li>• Involve private sector in market-orientated interventions</li> <li>• Specific infrastructure to be contracted outside the public sector</li> </ul>
8. <b>Farming communities and CBOs</b>	<ul style="list-style-type: none"> <li>• Social organizations</li> <li>• High literacy level</li> <li>• Thorough knowledge of area</li> <li>• Traditional resource management</li> <li>• Irrigation experience from tanks</li> </ul>	<ul style="list-style-type: none"> <li>• Strong traditional community hierarchy/authority structure</li> <li>• Inexperience in community programme initiation</li> <li>• Little experience in managing development funding and contracting service providers</li> <li>• No history of community asset management</li> </ul>	<ul style="list-style-type: none"> <li>• Open to accept proven technologies</li> <li>• Ongoing government dependency may negatively impact infrastructure sustainability</li> <li>• Strong gender views and attitude</li> <li>• Reluctance to function as groups for technology transfer, management of assets and developing self-help initiatives</li> <li>• Programme awareness to ethnic sensitivities</li> </ul>	<ul style="list-style-type: none"> <li>• Community sensitization</li> </ul>



## ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT (ONGOING AND PLANNED)

### Complementary Donor Initiatives/Partnership Potential

Donor/Agency	Nature of Programme	Programme Coverage	Status	Complementarity and Synergy Potential
<b>A. Multilateral programmes</b>				
<b>1. World Bank</b>	<ul style="list-style-type: none"> <li>• Land titling and related services</li> <li>• Watershed management</li> <li>• Agricultural extension support</li> <li>• Village self-help learning initiatives pilot programme</li> </ul>	<ul style="list-style-type: none"> <li>• National</li> <li>• Central Province</li> <li>• Countrywide</li> <li>• Mahaweli</li> </ul>	<ul style="list-style-type: none"> <li>• Commenced</li> <li>• Ongoing</li> <li>• Planned</li> <li>• On-going</li> </ul>	<ul style="list-style-type: none"> <li>• Value-added</li> <li>• Limited</li> <li>• Cofinance community-based extension/agro-suppliers</li> </ul>
<b>2. AsDB</b>	<ul style="list-style-type: none"> <li>• Vocational training</li> <li>• Financial sector reform – microfinance</li> <li>• Rehabilitation in conflict-affected areas</li> <li>• Agricultural development – private estate sector</li> <li>• Perennial crops and smallholder tea</li> </ul>	<ul style="list-style-type: none"> <li>• National</li> <li>• Nationwide</li> <li>• North and east</li> <li>• Large-scale estates</li> <li>• Wet Zone</li> </ul>	<ul style="list-style-type: none"> <li>• Planned</li> <li>• Ongoing</li> <li>• Ongoing</li> <li>• Ongoing</li> <li>• Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>• Potential</li> <li>• Strong</li> <li>• Limited</li> <li>• Limited</li> <li>• Links to s/s out-grower schemes for support services</li> </ul>
<b>3. FAO</b>	<ul style="list-style-type: none"> <li>• TCP 'Rehabilitation of Agriculture'</li> <li>• North and East Irrigated Agricultural Project</li> <li>• Special Programme for Food Security (farmer-fields schools)</li> </ul>	<ul style="list-style-type: none"> <li>• Jaffna/Vanni Reg</li> <li>• Conflict Areas</li> <li>• Northern provinces</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> <li>• Ongoing</li> <li>• Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>• Limited</li> <li>• Limited</li> <li>• Potential</li> </ul>
<b>4. WFP</b>	<ul style="list-style-type: none"> <li>• Repairs to Irrigation Infrastructure and Rural Roads (German Credit Institution for Reconstruction)</li> </ul>	<ul style="list-style-type: none"> <li>• Jaffna Area</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>• Limited</li> </ul>
<b>5. UNDP</b>	<ul style="list-style-type: none"> <li>• Women's group mobilization and microenterprise development</li> <li>• Proposed UNDP/International Labour Organization/UNHCR Integrated Local Economic Development Programme</li> </ul>	<ul style="list-style-type: none"> <li>• National (?)</li> <li>• National with clear focus on conflict areas</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> <li>• Planned</li> </ul>	<ul style="list-style-type: none"> <li>• Potential</li> <li>• Potential</li> </ul>
<b>B. Bilateral programmes</b>				
<b>1. JBIC</b>	<ul style="list-style-type: none"> <li>• Rehabilitation of Major (8), Medium (12) and Minor (9) Irrigation Tanks and SLA assistance</li> </ul>	<ul style="list-style-type: none"> <li>• Northern Region (3 Districts)</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>• Strong</li> </ul>
<b>2. DFID</b>	<ul style="list-style-type: none"> <li>• Sustainable livelihoods of communities in dry zones</li> </ul>	<ul style="list-style-type: none"> <li>• Dry Agro-ecological zone</li> </ul>	<ul style="list-style-type: none"> <li>• Planned</li> </ul>	<ul style="list-style-type: none"> <li>• Provide grant funding</li> </ul>





Donor/Agency	Nature of Programme	Programme Coverage	Status	Complementarity and Synergy Potential
3. Norwegian Agency for International Development (NORAD)	<ul style="list-style-type: none"> <li>Water resource management</li> </ul>	<ul style="list-style-type: none"> <li>Uva and more</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Strong</li> </ul>
4. Swedish International Development Cooperation Agency (SIDA)	<ul style="list-style-type: none"> <li>Natural resources management</li> </ul>	<ul style="list-style-type: none"> <li>National (?)</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Medium</li> </ul>
5. German Agency for Technical Cooperation (GTZ)	<ul style="list-style-type: none"> <li>Private sector one-stop business service support</li> <li>Vocational training for women and youth</li> <li>Microfinance</li> </ul>	<ul style="list-style-type: none"> <li>Central Province</li> <li>Countrywide</li> <li>Central Province</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> <li>Ongoing</li> <li>Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Strong</li> <li>Strong</li> <li>Strong</li> </ul>
6. Canadian International Development Agency (CIDA)	<ul style="list-style-type: none"> <li>Social capital and community capacity-building</li> </ul>	<ul style="list-style-type: none"> <li>Conflict areas</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Potential</li> </ul>
7. Australian Agency for International Development (AusAID)	<ul style="list-style-type: none"> <li>Agricultural extension support</li> </ul>	<ul style="list-style-type: none"> <li>National</li> </ul>	<ul style="list-style-type: none"> <li>Planned</li> </ul>	<ul style="list-style-type: none"> <li>Potential</li> </ul>
<b>C. NGOs</b>				
1. SANASA	<ul style="list-style-type: none"> <li>Thrift and cooperative societies for savings and credit</li> </ul>	<ul style="list-style-type: none"> <li>Central Province</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Strong</li> </ul>
2. Co-operative for Assistance and Relief Everywhere	<ul style="list-style-type: none"> <li>Estate workers' livelihoods</li> </ul>	<ul style="list-style-type: none"> <li>Tea Estates</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Medium</li> </ul>
3. SEEDS	<ul style="list-style-type: none"> <li>Savings mobilization and credit; enterprise development</li> </ul>	<ul style="list-style-type: none"> <li>Central Province</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Strong</li> </ul>
4. Sarvodaya	<ul style="list-style-type: none"> <li>Rural community development/capacity-building</li> </ul>	<ul style="list-style-type: none"> <li>Central Province</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Strong</li> </ul>
<b>D. Government of Sri Lanka</b>				
1. Samurdhi Welfare Programme	<ul style="list-style-type: none"> <li>Welfare and social security safety nets</li> </ul>	<ul style="list-style-type: none"> <li>National</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Strong</li> </ul>
<b>E. Research</b>				
1. International Water Management Institute (IWMI)	<ul style="list-style-type: none"> <li>Water management</li> <li>WUAs</li> </ul>	<ul style="list-style-type: none"> <li>Small-scale sector</li> <li>Community managed schemes</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> <li>Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Strong</li> <li>Strong</li> </ul>
2. Research and development institutes (MoA&L)	<ul style="list-style-type: none"> <li>Programmes covering commodities for rainfed and irrigated production systems</li> </ul>	<ul style="list-style-type: none"> <li>National</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Strong</li> </ul>

### MAIN OPPORTUNITIES FOR INTERVENTION

<b>Projects</b>	<b>Rationale</b>	<b>Innovation</b>	<b>Issues Pending</b>
Sustainable Livelihood Support in Marginal Dry Zones	<ul style="list-style-type: none"> <li>• Structural poor</li> <li>• Two thirds of country</li> <li>• Two fifths of rural poor</li> <li>• Consolidation of IFAD's experience</li> </ul>	<ul style="list-style-type: none"> <li>• IFAD's niche and maximum impact on International Millennium Goals</li> <li>• SLAs urgently need</li> <li>• Target marginal villages bordering conflict areas</li> <li>• Flexible Lending Mechanism (FLM)</li> </ul>	Coordination with others
Rural Initiatives Development Fund Focusing on Women	<ul style="list-style-type: none"> <li>• Gender mainstreaming</li> <li>• Family development</li> <li>• Existing innovations</li> <li>• Learn from others (Tamil Nadu, SEWA)</li> </ul>	<ul style="list-style-type: none"> <li>• National programme approach with FLM</li> <li>• Direct financing easily adopted</li> <li>• Women as entry point but not exclusive target group</li> </ul>	Avoid over-burdening women even more
Smallholder Out-growers Estate Sector Development	<ul style="list-style-type: none"> <li>• Abject social poverty</li> <li>• Further deterioration on some estates</li> <li>• Good potential for improvements exist</li> </ul>	<ul style="list-style-type: none"> <li>• Conflict prevention</li> <li>• SLAs urgently needed</li> <li>• Market linkages for out-growers</li> <li>• Market niche</li> </ul>	<ul style="list-style-type: none"> <li>• Highly politicized unions</li> <li>• Exacerbation of ethnic tensions</li> <li>• Links with others</li> </ul>
Resource Management in Coastal Zone Focusing on Conflict Areas in North and Northeast	<ul style="list-style-type: none"> <li>• War affected communities in North and Northeast</li> <li>• Social isolation due to remoteness</li> <li>• Fragile ecosystems</li> <li>• Harmless artisanal fishing techniques</li> <li>• Alternative income-generation activities</li> </ul>	<ul style="list-style-type: none"> <li>• Peace consolidation/prevent conflict</li> <li>• SLAs possible</li> <li>• Natural resources management</li> <li>• Community-based extension</li> <li>• Pollution control in a fragile ecology</li> </ul>	<ul style="list-style-type: none"> <li>• Coordination with others</li> <li>• Preparatory studies</li> </ul>



