

Foreign aid for peace and growth

By The Mirror Economist

The attention of the country is once again focussed on foreign aid. Will the Tokyo conference in June bring in adequate aid for reconstruction as well as the development of the country as a whole? At least two reasons make such aid imperative. First, a very large sum of money is needed for the reconstruction of the affected areas in the North and East. Perhaps as much as US\$ 700 million to US\$ 800 million would be needed over a five-year period. The overall country situation and the inhospitable global conditions that we have faced and are likely to face for sometime necessitates aid to boost overall economic growth. This is particularly so owing to the fiscal situation of the government and the balance of payments situation. Besides this since an external boost to the economy is unlikely, the reconstruction effort could give much-needed stimulus to domestic economic activity.

Many countries have said that they would commit substantial aid for the reconstruction of the war-affected areas in the last few years. They have reiterated this pledge but the funds received so far have been minimal. Some of these countries have said they would release funds only after there was evidence of a durable peace. The United States has basically taken this position, though Norway being more hopeful of peace, has already committed US 2.2 million for reconstruction. The Norwegian position is that the humanitarian needs of the North and East require immediate efforts at reconstruction and that the people of the North and East cannot wait till the establishment of durable peace. This is also the position of the LTTE.

Therefore will the amount that is announced in Tokyo be one that would be available or would the country have to wait for a final settlement for

the disbursement of the funds? Even more pertinent would be the issue whether the donors would insist on certain conditions in the settlement for the disbursement of the aid. In fact the donors can play a catalytic role in securing a lasting, fair and just settlement to the ethnic issue by using their aid offer with conditions for a truly just, democratic and fair solution for all parties.

The recent actions of the LTTE require such pressure from donor countries for only a just and acceptable solution to the Tamils, Muslims and Sinhalese could ensure a durable peace. Otherwise the aid would be only for a temporary reconstruction that a conflict situation could destroy. Donor taxpayers would surely insist that their money be not wasted. Donors, especially the multilateral agencies; usually insist on conditions for the disbursement of loans. These conditions or "conditionalities" often go far beyond the guarantees for repayment. They include insistence on changes to many facets of economic and social policies.

Therefore one would expect the large sums that the donors are expected to give to be on conditions that would ensure a durable peace and contribute to the establishment of a strong democratic state. There are inherent fears in the South that the North would receive aid at the expense of the South. The government has tried to allay these fears by saying that the assistance would be for the whole country. The Tokyo meeting it is asserted is to both obtain aid specifically for the devastated areas and the rest of the country. Those who are apprehensive about the aid to the North and East should also take into consideration several factors. The need for the reconstruction of the North and East is irrefutable. It would need assistance of a very large amount that cannot be provided by the Sri Lankan government. The



Tarring before the elections at Trinco



reconstruction of the North and East would have beneficial effects on the rest of the economy.

The reconstruction of the North would result in the entire economy developing. Men and materials from other parts of the country would be needed for the reconstruction. And once the reconstruction occurs there would be an expansion of trade between the North and East and the South. Therefore the aid for reconstruction is indirectly aid for economic growth in general. Apart from the aid specifically committed for reconstruction, the government expects the aid commitment to include assistance for the country's overall economic growth. The Japanese have made it clear that they would be giving aid for various development projects. Already the IMF has come with a US\$ 360 package for poverty reduction. It is most likely that

the Tokyo conference would give aid for projects outside those for reconstruction.

One of the most important issues is with respect to the utilisation of aid. The issue of aid utilisation is a very significant one in the context of the Sri Lankan experience of aid use. It is one thing to obtain funds, quite another to spend them effectively and timely. As the Resident Representative of the ADB John Coney pointed out some time ago quite rightly "The problem is not so much the money but getting it spent". He went on to state that "there are adequate funds available especially in the North and East, the difficulty is in disbursing it effectively and quickly".

Large doses of aid the country has received have gone unspent in the past owing to an incapacity of the government agencies to implement their programmes

and sometimes the lack of counterpart funds and resources. The Director of External Resources recently admitted this. It is an astonishing fact. A study published by the Institute of Policy Studies disclosed that only a small proportion of the aid that has been committed in the past has been utilised.

This study disclosure by a former Director of External Resources Sakuntala Kuruppu has been confirmed by the current DER too, who made a similar disclosure about aid utilisation. In fact the government has adopted a new mechanism to increase aid utilisation. Its effectiveness remains unknown. John Coney the ADB representative once attributed the low utilisation of aid to the absence of proper project management skills and awkward procedures. There may also be more mundane reasons for the inability of line ministries to implement their programmes. Whatever the reason, the bottom line is that aid utilisation is very unsatisfactory. We must ensure that the funds committed in Tokyo do not suffer a similar fate. It is very likely that the government will put in place a more effective mechanism to en-

sure the expeditious use of the funds for reconstruction. However the most serious obstacle may come from the LTTE.

Their undemocratic approaches may result in their wanting to utilise the funds for their own purposes. The record of the LTTE is so bad that it would be difficult for the government to give it a responsible role to utilise the funds for reconstruction. The intolerance of the LTTE raises fears that the LTTE may use the funds solely for their own purposes and not for the general good of the Tamil people. They may even use funds directly or indirectly for terrorist purposes. The donors would be well aware of the possibility of this happening. This implies two things. First, the settlement of the constitutional and administrative arrangements of the North and East is vital for the disbursement of aid. Without the resolution of this issue the donors may not be willing to disburse the funds. Second, the acceptance of the peace settlement by the South may be jeopardised by the LTTE utilising the funds in unaccountable and unintended purposes.

So once again we come to the conclusion that a constitutional arrangement must precede aid use for reconstruction. In fact it would be beneficial if the aid donors use the aid for making the LTTE speed up the process for a constitutional settlement. The aid to any significant extent must be conditional to a final settlement of the problem. The chances that the Tokyo meeting might not give the needed aid unless a durable constitutional settlement is arrived at are a real possibility. If the LTTE chooses to absent themselves at the Tokyo conference the only significant amounts of aid forthcoming may be for the other parts of the country.