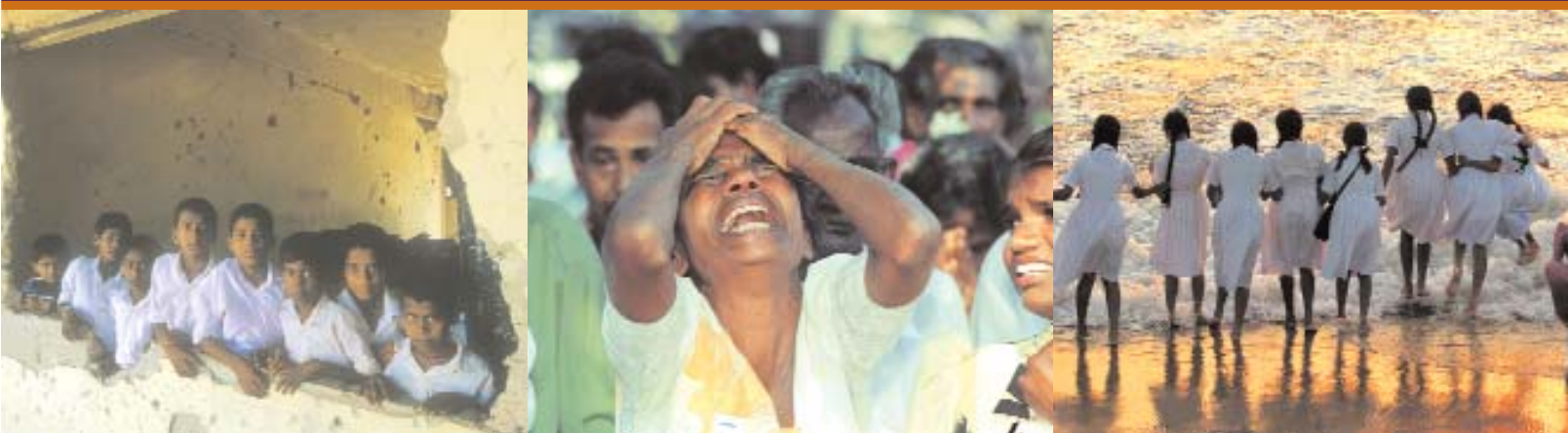


DONORS AND PEACEBUILDING
Part of the Sri Lanka Strategic Conflict Assessment 2005
2000 – 2005



Adam Burke and Anthea Mulakala

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**Koninkrijk
der Nederlanden**



The Asia Foundation



DONORS AND PEACEBUILDING IN SRI LANKA 2000 - 2005

PART OF THE
SRI LANKA STRATEGIC CONFLICT ASSESSMENT 2005

By Adam Burke and Anthea Mulakala



Koninkrijk
der Nederlanden



The Asia Foundation



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About the Authors

Adam Burke has worked in Sri Lanka regularly since 1999. Initially through his role as a social development adviser with the British Department for International Development (DFID), and then as a consultant to different organizations, he has followed the approaches of a wide range of aid actors as Sri Lanka's conflict changed over time. Fields of engagement include policy analysis, especially on the links between conflict and aid, as well as design of major funding programs to support civil society's role in peacebuilding. More widely, he has worked with donors, United Nations (U.N.) agencies, and NGOs on development research, policy, and practice across Southeast and South Asia, focusing particularly on conflict-affected environments. Email: adamitobur@yahoo.com.

Anthea Mulakala has worked in the development field in Canada, the Caribbean and South Asia for over 15 years. Her engagement in Sri Lanka extends back to 1991 when she managed a Canadian NGO support program. Since 2001, she has worked for DFID in Sri Lanka as a conflict adviser. She was involved in the implementation of the recommendations of the first Strategic Conflict Assessment (SCA1) and has worked as a core member of the donor community in Sri Lanka over the past five years. In late 2005 she will begin working for the World Bank in Indonesia on harmonizing donor efforts around government decentralization.

Acronyms

ADB	Asian Development Bank
CFA	Ceasefire Agreement
CPA	Centre for Policy Alternatives
DACC	Development Assistance Coordinating Committee
DFID	U.K. Department for International Development
DWG	Donor Working Group on the Peace Process
EU	European Union
FLICT	Facilitating Local Initiatives in Conflict Transformation
GOSL	Government of Sri Lanka
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
IFI	International Financial Institution
JBIC	Japanese Bank for International Cooperation
JICA	Japanese International Cooperation Agency
JVP	Janatha Vimukthi Peramuna (People's Liberation Front)
LTTE	Liberation Tigers of Tamil Eelam (Tamil Tigers)
NERF	North-East Reconstruction Fund
NGO	Non Government Organization
ODA	Overseas Development Assistance
PA	People's Alliance
P-TOMS	Post-Tsunami Operational Management Structure
SCA	Strategic Conflict Assessment
SIDA	Swedish International Development Agency
SLFP	Sri Lanka Freedom Party
SLMM	Sri Lanka Monitoring Mission
TRO	Tamil Rehabilitation Organization
UPFA	United People's Freedom Alliance
UNDP	United Nations Development Programme
UNICEF	United Nations Children and Education Fund
UNHCR	United Nations High Commissioner for Refugees
UNF	United National Front
UNP	United National Party
USAID	United States Agency for International Development

Executive Summary

CHANGING DONOR POSITIONS

This report is a contribution to a broader study entitled "Aid, Conflict and Peacebuilding in Sri Lanka" (Goodhand and Klem, 2005), which examines the peace process in Sri Lanka with a particular focus on international engagement.

Donors have provided development assistance to Sri Lanka for decades, although its significance in the national economy is decreasing. Severe conflict has affected Sri Lanka since the early 1980s, although in more recent years a ceasefire has brought some degree of peace.

Various donors - especially European bilateral organizations adopting newer ideas on aid provision globally - have become increasingly sensitive to conflict issues and how they relate to aid programming. Donors have more relevant knowledge, are better able to work together on conflict, and are better at drawing links between the conflict and their own financial support.

These shifts reflect first and foremost changing political circumstances in Sri Lanka. They also reflect shifting patterns of aid provision globally, and a tendency among some donors to consider the local political or social contexts as increasingly significant factors in aid allocation, especially in extreme conditions such as conflict. Smaller donors have shifted more than larger donors in this direction, although recognition of the importance of conflict reduction in achieving the aims of aid provision is increasing across the board.

A continuing ceasefire in Sri Lanka has made it possible to assist on the ground, and government measures to

promote peace and encourage international involvement have facilitated approaches with a more explicit focus on peacebuilding. In terms of sensitivity to conflict, the following donor trends have occurred since 2000:

- More specialist staff dedicated to conflict issues.
- Increased political awareness, enabling more nuanced engagement and understanding of the linkages between aid programs and conflict.
- More and increasingly sensitive support for civil society.
- Increasing collaboration and shared analysis.
- More support to the conflict-affected North-East region.
- Increased engagement with the LTTE.
- Increased awareness of conflict issues in mainstream support.
- Support for government - LTTE collaboration.
- Increased attention to "transformative" processes that aim to tackle underlying problems, especially if they coincide with an economic reform agenda.

These changes are not a response to a different paradigm in which donors fundamentally alter their modes of engagement--there has been no sea-change. Most factors determining the shape of donor assistance remain the same.

AID'S LIMITED ROLE IN PEACEBUILDING

The notion that aid provision can in itself act as a significant catalyst or lever to promote peace in Sri Lanka may be seductive, but risks overlooking a set of limiting factors:

- Most aid provision is dependent on diplomatic and political considerations; aid agencies rarely have the scope to act independently, meaning that on-the-ground actions are less significant than wider trends or political developments.
- Aid agencies respond to internal incentives and priorities that are often geared toward ensuring smooth disbursement of aid and efficient allocation of resources. This means that in many cases, common ground will be found only when a conflict-aware approach eases resource transfers, as opposed to limiting expenditures or creating obstacles in the aid pipeline.
- The aid organizations at the forefront of peacebuilding approaches are financially insignificant actors in the Sri Lankan economy. While this does not render them useless, and there are many valid exercises that they can engage in, their approaches will probably not become common currency across the aid community in Sri Lanka. A straightforward look at the ways in which the larger donors work demonstrates that while aid can be made more conflict-aware, there are serious barriers to a fully cooperative approach.
- Most importantly, aid is not, for the most part, very effective as a vehicle for transformation. It is a relatively minor factor in the politics and mechanics of conflict in Sri Lanka and in most other countries. This means that while aid can support dominant tendencies or political imperatives, it can rarely change them. The viability of aid as a supporting factor in the peace process depends entirely on progress in the peace process itself. In most cases, aid is the cart and not the horse.

The drivers of change in Sri Lanka are political actors, not donors. The international community is not without influence, however. Donor countries can optimize their many types of engagement in Sri Lanka: trade, military, security, diplomacy, and aid. Donors can provide a variety of incentives and supportive measure for peace, but these are generally not aid-related.

IMPLICATIONS FOR DONORS' POLICY AND PRACTICE

Sri Lanka faces fundamental governance challenges, and there will be continuing obstacles in the search for lasting peace. While donors may rarely be able to tackle such issues directly, they can still be involved productively. Donors can provide support in the search for solutions to underlying problems, and help with more immediate issues relating to peacebuilding. Smaller donors may have a comparative advantage in supporting larger donors to work along these lines in fields where there are shared objectives. Our recommendations include:

- Working toward greater donor understanding of background conditions and ways in which aid provision can be screened or evaluated in order to "do no harm" and be better targeted to support conditions conducive to peacebuilding. This could involve the recruitment of higher-level Sri Lankan staff. Also there should be further linkages between aid and diplomatic, commercial (and, on occasion military) ties, to encourage well grounded and cooperative approaches with a longer-term perspective.
- Considering withdrawal carefully: Donors looking to withdraw from Sri Lanka should factor into their calculations the amount they have invested in building up a conflict-sensitive approach. Withdrawal would waste this asset, and for smaller donors it would send no real signal to the government.
- Seeing pragmatic common ground: Efforts should support positive aid provision where it can back government policy and help produce a tangible peace dividend - in the North and in the South. Yet in terms of donor coordination, donors must appreciate that consensus-based approaches may result in lowest-common-denominator strategies, and should strive instead to make donor strengths more complementary.

- Supporting alternative channels for discussion, debate, and negotiation on conflict issues within Sri Lanka.
- Focusing more strongly on domestic capacity-building--whether through projects, funding, or policy-based research initiatives--that is always within the framework of a sound institutional analysis to ensure that any capacity development initiatives are not constrained by structural factors.
- Working to maintain pragmatic and appropriate contact with LTTE bodies.
- Considering the resentment of the lack of attention to the South, and how to provide ways of addressing that shortfall. Rapid economic reform is likely to further derail the peace process, if it helps build perceptions that the poor Southern majority is being ignored.
- Continuing to support the North-East even if a political settlement remains elusive.
- Expanding civil society funding: this is already underway, but the trend whereby donors look more widely at a broader range of actors should be continued.
- Engaging the diaspora: some donors have engaged the diaspora community and more efforts might be possible.

Introduction

This report is a contribution to a broader study entitled "Aid, Conflict and Peacebuilding in Sri Lanka" (Goodhand and Klem, 2005), which examines the peace process in Sri Lanka with a particular focus on international engagement. It is one of several contributing studies to the 2005 Sri Lanka Strategic Conflict Assessment (SCA2). Part One is a brief perspective on foreign assistance to Sri Lanka. Part Two delves more deeply into the period between 2000 and 2005 when donors became actively involved in the peace process. Using the results of interviews with donors and other research carried out in early 2005, Part Three considers the underlying motivations and incentives for donor action during this time. Part Three also examines the extent to which the analysis and recommendations of an earlier strategic conflict assessment in 2000 have been implemented and are still relevant. Finally it provides suggestions for future donor engagement.

This report was compiled using information gathered through the authors' professional engagement in Sri Lanka dating back to 1991. Further interviews and a review of literature conducted in February 2005 provided updated and more detailed sources. The report is intended as a background study, alongside other background studies and additional work, to support the multi-donor Strategic Conflict Assessment (known as SCA2) conducted during 2005. The authors of this report participated in the earlier strategic conflict assessment conducted in 2000, and in the implementation of its recommendations. As such, this report presents a particular perspective on conflict in Sri Lanka, focusing on the role of donor assistance and provides an "insider" view of donor engagement with the Sri Lankan peace processes.

This report aims to provide useful and succinct information that can be used for the SCA2, and for other purposes. All errors, omissions, or inaccuracies are the fault of the authors.

1. Aid to Sri Lanka, Past and Present

SUPPORTING STATE DEVELOPMENT

Donor assistance has supported the government of Sri Lanka for decades. However, Sri Lanka has never been heavily dependent on donor resources. In fact, since the economy has grown while donor funding has remained constant or declined, aid represents a decreasing proportion of the national budget.

Historically, donor funds have supported state-led development. Transfers to government for major projects, or occasionally for generalized budget support, have helped finance health, education, infrastructure, and other services. These steps have enabled Sri Lanka to register impressive improvements in human development indicators.

The top-down aid delivery model, as practiced in Sri Lanka during the period immediately following independence, tended to support an already over-centralized state. Aid was provided to the central government, and negotiations over how funds were allocated occurred at a central level, arguably undermining democratic processes and reducing government accountability to Sri Lankan citizens. A state that can receive funds centrally without having to ensure the cooperation of citizens, taxpayers, or local political interests may have less need to listen to local opinion. The centralized, technocratic "developmental state" that aid has tended to support in many countries may lack mechanisms or political processes to ensure just political representation and a voice for ethnic or other minorities.

While domestic factors are more significant than aid flows in determining the political make-up of Sri Lanka, donor assistance-supported centralized structures and political systems marginalize certain groups within the population. Perhaps the clearest example is donor support for the Mahaweli basin development scheme, a

massive integrated development program for Sri Lanka's interior that commenced in the 1970s. Donor support made the scheme viable, but failed to integrate adequate social or political sensitivity. Resentment of the unequal access to the benefits of such state investments on the part of minority (chiefly Tamil) populations fuelled support for subsequent civil war.

GREATER SENSITIVITY, MORE VARIED APPROACHES

In the past two decades, many donor organizations have become more aware of the political context within which aid is provided. From the early 1970s, for example, USAID began to promote decentralization within its programs of support in various countries. Other bodies, including many European bilateral donors, U.N. agencies, and the World Bank, increased the level of social assessment and specialist staff engaged in looking at a wider body of issues in Sri Lanka and elsewhere. Broader aid discourse has promoted a wide range of solutions to perceived problems, including the promotion of gender equality and popular participation.

Some donors promote such ideas as a priority, ahead of more traditional development support to a central state. This is especially the case in a country like Sri Lanka, where past successes mean that mass poverty (as defined for example in the Millennium Development Goals) has largely been eliminated.

Yet newer development paradigms may also run into problems, suffering from a lack of locally appropriate planning, lack of attention to local political factors, or a failure to gain domestic participation in proposed plans. Newer ways of working can simply lead to a new range of externally driven initiatives.

More holistic approaches also make disbursement of large sums of money more challenging. While this is not much of a problem for donors whose budgets are limited, it is a real issue for bodies that need to spend at a rapid rate. For development banks, which need to provide loans to sovereign governments, there are further limits on what can be achieved. Loans must flow to central government, in large quantities.

CONDITIONALITY IN SRI LANKA - CHANGING THE STATE

An awareness that aid alone was often ineffective in bringing about economic growth encouraged donors to attach conditions to their support. This enabled donors and governments to keep the funding pipeline flowing, while attempting to use aid as a lever for reforms. As in other countries, the strings attached to aid for Sri Lanka became tighter in the 1970s, and starting in 1977, aid was used to promote concerted liberalization of the Sri Lankan economy.

Starting in the late 1980s, donors widened their scope, recognizing that reform of government structures was required as well as economic liberalization. Repeated efforts have been made to slim down the civil service, improve planning and budgetary mechanisms, and change the form or function of a range of line ministries. Finally, and most recently, a range of peace conditionalities has involved a more explicit focus on conflict-related issues.

Donors have adopted a range of terms such as "transformative approaches," and "building drivers of change," to describe efforts to promote reforms of government structures. In addition to both traditional projects and conditionality, they have also considered other ways of promoting change by supporting domestic constituencies likely to build pressure for the desired reforms, including civil groups, membership organizations, media, and research bodies.

WORKING OUTSIDE THE STATE - DIFFERENT APPROACHES

Aid has increasingly been provided outside government mechanisms. In addition to "transformative" support to promote change, international NGOs and a range of domestic bodies have created alternative channels for providing support in an effort to reach marginalized groups. Such support may aim to build the voices of marginalized groups in policy dialogue. A fear of corruption also encourages donor agencies - especially the USAID - to avoid funding the government directly.

Yet for some donors, especially those from Asia, the prime role of the state has not been questioned as it has elsewhere. A host of factors contribute to this, including: greater respect for non-intervention and national sovereignty; a desire to avoid foreign interference given experiences of colonialism, external communist agitation, proxy wars between superpowers, and American pre-emptive action; positive experiences of successful state-led development in East and Southeast Asia; a weaker democratic tradition and greater respect for existing ruling elites; and less scrutiny of aid flows from civil society domestically. Given that Asian donors are highly significant in Sri Lanka, this is important in considering the shape of overall aid flows.

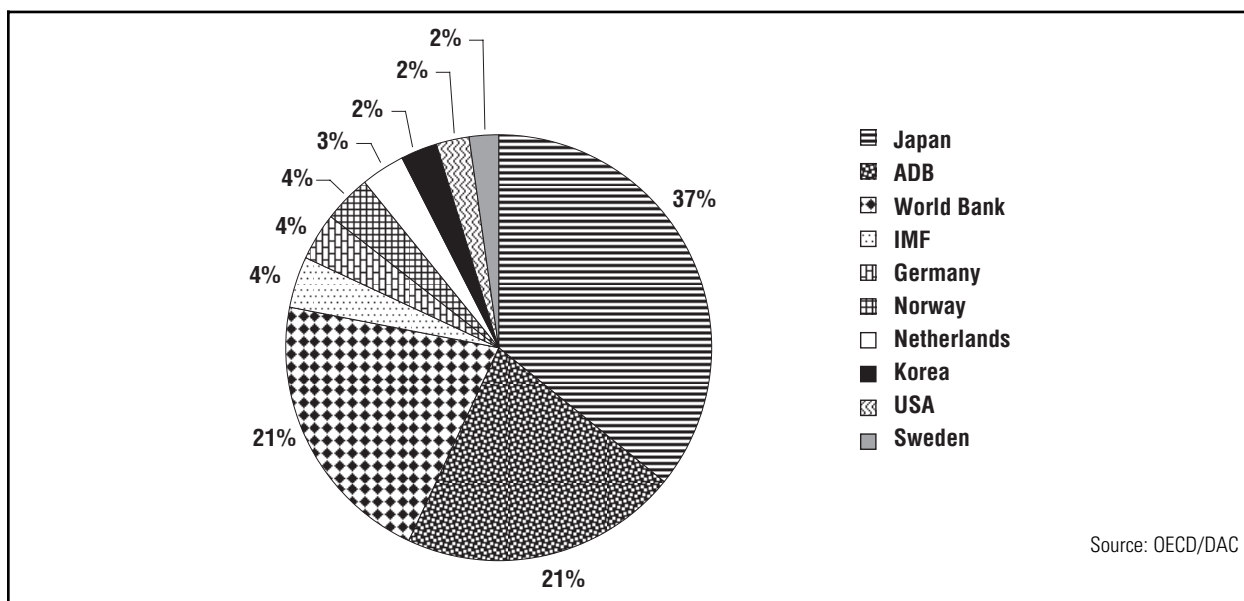
GROWING DONOR AWARENESS OF CONFLICT

Through the 1990s, a range of donors became gradually more sensitive to conflict issues. The organizations that did so tended to be those more widely adopting newer ideas on aid provision. These were chiefly global trends, reflected in programming in Sri Lanka and elsewhere. As Sri Lanka emerged as a middle-income state (according to categories used in the World Bank's annual world development reports and elsewhere), donors who were increasingly focusing on poverty reduction became less interested in disbursing funds to Sri Lanka. Some bilateral donors in particular were no longer spending substantial sums of money in the country or delivering large projects through state channels. Consequently, a

Figure One: Donor flows to Sri Lanka 2002-2003

1. These are gross figures including both loans and grants. They do not include repayments of loans from the government of Sri Lanka to donor institutions.
2. Some donor contributions do not register in these statistics (taken from the OECD DAC). These donors include: India (sizeable low-interest loans to GoSL), China, Saudi Arabia, Kuwait, and other Middle-Eastern governments.
3. From the government's perspective, European and North American donors are still less significant than the small amounts below would indicate, given that much of their support is channelled to or through non-governmental bodies.

Top Ten Donors of gross ODA (2002-3 average in U.S.\$)	
Japan	\$249m
ADB	\$148m
World Bank	\$146m
IMF	\$27m
Germany	\$25m
Norway	\$25m
Netherlands	\$24m
Sweden	\$19m
Korea	\$17m
USA	\$16m



good relationship with the government became less essential. They were able to focus on the conflict while still achieving their (reduced) annual aid disbursement objectives. For some countries, a fairly vocal Tamil diaspora was another factor drawing donor agencies' attention to the conflict.

By 2000, some bilateral organizations were already engaged in conflict-related issues as a core aspect of their work. Other donors, especially the largest three (Japan, the Asian Development Bank (ADB), and the World Bank), demonstrated little recognition of civil war, or indeed of ethnicity in any respect, in their

documentation or programming. Often, it was not in the interests of some donors, or the government, to recognize issues that would complicate provision of substantial funds.

The Strategic Conflict Assessment of 2000¹ (SCA1) summarized the general situation regarding donors in Sri Lanka as follows:

"There are basically three types of aid to Sri Lanka:

- (1) Conventional development assistance channelled through government, with primary focuses on structural adjustment, liberalization, government reform, and infrastructure investment.
- (2) Humanitarian assistance provided to the North-East, most of which comes out of separate, short-term humanitarian budget lines and aims to address the social costs of the conflict.
- (3) A number of smaller bilateral donors, such as Norway, Canada, Netherlands, and Germany provide assistance to civil society organizations focusing on areas such as human rights, conflict resolution, capacity building, and judicial reform." (Goodhand 2000).

The assessment continues:

"Broadly, donors have responded to conflict in three ways:

- (1) The predominant approach has been to work around conflict i.e., conflict is a disruptive factor to be avoided. Therefore donors avoid working in conflict-affected areas and development aid is put on hold in the North-East. If a link between conflict and development is acknowledged, it is that conflict which is an impediment and can be removed with greater market openness and deregulation. The major donors such as Japan and ADB have taken this line, both of whom have

avoided working in the North-East until the "war is over." Although the World Bank has, in recent years, begun to invest in the North-East, this has not affected the main portfolio of programs supported in the South, which are still in the main 'conflict blind'.

- (2) Agencies working in the North-East have been forced to become more cognisant of the links between their programs and conflict. As a result they have adapted programs so that they can work more effectively in conflict by reducing conflict related risks and ensuring that aid does no harm. International NGOs such as OXFAM and CARE have analysed their programs in relation to the conflict dynamics, while UNHCR, working in Jaffna, has avoided making heavy investments that may be vulnerable to the ebb and flow of conflict.
- (3) There is a small group of bilateral donors who recognize the link between development and conflict and have an explicit focus of working on conflict. Norway, Canada, Netherlands, Germany, Sweden, Switzerland, and the U.K. have all begun to identify programming opportunities for working on conflict. A range of initiatives have been funded in areas, such as human rights, poverty alleviation, good governance, education and conflict resolution, which have an explicit focus on conflict. While these initiatives are significant in terms of bringing new ideas and lessons to the donor-government table, in relation to the bulk of donor funding they are relatively small scale and unlikely to affect wider incentives systems and structures."

¹ Unlike this assessment, the earlier Strategic Conflict Assessment undertaken in 2000 was not a multi-stakeholder exercise. It was a shorter and less inclusive process, undertaken at a time when military conflict was under way. However, it provides a starting point and remains a valid interpretation of events up to 2000, with a particular focus on donor assistance and conflict.

2. Donors and Peacebuilding 2000-2005

In the five years following the first Strategic Conflict Assessment of 2000, the political and institutional contexts in Sri Lanka have challenged, tested, and called into question the extent to which donors in Sri Lanka can effectively support peace. This section analyses donor attitudes and practices over three defined periods that correspond with shifts in the political environment. It also considers donor engagement with the Liberation Tigers of Tamil Eelam (LTTE) and the impact of the tsunami on the international community's role. Lastly, it reflects on whether donor strategies over this five-year period have been effective in strengthening the prospects for peace.

THE WAR FOR PEACE PERIOD: INCREASING DONOR DISILLUSIONMENT

As the Sri Lankan economy weakened in 2000 and 2001, military deadlock continued in the North. The LTTE managed to inflict major casualties on the armed forces and pursue terrorist tactics in the South. The spectacular attack on Sri Lanka's only international airport, near Colombo, made it still more apparent that winning the war in order to create peace was an impossible task, and damaged the economy widely.

Over time, more small bilateral donors began to move their support away from the People Alliance (PA) government. The numbers of donors joining the lead shown by the Netherlands; Germany (through the German Technical Cooperation, GTZ); Canada; and others in earlier years increased. Many NGOs also responded to this shift. For the development banks and the International Monetary Fund (IMF), economic stagnation was probably the primary basis for some withdrawal of support for government policies in 2000 and 2001.

At that time, some bilateral donors attempted to raise attention to the perceived inadvisability of providing donor funds in an environment where conflict was both continuing and apparently damaging the economy of the island as a whole. While some donors were continuing in an environment of "business as usual," and argued either that the government had a right to pursue a war against a terrorist non-state actor, or that withdrawal of support would hardly help the situation, others were aiming to establish greater links between conflict and development assistance. A range of studies was supported, including the 2000 Strategic Conflict Assessment, with this aim in mind. Positions became polarized at times, as was seen at the Donor Forum in Paris in December 2000, where some donors were outspoken on the failure of government to promote peace in any meaningful way.

By this point, a range of smaller donors was actively engaged in peacebuilding measures as a key aspect of their programs. Larger donors, including the ADB and the World Bank, were focusing increasingly on links with conflict in their documentation and in practice through various channels: programs in the North-East, support for the government-led Relief, Rehabilitation and Reconciliation (3R) program, and occasional aims to integrate ethnic issues into programming in the South or across the island, such as through the World Bank education sector reform program. However, the conflict still remained a secondary factor in the process of deciding on resource transfers from the development banks and Japan. Given that these donors represent some 75-80% of donor funds, this is significant.

Throughout this period, the PA government maintained the position that the conflict was an internal matter and discouraged unsolicited engagement from the

international community. Donors were discouraged from proactively working on conflict or expressing political viewpoints.

DONORS GET COMFORTABLE WITH THE UNP AND LTTE

The UNP electoral victory over the PA government in December 2001 led to a wholesale change in the environment. The new government signed a ceasefire agreement with the LTTE in February 2002, launched peace talks soon after, and opened the doors for international engagement and support. While the previous PA government had maintained through the 1990s that the conflict was an internal matter, the UNP saw opportunities in internationalizing the peace process. Norway played the role of the official facilitator to the peace process and appointed a special envoy. During this period the UNP negotiated several trade and security arrangements with strategic partners like the U.S. and India. Similarly, donors saw opportunities in engaging with a government willing to listen to donor perspectives and in expressing themselves in ways that donors or diplomatic colleagues would find encouraging. Added to this was the UNP government's economic policy program, which promoted rapid reform through liberalization toward a greater role for the free market and reduced state intervention. For a majority of donors, this policy portfolio was very close to the prescriptions that they themselves would have offered.

Peace architecture (such as peace secretariats and the donor co-chair/conference mechanism) was rapidly put in place and donors eager to play a constructive role channelled support toward these bodies. Japan, who had previously treaded cautiously over political matters, appointed a special envoy for the peace process and assumed the leading co-chair role. Other donors also appointed special peace envoys and deployed countless missions to launch reconstruction programs in what was mistakenly perceived as a post-conflict environment.

The CFA made provision for the Nordic countries to establish the Sri Lanka Monitoring Mission (SLMM), which continues its role to the present.

The UNP encouraged donor coordination and harmonization during this period, albeit principally around their economic reform agenda. A Development Assistance Coordinating Committee (DACC) was proposed in 2003 by the government to ensure government lead on this effort.

Between late 2002 and early 2003, the government and LTTE held six rounds of peace talks. The government also pushed forward on developing its economic plan, while the multilateral agencies (IFIs and the U.N.) led a needs assessment for reconstruction in the North-East. In parallel with the formal peace talks, international donor conferences were planned to mobilize and leverage international support and financing. The Oslo conference in November 2002 built on the recommendations from the first two rounds of peace talks, with donors endorsing the parties' commitment to human rights and other core principles; the new joint government-LTTE subcommittees; and the establishment of a North-East Reconstruction Fund (NERF). Further conferences were planned in co-chair capitals, leading to the final high profile Tokyo Conference on Reconstruction and Development of Sri Lanka in June 2003. There, donors were expected to pledge major funds toward a needs assessment of the North-East and the government's economic recovery plan (called "Regaining Sri Lanka").

Another significant feature of this period was the international community's relationship with the LTTE. The international community was consistent in its support for constructive engagement between the government and the LTTE, hoping it would lead to a negotiated political settlement. Regarding their own relationship with the LTTE, however, donor positions varied. The UNP government's encouraging approach to international engagement with the LTTE provided space for donors to

cultivate relationships with the Tigers. The ADB and the World Bank took a pragmatic approach, developing informal working arrangements with key LTTE counterparts to ensure effective implementation of their large-scale reconstruction projects in the North-East. The LTTE regarded the international financial institutions (IFI's) apolitical approach favorably because it brought resources to their areas. It was no surprise that the World Bank was the LTTE's custodian of choice for the NERF.

UNICEF courageously attempted to tackle more prickly issues involving vulnerable children and underage recruits. Through an approach of constructive engagement and strategic partnership with LTTE-sympathetic organizations like the TRO, UNICEF was able to get government and LTTE agreement to an Action Plan for Children Affected by War.

For bilateral donors, engaging with armed non-state actors presented unfamiliar terrain. India and the U.S. took a harder line with the LTTE, reflecting their own history with the organization (in the case of India), or domestic policy constraints restricting association with terrorist organizations since the events of 9/11. Neither country engaged directly with the LTTE. The U.S. has consistently insisted that the LTTE renounce terrorism in "word and deed" before any kind of recognition would be forthcoming. Most other bilateral organizations adopted the constructive engagement approach, directly and visibly engaging the LTTE in Sri Lanka and abroad, providing a sympathetic hearing, and in some cases (Norway, Switzerland) providing funding and support. Even countries that have proscribed the LTTE as a terrorist organization (the U.K., Australia, and Canada) have chosen this approach. This "good cop, bad cop" routine, whether by design or coincidence, kept the pressure on the LTTE to reform on fundamental human rights issues, while still encouraging their political transformation. Though approaches differed, the common interest among donors was to encourage the government and LTTE to work together toward a political solution based on power sharing and federalism.

When access to the North-East improved (repairing of the A9 road and resumption of commercial flights), donor traffic to the Vanni increased, as did meetings with the LTTE. The LTTE expanded its infrastructure to deal with the international community with the creation of the Planning and Development Secretariat, a peace secretariat, and even donor-friendly guesthouses and restaurants.

The donor response following the ceasefire was in many ways remarkable, given the absence of a political settlement. In some respects they treated a no-war, no-peace environment as though it were a post-conflict setting. Donors hoped that peace would create more opportunities for investment and development assistance in Sri Lanka, leading to a substantial peace dividend. Based on progress in the formal talks, donors increased short-term (2-3 year) budget allocations in anticipation of the major reconstruction needs of the North-East. Though many donors were aware that in post conflict situations major reconstruction spending is generally required for 5 - 10 years after a peace agreement, donor bureaucracies were operating on shorter time frames. Their enthusiasm to support the peace process (and so be associated with a peacebuilding success story), combined with government encouragement, tended to blind donors to the prevailing risks.

Peace negotiations broke down in April 2003. Despite this setback in the peace process, the two donor conferences planned for Washington (April 2003) and Tokyo (June 2003) went ahead as scheduled. As a proscribed organization in the U.S., the LTTE was barred from participating in the Washington conference. They withdrew from the peace talks soon after.

The Tokyo conference was well attended: participants included the Sri Lankan Prime Minister, the Japanese Prime Minister, the Norwegian Foreign Minister, the U.S. Deputy Secretary of State, and the President of the ADB. The LTTE did not participate however, arguing that the conference, like the Washington conference, undermined the basic principle of parity between parties

Figure Two: Main pledges made following Tokyo Conference, 2003 (U.S.\$)

Top Ten Donors of gross ODA (2002-3 average in U.S.\$)	
Japan	\$1Billion
ADB	\$1Billion
World Bank	\$1Billion
EU	\$293m
USA	\$54m

- These figures are a guide only, and cover pledges not disbursement. They may not be fully accurate, and are gross amounts. Net amounts would have to consider loan repayments as well as pledges that simply repeat past commitments.
- Various donor contributions may not be recorded.
- Sums pledged following the tsunami of December 2004 change the picture considerably.

in the peace process. \$4.5 billion was pledged overall, 20% in the form of grants and the remaining 80% as concessional loans (maturity over 30-40 years; most with a 10-year grace period; interest rate 1-1.5%). Adjusted on an annual basis, the \$4.5 billion works out to be about \$1.25 billion a year - compared to Sri Lanka's normal aid level of around \$750 million a year. The three largest pledges came from Japan, the ADB, and the World Bank, with significant contributions from other countries.

The linkage between these funds and the peace process was articulated in paragraph 18 of the Tokyo Conference Declaration (see Figure Three below).

The language of the Tokyo Declaration struck most observers as donor conditionality rather than a looser linkage. The former suggests "No aid unless peace," while the latter suggests, "If peace, then increased prospects and opportunities for aid." There is a qualitative distinction between the two. The latter position was the actual position of most donors while the former was the unfortunate misinterpretation. The result: confusion and ambiguity as is evident from the contradictory views toward the Tokyo process expressed by individual donors

in Annex 1. However, the government accepted the conditionality overtones of the declaration, realizing that they put more pressure on the LTTE than the government, and would not impede commitments to the government's economic reform strategy. The government was involved in the final drafting of the declaration. The government left Tokyo with their pockets full, donors left Tokyo locked into a declaration that they were ill prepared to implement. The LTTE were simply left out (having chosen not to attend).

For the international community, the conference process and especially the Tokyo meeting were intended to bolster and support a positive peace process. When the peace talks went off track in April 2003, the conferences continued, partly out of their own momentum as plans had been made, but also because donors hoped and felt confident that talks would resume soon. Though stalled talks were a setback, donors were not prepared to abandon their support for peace and hoped the Tokyo conference would provide an incentive for parties to resume negotiations.

The six months following the Tokyo conference confirmed the donors' predicament. Peace talks

Figure Three: Paragraph 18, Tokyo Declaration

Assistance by the donor community must be closely linked to substantial and parallel progress in the peace process towards fulfilment of the objectives agreed upon by the parties in Oslo. The Conference encourages the Government of Sri Lanka and the LTTE to enter into discussions as early as possible on a provisional administrative structure to manage the reconstruction and development aspects of the transition process. The process would need the expeditious development of a roadmap with clear milestones indicating the path towards a mutually acceptable final political solution. With this in view, the international community intends to review and monitor the progress of the peace process closely, with particular reference to objectives and milestones including:

- a. Full compliance with the cease-fire agreement by both parties.
- b. Effective delivery mechanisms relating to development activity in the NorthEast.
- c. Participation of a Muslim delegation as agreed in the declaration of the fourth session of peace talks in Thailand
- d. Parallel progress towards a final political settlement based on the principles of the Oslo Declaration.
- e. Solutions for those displaced due to the armed conflict.
- f. Effective promotion and protection of the human rights of all people.
- g. Effective inclusion of gender equity and equality in the peacebuilding, the conflict transformation and the reconstruction process, emphasizing an equitable representation of women in political fora and at other decision-making levels.
- h. Implementation of effective measures in accordance with the UNICEF-supported Action Plan to stop underage recruitment and to facilitate the release of underage recruits and their rehabilitation and reintegration into society.
- i. Rehabilitation of former combatants and civilians in the NorthEast, who have been disabled physically or psychologically due to the armed conflict.
- j. Agreement by the Government of Sri Lanka and the LTTE on a phased, balanced, and verifiable de-escalation, de-militarization and normalization process at an appropriate time in the context of arriving at a political settlement.

In relation to monitoring and review paragraph 20 stated:

"In view of the linkage between donor support and progress in the peace process, the international community will monitor and review the progress in the peace process. In implementing its own assistance programmes, the donor community intends to take into careful consideration the results of these periodic reviews."

remained on ice, the NERF never evolved beyond a piece of paper, and there was little progress on agreeing on administrative structures for the North-East. The ambiguity of the Tokyo Declaration led to ad hoc

responses, with some donors holding off on their assistance to the North-East while continuing their assistance to the government for the South. An extreme example was one donor's delay in financing the

reconstruction of Kilinochchi hospital because of a lack of progress on peace. High level monitoring visits by special peace envoys and co-chair meetings offered statements that consistently condemned the human rights abuses by the LTTE and urged both sides to return to the negotiating table, but had little impact. Political parties dangled the carrot offered by the Tokyo conference as a way of criticizing each other's approach to the peace process. Donor confidence began to wane.

FROM CENTER STAGE BACK TO THE SIDELINES: DONORS FACE THEIR LIMITATIONS

The elections of April 2004 led to a solid defeat of the UNP and a return to a government headed by a UFPA coalition (SLFP, JVP, and others). The defeat demonstrated the southern polity's rejection of the UNP economic reform package and their concessions to the LTTE in order to secure it. To ensure a sufficient majority, the SLFP formed a coalition with the JVP and JHU, who had made headway in the elections. These changes reduced government support for the internationalized peace process and put donors squarely back into their pre-2001 box. Whereas the UNP

government had welcomed donor proposals, including much of the wording of the Tokyo agreement, the new government was less amenable. Aware of the international community's tilt toward the UNP, the UFPA pursued a cooler strategy with donors. In common with earlier PA-led governments, it resisted efforts by donors to form common positions and rejected the perceived conditions of the Tokyo Declaration.

By 2004, the reality of Sri Lanka's fragile and fragmented governance structure came to the forefront. With the JVP advocating strongly against any federal solution with the LTTE; the Karuna-led LTTE split in the east; continuing political rivalry between the UNP and SLFP; stalled peace talks; and the NERF finally declared dead; donors were left scratching their heads as to how to direct their efforts at peacebuilding.

In early 2004, heads of mission in Sri Lanka tasked a donor working group with revisiting the Tokyo Declaration and developing a strategy for monitoring progress on peace. The Donor Working Group on the Peace Process (DWG) was then formed, with widespread representation from bilateral and multilateral agencies.

Figure Four: Political differences: UNP vs. SLFP

Issue	UNP	SLFP
Donor involvement in peace process	Encouraged donor interest, international community at center stage	Donors at arms' length, conflict as internal matter
	International advisers within government	Marginalize those within international community who are too outspoken or interfering
Peace Agenda	Economic issues as central factor to peace	Political issues as central to peace
Tokyo Declaration	Agreed with declaration; were involved in drafting	Rejection of the declaration, but not the promise of \$4.5B
Harmonization	Some efforts on coordination	Prefer direct bilateral agreements with individual donors

Figure Five: How Donors are Perceived in Sri Lanka: Politics and Popular Opinion

In general, while many in Sri Lanka welcome donor support, there is also a strong undertow of cynicism concerning the role and motives of foreign organizations.

Media perceptions: too diverse to summarize succinctly, given differences between language groups, etc. The regular and harsh criticism of donors that was common while the conflict was in full sway has generally been more muted in recent years, possibly giving donors more room to operate. However, support for the role of donors and international bodies in the peace process diminished with the end of the UNP government. Populist politicians and other interests may use the media to promote independence from perceived foreign interference. Recent protests against supposed neo-colonialism on the part of the World Bank, following a misquote attributed to the country director and cited in the media, show how donor agencies can form part of populist domestic political agendas.

Civil bodies: Many civil society leaders have views that differ from the limited number of Colombo-based bodies who broadly supported the "principled" approach to aid delivery emerging from Tokyo. Non-English speaking bodies are likely to be more critical of donors, and less supportive of international involvement in the peace process. They are less likely to support approaches based on human rights or other international ideals. One implication may be that donors need to canvas a wider cross-section of opinion, rather than a narrower set of like-minded institutions.

The DWG adopted an approach that encouraged shared analysis, provided regular robust information for collective or individual donor assessment, but left decisions on aid allocation and conditionality up to the discretion of individual donors. This approach won the support of a wider range of donors, some of who had felt constrained by the conditionalities of the Tokyo Declaration. A scenario-planning exercise for donors was held in July 2004 that identified significant factors affecting progress on peace in Sri Lanka. The factors went beyond the narrow indicators of the Tokyo Declaration to include issues such as political fragmentation, economic growth or decline, and social and cultural values - all of which had altered the dynamics of peace over the previous three years. Interestingly, the international community--particularly donors--was not identified as a critical factor. A local organization, Centre for Policy Alternatives, was hired to provide quarterly reports analyzing trends against these critical factors with the aim of helping donors make more informed programming and financing decisions.

The first report produced on April 30, 2005 reported generally that the trend toward peace was negative and is consistent with the findings of SCA2.

THE TSUNAMI

The wave that struck countries bordering the Indian Ocean on December 26, 2004 killed some 30,000 people in Sri Lanka, and left a far greater number homeless. It affected areas along the coast in the North, East, and South, in both government and LTTE-controlled areas. In the immediate aftermath, cooperation between government and LTTE bodies was unprecedented. However, after only a short period, this initial spirit of cooperation waned and the process of building a meaningful shared body to support reconstruction has become entangled in political bargaining.

The huge flows of aid offered to Sri Lanka following the tsunami have given the government greater room to

maneuver and an opportunity to press ahead with its plans. Some donors feel that it reduces still further the scope to promote the principles outlined in Tokyo. There was now a willingness to provide support among donors who had previously been reluctant to do so, given the lack of adherence to Tokyo "principles." For example, the U.K. offered to pay a proportion of Sri Lanka's debts to multilateral institutions following the tsunami, in a gesture that is likely to amount to considerably more than the U.K.'s annual bilateral aid budget for the country.

Prior to the tsunami, most donors felt that they had limited influence in Sri Lanka. With the influx of enormous sums of unconditional tsunami relief and reconstruction funds and the added bonus of debt relief, Sri Lanka (and especially the government) is awash with money and the power these funds bring. Any opportunity the international community had to exert leverage through these funds in support of conflict resolution or peacebuilding principles has been effectively missed. Furthermore, the stronger positions that some donors were pondering prior to the tsunami may prove more difficult to pursue in the present context.

One aspect of the international community's role in the situation has been to advocate balance, equity, and conflict sensitivity, particularly since there is an overlap between conflict-affected areas and tsunami-affected areas. A set of guiding principles for tsunami response, developed collaboratively with government, civil society, and donors, provides a common framework around which donors can harmonize their efforts.

One significant positive outcome of the tsunami disaster is the establishment of the Post-Tsunami Operational Management Structure (P-TOMS), a mechanism that allows representatives from the government, LTTE, and the Muslim community to decide jointly on priorities for post-tsunami reconstruction in the affected areas of the North-East. It is supported by a multi-donor trust fund. The successful signing of the P-TOMS was

somewhat of a surprise for donors who remember the endless negotiations over NERF that ultimately failed. Though a practical mechanism for tsunami reconstruction, the international community recognizes that the P-TOMS is one of the few positive indicators of progress on peace in recent times. If it successfully proceeds from agreement to implementation (always a challenge in Sri Lanka), it may provide an opportunity for dispirited donors to re-engage in the peace process. However, donors must be careful to heed the lessons of their previously overzealous enthusiasm over the peace process and not jump into the driver's seat. The P-TOMS provides a long awaited vehicle, but as experience and history suggest, the road to success will be rocky.

3. Key Trends Emerging

This section builds on the findings of research carried out by the authors in early 2005. Based on key informant interviews, unpublished donor and NGO reports, group discussions, and personal experience, the authors appraise how donors are engaging in peacebuilding. In spite of the fluctuations in the political dynamics in Sri Lanka and the resulting changes in donor behavior, there have been some consistent trends in donor practice during the five-year period since the initial strategic conflict assessment.

BROADER DEVELOPMENT TRENDS

Donor policies toward Sri Lanka have generally been driven by international interests and agendas as much as, or more than, by the needs and concerns of the country itself. As a relatively small country to which donors dedicate few in-country staff, this tendency is even more pronounced than in a larger state such as Indonesia or Bangladesh, where large aid offices have been established, and national dialogue is more dominant.

Donor Bureaucracies

Each donor body works differently. Each has its own specific procedures, modes of providing aid, priorities, and decision-making processes; and the motivations of individuals working in donor institutions tend to be based more around internal incentive structures than the external working environment in the country of operation. For the larger donors, a key imperative involves ensuring a strong "pipeline" of aid projects that disburses money smoothly and effectively according to set policy. Factors influencing this policy vary, but generally depend on:

- Political involvement from the government of the donor agency (or from dominant nations in the case

of multilateral agencies); this is influenced by broader relations with the recipient government, including historical legacies, voices of the recipient country diaspora in donor nations, trading interests, and geo-strategic objectives;

- Technical approaches favored by in-house specialists, consultants, etc.;
- The practicalities of transferring significant levels of resources and an incentive to ensure smooth flows of aid. For lending institutions, the imperative is to provide large, reliable, and easily transferable government loans.

Global Policies Implemented Locally

Donor organizations may be informed by technical staff on the ground, but policymaking is rarely a bottom-up process. Cooperative in-country efforts (such as the Donor Working Group in Sri Lanka) can have a significant impact on local working practices, but is unlikely to affect the over-riding policy-based priorities of most donors. In Sri Lanka, the factors influencing most donors' policies are largely driven by agency-specific imperatives and agendas. Categorization of Sri Lanka as a middle-income country and one likely to achieve the Millennium Development Goals places it as a lower priority country for some bilateral donors who have a commitment to the poorest countries. This, and the lack of progress toward peace, has led to the possible departure or scaling back of some smaller donor programs.

Outcomes of 9/11

The events of 9/11 have affected development policies by placing increased emphasis on issues of global security and counter-terrorism. This has had an impact on the way some donors engage with the LTTE. It has

also led to the creation of special reconstruction and stabilization programs and units within some donor countries (e.g., the U.S. and the U.K.) that focus on failed and fragile states. Even before 9/11, donor staff and academic consultants who focus on conflicts were attracted to Sri Lanka as a potentially successful experiment in liberal peacebuilding.

Increased Emphasis on Coordination and Harmonization

This affects mostly EU donors. It means people have more desire to spend time and attention focusing on working together. The irony of this development is that while it represents a global trend in donor "best practices," it is resisted by the Sri Lankan government.

SRI LANKA-SPECIFIC TRENDS-SUMMARY

The 2000 assessment suggests that: "Aid is only one of a number of instruments that can be applied to support such a process and, in relation to diplomatic interventions, it may be a rather blunt instrument with limited leverage. Therefore, aid may complement political processes happening on the ground, but it is unlikely to be a leading edge in a peacebuilding process. Ultimately, these questions have to be addressed by political and civil actors within Sri Lanka making decisions about their definitions of peace, social justice and future development" (p. 105). This is a reflection that is still valid today.

The assessment goes on to state that "conflict blind" development is a problem: "Aid can follow the fault lines of conflict and inadvertently increase political, economic, and social exclusion." It then proposes four fields of engagement:

- Integration of conflict sensitivity
- A politically informed approach
- Comprehensive and coordinated strategy
- Long-term strategic engagement

To summarize the responses of donors over the last five years in these fields: where changes in Sri Lanka and donor policy shifts have enabled greater engagement in conflict related issues, there has been some progress. Overall, aid provision to Sri Lanka has become more conflict-sensitive since the SCA of 2000. With the changing domestic and international dialogue concerning Sri Lanka, donors are now far more able to work on conflict-related issues. In practical terms, the continuing ceasefire makes it possible to assist on the ground. But these changes are not indicative of a paradigm shift in which donors have fundamentally altered their methods of engagement: there has been no sea change. Most factors determining the substance of donor assistance remain the same.

INTEGRATING CONFLICT SENSITIVITY

Many donors have made considerable progress regarding this issue. Some bilateral agencies have done so to such an extent that peacebuilding is their main priority. U.N. agencies such as UNICEF have also engaged productively in the North-East and on conflict issues more widely, in step with a global move toward recognizing child rights as an overarching priority. For others, the response has been more instrumental-an increasing awareness that conflict needs to be taken into account and that it has a real impact on projects and programs. This is a positive if more limited change.

Aid has not generally targeted the fundamental or underlying problems that generated conflict in the first place. However, as a result of increasing analytical work, donors are more aware of the underlying causes and drivers of conflict. Although a "transformative" approach to tackling background conditions has not gained much ground, this enhanced understanding has provided for some useful interventions. Whether these have made an impact on the ground is a matter of interest, although concerted evaluation is beyond the scope of this study.

Figure Six: North East Housing Reconstruction Programme

NEHRP (North East Housing Reconstruction Programme) is a GoSL/World Bank project aiming to provide conflict-affected families with improved and affordable housing units. It will entail a cash grant paid in four installments to vulnerable families to help reconstruct their houses. In addition, the technical assistance provided under this program will help meet the long-term housing needs in the North-East through improved construction standards, strengthened housing finance options, enhanced private sector involvement in housing construction, and streamlined mechanisms to resolve property disputes.

Northeast Coastal Community Development Project: This ADB project, approved in mid-December 2004, is a \$26 million, four-year loan targeting three eastern districts. Under a standard poverty/vulnerability index, Tamil populations would have emerged as the principle beneficiaries (given their status as the poorest groups). In order to avoid an allocation that might have led to tension, given the lack of inclusion of other ethnic groups, the vulnerability index was amended to address diversity issues. Subsequent re-design allowed for support to other (chiefly Muslim) groups, with the majority of funds still going to the poorest communities.

Large donors like the ADB and Japan now consider issues of equity in monitoring and appraisal of projects. This is a departure from earlier practices. Other smaller donors try to align all of their assistance around peacebuilding priorities.

Some donors - the ADB, the U.K., and Switzerland for example - have created new posts. This makes a considerable difference in their ability to engage in issues on the ground, and to generate common positions. It may also have an impact on diplomatic initiatives, as specialist staff might improve institutional knowledge and understanding of the complexities of the conflict.

More Support to the North-East

Although the frozen peace talks mean that no interim authority has emerged, many donors have found ways of working in the North-East. These methods generally build on existing mechanisms, with donors operating either through international NGOs, U.N. agencies, or government departments. Recognizing the role played by the LTTE and its partners in the North-East, most donors operating in these areas have found creative and effective means of ensuring LTTE cooperation and consultation.

POLITICAL AWARENESS

Engaging with the peace process has improved donors' knowledge both of the dynamics of the conflict and of shorter-term political imperatives. Specialist staff, cooperative efforts, and learning exercises such as the scenario planning process of 2004 have increased knowledge and understanding across a wider range of actors. Whereas in 2000, the number of engaged donor staff that understood the political dynamics of conflict in Sri Lanka was limited, a greater number of informed actors are now engaged. Closer links with some civil society bodies has also helped, although there is still room for improvement in that area.

However, this increased awareness is limited. The larger donors may not see political issues as relevant, or may see them as fields that an external actor has no right to engage in. For the larger donors, objectives are broadly the same as before: economic growth and poverty reduction. Many would not share the sentiments of the 2000 analysis when it states that donors should use aid to leverage domestic political shifts so that background conditions are addressed. There has been some instrumental engagement where conflict issues are perceived to have the potential to damage the realization of other objectives, but this is not

Figure Seven: Civil Society Support

FLICT: Facilitating Local Initiatives in Conflict Transformation is a joint GTZ (Germany) and DFID (U.K.) financed project. The overall goal is to strengthen - through a countrywide approach - incentives for conflict transformation in Sri Lanka by encouraging and supporting civil society to play a more effective and influential role in contributing toward a lasting and positive peace. FLICT expects to achieve this through local initiatives and strengthening organizations' capacities.

The FLICT project concentrates its efforts on different focus areas:

- Media and information transfer for building peace
- Strengthening democratic space in the North-East
- Policy reforms and their implementation for a pluralistic society

Other focus areas are linked to longer-term issues. Crucial issues are the support of "good local governance," "multi-ethnic towns as focal points for integration," "a positive role of youth," "academia's role in the peace process," and "conflict transformation by different organizations in civil society."

The implementation of FLICT started in 2003 and should be seen as a process. Throughout the duration of the project, FLICT will develop a network of partners-strengthening and engaging a body of intermediaries with local initiatives in the medium and long term. FLICT also includes authorities and private sector organizations in its work.

too different from "working around the conflict," as described in the 2000 analysis.

Donor support for economic liberalization may demonstrate a long-standing lack of political understanding. Given the patronage-based structures of Sri Lankan political systems, a rapid liberalization program is challenging - it attacks vested interests and undermines grassroots support. While many may agree that Sri Lanka needs reforms, the sequencing of these reforms is a careful political balancing act. Some argue that donor promotion of rapid change under the UNP government undermined grassroots support for the peace process. While a peace dividend was promised, the reality for many in the South was rising prices as subsidies were removed. Given that popular southern support is essential for the peace process, this may have been short-sighted. Indeed, the numbers of votes won by the JVP and still more extremist Sinhala groups in the South in the 2001 election effectively dealt a massive blow to the peace process.

More and Increasingly Sensitive Support for Civil Society

A range of donors support civil bodies working on conflict related issues. Various donors have made a conscious effort to move beyond support for an elite group of NGOs in Colombo, and find indigenous bodies that might be able to build a more general groundswell of support for peace. The U.K., Germany, the U.S., U.N. bodies, and various other donors are engaged in this work. The World Bank has also done some exploration in this area. In some places - Switzerland for example - civil groups within the diaspora community are also involved. Yet some feel that civil society support in general still tends to be carried out clumsily, reaching just a few high profile groups.

Increased Engagement with the LTTE

Donors have a range of positions on working with the LTTE or other groups, and support for development actions is carefully appraised. Organizations have,

however, found a variety of ways to bring international experience to the LTTE and other bodies in the North-East, with the aim of presenting peaceful and human rights-based examples. Many of these initiatives have been politically sensitive, and have involved concerted diplomatic rather than technical donor attention. The mainly European donors have pursued an approach of "constructive engagement" with the LTTE that has provided opportunities for regular dialogue on program and policy issues. These steps are controversial and it is too soon to judge overall impact, but it is unlikely that disengagement would have a more positive impact on welfare or peacebuilding. Aid programs may provide valuable diplomatic support when carefully applied with open support from all sides. The ADB and the World Bank take a more pragmatic approach to relations with the LTTE. Because IFI projects bring valuable resources and development to the North-East and LTTE cooperation is necessary for smooth implementation, both the banks and the LTTE recognize the importance of a consultative relationship.

Support for GoSL-LTTE Collaboration

While donors have steered clear of involvement in the substance of direct negotiations between the GoSL and LTTE, they have sought to support and encourage practical collaboration between the parties at other levels around particular issues or development programs. The most recent example is the P-TOMS. International support, patience, and strategically targeted assistance will be critical for the success of P-TOMS. The international community will have observer status within the P-TOMS structure. The mechanism also provides an opportunity for donors to support capacity development and collaboration among key actors around essential service provision. This could lead to positive development and political outcomes.

Some Increased Attention to "Transformative" Processes

Some donors feel that mainstream development support to the government of Sri Lanka should be used to

promote fundamental governance changes. The aim of this is to change the structures and political systems that form part of the background of the conflict: a sense of injustice at the perceived unequal treatment of the minority population. Skewed resource allocation, language, and education policy, etc., will arguably not disappear until there is pronounced institutional change. Additionally, a sustainable peace may hinge upon decentralization processes, given the need to find some form of local power-sharing structure. However, while some donors maintain such aims, others - especially the largest three donors (Japan, the ADB, and the World Bank) - do not build the bulk of their support around them. Given the financial dominance of these three, the greater part of donor assistance to Sri Lanka is not designed to promote such changes. There is some evidence of change, however, as donors like the ADB and the World Bank try to work more closely with provincial and local administrations, particularly in the North-East. Though financing is still agreed upon and managed with the central authorities, there is increasing recognition among the IFIs that effective implementation requires governance reforms.

Risk-taking

A desire to support a peace process has increased the range of high-risk and potentially high-exposure initiatives. Whereas donors preferred to keep a low profile in the past, more recently they have on occasion responded quickly to the peace process, driven by the incentive to contribute to, and be associated with, a potentially successful outcome.

The donor harmonization that seemed possible during the UNP government may have given individual donors the confidence to take risks, knowing that their policies would be supported or shared by other agencies. An SLFP government, which discourages harmonization and is more sensitive about donor actions, may restrict risk-taking behavior.

Figure Eight: UNICEF and Common Planning

UNICEF launched a common approach to address the needs of vulnerable children in the North-East through an Action Plan for Children Affected by War, agreed to by the LTTE and the government in late 2000/early 2001. The suspension of peace talks halted common work, but UNICEF managed to secure signatures of both sides nonetheless. However, suspension of talks meant that there was no mechanism for discussing or solving arising problems. UNICEF pioneered approaches that promoted interchange between the two sides, and managed to broker the only human rights agreement. UNICEF still practices "shuttle dialogue." There is still space through provincial structures for interchange between the two sides, on education policy for example, but work on some of the key issues, notably on child soldiers, has been hard going.

COORDINATION AND LONG-TERM ENGAGEMENT

There have been improvements in coordination. These are in some cases limited to the same range of small European donors, but not entirely so. Generally, donor collaboration and information sharing in Sri Lanka have improved greatly in the past five years. These efforts relate both to a more explicit acceptance by donors to address conflict issues as part of their core business and also to international directives around aid effectiveness and harmonization. Some benefits include joint work between multilaterals (the U.N., the ADB, and the World Bank) and bilaterals (GTZ, the Netherlands, and DFID) on selected projects, and the common positions developed in Tokyo in 2003. Joint planning exercises have also helped improve the general intelligence of the donor community. Donors collaborate on common positions to take with GoSL and LTTE, engage in shared analytical exercises such as SCA2, and increasingly co-finance peacebuilding support. Examples include the UNICEF Action Plan (see boxes). The World Bank has also established a donor coordination trust fund that supports activities such as this SCA, as well as other harmonization initiatives with government.

The 2000 SCA comments: "The crux of the problem is that short-term thinking, short-term mandates, and short-term funding are being used to confront entrenched and long-term problems and needs." This is still predominantly the case. While donor analytical work has contributed to a more widespread acceptance

of the long-term nature of peacebuilding efforts in Sri Lanka, in practice, donor timeframes are still driven by short-term cycles of planning and financing. The expected departure of some bilateral agencies exacerbates the situation. It is noticeable that the agencies able to work effectively in the North-East have tended to be those with a long track record of engagement. One could argue that perhaps donors have aimed too high in targeting their assistance. Given the slow pace of progress on peace in Sri Lanka, resources geared to the political-peace agenda are high risk and unlikely to be disbursed according to donor timeframes. More pragmatic targeting of assistance over a longer timeframe may be a better option.

4. Conclusions

OVERVIEW

In Sri Lanka, donors have shifted in approach since 2000. Donors are far more aware of conflict-related issues, more able to work together on conflict, and better at drawing links between the conflict and their own financial support. Disagreements persist over whether aid can be a lever for peacebuilding.

Donor policies have varied, partly in response to changing political circumstances in Sri Lanka and partly because of shifting patterns of aid provision globally. Smaller donors have shifted more than larger donors, although recognition of the centrality of conflict to aid provision and the need to consider the links are increasing across the board.

Although every donor is different, there are three broad categories of donors that emerge from an analysis of aid in Sri Lanka: 1) the "big three" of Japan, the ADB, and the World Bank; 2) the U.S.; 3) most of the rest, consisting chiefly of European bilateral donors. Agencies not included in these groups are aligned somewhere close to these actors, with the U.N. agencies and Western donors tending toward the European perspective, and Asian donors tending toward the "big three" position. There are, of course, many shades of subtlety and contradiction within this crude description, which should not be used to imply that the situation is polarized: all donors have much in common with each other, especially given the massive aid flows arriving for support and reconstruction following the tsunami of December 2004.

Put simply, the European tendency is to attempt to use aid directly to promote and support peacebuilding in a range of ways. Meanwhile, the "big three" tendency is to consider conflict as an important, but not overriding,

issue, with aid disbursement and economic reform as central concerns. The U.S. position involves broader security dimensions, which lead it to take a tougher conditional stance with the LTTE. These dynamics have not changed significantly since the previous conflict assessment in 2000.

While the "big three" could have better integrated conflict as a central concern within their programs of support, smaller "European" donors could perhaps have acted at times with more understanding of the realities of aid provision. The notion that aid provision can act as a significant catalyst or lever to promote peace in Sri Lanka is interesting, but perhaps overlooks a set of limiting factors:

- Most aid provision is dependent on diplomatic and political considerations; aid agencies rarely have the scope to act independently, meaning that on-the-ground actions are less significant than wider trends or political developments. While many bilateral aid agencies do link effectively with diplomatic structures, this is not a universal rule. And for all agencies, aid is provided for a range of reasons.
- Aid agencies respond to internal incentives and priorities that are often geared toward ensuring smooth disbursement of aid and efficient allocation of resources. This means that in many cases, common ground will be found only when a conflict-aware approach eases resource transfers, as opposed to limiting expenditures or creating obstacles in the aid pipeline.
- The aid organizations at the forefront of peacebuilding approaches are financially insignificant actors in the Sri Lankan economy. While this does not render them useless, and there are many valid exercises that they can engage in, their approaches will probably not become common

currency across the aid community in Sri Lanka. A straightforward look at the ways in which the larger donors work demonstrates that while aid can be made more conflict-aware, there are serious barriers to a fully cooperative approach.

- Most importantly, aid is not, for the most part, very effective as a vehicle for transformation. It is a relatively minor issue in the politics and mechanics of conflict in Sri Lanka and in most other countries. This means that while aid can support dominant tendencies or political imperatives, it can rarely change them. The viability of aid as a supporting factor to the peace process depends entirely on progress in the peace process itself. In most cases, aid is the cart and not the horse.

DIPLOMACY, POLITICS, AND AID

An increased political awareness on the part of aid actors has enabled more nuanced engagement and understanding of the linkages between aid programs and conflict. Better informed experts have ensured that a range of aid agencies aims to work more intelligently. Recent experience links prospects for peace with prospects for greater donor involvement.

These donors recognize the pragmatic reality of aid provision as a political act, and have aimed to use assistance for valuable ends. Political engagement with aid flows is not always beneficial, however. A close alliance of aid donors with the previous UNP-led government may have made it harder to engage with the current government. While understanding political realities of aid provision and Sri Lanka, aid agencies need to take a long-term view. While political awareness is important and linkages between aid and a range of other international issues may be pragmatically valuable, a long-term approach is needed. This means better analyzing and understanding the difference between the structures and dynamics of the conflict in Sri Lanka and realizing that a positive change in the dynamics may not necessarily lead to much needed structural change.

AID AS A CATALYST FOR CHANGE

In the aftermath of the Tokyo Declaration, donors have come to the general consensus that while aid can benefit peace, it cannot be used as a lever or catalyst for peace. If this is the only positive outcome of the Tokyo process, then it was an experience well endured. Aid is not a blunt instrument that can be used to drive peace. The drivers of change in Sri Lanka are political actors, not donors. While political actors have used aid as a lever in their own political interests, donors must not mistake this clever manipulation for influence. This is not to say that the international community is without influence. Donor countries must optimize the many types of engagement that they bring to Sri Lanka: trade, military, security, diplomacy, and aid. Donors can provide a variety of incentives and supportive measures for peace, but these are generally not aid related.

TRANSFORMATIVE MEASURES

Donor involvement in studying peace and conflict in Sri Lanka has led to increased awareness among some donors of many of Sri Lanka's deep-seated problems in terms of political structures, social fabric, and cultural trends. Many of the proposed solutions to these problems - decentralization, political reform, multi-ethnic representation, etc. - have weak or contested domestic purchase and appear at present unlikely to make much headway. The key issue - political marginalization of minority groups - is not likely to be tackled in the near future. This has led to a degree of dependency on the part of some donors.

Donor involvement in peacebuilding can create expectations of rapid change. Post-conflict environments often create scope for structural adaptations that would not otherwise be possible. Recent examples include East Timor and Cambodia. A less extreme case would be Indonesia following the fall of Suharto, creating scope for reform including decentralization and democratization. However, there is no such state of flux

in Sri Lanka. While the dynamics of conflict over the past five years have been fluid, the underlying structures remain largely intact. Political, economic, or social change is consequently less feasible; radical transformations are unlikely given the stability and continuity across the South.

It is rare for donor agencies to have the capacity to successfully challenge domestic political or social obstacles. Indeed, it is rare for donors to be as aware of these problems as many of them are in Sri Lanka. While international support can help in myriad ways, the solutions to such difficulties are likely to be found internally.

Some donors are still trying to support "transformative" approaches. But the only field where the major donors are aiming to do so in a committed way is in economic reform. While there is some discussion and open analysis of the underlying factors behind the conflict, large aid bureaucracies tend to promote technocratic solutions supportive of government policies similar to those used across the globe. General awareness of such issues is fairly limited, and incentives are generally against action to address underlying political or social problems. There are no quick wins.

However, there are nuances within this picture. Some major loans deal fairly sensitively with on-the-ground problems and with background inequalities or the scope for transformative measures. There is the potential to find ways of engaging on these issues, and to encourage government and LTTE support for such efforts to build a more responsive, multi-ethnic state. At the very least, projects should reflect awareness of the breakdown of potential beneficiaries along ethnic lines.

POSSIBLE STEPS

Sri Lanka faces fundamental governance challenges that are intractable in the short term, such that there will be continuing obstacles in the search for lasting peace.

While donors may rarely be able to tackle such issues directly, they can still be involved productively. Donors can support the search for solutions to underlying problems, and help with more immediate problems related to peacebuilding. Examples of potentially fruitful engagement already exist. While this background study does not have the scope to evaluate specific programs, and it is in any case very challenging to draw linkages between cause and effect, some comments and proposals follow:

Better Analysis

- Factoring in the influence of geopolitical factors on the key actors in Sri Lanka. This suggests a better understanding of the role of India and even China in regional political and economic affairs. Aid donors should pursue a more inclusive approach with these key actors.
- Working toward greater donor understanding of background conditions and the ways that aid provision can be screened or evaluated in order to "do no harm" and be better targeted to do some good. Cooperative efforts among donors can contribute to this aim, but should not be an overriding objective.
- Building better understanding of Sri Lankan politics, society, and economics within donor bodies, especially through the recruitment of higher-level Sri Lankan staff.
- Building alternative channels for discussion, debate, and negotiation on conflict issues within Sri Lanka. Use analysis--of the political economy, the conflict, and the institutional environment--both as a vehicle for donors to work together and to inform programming choices.

Types of Aid

- Focusing more on domestic capacity building, whether through projects, funding, or policy-based research initiatives, (but always within the framework of a sound institutional analysis) to ensure that any

capacity development initiatives are not constrained by structural factors. An immediate opportunity is capacity building through the P-TOMS, enabling local governance actors to manage tsunami reconstruction.

- Working to maintain contact with LTTE bodies, pragmatically and appropriately. This varies between donors - no one solution is right.
- Considering the resentment at the lack of attention to the South, and how to address that shortfall. Rapid economic reform is likely to further derail the peace process if it helps build perceptions that the poor southern majority is being ignored.
- Continuing to support the North-East. Overcoming the challenges posed by interim authorities and decentralized structures would be desirable, but it may be a long time coming. In the interim, there are proven methods of engagement that all sides are content with. Given that such engagement can promote conditions for peace by opening up the North-East to national and international expertise, efforts should continue to strengthen interdependency and promote an array of local bodies. Smaller donors with more sensitivity to local level issues may be able to partner with larger funders in order to assist in sensitive programming in the North-East.
- Expanding civil society funding: this is already under way, but donors should continue to look more widely at a broader range of actors.
- Engaging the diaspora: some donors have engaged the diaspora community in efforts to increase understanding and reduce support for extremism. It is not clear whether this has succeeded, but continued efforts might be helpful.

Harmonization, Coordination, Complementarity

- Pragmatic common ground: finding areas where there is both government interest in pushing through reforms and large donor interest in pursuing work that will support peacebuilding (e.g. promoting

spending in the North-East, rather than criticizing spending in the South); supporting positive aid provision where it will help produce a tangible peace dividend - in the North and in the South.

- Continued linkage between aid and diplomatic (or on occasion military) ties, to encourage grounded and cooperative approaches, but with a longer-term perspective. Capitalize on the complementary roles of development, political, and military departments. For example, political or diplomatic leverage may be more effective than aid in influencing national policies.
- Donors thinking about withdrawing from Sri Lanka should consider the amount they have invested in building up a conflict-sensitive approach. Withdrawal would waste this asset, and for smaller donors--given the limited amounts involved as a percentage of aid flows--would send no real signal to government. A more conflict sensitive approach may be to shift gears rather than exit. This would entail less emphasis on an assertive policy-influencing role with key political actors, and increased emphasis on working with others to tackle background conditions, address the social costs of conflict, and build constituencies for peace. Increased joint efforts, secondments and silent partnerships could reduce transaction costs for smaller bilateral donors without the potentially negative impacts of pursuing a total exit strategy.
- Recognize the differences between individual donors and groups of donors. Appreciate that consensus-based approaches may result in lowest common denominator strategies. Strive for better complementarity of donor strengths, incentives and resources. The "good cop, bad cop" strategy with the LTTE is one example of how donors have used their different positions to engage with the LTTE without compromising principles. Bilateral partners should also think beyond the "aid basket" when considering what they can contribute to Sri Lanka.

The ability to implement such work depends on maintaining good relations with all sides. Within the

context of a "do no harm" approach, there does seem to be scope for engaging in a variety of ways. None will bring about a radical shift in short-term peacebuilding or longer term background conditions, but such an impact is probably in any case unrealistic. Smaller, helpful steps are still possible and should form a part of donor assistance. Smaller donors may have a comparative advantage in supporting larger donors, where there is common ground, to work along these lines.

The past five years have reaffirmed the validity of the recommendations of SCA1. Despite dynamic swings in the peace process, structurally the underpinnings of the Sri Lanka conflict have not transformed dramatically. In their desire to support peace, donors must continue to recognize that any significant shift will be internally and not externally driven. While development aid may provide a means for supporting this shift when it happens, it will not be the catalyst for it.

Appendix: A Sample of Development Actors

The following section covers some of the actors involved in development assistance to Sri Lanka. It is not a complete list, and only provides some information, since there is insufficient space for a more comprehensive assessment. Some donors are not covered simply for lack of time. With each actor, points are divided into some or all of these sub-headings: programs/policies; perspectives on aid and conflict; perspectives on donors, Tokyo, and subsequent common indicators; tsunami; comments.

GOVERNMENT PEACE SECRETARIAT

Perspectives on Aid and Conflict

- Recognizes that military solution is nonviable. But maintains austere line on LTTE as a terrorist body.
- India is emerging as a significant donor as well as a diplomatic force. There is recognition that different donors have different approaches.
- Government is strongly promoting unified solutions, integrating economies in the North and South, and promoting investment and interdependence.
- Hopes tsunami will still lead to common implementation mechanisms.
- National Council for Economic Development includes sub-committees that donors can be involved in. North East Donor Coordinattion Cluster (one subcommittee) deals with North-East.
- In terms of donors support to transform structures, there should be scope to make some progress. Projects can be more innovative in terms of connecting different parts of the country. For example, the Mahaweli Project should have helped the North. There should be opportunities in certain areas to help with reforms.

- Feels that donors should have fewer "legitimizing" linkages with LTTE; such linkages have "absolutely no impact on LTTE's transgressions." Donors need to distance themselves more from them and refuse to approach TRO; instead, they should work through mainstream government structures in which the LTTE can continue to practice in and engage with; recognition that, in practice, government agents are very close to LTTE in Kilinochchi and Mullaitivu.

Views on Donors

- Strong opposition to common donor positions. More comfortable with standard individual donor projects than with pooled funds, in the North-East or elsewhere. Welcomes support to the North-East, through channels that have been proven to work including NGO or U.N. delivery, as well as use of government structures. Does not promote "transformative" approaches in the South, although there may be scope in selected fields.

Tokyo and Subsequent Common Indicators

- Strong perception that benchmarks are "totally inappropriate, arbitrary, and artificial." Glad they did not hold.

LTTE PEACE SECRETARIAT

Perspectives on Aid and Conflict

- Encouraged by efforts on the part of the World Bank and the ADB to work in the North-East.
- Breaks down donors as follows: EU bilaterals, India, China, Japan, and the USA. India, Japan, and

China collectively represent over 80% of funds promised. Multilateral banks are also important. Recognizes that EU bilaterals are not overly significant financially, but development of common positions has a useful impact - especially given the EU's role as co-chair.

- The LTTE are content with the different ways that donors can provide support. The U.S., for example, can work through NGOs, keeping awareness of agreed guiding principles; Japan has been asked by the LTTE to ensure equitable allocation of funds along ethnic/religious lines in all of its programs.
- With India, low-interest loans to the government are provided: it is not certain that any expectations of equity are placed on the loans.
- With China, planned investment in 16 harbors will need to address ethnic issues.
- Donor forums and common donor positions are welcomed; but in reality are less significant than individual aspirations of key players.

Tokyo and Subsequent Common Indicators

- Generally supportive of what is termed "EU" donor position (referring to common positions taken by a range of bilaterals). At one level, expresses support for principle frameworks, donor coordination efforts, and wider application of international human rights law, and sees the government as trying to avoid these EU principles. Yet at another level, is resistant to such "foreign interference."

Views on Donors

- More supportive of all donors than might be expected. Appears to send mixed messages about the value of "principled" approaches advocated by many bilaterals. Is willing to consider a variety of mechanisms to support development in the North-East; this means that the political deadlock on an interim authority does not necessarily need to hold up development assistance to the North-East. While

welcoming engagement in international best practices, also holds a strong line on maintaining control, whether contested domestically or challenged by international bodies such as donors.

Comments

- With current alignments, the LTTE may feel it has more to gain from a Western international stance on "principles" than the current government (in contrast with the situation under the previous UNP government). This may make it challenging for Western donors to secure the government cooperation necessary for successful interventions.

JAPAN

Programs/policies

- Has been the largest donor to Sri Lanka for many years. Bulk of funding through JBIC (concessional loans); considerable amounts also through JICA (technical cooperation grants).
- Traditionally strong relationship with the government, in Sri Lanka and elsewhere. Aid priorities are set through internal discussions and consultations with the government; engages in a process of "anticipatory bargaining," or discussions with government to determine aid flows along commonly agreed objectives. Subsequent need to disburse and coordinate the spending of many loans, which is quite time consuming.
- Supportive of continuing ceasefire; regards aid flows as important to maintain support for a peace process. States that if there were a return to war, they would reconsider the value of support. But currently, still wishes to support a process that continues to hold, despite recent lack of progress.
- Works in the North-East, often through U.N. programs. In the North-East especially, they carefully examine equity and distribution of aid along ethnic-religious lines as an important part of

project appraisal. This is a change from the situation pre-ceasefire, when such issues were not considered. This change reflects awareness of the need to reduce tension. It is clearly stated by Japan at the 2003 Tokyo meeting that: "the 'peace dividend' should be evenly distributed, taking into account the balance between the north-eastern part and the southern part of the country, and the equally sensitive balance between Sinhalese, Tamils, and Muslims."

- Japan has less experience of integrating transformative issues (i.e., promotion of fundamental governance changes relating to peacebuilding) into aid support. This is of potential interest but not a basis of current project formulation or policy.

Conflict Sensitive Approach

- Japan provides more support to the North-East, often through U.N. programs. Japan aims to carefully examine equity and distribution of aid along ethnic-religious lines as an important part of project appraisal. This is a change from the situation pre-ceasefire, when such issues were not significantly considered.

Tokyo and Subsequent Common Indicators

- Role in political peace process: facilitated the 2003 Tokyo meeting, further quarterly monitoring visits from senior envoy.
- Participation in DWG and Tokyo Declaration was reluctant; accepts loose principles but not a framework or set of restrictions on aid provision. Paragraph 18 of the Tokyo Declaration should be seen as positive efforts to encourage a good background environment for the peace process, rather than conditionality of any kind. Efforts to use background principles to formulate guidelines leading to indicators will not work effectively and are not welcomed. Simple principles for engagement are welcomed, however.

- Does not support processes that might lead to conditionality and associated stipulations: Views these as unnecessary and unwelcome.

Comments

- The Japanese approach, along with that of major constituencies within multilateral banks (and most significantly within Sri Lanka), does not perceive societal transformation as a role for aid. Such concepts are more prevalent with Western donors and civil society than elsewhere; additionally, such change is regarded by many as counterproductive conditionality or external Western impositions on domestic structures. More practically, ideas of transformation through more nuanced aid provision limit disbursement capacity and slow down project cycle management.
- The Japanese development model is different from contemporary Western approaches: strong emphasis on state-led development with capitalist economy, but also with heavy investment in human development, infrastructure, and other redistributive measures such as land reform, as appropriate. This is not always compatible with approaches that place far greater stress on human rights, participation, political change, and improved governance rather than top-down support.

ASIAN DEVELOPMENT BANK

Programs/policies

- The aim to support Sri Lanka by disbursing funds in a timely fashion, board members that are broadly supportive of government in the first instance, and an approach that prioritizes economic or engineering-based solutions, means that peacebuilding issues do not fall naturally into the ADB's line of work. However, the ADB has a strong record of offering support rapidly in post-conflict environments. In Sri Lanka, it has been able to work increasingly in the North-East; following the

CFA, the ADB rapidly offered support and sought practical ways of providing assistance in the North-East.

- Informally, conflict understanding/awareness is growing, as well as an awareness of the links between project success and maintaining peace both in Colombo and the head office in Manila. There is increasing attention to equity and ethnicity related issues, with growing focus on ethnic balance and transparency as a key aspect of poverty analysis. The ADB has also been able to work increasingly in the North-East following the Ceasefire Agreement. A conflict specialist, seconded from a bilateral, works in the Colombo Resident Mission
- The Northeast Coastal Community Development Project, approved in mid-December 2004, is a \$26 million, four-year loan targeting three Eastern provinces. Under a standard poverty/vulnerability index, Tamil populations would have emerged as the principle beneficiaries (given their status as the poorest groups). In order to avoid an allocation that might have led to tension given the lack of inclusion of other ethnic groups, the vulnerability index was amended to address diversity issues. Subsequent redesign allowed for support to other (chiefly Muslim) groups, with the majority of funds still going to the poorest communities.
- NECORD - an earlier project now being extended - also aims to track ethnicity issues in monitoring and evaluation.

Common Indicators

- Overall disbursement and project approval is not linked to progress toward peace. But projects do have a phrase commenting that disbursement could be linked to the peace process.

Tsunami

- The tsunami has led to a large allocation of nearly \$150 million dollars. The ADB conflict specialist (on secondment from a bilateral) has been asked to look at conflict-related aspects of the loan.

USA (USAID)

Programs/Policies

- Through their democracy, governance and conflict programs, the U.S. is involved in a range of initiatives. Following three "tracks" of the process-political, diplomatic, and aid approaches: Track One through co-chair mechanism; Track Two through engaging in parallel political/civil society processes; Track Three through support for civil initiatives.
- Involved in a range of initiatives: "One Text initiative" to bring second-tier political players into discussions; local government support through The Asia Foundation; people's forums in a range of locations; annual peace perception surveys, etc.
- Future initiatives: Possible direct support (through U.S. NGOs) to enhance political party awareness of peacebuilding issues; possible work with civil bodies like trade unions, etc.; possible work on youth and civic education.
- The U.S. has: 1) a clear understanding of the political challenges involved, 2) awareness of the need for transformative approaches and governance-related issues in the South, and 3) the organizational capacity to engage accordingly.
- Awareness of a range of second-order conflicts that could arise in future years: complexities of Muslim political engagement and issues of attacks on Christian churches in the South.

Perspectives on Aid and Conflict

- There is a perception that major donors have at least adopted conflict awareness rhetoric, and have some understanding of the need to look carefully at equitable distribution of resources. But there is less direct acknowledgement of governance-related issues that form the basis of the reasons for conflict.

Tsunami

- Post-tsunami reconstruction support is unlikely to be conflict-sensitive and, in any case, government

can select from a wide range of donors if objections are raised. Flow of reconstruction funds is likely to exacerbate "patronage" networks that are not equitable and could well enhance tensions.

Comment

- There is programmatic support for multiple actors engaging with a range of issues, generally through civil society bodies of different descriptions. But this is tempered by recognition of the LTTE as a terrorist body, and a global environment that encourages support for government rather than non-state actors.

SWEDEN (Sida)

Programs/Policies

- Sida has been working in Sri Lanka since 1958.
- Integration of conflict into programming began in earnest in 1998. Prior to that, there were programs in conflict areas, and peacebuilding was a focus of some NGO/civil society support, but it did not occupy the central position of the country strategy that it now has.
- Sweden has had, and continues to have, bilateral development cooperation agreements with the government for over 20 years.
- Since 1998 there has been a two-pronged approach to Sida support: 1) Peace, Democracy, and Human Rights and 2) Pro-poor economic development.
- The embassy in Colombo is fully delegated with a country plan, annually approved by the Asia Department. The embassy has the right to steer funds and enter into agreements with the GoSL and civil society organizations in keeping with the country plan.
- The internal Local Project Appraisal Committee ensures the quality of projects/ programs/sector support and also ensures that cross cutting issues such as democratic governance, conflict sensitivity,

gender equality, HIV/AIDS, and environmental concerns are mainstreamed.

Common Indicators

- Sida subscribes to paragraph 18 of the Tokyo Declaration. The clauses are interpreted as "If peace, then increased prospects and opportunities for aid," rather than as "No aid unless peace."
- Sida has been an active promoter and participant of the Donor Working Group in the efforts by donors to find common indicators in monitoring the peace process and supporting development in Sri Lanka.
- Sida supports harmonization and alignment of support together with the IFIs and like-minded donors. Sida prefers sector cooperation reflected through core funding and increased harmonization, even in peace and tsunami related interventions (for example: core support to UNICEF's Country Plan; the ADB on infrastructure development - especially roads in conflict and tsunami affected areas; the World Bank on their Education Sector Development Credit in the area of social cohesion; and, together with the Netherlands Embassy and Danish Development Cooperation, support to the Peace and Development Fund managed by CHA).

Conflict Sensitivity

- Conflict is viewed in a broader light than merely the ethnic conflict in the country, and is inclusive of all potential conflicts (for example, religious conflict and buffer zone issues). Hence, Sida actively promotes a "do no harm" approach.
- Conflict sensitivity is essential, but should also be balanced in support to the North-East and South.

UNICEF

Programs/policies

- UNICEF has been working in the North-East for a long time.

- A 2002 DFID/SIDA evaluation recommended that a more integrated management structure provide a uniform countrywide approach. This enabled work with similar government structures island-wide, reducing the amount of NGO engagement.
- This reorganization and the ceasefire enabled UNICEF to engage in policy issues relating to children. Originally through an Action Plan for Children, agreed to by the LTTE and GoSL in late 2002/early 2003, a common approach was launched. The suspension of peace talks suspended common working, but UNICEF managed to secure signatures of both sides. However, suspension of talks meant that there was no mechanism for discussing or solving arising problems.
- UNICEF pioneered approaches that promoted interchange between the two sides and managed to broker the only human rights agreement. UNICEF still practices "shuttle dialogue." There is still space through provincial structures for interchange between the two sides, on education policy, for example; but work on some key issues, notably on child soldiers, has been hard going.

Common Indicators

- Benchmarks on progress toward peace as an incentive. These have not been put into practice; the only funds that have been withheld have been as a result of economic, not peace-related, issues.

Perspectives on Aid

- In the North-East, there are still options for engagement. These options have involved interchange with all parties for decades, and can continue in this manner. Donors can work in the North-East if they wish - there are mechanisms.
- Without peace talks, and more recently with the LTTE split in the East, the likelihood of concerted demobilization is slim. This has an impact on issues such as child soldiers - a key topic, given senior

U.N. involvement and allegations of major transgressions of agreements.

UNDP

Programs/policies

- Institutional change: UNDP has shifted considerably in last 3-4 years. Previously, traditional development issues rather than conflict were seen as the key priority among most staff members in the Sri Lanka office. Now, staff are prioritizing a more conflict-aware and engaged approach. Newer staff are often conflict-focused, leading to more capacity to engage. This reflects a global shift in UNDP thinking as well as changes in the Sri Lanka office.
- The intergovernmental role of UNDP does create limits on actions, especially with the current government. Support tends to have to flow through the government, but that does not rule out some valuable work. They have to navigate carefully and work quietly; they do not have scope to take on broad agendas, nor the mandate to engage the LTTE as an equal partner. Others - for example, GTZ - can work more flexibly. More widely, UNDP is open to a wider range of civil society, government, and other bodies than they were in the past.
- Peace Secretariat: Supported peace secretariats on both sides of the conflict. Also linked Muslims into the process, before the establishment of a Muslim secretariat. This was a slow process, but perseverance led to some success.
- Other work includes small grants through peace secretariats, including grants to non-Tamil local bodies in the North-East. This is regarded as a successful, if small, effort to promote democratic process and pluralism in the North.
- Process: the U.N., after the CFA, was involved in early needs assessments. The UNP government requested U.N. involvement in the social and economic aspects of peacebuilding and

reconstruction. After the CFA, the UNDP was involved with the prime minister's office unit in efforts to take forward reconciliation/reconstruction. This was unrolled in local government offices (at the district level, etc.) as well as centrally, and folded into the 3Rs ministry with the change of government. The UNDP has been responsible for the "human development" aspects of common assessments, including gender, local capacity building, etc.

Common Indicators

- Indicators stemming from principles are of mixed value. They can be beneficial as an exercise for some bilateral organizations; but as a wider exercise, it does not have enough leverage or ownership.

GERMANY (GTZ)

Programs/policies

- GTZ programs: as with many other bilaterals, conflict transformation justifies GTZ presence in an otherwise middle-income nation. Programs link with conflict across the board.
- Economic promotion work through micro-finance and vocational training/regional economic promotion: employs "do no harm" principles.
- Projects in conflict areas: has maintained a presence for some time, engaging with all stakeholders - is now trying to build capacity by increasing its outsourcing. Involves higher-level, on-the-ground engagement.
- Projects on conflict transformation: support to the Berghof Foundation's work, FLICT civil society program, and the Education for Social Cohesion program.
- Aid-diplomacy linkages more complex for Germany than many countries, given GTZ's independent status as well as ministerial divide between aid operations and diplomatic operations.

Common Indicators

- Post-Tokyo development of principles is seen by many observers as conditionality.
- Aid has not become part of a wider process.
- A "transformative" approach to address underlying problems and set up pluralistic representative structures on all sides along the lines of the principles agreed to in Tokyo has not been promoted by either side, or by the major donors.
- Scenario planning exercise of 2004: aiming to answer questions of what peace would look like, what principles would be viable, and what are the drivers of peace. Concluded that bilaterals are less influential than thought.

Perspectives on Aid

- Donors have had increasing dialogue with all sides, but with different routes and motivations. Yet there are still open doors to working collaboratively with larger donors.
- The LTTE, as well as the government, is unwilling to compromise on anything that bridges a gap between aid and political issues.
- "Regaining Sri Lanka" document: very close to previous UNP government policy.
- Donor meetings: good coordination, but high costs. Perceived by others as self-interested. It could be replaced with more direct engagement between Sri Lankan bodies and donors.
- More domestic capacity building within projects would help by questioning the conventional project delivery model and finding alternative working methods.

Tsunami

- Tsunami needs assessments, lessons of previous assessments of how to work in the North-East etc., have not been taken fully into account.

SWITZERLAND

Programs/policies

- Switzerland has no real development program. Previously, they had only a small program with some school reconstruction in Jaffna. Since 2002, they have been involved in study tours by the LTTE, GoSL, parliamentarians, and the media to study federalism in Switzerland.
- Switzerland has had a new post as Adviser for Peacebuilding since 2003, who focuses on human security, peacebuilding, and human rights.
- The Swiss provide support to the Berghof Foundation for peacebuilding related work. Support also was provided to the "One Text Initiative," along with USAID.
- Switzerland has regular contact with the LTTE. The Tamil expatriate community in Switzerland is quite prominent. The Swiss are conducting work with the diaspora in Switzerland and encouraging insight into Sri Lankan affairs through stimulating debates and exchanges.
- The concern that aid flows might spoil the peace process is widely held.

Common Indicators

- Scenario planning: Clingendael facilitated a process that developed 20 issues most relevant to the conflict.
- A like-minded approach can lead to joint statements that produce a common diplomatic stance of strength. There is a common desire to ensure even-handedness, and an intelligent donor response is positive. Conditionality: valid on issues of human rights - for example, child soldiers.

Tsunami

- Since the tsunami there has been a major Swiss Development Cooperation presence.

U.K. (DFID)

Programs/policies

- Like many other bilaterals, conflict is the main justification for engagement in Sri Lanka, given their middle-income status. There is some pressure to keep a presence given the large Sri Lankan community in the U.K., but overall there is little desire to disburse, and therefore only a small program of support. Pressure to spend is also reduced by hands-off management, including passing funds to other bodies for use - U.N. agencies (UNICEF, UNHCR), other donors (for example, GTZ on civil society support), and NGOs (Oxfam, Save the Children).
- The Sri Lanka aid program has undergone major changes from the late 1990s to 2005. It is now focused entirely on peacebuilding and governance priorities. The diplomatic position has also shifted, as peacebuilding receives enhanced priority in Sri Lanka and around the world. The aid program's focus on peacebuilding may have both been influenced by and contributed to this shift.
- Changing internal capacities has enabled engagement: Like various other bilaterals in Sri Lanka, dedicated peacebuilding staff has enabled a program to develop around peacebuilding issues.
- Globally, a stronger and more integrated conflict/humanitarian section in London has increased capacity to provide policy and practical support; better linkages between the U.K. government departments also exist. GCPP - the Global Conflict Prevention Pool - is one basis of interdepartmental cooperation. It has enabled a better collective approach. It is thought that this approach has worked better in Sri Lanka than anywhere else where it has been implemented by the U.K. government.
- Restructuring of Assistance: There are plans to restructure U.K. provision of support to peacebuilding within Sri Lanka over the next year. This will involve replacing a distinct DFID presence

with an enhanced joint political and development section dedicated to peacebuilding.

Common Indicators

- DFID has never advocated conditionality as a means of supporting peace. It did encourage efforts to support the negotiating parties in achieving their agreed principles. DFID encourages common approaches, trying to gain support for common approaches from other, larger donors. They also support a range of partnerships including secondments, support to trust funds, etc. As with other European bilaterals, prioritization of donor coordination has led to such approaches in Sri Lanka.
- This prioritization of donor partnerships may reduce involvement of Sri Lankan institutions in programs. This covers staffing, capacity building, etc.
- DFID encourages shared analysis and joint approaches among donors where possible.

- A presence in the North-East, through NGOs or otherwise, gradually results in shifting attitudes in some areas.

Common Indicators

- Principled approach also came from the elite intellectual Colombo-based Sri Lankan civil society, not just donors.
- Principles based on Paragraphs 17 and 18 of the Tokyo Declaration were not meant to be conditional; they were intended as a political declaration. However, the perception of conditionality stuck and was not countered.
- The common assessment being planned by CPA with donor funding should provide a basis for donors to use at will.
- Donor working groups are very time-intensive.

NETHERLANDS

Programs/policies

- Joint diplomatic and aid operations.
- Conflict has been firmly on the Dutch aid agenda since the early-mid 1990s.
- Involvement of the Clingendael Institute for many years has provided analysis on conflict in Sri Lanka.
- More recently, the Dutch have promoted joint working processes.
- The Dutch are planning to withdraw from Sri Lanka. Current program of support totals approximately Euros 10m. The funds are earmarked for environmental work with GoSL and the ADB, peacebuilding with civil society, the Consortium of Humanitarian Agencies, and the NECORD (ADB) project. There is also some work with chambers of commerce.

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Award winning photographs by Annuruddha Lokuhapuarachchi, Dominic Sansoni and Gemunu Amarasinghe