

**«“It’s only a cease-fire” -
Local entrepreneurs in the Jaffna
peninsula between change and
standstill«**

Student Research Project Sri Lanka 2002

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Executive Summary

Based on a ten-week field research in the Jaffna peninsula in Sri Lanka, this paper examines the opportunities and constraints for entrepreneurial activities in the early post-cease-fire situation of late summer 2002, from the perspective of local entrepreneurs. Applying the key concept of contemporary economic sociology, the concept of the social and political embeddedness of economic action, the paper provides an ethnographic account of the interweavement of entrepreneurial rationale with moral and political considerations. In the context of omnipresent peace and legal uncertainty, the lack of supportive structures, the emerging competition with the “south” and the increasing tax and protection money collection by the LTTE, the local entrepreneurs’ situation appears as one of “standstill” in the midst of sudden change and increasing challenges. The resulting absence of a substantial ‘peace dividend’ gives way to strong feelings of injustice, illustrating the moral and political meanings attached to the (state) actors’ actions and inaction in the economic realm. While the absence of supportive structures restrains the local entrepreneur capability to profit from the lifting of major restrictions for entrepreneurial activities, a complex interweavement of contradictory factors such as the fear for LTTE reprisals, feelings of loyalty and moral obligation, reduces their willingness to act on one of the most pressing constraints, the highly unpredictable taxation and protection money collection by the LTTE. Doing business and attempting to influence the conditions for doing so, becomes a balancing act of exerting pressure and at the same time establishing and maintaining the status of a credible negotiation partner.

1. Introduction

In September 2002, after almost two decades of civil war, Sri Lanka entered into the seventh month of an indefinite cease-fire signed between the Government of Sri Lanka (GOSL) and the separatist Tamil Tigers of Tamil Eelam (LTTE). The Jaffna peninsula, one of the most hard fought parts of the country, had since then been experiencing the lifting of severe economic restrictions and the re-opening of the A9 highway, the major road linking the Northern Province with the rest of the country. For the entrepreneurs of the peninsula, who had been highly affected by the fighting and more than a decade of severe economic isolation, these changes meant new hopes and opportunities, as well as new challenges and threats. All this was embedded in fundamental uncertainty, as the prospects for a negotiated settlement of the war and its possible outcome in terms of a new political framework remained unclear. The very first round of formal peace talks was just about to take place in mid-September.

Based on a broadly applied concept of social and political embeddedness of economic action, this paper seeks to shed light on how the local entrepreneurs'¹ economic action was embedded in this particular post-war, or rather early ceasefire situation. It will be examined, what opportunities and constraints local entrepreneurs were facing in this situation, what strategies they applied and how in turn these strategies were shaped by political and ideological considerations. It will be shown that political as well as moral considerations considerably influenced the entrepreneurial rationale of local entrepreneurs.

After giving a short overview of the civil war's history and its impact on the peninsula's economy in chapter two, the conceptual and methodological approach will be outlined in chapter three and four. The fifth chapter analyses the local entrepreneurs' situation since the cease-fire agreement took effect. It will be made clear, that despite various changes taking place, the local entrepreneurs perceived their own situation as a situation of "standstill", as old constraints for entrepreneurial action persisted. In the sixth chapter the different forms of uncertainty associated to and arising from the situation of cease-fire will be described and it will be examined, how these shaped the entrepreneurs' investment behaviour.

¹ By the term „local entrepreneur“ this paper refers to entrepreneurs who live in the Jaffna peninsula.

Chapter seven then analyses the “Injustice Discourse” prevailing among local entrepreneurs, pointing to the moral and political dimensions of the actions and inaction of (state) actors in the economic realm. Finally, the possibilities seen and attempts undertaken to exert influence on the central actors, the GOSL, local politicians, the Sri Lankan Armed Forces (SLAF) stationed in the peninsula and the LTTE, will be analysed. The eighth chapter will thereby point out, how the attempts were shaped by the entrepreneurs’ past experiences with these actors, by feelings of moral obligation, the fear of reprisals and also by the necessity to establish a good relationship with these actors. Finally, a conclusion pointing to the research finding’s implication for development assistance will be drawn.

2. The civil war in Sri Lanka

2.1 The political background

Since 1977 an ethnicised conflict between the majority Sinhalese and minority Tamils² has culminated in a civil war between the Government of Sri Lanka and the Tamil separatist “Liberation Tigers of Tamil Eelam” (LTTE). Hostilities between the Sinhalese and the Tamil population can be traced back to the pre-colonial phase. These hostilities were perpetuated and aggravated during the British colonial rule (1815-1848). After independence in 1948, the hostilities became highly politicised through the development of an ethnic party system and discriminative policies of the Sinhalese dominated governments against the Tamil population (especially concerning access to education, state employment and land) (Rösel 1997).

With the establishment of a one party regime by the Sinhalese “United National Party” (UNP) in 1977, anti-Tamil attitudes increased considerably and at the same time militant Tamil groups advocating separatism established in the Tamil dominated parts of the country (Rösel 1997, pp.9-10; Sriskandarajah 2003, pp. 1-4). In 1983, the hostilities culminated in a severe Anti-Tamil riot in Colombo killing thousands of Tamils. At the same time Tamil political support more and more shifted to Tamil militant groups advocating separatism whereas the support of elected political leaders decreased (Sriskandarajah 2003, p.3).

² Sri Lanka’s population comprises: Sinhalese 74%, Tamils 18,5 % (Sri Lanka Tamils 12, 5% and Indian Tamils 6%), Moors 7%. Other groups constitute less than 1% (van Horen 2002, 116). In the following the term „Tamil“ will refer exclusively to Sri Lanka Tamils.

In the aftermath of the riot, the Sri Lankan armed forces (SLAF) were engaged in a civil war against several militant Tamil groups in the North of the country. Eventually this civil war developed into a war between the SLAF and the separatist “Liberation Tigers of Tamil Eelam” (LTTE) which had persisted in the quarrels between the various separatist Tamil groups and claims to be the sole representative of the Sri Lankan Tamils and (Fricke 2002, 98, Rösel 1996, p. 55). The fighting between the SLAF and the LTTE took place mainly in the North and East of Sri Lanka, which are the main settlement areas of the Tamil population. The LTTE regarded these parts of the country as the legitimate territory of “Tamil Eelam”, the separate state it demanded until recently (see appendix III).³

Despite several attempts to end this war through formal negotiations and cease-fire agreements⁴ it continued through the 1990s and into 2001. In order to contextualise the perceptions, interpretation and strategies of the interviewed entrepreneurs in the situation after the cease-fire agreement of 2001, the following section briefly describes the manifestations of this war in the Jaffna peninsula between 1983 and 2001. It specifically deals with the civil war’s implications for the local population and the local economy.

2.2 Manifestations of the civil war in the peninsula: heavy fighting, severe devastation, and changing powerholders

The Jaffna peninsula on the northern tip of Sri Lanka⁵ has been heavily contested by different conflicting parties. From the mid eighties until 1987 fighting between the SLAF and militant separatist Tamil groups, as well as fighting among the different separatist Tamil groups frequently occurred. By early 1986, the LTTE had won virtual control over the Jaffna peninsula, confining the army to military bases and taking over the day-to-day administration (Rösel 1997).

³ It has to be taken into account however, that the fighting between the LTTE and the SLAF is only one dimension of the ethno-political conflict that Sri Lanka has been facing. There are other social, political and ethnic cleavages between other communal groups, which in some cases are interrelated with the conflict described above. In this context clashes between Muslim and Tamil communities in the East, clashes between Sinhalese and Muslims and furthermore, Marxist youth insurrection in the South in 1971 and in the late 1980’ s have to be mentioned (see e.g. Seifert 2000, p.17 ff.). The conflict in Sri Lanka can be described as a “complex political emergency” a term introduced by Lewer (1993, p.3). Goodhand and Hulme (1999; in CATAD 2001, 9) use this term to describe the protracted duration, social cleavages and predatory social formations by which these conflicts are characterised. Furthermore the multidimensional cause underlying the ethnicised conflict needs to be emphasized, which, however, cannot be elaborated on in this paper.

⁴ Among these, the following were most important: The Thimpu Talks, (1985), The Indo-Lanka Accord (1987), The Premadasa Peace Talks (1989-90), The Kumaratunge Peace Talks (1994-1995) (see Seifert 1999, pp. 18-24).

⁵ See appendix p.1

The government responded by launching a major offensive in Jaffna in 1987. In July 1987 the GOSL signed the “Indo-Sri Lankan Accord” with the Indian government designed to bring an end to the violence in the North and East. The accord committed India to deploy a peace-keeping force, the “Indian Peace Keeping Force” (IPKF), to ensure compliance with this accord. The accord included the prevention of extremist actions and the disarmament of militant groups. Despite the presence of the Indian troops, the fighting resumed. In reaction to this, the IPKF launched a major assault and took control over the peninsula in late October. In the following it rather acted as a partisan force fighting against the Tamil civilians than acting as a neutral body to ensure the implementation of the peace accord (ibid.).

After the complete withdrawal of the IPKF in 1990 the LTTE re-gained and further established its control over the peninsula (as well as the Vanni region and parts of the Eastern provinces). Again they could develop a de facto regime in the peninsula (Seifert 2000, pp. 244-246). In the following five years, the LTTE could maintain its control over the peninsula. Nevertheless, the peninsula remained a highly contested area. A number of major military offensives and intense fighting occurred. Since summer 1990 the SLAF used air bombings and shelling for several times in attempts to combat the LTTE. Furthermore, both conflict parties increasingly used civilians as “human shields” (Rösel 1997 p. 329). In November 1995 the SLAF retook control over Jaffna town and then finally regained control over the whole peninsula in May 1996. Before the SLAF took over Jaffna town, the LTTE forced the population of the peninsula to leave to areas in the South of the peninsula or to the Vanni area. This caused a temporary displacement of about 500 000 people (Rösel 1997, pp. 365-366).

After 1996 the LTTE retained control of a great part of the Vanni area which roughly comprises the area between the peninsula and Vavuniya (see map in appendix I). The Jaffna peninsula was thereby cut off from the rest of the country. The following years were characterised by the LTTE attempting to regain control over the peninsula by several offensives. Major fighting between the LTTE and the SLAF in the peninsula occurred until as recently as mid 2000 when the LTTE retook one third of the peninsula (Fricke 2002, pp. 113-118, Gant et al.2002, p. 185). In December 2001 a cease-fire was declared and on 22

February 2002 both parties signed an indefinite cease-fire agreement that had been brokered by the Norwegian government⁶

2.2.1 The LTTE de facto regime in the Jaffna peninsula (1990-1995): Effective administration and political repression

As has been mentioned in the previous section the LTTE re-gained and further established its control over the peninsula in 1990. They consolidated and expanded their administrative structures, took over the dispensation of justice and the police force (“Tamil Eelam Police”) (Rösel 1996, p. 350). Furthermore they developed a broad tax system including the taxation of households, traders and producers. They clearly differentiated between different earning groups and also took e.g. into account, whether someone had ‘wealthy’ relatives (e.g. relatives who had migrated abroad) or other additional sources of revenue (Rösel 1996, 351). This makes clear, that they had developed extensive intelligence gathering capacities.

Since 1994 the LTTE has been furthermore representing itself as an organisation promoting the rehabilitation and development of the North and East and established its own development agency and development bank (Seifert 2000, 244). Rösel (1996) interpreted this rather sceptically as a strategy to gain new sources of revenues in the Tamil diaspora as well as to conceal the “exploitation” of the population of the peninsula (p. 351). Many authors describe the LTTE regime as rather repressive. Persons with dissenting views faced severe threats, harassment and/or were detained as political prisoners. Furthermore, numerous political killings took place.⁷

2.2.2 The attitude of the Jaffna population towards the LTTE

Many authors estimate the Tamil populations' support for the LTTE as fairly strong and view the population as closely linked to them.⁸ Hellmann-Rajanayagam (1994), who refers to the situation *before* 1995, describes the LTTE as “being the only group that can really prove to have grassroots support and influence” (in: Seifert 2000, p. 172). He furthermore speaks of a “social contract” between the population and the LTTE (ibid.). However, many authors see evidence, that the LTTE’s footing within the Jaffna population has decreased severely. They ascribe this to the increasing military recruitment of children, the repressiveness of the LTTE

⁶ For the complete text of the agreement see:

<http://www.peaceinsrilanka.org/insidepages/Agreement/agceasefire.asp>

⁷ See especially the „Special reports of the University Teachers for Human Rights Jaffna (UTHR); www.uthcr.org/specialreport.htm; Sri Lanka Sections in the World Reports of Human Rights Watch (HRW) of the respective years; [www.hrw.org/reports/\[year\]WR\[year\]/Asia-10.htm](http://www.hrw.org/reports/[year]WR[year]/Asia-10.htm)

⁸ For a brief overview of the estimation of different authors supportive of this view see Seifert 2000, pp.171.

regime (1990-1995) and moreover the LTTE induced forced displacement of 1995 (see Fricke 2002, 38). Furthermore, the populations' fear of LTTE reprisals is highlighted (ibid.). Considering, that though Jaffna's population was at the time of this fieldwork very critical about the LTTE, but that at the same time it felt neglected and discriminated against by the GOSL⁹, it becomes clear, that they are in a way 'caught between a rock and a hard place'. Taking the local entrepreneurs as an example, chapter eight will illuminate the ambivalence inherent in the population's' stance towards the LTTE in greater detail.

2.2.3 The impact of the civil war on the peninsula's economy

Though Jaffna has traditionally been known as an agricultural and fishing area, it prior to the major fighting had a substantial industrial and service base (Gant et al. 2003, 14). The impact of the civil war on the peninsula's economy was twofold. *Firstly*, the artillery shelling, air bombing and small arms fire severely devastated the physical fabric of Jaffna, including the telecommunication and electricity supply systems. Furthermore the displacement of great numbers of the population meant, as well, that many entrepreneurs left the peninsula. Gant et al. (2000) briefly summarises the impact of the civil war as having "severely fractured the local economy with the majority of the micro, small and medium enterprises having been dissolved and the capital and assets destroyed, expropriated, stolen and/or expatriated." (Gant et al.2000, in: Gant et al. 2002, 191). According to the Industrial Development Board (IDB) of the Jaffna peninsula more than two thirds of the industries were destroyed (IDB 2002, 16).

Secondly, the economy of the peninsula became a "closed economy"¹⁰. This was due to the GOSL closing the A9 highway, the main road linking the peninsula¹¹ with the rest of the country, and furthermore due to severe import restrictions since 1990. The closing of the A9 virtually cut off the economy of the peninsula from the rest of the country. The import of goods and raw material was fairly limited, as they had to be transported by either ship or plane which operated only on some days of the week. By the same token, the export of products to other parts of the country was rarely possible. The embargo posed by the GOSL on the LTTE-held areas in 1990 covered over 60 goods, including among others fuel, batteries, certain chemicals as well as food and medicine (Sarvananthan 2003, p.1).

⁹ This statement is based on the findings of the numerous formal and informal interviews conducted in the Jaffna peninsula for this paper.

¹⁰ This term is commonly used by Sri Lankan as well as international development practitioners to describe the severe isolation of the peninsula during the period from 1990 to 2001. It has to be considered however, that the isolation of the peninsula had been slightly eased since the GOSL retook the peninsula in 1996.

The embargo was partly lifted in 1996 when the SLAF retook the peninsula but heavy restrictions on the import of many items remained. These restrictions posed severe constraints on agricultural and entrepreneurial activities and in some cases directly led to the closing down of enterprises (e.g. soap factories that essentially relied on banned chemicals) (IDB 2002, 5). In section 5.1 the impact the war had on the entrepreneurs interviewed will be described in more detail.

3. Conceptual Approach: The social and political embeddedness of economic action

This paper's analysis of the entrepreneurs' strategies, perceptions and interpretations is based on the concept of "embeddedness", the key concept of contemporary Economic Sociology. Inspired by the notion of embeddedness by Karl Polanyi (1944), it was in a modified form introduced to contemporary economic sociology by Mark Granovetter. In his article "Economic Action and Social Structure: The Problem of Embeddedness" (1985) he points out, that economic action is thoroughly integrated in social relationships. In this perspective economic actors are linked with and influenced by other economic and non-economic actors. And therefore their actions cannot be explained by reference to individual motives alone. He especially emphasises the importance of networks of concrete social relations in which economic actions take place.

Rather than applying a network perspective, however, this paper applies the concept of embeddedness in a broader way. In line with the common thinking of Economic Sociology, it is assumed, that the economy is an integral part of society and that economic action, as a specific form of social action, always takes reference to and is shaped by the values, norms, expectations, and social processes of a given society (see e.g. Smelser/Swedberg 1994, pp. 5-7). To understand the economy as an integral part of society makes it necessary to consider the influence the political context has on economic action. With reference to Zukin and DiMaggio (1990) this analysis therefore takes into account, the "political embeddedness" of economic action (pp. 14-23).

By "political embeddedness" of economic action DiMaggio and Zukin refer to the influence that legal frameworks, policies of the national and local state, political values, political expectations and complex interrelations between economic and non-economic actors have on

¹¹ See appendix p. 1

opportunity for and *strategies* of economic action. (ibid.). By shaping the sources and means of economic action, the existing power relations of nonmarket entities (especially the state and social groups) take effect in the sphere of economic action (20 f.)¹². Furthermore, concrete political processes and events (e.g. elections, or like in the case analysed in this paper, a war, a cease-fire agreement and formal peace talks) obviously shape economic action, as they influence the degree and the forms of uncertainty and complexity that economic actors have to consider when making decisions.

DiMaggio and Zukin introduce another form of embeddedness: the “cognitive embeddedness” of economic action (1990, pp. 15-17). By this concept, DiMaggio and Zukin refer to the *limits* to rationality that are posed by the limited cognitive competence of economic actors in dealing with uncertainty, complexity and the cost of information, whereby they primarily refer to the impact of these factors within transactions (p.16). This concept goes very much in line with the concept of “bounded rationality” (Simon 1993), commonly applied by scholars of both, contemporary mainstream economics and economic sociology. This paper in principal agrees with the concept of “cognitive embeddedness” or “bounded rationality” but, in the context of uncertainty and complexity caused by certain state policies, political events and processes it rather views the rationality of economic actors as being *shaped* by the different forms of uncertainty and complexity, instead of being *limited* by them.

In this context another aspect of the embeddedness concept has to be emphasised: the importance of perceptions. It is not only the political events and processes itself, but also the perception the actors conceive of it, which influence their behaviour. Against this background, economic action is, in this paper, regarded as being shaped by state policies, formal and informal institutions their implementation or non-implementation respectively, political events and processes and the perceptions the entrepreneurs conceive of it.

Institutions are, according to North, defined as “humanly devised constraints, that structure political, economic and social interaction” (1991, 97). Institutions comprise formal rules (e.g. constitutions, laws and property rights) as well as informal constraints (sanctions, taboos, customs, traditions and codes of conduct) (1991, pp. 97-112). In addition, institutions

¹² In this sense DiMaggio and Zukin argue, that “Political embeddedness is illustrated most clearly when power relations among economic actors are inscribed in, or prescribed by, the legal framework of the state.” (1990, p. 21).

in the sense of socio-political and normative features (e.g. norms, attitudes of loyalty, rationalised belief systems) of a given societal environment are explicitly taken into account in this paper. They are in the following, also referred to as informal institutions.¹³ While in the case of the two latter, the influence of concrete institutions on the entrepreneurs economic action will be examined, the analysis of the impact of formal institutions will not concentrate on the impact of specific formal laws, but given the post-cease-fire context, rather focus on the question of how the overall absence of legal certainty and in addition the uncertainty on the future political framework constrained entrepreneurial activities and shaped the entrepreneurs' rationale. These factors, together with the standard resources and constraints of economic action are seen as defining the choice set and shaping the rationality (and thereby the strategies) of entrepreneurs.

This conceptualisation is also applied to the entrepreneurs' attempts to influence certain state policies and certain activities of the LTTE that impede their entrepreneurial activities.¹⁴ In the case analysed it is especially informal institutions that shape the way in which this is attempted Next to this analysis of the influence of political events and the influence of institutions on the entrepreneurs' economic behaviour, the government's monetary policy to stick to a very restricted allocation of loans in the Jaffna peninsula will be examined regarding its effect on the local entrepreneurs ability to achieve their (changing) entrepreneurial aims since the cease-fire agreement took effect. The local entrepreneurs' interpretation of this and other restrictive policies, as a discriminatory act against them, is understood and elaborated on as a further dimension of the socio-political embeddedness of economic action.

4. Research Approach and Methodology

As has been indicated, the guiding question of the research was how the cease-fire situation of 2002 shaped the economic behaviour of local entrepreneurs and furthermore, how the entrepreneurs interpreted this situation. The chosen analytical approach of the "social and political embeddedness of economic action", required a research approach capable of capturing the characteristics of existing social relations, formal and informal institutions and

¹³ This (latter) conceptualisation of institutions and its influence on economic action is especially highlighted by the New Institutional School, advanced by John Meyer and his colleagues (see e.g. Meyer, Scott and Deal 1981).

¹⁴ These attempts can, in a broad sense, be understood as economic actions, as they aim to reduce operational costs (transport costs, transaction costs and producing costs).

perhaps most crucially, the entrepreneurs' perception of the given situation. Therefore, I chose to apply a *qualitative* research approach.

Qualitative research approaches focus on the interviewees' own perspective. It enables to analyse their perceptions, interpretations and structures of relevance associated to certain situations and phenomena (see Flick et al. 2000, p. 17). The basic assumptions that unite the many different qualitative approaches is the idea that social reality is a result of meanings and coherence which are continuously produced and re-produced in social interaction (ibid. 20). Individuals share common meanings that they ascribe to objects, events, situations and people (Blumer 1973, in: ibid.) These shared meanings, shape their individual as well as their collective behaviour (ibid.). In the following sections the process of the research, its underlying principles and the research methods applied will be described. Furthermore, the experiences made during the collection of data will be reflected upon.

4.1 Preparatory Phase in Colombo and Beruwela

Arriving in Sri Lanka I had the vague idea to do research on the impact of the ongoing peace process on economic action at the district or provincial level. After several discussions with development practitioners as well as research fellows of policy institutes like the Centre for Policy Alternatives (CPA), the International Centre for Ethnic Studies (ICES) and the South Asia Institute (SAI)¹⁵ I developed the broad question of what the ongoing peace process meant for local entrepreneurs in the Jaffna peninsula. According to many newspaper articles, as well as the research fellows' estimations, local entrepreneurs were facing considerable changes due to the re-opening of the A9 highway and the relaxation of import restrictions, which made it seem an interesting topic to me.

At the end of August I participated in a three days workshop in Beruwela in the South of the country in which representatives of several Chambers of Commerce, from different parts of the country, met.¹⁶ At this workshop I got to know the Secretary of the Chamber of Commerce and Industries of Yarlpanam¹⁷ (CCiy) who considerably eased my access to the local business community in the Jaffna peninsula. I had several opportunities to talk with him about the situation of local entrepreneurs in the peninsula and to discuss the possibilities of carrying out research there. He also put me into contact with the president of the CCiy

¹⁵ The SAI is an institute of the University of Heidelberg (Germany).

¹⁶ This workshop was organized by the Enterprise Information Project, a project of the German Technical Cooperation (GTZ), who gave me the opportunity to fully participate in it

who was supportive of my research, as well, so that I felt well prepared to travel there and begin with the data collection. Furthermore, he later on provided me with valuable background information on the chamber's everyday activities and difficulties faced. He hence became one of the "key actors" (Fetterman 1992, 58) of my research project.

4.2 Core phase of fieldwork in the Jaffna peninsula

The core phase of fieldwork was carried out in the Jaffna peninsula for a period of six weeks between the end of August and mid October 2002. In the first ten days, I conducted numerous unstructured interviews (long conversations as well as chats) with different representatives of the two local Chambers of Commerce and furthermore with entrepreneurs and shopkeepers. Furthermore I participated in meetings and workshops organised by the two Chambers. Through these activities I gained a first insight in what had been happening in the local economy since the cease-fire agreement had taken effect and gained a good grasp on the issues being discussed by the local business community. On the basis of the information and impressions gained in this *exploration phase*, I then narrowed the guiding question of my research to the question stated at the very beginning of this chapter. In addition, I decided to focus on the rationale and the interpretations of entrepreneurs from the manufacturing sector instead of including the local traders in the research as well. This was first of all a pragmatic decision. Given the complexity and the partly differing situation that the two groups were experiencing I felt, that both perspectives could not have been dealt with adequately in a period of six weeks.

4.2.1 Methods applied and underlying principles

This section describes the *principles* underlying the data collection. By describing the actual implementation of each principle, it also outlines the *methods* applied. Thereafter I will elaborate on the data collection itself. Though implicitly having some basic assumptions (perceptions and institutions matter, economic action as social action) the approach chosen was predominantly a *generic* one. The aim was to find out from the entrepreneurs themselves what aspects of the specific situation were relevant to them and also what the situation meant to them And this in the sense of how it influenced them and how they interpreted it. To ensure the best possible level of openness, *no ex-ante hypotheses* were formulated.

¹⁷ Yarlpanam is the Tamil name of Jaffna. Different ways of spelling can be found.

Furthermore, the formulation of questions to the field had a strong *process character*. Drawing from the first insights gained in the exploration phase, a first thematic guideline for semi-structured interviews was developed. Additional topics and questions that emerged during the conduct of interviews were continuously included into the interview guide. At the same time, questions that turned out to be irrelevant for the entrepreneurs were left out or modified.

Moreover, the technique of *triangulation* was a core principle of the research. Triangulation was understood as “testing one source of information against another” (Fetterman 1992, p. 89). Two kinds of triangulation were used: The triangulation of data and the triangulation of methods (Denzin 1978, 304; in: Flick et. al 310). The former was implemented through semi-structured and unstructured interviewing of different actors.¹⁸ These comprised: local entrepreneurs, representatives of the Chambers of Commerce, government officials of institutions supporting the private sector, bank representatives, journalists of local newspapers, development practitioners, representatives of the Sri Lanka Monitoring Mission (SLMM)¹⁹, representatives of the Federation of the Chambers of Commerce of Sri Lanka (FCCIS) and a representative of “Sri Lanka First”²⁰. In addition, the data was compared with studies and papers on the local economy.

The “mix of methods” (“Methodenmix”) (Lachenmann 1995) applied to triangulate the data comprised the combination of unstructured and semi- structured interviews with observations at workshops and meetings of the CCIY as well as other business organisations. Triangulation, however, was not seen as simply serving to validate the obtained data, in the pure sense of “cross-checking” it. It was rather understood and used as a means to examine the complex interrelationship between the different actors and furthermore their relationship to the socio-political and economic environment. Triangulation was thus also used to put the information into perspective (Flick et al 2000, p. 311). This ensured the social and political *contextualisation* of the collected data.

¹⁸ By „unstructured interviewing“ it is here referred to conversations that were characterized by a minimum of control over the informant’s responses and the term „semistructured interviewing“ is used for interviews that were conducted with an interview guide consisting of a set of topics and questions (see Bernard 1995, pp. 209-210).

¹⁹ The SLMM (consisting of Scandinavian mediators) monitors the compliance of the SLAF and the LTTE with the ceasefire agreement.

²⁰ Sri Lanka First is a private sector initiative, founded in 1999, aiming at promoting peace by broad media campaigns and demonstrations.

4.2.2 Semi-structured interviews with local entrepreneurs from the manufacturing sector

Within the “mix of methods” (Lachenmann 1995) applied, the semi-structured interviews with local entrepreneurs were central. Regarding the time spent, they made up the greatest part of the data collection. In the course of the research 25 semi-structured interviews with local entrepreneurs and 12 semi-structured interviews with other relevant actors (see 4.2.1) were conducted.

4.2.2.1 The sample

The exploration phase had not indicated any fundamental differences between entrepreneurs of different manufacturing sectors regarding the way they dealt with, perceived and interpreted the situation in summer 2002. Therefore, no grounds for a narrowly focused or comparative research design were given. Hence, enterprises from different sectors were included in the research. These comprised enterprises from the garment-, the food-processing and the construction sector and furthermore metal processing and soap producing enterprises. The size of the enterprises varied considerably with most of the enterprises employing between 6 and 12 employees (permanent staff). An exact classification in terms of micro, small medium or large enterprise was rather difficult. The entrepreneurs seemed to feel uncomfortable to talk about their monthly turnover and profit and I therefore stopped asking about it. The age of the enterprises as well ranged broadly from two to seventy-five years. What they all had in common and what made them interesting for the research was, that they had been established before the cease-fire agreement and had thus been affected by the war and the effects of the cease-fire agreement. The majority of the enterprises included in the research was situated in Jaffna town and in the nearby area (Manipay and Kokuvil).

4.2.2.2 Getting in touch with the interviewees

At the beginning, the contact interviewees was mainly facilitated by the CCIY. They gave me the opportunity to participate in their meetings and in two of their workshops. At these occasions I directly approached some of the participating entrepreneurs and made several appointments for interviews. Furthermore the CCIY gave me a list of addresses of their members. This made it possible to get into contact with potential interviewees. In order to include non-members of the CCIY as well, I consulted the Industrial Development Board (IDB), which provided me with further addresses. In addition, I constantly asked local people (including the entrepreneurs interviewed) whether they knew any enterprises from the industrial sector in the nearby area.

Despite these attempts to avoid a biased sample, some biases remain. Firstly, as the contacts were mainly facilitated by the CCIY and the Industrial Development Board, almost all of the enterprises were registered with the local authorities. Only two of the included enterprises belonged to the assumingly significant ‘informal sector’. Secondly, the sample clearly suffers from a gender bias. As there seemed to be only few female entrepreneurs or women in leading positions in the manufacturing sector in Jaffna, most of the interviewees were men. Only four of the interviewees were women (two were the actual owners of the enterprises and two held leading positions in small enterprises with four to six staff members).

4.2.2.3 Semistructured interviewing

As it was most likely that I could interview the majority of the entrepreneurs only once, I chose the method of *semistructured interviewing*, which allows gaining focussed information and at the same time ensures a high level of openness (Bernhard 1995, pp. 209-210). As has been indicated in the previous section, I developed a *guide of topics* (rather than a fixed set of questions) which drew from the insights of the exploration phase and the interviews already conducted. I then tried to cover these topics in the interviews. In principal, I tried to cover the topics in a particular order. Nevertheless, I did not follow this strictly. I rather gave priority to not disturbing the interviewees’ flow of thoughts and narratives and to rather “fit in” the questions.

The interviews were usually held with the enterprises’ owner or with staff members in leading positions. In some cases the owner, together with a leading staff member participated in the interview. In these situations often discussions between the two of them emerged. This gave valuable insights in the different and sometimes contradicting perceptions, interpretations and estimations that people had of the situation analysed. According to the interviewees’ preferences, the interviews were either held in English or in Tamil (the latter with the assistance of an interpreter). The majority of interviews were conducted in Tamil.²¹. With the consent of the interviewees the interviews were recorded on tape.

²¹ Due to the fact, that most of the interviews were conducted in Tamil and that furthermore sensitive topics were usually not recorded on tape, verbatim quotes from interviews cannot be given for all findings and issues to an equal extent. Sections not containing verbatim citations are thus not based on less empirical evidence than sections with numerous verbatim quotes. While, verbatim quotes will be marked by double quotation marks, single quotation marks are used for accentuations.

4.3 Experiences

After describing the difficulties faced and mistakes made while conducting the semi-structured interviews, I will discuss the more specific challenges of collecting data that arose from the political situation in the Jaffna peninsula in late summer 2002.

4.3.1 Difficulties faced and lessons learned

Regarding the conduction of the formal interviews the biggest lesson I had to learn was that questions like “What has changed for you since the cease fire agreement?” were far to complex and already biased by assuming that a change had actually taken place. It was rather necessary to encourage the interviewees to *narrate* their past and present situation and to thereby step by step figuring out the processes taking place and their impact on the entrepreneurs economic action.

Another thing I had to learn was that having lists of addresses and telephone numbers of entrepreneurs did not automatically mean to get into contact with them easily. A great part of the entrepreneurs had either moved or closed down. Furthermore the telecommunication system proved unreliable. Taken together, actually ‘finding’ and asking potential interviewees for an appointment was very time consuming and considerably reduced the number of possible interviews.

4.3.2 Specificities of conducting interviews in the political setting of the Jaffna peninsula

The information gained before starting the semi-structured interviewing of entrepreneurs indicated that the taxation activities of the LTTE were playing a crucial role in the local economy. Therefore it seemed to be an essential topic for the interview guide. This had to be considered for the selection of the interpreter. Firstly it was essential that, he or she was willing to openly speak about issues concerning the LTTE. Secondly, the interpreter had to be a person who was not automatically associated with being supportive of the LTTE or even being a ‘spy’. As criticising the LTTE appeared to be strongly connected to the fear of reprisals this would clearly have been adverse for the interview process. This aspect excluded local students as potential interpreters. According to my experiences they were by many people perceived as being associated with or at least being in favour of the LTTE. Through the help of a local friend, I finally found an interpreter who matched these criteria.

Talking about issues relating to the LTTE (their activities and the interviewees’ opinion about it) was a sensitive matter. In the first interviews that I conducted without my

interpreter I was rather uncertain how far I could touch LTTE related topics. Not wanting to offend the interviewees I tended to overestimate the sensitiveness of this topic and immediately stopped asking about it when the interviewees showed the slightest hesitance to speak about the question raised. With growing experience in interviewing and especially with my interpreter's advice I could better estimate what questions could be asked.

Furthermore I found out, that many interviewees opened up, when they realised, that I already knew what kind of taxation activities were going on. The LTTE topics then to a certain extent lost their taboo character and it was in several cases possible to talk about it quite broadly. Therefore the technique of "directive probes" (to use already gained information to focus a subsequent interview) and to a certain extent the technique of "phased assertion" (to act like already knowing something) (Bernard 1995, pp. 217-219) became very important means in order to capture the implications of LTTE activities for the local entrepreneurs.

Opening up about these issues was also a matter of trust building. In many cases the interviewees themselves came back to LTTE related topics in the course of the interview and then further elaborated on it. Talking about the LTTE most of the entrepreneurs asked me to switch of the tape recorder. After having conducted several interviews I switched it off myself when I raised questions about the LTTE. Most of the interviewees recognised this with nodding and agreeing comments. This action thus considerably contributed to the establishment of trust between the interviewee and me, as it seemingly indicated that I was aware of the sensitiveness of these questions and the importance to ensure the interviewees' anonymity.

5. Doing business in the Jaffna peninsula since the 2002 cease-fire agreement

5.1 The impact of war on the interviewees' enterprises

More than half of the enterprises included in this research were established in the eighties with more than two thirds of them having been established in the early eighties between 1980 and 1983. Four of the enterprises were established before this period between 1927 and 1976 whereas five enterprises belong to the 'younger generation' of enterprises having been set up between 1996 and 2000. Thus all of the enterprises included in the research were established before the cease-fire agreement of 2001 but have been, albeit to a different

extent, affected by the acts of war between the Liberation Tigers of Tamil Eelam (LTTE), the Sri Lankan Army Forces (SLAF) and the Indian Peace Keeping Mission Forces (IPKF) in the Jaffna Peninsula between 1983 and 2001 as well as by the isolation of the peninsula resulting the government's economic sanctions and restrictions on the import of certain goods and material (see section 2.2.3).

The interviews reveal that there were three incidents that affected the performance and functioning of the local enterprises on the Jaffna peninsula in particular: Firstly, the fighting between the LTTE and the IPK following the arrival of the IPK-forces in 1987, secondly, the "Fort incident", the major offensive by the IPKF and thirdly, the "1995 displacement" (see chapter 2). The fighting between Tamil separatist groups, the SLAF and the IPKF in the late 80s and early 90s, forced some of the interviewed entrepreneurs to close their factories temporarily and led to (in several cases repeated) severe damages and in some cases to the complete destruction of their factories workshops respectively, machines, stocks of raw material and other assets. While only a part of the interviewed entrepreneurs had been affected by these events, the displacement of 1995 was a decisive point for all of them. With a few exceptions, they were displaced for periods between six and fifteen months and often had no other choice than to leave larger part of their machines and stocks behind, which then in most cases got either destroyed or looted during their absence.

The interviewees claim to have lost assets worth between several hundred thousand and six million Sri Lankan rupees (LKR).²² It turned out, that despite the investment of own funds, the practical and financial assistance of family members (in Sri Lanka and/or abroad) and local persons, loans of informal money lenders and in rare cases of obtained bank loans or expanded overdraft facilities²³ only a minority of the interviewed entrepreneurs fully rehabilitated their workshops or factories and – partly caused by this - none of the enterprises went back to its former productivity niveau. This can be partly explained with some of the entrepreneurs not having been able to obtain enough financial means to fully reconstruct their premises which in many cases affected the production process. It can furthermore be drawn back to the *constraints* caused by the heavy import restrictions for certain raw materials and products since 1990 (see section 2.2.3) as well as a clearly *reduced incentive* to

²² These are the sums that the interviewed entrepreneurs claimed as compensation from the Ministry of Rehabilitation or other government institutions. 100 LKR were in September 2002 equivalent to 1.06 Euro.

²³ The black market within the peninsula as turned out to have been another major source that facilitated the basic rehabilitation of their firms and made the continuation of the production process possible during the period of isolation.

produce at a high level since selling one's products to areas south of the Vanni and then from 1995 onwards outside the peninsula was virtually impossible (see also Gant et al. 2002, 34).

In addition to these factors it has to be considered however, that reconstructing one's workshop/factory only to an extent which was indispensable for re-starting the production process and producing at a low level itself, minimised the required investment and production costs (e.g. expenses for raw material and fuel) and can therefore be regarded as *strategies of risk management*. In the context of overall uncertainty and insecurity in which fighting could easily and actually *would* frequently occur, these strategies reduced the risk of a further depletion of the entrepreneurs' natural, physical and financial assets.²⁴ On the basis of the collected data it becomes clear, that not fully reconstructing one's premises and producing considerably below one's former production niveau was often the result of an *interplay* of the constraining factors mentioned and on rational considerations aiming at reducing the risk of a further depletion of one's assets. The relative influence of these different aspects thereby varied from case to case.²⁵

5.2 The situation of local entrepreneurs in Jaffna since the coming into force of the 2001 cease-fire agreement: Between change and "standstill"

When listening to businessmen, representatives of Chambers of Commerce and other business organisations from the South of Sri Lanka in late summer 2002, one could have had the impression that a vibrant change was going on in the Jaffna peninsula and that the local economy was prospering fairly well since the cease-fire agreement had come into force. However, the experience the local entrepreneurs made with the situation in Jaffna in late summer 2002, differed considerably from this positive view. The great majority of the interviewed entrepreneurs perceived *their* situation rather as one of "standstill".

²⁴ A study of the Centre for Advanced Training in Rural Development (SLE) (2001), dealing with land use and coping strategies of war-affected communities in the east of Sri Lanka, also found the strategy of avoiding productive investment in order to prevent a further reduction of one's assets. It was employed by farmers as well as by (small) entrepreneurs (pp. 71-72; pp. 104-107).

²⁵ Even though most of the entrepreneurs rather explained the partial reconstruction of their factories/workshops and the low level of production before the 2002 ceasefire agreement as a result of financial and material constraints, the rationale of risk aversion appears to have been crucial as well. This becomes obvious, when considering that more than a third of the interviewees stated being able to allocate the financial means required to realise at least a (great) part of their future plans (see beginning of chapter 6), which makes clear, that at least some of the entrepreneurs had been able to safeguard a part of their assets and/or disposed of informal sources to obtain financial and/or material assistance.

5.2.1 Visible changes: The transition from a “closed” to an “open” economy

The re-opening of the A9 road (the major road linking the Northern Province with the rest of the country) in April 2002 for the non-military transport of goods and passengers, as well as the lifting of import restrictions on most of the non-military goods, that were agreed upon in the cease-fire agreement of 22nd February 2002, led to a sudden transition from a “closed economy” to an “open economy”. Within a few days after the re-opening of the A9, a lot of business people from the South came to the peninsula exploring business opportunities. According to the Chamber of Commerce and Industries of Yarlpanam (CCIIY) and the Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) between 300 and 400 ‘joint ventures’ had been established between businesses people, mainly between traders from the south²⁶ and counterparts from the Jaffna peninsula until early October 2002. This led to the opening up of a great number of shop outlets in the peninsula (mainly in Jaffna town). Moreover a large number of traders from the south started to import and sell goods in the peninsula Furthermore several private Sri Lankan banks (re-)opened up branches in Jaffna town and the neighbouring areas. This was followed by the modernisation of the premises and services of the banks that had been functioning in the Jaffna peninsula throughout the time of fighting and isolation (e.g. air conditioning systems, 24 hour accessible cash dispensers).

These developments changed the appearance of Jaffna town, which often led to the positive description of a positive economic change taking place in the peninsula. Nevertheless, the situation of local entrepreneurs from the manufacturing sector in Jaffna remained difficult. As will be shown in the following sections, despite some positive consequences and opportunities resulting from the transition from a “closed economy” to an “open economy” (see 5.2.2) old constraints for economic action persisted (see 5.2.3). In section 5.2.4 it will then be shown how the entrepreneurs associated this situation to the remaining uncertainty of the peace process.

5.2.2 Benefits emerging from the cease-fire agreement

The entrepreneurs stated to having benefited by the MoU in so far as the import of raw materials and other goods needed to produce and keep their factories running had become easier, faster and in some cases cheaper. Furthermore, the MoU facilitated the import of goods that had been banned since 1990. Another positive development was seen in the

improvement of electricity supply and telecommunication facilities (24 hour availability). Furthermore, the entrepreneurs valued the end of nightly curfews and the reduced number of SLAF checkpoints within Jaffna town as making entrepreneurial activities easier. Apart from that they saw little improvement of their own situation since the announcement of the MoU.

5.2.3 New challenges and persisting constraints

With only a few exceptions the interviewed entrepreneurs stated that their enterprises were still functioning at the same low productivity niveau as in the previous years of economic isolation (“closed economy”). While some of the interviewed entrepreneurs described their mode of production and functioning as “quick sales and quick production”, “functioning at a flat rate” or “just trying to survive” others stated to produce beyond this subsistence niveau but nevertheless, below their capacity.

As became clear in the interviews, the constraints and security risks faced during the period of isolation and fighting had made the interviewees feel not having much alternative other than to more or less accept the situation of merely subsistence production. Not only did the war-related losses and the economic sanctions in many cases not allow for a higher productivity, but producing at a low level also served as a risk aversion strategy. By producing at a low level, the entrepreneurs reduced the risk of a (further) depletion their assets in the event of new fighting (see section 5.1).

However, it turned out, that the relative acceptance of this mode of production diminished rapidly with the MoU coming into force. This so, because – as the interviews reveal- the local entrepreneurs had expected the MoU to make it *possible* to (fully) rehabilitate and ‘modernise’ their enterprises. At the same time, they felt the *immediate necessity* to do so. Next to the relaxation of import and transport restrictions they had expected a quick improvement of loan facilities and other forms of state and donor assistance that would have facilitated the rehabilitation of the local economy. Furthermore and probably more important, the introduction of more ‘modern’ products from the South since the A9 re-opening had led to a sudden competition, convincing the interviewed entrepreneurs of the immediate necessity of modernising their production processes and products. Their overall aim, as it was commonly expressed by the interviewees, was to regain the productivity niveau reached before they were affected by the different acts of war and the economic

²⁶ By the term “south” it is here in line with the local entrepreneurs’ usage of this term referred to parts of Sri Lanka south from the Vanni area. According to representatives of the Industrial development board most of the companies that opened up shops in the peninsula were based in Colombo.

isolation and, above all, they aimed at safeguarding their entrepreneurial existence in the changing economic environment (competition with the south).

Apart from plans of modernisation (acquiring of new machines, modernising one's products, introduction of new products), the interviewees in the first instance, planned on reconstructing and repairing war-damaged warehouses in order to benefit from the regained possibility of buying big amounts of raw-material. In late summer 2002 the majority of the interviewed entrepreneurs had not yet started realising these plans substantially. The steps already taken comprised mainly the acquirement of urgently required, in most cases, small and second hand machines, the gathering of information on (new) production processes, the gathering of information on new machines, including visits to machine suppliers (mostly in Colombo and India), advice seeking and negotiations on credit-, loan-, and overdraft facilities at local bank branches. Thus the steps taken were measures that either required no or only small financial investments. In the cases where entrepreneurs had already gained the necessary information and/or adequate equipment, they had not yet made the purchase and stated that they were still uncertain when to do so.

Most interviewees stated that a major reason for not having substantially started to realise their plans to rehabilitate and/or to modernise their enterprises, was the lack of own capital and the absence of bank loans at an affordable interest rate in the peninsula, which could have served in balancing this out.²⁷ The commercial banking sector in the peninsula in late summer 2002 was, like before the MoU (see Gant et al. 2002, 190), still demanding very high interest rates as well as very high collateral against risk. The following statement of an interviewee:

„You know, they ask for a house as collateral but most of the houses in Jaffna have been destroyed no?“

Local Entrepreneur

expresses very clearly that the requirements were perceived as completely disproportionate to the actual material capacity of the local entrepreneurs. Gant et al.(ibid.) and Sarvanathan (2003, p. 3), as well as many development practitioners interviewed during fieldwork shared this view. Through their high requirements, the banks practically denied the local

²⁷Other factors, especially different forms of post-war specific uncertainty, certainly contributed to avoiding substantial investment as well. The impact of the latter on the local entrepreneurs' investment rationale will be dealt with at length in chapter six.

entrepreneurs access to credit for enterprise rehabilitation and development (Gant et al.2002). Sarvananthan (2003) concludes: “Although many private banks have ventured into the N&E [North and East] province in the past one year, the primary motive seems to be tapping the savings of the masses in the province.” (ibd.)²⁸.

The financial services of Thrift and Credit Co-operative Societies (TCCS) and community based organisations (CBOs), operating in the peninsula and partly funded by international aid agencies, were not accessible for the group of entrepreneurs interviewed. Similarly, the microfinance schemes operated by Care, the Campaign for Development and Solidarity (FORUT) and the United Nations Development Programme (UNDP) were primarily designed to support “extremely vulnerable” and “poor” societal groups. They were therefore not accessible for “Small business persons” as which most of the interviewed entrepreneurs can be classified.²⁹ The credits of informal “moneylenders” (at an interest rate of at least 19%) on w which some of the interviewees had relied on to finance the basic refurbishment of their premises, were by most of the entrepreneurs interviewed not regarded as a favourable option.

Furthermore, the entrepreneurs stated, that the had not received any compensation for losses caused by the air bombings or the detention of land and buildings by the SLAF. Major physical infrastructural bottlenecks (esp. the poor condition of roads) remained and local government institutions charged with supporting micro, small and medium industries, like the Industrial and Development Board (IDB), the Board of Industries and the provincial office of the “Resettlement and Rehabilitation Authority of the North” (RRAN), remained underfinanced and understaffed. Their capacity to support the local entrepreneurs was therefore limited to providing information on donor funds, vaguely expected to be released in the near future.³⁰ Apart from the “Competency-based Economies through Formation of Enterprise” (CEFE) Programme, implemented by the German Agency for Technical Co-

²⁸ Several attempts to gain detailed information on the loan and overdraft facilities and requirements in the Jaffna peninsula failed. In some cases the banks approached (state as well as private banks) either seemed to not having explicit guidelines or were very reluctant to give information on these. As it turned out, even development practitioners working in the field of microfinance had no proper access to this information. Nevertheless, according to the opinion of many development practitioners in Jaffna and Colombo the requirements in other parts of the country were considerably lower than in Jaffna (and other heavily war affected parts of the country).

²⁹ These categories are used according to the classification of microfinance shemes by Gant et al 2002, which, with regard to the loan size required distinguishes between loans designed to support the: 1.) extremely vulnerable, 2.) Poor subsistence level income, 3.) Entrepreneurial poor, 3.) Micro Entrepreneurs, 4.) Small business persons (p.200, table 49).

operation (gtz), no enterprise (development) services on a regular basis were available in the peninsula.

Furthermore, despite of great numbers of delegations of business men from the Southern parts of the country visiting the peninsula and having discussions with the local Chamber of Commerce and Industry of Yarlpanam (CCiy), investments from their side were not made. This was also the case for migrants originating from Jaffna presently living abroad or in the South of Sri Lanka, who reportedly came to Jaffna in considerable numbers to explore business opportunities.

5.2.4 “It’s only a cease-fire” – “standstill” as the result of low peace confidence

Thus, taken together, contrary to the entrepreneurs’ expectations, six months after the MoU coming into force, there had not been significant improvements of loan facilities, of infrastructure or other (visible) forms of assistance to the local private sector by the Sri Lankan government or international aid agencies. The entrepreneurs’ perception of their situation as a “standstill situation”, relating to the ongoing absence of supportive structures for entrepreneurial activities, becomes obvious here.

The entrepreneurs perceived the hesitant (investment) behaviour of national and international actors as directly connected to the early stage of the ongoing (formal) peace process.

“We requested them (the banks) to help us but still nothing positive has happened. Still they say the situation is unsatisfying. They want an entire peace process go through. After that only they will release the money.”

Representative of the Chamber of Commerce and Industry of Yalpanam

“The Prime Minister has promised these industries that he will give them loan facilities but only after the peace talks. Even the Asian Bank has advertised that they will help the local industries but they all don’t know how soon.”

Official of RRAN

“So, they [Business people from other parts of Sri Lanka] had several meetings and met several people and they met our chamber people and our local industrialists. Now they know the market opportunities. [...]. Some want to establish their firms here but still they are

³⁰ This statement is based on several interviews with representatives of these organisations. The same situation is described by Gant et. al (2002, pp. 197-198).

waiting. [...] Because so far we didn't find a peace agreement. Only the MoU. It's only a cease-fire. After a peace agreement only, they like to invest."

Official of the Board of Industries

"In our industry there is not much change because the allocation of fund is now in a stand still situation because government says that if there are peace talks and a peace agreement then donors will come and help you. (...). So they are waiting for a peace agreement."

Local Entrepreneur

The interviewees described the attitude of the government, the banks and the international donors as a "wait and see"-attitude, which they drew back to different motifs. While the last comment explains government behaviour as a strategy to receive donor money for the rehabilitation of the North and Eastern Region, the others explain it as an effect of the uncertain future development of the peace process, whose first (major) formal step, the first round of peace talks in Thailand, was just taking place during fieldwork. The interviewees expressed, that the government's and donors' uncertainty on a 'successful' development of the peace process prevented the implementation of infrastructural and other forms of improvements, restricting the entrepreneurs' ability to rehabilitate and improve (expand/modernise) their enterprises. In their view thus this uncertainty, as the dominant feature of the political context, appeared as the source of economic "standstill". Though agreeing on the security situation as being unpredictable and questioning the continuation of the peace process themselves, the entrepreneurs did not accept this as a legitimisation for the government's hesitance to build up supportive structures for entrepreneurs in the peninsula. Before dealing with this topic, however, it will first be analysed, in how far the entrepreneurs themselves were influenced by different dimensions of uncertainty they were facing.

6. The local entrepreneurs' investment rationale in the context of omnipresent uncertainty

Though being limited by the lack of accessible and affordable credit and loan facilities, more than a third of the entrepreneurs stated to have the financial capability to realise at least a part of their future entrepreneurial plans. A small majority stated not even requiring any financial assistance to realise the greater part of their plans. Nevertheless, as it has been described in the previous chapter, the interviewees rarely undertook substantial investments. This turned out to be a reaction to different forms of uncertainty, which the entrepreneurs

were facing in late summer 2002. These forms of uncertainty will be described in section 6.1 and section 6.2. Section 6.3 will then illuminate the question, which conditions, according to the entrepreneurs, would have made them more willing to invest.

6.1 Prevailing forms of uncertainty and their impact on the local entrepreneurs' investment behaviour

The uncertainty related to the 'post-war but pre-peace situation' did not only derive from the unpredictable question whether the cease-fire was going to persist, the first round of peace talks was going to be successful and sustainable peace was going to be the outcome of the peace talks in the long run. Uncertainty also arose from the open question of what kind of political-administrative set up would be agreed upon in a possible peace agreement and what role the LTTE was going to play in it. The third and imminent form of uncertainty faced by the local entrepreneurs were manifestations of legal uncertainty, most notably different forms of extra-legal taxation by the LTTE.

As will be shown in the following analysis, it is most of all the uncertainty about the peace process in combination with the different forms of taxation by the LTTE, which were influencing the entrepreneur's economic behaviour. This chapter will therefore concentrate on these two forms of uncertainty and their specific influence on the entrepreneurs' investment behaviour.³¹

6.1.1 The entrepreneurs' confidence in the peace process

The cease-fire and ongoing formal peace negotiations between the GOSL and the LTTE in late summer 2002 were not the first of their kind. Several cease-fire- agreements and formal peace negotiation had fallen into place since the beginning of the war but had never lasted long (see chapter 2). Therefore, the entrepreneurs remained sceptical on the prospects for a negotiated settlement of the war. Asked about how they perceived the cease-fire and the prospects for a sustainable peace, the entrepreneurs commonly felt, that the prospects for a definite settlement of the conflict was at this time better than ever before. They explained this with the mediating role of the Norwegian Government and also, albeit to a lesser extend with the government and the LTTE being "bankrupt". The interviewees argued, that both

³¹ It turned out, that the uncertainty connected to the unclear political-administrative set up of the region had a reduced the willingness of most entrepreneurs to negotiate 'tax' issues with the LTTE. This will be dealt with at length in chapter eight.

factors had made the two conflicting parties more seriously willing to a formal peace agreement, than in the former attempts to settle the conflict.³²

The ongoing peace process was thus commonly seen as a result of international pressure and (financial) inherent necessity, rather than as a fundamental change of mind of the two conflict parties. This reduced the entrepreneurs 'peace confidence' considerably.³³ The perception of the *chance* for a sustainable peace as "better than ever before" made the entrepreneurs "having more *hope* than ever before" but it was nevertheless not resulting in the entrepreneurs *being considerably confident* on a stable 'peace' actually coming true. A profound uncertainty in this matter remained and investing in one's enterprise was still regarded as "risky". In the entrepreneur's perception the fighting between the conflict parties could easily start again. Consequently, to many of the interviewees it seemed most reasonable to stick to a cautious investment behaviour and this even in clear contradiction to their aim to fully rehabilitate their enterprises.

The political embeddedness of economic action becomes very obvious here in that the uncertainty arising from the political past and present shaped the local entrepreneurs business rationale. Firstly, the situation of cease-fire and the high degree of uncertainty the entrepreneurs associated to it made them invest only very cautiously. Secondly, previous experiences of failed peace cease-fire agreements, resulting into a lack of confidence and finally, the perception of the peace talks as predominantly being the result of an inherent financial necessity considerably reinforced this uncertainty.

6.1.2 Everyday manifestations of legal uncertainty: Extra-legal taxation of goods and vehicles and the demand for protection money

With the MoU taking effect, a further dimension of legal uncertainty enhanced the overall uncertainty of the situation. The interviews reveal, that extra-legal taxation and the collection

³² Although there were certainly other factors contributing to reaching a ceasefire agreement, the intervention of the Norwegian government as a facilitator and mediator of the negotiation process as well as the economic motives of both, the GOSL and the LTTE were surely of crucial importance. In 2001 the Sri Lankan economy experienced its first contraction since its independence in 1948. This was caused by various factors, comprising among others: global slowdown, falling foreign investments, shrinking development assistance and falling tourist levels. Government deficits grew and military expenditure overran budget allocations. On the basis of these facts, Sriskandarajah (2003) concludes: "[...] it is possible to hypothesise that, more at any other time in the country's recent history, the government could ill-afford to pursue its increasingly costly military strategy." (p.6). Furthermore, it can be assumed that the LTTE as well was increasingly facing financial problems due to being banned in several countries (which limited their ability to raise funds within the Tamil diaspora there) (ibid.).

of protection money imposed by the LTTE, had since then become a crucial obstacle for the entrepreneurs.³⁴ The taxation of goods and vehicles was taking place at two checkpoints along the A9 road in the Vanni area. Their establishment had been agreed upon in the MoU in order to “facilitate the moving of goods and civilians ” (Art. 2.7). Although the taxation itself was not legitimised by any official agreement between the GOSL and the LTTE, it has so far been condoned by the government.³⁵

The rate of taxation depended on the kind of goods and ranged according to the interviewees as well as to Sarvanathan (2000 b) between ten and twenty-five per cent of its estimated value (pp. II). According to the interviewees, the rate of these taxation was fixed. It was therefore, though leading to very high transportation costs, predictable. Entrepreneurs who took contracts with the GOSL faced the problem that the LTTE taxes could not be invoiced to the GOSL due to the GOSL’s reluctance to accept this. An interviewed entrepreneur from the construction sector explained, that this situation even resulted in him not taking on new contracts that had already been offered to him by the government authorities. He argued, that these kinds of contracts were unprofitable.

Since they gaining control over regions in the North and East of Sri Lanka, the LTTE has been imposing taxes on enterprises and households there. In the aftermath of the MoU, the LTTE has extended its tax net to the government controlled areas in the northeast (Sarvanathan 2002a, 21). This was especially facilitated by the fact that the LTTE in accordance with the MoU was allowed to carry out political activities (in the sense of party work) in the government controlled areas. This led to the opening up of several LTTE political offices in the peninsula which according to some of the interviewees are also being used to administer the various taxation activities. To what extent the taxation of households and enterprises in the Jaffna peninsula had been advanced and institutionalised in late summer 2002 remained unclear. On the basis of the interviews however it becomes evident, that the local entrepreneurs’ decisions on investing in their enterprises, were directly and indirectly hampered by the collection of protection money.

³³ However, several interviewees explicitly valued the new Prime Minister’s (Ranil Wickremesinghe) attitude towards the peace process as “honest” and “sincere”.

³⁴ Sarvanathan (2003) states, that the LTTE tax regime had already been in operation in Jaffna before the re-opening of the A9 (p. 3). According to him, it has hugely extended and become much more systematic (ibid.).

³⁵ March 2003

Asking about protection money was like most other questions relating to the LTTE a sensitive issue. About one third of the interviewees did not want to talk about it and those who were willing to do so, preferred these passages of the interview not to be recorded on tape. Only one of the interviewed entrepreneurs said that protection money had been demanded from him, whereas the others rather referred to entrepreneurs and shopkeepers who had according to their knowledge been charged protection money. Many entrepreneurs as well as several government officials stated that they had heard rumours about the LTTE demanding protection money.³⁶ The collection of protection money was thereby not described as following fixed rates but as rather arbitrary.

It turned out as a common pattern that the interviewees were firmly expecting the demand for protection money to continue and even to increase. Some of them assumed that the LTTE was going to develop a broad and systematic tax system like in the Vanni area. Regarding the collection of protection money they expected the amount of money the LTTE was going to demand from an entrepreneur would *disproportionately* increase with his or her increase of profit (in the sense that the higher the profit of an entrepreneur was, the higher would the demanded absolute amount of protection money). They were convinced, that the LTTE had the means to gain detailed information on their gained profit. They thereby referred to experiences made during the LTTE de facto regime from 1990 to 1995 (see section 2.2.1), as well as to recent experiences.³⁷

How did this influence the entrepreneurs' (investment) behaviour? Refusing to pay the LTTE checkpoint taxes and the protection money was regarded as impossible. The entrepreneurs feared reprisals by the LTTE in case they would refuse to pay. Furthermore the highly arbitrary and therefore unpredictable character of the actual and expected protection money did not allow the local entrepreneurs to estimate their potential profit and implicated the risk of being left with marginal profit. Therefore, the consequence expressed by most of the entrepreneurs was not to improve and expand their enterprises considerably for the time being. It was especially the expectation, that the higher the profit of an entrepreneur was, the higher would the demanded amount of protection money be (and this

³⁶ It is likely, that some of these interviewees had experienced this kind of taxation itself but preferred to refer to rumours or to neighbours having been taxed by the LTTE as this probably made it easier to speak about this topic, which, at that time, seemed to be fairly taboo.

³⁷ In one case for example LTTE members had tried to gain information on an entrepreneur's financial situation through one of his employees. Furthermore, some of the building contractors taking government contracts reported that the LTTE had access to information on these contracts, the agreed conditions and the date of payment.

in a disproportionate way) that made them reluctant to expand and substantially invest in their enterprises.

Thus, while the taxation at the A9 checkpoints hampered the local entrepreneurs' capacity and willingness to expand because of the high transportation costs it caused (resulting in high overall operational costs), the negative impact of the protection money additionally derived from its highly *unpredictable* nature. The absence of legal certainty - as an aspect of the political embeddedness of economic action - was hence considerably shaping the rationale of the local entrepreneurs. Especially the unpredictability associated to the (actual and expected) demand for protection money implicated, that an improvement and expansion of ones' enterprise would have been rather disadvantageous at that particular point of time. This made most of the interviewees wait with their investments. It thus became next to the doubts on the stability of the cease-fire a major reason for the entrepreneurs to retain the strategy of low investments. The kind of legal uncertainty faced can thereby be seen as being considerably shaped by the early and fragile state of the peace process. The GOSL seemed to be reluctant to act on or even to discuss the taxation activities of the LTTE which can assumingly be drawn back to them not wanting to impair the peace negotiations at the very beginning of this process. In this sense, the situation of the local entrepreneurs depended on the political circumstances at the national level. Their economic action thus was considerably embedded in the political actors' tactics and strategies in the context of the ongoing peace process.

6.1.3 Factors potentially encouraging investment

Having discussed the factors reducing the entrepreneurs' *willingness* to invest in their enterprises (a considerable uncertainty on the cease-fire stability and the LTTE' taxation activities), it shall now be examined, what conditions, according to the entrepreneurs, would have increased their willingness to invest. As the interviewees were convinced that a possible proper peace agreement, facilitating a situation of durable peace³⁸ and a new political-administrative set up would only be achieved after a long period of time (possibly several years), they did not see it as a realistic option to wait with the realisation of their plans until such a proper peace agreement would be reached. As it has already been pointed out in chapter five, they aimed at at least regaining their old productivity niveau and above all, saw the *immediate* necessity to modernise their products and production processes due to the emerging competition with products being imported from the "south".

Most of the interviewees did not have a clear idea of the specific conditions that would make them more willing to invest at a larger scale. In late summer 2002, the attitude of the local entrepreneurs can be best described as a “wait and see approach”, as one of the interviewees named it himself. Regarding the uncertainty on the peace process, they commonly stated, that the commitment of both conflict parties had to become more emphatic which, according to them, could for example be indicated by a sincere willingness to negotiate and to compromise during the peace talks and also the withdrawal of SLAF personnel from the Jaffna peninsula.

With respect to the LTTE taxation and the GOSL condoning this, the need to ensure some sort of predictability was commonly regarded as essential and was widely claimed. Whereas some understood this in a rather limited way, in the terms of implementing “some methodology and some fixed system” of the LTTE taxation activities and the GOSL accounting for these taxes, the majority emphasised the need of a reliable legal framework and its proper enforcement. The interviewees commonly expressed, that as long as reliable structures would be ensured, it would not matter whether the political-administrative system of the Jaffna peninsula in the North and Eastern Region was led by the GOSL or the LTTE.

“Every extra judicial activities must stop. Then you are free. You are free to do your business. If you have any grievance you can go to the relevant authorities, say law enforcing agencies or court. Then it is a legal society. Then you can do what you like. And then it wouldn’t matter if it was LTTE or the central government.”

Local Entrepreneur, September 2002

Since statements of political preferences were strongly avoided by most of the interviewees, this statement could be interpreted as an attempt not to express one’s political preference. Whether this is the case or not, it nevertheless makes clear, that it was greater legal certainty, ensuring predictability of operational costs (transport costs, production costs and transaction costs), what the local entrepreneurs would have made more willing to invest in their enterprises.

³⁸ In the sense of a situation of non-fighting.

7. The ‘Injustice- Discourse’

In the previous chapters it has been pointed out, that the situation of the local entrepreneurs remained despite some improvements difficult (“standstill”) and that in addition new challenges (sudden competition) and difficulties (LTTE checkpoint tax and [increased] protection money) emerged. In the following it shall be examined, how the local entrepreneurs interpreted this particular situation. It will be made clear, that the increasing trading activities of southern business people in the peninsula evoked feelings of threat and injustice and that these feelings cannot be interpreted simply as a general rejection of southern business people coming to the peninsula and seeking business opportunities. Rather these feelings have to be seen in the broader context of the continuing absence of state investments and support to the local private sector. Finally it will be shown, how the governments’ reluctance to allocate more loans and its overall hesitant investment behaviour was interpreted in political terms before. Finally it will be examined on what grounds this interpretation was based.

7.1 Fear, feelings of injustice and the claim for investments

The great number of business delegations from the southern part of Sri Lanka, visiting the peninsula and exploring business opportunities had raised expectations of upcoming investments in the area. However, these expectations had not been fulfilled in late summer 2002. This resulted in severe disappointment and criticism.

“So they (delegation of businessmen led by the Federation of Chambers of Commerce and Industry of Sri Lanka) were the pioneers to come to Jaffna. Even before Mr Jayalath Jayawardane [Minister for Rehabilitation] visited Jaffna they came here [...]. They agreed that some investments must come here to generate the employment, to reactivate the industries like that. Maybe in the form through bank or through private capital or through private entrepreneur. This was the discussion and they agreed and then when the A9 road was open not a single investor came in. But their products came in. Their finished products. So the remaining savings of the people were taken over by the traders who came with their products here.”

Local Entrepreneur

This quotation makes clear, that the local entrepreneurs were not in general against southern business people seeking business opportunities, but against the form this was solely taking: the opening up of shop outlets and other trading activities. They in a normative way had

expected forms of investment through which they and the local economy as a whole could have benefited as well. In this sense it was argued:

“Actually now the leading companies of the southern part they have their agencies here [...]. Now they are establishing these firms through these agencies but so they are only selling their products here but they are not producing them here. This is not a viable business. If you want you come and invest here. Come and invest here and give some job opportunity to our people and make your products here. Now they are only doing the sellings here that is not what we want. We want some investment here.”

Representative of the Board of Industries

As southern business people did not invest in the peninsula at that time, they were heavily criticised and accused of taking advantage of the local entrepreneurs' weak situation by “taking over” the local market. The interviewed entrepreneurs felt threatened by the sudden and growing import of goods to the peninsula. These feelings of threat and injustice, nourished by everyday observations, were strongly increased by a Trade Fair that was organised by a Colombo based company. It took place in Jaffna town in the beginning of August 2001³⁹. More than 50 traders and industrialists from different sectors (from the food processing sector to suppliers of machinery and motorbikes) exhibited their products in this trade fair. Apart from a few semi-government organisations and a fruit-processing factory supported by a development agency, no local enterprises participated in this trade fair as an exhibitor. This was by the interviewees reasoned as due to a feeling of not having something ‘adequate’ to exhibit. Furthermore it has to be mentioned, that the stall fees of LKR 65 000 presumably seemed to be unacceptably high to them.

The trade fair demonstrated the unequal economic development the North and East in contrast to (some of) the southern parts have undergone in the last years. The entrepreneurs interpreted it as an announcement of these business people aiming at acquiring the local market and this at a time, when the local entrepreneurs felt not capable to equally compete with them.⁴⁰ Referring to the local business community's strong criticism on the trade fair a representative of the Chamber of Commerce and Industries (CCIIY) explained:

“Because we said this is not the right time to bring your products and market here. We want investors here, partners in progress. (...). What kinds of activities were going on here to earn money? Who supported us? Neither government nor the Southern traders. No one supported us for the last twenty

³⁹ It took place from the 3rd to the 5th of August.

years. Even the NGOs they just came here to do relief work.. (...). So now do they [Southern businessmen] have the moral right to come and exploit the savings of the people at this junction? You say morality in business, morality in politics. Is it there? That is our question!.”

Local Entrepreneur

This quotation reveals the strong feeling of injustice that the increasing trading activities caused. It is eventually rooted in the perception of having had unequal economic development opportunities due to the fighting and (economic) isolation in the period of open conflict. The local entrepreneurs had the impression, that this unequal development would be *perpetuated* by the Southern businessmen not investing in the private sector of the peninsula and above all, the GOSL not supporting the local entrepreneurs at this crucial point of time.

It becomes clear, that the claim for investments was understood as a claim for social responsibility and equal opportunities. It is thereby referred to the social structure of the country as a whole. In this perspective investments from outside of the peninsula at this particular point of time would have served not only to ease the situation of the local entrepreneurs and the local population but also as a first step to balance out the unequal structures of economic development between “the north” and “the south”, which the interviewees traced back to the direct and indirect effects of the protracted conflict.⁴¹

7.2 Feeling “left out again”: The interpretation of the government’s hesitant investment behaviour as a political statement

7.2.1 The absence of structural support as a signifier of continuing discrimination

As has been indicated in the previous section, the criticism of the Southern businessmen’s activities in the North was closely related to the absence of significant state support and unequal economic (development) opportunities. This will be further illuminated in the following.

The perception of the government’s behaviour as “unjust” was related to the state banks requiring very high interest rates and prohibitive collateral and personal guarantees. Furthermore the absence of any form of compensation and investment in infrastructural and other kinds improvements, which would have supported them to fully recover and to become

⁴⁰ The fact that huge numbers of the local people had reportedly visited the tradefair can be assumed to have reinforced the perceptions of being threatened by imports from the south.

⁴¹ It is certainly true that the economy of the North and East of Sri Lanka has progressively declined as a result of the civil war. Nevertheless it has also be taken into account, that development opportunities in the South have not been distributed evenly either. Growth has mainly occurred in the urban, western province, leaving high levels of poverty in the deep South (see e.g. Goodhand 2001a, 31).

competitive in the changing conditions of the local economy. In this context it was commonly demanded:

“Some structural set up must be brought in to safeguard the interest of the people in this area. They must be given time to organise themselves to start a business and to develop it to an extent where they are able to compete with the Southern Area people. Let them not take advantage of the situation, the weakness of the people and the weakness of the economy of this area. We as human beings we have the same capability like anybody in any part of the world. The capabilities are the same but the opportunity is different. If the opportunities are made available the same profession can survive in this area. So it is necessary to bring that opportunity here. That is what we ask.”

Local entrepreneur

As considerable support from the government failed to emerge, the local entrepreneurs felt to be “left out” by the government and, compared to “the south”, treated unequally. The interviewed entrepreneurs argued that other regions of the country had been facing much better conditions during the past and at present. This was often argued with regard to the lower requirements of loan and overdraft requirements in the Southern parts of the country (see section 5.2.3). The trade fair further strongly enforced the view of being treated unequally. This so, particularly because the Ministry of Rehabilitation, Resettlement and Refugees sponsored it. Considering, that the local entrepreneurs interpreted and experienced the trade fair as a major initial step by the southern business community to acquire the local market (see previous section) and rather *not* as an event to “re-unite and help (...) to establish peace in Sri Lanka”, as which the organisers described it (see leaflet in appendix II), it becomes clear, that the sponsoring of this event had to be inevitably interpreted as a further proof of the unjust behaviour and unequal treatment by the GOSL.

7.2.2 Whose war and whose risk?

Although the local entrepreneurs agreed with the situation as still being unstable and unpredictable, they did not accept this as a legitimisation for the (state) banks’ hesitance to allocate loans and the government’s hesitance to invest in the peninsula (e.g. in infrastructure).

“ [...] we request you to arrange us soft loan facilities with the state banks in this part of the peninsula without holding our stringent procedures of calling property mortgage or other such difficult tasks which are not possible at this juncture in this war torn area. Bank facilities which are available to the customers in the various banks in the island available to the Southerners, have to be made available to

the Northerners, instead of giving silly excuses like “absence of normalcy” etc. which was the slogan for the last several years.”

Extract of a letter by the CCIY to the Secretary of the Prime Minister of 1st September 2002.

In fact, the local entrepreneurs saw it as a duty of the government, to invest despite the remaining risks.

“They say that there [in the south] the risk is less but that in this area risk is high. The risk by whom? Is it created by me? Is it created by the people of this area? No. And this business is not required by me alone. (...). And this risk cannot be predicted. Once the LTTE will withdraw from this peace process everything will be gone. So if I take such a big risk why can't the banks, state banks and the donors share this and say: we are also contributing to you to develop your business. Say with a 25 per cent collateral or so. Even 25 per cent is high for us.”

Local Entrepreneur

This quotation makes clear, that the reason for not accepting the unpredictability of the situation as legitimisation for the (state) banks and the GOSL's hesitant attitude was, that the local entrepreneurs themselves had to operate within this situation of uncertainty and to a certain extent had to risk new losses if they wanted to continue running their enterprises.⁴² In their perspective it was again them alone, who had to face and cope with the risk of a new eruption of fighting, a risk, that was, as they argued, caused by a violent conflict, which they neither wanted nor could influence.⁴³

“Yes, we suffered a lot here. I lost trice. All my products, all my savings, everything. So not because of my fault, not because of my foolishness. Just because of the government and the militars fighting each other.”

Local entrepreneur

In the end, it is this perception and this attribution of responsibility for the violent conflict that underlies the entrepreneurs' claim to the government to support them much more strongly despite the remaining risks. Accordingly it proves to be the main root for the strong feelings of injustice connoted to the continuing absence of significant support by the GOSL. In conclusion, the continuing absence of significant support by the GOSL was by the

⁴² They could to a certain extent reduce this risk by not investing substantially, but this contradicted with their wish and the perceived need to expand and improve their enterprises, in order to become competitive in the emerging competition with the south (see chapter 5).

⁴³ In informal conversation during undertaking fieldwork in Jaffna, this turned out to be a common perception of the conflict by the general public of Jaffna. This is also described by Gant et. al (2002).

majority of interviewees interpreted as a discriminative treatment of the North and Eastern Region.

Thus, the entrepreneurs did not perceive and accept their situation of “standstill” (which, in their view, stood in sharp contradiction to the new emerging opportunities for southern businesspeople, especially traders, in the peninsula) as an inevitably transitional phase in the process towards a more stable situation. The hesitant investment behaviour of the GOSL as well as the reluctance of (state) banks to lighten the requirements for loan and overdraft services constrained their opportunities in the crucial situation of a sudden upcoming competition with products from the South considerably. From their perspective, the hesitance of the government hence initiated the perpetuation of the existing unequal structures of economic development between “the North” and “the South” that had emerged as a result of the war. The hesitance of the government hence initiated the perpetuation of the existing unequal structures of economic development the GOSL hence was seen as having strong political implications.

Nevertheless, this did not automatically result in them preferring the LTTE to have a leading role in the future political set up in the North and East. The entrepreneurs in many cases did not believe that the LTTE had the knowledge to build up and to run efficient economic structures. Furthermore they doubted that the LTTE would stop arbitrary taxation like for example demanding protection money even if they were engaged in a legal administrative system. Against this background, the entrepreneurs’ confidence in a ‘better’ future was rather low. The LTTE taxes and their demand for protection money surely had a negative impact in their faith in the LTTE. That they, nevertheless, often felt *obliged* to pay the taxes and protection money demanded by the LTTE, will be dealt with in the following chapter.

8. Influencing the GOSL and the LTTE: Perceptions and attempts

In the course of this paper it has been shown, that the GOSL’s and the LTTE’s policies and actions influenced the entrepreneurs’ economic behaviour and in many ways restricted entrepreneurial activities in the peninsula. Against this background it shall now be analysed what chances and possibilities the interviewees saw to influence these actors. This chapter

thus is interested in pro-active strategies⁴⁴ of dealing with the remaining and new emerging difficulties for economic action in the peninsula. In this connection it will also be examined by what factors the willingness and the actual attempts to exert influence on the central actors: namely the local politicians, the GOSL and the LTTE, was shaped.

8.1 The individual perspective: Between feelings of powerlessness, fear and moral obligation

During the course of research it became apparent, that the entrepreneurs did not want to be related to any kind of political activities. Mentioning the word ‘political’ immediately evoked a strong defensive attitude. Politics was inevitably equated with conflict and problems. The interviewees related it to the armed conflict between the SLAF and the LTTE, the taxation and other activities of the LTTE, the often-violent rivalries between different political groups and parties. Accordingly, having any “political influence” on the local or national level was usually strongly denied during the interviews. However, asking more cautiously – avoiding the word ‘political’ – and simply asking whether they felt they could somehow influence actors like local politicians, the GOSL in general, the SLAF or the LTTE, made it possible to talk about this issue.

In most cases the entrepreneurs did not feel that they could individually influence either the GOSL, the local government representatives or the LTTE. Accordingly, only a very small minority said that they had tried to do so. Possibilities of individually influencing the GOSL were in general seen as unrealistic. Regarding the LTTE taxation activities it became evident, that the individual entrepreneurs felt rather powerless towards the LTTE. Only a small minority had tried to negotiate the rate of tax that was imposed on the raw materials and other goods they relied on with the LTTE but said that they had not succeeded in reducing it. The taxes were commonly viewed as not negotiable. This resulted from the perception of the LTTE as the sole ‘deciders’ on their practices. Statements like “ (...) that is left for them to decide” were commonly made. This was not meant in a normative way, but as a fact experienced and to be accepted perforce.

The hesitance to negotiate taxes with the LTTE was furthermore reinforced by the uncertainty on the influence the LTTE would (re-)gain in the peninsula and the role the LTTE would play in the future political-administrative set up. The rationale underlying this

⁴⁴ Opposed to rather reactive and defensive strategies that could be observed as e.g. low investment-strategy

was, that many entrepreneurs felt it would be better not to criticise (as what an attempt of negotiation could have been understood) the LTTE, as this could possibly cause disadvantages or reprisals for them personally and their enterprises in general. This could especially happen if the LTTE was able to further reinforce its influence on the local level (either informally or formally in the future political-administrative set up). The perception of the LTTE described above and the expectation and fear of reprisals strongly derived from the experiences made during the LTTE regime of 1990 to 1995 (see section 2.2.1).

Another, in connection with the fear of reprisals, somewhat contradictory reason that prevented the entrepreneurs from trying to negotiate with the LTTE turned out to be rather ambivalent feelings of moral obligation towards the LTTE. Although most of the interviewed entrepreneurs (surprisingly) openly and heavily criticised the existence of the taxes as well as the height of the taxation rates, many interviewees acknowledged a certain legitimisation of these taxes. They argued, that firstly, the LTTE had, despite the suffering they had caused for the population of the peninsula, fought *for* the population of Jaffna⁴⁵ and that secondly the LTTE would now depend on the tax and protection money revenues, to finance the care of war victims, such as orphans and handicapped cadres. Apart from this, the LTTE would also do rehabilitation work in the Vanni. This has to be seen in the context that the “Tamil Eelam Economic Development Organisation” (TEEDO) existing in the Vanni since 1994, claims to have rescued the people of the Vanni from starvation during the time of economic embargo. Furthermore, it published several proposals for the ‘development’ of the North and East Province in local newspapers (Sarvanathan 2003, pp. 8-9). The LTTE also undertook de-mining work in the Vanni in summer 2002, which was an activity that was highly valued by the general public.

Though the significance and the actual implementation of development activities by the LTTE can be questioned⁴⁶, the activities mentioned above seemed to have assured the entrepreneurs of the significance and importance of the LTTE’s development work. The possible use of the collected tax and protection money to purchase arms was not mentioned by the interviewees themselves and questions asking about this were usually evaded. This

and satisfying the tax or bribe claims of LTTE or SLAF personnel (see chapter six and eight).

⁴⁵ Though this feeling was commonly expressed, the interviewees opinions on the LTTE as legitimate authority of the North and East differed considerably.

⁴⁶ Sarvanathan (2003) points out that in his view it was rather the assistance of several international development agencies that rescued the population of the Vanni from starvation (p. 7). He furthermore describes, that the LTTE in several cases misused building materials provided by these organisations and originally destined for resettlement and rehabilitation tasks for their own purposes (p.8).

can be partly explained by a general tendency to blind out ambivalent aspects related to the LTTE in public. But it also needs to be recognised that the access to objective information about the LTTE's activities is fairly limited in the peninsula.⁴⁷

It thus becomes clear, that the economic action of the local entrepreneurs is considerably influenced by informal institutions such as beliefs and feelings of moral obligation towards the LTTE which the entrepreneurs, as members of the local society, have developed. The moral obligations can be interpreted as a result and a part of the existing relations between the LTTE and the local population that have been developed over time. The feeling of “somehow” owing something to the LTTE and in some cases the view of the LTTE as a legitimate local authority and above all, feeling responsible for the care of war victims were important factors that influenced their willingness to pay these taxes. This does not mean, however, that the entrepreneurs were necessarily supportive of the war and the LTTE's actions in general. It can rather be interpreted as a moral obligation towards the community that vaguely comprises the population of the peninsula and the Vanni. The LTTE-controlled Vanni is not just considered to be more war affected, but at the same time there are still large numbers of internally displaced people (Dips) from Jaffna living there. Supporting the LTTE thus implicitly meant, that the Vanni people would profit from this as well, which made a constitutive part of the moral obligation. Even though the taxation activities heavily affected their businesses many of them would have felt uncomfortable to refuse paying these taxes at all. The entrepreneurs' stance towards the LTTE taxation activities was thus a highly ambivalent one.

8.2 Social relations as resources: Forming alliances with powerholders as coping strategy?

A study of CATAD (2001) on land use and coping strategies of war-affected communities in the east of Sri Lanka (Trincomalee) found out, that entrepreneurs and traders in this area often sought alliances with powerholders (administrators, politicians and armed actors) in order to ease conflict-related restrictions for entrepreneurial activities (e.g. the cultivation of good relations with high ranking arm officers to ease passage at checkpoints) and to gain a privileged access to scarce resources (p. 77). Though the data obtained during fieldwork does not provide sufficient information to make reliable statements about this topic in the context of Jaffna in summer 2002, it is likely that local entrepreneurs employed similar strategies there.

⁴⁷ According to local journalists the newspapers avoided to criticize the LTTE due to the fear of reprisals.

As has been shown in chapter six and seven, the entrepreneurs described their position towards political and armed actors as very weak. Regarding the relation to the SLAF and the LTTE this description of powerlessness thereby implicated that these actors would be groups sharply separated from the local (business) community, exerting power on the community quasi from its 'outside'. Following their descriptions it often appeared as if the entrepreneurs did not have any *deliberate* contacts or relations to these groups and were not seeking them either (which made it difficult to talk about a possible advantage of having relations of this kind in the interviews). This description, however, seems unrealistic. Considered the long period of time that SLAF personnel has been stationed in the peninsula and taken into account that the LTTE ruled the peninsula for several years and recruits its cadres (also) from Jaffna, it is obvious that at least some local entrepreneurs have more or less close relations with LTTE members (e.g. through relatives and neighbours being LTTE cadres/members).

It is likely that the same holds for the entrepreneurs and SLAF personnel (e.g. through the SLAF being clients of an entrepreneur and/or through frequent contacts at checkpoints within the peninsula). In how far these relations - as manifestations of the social and political embeddedness of economic action in the peninsula- could be and were actually being 'used' to ease conflict-related constraints for economic action individually, appears to be an important issue to do further research on. Only by examining this topic, it will be possible to gain a comprehensive understanding of the local entrepreneur's *opportunities* and *strategies* to cope with and to improve their situation.

8.3 The perspective of collective actors: Balancing act of exerting influence and remaining a 'credible' negotiating partner – the example of the Chamber of Commerce and Industries of Yarlpanam (CCiy)

The Chamber of Commerce and Industries of Yarlpanam (CCiy) proved to be *the* central actor representing the interests of local entrepreneurs from the industrial sector.⁴⁸ In the following it will be shown how it attempted to influence the different actors (the GOSL, the SLAF and the LTTE) in order to ease the constraints that these actors posed for economic action in the peninsula. Furthermore, it will be made clear how its action was influenced by

Furthermore any other sources of critical information on the LTTE were hardly available.

⁴⁸ The CCiy was founded in 1990. In summer 2002 it had about sixty members.

informal institutions as well as by the necessity to remain a ‘credible’ negotiating partner to the LTTE.

8.3.1 The role of the Chamber of Commerce and Industries of Yarlpanam

The CCIY frequently discussed and uttered its demands to the GOSL. It especially addressed representatives of the Ministry of Rehabilitation, Resettlement and Refugees in meetings and public hearings in Jaffna, through letters and in some cases through newspaper statements. It also approached several donor agencies to highlight the difficulties local entrepreneurs were facing. Concerning the taxes and (major) problems, like e.g. the blockade of lorries at the checkpoints caused by the LTTE, the CCIY attempted negotiations with the LTTE.⁴⁹ Furthermore, the CCIY is a member of the local “Council for Peace and Good Will” whose objective is to mediate between the general public and the Jaffna-stationed SLAF members. In the meetings between this Council and the local SLAF representatives the CCIY discussed problems and tensions that arose between entrepreneurs and SLAF personnel and sought solutions to these.

By engaging in these activities, the CCIY thus practically acted as a *lobbyist* for the local entrepreneurs towards the GOSL and donor agencies, as a *mediator* between the local entrepreneurs and the SLAF and as a *negotiator* for the local entrepreneurs towards the LTTE. According to their own estimation as well as the IDB’s and BOI’s impression, they could, albeit to a small extent influence these actors and thereby weaken the constraints that these actors caused for entrepreneurial activities in the peninsula.

8.2.2 Ambivalences: Moral obligations and the need to remain a credible negotiating partner

In the following it will be examined, in how far the CCIY as *the* local collective actor attempting to influence the local conditions for entrepreneurial activities, facilitated the open discussion of the constraints faced and in how far its strategies and aims were based on the contributions of its members. While the negative consequences of the government’s behaviour as well as the problems caused by the SLAF were openly criticised, LTTE related problems and their taxes were usually not dealt with.⁵⁰ This became very apparent in a workshop group exercise, in which the participating entrepreneurs were asked to present the problems they were particularly facing at that time. Out of four groups only one mentioned

⁴⁹ These negotiations took place in the Vanni area in Killinochi, which the LTTE considers their capital. It seems that they were of rather informal character at that particular point of time.

⁵⁰ This statement is based on own observations as well as on statements made by members of the CCIY during interviews.

the taxes. Where they were mentioned, they were attended by short grinning and ‘knowingly murmur’ by the participants. Unlike all other issues brought up, the taxes were not further commented by the group presenter or any other person. The workshop facilitator, sent by a Colombo based development, did not further comment or pose questions on it either, which stood in sharp contrast to the dealing with other topics. It turned out, that a CCIY steering representative had asked him, not to raise this topic⁵¹. The strong, manifold constraining impact of the LTTE taxes on entrepreneurial activities, as it commonly became clear in the interviews, was thus consciously blinded out.

This can be explained with a.) an obviously shared understanding between the entrepreneurs, that this was not a topic to be discussed in a public space (a view, that was also commonly expressed in the interviews and that can be traced back to the feeling of powerlessness as well as the fear of LTTE reprisals), but also b) due to the moderator not responding to it and thereby approving (and possibly) reinforcing this view. This example makes clear, that events organised by the CCIY, did only in a very limited way serve as a forum, to discuss factors constraining entrepreneurial activities. Open discussions on the LTTE taxes, its legitimisation and impact, did not take place and were hardly possible. In (public) meetings and workshops this topic seemed to be rather avoided or suppressed by CCIY steering members. From the insights gained during field work it can be concluded, that the CCIY had to position itself carefully towards the LTTE in order not to take the risk of reprisals (for the organisation as a whole or for leading representatives personally) and also to remain a ‘credible’ negotiating partner to them.

Furthermore, it has to be taken into account, that some of the steering members might have been influenced by feelings of loyalty or some kind of moral obligation towards the LTTE as well, which possibly caused a certain reluctance, to question or criticise its taxation. In addition, it turned out, that even in case of the problems and constraints caused by other actors, only a few entrepreneurs were interested and actively engaged in the discussion on how to act on these issues. In this context it has to be considered, that the expectation to improve the conditions for entrepreneurial activities barely was their motivation for a membership. This can be partly explained with the perception, that the CCIY had hardly any influence on the concerned actors.

⁵¹ This became clear in a conversation with him when the seminar was finished.

Nevertheless, the CCIY's attempts to improve the conditions for entrepreneurial activities were usually recognised and highly valued by the interviewees. Their (perceived) low influence was not regarded due to some kind of organisational or other form of weakness of the CCIY, but rather the GOSL not paying attention to the population of Jaffna and the LTTE as principally hardly influencable by civilians, both minimising the chances of influencing the conditions for entrepreneurial activities. The role of the CCIY was therefore often predominantly seen as providing information and practical support, rather than to negotiate the conditions of entrepreneurial activities. Consequently the benefit of membership was often rather pragmatically seen in an expected privileged access to information on possible upcoming loan schemes by donor organisations and other forms of assistance.⁵²

Taken together, the chances seen and steps taken to influence the conditions of entrepreneurial activities in late summer 2002, were considerably shaped by a general feeling of powerlessness towards the GOSL and the LTTE, both resulting from and embedded in the experiences made with both actors during the past. In addition, a mixture of a.) the fear of reprisals and b.) informal institutions like feelings of loyalty and moral obligation towards the LTTE, reduced the willingness of the individual entrepreneur to negotiate with the LTTE about their taxation activities. This interweavement furthermore indirectly prevented the CCIY from serving as a platform to discuss the problems caused by the LTTE.

In the context of collective actors again, the social and political embeddedness of economic action in the Jaffna peninsula becomes clear. It covers two different dimensions: informal institutions and concrete social relations. It has been indicated, that the CCIY's way of dealing with the taxation activities was shaped by its steering members' *personal* fear of reprisals and feelings of obligation towards the LTTE as well as the necessity for the *collective actor* CCIY, to remain in a position in which the LTTE accepted it as a negotiating partner. Through the LTTE's taxation activities and the negotiations of these with the LTTE, concrete relations between these two collective actors have been established. Within this relationship however, the CCIY would only be able to exert a certain influence or to be at least heard by the LTTE, as long as they were not perceived as principally opposing them. Thus, serving as a public platform for criticism on the LTTE, which could have been

⁵² These expectations were raised by the fact that the CCIY had become a central organisation for aid agencies

interpreted as acting against the LTTE had to be avoided by the CCIY. In order to be able to influence the LTTE and thereby to lighten the constraints the LTTE posed for entrepreneurial activities, maintaining a 'good' relationship with the LTTE was essential.

9. Conclusion

9.1 Summary

This paper has made clear that six months after the cease-fire agreement coming into force, a considerable 'peace dividend' failed to appear for the local entrepreneurs⁵³ Adequate loan and overdraft facilities as well as government or donor support for local entrepreneurs remained absent and constrained the entrepreneurs' *ability* to fully rehabilitate and modernise their enterprises. It also prevented them from benefiting from the relaxation of import restrictions and the re-opening of the A9. Moreover, investments from outside the peninsula had not been made in the local manufacturing sector and compensation for losses caused by fighting had not been paid. Taken together, the entrepreneurs expectation of a considerable improvement of conditions for entrepreneurial activities through the cease-fire agreement were not fulfilled and the circumstances described above made the local entrepreneurs perceive their situation as one of "standstill".

A closer look reveals however, that this situation of "standstill" was embedded in and partly nourished by profound changes taking place in the peninsula. A sudden competition with more 'modern' products being imported from the South since the re-opening of the A9 and furthermore the strongly increasing demand for 'taxes' and protection money by the LTTE, posed new challenges and difficulties for the local entrepreneurs. The LTTE tax and protection money collections contributed to the situation of "standstill" in that they added a new dimension to the prevailing (post-)war related overall unpredictability and (legal) uncertainty, thereby further reducing the *willingness* of local entrepreneurs to substantially invest in the rehabilitation and/or modernisation of their enterprises. In the face of omnipresent unpredictability, peace- and legal uncertainty, retaining a cautious investment behaviour appeared to be the most reasonable strategy to most local entrepreneurs. In that the entrepreneurs perception of the cease-fire situation as being unpredictable influenced

seeking information on the economy of the peninsula.

⁵³ With reference to Sriskandarajah (2003) the term „peace dividend“ is used to denote the material dividends arising from peace, or in this case from „non-war“, rather than peace or non-war as a dividend itself (p. 3).

their investment rationale, economic action in the peninsula was profoundly embedded in the political context of this early stage of the peace process.

Moreover, economic action in the peninsula was politically embedded in that the emerging opportunities and prevailing constraints for entrepreneurial activities were considerably shaped by the political considerations and political strategies of the various national and international actors involved. This so in the way that the GOSL's and the international aid agencies' hesitance to launch substantive mid- and long-term private sector development measures can be explained with their uncertainty on the peace process. Furthermore, the GOSL's condonation of the LTTE's tax and protection money collections, facilitating its increasing reach, can arguably be drawn back to the GOSL not wanting to spoil the peace talks by discussing or acting on critical issues at an too early stage of the negotiation process.

While the entrepreneurs could but accepted the restraining conditions for entrepreneurial activities during the periods of fighting and economic isolation, this acceptance diminished rapidly with the 2002 cease-fire agreement taking effect. It gave way to what this paper has called the "injustice discourse". As they themselves had to operate in the given uncertainty, the local entrepreneurs did not accept the unpredictability of the cease-fire situation as a legitimisation neither for the continuing absence of accessible loan and overdraft facilities, nor for the government's hesitance to substantively invest into the rehabilitation and development of the peninsula's private sector. Rather, they interpreted the government's hesitance as a political statement, indicating the continuation of what they perceived as a deliberate uneven distribution of economic development opportunities between the south and the north-east.

In the entrepreneurs' view, substantial investments and support from the government and southern business people would have been essential steps to balance out these inequalities. Investments despite the remaining risks would have indicated the readiness to share the 'burden of war' and a sincere interest in balancing out the perceived unequal economic development opportunities that arose from it. In that the local entrepreneurs' claim for investments were actually understood as claims for 'justice' and 'social responsibility', the former thus had strong moral and political implications. The interweavement of economic action with the sphere of morality as highlighted by the concept of the social embeddedness of economic action, becomes apparent here.

The social and political embeddedness of economic action in the peninsula furthermore became evident in the influence of informal institutions and concrete social relations on the entrepreneurs' approach towards influencing political actors. A combination of contradicting factors like informal institutions (feelings of loyalty, moral obligations and shared beliefs) on the one hand and the fear for LTTE reprisals on the other, reduced the entrepreneurs' willingness to negotiate 'tax issues' with the LTTE. This led to the paradoxical situation that the taxation activities as one of the main constraints for entrepreneurial activities were widely blinded out in public discussions and events that were aiming at identifying pressing constraints.

While feelings of powerlessness turned out to be related to both conflict parties, attitudes of loyalty or feelings of moral obligation were pre-dominantly associated to the LTTE. Despite manifold grievances caused by the LTTE, the entrepreneurs often felt "somehow" obliged to the LTTE. This especially owed to the notion that the heavily war affected population of the Vanni area relied on these taxes. It turned out to be especially this belief, that in their eyes to a certain extent *legitimised* the LTTE's demand for taxes and protection money and made them feel uneasy about criticising the LTTE's tax and protection money collection and taking action on them. Again, the interrelationship of entrepreneurial considerations with moral considerations becomes evident, with the LTTE taxation activities being a major focal point of this interweavement.

Concrete relations with political and administrative actors such as the LTTE, local and national authorities and local politicians undoubtedly constituted crucial resources to ease the constraints for entrepreneurial activities. While the research findings in this respect do not allow for comprehensive statements for the level of individual entrepreneurs, interesting conclusions can be drawn with view to the collective economic actor CCIY. Throughout the research process it has become apparent, that for the CCIY to gain and maintain influence on the LTTE in tax and other matters relevant for entrepreneurial activities, there was a clear need for them to establish a 'good' relationship with the LTTE. This balancing act between attempting to ease the constraints for entrepreneurial action and at the same time remaining a credible negotiating partner shaped the CCIY'S action in so far, as it had to avoid or suppress open criticism on the LTTE in its meetings and workshops in favour of informal and personalised negotiations.

9.2 Implications for Development Co-operation in the Jaffna peninsula and other comparable contexts

What implications do these findings have for carrying out development assistance in the Jaffna peninsula? There is still a long way to go to until a negotiated settlement of the conflict could possibly be reached. The discussion of critical political issues like disarmament, minority rights and above all the design of the future political framework have not yet or only recently begun. Against this background it does not seem appropriate to wait for a conclusive peace agreement before shifting from relief-based interventions to programmes promoting long term development in the peninsula as (and – of course – in the other highly war-affected parts of the country). This is not only a question of social commitment towards its population, but could also contribute to laying the foundation for a sustainable peace.

The reactions of the interviewees show, that the absence of supportive measures – though perhaps understandable in this immediate post-war situation - nourished feelings of injustice. Especially in the context of southern business people (seemingly) profiting from the lifting of import restrictions and the re-opening of the A9 led to the perception of a further perpetuation of unevenly distributed economic (development) opportunities between the north and the south. Though it cannot be concluded too simplistically that this will immediately lead to a decreased peace support of the local entrepreneurs or to their political radicalisation, it is argued here, that if the unevenly distributed economic opportunities as one major structural cause underlying the protracted violent conflict⁵⁴ are not addressed, a *sustainable* peace in the aftermath of a possible formal peace agreement cannot develop. Development organisations therefore could and should at this early stage help reducing the geographic inequality by promoting private sector development in the peninsula.

They should despite remaining security risks launch initiatives that focus on economic recovery and economic development, including the facilitation of access to adequate loan and overdraft facilities, which at present still rather fail to appear (Sarvananthan 2003; in: Sriskandarajah 2003). Next to convey a positive message that the current cease-fire can be more than just a “pause in the conflict” (Sriskandarajah 2003, 18), this would also tackle a major impediment to economic recovery and development. Rather than to implement their

own (micro-)finance programmes, however, it might be more advisable to support state or private banks to extend their finance schemes tailored for small and medium enterprises to the peninsula, or creating adequate schemes respectively. Low repayment rates resulting from the often observed perception of donor loans as charity (see e.g. CATAD 2001, pp. 107-108) which could possibly be even higher in the context of the entrepreneurs' uncertainty on the peace process, could thereby to a certain extent be avoided. Furthermore, substantial support provided through state institutions would contribute to establishing trust towards the central state authorities.

However, as one can conclude from the findings of this paper, the entrepreneurs would only benefit considerably from better loan facilities and other supportive measures (e.g. training and advice), if the different kinds of uncertainty associated to and arising from the particular post-war but pre-peace situation decreased. A more predictable environment for economic action has emerged to be the pre-requisite for investing at a larger scale and expanding and/or modernising. In this context it has to be acknowledged, that the ability of development projects and programmes to reduce conflict-related uncertainty, unpredictability and insecurity are limited. These matters clearly need to be addressed in a long term high policy dialogue in which aid agencies, however, could play an advising role, drawing from their experiences at the local level. Nevertheless, there are certainly ways in which they, at the local level in this phase of transition, could at least contribute to the reduction of uncertainty and unpredictability arising from the LTTE's taxation activities described in this paper.

Aid agencies acting in the area to discuss these taxation with the LTTE and point out their negative impact on the local economy. Though to a great extent benefiting financially by their tax and protection money collection, the LTTE cannot, in the long run, be interested in constraining the economies of the areas of which they claim to be responsible for. Other than local entrepreneurs or business organisations like the CCIY aid agencies and here especially their international employees are less exposed to possible reprisals by the LTTE. Furthermore their bargaining power is considerably high, so that they, could in this particular situation, speak out for the local business community more easily than local actors could. Discussions with the LTTE will surely not prevent them from demanding tax and protection money, but it might at least lead to a reduction of the tax rates, the abolishing of particularly

⁵⁴ Uneven patterns of economic opportunities and hence uneven patterns of development have fuelled the

constraining regulations⁵⁵ or in the case of protection money, lead to a greater predictability. This would have an immediate impact and at least ease its constraining effects on entrepreneurial activities until mid- and long-term agreements between the GOSL and the LTTE will have been agreed upon.

Reportedly, some aid agencies have in the recent past undertaken first attempts to discuss these matters with the LTTE⁵⁶. Though the outcome of this cannot yet be predicted, these attempts are an important step. Unlike some months ago, development organisations seem to adopt a more pro-active strategy in dealing with the LTTE. If this will actually have an impact on the conditions for entrepreneurial activities would be an interesting research question to examine in the future.

conflict in so far, as they were a fertile breeding ground for political mobilisation (Goodhand 2001b, 97).

⁵⁵ For example the fact that the tax that is imposed on certain finished products is less than the cumulative tax one has to pay when importing several different ingredients or parts respectively needed to produce these products.

⁵⁶ March 2003

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Acronyms

ADB	Asian Development Bank
BoI	Board of Industries
CBO	Community based organisation
CCiy	Chamber of Commerce and Industries of Yarlpanam
CEFE	Competency-based Economies through Formation of Enterprise
CPA	Centre for Policy Alternatives
FCCIS	Federation of the Chambers of Commerce of Sri Lanka
FORUT	Campaign for Development and Solidarity
GOSL	Government of Sri Lanka
GTZ	Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
ICES	International Centre for Ethnic Studies
IDB	Industrial Development Board
IDP	Internally Displaced People
IPKF	Indian Peace Keeping Force
LKR	Sri Lanka Rupee
LTTE	Liberation Tigers of Tamil Eelam
MoU	Memorandum of Understanding (in this paper's context: indefinite cease-fire agreement between the GOSL and the LTTE, signed on 22 February 2002)
RRAN	Resettlement and Rehabilitation Authority of the North
SAI	South Asia Institute
SLA	Sri Lanka(n) Armed Forces
SLE/CATAD	Seminar für ländliche Entwicklung/Centre for Advanced Training in Rural Development
SLMM	Sri Lanka Monitoring Mission
TCCS	Thrift and Credit Co-operative Societies
TEEDO	Tamil Eelam Economic Development Organisation
UNDP	United Nations Development Programme
UNP	United National Party

