
THE POLITICAL ECONOMY OF AID, CONFLICT, AND PEACE BUILDING IN SRI LANKA

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Peace in Sri Lanka is increasingly an international legal fiction – an assumption contrary to ground realities. The ebb of peace in the palm-fringed, tourist-friendly island is indexed in the return of ‘dirty war’, a rising body count, trickle of refugees to South India, as well as suicide bombings and barricades in the capital, Colombo. For the first time, there have been coordinated attacks on international aid agencies. As the head of the Scandinavian peace Monitoring Mission noted recently, there is an ongoing low-scale, low-intensity war.

Even though neither the Liberation Tigers of Tamil Eelam (LTTE), nor the Government has formally withdrawn from the Ceasefire Agreement (CFA), the new war continues the spiral of the (para) militarisation of civil society, with a “war economy” sustained by terror, taxation and international post-conflict and post-tsunami reconstruction assistance. These trends point to the possibility that the current conflict may also achieve a self-sustaining momentum beyond ethnic minority grievances as it has done in the past.

In this context, it is important to analyse the role of the international community, which though a set of apparently external observers, has become intrinsically embedded and intertwined in Sri Lanka’s conflict and peace process over the past decade. Given the extent of the international aid industry and bureaucracy in the country, the return of war despite the Norwegians’ best efforts raises fundamental questions about its relevance and impact on conflict transformation. The Strategic Conflict Assessment for Sri Lanka (SCA) commissioned by the World Bank, DIFID, the Asia Foundation and other donors that focuses primarily on the internal political dynamics of conflict in the island, falls far short of an adequate, reflexive and transparent analysis of the role of international aid actors and their impacts on society, conflict and peace in the island.

A recent study of peace processes by John Darby published by the US Institute for Peace has noted that of 38 internationally mediated peace efforts in the decade between 1989-1999, 31 had returned to conflict in the first few years. International assistance in low-intensity armed conflicts and

peace processes may either ameliorate or become part of a renewed conflict cycle as a number of scholars working on low intensity armed conflicts in Africa have noted. There have been few systematic reviews of donor assistance and its impact in Sri Lanka. As such, the attempt here is to develop a *structural analysis* of the three principal actors in Sri Lanka – the Government of Sri Lanka (GoSL), LTTE and the international community (none of them being homogenous) – and their relationship, based on an analysis of political economy of the international aid industry and bureaucracy.

The International War, Peace and Reconstruction Industry

Not too far back, in 2003, Sri Lanka was projected in international reconstruction and development conference circles and media as a test case of ‘liberal peace building and reconstruction’. After the Norwegian-brokered Ceasefire Agreement in 2002, three different international pledging conferences for Sri Lanka were held in Oslo, Washington and Tokyo. The conferences gleaned the promise of US\$4.5 billion for post-conflict reconstruction. Four co-chairs were appointed to Sri Lanka’s peace process—Norway, Japan, EU and US. The World Bank, that had positioned itself to lead the expanding international reconstruction industry and bureaucracy in the island, was appointed custodian of the North East Reconstruction Fund (NERF).

Given donor emphasis on the privatisation of development assistance, international consultants, private companies, UN Agencies and INGOs competed for lucrative reconstruction contracts in Sri Lanka in the peace interregnum – from demining, to road building, to peace education and advertising. More recently, the December 2004 Asia Tsunami disaster also drew a large number of volunteers and technical experts, unfamiliar with local languages, institutional structure and culture. Despite this, reconstruction has been painfully slow, primarily due to the fact that the international aid industry has snatched away local and regional ownership of the recovery operation. This is in stark contrast to India and Thailand, which refused most forms of international

assistance after the Tsunami, but are far ahead in the task of reconstruction.

Over the past half-century of war and natural disaster, Sri Lanka's politicians and policymakers have developed a culture of 'aid dependency' largely due to the de-development of the country's policy making and planning institution during a decade of structural adjustments (when the Ministry of Plan Implementation was effectively shut down), even though ground level facts point to the necessity of a different approach – the country is no longer a least developed country, has almost 90 percent literacy rate, and a number of under and unemployed graduates, and exports technical skills overseas. There are several questions this raises – why is national expertise marginalised in reconstruction; do aid pledges materialise; and how much of the assistance actually reaches the country or the communities affected by war, natural disaster and poverty?

Arguably much of the aid pledged and disbursed for peace and reconstruction in the country is “phantom aid”, defined by Action Aid as “aid that never materialises to poor countries, but is instead diverted for other purposes within the aid system.”

“Phantom Aid”

The international peace and development industry is entrenched in most parts of the global South, and is believed to be the fifth largest industry in the world. Conflict situations present significant “opportunities” for growth to international aid experts and bureaucracy, exported from the Euro-American world to these regions. However, the utility of this ever-growing donor assistance to conflict-affected countries and communities is an open question. At odds with local development priorities, the international aid bureaucracy is seen to have its own self-sustaining logic that is increasingly irrelevant to either the poverty or conflict on the ground.

A recent report on aid effectiveness by Action Aid International, titled “Real Aid: Making Aid More Effective” estimated that 61 percent of all international donor assistance is “Phantom Aid”. Phantom aid, as opposed to Real Aid, includes funds that are: a) tied to goods and services from the donor country, b) overpriced and ineffective technical assistance (this is by far the largest category of phantom aid, accounting for US\$13.8 billion), c) spent on excess administration, d) poorly coordinated and high transaction

costs, e) aid double counted as debt relief, f) aid not targeted for poverty reduction, g) funds spent on immigration related costs in donor countries, etc.

The Report further notes that, “eighty cents of every dollar of American Aid is phantom aid, largely because it is so heavily tied to the purchase of US goods and services, and because it is so badly targeted at poor countries...Just 11 percent of French aid is real aid. France spends \$2 billion of its aid budget each year on Technical Assistance.... In real terms, the Norwegians are nearly 40 times more generous per person than the American, and 4 times more generous than the average Briton”.

Phantom aid accounts for a good deal of poor country debt, because southern governments service loans and aid that did not materialise because it was consumed in the aid system. The Report estimates that: “ In 2003 developing countries transferred a net \$210 billion to the rich world...Interest payments alone continued to take \$95 billion of developing countries resources, almost three times the value of what they receive in grant payments”.

In May 2006, the Donor Co Chairs of the Sri Lanka peace process estimated that of the 4.5 billion pledged to Sri Lanka, “US\$3,400 million had been provided based on Tokyo pledges and Tsunami funds, and more than 20 percent of that allocated to the north and east, including LTTE-controlled areas”. No disclosure is made of how much of this aid was in the form of loans. Phantom aid in disaster situations, where the usual development project safeguards are waived due to an emergency situation, may be as high as 80-85 percent of donor assistance. In the context, the fact that Sri Lanka's aid absorption rate remains at around 17 – 20 percent while donors continue to pledge ever larger sums for development assistance is not mysterious.

The international peace and development bureaucracy in the past decade in Sri Lanka has clearly gained its own self-sustaining momentum. This has happened at a time when aid may become increasingly irrelevant in a world where “trade not aid” is seen as the way forward, particularly for countries that are no longer in the least developed category. The development bureaucracy requires and absorbs most of the aid targeted for development, conflict resolution, and poverty reduction.

Moreover, international humanitarian aid has become, as an academic termed it, “a means without end”. It tends to lack an exit strategy until the money runs out, is often mistargeted,

distorts the local economy, and aggravates inequality, poverty and the underlying structures of a conflict. In the long run, it develops aid dependency and aggravates conflict. The conflicting parties often blame each other for aid that never materialised. International aid may increasingly morph into the war dynamic over time in the conflict zones of the global South even as it expands through processes of bureaucratisation.

At the same time, it is important to note that the Norwegian mediators, who have often been held responsible for peace and reconstruction policy failures that originate in the World Bank and UN centric international development bureaucracy, are but a miniscule part of the international peace and reconstruction aid industry. Moreover, the Norwegian Government that came to power in 2005 decided not to partner with the Bank in cases where structural adjustment was required as part of a peace and reconstruction package.

A Legal Bureaucratic Peace

Sri Lanka's peace process has been termed "a no war, no peace" process. Arguably, the formalistic and "legal-bureaucratic" approach of international peace building and reconstruction largely accounts for this phenomenon. Consider for instance, the resources, energy and experts spent on legal drafts and re-drafts of an Interim Governing Authority for the North and East (ISGA), the World Bank's North East Reconstruction Fund, (NERF), Post Tsunami Operational Mechanism (P-TOMS), three international donor pledging conferences, Multilateral Needs Assessments, the hundreds of MoUs for large infrastructure reconstruction projects in the past four years for Sri Lanka. The internationalisation and bureaucratisation of the peace process resulted in too much time spent on international development agendas, conferences, and donor time frames, that were often at odds with the needs and priorities of those affected by the conflict.

This approach effectively eschews seeing track-one peace building as a social process. It has stemmed from, among other things, the large numbers of international players and peace and reconstruction bureaucracy in the island, and the attendant coordination burden. Of course, all three actors in the conflict and peace dynamics in Sri Lanka – the LTTE, (seduced by the legal fiction of 'equality or parity of the parties'), GoSL, and the international community bent on implementing a "neoliberal" peace have contributed to the legal bureaucratic approach to peace building.

Arguably, the time spent on legalese would have been better spent in the creative implementation of actually existing possibilities for power and resource sharing, enshrined in the constitution under the 13th Amendment, and proper targeting of aid to improving the livelihoods of communities from whom fighters are recruited. There has also been a tendency to overburden an already over-determined peace process, by linking everything, including, natural disasters like the Tsunami (aid) to power sharing. There appears to be a need to de-link these issues and have a more balanced approach to peace and development.

The peace building approach of dialogue in various international capitals rather than analysis of substantive issues and implementation at ground level seems to derive from Euro-American analytic frameworks that privilege state-centric theories of conflict resolution, developed out of Cold War inter-State conflict mediation. The main conflicting states or parties are brought to a table to dialogue. However, intrastate conflicts where resource and ethno-religious identity conflicts tend to be intertwined and are often the outcome of post/colonial State building, require different approaches from peace builders. They require engagement with social realities within the country, and attention to internal complexities at the local and sub-national levels. Where the challenge of reconciliation is within countries and communities, and between asymmetric parties (e.g. State actors and non-state actors), peace building necessitates a less legal-bureaucratic approach.

The emphasis on legal mechanisms and processes has also obscured another picture closer to the ground – the reality of the emergence and existence of a dirty war in northeast Sri Lanka. The morphing of the peace process into war is evident when we move away from formalistic frames and focus on non-verbal speech acts, in other words, when we "read between the said, the meant and the done".

In this context, adding another layer of international bureaucracy in the form of Bill Clinton or some other UN Envoy to Sri Lanka will only deflect from focus on substantive issues. Rather, a new peace process led by the Norwegians would need to thin the international aid bureaucracy and agencies, and focus on substantive issues, including improving poverty reduction among conflict and Tsunami affected communities. In short, an exit strategy rather than extended time frames for aid is necessary for much of the international aid industry in Sri Lanka. This would enable a more locally owned and hence sustainable peace process.

The Economics of Peace

Though fisheries is arguably Sri Lanka's greatest natural resource, given the unpolluted ocean and rich breeding grounds that surround the country, international development assistance over decades has not focused on need to target and up-scale the fisheries sector for poverty alleviation and conflict de-escalation in the north or south. Throughout the peace process, the north and east coastal fisheries communities continued a subsistence economy. Sri Lanka's two main donors, Japan and Norway have highly industrialised fisheries sectors.

The most influential number of combatants in the LTTE hail from impoverished coastal fisheries and rural agricultural communities in the northeast. In fact, the LTTE sank a Chinese fishing trawler perceived to be poaching on local fishing grounds in 2003. It is crucial to develop the fisheries sector and industry to enable viable livelihoods for poor communities from which fighters are recruited to transform the conflict. The impoverished north and east fisheries communities and socially marginalised caste groups on the coast have been most radicalised in the years of conflict, and provide the foot soldiers. Tamil elites and Vellala or high castes have tended to eschew the LTTE's brand of nationalism, and the LTTE in turn has fought to overthrow the caste hierarchy in Tamil society.

However, the post-conflict and post-tsunami aid industry experts have systematically overlooked the importance of enabling sustainable livelihoods for such impoverished communities. The Multilateral Needs Assessment for Tokyo and the Tsunami Needs Assessment study, conducted by the World Bank in collaboration with the Asian Development Bank and Japan's official aid agency, pegged the loss borne by the tourism industry at \$ 300 million, versus only \$90 million for the fishing industry, even though fisheries communities were far more affected.

Vasuki Nesiah, a commentator, points to the ideological assumptions embedded in an assessment methodology that rates a hotel bed bringing in \$200 a night as a greater loss than a fisherman bringing in \$50 a month have far-reaching consequences. With reconstruction measures predicated on this kind of accounting, we are on a trajectory that empowers the tourism industry to be an even more dominant player than it was in the past, and, concomitantly, one that disempowers and further marginalises the coastal poor. Many have noted the bias towards big business and tourism in the

needs assessments of the multilateral agencies and the GoSL where the up-scaling of fisheries infrastructure is ignored.

The donor–people disconnect

For the first time since the conflict erupted 25 years ago, coordinated grenade attacks were carried out on three international aid agencies in Sri Lanka recently. These attacks were in the wake of widespread rumours of sexual exploitation and harassment of local women by foreign staff of INGOs in the Tsunami and conflict affected areas. Local women were instructed not to work with international agencies, which, it was claimed, were violating Tamil and Muslim "culture". There is a sense among common people that the aid industry has not delivered, but rather consumed and lives off the funds.

At the root of the critique of the aid industry is the fact and perception of gross inequality between those who came to help and the receivers of assistance, as well as the erosion of basic humanitarian ethics and values evident in operational style of INGOs. What people see are extravagant lifestyles, lack of transparency, increased aid dependency with a concomitant failure of donors to deliver on projects. The fact remains that the majority of large international aid agencies have not performed and even blocked local philanthropists and the business community, which did much of the work in the immediate aftermath of the Tsunami and have a far better delivery rate. Exit strategies and deadlines for the large agencies also seem to have become anachronistic.

The attacks on aid agencies must be contextualised in the broader setting. Militants who lack access to information, technical critique and evaluations respond to real and perceived corruption in the aid industry with violence. Such attacks are a matter of great concern to those who believe that competent international assistance is necessary for conflict de-escalation and reconstruction. Critics however fail to acknowledge and address the general disenchantment with international aid and INGOs that has become widespread in the country since the Tsunami, which in turn gives legitimacy to such attacks.

The International Red Cross in Sri Lanka represents a case study of the manner in which these agencies generate high expectations but fail to deliver due to a host of reasons. Having raised almost US\$ 2 billion for post-Tsunami reconstruction, 183 expatriate "volunteers", each worth over US\$120,000, but with little technical expertise, knowledge

of society, politics or culture, local languages or institutional structures came to Sri Lanka alone. Having pledged to reconstruct 15,000 houses, it had built a mere 64 one year after the tsunami. The International Federation of the Red Cross and SLRCS is the largest pledged housing donor and has set the bar very low. The blame for this is placed on the GoSL's buffer zone policy or the condition of the land.

The latest government estimates are that 21 percent of the required housing after the Tsunami is complete. That means that several hundred thousand Sri Lankans are still without permanent homes, by government estimates. Some 33,000 families, or at least 150,000 people, remain in transitional shelters. Others are living temporarily with relatives or friends.

The Red Cross was given 67 plots of land out of which about a third had problems. But several questions arise –why did it not build homes on the remaining land? Should a relief agency like Red Cross have taken up long-term housing construction given the absence of expertise and experience simply because it raised the funds? The Reconstruction and Development Agency in Sri Lanka, unlike the Government of Tamil Nadu in India, has failed to evaluate the INGOs and ask under-performing INGOs to leave the country, so that others may help.

It is increasingly apparent that privatisation of post-disaster reconstruction, given information asymmetries and endemic market imperfections in the sector, is a mistake. As long as such a large, incompetent, and costly international bureaucracy remains in the island, substantive and sustainable peace building and development will be elusive. There is by now an extensive literature on how international peace building, humanitarian and reconstruction assistance may contribute to sustain low-intensity wars in Africa and Asia and other parts of the global south, because such aid constitutes a large and complex industry and bureaucracy *in itself and for itself*. Clearly there is a need for reform of the international aid architecture and practices in the context of what writer Naomi Klein has termed as disaster capitalism, to enable accountability to beneficiaries and affected communities.

Reconstruction Policy

The Reconstruction and Development Agency (RADA) in Sri Lanka has in turn failed to take a policy lead on reconstruction, or to monitor and evaluate the various

international agencies doing reconstruction and development in Lanka. This is because RADA has not accessed the necessary in-country development expertise. The marginalization of local communities as well as national experts in the Tsunami recovery operation is due to the over centralized structure of the institution, politicization, and the manner in which TAFREN (RADA's predecessor) was initially constituted and set up to ensure accountability to international donors (rather than beneficiaries and disaster affected communities) with a large role for international experts and consultants.

TAFREN'S structure was designed, by the US consultancy company – McKinsey and Co. that constituted TAFREN's organizational design in the aftermath of the Tsunami. That a US consultancy company should draw up the institutional design of the national reconstruction and development agency would have been unthinkable in India. The bias towards donor-accountability has resulted in the marginalization of in-country development expertise in RADA, as well as, lack of decentralization and accountability to local communities. This effectively means that the agency tasked with the country's development has its post Tsunami and conflict reconstruction policy as well as crucially its monitoring and evaluation functions, run by international "experts", who lack basic knowledge of the island's society, politics and institutional culture, largely from the International Labour Organization (ILO), that is "assisting" RADA in the livelihood sector.

In the context, it is noteworthy that the Evaluation Report produced by TAFREN/ RADA and various UN disaster experts "with all stakeholders" one year after the Tsunami reads like pure fiction and spin given ground realities, as was noted by several eminent academics from Ampara and other affected regions recently at a conference on Tsunami Recovery. The fact is that failure to ensure accountability to affected communities, actually deflects real accountability to private individuals and companies overseas who gave generously to donor agencies who advertised their humanitarian brands with a range of Bollywood and football stars, from Amitab Bachan to David Beckham during the Tsunami disaster.

Local humanitarian Consortiums and NGOS have also adopted the practice of organization/ brand advertising with news letters and that advertise their humanitarianism. Gone are the days of quiet humanitarianism, anonymous giving and selfless care for others. It is noteworthy that in Tsunami affected south India where an effective local government

structure is firmly and clearly setting policy with in-country expertise, and monitoring the recovery operation, the international aid agencies are much more circumspect about advertising themselves, their brand names and claiming the credit. One does not see such advertising. There is a need for an independent monitoring and evaluation body of the Tsunami and conflict recovery operation.

Neo-liberal aid regime

Even as the Government and the LTTE are the principal actors in the conflict, it would be naïve to downplay the role of the international community in the process in Sri Lanka. The extent of international investment in Sri Lanka's "peace and reconstruction" has made official acknowledgement of the return to war difficult. But the peace process, in the best of times, enabled merely a repressive tolerance. This was by no means only due to the inability of the two main armed actors to engage on difficult issues – principally the need to democratise the LTTE and GoSL, and professionalise and humanise the military and enable the devolution of power. The international peace builders colluded with the main actors in deferring the core social, political economic issues that structure the dynamics of the conflict in order to promote a neo-liberal economic reconstruction agenda that is integral to the (phantom) aid industry.

In hindsight, this approach undermined the Norwegian-brokered CFA. The promise of US\$ 4.5 billion for reconstruction came with a policy requirement of structural adjustments (SAPs), and liberalisation favoured by the World Bank. Very little of this reached the communities affected by the disasters, and from which the majority of combatants are recruited. A recent Sri Lanka Monitoring Mission Report notes on the subject of child recruitment: "some underage children freely volunteer to leave their families due to economic reasons to join the LTTE". Mis-targeted aid translated into an economic bubble, a dramatic rise in the cost of living, increased inequality and poverty in the communities from which soldiers are recruited, and further erosion of the welfare state. In a very short time, the government that signed the peace agreement with the LTTE was voted out of power—and the rest is history. The tide in the affairs of men that may have led to fortune, even to peace in Sri Lanka, had turned.

Since Sri Lanka is not considered a least developed country, the county's donor dependence is directly related to the armed

conflict and the need for external mediation. International development agencies have recently recognised the profitability of working with rather than around social conflict in the post 9/11 world, increasingly focusing on projects "for democratization, governance and conflict resolution" as the Strategic Conflict Assessment notes. Sri Lanka's strategic location and the over capitalisation of its post-tsunami reconstruction means that the country remains credit worthy and an attractive place for the international lending institutions and the aid industry despite stories of donor fatigue.

Given the aid bureaucracy's embeddedness in the political economy of peace and conflict in Sri Lanka, it cannot be seen as a neutral actor or set of actors. This fact has particular relevance for much of the technical assistance and development "knowledge" produced and sub-contracted by development agencies. There is ample evidence that the macro-policies of the Washington Consensus exacerbates intra-group and inter-group inequality and poverty that fuels (identity) conflicts in fragile states in the global south.

There is a fundamental problem with a peace and reconstruction policy approach that claims to link "conflict-sensitivity to development" without assessing the dominant neo-liberal development paradigm and policy that tends to generate inequality and conflict within and between countries. The SCA does precisely this, though it hints at the need for such a critique. Ironically, the international aid industry and bureaucracy and technical experts may be a key impediment to the production of knowledge frames that may lead to more sustainable peace building in Sri Lanka and other conflict affected parts of the global south.

Looking Ahead

For the sake of peace and development in Sri Lanka, it is important that policy-makers and others draw lessons from the past experience of international involvement. What is needed immediately is an evaluation of the performance of the various aid agencies in the country. This could then form the basis for retaining **only** the efficient ones, which have contributed to the task of post conflict and tsunami reconstruction at the ground level. This would, in turn, reduce the coordination burden, and help streamline and effectively target development assistance. The Indian Government's approach to international aid and experts, especially in the wake of the tsunami, is a good example in this regard.

It is also important to reduce phantom aid and debt burden, and demand greater transparency, disclosure, and accountability from the International Financial Institutions, UN agencies, and various donor countries regarding aid programs (loans or grants), extent of tied aid, and technical assistance. INGOs should be required to disclose budgets, qualifications of staff, and in-country spending on projects, operation and transaction cost.

The connection between resource and identity conflicts is often not adequately acknowledged in peace processes. A new peace process will need to grasp the connection between resource and identity conflicts, as well as the intra-group dynamics of the inter-ethnic conflict. This requires deepened social analysis that is not to be confused with the notion of “social capital” that post/conflict advisors at the World Bank promote. Peace mediators and international development actors will need to be attentive to the discourse on inequality, poverty and link track one discussions to deeper social conflicts and intra-group inequalities.

The need for deeper analysis, however, should not to be confused with or used as a legitimacy clause for extending project delivery time-frames. Extended time-frames makes for aid dependency among beneficiaries in aid receiving countries, and even less accountability among aid agencies who tend to delay on project delivery and extend costly contracts. This was clearly evident with the tsunami recovery operation. It is important to devise exit strategies for aid agencies and to stick to the schedule.

Finally, it is to be hoped that the lessons from the peace process in Sri Lanka may serve as a turning point for a “structural adjustment” of the international peace and development industry, and ensure accountability to communities and countries affected by conflicts not just in Sri Lanka. This requires getting beyond the toolkit approach to post-conflict reconstruction with its predictably damaging macro-economic policies of structural adjustments that undo the work of peace mediators. These steps, coupled with local ownership of the peace process, may provide the way out of Sri Lanka’s present quagmire. ■

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HRW on Civilian Protection

In a recent letter to the government of Sri Lanka and the LTTE, the New York-based Human Rights Watch appealed to the two sides to institute concrete measures to protect civilians. The HRW appeal suggested that the government and the LTTE should:

- Designate demilitarized zones as sanctuaries in conflict areas and pre-position humanitarian relief in known places of refuge;
- Improve humanitarian access to populations at risk, including by ending unnecessary restrictions on humanitarian agencies;
- Whenever possible, provide effective advance warning of military operations, both broadly – through loudspeakers, radio announcements or leaflets – and directly through messages to community leaders;
- Appoint local civilian liaison officers who are known and accessible to local communities and have sufficient rank to ensure that community concerns are heeded; and,
- Agree to the establishment of a United Nations human rights monitoring mission in Sri Lanka, as the extent of abuses and ongoing impunity require an international presence to monitor abuses by all sides.