



Australian Government

Department of Foreign Affairs and Trade



Aid Program Performance Report 2013-14

Sri Lanka

September 2014

Key Messages

This report summarises the Sri Lankan aid program's progress in 2013–14. Key findings of the report include:

- › There has been strong progress in areas that are well aligned to the new Development Policy, including improvements in incomes, employment outcomes, private sector development and gender empowerment.
- › Australia's aid investments continue to achieve positive results against the country program's first objective: improving social and economic indicators across the country, and specifically in lagging regions.
- › Through catalysing pro-poor policy reforms at national and sub-national levels in a range of sectors, including governance, education, forestry and water and sanitation, the aid program is achieving strong results against its second objective. Policy influence is an important focus of Australia's aid program given the modest size of our program (5 per cent of total aid flows to Sri Lanka) and Sri Lanka's status as a lower middle-income country.
- › Issues which led to delays in disbursements to World Bank-led programs in 2012-13 and 2013-14, and were the subject of management consequences in the 2012 APPR, have been resolved.
- › The program is well positioned to develop an Aid Investment Plan in 2014-15 in consultation with the Sri Lankan Government, and has commenced design of a flagship program focused on economic opportunities for the poor, private sector development and innovation.

Context

Sri Lanka has had a consistent economic growth trajectory, with an average of 6.7 per cent during the last nine years. During 2013, Sri Lanka's GDP grew by 7.3 per cent, an increase from 6.3 per cent in 2012. Growth is projected to remain at 7 to 8 per cent in coming years, although this will be strongly influenced by fiscal pressures and the regional and global economy. Inflation has been stable at around 6 per cent since 2009 following a decade of volatility.

National unemployment is low, at 4.4 per cent, although this masks regional, age and gender disparities.¹ Social indicators at the national level continue to improve. Sri Lanka's score of 0.715 on the 2013 Human Development Index puts it in the 'high human development' category – a first for any South Asian nation. The country remains on track to meet all Millennium Development Goals (MDGs) if it can turn around lagging progress on nutrition (stunting rates ranging from 8 per cent in Colombo to 41 per cent in the hill country district of Nuwara Eliya.²)

Despite significant reductions in poverty over the last 20 years, the Sri Lankan Central Bank data reports that the poverty rates in Eastern, Northern and Uva provinces are three to four times greater than in Western Province (which includes the commercial capital, Colombo). The Government's key development policy, the *Mahinda Chintana*, outlines an inclusive agenda. However, many pockets of poverty and vulnerability remain across the country, and not all

¹ Youth unemployment is approximately 19 per cent. In 2013, the labour force participation rate was around 54 per cent – compared to the global average of approximately 64 per cent. Participation of women in the workforce was 35.6 per cent compared to 74.9 per cent for men. Annual Report 2013, Central Bank of Sri Lanka, p 113 http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2013/English/content.htm

² United Nations Children's Fund (UNICEF), Sri Lanka: Health and Nutrition Briefing Sheet. http://www.unicef.org/srilanka/2012_SL_fast_facts_HN.pdf

communities have access to the same level of government services. This points to an opportunity, and a need, to improve the impact of economic growth on poverty reduction.

Government spending on health and education is relatively low in Sri Lanka compared to other middle-income countries – 1.8 per cent of gross domestic product (GDP) for education and 1.4 per cent for health.³ While school completion rates are generally high, education quality and student performance on national exams are mixed. This is particularly concerning in lagging regions, including in plantation regions and areas of Uva, Eastern and Northern provinces. Higher education opportunities are limited; only five per cent of youth aged 20 to 24 are enrolled in universities⁴.

Sri Lanka has made progress on gender equality and has met MDG 3 to eliminate gender disparity in primary and secondary education. Girls and boys have equal access to education and girls are performing better than boys against some indicators. However, only 13 female parliamentarians are in the current parliament, of whom only three (out of 225) are national members (less than 6 per cent of the total). The proportion of female district representatives in the national parliament is much lower. The *Sri Lanka Human Development Report 2012* attributes political under-representation to social, economic and cultural barriers that make it difficult for women to be nominated and elected. While its constitution supports the legal status of women and has ratified international instruments such as the Convention on the Elimination of All Forms of Discrimination Against Women, Sri Lanka is yet to incorporate women's rights into national legislation. However, a number of key development policies identify specific measures for the advancement of women, including progressive policies and initiatives that will promote gender equality in access to opportunities.

The Economist Intelligence Unit ranked Sri Lanka 82nd in its 2013 Democracy Index, a deterioration from the rank of 70th in 2009. Non-government and civil society organisations face a number of challenges to conducting activities in Sri Lanka, and there have been a number of recent incidents of religious violence between Sinhala Buddhists and Muslims. Civic participation has dropped in provincial elections from about 70 per cent in 2008 to less than 45 per cent in 2012. The *Reporters Without Borders Press Freedom Index* ranks Sri Lanka 162 out of 179 on press freedom in 2013.

With the cessation of nearly three decades of civil war in 2009, Sri Lanka continues to make impressive progress in both human and economic development. However the end of conflict (and Sri Lanka's achievement of middle-income status) has also resulted in substantial changes to the donor landscape with most traditional OECD DAC⁵ donors significantly scaling back their grants in the last five years. Australia is one of the largest OECD DAC donors (second after Japan), but our aid program is small relative the finance provided by India, China, Japan, Asian Development Bank and World Bank. Financial flows from other nations and sources, including China, have increased markedly.⁶ Many development actors face ongoing challenges in the timely approval and implementation of their programs. There are limited government-led mechanisms for donors to coordinate their development assistance, although many donors share information through the Development Partner Forum and associated sector working groups.

³ Key Social Indicators: Annual Reports 2011 and 2013, Central Bank of Sri Lanka
http://www.cbsl.gov.lk/htm/english/10_pub/p_1.html

⁴ Key Social Indicators: Annual Reports 2013, Central Bank of Sri Lanka
http://www.cbsl.gov.lk/htm/english/10_pub/p_1.html

⁵ Organisation for Economic Cooperation and Development – Development Assistance Committee.

⁶ Ministry of Finance and Planning, *Annual Report 2011*, Chapter 6.4, 'Foreign Financing'.

The bilateral relationship, founded on many elements beyond the aid program, remains constructive and strong. The strength of the relationship supports Australia's efforts to engage in aid policy dialogue, and offers the potential for further progress on this front. Australia has modified its approach since the cessation of conflict with a substantial shift from humanitarian activities to longer, larger programs delivered at scale. We also work closely with multilateral organisations as implementing partners, including providing grant funding to two World Bank loan projects, in order to leverage large scale development outcomes and policy reforms from our relatively modest investments. As some activities initiated in response to the conflict draw to a close, it presents a valuable opportunity to align the program behind the Australian Government's new development policy. Plans for key elements of a future pipeline include significant growth in support for private sector development and economic opportunities. The proposed pipeline also delivers on consolidation and efficiency objectives, including a move away from multi-partner programs such as the Australian Community Rehabilitation Program, which will help reduce management burdens.

Expenditure

In 2013-14, Australia's bilateral aid expenditure to Sri Lanka increased to \$33.2 million (from \$25.7 million). This allocation was able to be fully expensed due to all World Bank payments being made in full. This is an increase from 2012-13 when expenditure was \$25.7 million (as compared to a budget allocation of \$31.8 million). Other assistance through Australia's regional and global programs and through other government agencies brought Australia's total official development assistance (ODA) to an estimated \$40.8 million.

Table 1 Expenditure in FY 2013-14

Objective	A\$ million	% of bilateral program
Objective 1-Improved social and economic indicators in lagging regions	21.6	65
Objective 2- Policies and programs implemented at national and sub-national levels that aim for inclusive growth and improved service delivery	11.6	35

Progress towards objectives

Overall, good progress has been made against program objectives for 2013-14. Poverty levels in Sri Lanka continue to fall with the percentage of the Sri Lankan population living below the national poverty line decreasing from 28.8 per cent in 1996 to 6.7 per in 2013⁷. Australia's financial contribution to development in Sri Lanka (at 5 per cent of total aid flows) and our influence over government policy and programming in Sri Lanka are both modest. However, our investments have provided a wide range of support to bolster the Government of Sri Lanka's development agenda.

Table 2 Rating of the program's progress towards Australia's aid objectives

Objective	Previous Rating	Current Rating
Objective 1—Improved social and economic indicators in lagging regions	Amber	Amber
Objective 2—Policies and programs implemented at national and sub-national levels that aim for inclusive growth and improved service delivery	Amber	Green

⁷ <http://data.worldbank.org/country/sri-lanka>

Note:

■ Green. Progress is as expected for this point in time and it is likely that the objective will be achieved. Standard program management practices are sufficient.

■ Amber. Progress is somewhat less than expected for this point in time and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.

■ Red. Progress is significantly less than expected for this point in time and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.

Reporting period:

Objective 1: Improved social and economic indicators in lagging regions

This objective is rated amber due to a proportion of Australian funds not flowing through the World Bank-led infrastructure program (NELSIP) for a second consecutive year. For 10 months of the reporting period, the World Bank had not obtained Government of Sri Lanka agreement for Australia's support to NELSIP. A key reason for the delay was restructuring the project design to secure Government of Sri Lanka support. The issues have since been resolved and Australia's funds are now being disbursed.

Initiative level performance information – as recorded and analysed in 2013-14 Quality at Implementation reports – continues to show that the majority of Australia's aid investments achieve positive results in improving social and economic indicators across the country but specifically in lagging regions. While progress was delayed in one of our World Bank-led programs (NELSIP), our other major joint investment with the World Bank, in the education sector, performed strongly. Investments continue to be strongly aligned with the Government of Sri Lanka's development policy framework, *Mahinda Chintana: Vision for the Future*, and, where appropriate, support and strengthen the capacity of Sri Lankan government systems.

During the reporting period Australia invested substantial management time and resources in resolving the issues regarding NELSIP. This included high-level in-country representations and advocacy to expedite administrative processes within World Bank headquarters in Washington, DC. We continued to maintain a focus on the quality of program implementation by monitoring project activities financed by World Bank loan funds. Australia participated in all in-country review missions and undertook internal quality reporting processes during the reporting period. Our assessment was that NELSIP World Bank loan funds were being effectively used to generate adequate results. 537 public infrastructure projects at local level were completed against a targeted 770 as at 31 December 2013. This includes 503.84 km of access roads, 50 market places, 18 recreation parks, 44 drainage systems, 5 community water supply projects and 9 rural electrification schemes.

The World Bank continues to be a key partner for development assistance in Sri Lanka. While the donor landscape has changed significantly over the past few years, the World Bank has maintained a strong presence and constructive relationship with the Government of Sri Lanka. Issues relating to significant delays in mobilising Australian funds in the education sector (through the Transforming School Education Program [TSEP]) have also been resolved, and this has already made a substantial difference in achieving results. The resolution of issues in both NELSIP and TSEP has endorsed the decision in the 2012-13 APPR to continue working with the World Bank and Government of Sri Lanka to ensure original program outcomes are achieved.

Australia's major investment in the **education** sector is TSEP, a national level program that supports the Government of Sri Lanka's Education Sector Development Framework to enhance access to, and the quality of, primary and secondary education. Activities through TSEP aim to increase the quality of schooling for nearly 4 million children over the life of the program. Achievements to date include the provision of leadership and management training to over 2,300 school principals, the appointment and training of school management committees in over 4,400 schools, and the ongoing construction of 210 classrooms across nine provinces.

2013-14 reporting shows that a majority of TSEP performance indicators are being reached. Disbursement of Australian funds is linked to indicators.

Australia also contributed to improving the health and education of children through support to UNICEF's WASH in Child Friendly Schools project, whereby over 142,000 students (against planned 90,000) and 7,400 teachers (planned 3,600) in 290 schools now have access to improved water and adequate sanitation in schools in all five targeted provinces.

One of Australia's key humanitarian projects in education (the Support to the Education Sector in Conflict-Affected Areas in Northern Sri Lanka program through UNICEF) concluded in 2013. This project allowed nearly 12 000 children from conflict-affected areas to return to schools that were both building regulation and disaster risk reduction compliant. The Independent Completion Report into the program highlighted a number of construction defects that have subsequently been rectified.

The Australian Community Rehabilitation Program (ACRP) contributed to improving the economic situation of poor women and men through small-scale activities delivered by eight partners. ACRP activities addressed poverty reduction at a number of levels. At the household level, activities focused on food security, livelihood support, microfinance and other grant and loan schemes. At the village level, the International Organization for Migration (IOM) supported increased production in conflict-affected areas through the development of vital economic infrastructure to benefit agriculture and fishery enterprises. The International Labour Organization's project invested at the sector level, concentrating on value chain improvements to fisheries and aquaculture, fruit and vegetable farming. The activities of ACRP partners resulted in additional agricultural production valued at US\$2.8 million. Program-level monitoring showed the creation and support of links between community-based organisations, producer groups, cooperatives and the private sector to deliver increased income through improved access to market, increased production and the diversification of commodities.

A number of initiatives address gender through involving women in planning and management as well as directly benefitting women. Australia's support for UN-Habitat's Permanent Housing Reconstruction project targeted female-headed households for prioritised assistance. Nearly 250 female-headed families had permanent homes constructed while a number of women were trained as masons, thus increasing their ability to support their families. The ACRP has helped poor women increase their incomes, access financial services and be involved in community planning and budgeting processes. Australia's support to DASH, a Sri Lankan demining NGO, has resulted in positive results for women in a field of work traditionally dominated by men. DASH trains and deploys women as deminers and prioritises the employment of women in the administration of the organisation.

Objective 2: Policies and programs implemented at national and sub-national levels that aim for inclusive growth and improved service delivery

This objective was rated green because of the positive results on significant policy reform initiatives across multiple programs. These results are the fruit of sustained efforts over several years.

As noted, Australia has a modest influence over government policy and programming in Sri Lanka, and therefore progress against this objective is assessed proportionally. Australia has sought to engage in policy dialogue and drive policy reform across the majority of programs in the portfolio. Where progress has been achieved it has largely been through opportunistic programming and active policy engagement by DFAT and implementing partners. Specifically, this has been done through the brokering of relationships, the piloting and demonstrating of

inclusive policy and programs, and the promotion of pro-poor and pro-inclusion GoSL policy. The strengthening bilateral relationship with Sri Lanka should provide strong foundations for greater policy aid dialogue and advocacy opportunities.

Australia has supported improved legitimacy, accountability, and public redress at the local government level. Through ACRP, Australia has supported The Asia Foundation's (TAF) development of guidance for the implementation of social audits, including the use of Citizen Report Cards (CRCs) to measure public satisfaction with service delivery. TAF has piloted the use of CRCs by local government authorities to collect data on citizen priorities and satisfaction levels with services, amenities and infrastructure. An electronic tablet-based CRC tool has also been trialled, which streamlines data collection, is less labour intensive and more cost effective, and enhances the potential for the institutionalisation of CRCs. In 2013-14 TAF and other ACRP partners, including Oxfam, trained 1,436 public servants in public management processes such as the use of CRC tools and systems, the use of participatory budgeting approaches, and the prevention of gender-based violence. ACRP, through Oxfam, supported the strengthening of mechanisms that provide protection to women and girls recovering from the direct impact of war and domestic violence.

The ACRP program has also supported the GIZ-managed Performance Improvement Project (PIP). Two key achievements of the PIP are the establishment of the Skills Through English for Public Servants (STEPS) Institute in the Northern Province, and the strengthening of a Public Redress System (PRS) in 79 local government authorities in the North and East. STEPS, which trained 1,492 public servants in 2013, has since been integrated into the Management Development Training Institute (MDTI) of the Northern Provincial Council. A number of Local Authorities have been supported through the PRS to manage citizen complaints and disputes. Gender equality was also addressed through the development of specific curriculum as a part of capacity-building activities for local government authorities and encouraging women to use the public redress system for grievance resolution.

Australia has supported improved policy and delivery capacity for water, sanitation and hygiene (WASH) services and practices in schools and conflict-affected areas. As a part of the Australian Government's Water and Sanitation Initiative, Australia has support WASH in Sri Lanka through the North East Pilot Water, Sanitation and Hygiene Project (NEP WASH). NEP WASH has helped strengthen the capacity of rural communities to access and advocate for improved WASH services through the mobilization and institutionalization of Water User Associations (WUAs). The program has helped strengthen the institutional capacity of the Sri Lankan National Water Supply and Drainage Board, which implements NEP WASH, including through structural changes such as the establishment and staffing of two Regional Water Supply Units in Trincomalee and Mannar districts.

The WASH in Child Friendly Schools program has led to policy reform through the introduction of child friendly and inclusive WASH models in schools. WASH models and interim guidelines are currently being used by the Ministry of Education Services (MoES), enabling MoES to improve WASH facilities and the teaching and learning environments in schools. These facilities can directly improve the health and sanitation of the children, can increase their attendance and support achievement of better education results, while at the same time building the dignity of the children as they use quality sanitation facilities in the schools.

Australia has made a strong contribution to inclusive policies and programs in the education sector. TSEP is the largest program in the portfolio that has a specific strategy for engaging in policy dialogue. Australia has agreed with the World Bank that our policy dialogue during project implementation will focus on a defined set of issues – including primary education, special and

inclusive education, and social cohesion. DFAT is particularly focused on progress on these issues at national and sub-national level, in addition to broader program management. This agenda is taken forward through representation with the World Bank, technical advisory inputs and active participation in joint GoSL-World Bank-Australian review missions.

This strategic approach to policy engagement builds on our successes over previous years, including substantial input on the design of TSEP and Sri Lanka's Government's Education Sector Development Framework, including through policy dialogue. This has enabled us to influence national education policy and reform in important ways, including: adoption of the principles of child-friendly schools as modelled through previous Australian-funded education programs; advocacy with the National Institute of Education to revise student and teacher training curricula to promote social cohesion and inclusiveness; and enhanced appreciation of primary and secondary education as separate phases of learning.

There has been significant progress in TSEP during 2013-14 on the policy issues of key importance to Australia, including:

- › A revision of grade 1 curricular and learning materials, reflecting a greater appreciation of the importance of primary education as a stage of education.
- › The GoSL is now actively considering restructuring its Primary Education Unit to emphasise primary education as a comprehensive and multi-faceted stage of education rather than as a subject of education. This is in line with the main recommendation from a paper, funded by Australia's contribution to TSEP, entitled 'Transforming Primary Education in Sri Lanka: From a Subject of Education to a 'Stage of Education'.
- › The establishment of school committees aimed at improving participation and retention of students were formally instituted in over 4 000 schools. The survival rate to Grade 11 has subsequently increased to 86 percent among girls and 80 percent among boys, which met the average target rate of 83 percent.
- › Support for multi-ethnic student and teacher co-curricular and extra-curricular activities in 4 061 schools (91 per cent of the target).

Finally, Australia is supporting GoSL programs and policy in the forestry sector through the Sri Lanka Community Forestry Project (CFP). The CFP contributed to the introduction of a community forestry approach where rural communities are actively engaged to preserve forest areas. The Sri Lankan Forest Department has now prepared regulations to support this community forestry approach, which are being reviewed by the Legal Draftsmen's Department and will soon be presented to the Parliament for enactment.

Mutual Obligations

Australian aid to Sri Lanka is well aligned with the Sri Lankan Government's ten-year development framework, *Mahinda Chintana: Vision for the Future*, which places a significant emphasis on inclusive development. Substantial Australian aid investments – including NELSIP, ACRP and CFP – are supporting *Mahinda Chintana* priorities. Australia's investments in TSEP and Australia Awards are supporting the Government's commitment of establishing the country as a knowledge hub. NELSIP, TSEP, NEP WASH and CFP – representing more than two thirds of the Australian aid program in Sri Lanka – are government-executed programs, involving established government commitments regarding financing, collaboration, reporting and implementation. There is close engagement between Australia, the development partner (World Bank or UNDP) and the Sri Lankan Government on each of these programs. There are regular review missions with participation from all three parties to the program. The review missions

and related meetings enable Australia to articulate what actions are required by the government in order to meet its commitments. Although there is mixed progress, the use of government systems provides an opportunity for Australia to help strengthen those systems and also to learn more about government capacity, which supports future programming and other programs in the Sri Lanka portfolio. More significantly, it helps build the foundation for the government to take full ownership of program design and implementation without grant finance.

In both NELSIP and TSEP, Australia has provided grant funding alongside World Bank loans. GoSL commitment to the program is indicated by a willingness to borrow funds from the World Bank (rather than unconditional finance from other sources). In addition, each program includes clear links between agreed performance indicators and disbursement of funds. Australia joins with the World Bank and GoSL to set and monitor performance against Disbursement Linked Indicators (DLIs), which the GoSL needs to achieve each year in order for tranche funding (from Australia and the World Bank) to be released. Progress against TSEP DLIs is independently verified by the Sri Lanka Association for the Advancement of Education. NELSIP involves the provision of grants to local government authorities. To be eligible for funding, the local authorities need to meet a number of performance benchmarks, such as completion of audited financial statements and development of participatory budgets.

In addition, DFAT has also linked disbursement of funds to partner performance, withholding funds where the conditions for release of Australian funding have not existed. For example, when the World Bank had not obtained Government of Sri Lanka agreement for our support to NELSIP by early 2013, our anticipated 2012-13 funding for NELSIP was diverted to other partners and activities.

The aid program, and the broader bilateral relationship, provides an opportunity to advocate with the Sri Lanka government to improve the inclusivity of its development agenda. Australia encourages a stronger focus on providing vulnerable communities with improved access to social and economic opportunities – such as quality education facilities and economic infrastructure to enable poor people to benefit from economic growth – and the ability to participate in the development process.

Program Quality and Management

The risk of non-disbursement of the NELSIP program created significant program management challenges and workload with substantial resources being invested into developing contingency options alongside efforts to resolve disbursement issues.

The Sri Lanka program has invested significantly in investment-level program monitoring. DFAT staff and technical advisers have participated in regular monitoring trips with the World Bank and government officials on our major investments in education (TSEP) and infrastructure (NELSIP). Staff have also undertaken regular field monitoring of activities being implemented under the ACRP (with the inputs of the technical support team) and legacy humanitarian activities. This monitoring has contributed to an understanding of performance against higher-level objectives, however this will be more formalised with the development of the Aid Investment Plan and associated Performance Assessment Framework in 2015. Completion of a Performance Assessment Framework in 2013-14 (a management response from the 2012-13 APPR) was delayed to ensure it would align with new Australian Government policy.

The Sri Lanka program continued to consolidate in 2013-14, with some investments reaching their planned conclusion over the reporting period. These include the Humanitarian Mine Action program and the Support to the Education Sector in Conflict Affected Areas program through UNICEF. Further consolidation is expected in 2014-15 when ACRP, NEP WASH, WASH in Child

Friendly Schools, UNICEF Child Friendly Education Program, UNICEF Support for Nutrition Program and UNHABITAT Housing initiatives are due for completion. As noted in Annex C, the Independent Completion Report of the Support to the Education Sector in Conflict Affected Areas in Northern Sri Lanka program through UNICEF was undertaken in 2013-14.

Planned (further) consolidation will be important in ensuring staff resources are not thinly spread across a range of proliferated activities, instead enabling deeper investment, engagement and monitoring of a smaller number of larger programs. Although ACRP3 has delivered positive results through eight different partners, there will not be a subsequent phase. Development of the Aid Investment Plan will establish the future Sri Lanka pipeline, however, high priority will be given to further improving consolidation, efficiency and the ability to achieve results at scale.

Analysis of Quality at Implementation Reports

Overall, progress of the bilateral program's investments was steady, with strong performance over the majority of QAI performance ratings (Annex B). However, there has been a reduction in quality ratings in a number of investments. Key changes are described below:

- **NELSIP** has maintained 3 ratings below satisfactory (effectiveness, efficiency and gender). Effectiveness and efficiency were rated low on account of the delay in mobilizing the disbursement of Australian funds. Since the writing of the QAI, this issue has been resolved and funds are now being disbursed to participating local authorities by GoSL. NELSIP gender mainstreaming strategies saw limited progress over the reporting period. Appropriate management responses, including the strengthening of technical support for DFAT and World Bank gender monitoring, have since been put in place.
- **TSEP** has seen improvements in its monitoring and evaluation and sustainability ratings. In 2013 Australia received comprehensive analysis and independently verified reporting of GoSL progress against DLIs and other program indicators. DFAT has increased its role in monitoring missions and our policy input has been well received.
- There has been a decline in quality in the **Support to the Education Sector in Conflict affected Areas in Northern Sri Lanka** program, particularly in efficiency and monitoring and evaluation. It was difficult to evaluate the program because, due to the humanitarian nature of the initial phase of the program, no monitoring and evaluation framework was in place. An Independent Completion Report (ICR) into the program highlighted a number of construction defects. The management response to the ICR findings was delayed while the construction defects were rectified.
- There has been a drop in several **CFP** ratings, with the program having progressed slower than expected, including in the gender empowerment component. The recruitment by the Forestry Department of three experts to provide technical advice was delayed for over a year. Recruitment processes are now underway. A Mid Term Review (MTR) will be undertaken in the second half of 2014 to develop recommendations for improvement of the program, including improving gender outcomes.
- **ACRP** has seen improvements in a number of ratings. An improved relevance rating reflected the ability of the partners to realign activities to new development priorities and overcome operational challenges. An improvement in effectiveness reflects increased evidence of achievement against the end-of-program outcomes, including local governance, community development and linkages to markets. The monitoring and evaluation rating for ACRP has increased based on evidence of partners strengthening their own internal monitoring activities and evaluation processes.

- There was a decline in several ratings of the **UNICEF WASH** project, with M&E judged as less than satisfactory over the 2013-14 period. The project has encountered delays and several implementation challenges due to the shifting of management responsibility from the Ministry of Education to the newly established Ministry of the Education Services in 2013. The unsatisfactory rating for M&E is due to the lack of a complete baseline, and the postponement of key project M&E activities.

Performance of key delivery partners

The World Bank remains a key delivery partner for the program. In 2013-14, this program partnership required substantial management resources at desk and post, especially in terms of resolving disbursement issues, including engagement with both the World Bank country office in Colombo and headquarters in Washington. The World Bank is undergoing significant reform. We need to track and ensure clarity of accountability for our major investments and then reassess whether our partnership performance management – in Sri Lanka and at headquarters – is appropriately tailored to the World Bank’s new structure. We have already made strong progress at the country level over the past 12 months. In late 2013, Australia brokered a partnership with the World Bank to strengthen and underpin our engagement in TSEP. The partnership led to significantly improved awareness of each party’s priorities and ways of working, and has resulted in more efficient and effective program management. As outlined above, progress was also made in resolving NELSIP issues. It should be noted that NELSIP is financed through the Australia-World Bank Partnership for South Asia, while TSEP is financed separately. At times, the two programs require different approaches to resolving issues.

ACRP partners continue to perform generally well and provide useful information on development issues across a wide range of settings. ACRP has adopted a partnership approach and encourages cross project information sharing and learning, particularly through an annual conference attended by DFAT and all implementing partners. This enables DFAT and partners to learn from each partner’s approach in differing settings across the country. However, the performance of some ACRP partners requires more intensive involvement by DFAT staff and advisors to resolve issues.

The Asia Foundation (TAF) performs well on issues related to economic governance at a number of different levels achieving important policy reform. TAF maintains strong relationships with the Government of Sri Lanka and is able to respond to the current environment effectively. TAF regularly draws on regional and headquarters expertise to strengthen its technical capacity in country.

UN agencies such as UN Habitat have generally performed well during the reporting period, showing an ability to blend technical expertise with operational abilities to deliver good results. UNICEF’s performance has been inconsistent in some areas, particularly infrastructure, requiring heavier management involvement than in areas that are UNICEF’s comparative advantage and where outcomes have been stronger, such as policy expertise. At UNICEF’s strategic planning exercise for Sri Lanka in mid-2014, DFAT advocated that UNICEF seek to maximise results by focusing attention on upstream policy dialogue and influence. The UNDP-implemented CFP has faced numerous challenges, which, following the MTR, will require significant management attention from UNDP to resolve.

Risks

Table 3 Management of key risks to achieving objectives

Key risks	What actions were taken to manage the risks over the past year?	What further actions will be taken to manage the risks in the coming year?
Inadequately developed pipeline following the end of a number of programs	Senior management engagement and decision-making was undertaken to establish foundations of forward pipeline over coming years. Early discussion with relevant partners.	Progress the concept and design of programs. Engage with stakeholders regarding extensions to existing programs, where relevant.
Portfolio planning and performance assessment framework delayed.	Senior management engagement and decision making to establish parameters of AIP. Early engagement with GoSL representatives on future direction of Australian aid program.	Close and ongoing consultation with GoSL and other relevant stakeholders.
Under-expenditure caused by disbursement delays	Substantial effort was put into contingency planning when major disbursements met with delays. Significant advocacy with the World Bank (in both Colombo and Washington DC) to address administrative blockages to disbursement of tranches	Sufficient lead-time will need to be factored in for design and tendering of major new initiatives. Plans for 2014-15 disbursement will need to be put in place, and confirmed with partners such as the World Bank, early in the FY to avoid pipeline management or contingency issues.
Insufficient human resources to achieve all work requirements, particularly to achieve policy influence.	Analysis and re-prioritisation of tasks in light of projected resources.	Management to continually appraise priorities and adjust work allocations as required. Consolidation of the program and decrease in the number of administratively-heavy initiatives.

Management Responses

- Subsequent to the release of the Australian Government's new development policy *Australian aid: promoting prosperity, reducing poverty, enhancing stability* in June 2014, we will develop an Aid Investment Plan (AIP) in 2014-15. This will include early and regular engagement with the GoSL. We will strengthen our approach to performance and quality by developing a new Performance Assessment Framework, and establishing rapid feedback loops in new programs to help adaptation to contextual changes. The AIP will also establish mutual obligations that provide a platform for DFAT advocacy with Government on implementation of its inclusive development goals across all communities based on need and vulnerability.
- In light of current large investments coming to an end (including NELSIP and ACRP), we will commence design of new programs to fill the pipeline, including a planned flagship program that will focus on economic opportunities for the poor (private sector development, innovation, and furthering women's economic empowerment). We will build on the foundational analysis undertaken in 2013 on technical and vocational education and training sector. Given the challenges many development actors face in the timely approval and implementation of their programs, we will prioritise early and substantial engagement with GoSL to ensure the full expenditure of program funds. The new pipeline, outlined in the AIP, will also consider human resource capacity, consolidation and efficiency and effectiveness.

- › Given the percentage of program funding being delivered through partnerships with the World Bank, and the institutional reforms currently underway in the Bank, we need to ensure clarity on accountability for our major investments. We will appraise our framework for engaging with the Bank on performance and strategic issues to enable us to engage at the appropriate level when required.
- › Given Sri Lanka's lower middle income status and increasing sources of external finance, the aid program will strengthen its emphasis on policy dialogue and influence. We will increase the focus on sustainability of outcomes and reforms across all programs under implementation and design, including through particular emphasis during Aid Quality Checks.
- › We will work more closely with implementing partners to encourage the use of gender analysis and employ advisers when appropriate to ensure women and girls benefit from Australia's aid, with a particular focus on NELSIP and CFP.

Annex A

Progress in addressing 2012-13 management responses

Management consequences identified in 2012-13 APPR	Rating	Progress made in 2013-14
Strengthen Australian aid's formal relationships with the Sri Lankan Government and implementing partners to improve policy dialogue on development issues. Particular priority will be placed on resolving issues relating to our joint education and economic infrastructure projects with the World Bank.	Achieved	Relationships with government strengthened through senior and regular engagement, and with support of advice from experienced local staff. Issues regarding education and infrastructure projects were resolved.
Develop and implement plans to identify, design, quality assure and contract alternative programs (in education and infrastructure) if currently planned investments in partnership with the World Bank do not proceed in 2013-14.	Achieved	Planned investments with World Bank did proceed. Several contingency options had been developed.
Continue to undertake analytical work to underpin strategic programming, activity management and policy dialogue.	Partly achieved	Analytical work was undertaken to inform potential future investments in education and market development, and on the role of grant aid in a lower middle income country.
Complete a performance assessment framework, incorporating gender-disaggregated data where possible, and establish a system for regularly updating data.	Partly achieved	Completion of the performance assessment framework was delayed to ensure it would align with new government policy. High quality data continued to be gathered, monitored and evaluated.
Continue to build a competent, collaborative Sri Lanka team and structures that enable productive relationships and clear accountabilities.	Achieved	Recommendations of Workforce Planning Exercise and Remuneration Review were implemented.

Note:

- Achieved. Significant progress has been made in addressing the issue
- Partly achieved. Some progress has been made in addressing the issue, but the issue has not been resolved
- Not achieved. Progress in addressing the issue has been significantly below expectations

Annex B

Quality at Implementation ratings

Investment name	Approved budget and duration	Qal year	Relevance	Effectiveness	Efficiency	Monitoring and Evaluation	Sustainability	Gender equality
North East Local Services Improvement Project (NELSIP)	\$25.37 million (2010/11 – 2015/16)	2013	5	3	2	4	4	3
		2012	6	2	2	4	4	4
Transforming Schools Education Project (TSEP)	\$37 million (2011/12 – 2015/16)	2013	5	4	4	5	5	4
		2012	5	4	4	4	4	4
Australian Community Rehabilitation Program (ACRP) Phase 3	\$45 million (2009/10 – 2014/15)	2013	6	5	5	5	4	4
		2012	5	4	5	4	4	4
North East Pilot WASH Project (NEP WASH)	\$2.3 million (2010/11 – 2013/14)	2013	5	4	4	4	4	5
		2012	6	4	4	4	4	5
WASH in Child Friendly Schools	\$4.8 million (2010/11 – 2013/14)	2013	4	4	5	3	5	4
		2012	5	5	5	5	5	5
Sri Lanka Community Forestry Project	\$4.97 million (2011/12 – 2015/16)	2013	4	3	3	3	4	2
		2012	5	4	4	4	4	4
Sri Lanka Humanitarian Mine Action	\$20 million (2009/10 – 2014/15)	2013	5	5	5	5	4	4
		2012	6	5	5	4	3	5
UN HABITAT Permanent Housing Support	\$17.4 million (2009/10 – 2014/15)	2013	5	5	5	5	5	4
		2012	N/A	N/A	N/A	N/A	N/A	N/A

Support to Education in Conflict Affected Areas	\$10.1 million (2009/10 – 2013/14)	2013	5	4	3	3	4	4
		2012	6	5	5	5	5	5
Sri Lanka Australia Awards 2011 to 2014 Intakes	\$6.9 million (2010/11 – 2014/15)	2013	5	5	5	4	5	4
		2012	5	5	5	5	5	5

Definitions of rating scale:

Satisfactory (4, 5 and 6)

■ = 6 = Very high quality

■ = 5 = Good quality

■ = 4 = Adequate quality, needs some work

Less than satisfactory (1, 2 and 3)

■ = 3 = Less than adequate quality; needs significant work

■ = 2 = Poor quality; needs major work to improve

■ = 1 = Very poor quality; needs major overhaul

Annex C

Evaluation and Review Pipeline Planning

- › List all evaluations and reviews completed in the reporting period.

List of evaluations completed in the reporting period

Name of Investment	Aidworks number	Name of evaluation	Date finalised	Date Evaluation report Uploaded Into Aidworks	Date Management response uploaded Into Aidworks	Published on website
Support to the Education Sector in Conflict Affected Areas in Northern Sri Lanka	INJ411, INJ872	Independent Completion Report of Support to the Education Sector in Conflict Affected Areas in Northern Sri Lanka	February 2014	12 August 2014	Expected upload in September 2014	Expected publication in October 2014

List of evaluations planned in the next 12 months

Name of Investment	Aidworks number	Type of evaluation	Purpose of evaluation	Expected completion date
Mine Action	INK126	ICR	Verify program outcomes	June 2015
Community Forestry Program	INK130	MTR	Improve existing program	November 2014

Annex D

Performance Benchmarks 2014 -15

Identify a small set of performance benchmarks to be used to assess the performance of the country or regional program in 2014-15. Performance benchmarks can reflect intended results (e.g. 250 scholarships provided), milestones (e.g. construction started/completed on an infrastructure project) or measures of increased effectiveness and efficiency (e.g. better investment quality ratings).

Aid objective	2014-15 benchmark	Rationale for selecting this performance benchmark
Policies and programs for inclusive growth and improved service delivery implemented at national and sub-national levels.	35 scholarships (including 18 scholarships for females) provided to commence study in Australia in 2015.	The Australia Awards in Sri Lanka aims to develop the capacity and leadership skills of awardees so that they can contribute to poverty reduction and sustainable development in Sri Lanka on their return, and to build people-to-people links at the individual, institutional and country levels. Thirty five scholarships is an increase of five awards since the 2014 intake. This reflects the strength of the Sri Lankan candidates, and the importance of the program to the bilateral relationship.
Policies and programs for inclusive growth and improved service delivery implemented at national and sub-national levels	Schools in at least 40 per cent of zones complete School-Based Teacher Development programs in 2014. School Development Councils, School Development Committees and School Management Committees organised and trained for the Program for School Improvement in at least 60 percent of zones in 2014.	Policy dialogue and reform is a critical part of the Australian aid program in Sri Lanka. By working through government processes, policies and systems, and through establishing a strong partnership with the World Bank, we have helped to focus the national education strategy on issues such as primary education, social cohesion, and inclusive education. These benchmarks reflect the importance that Sri Lanka and Australia place on these issues. These are national targets which are inclusive of the most disadvantaged schools and regions.
Improved social and economic indicators in lagging regions	Evidence of Australian grant funds for NELSIP being effectively utilised for social and economic outcomes by local government authorities	NELSIP has been rated as unsatisfactory in effectiveness and efficiency for the past two years. This reflects the delay in obtaining GoSL approval to disburse our grant funding. If Australian funds had been disbursed in a more timely manner, NELSIP would have been rated as satisfactory in effectiveness and efficiency. NELSIP is a significant program for Australia in Sri Lanka, in terms of

Aid objective	2014-15 benchmark	Rationale for selecting this performance benchmark
	Evidence of Australian grant funds for NELSIP contributing to improved gender outcomes at the local level	<p>the size of its expenditure, its relevance to the context, and its potential to deliver strong results for a large number of beneficiaries. Now that government approval has been obtained, it is appropriate for improvements in efficiency and effectiveness to be selected as a performance benchmark.</p> <p>NELSIP was rated as unsatisfactory in gender equality last year due to gaps in implementation of its gender strategies. The project was designed to improve women participation in decision making and accountability at the local governance level. Improvements in this area will ensure the project meets its gender related development objective.</p>
Consolidated program	Reduce the number of investments by 20 per cent	<p>The Sri Lanka program has a relatively high number of investments – this is in part the legacy of a significant humanitarian program from 2009-2012, and is also due to delays to some large investments over recent years. Given the relatively small amount of financial and human resources, there is an opportunity to consolidate our investments into fewer, bigger programs, to improve efficiency and effectiveness.</p>

Annex E

Annual performance of regional, global and other government departments' programs in Sri Lanka

In 2013-14, Australia's bilateral aid program to Sri Lanka totalled \$32.4 million. Other assistance through Australia's regional and global programs and through other government agencies brought Australia's total official development assistance (ODA) to an estimated \$40.8 million.

In addition to the Sri Lanka bilateral program, in 2013-14 there were a range of other activities funded from across Australia's aid program that supported activities in Sri Lanka⁸. For most of these investments, the program has limited influence but can leverage synergies with bilateral investments. The program has more control over Australia Awards, ensuring it is aligned with bilateral priorities. Key non-bilateral ODA includes:

- Six Australian NGOs delivered a range of projects across Sri Lanka under the Australian NGO Cooperation Program (ANCP). These included food security and livelihoods, education, and water and sanitation (\$1.4 million).
- 30 Australia Awards were provided to assist Sri Lankans to study at a range of Australian tertiary institutions in 2013. Awards were granted to candidates from seven (of nine) provinces of Sri Lanka, with a representation from lagging regions. Awards were granted for study across the education, health and sustainable economic growth sectors (\$2.5 million).

Australian aid delivered through other government departments included the following activities in Sri Lanka:

- The Department of Immigration and Border Protection (DIBP) supported projects focused on developing durable solutions for the successful reintegration of returned Sri Lankan asylum seekers into local communities. In 2013-14, DIBP supported three projects to improve livelihood opportunities and strengthen community capacity to assist reintegration (\$2 million).
- The Department of Education provided eight Australia Awards Endeavour Scholarships and Fellowships to assist Sri Lankans to undertake study, research and professional development in Australia in 2014 (\$1.6 million).

⁸ These are indicative estimates of country flows from DFAT's regional and global programs. These notional flows are not programmed by country programs.