



The Political Economy of Post War Economic Development in Sri Lanka

Prasanna Perera¹

ABSTRACT

Thirty years of civil war in Sri Lanka has affected economic, political, social, cultural and psychological aspects of the society significantly. This paper presents an overview of postwar development strategies in Sri Lanka and compares it with the prewar economy from a political economic perspective. The paper specifically examines the progress of the overall postwar development in the war affected Northern Province of Sri Lanka. Using mixed methodologies data was gathered on critical aspects related to political economy. According to the current study, no clear progress has been made in the areas of economic growth, FDI growth, household income, and poverty and income inequality in the postwar economy of Sri Lanka when compared with the prewar economy. Government fiscal policy targets the postwar reconstruction works while monetary policy enjoys the amalgamation of North and East provinces to country's aggregate supply apart from introducing very few loan schemes. Security phobia of the government of Sri Lanka limits local, national, regional and international none-government organizations especially in the North and East. There is a considerable amount of progress made in the area of infrastructure development and resettlement of displaced persons. However, primary data from the study indicates these strategies lack conflict sensitivity and public trust. This study emphasizes that postwar economic development strategies should address the critical determinants of sustainable recovery, peace and development aiming at protecting human rights, ensuring rule of law, establishing efficient public service system and finally offering constitutional reforms in Sri Lanka.

Keywords: Ealam war, economic growth, FDI, poverty and postwar economy, Sri Lanka.

JEL Classification: D72, P48.

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1.0 INTRODUCTION

Sri Lanka's immediate economic plan, five years after ending three decades of civil war, is to reach an upper middleincome country status by the year 2016. Named as a Humanitarian War by the Government of Sri Lanka, the war ended on May 2009, after militarily defeating the LTTE. Government of Sri Lanka

¹Senior Lecturer in Economics & Statistics, Dept. of Economics and Statistics, University of Peradeniya, Sri Lanka.

has selected rapid economic development as the panacea to reconciliation and durable peace, although the civil war was mainly due to issues of land, language, higher education, employment and political rights of the minority Tamil community.

During the post war period from 2009 -2013, Sri Lanka achieved a 6.7percent of average annual economic growth. Soon after ending the war in 2009, economic growth was above 8+ percent for two consecutive years in 2010 and 2011. The driving force of this growth was the demand driven private sector, especially due to private consumption and investment and partly due to the agricultural development in the North and East. Furthermore, the war affected provinces began to contribute to the national economy of Sri Lanka. According to the government development plan ([MahindaChinthana, 2010](#)), doubling per capita income through sustained high investment, shifting the structure of the economy, ensuring inclusive growth; improving the living standards and social inclusion are the priority areas in development.

Targeting a 8 percent economic growth, Sri Lanka maintained average public investment on infrastructure as 5.5 percent of GDP during the period of 2009-2013 compared to 5.2 percent of GDP in the period of 2004-2008, and part of infrastructure investment was in the war affected North and East provinces. The SBA facility was provided/approved by the IMF in July 2012, and this allows Sri Lanka to borrow from international capital markets. Immediately after the end of the war, tourism in Sri Lanka bounced back and it has been added to the development hubs in Sri Lanka noted in the *Mahinda Chinthanaya*, increasing the number of hubs to six. Other development plans applied in the recent past include the ten year horizon development framework 2006-2016, Wonder of Asia and unstoppable Sri Lanka.

The government has set a target of US\$ 4000 per capita income for 2015 and a 13 percent economic growth target for 2020 with a US\$7500 income as a high middle income country. Other targets include US\$20 billion in 2020 for exports, US\$15 billion for foreign remittance and IT and tourism industries are to earn US\$5 billion each in 2022 and obtain a higher investment grade in 2020. Becoming one of the top 10 countries of the Asia and Pacific region in the World Peace Index and Infrastructure Development Index and becoming a poverty free state by 2020 are also targets.²

2.0 OBJECTIVES OF THE PAPER

The study's main objective is to compare pre and postwar development strategies and economy in Sri Lanka from a political economic perspective. To achieve this objective the study investigates the following dimensions of the Sri Lankan economy.

- Economic growth and FDI growth in Sri Lanka during the different stages of wars and the post war period.
- Household income and income distribution with a specific focus on poverty and income distribution and income inequality in Sri Lanka.
- Aggregate Demand Management Policies with detailed attention to Fiscal policy in the postwar period and Monetary policy in the postwar period
- None-state actors' involvement in the postwar period (2009-2014).
- Specific political economy issues in the post war period.

3.0 METHODOLOGY

([Flores and Irfan, 2009](#)) identify the inability of politicians to commit credibly to post conflict peace inhibits investment and hence slows recovery. One of the hypotheses accepted in this study is outright military victory sets the stage for a longer process to achieve sustainable peace than negotiated settlements do. ([Collier, 2009](#)) outlines that why economic policies may need to be unique for a post

² These targets are presented to the parliament by the president of Sri Lanka as the finance minister when deliver his budget speech on 24.10.2014. The Budget Speech 2015 downloaded from <http://www.treasury.govt.lk> on 31.10.2014.

conflict country relative to others, which are equally poor but peaceful. He further highlighted appropriate policies such as job creation for young men and significant cuts in military expenditure, while arguing that standard approaches of economic development are inapplicable. A study conducted by the (International Crisis Group, 2012) pointed out that Sri Lanka's military is dominating the reconstruction of the Northern Province, weakening international humanitarian efforts and worsening tensions with the Tamil community. While giving special attention to the Northern and Eastern Provinces, the current study incorporates a range of post war economic dynamics in Sri Lanka from a political economy perspective.

To determine political economy issues in Sri Lanka the study used both primary and secondary sources of data. A literature review of related documentation including reports produced by the government, bilateral donor agencies and another organization was conducted at the onset of the study. Primary qualitative and quantitative data were gathered through interviews and a survey. Interviews were conducted by a researcher with officers attached to the Central bank of Sri Lanka, Treasury Department, religious leaders and NGO activists in the Northern Province. A primary survey was conducted, among a randomly selected sample of 100 residents who are IDPs and beneficiaries of government reconstruction, to identify issues pertaining to war affected people in the Northern Province of Sri Lanka.

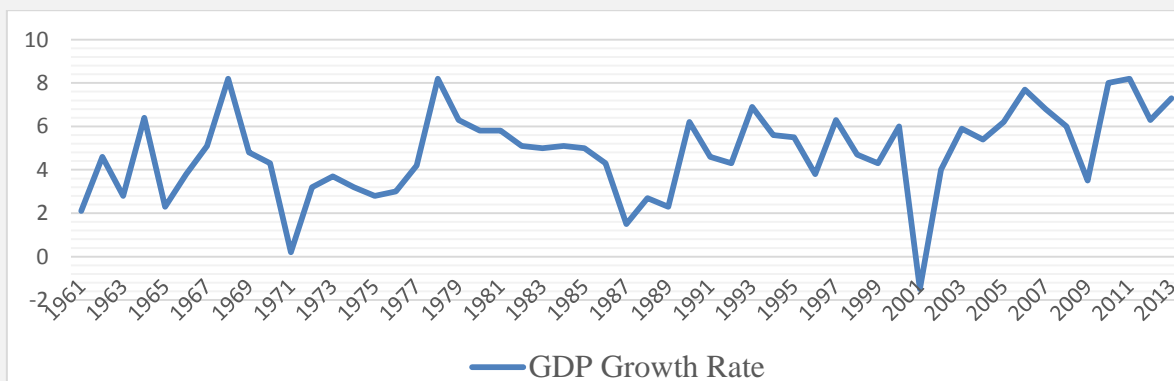
4.0 FINDINGS

4.01 ECONOMIC GROWTH AND FDI GROWTH IN SRI LANKA

This section attempts to distinguish the relationship between different stages of the Elam war and the country's economic and FDI growth. Since the end of violent conflict in 2009, Sri Lanka's economy enjoys the benefits of a relatively peaceful environment. Amidst buoyant domestic demand, GDP growth rose from 3.5 percent in 2009 to a three-decade high of 8.0 percent in 2010. Real GDP growth rate was 8.3 percent in 2011 and 6.8 percent in 2012.³ During the period of 2005-2012, the average annual GDP growth rate was 6.6 percent, which is higher than the growth rate of the South Asian region. In 2011, the government of Sri Lanka has estimated provincial GDP for the North as RSbn 241 and for the Eastern province as RSbn 375. The government forecast the above figures to increase up to RSbn 787 for the Northern Province and the Eastern province to reach RSbn 797 by the year 2015.⁴

Figure 1 demonstrates the overall economic growth for the period from 1961-2013 and figure 2 illustrates Sri Lanka's FDI growth for the same period.

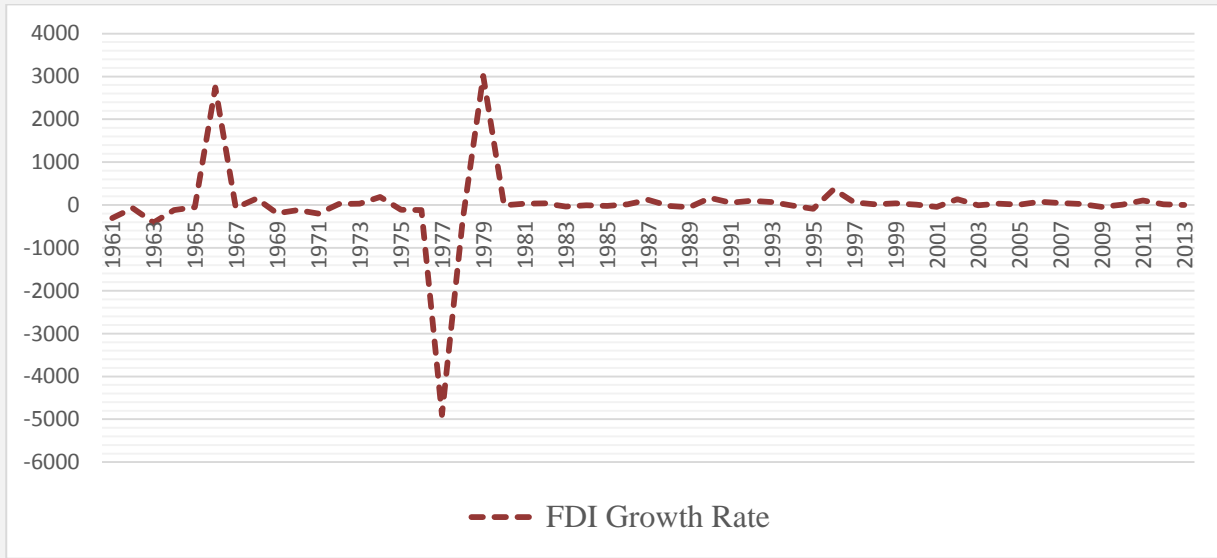
Figure 1: GDP growth of Sri Lanka (1961-2013)



³ World Economic Outlook, 2012, IMF

⁴ Annual Report (2013), Pp.547, Ministry of Finance and Planning, Government of Sri Lanka.

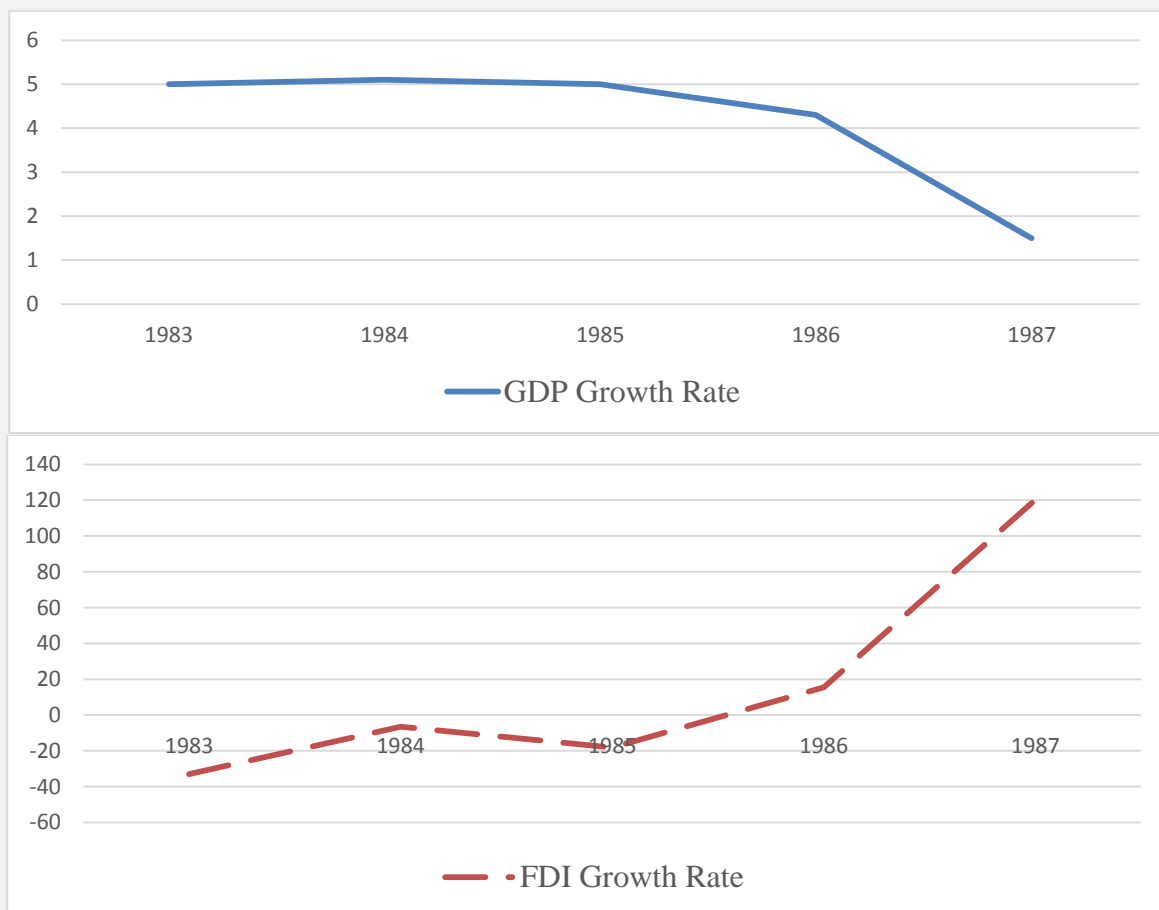
Figure 2: FDI growth of Sri Lanka (1961-2013)



Figures 1 and 2 do not clearly show a pattern between the Elam war and the country's economic growth and FDI growth. GDP growth rate largely fluctuates and FDI growth rate is constant from 1981 onwards, however there was a slight increase in FDI growth during the period of 1995-1997.

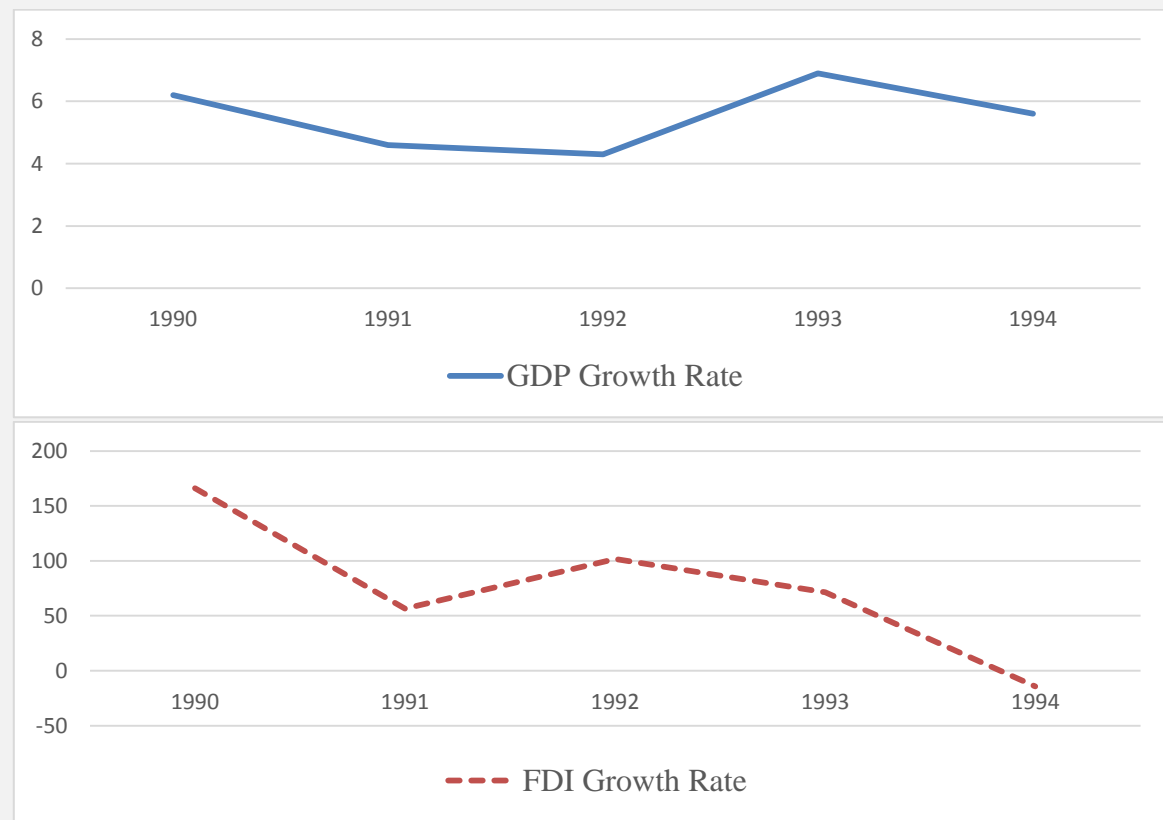
Figures 3 to 6 present economic growth and FDI growth in Sri Lanka during the different Elam wars.

Figure 3: Comparison of Economic growth and FDI from Elam I (1983-1987)



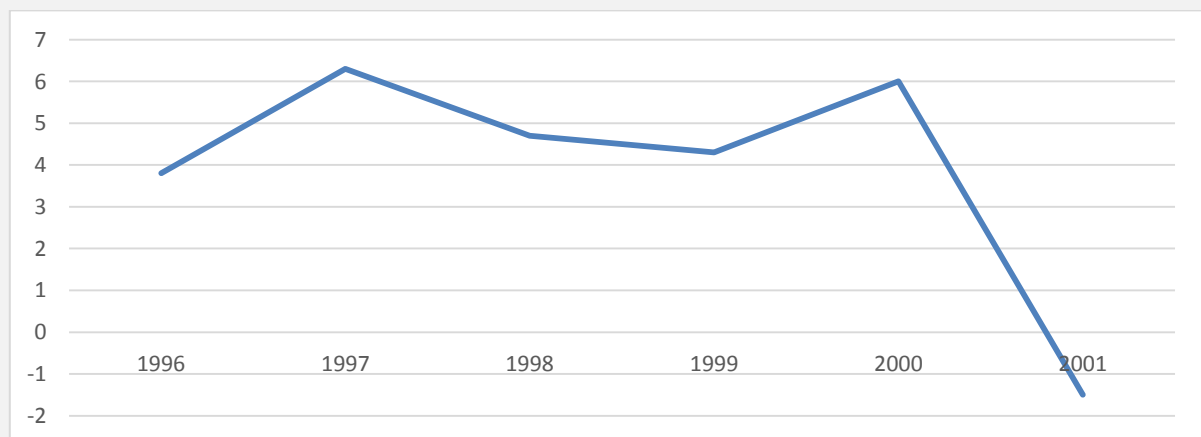
The pattern of GDP growth and FDI growth during the Elam war I is quite significant. GDP growth has a declining trend while FDI growth has a positive trend during this period. This is a noteworthy contrast to what was observed during other periods.

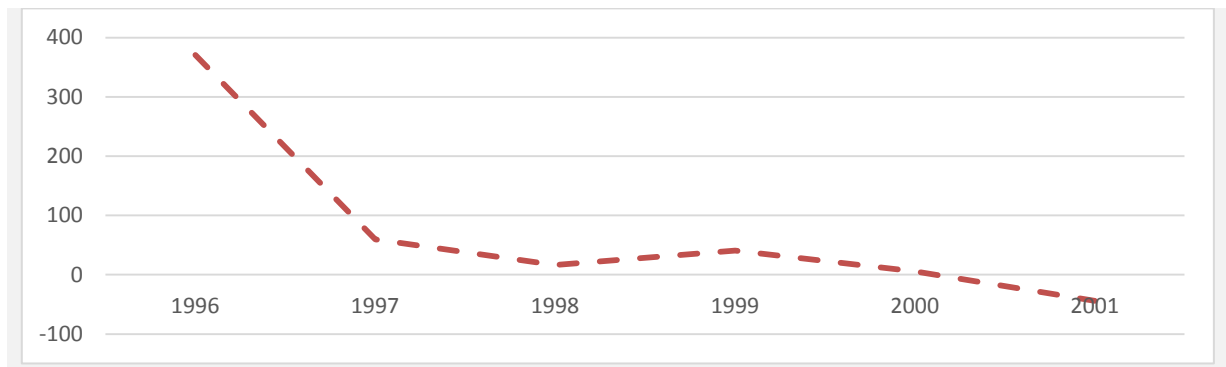
Figure 4. Comparison of Economic and FDI growth from Elam II (1990-1994)



According to Figure 3, a clear trend between economic growth and Elam war is not demonstrated. However, economic growth of Sri Lanka fluctuated rapidly in this period. In the case of FDI, there is a significant drop of FDI growth especially during the period of 1992-1994.

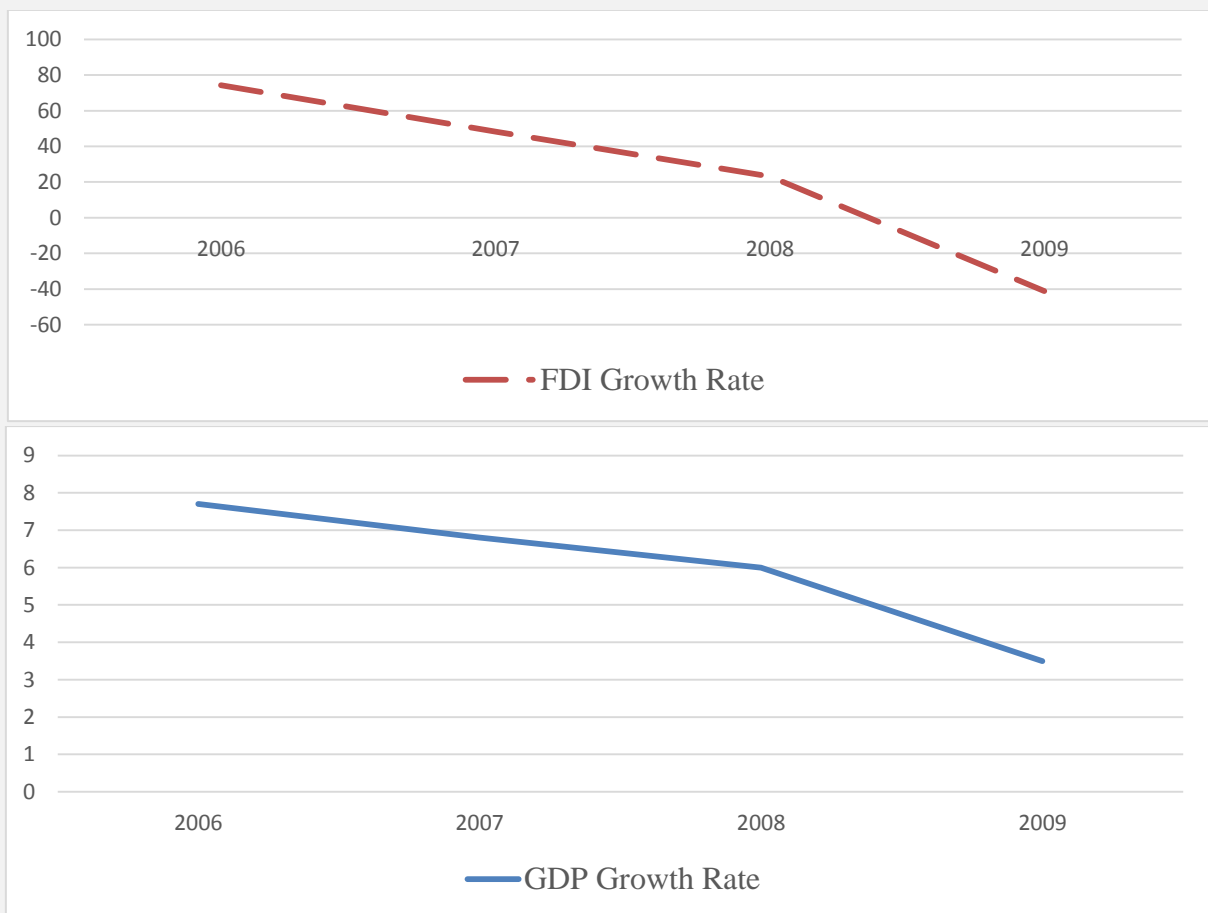
Figure 5: Comparison of Economic and FDI growth from Elam III (1995-2001)





During stage III of the Elam War, only FDI growth shows some changes with a significant decline, while a clear pattern between Elam war and economic growth of Sri Lanka is not visible. Thus the study illustrates that Sri Lanka’s FDI growth is subject to the political stability in the whole country and it is not clearly influenced by the Elam War II.

Figure 6: Comparison of Economic and FDI growth from Elam IV (2006-2009)

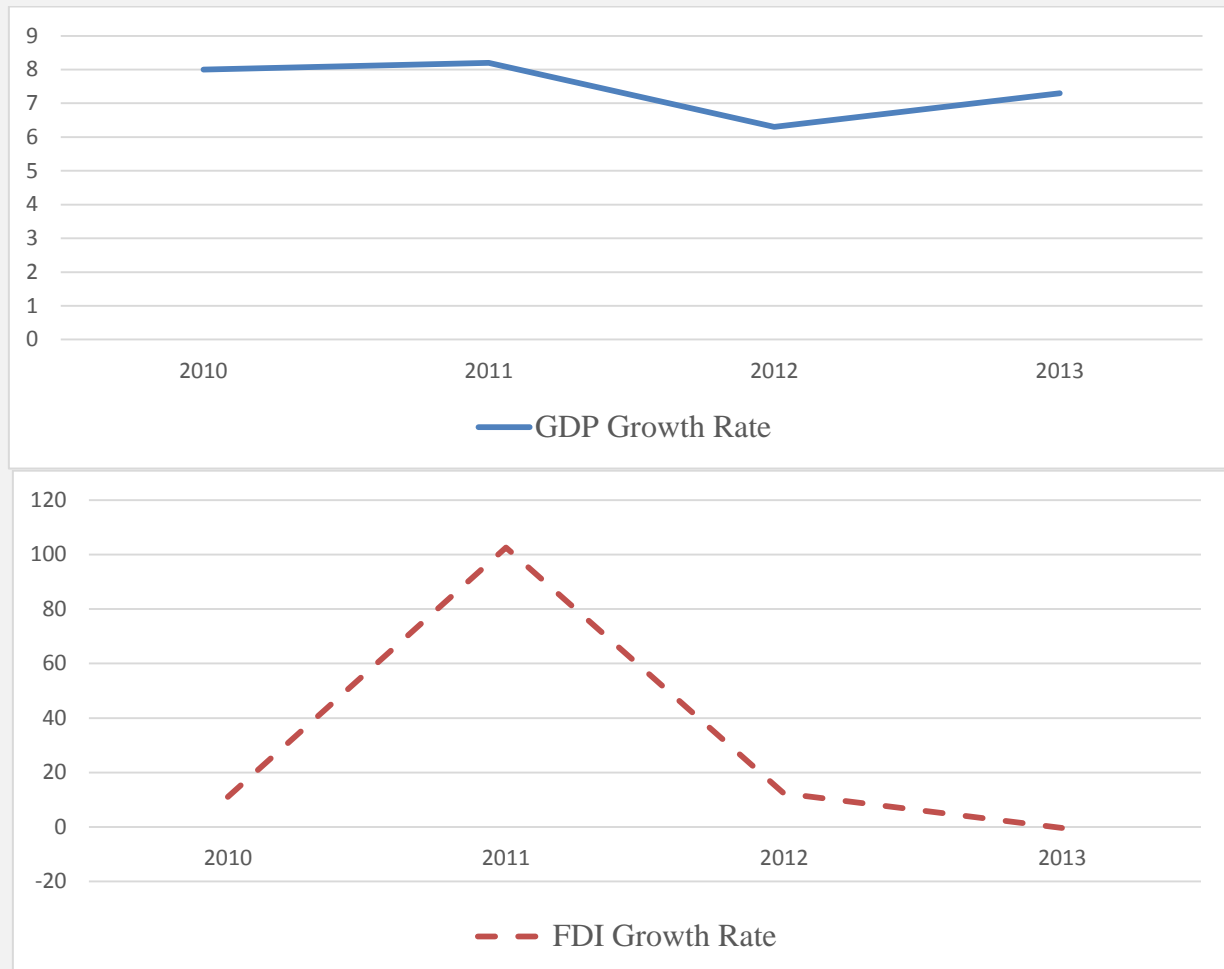


Evidently, both economic and FDI growth shows a significant decline during the period of Elam war IV. Thus Sri Lanka’s FDI growth and economic growth are susceptible to the political stability in the country.

It is fair to conclude that the post war situation helped Sri Lanka to achieve moderate economic growth amidst the global recession after 2008. Figure 7, clearly shows that after ending the war in 2009, economic growth rose up to 8 percent reflecting a peace dividend. However, again there was a drop in

economic growth from 2011 to 2012 and the country's economy growth started to fluctuate. Sri Lanka has to maintain 35 percent of investment as a percentage of GDP at current level of capital to achieve 8+ percent economic growth rate. Large amount of FDI has been directed to the areas of hotels, ports, urban property development, basic industries, and renewable energy and for the manufacturing sector.

Figure 7. Comparison of Economic and FDI growth during the Postwar (2010-2013) Sri Lanka



However, Sri Lanka was unable to maintain high growth rate in FDI after 2011, which clearly shows a declining pattern despite the sharp increase in the FDI growth during 2010 to 2011. Thus the absence of war itself does not attract the expected FDI to the country. Private sector investment including FDI has been uninspiring in the post war Sri Lankan economy. More than half of the FDI (56.6 percent) came into infrastructure with majority being in the telephone and telecommunication networks, housing and property development and ports and container development.

This clearly indicates that Sri Lanka has not fully reaped the post war dividend. This may be due to various factors such as global economic downturn after 2008, the country's mixed signals to foreign investors through a range of factors such as the private sector pension bill, bill to permit private participation in higher education and the act to acquire private enterprises, human rights abuse and war crimes and issues related to post war reconciliation and development.

4.02 HOUSEHOLD INCOME AND INCOME DISTRIBUTION

Table 1 and 2 below illustrates poor performance in both mean and medium income level in the conflict affected provinces of North and East compared to other provinces.

Table 1: Household Income by Provinces

Sector/Province	2012/13 Mean Rs.	2009/10 Mean Rs.	2012/13 Median Rs.	2009/10 Median Rs.
Sri Lanka	45,878	36,451	30,814	23,746
Urban	69,880	47,783	42,267	31,000
Rural	41,478	35,228	29,376	23,126
Estate	30,220	24,162	24,087	17,366
Western	64,152	47,118	42,100	30,600
Central	41,834	31,895	28,900	21,410
Southern	41,834	32,514	28,921	23,253
Northern	34,286	23,712	23,571	16,710
Eastern	30,676	23,922	22,710	18,030
North western	42,756	35,586	29,343	20,961
North Central	36,632	35,577	29,707	24,993
Uva	35,638	28,717	24,228	19,761
Sabaragamuwa	40,375	36,173	27,775	21,676

Source: HIES, 2012/13, Volume 11, Issue 11, August 2014, Dept. of Census and Statistics.

According to Table 1, the average household income per month has increased by 26 percent in 2012/13 compared to 2009/10. The median household income per month has also increased by 30 percent in 2012/13 when compared to the pre war period. When sectoral growth is considered increase in post war urban sector mean income (46 percent) is higher than both Estate sector (25 percent) and rural (18 percent) sector growth. However when compared to the pre and post war period of medium income Estate sector growth is high compared to Urban sector and Rural sector.⁵ It is difficult to compare the Northern Province and district wise growth of mean and medium income due to the absence of data for the year 2009/10 for the Northern Province and all 5 districts in it.

Average living standard of the country could be understood by looking at the household per capita income.⁶ Table 2 presents the National, Sectoral and Provincial level of per capita income in Sri Lanka.

Table 2: Mean and median monthly per capita income by sector and by province – 2012/13

	Mean Per Capita Income Rs.	Median Per Capita Income Rs.
Sri Lanka	11932	7871
Urban	17150	10167
Rural	11003	7617
Estate	7719	6047
Western	16360	10424
Central	9613	7018
Southern	11065	7557
Northern	9533	6071
Eastern	6871	5266
North Western	12476	7616
North Central	9546	7339
Uva	10998	6772
Sabaragamuwa	9726	7414

Source: HIES, 2012/13, Volume 11, Issue 11, August 2014, Dept. of Census and Statistics.

When the post war national mean per capita income is compared with the 2009-10 period, there is a 50 percent increase in mean per capita income in Sri Lanka. Estate sector records the lowest per capita income compared to both urban and rural sector. Northern and Eastern Provinces, which are the

⁵ Mean/average household income is calculated by dividing the estimated total household income by the estimated number of household. Medium household income is the amount of income that divides the household income into two equal groups, half having income above the amount, and the other half having income below that amount.

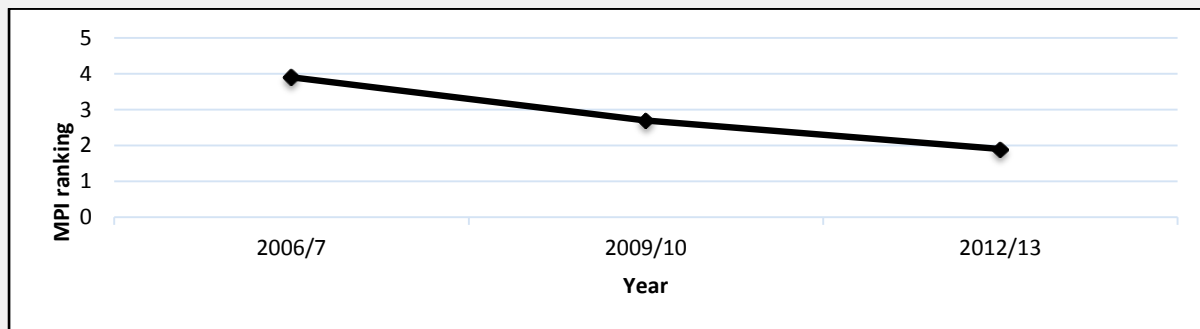
⁶ Household per capita income is obtained dividing the total household income by the number of household members.

extreme war affected 2 provinces in the country, record the lowest per capita mean income and the median income.

4.03 POVERTY

Multidimensional Poverty Index (MPI) identifies multiple deprivations of poverty based on three dimensions of education, health and standard of living. Figure 8 illustrates the behavior of MPI for Sri Lanka. Although the MPI index does not provide a clear picture of poverty at both district and provincial level, there is a reduction in MPI in Sri Lanka during the period of 2006-2013.

Figure 8: Behavior of Multidimensional Poverty Index (MPI) in Sri Lanka



Source: Annual Report 2013, p.73, Ministry of Finance and Planning, government of Sri Lanka

National poverty headcount ratio (percentage of people below the poverty line) has declined from 28.8 percent in 1995/96 to 22.7 percent in 2002, 15.2 percent in 2006/7 and then declined further to 8.9 percent in 2009/10 and it was 6.7 percent in 2012/13 according to the Household and Income Surveys. This decline is clearly presented in the following Figure 8.

Figure 9: Decline in Poverty in Sri Lanka (1990/91 to 2012/13)

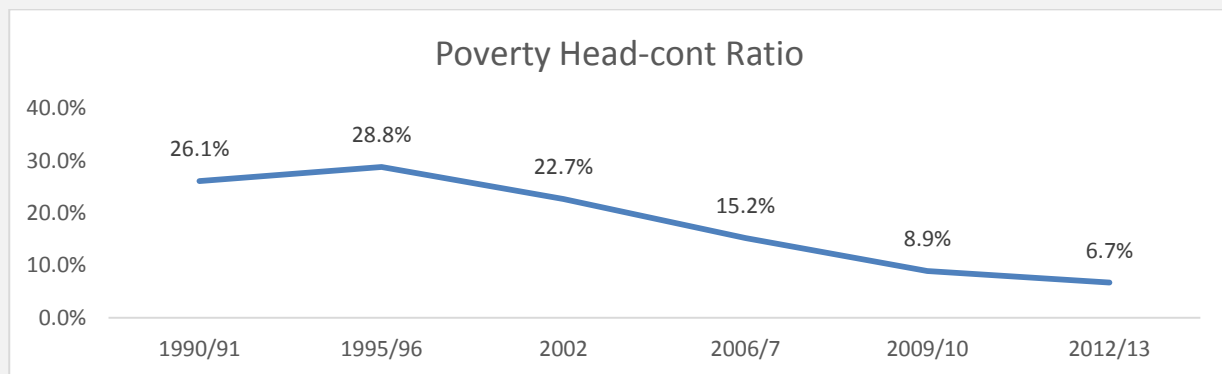


Table 3: Poverty Headcount Ratio by Districts 2009/10, 2012/13

District	Survey Periods	
	2009/10	2012/13
Sri Lanka	8.9	6.7
Colombo	3.6	1.4
Gampaha	3.9	2.1
Kalutara	6.0	3.1
Kandy	10.3	6.2
Matale	11.5	7.8
NuwaraEliya	7.6	6.6
Galle	10.3	9.9

District	Survey Periods	
	2009/10	2012/13
Matara	11.2	7.1
Hambantota	6.9	4.9
Jaffna	16.1	8.3
Mannar	-	20.1
Vavuniya	2.3	3.4
Mullaitivu	-	28.8
Kilinochchi	-	12.7
Batticaloa	20.3	19.4
Ampara	11.8	5.4
Trincomalee	11.7	9.0
Kurunegala	11.7	6.5
Puttalam	10.5	5.1
Anuradhapura	5.7	7.6
Polonnaruwa	5.8	6.7
Badulla	13.3	12.3
Moneragala	14.5	20.8
Rathnapura	10.5	10.4
Kegalle	10.8	6.7

Source: Final Results, Household Income and Expenditure Survey 2012/13, Department of Census and Statistics, Volume 11, August 2014.

People with an income below US\$2 per day income declined from 28.3 percent in 2006/7 to 18.9 percent in 2012/13. The reduction in poverty has been dramatic in the rural, urban and estate sectors in Sri Lanka over time. Sri Lanka has achieved the millennium development goal target of halving extreme poverty by the year 2009/10. However, Mannar, Mullaitivu and Kilinochchi districts were not covered in the 2009/10 survey and, all 25 districts in Sri Lanka were covered in the 2012/13 survey conducted by the Department of census and statistics. According to the 2012/13 figures the lowest headcount index is reported in Colombo district, while the highest headcount index of 28.8 is reported in Mullaitivu district. Thus the poverty in Mullaitivu district is 20 times higher than that in Colombo district. Therefore, the situation with regard to poverty reduction is not encouraging in the North and Eastern provinces compared to the other provinces in Sri Lanka. However, the government of Sri Lanka forecasts a 6.9 percent in the Poverty Head Count index for Jaffna, Mullaitivu, Killinochchi, Manar and Vauniya districts.

4.04 INCOME INEQUALITY IN SRI LANKA

This study applied Gini coefficient, quintile dispersion ratio and share of income to examine income disparity in Sri Lanka. Income inequality slightly dropped after 2009 and this is reflected by the Gini coefficient from 0.49 in 2009/10 to 0.48 in 2012/13.⁷ However, income inequality is high in the urban sector (Gini coefficient is 0.51), and not surprisingly low within the estate sector (Gini coefficient is 0.39).

Table 4 presets the Gini coefficient of household income at national, sectoral and provincial levels in Sri Lanka for the year 2012/13.

Table 4: Gini Coefficient by National, Sectors and Provincial Level

Sector and Province	Gini coefficient of Household income	Gini coefficient of Per capita income	Gini coefficient of Income receiver's income
Sri Lanka	0.48	0.47	0.54
Urban	0.51	0.51	0.56
Rural	0.47	0.45	0.53

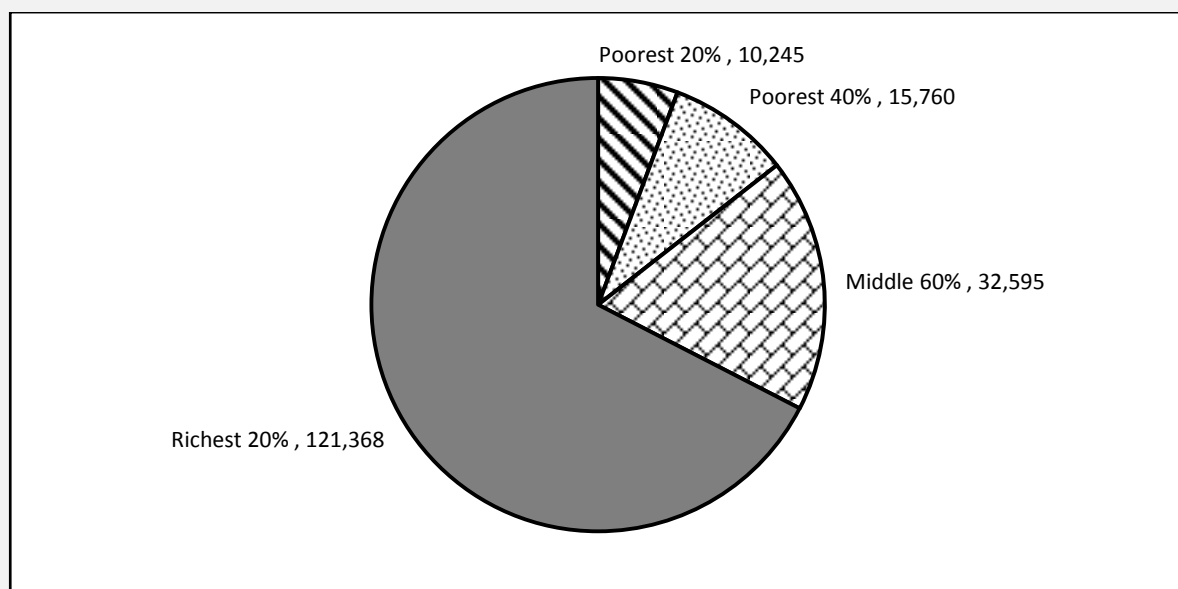
⁷ Key Social Indicators, Central Bank of Sri Lanka, Annual Reports 2012 and 2013. Gini coefficient index is between 0 and 1, where 1 indicates maximum inequality of a country and 0 indicates perfectly equality of income distribution of a country.

Estate	0.39	0.35	0.45
Western	0.48	0.47	0.55
Central	0.42	0.40	0.47
Southern	0.47	0.45	0.53
Northern	0.54	0.52	0.59
Eastern	0.42	0.40	0.47
North western	0.52	0.52	0.58
North Central	0.39	0.40	0.47
Uva	0.51	0.50	0.58
Sabaragamuwa	0.41	0.39	0.47

Source: HIES, 2012/13, Volume 11, Issue 11, August 2014, Dept. of Census and Statistics.

By provinces the Gini coefficient is lowest in North Central Province (lower than the national level and it is 0.39) and highest in Northern Province (0.54). Thus the inequality/disparity of income is high in the Northern Province. According to the traditional economic theory the lowest Gini coefficient also confirms the slow economic growth in the province. Figure 9 presents the Quintile ratios for Sri Lanka of the year 2013.

Figure 10: Quintile Ratios in Sri Lanka



When prewar 2009/10 figures are compared with the post war figures in 2012/13, it can be seen that there is a slight progress in quintile ratios. The share of poorest second quintile to the fourth quintile has slightly increased and share of the fifth quintile has dropped suggesting an improvement in distribution of income. However, these figures and Gini coefficient figures are not consistent with each other, making it difficult to draw conclusions on the income distribution of Sri Lanka.

Quintile dispersion ratio of household income has changed marginally in the post and pre-war period.⁸ However, 45 percent of total household income is still allocated to 80 percent of the population and 55 percent of country's income is shared by 20 percent of Sri Lankans.

⁸ Quintile dispersion ratio is calculated dividing the mean household income of the richest 20 percent/5th quintile by the mean household income of the poorest 20 percent/1st quintile.

Figure 11: percentage share of income received by poorest to richest households by sector in Sri Lanka (2012/13).

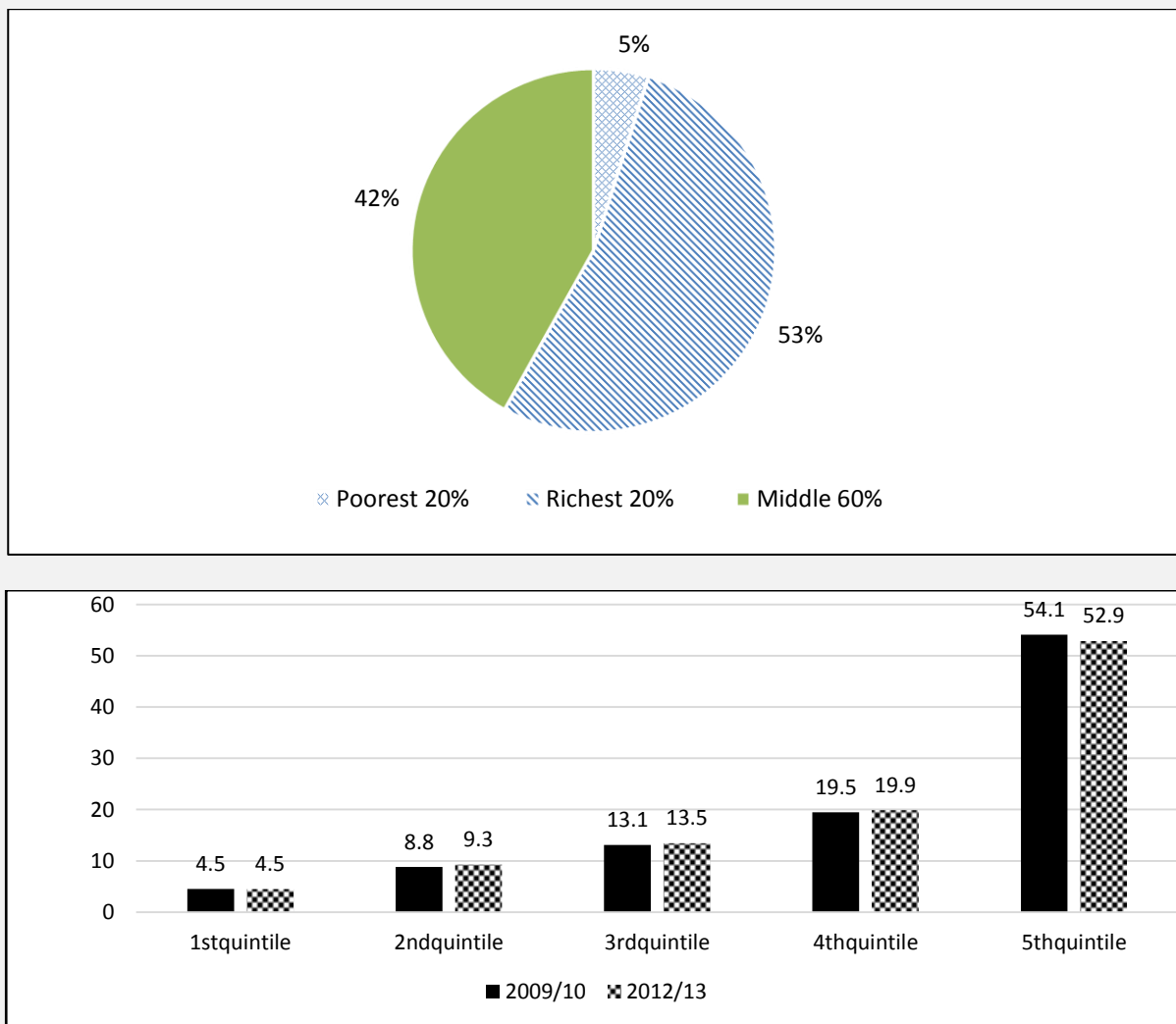


Figure 10 illustrates that the poorest 20 percent received only 5 percent of the total household income, while the richest 20 percent receives 53 percent of total household income in the country. Richest 20 percent of Sri Lankans enjoys more than half of the country’s national income.

Table 5 demonstrates the contribution of GDP by 9 provinces in Sri Lanka.

	Western	Central	Southern	Northern	Eastern	NorthWestern	NorthCentral	Uva	Sabaragamuwa	Total
2008	45.4	9.8	10.5	3.2	5.6	9.9	4.7	4.5	6.4	100
2009	45.8	9.8	10.5	3.2	5.8	9.6	4.6	4.5	6.1	100
2010	44.8	10	10.7	3.4	6	9.5	4.8	4.5	6.3	100
2011	44.2	9.8	11	3.7	5.8	10	4.7	4.5	6.2	100
2012	43.4	9.8	11.5	4	6.3	9.6	4.7	4.5	6.1	100

Source: Annual Report. (2013). Central Bank of Sri Lanka

According to the above table there is regional disparity in the contribution of GDP and most economic activities are centralized to the Western province. The Northern Province contribution to GDP has increased, and it rose from 3.2 percent in 2009 to 4.0 percent in 2012.

Other inequalities apart from economic inequality consist of inequalities in the judicial system, health and education systems, especially in the post war period. For example private tuition culture from year 1 to 13 at national schools, and the current government policies on international schools and private universities including private medical colleges will create higher disparities in the country.

4.05 AGGREGATE DEMAND MANAGEMENT POLICIES

4.5.1 FISCAL POLICY IN THE POSTWAR PERIOD

The fiscal policy has been designed to support medium term development objectives of the government in accordance with Emerging Wonder of Asia, MahindaChinthanaya Vision for the Future as well as the fiscal management act of 2003. Main targets set in the fiscal policy are:

- Reduce budget deficit from 9.9 percent of GDP in 2009 to 5.9 percent of GDP in 2013, and further reduce 5 percent of GDP for the period of 2014-16. Budget deficit as a percentage of GDP is expected to be 4.6 percent in 2015 and 3.8 percent in 2016 and 3.0 percent in 2017.
- Increase government revenue from the current level of 13.7 percent as a percentage of GDP in 2013 and 14.1 percent in 2014, to further increase to 14.6 percent in 2015 and 16.5 percent of GDP in the year 2016.
- Maintaining stable public investment around 6 percent of GDP and it is expected to be 5.6 percent in 2014, 6.2 percent in 2015 and 6.3 percent of GDP in the year 2016.
- Reduce government debt as a percentage of GDP from 78 percent of GDP in 2014 to 65 percent of GDP in the year 2016.
- Low defense expenditure, expenditure on national security as a percentage of GDP declined to 2.4 percent in 2013 (from 2.7 percent in 2012) and again increased to 3 percent in 2014 from 3.9 percent in 2009. However, during the thirty years prior to 2009, the average annual defense expenditure was 5.5 percent of GDP.
- Government expenditure as a percentage of GDP which was 25.6 percent in 2009 reduced to 19.8 in 2013, 19.4 percent in 2014 and is expected to again increase up to 19.5 percent in 2015 and further increase to 20.4 percent GDP in 2016 which is higher than the fiscal targets set in 2014.
- More expenses on IDPs, rehabilitation and reconstruction activities in the war affected areas. Post war government expenditure mainly includes rehabilitation, reconstruction, demining activities and welfare of security personnel through the government's major programs of *Uthuru Wasanthaya* and *Nagenahira Navodaya*. Total government expenditure on IDPs during the period of 2009-2012 was RS.18880 million.⁹

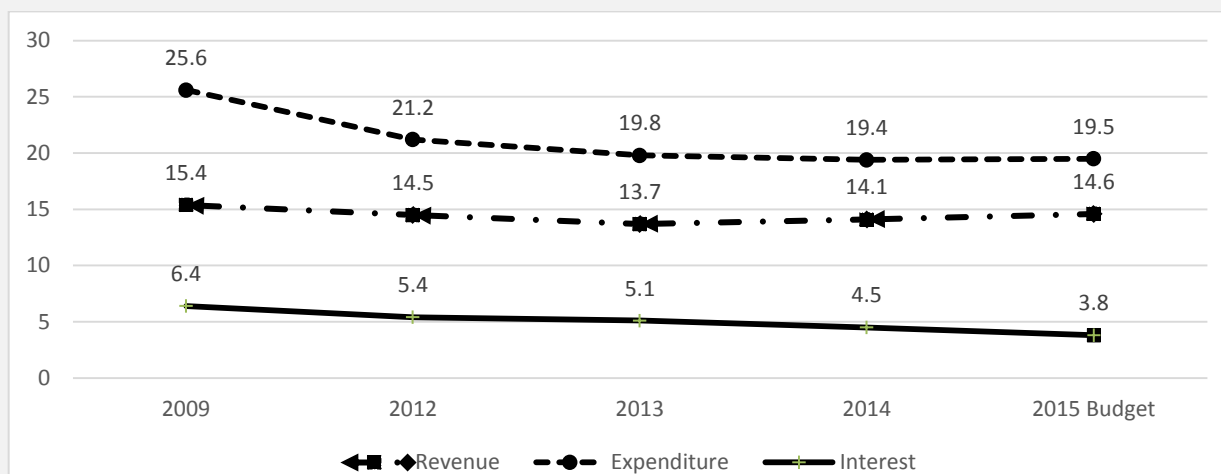
Fiscal policy reforms target a broader tax base, improvements in the tax administrations and a more investment friendly simplified tax system. It is expected that tax policy reforms may contribute to the improvement in tax administrations. Figure 11 reveals Sri Lanka's postwar fiscal targets.

4.5.2 MONETARY POLICY IN THE POSTWAR PERIOD

Fiscal policy targets set out in postwar recovering period provide greater freedom to the Central Bank of Sri Lanka to conduct its monetary policy. Therefore, the aim of the monetary policy of Sri Lanka's Central Bank is to achieve price stability and lower level of interest rate in the island. In the post war economy, Sri Lanka benefited from paddy harvests from both North and East provinces that resulted in price stability in the country.

⁹ Pp. 542, Annual Report, Ministry of Finance and Planning, Government of Sri Lanka.

Figure 12: Postwar Fiscal Targets in Sri Lanka



Source: Based on Table V, Budget Speech 2015, Technical Notes and List of Reports/Document submitted to Parliament of Sri Lanka. (24.10.2014). Table 6 below summarizes Sri Lanka's recent fiscal targets

Table 6: Sri Lanka's Recent Fiscal Targets (2014-2015)

	2014	2015 Budget	Avg. 2009-2015
Revenue and Grants	14.4	14.9	14.72
Revenue	14.1	14.6	14.46
Tax Revenue	12	12.5	12.18
Non-Tax Revenue	1.5	1.5	1.66
PCs Tax Sharing and Devolved Revenue	0.6	0.6	0.64
Grants	0.3	0.3	0.26
Expenditure	19.4	19.5	21.1
Recurrent Expenditure	14	13.5	15.28
Non-Interest	9.5	9.7	10.22
Interest	4.5	3.8	5.04
Public Investment	5.6	6.2	6
Revenue Surplus (+)/Deficit (-)	0.1	1.1	-0.86
Primary Surplus (+)/Deficit (-)	-0.6	-0.9	-1.36
Budget Surplus (+)/Deficit (-)	-5	-4.6	-6.36

Source: Author's calculation based on Table V, Budget Speech 2015, Technical Notes and List of Reports/Document submitted to Parliament of Sri Lanka. (24.10.2014).

Especially designed loans have been offered under the Awakening North Loan Scheme which was introduced to serve the small and medium entrepreneurs in the Northern Province. About Rs. 5,880 million loans were given to 35,609 small and medium scale entrepreneurs in the Northern Province. In 2012, Central bank of Sri Lanka has initiated a special loan scheme targeting the reconstruction of damaged houses in the Northern and Eastern Provinces. Under this loan scheme, loans with concessionary terms are given to repair houses in conflict affected provinces. According to Central Bank RS.20 billion loans were given after the war to 166,800 beneficiaries in the Northern Province through various loan schemes.¹⁰

However, no clear monetary policy instruments that focus on the war affected population in the country have been introduced thus far. Thus the fiscal policy dominates the postwar aggregate demand management strategies in Sri Lanka.

¹⁰ <http://www.ft.lk/2014/06/12/post-war-realities-in-the-northern-province-cb-replies-friday-forum/> (02 December, 2014).

4.06 THE POSTWAR RECOVERY/DEVELOPMENT PLAN

Human lives, infrastructures and public institutions were totally or partially destroyed due to war and more importantly the psychological trauma among men, women and children has been immeasurable, especially in the Northern and Eastern provinces of Sri Lanka. During the war, road transport network (both high ways and railways) was annihilated. The destruction of assets, migration, social fabric and family structures and financial markets negatively impacted the day to day lives and the livelihoods of the people in the conflict affected areas.

According to U.N., approximately 40 000 civilians were killed in the first five months of 2009, and an estimated 300 000 people were displaced in the Northern Province. Most of the IDPs in the North had shelter at the Manikfarm, which was the government run camp for IDPs located between Vavuniya and Mannar districts, covering 700 hectares. Government has spent RS.18880 million during 2009-2012 on the welfare of the IDPS.

After the war in the Eastern province, the government introduced *Negannahira Navodaya* (Eastern Awakening) program in 2007. The objective was to develop the Eastern province targeting demining and reconstruction through large scale infrastructure projects. Priorities under this program were systematic provision of basic utility needs (electricity supply, water supply and sanitation) and infrastructure development.

After declaring victory in the Ealam war IV, the government introduced *Uthuru Wasanthaya* (Northern Spring) program to the Northern Province, targeting both short (180 days program) and medium term (2010-2011) objectives. Deming, resettlement of IDPs, reconstruction of economic and social infrastructure facilities and livelihood and employment opportunities are promised as short-term achievements and medium term targets include the development of infrastructure facilities (transport system and irrigation system) utilities (electricity, water supply and sanitation) and welfare goods/services (schools and hospitals). According to the government sources, Northern Spring is a home grown strategy which targets the post war reconstruction of North. However the strategy mainly focuses the physical development in the region, while significant steps are not taken with regard to the resettlement issue and other sensitive issues in post war reconciliation.

Government of Sri Lanka highlights resettlement of those displaced within 3 years and closing down of Manik Farm Welfare Centers on 25th September 2012 as an outstanding achievement. It also presents the resettlement of 151,819 families consisting of 501,691 persons in the Northern Province and 72,987 families consisting 257,038 persons in Eastern Province by 31st December 2013 as important achievements of the Ministry of Resettlement.¹¹ Altogether 224,806 families consisting 758,729 persons were resettled as at 31st December 2013 in Northern and Eastern Provinces.¹² Government further claims that as at 31st December 2013, there are only 7094 families consisting of 3,568 persons waiting to be resettled at these centers and with friends and relatives.¹³ The government resettlement process is assisted by Sri Lanka's development partners and stakeholders.¹⁴

Demining was also a significant component of the post war recovery process and the Government of Sri Lanka has identified the creation of a mine free area as a key challenge in the post war resettlement and economic recovery plan. According to the strategy paper of the National Strategy for Mine Action in Sri Lanka, over 640 villages are affected by the mines and over 1.3 million landmines need to be cleared.¹⁵ Mine action activities are implemented by the government through the SLNMAC, MED and

¹¹ Government spent RS.5811 million during the period of 2009-2013 on the resettlement of 295136 people in the Northern Province. (table 13.2, Pp. 546, Annual Report 2013.

¹² Notes on Performance, Ministry of Resettlement, P. XI, 2013, Ministry of Finance and Planning, Government of Sri Lanka.

¹³ Notes on Performance, Pp. XII, 2013, Ministry of Resettlement, Government of Sri Lanka.

¹⁴ Sri Lanka's development partners are Japan, China. India, Germany, Switzerland, Australia, USA, World Bank, ADB, UNDP, WFP, UNICEF, EU and IFAD.

¹⁵ This report is prepared by the Ministry of Economic Development, Government of Sri Lanka.

NSCMA. Government demining programme is supported by Australia, USA, Japan, China, India, UNHCR and IOM.¹⁶ Sri Lanka Army Humanitarian De-mining Unit (HDU) led the operation at ground level and these are supported by the HALO trust, Danish Demining Group, foundation of Suisse Deminage, Mine Advisory Group (MAG) and a pro government NGO founded by former minister of UPFA government.¹⁷ It was mentioned in the report that by 2020 Sri Lanka will be a mine free country. During 2009 to 2011, a total of 1577 km² has been cleared and as at 31st March 2013, about 94 km² remained to be cleared.¹⁸ The total expenditure of demining activities was RS11375 for the period of 2009-2012.¹⁹ IDP Families and persons resettled as at 31st, March 2014 in the Northern Province is presented in Table 7.

Table 7: IDP families and persons resettled as at 31.03.2014.

District	Families	Persons
Jaffna	31,188	97,052
Mannar	24,298	91,460
Vavuniya	16,333	55,589
Mullaitivu	40,174	128,759
Killinochchi	40,990	132,222
Total	152,983	505,082
Grand Total	225,970	762,120

Source: Ministry of Resettlement, Government of Sri Lanka, 2014

This indicates the government has successfully resettled a considerable number of IDPs in their areas of origin. According to Ministry of Finance and Planning (*Annual Report, 2014, p.51*), 295,136 IDPs have been resettled in the Northern Province. The progress of the resettlement programme as per the report (P.52) is summarized in the following table.

The following table 8 highlights the IDPs resettled in Jaffna district by the time of writing this paper.

No	Name of Divisional Secretary/ Assistant Government Agents Division	No of Open Welfare Centers	IDPs Living in Open Welfare Centre		IDPs Living with Friends & Relatives	
			Families	Person	Families	Person
1	Delft	-	-	-	0	0
2	Velanai	-	-	-	2	4
3	Kayts	-	-	-	11	39
4	Karainagar	-	-	-	17	68
5	Jaffna	-	-	-	220	753
6	Nallur	1	9	22	580	1882
7	Sandilipay	4	25	102	548	1954
8	Chankanai	-	-	-	120	394
9	Uduvil	9	384	1373	726	2213
10	Thellipalai	6	344	1180	471	1490
11	Kopay	5	221	895	891	2892
12	Chavakachcheri	-	-	-	186	679
13	Karaveddy	2	16	54	214	775
14	Point Pedro	7	229	784	648	2,186
15	Maruthankerny	-	-	-	16	26

¹⁶ Necessary technical and expertise assistance are provided the government of Sri Lanka by UNDP and UNICEF. Japan, EU, Canada, Switzerland, UK and Norway funds for demining operations in Sri Lanka.

¹⁷ Pro-government local NGO is called Milinda Moragoda Institute for Peoples' Empowerment and Development Assistance.

¹⁸ Annual Report, (2013), Pp. 543, Ministry of Finance and Planning, Government of Sri Lanka.

¹⁹ Annual Report, (2013), Pp. 544, Ministry of Finance and Planning, Government of Sri Lanka.

Total	34	1228	4410	4650	15,355
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Source: Ministry of Resettlement, Government of Sri Lanka, 2014.

Unsettled IDPs in the Northern Province according to government figures are categorized as follows.

Table 9: IDP's to be resettled as at 28.02.2014 in Northern Province

District	Place	Families	Persons
Jaffna	Open Welfare Centers	1,228	4410
	With Friends and Relatives	4,650	15,355
	Sub Total	5,878	19,765
Killinochchi	Living With Friends and Relatives	374	1,140
	Sub Total	374	1,140
Trincomalee	Open Welfare Centers	281	871
	Living With Friends and Relatives	561	1,792
	Sub Total	842	2,663
Grant Total		7,094	23,568

Source: Ministry of Resettlement, Government of Sri Lanka, 2014

Table 10: Resources Used to Northern Province Development in Sri Lanka

Description	Total Amount Rs Mn.
Welfare of IDP	18,880
Demining of 1936 sqkm2 Area	11,375
Resettlement of 295,136 People	5,811
Infrastructure Development	
Roads	46,392
Transport	15,302
Electricity	9,802
Water Supply & Irrigation	6,409
Health	19,695
Education	17,786
Housing	11,116
Court Houses	1,110
Agriculture and Fisheries	17,343
Livelihood Development & Others	21,057
Total	202,078

Source: Annual Report. (2012) Ministry of Finance and Planning, Government of Sri Lanka, P.546.

Table 10 shows the government spending on infrastructure development in the Northern Province during 2009-2012.

According to the table 10, 28 percent of the infrastructure development expenditure was on roads construction followed by livelihood development as the second. This seems to have gone astride from the two regional development strategies of Uthuru Wasanthaya, and Neganahira Navodaya, which were introduced to address the immediate needs of the conflicted affected area. Sri Lankan government's immediate goal was to resettle the IDPs and to provide livelihoods and infrastructure development to the Northern and Eastern provinces.

When foreign donors who supported these initiatives are examined, it becomes visible that the government of Sri Lanka relies mostly on aid from Asian and Gulf countries in the post war reconstruction in the North than traditional Western countries. Asian countries like India, China, Japan and Pakistan dominated while United State of America, UK and European Union are also considered as principal actors. Support is also given by the governments of Germany, Switzerland and Australia. However, the engagement of China and India in post war reconstruction efforts should also be viewed as geopolitical interest.

4.07 NONE-STATE ACTORS INVOLVEMENT IN POST-WAR PERIOD (2009-2014)

Although government authorities and military dominate the post war reconstruction efforts in the North, United Nations Development programme (UNDP), World Bank, Asian Development Bank, World Food Programme (WFP), United Nations Children Fund (UNICEF), International Fund for Agricultural Development (IFAD) and bilateral donors are engaged directly and through nongovernmental and civil society organization in the area. None state actors extended their support to the government's post war reconstruction plans although they have reservations regarding the process. In an unprecedented move the government introduced a regulation in 2013 that requires all development funds to be channeled through the Ministry of Defense. Most of the foreign personals attached to nongovernmental organizations are worried about their work permits and the visa and that prevented them from engaging in constructive dialogue on post war reconstruction efforts. Amidst a highly regimented and regulated environment, NGO sector engages with the civilians in the areas by providing shelter, sanitation, water and livelihoods in the Northern Province. However, the security phobia of the government limited the activities of local, national, regional and international NGOs especially in the North and Eastern provinces. INGOs have completely withdrawn their operations in Sri Lanka or many of them scale backed their operations in the country.

4.08 POSTWAR POLITICAL ECONOMY ISSUES IN SRI LANKA

Sri Lanka has shown economic recovery at national level although the performance is poor in the war affected regions. Respondents participating in the primary survey and interviews with stakeholders presented the following perceptions on the different dimensions of post war development.

1. 68 percent of the respondents recognized lack of economic opportunities for war affected communities as a fundamental concern.
2. A clear majority of respondents, 77 percent find the heavy involvement of the military in development work and their presence in civilian areas threatening. Some respondents clearly stated the military personnel's ethnicity as a key contributing factor for such perception.
3. A significant number of respondents stated there is a hidden agenda in the development process of transforming the demographic composition of the area and suspect the current post war development project as Sinhalalisation of Tamil homeland.
4. Disparity of living standards between North and East and rest of the country was a key issue for nearly all the respondents.
5. perception of recently elected provincial council members of TNA questions on the presence of military personals in civilian areas,
6. Lack of transparency over the governance of land issues and reluctant to share the power vested for Provincial council in the North and the appointment of a military personal as a governor of the North province was observed as a fundamental concern.
7. It was clear that the people live in the Northern Province do not accept the central government led by UPFA and they repeatedly casted their preference to TNA during the presidential election and both local and provincial council elections. Respondents in the primary survey further established this line of thinking as majority of respondents shared they do not trust, identify or feel any sense of solidarity with the central government.
8. The survey and the interviews prove there is concern over material growth and real peace in the minds of people living in the North and East. While acknowledging the need for government of Sri

Lanka's physical infrastructure development projects especially in the Northern Province, they question why community members/residents of the area are not involved even as laborers.

9. Several interviews disclosed most of the mega reconstruction projects were done without any economic and financial feasibility studies and introduced in a hurry. Therefore, some of the projects may create financial loss and fiscal burden to the country especially through high interest payments.

5.0 CONCLUSION

At a glance Sri Lankan government has made significant strides in post war reconstruction, rehabilitation and resettlement. However, upon close examination there are flagrant political economy issues that undermine post war economic development in the country. The absence of war, massive investment on infrastructure, vast spending on establishing Sri Lanka's image with foreign lobbying groups after 2009 has not succeeded in delivering stable economic growth as well as FDI growth. Performance of household income and income disparities are also weak in post war Sri Lanka.

Post war reconstruction appears as a mere technical exercise and whereas it should be an inclusive process involving residents from the North and East. The government of Sri Lanka displayed great determination and competence on its military strategy to win the war. But after five years of war, government does not show significant determination to win the peace in the North and East of the country. Thus this paper highlights the importance of

1. Immediate but long lasting political solution to the ethnic conflict transforming violent conflict to peace
2. Targeting peace building and ethnic reconciliation through post war reconstruction efforts.
3. Relaxing militarization and over-securitization process primarily in the postwar North.
4. Improvement in donor-government relationships and government and NGO sector relations
5. Constitutional reforms to safeguard the minority rights
6. Improving relationship between Western governments and UN on human rights and war crimes concerns

Along with these, recent actions or lack of action and changes in the current government's outlook does not present a positive outlook for the country's post war economy. Economic activities of reconstruction works and assistance to war effected people especially in the Northern Province have become more centralized and the Economic Development Ministry is the focal agency. There is no role so far given to the duly elected provincial councils. Sri Lanka should not forget to emphasize that the war is a historical even and it is over now, how the war ended. Current wave of anti-religious sentiments, Muslims hate campaign is also damaging the social harmony. The president of Sri Lanka as the Finance Minister says in his budget speech 2015 that "I cannot see the rationale to develop the subjects of land and police powers to 9 separate Provincial Councils and how such a move could serve the best interest of law and order and the national security."²⁰ This is a clear indication that what type of power sharing is going to take place in Sri Lanka in the near future. This failing to genuinely address required socio, politico and economic issues by the government of Sri Lanka, will leave only certainty in the Sri Lanka is the uncertainty of her future. As a country, Sri Lanka did not so far convey the right signals on human rights and war crime issue, constitutional reform especially on minority rights and necessary macroeconomic policies reforms to improve country's economic and political environmental are yet to be taken.

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²⁰ P.7, section 2.7, Budget Speech 2015, downloaded on 31 October 2015 from <http://www.treasury.govt.lk>

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