

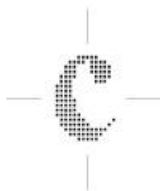
Working Paper Series

Working Paper 16

Political Economy of Internal
Conflict in Sri Lanka

S.W.R. de A. Samarasinghe

Netherlands Institute of International Relations 'Clingendael'
Conflict Research Unit
July 2003



Netherlands Institute of
International Relations
'Clingendael'
Clingendael 7
2597 VH The Hague
P.O. Box 93080
2509 AB The Hague
Phonenumber: # 31-70-3245384
Telefax: # 31-70-3282002
Email: research@clingendael.nl
Website: <http://www.clingendael.nl/cru>

© Netherlands Institute of International Relations *Clingendael*. All rights reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the copyrightholders. *Clingendael* Institute, P.O. Box 93080, 2509 AB The Hague, The Netherlands.

Table of Contents

List of Abbreviations	5
Foreword	7
Executive Summary	9
I. Introduction	13
1.1. Conceptual Framework	13
1.2. Internal War in Sri Lanka	14
1.3. Political Economy Backdrop	15
1.4. Challenges	16
1.5. Summary	17
II. The Actors	19
2.1. Sinhalese	19
2.2. Tamils	19
2.3. Plantation Tamils	20
2.4. Muslims	20
2.5. The State	20
2.6. Business Sector	21
2.7. NGOs	21
2.8. International	22
2.8.1. <i>Sinhalese Expatriates</i>	22
2.8.2. <i>Tamil Diaspora</i>	22
2.8.3. <i>India</i>	22
2.8.4. <i>Donors</i>	23
2.8.5. <i>International NGOs</i>	23
2.9. Summary	23
III. The Role of the State	25
3.1. Growth	26
3.2. Globalisation	27
3.3. Setback	29
3.4. Military Spending	31
3.5. Funding Deficit	33
3.6. Economic Costs	36
3.7. Duality	37
3.8. Growth and Welfare	38
3.9. Education and Health in the North-East	40
3.10. Summary	41

IV. Household and Community Welfare	43
4.1. Security Forces	43
4.2. Goals	44
4.3. Methodology	44
4.3.1. <i>Demographics</i>	45
4.3.2. <i>Income</i>	45
4.3.3. <i>Poverty</i>	47
4.4. Profile	49
4.5. Community Impact	49
4.6. Employment	50
4.7. Summary	51
V. The Liberation Tigers of Tamil Eelam - LTTE	53
5.1. Diaspora	53
5.2. Funding	56
5.3. Impact	58
5.4. Illegitimate Sources	59
5.5. Shipping	60
5.6. Arms Purchases	60
5.7. Implications	61
5.8. Economic Warfare	61
5.9. Economy of the Vanni	62
5.10. Summary	62
VI. Civil Society	65
6.1. Business Sector	65
6.1.1. <i>Foreign</i>	65
6.1.2. <i>Benefits</i>	66
6.1.3. <i>Negative</i>	66
6.1.4. <i>Lobbying for Peace</i>	67
6.2. NGOs	67
6.2.1. <i>Human Security</i>	67
6.2.2. <i>Typology</i>	68
6.2.3. <i>Number</i>	69
6.2.4. <i>Foreign-Local Link</i>	70
6.2.5. <i>NGO Governance</i>	70
6.2.6. <i>Implications</i>	71
6.3. Summary	71

VII. Donors	73
7.1. Development Aid and Internal Conflict	73
7.2. Donor Assistance	74
7.3. Donor Assistance and the Conflict	78
7.4. Military Expenditure	79
7.5. Conflict Neutral and Conflict Preventive Aid	80
7.6. Summary	81
VIII. India	83
8.1. Special Role	83
8.2. Market Economy	83
8.3. Tamils	84
8.4. Refugees	84
8.5. Instability	85
8.6. Summary	85
IX. Governance	87
9.1. Election Violence	87
9.2. Criminality	87
9.3. Corruption	88
9.4. Black Economy	89
9.5. Summary	89
X. Political Economy of Devolution	91
10.1. Devolution	91
10.2. Federalism	92
10.3. Land Policy	94
10.4. Summary	94
XI. The Peace Process	95
11.1. Ceasefire	95
11.2. Suing for Peace	95
11.3. LTTE after September 11	96
11.4. Peace Dividend	98
11.5. Interim Administration	98
11.6. Foreign Assistance	99
11.7. Refugees and IDPs	100
11.8. Summary	102

XII. Conclusions	105
12.1. The State	105
<i>12.1.1. Institutions</i>	106
<i>12.1.2. Democracy</i>	106
12.2. Alliances	106
<i>12.2.1. Benefits</i>	107
<i>12.2.2. Donors</i>	107
12.3. LTTE	108
12.4. Civil Society	109
12.5. Business	109
12.6. Move Towards Peace	109
<i>12.6.1. Peace Process</i>	110
12.7. The New State	110
12.8. Reflections on Theory	111
<i>12.8.1. Hybrid State</i>	111
<i>12.8.2. Post-Nation State</i>	111
<i>12.8.3. Grievance vs. Viability</i>	111
<i>12.8.4. Process vs. Structure</i>	112
12.9. Summary	112
Select Bibliography	115

List of Abbreviations

BOI	Board of Investment
BOP	Balance of Payments
CBOs	Community-Based Organizations
CGES	Commissioner General of Essential Services
CHA	Consortium of Humanitarian Agencies
CP	Communist Party of Sri Lanka
CWC	Ceylon Workers Congress
DFID	Department for International Development
EP	Eastern Province
EPDP	Eelam People's Democratic Party
EPRLF	Eelam People's Revolutionary Liberation Front (Premachandra Group)
FDI	Foreign Direct Investment
FIAC	Foreign Investment Advisory Committee
FP	Federal Party
GCEC	Greater Colombo Economic Commission
GDP	Gross Domestic Product
GNP	Gross National Product
GOSL	Government of Sri Lanka
ICRC	International Committee of the Red Cross
IDPs	Internally Displaced Persons
IPKF	Indian Peace Keeping Force
IPS	Institute of Policy Studies
<i>IRED</i>	<i>Innovations et Reseaux pour le Development</i>
JVP	<i>Janatha Vimukthi Peramuna</i> (People's Liberation Front)
LSSP	<i>Lanka Sama Samaja Party</i>
LTTE	Liberation Tigers of Tamil Eelam
MOU	Memorandum of Understanding
MSF	<i>Medecins sans Frontieres</i>
NCB	Narcotics Control Bureau
NGOs	Non-Governmental Organisations
NMAT	National Movement Against Terrorism
NP	Northern Province
NPC	National Peace Council
ODA	Overseas Development Assistance
PA	People's Alliance
PVOs	Private Voluntary Organizations
RAW	Research and Analysis Wing
SLF	Sri Lanka First

SLFP	Sri Lanka Freedom Party
SLMC	Sri Lanka Muslim Congress
STF	Special Task Force
TC	Tamil Congress
TELO	Tamil Eelam Liberation Organization
TNA	Tamil National Alliance
TUF	Tamil United Front
TULF	Tamil United Liberation Front
UAS	Unified Assistance Scheme
UNDP	United Nations Development Programme
UNF	United National Front
UNP	United National Party

Foreword

This paper is part of a larger research project, 'Coping with Internal Conflict' (CICP), which was executed by the Conflict Research Unit of the Netherlands Institute of International Relations 'Clingendael' for the Netherlands Ministry of Foreign Affairs. The CICP, which was finalized at the end of 2002, consisted of three components: 'Political Economy of Internal Conflict': 'Managing Group Grievances and Internal Conflict; and 'Security Sector Reform'. This paper was written in the framework of the research component 'Political Economy of Internal Conflict'.

Addressing the political economy of internal conflict calls for policies on the basis of good analysis. The purpose of this component was to make such analyses. It carried out studies on Angola, Colombia, Sierra Leone and Sri Lanka. The studies particularly examined the local dimension of political economies of conflict, the interface between the national and the international dimension, and the role of outside actors.

Executive Summary

This paper is a study of the political economy of the twenty-year-old civil/ethnic war in Sri Lanka between the Sinhalese (74% of the population) and the Tamils in the northeast (12% of the population) of the country. For the purposes of this paper political economy of war is defined as ‘the way in which economic resources are generated and exploited by participating factions and actors, internal and external, located in specific areas characterized by so-called internal conflict, in order to sustain their own existence and further their own political and economic interests.’ The concept ‘Conflict transformation’ is used as the framework for the analysis. This means conflict is seen as a dynamic process with actors, alliances, interests, and issues changing over time as the conflict/war progresses. The conflict emerged and turned into open warfare against a backdrop of five hundred years of western colonial rule followed by independence in 1948. The war notwithstanding there has been no wholesale collapse of the state or the institutional structure. Economic growth has continued, social welfare has been maintained, and regular elections have been held. There are however, significant negatives. Demographic pressure has risen with population trebling from 1948 to 2000. Economic growth has been inadequate to create sufficient jobs for the rapidly growing labour force. Democracy has been compromised, and the political system has failed to generate much needed ethnic harmony. Human rights violations have become all too common.

The rest of the monograph consists of eleven chapters. In Chapter 2 we describe the local and international actors involved in or associated with the conflict. The principal actors are the Sinhalese and the Sri Lanka Tamils. The former is represented by the state and the latter by the LTTE in the conflict. The Plantation Tamils, Muslims, the local NGOs, and the local business community are the other subsidiary local actors. The donors who have funded the government and the Tamil Diaspora who have funded the LTTE are key international actors. International NGOs and multinational corporations are other notable outside actors associated with the conflict.

In Chapter 3 we analyse the role of the state. It is suggested that the failure to build an inclusive state to which the minority Tamils could have had a sense of allegiance was the major reason for the conflict. Tamils were alienated from the Sri Lankan state for a variety of reasons such as the policies on language, land, and college admissions. The theory that the liberalised economy after 1977 also contributed to ethnic tension is hard to sustain empirically.

The conflict retarded economic growth but did not cause an economic collapse. The social welfare system came under pressure when resources were diverted to the military, but welfare indicators outside the north did not regress. However, by the early 2000s it was evident that the government was finding it increasingly difficult to sustain welfare expenditure while at the same time footing a large military budget.

In chapter 4 we describe the results of a household sample survey that was conducted in spring 2002 to find out the impact of government spending on the military on rural and semi-urban household incomes and employment. It was found that military incomes made a significant contribution to the incomes of rural households. The survey results supported the hypothesis that the military attracts recruits from the poorer households, and that service incomes helped to reduce poverty in such

households. However, the aggregate income derived from employment in the security sector was a relatively insignificant share of the total income of the community. It was also revealed that if large-scale demobilisation were to occur, unemployed ex-combatants would make the already acute unemployment situation still worse.

The role of the LTTE is discussed in Chapter 5. It has conducted its military campaign largely with contributions from the Tamil Diaspora supplemented by both legal and illegal business activities abroad. In Sri Lanka it has focused its undivided attention on the war. The economy of the areas controlled by the LTTE has been sustained at a very basic level, partly with the assistance of relief supplies provided by the government and NGO.

Chapter 6 deals with the role of the business community, both multi-national and local as well as local and foreign NGOs. The multinationals corporations that operated in Sri Lanka were shielded from the war and did not show any direct interest in it. Foreign arms merchants would have been the exception. Local business also did not express a strong opinion on the war until the late 1990s. Some would have benefited from war expenditure. Others probably were content as long as the economy grew at a reasonable pace, export markets expanded, and industrial peace obtained.

The NGOs, both local and foreign, were more proactive with respect to the war. Some were directly involved in relief and rehabilitation work. The local and foreign NGOs in partnership have cooperated with the government on these matters. However, other NGOs that have been working on human rights and good governance have often clashed with the government. Some NGOs have also joined hands with private business coalitions to canvass for peace.

Donor funding has been crucial to Sri Lanka's economic survival in the past twenty years. Chapter 07 presents an analysis of how the donors related to the conflict. Some of the major donors, most notably Japan, tried to work around the conflict considering the latter as a constraint on development assistance. Some others, notably Nordic countries and Canada, became more sensitive to the possible linkages between conflict and assistance and tried to leverage assistance in accordance with the 'Do no harm' principle. However, donor assistance in general did not have a significant bearing on the direction and tempo of the conflict that was driven largely by domestic factors.

India's special role is analysed in Chapter 08. In the early 1980s India helped the LTTE and other Tamil militants. India attempted to find a solution to the conflict through the Indo-Lanka Pact of 1987 under which it inducted peacekeeping troops to the northeast. But that effort ended in failure when the LTTE with Colombo's tacit approval fought the peacekeepers who left the island in March 1990. After that experience and following Rajiv Gandhi's assassination by the LTTE, India has scaled down its involvement in the conflict and has cut off assistance to the LTTE. India wants a peaceful solution to the conflict within a united Sri Lanka.

Chapter 9 examines the impact of the war on Sri Lanka's governance. Despite its growth in numbers and power, Sri Lanka's military has accepted civilian command over it and has not made any effort to get directly involved in politics. However, politicians have misused the security services for their own narrow ends, thereby undermining good governance. Corruption in military procurement has been a widespread problem. In this senior military officials, civilian officials, and businessmen appear to act together.

There has been an ongoing and intense debate in the country about the merits and demerits of devolution as a solution to the conflict. This is reviewed in Chapter 10. Those who support devolution see it as a means of not only settling the ethnic conflict and ending the war but also as a means of creating a new and dynamic model for development. However, opponents see the exact opposite. The

arguments at this stage are largely theoretical. The failure of provincial councils to make an appreciable impact on development casts some doubts on the ability of devolved government to improve social and economic development.

Chapter 11 discusses the peace process that began with the ceasefire in December 2001. The LTTE sued for peace probably because in the aftermath of September 11th and the war against terrorism it was no longer viable to conduct a long-term war against the government. The government also was ready to talk because the economy was in a shambles and military expenditure had undermined fiscal stability. The government also wanted to seize the opportunity offered by an internationally weakened LTTE to negotiate for a durable peace. If the peace talks are successful the LTTE expects to form an interim administration under its control in the northeast. The government expects to reap a peace dividend in terms of enhanced aid, foreign investment, and political stability.

In the concluding chapter we pull together several strands of argument that were developed in the preceding eleven Chapters. We argue that the Sri Lanka government as well as the LTTE sustained themselves through this twenty-year period of war by forming strategic alliances with other actors. The partners of the alliances formed by the government included the Plantation Tamils, Muslims and the donors. The main partner of the LTTE were the Diaspora community. India who was an informal partner of the LTTE in the 1980s later became an opponent if not an enemy.

The single most important issue in a peace settlement is the nature of the future Sri Lankan state. In a settlement that is acceptable to the LTTE the northeast will have to be conceded a great deal of autonomy. However, a possible authoritarian regime under the LTTE may not be viable in the long term because it would run against the democratic impulses of the people, and also won't find favour with the donors.

In conclusion we have identified three interesting implications of the Sri Lankan case for the theory of the political economy of war. First, the Sri Lankan state does not neatly fit into one model of the state, but seems to share some key features of the Hybrid Model and the Post-Nation State Model. Second, the Sri Lankan case supports the theory that it is not grievance but viability of rebel groups that determines the duration of rebellions. Third, this case study also supports the hypothesis that the process of peace is as important as addressing structural issues for conflict settlement.

I. Introduction

This paper is an analytical study of the political economy of Sri Lanka's violent civil conflict that has lasted over twenty years.¹ The widely accepted generic definition of the term 'political economy' means 'the political basis of economic decision making and economic basis of political decision-making.'² Pyt Douma in a paper specifically prepared for the project under which the present paper is written has provided a more focused definition of the of the political economy of war as:

'the way in which economic resources are generated and exploited by participating factions and actors, internal and external, located in specific areas characterized by so-called internal conflict, in order to sustain their own existence and further their own political and economic interests'.³

We shall use the above definition provided by Douma especially to identify the economic interests of the different actors that are involved in the conflict in Sri Lanka.

1.1. Conceptual Framework

The present paper uses the concept of conflict transformation as the framework for analysis. Conflict transformation is defined as a process in which a conflict changes in scope and scale both in intensity and geographic space, actors involved, the 'causal' factors that drive the conflict and its consequences. In short conflict is a dynamic phenomenon. Frequently the sort of conflict that this paper is concerned with begins as a purely domestic conflict. No external factors or actors are involved. However, more often than not, the dynamic of the conflict quickly expands beyond the borders of the country drawing Diaspora, neighbouring countries, regional powers and even super powers. The conflict interacts with the larger socio-economic and political landscape. Violence destabilizes the economy and the political system. Such destabilization in turn feeds the conflict. The results are hard to predict theoretically. Some conflicts result in 'regression' of the polity and state collapse as has happened in Somalia and Sierra Leone. As the twenty-year-old violent phase of the Sri Lankan conflict illustrates some conflicts produce more complex and ambiguous results. The state may be weakened but does not necessarily collapse. The political system may be distorted but does not necessarily become totally dysfunctional.

¹ The author acknowledges with thanks the assistance given by G H Peiris (Chapter 4), Sunimal Liyanage (Field Survey), Sunil Ponnampereuma (Chapters 5 and 7), Vasantha Premaratne (Statistical data), Kanthi Gamage (Proof reading), and Iranga Silva (Word processing) of the ICES, Kandy in the preparation of this monograph. The author also appreciates the helpful comments and criticisms of Georg Frerks and Pyt Douma of the Clingendael Institute. However, the author accepts responsibility for all errors.

² J. Frieden and D.A. Lake, *International Political Economy: Perspectives on Global Power and Wealth*, (Bedford, Massachusetts, 2000), p. 1.

³ P. Douma, *Political Economy of Internal Conflict: A Review of Contemporary Trends and Issues*, (The Hague 2001), p. 11.

The economy may be weakened but does not necessarily regress. The outcome depends primarily on the strength of institutional structures, the capacity of the state to cope with conflict, and role and influence of international factors. If the institutions and the coping capacity of the state are relatively strong and international actors are only peripherally interested and involved, the conflict transformation is qualitatively different to that where state capacity is weak and/or international actors are more actively involved.

1.2. Internal War in Sri Lanka

Beginning from the early 1980s Sri Lanka has experienced two decades of internal war waged between government security forces and Tamil rebels, most notably the Liberation Tigers of Tamil Eelam (LTTE). This story has been amply documented elsewhere and will not be recounted here in detail.⁴ Very briefly, since independence from the British in 1948 political parties elected to office in democratic elections, but which the 74% majority Sinhalese community dominates, have ruled Sri Lanka. The 12% Sri Lankan Tamil minority who lives mostly in the north and east of the country has generally not shared power at the centre. In contrast the 7% Muslim minority has generally had representatives in government. From 1977 the 6% Plantation (Indian) Tamils who live mostly in the central region among the Sinhalese have also been a part of government.

The Sinhalese-Tamil ethnic divide is linguistic and not racial. About 69% of the country's population is Buddhist (almost all are Sinhalese), 16% Hindu who are almost exclusively Tamil, 7% Islam, and the remaining 8% Catholic or Protestant who come from both the Sinhalese and Tamil communities. The conflict is also not religious. As explained below it has been intimately connected with factors of political economy.

The conflict came to a head in the late 1970s when Tamil dissident groups took to arms to fight the state. From the early 1980s the LTTE has emerged as the predominant militant group. For the last twenty years the violent conflict has continued without resolution. It has been protracted and bloody claiming an estimated 60,000 lives over the period. It has weakened the economy, and adversely affected democratic institutions and practices.

The ethnic war is not the only internal conflict that Sri Lanka has experienced in the last three decades. In 1971 and again in 1988-90 a Marxist-oriented nationalist rebel group called the Janatha Vimukthi Peramuna (JVP-People's Liberation Front) resorted to armed rebellion to topple the government. On both occasions the government prevailed using counter-violence.⁵ These two events contributed to the strengthening of the Sri Lankan military. In 1971 in particular the government was caught by surprise. It was militarily unprepared to meet the challenge from the rebels although the latter were also ill equipped and had at best only rudimentary training. On that occasion friendly countries came to Sri Lanka's rescue and provided arms and logistical support. The government reacted to the rebellion by increasing military spending from 4% of the total government budget in

⁴ For a succinct account see: K.M. de Silva, *Reaping the Whirlwind: Ethnic Conflict, Ethnic Politics in Sri Lanka* (New Delhi, 1998).

⁵ G.H. Peiris, 'Insurrection and Youth Unrest in Sri Lanka' in: G.H. Peiris and S.W.R. de A. Samarasinghe (eds), *History and Politics, Millennial Perspectives: Essays in Honour of Kingsley de Silva* (Colombo, 1999), pp. 164-199.

1969/70 to 7.0% in the three years immediately following it.⁶ The JVP organized a second violent rebellion over 1988-90. On that occasion the government had adequate military and police strength to deal with the rebels. The presence of Indian troops in the northern and eastern provinces (herein after referred to as north and east or north-east) allowed the government to withdraw troops from the war zone and redeploy them in the south against the JVP. The two JVP rebellions, however, were not a part of the protracted civil war in the country. Therefore they are not included in the present analysis.

1.3. Political Economy Backdrop

A war is a costly and complex enterprise. It requires money, material, human resources and organization. These in turn have to be welded together to form an institutional capacity to prosecute the war. Thus a protracted war such as the one in Sri Lanka requires a steady flow of economic resources, a political capacity to mobilize those resources on a *sustained* basis for the war, and the organizational capacity to utilize those resources for the war.

The political economy of the Sri Lankan internal war has to be understood in its demographic, economic and political context. It is an island country of 66,000 sq. miles with a population of 18.7 million in mid-2001.⁷ The population has trebled since independence in 1948. That also hints at population pressure on land, social services, and the job market. Sri Lanka is one of the most densely populated countries in the world with a population of about 300 per sq.km. This is an important additional consideration that puts pressure on scarce land resources.

Under the British (1796-1948) Sri Lanka developed an export economy with three plantation crops, tea, rubber, and coconut. At independence Sri Lanka was considered a relatively prosperous country by Asian standards. For example, in the mid-1950s it was on a par with Malaysia with a per capita income of about \$120. However, over the next four decades Sri Lanka shared with its other South Asian neighbours the basic economic malaise of comparatively slow economic growth. That coupled with the rapid growth of population held back per capita income growth. Today the country is at the bottom of the World Bank's lower middle-income countries with a per capita income of about \$830.⁸

The nation still relies heavily on the plantation crops and rice production. In the past twenty-five years the garment industry, tourism, and a few other export industries have changed the structure of production to some extent. Today about three-quarters of gross export earnings come from garments.

From the mid 1950s to 1977 the country followed a state-cantered and inward looking economic policy. Slow economic growth is partly the result of that strategy. This changed in 1977 when the economy was liberalized. Over the last two decades that policy has been in place and now enjoys bipartisan political support. The liberal economy has been strongly backed by donors with generous assistance (see Table 7.1). The country also attracted substantial foreign investment until political

⁶ K.M. de Silva, 'Sri Lanka: Demilitarisation to Militarisation, 1985 to 1999' in: K.M. de Silva and G.H. Peiris (eds), *Pursuit of Peace in Sri Lanka: Past Failures and Future Prospects* (Kandy, Washington, 2000), pp. 203-229.

⁷ Unless otherwise stated all demographic and socio-economic data quoted in this monograph are from the *Annual Reports* and *Annual Reviews of the Economy* published by the Central Bank of Sri Lanka.

⁸ Unless otherwise stated all international economic data cited in this monograph are from the *World Development Indicators* (Annual) published by the World Bank.

instability and the war began to discourage investors after the mid 1980s. However, even under the liberal economy with substantial foreign assistance economic growth has been uneven. The annual growth rate of Gross Domestic Product (GDP) has averaged about 4.0% to 5.0% over the last two decades.

Sri Lanka's international recognition comes from its remarkably high human development for a country with a relatively low per capita income.⁹ Life expectancy at birth has been above 70 years since the late 1980s. Even as far back as 1970 it was a high 67. The adult literacy rates exceed 90%. Long-standing social programs of the government with a history of over fifty years are largely responsible for these good outcomes.

Sri Lanka also stood out among the developing countries for its strong commitment to parliamentary democracy. The country first elected a legislature exercising universal franchise in as far back as 1931. Many analysts attribute the country's strong record on social welfare to the democratic system that puts pressure on governments to invest in social programs. Electing governments in free and fair elections was an established tradition in the country until more recent times when elections were tampered with by the government to its own advantage.¹⁰

1.4. Challenges

The very brief overview of the political economy of the country permits us to mention what I would call the macro political economy challenges that the country is confronting today. The failure of Sri Lanka to weld its ethnically plural society into one nation with a shared national purpose is the single major failure of post independence Sri Lanka. The ethnic conflict is the result of that failure. The causes for this failure are economic as well as political. The slow growing economy, which was partly caused by adverse international trading conditions, did not allow much space to share the national cake. The competition for resources unfortunately took an ethnic turn as evidenced, for example, by the competition for jobs and college places. The political system compounded the problem by splitting the Sinhalese and Tamils along ethnic lines at crucial moments in the political history of the country. The failure to reach an ethnic accommodation as, for example, Malaysia did in the late 1960s, has had serious consequences for inter-ethnic relations and political stability. As the ethnic situation got worse and the conflict broke out in open war, the democratic tradition also came under increasing pressure.

Today, it is difficult to describe Sri Lanka as a genuine democracy. Several national and local elections were rigged in the late 1990s and early 2000s.¹¹ Attempts have been made to limit media freedom under cover of national security. Rule of law is violated with impunity so often that people have lost faith in key state institutions such as the police and the bureaucracy. Bringing the war to an end is a necessary condition to restore normalcy and rebuild the country. This can be achieved only if a consensus could be reached between the warring parties over the nature of the future Sri Lankan state because the ethnic crisis is fundamentally a crisis of the Sri Lankan state. Resolving such a crisis is a complex challenge. An analysis of the of the political economy of the war can make a useful contribution to that process by identifying the key actors who are involved in the war, their particular political economy interests, and the compromises that are possible and feasible.

⁹ See UNDP, *Human Development Report (Annual)*.

¹⁰ See ICES, *Electoral Corruption in Sri Lanka* (Colombo 2001).

¹¹ *Ibid.*

1.5. Summary

This paper is a study of the political economy of the twenty-year-old civil/ethnic war in Sri Lanka between the Sinhalese (74% of the population) and the Tamils in the north-east (12% of the population) of the country. For the purposes of this paper political economy of war is defined as ‘the way in which economic resources are generated and exploited by participating factions and actors, internal and external, located in specific areas characterized by so-called internal conflict, in order to sustain their own existence and further their own political and economic interests.’ The concept ‘Conflict transformation’ is used as the framework for the analysis. This means conflict is seen as a dynamic process with actors, alliances, interests, and issues changing over time as the conflict/war progresses. The conflict emerged and turned into open warfare against a backdrop of five hundred years of western colonial rule followed by independence in 1948. The war notwithstanding there has been no wholesale collapse of the state or the institutional structure. Economic growth has continued, social welfare has been maintained, and regular elections have been held. There are however, significant negatives. Demographic pressure has risen with population trebling from 1948 to 2000. Economic growth has been inadequate to create sufficient jobs for the rapidly growing labour force. Democracy has been compromised, and the political system has failed to generate much needed ethnic harmony. Human rights violations have become all too common.

II. The Actors

We divided the actors involved in the conflict or have some association with the conflict into two broad categories, local and international. However, the distinction can be blurred in some instances. For example, the multi-national corporations and the international NGOs that operate in Sri Lanka are international in origin but function locally, usually with local partners. Subject to this grey area the local/international distinction is a useful typology for our analysis.

2.1. Sinhalese

From an ethnic perspective the principal actors in the current conflict are the Sinhalese and the Sri Lankan Tamils. This basic division is not without its own complications. The Sinhalese are not politically monolithic. Two major political parties, United National Party (UNP) and the Sri Lanka Freedom Party (SLFP), represent them. In addition there are several smaller political parties that have support bases in the Sinhalese area. The most notable of these is the *Janatha Vimukthi Peramuna* (JVP) that has a radical Marxist ideology with a distinct Sinhalese–nationalist tinge. They currently have fifteen members in the 225-member parliament. Besides the JVP there are the ‘old’ left parties, most notably the Trotskyite *Lanka Sama Samaja Party* (LSSP) and the Sri Lanka Communist Party (CP) both of whom are in the People’s Alliance (PA) coalition led by the SLFP.

2.2. Tamils

Since Independence mainly Tamil ethnic political parties have represented the Tamils in the north and east in parliament. In the first parliament elected in 1947 it was the Tamil Congress (TC; est. 1944). In 1949 it split with a breakaway faction forming the Federal Party (FP). From 1956 FP became the major party representing the Tamils in the northern and eastern provinces. In 1972 a coalition of Tamil parties led by FP formed the Tamil United Front (TUF). In 1976 the coalition reformed and renamed itself Tamil United Liberation Front (TULF). TULF was the major political party that represented the Tamils in the north-east until a new alliance called the Tamil National Alliance (TNA) - a coalition consisting of TULF, TC, Tamil Eelam Liberation Organization (TELO), and Eelam People’s Revolutionary Liberation Front (EPRLF - Premachandra Group) was born in December 2001. It contested the 2001 December parliamentary elections and won fifteen seats. Of these one was on the national list and fourteen were from the north-east where the total number of seats available was thirty-one. One of the most notable features of the TNA from the perspective of the present analysis is that it has declared its total and unquestioned acceptance of the Liberation Tigers of Tamil Eelam (LTTE-‘Tigers’) as the voice of the Tamils. Until recently the LTTE functioned primarily as a military force. It has begun to gradually enter the political process following the signing of the Memorandum of Understanding (MOU) in February 2002.

2.3. Plantation Tamils

The so-called 'Plantation' (or 'Indian' or Hill Country') Tamils have their own political parties. The dominant party is called the Ceylon Workers Congress (CWC). Until the late 1980s CWC enjoyed a virtual monopoly in political power in the Plantation Tamil community. However, in the last ten years their influence on the Plantation Tamils has been slightly loosened by smaller rivals.

2.4. Muslims

Until the mid-1980s the Muslims of Sri Lanka found political representation through major Sinhalese - UNP and SLFP/PA - and Tamil - P/TULF - political parties. In 1980 a charismatic Muslim political leader M H M Ashraff formed the Sri Lanka Muslim Congress (SLMC).¹² The party made its parliamentary debut in 1989 with four seats. In 1994 it won seven seats, offered its support to Chandrika Kumaratunga's People's Alliance and secured cabinet office. In 2001 it switched allegiance and joined the United National Front government. SLMC is now a significant player in Muslim ethnic politics, especially in the Eastern Province.

The ethnic segmentation of Sri Lankan politics makes for competing actors with their own political economy interests both in the war and its peaceful settlement. This is further complicated by the formation of coalitions that create alliances among the different actors. For example, CWC has been a coalition partner in UNP and PA governments without a significant break since 1977. The SLMC has also been in both UNP and PA led governments without a significant break since 1994. The sharp division of Sri Lankan politics and political actors along ethnic lines as described above has an important bearing on the interests of each group in the war and its possible settlement.

2.5. The State

The state is the most important actor among our 'stakeholders.' One of the most contentious questions is who does the Sri Lankan state actually represent? Ideally in a multi-cultural society the state should be neutral entity and represent all its citizens. In practice this is hard to achieve even in mature democracies although it is a matter of degree. Thus in a country such as Canada one sees the government making a special effort to ensure neutrality of the state and treat all its citizens equally. South of the border until comparatively recently the state in the US was distinctly biased against the African American community.

In younger democracies such as Sri Lanka the neutrality of the state at best is an evolving concept. As mentioned in Chapter 1 Sri Lanka's northern Tamil minority does not believe that the Sri Lankan State is neutral. The armed challenge that was mounted by the Tamils was on the basis that the state was essentially a 'Sinhalese' state. That itself is an over-simplification. For example, there are important sections of the Sinhalese community, notably some important leaders of the Buddhist *Sangha* (clergy), who assert that the state does not adequately represent the interests of the Sinhalese-Buddhists.

¹² K.M. Silva, *Reaping the Whirlwind: Ethnic Conflict, Ethnic Politics in Sri Lanka* (New Delhi, 1998), pp. 264-271.

The 7% Muslim minority has generally been comfortable with the Sri Lankan state and what it does to protect the interests of that community. Their elected representatives have generally been a part of government and opposition and have worked within the 'system'.

The same is true of the 6% Plantation Tamil community after about 1980. In the first thirty years after independence the plantation Tamils were almost entirely outside the Sri Lankan State because the majority were considered to be 'stateless.' However, after that issue was resolved and citizenship rights were granted, the elected representatives of the Plantation Tamils have not only worked within the system but have been continually a part of the government.

This is an issue to which we shall return later in this monograph. For now we keep the issue open with the proviso that the Tamil armed challenge to the state came about because rightly or wrongly many Tamils came to the conclusion that the Sri Lankan state failed to represent their interests and concerns adequately.

2.6. Business Sector

The local business sector is not a monolithic community. They are also divided along ethnic lines to some degree. For example, in some towns such as Kandy there are ethnically based trade organizations that represent the interests of a particular community. However, business also acts as a crosscutting interest that brings the communities together. For example, the major national and provincial trade and industrial chambers are multi-ethnic organizations. This is an important factor because the economic consequences of the war directly impact on business, and the private sector has increasingly tried to make its voice heard on war and peace.

Multinational corporations have become a significant presence in the economy, especially in the new export industries such as garments, after the economy was liberalised in 1977. International arms traders would have also found in Sri Lanka a lucrative and growing market for their wares during the war years. The latter, for obvious reasons, would have been highly discreet. The former, who mostly established factories in investment processing zones in the south, were in protected enclaves and thus not directly physically impacted by the war, a point that will be discussed in detail in Chapter 6.

2.7. NGOs

NGOs merit recognition as a distinct set of actors in the analysis of Sri Lanka's conflict. There are two important reasons for it. First, as civil society comes to play an increasingly important role there is a case for recognizing the NGOs as a distinct force though with one important caveat. That is by their very nature NGOs are very varied and have diverse interests, functions and goals.

A second reason for recognizing the NGO sector as a distinct actor in the present analysis is the important role that they play in the conflict in a variety of areas ranging from advocacy of particular ethnic interests to peace advocacy and relief and humanitarian assistance and rehabilitation work.

Nobody knows how many NGOs exist in Sri Lanka. If village level community-based institutions are counted as they should be, and there is at least one NGO in almost every one of Sri Lanka's 25,000 villages, the total number probably is a minimum 25,000. Wickramasinghe mentions estimates that

range from 20,000 to 50,000 and opines that 25,000 to 30,000 would be about right. Obviously not all play an equally important role in the conflict.¹³

2.8. International

The principal international actors that have a stake in the political economy of the Sri Lankan war include the Sinhalese and Tamil Diaspora, countries that have relations with Sri Lanka in regard to trade, investment, and foreign assistance, and countries that have accommodated refugees from Sri Lanka.

2.8.1. Sinhalese Expatriates

The Sinhalese Diaspora is located in the Middle East as guest workers, and as more permanent immigrants mainly in the United Kingdom, some of the larger European Union (EU) countries on continental Europe, USA and Canada, and Australia and New Zealand. An estimated 400,000 Sri Lankans, mostly Sinhalese but with a sizable Muslim population and a smaller number of Tamils also, work in the Middle East. The number of expatriate Sinhalese in the West probably total over 100,000 although there is no accurate estimate available.

The major political economy impact of the Middle East workers on the war is felt indirectly through the major contribution that they make to Sri Lanka's foreign exchange earnings.¹⁴ They do not play a direct political role in the conflict. The Sinhalese who live in Western countries not only remit a part of their savings home but some also take an active interest in the conflict. There are groups in some of the key western countries that act as a lobby for Colombo. Others are pro-active in trying to influence politics at home. Yet others undertake humanitarian assistance such as aid to internally displaced people (IDPs) and victims of the war.

2.8.2. Tamil Diaspora

The Tamil Diaspora is a major player in the political economy of the conflict. They, like sections of the Sinhalese Diaspora, lobby foreign governments on behalf of the Tamil cause in general, and in some cases on behalf of the LTTE. But the major role that they play is as a source of funds for the LTTE, and to a lesser extent for humanitarian activities in the north-east.

2.8.3. India

India is one of the principal foreign countries that have an abiding interest in the Sri Lankan conflict. From a political economy view point India's interests in the Sri Lankan issue has several dimensions. In general terms it is concerned about Sri Lanka's stability as a close neighbour. This is compounded by the Tamil Nadu factor. Tamil Nadu has about 60 million Tamils who have kin relationship to the Tamils in Sri Lanka. Thus to the extent that Delhi is concerned about Tamil Nadu politics, and Tamil Nadu is interested in the Sri Lankan issue, Delhi has to pay attention to the situation in Sri Lanka. Moreover, under the Indian federal system of government Chennai (Madras) can also exert some

¹³ N. Wickramasinghe, *Civil Society in Sri Lanka: New Circles of Power* (New Delhi, 2001), p. 83.

¹⁴ In recent years Sri Lanka has earned over 1.0 billion US dollars from the remittances of Sri Lankan expatriate workers. Of this amount about two-thirds come from the Middle East.

degree of independent influence on Sri Lanka especially through Sri Lankan Tamil groups such as LTTE who have a presence in the state.

India is also an important trading partner of Sri Lanka and in recent times both countries have encouraged Indian investment in the island nation.

The other major factor that links Sri Lanka to India in respect to the conflict is the 60,000 Sri Lankan refugees who live in Tamil Nadu.

2.8.4. Donors

Foreign countries other than India also have similar political economy interests in the Sri Lankan war. Countries such as Britain, Japan, and US have significant trading and investment interests in the country. These and other countries as well as the multilateral donors that provide foreign assistance are concerned about the impact of the conflict on assistance and the impact of assistance on the conflict.

Several European nations such as Germany, Italy, Norway, Denmark and UK, as well as USA and especially Canada and Australia are recipients of significant numbers of refugees from Sri Lanka. Thus they see the Sri Lankan conflict as an issue that has a direct impact on their own societies.

UN agencies do not normally bring funds on the scale that other donors do. However, they act as a conduit for some of the donor funds. Even more importantly specialized agencies such as the United Nations High Commissioner for Refugees (UNHCR) play a very important role in humanitarian assistance and rehabilitation work. Sometimes they also serve as intermediaries between warring parties.

2.8.5. International NGOs

International NGOs ranging from the International Committee of the Red Cross (ICRC) to relatively small organizations constitute a distinct and important group of actors. They have a wide range of interests and activities ranging from humanitarian emergency assistance to rehabilitation and reconstruction all the way to human rights and promotion of good governance. They get funding from their own private sources but also act as a channel for Overseas Development Assistance (ODA). Globally about 3% of the ODA has been channelled through NGOs in recent years.

2.9. Summary

The principal domestic actors in the conflict are the Sinhalese (74% of the population) and the Sri Lanka Tamils (12%) of the population. The former are predominately Buddhist, live mainly in the 'south' of the island, and dominate the politics and government of the country through two rival political parties. The Sri Lanka Tamils are mainly Hindu and live mostly in the north and east and have their own political parties. A second Tamil community called the Plantation Tamils (6%) originated as imported labour from South India under British rule. They live mainly in the south, have their own political parties, and are not a party to the war. Muslims are 7% of the population. Half of the Muslims live in the south but about half live in the east. Many Muslims support their own ethnic political party but others support the mainstream parties. The Muslims in the east refuse to identify themselves with the Tamils and demand an autonomous political existence for themselves.

The northern Tamils do not see the Sri Lanka State as a neutral actor but as one that represents the interests of the Sinhalese majority. Ironically there are some sections in the Sinhalese community who

believe that the State does not adequately represent the interest of the Sinhalese-Buddhists either. The State has integrated the interests of the Muslim and Plantation Tamil minorities with a considerable degree of success. The top end of the local Business Community is ethnically mixed but has shown some solidarity in demanding a peaceful settlement to the conflict. Multinational corporations were largely in export processing enclaves in the south, and thus were more or less shielded from the physical impact of the war. The domestic NGO community is quite large in numbers in Sri Lanka. However, only a small fraction of that plays a significant role in the conflict.

Among the international actors, the expatriate Sinhalese community plays only a marginal direct role in the conflict. Some groups lobby in foreign capitals on behalf of the Sri Lanka government. But the expatriate Sri Lankan workers especially in the Middle East make a major contribution to the economy by remitting a large part of their earnings. The Tamil Diaspora of about 700,000 to 800,000, who are mostly post-1983 refugees, is more directly connected with the conflict. All but 100,000 of these live in the west. They are a major source of funds for the LTTE. Of the foreign countries India is the one country that has been most concerned and directly involved in the conflict. The donors are also concerned partly because of their political and economic interests in Sri Lanka and partly for reasons of human rights. There is a significant presence of international NGOs in Sri Lanka engaged in a wide variety of activities ranging from humanitarian assistance to human rights and good governance promotion.

III. The Role of the State

In the fifty years since independence Sri Lanka has failed to build an all-inclusive state to accommodate its multi-ethnic polity. The Sinhalese in general view the state and the role that it plays as the natural outcome of the exercise of the rights of a democratic majority. At Independence in 1948 the then Tamil leaders demanded parity of status for the minorities in the legislature - 50% of the seats for the Sinhalese and the balance 50% for the minorities. The Sinhalese viewed this demand as not only unreasonable but also as an example of Tamils wanting more than fair share of the national largess.

The Tamil minority in general views the Sri Lankan state as a Sinhala hegemonic construct. In support they cite numerous policies of 'discrimination' practiced by Sinhalese-dominated governments. Interestingly these practices of discrimination, without exception, have a strong political economy element to them. Language is one of the major areas of dispute. In particular in the 1950s the Tamils opposed making Sinhala the only official language. The political economy implication of this issue arises from the fact that official language indirectly determines the availability of jobs in the state sector for each community. The Sinhalese have an edge over Tamils for state jobs when state business is conducted in Sinhala. In 1956 Sinhala was made the official language. In 1958 the official language law was amended to make provision for the use of Tamil also in state business but on a restricted scale. The Second Republican Constitution (1978) recognized Tamil also as a state language. However, the fact is that after the mid 1950s the share of jobs in central and local government held by Tamils declined quite sharply. This change was not entirely due to language policy. The expansion of educational opportunities in the Sinhalese areas made them more competitive in the job market.¹⁵ Moreover, with rising unemployment from the early 1960s Sinhalese politicians used their power in government to give more jobs to their constituents.

Another contentious area that led to the conflict was 'affirmative action' in college admissions.¹⁶ The Sinhalese viewed it as a legitimate step to eliminate the disproportionate admission of Tamil students to Sri Lankan state universities. The Tamils, however, considered it as blatant discrimination against them. This again had a lot to do with the competition for a limited number of places in the exclusive state university system, and the government's inability, partly due to lack of resources, to expand state-funded universities to satisfy growing demand.

The Tamils also strongly objected to state-sponsored and state-funded settlement of Sinhalese peasants in small farmsteads in the north and east. They saw it as an 'occupation' of the 'Traditional Tamil Homeland' by the Sinhalese with state assistance that changed the demographic balance of the

¹⁵ S.W.R. de A. Samarasinghe, 'Ethnic Representation in Central Government Employment and Sinhala-Tamil Relations in Sri Lanka, 1948-1981' in: R.B. Goldmann and A. Jeyaratnam Wilson (eds), *From Independence to Statehood* (London, 1984), pp. 86 - 108.

¹⁶ Ibid. and K.M. de Silva, 'University Admissions and Ethnic Tension in Sri Lanka, 1977-1982' in: R.B. Goldmann and A. Jeyaratnam Wilson (eds), *From Independence to Statehood* (London, 1984), pp. 97-110.

region. The Sinhalese interpreted it as a legitimate effort to develop food production by opening new land that was made available to landless peasants from the South.

It is evident that all of the above causal factors that contributed to Sri Lanka's conflict were part political and part economic in nature. These led to differences in opinion and perception between the two communities about the nature of the state and governance. The Sinhalese saw these policies as being fair and legitimate in their exercise of political rights in a democratic state. The Tamils generally saw the very same policies as an illegitimate exercise of majoritarian rule that made the state biased in favour of one ethnic group, and thus illegitimate.

The above factors by themselves provided sufficient ground to sow the seeds of what Douma calls the 'post-nation' state with political power 'atomised' and transferred in part to non-state actors. It is useful to note that the beginnings of the Tamil insurgency including the birth of the LTTE can be traced to the mid-1970s.¹⁷ In particular many observers believe that the university admissions policy that frustrated Tamil youth, was a major factor that motivated many young Tamils to opt for militancy and violence.

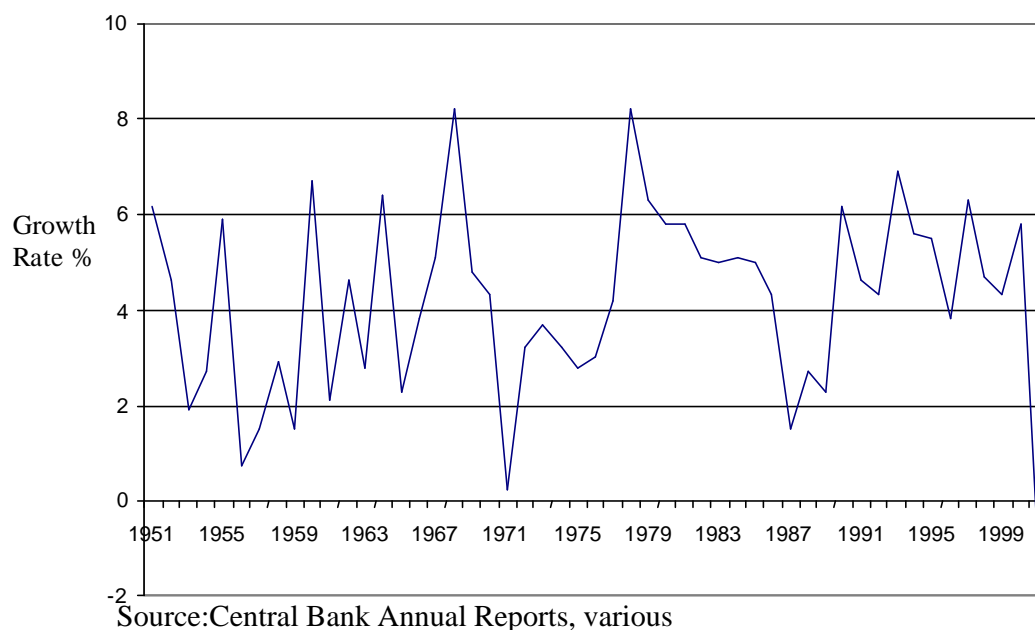
In many ways the intense competition for university places reflected the shortage of resources for expansion of tertiary education on the one hand, and the intense competition in the job market in the context of rising unemployment. In that sense the performance of the economy was key to understanding the complex forces that were at work that led the country to the present political and ethnic impasse.

3.1. Growth

Graph 1 shows Sri Lanka's GDP growth rate in real terms. When the entire fifty-year period is taken growth has been quite uneven. On average the Sri Lanka economy grew by about 4.2% per annum. However, when an allowance is made for population growth - that has fallen from about 2.5% annually in the early 1950s to about 1.3% in the late 1990s - the per capita growth rate is far from spectacular. In fact the per capita Gross National Product (GNP) of Sri Lanka grew from about US\$125 in the mid-1950s to about \$850 in the early 2000s. Countries such as Malaysia and South Korea that started from similar bases managed to increase their per capita incomes by a much greater multiple. For example, Malaysia's per capita GNP in 1999 was \$3,400 and that of South Korea \$8,490.

¹⁷ P.S. Douma, *Political Economy of Internal Conflict: A Review of contemporary Trends and Issues* (The Hague, 2001).

Graph 3.1. Sri Lanka: GDP Growth Rate, 1951-2001



However, Sri Lanka did much better in human development with indicators such as life expectancy at birth - 71 for males and 76 for females in 1998 - and adult literacy - 94% for males and 88% for females - far exceeding those other countries with GDP per capita in the \$800 range. Nevertheless, by the mid-1970s the Sri Lankan economy was facing a serious crisis with inadequate growth and an unemployment rate that reached 25%.

3.2. Globalisation

In 1977 the government decided to abandon the *dirigisme* economic policies - high degree of state control of key economic areas including industry and trade, price and exchange control, protection for domestic industry under high tariffs and quantitative restrictions, and very restrictive policies for the private sector that generally discouraged private investment and made foreign direct investment (FDI) negative - and liberalise the economy with an export-oriented and private sector-friendly market economy strategy. In this manner Sri Lanka became one of the pioneers among developing countries to opt for an economic strategy that committed itself to globalisation.

The short-term impact on growth was almost spectacular (Graph 3.1). The GDP growth rate increased sharply to 8.0% in 1978 and remained high in the next few years. Unemployment declined substantially between 1977 and 1983. The Central Bank estimated that about one million new jobs were created between those two years.

However, some have argued that the new strategy produced adverse income distribution consequences with negative effects on ethnic relations. For example, Gunasinghe has argued that the

open economy affected two classes of people adversely.¹⁸ The first were the urban poor who were disaffected because they could not access the consumption goods that were on display in the shops and advertised in the media, especially TV. This he believes motivated them to participate in the ethnic riots in the early 1980s.

The second group that was unhappy about the open economy was a section of the Sinhalese business class. These people, Gunasinghe argues, benefited from the pre-liberal economy that gave politicians and bureaucrats the power to dispense economic favours such as business permits and foreign exchange quotas to individuals of their choice. The Sinhalese benefited disproportionately from this system of patronage because the government was in the hands of either the United National Party (UNP) or the Sri Lanka Freedom Party (SLFP), both Sinhalese majority parties. The open economy did away with permits and quotas and allowed the market to determine resource allocation. This, Gunasinghe suggests, frustrated some Sinhalese businessmen who in July 1983 took their revenge on Tamil business rivals by encouraging or instigating arson and other acts of violence against them.

Sunil Bastian develops a slight variant of the same thesis to explain ethnic riots of July 1983 and later such incidents.¹⁹ He sees a contradiction between what he calls the state ‘Sinhala Buddhist political ideology’ and the free market economic ideology ushered in 1977. Those who are wedded to the political ideology do not like the accommodation sought with the minorities in order to manage ethnic relations to ensure political stability so that the open economy could flourish. This, he says, led the Sinhala Buddhist ideologues to make use of the opportunity offered in July 1983 by the killing of thirteen Sinhalese soldiers in Jaffna by a landmine set off by Tamil rebels to instigate a ‘pogrom’ against Tamils in Colombo and elsewhere in the south.

The Gunasinghe-Bastian thesis runs counter to the usual belief that economic liberalization and market economy on the one hand, and political liberalization and pluralism on the other generally go together. Nevertheless, as a hypothesis the Gunasinghe-Bastian viewpoint sounds plausible. There is some anecdotal evidence to support it. However, nobody has offered any systematic empirical evidence for the argument and to dismiss alternative explanations.

One alternative argument is that anti Tamil rioting was largely motivated by pent up anger and emotion mixed with the tendency of thugs and unruly elements to exploit the situation for looting and robbery.²⁰ But there is evidence that there was some degree of organization in the anti-Tamil acts that took place in July 1983. Some suggest that a powerful section of the government was also involved. If true, it is plausible that the motives probably were more political and less economic. Sri Lanka had ethnic riots in 1956 and again in 1958, well before economic liberalization and also in 1977 soon after the parliamentary elections but before any economic policy changes were made.

The present writer is more inclined to agree with Moore who argues that economic liberalization was not a causal factor: there is ‘relatively little causal connection - and even less connection of a systemic or generic nature - between economic liberalization and ... ‘sharpening of Sinhalese-Tamil

¹⁸ N. Gunasinghe, ‘The Open Economy and its Impact on Ethnic Relations in Sri Lanka’ in: *Lanka Guardian*, Colombo, November 15 1998.

¹⁹ S. Bastian, ‘Political Economy of ethnic Violence in Sri Lanka: The July 1983 Riots’, in: V. Das (ed), *Mirrors of Violence: communities, Riots and Survivors in South Asia* (Delhi, 1990), pp. 286-304.

²⁰ R. Gunaratna, ‘Impact of the Mobilised Tamil Diaspora on the Protracted Conflict in Sri Lanka’, in: K. Rupasinghe (ed), *Negotiating Peace in Sri Lanka - Efforts, Failures and Lessons* (London, 1998), p. 321.

ethnic tensions'.²¹ Moore sees 'some substantive links between the ideological impact of economic liberalization and political decay. They are however, relatively remote and weak. They are also highly specific to the Sri Lankan context.... The Sinhalese nationalists sense a national vulnerability to 'external' forces that includes Tamils. Moore accepts that there is some validity in the Gunasinghe thesis but suggests it is not sufficiently strong to make economic liberalization 'a major cause of the descent into ethnic violence'. One has to explain why ethnic tension existed and why the political system did not make an attempt to diffuse it. Moore explains political decay in Sri Lanka in terms of dynamics of the political sphere and treat social and economic phenomena more as contextual or second-order variable.²²

3.3. Setback

The 1983 ethnic riots were the worst ever of such unfortunate events to have taken place in Sri Lanka. The immediate event that triggered the widespread violence against ordinary Tamil people in Colombo and elsewhere was the death of thirteen soldiers in a terrorist ambush in Jaffna on July 23rd. The Tamil death toll in the South was estimated to be around 500 to 600. One of the more disturbing features of the 1983 riots was the breakdown of law and order in the first few days after rioting broke out. Many members of the police and other law enforcement agencies were either indifferent to the anti-Tamil violence perpetrated by mobs or in some cases even actively supported the perpetrators.

The events of 1983 were a watershed in the macro political economy of the Sri Lankan conflict. The economic consequences of the 1983 riots were quite devastating. From July 1983 the hitherto promising economic numbers began to move in the wrong direction. Graph 3.1 shows that the growth rate moved down sharply after 1985. Tourists and foreign investors were shaken by the images of burning buildings and rioting in Colombo that international TV carried worldwide. Tourist arrivals that were growing at the rate of 20% per annum in the five years up to 1982 - in that year arrivals totalled 410,000 and President Jayewardene was talking of capping the numbers at 1.0 million - nose-dived after July 1983. By the beginning of the second half of the 1980s tourist arrivals were running below 200,000. Recovery of the industry was slow and painful. It was only in 1999 (436,000) that the number surpassed the 1982 figure. Then it received another blow when the Tigers attacked the Katunayake (Colombo) international airport in July 2001 and destroyed several of the aircraft belonging to the national carrier Sri Lankan Airlines. Tourist arrivals in 2002 January to May were down 26% on the figures for the same period in 2001. Direct flights between Colombo and Germany, a major market for the Sri Lanka tourist industry, were cancelled following the attack. The number of arrivals from Germany declined from 35,610 in the January-April 2001 period to 18,904 in the same period in 2002.²³

Foreign direct investment (FDI) that was pivotal for the success of the export-oriented strategy and was expected to feed the newly established export processing zones also slowed down considerably after 1983. Net foreign direct investment averaged \$51 million in the period 1978-92. Between 1983-89 it declined to \$35 million. Between 1990 and 1992 it picked up significantly to

²¹ M. Moore, 'Economic Liberalization versus Political Pluralism in Sri Lanka?', *Modern Asian Studies* 24 (1990), p. 346.

²² *Ibid.*, pp. 375 and 379.

²³ *The Sunday Times Business*, June 16th, 2002, p 01.

reach \$87 million. As the figures in Table 3.1 show FDI maintained a higher average than in the 1980s during Eelam War III (1995-2001). However, there are two important points to note. First, the numbers declined after 1998. This was partly associated with the Asian economic crisis and the slow down of the international economy. Second, there is a clear positive relationship between foreign and local investment. The dependence is mainly the local component on the foreign component. This means when foreign collaboration is absent local investment also dwindles, impacting negatively on growth.

Table 3.1.: Realized Investments in BOI Enterprises 1994 - 2001 (US \$ Million)

	1994	1995	1996	1997	1998	1999	2000	2001*
Foreign Investment	399	166	192	301	331	238	196	106
Local Investment	78	76	159	164	165	115	51	43
Total Investment	477	242	351	465	496	353	247	149

*Note: * Provisional*

Source: Central Bank Annual Reports 1993 - 2001.

Of course the ethnic war in the north-east was not the only causal factor for political instability, loss of investor confidence, and economic slowdown. The 1982 referendum that replaced regular parliamentary elections and served as a ‘mandate’ to extend the life of the 1977 parliament by a further six years was strongly opposed by the opposition including the TULF. There was also a widely held belief that the referendum was rigged by the Jayewardene administration, a belief that was more or less endorsed by the official report of the Commissioner of Elections. The government lost its credibility and legitimacy as a result. This was compounded by the induction of Indian Peace Keeping Forces (IPKF) to Sri Lanka in July 1997 following the signing of the Indo-Lanka Peace Accord. It was designed to find a solution to the ethnic conflict with the backing of India. What actually happened was the opposite. It provoked a huge backlash in the South. The JVP strongly opposed the presence of the Indian troops and also challenged the legitimacy of the Jayewardene administration. It used violent tactics that did not find favour with the broad mass of people. However, it succeeded in terrorizing the South and causing economic havoc. In the north the LTTE soon fell out with the IPKF and commenced a military campaign of its own to remove them from the north-east. Ironically President Ranasinghe Premadasa who succeeded J R Jayewardene in 1989 was of the same view as the LTTE. Under pressure from LTTE and Colombo the IPKF left Sri Lanka in March 1990. But the period 1983-90 was Sri Lanka’s ‘lost decade’ of development.

The economy revived after 1990 with GDP growth averaging 5.1 over the 1990s (Graph 3.1). Per capita growth averaged 3.9% during the same period. The economy of the South, which was spared the worst of the war, moved along, albeit, never realizing its full potential. This was not the ideal but tolerable especially when it is viewed in the context of the East Asian economic crisis of 1997-99 that produced negative growth in almost all the East Asian Tiger economies.

3.4. Military Spending

For the first twenty years after independence in 1948 Sri Lanka had a modest military of about 10,000 personnel that largely served ceremonial purposes. The only other function of the army at that time was mobilisation under emergency conditions on a few occasions to assist the police maintain public order. The country had no external enemies to worry about. As described earlier the government was militarily unprepared to face the JVP rebellion of 1971. In the years that followed, the government spent additional resources on the military but not very much. The situation changed radically after 1980 when the threat from Tamil militants escalated.

De Silva traces the evolution of the Sri Lankan military from a largely ceremonial outfit in the pre 1980 period to a relative large fighting force of men and women numbering over 100,000 with sophisticated equipment by the early 1990s.²⁴ At the end of 1995 the three branches of the armed forces, army, air force and navy, had a total strength of 125,300. This number probably has risen to over 150,000 by early 2002 when the two sides stopped fighting. The police who also increasingly took up paramilitary duties especially in the north and east have about 80,000 personnel and the police Special Task Force (STF) that is an elite paramilitary force another 3,000. Table 3.2 and Graphs 3.2 and 3.3 show the growth of Sri Lanka's defence expenditure between 1981 and 2002.²⁵

²⁴ K.M. de Silva, 'Sri Lanka : Demilitarisation to Militarisation, 1985 to 1999', in: K.M. de Silva and G.H. Peiris (eds), *Pursuit of Peace in Sri Lanka: Past Failures and Future Prospects* (Kandy, Washington, 2000), pp. 131-162.

²⁵ This data set is taken from the paper on the Sri Lankan security sector prepared by K M de Silva for the Clingendael Institute in 2002.

Table 3.2.: Expenditure on Defence - Sri Lanka, 1981 to 2002

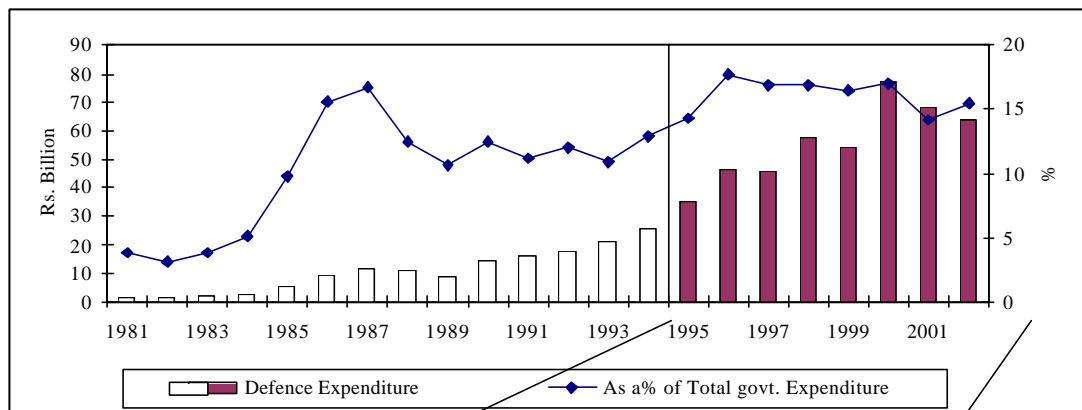
Year	Expenditure on Defence (Rs. Million)			Expenditure on Defence	
	Recurrent	Capital	Total	% of total Government Expenditure	US\$ equivalent (millions)
1981	786.2	264.7	1,050.9	3.78	-
1982	804.2	312.8	1,117.0	3.09	53.68
1983	1,182.2	571.6	1,753.8	3.80	74.44
1984	1,399.9	1,081.6	2,481.5	4.84	97.54
1985	2,317.9	3,293.6	5,611.5	9.77	206.61
1986	4,250.4	5,453.9	9,704.3	15.56	346.33
1987	5,290.8	6,095.2	11,386.0	16.79	386.75
1988	5,583.2	5,138.6	10,721.8	12.52	337.16
1989	6,673.1	2,119.3	8,792.4	10.66	243.89
1990	10,316.5	4,284.7	14,601.2	12.51	364.48
1991	12,609.3	3,054.4	15,663.7	11.24	378.62
1992	15,627.3	2,368.5	17,995.8	11.99	410.58
1993	17,677.0	3,105.0	20,782.0	10.86	430.71
1994	21,989.0	3,538.0	25,527.0	12.91	516.53
1995	25,815.0	9,156.0	34,971.0	14.33	682.36
1996	33,117.0	13,168.0	46,285.0	17.69	837.43
1997	35,094.0	10,874.0	45,968.0	16.84	779.25
1998	45,314.0	11,832.0	57,146.0	16.96	884.75
1999	44,632.0	9,601.0	54,233.0	16.43	770.46
2000	57,841.0	19,313.0	77,154.0	17.01	1,018.13
2001	52,537.0	15,977.0	68,514.0	14.19	735.91*
2002	n.a.**	n.a.**	64,050.0	15.40	669.00*

Source: Central Bank of Sri Lanka Annual Reports, 1982-2001, Colombo.

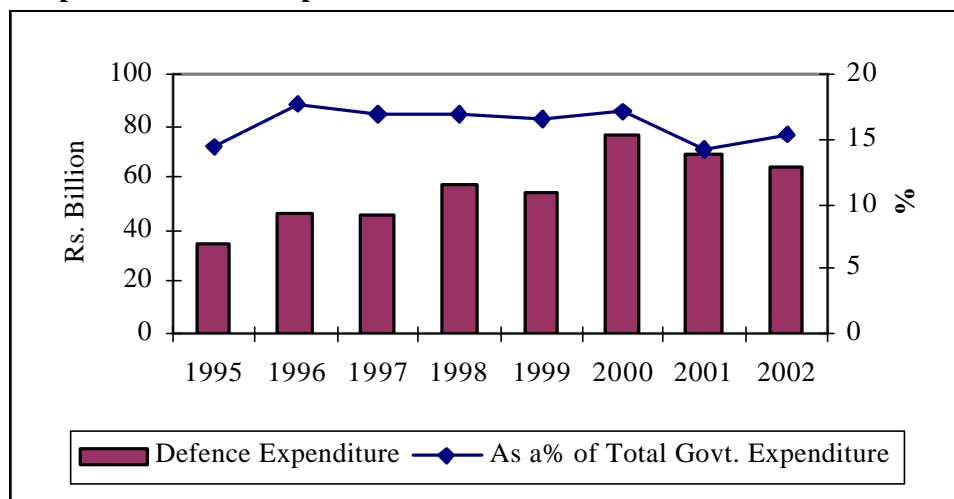
Notes: * Exchange rates for 2001 is year end (Rs. 93.10), and for 2002 is as at 23/July/2002 (Rs. 95.74), Central Bank of Sri Lanka.

** In the Ministry of Finance web page, 'Underlying Assumptions - Budget 2002,' the defence expenditure has been classified as Salaries (Rs. 35,196 million) and Other (Rs. 28,854 million). Looking at the past figures it would appear that items of expenditure have been shifted from recurrent to capital and vice versa.

Graph 3.2.: Defence Expenditure 1981-2002



Graph 3.3.: Defence Expenditure 1995 - 2002



In 2000 defence expenditure absorbed over one billion dollars accounting for about 17% of total government spending or about 6.4% of GDP. When the annual military budget and the annual foreign assistance receipts (Table 7.1) are compared one notes that in the 1980s the latter generally exceeded the former. However, from about 1990 the military budget was in excess of the foreign assistance budget by a substantial amount. Furthermore, if the actual disbursement of aid is considered the gap is very much higher especial in the last four years. This is a very important consideration to bear in mind when the economic burden of the war is analysed.

3.5. Funding Deficit

Sri Lanka had chronic deficits in the government budget and the balance of payments (BOP) before the war escalated in the 1980s. However, there is no dispute that war expenditure on the scale described above imposed additional burdens on the nation’s finances, at a time when the war itself impacted negatively on production, export earning, and economic growth that in turn reduced tax

revenue. The data in Tables 3.3 and 3.4 show the size of the budget deficits and BOP current account deficits and the dependence on foreign funding. The following salient points are worth noting:

- The absolute nominal size of the budget deficit has grown fifteen times in the period 1980-2001.
- In the 1980s the budget deficit as a percentage of the GDP varied from a high of 24.5% (mainly due to high capital spending by the government) to a 10.3% in 1984 with an average of about 16%. Between 1990 and 2001 the highest was 16.9% in 1991 and the lowest 7.5% in 1999. The average had fallen to about 8% in the late 1990s.²⁶ The IMF considers that even the latter figure is unsustainable. This is an important point to bear in mind because though ‘unsustainable’ in the view of the donors the government managed to sustain depending on that scale throughout the war period.
- In the 1980s and early 1990s, on average, about half of the budget deficit has been covered by foreign assistance. But after 1995 this percentage has fallen precipitously to reach a mere 3.6% by 2001.
- In the 1990s grant aid has gradually declined in the first half of the decade and very sharply in the 2000 and 2001. But project aid has held up.
- One of the major implications of the large fiscal deficit was the impact that it had on domestic interest rates. High interest rates were partly fuelled by the inflation that the large budget deficits caused. The interest rates were also pushed up because the government borrowed large amounts in the market. The weighted average prime lending rate was as high as 20% in the early 1990s. It dropped to about 15% in the mid 1990s and rose back to over 22% in early 2001. High interest rates were a perennial grievance of the business sector.
- Unlike the budget deficit that continued to grow over the past two decades, the balance of payments current account deficit shows significant fluctuations from year to year depending on import levels, and especially fluctuations in export earnings.
- Foreign assistance has been helpful in funding the external resource gap but its importance has varied from year to year depending on the size of the current account deficit.

²⁶ All data from the Central Bank of Sri Lanka, *Annual Reports*.

Table 3.3: Sri Lanka: Budget Deficit and Foreign Assistance 1980-2001

Year	Budget Deficit (BD) (Rs. Million)	Foreign Finance (FF) (Rs. Million)	FF/BD
1980	15,366	6,136	39.9
1981	13,239	7,601	57.4
1982	17,302	8,120	46.9
1983	16,320	9,845	60.3
1984	13,776	9,785	71.0
1985	18,985	10,416	54.9
1986	21,955	12,814	58.4
1987	21,749	10,393	47.8
1988	34,783	13,716	39.4
1989	28,185	12,333	43.8
1990	31,850	18,342	57.6
1991	44,189	27,199	61.6
1992	34,042	15,641	45.9
1993	43,321	17,880	41.3
1994	60,725	20,035	33.0
1995	67,225	30,252	45.0
1996	72,380	17,899	24.7
1997	70,061	17,287	24.7
1998	93,147	17,397	18.7
1999	83,255	8,245	9.9
2000	124,541	5,641	4.5
2001*	152,222	5,500	3.6

Note: * Provisional

Source: Central Bank of Sri Lanka, Annual Reports, Colombo.

Table 3.4: Sri Lanka: Financing of the External Resource Gap 1993-2001 US \$ Million

Year	Grants	Project Aid	Commodity Aid	Food Aid	Other long term	Total	BOP Current Account Deficit	% of BOP Current Account Deficit
1993	161	373	-	-	93	627	496	126.5
1994	167	415	-	-	25	607	860	70.6
1995	174	447	-	-	227	848	787	107.8
1996	140	424	-	-	73	637	677	94.1
1997	127	333	-	-	168	628	393	159.8
1998	127	471	-	-	22	620	226	274.5
1999	103	351	-	-	30	484	563	86.0
2000	68	353	-	-	2	423	1066	39.7
2001*	62	423	-	-	152	637	371	171.7

Note: *Provisional

Source: Central Bank of Sri Lanka, Annual Reports: 1995,1996, 1997,2001

Many commentators have repeatedly pointed out that the military build up for the war has siphoned off vital development funds. This has raised the issue of the economic cost of the war, sustainability of Sri Lanka's human development-oriented model of development, and ultimately the role of the donors in the conflict. The first two of these are issues taken up for review in the rest of this chapter. The question of donor assistance is discussed in chapter 7.

3.6. Economic Costs

Several scholars have studied the economic cost of the Sri Lankan war. There are four major studies available on this subject. The present author and his colleague attempted a comprehensive estimate of the cost of the war for the period 1983-88.²⁷ The study estimated that the loss to the Sri Lankan economy over the six-year period totalled US\$4.2 billion or 68% of Sri Lanka's 1988 GDP.

This was followed Grober and Gunaselvam who estimated the impact of the conflict on economic growth.²⁸ They concluded that over the 1983-88 period Sri Lanka's direct losses in output was 22% of 1988 GDP.

The third study by Marga tries to make a comprehensive quantitative estimate of economic costs of the war covering the period 1983-96.²⁹ This study estimates that in the fourteen-year period the loss of output totalled Rs 2,340 billion at 1996 prices or about three times the GDP of Rs 768 billion in that year. In those fourteen years the government and LTTE spent an additional Rs 228 billion on the war.

²⁷ J.M. Richardson (Jr.) and S.W.R. de A. Samarasinghe, 'Measuring the Economic Dimensions of Sri Lanka's Ethnic Conflict', in: S.W.R. de A. Samarasinghe and R. Coughlan (eds), *Economic Dimensions of Ethnic Conflict* (New York, 1991).

²⁸ M.L. Grober and Gunaselvam, 'The Economic Effects of the Sri Lankan Civil War', *Economic Development and Cultural Change*, pp. 395-405.

²⁹ Marga, *Cost of War* (Colombo, 1998), National Peace Council of Sri Lanka.

The study by Arunatilake *et.al.* is the most recent.³⁰ It covers the period 1984-96 and builds upon the earlier studies to produce the most comprehensive and methodologically sophisticated analysis. The study concludes that using a 10% interest rate, which is the standard discount rate used in cost-benefit analysis, the total cost of the war over the 13-year period was about Rs 1,429 billion or the equivalent of about 200% of the 1996 GDP.

3.7. Duality

The southern economy and that of the Eastern Province grew at a moderate pace after 1983 until 2000. The northern economy that bore the brunt of the war contracted. The conflict had resulted in an estimated 60,000 deaths over the past two decades, the majority occurred in the north.³¹ A greater percentage of this occurred in north. The size of the overall economy in the Northern Province had shrunk from US\$350m. to US\$250m. between 1990 and 1995 corresponding to a negative annual growth rate of over 6.2% (GOSL 2002:10). During the same period the Sri Lankan economy grew at an annual rate of 5.5%. Had the economy in the Northern Province (NP) remained unchanged the overall GDP growth rate would have been 6.3%. This means that the Sri Lankan economy lost about 1.0% point in annual growth as a result of the disruption of the northern economy.³²

The war had a devastating impact on the fisheries sector in NP. In 1990 it accounted for 35% of primary production activity. The government imposed severe restrictions on fishing in order to curtail the sea-based military activities and arms smuggling of the LTTE. As a result fisheries output in NP declined from Rs 1,300 million in 1990 to Rs 500 million in 1995, an annual negative growth rate of 12%.³³

Not surprisingly the value of services such as electricity in the NP contracted in the early 1990s. The LTTE destroyed electricity plants in government-controlled areas. The government in turn cut off supplies to LTTE controlled areas to deny the latter power for production of military equipment. Reductions in value were also recorded in rail and water transport. But air transport grew during the period. Ironically postal services also expanded as people in the north increasingly relied on regular mail - e-mail and phone services were severely curtailed due to the war - to keep in touch with kith and kin in the south and abroad and to receive remittances.

As regards government service, there is an interesting variation to the performance of the Northern Province (NP) economy. While there was an overall decline in government activity in NP, the scale of public service actually grew even during the war. For example, between 1990 and 1995 the value of public administration as measured by the total salaries and wages paid in the NP increased from US\$24 million to US\$28 million. This is explained by the expanded effort made by the government to take care of IDPs, and the 'risk' allowances paid to officials on top of regular salary.

The main theatre of war until the mid-1990s was the north. Thus it is the NP economy that mostly suffered. In contrast during 1990-95 the economy of the Eastern Province (EP) grew from US\$325

³⁰ N. Arunatilake, S. Jayasuriya and S. Kelegama, *The Economic Cost of the War in Sri Lanka*, Research Studies: Macroeconomic Policy and Planning and Series No. 13, Institute of Policy Studies (2000).

³¹ This includes the victims of the JVP uprising in the south in the 1980s which probably accounted for about 15,000 to 20,000 deaths.

³² UNDP, *National Human Development Report 1998* (Colombo, 1998), p. 59.

³³ *Ibid.*

million to US\$400 million representing an annual growth rate of 5.0%.³⁴ Propelled by a sharp rise in the value of paddy production from US\$30 million in 1990 to US\$85 million in 1995, and other food crops from US\$25 million to US\$62 million the primary production sector of the EP averaged an annual growth rate of 16%. This unusually high growth rate was also aided by a 16% per year growth in fish production. The latter is partly explained by fishermen in the north moving to the east to practice their trade. Manufacturing and service sector also grew in the EP during the first of the 1990s.

After 1995, following the capture of Jaffna by the government and the shift of LTTE operations to the Vanni that is located to the south of the Jaffna peninsula, the war spread to the EP as the LTTE tried to gain control of the area. This would have almost certainly impacted negatively on the EP economy.

Overall the NP and EP together contributed about 15% of Sri Lanka's the GDP in the early 1980s. This had declined to about 5% by the late 1990s. In sum the war opened a new duality in the Sri Lankan economy.

3.8. Growth and Welfare

One of the more interesting aspects of the political economy of Sri Lanka's war concerns the impact the war has had on human welfare. Given the scale of the war one would have expected human development to suffer a serious setback. Undoubtedly in the north-east, given the destruction of health facilities, shortages of food and medicine, 800,000 IDPs and so on, human development would have suffered a serious setback. But in the South there is no evidence of regression. For example, such sensitive indices as the infant mortality rate - 34 in 1980 down to 16 in 1998 - continued to decline through the war period. In what follows in this section of the paper we review a study by O'Sullivan (1998) who, in a thought provoking study, has argued that not all economic change attributable to the war is negative.³⁵ We also present in Chapter 4 the results of a micro-level field survey that further investigates the impact of war expenditure on household and community incomes and welfare.

The O'Sullivan study has two parts that are inter-related. The first part examines the impact of the war on economic growth. The second examines the impact of the war on the household economy. She notes that production in the war areas has been adversely affected. However, she also notes, that the impact of production losses on the overall GDP has been not appreciable because the output in the northern and eastern provinces did not account for a significant proportion of the national output. This assertion is probably wrong because, as we noted earlier in this chapter, the contraction of the northern economy caused a loss of about 1 percentage point per annum to the GDP. If it had grown at the same rate as the rest of the economy it would have added about 0.6 percentage points to the growth of the national economy. In any event the economy of the north - and to a lesser extent the economy of the east - has stabilized at a low-level equilibrium. Thus after the initial negative impact on the GDP it should not affect the overall growth rate of the economy one way or the other. That is what has actually happened.

O'Sullivan points out that at the macro level Sri Lanka's economic growth rate in the last twenty years is not only positive, but on average, quite creditable. She quotes figures to point out that Sri

³⁴ UNDP, *National Human Development Report 1998* (Colombo, 1998), p. 60.

³⁵ M. O'Sullivan, 'Civil Strife, Civil Society and the State: How Sri Lanka Coped During Wartime', *Workshop on Economic and Social Consequences of Conflict*, Queen Elizabeth House, 23-24 October 1998.

Lanka had a higher annual average GDP growth rate between 1980-90 (4.2%) and 1990-95 (4.8%) when compared 1965-80 (4.0%). This is dramatically different to many countries affected by internal wars where economic growth is typically negative. O'Sullivan also shows that Sri Lanka's growth rates were quite comparable to those achieved by other developing economies.

The reason for this relatively good performance can be attributed to two factors. First, the war has been largely restricted to the north and the east. Second, the economy has undergone a significant structural shift after 1980 with new industries such as construction and garments, and services such as tourism - albeit with fluctuations - and trade accounting for a growing proportion of the national output. Typically this in itself is an interesting development. In war economies one normally does not expect new civilian industries, especially those that are sensitive to the political stability of a country, to flourish. It appears that Sri Lanka has defied this trend at least to some extent. This suggests that Sri Lanka's economic institutional structure was quite resilient during the war period. As suggested below the more or less uninterrupted flow of foreign assistance that kept the economy afloat made an important contribution to this resilience.

O'Sullivan uses published 'national' data on human development for her assessment. It must be noted that after 1983 Sri Lanka's national data actually refers to the part of the country outside the north and east.³⁶ The indices she uses include life expectancy, infant mortality, adult literacy and school enrolment, all of which have continued to improve after 1980. She also uses the standard income poverty indices, namely the headcount index, poverty gap index, and the squared poverty gap index that suggest that poverty rates in Sri Lanka declined from the mid 1980s to the early 1990s.

O'Sullivan uses Sen's entitlement concept as a framework for the analysis to explain the reasons for continued improvement of human welfare in the south of the island during the war period.³⁷ Sen's original concept of entitlement referred to the ability of a household to purchase commodities from the income that it earned from direct production. Stewart expanded this framework by adding the concept of public entitlements such as health service education and food rations that the state provides to a household.³⁸ O'Sullivan has expanded it yet further by adding goods and services provided by non-government organizations to households. She calls them civil entitlements. In situations of war and emergencies this could be an important component of the total entitlement of a household.

The paper shows that consumption per capita grew over the period 1977-85 at an annual rate of about 5.0%. This is easily explained by the fact that this period was associated with an economic boom following liberalization in 1977. Between 1985-90 consumption growth slowed down to about 1.0% per annum or less depending on the price deflator that is used. This period is associated with an intensification of the war and relatively slow economic growth. From 1990 to 1993 consumption growth picked up to about 2.0% per annum. These are not stellar figures. However, there is reason to believe that on average private household entitlements increased in the 1980s and early 1990s.

Economic growth and private household entitlements held up in the late 1990s despite continuous high levels of expenditure on the war. Even in 2001 when the GDP growth rate turned a negative 1.4% for the first time in Sri Lanka's post-independence history, private household consumption did not

³⁶ G.H. Peiris and S.W.R. de A. Samarasinghe, *Sri Lanka Data Base*, International Workshop on Causes of Conflict: South Asia, organised by the International Centre of Ethnic Studies, Kandy in collaboration with the Netherlands Institute for International Relations 'Clingendael' (1997).

³⁷ A.K. Sen, *Poverty and Famines, An Essay on Entitlements and Deprivation* (Oxford, 1981).

³⁸ F. Stewart, *Planning to Meet Basic Needs* (London, 1985).

register a decline. As the next chapter titled *Household and Community Welfare* demonstrates, in the south military wages also made a significant contribution to the maintenance of household welfare. However, as discussed below there is evidence that towards the early 2000s the government was compelled to cut social expenditure, and thus household public entitlements.

Turning to public entitlements O'Sullivan analyses the composition of public expenditure for the period 1982-95. She concludes that despite increased spending on the war, the government maintained expenditure on social welfare. She attributes this to economic growth and higher taxes that increased fiscal revenue. Her main thesis in this part of the analysis is that the Sri Lankan experience 'refutes the notion that government services cannot be effective in wartime....' She notes that the government redistributed expenditure in certain crucial areas such as education in a manner that did not harm equity. For example, in education the share of the budget going to primary education was increased at the expense of the share going to tertiary education.

The O'Sullivan paper points out that an estimated 30,000 NGOs work in the island. Quoting the World Bank she asserts that these NGOs supplement market and government entitlements with the provision of services such as health care and financial services.³⁹

O'Sullivan concludes that a 'complex network of providers of market, public, and civil entitlements' evolved in the war situation to protect living standards and alleviate human cost. One should note that this applies both to the war zone in the north and east as well as to the rest of the country. Sri Lanka's robust government institutions performed well to mitigate the human cost of conflict. This is an important conclusion that indicates possibilities for sustaining development and welfare service delivery capacity under war conditions. However, she concedes that the escalation in the cost of war in the mid-1990s may well force the government to drastically reduce social spending for everybody.

As speculated by O'Sullivan, the heavy expenditure on the war ultimately produced a negative impact on government social expenditure in the early 2000s. In 2001 for the first time in more than three decades total government social expenditure declined in nominal terms by 7.3% and by double that amount in real terms. Substantial reductions were seen in health, education, and community services. In 2002 the government passed legislation to reduce the number of recipients who get a monthly consumption grant under its *Samurdhi* poverty reduction program. This is justified because at one point in the late 1990s nearly 60% of the households in the country were getting such a grant. However, the recent move - which is politically unpopular - has been driven by fiscal pressure as much as by efficiency and fairness considerations.

3.9. Education and Health in the North-East

Just as much as the north and east were affected by the war differently in regard to the economy, in regard to social welfare also there was a similar difference. As O'Sullivan notes, entitlements of household in the north have been more adversely affected than those in the east by the war that negatively impacted on private incomes in the north. But the government has continuously delivered food, medicines and other relief goods to the war areas albeit at a level that is lower than under normal conditions. The government has also maintained services, albeit on a lesser scale, especially in education, and to a lesser degree in health in the war areas.

³⁹ World Bank, *Sri Lanka Poverty Assessment* (Washington, 1995).

Education in the NP suffered a setback in 1990 when hostilities were resumed. Value added in the government education sector in NP declined from US\$9 million in 1990 to US\$6 million in 1991. The UNDP reports that the value of education was maintained at this lower level after 1991 although conditions became more difficult after 1995 when Eelam War III commenced.⁴⁰ Nevertheless, there was sustained commitment on the part of all involved - government, LTTE, and the people of the area - to maintain education. For example, throughout the period, with the assistance of ICRC and NGOs, the government delivered free school textbooks to the LTTE controlled areas. The proportion of students passing the GCE (Ordinary Level) examination - public exam taken after eleven years of school - from NP has been the third highest in the country. The pass rate of NP in the GCE (Advanced Level - exam after 13 years of school) has matched the national average. The Jaffna University and the Eastern Province universities also functioned uninterrupted throughout the war period.

The health sector in the NP and also in EP suffered considerably from the war. In NP in the Jaffna district the number of state hospitals declined from 35 in 1983 to 17 in 1994, in Mannar from 7 to 5 and in Vavuniya from 5 to 4. In EP in Batticaloa district the number declined from 11 to 9.⁴¹ It was also difficult to retain qualified medical staff in the area. Volunteer doctors from organizations such as MSF filled some of the vacancies. In the NP in Jaffna and Kilinochchi districts the proportion of children immunized fell from about 80%-85% to 65%-75%. But coverage in the other districts in the NP and EP is reported to have improved during the 1990s. Prevalence of underweight among children in some war-affected areas was reported to be over 50% (GOSL June 2002).

The fact that the government maintained human services at a minimum level in the war areas together with coping strategies developed by civil society - with the assistance of international NGOs such as MSF that played a significant role in health care - explains why Sri Lanka's war affected areas have avoided a major complex emergency that is normally seen in countries with intense and protracted civil wars. This is an important lesson for other countries in similar situations, and for domestic and international agencies that have to cope with humanitarian disasters.

3.10. Summary

The crux of the reason for the conflict is the failure of Sri Lanka to build an inclusive state after independence. The Sinhalese viewed the Sri Lankan State as a legitimate institution that was governed by majority (Sinhalese) will. The Tamils viewed it as an illegitimate institution that excluded that community. Mainly internal factors led to this diametrically opposite views of the state held by the two groups. Some have suggested that economic liberalization under the current paradigm of globalisation while promoting growth also created more rivalry between the ethnic groups, especially the business communities, and helped exacerbate the conflict and even precipitated the 1983 ethnic violence. This hypothesis, however, is hard to fully substantiate.

However, the economy suffered severely after the war escalated in 1983. A drop in foreign investment, falling tourist earnings, and growing military spending contributed to the economic setback. The pace of economic growth slowed down in the south but did not turn negative until 2001. The economy in the north shrank opening a new sharp duality in the Sri Lankan economy.

⁴⁰ UNDP, *National Human Development Report 1998* (Colombo, 1998), p. 60.

⁴¹ *Ibid.*, p. 62.

The social welfare achievements of Sri Lanka overall showed considerable resilience during the war period. Several factors were responsible for this. One was the moderate economic growth rate that prevented a major decline in jobs and personal incomes. A second was the government successfully maintaining its expenditure on education, health, and social welfare at reasonable levels. The contribution made by NGOs to household welfare was a third factor. In the north-east education suffered but not very much as a result of the war. But the health services in the region deteriorated sharply contributing to poor health indicators. Overall by the early 2000s there were clear signs that the government was finding it increasingly difficult to maintain social welfare spending at a level sufficient to maintain its past achievements in human development.

IV. Household and Community Welfare

A field investigation was conducted as a component of this study with the objective of detailed probing into the impact of the on-going armed confrontations between the security forces of the government and the secessionist militants on the economy at the level of the individual household and that of the communities from which the combatants are drawn. In addition, the investigation was aimed at gaining an understanding of the prevailing perceptions at the grassroots of society on the micro-economic impact of the war. For reasons relating to difficulties of access to areas that are under the control of the militants, this probe had to be confined to a sample of those serving in the security forces of the government and to one of their home areas.

4.1. Security Forces

Several known facts on the economic dimensions of employment in the security forces, and the inferences that could be drawn from such facts, provided the basis of the study design. For instance, the available official sources of information indicate that approximately 230,000 persons are employed in the 'government security forces' (consisting of the army, navy and the air force, the police, and the paramilitary personnel engaged in community protection in areas peripheral to the main venues of military confrontation).⁴² This number represents a numerically important segment of the country's workforce, accounting as it does for about 3.5% of the total number employed, and about 27% of the workforce in the state sector.⁴³ Secondly, it is also known that relatively high salaries and other emoluments are paid to those in the armed services, in comparison to state sector salary levels of those at comparable levels of educational status and seniority in service. For instance, according to unpublished information obtained from the Sri Lanka Army sources, the minimum monthly receipts ('take-home pay') of an infantryman invariably exceeds Rs 8,000 (with an additional Rs 3,000 or more for those serving in the war zone), whereas the overall average monthly income per 'income receiver' in Sri Lanka in 1996/7 was Rs 5,760.⁴⁴ If inflation of about 35% that occurred between 1997 and 2002 is factored in the latter figure in 2002 prices would be around Rs 7,800, not very different to the pay of Rs 8,000 in the military. However, that neglects several other relevant points. First, the additional allowance paid to those who serve in the war areas raises the military earning by about 40%. Second, the Sri Lanka income cited here is an average for the country outside north-east. Significant sections of

⁴² Based on estimates furnished in K M de Silva, 'Sri Lanka: Demilitarisation to Militarisation, 1985 to 1999' in: K.M. de Silva and G.H Peiris (Eds), *Pursuit of Peace in Sri Lanka: Past Failures and Future Prospects* (Washington, DC, 2000) p. 144. The figure of 115,000 as the size of the 'armed forces' of Sri Lanka given in UNDP (2002) *Human Development Report, 2002*, excludes the police but possibly includes the paramilitary forces.

⁴³ Based on data furnished in Central Bank of Sri Lanka (2001) *Economic and Social Statistics of Sri Lanka, 2001*, Colombo.

⁴⁴ The estimate of the monthly income per income receiver furnished here is from the *Consumer Finances and Socio-Economic Survey - 1996/97*, Colombo, Central Bank of Sri Lanka, 1999, p. 72.

the population receive incomes well below that amount. This is especially true of the rural areas. The overwhelming majority (well over 80%) of those employed in the security services is drawn from the 'rural sector.'⁴⁵ The inferences that could be drawn from these facts are that, in rural areas of the country, employment in the armed services could constitute an important component of both household income, and that such income could be of some significance to the economy at the level of village communities. It was in the context of the existing lacuna of information on these aspects that our field investigations were undertaken.

4.2. Goals

In specific terms, the information generated through the field investigations was expected to provide insights into the following questions concerning the impact of the ethnic war at the grass roots.

1. What are the basic demographic, economic and social characteristics of the households from which the security services personnel are drawn?
2. Are there significant demographic/socio-economic differences between the households in which there are employees in the security services and other households?
3. How important is the income derived from employment in the security forces to the total income of the households to which such employees belong?
4. What are the opportunity costs of employment in the security services?
5. How important is the income derived by employees of the security services to the economy of the communities to which they belong?

4.3. Methodology

The survey was conducted during the early months of 2002 in a densely populated rural area extending over four contiguous *Grama Niladhari* divisions (lowest units in the spatial hierarchy of government administration, each of approximately 1,500 to 2,000 households) located on the periphery of Kandy (the third largest urban centre in Sri Lanka). It entailed the gathering of data relevant to the study from a sample of 83 households. Preliminary inquiries enabled the inclusion in the sample of 30 households in each of which at least one member is (or was) employed in one or the other of the government security forces - referred to hereafter as '*Services Personnel/Households*'.

This segment of the sample thus includes households in which one or more member is currently in service, but also those that receive payments from the security services by way of pensions, gratuities and/or compensation. As far as it was possible to ascertain these 30 households represent a very high proportion of households in the study area in which there are or have been members employed in the security services. The data from the remaining 53 units in the sample - referred to hereafter as '*Other households*' - are used in the analyses that follow mainly for purposes of comparison.

⁴⁵The information on emoluments and source areas of armed forces personnel cited here are based on a survey currently being conducted for the ICES by former Brigadier Daya Wijesekera of the Sri Lanka Army. It should, however, be noted that the urban-rural dichotomy in Sri Lanka is, at times, not particularly distinct.

The data obtained on the units in the sample, though based largely upon a structured questionnaire, also include additional information pertaining to the study specific to each individual or household. Although our sample lacks the characteristics of statistical randomness, it could be considered as a purposive sample that represents a fairly wide cross-section of the population in a rural/peri-urban setting in Sri Lanka.

4.3.1. Demographics

The extent to which the sample matches the population of the country in respect of certain basic demographic features could be discerned in the data tabulated in Table 4.1.

Table 4.1.: Study Sample and Total Population: Selected Demographic Features

	Study Sample			Sri Lanka*	
	Services Households	Other Households	Entire Sample	Rural Households	All Households
Number of Households	30	53	83	2,430,000	3,200,000
Average Household Size	5.3	4.6	4.8	4.6	4.6
Number of adults (18+) per Household	4.3	3.5	3.7	3.4	3.3

*Note: * Sri Lanka estimates are based on the Consumer Finances and Socio-Economic Survey of 1996/97 conducted by the Central Bank of Sri Lanka. This survey did not cover the Northern Province and parts of the Eastern Province - i.e. about 12% of the country's total population. Attention is also drawn to the fact that Sri Lanka estimates are for 1996/97, and income values are in current prices.*

It appears from the data presented above that, while there are broad similarities between the demographic profile of the study sample (which, of course, accounts for only a minute segment of the country's population) and that of the national population, and especially the rural sector thereof, there are also fairly pronounced differences between the two segments of the study sample - 'Services Households' and 'Other Households' - in respect of both size as well as composition, the main difference being that the former segment consists of relatively larger households with more persons in the age categories of 18 years and above.

4.3.2. Income

Income-related data gathered through the survey point to the prevalence of other important differences between the 'Service Households' and 'Other Households (Table 4.2). These data should be treated as no more than rough estimates largely confined to incomes in cash and, in a few instances, imputed values for income in kind - the latter estimated on the basis of criteria such as ownership of land and other capital assets. Inaccuracies of the income estimates could also arise from misreporting by the survey respondents. One could assume, however, that possible distortions attributable to these reasons are not confined to any one segment of the present sample.

Table 4.2.: Levels of Income: Study Sample and the Rural Sector of Sri Lanka

	Study Sample		Sri Lanka*
	Services Households	Other Households	
Total Income (Rs/Month)	584,300	565,100	-
Number of Households	30	53	-
Number of Income Receivers	73	87	-
Average number of income receivers	2.4	1.7	-
Number of Persons	158	249	-
Income per Household (Rs/Month)	19,477	10,662	9,443**
Income per Income Receiver (Rs/Month)	8,004	6,495	5,760
Per Capita Income (Rs/Month)	3,698	2,269	2,048

Notes: * These estimates relate to 1996/97

** This estimate has been derived by converting the income per 'Spending Unit' furnished in the source to income per 'Household.' The source indicates that there were 1.08 'Spending Units' per 'Household.' (See *Consumer Finances and Socio-Economic Survey, 1996/97 - Part I*)

In comparing the survey data with those on Sri Lanka it is necessary to take note of the difference in respect of time to which the two sets of data relate - 1996/97 and 2002. We have already referred to the 35% inflation that occurred between 1997 and 2002. In addition income would have gone up in real terms although, given sluggish economic growth in the last five years discussed in Chapter 3, not by very much. Making an allowance for these, it could be said that the most striking feature borne out by the data is the distinctly higher level of income reported by the 'Services Households' in comparison to both 'Other Households' of the survey sample as well as the corresponding values for the country as a whole. However, this is partly accounted for by the higher average number of income receivers in the Services households. Making an allowance for that the average income per income receiver is still 23% higher than that of the Other households.

This, however, does not necessarily falsify the popular notion that the armed services in Sri Lanka draw their recruits largely from households falling into the lower income strata of the peasantry. To probe further into the question of whether it is the rural poor who constitute the bulk of the security services personnel, a comparison is presented below (Table 4.3) between the average income received by the 'Services Households' from sources other than emoluments from employment in the armed services, and the average income of the 'Other Households' in the study sample.

Table 4.3.: Income from Sources Other than Emoluments from Security Services (Study Sample)

Income from Source other than Security Services	Services Households*	Other Households**
Income per Household (Rs/Month)	9,213	10,662
Per Capita Income (Rs/Month)	1,749	2,269

** Note that these values have been derived by deducting from the reported overall average income of this segment of the sample, the income derived in the form of various payments by the security services.*

The average income estimates presented in Table 4.3, taken at face value, make it clear that it is mainly the income derived from the security services that elevates the ‘Services Households’ to a higher income plane than other households in the community. If, for instance, the emoluments received from the ‘services’ were deducted from their total income, these households would fall substantially below the average level of per capita income in the community. There are, of course, the opportunity costs of employment in the security services - in the form of that those employed in these services could have obtained from alternative employment. The estimation of such opportunity costs involves the use of several parameters that cannot be quantified. However, on the basis of an assumption that the main impulse to seek employment in the security services is the non-availability of employment opportunities in other avenues of the economy, it seems reasonable to surmise that, had it not been for the employment in the security services, the majority of ‘Services Households’ would rank among the poorer segments of the community. It is in this sense that the widespread notion of the security forces drawing most of their recruits from the poorer segments of society appears valid. It also seems that the income received by such recruits facilitates an elevation of the *average* income of the households to which they belong to a higher level than the average income of households that depend entirely on other avenues of employment.

4.3.3. Poverty

A comparison of income distribution within the two segments of the sample (Table 4.4) sheds further light of the impact of employment in the security services on the household economy. The preponderance of the ‘Other Households’ category in the lowest income strata of the study area could be observed in the fact that, if one were to employ a ‘poverty line’ of a per capita monthly income of Rs 2,000 to the study sample, its ‘poverty head-count’ amounts to 50.9% of its total, compared to the corresponding value of 13.3% in the ‘Services Household’ segment of the sample.

Table 4.4.: The Sample of Households Classified by Per Capita Monthly Income

Income Category (Rs/Month/Person)	Number of Households (with % in parenthesis)	
	Services Households	Other Households
0 - 1,000	0 (0%)	13 (24.5%)
1,001 - 2,000	4 (13.3%)	14 (26.4%)
2,001 - 3,000	10 (33.3%)	14 (26.4%)
3,001 - 4,000	8 (26.7%)	4 (7.5%)
4,001 - 5,000	5 (16.7%)	3 (5.7%)
5,001 - 6,000	1 (3.3%)	3 (5.7%)
6,001 - 7,000	0 (0%)	1 (1.9%)
7,001 - 8,000	0 (0%)	1 (1.9%)
8,001 - 9,000	0 (0%)	0 (0%)
9,001 - 10,000	0 (0%)	0 (0%)
Over 10,000	2 (6.7%)	0 (0%)
All Households	30 (100.0%)	53 (100.0%)

From political-economy perspectives, the significance of the phenomenon referred to above appears to be underscored by the preponderance of those who have reached the higher levels of secondary education among the income earners in the ‘Services Households’ (Table 4.5). It is particularly noteworthy that over 80% of the income earners in the ‘Services Household’ segment of the study sample (including those whose earnings are derived from other sources as well) had been educated up to or beyond the ‘General Certificate of Education - Ordinary Level grades - i.e. more than 10 years of formal education.

Table 4.5.: Level of Education among Income Earners: Study Sample

Level of Formal Education	Services Households (% of Total)	Other Households (% of Total)
	% of Total of Income Earners in the Segment of the Sample	
< 6 years	2.7	8.0
6 to 10 years	16.6	24.7
11 to 13 years*	57.5	46.6
> 13 years	23.2	20.7

*Note: * There is lack of clarity in the ‘educational status’ information furnished by certain respondents. In the present tabulation, this category consist of those who were claimed to have ‘passed the GCE-Ordinary Level Examination,’ regardless of the specifics of the ‘pass’.*

The 30 ‘Services Households’ in the sample had an aggregate of 35 service personnel (Table 4.6). Only three of these persons are/were in the ‘Commissioned Officer’ ranks. The majority (63%) are/were attached to the army. Employees of the navy account for 20% of the total. The entire sample has only 1 woman. All these persons claimed to have passes in a specified number of subjects at the

General Certificate of Education - Ordinary Level Examination. Some among them have higher educational qualifications.

Table 4.6.: Security Services Employees in the Study Sample (Numbers)

Service	Rank	Currently Employed	Retired/ Absconding	Dead/ Disabled	Total
Army	Commissioned	1	-	-	1
	Other Ranks	13	3	5	21
Navy	Commissioned	-	-	-	-
	Other Ranks	7	-	-	7
Air Force	Commissioned	-	1	-	1
	Other Ranks	1	-	-	1
Police	Commissioned	1	-	-	1
	Other Ranks	2	1	-	3
Other Services		-	-	-	-
All Security Services		25	5	5	35

4.4. Profile

On the basis of the sets of information furnished above, it is possible to ‘profile’ a typical household from which young adults have found employment in the lower ranks of the security forces of Sri Lanka. It is a relatively large household with four or more adults. Most of these adults are educated up to or beyond the higher levels of the secondary school curriculum. Prior to the establishment of its employment links with the security services, it would have ranked among the lower income strata of the community. The income it derives from employment in the security services has facilitated upward socio-economic mobility. This change in status, it appears from supplementary information gathered in the course of the survey, has facilitated improvements in their dwellings and enabled them to acquire accoutrements such as televisions and radios receivers which could be interpreted as signifying that their present living standard is above bare levels of subsistence.

4.5. Community Impact

However, the survey data do not sustain the hypothetical proposition that employment in the security services has a significant economic impact at the level of the community from the viewpoint of income except by way of a marginal reduction in the intensity of competition in certain fields of employment. The total income earned by the entire sample in the form of receipts from the security services amounts to no more that Rs. 307,900 per month. Even if one were to assume that this amount in its totality enters into the economy of the study area (which, on a very rough estimate, has 6,000 to 8,000 households), it would not have a tangible impact.

4.6. Employment

An issue, which is of vital significance to the themes of this study, relates to employment effects of the ethnic war. As noted earlier, the estimated total of 230,000 employees of these services, though representing only about 3.5% of the total workforce of the country, accounts for well over one-quarter of the total of state sector workers, and a substantially larger share of the 'middle grades' in this segment of the workforce. It should also be noted that the security forces are, by and large, the domain of males. What these considerations imply is that a substantial reduction in the employment capacity of the security services in the form of retrenchment and demobilisation - a possible outcome of restoration of peace - could, in the absence of the availability of alternative avenues of employment to those are demobilised and retrenched, have a pauperising impact that has the potential of intensifying social and political unrest.

The survey data cannot form the basis of a comprehensive discussion on the foregoing issue, for, apart from all else, the survey, even as probe confined to the government side of the confrontational divide, is minute in its spatial coverage. Nevertheless, our data relating to employment and income do provide some general impressions on the prevailing state of the 'job market' of the study area (Tables 4.7 and 4.8). On the basis of these impressions, certain tentative conclusions could be drawn on the employment prospects, which a demobilised 'soldier' is likely to encounter in the economy in his home area.

Table 4.7.: Employment and Unemployment in the Households of the Study Sample

Total Labour Force ¹	314
Total Number Employed ²	146
Number Employed in the Security Services	25
Number Employed in Other Avenues	121
Total Number Unemployed ³	168

Notes: 1. The total 'adult population' (i.e. +18) in the study sample has been considered as constituting the labour force. Those still engaged in study and training, and those above the age of 59 years (whose numbers have not been recorded at the survey) are included here in the labour force.

2. Recipients of pensions, and post-employment gratuities and compensation payments are not included in the employed segment of the labour force.

3. This number includes those who do not seek employment but are engaged in unpaid family/domestic work. Given the lack of precision in the survey data, it could also include some casual wage earners in the informal sector.

The most pronounced feature of the economic scenario of the study area seen from the viewpoint referred to above is the high rate of unemployment in the labour force. What the survey data indicate is that in the 83 households surveyed, as many as 168 - i.e. an average of approximately 2 adults per household - were reported to be unemployed. Even if allowance is made for the defects in the definition of 'labour force' employed in Table 7 (see the notes appended to the Table), the survey data leaves hardly any room to doubt that the 'demobilised soldier' will find in this area a saturated job market, with many persons in his own age-group (and educational qualifications similar to his own) unemployed or severely under-employed.

Table 4.8.: Employment and Earnings in the Different Fields of Employment: Study Sample

Field of Employment	Number Employed	Total Earnings (Rs/month)	Average Earnings (Rs/Month/Earner)
Security Services			
Army, Navy, Air Force, Police	25	244,100	9,764
Other Avenues of Employment			
Farmers & Agricultural Labourers	28	57,500	2,050
Skilled/Semi-Skilled Casual Workers ¹	14	79,500	5,679
Factory Workers ²	13	43,600	3,354
Technicians	7	52,600	7,514
Transport Workers ³	13	100,500	7,731
Petty Traders	11	59,000	3,364
Businessmen (Shop-Owners)	2	26,000	13,000
Teachers	6	50,100	8,350
Office Workers (Middle Level)	22	158,300	7,195
Office Workers (Lower Level)	4	9,500	4,750
Others	1	6,000	6,000

Notes: It is necessary to stress that the estimates of income, based as these are on information furnished by the survey respondents, should be treated as very rough estimates that refer only to income in cash, especially in the case of 'Farmers and Agricultural Labourers,' 'Skilled/Semi-skilled casual workers,' 'Traders' and 'Businessmen,' whose employment and income lack regularity.

1. The majority in this category are construction workers.

2. This category consists of women employed by the garments industry.

3. Six persons in this category earn their income (fairly high) by driving trishaws taxis.

The second feature of relevance to the issue presently under scrutiny is the relatively low wage levels that prevail in almost all avenues of employment in the study area, compared to the average earnings of those employed in the security services. It is of interest to note that if one were to consider the field of employment represented by the two 'businessmen' in the sample as an exception, all other fields, regardless of the educational and/or technical skills required of their employees, generate lower incomes than the security services.

Finally, an important question also arises regarding the employability of the former military personnel in civilian employment - the limitation that pertain to the harnessing of the training and skills acquired in the armed forces for the large majority of jobs available in economic settings similar to that found in the present study area.

4.7. Summary

A field survey was conducted in a semi-urban cum rural area in the Kandy district that is predominantly Sinhalese. The purpose of the survey was to assess the impact of government spending on the war on household and community incomes and employment in the semi-urban and rural sector.

The total sample consisted of 83 households. In 30 of these at least one member either was currently employed in some branch of the state security services or derived a regular monthly income from a pension, gratuity or compensation from the services. The other 53 households were regular non-service households. The survey data revealed that in the service households the average income per income receiver was about 23% higher than that of the 'Other.' The service household average was also about 7.0% higher than the national average. The survey data also revealed that the income from services almost doubles the aggregate income of the services households when compared to that of the other. This supports the popular hypothesis that the military draws its personnel mainly from the poorer rural households. In fact service employment moves up most such households above the poverty line.

The aggregate income of the service households did not make an appreciable impact on the total income of the community from which the sample was drawn.

The sample reported an unemployment rate of about 50%. This is a very high rate. If this were valid for the community in general, demobilisation of combatants following a peace pact would add to the already acute problem of unemployment in such communities.

V. The Liberation Tigers of Tamil Eelam - LTTE

Insurgencies must achieve certain goals to grow and prosper. These include:

- Cohesion;
- Motivation;
- Legitimacy;
- Funding/Finance.

The LTTE has achieved a high degree of cohesion by recruiting to its fighting cadres and other ranks exclusively from one ethnic group, the Tamil community. They have a shared grievance to motivate them and a shared ideology to guide them. The LTTE has also successfully propagated this culture among large sections of the Diaspora community. Interestingly, the LTTE also did not tolerate any rivals who challenged them or had the potential to challenge them. Such individuals or groups have been largely eliminated or silenced.

Motivation has been achieved by highlighting the suffering of ethnic brethren, and by generating and stoking a discourse of grievance, anger, and hatred. As for the Diaspora and even in the case of the Tamils who live in the South, there may also be a component of guilt that they, especially the Diaspora live in safety and comfort away from the theatre of war while others fight the battle and their ethnic brothers suffer the effects of war. The theme of reconciliation has been largely subsumed, possibly because of its limited utility in generating the necessary commitment and zeal.

Legitimacy has been partly achieved by staking and assiduously maintaining the claim to be the sole representative of the entire ethnic group. The LTTE has also sought to legitimate itself in the international community as a struggle for liberation and self-determination against a brutal oppressor. Meanwhile, Diaspora supporters of the armed struggle continually reinforce the themes and images of Tamil victimization, whether or not these reflect realities on the ground in Sri Lanka.

The LTTE has also sustained a campaign of international publicity via a series of workshops, conferences, and demonstrations to maintain Diaspora support and also gain the sympathy of the international community. A key element in this strategy is to associate prominent political figures such as Nelson Mandela who enjoys a very high global profile, with the message of the LTTE. However, the LTTE's campaign for international legitimacy has met with increasing failure mainly because of its terror tactics.

5.1. Diaspora

Starting with the July 1983 riots there was a large outflow of Tamil refugees from Sri Lanka. The relaxation of exchange control regulations after 1977 permitted several hundred thousand of them to buy air tickets and obtain travel allowances and move to western countries from where they provided funds to the rebels to continue the war. Countries such as Canada relaxed their immigration rules to admit Tamils after 1983. In the case of Western Europe the liberal refugee laws enacted to help Jews

fleeing from Nazi Germany were still in place until recently in most countries, and the Tamil refugees benefited from them when they sought asylum.

The Tamil Diaspora, it must be noted, consist of refugees as well as Tamils who migrated before 1983. Probably well over 90% belong to the former category. Table 5.1 shows a range of figures that are at best crude estimates. The UNHCR quotes a total of 817,000 Tamil refugees. It is important to note that the pre-1983 Tamil migrants, mostly professionals such as doctors, engineers, and accountants, may be small in number but has had very considerable capacity to support the Tamil cause by way of cash contributions and lobbying. In contrast the capacity of the average refugee was very much less.

Country/Region	Number
Canada	180,000 - 200,000
USA	40,000
Europe	200,000 - 220,000
Australia	30,000 - 60,000
Middle East/Africa	10,000
India	67,000 - 90,000
Other	70,000
Total	597,000 - 690,000

Source: Rohan Gunaratna cited in Suryanarayan and Sudarsen (2000) p. 61; UNHCR, www.unhcr.org

Diasporas, are generally reliable and long-term source of funding. They do not often seek to question, let alone control or influence the organizations they support. It is possible that though they contribute to the cause, they have little or no say in policy and tactics.

LTTE appears to have employed a dual strategy to mobilize Diaspora support. The LTTE's violent actions, strength and military prowess are glorified in Diaspora propaganda and discourse, with little or no emphasis on reconciliation. At the same time, to the international community, the LTTE and its Diaspora supporters stress a continual commitment to and desire for negotiations and peace. It is difficult to determine which approach, if either, reflects the actual position, or whether the actors are merely telling each audience what they think it wants to hear.

It is difficult to generalize about Tamil Diaspora motives in supporting the war. What is known about the underlying motivations of Diaspora communities does not support sweeping generalisations about their attitudes to the conflict. It is not a homogeneous or monolithic group. It spans a variety of ages, backgrounds, professions, castes, creeds and political opinions.

In the case of the Tamil Diaspora, they may be largely motivated by ethnic affinity strengthened and often articulated in reference to the separatist struggle in Sri Lanka and opposition to the Sri Lankan government. Diasporas often find group unity in a shared concept of 'homeland.' In the case of the Tamil Diaspora, it is the envisaged state of Eelam to be carved out of the northern and eastern regions of Sri Lanka.

The Liberation Tigers of Tamil Eelam (LTTE), for example, appeal to overseas Tamils by continually stressing a 'victim diaspora,' associated strongly with territory, forcible scattering, persecution (in which the 1983 Colombo riots are referred to as the 'holocaust') and the traumas of

exile, in which trans-national links are forged largely for reasons of propaganda and political mobilization. Pungudutheevans⁴⁶ on the other hand appear to have a different and ‘stronger’ Diaspora, more a colonising version which does not ponder the negativities of exile, but rather stressing economic success and fostering self-help. Identification with home (an occupied island) is weak, and trans-national associations are established for the purpose of trade rather than politics. The LTTE and Pungudutheevan conceptions of the Tamil Diaspora are, in a sense, two extremes, with the majority of Swiss Tamils falling somewhere in between them.⁴⁷

However, over time there appears to have been a homogenisation of overt expressions of Diaspora opinion in favour of the LTTE as the ‘legitimate representative’ of the aspirations of the Tamil Diaspora, and by extension, the Tamil people as a whole. This appears to have been a major goal of the LTTE, achieved partly through eliminating or sidelining all rivals, the skilful use of propaganda, fear of social exclusion on the part of dissenters in the Diaspora community, and simple fear. Genuine belief of some in the stated goals and methods of the LTTE cannot be discounted, and may be significant.

The views of some members of the Canadian Tamil Diaspora may illustrate this point.

‘Among the many seemingly improbable champions of the guerrilla cause is Sitta Sittampalam, 66, a former school teacher. What much of the world might consider terrorism, Mr. Sittampalam calls a liberation struggle for Sri Lanka’s Tamil minority, which he says has suffered years of repression by the island’s majority Sinhalese. “If that struggle results in *incidental* civilian deaths”, said Mr. Sittampalam, who now heads a Tamil immigrant aid agency here, “it is part of the regrettable but inevitable logic of war.” He regards the Tigers’ suicide bombers, known for blowing up politicians and civilians alike, to be *heroes of the highest order*; indeed, the Black Tigers, as they are called, are commemorated here every July. “I do all that I can to support Prabhakaran, to see that this struggle matures to the stage where we have one free nation recognized in the international community,” said Mr. Sittampalam, who like many overseas Tamils became politically active long after leaving Sri Lanka. Like other Tiger supporters, he insists his money goes toward a charity that provides relief aid, though that too, relief workers say, is controlled by the Tigers. “It was the efforts of the Jewish Diaspora that made Israel a free country,” Mr. Sittampalam said. “Why shouldn’t Tamils do that?”’⁴⁸

There has been no systematic, widespread and anonymous survey of Diaspora opinion that would enable a more accurate assessment of their true motives and feelings. There are indications that many members of the Tamil Diaspora do not feel free to discuss their opinions among themselves, even less so to ethnic outsiders, for fear of reprisals or being labelled traitors to the cause. There may be no overarching motive, though militant propaganda and vocal Diaspora supporters may say otherwise. Motives may be personal gain (high positions in the envisaged state, or material benefits), group

⁴⁶ Pungudutheevans are the inhabitants of an island off the Jaffna Peninsula. In this context the term is used to describe Diaspora Tamils who feel that their home island is ‘occupied’ by the Sinhalese and their army.

⁴⁷ C. McDowell, *A Tamil Asylum Diaspora: Sri Lankan Migration, Settlement and Politics in Switzerland* (Oxford, 1996).

⁴⁸ S. Sengupta, ‘Canada’s Tamils Work for a Homeland from Afar’, in: *Sunday* 23 July 2000.

identification, a sincere belief in the goals of the militants, fear of social exclusion or physical harm, or any combination of these. Also, refugee status in host countries is based on the premise of the fear of persecution in the home country, thus there may be an incentive to create perceptions and encourage distant conflicts that serve to buttress the claim.

Some analysts have reported a deliberate LTTE policy of allowing only their supporters to exit areas under its control to go overseas, establish themselves, and contribute to the cause.⁴⁹ Nonetheless, private discussions by researchers with individuals indicate that opinions are more diverse than they may appear.

‘It was the leaders of the Tamil militant groups who seized these [Tamil] grievances and from them developed an ethno-nationalist ideology, in which the creation of an independent Tamil state (Eelam) was advanced as the only means of securing a future for Tamils on the island of Sri Lanka. This is the political leap that the majority of Tamils I have interviewed and, according to poll results in Sri Lanka, the majority of Tamils who have remained behind, have not made. The view from Switzerland is that Eelam is not the answer. What is demanded is new political leadership both Tamil and Sinhalese...’⁵⁰

5.2. Funding

Analysts (Mackenzie Institute 1995, Gunaratna 1998, Chalk 2000, Davis 2001, Peiris 2001, and Aryasinha 2002) believe the LTTE has diversified sources of funding, which may include:

- Diaspora contributions, largely funnelled through front organizations and ostensible charities;
- Contributions, voluntary and involuntary, from Tamil individuals, families, and businesses;
- Funds siphoned from contributions to NGOs, charities, and benevolent donor groups;
- Taxes and levies in various forms on the populations in the areas under its control, voluntary and involuntary;
- Human and narcotics smuggling;
- Money laundering;
- Business investments.

To the above list one should also add funding and contributions in kind that the LTTE is known to have received from official sources - Indian rupees 20 million that it received from the Tamil Nadu Chief Minister M G Ramachandran in 1987 is one such known example. There is also covert funding and contributions in kind. Military equipment provided by the Indian government to the LTTE in the 1980s under the Indira Gandhi administration, and for that matter military hardware provided by President Premadasa in the early 1990s to fight the IPKF are two known examples.

The actual funding levels of the LTTE are a well-guarded secret. There are alternative estimates but in general the sources and/or method of estimation are not revealed. The numbers given also have

⁴⁹ Mackenzie Institute, *Funding Terror: The Liberation Tigers of Tamil Eelam and their Criminal Activities in the Western World* (Toronto 1995).

⁵⁰ C. McDowell, *A Tamil Asylum Diaspora: Sri Lankan Migration, Settlement and Politics in Switzerland* (Oxford, 1996).

such a wide range that it is difficult to assess the reliability of the figures. For example, Peiris quotes the Sri Lanka embassy in Ottawa that estimates 'refugee funding' for the LTTE world-wide to be around US \$2.0 million per month or \$24.00 million per year.⁵¹ Gunaratna, who is a regular analyst of operations of the LTTE abroad, estimates that direct money transfers and support given by the international wing of the LTTE together amount to as much as \$120 million a year with the bulk of the money coming from the Tamil Diaspora.⁵² Gunaratna does not provide the source of this information or how he arrived at this number. The figure of \$24 million amounts to about \$40 per person per year assuming that 600,000 Tamils living abroad contribute. Actual contributions would come from employed adults. Thus the actual number contributing would be less than 600,000. Assuming that it is only half of that number - it is likely to be higher because the majority of refugees were adults - the annual contribution would be \$80 per caput, not a large amount given the earning capacity even in a modest job in the West. Thus it is reasonable to infer that the estimate of \$24 million would be a low-end estimate and the actual amount probably is much higher.

Gunaratna estimates that by the late 1990s there were about 650,000 Diaspora Sri Lankan Tamils worldwide.⁵³ From 1984-85 the LTTE centralized fund collection from this community under a global network. According to Gunaratna the LTTE strategy is to radicalise the Diaspora with anti Sinhalese and anti Sri Lankan propaganda, establish a strategic relationship and get their sympathy to raise funds from them. He claims that the LTTE prefers regular monthly contributions, even if modest, to maintain the link. Since 1997 they have solicited one day's pay per working person per month. Wealthy businessmen and professionals are approached for larger donations. Chalk reports of a 'prominent' Tamil-American medical practitioner living in the US who would give as much as \$100,000 at any given time, depending on who asked for the money and the purpose for which it would be used.⁵⁴

Aryasinha citing 'Sri Lankan and foreign intelligence agencies' quotes a figure of \$100 million as the LTTE annual revenue of which \$60 million is said to be generated overseas.⁵⁵ Gunaratna says that the Diaspora contributes 'at least 60% of the LTTE procurement budget.'⁵⁶ He says that the LTTE procurement budget is estimated at \$50 million and that it relies on Diaspora contributions for \$25-30 million. About \$10 million to \$15 million comes from LTTE investments abroad and trade and the balance \$10 million from Tamils living in Sri Lanka.

The bulk of LTTE Diaspora funding appears to come from the wealthy liberal democracies of North America, Europe and Australia. Gunaratna identifies 12 countries as sources of Diaspora financial support for Tamil political parties and militant groups from the early 1970s. They are Sweden, Norway, France, West Germany, UK, Canada, USA, Australia, Malaysia, India, Zambia and

⁵¹ G.H. Peiris, 'Clandestine Transactions of the LTTE and the Secessionist Campaign in Sri Lanka', in: *Ethnic Studies Report* Vol. XIX, no 01, (2001), pp. 1-38.

⁵² R. Gunaratna, 'Impact of the Mobilised Tamil Diaspora on the Protracted Conflict in Sri Lanka', in: K. Rupesinghe (ed.), *Negotiating Peace in Sri Lanka - Efforts, Failures and Lessons*, (London, 1998), pp. 301-328.

⁵³ Ibid.

⁵⁴ P. Chalk, 'Liberation Tigers of Tamil Eelam's (LTTE) International Organization and Operations: a Preliminary Analysis', *Commentary* No. 77 (Canadian Security Intelligence Service, 2000).

⁵⁵ R. Arayasinha, 'Terrorism, the LTTE and the Conflict in Sri Lanka', *Conflict, Security & Development* (2002), pp. 25-50.

⁵⁶ R. Gunaratna, 'Impact of the Mobilised Tamil Diaspora on the Protracted Conflict in Sri Lanka', in: K. Rupesinghe (ed.), *Negotiating Peace in Sri Lanka - Efforts, Failures and Lessons*, (London, 1998), pp. 301-328.

Nigeria. UK, which has one of the largest Sri Lankan Tamil expatriate populations estimated to be around 120,000 is believed to provide the LTTE with about \$3.5 to 5.0 million per year.⁵⁷ The groups that received funds included the TULF, EROS and the LTTE (and its precursor Tamil New Tigers) and its international wing Tamil Liberation Organization.

Host governments often cannot distinguish between insurgents and activists, partly because in the Tamil Diaspora, they appear to work closely together. Even when links are detected, laws in the host countries may not be robust enough to stop these individuals or organizations, or prevent them from bending the Diaspora to the cause.

The situation in Norway is a case in point. According to the Norwegian ambassador in Sri Lanka, there is no way for the Norwegians to prove that the money raised in Norway (allegedly US\$500,000 a month) is being used to fund terrorist activity elsewhere. Once a person is allowed to enter Norway, no law requires them to register themselves or their organization (the law guarantees freedom of congregation) in order to raise funds in the country. The country also has no legal framework to proscribe or even identify terrorist organizations. Ambassador Westborg reportedly said that since Norway does not possess counter terrorist laws similar to the United States, it is 'irrelevant' whether Norway perceives the LTTE as a terrorist organization.

There appears to be a correlation between the scale of Diaspora contributions and LTTE military success. Donations reportedly fall after LTTE setbacks, and markedly increase after military victories. Thus, there may be an inherent incentive for military escalations to keep the revenue flowing in. Propaganda during Eelam wars I (1983-87) and II (1991-94) reportedly focused on raising funds to buy weapons and to sustain the rapidly growing LTTE administration in the North. The LTTE has also sought to legitimise their demand for a separate state based on their military strength. Principal LTTE theoretician Anton Balasingham is quoted as saying 'strength is legitimacy in an international system'.

5.3. Impact

Diasporas have the capacity to affect outcomes both during and after conflicts. They are financially better off than their counterparts back home, organized for collective action, and feel ethnic solidarity as members of a minority group in the host country. Furthermore, being physically far removed from the theatre of war, and not directly suffering the costs of conflict, they may have a greater incentive to 'purchase vengeance' than those in the home country.⁵⁸

It may be argued that the mobilized Tamil Diaspora has had an effect on the duration of the conflict in Sri Lanka. Elements of the Tamil Diaspora appear to have been instrumental in developing, maintaining and augmenting the LTTE's financial resources, military power, and diplomatic influence. The interlocking activities of the LTTE and its Diaspora supporters have given the group recognition, money, munitions, some degree of international legitimisation, and access to secure external logistical bases, all essential ingredients for their organizational survival and continuation of the war.⁵⁹

⁵⁷ R. Gunaratna, 'A Haven Lost - Will the British Ban Seriously Affect the Liberation Tigers of Tamil Eelam's Support Operations from Europe?', *Frontline* 27 April (2001), pp. 60-63.

⁵⁸ P. Collier, *Policy for Post-conflict Societies: Reducing the Risks of Renewed Conflict* (Washington, 2000).

⁵⁹ P. Chalk, 'Liberation Tigers of Tamil Eelam's (LTTE) International Organization and Operations: a Preliminary Analysis', *Commentary* No. 77 (Canadian Security Intelligence Service, 2000).

Representatives of host governments appear to be aware of the direct and indirect influence the Tamil Diaspora can potentially wield on events in Sri Lanka. In Jaffna in late August 1998, High Commissioner of the United Kingdom David Tatham reportedly appealed to expatriate Tamils to return to Jaffna, use their financial resources to help end the war and rebuild the country. He said negotiations towards a political settlement should resume and that ‘resources of the Tamil community abroad’ would supplement the efforts of the international community.

5.4. Illegitimate Sources

There seems to be little concrete or verified data on LTTE finances or details on how these funds are transferred. What is known or suspected is that funding reaches the organization from a variety of external sources possibly through an informal financial network, money-laundering operations, ostensibly legitimate businesses, shell companies, and bank accounts in various financial centres. The global activities of the group and the widespread Diaspora that includes individuals trained in finance and computer technology have created conditions favourable to the creation of a sophisticated financial network.

Gunaratna as well as Aryasinha describe the legitimate and illegitimate business ventures of the LTTE to raise funds.⁶⁰ The latter are usually camouflaged under front organizations and informal networks. One lucrative business is smuggling of Sri Lankan Tamils to western countries for a fee. After Jaffna came under LTTE control it imposed an ‘exit tax’ on those who wished to migrate.⁶¹ The tax varied depending on the ability to pay. They also run a passport-visa service that forges documents. They also have a money transfer service akin to that of Western Union in the US. Money paid to an LTTE money transfer agent abroad will be paid, sometimes within hours, to a nominee in Sri Lanka in most parts of the country. LTTE also has transport businesses and retail outlets. It is believed that people who act as a front for the LTTE own a number of petrol (gas) stations in London. For a time it was engaged in distribution and screening of Tamil films in Europe and Canada. More recently they have switched to video and CD.

Peiris points out the sources from which the LTTE derives funds for its war that includes in his words a ‘massive and highly ramified business empire’.⁶² These include fund raising from donors, extortion from ‘captive and pliant’ Tamils living in Sri Lanka and abroad, smuggling of narcotics, weapons sales to small militant and insurgent groups abroad, smuggling of people to western countries and a variety of legitimate enterprises ranging from shipping to wholesale and retail trade and stock market operations. There are numerous reports from Toronto that Tamil gangs in the city are engaged

⁶⁰ See: R. Gunaratna, ‘Impact of the Mobilised Tamil Diaspora on the Protracted Conflict in Sri Lanka’, in: K. Rupesinghe (ed.), *Negotiating Peace in Sri Lanka - Efforts, Failures and Lessons*, (London, 1998), pp. 301-328 and R. Arayasinha, ‘Terrorism, the LTTE and the Conflict in Sri Lanka’, *Conflict, Security & Development* (2002), pp. 25-50.

⁶¹ V. Suryanarayan and V. Sudarsen, *Between Fear and Hope: Sri Lankan Refugees in Tamil Nadu* (New Delhi, 2000), p. 62.

⁶² See: G.H. Peiris, *Liberation Tigers of Tamil Eelam and the Global Drug Trade: An Overview*, ICES Conference on Governance in South Asia (Colombo, 1999) and G.H. Peiris, ‘Clandestine Transactions of the LTTE and the Secessionist Campaign in Sri Lanka’, in: *Ethnic Studies Report* Vol. XIX, no 01, (2001), pp. 1-38.

in forging Canadian passports, narcotics trade, and racketeering, and robbery.⁶³ Suresh Manickavasagam, the coordinator of the World Tamil Movement, a front organization for LTTE, was one of the more prominent individuals who was detained by the Canadian police for allegedly indulging in such activity.

Due to the secretive and convoluted nature of insurgent finances, it has been difficult to verify details of how funds are transferred. Suspicion has fallen on the many Tamil cultural, community, and charitable organizations in host countries that are overtly pro-LTTE, or infiltrated by LTTE sympathizers. There are indications that the finances of some of these ostensibly discrete organizations interlock, which may be a significant indicator of a hidden network that also permits the laws of host governments to be circumvented. For instance, the charity that the World Tamil Movement (suspected of being an LTTE front) claims receives much of its money, the Tamil Rehabilitation Organization, is itself controlled by the LTTE, according to officials with several independent non-governmental organizations in Sri Lanka. 'To my mind, and to most people here, they are basically the development wing of the LTTE,' according to Simon Harris, acting country director for Oxfam in Sri Lanka. Furthermore, Americans cannot contribute to any group linked to organizations on the State Department's terrorist list, like the LTTE. But Tamil-Americans can and do raise money for the Tamil Rehabilitation Organization, which is not on the State Department's list.⁶⁴

5.5. Shipping

A key link of the LTTE War-Fundraising-Arms Procurement chain is its shipping fleet. The London-based shipping news publication *Lloyd's List* reported in March 2000 that the LTTE was operating eleven vessels as a general cargo fleet legally owned, managed, classed and flagged. The author of the report David Osler says that while the ships are normally used for ordinary cargo shipments, as and when the need arises they are also used to ferry weapons supplies from such sources as North Korea, Myanmar, Europe and the Middle East. According to this report the ships also 'facilitate heroin smuggling and illegal immigration rackets that provide much of the finance for the struggle'.

5.6. Arms Purchases

The principal use of funds raised by the LTTE has been for the purchase of arms. The operations of the LLTE illustrate how the global informal arms trade works. Raymond Bonner describes how the Tigers purchased one batch of surface-to-air missiles from corrupt Cambodian generals, and another batch from the Khmer Rouge.⁶⁵ They also had reportedly acquired at least two American Stinger missiles from the Afghan mujahideen to whom the Americans supplied the weapons in the 1980s to fight the Soviets. Using an outfit called 'Euro-Ukraine Consultancy Agency' established by an expatriate Tamil living in Britain as a front organisation the LTTE purchased from a state-owned Ukraine chemical company a very large quantity of plastic and other explosives. The payments were

⁶³ V. Suryanarayan and V. Sudarsen, *Between Fear and Hope: Sri Lankan Refugees in Tamil Nadu* (New Delhi, 2000), p. 66.

⁶⁴ S. Sengupta, 'Canada's Tamils Work for a Homeland from Afar', in: *Sunday* 23 July 2000.

⁶⁵ R. Bonner, 'Tigers Sink Claws into Arms Trade', in: *South China Morning Post* (Reprinted from *The New York Times*, 11 March 1998).

made from Citibank accounts in Singapore, Athens, and New York with additional funds coming from an account in Dresdner Bank in Frankfurt. The Ukraine government did not check the sale because the end-user certificate - a forgery with the name of the Bangladesh Minister of Defence on it - was ostensibly not for military use. The Tigers, it is believed, used a part of this purchase to blow up the Central Bank building in 1996 that killed 90 people. What this account illustrates is that globalisation with easy money transfers and plentiful supply of small arms over which there is no real control, groups such as the LTTE can easily access arms as they wish for their military and terrorist campaigns.

5.7. Implications

One of the interesting implications of the model of financing that the LTTE has developed is that with the penetration and scope of its global network, with elements of the Diaspora as an integral part, it is able to exist without external support of any major power as a virtual private business enterprise driven by its own agenda and answerable ultimately only to itself. Stemming from this point some analysts argue that violent conflicts become organized along ethnic lines, rather than ethnic hatreds escalating into violent conflict. Rebel organisations such as the LTTE use ethnicity as a means of maintaining organizational cohesion. Significantly, they also find that the duration of conflicts is determined by different variables than those that are deemed to have caused the conflict in the first place:

‘This is consistent with our finding that neither inequality nor political repression prior to conflict is significantly related to either the initiation or the duration of conflict...the critical factors were those that determined whether rebellion was financially and militarily viable as a continuing enterprise during conflict. In this framework, since observed rebellions start out as viable, they persist unless financial or military circumstances change... An implication of our analysis is that to shorten wars, as to prevent them, policy needs to be refocused on reducing the viability of rebellion.’⁶⁶

This analysis differs from much of the current literature in that the emphasis is shifted from modifying the behaviour of state actors to include those on the other side of the equation of violence, the insurgents.

5.8. Economic Warfare

The LTTE (and earlier other militant groups), while raising its own resources internationally, have also tried to carry on an economic struggle against the Sri Lanka government in the international front. This had two aspects. In the 1980s for a short period some of the more militant groups tried to sabotage Sri Lankan trade. For example, on a few occasions a rumour was spread that Sri Lankan tea would be laced with cyanide. This campaign, however, fizzled out without much impact.

⁶⁶ P. Collier, A. Hoeffler and M. Söderbom, *On the Duration of Civil War*, Prepared for the World Bank, Development Research Group, University of California, Irvine, Center for Global Peace and Conflict Studies, Workshop on Civil Wars and Post-Conflict Transitions, 18-20 May 2001.

The second aspect of the campaign was aimed at the donor community. Tamil groups lobbied to halt aid to Sri Lanka. One of the most intense campaigns was conducted in the spring of 1986 when the Sri Lanka Aid Club met in Paris for its annual review. As we explain in the chapter on ‘Donors,’ aid to Sri Lanka never stopped. However, the Tamil campaign was not without impact. Although Tamil pressure was not the only factor responsible, some of the donor countries re-evaluated their programs and made significant changes. In the main Canada and some of the Nordic countries were sensitive to criticisms made by Tamil groups and also by some international human rights groups. They reduced or stopped funding government programs and projects and channelled aid through NGOs. They also began to place more emphasis on programs that enhanced human rights. For example, Denmark cut off aid to the government in 1989. In this case human rights violations that occurred during the second JVP uprising also was an important consideration. Denmark resumed aid to the government in 1993 but only for human rights and democracy and governance related programs and projects.

5.9. Economy of the Vanni

The entire effort of the LTTE was concentrated on its military and terrorist campaign against the government. Thus economic development of the territory that they held was a secondary issue at best. In fact it was more a holding operation designed to avert starvation and collapse that would lead to a complex emergency. Thus the economy in the LTTE controlled area of the Vanni would have survived at a basic level of activity largely geared towards war. It also had the added burden of looking after 175,000 refugees who moved to the area in 1995 when the LTTE lost Jaffna and ordered people from government controlled territory to move to the Vanni. However, as the section on the IDPs in Chapter 9 describes the people of the area regularly received substantial government subsidies by way of food, medicine and other essentials.

The government also made a special effort to create a market for the produce of the Vanni. For example, between January and August 2001 the Commissioner General of Essential Services (CGES) purchased 3.0 million kg of paddy, 1.4 million kg of rice, and 0.7 million kg of dry fish from the area. The Agrarian Services Department transported 2.870m/t of fertilizer for the 2000/01 *Maha* cultivation season and 1,000m/t of fertilizer for the 2001 *Yala* season. In fact the sharp increase in rice production during January-August 2001 resulted in the Vanni Cooperative Society that purchased rice from the south cutting its procurement from 5,549m/t in January-December 2000 to 495m/t in January-August 2001.⁶⁷

The three state banks Bank of Ceylon, People’s Bank, and the National Savings Bank continued to keep their branches in the Vanni to ensure basic services and supply of currency to the area.

5.10. Summary

The LTTE has developed a cohesive organization with a motivated cadre and large group of supporters. It has also worked hard to achieve legitimacy both locally and internationally though, given their terrorist tactics and post September 11 war against terrorism, lately not with all that much success. But it has been successful in raising resources for its military campaign, and political and

⁶⁷ All data from S Kohobanwickrame ‘Prabhakaran’s Peace Strategy Exposed,’ in *The Island*, 13 February 2002 quoting figures from the Commissioner General of Essential Service.

other activities. The Tamil Diaspora of about 700,000 to 800,000, who are mostly post 1983 refugees located mainly in Western Europe, North America and elsewhere has played a major role in this effort. The annual Diaspora contributions - part voluntary and part under duress - to the LTTE is estimated to be at least \$24 million and possibly much more. The LTTE also earns substantial incomes from a variety of legitimate businesses as well as from illegal activities such as human smuggling, narcotics, extortion and even robbery. The total annual income could be as high as \$120 million with about \$50 million of that going for purchase of arms that are procured mostly illegally. The LTTE uses its own ships - used part of the time for legitimate shipping business - to ferry the arms. Its campaign to undermine Sri Lanka's international trade and aid had only very limited success. Hitherto the LTTE had entirely concentrated on its military campaign. The economy of the LTTE controlled Vanni has functioned at a basic level partly assisted by essential supplies sent by the government.

VI. Civil Society

There are two major sets of actors in civil society that are relevant to the political economy of the Sri Lankan war. They are the business community and NGOs/PVOs (Private Voluntary Organizations, and CBOs (Community-Based Organization).⁶⁸ We do not include overtly political organizations such as political parties in the second category although they are also a part of civil society. Only those that are engaged in social welfare, humanitarian relief, and advocacy and research related to human rights and related subjects are considered in this discussion.

6.1. Business Sector

The private sector has been declared as the ‘engine of growth’ in the post-1977 liberalized export-led economy. The state has conceded the centre stage to the private sector, local and foreign, in so far as directly productive activity is concerned. This is in keeping with one of the basic tenets of the so-called ‘Washington Consensus’ that has guided Sri Lanka’s economic policy in the last twenty-five years. In keeping with that philosophy the state has, especially after 1990, divested itself of most of the para-statal enterprises that it created after 1948 when there was a more socialist and state-oriented economic regime. Foreign investors purchased many of these ventures, which is one major reason for the increase in foreign investment that we noted in Table 3.1.

6.1.1. Foreign

It is difficult to pin down a precise number to estimate the relative importance of the foreign business sector in the economy. However, if the numbers in Table 3.1 are an indicator, it is evident that they have become the senior partners in the growing new manufacturing sector.

From the perspective of the present study it is useful to make a conceptual distinction between local and foreign business because they relate somewhat differently to the war. The local business community are not only business people but also citizens of the country. Thus they would see the war both from a business perspective as well as from a Sri Lankan citizen perspective. The foreign investors do not have the latter concern.

The foreign investors are in Sri Lanka to make a profit. Their interest is primarily business. They would worry about the war in so far as it impacts negatively on them, either for the bottom line, or more immediately, on the safety of their workers, especially expatriate staff. In the special case of international arms merchants, the war would be a direct source of income.

At this point it is useful to note a feature in regard to foreign business interest that has been highlighted in the literature in respect of wars in Sub-Saharan Africa in particular, but which is not relevant to Sri Lanka. That is the role played by extractive industries such as oil and diamonds and the interests that foreign companies have in them that often motivates them to take sides in the war. Sri

⁶⁸ Unless otherwise specified in the present monograph we will use the term NGO for all categories.

Lanka does not offer such opportunities for business. Foreign business in Sri Lanka is mainly engaged in the production of a fairly narrow range of consumer goods, mainly apparel, rubber products, leather products, and pharmaceuticals, a few intermediate and capital goods such as tyre and steel, and in the provision of services such as banking and telecommunication. As mentioned earlier, their factories are mainly located in the south in export processing enclaves, well away from the theatre of war. Perhaps one notable exception is the Prima flour-milling factory in Trincomalee in the Eastern Province. Interestingly neither this nor any other foreign business interest in the country has ever been targeted by the LTTE for physical destruction. However, we do not know whether they extracted ‘taxes’ from companies such as Prima. That is a distinct possibility.

The liberalized and globalised economy bestowed more power and responsibility on the business community. Whereas in the *dirigisme* economy of the 1960s and 1970s private business was seen as, at best, secondary to the state, after 1977 it was the passport to the world and the key to economic success. Thus the business community had a newfound power and social acceptance absent earlier. They were the source of tax revenue to the government. Reportedly the LTTE derived a part of its own funds from voluntary and involuntary contributions from Tamil business houses. For all the above reasons the impact of the war on the economy should have been of some consequence to the business community, especially the local segment. However, the response of the community to the war was slow to emerge.

6.1.2. Benefits

The war undoubtedly benefited some sections of the business community such as arms dealers, and those who were involved in the supply of goods and services to the war areas. Certain other sectors of the economy outside the north and east carried on for quite some time not feeling the pinch of the war. The best example is the garment industry that expanded steadily throughout the twenty-year period of the war. The number of employees in the garment industry approved by the Board of Investment (BOI) of Sri Lanka⁶⁹ rose from about 25,000 in the mid 1980s to about 258,000 at the end of 2001. The total number of employees in all BOI enterprises stood at 386,000 at the end of 2001.

There were other sectors in the economy that were successfully sustained thanks to large-scale government investment funded mainly with donor assistance. The best example is the Accelerated Mahaweli Development Project that was the largest single development project ever undertaken in Sri Lanka. It cost well over one billion US dollars and was spread over fifteen years from 1978. Private business received a huge boost from the project by way of contracts, sub-contracts and as suppliers of materials and services.

6.1.3. Negative

However, as the war progressed the business community appears to have the negative consequences of the war and the instability it brought to the business climate of the country. For example, as described in Chapter 3 foreign investment and tourism declined after 1983. We also noted how Sri Lanka’s fiscal

⁶⁹ From 1978 to 1990 the Greater Colombo Economic Commission (GCEC) handled foreign investment in the export processing zones, and the Foreign Investment Advisory Committee (FIAC) handled foreign investment outside the zones. In 1990 these two were amalgamated and in 1991 the BOI was established replacing the GCEC.

deficit exerted upward pressure on domestic interest rates where the prime lending rate of the banks went up as high as 22% or more in the 1990s. High interest rates were a major complaint of the business community. Periodic depreciation of the Sri Lanka rupee - it fell from Rs 18 to one US\$ in 1980 to Rs 97 in mid-2002 - would have mitigated the burden of high interest cost in the export markets. But to the extent that donor assistance helped to hold up the exchange value of the rupee Sri Lanka suffered from its own peculiar variant of the 'Dutch Disease' that placed its exports at a disadvantage.

The business community would have made the obvious connection of war expenditure to high interest rates. However, business leaders were slow to speak out on the subject of war. It was a politically sensitive issue. Anti-war sentiments would also have sounded unpatriotic. Moreover, the major business chambers in Sri Lanka that have a history going back to the British period have a tradition of not getting directly involved in politics. Although the Chamber leaders from time to time pleaded for an end to the war and establishment of peace, they were loath to take a more pro-active stance.

6.1.4. Lobbying for Peace

Some business leaders eventually decided speak more pro-actively on the war when the economy reached a crisis point in the late 1990s and early 2000s. In 1997 one of the most prominent businessmen in the country Lalith Kotalawala, who controlled the Ceylinco business empire with over 125 companies including a major bank and a finance house, took the initiative to form an organization called *Sri Lanka First* (SLF) to advocate for peace. SLF had the backing of some leading NGOs such as *Sarvodaya* and the National Peace Council (NPC). They organized, among other things, public rallies for peace and acted as a pressure group for peace. However, SLF did not reach beyond Colombo and failed to develop a mass base.

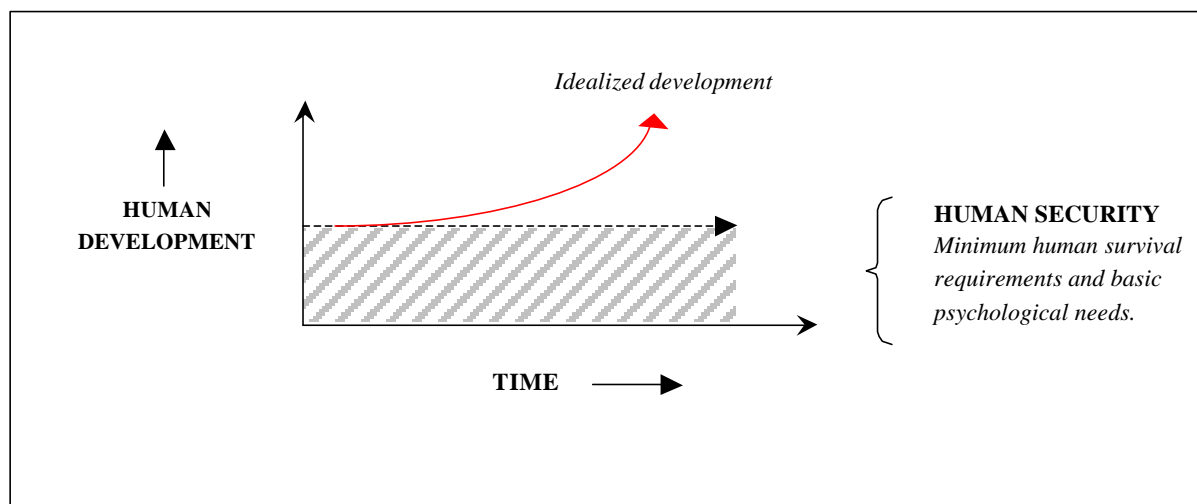
6.2. NGOs

The relevance of NGOs as a set of actors for the political analysis of Sri Lanka's war arises for the following considerations. First, in general they are an important and growing part of civil society of the country. Second, NGOs are central to the current international development discourse where the concept of human security has become a major guiding principle. This permits the NGOs to directly play a specially import role in conflict situations because war is the most extreme form of lack of human security. That is exactly what has happened in Sri Lanka in the past fifteen years. NGOs play a major role in humanitarian assistance, rehabilitation, and now in the emerging reconstruction effort following the MOU and cessation of hostilities. Also NGOs have become leading advocates of human rights, good governance and democratic freedoms. Fourth, the NGOs in almost any country today are a part of an increasingly integrated, vocal, and powerful global civil society. Thus their power and influence extend beyond the borders of a country.

6.2.1. Human Security

It is useful at this point to briefly elucidate the concept of human security as it relates to war and conflict. Today 'human security' has become the operative concept in international development discourse. This is different from the traditional concept of state-centred national or territorial security.

Many including, most notably, the UNDP in its annual *Human Development Reports*, have contributed to the evolution of this new broader conception of human security. It embraces physical, economic and social security of the individual and community in a democratic environment. In a recent paper Leaning and Arie argue that human security in conflict situations must include two components, ‘minimum material inputs to sustain survival and core psychosocial supports’.⁷⁰



Graph 6.1.: Human Security as Minimum Platform for Human Development⁷¹

Wickramasinghe makes the point that Sri Lanka’s NGOs, mainly relief NGOs engaged in war-related activities, have a similar broader notion of human security.⁷² The outlook of the NGOs guided by this concept has important implications. First, it affects state-NGO relations because the two parties could have somewhat different conceptions of ‘security’ and this could lead to clashes especially in the area of human rights. Second, such differences in conception (and clashes) could impact on the nature and direction of donor assistance. Third, what NGOs should and should not do would be powerfully influenced by the notion of human security that they believe in.

6.2.2. Typology

The following is a typology of NGOs working in war-related fields. It is based on a combination of ownership and function.

Field: Relief, Rehabilitation, and Reconstruction

Foreign NGOs and ‘Quasi-governmental’ Organizations (eg: UNHCR)

Function I: Funding of local NGOs (eg. CARE, Helvetas, Save the Children)

Function II: Working directly in service delivery in local relief, rehabilitation, reconstruction and development programs and projects (eg: Plan International, Christian Children Fund of Canada)

(Some such as CARE and Save the Children combine both of the above)

⁷⁰ J. Leaning and S. Arie, *Human Security: A Framework for Assessment in Conflict and Transition*, Tulane University and USAID, CERTI Project (Washington, 2000).

⁷¹ Ibid.

⁷² N. Wickramasinghe, *Civil Society in Sri Lanka: New Circles of Power* (New Delhi, 2001), pp. 31-37.

Local NGOs (eg: *Sarvodaya*, Institute of Human Rights)

Function I: Service delivery in relief, rehabilitation, reconstruction and development

Field: Human Rights, Good Governance and Democracy Advocacy

Foreign NGOs

Function I: Research, information dissemination, and advocacy (E.g. Amnesty International, Minority Rights Group of London)

Function II: Funding local NGOs for research, information dissemination, and advocacy (E.g. The Asia Foundation, Clingendael Institute, German Stiftungs)

Local NGOs

Function I: Research (eg: International Centre for Ethnic Studies (ICES), Centre for Policy Alternatives (CPA)), information dissemination (eg: ICES, CPA), and advocacy (Here also there can be overlap, such as advocacy and research).

6.2.3. Number

We mentioned that probably about 25,000 to 30,000 or even more NGOs exist in Sri Lanka. In absolute terms only a relatively small number of this would work directly or indirectly ‘in’ or ‘on’ the conflict. That of course would include even the smaller NGOs in the war areas that may get involved in activity arising from the war although in more normal times they may have different regular functions. More importantly much of the activities and resources in the NGO sector in the last fifteen to twenty years would have been increasingly devoted to war-related activity. Thus what matters here is not a simple headcount of NGOs but their size and impact of the NGOs on the war situation and how the war in turn has impacted on the NGO sector and on the broader civil society, and democracy.

It is hard to make a precise list of NGOs, foreign and local, that comes under the typology described above. Wickramasinghe citing an NGO directory prepared by *Innovations et Reseaux pour le Development (IRED)* in 1991 says that at that time there were 293 local development NGOs.⁷³ She also says that the same source revealed that fifty international NGOs and Quasi-Governmental Organizations were funding local NGO activities in Sri Lanka or were doing such work themselves. As many as 39 of the international NGOs had come to Sri Lanka after 1970 and 65% of the total had come after 1977. A combination of the liberal economic and other policies of the 1977 UNP administration⁷⁴ and the war would have made them come to Sri Lanka. It is useful to note that three of the major relief organizations that operate in Sri Lanka established permanent offices in the country after 1983 when the war escalated - Medecins sans Frontieres (MSF) (1986), UNHCR (1987) and ICRC (1990).

The Consortium of Humanitarian Agencies (CHA),⁷⁵ that serves as an umbrella organization for those engaged in relief, rehabilitation, and development work in the war areas, reports currently having 30 members, nine associate members, and 18 observers, with all but about ten being foreign.

⁷³ N. Wickramasinghe, *Civil Society in Sri Lanka: New Circles of Power* (New Delhi, 2001), pp. 79-81.

⁷⁴ The 1970-77 United Front administration was distinctly hostile to most western NGOs. For example, both The Asia Foundation and the Peace Corps were expelled from the island during that period.

⁷⁵ www.humanitarian-srilanka.org

Among the NGOs the size and scale of operation varies a great deal with some such as *Sarvodaya* among the local NGOs and ICRC, CARE and Save the Children among foreign NGOs and UNHCR among the Quasi-government organizations playing a relatively larger role in relief and other war-related work.

6.2.4. Foreign-Local Link

From the political economy perspective one of the most important aspects of the growth of NGOs in Sri Lanka has been the link that has been forged between foreign NGOs and the locals. Wickramasinghe notes that the relationship is more than mere a matter of funding and technical assistance from the former to the latter. It is seen as a ‘partnership.’ This also goes back to the general ideological change that has occurred in the last twenty years in regard to development assistance. There is a widely held view that the role of the state must be scaled down and that of the private sector and civil society increased for both efficiency and to support democracy. Many donors who have also been frustrated with the corruption and inefficiency of state agencies have opted to support NGOs instead. Usually this is done through home-country international NGOs that then channel funds and work in partnership with local NGOs. Wickramasinghe cites a Sri Lanka government report that estimates that in the early 1990s about 22% of foreign assistance to Sri Lanka was channelled through NGOs.⁷⁶ There is no reason to believe that this share has declined in later years. It is more likely that it has risen.

6.2.5. NGO Governance

Good governance is as important in NGOs as in government. This is all the more so when the NGO sector plays an ever increasing role in development, and claims a substantial share of donor assistance. The Consortium of Humanitarian Agencies in Colombo that was concerned with good governance in NGOs commissioned a study on this important issue last year. The focus was on accountability, defined as the obligation to accept responsibility for one’s actions, and transparency defined as the disclosure of an organization’s actions to all stakeholders.

The authors of the report, Barash, Hancock, and Nagy, note that both accountability and transparency were not prominent features of the NGO community in Sri Lanka.⁷⁷ They attribute this situation to a number of factors including the war exigencies that require flexibility and quick decision making, need for confidentiality, lack of trust between the local NGOs and their foreign counterparts, the ‘low level of trust and high level of paranoia’ fostered by the local political climate and rivalry among the NGOs themselves.

This relative lack of accountability and transparency in turn leads to the suspicion and criticism in certain quarters that foreign NGOs and their local partners are indulging in conspiratorial ‘anti national’ acts, including assisting the LTTE. The authors have recommended several steps to take to improve accountability and transparency. But they concede that it is not easy because many of the causal factors for the problem are deeply embedded in Sri Lanka’s political structure and culture itself, and are not necessarily amenable to technical solutions from the outside.

⁷⁶ N. Wickramasinghe, *Civil Society in Sri Lanka: New Circles of Power* (New Delhi, 2001), p. 75.

⁷⁷ A. Barash, N. Hancock and G. Nagy, *Accountability and Transparency - The Sri Lankan Case Study* (Colombo, 2001).

6.2.6. Implications

There are profound political-economy implications of the foreign-local links of the NGOs and the increasingly important role that they play both in relief, rehabilitation and reconstruction, as well as in the human rights and democracy fields. First and foremost, the NGOs have stepped into a vacuum created by the war and are performing an essential role neither the government nor the LTTE could perform. These include the delivery of social welfare entitlements alluded to by O'Sullivan (see Chapter 3). For example, in regard to the war, the ICRC has developed an important role as an intermediary between the government and the LTTE. The ICRC delivered much of the relief supplies that were provided by the government to the LTTE areas. The latter was also the go-between for exchange the bodies of dead combatants. It also investigated and reported on prisoners held by both sides.

Second, apart from service delivery many of the NGOs also mobilize communities. Mobilization for relief, rehabilitation and reconstruction is only one aspect. Mobilization can also be political. The best examples are the actions of the National Peace Council and *Sarvodaya* who have been prominent in peace advocacy and mass mobilization of a peace constituency.

Third, NGOs have also become important advocates of human rights, democratic practices, and good governance. One of the interesting developments in Sri Lanka is that the war in many ways has mobilized civil society as never before to protect human rights and democracy both at the research, dissemination, and policy advocacy level, as well as mass mobilization. The best example from recent years is the battle waged by a group of NGOs against election malpractice. Given the scale on which elections were interfered with by the government in the late 1990s, the relatively clean parliamentary election held in December 2001 that led to a change of government was a triumph for these NGOs as much as for anybody else.

Fourth, the business community that advocates peace and NGOs that do the same thing have forged some important links lately. The best example is the peace campaigns launched in the late 1990s and early 2000s by Sri Lanka First with the assistance of the National Peace Council and such other groups.

Fifth, it is important to remember that not all NGOs are recipients of foreign funds or that all agree with what some of the more prominent NGOs do. For example, there are local NGOs such as the National Movement Against Terrorism (NMAT) and *Sinhala Veera Vidhana* that are fiercely opposed to any compromise with the LTTE. They are driven by an intense nationalist ideology of their own. They consider NGOs such as the National Peace Council and even *Sarvodaya* as organizations that have been 'purchased' by foreign agents for dollars and are in a conspiracy with 'foreign' forces to undermine Sri Lanka's independence and sovereignty by helping the LTTE win Eelam. This clash of views between the more nationalist NGOs and the rest has caused a certain degree of tension in civil society.

6.3. Summary

Under the liberal market economy private business assumed an important place in the country that it did not enjoy under the previous socialist dispensation. The foreign-owned business sector grew in importance especially in manufacturing and services following liberalization and the program of

privatisation. However, they were more or less shielded from the war and did not show any direct interest in it unless they were in the arms trade.

The local business community were not only business people but also citizens of the country. Thus one would expect them to be more concerned with the war. Such concern, however, was slow to manifest itself. The business sector, both local and foreign, was content to enjoy the fruits of the new economy but did not take a firm position on the on-going war. A section of the business community benefited from war procurement. Others did not feel the negative effects of the war as long as the new export industries had secure and growing markets abroad, government maintained its spending on large projects, and the economy grew at a reasonable pace. The situation changed in the late 1990s when economic growth began to falter. Some leading local businessmen took a lead in voicing their opinion in favour of ending the war and seeking a peaceful settlement.

Sri Lanka has always had a relatively large number of NGOs, especially those that undertook village community services. However, after 1980 there has been a sharp growth of NGOs, both local and foreign, in the country. Most local NGOs concentrate on development but there are a fair number that are concerned with human rights, democracy and good governance. Most foreign NGOs have moved to the country after the war intensified and are mainly engaged in relief, rehabilitation and reconstruction. Some limit themselves to funding local NGOs but others have their own programs as well. Almost all the local NGOs that work in the field of human rights and related issues receive funds from foreign sources.

NGO activity includes relief and related work in the war areas that neither the government nor the LTTE would be able to do. They also mobilize communities for development and peace, and advocate human rights, democracy and good governance. NGOs also cooperate with other civil society groups, notably private business to develop a peace constituency. However, the NGO community is not a monolithic community. There are several vocal NGOs that not only refuse to take money from foreign sources, but also consider foreign-funded organizations as anti-national. This has led to some tension within civil society.

VII. Donors

7.1. Development Aid and Internal Conflict

Attempting to assess the impact of development aid on internal/regional conflict is a task made more challenging by the complex nature of countries/regions involved in the conflicts and the very complexity of the conflicts themselves. It is difficult if not impossible to isolate and demonstrate a chain of causality or quantify impacts when so many factors enmesh and intertwine: history, politics, economics, ethnicity and culture.

Recent years have seen a growing interest in the donor community as to the potential intended and unintended consequences of development aid in situations of violent conflict. Mary Anderson's simple yet powerful dictum 'Do No Harm' is now accepted orthodoxy in donor circles.⁷⁸ The calamitous events in Rwanda, Somalia and Afghanistan have lent urgency to the quest to develop aid strategies that do not exacerbate the very situations they are trying to mitigate. But donor assistance, to be successful, needs to go beyond the negative to 'do good.' For that one needs a framework and a strategy. Given the number of countries and regions in the developing world that have been embroiled in violent conflict, donors have become increasingly sensitive to the need to factor in 'conflict' when designing assistance programs.

Methodologies for assessing and predicting the effects of aid on conflict and of conflict on aid are still in their developmental stages, though increasing attempts are being made to address the issue. The impact of conflict on aid is probably more straightforward than the impact of aid on conflict. Some of the more notable and obvious impacts of conflict on aid include:

- Direction of aid from normal developmental purposes to emergency humanitarian assistance for refugees and IDPs;
- Destruction caused by conflict leading to loss of assets - physical and human - developed with donor assistance;
- Unsustainability of donor-funded policy reform programs;
- Use of aid for conflict-related activities including reconstruction, resettlement of ex-combatants, and the fight against the spread of HIV-AIDS related to war.

Aid has the potential to have an impact on conflict in various ways, although it must be emphasised that aid itself does not appear to cause conflict.

Political Dimensions - Aid can play into a divisive politics of distribution and retribution. Aid may interact with embedded structural violence. It can be controlled and diverted to political supporters and away from opponents or to legitimise the power of particular state or non-state actors.

⁷⁸ M.B. Anderson, *Do No Harm: How Aid Can Support Peace or War* (Boulder, 1999).

Economic Dimensions - Aid can be co-opted into a corrupt patrimonial politics of graft and redistribution. It can become a part of the economy that develops during or after a conflict. Or aid can substitute for the responsibilities of a state, freeing up financial resources that can then be devoted to the war effort.

Socio-Cultural Dimensions - Aid can be misinterpreted as partisan support for a particular political tendency or military faction. It can send out messages of superiority and bias (religious, ethnic, national) through otherwise reasonable targeting decisions. It can enflame rumours and incite suspicions.⁷⁹

Large inflows of foreign aid and funding are believed to be a factor in enhancing a recipient state's capacity to wage war. Funding and resources that would otherwise go to development or the humanitarian needs of the population may be diverted to war, with foreign aid filling the breach. Or aid inputs may be directly diverted to conflict protagonists. Aid can also be used as a symbol of international endorsement of state policy and conduct. Foreign capital inflows may also prop up overextended economies and regimes that might otherwise collapse under the weight of mismanagement, corruption and overspending. Aid can also enable and strengthen networks of patronage and cronyism for those who control access to the benefits.

The recent review of donor assistance to Sri Lanka prepared by Jonathan Goodhand for the Department for International Development (DIFD) of UK has an interesting conceptual framework to study aid in conflict situations.⁸⁰ He categorises aid in such situations into three types: aid that works 'around' conflict; aid that works 'in' conflict, and aid that works 'on' conflict.

7.2. Donor Assistance

In the last 22 years net donor assistance to Sri Lanka has averaged a little under \$400 million per year varying between a high of \$700 million in 1991 to a low of \$201 million in 2000 (Table 7.1). Over four-fifths of the ODA comes from the two major multilateral donors, ADB and the World Bank and from Japan. Among the prominent bilateral donors are Germany, Norway, Netherlands, USA and Sweden. Although international NGOs do not bring in large amounts of funds - some are funded by ODA - they are a very prominent presence in the country. In particular they are directly involved in humanitarian assistance in the areas affected by the conflict.

It is evident that after 1998 aid has declined quite dramatically. There is no one reason for this change. The reduction in ODA as a result of the global economic slow down together with priority given by donors to Sub-Saharan Africa and Eastern Europe and NIS countries in the former USSR are one set of reasons beyond Sri Lanka's control. Sri Lanka moving up from the 'low' income country category to the 'lower-middle' income category in the late 1990s also would have made the country a relatively low priority nation for aid. But there are equally important, if not more important domestic reasons, many of which are directly related to the war.

Donors have not been too happy with the non-implementation of some of the macroeconomic and institutional reforms that have been promised by the government to the donors as a condition for aid.

⁷⁹ S. Jackson, *The Challenges and Contradictions of Development and Conflict* (2001).

⁸⁰ J. Goodhand, *Conflict Assessments: Aid, Conflict and Peace Building in Sri Lanka* (London, 2001).

Absence of major reform in public administration, state-owned banks and absence of transparency and accountability in public expenditure, most notably military expenditure, are some examples of policy failures that can be cited. This eventually led to the suspension of the second tranche of \$122 million in the \$253 million IMF standby that was agreed upon in April 2001.

The government for its part has been increasingly distracted by the war. When its policy making and administrative capacity is consumed by the war it has less time and resources for implementing development projects. Moreover, given the high level of military spending it also found increasingly difficult to come up with matching local funds for some of the aid financed projects. This led to severe under-utilisation of aid. Between 1996 and 2000 only an average of 28% of the total value of grants had been utilised and for loans the ratio has been a still lower 15%.⁸¹ The IPS also estimated that the country had as much as \$2,500 in unutilised aid at the end of May 2001.⁸² The net results of these developments have been:

- A reduction in development assistance as a share of GDP from about 9% in the early 1990s to less than 3% by the early 2000s;
- From 1996 to 2001 Sri Lanka experienced a net outflow of aid with the sum of interest payments and amortisation exceeding the inflow of disbursed aid.⁸³

⁸¹ Institute of Policy Studies (IPS), *Sri Lanka: The State of the Economy 2001* (Colombo, 2001), p. 103.

⁸² *Ibid.*, p. 98.

⁸³ The figures in Table 6.1 show net aid commitments. But realised (disbursed) aid has been substantially lower than the figures in the Table.

Table 7.1.: Sri Lanka: Net Receipt of Foreign Assistance: 1981-2001 (US\$ Million)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Loans											
ADB	7.67	12.80	16.26	32.26	29.42	38.84	38.40	58.72	77.36	99.55	140.78
World Bank	26.80	52.67	60.86	78.37	68.38	86.33	80.46	54.76	50.82	124.11	178.85
India	-2.36	-0.50	-0.45	-4.00	-3.55	-3.39	-0.58	-0.94	-2.27	-2.25	-1.60
Japan	16.44	45.12	25.50	28.03	47.76	64.45	52.11	63.78	87.79	56.39	187.09
Total	48.56	110.08	102.17	134.65	142.01	186.22	170.39	176.33	213.70	277.81	505.12
%	19.15	45.56	40.39	46.47	53.25	57.74	89.11	79.17	105.84	92.11	99.16
Total Loans	253.51	241.60	252.93	289.76	266.68	322.48	191.21	222.73	201.91	301.60	509.40
Grants											
ADB	-	-	-	-	0.02	0.05	-	-	-	-	-
Japan	11.54	9.91	35.86	23.23	16.79	46.51	44.72	65.17	71.71	76.51	46.92
Netherlands	18.66	7.59	8.81	17.95	3.48	8.23	9.12	17.76	14.31	3.27	2.83
Norway	9.07	6.16	8.42	6.67	5.72	0.51	8.63	14.59	6.35	20.82	4.93
Sweden	25.83	41.60	26.30	0.61	50.18	34.75	7.66	4.43	4.16	7.19	9.84
Switzerland	-	-	0.14	0.07	0.18	0.03	-	3.77	2.00	1.00	-
USA	-	0.17	0.10	3.31	1.06	3.53	4.96	17.23	13.65	22.67	69.33
Total	65.11	65.43	79.63	51.84	77.43	93.60	75.09	122.95	112.18	131.45	133.84
%	47.98	40.33	53.95	40.05	63.61	71.89	47.28	59.37	63.12	78.62	70.36
Total Grants	135.70	162.23	147.59	129.45	121.74	130.19	158.80	207.10	177.73	167.20	190.23
Grand Total											
Total	389.21	403.83	400.52	419.21	388.42	452.68	350.01	429.83	379.64	468.80	699.64

Note: Total Loans and Total Grants include those received from sources not listed in the Table.

Source: Annual Reports 1988-2001, Central Bank of Sri Lanka, Colombo. Source: Annual Reports 1988-2001, Central Bank of Sri Lanka, Colombo

Table 7.1. (continued): Sri Lanka: Net Receipt of Foreign Assistance: 1981-2001 (US\$ Million)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
Loans										
ADB	121.17	114.42	84.56	81.99	140.33	76.27	107.09	80.20	57.31	59.25
World Bank	68.31	114.67	71.49	98.65	94.41	67.57	83.84	36.11	29.51	7.58
India	-0.84	0.41	-0.16	1.70	1.16	9.90	3.90	-1.82	-1.94	-1.98
Japan	15.74	51.83	129.18	144.29	88.28	61.52	120.45	70.00	97.03	112.03
Total	204.38	281.35	285.07	326.63	324.17	215.26	315.28	184.49	181.91	176.88
%	120.53	124.86	119.41	105.40	119.03	86.75	104.86	150.93	136.89	81.49
Total Loans	169.56	225.33	238.73	309.89	272.35	248.14	300.67	122.23	132.88	217.05
Grants										
ADB	-	-	3.36	2.36	1.43	2.71	1.80	4.97	5.54	5.39
Japan	47.91	73.93	52.59	81.58	52.11	41.16	50.78	48.02	37.29	23.89
Netherlands	15.31	-	12.57	10.91	6.08	7.26	4.77	4.97	2.59	7.81
Norway	10.88	7.69	6.35	6.71	43.86	23.61	2.68	8.18	4.29	3.33
Sweden	7.99	5.97	-	-	6.02	7.88	1.81	0.36	3.18	1.73
Switzerland	-	-	6.52	6.93	0.07	-	-	-	-	-
USA	53.55	61.04	43.83	31.02	8.58	11.24	4.51	5.37	2.82	2.01
Total	135.64	148.62	125.21	139.51	118.15	93.86	66.34	71.87	55.71	44.18
%	71.80	89.36	74.94	79.20	84.38	75.55	59.51	74.83	82.06	71.78
Total Grants	188.91	166.32	167.08	176.16	140.02	124.24	111.47	96.05	67.89	61.55
Grand Total	358.48	391.65	405.81	486.05	412.38	372.39	412.14	218.28	200.78	278.60

Notes: *: Provisional

Total Loans and Total Grants include those received from sources not listed in the Table.

Source: Annual Reports 1988-2001, Central Bank of Sri Lanka, Colombo. Source: Annual Reports 1988-2001, Central Bank of Sri Lanka, Colombo

7.3. Donor Assistance and the Conflict

It is only very recently that attention began to be focused on the relationship between donor assistance to Sri Lanka and the on-going conflict. Two recent publications have reviewed Sri Lanka's foreign assistance program in the context of the conflict.⁸⁴ The Goodhand study is a global review of all ODA assistance. The Frerks and Van Leeuwen review focuses on assistance provided by the Netherlands. Both reviews note that the donor community has not paid sufficient attention to the conflict and its impact on assistance as well as how assistance impacts on the conflict. Both recognize that the aid-conflict relationship is a complex one. Goodhand notes that some of the major donors, Japan and the multi-lateral in particular, have tried to work 'around' the conflict viewing the conflict as a constraint on aid. Both studies argue for a more proactive role on the part of the donors. Goodhand describes the Sri Lankan situation as a 'Complex Political Emergency' and wants deeper political analysis to guide future assistance.

In the context of the conflict in Sri Lanka, the verdict from available sources on the relationship between aid and conflict appears mixed. There have been instances where large-scale foreign funded development projects are said to have intensified ethnic tensions and rivalries, such as the accelerated Mahaweli scheme.⁸⁵ Peiris, on the other, has pointed out that the Tamil areas did not get their planned share of land development under the scheme because the war in those areas forced the government to stop the development activity.⁸⁶

Foreign capital inflows are said to have disproportionately favoured property-owning minorities in Colombo shortly before the 1983 riots.⁸⁷ Others describe instances where donor funded projects have fostered interethnic exchange and cooperation, such as Gal Oya.⁸⁸

Some analysts have noted that Sri Lanka in the post 1977 era was one of the largest recipients of donor funds per caput in the world.⁸⁹ These funds are said to have cushioned the economy through what would have otherwise been a painful transition from a socialist to a market enterprise economy. Nonetheless, the country experienced rising ethnic tensions and was ultimately plunged into war. It

⁸⁴ J. Goodhand, *Conflict Assessments: Aid, Conflict and Peace Building in Sri Lanka* (London, 2001); G. Frerks and M. van Leeuwen, *The Netherlands and Sri Lanka: Dutch Policies and Interventions with Regard to the Conflict in Sri Lanka* (The Hague, 2001).

⁸⁵ J. Goodhand, *Conflict Assessments: Aid, Conflict and Peace Building in Sri Lanka* (London, 2001); P. Peebles, 'The Accelerated Mahaweli Program and Ethnic Conflict', Seminar on Sri Lanka at the United States Institute for Peace, 4 - 5 September 1990; P. Peebles, 'Colonization and Ethnic Conflict in the Dry Zone of Sri Lanka', in: *The Journal of Asian Studies*, 49(1) (1990), pp. 30-55; A. Shastri, 'The Material Basis for Separatism: The Tamil Eelam Movement in Sri Lanka', in: *The Journal of Asian Studies*, 49(1) (1990), pp. 56-77.

⁸⁶ G.H. Peiris, 'Irrigation, Land Distribution and Ethnic Conflict in Sri Lanka: An Evaluation of Criticisms, with Special Reference to the Mahaweli Programme', in: *Ethnic Studies Report*, Vol. IX, No. 01 (1991).

⁸⁷ R.J. Herring, 'Making the Ethnic Conflict: the Civil War in Sri Lanka', in: M.J. Esman and R.J. Herring (eds), *Carrots, Sticks and Ethnic Conflict: Rethinking Development Assistance* (Ann Arbor, 2001), pp. 16-22.

⁸⁸ N.T. Uphoff, 'Ethnic Cooperation in Sri Lanka: Through the Keyhole of a USAID Project', in: M.J. Esman and R.J. Herring (eds), *Carrots, Sticks and Ethnic Conflict: Rethinking Development Assistance* (Ann Arbor, 2001), pp. 113-139.

⁸⁹ R.J. Herring, 'Making the Ethnic Conflict: the Civil War in Sri Lanka', in: M.J. Esman and R.J. Herring (eds), *Carrots, Sticks and Ethnic Conflict: Rethinking Development Assistance* (Ann Arbor, 2001), pp. 16-22.

has been suggested that the buttressing effect of foreign assistance and the emphasis on economic growth may have sidelined pressing ethnic issues that were not addressed, and that ultimately exploded.

Even if the reality is complex, and ‘discrimination’ was more apparent than real, the perception that the benefits of foreign inflows favoured some ethnic groups over others, or that they were misappropriated for political patronage of the ruling party and majority ethnic group may have added to the volatility of the atmosphere.⁹⁰

7.4. Military Expenditure

Some findings suggest that there may be a causal link between increased military expenditures and the risk of greater conflict, and that military expenditures siphoned off funds that would otherwise be spent for development and social projects, thus contributing to social tensions and frustration. Before 1983 Sri Lanka’s military expenditure to GDP ratio was always below 1.0%. But in the last two decades it quadrupled to about 3.5%. Similarly before 1980 central government spending on the military was about 3% of the budget but now exceeds 15%.⁹¹

The nature of the political emergency in Sri Lanka suggests that military expenditures are regarded by the government as a fundamental high-priority security issue, and that should aid for development or social programs cease, those programs would probably cease with it. This may raise the spectre of even more tension and instability in a society where resources are already stretched very thin, but which nonetheless remains a functional (though flawed) democracy.

Although military expenditure rose after the ethnic war intensified after 1983, in the case of Sri Lanka, a causal link between foreign aid and the war cannot yet be clearly established. Development and social projects appear to have continued despite the war, albeit with some external assistance. Aid is fungible. Domestic tax rupees can be diverted to the war to be replaced by aid money for non-war activities. Yet it is hard to prove the causal links.

The consensus from available studies appears to be that aid has played a role in exacerbating tensions and conflict in certain instances, but has not been a decisive or major factor. For example both the Goodhand Report as well as the Frerks and Leeuwen Report conclude that the conflict has been driven not by aid but by other essentially domestic considerations.⁹² Aid conditionalities imposed on the Sri Lankan government by some of the donors, or reducing or stopping of aid to the government - mostly minor donors such as the Scandinavians and the Canadians - do not appear to have affected the intensity or duration of the conflict. Moreover, there is some reluctance on the part of donors to appear too imposing or overbearing. For example, the High Commissioner for the UK in Sri Lanka, Linda

⁹⁰ R.J. Herring, ‘Making the Ethnic Conflict: the Civil War in Sri Lanka’, in: M.J. Esman and R.J. Herring (eds), *Carrots, Sticks and Ethnic Conflict: Rethinking Development Assistance* (Ann Arbor, 2001), pp. 16-22; S. Bastian, ‘Political Economy of Ethnic Violence in Sri Lanka: The July 1983 Riots’, in: V. Das (ed.), *Mirrors of Violence: Communities, Riots and Survivors in South Asia* (New Delhi, 1990), pp. 286-304.

⁹¹ N.A.L. Mohammed, *Civil Wars and Military Expenditures*, A note prepared for presentation at the World Bank’s Development Economic Research Group (DECRG) launch conference on ‘Civil Conflicts, Crime and Violence’, (Washington, 1999).

⁹² J. Goodhand, *Conflict Assessments: Aid, Conflict and Peace Building in Sri Lanka* (London, 2001); G. Frerks and M. van Leeuwen, *The Netherlands and Sri Lanka: Dutch Policies and Interventions with Regard to the Conflict in Sri Lanka* (The Hague, 2001).

Duffield when asked whether her country imposed conditions for giving aid to Sri Lanka said, ‘We mostly work through NGOs and through multilateral agencies. So we are not in the business of imposing British conditions on how aid should be used.’⁹³ It must also not be forgotten that aid is not entirely an altruistic exercise. Donors also reap benefits from aid. Nonetheless, continual monitoring and analysis of the application of aid in the specific Sri Lankan context is warranted.

7.5. Conflict Neutral and Conflict Preventive Aid

The distinction between conflict neutral and conflict preventive aid may be artificial, as it is difficult to separate the two. Some analysts have asserted that all aid is ultimately political in nature.⁹⁴ It has the potential to influence perceptions, the nature of conflicts, and their outcomes. Nevertheless, there is a more focused attempt on the part of donors to make assistance more conflict-neutral if not conflict mitigating. Assistance for human rights promotion, democracy programs, strengthening of civil society - all of which have drawn increasing attention from the donor community in Sri Lanka and elsewhere - are examples.⁹⁵ An example of conflict neutral or (at least conflict sensitive) aid applied in Sri Lanka may be illustrated by the following story from the ICRC newsletter:

‘The ICRC recently decided to take a fresh look at its agricultural and fishing aid programme, begun in 1996, in an effort to find the most useful way of bolstering the economic well being of the population in those areas. There was general consensus among farmers, NGOs, government officials and LTTE forces that the existing irrigation system was in bad need of repair, a problem exacerbated by the drought which has persisted in the east over the past 18 months. Concerns over security have been preventing funds from the National Irrigation Rehabilitation Project, financed by the World Bank, from reaching the government departments in charge of maintenance... Taking all those factors into account, it was decided to shift the emphasis from distributing aid to helping the Departments of Irrigation, Agriculture, Agrarian Services and Fisheries to carry out their respective functions. The ICRC intends to do so by using its good offices, since it is perceived as neutral and has access to opposition-held areas and contact with both sides in the conflict. It will assist the various departments in making security arrangements, obtaining permits, transporting equipment into areas under LTTE control, and altogether help create a climate of confidence. It is hoped that this strategy will significantly increase the amount of land under cultivation and boost food production, thus benefiting especially the many poverty-stricken people living in the provinces concerned.’⁹⁶

⁹³ *The Island*, July 05, 2002.

⁹⁴ P. Uvin, *The Influence of Aid in Situations of Violent Conflict: A Synthesis and Commentary on the Lessons Learned from Case Studies on the Limits and Scope for the Use of Development Assistance Incentives and Disincentives for Influencing Conflict Situations* (Paris, 1999).

⁹⁵ *Ibid.*

⁹⁶ International Committee for the Red Cross, Newsletter, No. 30 (Geneva, 1997).

7.6. Summary

The relationship between donor assistance and conflict has been analysed using three concepts: aid that works around conflict, aid that works on conflict, and aid that works in conflict. No matter which, donors want to adhere to the 'do no harm' principle when giving assistance. Over \$8.6 billion - about \$400 million per year - in donor assistance has been made available to Sri Lanka over the 22-year period 1980-2001. However, beginning from the late 1990s aid has declined, aid utilisation has plummeted, and in fact the net disbursement of assistance has been negative. The conflict has been partly, if not largely, responsible for this situation. Recent reviews of aid to Sri Lanka have been critical of donors for not paying sufficient attention to the implications of aid for the conflict. Some critics believe that aid-funded projects served to exacerbate the conflict. Others have maintained that aid allowed the government to divert its own resources for the war. However, a close review suggests that domestic considerations, and not aid was the main determinant of the tempo and direction of the war. There is increasing sensitivity of donors to the implications of their assistance for the conflict and are making an effort to provide assistance that would be conflict-neutral or even help mitigate conflict.

VIII. India

8.1. Special Role

India has had a special role in Sri Lanka's conflict. It stems from several factors. First, it is the regional power of South Asia and thus exerts a considerable influence on the activities of its immediate neighbours. The rest of the international community, especially the sole super power USA and western countries in general, tacitly acknowledge this hegemonic role, at least in regard to the affairs of Sri Lanka, especially the war.

Second, India has arrogated to itself the right to insist that the smaller countries in the region do nothing that would jeopardise India's own security interests. In regard to Sri Lanka this was specially evident in the period 1977-88 when under the J R Jayewardene administration, Sri Lanka appeared to move away from its professed non-alignment to a more pro American policy stance. The Jayewardene administration enjoyed very good relations with the Janata government of Moraji Desai (1978-80). However, when Indira Gandhi returned to power in 1980 the situation changed. As de Silva notes the two governments were at odds on their 'outlook, attitudes and policies on regional and world affairs'.⁹⁷ For example, India strongly opposed Sri Lanka contemplating handing over the strategically located Trincomalee oil tank farm to a consortium of western oil companies. The Indians suspected that the Americans would be the ultimate beneficiaries of the deal.

Third, with about 60 million ethnic Tamils living in Tamil Nadu, the fate of the Tamils of Sri Lanka was of immediate concern to a large and politically important state of the Indian Union. Delhi was conscious of this situation and factored in Tamil Nadu concerns when formulating its Sri Lanka policy. In addition what the Tamil Nadu government itself did, especially in its treatment of Tamil militants and refugees, had a considerable bearing on events in Sri Lanka.

Fourth, Tamil refugees - by the late 1980s they numbered about 125,000 - who went to India gave the Indian and Tamil Nadu governments an opening to get directly involved in Sri Lanka's conflict.

8.2. Market Economy

From a political economy perspective Indo-Lanka relations with respect to the conflict had several important facets. The first was the stance adopted by the Indira Gandhi regime of 1980-84 when Sri Lanka opted for a liberal market economy with western donor assistance in 1977. From the mid 1950s until 1977 India and Sri Lanka roughly followed a 'Nehruvian Socialist' economic model that stressed self-reliance with major state participation in the economy. In 1977 Sri Lanka abandoned this model and moved to a neo-liberal market model of development. India did not much care for the emergence of a possible 'Singapore' in its own backyard. Although India could not directly interfere in Sri

⁹⁷ K.M. de Silva, *Reaping the Whirlwind: Ethnic Conflict, Ethnic Politics in Sri Lanka* (New Delhi, 1998), pp. 197-198.

Lanka's economic policy- making India made maximum use of the opportunity offered by the ethnic violence against Tamils in 1983 to make its presence felt in Sri Lanka.

8.3. Tamils

Second, India provided substantial resources for Tamil political and militant groups after 1983. The majority of the TULF leadership took refuge in India, mainly in Chennai (Madras) after 1983 and were the guests of the Tamil Nadu government. The TULF leadership for its part insisted on the involvement of India in any settlement of the conflict and welcomed Indira Gandhi's emissaries as negotiators. India for its part had no difficulty in influencing TULF thinking on lines that served its own national interests.

The support that India provided to the militant groups, especially the LTTE proved to be even more crucial. The Indian government provided diplomatic support in western countries such as the USA, Britain and France to Diaspora groups that were funding the LTTE and other militants. In Tamil Nadu and elsewhere the militants had training facilities some of which had the assistance of the Indian intelligence agency Research and Analysis Wing (RAW). RAW also assisted the groups to transfer weapons from India to Sri Lanka. Some of the ordnance used by the LTTE was of Indian military origin suggesting that there would have been direct transfer of weapons and equipment from India to the Tamil militants.

The Tigers established twelve units in twelve different locations in Tamil Nadu for its war machine. These units included one for procurement of explosives in Dharmapuri, an arms and ammunition manufacturing unit in Coimbatore, a communications centre in Thanjavur, and a trading centre for silver, gold and narcotics in Tuticorin, and a medical facility to treat wounded fighters in Trichy.⁹⁸

Third, on the negative side de Silva documents how the Indira Gandhi administration exerted pressure on western countries not to supply arms to Sri Lanka.⁹⁹ Thus Sri Lanka had to rely heavily on Pakistan and China for its military supplies, and did not have access to some of the more sophisticated weapons from the West.

8.4. Refugees

Fourth, given the resource constraints that India and Tamil Nadu faced, the country devoted a considerable amount of resources for the Sri Lankan refugees. The Tamil Nadu government provided subsidized rice to them at a price that was only about one-sixth of what local people had to pay. Sugar and kerosene were also provided at subsidized prices under the public distribution system. The fortnightly cash dole that was given to the refugees - ranging from Indian rupees 150 for one member to Rs 502 for a family of five - was higher than the Sri Lanka poverty assistance allowance *Janasaviya* (1989-93) and *Samurdhi* (1994-). The Indian government provided free housing, free medical care and free education. A fair number of refugees gained admission to local universities. The Sri Lankan

⁹⁸ V. Suryanarayan and V. Sudarsen, *Between Fear and Hope: Sri Lankan Refugees in Tamil Nadu* (New Delhi, 2000) p. 76.

⁹⁹ K.M. de Silva, *Reaping the Whirlwind: Ethnic Conflict, Ethnic Politics in Sri Lanka* (New Delhi, 1998), p. 217.

refugees were also permitted to seek employment, a privilege not granted to some other refugee groups. It is reported that the annual expenditure on refugees totalled Indian rupees 150 million - an average of Rs 1,875 per refugee - in the mid-1990s.¹⁰⁰

8.5. Instability

A significant negative of the presence of Sri Lankan militants and refugees in Tamil Nadu is the belief that some were involved in crime and that they were destabilising force in society.

Suryanarayan and Sudarsen describe that 'As time went on, militants became a law unto themselves and the peace and tranquillity was vitiated by gun-toting Tamil militants.' Quoting Narayan Swamy (1994) they add 'All Tamil groups had their own camps, which were virtually prohibited zones for outsiders. One could do anything in these secluded fortresses, no questions asked. Even when someone was tortured to death, the screams would reach nowhere. If the victim died, he would be simply buried there or in the barren vicinity'.¹⁰¹

In October 2001 the Narcotics Control Bureau (NCB) of Chennai seized heroin worth Sri Lanka Rs 110 million bringing the total amount detected during the year to Rs 770 million (\$8.5 million). According to NCB sources the heroin originating in the Golden Crescent and Golden Triangle was under LTTE control and was apparently destined for Sri Lanka via South Indian transshipment points. The drugs reached the South via Mandasur in Madhya Pradesh and Bangalore that became a major transit point. The final destination of the substance sources claim was the west where it would be marketed to raise funds for the LTTE.¹⁰²

The assassination of Rajiv Gandhi by an LTTE suicide squad compounded this perception that Sri Lanka's militant groups in India were a major source of instability in society. Suryanarayan and Sudarsen quote a report prepared by Jesuit Research Service that stated 'Many of the locals, including Church people, now view their Tamil brothers and sisters no longer as refugees, but as terrorists or militants'.¹⁰³

8.6. Summary

Among international actors India has played a special role in Sri Lanka's conflict on account of its proximity to the island, its status as a regional power, and the fact that Tamil Nadu with about 60 million Tamils has a special interest in Sri Lanka's conflict. The presence of Sri Lankan refugees in Tamil Nadu provides an opening for India to claim a legitimate right to be concerned with Sri Lanka's war and political stability. India's somewhat hostile attitude to Sri Lanka during the Indira Gandhi administration of the early 1980s was also partly influenced by the island nation's pro-market and pro-western development strategy and foreign policy that did not please Mrs. Indira Gandhi. This

¹⁰⁰ V. Suryanarayan and V. Sudarsen, *Between Fear and Hope: Sri Lankan Refugees in Tamil Nadu* (New Delhi, 2000) p. 82.

¹⁰¹ Ibid.

¹⁰² *The Ceylon Daily News*. October 27, 2001.

¹⁰³ V. Suryanarayan and V. Sudarsen, *Between Fear and Hope: Sri Lankan Refugees in Tamil Nadu* (New Delhi, 2000) p. 77, From: Jesuit Research Service, *Elephants and Others: Sri Lankan Refugees in Tamil Nadu and Sri Lanka: A Report of a Visit to Tamil Nadu and Sri Lanka - 17 February - 3 March (1994)*.

motivated India to give significant military and logistical support to the Tamil militant groups that launched a guerrilla war against the Sri Lanka government. The Indians also pressured western countries not to help Sri Lanka militarily. However, the Indian attitude to the Tamil groups, notably the LTTE changed radically after 1987. LTTE took up arms against the Indian Peacekeeping Force in the late 1980s. They also developed a negative image in Tamil Nadu for illegal and anti-social activities. The assassination of Rajiv Gandhi by a group of LTTE operatives was the culmination of this trend.

IX. Governance

The changes in the political economy of a country caused by a war could have an impact on governance. In principle two major avenues can be identified to impart such impact. One is the growing strength of the military as an institution. Second, war expenditure and war-related incomes redistribute economic power within society leading to new sources of political influence.

Two abortive military coups have taken place in the fifty-four year history of independent Sri Lanka. However, both took place in the 1960s when the country's army was a little more than a ceremonial outfit. In the past two decades when the military grew about fifteen fold in personnel strength from 10,000 to over 150,000 and acquired substantial amounts of sophisticated equipment its obedience to civilian command has remained unquestioned. This probably bears testimony to the strength of the basic democratic tradition of the Sri Lankan polity. Adverse reaction from the international community, especially the donors, to any direct interference of the military in politics would have been another deterrent. It is also likely that the very complexity of the politics of the conflict would have dissuaded any individuals or groups in the military from even contemplating a takeover.

9.1. Election Violence

However, the growth of the military has led to second-level consequences of an adverse nature on Sri Lanka's governance. De Silva, for example, points out the emergence of 'civilian militarism.' Civilian militarism was a concept first used by Stephen Cohen, an American expert on the military of India and Pakistan to describe 'the adoption of military-like values and public style by civilians' (de Silva quotes Stephen Cohen 1998).¹⁰⁴ In Sri Lanka this has manifested itself in the form of some politicians in government using military men and military style tactics during elections to intimidate voters and rob the vote. For example, this was evident in both the presidential election of December 1999 and the parliamentary election of October 2000 in the Kandy area in the central region of the country where the Deputy Minister of Defence Anuruddha Ratwatte has his electorate. This pattern of behaviour has severely undermined parliamentary democracy in the country.¹⁰⁵

9.2. Criminality

I would extend this concept further to include criminal behaviour by some of the estimated 15,000 army deserters. These men have been involved in a large number of robberies, murder and other antisocial activity that undermine the rule of law. In fact, of late, commentators have been talking of a

¹⁰⁴ K.M. de Silva and G.H Peiris (Eds), *Pursuit of Peace in Sri Lanka: Past Failures and Future Prospects* (Washington, DC, 2000) p. 151.

¹⁰⁵ See: International Centre for Ethnic Studies, *Electoral Corruption in Sri Lanka* (Kandy, 2001), report submitted to The Asia Foundation, Colombo.

growing ‘crime wave’ in the country.¹⁰⁶ The obvious social costs apart, this has important implications for development. Security is an essential pre-condition for stability and peace. The lack of security makes investors uncertain of the future and discourages investment.

9.3. Corruption

There is much speculation in the country that military procurement is corrupt. The independent press regularly publishes articles that claim to reveal irregular purchases and the payment of kickbacks and commissions involving the highest levels of the government and the military establishment.¹⁰⁷ In a live question and answer session on TV President Chandrika Kumaratunga said:

‘...corruption exists to some degree in the defence sector in relation to the procurement of arms due to the confidentiality of these deals. Nevertheless, we have also endeavoured to reduce these to the maximum...’¹⁰⁸

In general the individuals against whom allegations have been made have remained silent. No attempt has been made by any of the individuals to sue the newspapers for libel. The government also has made no serious attempt to investigate the allegations. Nothing significant came out of a high-powered committee that was appointed by the President in July 1998 to investigate corruption in military procurement.¹⁰⁹ However, recently the police raided the private deposit boxes of the former deputy defence minister Anuruddha Ratwatte and two of his immediate family members and discovered almost Rs 50 million (US\$500,000) worth of certificates of deposits that are sold by banks on a ‘no questions asked’ basis. Ratwatte is not known to be a person of substantial independent means. Thus this discovery raises a legitimate suspicion about the source of such a large sum of money by Sri Lankan standards.¹¹⁰

There is no question that such corrupt practices have made a significant contribution to the undermining of good governance in the country in the last twenty years. A network of local and foreign arms dealers is alleged to be in league with senior military officials and political leaders who take decisions on arms procurement. This is believed to have created a vested interest in keeping the conflict going. Moreover, it is alleged - although hard evidence it difficult to obtain - that arms merchants fund political parties and politicians at elections, and in effect buy them.

A few mid level military officials have been apprehended selling arms to the LTTE and providing other supplies banned until recently by the government in the LTTE occupied areas.

¹⁰⁶ *The Sunday Times*, June 09, 2002.

¹⁰⁷ The following is a sample of newspaper reports that claim to reveal corrupt practices with regard to defence procurement: ‘Purchase of Aircraft Equipment by Sri Lanka Airforce: Whopping prices for ‘deteriorated’ choppers’ Probe continues’ - Total payment \$8.1 million for six MI-24 used helicopters; *The Sunday Leader*, April 26, 1998; see also ‘MI24s: the fraud and the farce’ *The Sunday Times*, April 19, 1998.

‘Tender facts about AN-32 purchase transactions’ – Total payment of \$8.0 million for three Antonov AN 32-B transport aircraft; *The Sunday Leader*, May 17, 1998; also see ‘Antonov deals cast shadow on SLAF’ *The Sunday Leader*, May 24, 1998.

¹⁰⁸ Quoted by Iqbal Athas in ‘...Corruption Exists to Some Degree...’ in *The Sunday Times*, July 5, 1998.

¹⁰⁹ *Ibid.*

¹¹⁰ *The Sunday Leader* September 01, 2002; *The Island*, September 02, 2002.

9.4. Black Economy

It is likely that the corrupt practices outlined above as well as the illegal economic transactions of the LTTE would have contributed to the growth of a black (underground) economy with transactions in cash and money laundering as key features.¹¹¹ The recent discovery of Rs 50.0 million in cashable certificates of deposits that apparently belonged to the former deputy defence minister adds credence to this view.

9.5. Summary

The growth of the power of the military could have an impact on governance. In Sri Lanka, however, in the last twenty years the military has remained firmly under civilian control. Some politicians in power have misused military and police resources undermining good governance. The use of the military and the police for election abuses is the best example. Criminal activity by soldiers who have deserted the army is another significant negative consequence of the growth of the military. Corruption in military procurement is believed to be widespread and reach some of the highest levels in government eroding good governance. Related to this, the black economy, including money laundering both by individuals in government and private business as well as the LTTE, has grown in recent years.

¹¹¹ S.W.R. de A. Samarasinghe, 'Money Laundering: The Global Phenomenon and the Sri Lankan Situation' in: K.M. de Silva, G.H. Peiris and S.W.R. de A. Samarasinghe (eds), *Corruption in South Asia-India, Pakistan and Sri Lanka* (Kandy, 2002), pp 277-302.

X. Political Economy of Devolution

Commentators are sharply divided on the appropriate development strategy that should be followed in Sri Lanka to resolve the conflict in the context of a plural society that has been ravaged by a brutal protracted war. Some argue a political-economy model of development and governance that explicitly factors in ethnic pluralism and devolution. Others are strongly opposed to devolution. Many advocate power sharing at the centre as an economically more efficient and politically less divisive solution. This probably is the most important question in political economy that needs to be answered if Sri Lanka is to move towards peace. For that reason we shall examine this issue in some detail.

10.1. Devolution

The principal argument for devolution in Sri Lanka is political.¹¹² Devolution has been attempted in Sri Lanka starting with the district development councils of 1980 and later in 1987 with the provincial councils. For a variety of reasons that are too numerous and complex to discuss here these efforts have not brought peace to the country. In 1996 the government proposed a constitutional package that effectively would have introduced a federal system of government with considerable powers devolved to the regions. Proponents of the federal system such as Edrisinha and Tiruchelvam see it as the only viable option that would give more autonomy to the minority ethnic groups, mainly the Tamils in the northern province and the Tamils and Muslims in the eastern province, and bring the war to an end.

The political-economy arguments for devolution are based on the theory that ethnicity is a historical phenomena that will not wither away due to modernization. The development framework, this school of thought argues, must recognize the plural nature of society. Devolution is required to accommodate ethnic contradictions that otherwise sharpen. Bastian argues that this became all the more important for three reasons after economic liberalization in 1977.¹¹³ First, the market economy and foreign capital required political stability. Devolution was a means of accommodating 'moderate' Tamil demands.

Second, when the state reduced its role in the economy, and allowed the market to play a greater role in economic decision-making, the scope for ethnically partisan economic action also declined. That means, for example, politicians could no longer give jobs in state enterprises to supporters of their own community or import licenses to businessmen of a particular community. This created a

¹¹² N. Tiruchelvam, 'Devolution and the Elusive Quest for Peace in Sri Lanka' in: K M de Silva and G H Peiris (eds), *Pursuit of Peace in Sri Lanka: Past Failures and Future Prospects*, (Kandy, 2000), pp 163-81; R. Edrisinha, 'Federalism and Case for Radical Constitutional Reform in Sri Lanka', in: K M de Silva and G H Peiris (eds), *Pursuit of Peace in Sri Lanka: Past Failures and Future Prospects*, (Kandy, 2000), pp 163-81; S. Bastian, 'Liberalised Policies and Regional Autonomy' and J. Uyangoda, 'The State and the Process of Devolution in Sri Lanka', both in: S. Bastian (ed.), *Devolution and Development in Sri Lanka*, (Colombo, 1994), pp 143-197 and pp 83-120.

¹¹³ S. Bastian, *Control of Land: The Devolution Debate* (Colombo, 1995).

better environment for ethnic accommodation in the political sphere. But Bastian sees a contradiction here in the presidential system centralizing power away from the provincial councils created in 1987.

Third, the centre has been reluctant to give power to the provinces over land. The power of patronage that politicians in the centre wield over the Sinhalese peasantry is the main reason for this reluctance, Bastian asserts.

Everybody concedes that the provincial councils have been a failure. However, not everybody agrees that the solution is a federal form of government. Many point out that except in the northeast Tamil community, there is no real deep and widespread public demand for any form of devolution. Indeed the majority of the Sinhalese view the provincial councils as white elephants that should be discarded. Others who recognize the political need for devolution favour correcting the shortcomings of the present provincial council system and strengthening of local government that has not been integrated adequately to the devolution debate in the country.¹¹⁴

10.2. Federalism

Commentators such as Hewavitharana who strongly oppose a federal system of government argue that anti-state violence is not an ethnic issue.¹¹⁵ For Hewavitharana such ‘spells’ of violence are caused by economic grievances. These grievances, he asserts, are not unique to the Tamils. The two JVP rebellions also were caused by similar factors. The war in the north is a ‘racially inspired rebellion to carve out a separate state’ and as such should be dealt with militarily. The solution to anti-state violence motivated by economic grievance is rapid development. However, he argues that a federal form of government would undermine development.

The essence of the anti-federal political economy argument is as follows. State must move from its traditional provider/distributor role to a promoter/facilitator role to achieve higher growth. But creating eight or nine regional units will strengthen the former role and not the latter. The central government must be in charge of the appropriate policy mix in structural adjustment in a growth-oriented economy. Regional governments will weaken the capacity of the centre, increase the size of government when it should be reduced, will have varying quality of decision-making capacity, and pull in different directions leading to conflict. The conflict that has arisen between the central government and the North Central Provincial Council over the attempt of the former to hand over the Eppawela phosphate deposits to a foreign company for exploitation is cited as an example of such conflict.

The opponents of the federal system cite the following as some of its other major drawbacks:

- Decentralized bureaucracies are more vulnerable to political interference¹¹⁶;
- Devolution can create more room for corruption and reduce efficiency;

¹¹⁴ K.M. de Silva, ‘The Federal Option and its Alternatives’, in: K M de Silva and G H Peiris (eds), *Pursuit of Peace in Sri Lanka: Past Failures and Future Prospects* (Kandy, 2000), pp 203-229.

¹¹⁵ B. Hewavitharana, *Economic Consequences of the Devolution Package and an Evaluation of Decentralisation* (Colombo, 1997).

¹¹⁶ R. Hommes, ‘Conflicts and Dilemmas of Decentralisation’; V. Tanzi, ‘Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomic Aspects’, both: *Annual World Bank conference on Development Economics* (1995).

- Uncoordinated sub-national/regional planning;
- River basin planning calls for inter-regional central planning that will be hindered;
- Sharing of water resources will be a problem in the future;
- Forest resource management can be ethnicised;
- Factor mobility can be obstructed;
- Sub-national protectionism and market segmentation;
- Fiscal deficits and macro instability can increase if the regions run large budget deficits as has happened in counties such as Brazil and Argentina;
- Value added tax is not suitable for devolved regional governmental systems¹¹⁷;
- Vertical imbalance in revenue - 40% of total expenditure will be in the hands of the devolved bodies but they will collect only 5% of the revenue; also at present 75% of the total revenue collected by all the provincial councils together comes from the Western Provincial Council. This fiscal imbalance will remain¹¹⁸;
- Interpersonal equity will worsen due to differences in regional disparity, lack of inter-regional mobility;
- Politicised social targeting in development/social welfare scheme as against socially efficient targeting by professionals under central government;
- Mineral taxation rights will widen disparities¹¹⁹;
- Centre may favour the regions that have governments of the same party.

Critics of the federal solution propose a reformed provincial council system as an alternative. Others have suggested strengthening local government institutions. The United National Party (UNP) that is now in government has proposed asymmetrical devolution that would give more powers to devolved units in the north and east. Yet others have proposed ‘divisional level ‘ (population 30,000 to 60,000 per unit) decentralization that sits between the centre and the village and backed by regional level development programs modelled after the integrated rural development projects that were popular in the 1970s and 1980s.

This year (2002) the government created new regional ministries of development under the central government. At the same time it has substantially reduced funding for the provincial councils. The reduction in funding is partly due to budgetary constraints. It is also partly due to funds being diverted to the regional ministries. The cuts in funding are also partly motivated by the central government’s desire to undermine the provincial councils that are controlled by the opposition.

What this seems to suggest is that there is no real commitment to devolution under the current provincial council system. It is not clear how the LTTE would view this action of the government in the context of proposed peace talks. However, it is possible that what the government wants is ‘asymmetrical’ devolution that allows considerable autonomy to the north and east but not for the rest of the country. Nevertheless, arbitrary reductions in funds to the provinces by the Centre suggest the potential for conflict between Colombo and a future north-east entity led by the LTTE.

¹¹⁷ R.M. Bird, *Fiscal Aspects of Devolution in Sri Lanka* (Colombo, 1996).

¹¹⁸ Ibid. and: R.P. Rannan-Eliya, *Economic Consequences of the Devolution Package* (Colombo, 1995); R. Gunatilaka, *Economic Consequences of the Proposed Sri Lankan Devolution Package* (Colombo 1995).

¹¹⁹ R.M. Bird, *Fiscal Aspects of Devolution in Sri Lanka* (Colombo, 1996).

10.3. Land Policy

Land policy is one of the major natural resource issues that remain unresolved. In a predominantly agricultural country land is a major economic asset. There is the unresolved question of who should control land owned by the state. Some say the central government must have the right and others say the devolved unit must have it. The question is closely related to the claims of the different ethnic groups to public land. Bastian argues that central government has controlled state land and its distribution disregarding the ethnic implications of its policy.¹²⁰ This is essentially the complaint of the Tamil minority leadership that has argued that state sponsored Sinhalese farmer settlement in the 'Traditional Homeland' of the Tamils in the north and east is unacceptable since it radically changes the ethnic composition of the region. Consequently it also changes the ethnic political balance in the area concerned. Others challenge the premise that the north and east constitute a monolithic traditional Tamil homeland. The north is usually conceded as a province that has been traditionally inhabited by Tamil people for centuries. But the claims of the Tamils to the east are disputed. Peiris, for example, shows that historically Tamil settlements were generally confined to the eastern coastal strip.¹²¹ The interior land appears to have been inhabited mainly by the Sinhalese. Economic development needs and the shortage of land in the central and south-western parts of the country are advanced as other arguments in favour of settlement of Sinhalese colonists without reference to the ethnic composition of the eastern province. Hoole has weakly criticized the argument of Peiris as a 'riposte to Tamil demands for a Tamil linguistic territorial unit comprising of the Northern and Eastern provinces...'.¹²² Given the fact that the Eastern Province is an ethnically mixed population with Tamil not more than 40% of the total, the argument of Peiris and others that the Eastern Province cannot be an exclusive territory for one community is more convincing.

10.4. Summary

There is an emotionally charged debate in the country concerning devolution. Those who support a high degree of devolution as the core of a possible peace settlement of the conflict see political economy merit in the arrangement. It recognizes the rights of minorities to manage their own affairs. It also brings developmental benefits by giving greater autonomy to regional/provincial/local entities. Opponents of devolution do not see it as a solution to the conflict. They are in favour of power sharing at the centre although power sharing at the centre and devolution are not mutually exclusive and could work together. Opponents of devolution see new tiers of government as economically wasteful and possibly leading to more corruption. The ownership and use of state land is one of the major unresolved issues in the conflict. Some want state land to be under the control of the central government for use by all communities, whereas others, especially the Tamils in the north-east want land in that area to be under the control of the provincial/regional authority. This issue has to be resolved amicably to find lasting peace.

¹²⁰ S. Bastian, *Control of Land: The Devolution Debate* (Colombo, 1995).

¹²¹ G.H. Peiris, 'An Appraisal of the Concept of a Traditional Tamil Homeland in Sri Lanka', in: *Ethnic Studies Report*, Vol. IX, No. 01 (1991).

¹²² R. Hoole, 'The Homeland Question, Scholarship Without Ethics and the Second Front', in: *Counterpoint*, October/November (1994), p. 20.

XI. The Peace Process

11.1. Ceasefire

In December 2001 the LTTE declared a unilateral ceasefire. In the same month in parliamentary elections the People's Alliance (PA) government of Chandrika Kumaratunga was replaced by a United National Front (UNF) administration led by Ranil Wickremesinghe.

Wickremesinghe campaigned on a peace platform that promised negotiations with the Tigers as an alternative to the two-pronged strategy of war-for-peace and constitutional change that president Kumaratunga followed. The change of government saw the Norwegians return as facilitators of the peace process. On February 22, 2002 the government of Sri Lanka and LTTE signed a Memorandum of Understanding (MOU) that outlined a program towards peace talks. The provisions of the MOU include normalization of relations between 'uncleared' (i.e. areas in the Vanni and the east under LTTE control) areas and the rest of the country, and taking other steps to facilitate peace talks.

Under normalization of relations supplies of goods to the north that were banned earlier are being permitted. People are also allowed to travel freely between the north-east and the rest of the country. The government has also permitted 'political' activity to be undertaken by the LTTE in the north and east in areas under government control. The government has also withdrawn or is in the process of withdrawing its troops/camps from schools and religious buildings.

In late August the Norwegians announced that the first round of talks between the government and the LTTE to decide on the agenda for the peace talks would be held in Thailand in mid September.

11.2. Suing for Peace

There were a number of compelling factors, many of which have a substantial political-economy facet that led the government and the LTTE to sue for peace. For the new UNF government that took office in December 2001 it was the economic crisis that broke the straw on the camel's back. The heavy war expenditure of the 1990s pushed the government's fiscal situation towards a crisis point by 2000/2001. This happened as a result of heavy government borrowing both locally and abroad. The foreign debt nearly tripled between 1992 and 2001 from Rs 236 billion to Rs 634 billion and the domestic debt rose almost five-fold from Rs 170 billion to Rs 816 billion. In 2001 the interest payments alone cost the government Rs 94 billion or about 41% of total revenue.

The crisis came to a head in 2002. The recession of 2001 cut in to government revenue with the usual fiscal lag effect. The government debt service for the year is estimated at Rs 327 billion while tax revenue is forecast to be only Rs 278 billion.¹²³ The government, under pressure from the IMF has substantially cut expenditure to bring down the budget deficit from 11% of GDP in 2001 to 8.5% of the GDP in 2002. The Treasury and the Central Bank anticipate the GDP to grow by 3.5% in 2002.

¹²³ *The Island*, July 05, 2002.

However, it grew by a mere 0.1% in the first quarter making it difficult to achieve the annual growth target.

There is also ample evidence to suggest that the war has drained resources from infrastructure development. The power sector and the railway are two cases in point. Sri Lanka's power sector needs to grow by a minimum of about 10% per annum to meet the electricity needs of the country. In the last ten years growth has been less than 3% per annum. As a result the country faced a severe power shortage in 2001-02. The government-owned railway has been starved of investment to the point where it is facing a virtual collapse of service.

11.3. LTTE after September 11

There is no single cause that has persuaded the LTTE to sue for peace. The difficulty of raising trained cadre appears to have been one important factor. In late November 2001 the organisation reported that it had lost a total of 16,333 fighters since the war began in earnest in 1982, and that in the first eleven months of 2001 alone it lost 1,742 including 253 'suicide' cadres.¹²⁴ The abduction and forced conscription of children regularly reported in the first half of 2002 appears to be a desperate effort on the part of the LTTE to rebuild its cadres in case war resumes.¹²⁵

The LTTE may have achieved a degree of legitimacy in the most vocal and overt manifestations of Diaspora opinion. However, its violent methods and suspected illicit activities have made the goal of legitimacy in the international community somewhat more elusive, more so in the climate of world opinion in the aftermath of the September 11, 2002 terrorist attacks on the United States.

September 11th has undoubtedly had an adverse impact on LTTE funding from abroad. To begin with USA has further tightened fund flows from that country to terrorist organizations. Canada and Britain also banned the LTTE soon after September 11.th Both have been important sources of Diaspora funds for the organization. The High Commissioner for the UK in Sri Lanka Linda Duffield recently stated that the ban on the LTTE in Britain has made fund raising 'extremely difficult' and that a 'number of bank accounts have been frozen (in Britain).'¹²⁶ Perhaps the inclusion of two Tamil Diaspora members - US-based lawyer V Rudrakumaran, who was described by Chalk (2000) as the 'de facto head of LTTE operations in the US' and who appeared for the LTTE in the case that it filed challenging the US State Department decision to ban the organization as a terrorist outfit, and Jay Maheswaran, a Tamil living in Australia - in the four-person peace negotiating team for Thailand underscores the influence that the Diaspora wields inside the LTTE.¹²⁷

The drying up of funds from abroad appears to have compelled the LTTE to resort to various desperate and extreme measures to raise funds locally in the areas controlled by it. It has imposed taxes and arbitrary restrictions on trade. It also extorts money, and reportedly even resorts to robbery to raise revenue. In May there were reports from Jaffna that a tax of 30% was being levied on sales in Jaffna.¹²⁸ The LTTE also levies its own customs duty on goods taken to Jaffna that pass through the

¹²⁴ Official press release of the LTTE to commemorate 'National Heroes Day' on November 26, 2001 reported in *The Island*, December 01, 2001.

¹²⁵ *The Island*, February 01, 2002.

¹²⁶ *The Island*, July 05, 2002.

¹²⁷ www.lacnet.org/srilanka August 30, 2002.

¹²⁸ *The Sunday Leader*, May 05, 2002.

area controlled by them. One source estimated that in June after the highway route to the north was opened the daily revenue was in the region of Rs 4.0 million to Rs 5.0 million.¹²⁹ In July 2002 it announced a series of sales taxes ranging from 5% for some food items to 10% for agricultural equipment, 15% for milk powder, 20% for liquor, and 25% for candles just to give some examples.¹³⁰ The LTTE is also levying a flat tax of 8% on incomes of state employees. But these rates appear to vary arbitrarily.

More desperate efforts on the part of the LTTE to raise resources include robbery. For example, the *Sunday Leader* reported a spate of robberies allegedly by the LTTE that occurred in the Eastern Province and in the border area of the North Central Province during the period March to early May 2002.¹³¹

The LTTE fund raising activity that has elicited the bitterest opposition, especially from the Muslim business community in the Eastern Province, is extortion and demand of ransom money. There have been regular reports in the press and complaints to the police, army, and the Norwegian monitoring mission about such incidents.¹³² There are reports that the LTTE has even gone as far south as Puttalam on the west coast collecting ransom money.¹³³

Even before extortion of money from Muslims by the LTTE began on a large scale following the MOU, the former had little faith in the latter after the bitter experiences of the 1990s. The LTTE expelled Muslims in the northern province *en masse* from Jaffna and Mannar districts in 1990 in an attempt to ethnically cleanse the area. The eastern province Muslims recall with bitterness the massacres of Muslims - 140 Muslims praying in a mosque in Kattankudy in Batticaloa district (August 1990), 122 Muslims in Eravur (August 1990), 142 Muslims in three villages in the Polonnaruwa district just outside the Eastern Province (October 1992) - believed to be by LTTE cadres. The extortion of money from Muslims - in a formal complaint to the Norwegian Sri Lanka Monitoring Mission, the leader of the Sri Lanka Muslim Congress and cabinet minister Rauff Hakeem stated that the amount ranged from Rs 50,000 (US\$500) to Rs 5.0 million (\$50,000)¹³⁴ - has only served to reinforce the belief in that community in the eastern and northern provinces that the LTTE is not to be trusted. The violent clashes that occurred between the Tamils and the Muslims in the town of Valachchenai in the eastern province was at least in part provoked by the resentment of the Muslims against LTTE taxes and extortion. This has serious implications for the peace process. For example, some Muslim leaders have recently revived the call for a separate Muslim administrative entity in the Eastern Province.¹³⁵

¹²⁹ *The Sunday Times*, June 09, 2002.

¹³⁰ *The Sunday Times*, June 30, 2002.

¹³¹ *The Sunday Leader* May 05, 2002.

¹³² For example, on February 01 the people of the Muslim town of Kinniya staged a *Hartal* (a boycott of trade and commerce, transport and communication, government business, and other activity) in protest against such extortion (*The Island* February 02, 2002). See also *The Sunday Leader* May 05, 2002 for more such incidents.

¹³³ *The Island*, February 01, 2002.

¹³⁴ *The Sunday Times*, February 03, 2002.

¹³⁵ *The Island*, August 27, 2002.

11.4. Peace Dividend

The greatest economic incentive that should make the government seek peace is the ‘peace dividend.’ In principle this should include the resources saved by ending the war, the donor assistance that the government would receive for rehabilitation and reconstruction plus foreign direct investment that would flow in as the investment climate improves.

Following the signing of the *Memorandum of Understanding* in February 2002 the government anticipated a substantial inflow of assistance from donors. Recently it announced that it expects \$500 million in donor assistance for reconstruction.¹³⁶ A few countries have stepped up assistance after January 2002 probably as a carrot to encourage the peace process. For example, Britain in recent years has given about \$7.5 million in assistance annually. Recently, in recognition of the ‘...considerable progress that has been made in the peace front,’¹³⁷ it announced an additional \$10 million for humanitarian support work in the north and east and elsewhere and a further \$12 million over the next three years ‘to support the peace process’ In early September the IMF announced that it would release the second tranche of \$65 million that had been suspended for about one year because Sri Lanka did not comply with the original conditions of the standby.¹³⁸

However, donor funds on a large scale that the government wants have yet to be committed. The donors are adopting a wait-and-see policy to see the outcome of peace talks. It is also likely that the promise of assistance is being used as leverage to push the government along towards talks and an eventual settlement. For example, the World Bank country director for Sri Lanka announced that a ‘durable peace’ was necessary before funds could be committed. But, perhaps as an incentive to seek peace, he assured that ‘funds were available.’¹³⁹ Moreover, as the US ambassador pointed out in a recent roundtable discussion with civic leaders in Kandy, at least in so far as the US is concerned, assistance will be measured and limited to make life sufficiently attractive in peace so that there would be less incentive to return to war. But he expects Sri Lanka - and that includes the north - to rely mainly on its own resources for reconstruction.¹⁴⁰

It is unrealistic to expect a quick increase in foreign private investment funds. BOI sources say that there is a revival of foreign investors interest in Sri Lanka in ‘Greenfield’ investment. The Colombo share market has shown a revival in the first eight months of 2002. Between August 12 and 29th, there was a net inflow of \$6.5 million - a substantial amount for Colombo - to the market.¹⁴¹ But much of this could be short-term ‘hot’ money that could flow out just as quickly.

11.5. Interim Administration

There is a general belief that if and when peace comes the north-east would get a new ‘interim’ administration. Both the government and the LTTE appear to be moving in that direction. Most of the other Tamil parties, most notably the Tamil National Alliance (TNA) that has most representatives for the two provinces in Sri Lanka’s parliament, are willing to concede this position to the LTTE. The

¹³⁶ *The Ceylon Daily News*, August 27, 2002.

¹³⁷ High Commissioner for the UK in Sri Lanka Linda Duffield quoted in *The Island*, July 05, 2002.

¹³⁸ *The Island*, September 04th, 2002.

¹³⁹ *The Sunday Times Business*, June 02, 2002, p.03.

¹⁴⁰ Personal communiqué to the author from one of the participants.

¹⁴¹ *The Ceylon Daily News*, August 30, 2002.

only significant exception is the Eelam People's Democratic Party (EPDP) with three members in parliament who are implacably opposed to the LTTE, and demand democratic elections to establish a new administration in the north and east.

Assuming that an interim administration under the LTTE is agreed upon there are other key issues pertaining to the north-east that have to be settled. The most important and controversial of these is the geographical scope of the unit of government that would be established. The LTTE as well as all other Tamil groups insist that the northern and eastern provinces must be merged into one unit. The government may concede this at least on a 'temporary' basis. However, as noted above, the issue of Muslims in the Eastern Province (40% of the provincial population), not to mention the 20% Sinhalese, remains to be resolved.

Assuming that both the above issues could be settled there are several political-economy challenges of rehabilitation and reconstruction that the new administration in the north-east and Colombo would have to confront. One is the degree of control that Colombo would have over development programs in the region. Tamil leaders have already declared that they, and not Colombo, must have the final say in all such programs.¹⁴²

But this issue is more complex than it looks. To begin with the north-east has a relatively small economic base. Even if it has full taxation powers it would not be able to generate the revenue that it requires for development. Thus, like almost all the provincial councils in the south that rely heavily on grants from the central government, the north-east also would have to depend on funds from Colombo to meet a part of its revenue requirements.

Second, there are other physical resources such as hydropower and water - the main rivers, most notably the Mahaweli, flow to the north and east from the central highlands - that are under the control of Colombo. These will have to be shared amicably for peace to prevail.

11.6. Foreign Assistance

Probably the most sensitive immediate question would be in regard to foreign assistance. All the signs are that a future LTTE administration would insist on having direct access to and control of donor funds. The LTTE made a bid in 2002 to get ADB funds for itself to rebuild the main road from Vavuniya to Jaffna. The ADB turned down the request on this occasion and asked the LTTE to compete for the tender through regular channels. However, in recent weeks, several donor agencies including Sri Lanka's leading bilateral donor Japan, have sent their representatives to meet with LTTE officials in the Vanni to discuss rehabilitation and reconstruction assistance. Inevitably, donor funding for the north-east would become a prominent issue in peace negotiations. The LTTE has named Jay Maheswaran, a Tamil resident of Australia who is described as an expert on rehabilitation to its four-person negotiating team for peace talks in Thailand in September.

The LTTE is likely to insist on the right to directly negotiate with donors and receive funds. This will raise the touchy issue of external relations of a sovereign state and who has ultimate authority. As of now all ODA to Sri Lanka is channelled through the Ministry of Finance in Colombo. Opponents of the MOU and peace talks could see any deviation from this practice as a surrender of Sri Lanka's sovereignty, and ultimately paving the way to Eelam. The likely compromise is an arrangement

¹⁴² *The Sunday Times*, June 09, 2002.

whereby the central government treasury gets the money and channels the funds through a body in which the LTTE-led interim administration would have a significant voice.

The question of democracy and human rights in the north-east are also bound to arise as issues with the donor community. This may not happen immediately because the overriding concern would be to prevent the resumption of war. But in recent years most donors, especially the Europeans and the Canadians, as a matter of principle, have refused to support regimes that are not democratic and do not respect human rights. Ian Martin, former Secretary General of Amnesty International, in a post-MOU report on Sri Lanka states that donors who assist the reconstruction of the north-east would expect any LTTE interim administration to remain accountable for the funds and guarantee the independent functioning of NGOs.¹⁴³ The LTTE has already declared that they are unable to trust international NGOs and that all funds must go through the interim administration.¹⁴⁴ Thus, it is hard to see an LTTE administration in the north-east that is authoritarian being given much donor assistance after the first flush of enthusiasm for peace dissipates.

11.7. Refugees and IDPs

Refugees are those who have left Sri Lanka involuntarily and temporarily live abroad. Internally displaced persons (IDPs) are those who have left their homes involuntarily and live elsewhere in the country in the hope of returning home. In Chapter 5 we mentioned a refugee figure of about 700,000. Of this number about 70,000 or perhaps a little more¹⁴⁵ are living in 115 refugee camps in India.¹⁴⁶ The rest are mostly in western countries. It is certain that relatively few of those who are in the west would voluntarily return. It is unclear how many of them would be repatriated by administrative or court order. Probably not many would return that way either.

The vast majority of the refugees in India are likely to return. Between 1987 and 1995 about 100,000 refugees from India came back with UNHCR assistance.¹⁴⁷ As of early July 2002 the UNHCR declared that conditions in Sri Lanka were 'unsuitable to promote a large-scale, organized repatriation.'¹⁴⁸ However, the government appears to be keen to see the refugees in India back, perhaps to promote an atmosphere of normalcy. In fact Tamil political parties have accused the government of putting pressure on the refugees to return.¹⁴⁹

There is no accurate count of IDPs also. The Global IDP Project quotes a figure of 800,000 for Sri Lanka as at June 24, 2002.¹⁵⁰ This is about 3% of the global estimated IDP population of over 25 million spread around 47 countries. The Sri Lanka government reported a figure of about 670,000 in early July.¹⁵¹ It is also useful to note that almost 40% of the entire population of the northern province

¹⁴³ I. Martin, *Human Rights in Sri Lanka After Ceasefire report of the International Working Group on Sri Lanka* (London, 2002).

¹⁴⁴ J S Tissainayagam 'Tamil Interests Ignored' in *The Leader*, May 05, 2002.

¹⁴⁵ UNHCR, *Durable Solutions Progress Report*, Colombo, UNHCR, May 26-June 09, 2002.

¹⁴⁶ *The Daily Mirror*, July 02, 2002.

¹⁴⁷ UNHCR, *Durable Solutions Progress Report*, Colombo, UNHCR, May 20-26, 2002.

¹⁴⁸ UNHCR, *Durable Solutions Progress Report*, Colombo, UNHCR, May 26-June 09, 2002.

¹⁴⁹ *The Daily Mirror*, July 02, 2002.

¹⁵⁰ www.idpproject.org.

¹⁵¹ UNHCR Colombo (Personal communiqué to author).

and the Trincomalee and Ampara districts in the eastern province were displaced at as the end of May. In the Mannar district the percentage was as high as 90%.¹⁵²

There are a few points from a political economy perspective that are of interest in regard to IDPs that should be noted. First about 500,000 (75%) of the 670,000 were staying with friends and relatives and the balance 170,000 (25%) were in 346 welfare centers, mostly located in the northern and eastern provinces. This has reduced the burden imposed on government and NGOs to care for the IDPs.

Second, the government had spent over Rs 50 billion since 1987 for 'life-saving support and to alleviate hardship' among the IDPs both in government controlled areas as well as in the areas controlled by the LTTE - the Vanni under LTTE control had an IDP population of about 175,000.¹⁵³ The monthly food bill for IDPs has totalled \$4.0 million in recent year. The Department of Education provided school materials, free textbooks and uniforms to the 227 government schools in the Vanni region. In 1997 alone the government spent \$3.6 on 'reconstruction and rehabilitation. The government was fully aware that food, medicine and other essential goods supplied free of charge to rebel areas reached the hands of the LTTE that used a part of the goods for their war effort. However, the government continued the policy, notwithstanding some criticism, because it avoided a serious humanitarian crisis and also made the donors happy.

Third, the government, international agencies such as UNHCR, as well as the international NGOs are facing pressure from IDPs who wish to return home to come up with resources and viable plans of action. For example, the UNHCR reported that between January and July 2002 128,000 (32,000 families) 'spontaneously' have either 'returned home, relocated or are in transit.'¹⁵⁴ UNHCR continued to maintain that the conditions are not satisfactory for IDPs to return home.¹⁵⁵ Nor have all reached their homes. In the Trincomalee district, for example, of 1,081 that set out to go home only 444 had reached home. The balance were either staying in government welfare centers or were living with family or friends.

Fourth, there are some IDPs who are adopting a wait and see policy because of security concerns. The Muslim IDPs from Mannar in the northern province want assurances of security and 'all facilities' before they would move out of their camps.¹⁵⁶ Muslim IDPs from Jaffna, who are relatively small in number, have almost given up hope of returning home.¹⁵⁷ In general among many Muslim refugees there is a distrust of the LTTE that chased them away from their homes over ten years ago. Their return will be slower and would depend on political stability and the deal that the politicians are able to work out for the Muslims in the north.

Fifth, the government has prepared a very comprehensive *National Framework Relief, Rehabilitation, and Reconciliation* (Triple R Framework) (GOSL June 2002). It is a part of the broader *Poverty Reduction Framework* (GOSL 2002). The Triple R strategy incorporates all aspects of IDP and refugee needs including economic rehabilitation, education and health. Some have criticized the Triple R for being too much 'top-down' and also for not enlisting the support of all the relevant government agencies. Some donors have described it as 'ambitious.' However, other donors have

¹⁵² UNHCR Colombo (Personal communiqué to author).

¹⁵³ Government of Sri Lanka, *National Framework for Relief, Rehabilitation and Reconciliation* (Colombo 2002), p. 5.

¹⁵⁴ UNHCR, *Durable Solutions Progress Report 6*, Colombo, UNHCR, 04 September, 2002.

¹⁵⁵ UNHCR, *Durable Solutions Progress Report No.5*, Colombo, UNHCR, August 06, 2002.

¹⁵⁶ *The Leader*, May 05, 2002.

¹⁵⁷ *The Leader*, May 05, 2002.

praised it for being inclusive and bringing together government, NGOs, and donors as well as a high degree of community participation and ownership.

If a permanent peace is established much would depend on funding that is made available by the donors. In a recent effort at resettlement the government, under its Unified Assistance Scheme (UAS), gave a settling in grant of Rs 10,000 (\$110) per family.¹⁵⁸ However, the government has made an official commitment to increase the grant to Rs 65,000 (\$670) per family.¹⁵⁹ On this basis the government would require about \$100 million to resettle the estimate 150,000 families. The relatively few refugees who have returned from India in recent months have got from UNHCR \$55 per adult and \$27 per minor for resettlement, plus their travel expenses as well as other regular non-food assistance. This means that the 12,000 families from India would cost at least an additional \$3.0 million, but they too would claim the higher amount paid to IDPs. Air transport for refugees returning from Europe and other more distant places would cost much more. It is likely that the host government would bear the cost. De-mining and UXO cleaning up cost are also yet not known. The UNDP currently administers a grant of \$1.0 million given by the World Bank for this purpose.¹⁶⁰ The above calculations exclude the vast infrastructure development cost that would have to be incurred in the war-affected areas. As mentioned in a previous chapter some bilateral donors such as the UK have made commitments for assistance. The World Bank has announced that would release money from a reserve fund in the last quarter of 2002 for rehabilitation and development work.¹⁶¹

11.8. Summary

In December 2001 the LTTE declared a cease-fire. In the same month a new government was elected for Colombo that was committed to negotiations with the LTTE. In February 2002 a Memorandum of Understanding (MOU) was signed between the government and LTTE extending the cease-fire indefinitely and committing both parties to peace talks. The Norwegians are monitoring the implementation of the MOU. Goods previously banned have been allowed into the north and travel restrictions between the north and south have been relaxed. LTTE is allowed to do political activity in government controlled areas. Peace talks will commence in Thailand on September 16th.

The government sued for peace partly because the economy was facing a serious crisis and war expenditure was becoming increasingly unsustainable. The donors also were reluctant to fund the government budget if money was diverted to the war. The LTTE too probably could not continue the war in the context of the war against terrorism declared by the USA and its allies. LTTE funding sources also dried up as more countries banned it. Now the LTTE collects taxes in the areas it controls. It is alleged that it also resorts to extortion, especially from the Muslim community.

The government expects a peace dividend by way of reconstruction aid. The resettlement of the IDPs and returning refugees, as well as reintegration of demobilized soldiers and LTTE fighters into civilian society would require substantial additional resources. The government has prepared a comprehensive *Relief, Rehabilitation and Reconstruction Framework*. But donors are not committing substantial funds until they are assured that peace is permanent. The LTTE also expects donor

¹⁵⁸ UNHCR, *Durable Solutions Progress Report*, Colombo, UNHCR, May 26-June 09, 2002.

¹⁵⁹ Official Circular of the Ministry of Eastern Development and Muslim Religious Affairs, August 27, 2002.

¹⁶⁰ UNHCR, *Durable Solutions Progress Report*, Colombo, UNHCR, May 13-19, 2002.

¹⁶¹ UNHCR, *Durable Solutions Progress Report No.5*, Colombo, UNHCR, August 06, 2002.

assistance for the Interim Administration it expects to establish in the north-east. Such funds will probably have to be channelled through Colombo. If the LTTE becomes authoritarian donors may become reluctant to fund the interim administration in the north-east. An interim administration will also have to negotiate for local funds from Colombo and for physical resources such as water and electricity.

XII. Conclusions

In this concluding chapter we address three major questions and seek answers to them based on the previous discussions in this paper. The questions are:

- How did the different actors sustain and protect their own interests during the war and what sort of alliances, if any, were formed and for what reason?
- Why did the conflict move towards a ceasefire and peace talks in 2002?
- What are the political economy considerations for peace and reconstruction?

All three issues involve a complex of factors. However, in this analysis we shall largely limit ourselves to political economy factors as defined in Chapter 1 of this paper.

The theoretical perspective of this discussion is framed using the concept of ‘conflict transformation.’ Using that concept we develop a theory of ‘Shifting Alliances’ to explain how the various actors shifted their respective positions to form either new alliances or change sides as circumstances warranted to sustain their own interests in a dynamic environment, both internally in Sri Lanka as well as globally. Following answers to the above questions we shall conclude the paper with a review of implications of the Sri Lankan case for some salient issues in the theory of political economy of war.

12.1. The State

There are several somewhat unusual features about the experience and behaviour of the Sri Lankan state, one of the principal actors in the conflict. A twenty-year protracted war notwithstanding, the state as an institution has shown remarkable resilience and an instinct for survival. It is true that the state lost control of a part of its territory to the Tamil rebels. It is also true that it never managed to develop sufficient capacity to win the war. However, neither did it collapse, as many developing country states in conflict are wont to happen. On the contrary the Sri Lankan state that struggled through the trauma has more than survived. The basic democratic framework of government was preserved, and even in the midst of war, elections were held regularly - albeit some not as fair and transparent as they could be - and governments were changed not by the bullet but by the ballot. The economy, though not realizing its full potential, performed reasonably well with positive growth throughout the last twenty years until 2001 produced a negative number. Social welfare held up in the south, and even in the north there never was a complex emergency as seen in many Sub-Saharan African countries in conflict. These are no mean achievements in a war situation. It is our contention that a part of the explanation for this lies in the resilience of the key institutions of state.

12.1.1. Institutions

Sri Lanka's state structure and institutions - administrative, political, social, and economic - were put to severe test during the war. But they have generally survived. For example, the bureaucracy still functions reasonably well. The state election machinery, an essential tool for democratic elections, was weakened especially in the late 1990s, but not broken. After 1983, it facilitated the people to remove the party in power through the ballot on two critical occasions, once in 1994 and again in 2001. The largely state-financed and state managed education system, its many weaknesses notwithstanding, produces trained human resources. The economic institutions of the state ranging from the Treasury and the Central Bank to the economic line ministries and the state commercial and non-bank financial institutions functioned with a reasonable degree of efficacy throughout the period.

12.1.2. Democracy

A combination of political, economic, strategic, and external factors were responsible for the observed resilience of the Sri Lankan state and institutions in the past twenty years. One was democracy. The fact that governments elected by the people ruled from Colombo made a difference. The governments generally had credibility and enjoyed public support. It was also responsive to the needs of the people as demonstrated by the maintenance of health, education, and poverty reduction programs during the war period. A highly literate population - 94% of the total - that was politically mature and alert also helped.

12.2. Alliances

The formation of strategic political alliances within the democratic framework was key to the survival and success of the Sri Lankan state during this period. The war was essentially between Colombo's Sinhalese dominated government and Tamils in the north. The state, however, made an extra effort to cultivate and secure the support of other ethnic groups in the country including the Muslims and Plantation Tamils, and some would even say the influential Colombo-based Sri Lanka Tamils.

The 1978 second republican constitution motivated such alliances and political coalitions. The proportional representation system created parliaments in 1994, 2000, and 2001 where governments were compelled to form coalitions to survive. However, as the presence of the representatives of the Plantation Tamils in government from 1977 demonstrated, even when there was no parliamentary need for alliances, the government formed such alliances for strategic reasons.

Moreover, starting 1982, an-all-island constituency elected the president where the 25% minority vote played a decisive role when the two major parties more or less evenly split the majority community vote.

The Plantation Tamils were lured by offer of cabinet office to their political leadership, and more importantly by a series of political and economic concessions including, granting of citizenship to the 'stateless' Plantation Tamils, periodic wage hikes for plantation workers, and expanding welfare benefits.

The leadership of the Muslims also enjoyed cabinet office. The Muslims, among whom many are in business, also would have been supportive of governments that placed their faith in the private sector as the engine of growth.

Even the 700,000 (2001) Sri Lankan Tamils living outside the north-east were not entirely outside this coalition building process. To begin with, if they wanted to participate in the political process they had to do so from the south. For example, there is no evidence to suggest that they were any less enthusiastic than the rest of the population in voting at elections. Successive governments were sensitive to their opinion, and some of the key Tamil leaders who resided in Colombo were highly influential even at the highest policy making level of government. For example, the foreign minister of the 1994 Kumaratunga administration Lakshman Kadirgamar, an ethnic Tamil, was one of the most influential members of Kumaratunga cabinet, and even today is her principal advisor. Constitutional lawyer and TULF MP Neelan Tiruchelvam - who was assassinated by an LTTE suicide bomber in 1999 - was one of the two principal architects of the constitutional reform package prepared president Kumaratunga.

12.2.1. Benefits

The Sri Lankan state reaped several benefits from forming the strategic political alliances with ethnic minorities described above. First, it helped to keep the war confined to the north-east - with the exception of periodic LTTE suicide attacks in Colombo and one or two elsewhere. In particular having the Plantation Tamils on the side of the government helped thwart continuous LTTE attempts to infiltrate the plantation areas and possibly open a new war front.

Second, having the Muslims in government ensured that in the Eastern Province the Muslims - together with the Sinhalese who live there - would form a bulwark against the LTTE.

Third, it also projected a positive image of the Sri Lankan state to the outside world, especially to the donor community and helped counter the LTTE propaganda that the Sinhalese state was a 'racist' state exclusively meant for the Sinhalese.

Fourth, on several occasions the leadership of the minorities, especially of the Plantation Tamils, played an important role as intermediaries between the government and the LTTE on the one hand, as well as between the government and Delhi and Tamil Nadu on the other. They were a convenient channel of communication especially at times of acute crisis to defuse the situation. The late Plantation Tamil leader S Thondaman was especially adept at playing this role. Currently, the parliamentary leadership of the Tamil National Alliance and the leader of the Sri Lanka Muslim Congress Rauff Hakeem are playing somewhat similar roles talking to Colombo and to the LTTE on the peace process.

These strategic alliances formed by the Sinhalese dominated state had several major economic benefits as well. It protected the southern economy for the ravages of the northern war. This permitted economic activity in the south to proceed as more or less normal. As noted earlier economic growth was positive. Sri Lanka exploited opportunities offered by globalization. Social welfare and employment were maintained at reasonable levels. The country even achieved a structural change in the economy moving towards manufacturing industry - almost all civilian goods - in production and exports, a rare occurrence for a country at war.

12.2.2. Donors

The partners in the second strategic (informal) alliance formed by the Sri Lankan state were the donors. Sri Lanka succeeded in maintaining this relationship even when some donors began to entertain misgiving about continuous support on account of government human rights violations, especially in the late 1980s and early 1990s and also on account of the resources that were expended

on the war. Several factors, some which changed with the dynamic of the conflict, helped sustain this alliance.

First, the fact that Sri Lanka managed to maintain some form of democracy helped. In contrast the LTTE's increasing reliance on terrorist tactics also played into the hands of the Sri Lanka government that could project the image of a victim fighting a ruthless terrorist organization. In particular after Rajiv Gandhi was assassinated the LTTE lost its most powerful foreign ally, India.

Second, for some donors Sri Lanka's conflict was of marginal significance in a geo-political and strategic sense. Many of them looked at the conflict as purely an internal matter and saw it merely as a constraint on development assistance. They tried to work around it. For example, much of the funding for the massive Mahaweli project came on that basis.

Third, Sri Lanka, unlike many other recipient countries, generally complied with most conditionalities pertaining to good governance, human rights questions notwithstanding. In this regard Sri Lankan leaders played the 'democracy' card quite cleverly to disarm the critics among donors. It had a good track record on human welfare and poverty reduction. It also had the merit of demonstrating reasonable accountability for the assistance received and delivering on aid with projects and programs that produced visible results. The Mahaweli is perhaps the best example.

Fourth, some donors such as Britain, USA, and Japan have had important investment and trading interests in Sri Lanka. For them assisting Sri Lanka would have been partly a good long-term economic investment.

12.3. LTTE

The LTTE built its own strategic alliances with a strong political economy base to conduct its war against Sri Lanka. As described in Chapter 5 the Tamil Diaspora were their most important partners. The importance was part political - the Diaspora was the lobby for the LTTE in key foreign capitals. But the main role of the Diaspora was as a source of funds. It was an alliance that was nurtured by a sense of grievance as much as a sense of fear. Whatever the motives may have been, it worked very well for the LTTE until the war against terrorism broke out after September 11th, 2001. After that date the LTTE's strategic alliance with the Diaspora weekend considerably when the western countries tightened their laws against terrorism and fund raising for terrorism making the LTTE impecunious.

But the LTTE's alliances were not entirely limited to legitimate activities such as voluntary fundraising from its sympathizers abroad. There is substantial evidence to suggest that it was allied with groups that were engaged in illegal activities ranging from narcotics to human smuggling. To some extent these activities are the downside of globalization. What is also of interest here is how the LTTE has exploited globalization to its own advantage. It has built a considerable business empire - LTTE Inc. - that included shipping and other legitimate baseness as well as more shady activities as the ones mentioned above. Some members of the Diaspora community were involved in these. In the case of illegal arms purchase and smuggling LTTE would have dealt with international arms merchants and militant and terrorist groups that had arms to sell. The economic independence of the LTTE before September 11th demonstrates how globalization can help a determined political group such as the LTTE with entrepreneurial skills to develop an autonomous capacity to wage a protracted civil war.

One of the more ironic alliances that was formed during the war was that between the LTTE and the Sri Lanka government itself. Two aspects merit discussion. One was how the two made common

cause against the Indian Peace Keeping Forces in the late 1980s after President Ranasinghe Premadasa took over as president. Since then it has been confirmed that the government gave arms to the LTTE to fight the Indians.

The second ‘alliance’ is subtler. As described in Chapter 3 the Sri Lanka government provided a substantial amount of relief supplies to the LTTE areas throughout the war. This was done knowing very well that the supplies were partly used to sustain the LTTE fighting machine. The government also purchased produce from LTTE areas to sustain the economy of the region at some minimum level. This arrangement served both parties well from a political economy perspective. The government could demonstrate to the donors its commitment to humanitarian concerns. Both the LTTE and the government avoided a complex emergency in the area.

12.4. Civil Society

In Chapter 6 we described how local and foreign NGOs multiplied in Sri Lanka during the war period. They were most prominent in humanitarian relief, development, human rights and governance. In general the local NGOs and the international NGOs formed a strong alliance as partners, and were a part of the growing global civil society. The foreign NGOs supplied the financial resources and some technical assistance and the local NGOs acted as their implementing partners.

Interestingly the State generally encouraged the NGO community for its own strategic and operational reasons. Strategically the state recognized the increasing influence that the NGOs wielded, especially as a part of global civil society. But more importantly, the government had strong operational reasons, especially in respect of the war areas, to seek help from NGOs. For example, organizations such as the ICRC and MSF working in the LTTE areas with the concurrence of the government have delivered essential goods and services, such as food, medicine, and health care. More broadly the NGOs have developed an important partnership with the government in development work, and even in human rights work. This is partly the result of the donors redirecting funds from the government to NGOs beginning the late 1980s.

NGOs for their part have also exploited their newfound position to achieve their goals. For example, NGOs concerned with good governance have pressured successive governments on issues of good governance. They have been quite influential in formulating policy and legislation in some of these areas such as the media, language policy, and the judiciary.

12.5. Business

As we noted in Chapter 6 the private business community has partly benefited from the war and partly suffered from the war. However, they have been much less pro-active on the issue and for a long period maintained studied neutrality, at least in public.

12.6. Move Towards Peace

As we discussed in Chapter 11, a set of compelling reasons, some local and some global, made the LTTE and government to sue for peace. For the LTTE the decisive factor appeared to be the global change that occurred after September 11th, 2001. Until then it appeared that it was prepared to fight a

long and tedious battle for Eelam. The international war against terrorism not only dried up its foreign sources of income, but also made the idea less of a possibility. The alliances that it had formed painstakingly over the years had suddenly weakened and it looked more vulnerable. With peace talks scheduled for mid September, the LTTE would have to settle for something less than a fully independent state of Eelam in the north-east.

The deteriorating economy and the lack of donor enthusiasm to underwrite a never-ending war would have been two major reasons for the government to sign the MOU for a ceasefire. But there was more to it. The government had waged a war for twenty years that it failed to win but had almost bankrupted the treasury. In 2002 for the first time the LTTE looked distinctly weaker and vulnerable internationally – until now its great strength – whereas the donors saw the government in a good light, especially the USA that was leading the war against international terrorism. For the Sri Lanka government this was an opportunity not to be missed.

12.6.1. Peace Process

In the last ten months since the ceasefire came into effect, there has been significant changes in the political economy of the country. Although the economy has not seen a full revival there are positive signs. The Colombo share market has risen by about 30% since January this year. Donor funding is on the increase although the expected bonanza won't come until peace is firmly established.

Most importantly the confidence building measures, notably free flow of people, goods and services between the north and south is having a visible impact on the northern economy, and on people's morale and attitudes. The latter are important yet intangible developments.

12.7. The New State

The big political economy issue confronting the country is the nature of the new state that a peace deal would establish in Sri Lanka. It is a given that the interim administration of the north-east would be under the LTTE and there won't be democratic elections for a period of time. However, it is inconceivable that Sri Lanka would remain one country with two so very different regimes, one in the south that is democratic and free, and one in the north-east that is authoritarian. Some who are suspicious of Tiger motives believe that an interim administration would lead to a break up of the country into two. That, if happens, would be the ultimate crisis of Sri Lanka's 'post-nation' state.

In the present author's view this is not a likely scenario. The big issue is not whether the north-east could afford to have democracy and peace together but whether it could afford to have peace without democracy. For several reasons, even if initially an authoritarian interim regime under the LTTE were established in the north-east it would be unsustainable. There is no reason to believe that the Tamil people, let alone the Muslims and the Sinhalese in the east would tolerate a dictatorship. Second, Colombo and the donors would have significant financial leverage over a cash-strapped north-east. Third, the donors would demand accountability and transparency that requires democratic governance. Fourth, it is unlikely that an authoritarian north-east would be attractive for foreign investors, especially for the Diaspora, who currently live in democratic societies, and are expected to be an important source of capital and technical expertise for the north-east.

12.8. Reflections on Theory

In this final section we draw together some of the key strands of our analysis to reflect on the implications for the theory of political economy of war. We shall review three points, the nature of the state, grievance versus viability as a determinant of durability of rebellions, and the role of process in conflict resolution. All three, it must be noted have major political economy components.

First, of the alternative theories of the state that are available the Sri Lanka case appears to fit in somewhere between the so called 'Hybrid' theory of the state that postulates that the western model of the state gets adopted to local conditions in developing societies, and the post-nation theory postulated by post-modernists who emphasize how globalization diminishes the role of the state in developing societies.

12.8.1. Hybrid State

The Sri Lankan state in the context of the war analyzed in this paper shows clear and significant departures from the conventional nation-state model of the west. Most notably it has failed to build a unified nation from its multi-ethnic population that has resulted in the state being challenged from within and the state losing control over a part of its territory. However, we have argued that the state has not completely failed either. It has fostered a set of institutions that have withstood the ravages of war. Today the Sri Lankan state is struggling to evolve into something that suits the ground realities of a post-conflict society. It will be some hybrid version of a state but by no means would be a very large departure from the traditional state model.

12.8.2. Post-Nation State

The Sri Lankan state also displays some of the characteristics of the post-nation state in its relative powerlessness to withstand the forces of globalization. This is evident in several fields. Its export markets are fragile. Exports are still limited to either primary commodities or basic consumer goods, mainly garments, whose prices are almost totally beyond the control of the producers and depend on the world market conditions. Tourism is also a similar source of foreign earnings that can dry up quickly when either internal condition in the country sour as happened in July 2001 when the Tigers attacked the Colombo airport or when international conditions sour as happened in September 2001. Even the other major source of foreign earnings, remittances of Sri Lankan expatriate workers is largely based on a very basic skill, that of housemaids. Given this situation the country heavily relies on donors who are in a position to impose, rightly or wrongly, their own conditions ranging from structural adjustment to human rights.

Our analysis of the alliance of local and foreign NGOs showed that they have more or less developed an independent power base of their own, and can exert a powerful influence on the state. These are the classic characteristics of a post-nation state.

12.8.3. Grievance vs. Viability

The second theoretical point we wish to reflect upon is the arguments in the literature that the duration of a rebellion depends not on grievance but on viability. The Sri Lankan case demonstrably confirms this proposition. The LTTE gave up fighting after twenty years not because the LTTE or Tamil grievance against the Sinhalese and the Colombo government have been settled or even have a

guarantee of settlement in the near future but because the international conditions became unviable to continue the war. The Sri Lanka government agreed to sign the MOU and talk because war was economically increasingly unviable, even if it could have climbed on the current international bandwagon to fight the LTTE as a group of terrorists.

12.8.4. Process vs. Structure

The third and final theoretical point relates to an issue in conflict resolution where there is a debate concerning the relative importance of the process as against addressing 'structural' issues for successful conflict resolution. It is our contention that the Sri Lankan case strongly supports the view that the process is as important as the structural issues in conflict resolution. In the early 1980s, 1987, 1990-91, and 1994-95 Sri Lanka tried to resolve the conflict focusing on contentious structural issues ranging from constitutional provisions, to the unit of devolution to land and language policy. Some of these issues such as language did get resolved but others did not. Some solutions such as devolution were found to be wanting. In any event all these efforts failed to end the war.

In retrospect all the above efforts had one characteristic in common. They lacked a substantial confidence building process. The negotiations were largely at the elite level. Common people were not a part of the process. The current peace process is very different in this regard. It will begin to address the thorny structural issues shortly in talks in Thailand. They must be addressed to find a lasting resolution to the war. But in the last ten months the confidence building process - in which there is a major political economy component - has been going on apace. This is producing a peace constituency both in the north and south that is unlikely to support a resumption of the war by either party. Moreover, this very fact should have a moderating influence on the negotiations for a structural solution. That will be a major contribution from the 'process' to the 'structure' that would eventually emerge from Thailand.

12.9. Summary

In this concluding chapter we addressed three questions that arose from the discussion in the preceding chapters. One was how the different actors involved in the war sustained and protected their own interests in a dynamic situation and the nature of alliances that they formed as the need arose to protect those interests. Second we examined the reasons that led to the 2002 ceasefire and impending peace talks. Third wanted to know the political economy considerations of peace and reconstruction. All three questions are multi-dimensional but we concentrated on the political economy aspect of each. The above discussion was followed by some thoughts on the implications of the Sri Lankan case for the theory of the political economy of war.

As regards the first question we argued that the Sri Lankan state sustained itself with the assistance of a combination of several factors. It relied upon a set of relatively strong institutions. The democratic framework also helped. The state formed some strategic alliances with minority groups, and informally with the donors also. When the need arose it even formed an alliance, albeit temporarily, with the LTTE. This strategy allowed the Sri Lankan state to maintain a reasonable level of economic growth and social welfare that prevented a major crisis in the polity from occurring.

The LTTE built a strategic alliance with its Diaspora that served them well, especially for funding, until September 11, 2001 came along. The international war against terrorism seriously weekend its link with the Diaspora and reduced its funding, probably the main reason that has compelled it to come for peace talks.

NGOs – local and foreign in partnership - have grown during the war years and now form an important independent power base. They have challenged the state (and LTTE) especially on human rights and governance, while cooperating on relief and development.

The government and the LTTE have sued for peace for their own reasons. The government was pushed by the deteriorating economy and pulled by the opportunity that the post September 11th global sentiment against terrorism offered to weaken the LTTE. The LTTE has been pushed to the bargaining table mainly by the same reason.

The single most important issue in a peace settlement is the nature of the future Sri Lankan state. The northeast will have to be conceded a great deal of autonomy. However, a possible authoritarian regime under the LTTE may not be viable in the long term because it would run against the democratic impulses of the people, and also would not find favour with the donors.

Three interesting implications of the Sri Lankan case for the theory of the political economy of war have been identified. First, the Sri Lankan state does not neatly fit into one model of the state, but seems to share some key features of the Hybrid Model and the Post-Nation State Model. Second, the Sri Lankan case supports the theory that it is not grievance but viability of rebel groups that determines the duration of rebellions. Third, this case study also supports the hypothesis that the process of peace is as important as addressing structural issues for conflict settlement.

Select Bibliography

- Anderson, Mary B (1999), *Do No Harm: How Aid Can Support Peace or War*, Boulder, Colorado, Lynne Rienner Publishers, Inc.
- Arunatilake, Nisha, Sisira Jayasuriya and Saman Kelegama (2000), The Economic Cost of the War in Sri Lanka, in: *Research Studies: Macroeconomic Policy and Planning and Series No. 13*, Institute of Policy Studies.
- Aryasinha, Ravinatha (2002), 'Terrorism, the LTTE and the Conflict in Sri Lanka,' *Conflict, Security & Development*, 1:2, pp. 25-50.
- Barash, Andy, Nancy Hancock and Ginny Nagy (2001), *Accountability and Transparency - The Sri Lankan Case Study*, Colombo, Consortium of Humanitarian Agencies.
- Barber, Ben. (1997), 'Feeding Refugees, or War? The Dilemma of Humanitarian Aid,' in: *Foreign Affairs*, July-August 1997, Vol. 76, No. 4, p 8.
- Bastian, Sunil (1990), 'Political Economy of Ethnic Violence in Sri Lanka: The July 1983 Riots,' in: Veena Das (ed), *Mirrors of Violence: Communities, Riots and Survivors in South Asia*, Delhi, Oxford University Press, pp 286-304.
- Bastian, Sunil (1994), 'Liberalised Policies and Regional Autonomy,' in: Sunil Bastian (ed.), *Devolution and Development in Sri Lanka*, Colombo, International Centre for Ethnic Studies, pp 143-97.
- Bastian, Sunil (1995), *Control of Land: The Devolution Debate*, Colombo, International Centre for Ethnic Studies.
- Bastian, Sunil (1998), 'Development NGOs and Ethnic Conflict', in: Mithran Tiruchelvam and C S Dattathreya (eds), *Culture and Politics of Identity in Sri Lanka*, International Centre for Ethnic Studies, Colombo, pp 102-135.
- Bird, R M (1996), *Fiscal Aspects of Devolution in Sri Lanka*, Colombo, Report prepared for the World Bank.
- Bonner, Raymond (1998), 'Tigers Sink Claws into Arms Trade,' *South China Morning Post*, (Reprinted from The New York Times), March 11, 1998.
- Byman, Daniel L, Peter Chalk, Bruce Hoffman, William Rosenau, David Brennan (2001), *Trends in Outside Support for Insurgent Movements*, National Security Research Division, Rand.
- Central Bank of Sri Lanka, Annual Report; Review of the Economy (Annual), Colombo.
- Chalk, Peter (2000), 'Liberation Tigers of Tamil Eelam's (LTTE) International Organization and Operations: A Preliminary Analysis,' Commentary, No. 77, Canadian Security Intelligence Service.
- Cohen, Stephen (1998), 'Marching in Step: Politics-free Military and Military Style Policies,' *India Today*, 16 November, p 68.
- Collier, Paul (2000), *Policy for Post-conflict Societies: Reducing the Risks of Renewed Conflict*, Washington DC, World Bank.

- Collier, Paul, Anke Hoeffler and Måns Söderbom (2001), *On the Duration of Civil War*, World Bank Centre for the Study of African Economies, University of Oxford May, 2001 Prepared for the World Bank, Development Research Group, University of California, Irvine, Center for Global Peace and Conflict Studies, Workshop on Civil Wars and Post-Conflict Transitions, May 18-20, 2001.
- Davis, Anthony (2001), 'Tiger International: How a Secret Global Network Keeps Sri Lanka's Tamil Guerrilla Organization Up and Killing,' *Asiaweek*.
- de Silva, C R (1974), 'Weightage in University Admissions: Standardisation and Ethnic Quotas in Sri Lanka, 1970-75', *Modern Ceylon Studies*, V(2), pp 152-78.
- de Silva, C R (1984), 'Sinhala-Tamil Relations and Education in Sri Lanka: The University Admissions Issue-The First Phase, 1971-77' in R B Goldmann and A Jeyaratnam Wilson (eds), *From Independence to Statehood*, London, Frances Pinter, pp 125-46.
- de Silva, K M (1984), 'University Admissions and Ethnic Tension in Sri Lanka, 1977-82' in R B Goldmann and A Jeyaratnam Wilson (eds), *From Independence to Statehood*, London, Frances Pinter, pp 97-110.
- de Silva, K M (1993), 'The Making of the Indo-Sri Lanka Accord. The Final Phase: June-July 1989' in K M de Silva and S W R de A Samarasinghe (eds), *Peace Accords and Ethnic Conflict*, London, Pinter Publishers, pp 112-52.
- de Silva, K M (1995), *Regional Powers and Small State Security: India and Sri Lanka, 1977-90*, Washington, DC, The Woodrow Wilson Center.
- de Silva, K M (1998), *Reaping the Whirlwind: Ethnic Conflict, Ethnic Politics in Sri Lanka*, New Delhi, Penguin Books.
- de Silva, K M (1999), 'Sri Lanka: Ethnic Conflict and the Search for a Durable Peace, 1978-1999,' *Ethnic Studies Report (ESR)*, XVII(2), Kandy, International Centre for Ethnic Studies, pp 301-44.
- de Silva, K M (2000a), 'Sri Lanka: Demilitarisation to Militarisation, 1985 to 1999' in K M de Silva and G H Peiris (eds), *Pursuit of Peace in Sri Lanka: Past Failures and Future Prospects*, International Centre for Ethnic Studies, Kandy, in association with the United States Institute of Peace, Washington, DC, pp 131-62.
- de Silva, K M (2000b), 'The Federal Option and its Alternatives' in K M de Silva and G H Peiris (eds), *Pursuit of Peace in Sri Lanka: Past Failures and Future Prospects*, International Centre for Ethnic Studies, Kandy, in association with the United States Institute of Peace, Washington, DC, pp 203-29.
- de Silva, K M (2002), 'Elections and After: Opportunity to Restore Stability,' *Economic and Political Weekly*, Vol. XXXVII (No. 9), March 2, pp 838-43.
- Douma, Pyt S (2001), *Political Economy of Internal Conflict: A Review of Contemporary Trends and Issues*, The Hague, Clingendael Institute.
- Edrisinha, Rohan (2000), 'Federalism and Case for Radical Constitutional Reform in Sri Lanka,' in K M de Silva and G H Peiris (eds), *Pursuit of Peace in Sri Lanka: Past Failures and Future Prospects*, International Centre for Ethnic Studies, Kandy, in association with the United States Institute of Peace, Washington, DC, pp 163-81.
- Frerks, Georg and Mathijs van Leeuwen (2001), *The Netherlands and Sri Lanka: Dutch Policies and Interventions with Regard to the Conflict in Sri Lanka*, The Hague, Clingendael Institute.
- Frieden, Jeffry and David A Lake (2000), *International Political Economy: Perspectives on Global Power and Wealth*, Bedford, Massachusetts, St Martin's Press, 4th edition.

- Goodhand, Jonathan (2001), *Conflict Assessments: Aid, conflict and peace Building in Sri Lanka*, London, Centre for Defence Studies, King's College.
- Government of Sri Lanka-GOSL (2002), *Connecting to Growth: Sri Lanka's Poverty Reduction Strategy*, Colombo.
- Government of Sri Lanka-GOSL (June 2002), *National Framework for Relief, Rehabilitation, and Reconciliation*, Colombo.
- Grober, M L and Gunaselvam (1993), 'The Economic Effects of the Sri Lankan Civil War,' *Economic Development and Cultural Change*, pp 395-405.
- Gunaratna, Rohan (1998), 'Impact of the Mobilised Tamil Diaspora on the Protracted Conflict in Sri Lanka' in Kumar Rupesinghe (ed.), *Negotiating Peace in Sri Lanka – Efforts, Failures and Lessons*, London, International Alert, pp 301-28.
- Gunaratna, Rohan (2001), 'A Haven Lost - Will the British Ban Seriously Affect the Liberation Tigers of Tamil Eelam's Support Operations from Europe?,' *Frontline*, April 27, pp 60-63.
- Gunasinghe, N. (1998), 'The Open Economy and Its Impact on Ethnic Relations in Sri Lanka,' *Lanka Guardian*, Colombo, November 15.
- Gunatilaka, Ramani (1995), *Economic Consequences of the Proposed Sri Lankan Devolution Package*, Institute of Policy Studies, Colombo.
- Herring, Ronald J (2001), 'Making Ethnic Conflict: the Civil War in Sri Lanka' in Milton J Esman and Ronald J Herring (eds), *Carrots, Sticks and Ethnic Conflict: Rethinking Development Assistance*, Ann Arbor, University of Michigan Press, pp 140-74.
- Hewavitharana, Buddhadasa (1997), *Economic Consequences of the Devolution Package and an Evaluation of Decentralisation*, Colombo, Sinhala Weera Vidahana.
- Hommel, Rudolf (1995), 'Conflicts and Dilemmas of Decentralisation,' *Annual World Bank Conference on Development Economics*.
- Hoole, Rajan (1994), 'The Homeland Question, Scholarship Without Ethics and the Second Front,' *Counterpoint*, October/November, pp 16-22.
- ICES - International Centre for Ethnic Studies, Kandy (2001), *Electoral Corruption in Sri Lanka*, report submitted to The Asia Foundation, Colombo.
- Institute of Policy Studies-IPS (2001), *Sri Lanka: The State of the Economy 2001*, Colombo, Institute of Policy Studies.
- Jackson, Stephen (2001), *The Challenges and Contradictions of Development and Conflict*, Northern Ireland, Institute for Conflict Resolution (INCORE).
- Janz, Frederica (1998), 'The LTTE Rides High in Norway while Lanka gets Torn Apart,' *Sunday Times*, May.
- Jesuit Research Service (1994), *Elephants and Others: Sri Lankan Refugees in Tamil Nadu and Sri Lanka: A Report of a Visit to Tamil Nadu and Sri Lanka-17 February-3 March*.
- Klem, Bart (2002), *Sharing Studies on Development and Conflict in Sri Lanka: Synthesis of Eight Studies*, The Hague, Clingendael, Conflict Research Unit.
- Leaning, Jennifer and Sam Arie (2000), *Human Security: A Framework for Assessment in Conflict and Transition*, Washington DC, Tulane University and USAID, CERTI Project.
- Mackenzie Institute (1995), *Funding Terror: The Liberation Tigers of Tamil Eelam and their Criminal Activities in the Western World*, Toronto.
- Manogaran, Chelvadurai (1987), *Ethnic Conflict and Reconciliation in Sri Lanka*, Honolulu, University of Hawaii Press.

- Manogaran, Chelvadurai and B Pfaffenberger (eds), (1994), *The Sri Lankan Tamils: Ethnicity and Identity*, Colorado, Westview.
- Marga (1998), *Cost of War*, Colombo, National Peace Council of Sri Lanka.
- Martin, Ian (2002), *Human Rights in Sri Lanka After Ceasefire*, Report of the International Working Group on Sri Lanka, London, International Working Group.
- McDowell, Christopher (1996), *A Tamil Asylum Diaspora: Sri Lankan Migration, Settlement and Politics in Switzerland*, Oxford, Berghahn Books.
- Mohammed, Nadir A L (1999), *Civil Wars and Military Expenditures*, A Note prepared for presentation at the World Bank's Development Economic Research Group (DECRG) launch conference on 'Civil Conflicts, Crime and Violence,' Washington, DC, World Bank, 22-23 February.
- Moore, Mick (1990), 'Economic Liberalization versus Political Pluralism in Sri Lanka?,' *Modern Asian Studies*, 24, pp 341-83.
- Narayan Swamy, M R (1994), *Tigers of Sri Lanka: From Boys to Guerrillas*, New Delhi.
- O'Sullivan, Meghan (1998), 'Civil Strife, Civil Society, and the State: How Sri Lanka Coped During Wartime,' Workshop on Economic and Social Consequences of Conflict, Oxford, Queen Elizabeth House, 23-24 October.
- Obeyesekere, Gananath (1984), 'The Origins and Institutionalisation of Political Violence', in: James Manor (ed.), *Sri Lanka in Change and Crisis*, London, Croom Helm, pp 153-74.
- Obeyesekere, Gananath (1984), 'Political Violence and the Future of Democracy in Sri Lanka', in: *Sri Lanka: The Ethnic Conflict*, New Delhi, Navrang, pp 70-94.
- Peebles, Patrick (1990a), 'The Accelerated Mahaweli Program and Ethnic Conflict,' Extension of the article 'Colonization and Ethnic Conflict in the Dry Zone of Sri Lanka,' Seminar on Sri Lanka at the United States Institute for Peace, September 4-5.
- Peebles, Patrick (1990b) 'Colonization and Ethnic Conflict in the Dry Zone of Sri Lanka,' *The Journal of Asian Studies*, 49(1), pp 30-55.
- Peiris, G H (1991), 'An Appraisal of the Concept of a Traditional Tamil Homeland in Sri Lanka,' *Ethnic Studies Report*, Vol. IX, No. 01.
- Peiris, G H (1994), 'Irrigation, Land Distribution, and Ethnic Conflict in Sri Lanka: An Evaluation of Criticisms, with Special Reference to the Mahaweli Programme,' *Ethnic Studies Report*, XII (1), pp 43-88.
- Peiris, G H and Samarasinghe, S W R de A (1997), Sri Lanka Data Base. International Workshop on Causes of Conflict: South Asia, organised by the International Centre for Ethnic Studies, Kandy in collaboration with the Netherlands Institute for International Relations 'Clingendael.'
- Peiris, G H (1999a), 'Insurrection and Youth Unrest in Sri Lanka', in: G H Peiris and S W R de A Samarasinghe (eds), *History and Politics, Millennial Perspectives: Essays in Honour of Kingsley de Silva*, Colombo, Law and Society Trust, pp 164-99.
- Peiris, G H (1999b), *Liberation Tigers of Tamil Eelam and the Global Drug Trade: An Overview*, ICES Conference on Governance in South Asia, Colombo.
- Peiris, G H (2000a), 'Prospects for a Negotiated Settlement of Sri Lanka's Ethnic Conflict' in K M de Silva and G H Peiris (eds), *Pursuit of Peace in Sri Lanka: Past Failures and Future Prospects*, International Centre for Ethnic Studies, Kandy in association with the United States Institute of Peace, Washington, DC, pp 263-87.

- Peiris, G H (2000b), 'Rehabilitation, Reconstruction and Reconciliation: A Retrospect', in: K M de Silva and G H Peiris (eds), *Pursuit of Peace in Sri Lanka: Past Failures and Future Prospects*, International Centre for Ethnic Studies, Kandy, in association with the United States Institute of Peace, Washington, DC, pp 345-82.
- Peiris, G H (2001), 'Clandestine Transactions of the LTTE and the Secessionist Campaign in Sri Lanka,' *Ethnic Studies Report*, Vol. XIX, No 01, January, pp 1-38.
- Peiris, H A (1988), *Political Parties in Sri Lanka since Independence: A Bibliography*, New Delhi, Navrang.
- Rannan-Eliya, Ravi P (1995), *Economic Consequences of the Devolution Package*, Colombo, Institute of Policy Studies.
- Richardson, J M (Jr.) and S W R de A Samarasinghe (1991), 'Measuring the Economic Dimensions of Sri Lanka's Ethnic Conflict', in: S W R de A Samarasinghe and Reed Coughlan (eds), *Economic Dimensions of Ethnic Conflict*, New York, St Martin's Press.
- Samarasinghe, S W R de A (1984), 'Ethnic Representation in Central Government Employment and Sinhala-Tamil Relations in Sri Lanka, 1948-81', in: R B Goldmann and A Jeyaratnam Wilson (eds), *From Independence to Statehood*, London, Frances Pinter, pp 86-108.
- Samarasinghe, S W R de A (1990), 'The Dynamics of Separatism: The Case of Sri Lanka', in: Ralph R Premdas and others (eds), *Secessionist Movements in Comparative Perspective*, London, Pinter Publishers, pp 48-70.
- Samarasinghe, S W R de A and Kamala Liyanage (1993), 'Friends and Foes of the Indo-Sri Lanka Accord', in: K M de Silva and S W R de A Samarasinghe (eds), *Peace Accords and Ethnic Conflict*, London, Pinter Publishers, pp 156-72.
- Samarasinghe, S W R de A (2002), 'Money Laundering: The Global Phenomenon and the Sri Lankan Situation', in: K M de Silva, G H Peiris, and S W R de A Samarasinghe (eds), *Corruption in South Asia-India, Pakistan and Sri Lanka*, Kandy, International Centre for Ethnic Studies, pp 277-302.
- Sarvananthan, Muthukrishna (2001), *An Assessment of Contraband Trade and Capital Between India and Sri Lanka*, Colombo, Kumaran Book House.
- Sen, A K (1981), *Poverty and Famines, An Essay on Entitlements and Deprivation*, Oxford, Clarendon Press.
- Sengupta, Somini (2000), 'Canada's Tamils Work for a Homeland from Afar,' *Sunday*, 23rd July.
- Shastri, Amita. (1990), 'The Material Basis for Separatism: The Tamil Eelam Movement in Sri Lanka,' *The Journal of Asian Studies*, February 1990, 49 No.1, pp 56-77.
- Stewart, F (1985), *Planning to Meet Basic Needs*, London, Macmillan.
- Suryanarayan, V and V Sudarsen (2000), *Between Fear and Hope: Sri Lankan Refugees in Tamil Nadu*, New Delhi, T R Publications.
- Tanzi, Vito (1995), 'Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomic Aspects,' Annual World Bank Conference on Development Economics.
- Tiruchelvam, Neelan (2000), 'Devolution and the Elusive Quest for Peace in Sri Lanka', in: K M de Silva and G H Peiris (eds), *Pursuit of Peace in Sri Lanka: Past Failures and Future Prospects*, International Centre for Ethnic Studies, Kandy, in association with the United States Institute of Peace, Washington, DC, pp 163-81.
- UNDP (1998), *National Human Development Report 1998*, Colombo, UNDP.

- Uphoff, Norman T (2001), 'Ethnic Cooperation in Sri Lanka: Through the Keyhole of a USAID Project,' in: Milton J Esman and Ronald J Herring (eds), *Carrots, Sticks and Ethnic Conflict: Rethinking Development Assistance*, Ann Arbor, University of Michigan, pp 113-39.
- Uvin, Peter (1999), *The Influence of Aid in Situations of Violent Conflict: A Synthesis and Commentary on the Lessons Learned from Case Studies on the Limits and Scope for the Use of Development Assistance Incentives and Disincentives for Influencing Conflict Situations*, Paris, Development Assistance Committee Informal Task Force on Conflict, Peace and Development Cooperation.
- Uyangoda, Jayadeva (1994), 'The State and the Process of Devolution in Sri Lanka', in: Sunil Bastian (ed.), *Devolution and Development in Sri Lanka*, Colombo, International Centre for Ethnic Studies, pp 83-120.
- Wickramasinghe, Nira (2001), *Civil Society in Sri Lanka: New Circles of Power*, New Delhi, Sage Publications.
- World Bank (1995), *Sri Lanka Poverty Assessment*, Washington, DC, World Bank.
- World Bank (Annual) *World Development Indicators*, Washington, DC, World Bank.