Chapter Three

Peace-Building Actors in Sri Lanka and their Objectives

Introduction
Democratic values, social capital, poverty reduction, respect for human rights and sustainable development are some of the ideas that the external actors involved in peace-building in Sri Lanka intend to promote. These concepts are not new to the people of Sri Lanka; what is new is the involvement of international actors in promoting these ideas through development projects and programmes along with government and non-governmental organisations (NGOs). In the context of the prolonged internal conflict having destroyed the social foundations of society, the external actors have recognised the need to work at various levels to incorporate all segments of society to pave the way for development and a peace process which can also address all contentious and core issues between the parties to the conflict. The elections of 1994 were a turning point in Sri Lanka’s history because a Sinhala political party openly recognised the atrocities and discrimination perpetrated by successive Sri Lankan governments against minority ethnic groups. However, the eventual fallout of peace negotiations and the brutal war that followed has resulted in large scale destruction in the North-East. Some of these developments which took place since mid 1990s have encouraged the involvement of external actors in Sri Lanka’s internal conflict.

I. Impact of the War
The prolonged ethnic conflict has had an enormous impact on Sri Lanka’s social structure and economic development. The costs of the conflict include displacement, destruction of property and infrastructure, loss of livelihood opportunities and loss of loved ones, leading to economic and social underdevelopment. The constant threat perception from other ethnic communities has an enormous psychological impact that cannot be quantified. Prolonged ethnic conflict has also accentuated regional imbalances and poverty.
A number of peace-making initiatives, such as the India-Sri Lanka Agreement and Premadasa-LTTE negotiations, failed to address these issues due to mistrust, lack of commitment to political negotiations, and dominance of short-term political gains over long-term vision for the country. India’s involvement in the conflict in the mid-1980s was perceived by many as a threat to the country’s sovereignty and integrity. The supremacy of religion over issues such as development and peace has prolonged the conflict. Lack of faith in a political solution to the conflict has made its resolution more complex.

The extreme divergence in perceptions about the conflict resolution process between the LTTE and the government protracted the conflict and complicated it. Since the mid-1990s, apart from resolution of the core issues of the conflict, issues such as underdevelopment, regional imbalances, interests of other minority communities such as Muslims and civil society actors have come into focus. This has made the government flexible regarding the external actors’ involvement at various levels.

The outbreak of conflict since 1983 has claimed many lives and destroyed the socio-economic foundation of Sri Lankan society, particularly after the breakdown of negotiations between the People’s Alliance (PA) government and the LTTE in 1995, which resulted in seven years of intense and brutal war. The government’s “War for Peace” strategy to win the confidence of the Tamil minority and simultaneously through unilateral initiation of constitutional reforms has failed. The period 1995–2001 became the most turbulent in the history of Sri Lanka.

**Humanitarian Costs**

According to Kelegama (2002), during 1987–1989 Sri Lanka was known as the Killing Fields of Asia. Although both parties claimed support for their cause from civilians, the civilians paid the maximum price of the protracted conflict. Around 70,000 people lost their lives in the conflict. Civilians are targeted for reasons such as difficulty in distinguishing civilians and combatants in the war zone and to demoralise

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1 “Eelam War I claimed the lives of 900 service personnel, Eelam War II claimed the lives of 4988 personnel, while Eelam War III alone has claimed the lives of over 10,000 personnel and 1200 LTTE cadres” (Gunaratna 2001). About 30,000 civilians have been killed by the LTTE and the government. Around 13,000 armed forces personnel were reportedly wounded in action.
and destabilise the other side as well as to get recognition for the cause of a militant organization. The psychological trauma caused by the conflict affected the productive capacity of the economy. Loss in labour force due to migration of many skilled workers to developed countries has affected the economy of the North-East. Those who could not migrate, such as poor farmers and fishermen, became easy targets of the war.

Since 1983 India has been providing asylum to a large number of Sri Lankan Tamils in Tamil Nadu. Others providing asylum have included the South-East Asian, European and Scandinavian countries. After the failure of the Indian involvement to solve the conflict the number of refugees and asylum seekers in foreign countries doubled, particularly during 1990–1998, the period that witnessed Eelam War II and III.

According to UNHCR (1999) data, at the end of 1998 around 70,337 Sri Lankan Tamils were living in 131 camps in Tamil Nadu, which included around 15,000 who arrived between 1996 and the end of 1998, when the conflict escalated. Another estimated 40,000 people reside in camps in various parts of Tamil Nadu. During 1990–1998, 1,37,900 applications were received by the European countries for asylum, of which 18 per cent were granted refugee status and 12 per cent were allowed to stay on humanitarian grounds. France accounted for 77.4 per cent of the refuge-seekers granted asylum. Among the others were Germany (20 per cent), Denmark (35.7 per cent), Norway (69.7 per cent), UK, Sweden (30.7 per cent), Finland (20.0 per cent) and Italy (10.0 per cent). Canada has granted refugee status to the maximum number of applicants. For instance, during 1990–1998, the Canadian government received 31,500 applications for asylum status of whom 25,700 (81 per cent) were granted refugee status. However, the presence of a large number of refugees belonging to one ethnic community is posing a threat to the internal peace.

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2 About 90 per cent of the applications from Sri Lankan refugees received by foreign governments for refuge are from the Sri Lankan Tamil community.

3 During 1990–1998, some 1,38,000 Sri Lankan asylum seekers applied for asylum in the sixteen European countries, constituting 3.6 per cent of the asylum applications lodged. The annual number of Sri Lankan asylum seekers peaked in 1991, at 24,000. From 1993 to 1998, the annual number of Sri Lankans applying for asylum in Europe has ranged between 12,000 and 14,000 (UNHCR 1999).
and stability of the host countries. Problems are arising between the local work force and the migrants for jobs and other opportunities, which in turn is taking ethnic overtones.

The number of IDPs have increased in Sri Lanka, around 350,000 persons are living in welfare camps, depending upon the government even for basic needs, making them vulnerable to abuse and exploitation by army personnel. Lack of access to education, employment opportunities and freedom to move has made them work for subsistence wages, which the local labour resents, especially in the border regions such as Vavuniya. Government resettlement schemes for the displaced have done poorly as the government is constrained by the issues of land allotment and ethnic composition in the settlement regions.

The government’s failure to provide livelihood options for the displaced, most of whom belong to the Tamil minority community, has further alienated them from society. The conditions of the displaced in LTTE-controlled areas tell the same story of victimisation. Most of the IDPs in the North-East have lost much of their property, land, and education and employment opportunities. IDPs within the North-East have doubled after the suspension of peace talks between the LTTE and the UNP in 2003 due to low intensity war between the security forces and the LTTE. According to UNHCR Report (2008), 3,56,788 IDPs are living in the North-East of the country. Some of them are dependent on remittances from those who have migrated abroad. The landmines planted by the LTTE and the Army in fertile lands in the North-East have made vast tracts of land unusable for resettling. Infrastructure has been damaged. For various reasons the productive capacity of the North-East has decreased from 15 per cent in 1983 to 4 per cent in 1997 (JBIC 2003: 28). The “IDPs’ land and residential areas are encroached upon by the LTTE or the Army, both of whom have used the IDPs as security shields or buffers during the military campaign” (Senanayake 1999: 62).

The Working Group on Enforced and Involuntary Disappearances of the government’s Commission on Human Rights reported that since 1980 to late 1999 it had received 12,285 cases of disappearances. Human rights violations by the security
forces in the North were widely reported during this period by misusing the emergency laws such as Prevention of Terrorism Act (PTA). Sudden security checks in the residential areas and disappearance of innocent people detained by the army for obtaining information have further alienated the people from the government. The UNHCR (1999) reported that “torture is used by the armed forces with two principal aims: one is to obtain information and the other is to intimidate the population who they thought were supporting the insurgents’ cause”.

The failure of the security forces to differentiate between the common people and the militants only strengthened the support base and morale of the LTTE. Censorship of the media has weakened this institution of civil society. Travel restrictions imposed by the government in conflict-affected areas have deprived the people of understanding the human costs of the war, particularly in the North-East.

**Socio-Economic Costs**

Sri Lanka had all along given emphasis on social welfare. Social welfare measures have benefited the majority of the population in terms of their access to free education and health services. Subsidies have been provided to agriculture and other productive sectors of the economy. Promotion of small-scale industries such as garment industry, tea and rubber plantations have provided employment to the youth as well as good export earnings to the government to spend on social welfare measures. Therefore, despite the conflict, Sri Lanka’s economy has grown at an average 4 to 5 per cent. However, according to a study by Wang et al. (2001), “since the bulk of the economic activity is centred on outside the war zone, the country could maintain steady economic growth levels of 4 to 5 per cent”.

Successive Sri Lankan governments have given much priority to social welfare measures. For instance, during 1963–1982 around 8 per cent of GDP was spent on welfare measures (World Bank 1987). However, the picture has changed since 1995 after the breakdown of negotiations. The conflict inflicted a heavy toll on social welfare measures. The government’s social expenditure reduced considerably since 1994 due to increase in defence expenditure and also because of the PA government’s endorsement of open economy policies that emphasised private sector development.
Since 1994 the government’s expenditure on education, health and poverty reduction varied around 2 to 5 per cent of the budget (Central Bank 1994–2000). Defence expenditure went up to around 17 to 18 per cent in the late 1990s. Low investment and lack of industrialization increased unemployment among the educated youth.

Corruption and favouritism based on ethnic and religious identity has become rampant in government departments and institutions. Particularly in LTTE-controlled areas in the North-East, government institutions are defunct. This parallel administrative structure of the LTTE could not generate funds for development, as many foreign countries are not in favour of dealing directly with a militant organisation or investing in conflict-affected areas in the country.

Prior to the 1983 riots against the Tamils, during 1977–1982 Sri Lanka’s average growth rate exceeded 6 per cent due to open economy reforms that encouraged export-led growth. The government had spent most of the budget on investing in export-oriented industries such as rubber, tea and garments. Initially, open economy reforms helped in creating new jobs due to the growth of export-oriented industries. But these economic policies curtailed the funds for social development in a time that was most needed. Increasing competition among ethnic communities for employment opportunities has led to tensions in areas inhabited by mixed population. During 1987–1989 economic growth was only 2.2 per cent and in 2001 negative economic growth was recorded.

The “defence budget increased considerably, from 1.1 per cent of GDP in 1982 to 6 per cent of GDP in 1996” (Kelegama 1999:73). The strength of the armed forces, which was approximately 58,660 in 1986, increased to around 2,50,000 in recent times. The capture of the Kilinochchi military base in 1999 in Operations Unceasing Waves I and II and III and the Elephant Pass in 2000 by the LTTE was a major blow to the government. “In Operation Unceasing Waves I (Oyatha Alaikal) 1344 army personnel were killed and the LTTE recovered US$70 million worth of arms and ammunition from the military; the LTTE lost around 315 cadres” (Rohan Gunaratna 2001: 12). That made the government purchase defence equipment on a large scale.
Since 1995 defence spending increased considerably, and “consumes one-fifth of the government expenditure which is equivalent to one-third of the government revenue” (DFID 1999: 5). The government procured weapons from countries such as Pakistan, Israel, Ukraine and Czech Republic. For instance, “Pakistan provided a loan of $20 million in part to facilitate the purchase of multi-barrel rocket launchers to fight the LTTE in Jaffna” (Smith 2001: 6). Because of the large budget deficits resulting from the increase in defence expenditure the government subsidies for important sectors such as agriculture, health and education suffered. The Accelerated Mahaweli Irrigation and Hydroelectric Project could not be completed.

The money spent on rebuilding the war-torn North-East has been a big drain on the government’s economic resources. Operations Edibala, Jaya Sikuru, and Rivi Rasa have caused massive displacements and destruction. According to Arunatilake et al. (2000), “from 1987–96 the government of Sri Lanka spent close to Rs 21 billion on providing dry rations, food and compensation to the displaced persons”, which is roughly 3 per cent of Sri Lanka’s GDP in 1996. The damage to infrastructure in the North-East is close to Rs 90 billion. The “damage caused to infrastructure such as roads, irrigation systems and telecommunications, public transport systems, fisheries and agriculture due to two decades of conflict is estimated around Rs 413 billion” (NPC 2003). Coupled with this, the loss of production of essential food items and other essential goods due to restrictions on trade and use of fertile land for military purposes in the North-East has severely damaged the subsistence economy. The war has reduced the cultivated area considerably. Employment opportunities have declined. For instance, “the war destroyed two cement factories in Jaffna, which provided employment to around 40,000 people” (Bandara 1999: 244).

Long periods of conflict also adversely affected tourism revenue. The government decision to open the economy in 1977 and its tourism promotion strategies helped in generation of employment and foreign exchange. For instance, “during 1978–1982 foreign exchange earnings increased from Rs 970 million to Rs 3050 million; from 1983 to 1989 foreign exchange earnings fluctuated around Rs 2500 million to Rs 2200 million due to Eelam War I” (Bandara 1999: 244). During Eelam War I and II the number of tourist arrivals was around 1,50,000 to 2,50,000. This “number
increased to around 4,50,000 after the 1994 general elections that promised peace through negotiations” (Kelegama 1999: 76). Since the southern region remained relatively peaceful, tourist arrivals in that region were relatively better even during the war. This trend has changed since 1995 after the breakdown of negotiations.

The LTTE’s attacks on important economic establishments in the South slowed down the arrival of tourists and foreign investment in the South. Among such attacks were attacks on an oil refinery in October 1995, on the Central Bank in January 1996, a failed attempt on the Colombo Seaport in April 1996, Colombo Stock Market in October 1997 and attack on the only international airport in Colombo in 2001. For instance, “loss in these sectors due to unstable political conditions was Rs 366 billion according to 2001 prices” (NPC 2003). These attacks severely dented the government’s economic reform programme implementation, as promised to the World Bank before obtaining loans. To generate resources domestically to meet the expenditure on defence and for rebuilding damaged infrastructure, the government increased taxes and the prices of essential commodities. The government’s failure to support the public distribution system led to increased levels of poverty in the war-torn region. Foreign direct investment also was adversely affected.

*Militarisation of Society*

Violence has become the only way to articulate demands and interests. One reason for the development of this culture is the government’s history of brutal suppression of peaceful protests by ethnic minorities as well as the Sinhalese youth uprisings in the 1970s and late 1980s. For instance, the 1983 riots against the Tamil ethnic community and the 1971 and 1989 JVP uprising to capture state power claimed around 3000 to 6000 lives.\(^4\) The suppression of groups has legitimized the view that demands can be fulfilled only through violence and militant activities.

\(^4\) The open economy policies of the government were in one way responsible for the JVP insurrection as the rural youth felt left out in government-initiated development through industrialization. More emphasis on Sinhala language promotion could not match rapid industrialization that took place since 1977 after the government opened the economy to attract foreign investment. Lack of English language skills made rural Sinhala youth ineligible to apply for jobs. This made them support the JVP ideology based on Sinhala nationalism, socialism and less dependence on foreign funds.
Prolonged conflict in Sri Lanka’s North-East has blurred the distinction between a civilian and a combatant. Apart from the LTTE, there were other militant organisations such as PLOTE, EPDP and TELO operating in the North. Militarization of society by these groups through torture, terror and killings of civilians and political leaders who are opposed to a military solution to the conflict has suppressed many voices that desired peace through political means. Army checkpoints and the militant groups’ taxation system have taken a heavy toll on the people’s ability to earn a livelihood. Corruption is rampant in high security areas where the people need passport and identification passes to travel to other parts of the country from the North-East. Lack of mobility and opportunities are some of the reasons for the youth to join militant groups. These reasons have provided some legitimacy to the militant activities of the youth, who see themselves as martyrs for a cause. The women who lost their family members in war are the most vulnerable and excluded from society. Many of them are compelled to work in an unfriendly environment for livelihood. In Jaffna alone there are 18,000 widows and around 4,00,000 women living in shelters across the country.

II. The Necessity for Peace-Building

The nature and trajectory of the internal conflict and the impact on society at large make conflict resolution a complex process. First, there is lack of a bipartisan approach of the two major Sinhalese political parties on constitutional reforms to accommodate the interests of the ethnic minority. Instead of solving the conflict through dialogue and recognition of the other’s culture and identity, assertion of ethnic identity through the electoral process has become a common feature in Sri Lankan politics. Increasing mobilisation of the people on ethnic, religious and caste grounds has narrowed their outlook towards conflict resolution. Development issues were never on the agenda of the political and ethnic mobilizations that took place since independence.

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5 Tamil militancy is sustained through the remittances from Tamil diaspora through their direct and indirect support to the organization. The Tamil Rehabilitation Organization (TRO) gets funds from the diaspora for rehabilitation and for other assistance.
Ceylon was one of the first countries in the world to implement social welfare measures and universal suffrage. This had made the country a favourite destination for donors and other international organisations and they also supported the government in its social and economic development initiatives. Independent Ceylon received considerable amount of funds from donors as compared to countries that were under colonial rule. However, gradually the country slipped into a cycle of ethnic conflict, which undermined previous gains. The political leaders’ inability to solve the conflict by peaceful means led to militarization of society. Strong social and political institutions, which are necessary for development, were undermined due to the conflict. Assertion of ethnic identity and affiliation has become an important agenda of the political parties and many organisations in Sri Lanka rather than striving for an egalitarian society which can ensure the rights of all the communities. The demands and interests of the trade unions, agricultural workers, women’s associations and other issue-based organisations were never taken into account by the government, which has been busy fighting the LTTE for the last thirty years. The conflict has created a situation in which the interests and decisions of the dominant ethnic community were enforced on society, which has undermined any hope of reconciliation.

Secondly, the LTTE’s resolve to secede through military means at any cost, even though it has participated in negotiations to find a settlement through political means, complicates matters further. The repeated failure by Sinhalese political leaders in the past to implement the agreements between the government and Tamil political leaders regarding power sharing is one reason for the LTTE to lose faith on further attempts by the government at conflict resolution.\(^6\) Thirdly, Sinhalese nationalist parties such as the JVP would never agree to grant equal power to the minorities in the decision-making process. Protecting the unitary state structure or centralized administration has become the main priority of the hard-line elements disregarding the economic and social destruction caused by the war. Finally, the government’s peace-making process in the past has overlooked the issue of economic and social reconstruction of society.

\(^6\) For instance, the Bandaranaike-Chelvanayagam Pact of July 1957 and the Dudley Senanayake-Chelvanayagam Pact of 1965 were not implemented by the government due to lack of bipartisan approach of the main Sinhalese political parties.
Thus, rebuilding of infrastructure and political and social institutions amidst the civil war has become a challenge to the government.

Along with the development issues, the government also failed to understand the differences in the Sinhalese, Tamil and Muslim communities’ perspectives regarding conflict resolution. Issues such as equal representation and respect for minority rights are no longer important as the conflict is between two different perspectives, one supporting united Sri Lanka and the other demanding a separate statehood for the Tamil ethnic minority. According to Perera (2000), “the problem lies in the majoritarian state structure itself”: Power was transferred to the educated elites of the country by the British without changing the structure of the state. The unitary state structure has failed to provide equal representation to all the ethnic communities since the state is in the hands of the majority Sinhalese. Voices demanding fair representation in the decision-making process and for equality and development are no longer heard by the main parties to the conflict.

These are some of the issues the peace-building actors are trying to address to resolve the conflict through political means. The peace-building concept encompasses a broad range of simultaneous activities by actors such as NGOs, donors, bilateral and multilateral organisations along with the government to promote development, peace process, democracy and respect for human rights. The peace-building approach can look at the question of governance “not simply about narrow institutionalist issues of decentralisation, accountability and the rule of law, but essentially about the democratic, pluralistic reorganisation of the state and its structures of power” (Uyangoda 2005: 15).

III. Profile of Peace-Building Actors
The external actors’ changing role in the resolution of internal conflict in Sri Lanka since the 1990s is the result of consistent evaluation by donors and international organisations of their role in conflict-affected countries. This new peace-building approach is based on the principle that resolution of the conflict is possible only by peaceful transformation of Sri Lankan society from violent conflict, through development and participation of all the communities in the conflict resolution
process. This section gives a brief profile of some of the peace-building actors in Sri Lanka.

**Multilateral Donors**

The main multilateral donors operating in Sri Lanka are the World Bank, International Monetary Fund (IMF), Asian Development Bank (ADB) and the United Nations agencies. Almost 80 per cent of the aid comes from Japan, the World Bank and ADB.

Sri Lanka joined the World Bank in 1950. Since then nearly a hundred loans in the form of interest-free credit have been provided to the government through the Bank’s International Development Agency (IDA). The World Bank has played a major role over the years in shaping Sri Lanka’s economic policy. The Bank’s involvement in Sri Lanka began in 1954, under the UNP government with a loan for power production. However, nationalization of petroleum by the SLFP government in 1960-61 prompted the Bank to suspend lending till 1965 (World Bank 1987).

Since 1977 the World Bank’s involvement in Sri Lanka has increased. The range of services the Bank provides in Sri Lanka has been adjusted over the years to suit the country’s political and economic conditions. A major contribution of the Bank was initiation of Aid Group meetings in 1965 to help the government come out of its foreign exchange crisis. Since then, Aid Group meetings under the World Bank have become a basis for the Sri Lankan government to formulate its economic policy. The World Bank stepped up its activities since the Cease-Fire Agreement (CFA) signed between the government and the LTTE. In 2002 the Bank committed US$2.7 billion in loans, credits and grants to support ninety-eight projects. Most of the development aid is delivered to the government, since the Bank has the mandate to work only with the legal authority. However, funds committed by multilateral donors have linked it with progress in the peace process.

Of all the external resources the country procures, around 45 per cent comes from Japan as a donor country and secondly through ADB in which Japan is the largest stakeholder. ADB is assisting the government by supporting policy and institutional
reforms in sectors such as agriculture, finance and social infrastructure. ADB has listed Sri Lanka as a Group A country, which can avail 80 per cent of project costs. UN agencies such as the United Nations High Commissioner for Refugees (UNHCR), United Nations Children’s Emergency Fund (UNICEF), and the United Nations Development Programme (UNDP) are actively involved in funding and implementing development projects with the help of other international organisations and the government.

Most of the funding for UN projects and programmes comes through bilateral donors. UNDP is the main agency for UN development activities in Sri Lanka. In 1987 donors pledged $493 million to the UNDP’s Emergency Reconstruction and Rehabilitation Programme (ERRP) that took care of rehabilitation and development needs of the North-East. After the government takeover of Jaffna in 1995, UNDP has coordinated its activities through the UN Office for Project Services (UNOPS) and through the UN Emergency Task Force (UNETF).

Since 1987, UNHCR presence in Sri Lanka has helped to provide minimum facilities to the internally displaced and to the persons caught in the war. Most of the displaced are living in LTTE-controlled areas in a situation of extreme poverty and insecurity. The presence of international organisations in LTTE-controlled areas has helped to provide some security to the people. These organisations are in a position to deal with the LTTE directly and also to visit LTTE-controlled areas to work on humanitarian grounds. The UNHCR’s activities in Sri Lanka seek to achieve two basic objectives: “(i) protect and stabilize internally displaced populations so as to reduce the need for further flight, and (ii) promote durable solutions for internally displaced persons” (UNHCR 1999).

**Bilateral Donors**

The main bilateral donors to Sri Lanka are Japan, Canada, Sweden, Norway, Germany, United Kingdom (UK), Switzerland, Netherlands, United States of America (USA), European Union (EU) and Australia. Japan has been the largest donor, providing

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7 During 1994-95 the annual average growth rate in the Northern part of the country was -6.2% (World Bank 2000)
around 45 per cent of development aid. Japan’s main reason for maintaining strong ties with Sri Lanka is based on the fact that despite Japan’s role in World War II and the isolation it faced from the international community, the Ceylon government advocated Japan’s efforts to regain international recognition. For instance, J.R. Jayewardene, the then Finance Minister, renounced reparations for Japanese air attacks and offered the country’s full support to Tokyo in gaining membership of the United Nations in 1956 (Weerakkon and Ratwatte 1996: 2). Japan made a major shift from its traditional aid policy of non-interference in political affairs of the country since the late 1990s. Conflict resolution and poverty alleviation have become the main objectives of Japan’s assistance to Sri Lanka.

A development cooperation agreement between the US and Sri Lanka was signed on 28 April 1956. Since then the US has invested in Sri Lanka and has provided nearly US$2 billion in wide-ranging assistance, including projects in agriculture, private sector development, creation of capital markets, irrigation and water management and food assistance (USAID 2007). In the initial years assistance was mainly directed to government institutions and agencies and was confined to food aid, project aid such as Accelerated Mahaweli Programme, Gal Oya Water Management Programme and infrastructure development such as roads.

Humanitarian assistance was also given priority since the 1980s. In 1987, a Rehabilitation Assistance Project was established in the North-East to provide irrigation rehabilitation and agricultural inputs. Since the late 1990s the US has shown keen interest in political developments in the country as part of its campaign against global terrorism, and continues to work to promote negotiated settlement of the conflict, humanitarian assistance and economic development. The Sri Lanka Peace Support Project was initiated in 2002 to influence public opinion about peace, and peace values. At the same time, to promote conflict resolution and to pressurize the main parties to the conflict, aid conditionalities are used. For instance, in 2001 the US decided to withdraw aid to the country due to intensified conflict between the government and the LTTE.
Norway has been involved in development assistance for more than fifty years. Since 1999, Norway has been involved in the peace process of Sri Lanka as a third party. Engaging Norway rather than any other country in the peace process has been a conscious decision taken by the government. Though Norway was aligned with the West during the Cold War, it has “developed its own independent foreign policy with more emphasis on peace-making in other parts of the world” (Rupasinghe 2006: 339). Norway was the first country to appoint its special envoy to facilitate talks between the parties in Sri Lanka and identified Sri Lanka as one of the priority countries in the Asian region for the provision of development assistance. During 1999, Sri Lanka received a sum of 94 million NOK, making it the third largest beneficiary in Asia of Norwegian assistance. The main areas of cooperation are rural development, social welfare targeted at the plantation sector, rehabilitation in the North-East and support to the National Integration Programme to which Rs 125 million were granted. The Norwegian government has also selected Sri Lanka as one of the three pilot countries to implement a strategy to support private sector development in developing countries. Under this programme Norway extends help to promote investments, trade, and small and medium enterprises.

Swedish and Sri Lankan development cooperation began in the 1950s that focused on family planning. Over the years, as part of donors’ policy changes with regard to internal conflict, Sweden has provided funding to promote democracy, human rights and peace in Sri Lanka. Most of the aid is provided via government, the UN and NGOs. Since 1976, as part of research cooperation efforts Sweden is cooperating with six universities in Sri Lanka. Development cooperation has been extended to mine clearance programme as well through the Mines Advisory Group (MAG). There are also programmes that support legal aid to poor people and training programmes for lawyers and police and NGOs. Sweden’s active involvement in the peace process has improved since the signing of the CFA. It has been assisting the efforts and research of peace organisations in Sri Lanka which are campaigning for devolution and changes in the unitary structure of the government by identifying appropriate federal

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8 SIDA has, for example, funded the Centre for the Study of Human Rights at the University of Colombo.
structures. Swedish aid is also contributing to awareness building on de-mining and the peace process at the grassroots level.

The European Union’s development cooperation with Sri Lanka started in 1975. Since 1983, relief and rehabilitation is a major area of EU cooperation. Along with GTZ, UNHCR, and German Agro Foundation (GAF) a number of rehabilitation and relief projects are implemented in the North-East. The European Commission opened a Delegation in Colombo in October 1995. The EU is Sri Lanka’s largest trading partner. Fifty per cent of Sri Lanka’s exports to the EU are made-up garments (EC 2002: 17).

The UK is comparatively a small bilateral donor to Sri Lanka, at around $7 million per year, which is spent mostly on relief and rehabilitation (DFID 1999). The UK’s main goal in providing development assistance is to reduce poverty in the country. Aid mainly goes to government projects for education, planning and also to UNHCR, the International Committee of Red Cross (ICRC), Oxfam and Save the Children projects to work in the North-East. The UK contributed around $2.6 million to de-mining in conflict-affected areas.

Canada’s assistance to Sri Lanka started in the 1950s, focusing on rural development and agriculture. However, since the 1990s projects were designed to address the political, social and economic crisis due to the conflict. Canada’s assistance in conflict-affected regions is mainly channelled through NGOs and INGOs such as CARE International to realize objectives such as human rights protection and promotion of democratic values along with relief and rehabilitation. The Programme Support Unit (PSU) was set up in 1987 to assist the Canadian International Development Agency (CIDA) to implement its projects and programmes efficiently.

Profile of NGOs
Sri Lanka has a long history of NGOs working for development and for delivering social services. Most of the NGOs during the colonial rule were religion-based, which worked to spread education and social services. For instance, the All Ceylon Buddhist Congress and Maha Bodi Society were formed to spread the interests of the Buddhists.
Since 1977, the open economy policies followed by the government led to the phenomenal growth of NGOs as the government initiated the process of reducing expenditure on welfare measures. The need to address the issue of development and human rights has also expanded the NGOs’ activities.

International NGOs (INGOs) actively involved in the peace-building process in Sri Lanka are Oxfam, International Committee of Red Cross (ICRC), CARE International, Save the Children (UK), German Agro Foundation (GAF), Quicker Peace Foundation, Norwegian Refugee Council (NRC) and World Vision-Sri Lanka. Along with these are local NGOs such as the National Peace Council (NPC), Consortium of Humanitarian Organisations (CHA), Centre for Policy Alternatives (CPA), Movement for Inter Racial Justice and Equality (MIRJE), FORUT, and Sarvodaya.

ICRC was established in Sri Lanka formally in 1990, though it has experience of working in Sri Lanka earlier. For instance, after the Jana Vimukthi Prerumana (JVP) insurrection in 1970-71 ICRC delegates visited the country frequently to help in rehabilitation and to look after the conditions of detainees. After the outbreak of ethnic conflict in 1983 the government gave permission to the ICRC to do humanitarian work. Because of its principles of neutrality and impartiality and the ability to work even in the midst of war in the North-East, the ICRC is the only organization with permission to work even in LTTE-controlled areas in times of war.9

From the mid-1970s the open economy policies followed by the government, coupled with the outbreak of conflict, which raised the demand for humanitarian work in the country, have increased the activity of the NGOs. Since then, funding for local NGOs has increased as these organisations have access to local areas. This has helped in the growth of various peace organisations since the 1990s. The CPA, NPC, and CHA are some of the organisations formed with basic focus on conflict resolution. NPC was formed in 1995 with conflict resolution as its main objective. The conflict and its impact on the country as a whole have encouraged these NGOs to coordinate with

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9 After the outbreak of war in 1995, the ICRC regularly escorted government relief convoys to the North and East of the country, bringing some relief to the civilians. In the midst of war an ICRC-chartered ship was the sole independent means of transport between the Jaffna peninsula and Trincomalee. Medical supplies, relief items and mail were also transported to the LTTE-controlled areas.
each other through the CHA, formed in 1997. CHA consists of nearly ninety local and international NGOs as members. The CPA was formed in 1996, focusing on conflict resolution and policy debates. It has been collaborating with a number of international and local organisations and agencies such as International Labour Organisation (ILO), United Nations High Commissioner for Refugees (UNHCR), and Berghof Foundation to generate debate on various issues. Local research organisations are also playing an important role in encouraging public debate on various issues through seminars and publications. The International Centre for Ethnic Studies (ICES), Marga Institute and Berghof Foundation has contributed a lot through their research.

Oxfam Sri Lanka office was established in 1986 to focus on people displaced due to conflict. Oxfam projects mainly work to provide basic facilities to people in conflict-affected North-East such as water and sanitation facilities. Oxfam’s projects focus on humanitarian relief and rehabilitation, long-term development work and advocacy campaign against illegal small arms. In partnership with local NGOs such as CHA, Oxfam is working to provide basic facilities to people.

CARE International is another organization working in conflict-affected areas to provide minimum facilities to the people. CARE began its work in Ceylon in the 1950s to feed malnourished mothers and children. Due to conflict since the 1980s its programmes and projects have expanded to cover small-scale economic development activities focusing on income generation to help poor households. Since the 1990s rehabilitation and relief assistance in the North-East is also provided by CARE.

Availability of foreign and domestic funding has helped in the growth of NGOs in Sri Lanka. Some factors which have influenced donor funding towards NGOs are: flexibility, transparency, network at the ground level and quick implementation of programmes within a timeframe. At the same time many NGOs could mould themselves to the changing political situation in the country since 1983, by including peace-building and conflict resolution as their objectives. This has helped in getting considerable amount of funds from the donors, who saw the benefit of including civil society organisations in the peace-building process. The NGOs get funds directly from a donor country, or a donor agency can include an NGO in its projects or
programmes. Funding is based on an organization's performance and its ability to use the funds effectively. Donors such as Canada, Denmark, Norway and Sweden were reluctant to divert their funds entirely to the government as the government is a party to the conflict. Through peace organisations these small bilateral donors are working for conflict resolution.

IV. Objectives and Goals of External Involvement
One reason for the increasing interest shown by external actors in Sri Lanka's internal conflict is their policy shift and the domestic economic and political situation. Independent Sri Lanka's development cooperation and diplomatic relations with many countries was limited to economic cooperation until the late 1980s; Sri Lanka's internal conflict did not attract the donors' attention, the main reason for this being the presence of India as the big power in the South Asian region. However, the failure of the Indian intervention to find a solution to the conflict opened the doors for multilateral and bilateral donors to offer their services to resolve it. The intensification of the conflict since the late 1980s and the issue of refugees and human rights abuses and increasing poverty levels have made the external actors keenly observe the political developments in Sri Lanka.

This has made the donors rethink about their aid policy towards Sri Lanka and despite the conflict a number of donors have pledged substantial funds to development in the conflict-prone regions along with the South. Some factors influenced the donors' earlier policy of avoiding the conflict-affected North-East. First, development aid is a government-to-government affair and the recipient government has the authority to decide about aid utilization within the country. Thus, the donors lack the authority to deliver aid directly to the North-East without the consent of the recipient government. Secondly, most of the donors emphasize proper aid utilization, which has prevented the government from investing in conflict-affected regions of the North-East where it has minimal control. Thirdly, the donors were also concerned with the safety of their citizens working in Sri Lanka, because of which they avoided conflict-prone regions in the country.
For these reasons the donors' aid policies in the 1980s did not take into account the socio-political conditions in Sri Lanka. Most of the donors endorsed and followed the policies of the international financial institutions (IFIs). IFIs and multinational banks follow the principle of non-involvement in the political affairs of member countries, which has made them ignore internal conflict and the relation between development aid and peace. For instance, ADB and the World Bank have considered it more practical to avoid investing in conflict-affected areas. ADB’s Country Operational Strategy Study of Sri Lanka for (1998) states:

There is a little scope for the bank to address conflict-related social and economic disruption ... small-scale reconstruction of non-controversial facilities, e.g. schools, in areas affected by the conflict could be considered if the situation stabilizes, but medium to large scale operations will only be contemplated if peace is fully achieved and in the context of a clearly defined plan. In the meantime, Bank operations will be geographically located away from areas directly affected by the civil conflict.

The changing approach to conflict resolution has also coincided with wider policy changes that took place in the 1990s. Since the 1990s major policy changes have occurred in international institutions keeping in view the need to address growing internal conflicts. Poor aid utilization, improper management of funds and failure to reach the targets set by the donors due to conflict made them rethink aid policy towards Sri Lanka. The donors acknowledged the impact of conflict on aid distribution and implementation. Therefore, since the 1990s conflict resolution has become an important objective of the donors. By attaching to aid delivery ideas such as human rights, balanced regional development, good governance, promotion of democracy, and refugee care and rehabilitation, external actors are trying to find a solution. This approach, according to Goodhand (2001), “acknowledges and engages with the political process and it re-frames the pursuit of national interests more expansively in terms of promotion of democracy and human rights”. Below, we look into some of the objectives and goals of external actors in Sri Lanka.
Poverty Reduction

The government’s “War for Peace” strategy to win the confidence of the Tamil minority through projects such as restoration of Jaffna University library, reconstruction of schools and colleges, and relief for the displaced in the North-East required funds not available within Sri Lanka. The government’s consistent propaganda and lobbying at the international level about human rights abuses by the LTTE, and its willingness to go for negotiations with the LTTE to solve the conflict, awakened much interest among the international actors to play a positive role and make a contribution to solve the conflict.

Even the LTTE met with a lot of pressure from the people in the North-East against the war. In the LTTE-controlled areas living conditions have deteriorated due to government restrictions on a number of items transported to LTTE-controlled areas, such as medicines and food items. On security grounds, restrictions have also been imposed on travel and trade. The funds the LTTE received from the ethnic diaspora were spent on the war.

The internal conflict in Sri Lanka has deep ethnic and historical roots. But it has been realized by the external actors that poverty, discrimination and lack of economic opportunities are also playing a significant role in sustaining the conflict. About 80 per cent of the population live in rural areas, 40 per cent of whom spend less than $2 per day (DFID 1999). Agricultural labour and unskilled workers both in urban and rural areas are vulnerable to poverty in the South and West of the country. Displacement of around 8,00,000 people since 1983, and destruction of the subsistence economy due to conflict are among the reasons for the rising levels of poverty in the North-East.

Despite the growth rate of 4 to 5 per cent since the 1990s, 20 per cent of the country’s population are poor and another 20 per cent are vulnerable to poverty. Growth imbalance due to improper and unequal aid distribution, particularly in conflict-affected areas, and lack of access to the resources are the main reasons for increasing poverty in the country. For instance, the contribution of the Northern and Eastern provinces to GDP has fallen from 15 per cent in the 1980s to 4 per cent in 1997 (ADB
To achieve the goal of poverty reduction multilateral donors such as the World Bank and ADB are supporting the government’s Relief Rehabilitation and Reconciliation (RRR) programme along with other bilateral donors. To alleviate poverty the donors are supporting rehabilitation, reconstruction and employment generation projects throughout the country to encourage the rural poor to participate in mainstream economic development. The donors have pressurized the government to address the issue of poverty by attaching conditionality to the aid. The government submitted the Poverty Reduction Strategy Paper (PRSP) and the RRR report to the Development Forum in early June 2002. The Aid Donors Forum in Paris in 2002 has followed up on these reports.

**Transformation of the LTTE**

An important objective of the donors involved actively in the conflict resolution process is to bring the LTTE to the negotiating table to gradually transform the militant organization as a political organization through the aid incentive. Since the areas occupied by the LTTE are in need of a large amount of aid to invest in reconstruction, rehabilitation and resettlement of IDPs, the donors hope that to gain access to aid, the LTTE would work with the government. As the donors are entitled to work with the state to promote development and peace in internal conflict situations, they have provided substantial aid to the INGOs and UN agencies working in the North-East for this purpose.

**Promotion of Civil Society**

To transform the conflict-prone society into a peace-loving society where the relations between the communities are no longer violent, there is a need to improve the relations among the communities and make the people aware of the peace dividend. In this course, the donors are encouraging the Sri Lankan civil society actors to participate actively in the conflict resolution process. Considerable amount of funds have been directed to civil society organisations such as teachers’ associations, business community and religious institutions to ensure their participation in the decision-making process. These are the groups that have been alienated by the main parties to the conflict for the past two decades. By promoting civil society peace work,
the donors hope to divert the attention of the people from issues concerning ethnic identity and religion to the issue of political resolution of the conflict.

**Good Governance**

Promotion of democracy in Sri Lanka is an important objective of the donors. However, for democracy to flourish in the long run, the donors felt the need for reforms in governance. Funds are provided to organisations pressing for decentralization, fair elections, fair distribution of resources and implementation of fundamental rights of the citizens which are curtailed due to conflict. To bring these reforms the donors have attached conditionalities for procuring aid. Donor funds are used to build egalitarian institutions as development aid flows to almost all the sectors such as health, education, services, telecommunications and infrastructure. External involvement in the development process, the donors assume, would help in greater transparency in the distribution of funds. Hitherto, unequal and improper distribution of funds by the government to the regions which are in need have increased tensions between the ethnic communities and regional imbalances. Promotion of good governance through encouraging decentralization and restructuring of political institutions, conducting fair elections, and improving the efficiency of the government departments though technical cooperation is an important step taken by external actors to build peace.

**Economic Reforms**

An important objective of the major donors, particularly IFIs, is the full implementation of economic reforms in Sri Lanka. ADB’s Country Strategy and Programme (2002) notes:

Stable macroeconomic stability is a prerequisite for poverty reduction and economic growth. To achieve this objective the government has to implement several key reforms to promote greater private sector development, reducing the fiscal deficit, rightsizing the civil service, enhancing labour market flexibility, restructuring state enterprises, and creating opportunities for the poor to participate fully in the economic growth process.
Though the government has endorsed the proposals put forward by the World Bank and IMF way back in 1977, conflict has become a hurdle in the full implementation of reforms. However, the government implemented some policies that gave greater importance to private sector activities both in the industrial and agricultural sector. For instance, some public sector units have been privatized, such as Sri Lankan Airways. Open economy policies have helped in improving exports and development of the manufacturing industry. However, there is criticism that open economy policies are promoted by donors to procure market for goods produced in those industrial countries. At the same time, it is important for the donors to maintain bilateral relations with developing countries, as open markets are needed to export goods. For instance, a major role of the donors in Sri Lanka is confined to trade and investment. The EU and the US make up the main markets for the equipment, machinery and garment exports from Sri Lanka. Since the liberalization period,

Sri Lanka’s imports from Japan increased from 6.3 percent in 1977 to 11.0 percent in 1994. Imports mainly consist of vehicles, electrical machinery and mechanical appliances. Sri Lanka’s major exports to Japan consist of fish and pearls which account for 24 percent of the exports. Other than these, items such as coffee, tea, toys, electrical machinery are exported to Japan. (Weerakoon and Ratwatte, 1996)

Aid in the form of loans was granted to sectors such as transportation, telecommunications, electric power and gas, commodity loans, irrigation and flood control and social services to improve the social and economic infrastructure in order to enhance the investment environment. National interests have dominated most of the aid flows to Sri Lanka. For instance, the agriculture sector has received minimum support from the donors, whereas more than 50 per cent of the population depend on this sector. To make ground for investment in Sri Lanka the donors have invested in the transport and telecommunications sectors. Most of the technical support received by Sri Lanka through donors is also in line with the donors’ interest to promote technical intelligence in the country to promote the export base industries.10

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10 The Government of Sri Lanka has endorsed the vision of economic development put forward by the donors for the country. President Kumaratunga while addressing the Sri Lanka Development Forum meeting in 2002 said that “the objective of our economic policy is to transform the economy by 2010 into a strong and modern one that could sustain 7–8 per cent annual growth through higher investment and productivity as well as efficient management. This would require further integration with the international economy and a facilitating environment for the evolution of a dynamic private sector, which could effectively compete in the international markets.”
A clear plan for economic development of the country is a must for receiving aid from major donors such as the World Bank and ADB. The UNF government’s economic programme “Regaining Sri Lanka” is designed to alleviate poverty and is being implemented by the Steering Committees. This programme represented the overall government economic programme and forms the basis for the financing it receives from the World Bank, ADB and the IMF. Elements of this programme include infrastructure development, establishment of an information and communication technology sector, tertiary education, the promotion of tourism, improving the productivity of agriculture and major reform of the public sector.

*Promotion of the Peace Process*

Another objective of external actors in getting involved in the peace-building process was to sustain the momentum of the peace talks initiated in 1994 and 2002. The international actors assumed that their support was essential for the peace process to survive in the midst of a constant campaign by the nationalist groups to disturb the peace process. Internationalization of the conflict and involving international actors puts pressure and accountability on the government as well as on the LTTE to find a solution. Checks and balances which are needed to continue the talks can come from the international actors. Through propaganda and lobbying the government has ensured maximum participation of the international actors, by accepting the US, EU, Japan and Norway as co-chairs of the peace process. Even though the LTTE was banned in a number of countries, international engagement with the organization, particularly Norway’s, has helped in gaining international recognition to their demands. To find a political solution, which is the main objective of the peace-building actors, involvement of the LTTE is a must. The Tamil diaspora have helped

\[\text{11 However, some argue that Norway has got involved in the peace process to exploit the rich oil and fishing resources and to promote Lutheranism, its state religion. The presence of Tamil diaspora in Oslo, it is argued, is one reason for Norway’s active involvement. Nevertheless, political parties such as JVP and JHU, which have been critical of Norway’s role as facilitator, have accepted its role since Norway has spent money, financed three secretariats – of the government, the LTTE and the Muslims – and arranged for travel, conferences and tours for the two sides (Keith 2006: 359). Norway has also involved its foreign ministry officials to convince the LTTE to participate in the negotiations, which shows its commitment to resolve the conflict. This is one reason for the continuation of Norway as facilitator despite the governmental changes since 2002 and the hate campaign by the media and the nationalist parties against Norway.}\]
in putting pressure on the governments of the countries they are residing in to promote this aspect.

Apart from getting involved directly in the peace process, the donors have supported local NGOs' peace activity aimed at conflict resolution. Peace activity involves activities such as providing peace education, organizing marches and rallies in support of peace, organizing seminars and workshops to involve all the sections in debate and discussion concerning various issues such as federalism, political resolution of conflict, and so on. Considerable amount of funds were directed to advocacy and mobilization activities of the NGOs, with the hope that peace activity would change the perceptions of the people with regard to other ethnic groups' aspirations and interests.

The main reason for linking peace and development is that the popular support that sustains the peace process can be obtained only through social and economic development. When the people are free of social and economic insecurity and instability, the donors assume that peace organisations' strategies would encourage the people to participate in peace demonstrations and to be active participants in the peace process. This is one of the motives for the donors' involvement in peace-building. Through the aid incentive and linking aid to progress in the peace process, peace-building actors want to show to every section of Sri Lanka, including the main parties to the conflict, that peaceful accommodation of interests would bring tangible benefits to all. However, it is also argued that Sri Lanka's strategic location is the main reason for the international actors to get involved in the country's peace-building exercise.12

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12 Mark Ward, the Deputy Assistant Administrator of USAID, who visited Sri Lanka in 2004, pointed out the importance of Sri Lanka's strategic location as a regional hub for trade and investment, and the economy "is therefore well positioned to take advantage of international economic opportunities. Continued international support is needed to help rebuild and reconstruct Sri Lanka's essential infrastructure, train its workers to meet market requirements, create new jobs and provide social services to address poverty" (The Island, 14 February 2004, p. 1). Sri Lanka's export- and market-oriented economy has been a good market for selling goods produced in the industrial countries of the West. Sri Lanka's rich natural resources and their exploration have always been an important motivation. Sri Lanka is also strategically important as a shipping route for donors such as Japan and the US. The government's permission is needed to secure access to the ship routes. Trincomalee is strategically located. It is among the world's best natural harbours. Securing the harbour is important to have a hold on the subcontinent.
**Aid Utilisation**

Proper aid utilization is another objective of the peace-building actors. Aid conditionality is applied to see improvements in areas such as democracy in LTTE-controlled areas, progress on human rights, good governance and economic reform. For instance,

To put pressure on the government to resolve the conflict, a donor such as Denmark has suspended its aid to the government in the 1990s. Canada also reduced its aid to the government because of its human rights violations in the North-East and increased its funding to NGOs. Sweden too has decided not to support large infrastructure projects of the government, and Norway has limited most of its funding to rehabilitation activities. (Wickrmasinghe 2001: 79)

**Social Development**

Improving the quality of the education and health sectors is another objective of development aid. For instance, though the government encourages primary and secondary education the enrolment of persons in higher education is only three per cent. Lack of funds to invest in higher and professional education has resulted in low employment opportunities for educated youth. Through development aid to the education sector and with private partnership, government is trying to improve the quality of professional education. At the same time, out-migration of professionals such as doctors has affected the quality of health services in the country. By supporting projects such as Post-Secondary Education Development Project (2002), donors are expecting some changes in the educational sector. To bring changes in the education sector which is pro-Sinhalese, bilateral donors such as Canada and UK have undertaken projects to support primary education and research to change government policy on education.

Therefore, the new peace-building approach by the donors emphasizes the need to create economic opportunities for all sections of the Sri Lankan society to resolve the conflict. It is also related to the view that social and economic development in the war-ravaged areas will make the people more aware of opportunities ahead once the conflict is resolved peacefully. The donors are hoping that the people will act as a pressure group against the LTTE and the government’s inclination to solve the
conflict through military means. This has made the donors divert the aid to development projects and programmes for the North-East. Therefore, since the 1990s, the international actors’ goals and objectives are based mainly on two principles: alleviation of poverty and conflict resolution through development assistance. To achieve this goal, political and economic stability is needed. The prolonged ethnic conflict in Sri Lanka has also become a threat to international peace and security.

The strategies employed to achieve the objectives of development and conflict resolution and their implementation by the donors differ in many respects. For instance, though Japan believes in the private sector’s role in economic development of the country, in contrast to World Bank and IMF policies that place greater emphasis on privatization than the state as an instrument of growth, Japan’s policies towards Sri Lanka emphasize the need for a strong government or State to promote development. This is the main reason for Japan to deliver maximum aid to the government. The integration of various sectors in the development process is also an important principle followed by Japan to implement projects and programmes in sectors such as investment in human resources, which includes improvement of schools and colleges and university libraries, manufacturing sector development through development of industrial estates, agriculture, fishing and forestry sector and telecommunication.

V. Mechanisms for Disbursement of Aid

To coordinate development aid in Sri Lanka, Aid Group meetings (Development Forum) consisting of all the donors to Sri Lanka are held annually with the World Bank as Chairman. The first Aid Group meeting took place in 1965 to look into Sri Lanka’s balance of payments crisis. Soon this became institutionalized to guide Sri Lanka’s economic policy. The World Bank interests in institutionalizing the Aid Group rose from several considerations, such as that:

(i) the Aid Group would be an instrument through which external assistance to Sri Lanka could be increased substantially; (ii) the Aid Group would serve as a vehicle through which the Bank’s economic analysis and policy recommendations could be conveyed to the participants, thereby providing a means of influencing government policy more effectively than through discussions on a one-on-one basis; and (iii)
the Aid Group was seen as a means of reaching agreement on the type of assistance required, and of avoiding duplication and improving the phasing of donor-aided projects. (World Bank 1987: 54)

The existence of the Aid Group has helped in substantial resource transfer to the Sri Lankan government since 1965\textsuperscript{13}. Liberalization of the economy in 1977, as desired by the World Bank, was the main reason for institutionalizing Aid Group meetings. Aid Group meetings are also used to coordinate aid disbursement to Sri Lanka.

At these meetings, the donors direct the government’s economic policy and give guidelines for its implementation. Economic stabilization through reforms is the main objective of the World Bank, ADB and IMF, and implementation of these reforms is important for the government to get aid.\textsuperscript{14} The Aid Group meetings are a forum for the government to present its policy framework to the donors and obtain their views on Sri Lanka’s social, political and economic scenario. The government presents its background papers to convince the donors of its progress on economic reforms and conflict resolution initiatives.\textsuperscript{15} Since the 1990s the Development Forum debates have been broadened, to include policy discussions on political matters and the deteriorating conditions in the country due to the internal conflict.\textsuperscript{16}

Aid is disbursed through various donor agencies such as the Japan International Cooperation Agency (JICA), United States Agency for International Development

\textsuperscript{13} According to the World Bank (1987), during 1965–84 aid commitment to Sri Lanka was US$5628 million.

\textsuperscript{14} The intensified civil conflict since 1995 and higher defence expenditure has resulted in budget deficit of $1.6 billion at the end of 1999 and $1 billion at the end of 2000. This made the government to sign a standby agreement with the IMF in 2001 which was about $253 million for the government’s economic recovery programme aimed at reducing the budget deficit through reducing defence expenditure.

\textsuperscript{15} The Millennium Development Goals (MDGs), formulated at the United Nations Millennium Summit in September 2000, such as eradication of poverty, achieving universal primary education, promoting gender equality, and developing a global partnership for development, have become a base for the donors to formulate their policy with regard to working on the conflict. In a conflict-ridden country such as Sri Lanka, settlement of the conflict is the urgent need to achieve MDGs. Therefore, since 2002 major donors such as Japan, the World Bank and the US have shown greater interest in Sri Lanka’s peace process.

\textsuperscript{16} For instance, in 1992 after the Aid Group meeting held in Paris on 7 February, the statement by the EU presidency on the political and human rights situation in Sri Lanka urged the government to ensure full respect for human rights and ensure a peaceful and political resolution of the conflict.
(USAID), Norwegian Agency for Development (NORAD), Swedish International Development Agency (SIDA), Canadian International Development Agency (CIDA), German Technical Cooperation (GTZ) and UK's Department for International Development (DFID). These agencies have their headquarters in Colombo.

Aid is mainly channelled through two mechanisms. Development assistance, provided through the government; and aid to INGOs and NGOs for development and peace work. Most of the development aid is provided for specific tasks such as economic reform, private sector development, poverty alleviation and infrastructure development and is distributed to various sectors of the government such as agriculture, trade, telecommunications, energy, exports, services, transport, environment, education, health, manufacture industry and social infrastructure.\textsuperscript{17} For instance, NORAD has a number of bilateral agreements with the government such as the Integrated Rural Development Programme in the South.

Development aid is playing an important role in influencing the formulation and implementation of various socio-economic policies by the government of Sri Lanka. The report of the JBIC for 2003 states:

> The influence of the development assistance upon Sri Lanka was far greater than the flow of monetary resources. Not only securing of state budget and distribution of funds, through implementation of structural adjustment, policy-based lending became the norm. Studies, consultancy reports, memos, etc., of aid agencies have become influential in the policy making process. Securing foreign assistance became a means of proving legitimacy of its regime to the international community and thus important for the nation's security. Moreover, external assistance has helped in the emergence of a large number of civil organisations, such as NGOs or CBOs (community-based organisations). As a result, the concepts, ideas and discourses expounded by these agencies have become ideologically influential at the level of civil society. The influence of development assistance encompasses society so much that it becomes difficult to treat it merely as an “external” factor. It is now an integral part of Sri Lankan society. (JBIC 2003:20)

\textsuperscript{17} The donors' long-term aid for the manufacturing sector has helped in its growth. For instance, manufacturing sector GDP grew from less than 6 per cent in 1958 to over 15 per cent in the 1980s. The development of these sectors has alleviated to some extent the heavy cost of the conflict.
ADB, the World Bank and Japan are the major donors to Sri Lanka. Their annual lending commitments include both loans and grants. ADB loans are also disbursed through the criteria of Performance Based Allocation (PBA) of different sectors of the government. ADB expects the government to show the results of aid utilization, and delivers aid accordingly. Japan’s aid programme comes as grants and special interest loans. Grants are channelled chiefly through the Japan Bank for International Cooperation (JBIC). Special interest loans are channelled chiefly through the Overseas Economic Cooperation Fund (OECF) and JBIC.

In 2003, the executive board of the IMF approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF) amounting to $567 million for Sri Lanka, which would support the government’s economic programme for the 2003–2006 period. The IMF also provided support for macroeconomic stabilization and structural reform. A stand-by line of credit was approved in 1983, followed by a Structural Adjustment Facility (SAF) loan in 1988 and an Enhanced Structural Adjustment Facility (ESAF) covering the 1991–1995 period. Since the mid-1990s soft loans are also granted for conflict-related rehabilitation and reconstruction purposes. For instance, ADB granted a soft loan of $25 million in 2001 for rehabilitation and reconstruction in the North-East. France also granted soft loans to the government until 1998 focusing on cultural and administrative cooperation.

18 ADB loans and grants have averaged $140 to $160 million with lending exception of $162 million for five projects in 1997. ADB lending is higher than the World Bank lending which committed $105 million annually on average, but considerably behind the largest bilateral source of assistance, Japan, whose program averaged $421 million per year. (ADB 1998: 35). ADB committed around $961 million as loan commitments for twenty-three projects in Sri Lanka till 2002. Of this about 72 per cent loans have not been utilized due to the conflict.

19 Keeping in view the government’s need for aid and because of the Cease-Fire Agreement which was in place in 2002, ADB increased the amount of loan allocation in PBA criteria from $146 million to $640 million in 2002–2004 (ADB 2002). ADB’s loan programme of 2002–2004 had fifteen projects, of which nine aimed at poverty reduction through employment generation and agriculture development. A Poverty Reduction Partnership Agreement (PRPA) between the Government and ADB was signed in Colombo on 8 March 2002.

20 Until fiscal year 1999, this involved a cumulative commitment of $2.162 million. Although Japan’s loan commitments appear substantial, disbursements (at 10 per cent in the year ending end March 2000 and 13 per cent in the year ending end March 2001) have been low.
For aid coordination in Sri Lanka the UN has its Common Country Assessment (CCA) and the UN Development Assistance Framework (UNDAF) and the UN Emergency Task Force (UNETF). The United Nations World Food Programme (UNWFP) has assisted the government to provide food assistance to the conflict-affected areas in the North-East since 2002. This project of the UN benefited 200,000 persons by 2004. CIDA supports the de-mining programme in the North-East and works with UNICEF to spread awareness regarding landmines in the region. Canada’s willingness to work more with the NGOs and international agencies than with the government of Sri Lanka was a conscious decision. Twenty per cent of the Canadian aid is disbursed in areas under the control of the LTTE. Some of the institutions which are in place for development in the North-East are the North East Rehabilitation Fund (NERF), the National Framework on Relief, Rehabilitation and Reconciliation (RRR) which was initiated in 1999, the Sub-committee on Immediate Humanitarian and Rehabilitation Needs in the North-East (SIHRN) and the Rehabilitation and Reconstruction Authority for the North. The Netherlands is focusing on rehabilitation, reconciliation and relief process in the North-East through supporting the projects and programmes of international agencies such as UNHCR, ICRC and CARE international. With CARE International the Netherlands is financing two long-term programmes in LTTE-controlled areas.

Conclusion

Sri Lanka presents a unique situation where the peace-building actors have decided to work even in the midst of war. The international actors have recognized the fact that internal conflict prolongs due to factors such as poverty, underdevelopment, and missed opportunities. However, these factors cannot be isolated from the history of the conflict, discrimination against the minorities, and the colonial and post-colonial policies of the government. Therefore, the peace-building concept by the international actors has linked the peace process and the issues of development to resolve the conflict in Sri Lanka. The strategies for peace-building mainly address two issues

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21 After the signing of the CFA and the relative calm that prevailed due to the peace negotiations, the government set up in 2004 (i) a unit in the Ministry of Finance and Planning to facilitate and coordinate donor-funded projects to help in identifying key areas where there is a need for more funds and also proper aid utilization; and (ii) the Ministry of Relief, Rehabilitation and Reconstruction to look after the needs of the displaced due to the conflict.
concerning conflict resolution. One is political, involving the peace process; the other is socio-economic development. Since the 1990s the international actors' endorsement of the concept of peace-building to resolve internal conflict has set the momentum for implementing strategies for peace-building. Whether the strategies used for building peace had any impact on the conflict resolution process, however, needs to be explored.