



Thematic Paper

Country Assistance Program Evaluation for Sri Lanka:
Evaluation of Operations in
Conflict-Affected North and East

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Operations Evaluation Department

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ABBREVIATIONS

ADB	—	Asian Development Bank
CAARP	—	Conflict-Affected Areas Rehabilitation Project
GDP	—	gross domestic product
LTTE	—	Liberation Tigers of Tamil Eelam
NECORD	—	North East Community Restoration and Development
NGO	—	nongovernment organization
TAARP	—	Tsunami-Affected Areas Rebuilding Project

NOTE

In this report, "\$" refers to US dollars.

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Njoman Bestari (team leader, principal evaluation specialist) and Hayman Win (young professional) were responsible for the preparation of this evaluation working paper. Seneka Abeyratne (consultant, economist) provided the evaluation team with background analysis of the effects of the conflict on the Sri Lankan economy. Peter Robertson (evaluation specialist [governance and capacity development]) provided inputs and references to the preparation of this report. Administrative and research assistance was provided by Caren Joy Mongcopa (senior operations evaluation assistant).

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A. Scope and Purpose

1. As part of the Country Assistance Program Evaluation for Sri Lanka, this evaluation¹ examines the operating context and strategies of the Asian Development Bank's (ADB) assistance to conflict-affected North and East.² ADB's strategies and assistance are analyzed through several dimensions: (i) evolution of policy on conflict-related assistance, (ii) evolution of ADB country strategy related to the North and East, (iii) relevance to evolving challenges and opportunities, (iv) responsiveness to needs, (v) alignment with national priorities and policies, (vi) harmonization with development partners, (vii) conflict sensitivity and conflict effects, and (viii) effectiveness and sustainability. It provides considerations for rethinking future ADB assistance to conflict-affected areas, taking into account requisites for feasible project implementation.

B. Conflict Profile

2. **Root causes of the conflict in Sri Lanka are complex, dating back to pre-independence period.** Sri Lanka (formerly Ceylon) gained its independence in 1948 from the British colonial empire. Issues that contribute to the causes of the conflict are primarily related to ethnic politics, historical interpretations, language politics, education politics, employment, and land.³ These issues as manifested in language, education, social policies, and other dimensions in the past, and the perceptions and reactions of people to these have contributed to what has become a protracted civil conflict. Frustration, grievances, and resentment borne from such issues led to militancy and violence. There are various interpretations and perceptions of the history and causes of the conflict, including narratives that have been influenced by personal trauma, politics, and perspectives of different sides. In 1983, the conflict broke out into civil war proportions, and has since lingered with varying intensity over more than two decades. The conflict structures and dynamics are complex.⁴ In 2002, a ceasefire agreement was signed between the Government of Sri Lanka and the Liberation Tigers of Tamil Eelam (LTTE).⁵ A report published by the International Crisis Group in 2006 analyzed the conflict leading up to the unraveling of the peace process.⁶

¹ Referenced as Supplementary Appendix F in the main country evaluation report.

² ADB. 2006. *Guidelines for the Preparation of Country Assistance Program Evaluation Reports*. Manila. Available: <http://www.adb.org/Documents/Guidelines/Country-Assistance-Program/default.asp>

³ (i) Timeline of key events in Sri Lanka.

Available: http://news.bbc.co.uk/2/hi/south_asia/country_profiles/1166237.stm

(ii) Centre for Policy Alternatives. 2006. *Sri Lanka's Ethnic Problem and Solutions*. Colombo.

Available: <http://www.cpalanka.org/>

(iii) Goodhand, J. 2001. *Conflict Assessments: Aid, Conflict, and Peace Building in Sri Lanka*. The Conflict, Security and Development Group, London. Available: <http://www.dfid.gov.uk/pubs/files/conflictassessmentsrilanka.pdf>

⁴ (i) International Centre for Ethnic Studies. Bibliography: Ethnicity and Conflict in Sri Lanka.

Available: http://www.ices.lk/sl_database/ethnic_conflict/bibliography.shtml

(ii) Goodhand, J., B. Klem, D. Fonseka, S.I. Keethaponcalan, S. Sardesai. 2005. *Aid, Conflict, and Peace Building in Sri Lanka 2000–2005*. The Asia Foundation. Colombo.

Available: http://www.asiafoundation.org/Locations/srilanka_publications.html

(iii) Palmer, N. 2005. *Defining a Different War Economy: The Case of Sri Lanka*. Berghof Research Center. Berlin.

Available: http://www.berghof-handbook.net/uploads/download/dialogue3_palmer.pdf

⁵ The ceasefire agreement (22 February 2002).

Available: http://www.usip.org/library/pa/sri_lanka/pa_sri_lanka_02222002.html

Ceasefire violations. Available: <http://www.peaceinsrilanka.org/peace2005/Insidepage/AtaGlance/Ceasefire.asp>

⁶ International Crisis Group. 2006. *Sri Lanka: Failure of the Peace Process*. Brussels.

Available: <http://www.crisisgroup.org/home/index.cfm?id=4523&l=1>

3. **After four years of a relatively peaceful period, the North and East have relapsed into armed conflict situations with the ceasefire remaining nominally intact on paper.** Since July 2006, there has been a marked resurgence of conflict with an estimated death toll of more than 3,000. Although neither side has formally declared an end to the 2002 ceasefire agreement, security conditions have deteriorated to the point that many districts in the North and East are effectively now in full-scale conflict situations. Claymore mine attacks, the murder of 17 Sri Lankan aid workers working for an international nongovernment organization (NGO), fighting on the Jaffna peninsula, suicide bombings, and an attack on Galle naval harbor in the south of the country, have all worsened the security situation.⁷ On 27 January 2007, an attack aimed at Colombo Port was thwarted by the Sri Lankan Navy.⁸ The conflict reached another milestone as LTTE mounted their first air attack (26 March 2007) on the Katunayake Air Force base, just north of Colombo. The emergence of paramilitary groups since the split of LTTE in March 2004 has created further instability. The conflict has destabilized communities with allegations of abductions, killings, forced conscription of adults and children, and human rights violations. The Government has established a Commission of Inquiry and an International Independent Group of Eminent Persons to investigate alleged killings and disappearances of people. In response to terrorist attacks in the country, the Parliament reinstated in December 2006 provisions of the Prevention of Terrorism Act.⁹

4. **With the stalled peace process and resurgence of conflict, the security situation in the North and East is likely to worsen, at least in 2007.** There was virtual consensus among those interviewed by the Operations Evaluation Mission that the security conditions would get worse. The prognosis was supported by factors such as, inter alia: (i) stalled peace negotiations; (ii) substantial rise in defense spending in 2006 to SLR105 billion, with a further increase to SLR140 billion in 2007; (iii) government restrictions on movement of goods and people in the North and East; and (iv) the de-merger of the North and East provinces (as of 1 January 2007) after 16 years of combined administration.¹⁰ With closure of the A9 highway since 11 August 2006, the cordoned North is suffering from shortages of food and other basic necessities, despite shipment of supplies. The country faces a humanitarian crisis as thousands of internally displaced people have fled from the fighting. In January 2007, media sources reported that the fighting would escalate and the Sri Lankan armed forces would turn to the North after defeating LTTE in the East.¹¹ Meanwhile, the Government has stated that it is committed to achieving a negotiated peace that is just and equitable, and emphasized that its current military actions are defensive operations against offensive actions launched by LTTE.¹² On the political side, agreement over power devolution has not yet emerged by April 2007. Major political power in the country, including the ruling Sri Lanka Freedom Party, the main opposition United National Party, and other parties, have not agreed on specific political options for negotiated peace.

5. **The resurgence of conflict in the North and East has made humanitarian and development operations difficult.** The worsening security conditions have prevented

⁷ ADB. 2006. *Sri Lanka: Economic, Political and Security Update*. Manila. IN.320-06 (3 November 2006). Available: http://www.adb.org/Documents/Economic_Updates/SRI/IN320-06.pdf

⁸ *Reuters*. 2007. Sri Lanka says sinks three rebel boats near capital. 27 January. Available: <http://www.alertnet.org/thenews/newsdesk/COL36599.htm>

⁹ The Prevention of Terrorism Act was first introduced in 1979 and withdrawn after the ceasefire in 2002.

¹⁰ Government budgeted funds (2007) separately to the de-merged provinces of North and East.

¹¹ (i) *Daily Mirror*. 2007. Jaffna next, Army Chief tells Mahanayakes. 3 January. Available: <http://www.dailymirror.lk/2007/01/03/front/5.asp>

(ii) *Oxford Analytica*. 2007. Sri Lanka: Civil war is set to escalate. 17 January.

¹² Source: President of Sri Lanka. 2007, 14 February. *No civil war in Sri Lanka*. Available: http://www.presidentsl.org/data/html/news/200702/20070214news_1.htm

development agencies from continuing any significant rehabilitation work, while in some areas, established and rehabilitated infrastructure and facilities have suffered damage from the renewed fighting and the tsunami disaster of December 2004 (Box 1).¹³ The International Committee of the Red Cross has called on those involved in the fighting to respect hospitals and civilians who have sought refuge from the conflict.¹⁴ A number of resettled villages have been abandoned, and new displacements since April 2006 have reached more than 200,000 people.¹⁵ Physical access to conflict-affected areas is controlled by the Government and the armed forces with travel restrictions, checkpoints, and security inspections. This restricts transportation of people, building materials, and supplies. Government embargoes on certain construction materials have created obstacles to project implementation. Scarcity of building materials, spiraling costs of goods and services, escalating risk premiums, and the falling number of contractors willing to work in the conflict-affected areas, have jeopardized the feasibility of project implementation. The implementation of projects in the North and East, which were designed under the assumptions of post-conflict scenarios with the peace process on track, has been disrupted by the resurgence of conflict.

Box 1: Effects of Escalated Conflict on Post-Tsunami Operational Context in the North and East

- Renewed violence has brought reconstruction efforts to a halt and there has been added pressure on aid organizations to respond to the needs of the rapidly increasing number of internally displaced people.
- Regional disparities between districts have increased. Some districts are moving ahead while others are left behind in tsunami reconstruction in the conflict-affected areas. The conflict and the related constraints have affected post-tsunami assistance in the North and East.
- The nature of aid to conflict-affected groups is shifting toward more emergency and immediate relief.
- The conflict has adversely impacted infrastructure projects, including delays in procurement, unreliable response from contractors, slow movement of goods and materials given long hours at checkpoints, and higher costs of doing business.
- There are capacity problems in recovery and rehabilitation as exacerbated by the resurgence of conflict.
- Lack of human resources is threatening institutional sustainability of public and private stakeholders.

Source: Ministry of Finance and Planning, and the Reconstruction and Development Agency of the Government of Sri Lanka. 2006. *Post-Tsunami Recovery and Reconstruction Report*. Colombo.

C. Economic, Humanitarian, and Other Effects of the Conflict

6. Sri Lanka is a conflict-affected middle-income country with high national achievements in social indicators, including the Millennium Development Goals.¹⁶ Sri Lanka does not fall into mainstream classifications of conflict-affected countries by multilateral agencies, which characterize conflict-affected countries with low levels of income and human development, and weak governance systems.¹⁷ The situation of the North and East presents a

¹³ As of December 2006, the project performance report of ADB reported at least two facilities had been destroyed due to the conflict, whereas an estimated SLR130 million worth of assets created by the North East Community Restoration and Development Project had earlier been destroyed or damaged by the tsunami in December 2004.

¹⁴ Source: International Committee of the Red Cross. Available: <http://www.icrc.org/web/eng/siteeng0.nsf/html/sri-lanka-news-180107!OpenDocument>

¹⁵ Source: Office of the United Nations High Commissioner for Refugees Statistics on Internally Displaced People. Available: <http://www.unhcr.lk/statistics/index.html>

¹⁶ UNDP. 2005. *Millennium Development Goals Country Report: Sri Lanka*. Colombo.

¹⁷ The World Bank refers to low-income countries under stress as “fragile states” characterized by a debilitating combination of weak governance, policies, and institutions, indicated by ranking among the lowest on the Country Policy and Institutional Assessment. ADB uses the term “weakly-performing states” in its draft strategy (November 2006): *Achieving Development Effectiveness in Weakly Performing Countries* (The Asian Development Bank’s Approach to Engaging With Weakly Performing Countries).

stark departure from conditions elsewhere in the country. The North and East face an armed conflict, high poverty incidence of 60%–90% (estimated) in some areas, depressed economic and social development, and limited accountability and predictability in regulatory structures.¹⁸ By contrast to the rest of Sri Lanka, conditions in the North and East resemble characteristics that may be categorized as fragile or weakly performing. At the time of the ceasefire in 2002, an estimated 65,000 lives had been lost and 800,000 people displaced due to the conflict of which over 300,000 remained displaced by the end of 2006. These numbers exclude the toll from the tsunami (26 December 2004) that killed 35,000 people and displaced more than 500,000 people in Sri Lanka. With renewed fighting in the region, at least another 200,000 people have been displaced since April 2006, with more than 3,000 killed in 2006. Providing food and relief to displaced persons, and to those affected by the closure of the A-9 highway, which links the North with the rest of the country, is an immediate humanitarian concern. The renewed fighting has led to serious humanitarian consequences that include displacement of people, destabilized social cohesion, food insecurity, loss of livelihoods, and disruption of services.¹⁹

7. The conflict inhibited economic development. All-island poverty assessments undertaken by the Government during the past two decades have excluded the North and East, due to security risks associated with data collection. The combined gross domestic product (GDP) contributions of the North and East to the national GDP in 2003 was estimated at 8.2%, much lower than its 15%–20% pre-conflict contribution in 1982 and 1983. During the war, areas under cultivation in the North and East fell by 50%–80%, while its share in paddy production plummeted from 33% in 1980 to only 3% in 2000. The productivity of agriculture in the North and East and its contribution to Sri Lanka's economy have been decimated by the effects of the conflict. The Central Bank of Sri Lanka reported that the conflict retarded the country's economic growth by about 2%–3% annually, and curtailed the average income per capita by 40%. The Institute of Policy Studies estimated the cost of the conflict from 1984 to 1996 at 170% of the GDP, and the forgone foreign investment at 71% of the GDP in 1996.²⁰

8. Partly due to the civil conflict, Sri Lanka has missed opportunities to move into a higher economic growth trajectory. The conflict partly prevented Sri Lanka from achieving living standards comparable to those of newly industrialized countries such as Malaysia and Thailand.²¹ The multidimensional costs of the conflict include (i) rising shares of defense expenditures, reaching over 20% of total government expenditures in the late 1990s; (ii) high fiscal deficits, typically around 10% of GDP; (iii) the rise in defense expenditures curtailing expenditures on health, education, and other sectors; (iv) compromised investment climate and dampening foreign direct investment; (v) downturns in tourism and loss of earnings; (vi) damages and destruction of infrastructure and facilities; and (vii) the benefits of interconnecting roads curtailed due to road closure and access restrictions from and to conflict-affected areas.

Available: <http://www.adb.org/Documents/Papers/Achieving-Development-Effectiveness/Achieving-dev-effectiveness.pdf>

¹⁸ In LTTE-controlled areas, there are dual and parallel structures of authority by the Government and LTTE.

¹⁹ United Nations Office for the Coordination of Humanitarian Affairs. 2007. *Humanitarian Action Plan: Appeal 2007 for Sri Lanka*. Geneva. Available: <http://ochaonline.un.org/cap/webpage.asp?Page=1535>

²⁰ Arunatilake, N., S. Jayasuriya, and S. Kelegama. 2000. *The Economic Costs of the War in Sri Lanka*. Institute of Policy Studies. Colombo.

²¹ (i) World Bank. 2000. *Sri Lanka: Recapturing Missed Opportunities*. Washington, DC.

(ii) World Bank. 2004. *Sri Lanka Development Policy Review*. Washington, DC.

(iii) International Monetary Fund. 2005. *Sri Lanka: Selected Issues and Statistical Appendix* (Report No. 05/337). Washington, DC.

9. **Observers have noted significant negative effects of the conflict on governance, human rights, and media freedom.**²² Allegations of human rights abuses and problems in the country have been reported in various media and publications.²³ While the human and social costs of the conflict cannot be overemphasized, a generation of children in the North and East have been forced to grow up in a conflict-ridden environment, which contributed to other problems such as declining health and educational attainments and standards; increased poverty, malnutrition, internal displacement, and psychological and physical trauma among affected families; and rising levels of crime and violence in parts of the country.

D. Asian Development Bank's Strategies and Assistance for the North and East

1. Evolution of ADB's Policy on Conflict-Related Assistance

10. **The current Disaster and Emergency Assistance Policy of ADB came into effect in May 2004.**²⁴ The policy covers natural and human-made disasters, and post-conflict²⁵ situations, under which the second North East Community Restoration and Development (NECORD) Project (Loan 2168-SRI)²⁶ and the Tsunami-Affected Areas Rebuilding Project (TAARP, Loan 2167-SRI)²⁷ were processed by ADB. In comparison, the first NECORD Project (Loan 1846-SRI)²⁸ and the NECORD Extension Project (Loan 2084-SRI)²⁹ were processed in accordance with previous ADB's procedures for rehabilitation assistance after disasters. The 2004 policy aims to enhance ADB's institutional capacity to act quickly, flexibly, and responsibly to disaster situations. It supersedes the two previous disaster-related policies introduced in 1987 and 1989, and covers all developing member countries and post-conflict situations.

11. **ADB's assistance to conflict-related disasters continues to comprise a much smaller, albeit a growing portion of its overall emergency assistance portfolio.** Assistance and organizational response to emergencies has been largely *ad hoc* in nature. In the past, ADB interventions have been noted to make little differentiation between post-conflict and post-natural disaster settings, in both cases focusing almost exclusively on its traditional strengths in infrastructure rehabilitation. More recently, ADB's assistance in conflict-related situations has increasingly been justified from a more strategic perspective of poverty reduction, recognizing the poverty-conflict nexus (i.e., poverty as a root cause of conflict; conflict exacerbating poverty, thereby leading to a vicious cycle if no assistance is provided). ADB follows a three-pronged approach for post-conflict reconstruction. With a central objective to reduce poverty, ADB focuses on building capital; rehabilitating production and income, especially for the poor; and building capacity to improve aid absorption.³⁰ The North and East of Sri Lanka are often cited by ADB as an example of conflict exacerbating poverty. ADB's conflict-related intervention is supported by its Long-term Strategic Framework (2001–2015), which is reiterated in the

²² Centre for Policy Alternatives. 2007. *War, Peace and Governance in Sri Lanka: Overview and Trends*. Colombo. Available: http://www.cpalanka.org/research_papers/War_Peace_Governance.pdf

²³ United States Department of State. 2006. *Country Reports on Human Rights Practices*. Washington, DC. Available: <http://www.state.gov/g/drl/rls/hrprt/2005/61711.htm>

²⁴ ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila.

Available: http://www.adb.org/Documents/Policies/Disaster_Emergency/default.asp

²⁵ Post-conflict countries are defined as those emerging from situations of violent and protracted conflicts.

²⁶ Source: Project information document. Available: <http://www.adb.org/Projects/project.asp?id=36601>

²⁷ Source: Project information document. Available: <http://www.adb.org/Projects/project.asp?id=39144>

²⁸ Source: Project information document. Available: <http://www.adb.org/Projects/project.asp?id=34442>

²⁹ Source: Project information document. Available: <http://www.adb.org/Projects/project.asp?id=38111>

³⁰ ADB. 2002. *Annual Report, Special Theme: Rehabilitation and Reconstruction*. Manila.

Available: http://www.adb.org/Documents/Reports/Annual_Report/2002/rehabilitation_reconstruction.pdf

Medium-term Strategy II (2006–2008) documents.³¹ ADB has prepared a draft strategy to support and engage weakly-performing countries, emphasizing focus and selectivity in interventions.³²

2. Evolution of ADB Country Strategy Related to the North and East

12. **ADB worked around conflict before the ceasefire agreement.** Prior to approval of the first NECORD Project in October 2001 and the ensuing ceasefire agreement (2002), ADB's country strategies and programs for Sri Lanka acknowledged the existence of the conflict but did not specifically address its causes and effects. ADB's response to the conflict was in fact the predominant approach adopted by large development partners at the time, i.e., to work around conflict and if a link between conflict and development is acknowledged, it is the conflict that is an impediment that may be removed with greater market openness and deregulation.³³ Prior to the ceasefire agreement, the World Bank-financed North East Irrigation Agriculture Project (approved in December 1999) set the stage for subsequent conceptualization of the NECORD Project in an in-conflict environment.³⁴

13. **ADB worked under post-conflict assumptions after the ceasefire agreement.** The first NECORD Project was initially conceptualized during May–July 2001, prior to the ceasefire agreement. This project initially aimed to meet the gap of development and rehabilitation, as opposed to relief of conflict-affected communities in wherever areas feasible to operate.³⁵ At inception, this project was bold, recognizing that it was worth taking the risk with an approach for implementation that called for 'learning by doing'. This pioneering assistance was intended to proactively position ADB with an early presence in the North and East, and to improve understanding of the prevailing situation to allow partners to undertake much larger rehabilitation programs later with progress in peace. The subsequent change in government following the electoral victory (December 2001) of the United National Party and the signing of the ceasefire agreement (February 2002) fundamentally changed the operating environment for the first NECORD Project. The ceasefire agreement provided a more conducive environment for project implementation. Following the ceasefire agreement, with an assumption of a post-conflict situation, ADB took a lead role in conducting joint needs assessments and mobilizing resources for reconstruction and rehabilitation of the North and East. The Conflict-Affected Areas Rehabilitation Project (CAARP, Loans 2043/2044-SRI)³⁶ was the first born of the multi-donor Tokyo Conference (9–10 June 2003) on the reconstruction and development of Sri Lanka.³⁷ The 2001 Country Strategy and Program Update included the need to address conflict-related poverty, with subsequent updates indicating plans to direct significant resources for rehabilitation of the North and East, particularly after the tsunami.

³¹ (i) ADB. 2001. *The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila. Available: <http://www.adb.org/Documents/Policies/LTSF/ltsf.pdf>

(ii) ADB. 2006. *Medium-Term Strategy II 2006–2008*. Manila.

Available: <http://www.adb.org/Documents/Policies/MTS/2006/Medium-Term-Strategy-II.pdf>

³² Source: ADB. 2006. *Achieving Development Effectiveness in Weakly Performing Countries*. Manila. Available: <http://www.adb.org/Documents/Papers/Achieving-Development-Effectiveness/Achieving-dev-effectiveness.pdf>

³³ Burke, A and A. Mulakala. 2005. *Donors and Peace Building in Sri Lanka 2000–2005*. Colombo: Asia Foundation.

³⁴ The World Bank-financed project aimed to help conflict-affected communities to reestablish at least a subsistence level of production and basic community services, through assistance with agricultural and small-scale reconstruction, and to build capacity for social and economic reintegration.

³⁵ In the LTTE-controlled areas, during project preparation, the NECORD Project was originally intended to channel assistance through agencies such as the International Committee of the Red Cross and the Office of the United Nations High Commissioner for Refugees.

³⁶ Source: Project information document. Available: <http://www.adb.org/Projects/project.asp?id=37245>

³⁷ Tokyo Donor Conference (9–10 June 2003). Available: <http://www.state.gov/p/sca/ci/ce/21691.htm>

14. The tsunami in December 2004 expanded ADB's assistance to the conflict-affected North and East.³⁸

Most of the tsunami damage (about 60%) was along the coastal areas of the North and East, and about 80% of Sri Lankans affected by the tsunami were also affected by the conflict.³⁹

After the tsunami (Box 2), there was an unprecedented flow of international assistance to Sri Lanka, including a substantial commitment by ADB from the Asian Tsunami Fund (\$600 million) for affected ADB developing member countries, of which Sri Lanka received more than a third of the total.⁴⁰ The tragic natural disaster offered an opportunity for national

reconciliation to provide relief to and rehabilitate the tsunami-affected areas. This opportunity was short-lived, although the Government and LTTE agreed to establish a Post-Tsunami Operational Management Structure in June 2005.⁴¹ This management structure was strongly debated in the South, because it was perceived to provide political legitimacy to LTTE. Disagreements over aid distribution increased political tensions. The Post-Tsunami Operational Management Structure was later challenged in court by leftist and nationalist Southern-based parties. Subsequently, the Supreme Court ruled that the proposed arrangement was partly unconstitutional, and that further hearing of the case was postponed indefinitely.

Box 2: Tsunami and Its Effects

A tragic event struck Sri Lanka when the Indian Ocean tsunami of 26 December 2004 killed 35,000 people and displaced more than 500,000 people in Sri Lanka. This tragedy destroyed infrastructure and capital assets. The cost of rebuilding was estimated at \$2.2 billion (10% of gross domestic product [GDP]), and reconstruction would take 5 years. The most developed western region of the country was physically unaffected by the tsunami, and the sectors (fisheries and tourism) which were worst hit by the tsunami accounted for only a small portion (3%) of the GDP. Sri Lanka received pledges of international aid, and there was no apparent funding gap as donors' pledges exceeded the expected costs of reconstruction. Despite the tragic loss of lives and property, the tsunami did not significantly dampen Sri Lanka's economic growth.

15. ADB intended to promote peace with development strategy and assistance.

Although peace was far from permanent, there was an implicit underlying intent by ADB to promote or help build peace in the North and East with development assistance, whether as a major party to the 2003 Tokyo Conference that linked external aid to peace progress or as a stand-alone institution keen to demonstrate the peace dividend to conflict-affected communities.⁴² ADB is guided by its Charter and policies.⁴³ The role of ADB in promoting peace, security, and stability for economic development and poverty reduction is within the limits of its mandated roles and functions. ADB recognizes that conflict has direct and indirect effects on development. The link between social unrest and underdevelopment provides a compelling

³⁸ The second NECORD Project was already in the pipeline then for 2005–2006; with the tsunami, the project was brought forward and processed together with the TAARP. However, the implementation of the TAARP has been slow, and some components, such as road rehabilitation, have not yet commenced due to security problems.

³⁹ Based on data from the Ministry of Women and Empowerment and Social Development (14 January 2005).

⁴⁰ With the post-tsunami reconstruction and rehabilitation efforts, there was a four-fold increase of 300 new international and national NGOs operating in the North and East.

⁴¹ A joint mechanism embraced under the Post-Tsunami Operational Management Structure between the Government and LTTE for administration and management of funds and projects in the North East was considered since February 2005.

⁴² (i) Statement of President Tadao Chino of the Asian Development Bank at the Tokyo Conference.

Available: <http://www.state.gov/p/sca/rls/rm/21615.htm>

(ii) On 7 March 2003, ADB President visited and met with LTTE representatives. Statement of the ADB President.

Available: http://www.adb.org/media/Articles/2003/1677_Statement_Mr_Tadao_Chino/

(iii) Related articles on the ADB President's visit to Sri Lanka.

Available: <http://www.adb.org/media/printer.asp?articleID=1676>

Available: <http://www.tamilnet.com/art.html?catid=13&artid=8486>

⁴³ Agreement Establishing the Asian Development Bank.

Available: <http://www.adb.org/Documents/Reports/Charter/charter.pdf>

ADB policies and strategies. Available: <http://www.adb.org/Development/policies.asp>

rationale for restoration of peace and prevention of major conflict from occurring. Conflict and security concerns can undermine development efforts.⁴⁴ ADB's Disaster and Emergency Assistance Policy (2004) recognizes that multilateral development banks, including ADB, also give priority to global public goods, which include peace, security, and post-conflict reconstruction. The international community has become more aware of the need to prevent conflict and to respond quickly to help post-conflict countries move along a solid path of economic and social development. The Disaster and Emergency Assistance Policy (2004) recognizes that in many conflict-affected countries, poor governance can contribute to conflict, and in turn, conflict can have an impact on governance. Countries can avoid conflict if people build agreements and resolve differences through mutually acceptable processes, taking into account important pillars of governance that include accountability, participation, predictability, and transparency.⁴⁵

16. Based on its Charter and existing policies, ADB does not have direct roles in peacemaking. However, reduced poverty and closer regional and cross-regional integration can help promote peace and security within South Asia and beyond. ADB's overall vision for Asia and the Pacific is for a prosperous region free from poverty. ADB recognizes that regional cooperation has a critical role to play in realizing this. The four pillars of ADB's Regional Cooperation and Integration Strategy include regional public goods.⁴⁶ Accordingly, ADB's regional cooperation strategy in South Asia aims to help the region realize its full potential in economic and social development, and to enable South Asia to play an effective part in wider Asian integration.⁴⁷ ADB's regional cooperation strategy in South Asia is confined to five key operational objectives to improve connectivity, facilitate trade and investment, develop regional tourism, facilitate cooperation in energy, and promote private sector cooperation.

17. The Country Strategy and Program Update (2005) identified investments to improve living conditions and to provide economic opportunities in conflict-affected areas. This was considered the most tangible contributions that ADB could make in consolidating peace. ADB recognizes the associated risks with an approach that embraces 'learning by doing'. However, the immediate drive to demonstrate peace dividend in order to discourage a return to conflict might have overshadowed the need for objective and contextual risk assessments. The concept of promoting peace with development incentives did not fully examine the larger conflict dynamics and the protagonists involved that were not directly influenced by development aid. Poverty did not cause the conflict in the first place, although the conflict impacted on poverty. Nevertheless, worsening poverty can contribute to fuelling conflict situations. The assumption that peace dividend would prevent the resurgence of conflict turned out to be insufficient.

3. Relevance to Evolving Challenges and Opportunities

18. ADB promptly responded to the opportunity to address conflict-related poverty and the earlier neglect of development in the North and East. The ceasefire agreement provided a perceived window of opportunity for the first time after two decades, for development

⁴⁴ Poverty and Security in Asia. Speech by Liqun Jin (Vice-President of ADB) at the Asia Society. Washington, DC (30 March 2004). Available: <http://www.adb.org/Documents/Speeches/2004/ms2004047.asp>

⁴⁵ ADB. 1995. *Governance: Sound Development Management*. Manila. Available: <http://www.adb.org/Documents/Policies/Governance/govpolicy.pdf>

⁴⁶ ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila. Available: <http://www.adb.org/documents/policies/RCI-strategy/default.asp>

⁴⁷ ADB. 2006. *South Asia (2006–2008) Regional Cooperation Strategy and Program*. Manila. Available: <http://www.adb.org/Documents/CSPs/South-Asia/2006/CSP-SA-2006.pdf>

partners and the Government to address the dire need for basic services and to reduce poverty in the North and East. Consequently, ADB capitalized on its long-term presence in Sri Lanka with its prompt entry and assistance to the North and East, even before the ceasefire agreement was signed and before comprehensive needs assessments could be undertaken. Subsequently, this proactive on-the-ground presence facilitated ADB in assuming a lead role among development partners in coordinated rehabilitation planning for the North and East, as well as to be ahead in mobilizing local management teams and establishing project implementation structures on which subsequent projects could build on. The establishment and functioning of a project management unit established under the first NECORD Project (Box 3) has been recognized by the Government, development partners, and other stakeholders.

Box 3: Relevance of North East Community Restoration and Development Project

Pros:

- The project responded to basic services needs of long-deprived conflict-affected communities in the North and East, many of which were rebuilding their lives.
- The project sought to fill a funding gap for rehabilitation needs at a time when much of the available funding was toward humanitarian and relief activities.
- The smaller-scale nature of subprojects was relevant to volatile security conditions both at the time of project inception and under current deteriorated security situation.
- The project design was relevant to evolving security situations and its process-based approach provided flexibility in number and scope of subprojects within sector-based allocations.
- The project accounted for conflict-sensitivity to some extent in ensuring balance and equitable distribution of subprojects among various communities, ethnic groups, and geographic areas.

Cons:

- The project focused on physical infrastructure that entailed geographic specificity in a setting with fluid security conditions and mobile communities (e.g., many people were migrating to Colombo and large numbers were displaced and settled in adjacent areas to the North and East).
- Despite the use of community mobilization in needs identification (e.g., use of elaborate participatory rural appraisals in village development plans), critics perceived the project as carrying a prescribed menu of types of subprojects.
- Existing implementation arrangements, procedures and principles need to be reexamined (e.g., consultations with LTTE and armed forces). Existing arrangements have largely assumed post-conflict conditions.

19. **Greater attention to changing contexts and challenges is required.** The strategy at inception of the first NECORD Project implied a cautiously-optimistic approach, linking further expansion of assistance with progress in peace. ADB's operations in infrastructure rehabilitation were subsequently expanded and extended (NECORD Extension Project, CAARP, and Second NECORD Project), notwithstanding lack of sound indicators in peace progress. These indicators include pivotal changes to positions taken by parties in conflict, breaking down of peace talks since 2003, and LTTE boycott of the Tokyo Conference, among other events. LTTE withdrew from peace negotiations on 21 April 2003. Subsequently, on 31 October 2003, LTTE unveiled a proposal for an Interim Self Governing Authority for the North and East. The continued expansion of infrastructure-focused rehabilitation programs, under a strategy that assumes post-conflict reconstruction, is perhaps a fundamental shortcoming of assistance supported by development partners, including ADB (Box 4) to the North and East. This expansion of rehabilitation program faces a multitude of barriers to project implementation with the breakdown of the peace process and resurgence of conflict.

Box 4: ADB-Financed Development-Oriented “Post-Conflict” Rehabilitation in a “Non Post-Conflict” Setting

First North East Community Restoration and Development Project (2002–2007): First ADB assistance in the North and East, comprising smaller-scale community and larger “anchor” subprojects, envisioned to lay the foundation for further development assistance, bearing prospects in stability and peace progress.

North East Community Restoration and Development Extension Project (2004–2007): This project focuses on medium-scale subprojects designed to bridge community development with broader district-level improvements.

Conflict-Affected Areas Rehabilitation Project (2004–2008): First response by ADB to a multi-donor needs assessment (May 2003) for post-conflict reconstruction that was presented at the Tokyo Conference in June 2003. To the extent that the aid pledge and Tokyo Declaration (2003) were tied to or intended to support the peace progress (Clause 18), no mention or conditions of this nature were attached to ADB assistance to serve this purpose.

Second North East Community Restoration and Development Project (2005–2009): This project aims to further expand intervention and gains from the first North East Community Restoration and Development Project, and extend project scope beyond physical infrastructure into some of the softer components of capacity development (including governance and institution building).

Tsunami-Affected Areas Rebuilding Project (2005–2009): This project adopts a post-disaster approach in response to the tsunami disaster, but it did not fully account for the complex emergency operational contexts in the conflict-affected areas of the North and East. Different approaches, risks, and assumptions would have to be designed and taken into account for the peaceful South and the conflict-affected North and East, although there are common features that characterize emergency post-disaster responses.

20. **Conflict risk assessments are partly relevant to project implementation.** Peace and conflict impact assessments were undertaken during preparation of the CAARP, Second NECORD Project, and TAARP to facilitate conflict-sensitive project planning. However, these assessments were static and less relevant for project steering and implementation. For peace and conflict impact assessments to be effective and to serve their purpose, especially in an unstable and volatile environment, they must be updated periodically and applied throughout the project cycle, and not primarily for ex-ante purposes for preparing project proposals. A system involving periodic and systematic conflict assessments complemented by updating of local conditions, could better inform and serve project staff and steering committees in proposing and approving more context-sensitive subprojects. Reliance on project implementers for informal assessments and inherent sensitivity to conflict dynamics may undermine objectivity. In-conflict situations often come with issues related to trust, prejudice, and suspicion. Placing the responsibility of conducting conflict assessments on project personnel may expose them to risks. A periodic external review of conflict risks and their effects on project implementation may help improve the relevance of conflict risk assessments.

21. **Strategy lacks mechanism for stakeholders to review, discuss, and respond to changing circumstances and challenges in project context.** Although implementation arrangements in project design appear complex and allow for project-level oversight and coordination at the national, provincial, district, and divisional levels, the Provincial Project Coordinating Committee is currently the only regularly functioning forum.⁴⁸ Committee meetings are held on a quarterly basis and are about a half-day to a day in duration. The Committee has developed as the main forum for review and coordination of all government-funded and externally-assisted rehabilitation projects implemented by the North East Provincial Council. The

⁴⁸ Six National Project Coordination Committee meetings had been convened to date at the national level (last held in June 2006). These followed a largely ad-hoc format with varying levels and types of participation. In addition, 21 committee meetings (last held in December 2006) had been convened by the end of 2006.

packed agenda for this forum largely comprises cursory reporting on project progress and approving hundreds of subprojects by concerned officials. Therefore, the Provincial Project Coordinating Committee is unlikely to be an ideal forum for meaningful stocktaking and discussion of conflict related issues and implementation challenges, and for reaching agreement on follow-up actions. Regularity of and attendance at these meetings may be jeopardized by the deteriorating security situation. Particularly in the context of implementation impediments triggered by the conflict, it is necessary to have a forum (even an *ad hoc* mechanism) beyond the Provincial Project Coordinating Committee, for key stakeholders to substantively review and reassess direction of projects and to plan for contingencies. Options for such arrangements need to be explored and assessed.

22. There is a need for more flexible implementation arrangements. Rationale, strategy, and project design allow for variability in sector and scope of specific subprojects, albeit still largely converging under the theme of infrastructure rehabilitation. In the time spanning from identification, proposal preparation and submission, project committee and ADB review and approval, and awarding of contracts, to actual start-up of subproject, priorities may change or the subproject may no longer be feasible. Such situations normally occur in operations under non-conflict situations, but the contributing factors may be amplified by the evolving security situations in conflict and post-conflict scenarios. Resources for approved and stalled subprojects may need to be reallocated to a different sector or location, or restructured into non-infrastructure assistance. Currently under the NECORD family of projects, it is notably difficult to cancel a subproject, although it could be redirected to a different area at the request of the implementing or executing agency. Consequently, subprojects facing severe difficulties have simply been stopped or left at a standstill. Implementation arrangements need to allow and facilitate the project management unit in initiating reallocations of resources and restructuring/redirection of subprojects. The project management unit is the first line in dealing with contractors, project implementation, and project impediments.

4. Responsiveness to Needs

23. ADB participated in multi-donor needs assessments. With the exception of the first NECORD Project, which started in 2001, subsequent conflict and tsunami related assistance by ADB have been based on multi-donor joint needs assessments, which have enabled allocation of funds proportionally to identified needs. However, aspects of the needs assessments with regard to their responsiveness and the manner in which they were carried out have been a subject of criticism. Critics pointed out that, for conflict-related needs assessment and rehabilitation programs, there evolved a discrepancy between what the Government and development partners had envisioned for the way forward in rehabilitation and development of the North and East (i.e., focusing on infrastructure and industry-based development) vis-à-vis the way in which actual needs evolved. For example, the vast majority of formerly displaced people chose to retake traditional means of livelihoods around fishery and agriculture, which had not been the primary focus of the needs assessment. Contextual understanding of the livelihood perspectives of affected people, in terms of their capital assets (financial, human, natural, physical, and social), would probably have responded better to the needs of people who are rebuilding their livelihoods.

24. ADB-financed projects revolve around physical infrastructure that entails geographic specificity. With deteriorating conflict situations, the needs and context have changed in many dimensions, particularly in LTTE-controlled locations, areas recaptured by the Government, and in places where fighting occurs. For example, with increasing contextual shift in priorities toward humanitarian and relief needs, and new massive internal displacements of

people, key informants interviewed by the Operations Evaluation Mission suggested that it could be necessary to reallocate some of the available resources to providing small-scale basic services and infrastructure to strengthen the coping mechanisms of the affected people. This demand needs to be reviewed in the context of the mandated role of ADB which is not a humanitarian or relief agency. Assessing the changing needs and aspirations of younger generations in mid-conflict situations, which are different from the post-ceasefire agreement days, along with the increasing brain-drain and human resources exodus would need to be considered in longer-term rehabilitation of the North and East.

5. Alignment with National Priorities and Policies

25. **Since the ceasefire agreement, ADB's strategy and assistance have taken a long-term view to support the Government's rehabilitation and development agenda for the North and East.** The government development and rehabilitation strategy for the North and East has largely remained the same on paper regardless of the political party in power. However, with changes in conflict dynamics, the actual application and applicability of development policies for the North and East have varied, against a backdrop of increased government spending on security and defense. ADB would need to consider the political factors and their ramification on programming development assistance when developing or steering assistance strategies for conflict-affected areas.

6. Harmonization, Comparative Advantages, and Partnerships

26. **In planning recovery and rehabilitation assistance, ADB harmonized its strategy and assistance with development partners.** ADB's lead participation in joint needs assessments and multi-donor conferences provided opportunities to rationalize discrepancies and harmonize assistance with key development partners based on comparative advantages.⁴⁹ This harmonization on needs assessments had been critically beneficial for ADB, especially during the post-tsunami period considering the cacophony of *ad hoc* needs assessments by the range of humanitarian organizations that flooded the country. These *ad hoc* needs assessments have been heavily criticized as overlapping, poorly shared, imprecise, and at times contradictory. The Tsunami Evaluation Coalition has stated that humanitarian agencies have much to learn from the successful approach adopted by the international financial institutions on joint needs assessment: expedient cooperation among all partners (above all, the national governments), significant influx of expertise and visibility, and use of teams of analysts to reconcile and compile various sources of information.⁵⁰ As regards the tsunami-related needs assessment (including tsunami disaster areas in the conflict-affected North and East), a number of government officials had pointed out that development partners had established parallel systems and bypassed government channels to some extent during the conduct of the

⁴⁹ The conflict-related joint needs assessment (2003) identified financing needs of about \$3 billion for relief, reconstruction, and rehabilitation of the North and East, of which \$780 million was required for immediate interventions and \$1.2 billion for medium-term interventions. The joint tsunami needs assessment (2005) identified rebuilding needs of about \$1.5 billion for Sri Lanka; most of the resources required in the short-term were for housing, transportation, institutional and community infrastructure, livelihood restoration, and small and micro enterprise assistance. A joint needs-assessment in 2005 was undertaken by ADB, World Bank, Japan, and the United Nations system in cooperation with the Government and Task Force for Rebuilding the Nation. For tsunami aid coordination at the global level, ADB also organized a high-level coordination meeting in Manila (March 2005) including development partners, governments of affected countries, civil society, and private sector representatives.

⁵⁰ de Ville de Goyet, C., and L. Morinière. 2006. *The Role of Needs Assessment in the Tsunami Response*. London: Tsunami Evaluation Coalition.

assessment, although data and information were largely obtained from government sources.⁵¹ This occurred in the context of an emergency situation of unprecedented proportions, and speed and expediency had a higher priority over capacity development during the conduct of the needs assessment.

27. ADB developed partnership with other development agencies. ADB entered into cofinancing agreements with the Organization of the Petroleum Exporting Countries (OPEC) Fund, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ, German Technical Cooperation), and the Government of Netherlands for the first NECORD Project; Government of Sweden for the second NECORD Project; and with the Agence Française de Développement, Government of the Netherlands, and European Commission for the TAARP.⁵² Although donor coordination and joint-planning was strong during initial stages, such harmonization among development partners with divergent mandates seems increasingly difficult under the prevailing political climate. There is an increasing concern among bilateral donors and aid agencies about human rights and the lack of progress in peace. A lesson stemming from the fallout of ADB-GTZ partnership under the NECORD Project is the importance of reaching an agreement on strategic outlook and modalities of assistance prior to signing partnership arrangements. Bilateral development partners have suggested for ADB to improve its client-orientation toward cofinanciers under existing partnership arrangements, including on management accountability and more meaningful reporting on project progress. Interviews with representatives of bilateral development partners indicated the need for (i) more reporting on qualitative project information beyond output-based progress, and (ii) periodic review meetings of critical developments affecting project context.

28. ADB adopted a multi-sector approach and focused on infrastructure. ADB's assistance to the North and East adopted a multi-sector approach, which is focused on ADB's comparative advantage and traditional niche area of physical infrastructure. Lessons from the first NECORD Project (as reflected in the second NECORD Project and TAARP) recognize that a focus on physical infrastructure alone limits project benefits. Whereas the broad multi-sector approach seems appropriate for providing small-scale basic services to the people, the appropriateness of the same multi-sector approach for larger-scale anchor subprojects needs to be reconsidered from both practical and institutional perspectives in terms of selectivity and focus. For example, in social sectors such as health and education, sector expertise and sector-based planning (beyond civil works and contract management) are usually needed to ensure that schools and hospitals can effectively and efficiently deliver benefits. In some cases, there was lag between physical completion of subprojects (for example, Killinochchi hospital) and the time for them to become functional (for hospital to be properly equipped and staffed), which requires sector coordination with government agencies and development partners. Additionally, the overriding focus of subprojects on physical infrastructure, particularly larger scale subprojects, would need to be reassessed in terms of their feasibility and sustainability under deteriorating security conditions. In Sri Lanka, the nexus between maintenance and sustainability for infrastructure projects has been a recurring issue in the past decades. The conflict dimensions have worsened the capability to meet requisites (financial, human, and other resources) for operation and maintenance, and undermined the sustainability of rebuilt facilities and infrastructure.

⁵¹ Source: Key informant interviews conducted by the Operations Evaluation Mission.

⁵² Agreement with the European Commission entailed a concession to allow non-ADB European Union countries to bid for international contracts.

7. Conflict-Sensitivity and Conflict Effects

a. Impact of Local Environment on Project Outcomes

29. **Worsening conflict environment affected project implementation.** The fighting and tensions between the Government and LTTE throughout the North and East have affected project contexts. The stated view among government officials in Colombo is that security-related impediments to project feasibility and implementation largely affect the LTTE-controlled areas, and in places where fighting take place, while project implementation can continue in government-controlled areas. However, interviews by the Operations Evaluation Mission indicate that security situation has been fragile in the North and East (including parts of government-controlled areas). Security issues have affected project implementation in a number of ways. In the LTTE-controlled areas, it is simply not feasible for projects to start or continue given the resurgence of conflict, in which communication channels and logistics for project implementation have been disrupted to varying degrees.⁵³ Consequently, subprojects (planned or being implemented prior to the escalation in fighting) in the LTTE-controlled areas have been stopped or left at a standstill. Completed infrastructure subprojects (such as roads and power grids/transmission) are at risk of collateral damage or deterioration from the inability to maintain these facilities under deteriorating security situations. In parts of government-controlled areas, where situations have been reported to be volatile with the fallouts from the fighting, ADB-financed subprojects were making slow progress with considerable difficulties.

30. **Restricted movement and accessibility impeded project implementation.** A lesson from the first NECORD Project suggested that close and frequent monitoring is needed to ensure transparency and to facilitate project implementation. With restrictions in movement (whether self-imposed out of caution or sanctioned) of project staff at all levels (executing/implementing agencies, ADB, project management, and contractors), there is likely to be increasing lack of control over project implementation and quality as monitoring and supervision frequency declines. Reporting on project progress will also suffer under these circumstances. The government embargo on a number of construction materials, and the general restrictions on transportation and movement of materials and equipment have become major obstacles to project implementation.⁵⁴ There are also preexisting problems prior to the resurgence of conflict (Box 5).

Box 5: Problems Pre-Existing Before Resurgence and Escalation in Conflict

It is important to recognize that not all problems appeared with the conflict escalation. Projects have faced challenges of working in an already complex environment: (i) shortage of contractors for certain categories of projects because of the lack of local capacity, thus the projects attempt to attract and recruit contractors from outside the districts, who quote high prices (including risk premiums) in areas such as Jaffna and Killinochchi; (ii) shortage of building materials as aggravated by rising demand for the tsunami reconstruction work (e.g., timber for the northern region), which affects costing of subprojects, and in some cases, timber had been imported from Malaysia; (iii) deriving realistic cost estimates has been a recurring problem, as there have been differences in cost estimates for similar projects between districts and between subprojects for the same districts; and (iv) implementation delays and difficulties from tsunami (e.g., with cost escalations), problems with staff retention, and loss of trained personnel due to higher salaries offered by nongovernment organizations and United Nations agencies operating in the areas.

⁵³ There are essentially three major project contexts according to scale of fighting in the respective area: (i) stopped or no progress, (ii) some progress with difficulties, or (iii) normal progress. By the end of 2006, the TAARP road component in the North and East had not yet started.

⁵⁴ For example, permits must be obtained from local government agents and security related offices for transportation of specific materials into the North and East. Quarry blasting is prohibited, and consequently gravel for roads must be brought from outside the region.

31. Rising costs of materials and lack of contractors raise questions on aid effectiveness. The spiraling cost escalations and scarcity of building materials are serious barriers to project implementation. For example, under the CAARP road component, unit cost escalations have forced vast reductions in total lengths of roads to be rehabilitated, as compared to the initial plan. This represents a reduction from 500 kilometers in the original plan to about 200 kilometers. Fees for contractors, where they are still available and willing to work in the North and East, have skyrocketed with increasing risk premiums and rising material costs. In many cases, tenders were issued for extended periods but with no response from contractors.⁵⁵ The increasing cost overruns on subprojects and urgent requests at the project-level for additional funds should be viewed with caution, especially as there is a tendency among government officials and project staff to relate project progress mainly with financial expenditures. More expenditures and higher disbursements against rising costs should not be perceived as a measure of project implementation progress, effectiveness, and efficiency. The feasibility of project implementation should be considered before endorsing requests for advance payments under existing contracts. Advancing money for work that is unlikely to be undertaken exposes projects to further risks of cost escalation and problems associated with financial accountability.

32. Reassessment of project feasibility is urgent. In light of recent developments, ADB should (i) reassess ongoing projects candidly and comprehensively, (ii) critically review barriers to project implementation with key stakeholders, and (iii) plan for contingencies for its assistance program. By December 2006, the respective government implementation agencies (with varying levels of awareness and acknowledgement of current implementation impediments) were largely taking a wait-and-see approach before taking decisive action on individual subprojects.⁵⁶ The general trend, however, was then to continue to push for project progress (at least to facilitate disbursements),⁵⁷ while not approving any new subprojects in LTTE-controlled areas pending improvements in security situation. In December 2006, the Ministry of Nation Building and Development (the executing agency for the second NECORD Project, CAARP, and TAARP) indicated the possibility of requesting reallocation of unused rehabilitation funds toward housing for internally displaced people and humanitarian supplies, should the need arise in the future. While the housing requirement and supplies for internally displaced people underscore the need for addressing humanitarian crisis, this raises issues concerning the eligibility and mandate of ADB as a development bank to provide such assistance.

b. Effects of Projects on Conflict and Local Environment

33. Projects have generally adopted do-no-harm principles. All post-ceasefire agreement ADB-financed projects in the North and East were generally designed with sensitivity to local tensions and equity issues. The thrust of conflict-sensitivity in these projects has largely revolved around “doing no harm” to exacerbate social tensions and local conflict dynamics.⁵⁸ This was achieved through steps to ensure balanced and equitable distribution of benefits

⁵⁵ For example, under the CAARP power component and the second NECORD Project, lack of response from contractors has been a problem, especially with larger-scale subprojects.

⁵⁶ Under the CAARP, for example, the Road Development Authority indicated that it would wait until early 2007 to decide whether to terminate some of the awarded contracts which could not be implemented. The Ceylon Electricity Board under the CAARP also adopted a wait-and-see attitude, while it did not push its subprojects into compromised areas while there was still time in the project implementation period.

⁵⁷ Key informant interviews with government officials and projects staff indicated strong perceptions of achieving progress as measured against progress in spending budgeted expenditures and targeted disbursements.

⁵⁸ These are largely communal tensions and interaction dynamics among Tamils, Sinhalese, and Muslims. Local tensions and perceptions of inequity in benefit distributions have potential to be exploited politically.

among districts, people, and ethnic groups, although the actual mechanism for doing so is unclear. To help counter the increasing tensions at the time between tsunami- and conflict-affected communities, from large discrepancies in aid distribution and attention being given to the two communities, ADB simultaneously approved the TAARP and the second NECORD Project (2005). A conflict specialist position was created at ADB's Sri Lanka Resident Mission to facilitate and improve understanding of the conflict and conflict-sensitive planning. This position was filled with an assignee from the Department for International Development of the United Kingdom. The assignee left in 2006, and by April 2007, this position had not been refilled. ADB needs to fill this position as soon as possible. Other elements of conflict-sensitive planning, such as those related to community participation and ownership, were also attempted, largely through contracting NGOs to carry out participatory rural appraisals and to prepare village development plans for smaller-scale community subprojects.

34. At the macro-level, critics have debated that development aid to the North and East, and development partners' support for government economic policies had indirectly and inadvertently undermined peace. In April 2004, the United National Front government was defeated in elections, with an apparent backlash from the electorate.⁵⁹ A research paper (2006) of the ADB Institute indicated that the challenge of the post tsunami recovery (including tsunami disaster areas in conflict-affected North and East) is typically not lack of money overall, but too much money which can create institutional complications, rivalries, and corruption.⁶⁰ Much distrust and negative perceptions by the different stakeholders exist about other key players (international NGOs, Sri Lankan NGOs, community based organizations, civil society). There has been an unprecedented international response to the tsunami (including conflict-affected areas) with large sums of money for livelihood recovery, reconstruction, and rehabilitation. Unfortunately, while the availability of resources can rapidly replace lost assets, it has also created conflict and tension. The provision of aid can inadvertently exacerbate existing tensions and rivalries. Some observers pointed out that the high visibility of post-ceasefire agreement development assistance to the North and East (which some people mistakenly perceived for the bulk of development assistance going to the North and East) may have contributed to resentment and tension on aid distribution. Likewise, development assistance that is perceived to be primarily aimed at development that excludes the North and East may also contribute to fuelling political tensions on aid and benefit distributions.

8. Indicative Outcomes, Effectiveness, and Sustainability

35. Short- and medium-term outcomes. Against a backdrop of the conflict-affected communities struggling to rebuild lives in the days immediately following the ceasefire agreement, the timeliness and relevance of the first NECORD project to meet people's dire needs have had visible immediate effects (Box 6). A large number of people interviewed by the Operations Evaluation Mission confirmed their perceptions of the benefits of ADB assistance.

⁵⁹ Bastian, S. 2005. *The Economic Agenda and the Peace Process*. Part of the Sri Lanka Strategic Conflict Assessment (2005): Aid, Conflict, and Peace Building in Sri Lanka 2000–2005. For example, this paper argues that aid agencies and multilateral organizations contributed to the defeat of the United National Front (UNF) government, stating that “*the agenda and interests of donors coincided with the UNF's strategy. In this way, the donor community supported the UNF strategy politically as well as by providing development assistance, without any concern about the internal contradictions such a strategy would present or what impact it would have on the peace process.*” The author calls for (i) better understanding of the politics of economic reforms; (ii) strategies for building political support for reform while not undermining support for the peace process; and (iii) greater focus on timing and sequence of reforms so that the peace process is not undermined.

⁶⁰ Jayasuriya, Sisira, Paul Steele, and Dushni Weerakoon. 2006. *Post-Tsunami Recovery: Issues and Challenges in Sri Lanka*. Tokyo: ADB Institute.

Although determining attribution is difficult, and the planned NECORD impact-survey has not been undertaken, it could be reasonably deduced that (i) the rehabilitation of schools and hospitals, and the procurement of necessary materials had facilitated school enrolments of children and the functioning of hospitals to serve the targeted communities;⁶¹ (ii) investments in roads had improved access to markets and community services; and (iii) livelihood enhancements and microfinance had eased individual poverty. Projects in health and education sectors were noted by key informants to have likely had the most impacts on the lives of the people, followed by those in community development and livelihoods.⁶² As part of the peace dividends during the 4 years following the ceasefire agreement, the NECORD projects helped to reduce entrenched sentiments of deprivation among conflict-affected communities. In terms of its functions and processes, the first NECORD Project developed broad-based linkages, such as with the food and nutrition programs of the United Nations World Food Programme (e.g., construction of school kitchens and procurement of kitchen utensils), to generate wider benefits to the rural communities.⁶³

Box 6: Sustainability of the First North East Community Restoration and Development (NECORD) Project

Although NECORD has brought visible benefits in improving access to basic services for conflict-affected communities, its sustainability of outcomes is less likely due to both internal and external factors. Internal factors (i.e., those within project influence to various degrees) include (i) inadequate attention to fostering and developing community capacity to complement hardware investments in infrastructure, as evidenced by instances of lack of ownership and improper handling and maintenance of assets (e.g., school facilities); (ii) insufficient budgetary and staff provision by respective government departments for adequate maintenance of assets (as cited in various minutes of Provincial Project Coordinating Committee meetings); (iii) difficulties in recruitment and retention of school and hospital staff (e.g., especially placement of teachers in remote areas and training/recruitment of medical personnel) as exacerbated by the conflict situations; and (iv) problems with retention of trained staff at project and government offices due to better job opportunities elsewhere, higher salaries offered by nongovernment organizations and other agencies, and deteriorating security conditions. External factors include (i) mobility of intended beneficiaries, either due to further displacement from escalated conflict or out-migration to Colombo and elsewhere for better economic and livelihood opportunities; (ii) lack of use of facilities for their intended purposes (e.g., roads, schools, clinics) due to security threats and restrictions on movement of people and occupation of facilities by internally-displaced people and others; (iii) collateral damage and destruction of assets due to the resurgence of conflict; and (iv) decline in government capacity to provide services under conflict conditions. The NECORD projects and the project management unit have helped strengthen capacity of the North East Provincial Council to implement externally-assisted projects. Benefits accrued from health and education subprojects and capacity building investments have reached individuals including the poor. Benefits included capacity enhancements of local private contractors and increased involvement of nongovernment organizations and community-based organizations in subproject contracting/bidding.

36. Economic effects. Peace and stability are necessary preconditions for long-term economic development and poverty reduction. The rehabilitation of the A-9 highway (linking the North with the rest of the country) and other similar infrastructure investments with assistance from ADB, have reduced isolation, improved markets access, and lowered prices of goods in the region. During the relatively peaceful period after the ceasefire agreement, the GDP of the North and East grew by an annual average of 12.6% and 10.1%, compared to 3.4% and 4.6% respectively during the pre-ceasefire agreement period.⁶⁴ There was growth in the agricultural sector in the North by 32% per annum, and in the East by 19% per annum, compared to 4.3%

⁶¹ Training for midwives, for example, was provided under NECORD, but there was no tracer study on their actual placements and utilization. Human resources retention remains a formidable problem in the North and East.

⁶² This observation draws from interviews with project staff, project directors, members of NGOs, and other people (including staff of development partners) who have worked in, lived in, and visited the North and East.

⁶³ Source: Interviews with NGO representatives.

⁶⁴ Peace Secretariat. 2005. *Impact of the Ceasefire Agreement on Regional Economic Growth in Sri Lanka*. Colombo. Available: http://www.peaceinsrilanka.org/peace2005/Insidepage/PressRelease/WebRel/July/WebRel180705_1.asp

and 4.9%, respectively, during the pre-ceasefire agreement period. Private investments in the North and East significantly increased in banking, retail trade, and communications. Overall, economic growth after the ceasefire agreement had been higher than before the agreement in the North, East, and North Central provinces.⁶⁵ For example, in the North, annual paddy production averaged 138,000 metric tons during the post-ceasefire agreement period, compared to 65,000 tons before the ceasefire agreement. In the East, paddy production averaged 752,000 tons during the period after the ceasefire agreement, compared to an average of 619,000 tons before the ceasefire agreement. The resurgence of conflict can reverse the achievements derived from peace dividend.

37. **Sustainability issues.** In project documents, risks to sustainability frequently refer to issues related to infrastructure maintenance under normal conditions. While sustainability issues are equally valid in other parts of Sri Lanka under non-conflict situations, the conflict and its effects on the operating environment impose further stress on sustainability. With the resurgence of conflict, communities have become more vulnerable to access restrictions, security deterioration, and loss of employment opportunities. News media have reported distrust, dissatisfaction, and frustration among those who have been affected by the conflict. Current sustainability issues relevant to ADB-financed projects include potential damage and destruction of assets from the fighting. Other sustainability dimensions include constraints that have become more difficult to overcome in an in-conflict environment: (i) difficulties in maintenance of infrastructure and facilities; (ii) repeated displacement of resettled communities; (iii) local capacity constraints in management, operational maintenance, and human resources; and (iv) difficulties in maintaining partnerships, as the situation becomes increasingly restrictive to international and national NGOs.

9. Overall Rating

38. Based on the above analysis, this evaluation rates the positioning of ADB’s past strategies for the conflict-affected North and East “satisfactory” (Table 1). However, given the changing context, stalled peace process, and the resurgence of conflict, ADB will need to redefine its strategy for its operations in conflict-affected areas. While past strategies were suited to post-conflict assumptions, current and future engagement require a strategy that can accommodate scenarios that include in-conflict situations of varying degrees, including the likelihood of a continuing low intensity armed conflict in the North and East.

Table 1: Rating of the Positioning of ADB’s Strategies for Conflict-Affected Areas

Strategy	Criteria for Positioning						Average ^a
	Sufficient Basis for the Strategy	Government Ownership	ADB’s Comparative Advantage and Strategy Harmonization with Other Development Partners	Focus/ Selectivity and Synergies	Long-Term Continuity	Risk Assessment and Monitoring Mechanisms to Achieve Envisaged Results	
2001–2006	2 (S)	2 (S)	2 (S)	2 (S)	3 (HS)	1 (PS)	2.00 (S)

ADB = Asian Development Bank, HS = highly satisfactory, PS = partly satisfactory, S = satisfactory, US = unsatisfactory.

^a Note: HS = 3 points; S = 2 points; PS = 1 point; and US = 0 point. An equal weight is applied to each of the six criteria for positioning. The ratings are as follows: HS > 2.5, (ii) 2.5 ≥ S ≥ 1.6, (iii) 1.6 > PS ≥ 0.6, and (iv) 0.6 > US.

⁶⁵ Abeyratne, Seneka and Rajith Lakshman. 2005. *Impact of the Ceasefire Agreement on Regional Economic Growth in Sri Lanka*. Economic Affairs Division, Peace Secretariat. Colombo.

39. In light of the overall assessment, ADB assistance program for North and East Sri Lanka is rated “likely to be partly successful” (Table 2). This rating may likely change, depending on the situations influencing the operating environment for delivery of development assistance. The resurgence of conflict reduces the probability of success for reconstruction and rehabilitation.

Table 2: Overall Performance Rating of the Assistance Program for Conflict-Affected North and East

Rating	Relevance	Effectiveness	Efficiency	Sustainability	Impact	Overall Rating
Score	3	4	1	2	2	12
Rating	Highly Relevant	Likely To Be Effective (Possibly To Become Less Effective)	Likely To Be Less Efficient	Less Likely To Be Sustainable	Likely To Be Modest	Likely To Be Partly Successful

- (i) Relevance: highly relevant (3 points), relevant (2 points), partly relevant (1 point), irrelevant (0 point).
(ii) Effectiveness: highly effective (6 points), effective (4 points), less effective (2 points), ineffective (0 point).
(iii) Efficiency: highly efficient (3 points), efficient (2 points), less efficient (1 point), inefficient (0 point).
(iv) Sustainability: most likely (6 points), likely (4 points), less likely (2 points), unlikely (0 point).
(v) Impact: high (6 points), substantial (4 points), modest (2 points), negligible (0 point).
(vi) Overall rating: highly successful (20 points and above), successful (16–19 points), partly successful (11–15 points), unsuccessful (10 points or less).

Source: ADB. 2006. *Guidelines for the Preparation of Country Assistance Program Evaluation Reports*. Manila.

E. Possible Options for ADB Operations

40. **It is necessary for ADB to assess the locations where ADB assistance can be delivered effectively.** Given the uncertainty and unraveling of the peace process, and the continuing in-conflict situations, it is pivotal in 2007 for ADB to review and determine development assistance options for the North and East in the peace-conflict spectrum for the next 1–3 years. Given this operating environment, it is necessary to consider locations in the North and East where ADB-financed projects can be feasibly implemented to take into account effectiveness, efficiency, and sustainability criteria. In assessing these areas, ADB may consider an option to categorize the conflict-affected areas from the viewpoint of the feasibility of project implementation and implementation arrangements. For example, in this respect, areas of the North and East may be categorized into (but not limited to) four groups: (i) areas which are controlled by LTTE; (ii) areas where intensive fighting occurs and boundaries are changing; (iii) areas where the Government is effectively in control, but security risks are significant, with exposure to incursions and occasional fighting; and (iv) areas which are securely under the control of the Government, where security risks are deemed minimal. Criteria for selecting areas (where ADB-financed projects can operate effectively in the North and East) should be developed, to take into account stability, security, and volatility of on-the-ground situations that affect the feasibility of project implementation. It should be recognized that boundaries of areas of both intense and sporadic fighting can change rapidly, and consequently, there is a need for implementation arrangements that can accommodate contingency plans to deal with emergent, evolving, and unforeseen situations.

41. **ADB may consider greater flexibility to deal with emergent situations.** Flexibility should include options for changes of scope and temporary suspension of development assistance with a view toward efficiency and development effectiveness of operating in conflict-affected areas, particularly when rising costs and security risks can outweigh the expected benefits. While ADB has taken steps to deal with the evolving situations, the following options may be considered.

- (i) Existing implementation arrangements of ADB-financed projects in LTTE-controlled areas (as they require communications and consultations with both the

Government and LTTE) have broken down. No new subprojects have been approved in LTTE-controlled areas (known as “uncleared areas” in government parlance). Whereas the implementation of previously approved and ongoing subprojects has been largely at a standstill, some subprojects have been abandoned due to the conflict.

- (ii) In locations where fighting is intensive and ongoing, development and rehabilitation operations have been severely disrupted. Project implementation is virtually impossible under such circumstances. Suspension and withdrawal of subprojects should be considered, to minimize losses of project resources and to ensure safety of project personnel.
- (iii) In ensuring safety of personnel (including ADB staff and consultants), integration of operational program planning and security risk management can mitigate safety and security risks. In many areas, personnel are working in more challenging operational environments, often exposed to higher levels of danger and risk than ever before. There may be inevitable tradeoffs between security and implementation of ADB-financed assistance, but the aim should be to carry out work more safely.
- (iv) In government-controlled areas (referred to as “cleared areas” in government parlance), where parts of these areas are exposed to significant security risks and occasional fighting, project implementation has encountered difficulties to various extents. The rising costs and risks of doing business, and the inability to ensure adequate monitoring and supervision may outweigh the benefits of continuing assistance at this point in time. Temporary suspension and other feasible options should be considered.
- (v) In securely government-controlled areas, ADB may continue to provide development assistance particularly in places where project implementation is unhindered and feasible, but with options to deal with emergent issues, including the ability to scale down or scale up the quantity and scope of subprojects as appropriate.
- (vi) In concert with development partners, ADB should continue to engage the Government in high-level dialogue for concessions on government-imposed impediments to secure access and facilitate development and relief operations in the affected areas.

42. **Given the scarcity and rising costs of materials, limited availability of contractors, and the risks of collateral damage to infrastructure projects, ADB may consider providing assistance to improve self-reliance of the affected communities.** A livelihoods approach may be considered for examining the vulnerability of the affected people.⁶⁶ For example, to identify appropriate livelihood strategies to reduce vulnerability, improve coping mechanisms, and improve food security of conflict-affected communities, an assessment of livelihood assets (financial, human, natural, physical, and social capitals), and conflict-sensitive transforming structures and processes may be conducted. However, the conduct of this assessment may be constrained by security conditions. Considerations should be given to working with community-based organizations to facilitate access and develop trust with the

⁶⁶ Much information on the sustainable livelihoods framework is available at <http://www.livelihoods.org/>.

affected communities. This requires an adaptation of the livelihoods approach to conflict-ridden situations.⁶⁷ Microfinance initiatives cannot create peace or functioning economies where these do not exist.⁶⁸ The specific effects of the conflict and the means to mitigate detrimental effects should be considered in designing assistance that can (i) respond to shocks (income generation and food security); and (ii) provide support to community-based organizations, structures, and processes (including social networks, neighborhood support, and rural economic links). This requires development and promotion of good governance and trust for peaceful coexistence of ethnic communities.

43. ADB should reconsider the geographical coverage of its development assistance. Although geographical coverage may be an issue for ongoing ADB-financed projects in the designated conflict-affected North and East, ADB (in consultation with the Government) should consider adjusting the coverage areas of ongoing projects to include adjacent and less at-risk districts. Considerations should be given to including the North and East in nationwide projects through selection criteria that promote inclusiveness, economic links, and more equitable development.

44. To enhance accessibility in conflict-affected areas, in consultation with the Government, ADB should consider different options for engaging community-based organizations and NGOs as service providers. This requires tactful consideration of such engagement in development and rehabilitation projects, a subject matter that has been a contentious issue in Sri Lanka, particularly with regard to NGO performance in post-tsunami rehabilitation. Considerations should be given to promote the functioning of local institutions and systems, and the engagement of community-based organizations that can operate in the areas.

45. ADB should seriously consider reorienting the TAARP components that can no longer be implemented. The following may be considered: (i) stocktaking of interventions and improving monitoring of outputs and benefits, (ii) more focus on capacity development and/or identification of qualified and dedicated staff for tsunami recovery, (iii) development of action plans for maintenance of health and school facilities, and (iv) negotiating with government reconstruction and defense authorities to ensure continued tsunami reconstruction in conflict affected areas within the feasibility limits of the current environment.

F. Long Term Contextual Factors to Consider, If and How to Assist the North and East in a Conflict Environment

46. For development assistance (restoration/rehabilitation/reconstruction) in the North and East to be effective, efficient, and sustainable, there is a prerequisite to be fulfilled. The armed conflict must stop, and peace and order established along the path of a credible peace process toward a more permanent peaceful solution. Although the situation varies contextually by districts and pockets within districts, current ADB-financed projects in the conflict-affected areas are effectively at risk, against a backdrop of security threats and operational impediments. Even where operations are still feasible and pushed along against high costs and risk premiums, questions need to be asked with regard to monitoring, quality of implementation of subprojects, economic viability, competency of contractors, and financial accountability. The appropriateness and feasibility of investments in infrastructure should be

⁶⁷ Longley, Catherine and Daniel Maxwell. 2003. *Livelihoods, Chronic Conflict and Humanitarian Response: A Synthesis of Current Practice*. London: Overseas Development Institute.

Available: http://www.odi.org.uk/publications/working_papers/wp182.pdf

⁶⁸ Consultative Group to Assist the Poor. 2004. *Supporting Microfinance in Conflict-Affected Areas*. Washington, DC. Available: http://cgap.org/docs/donorbrief_21.pdf

questioned, for example, (i) roads to improve market access when road access is restricted by parties involved in the fighting; and (ii) power transmission and other physical investments when these assets are at risk of war destruction, deterioration from lack of maintenance, misuse by armed groups, or where intended beneficiaries have fled to other areas. All of these inevitably raise dilemma for development assistance. In this context, greater attention should be given to risk analysis, development of options, and justification for the options taken in the context of costs, benefits, and the recognized risks.

47. Notwithstanding the above, as the largest provider of assistance to the North and East, a decision by ADB to withdraw or temporarily cease assistance until conditions improve for the longer-term would have exacerbating consequences for the region. ADB faces difficult issues concerning conflict-sensitivity, do-no-harm principles, and its institutional roles as a multilateral development bank that serves its member countries. There are different opinions on this subject. Some observers argue that the exclusion of the North and East from development assistance would violate conflict-sensitivity principles. A reversal by ADB to pre-ceasefire agreement type of country assistance (which, by and large, neglected the North and East while developing the South and West) can be perceived to contribute to increasing regional disparity and, consequently, tension. Other observers have argued even further that development assistance to parts of the North and East can be perceived as contributing to increased tension, especially when development assistance can be delivered only to areas where the Government is in control, and not elsewhere. Some observers support the exclusion of the entire North and East from development assistance, until such time when a more peaceful environment is restored for equitable delivery of development assistance. There is also the dilemma of conflict sensitivity versus poverty sensitivity, as poor people also live in the South and West of Sri Lanka, and poverty is not confined to the North and East.

48. To the extent possible, the effects of all projects vis-à-vis the context and dynamics of the conflict need to be meaningfully and periodically assessed. This is to ensure that the do-no-harm principles are applied, recognizing that it is the relative deprivation among regions and groups that is perceived to be the general source of conflict rather than the deprivation of the poor. For ADB-financed projects (which aim at equitable and conflict-sensitive distribution of project benefits among groups), the resurgence of conflict has disrupted the feasibility and ability of projects to reach out to intended beneficiaries.

49. ADB should review its presence in the North and East, at least from the perspectives of conflict-sensitivity, to respond to development and emergent needs of the affected communities. Recognizing that the delivery of assistance does not need to wait for the conflict to end, and that communities do carry on with their lives within the conflict environment (for example, people continue with their livelihoods albeit with limited options, children and youth need education, and hospitals need to function, etc.) the challenge for ADB is to move away from a post-conflict mindset, and to explore innovative options, modalities, and partnerships to continue assistance within the in-conflict environment. This may involve outsourcing and partnering with agencies with specialized capability of operating in conflict-affected areas, and with administrative and management systems that allow rapid response to changing conditions. More emphasis should be placed on monitoring, supervision, accountability, and quality-assurance for more effective and efficient project implementation under a difficult operating environment. There is a need to update the current project monitoring information system to capture essential project information (including project benefits, bottlenecks, constraints, and conflict effects) beyond the number of subprojects approved, tenders issued, contracts signed, and loans disbursed. Based on lessons derived from ongoing

projects, possible longer-term options for ADB assistance for the North and East are described below.

1. Conflict Remains at the Same Level or Escalates in the Future

50. If conflict persists in the North and East, a scaled down development assistance in terms of small subprojects to a level similar to those under the first NECORD Project, is more appropriate than mid-sized to large scale subprojects. These small subprojects represent immediate and small-scale development activities to sustain communities through investments in community-level basic infrastructure and services, livelihoods and income-generation, vocational training and education, and human resources development in social sectors such as health and education. Development assistance may be provided to areas where project implementation is feasible, particularly in areas securely under the control of the Government. In this respect, the following may be conducted and taken into account to ensure the feasibility of project implementation in conflict-affected areas.

- (i) Review scope and adjust timeframe of ongoing ADB-financed projects to accommodate slower project implementation progress and disbursement rates.
- (ii) Assess operational impediments, review external and internal risks, and determine their effects on projects and subprojects, and set forth realistic risk-mitigating measures with clear operational guidelines for on-the-ground project staff. Such guidelines are critical as some subprojects would have to be administered and controlled remotely due to restrictions on staff movement.
- (iii) Rather than deferring to a cascade of national-, provincial-, and district-level government entities for steering and approving of subprojects, devolve more decision-making authority to the project management unit while ensuring its adequate capacity. While some observers may argue that the use of the project management unit leads to a parallel system, effectiveness and efficiency of the delivery of development assistance should be assessed and considered under a conflict crisis environment where the functioning of local institutions may be limited. Devolvement of authority to the project management unit can ensure stability in project administration and timely monitoring and steering of subprojects. This can also protect projects from political fluctuations (frequent ministerial changes and politicization of subprojects) and the effects of the de-merging of the North and East.
- (iv) Review current level of staffing and efficiency of staff utilization at the project management unit; ensure balance of administrative and technical staff capable of project monitoring and supervision; and revise incentive structures and provide compensation to reflect work in a risky and volatile environment to retain competent staff on the project team.
- (v) Update project implementation guidelines and rules-of-engagement as current procedures, consultation processes, and implementation arrangements are outmoded and partly irrelevant in the context of in-conflict scenarios.
- (vi) Develop and diversify partnerships and outsourcing modalities with agencies of the United Nations and NGOs, based on their strengths and comparative capability to operate in conflict-affected areas, taking into account that

government outreach and services are limited under the continuing conflict conditions.

- (vii) Ensure compliance with government assurances, including access to project areas and protection of investments.

2. Conflict Deescalates and Security Conditions Return to Normalcy

51. When the conflict deescalates, and security conditions improve with resumption of a credible peace process, rehabilitation assistance under post-conflict conditions may resume but with careful attention to (i) monitoring political changes affecting the project context and (ii) recognizing that sustainability of large-scale investments to stimulate regional economic growth would necessitate conditions of more permanent peace with an enduring political solution. Peace and conflict impact assessments should be periodically updated to help steer assistance program. With cessation of armed conflict and violence, and more permanent peace, provision of assistance to the most deprived communities (including areas from where forced conscription of adults and children had taken place) may be considered to improve their access to basic services (education and health), and to provide sustainable livelihoods, access to markets, and employment.

52. Beyond reconstruction and rehabilitation of infrastructure and facilities, new development challenges may be addressed to the extent possible in planning broader-based assistance for the recovery of conflict-affected communities. This includes addressing youth unemployment, brain drain, and shortages of human resources in the social sectors (health and education). Pathways out of poverty should be identified and assessed contextually. Under more stable conditions, and with open economic links to the rest of the country, rehabilitation and development of the North and East should not solely rely on projects targeted at the poor to reduce poverty in designated geographical areas. While targeting may be necessary to identify different categories of poor people, and to ensure that designated project benefits reach them, poverty targeting may not be the most effective way to reduce poverty in the region. Evaluation evidence suggests that the location of projects in poor regions do not guarantee cost effectiveness and significant poverty reduction, and the solution to persistent rural poverty in remote, disadvantaged, and poorly endowed regions may lie largely outside them.⁶⁹ Poverty reduction may require active participation of the non-poor and the private sector in job creation. Alternative interventions should be explored and considered: (i) infrastructure projects with potential for generating sizeable employment opportunities; (ii) projects facilitating mobility of people, and reducing its costs; (iii) projects enhancing self-employment; (iv) provision of health services to rural residents to reduce household vulnerability; (v) investments in education (vocational and post-secondary) that may help people break away from inherited poverty; and (vi) investments in rural infrastructure that can address rural-urban gaps and connectivity. ADB should explore alternative approaches to fight rural poverty in the North and East under post-conflict and recovery scenarios, and to build capacity and systems of local institutions.

⁶⁹ (i) Van de Walle, Dominique. 2002. Targeting Revisited. *The World Bank Research Observer*. Vol. 13, (No. 2): 231–248. (ii) Weiss, John. 2004. Experiences with Poverty Targeting in Asia. In *Poverty Targeting in Asia: Experiences in India, Indonesia, People's Republic of China, the Philippines and Thailand*. Tokyo: Asian Development Bank Institute. (iii) ADB. 2006. *Special Evaluation Study on Pathways Out of Rural Poverty and the Effectiveness of Poverty Targeting*. Manila. Available: <http://www.adb.org/Documents/SES/REG/Rural-Poverty-Targeting/ses-poverty-targeting.asp>