Chapter Four

Peace-Building Through Socio-Economic Development

Introduction

This chapter looks at the initiatives taken by the donors of Sri Lanka for its socio-economic development. The external actors could not ignore the internal conflict in the country for long and linked aid to progress in the peace process and coordinated innovative projects and programmes with the Government of Sri Lanka to have a positive impact on the prolonged conflict. Peace-building through development as a strategy looks at the social and economic aspects of conflict resolution, not just the political aspects.

The breakdown of the peace negotiations in 1995 followed by war has threatened Sri Lanka’s political and economic stability. As a consequence of the war the social networks have been destroyed, the majority of the people have become deprived of basic necessities and there was growing insecurity among the minority ethnic communities. Increasing poverty and loss of hope of a better future made the common people detach themselves from the government’s peace initiatives, which became a matter of concern for the external actors. To attain sustainable peace, they felt the need to involve the common people in the development process, by delivering aid to conflict-affected regions for social and economic development. Because, prolonged conflict has frustrated all the efforts at social development such as providing education, healthcare and opportunities for employment generation. The ceasefire agreement between the government and the LTTE in 2002 February has opened space for donors’ active involvement in Sri Lanka’s peace process and tried to address both the political and economic aspects of conflict resolution.

The donors displayed much flexibility towards Sri Lanka’s internal conflict with regard to economic assistance in support of the peace process. Unlike in other conflict-ridden

---

1 Sri Lanka has had an excellent record of meeting the basic needs of the people, which includes high level of access to basic health services and education, which resulted in 92 per cent literacy rate (UNDP 2001). But unequal distribution of resources and high-level spending has widened the gap between the urban and the rural areas, resulting in the alienation of the rural unemployed youth from economic development.
countries such as Afghanistan and Cambodia, where economic assistance was delivered in the post-conflict scenario, in Sri Lanka the donors pledged considerable amount of funds before any meaningful political settlement of the conflict was achieved between the parties.

This chapter is divided into four sections. The first section discusses briefly donor funding for socio-economic development prior to the 1990s; the second section deals with donor funding since 1995 under the Kumaratunga government; and the third section deals with the development initiatives of the donors focusing on Tokyo donor conference; fourth section deals with the initiatives of the Co-Chairs, with particular reference to the donor conferences and the Tsunami assistance. This section is followed by the conclusion.

I. Development Assistance and Conflict: Prior to the 1990s

In the 1950s, the government of independent Ceylon placed considerable emphasis on economic growth, self-reliance and equitable distribution of resources. Both the main ruling political parties – the UNP and the SLFP – tried to maintain the welfare state model till 1977.

However, the flow of development assistance to Sri Lanka has mostly been influenced by the foreign policy of the government in place. From the beginning the policies of the World Bank and the IMF have had an enormous influence on the government's economic policy. For instance, the World Bank team that visited Ceylon in 1951 advocated that the major reason for the country's slow economic growth was the government's emphasis on welfare measures. The UNP government then cut the subsidies on rice and other essential items, which alienated the people. In the 1956 elections they voted into power the SLFP, which emphasised state-led development and social welfare measures.²

Opposed to the social welfare measures promoted by the State, the Bank suspended lending to the power sector during the SLFP (1956–65) rule. Nationalization of the

² The SLFP government gave high priority to state sector development and promotion of state enterprises. Nationalization of public enterprises, welfare state, closed economy, and restrictions on foreign investment were some of the strategies followed by the SLFP during the 1950s and 1960s.
plantation sector and petroleum distribution led to the withdrawal of supplies by the US government in 1963. During the UNP rule (1965–70) the World Bank organised Aid Group meetings for obtaining foreign aid, and seven loans were granted. Successive governments incorporated the inputs of the World Bank in their economic and social policies and slowly policy based lending became the norm.

After the open economy policies endorsed by the UNP government in 1977, the flow of development assistance to the country has increased considerably. ‘Aid commitment in 1975 was around $376.9 million; by 1993 it increased to $786.3 million’ (Shankuntala 1994). Regular Aid Group meetings chaired by the World Bank directed the government on development policies, which changed the direction of Sri Lanka from a country that introduced and believed in social welfare measures and greater State role in the development process to a country that endorsed vigorous implementation of open economy policies. Prior to “1977 welfare measures accounted for 17 per cent of government expenditure and 6 per cent of GNP. In 1992 the government spent only 0.7 per cent of GDP on rice subsidies and in 1979 introduced the Food Stamp Scheme” (Tudor Silva Kalinga et al. 2005: 294). The World Bank Report of 1987 stated that

“since the first Bank loan in 1954, SLFP Governments who favoured a state-controlled economy have ruled a total of 17 years; more market-oriented UNP Governments, 15 years. Yet, only US$115 million, or 12 percent of total Bank lending was committed when SLFP Governments were in office. The remainder, US$879 million, or 88 percent, was made to UNP Governments” (World Bank 1987).

Between 1977 and 1983 the government undertook four major projects with the help of the World Bank, namely, the Accelerated Mahaweli project, the 100,000 houses construction project, the Greater Colombo development including the parliamentary complex, and the Free Trade Zone programme. The ‘expenditure on the Accelerated Mahaweli project by 1981 was around Rs. 7824 million, part of which was grants. The housing programme cost Rs. 8 million by 1982’ (CSR 1982). The ambitious programmes initiated by the government with the help of donors such as the World Bank, Sweden and Canada along with considerable spending on defence only increased the debt burden since the 1980s.
Thus, donor policies since 1977 were mainly preoccupied with supporting government’s development projects and market economy and ignored the political developments and deteriorating ethnic relations in the country. Some of the donor-supported projects only increased the inequalities in Sri Lankan society along with disturbing peaceful ethnic relations. For example, for the Accelerated Mahaweli project the government had submitted the expectation that it could reduce unemployment and power shortage and raise self-sufficiency in rice production. The World Bank expected that “by supporting this project it could provide an alternative vision for the future of the Sri Lankan economy, by tampering with the central aspect of the welfare state” (World Bank 1987). However, through this project the government tried to alter the ethnic composition in the Tamil-dominated areas.

Thus, Sri Lanka became an attractive applicant for donor aid despite the conflict situation mainly because Sri Lanka liberalized the economy well in advance of other countries in South Asia and policy-based lending has become a norm. For instance, of the total $6140 million aid received between 1960 and 1985, 70 per cent was received during 1978–1985 (JBIC 2003). Availability of funding also led to emergence of active civil society including NGOs.

However, donors could not ignore the conflict in Sri Lanka, due to refugee flow to developed countries, political assassinations and increasing displacement in the North-East since 1983. The 1983 riots and the emergence of the LTTE as a formidable militant group also led to the withdrawal of foreign investments in sectors like telecom and infrastructure development. The “government’s development projects suffered from scarcity of funds since the economy was mainly based on the earnings from the export of rubber, tea and coffee” (Winslow and Michael 2004: 32–3). By 1990’s the conflict undermined all the development gains of the previous decades by destroying

---

3 TULF won the general elections of 1977 on the basis of creating a separate state and became a major opposition to the government’s policy of liberalising the economy. TULF got majority of seats in the North-East. To control the rising militancy among Tamil youth Jayewardene government promulgated the Prevention of Terrorism Act (PTA) in 1979. Even in the South, the government suppressed the protests of trade unions, students against the policies of the government. These developments were ignored by donors while directing country’s economic policy.
the subsistence economy of the people in the conflict-affected areas. At the same time, growing internal conflicts around the world has shifted the attention of donors to conflict resolution and a need for providing funds to conflict affected areas.

II. Development Assistance to the North-East in the 1990’s
Incorporation of conflict resolution as an objective in the aid policy in the 1990s was a turning point. Despite the conflict, development assistance was delivered to the North-East, to build the ground for sustainable development. There was also unanimity among the donors that to resolve the conflict this objective had to be linked to other objectives and goals of development assistance, such as economic liberalization, alleviation of poverty, promotion of capitalism, and promotion of civil society and democracy. Since the mid-1990s aid was delivered systematically to various sectors such as education, health, telecommunications, private sector development, governance reform, irrigation, agriculture, power, transport and technical assistance. However, the “major donors such as Japan and the international financial institutions (IFIs) have worked mainly through the government with primary focus on structural adjustment, liberalisation and infrastructure investment” (Jonathan and Philippa 2001: 26). Bilateral donors on the other hand have emphasised implementation of aid for development and for the resolution of the conflict.

Domestic political and economic situation also influenced donors’ decision to deliver aid systematically to the North-East. The People’s Alliance (PA) government’s “War for Peace” strategy and its impact on Sri Lankan society could not be ignored by donors. This led to the capture of Jaffna in 1995 which was under the control of the LTTE from 1990.

4 The government for long disregarded the development of the underdeveloped areas with high concentration of poor households, citing the conflict as a reason for the lack of resources. As a result, migrant workers, women and unemployed youth became more vulnerable to poverty and discrimination.

5 The only agency to work in the North-East after the outbreak of ethnic conflict in 1983 was the United Nations Development Programme (UNDP). It had helped the government of Sri Lanka to assist in Emergency Rehabilitation and Reconstruction Programme (ERRP), which was designed after the signing of Indo-Sri Lankan agreement in 1987 (JBIC 2003). This was basically a development project, concentrating on rebuilding of roads, telecommunications, rehabilitation of social infrastructure, power and housing.

6 The general elections of 1994 witnessed two important policy changes in the SLFP manifesto. First, the increased debt burden and lack of domestic resources to sustain the economy made the SLFP alter its economic policy in the 1990s in line with the UNP’s economic policy of previous years to get aid.
After it took over Jaffna in 1995, the government appealed to donors and international organisations and agencies to help in creating conditions for sustainable development in the region. The unstable situation in the North-East, has limited the government's options to deliver proper assistance except quick relief and rehabilitation. Hence, the government gave considerable freedom to international and national NGOs to deliver assistance in the conflict-affected areas. The United Nations Emergency Task Force was established in 1995 – later renamed as the UN Relief and Rehabilitation Theme Group – comprising UNDP, UNICEF, UNHCR, World Health Organization (WHO) and World Food Programme. These agencies assist the government in supplying food to welfare centres and also assist the IDPs. The Relief, Rehabilitation and Reconciliation (RRR) Framework was prepared to co-ordinate the activities of donors working in the North-East for rehabilitation and relief purpose. Since then number of projects were funded by donors’ and implemented with the help of government agencies and institutions such as Northern and Eastern Provincial Council. Some of the donor funded projects are listed below in table 4.1.

Secondly, the Kumaratunga government openly acknowledged the grievances committed against the Tamil minority by the majority Sinhala-dominated government, and promised to bring peace through negotiations with the LTTE. These policy changes paved the way for continuation of aid from the donors, as the government policies were in line with the policies of the World Bank and the IMF. This was the context in which the international actors shaped their goals and objectives in Sri Lanka.
<table>
<thead>
<tr>
<th>Project</th>
<th>Focus</th>
<th>Area Covered</th>
<th>Investment</th>
<th>Period</th>
<th>Funding Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development and Rehabilitation of Batticaloa (DERBA)</td>
<td>Rehabilitation and Development</td>
<td>Batticaloa District</td>
<td>Rs.520 mln.</td>
<td>6 yrs. from 1999</td>
<td>NORAD</td>
</tr>
<tr>
<td>Integrated Food Security Programme (IFSP)</td>
<td>Food and Nutrition sector</td>
<td>Trincomalee District</td>
<td>Rs.559 mln.</td>
<td>5 yrs. from 1999</td>
<td>GTZ</td>
</tr>
<tr>
<td>North East Irrigated Agriculture Project (NEIAP)</td>
<td>Rehabilitation and Development</td>
<td>Ampara, Batticaloa, Vavuniya, Mannar, Mullativu, Killinochchi, Border districts of Anuradhpura, Pollonnaruwa Moneragala, Puttalam</td>
<td>Rs.3013.2 mln.</td>
<td>5 yrs. from 2000</td>
<td>World Bank</td>
</tr>
<tr>
<td>North East Community Restoration and Development Project (NECORD)</td>
<td>Relief Rehabilitation and Development</td>
<td>8 Districts of the North and East Provinces</td>
<td>Rs.3720 mln.</td>
<td>5 yrs. from 2001</td>
<td>ADB</td>
</tr>
<tr>
<td>Teachers in service programme (GTZ/TIP/BESP)</td>
<td>Primary teachers in service training</td>
<td>8 Districts of the North and East Provinces</td>
<td>Rs.9.952 mln.</td>
<td>9 yrs. from 1999 (three phases)</td>
<td>GTZ</td>
</tr>
<tr>
<td>General Education Project (GEPII &amp; TETD)</td>
<td>Infrastructure of education development</td>
<td>8 Districts of the North and East Provinces</td>
<td>Rs. 180.4 mln for 2002</td>
<td>7 yrs. from 1998</td>
<td>World Bank</td>
</tr>
<tr>
<td>Secondary Education Modernization Project</td>
<td>Development of computer education</td>
<td>8 Districts of the North and East Provinces</td>
<td>Rs.39.78 mln.</td>
<td>3 yrs. from 2001</td>
<td>ADB</td>
</tr>
</tbody>
</table>

Source: JBIC (2003: 54)
The North-East Irrigated Agriculture Project (NEIAP)(1999-2005) was designed to help the conflict affected communities to revive agricultural production and small scale reconstruction activities through repairing rural roads, drinking water facilities, fixing canals and social mobilization with the help of NGOs. North-East Provincial Council has taken the responsibility of implementing this project. Aid to this project was disbursed slowly by the World Bank due to conflict situation. However, after the CFA was signed between the government and the LTTE disbursement has increased by three fold. For instance, ‘since the inception of the project in December 1999, only US $ 2.3 million was disbursed till December 2001, however, after the CFA, in the period January 2002 to March 2003, the project has disbursed US $ 10.14 million’ (Government of Sri Lanka 2005).

Under this project, agricultural productivity of 16,000 hectares was revitalized benefiting an estimated 24,000 families totalling about 100,000 people living in 400 villages of the North-East. The ‘project successfully reactivated, created a total of 1057 Community Based Organisations (CBOs), 371 Farmers Organisations (FOs), 369 Rural Development Societies (RDSs) and 317 Women’s Rural Development Societies (WRDSs) in all focal villages’ (World Bank 2005). This project implemented amidst war conditions is a major and bold initiative by the World Bank and government of Sri Lanka to work in government controlled as well as in the LTTE controlled areas. To implement major components of the project, prior permission was taken to travel in areas controlled by both the parties. Government has coordinated with other actors such as, the LTTE’s political wing, North-East Provincial Council (NEPC), UNHCR, local NGOs to implement project components.

---

7 This project is a major initiative by the World Bank and Some of the project components were: (1) Rehabilitation of Irrigation Schemes (US$13.6 million, 42% of total costs) to provide essential rehabilitation of about 400 small irrigation schemes to reinstate their productive capacity; (2) Community Capacity Building and Small-scale Reconstruction (US$12.1 million, 37% of total costs) to support social mobilization, and implementation of community-level reconstruction activities including irrigation rehabilitation, rural roads, drinking water facilities and other community level small scale reconstruction; (3) Project Implementation Support (US$6.0 million, 19% of total costs) to finance the procurement of vehicles, office equipment and furniture, road construction equipment, hiring of professional and support staff, civil works quality assurance, local training of regional staff and recurrent expenditure (World Bank 2005a).
The North-East Community Restoration and Development Project (NECORD) funded by ADB, Organization of Petroleum Exporting Countries (PEC), German Technical Co-operation (GTZ) and the Government of Netherlands, has been engaged in implementing several rehabilitation and reconstruction projects in war ravaged North-Eastern Province. A five year development program of the NECORD started in 2001 was to be implemented in the North-East province at a total cost of forty million US Dollars. The main aim of the NECORD is to reconstruct the North-East province devastated by the war in all spheres, and to contribute to overall government relief and rehabilitation efforts in the North-East, particularly it targeted communities that has maximum number of internally displaced persons.

Seven years of war between the government and the LTTE has led to internal displacement and destruction of social and economic foundation of society. During 1995-2003 the number of IDPs residing in 346 welfare centres of Jaffna, Kilinochi, Mullaitivu, Mannar, Vavuniya, Trincomalee, Batticaloa, Ampara, Puttalam Anuradhapura and Colombo, were approximately 1,74,250 persons’ (Commission General of Essential Services (CGES) 2002). The collapse of family and support structure due to displacement has made them more vulnerable to exploitation. To create conditions for their resettlement the project has identified and ‘approved more than 490 sub-projects in all the eight districts of the North-East amounting to over Rs.1.5 billion’ (Government of Sri Lanka 2005). Under the programme the ADB has distributed agricultural machinery, implements and lorries among the implementing agencies to facilitate the resettlement and reconstruction programme in the districts of Mannar, Vavuniya, Batticaloa and Killinochchi. By 2003, NECORD spent six hundred million rupees for educational development of eight districts in the North-East region. By 2002, ADB has contributed around $ 133 million to this project.

After the government take over of Jaffna donors such as the World Bank have also funded projects targeting to improve the education sector as they identified that discrimination in the education system was one of the reasons for the intensification of conflict in Sri Lanka. Discrimination in school and college enrolment on ethnic basis, lack of funds for higher and quality education that can promote the ideas of democracy and pluralism are some factors that contributed to the increasing alienation of the
minorities. On education the government spends around 2 per cent of GDP, much below the standards set for developing countries, of around 4 per cent. Total aid commitment to the education sector by bilateral and multilateral donors during 1998–2003 was $129.7 million (Ministry of Finance and Planning 2003). Since the Sinhalese-dominated governments have used the system to discriminate against the minority ethnic community’s culture and religion, the donors felt the need to encourage private intervention in the education sector. Providing quality education in schools and higher educational institutions was also perceived as a means to eradicate poverty and generate employment.

The World Bank-assisted Teacher Education and Teacher Deployment project (TETD) was intended to address teacher training issues. To bridge the gap between the rural and urban schools, rural schools were mainly targeted. However, publications and printing of textbooks and other material was given to the private sector to promote private sector delivery. The project allotted $10 million for the North-East, to improve classrooms, sanitation and drinking water facilities. By 2001, about 15,000 classrooms were rehabilitated as libraries and around 480 new libraries were constructed throughout the country (World Bank 2006). The Teacher Education project of GTZ and SIDA’s Distance Education project are some examples of the donors’ resolve to build peace by funding the education sector. The Department for International Development (DFID) has funded Education for Social Harmony Project with the explicit conflict resolution objective, acknowledging that an efficient and effective education system is central to avoiding future conflict.

However, the development assistance was also linked to the implementation of economic reform policies in the country. Following the World Bank and IMF recommendations the government of Kumaratunga privatised the sectors of gas,

---

8 According to the World Bank (1997), “in 1996 over 1.9 million children enrolled in primary education covering grades one to five and secondary education enrolment covering grades of six to eleven was around 2.1 million. However, the percentage of enrolment in higher secondary education is less, which was 0.2 million”.

9 The donors have shown much interest in allotting funds for the conflict-affected North-East region for creating conditions for sustainable development. ADB, for example, allocated $7.2 million for the North-East in its Secondary Education Development Project and Secondary School Education and Modernization Projects.
telecom, seaport and airline. The people’s bank, railways and electricity board were not privatised due to the negative economic growth and to fulfil the election promises of creating employment and increasing the income levels\textsuperscript{10}. The People’s Alliance (PA) government’s spending on rural development and poverty reduction and its refusal to privatise all public utilities resulted in the reduction of aid flow from the major donors, particularly the World Bank and the IMF in 2000. The negative economic growth in 2001, formation of a Co-habitation government in 2001 led by Kumaratunga and Ranil Wickremasinghe and the subsequent Ceasefire Agreement had an impact on the donors’ aid policies.

\section*{III. Development Assistance to the North-East Since 2002}

Number of developments since 2001 have made the donors to involve in political and economic aspects of peace process. The country was plunged into social and economic instability by 2001 due to the war. Under these circumstances, the United National Front (UNF) government led by Wickramasinghe, which came to power in 2001, adopted the strategy of rebuilding the economy and polity by involving international actors and by initiating negotiations with the LTTE\textsuperscript{11}. This has resulted in huge international backing for the peace process, which the government assumed would

\textsuperscript{10} The major donors’ reluctance to fund welfare measures made the government target particular areas in the country for implementation. The Samurdhi Programme, for example, ‘was initiated in 1994 and implemented in the Western and Southern parts of the country, largely excluding the conflict-affected areas. By 2002 the programme covered 1.5 million rural households’ (Government of Sri Lanka 2002). The government spent over Rs 8 billion a year to uplift the poor whose monthly income was less than Rs. 1000 (PRIU News, 1 August 2000). The Samurdhi programme followed the model of the Janasaviya programme initiated in 1989. Through this programme the Premadasa government had expected poor households (income below Rs. 750) to generate own livelihoods within the stipulated period by using the funds provided by the government. However, the programme fell short of funds partly due to Eelam War II. There were lapses in implementing this programme due to party politics and patronage given to some sections. On this account, the donors reduced funding considerably by 2002 for the poverty reduction programme. World Bank reports and research on poverty in Sri Lanka argue that the main reason for the increasing levels of poverty in the rural areas, where 80 per cent of the population lives, is the government’s inability to adapt itself to challenging economic reforms.

\textsuperscript{11} In 2001 elections, UNP expressed its willingness to pursue a negotiated end to the conflict and also expressed its willingness to opt for extensive economic reform policies to pull the economy of Sri Lanka, which was in the brink of collapse. At the same time, by the end of 2001, LTTE was branded as a terrorist organisation in the US, Canada and Britain, which has made the LTTE supremo to clearly spell out its position on resolution of conflict. on November 27\textsuperscript{th} Hero’s Day speech he said that, Tamils wanted "neither separatism nor terrorism". LTTE’s international isolation was one reason to start a peace process.
pressurise the LTTE to opt for a political solution. The total commitment of aid has increased considerably in 2003, when compared to previous years due to above reasons. Apart from Norway as a facilitator many international actors have backed the peace process. Donors such as the EU, Japan, US together with Norway have constituted Co-Chairs of the Sri Lanka Donor Group (SLDG). These donors have undertaken the task of peace-building along with support to peace process, which resulted in Oslo and Tokyo donor conferences focusing on conflict resolution and rebuilding and reconstructing of the war ravaged North-East.

The UNF government prepared a document, titled Regaining Sri Lanka, to give a focused direction to the aid programme which became a basis for donors to deliver aid systematically even to the conflict-affected areas. This document presented a policy framework for development for the next five years in Sri Lanka, starting in 2002 by targeting annual economic growth rate of 8–10 per cent. The document identified four challenges which had to be addressed to achieve sustainable development, namely, creating employment opportunities; overcoming the public debt crisis; resources for reconstruction and increasing income levels.

The document was prepared in line with donor preferences and resulted in more aid commitment from donors. For instance, total Official Development Assistance (ODA) commitment in 1995, including the loans and grants of multilateral and bilateral donors, was around $600 million. Despite the volatile political situation in the country the

---

12 The Poverty Reduction and Support Credit (PRSC) Project, funded by the World Bank and initiated in 2003, was designed to support the government’s Poverty Reduction Strategy Paper. This project has supported accelerated economic development through private participation and strengthening governance in the public sector and improving the welfare system. In this project general food subsidies and ration to most of the rural population was cut and subsidy based on the income of the family was introduced by targeting some regions and areas of the country where poverty levels are high. The political implications of these projects were not taken into account by the donors. Priority was given to the South of the country, citing conflict as a reason for non-implementation in the North.

13 The Poverty Reduction Strategy (PRS) as articulated in the document contained a comprehensive reform programme aimed at faster economic growth. The principal pillars of the PRS were: “(i) securing lasting peace, (ii) building a supportive macroeconomic framework, (iii) accelerating economic growth with the private sector leading the effort, (iv) investing in people and creating opportunities for the poor, and (v) strengthening governance in the public sector to enhance the development impact of public resources” (World Bank 2005). This programme emphasised the role of the private sector and gradual reduction in the state’s responsibilities towards poverty reduction (Government of Sri Lanka 2002).
The amount of ODA had increased by 2003, to $883 million (Ministry of Finance and Planning 2003).

Table 4.2. Bilateral and Multilateral Donor Aid Commitments to Sri Lanka
(During 1998-2003)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bilateral</td>
<td>328</td>
<td>301</td>
<td>190</td>
<td>507</td>
<td>369</td>
<td>339</td>
<td>418</td>
</tr>
<tr>
<td>Multilateral</td>
<td>296</td>
<td>357</td>
<td>142</td>
<td>170</td>
<td>471</td>
<td>287</td>
<td>465</td>
</tr>
<tr>
<td>Total</td>
<td>624</td>
<td>658</td>
<td>332</td>
<td>677</td>
<td>840</td>
<td>626</td>
<td>883</td>
</tr>
</tbody>
</table>


The donors’ efforts to resolve the conflict by linking aid to the peace process has resulted in positive initiatives by the UNF government to resolve the conflict. The Ceasefire Agreement (CFA) has provided ample space for donors to link aid and peace process. To channel aid systematically a number of institutional structures were developed by the government with the support of the donors. A Secretariat for Coordination of the Peace Process (SCOOP) was established in 2002, and a decision was taken to set up a Joint Task Force (JFT) to deal with relief, resettlement and development. However, this structure was soon abandoned in favour of the Subcommittee on Immediate Humanitarian Relief and Rehabilitation Needs (SIHRN). SIHRN was to be financed by the North East Reconstruction Fund (NERF) vested with the World Bank. Due to CFA and peace talks between the LTTE and the government, total aid commitments were increased by 41 per cent, to $257 million in 2003. The government’s commitment to accelerated economic reform policies has resulted in considerable aid commitment by major donors such as the Japan, ADB and the World Bank.
Initiatives of Co-Chairs

Sri Lanka’s major donor Japan has taken the initiative of organising donor meetings for Sri Lanka despite the conflict. Traditionally international actors have provided incentives and disincentives to direct the country’s economic policy. However, this role has changed with regard to Sri Lanka as many donors have decided to play a political as well as economic role in Sri Lanka’s internal conflict. The three donor peace support meetings, conducted during 2002-2003, the Oslo Peace Support Meeting on 25 November 2002, the Pre-Tokyo Donor Conference which was held in Washington on 14 and 15th April 2003, and the Tokyo Donor Conference on 9 and 10 June 2003 clearly showed the vision, perspective and a unified commitment of donors with regard to the resolution of Sri Lanka’s internal conflict.

Sri Lankan donors’ position with regard to conflict and their political and economic involvement in the peace process was a part and parcel of a review of their aid policy. Under-utilisation of aid and the humanitarian crisis in the conflict zone has had an effect on donor’s aid policy towards the country. Pressure from the public in donor countries for proper utilisation of aid in conflict affected countries for the prevention of conflicts and for the reduction of tension in various trouble spots in the world has promoted donors such as Japan to invest in peace-building. Therefore, according to
Akashi (2003), “Japan is hosting a conference mainly by donors but this definitely should not be confined to financial donors. It should include political donors.”

The government and LTTE’s agreement with regard to the need for social and economic development along with finding a solution through political means has given space for international involvement in the conflict resolution process. The Sri Lankan government’s white paper which was prepared before the Oslo donor meeting clearly states the need for international assistance to rebuild the conflict affected regions. It states that,

“The task before the Government is a formidable one. As it sets about implementing an extremely challenging stabilization programme prescribed by the IMF and the World Bank, more than hard work and patience will be called for in the processes of reconstruction. Fresh resources will be needed to fund major programmes to resettle some one million internally displaced persons, and a large number who fled the country because of the war, and to assist in their rehabilitation, which would include providing housing, schools and employment for them. The task of removing some 1.5 million anti-personnel mines too, will require funds and technologies that lie beyond Sri Lanka’s capabilities......with the country’s economy shattered, the Government of Sri Lanka cannot meet the full costs of these reconstruction and rehabilitation processes from its own resources......Here, then, is a major dilemma: prospective donors hesitate, awaiting the arrival of peace to release their funds; but the lack of funds now endangers the very process by which that peace is to be achieved. Assistance is urgently needed now to maintain the momentum of the peace process” (Government of Sri Lanka 2002).

Due to positive developments in Sri Lanka with regard to peace process in 2002, Donors and international organisations met in Oslo on 25th November 2002, and committed themselves to providing immediate humanitarian and rehabilitation assistance in support of the peace process. The Oslo declaration of 25 November 2002 stated that,

“For the peace process to succeed, popular support for peace must be sustained. Given the complexity of the issues to be resolved, the negotiations will face significant challenges along the way. International financial assistance is important for people to begin to see tangible benefits of peace in their daily lives. We recognize that it is important that people across the whole of Sri Lanka enjoy
benefits of peace. Building a national consensus for the difficult steps ahead in the peace process will require particular efforts to meet the humanitarian needs of the most vulnerable, such as the poor, the unemployed, especially in the rural areas, and women and children” (Government of Sri Lanka 2002).

In support of the peace process at the Oslo meeting Japan pledged emergency grant of $2.86 million, through UNHCR, to help the IDPs in the North-East. Japan also pledged to include the North-East in its 1.368 billion yen micro-finance projects (Akashi 2002). At the pre-Tokyo donor Conference twenty-two countries and the EU pledged $70 million assistance to Sri Lanka. As compared with the other countries, the US took a tough stand towards the LTTE to pressurize it not to deviate from the peace process. At the Oslo meeting US Deputy Secretary of State Richard Armitage urged the LTTE to publicly renounce violence and terrorism (Armitage 2002). The US has pledged to increase the aid for development, economic and humanitarian assistance which was US $ 16 million in previous years, depending on the progress in peace talks.

By inviting the LTTE for the meeting donor countries have shown their resolve to work for building peace in Sri Lanka. By 2002, the LTTE was banned in number of western countries and designated as a foreign terrorist organisation in countries such as the US. At the meeting, LTTE representative Anton Balasingham’s statement tried to put forward the views of the organisation on various political and economic issues between the parties. Balasingham (2002a) said that,

“the northeastern region of Sri Lanka, particularly the northern province, has been the war zone where ferocious battle raged incessantly for nearly twenty years. The conflict arose as a consequence of oppression and alienation of the Tamil people from effective participation in the democratic system of governance. The Tamils also faced discrimination in the allocation of resources and opportunities. As conditions of state oppression and violence intensified the Tamils resorted to armed resistance. In a determined effort to destroy the Tamil resistance movement and to subjugate the Tamil homeland the previous governments of Sri Lanka unleashed an endless series of military offensive operations with massive firepower. The consequences of such military engagements were disastrous. Ancient cities, historical towns and villages that were dear to our people were razed to the ground. The destruction of Tamil property is immeasurable........ we urge the international governments to offer
substantial financial assistance for the resettlement and rehabilitation of the war affected people in the northeast. This assistance should reach our people without delay as tangible benefits of the peace process”.

The LTTE representative also assured the international actors that, it is sincerely and firmly committed to peace and negotiated political settlement and will continue to make every endeavour to advance the negotiating process towards its ultimate aim of finding a permanent solution to the Tamil national question (Balasingham 2002a).

Pre-Tokyo Donor Seminar
The donors’ meeting which was held in Washington on April 14 and 15th 2003 was chaired by the U.S, in which U.S $ 3.5 billion was pledged over a three year period for reconstruction and development of war ravaged Sri Lanka. By organising this conclave the U.S showed its keen interest in involving in the political and economic components of the peace process. The U.S Secretary of State Colin Powell had sent the invitation to 23 countries and 29 international organisations, out of which representatives of 21 countries and 16 organisations attended the seminar.

Sri Lankan Economic Reforms Minister Milinda Moragoda, who led Sri Lanka’s delegation to the Conference appealed to the international actors to reconsider the approach of granting assistance after the peace accord was signed between the parties because there have been many instances where accords have remained on paper, where beneficiaries have been denied a chance to feel the benefits of peace (Maragoda 2003). Therefore, he outlined the critical areas where urgent financial support was required such as: ‘locating and neutralising the one million landmines scattered in unmarked areas; rebuilding whole towns and villages with the basic services restored; providing shelter and other means of livelihood to an estimated one million internally displaced persons who are currently accommodated in camps or staying with relatives; renovating schools destroyed or damaged in the conflict-affected areas and providing necessary funds for cash-strapped schools in other parts of the country; helping people to get back to work throughout the island’. The assessment provided by Sri Lankan officials estimated a sum of $6 billion over a period of six years. The preliminary phase needed $1.3 billion, of which $459 million was for immediate needs in the North-East. Although there was no official announcement regarding aid at the conclusion of the
seminar, there was agreement on providing aid for rehabilitation, reconstruction and development.

LTTE was not invited to the donor meeting as it was banned in the US. Balasingham characterised the exclusion of the Tigers as a "grave breach of faith" (Suryanarayanan 2003). The exclusion of the LTTE was seen as an attempt by the international actors to marginalise the organisation. By participating in peace talks LTTE expected the international community not to treat them as "terrorists". By excluding the LTTE, donors have tilted the balance in favour of the Sri Lankan state as a legitimate party to deal with for resolution of conflict. Since, the LTTE objective of getting international legitimacy for their cause could not be attained by participating in peace talks, the LTTE suspended the talks on 23rd April 2003.

Tokyo Donor Conference
Tokyo Conference on reconstruction and development of Sri Lanka was held on 9-10 June 2003. In the Tokyo donor conference representatives from 51 countries and 22 international organisations participated. Despite the suspension of peace talks by the LTTE, the donors pledged $4.5 billion assistance to Sri Lanka for 2002–2006 (see Table 4.3). This was in addition to the aid given bilaterally and multilaterally. Japan announced that it was prepared to extend up to $1 billion (approximately 120 billion yen) over the next three years. Japan, Norway, US and the EU have functioned as co-chairs of the Conference boycotted by the LTTE. By participating in the donor Conference, international actors have pledged their strong commitment to rebuild the North-East as well as to work for overall development of Sri Lanka. However, given the history of relations between two parties to the conflict, donors have linked the delivery of aid to the progress in peace process and encouraged the parties to set up a provisional administrative structure to manage the reconstruction and development aspects of the transition process. The donor

14 Representatives of the co-chairs, Minister for Foreign Affairs of Japan, Ms. Yoriko Kawaguchi; State Secretary, the Ministry of Foreign Affairs of Norway, Mr. Olav Kjoerven; Deputy Secretary of State of the United States, Mr. Richard L. Armitage; Mr. Ioannis Theophanopoulos, representing the Presidency of the European Union; and Mr. Bernhard Zepter, representing the European Commission have participated at the meeting.

15 Donor aid delivery will depend on progress of the peace process with particular reference to objectives and milestones including: full compliance with the cease-fire agreement by both parties; effective delivery mechanisms relating to development activity in the North and East; participation of a Muslim delegation as
meetings tried to institutionalise the process of reconstruction and rehabilitation by forming various subcommittees on security, political matters, and gender issues and for humanitarian purpose. However, the political subcommittee failed to initiate the process. The security committee broke down by the sixth round of talks. SIHRN eventually stopped functioning after the LTTE decided to suspend the peace talks.

Table 4.3. Donor Commitments Made At The Tokyo Donors Meeting

<table>
<thead>
<tr>
<th>Donor</th>
<th>Amount</th>
<th>Grants</th>
<th>Loans</th>
<th>Period 2003</th>
<th>For North-East</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>to No. of</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>years</td>
<td></td>
</tr>
<tr>
<td>1 Co-Chairs</td>
<td>61,202</td>
<td>302</td>
<td>900</td>
<td>2004</td>
<td>65.70</td>
</tr>
<tr>
<td>EU</td>
<td>58.34</td>
<td>58.34</td>
<td></td>
<td>2004</td>
<td>32.70</td>
</tr>
<tr>
<td>Japan</td>
<td>1,000</td>
<td>100.00</td>
<td>900.00</td>
<td>2005</td>
<td>33.00</td>
</tr>
<tr>
<td>Norway</td>
<td>90.00</td>
<td>90.00</td>
<td></td>
<td>2005</td>
<td>33.00</td>
</tr>
<tr>
<td>USA</td>
<td>54.00</td>
<td>54.00</td>
<td></td>
<td>2004</td>
<td>33.00</td>
</tr>
<tr>
<td>2 Participating Countries</td>
<td>523.93</td>
<td>269.43</td>
<td>54.50</td>
<td>2004</td>
<td>148.49</td>
</tr>
<tr>
<td>Australia</td>
<td>21.28</td>
<td>21.28</td>
<td></td>
<td>2004</td>
<td>12.23</td>
</tr>
<tr>
<td>Canada</td>
<td>11.40</td>
<td>11.40</td>
<td></td>
<td>2003</td>
<td>15.00</td>
</tr>
<tr>
<td>Denmark</td>
<td>22.00</td>
<td>22.00</td>
<td></td>
<td>2005</td>
<td>16.50</td>
</tr>
<tr>
<td>Germany</td>
<td>50.76</td>
<td>24.76</td>
<td>26.00</td>
<td>2004</td>
<td>33.26</td>
</tr>
<tr>
<td>Italy</td>
<td>4.55</td>
<td>4.55</td>
<td></td>
<td>2003</td>
<td>9.93</td>
</tr>
<tr>
<td>Korea</td>
<td>24.10</td>
<td>6.60</td>
<td>17.50</td>
<td>2006</td>
<td>9.27</td>
</tr>
<tr>
<td>Netherlands</td>
<td>51.34</td>
<td>51.34</td>
<td></td>
<td>2005</td>
<td>9.27</td>
</tr>
<tr>
<td>New Zealands</td>
<td>1.70</td>
<td>1.70</td>
<td></td>
<td>2005</td>
<td>8.95</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>11.00</td>
<td>11.00</td>
<td></td>
<td>2004</td>
<td>11.00</td>
</tr>
<tr>
<td>Sweden</td>
<td>35.00</td>
<td>35.00</td>
<td></td>
<td>2005</td>
<td>6.50</td>
</tr>
<tr>
<td>Switzerland</td>
<td>20.00</td>
<td>20.00</td>
<td></td>
<td>2005</td>
<td>13.50</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.80</td>
<td>0.80</td>
<td></td>
<td>2004</td>
<td>0.50</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>70.00</td>
<td>70.00</td>
<td></td>
<td>2005</td>
<td>43.95</td>
</tr>
</tbody>
</table>

agreed in the declaration of the fourth session of peace talks in Thailand; parallel progress towards a final political settlement based on the principles of the Oslo Declaration; solutions for those displaced due to the armed conflict; effective promotion and protection of the human rights of all people; effective inclusion of gender equity and equality in the peace building, the conflict transformation and the reconstruction process, emphasizing an equitable representation of women in political fora and at other decision-making levels; implementation of effective measures in accordance with the UNICEF-supported Action Plan to stop underage recruitment and to facilitate the release of underage recruits and their rehabilitation and reintegration into society; rehabilitation of former combatants and civilians in the North and East, who have been disabled physically or psychologically due to the armed conflict; agreement by the Government of Sri Lanka and the LTTE on a phased, balanced, and verifiable de-escalation, de-militarization and normalization process at an appropriate time in the context of arriving at a political settlement.
### International Organizations

<table>
<thead>
<tr>
<th>Organization</th>
<th>Pledges (Rs. M)</th>
<th>Utilisation (Rs. M)</th>
<th>Year</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>961.70</td>
<td>16.70</td>
<td>2006</td>
<td>4</td>
</tr>
<tr>
<td>IFAD</td>
<td>60.00</td>
<td>60.00</td>
<td>2007</td>
<td>5</td>
</tr>
<tr>
<td>IMF</td>
<td>563.00</td>
<td>563.00</td>
<td>2005</td>
<td>3</td>
</tr>
<tr>
<td>IOM</td>
<td>1.00</td>
<td>1.00</td>
<td>2003</td>
<td>1</td>
</tr>
<tr>
<td>UNDP</td>
<td>25.00</td>
<td>25.00</td>
<td>2007</td>
<td>5</td>
</tr>
<tr>
<td>UNFPA</td>
<td>5.50</td>
<td>5.50</td>
<td>2006</td>
<td>4</td>
</tr>
<tr>
<td>UNHCR</td>
<td>32.30</td>
<td>32.30</td>
<td>2007</td>
<td>5</td>
</tr>
<tr>
<td>UNICEF</td>
<td>36.00</td>
<td>36.00</td>
<td>2005</td>
<td>3</td>
</tr>
<tr>
<td>WFP</td>
<td>40.90</td>
<td>40.90</td>
<td>2006</td>
<td>4</td>
</tr>
<tr>
<td>WHO</td>
<td>6.80</td>
<td>6.80</td>
<td>2004</td>
<td>2</td>
</tr>
<tr>
<td>World Bank</td>
<td>875.00</td>
<td>875.00</td>
<td>2006</td>
<td>4</td>
</tr>
</tbody>
</table>

**Total**  
4,133.47  735.97  3,397.50  415.11


### Utilisation of Aid in the North-East

The North-East, accounting for 20 per cent of Sri Lanka’s area and a population of 2 million, is mainly rural and accounted for about 6.6 per cent of the country’s GDP. The economic activity is dominated by agriculture and fisheries; 80 per cent of the population depends on these sectors. Conflict has disturbed this primary activity of the population. Displacement and resettlement have become the main issues. Seven years of intense conflict have displaced 800,000 people within Sri Lanka, of whom around 91,000 live in welfare camps of the government and the rest with family and friends (CHA 2003). After the CFA was signed, over 270,000 persons returned home, encouraging the government to speed up the development work. The government’s Unified Assistance Scheme (UAS) has granted $265 for immediate support and $795 for long-term support (CHA 2003: 13). A total of Rs. 448,027,200 has been spent on the development of the North-East region; Rs. 3,733,000 of this on infrastructure development projects, Rs. 52,694,000 on agriculture, and Rs. 140,787,000 on irrigation projects (Government of Sri Lanka 2005a).

Immediately after signing the CFA the government asked for the UN’s assistance to formulate the socio-economic aspects of the peace process. The UN responded by sending a mission to Sri Lanka, which extensively studied the needs of IDPs and collaboration within UN agencies in the areas of mine action, education and resettlement. Among the UN agencies, UNDP is a lead agency in the North-East.
UNDP initiated the Jaffna Rehabilitation and Resettlement Programme (JRRP) in 1997; the project was completed in 2000. With conflict resolution as the specific objective, UNDP initiated an umbrella project to work in the conflict-affected areas. This project has incorporated various components such as National Mine Action Programme and establishment of the Peace Dividend Trust Fund. Donors such as the World Bank and Australia and district-level NGOs are incorporated in the project to bring more transparency to the programme. By collaborating with various government bodies such as the Central Bank, Ministry of Rural and Small Industries Development and with Ceylon Chambers of Commerce, UNDP has developed effective enterprises in the conflict-affected areas\textsuperscript{16}. WFP supports the government’s free ration policy in conflict-affected areas. The UNHCR is providing shelter and non-food relief items, and UNICEF is providing assistance to the children and women.

Germany was the first donor to respond positively to the government call for international assistance to the North-East. Germany funded the Jaffna Rehabilitation Project in 1996. GTZ also supported the Northern Rehabilitation Project (NRP) from 1997 to 2007. This project is concentrated in the areas of Jaffna, Kilinochchi and Mullaitivu. The project has built 800 houses, five community centres, fourteen schools and reconstructed forty-two sanitation facilities. GTZ projects also include social mobilization component in their projects, by involving various ethnic groups in the implementation process (Klem 2001).

ADB has funded the Eastern Coastal Community Development Project and Secondary Towns and Community-based Water Supply and Sanitation Project, which was started in 2003. It has also supported the RRR (relief, reconciliation, and rehabilitation) process and post-conflict planning.

The Ministry of Rehabilitation, Resettlement and Refugees has implemented a number of projects in the North-East. In Jaffna district alone 88 projects were implemented in 2002, with an estimated cost of around Rs. 1360 million, covering projects in irrigation, agriculture, fisheries, industries, tourism, transport, community development, education, health, administration strengthening, and human settlement. The Ministry of Eastern

\textsuperscript{16} The UNDP along with government of Sri Lanka launched a “Invest in Peace” initiative to attract potential private sector investment in peace related business opportunities such as investing in war affected areas (Pasha 2003)
Development and Muslim Religious Affairs, which was responsible for post-disaster development activities in the East, implemented the Eastern Development Programme, the Rehabilitation and Reconstruction Programme, the Development and Rehabilitation Programme for Batticaloa and the Integrated Food Security Programme for Trincomalee district, at a total cost of Rs 769.04 million (Government of Sri Lanka 2005).

Two decades of conflict has destroyed even the basic health facilities. Therefore almost all the donors to Sri Lanka have given high priority to providing good health facilities in the rural areas of the country, particularly the conflict-affected areas. The government has disbursed around Rs. 843,835,000 for this purpose. After the CFA was signed, the government supported by donor funding has spent around Rs. 32,287,000 on buildings and another Rs. 289,250,000 on road development. In the North-East, the students belong to poor and middle income families, which increased the likelihood of their dropping out of school. The rate of student dropout in the North-East is four times the national average. The number of teacher vacancies in primary education and English medium teachers is about 40 per cent (CHA 2003: 26).

To improve the quality of education and infrastructure sixteen projects were implemented in the education sector with a total cost of Rs. 132.99 million (Government of Sri Lanka 2005). These projects have focused on improving infrastructure such as classrooms, libraries in colleges such as Jaffna College, St.John’s College, and purchase of equipment for schools in Jaffna.

Road transport is the predominant mode of transport in the North-East, but about 60 per cent of roads are sealed or damaged due to the conflict. ‘Only 10 to 15 per cent of the roads are used for transport. The North-East Provincial Council has spent around Rs. 289,250,000 on road development, reconstruction of roads connecting provinces, improvement of bus stands, and construction of additional passenger jetty’ (Government of Sri Lanka 2005).

Co-Chairs of the peace process the Japan and the US have not pledged aid to the North-East in Tokyo donor meeting. LTTE’s withdrawal from peace talks and absence from
donor Conference despite the request by international actors have promoted them to ignore the aid plea by the LTTE for reconstruction and rehabilitation of the North-East.

By boycotting the Tokyo Donor Conference LTTE gave a strong message to the internal actors that, the presence of international actors alone can not deter the organisation to pursue its own agenda. LTTE accused the whole approach of donors linking aid to progress in peace process as irrelevant because it fails to address the actual problems on the ground. “On the key issue of attracting foreign aid the Tigers said the present approach "fails" to examine the effects of the ethnic war and "the unique conditions of devastation in the Northeast". Terming the poverty in southern Sri Lanka as "a self-inflicted phenomenon", a result of the disastrous policies of all past governments in "dealing with the Tamil national conflict", the Tigers wanted the present government to "re-evaluate its economic development strategy to reconstruct the Tamil nation destroyed by war" (Sambandan 2003)17.

Approach of various donors towards LTTE differed significantly which has affected the whole approach of peace-building in Sri Lanka. US government’s position which was reiterated time to time in donor conferences even after the suspension of peace talks was not acceptable to the LTTE, which considers itself as a Tamil liberation organisation, working for protecting Tamil rights. Co-Chairs Japan and Norway followed an accommodative approach towards LTTE even after suspension of talks and visited the rebel held Kilinochchi to meet Prabhakaran. Meanwhile, Mr Ashley Wills, the US Ambassador to Sri Lanka, reiterated its position that LTTE should renounce ‘terrorism and violence’ to be accepted and respected by the international community. He further said that the possession of weapons and the maintenance of armed formations by the LTTE are not going to protect Tamil rights but rather will prolong the conflict” (Tamil Net 2003). A contradiction in donor approach to pain parties to the conflict has led to isolation of LTTE from peace talks and then to the non disbursement of aid which was promised to the North-East. Even the Indian government’s approach towards the LTTE was not inconsistent with other donors’

17 The LTTE has unilaterally called off the talks with the Sri Lanka government and did not participate in the donors’ Conference in Tokyo because the core demands of the LTTE were not met. These core demands are an interim administrative structure and the de-escalation of the military situation in the Northern Jaffna peninsula.
approach to building peace. For instance, India has participated in the Washington donor meeting and it was absent in the Oslo donor meet, where the LTTE representative was present.

**Tsunami Assistance**

When the Tsunami hit the island on 26 December 2004, according to estimation by the UN's Common Country Assessment (CCA) (2006),

about 35,000 people died, 150,000 person lost their livelihood, 75 per cent of the total fishing fleet was destroyed, 23,449 acres of cultivated agricultural land was salinated and 53 registered large hotels, 248 small hotels/guesthouses and 210 small tourism related enterprises were damaged and nearly 100,000 houses, 200 education and health facilities were destroyed.

In the early stages of the relief and recovery effort the government and the LTTE worked together to address immediate needs. Negotiations between the two parties for the creation of a joint mechanism to oversee the recovery and reconstruction process led to the signing of the Post-Tsunami Operational Management Structure (P-TOMS) Agreement in June 2005. The constitutionality of the Agreement was, however, immediately challenged in the courts and the Agreement remains unimplemented.

In early 2005, donors have estimated that, country will need around $ 1.5 billion for reconstruction and recovery of Tsunami-hit areas and main losses were concentrated in housing, tourism, fisheries and transportation. From the beginning the efforts of donors to bring together the government and the LTTE to reconstruct affected areas met with criticism by the UNP as well as the JVP. At the same time, impasse caused by P-TOMS proposed by President Chandrika Kumaratunga - in which Colombo and the Tigers would be involved in resource distribution and project allocation for reconstructing the tsunami-ravaged Northern and Eastern coasts has added more constraints to the peace-building efforts by 2005.

P-TOMS envisaged an equal role for the Muslim community as well as for the LTTE to involve in reconstruction efforts. It proposes equal representation for the government, the LTTE and Muslims at the apex level, with five LTTE, three Muslim and two
Sinhalese nominees at the regional level. And the government expected that, donors would cover all costs and expenses. Even though, the P-TOMS Agreement was welcomed by donors and the LTTE, its opponents disagreed. “The hardline, left-nationalist constituent of the ruling United People's Freedom Alliance (UPFA), the Janatha Vimukthi Peramuna (JVP), and the Buddhist clergy-led parliamentary party, the Jathika Hela Urumaya (JHU), saw the "joint mechanism" as selling out a part of the land to the "terrorist". According to these players P-TOMS would result in the "formalisation" and "expansion" of the LTTE's role in the north and east to areas that were currently beyond its control” (Sambandan 2005)\(^\text{18}\).

At the same time, “lack of coordination in political, economic and social aspects of governance clearly obstructed the progress towards sustainable development” (UN 2001). For instance, lack of resources to provide skills and technical education to the staff has affected delivery of services in an appropriate manner, which weakened the performance of public services in the country. Corruption and favouritism based on ethnicity has undermined professionalism in the public services. A proper mechanism for distribution of resources in the North-East is also virtually defunct, as the government’s administrative apparatus had limited powers in LTTE-controlled areas.

**Conclusion**

The donors' willingness to work in consultation with the LTTE, which is proscribed as a terrorist organisation in many countries of the West, was a positive development that raised many hopes for a peaceful and political resolution of the conflict. Though donors have followed various approaches to build peace through socio-economic development, the main intension of resolving conflict through political means failed to materialise due to intransigent positions by the government and the LTTE on various issues. Despite volatile political and economic situation aid was delivered to the North-East with a hope to rebuild war ravaged areas. Even though there are discrepancies in the

---

\(^{18}\) According to military estimates, about 1,056 km of Sri Lanka's total 1,568-km coastline was affected by the tsunami. About 130 km (13 per cent) of the island's total affected coastline is under LTTE control. The government controls 60.6 per cent of the 330-km affected north-eastern coastline and the remaining 39.4 per cent - covering the Mullaitivu district and parts of other northern and eastern districts - are under the LTTE's control.
implementation of various projects, due to the government's inability to utilize funds in an appropriate manner, the projects have helped in restoring the livelihood of people directly and indirectly affected by the conflict. However, the donors have expected the government to follow the policies advocated by the IFIs to get aid. Aid conditionalities did help in project implementation even in the midst of the war, but conditionalities such as privatisation of public enterprises have placed a heavy burden on the common people in the form of increase in interest rates and taxes. Small bilateral donors contributed much to build peace by diverting funds to the North-East much earlier than the big donors and in consultation with international and local NGOs implemented various projects. Even though the reach of their projects is small and area specific, the commitment shown by local and international organisations set an example for the big donors to invest in peace-building in Sri Lanka.