

POVERTY REDUCTION PARTNERSHIP AGREEMENT
between
the Government of Sri Lanka and the Asian Development Bank

I. INTRODUCTION

1. This Poverty Reduction Partnership Agreement (the Agreement) between the Government of Sri Lanka (the Government) and the Asian Development Bank (ADB) sets out the long-term goals, medium-term vision as well as agreed targets as the basis of the ADB's future program of assistance. The Agreement flows from the ADB's Poverty Analysis (March 2001) in the country and the Government's Framework for Poverty Reduction (November 2000), which were discussed at a High Level Forum organized by the Government in March 2001 with wide stakeholder participation. The Agreement is also focussed on attainment of the International Development Goals (IDG) for 2015 as enunciated at the World Summit on Social Development in 1995. It incorporated agreed mechanisms to review performance and highlights milestones necessary to measure progress. It is envisaged that the future allocation of ADB resources will be linked to the achievement of progress under the Agreement. The Agreement also recognizes the ADB's Country Operational Strategy (December 1998), which stipulates ADB efforts in achieving poverty reduction through economic growth and human resource development with a strategic theme of promoting the environment for growth.

2. The Government and ADB agree that three elements are essential to incorporate in planning and implementing cohesive poverty interventions in Sri Lanka. Firstly, little progress can be made in reducing poverty in the northern and eastern part of the country until a solution to the conflict is reached. Nevertheless, there are encouraging signs that the peace process between the Government and the Liberation Tigers of Tamil Eelam (LTTE), facilitated by the Norwegian Government, will move forward. Secondly, the Government faces considerable fiscal constraints in the medium term due to, amongst other things, the public debt overhang. While sustainable macroeconomic management will require consolidation of public expenditure, reduction of fiscal deficit, and containment of the public debt, these measures also impose immediate constraints to implement necessary programs and activities particularly in view of the recourse to concessional sources of finance is diminishing. Lastly, lessons learnt from the significant progress made in the Western Province will be useful particularly through expansion of the capabilities and opportunities of the people to participate in global markets. As such, connecting the more remote and rural parts of Sri Lanka with dynamic global markets is crucial to creating opportunities for the poor to increase employment and incomes while improving the overall living standards in the country.

II. LONG-TERM GOALS (2002-2015)

3. The United Nations ranked Sri Lanka 84th among 174 countries in terms of the human development index in 2000. Additionally, GNP per head estimate of US\$841 in 2000 is the highest among South Asian countries. Sri Lanka has very impressive social indicators among countries of similar stage of development and already made substantial progress towards the IDG. This level of human development has been achieved through the provision of universal access to health and education and long-standing investment in the social sectors. However, while Sri Lanka has achieved a high level of human development, economic development has lagged consistently behind social development.

4. Almost 40 percent of the country's population are either poor or vulnerable to poverty. This level has remained more or less constant during the 1990s despite a real GDP growth rate of around 5 percent per annum, which is well above the world average. Although the economy is growing, it is not growing fast enough to transform the rural areas, where about 90 percent of the low-income population reside. Moreover, the benefits of growth are not being evenly distributed throughout the country. Most of the growth generated in the 1990s has been concentrated in the Western Province, where the bulk of the country's industries and related services are located. The extent of consumption poverty, human poverty and child malnutrition (underweight) shows substantial regional variation, with the Western Province showing the least incidence and the Uva Province showing the highest incidence (excluding the northeast).

5. The Government's long-term goals aim to achieve prosperity through sustainable development including the achievement of IDG and a 50 percent decline in the level of absolute poverty over the 1990 base by 2015. The Government and ADB agree that poverty reduction would be effectively addressed through promoting the environment for growth to achieve a sustainably higher level of economic growth. The strategic focus will be (i) creating opportunities for pro-poor growth; (ii) strengthening the social protection system; and (iii) empowering the poor and strengthening governance. These elements underpin efforts to improve human welfare or reduce poverty of multi-dimensions in a comprehensive manner. In particular, it represents a fundamental shift in the role of government with regards to poverty reduction. The new role of government is to create an enabling environment for poverty reduction, not to attempt to solve poverty directly through public spending or restrictions on economic activity.

6. Key goals for 2015 include (i) a sustained reduction in relative incomes and the poverty incidence gap between the Western Province and the other parts of the nation; (ii) progress in human resource development which will be marked by full achievement of the IDG¹ related to human development; (iii) good governance to be indicated by measures such as a reduction in the share of government in the commercial sectors of the economy, a decline in the relative size of the civil service in the labor force, adoption of best principles for public expenditure management, and involvement of professional groups, private sector, and the community in decision-making and in the provision of public services; and (iv) progress in reducing conflict related poverty, which can be measured by Government's continued participation in efforts to promote peace, provision of humanitarian assistance to conflict-victims, and a progressive restoration of access to social and economic infrastructure to those displaced or otherwise adversely affected by the conflict.

III. MEDIUM-TERM STRATEGY (2002-2007)

7. Given the three development considerations in the medium term as described in para. 2, the Government and ADB will aim to achieve a sustainable reduction in poverty through the following mechanisms: (i) broad-based pro-poor growth to generate productive employment opportunities and increased rural income; (ii) enhance social development by improving education quality and access and increasing nutrition awareness; (iii) promotion of community-based natural resources management; (iv) good governance to make the public service more accountable and responsive to the needs of the poor; and (v) reducing conflict related poverty.

¹ Enroll all children in primary school by 2015; make progress towards gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2005; reduce infant and child mortality rates by two-thirds between 1990 and 2015; reduce maternal mortality ratios by three-quarters between 1990 and 2015; provide access for all that need reproductive health services by 2015.

A. Broad-based Pro-poor Growth

8. A high priority is accorded to broad-based rural development, which will be achieved by increasing the productivity of the poor by forging stronger linkages between remote regions and dynamic global markets, development of the first phases of a strategic national transport system, development of infrastructure especially in rural and remote areas, increasing access to financial and business services and providing a stable and sustainable macroeconomic environment. ADB assistance will continue to support sustainable development in rural development including targeted investments in agriculture and fisheries. In addition, ADB will continue its assistance in financing rural electrification to ensure the benefits of economic development reach the disadvantaged rural population. To promote high mobility roads and an efficient transport network linking, villages, towns and cities, which has been major constraint facing the poor working predominantly in agriculture and nonfarm activities, ADB will continue to mobilize resources to remove the physical bottlenecks in the road network and port facilities and also to support efforts to improve the policy and institutional environment and raise subsector efficiency and performance.

B. Social Development

9. Despite fairly high level of human development, the country will need to continue improving access to and quality of basic services including water supply and sanitation and enhancing the relevance of secondary and post-secondary and vocational training services. ADB will continue to support policy and institutional reform measures in these subsectors to strengthen internal and external efficiency as well as private sector participation. In particular, ADB assistance will focus on improving the efficiency and output of the subsectors and to attain a better match between the quality and skill level of the labor force and the human resource requirements of the modernizing economy.

C. Natural Resources Management

10. ADB's support to forestry, natural resources and environmental management was derived from the recognition that some parts of the agriculture sector experiencing a decline in productivity, while inter-sectoral competition for water resources is also emerging as a serious issue. Indicators, such as incidence of human encroachment into protected areas, decline in forest cover and soil degradation indicate the growing and unsustainable imbalance between the supply and demand for the use of the country's natural resources. In view of the need for improved management of environment and the natural resource base in Sri Lanka to ensure its long-term sustainability, support is planned for aquatic resources, biodiversity conservation, forestry development, and water resources management. ADB's support will focus on efforts to address poverty related environmental degradation and comprehensive natural resources management through more coordinated and integrated approach with increased private sector and community involvement. ADB's assistance will continue to emphasize the need to strengthen policy development and strategic management capacity of public sector organizations.

D. Good governance

11. ADB will support the Government in continuing the privatization process, rightsizing and improving the efficiency of the public sector, raising the efficiency of public expenditures, implementing an effective budgeting and results monitoring system, expanding the direct tax base to rebuild fiscal sustainability, and creating transparent and accountable decentralized institutions responsive to the needs of the poor.

E. Conflict-related Poverty

12. ADB will assist the Government to address conflict-related poverty by (i) supporting the 3R (relief, rehabilitation and reconciliation) process and post-conflict planning together with other external agencies; (ii) providing selective rehabilitation and reconstruction assistance to the conflict-affected areas targeting employment generation especially for the youth and poor, to bring them into the mainstream of economy; (iii) mainstreaming conflict concerns by including specific components in development projects aimed at addressing the needs of the conflict-affected poor and providing support for conflict prevention; and (iv) building local capacities to support the Government's decentralization policy. The centrality of conflict prevention (a strategic future orientation) will assume a prominent place in the ongoing policy dialogue between ADB and the Government.

IV. SHORT-TERM GOALS (2002-2004)

13. The Government and ADB agree that the impact of ADB's assistance to poverty reduction in Sri Lanka is amplified when policy and institutional reform improve the economic and sector investment environment. As such, in the short-term, ADB will continue to support those sectors in which necessary improvements in policy and institutional performance are in place. In addition, to ensure maximum poverty reduction impact, ADB will consolidate its assistance focus by prioritizing support for a smaller number of key sectors. The focus will be up to seven sectors including lending and TA interventions in (i) agriculture and rural development, (ii) transport (i.e. port and roads), (iii) energy (i.e. power and petroleum), (iv) finance, (v) education (including informal education), (vi) water supply and sanitation and urban development with strategic regional focus, and (vii) environment and natural resources management. ADB's involvement in the health sector will be limited to (i) rural water supply and sanitation projects which contribute to improved health conditions, particularly children; (ii) education projects to include education programs on malnutrition; (iii) plantation development project to include maternal health and child nutrition component for plantations workers; and (iv) aquatic resources development to improve nutrition balance.

14. Key goals for the next three years include: (i) progress in phasing out interest subsidy in rural credit scheme; (ii) progress in institutional reforms to improve sector efficiency and restructuring with increasing private sector participation in transport; (iii) progress in sector reforms and restructuring to improve management and operational efficiencies as well as private sector participation in energy; (iv) ensure financial viability of National Water Supply and Drainage Board; and (v) improve institutional and legislative arrangements in environmental and natural resources management.

V. MONITORING AND EVALUATING ARRANGEMENTS

15. The Department of Census and Statistics will continue to assess and monitor the changes in poverty incidence of the country at both national and regional level using the baseline poverty lines currently established. Moreover, the Government and ADB will work together to further improve the poverty monitoring and evaluation capacity of the country to support more effective development planning in reducing poverty.

16. The Agreement identifies monitorable targets and indicators to assess performance in respective areas as milestones to review progress in our efforts towards poverty reduction as summarized in the attachment. ADB's annual exercise in updating the Country Strategy and Program (CSP) for Sri Lanka, which defines ADB assistance program in the next three years for the country, will take into consideration the progress and achievements of the performance indicators. As such, progress in implementing the Agreement will be reviewed as part of the CSP Update process every year. Monitoring and evaluation based on the attached indicative targets will be jointly undertaken by the Government and ADB during the annual ADB Country Programming Missions to Sri Lanka.

Signed in Colombo, Sri Lanka on 8 March 2002.

On behalf of the Government of Sri Lanka

On behalf of the Asian Development Bank



K.N. Choksy
Minister of Finance



Tadao Chino
President

Attachment:

INDICATORS/ TARGETS—MONITORING AND EVALUATION FRAMEWORK

| Priority Area | Indicators/ Targets | Timeframe | Monitoring Source |
|---|---|------------------|--------------------------|
| Poverty Incidence | | | |
| • Extreme poverty incidence | • 20 percent below poverty line | 2015 | DCS, CBS |
| Macroeconomic Management | | | |
| • Real GDP growth | • 6-7 percent with agriculture sector above 2 percent | Annual | DCS, CBS |
| • Fiscal deficit | • 5 percent of GDP | 2005 | MOF |
| • Public debt | • 85 percent of GDP | 2007 | MOF |
| Social Development | | | |
| • Net Primary enrolment rate | • 100 percent | 2015 | MOHEC |
| • Gender disparities in primary and secondary enrolment rates | • zero | 2015 | MOHEC |
| • Rural coverage of safe water and sanitation | • 70 percent • 100 percent | 2007 2015 | NWSDB |
| Physical Infrastructure | | | |
| • Rural population with electricity | • 70 percent | 2007 | CEB |
| Monitoring and Evaluation Arrangements | | | |
| • Indicators/ targets for priority areas | • Assess progress and achievement | Annual | ADB, ERD, MOES |

ADB-Asian Development Bank; ERD-External Resources Department; CBS-Central Bank of Sri Lanka; DCS-Department of Census and Statistics; MOF-Ministry of Finance; MOHNSW-Ministry of Health, Nutrition, and Welfare; MOHEC-Ministry of Human Resource Development, Education, and Cultural Affairs; NWSDB-National Water Supply and Drainage Board; CEB-Ceylon Electricity Board; and MOES-Ministry of Economic Reform, Science and Technology.