

**Political and Economic Policy Priorities in Supporting Post Conflict Peace
and Development in Sri Lanka**

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Part I: Power Sharing in Sri Lanka

Introduction

Sri Lanka is an island nation of 65,000 square kilo meters on the southern tip of India. In 1948 Sri Lanka, then Ceylon, obtained independence from Britain, ending 443 years of colonial influence and later rule under various European powers. Sri Lanka has a population of 20 Million people, 74% of whom are the majority Sinhalese (descendents of North Indians), 12.6% are Sri Lankan Tamils (descendents of South Indians), 7.1% Muslim, 5.5% Indian Tamils (who were brought to Sri Lanka by the British to work on the tea plantations in the hill country) and 0.8% other races (Malay, Burgher and so on)¹. Sri Lanka's per capita GDP is US\$ 2014, but economic activity is heavily concentrated in the Western Province which accounts for 48.4% of GDP. The country has been engulfed in a civil war between 1983 and May 2009 between the Government of Sri Lanka and the Liberation Tamil Tigers of Eelam (LTTE), a Tamil militant force that was fighting for an independent Tamil state in the Northern and Eastern Provinces of Sri Lanka. On the 18th of May 2009, the LTTE leader and almost the entire leadership was killed in a final push by the Sri Lankan forces and resulted in the end of the war.

Sri Lanka was expected to be a successful post-colonial state given the peaceful transfer of power and the relatively mature democracy in the country, which was the first in Asia to implement universal suffrage in 1931. Contrary to expectations, less than a decade after independence in 1948, politically de-stabilising ethnic tensions emerged between the Sinhalese and Tamils. Language was the initial point of contention and the first major stumbling block was the passage of the Official Language Act No 33 of 1956, more commonly known as the "Sinhala Only Act". This made Sinhalese the only official language of the country, relegating the language of the Sri Lankan Tamils, the Tamil language, to a secondary position in legal respects.

¹ The ethnic breakdown is correct as of the last islandwide population census in 1981. The 2001 census did not include the five districts in the North and Trincomalee and Batticaloa, which have a large number of Sri Lankan Tamils. Since then many Tamils have emigrated (a large number following the 1983 ethnic riots) and accurate population statistics in the North and East have been difficult to establish.

The legislative changes enacted in 1956 resulted in ethnic clashes in 1956 and 1958. Tensions between Sinhalese and Tamils were further strained following the passage of the First Republican Constitution of 1972. The new constitution more formally subordinated the status of the Tamil language, and removed some of the existing provisions for protecting minority status (most importantly Section 29(2) of the Soulbury Constitution).

More importantly, the early 1970s saw a number of changes to higher education policy in Sri Lanka. The 1973 University admissions were based on standardization according to language, and this forced Tamil medium students to score a higher aggregate mark than her Sinhalese counterpart to qualify for university admission. Furthermore in 1974 a district based quota was also introduced to university admissions criteria to increase the educational prospects for more rural districts in the country. Both issues were perceived as deliberate attempts to restrict prospects for Tamil social mobility and was a deeply political issue. Tamil youth were particularly disgruntled by the university policies of the early 1970s.

In the mid 1970s Tamil opposition to the constitutional and legislative changes in Sri Lanka began to take a more violent form with the emergence of a number of militant Tamil youth groups engaging in violence against the police, Tamil members of the government and the army. The most powerful of these was the LTTE. The militant groups grew increasingly frustrated with more moderate Tamil parties such as the Tamil United Liberation Front (TULF) which were perceived by these groups to be ineffective at realizing the ambition of carving a separate state for the Tamils in the North and East of Sri Lanka. The ethnic riots of July 1983 triggered off a full scale civil war between the Sri Lankan army and the Tamil militant groups. Over the next few years the LTTE became the sole militant group, subsuming other groups, and became a globally recognized terrorist organization. Several attempts at peace talks were entered into in the 1980s and 1990s, without a long term breakthrough.

In 2001 the United National Party returned to power and signed a Cease-Fire Agreement (CFA) with the LTTE on 23rd of February 2002, with the intention of ending the conflict and bringing about an Interim-Administration to govern the North and East, headed by the LTTE. However

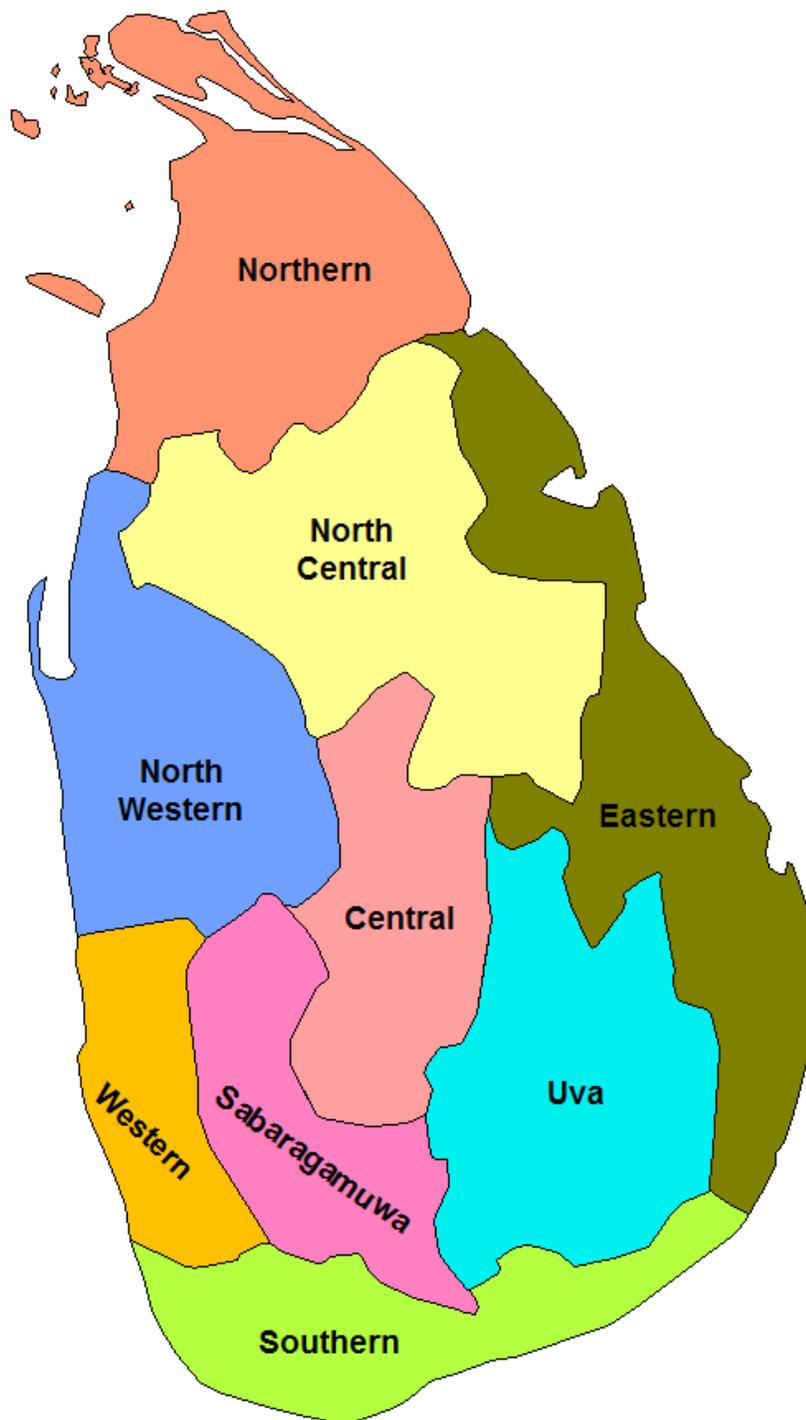
peace talks did not progress as expected and the LTTE withdrew from the negotiations. The LTTE enforced a boycott of the Presidential election in 2005 in the Northern Province, thereby preventing the incumbent from retaining power and pursuing the peace agenda. In 2006 the newly elected (United People's Freedom Alliance) UPFA government retained the Ceasefire Agreement and resumed peace talks which lasted just two rounds as the LTTE withdrew in April 2006. The CFA remained only in name when the LTTE attempted to assassinate the Commander of the Sri Lanka army in April 2006 and then massacred 64 civilians in Kebethigollava in June 2006. In July 2006 the LTTE cut off water supply to 15,000 civilians and attacked Mutur town in the Eastern Province. The army retaliated and resumed a military campaign² which was completed on May 19th 2009 with the complete destruction of the LTTE military.

With the end of the military conflict the long term priority is to embark on a sustainable and effective political process. Sri Lanka's existing power sharing mechanism, the Provincial Council system has had a poor record in terms of its efficacy as a power sharing mechanism and has resulted in significant economic inefficiencies. Current debates on power sharing are focused on the reform of the 13th amendment and the need for a home-grown political solution that is more in line with the socio-political and economic realities of contemporary Sri Lanka. With the end of the conflict there are new priorities for economic policy to support post conflict recovery, both at the macro-economic level and micro-economic level. Some of these require substantial reform of previous economic policies, particularly relating to fiscal weaknesses. The efficacy of this political and economic policy response to the post conflict situation in Sri Lanka will be key to sustaining a durable peace in the country.

In this paper Part I deals with the political dimensions of the conflict in terms of its evolution and the history of power sharing agreements that have been under negotiation. We then examine the contemporary debates in power sharing, relating to the current power sharing arrangement, the 13th Amendment to the constitution, discussing the drawbacks in its current formulation and its prospects in the context of a post war environment. Part II of the paper deals with the economic dimensions of the conflict, in terms of the economic roots of the conflict, the economic impacts

² The CFA remained in theory until January 2008.

of the conflict and finally the requisite macro and micro level economic policy measures that are required to support a viable peace.



1.0 Political Roots of Sri Lanka's Ethnic Conflict

Sri Lanka is a multi-ethnic, multi-religious society. The Sinhalese make up the majority of the population and speak the Sinhalese language and the majority of Sinhalese are Buddhist and a minority is Christian. The Tamils are the largest minority and speak the Tamil language and are largely Hindu while a smaller number are Christian. As mentioned in the introduction, there are two distinct Tamil communities in Sri Lanka, the Sri Lankan Tamils who make up the majority in the Northern and parts of the Eastern Province, and the Indian Tamils who were brought to Sri Lanka by the British in the 19th Century to work on plantations in the Central hill country. Muslims make up the third substantial race in Sri Lanka, the bulk of who speak Tamil, but have a different cultural and religious (Islamic) background to the Tamils of Sri Lanka. Smaller races included the Burghers (descendants of Europeans – of mainly Portuguese and Dutch descent) and Malays.

Sri Lanka was under some form Western influence since the 1505³, though it was the British who unified Sri Lanka as a political entity after the fall of the Kandyan Kingdom in the 19th Century. Prior to unification by the British, the Sri Lankan political system was fractured and decentralized, with different centers of political power being yielded by either the native populations or the colonizing powers. Ceylon⁴ obtained independence from Britain in 1948 under a peaceful transition of power. However since then, there have been numerous conflicts in the country, dominated by the ethnic clashes between the Tamils and Sinhalese. In this section we overview some of the key post-independence milestones which have had a strong influence on the evolution of the civil conflict in Sri Lanka.

1.1 The Citizenship Act of 1947

³ Sri Lanka was under the Portuguese, Dutch and British

⁴ Ceylon was renamed Sri Lanka in 1972

The Citizenship Act of 1947 introduced by the first elect-Parliament in Ceylon led to the disenfranchisement of nearly one million Indian Tamils who were immigrant workers brought to work in the plantations by the British. The Citizenship Act was passed in 1948. The Citizenship Act had both class based and ethnic connotations to it. The United National Party (UNP) that was in power was fearful of the Indian Tamils being unionized under a Communist banner which it saw political as a major political threat (Oberst 1988: 179). In fact, G.G. Ponnambalam, the leader of the major Tamil political party, the Tamil Congress, continued to support the government through the passage of the Act, whilst numerous Sinhalese political groups voted against it (Wickramasingha 1995: 158 cited Thangarajah 2000: 130). The Citizenship Act clearly cut across ethnic lines and was more an attempt to curtail the rural voter base of the opposition parties (led by left wing political groups). The citizenship act was followed by two other legislative acts that were aimed at reconstituting the Ceylonese electorate. These were Indian and Pakistani Residents (Citizenship) Act. No 3 1949 and the Ceylon (Parliamentary Elections) Amendment Act, No. 48 of 1949 aimed specifically at the estate Tamils of Indian origin that excluded them from citizenship and depriving them of franchise they had previously enjoyed (Uyangoda 1994: 100). The Citizenship Act rendered nearly 700,000 people or 11% of the population in Ceylon stateless.

The ethnic connotations of the Citizenship Act were not unnoticed and a significant result of the Act was the fracturing of the Tamil Congress and the formation of the Federal Party (Ilankai Tamil Arasu Kadchi) under S.J.V Chelvanayakam in 1949, who perceived the Act as a manifestation of majoritarianism. The Federal party advocated a federal system of government (Guruge 2006: 19). The formation of the Federal Party is seen as a turning point in Ceylonese politics, it identified the Tamils as being different nation from the Sinhalese, “the entire edifice of Federalist belief rested on the conviction that the Ceylon Tamils constituted a separate distinct nation” (Kearney 1967: 44 cited in Uyangoda 1994: 100). The Federal Party contested the 1952 elections on a platform of federalist policies and the devolution of power, but the results were dismal, the party secured only two seats. This was evidence of the fact that Ceylonese Tamils have not entertained ideas of federalism but have chosen to win their rights within the existing political framework (Guruge 2006: 19). Till this juncture it is clear that the Tamils had opted to gain their political demands through the existing constitutional framework. However, this would

change with time and the Federal Party would rise as viable and a strong political opponent to successive Sinhalese dominated national parties. In 1956 the Federal Party replaced the Tamil Congress as the major minority party (Oberst 1988: 182).

1.2 The Politics of Language

Political and administrative power had been to a great extent shared between elite Sinhalese, Tamil and Burgher populations during the British colonial period, to a great extent influenced by command of English and education. The prominence of Tamil politicians such as Sir Ponnambalam Ramanathan is evidence of this. However with increasing democratization, the influence of Tamils began to wane. The Donoughmore constitution introduced universal suffrage to Ceylon in 1931 which gave the rural Sinhalese population a political voice for the first time. Sinhalese political power grew rapidly and a major demand was for a reduction in the privileges of the English educated (led by the Swabasha movement) and a revival of the position of Buddhism, which had been subdued during the colonial period. S.W.R.D Bandaranaike was the first politician in post-independence Ceylon to exploit the surge in Sinhalese nationalism and his party the Sri Lanka Freedom Party (SLFP) came to power (through a coalition) in the 1956 general election on a platform of making Sinhalese the official language of the country. Bandaranaike had initially envisaged a policy of bilingualism (Sinhalese and Tamil) as a buttress to the English language⁵; however bilingualism was dropped in favour of Sinhala Only in the pursuit of votes and opposition by Sinhalese activists. On May 3rd 1956 a bill was drafted by a parliamentary group to incorporate minority concerns however this bill was also abandoned in response to political opposition.

The Sinhala Only policy was seen as a means of re-dressing colonial power imbalances where many of the Sinhalese believed that they have been unfairly treated under the British rule since

⁵ In fact in 1944, J.R. Jayawardena (a future president) put forward a resolution to the State Council to make Sinhalese and Tamil official languages of Sri Lanka – but his party, the UNP, campaigned for “Sinhala Only” in 1956.

many of high government administrative positions were held by either the Tamils or the Burghers, which in fact they were (Tambiah 1955 cited in Thangarah 2000: 128). This was seen as an attempt to balance out the scales in which the Sinhalese who have been largely educated in Sinhala would have an advantage over the Tamils and the Burghers who have been educated in English. (Wijesinha 2005: 79). The Official Languages Act of 1956 (commonly known as the Sinhala Only Act) was to be implemented over a 5 year period (an attempt by Bandaranaike to incorporate minority concerns).

The Official Language Act of 1956 was challenged under the provision of Article 29 of the Constitution⁶ that forbade legislative discrimination against any part of the population; the Act was passed with a simple majority. Even though the Ceylonese courts were against the Sinhala only Act, the Privy Council in Britain, which had the final say, upheld the legality of the Act (Wijesinha 2005: 80). The final passage of the Act effectively ended the two language formula that was accepted by the Ceylonese political elites (Bastian 1993: 122).

Tamil opposition to the Sinhala only Act was led by the Federal Party (FP) and race riots occurred in 1956 as protests against the Act were met by violence. In August 1956 the FP set out 3 demands; 1) autonomy for the North and East under a federal structure, 2) Sinhalese and Tamil to have parity as official languages 3) Citizenship rights for Indian Tamil plantation workers. Bandaranaike entered into negotiations with the leader of the FP, Chelvanayakam to arrive at the Bandaranaike-Chelvanayakam pact (BC Pact) which included provisions to; 1) make Tamil an official language of administration in the North and East, 2) formulate regional councils to create a second tier of government by devolving power to the regions 3) to limit Sinhalese colonization for irrigation projects in the North and East and proposed some amendments to the earlier Citizenship Act. The opposition UNP and the Buddhist clergy opposed the pact (Wijesinha 2005: 80). The general argument forwarded by opposition groups was that any accommodation, no matter how insignificant, would eventually lead to disintegration of the unitary state (Uyangoda 1994:103). In response to the opposition to the proposals, Bandaranaike is said to have torn up the pact, but his words at the time were prophetic, “If you are against this pact I would certainly tear it up, but it will jeopardize the future of this country. You will have to think about it”

⁶ The existing constitution at the time was the Soulbury Constitution

(Guruge 2006: 27). In April 1958 the BC pact was abrogated and this was followed by another race riot in May 1958.

Nonetheless the Tamil Language (Special Provisions) Act of 1958 came into being, incorporating some of the key provisions included in the May 1956 Bill that had been abandoned earlier. The new Act which allowed Ceylon Civil Service applicants to take their examinations in Tamil as long as they later developed proficiency in Sinhala. It also permitted the use of Tamil in higher education and allowed correspondence with the government in Tamil. The widow of S.W.R.D. Bandaranaike, Sirimavo Bandaranaike, who took over leadership of the SLFP, abandoned the Tamil Language Act and it was only in 1966 when a new UNP government came into power that the legislation was passed as the Tamil Language (Special Provisions) Regulations of 1966 (Oberst 1988: 182/3). In 1972 a left wing coalition led by Mrs. Bandaranaike's SLFP returned to power and promulgated a new constitution – the first Republican Constitution. The new constitution was damaging to the delicate balances in language politics as it made the Tamil Language (Special Provisions) Act subordinate legislation. Furthermore, it removed Article 29 of the Soulbury Constitution (which prevented the passage of legislation which discriminated against any segment of society⁷) and accorded to Buddhism “The foremost place and it should be the duty of the state to protect and foster it⁸” (1972 Constitution of Sri Lanka). The architect of the 1972 constitution, Colvin R. de Silva, argued that Section 29 (2) of the Soulbury constitution was ineffective in safeguarding minority rights (pointing to the disenfranchising of the Indian Tamils as a case in point) and therefore should be replaced by a statement of fundamental rights, like those introduced in 1972.

It has however been argued that despite the various legislative changes to language policy since 1956, in practice there had not been a great deal of change. Education in the Tamil language

⁷ “Parliament shall not make any law rendering persons of any community or religion liable to disabilities or confer upon persons of any community or religion any privilege or advantage which are not conferred on persons of other communities or religions” – Section 29 (2) of the Soulbury Constitution.

⁸ Whilst religion has not been a central issue of contention like language and education, Buddhism and its post colonial revival has been an important factor in defining Sinhalese identity, and the measures taken to drive forward Sinhala-Buddhist nationalism, particularly by elements of the Buddhist clergy, have contributed to the insecurities among minorities regarding the continued secular nature of the state.

continued throughout, it was possible to correspond with the government in Tamil and public service exams could be sat in Tamil (K.M. de Silva 1998). Nonetheless the various legislative changes to language policy created tremendous uncertainty in legal terms and very real perceptions of discrimination amongst the Tamil community, which resulted in irreversible damage to racial relations in Sri Lanka.

1.3 Education Policy

Till the 1970s Tamil students had extremely strong representation in National Universities, with the proportion of Tamil students gaining admission to universities being much higher than the proportion of Tamils in the population. 1969-1970 Tamil students made up 35% of the science related fields in university and the figures were high as 45% in the medical and engineering fields (K.M De Silva 1998: 335). The Tamil cultural attitude that placed emphasis on education, coupled with the fact that many of the privately funded schools (including a number of Christian missionary schools (Warnapala 1994: 55)) were established in the Jaffna district of the Northern Province, contributed to the high proportion of Tamil students securing university admission.

There was a degree of resentment by some Sinhalese and Muslim communities regarding the disproportionate number of Tamil students being admitted in to the universities. There were accusations of favouritism towards Tamil students by markers (since it was possible to distinguish scripts submitted by Tamil students based on language)⁹. The Bandaranaike government responded in the early 1970s by introducing the standardization of university admissions examinations by language. This ensured that Tamil students had to score higher aggregate marks than their Sinhalese counterparts to secure university admission. This was supplemented by a district quota system which was designed to enable students from more educationally backward districts to obtain a greater share in university places. The government's policy was influenced by the Sinhalese/Muslim sentiment that the differences in the admissions proportions were due to differentials in educational facilities in the different districts, and that equity warranted some re-balancing. The implication, however, was further obstacles for students from the Jaffna district and Colombo (capital of Sri Lanka where the urban Sinhalese are concentrated) district, and it resulted in deepening perceptions amongst Tamils that education

⁹ An investigation into this later on failed to substantiate the accusations (de Silva 1998)

policy was being designed to blockade the upward social mobility of Tamils. Pressure on the government also arose due to increased competition for university places resulting from the increased number of Sinhalese students completing secondary education, and the Janatha Vimukthi Peramuna¹⁰ (JVP) insurrection in 1971 which agitated against the lack of opportunities for Sinhalese youth.

The media-wise standardization and district quota system's was met with very strong opposition at the parliament. A Cabinet- sub committee was appointed to deal with the issue; their recommendation was initially to abolish the media-wise standardization and was very critical on the issue of district quota systems. However, due to the political context, the recommendation was amended to 70% of the entrants being admitted to university based on "raw marks" (that is on merit), and 30% on district basis of which 15% was reserved for 'educationally backwards' areas (K.M de Silva 1986: 311).

Even though the successive policies had limited impact on the absolute numbers of Tamil students obtaining entrance to university (particularly in the science stream which saw a decline from 35.3% to 33.3% in the percentage of Tamil entrants), the unilateral move by the government of changing university admissions policy led to an irreversible breakdown in ethnic relations in the country since it intensified simmering perceptions of discrimination. This issue was particularly emotive and volatile given the reliance of the Tamil community on state employment and the importance of higher education in securing this. The attempt by the government to rectify imbalances was unfortunate given the fact that the proportion of Sinhalese obtaining admittance to university and obtaining state employment was on the rise given the growing education opportunities and economic development in rural Sinhalese areas. The United Front (UF) government's attempt to quicken the pace of this change had extremely damaging consequences for Sri Lanka's ethnic harmony.

1.4 Emergence of Tamil Militancy

The promulgation of the first Republican constitution of 1972 was a watershed in ethnic relations

¹⁰ The JVP is a Marxist group represented predominantly by unemployed rural Sinhalese youth. The JVP led insurrections against the government in 1971 and 1988.

in Sri Lanka. As mentioned earlier, the removal of Section 29 of the Soulbury constitution further intensified minority insecurity (despite the fact that Section 29 had in the past failed to safeguard minority interests). This in combination with the policy reforms in university admissions and the subordination of the Tamil Language (special provisions) Act; resulted in a fundamental change in the nature of Tamil opposition to the Sri Lankan government. By this time the Federal Party and the Ceylon Tamil Congress had become marginal players and various Tamil parties combined to form the Tamil United Liberation Front (TULF). Till this point the Tamil parties had campaigned for greater political voice within the framework of a single Sri Lankan political entity, through the devolution of power to regions. The TULF replaced the demand for federalism with a demand for the creation of an independent Tamil nation-state of Eelam (Oberst 1988: 184). This period also saw the emergence of a few Tamil militant groups in the north that were demanding a separate state for the Tamil people. One such group was the Liberation Tamil Tigers of Eelam, (LTTE). These groups initially were used by the Tamil political parties as instruments to win political power from the state, however, the influence exerted by the political parties over these militant groups, especially the LTTE began to wane by the late 1970s (Swamy 2004: 49). It has been suggested that the demands made by the TULF during the 1970s for a separate state were largely rhetoric in order to negotiate a middle ground with the Sri Lankan government (Swamy 2004: 37). The idea of Eelam or a separate homeland for the Tamils resonated mainly with the more militant and young political Tamil organizations in the North.

The militant Tamil youth groups were to a great extent frustrated by the lack of economic opportunities and this was fuelled by the government's policies on university admissions and the diminished access to state jobs for Tamils. The United Front government of 1970 brought large segments of the economy under state control and therefore access to employment was further influenced by political patronage. The alienation felt by the Tamil youth groups pushed them to arms. Violence was initially manifest on a small scale in the Northern Province with sporadic attacks against the police, Tamil members of the government and also robberies. With time however the intensity of these attacks increased and as did the influence of the militant groups relative to the TULF, which was increasingly perceived as being ineffective at securing the interests of the Tamils. The demand for a separate Tamil nation gathered momentum in the mid

to late 1970s. In 1977 the UF government was defeated by a resounding margin by the UNP which came in to power on a platform of introducing market led economic reform and measures to address minority concerns.

2.0 Policies Addressing Tamil Concerns

The second Republican Constitution was passed in 1978 and introduced the presidential system to Sri Lanka, akin to the French system where there is a president and a prime minister, the latter remaining in parliament. The new constitution also attempted to redress many of the legislative changes that had damaged ethnic relations since independence.

Citizenship – A key provision of the 1978 constitution extended fundamental rights to the entire population, with no differentiation between those who are citizens by registration (Indian Tamils) and citizens by descent. A series of agreements¹¹ prior to the new constitution had secured citizenship rights for Indian Tamils along with agreements with India to repatriate a segment of the Indian Tamil population. Over time there were also improvements to education in the estates (estate schools were brought under the national education system) and health. The political power of Indian Tamils was greatly enhanced by the rise of the Ceylon Worker's Congress, which was an ally of the ruling UNP and was able to secure important benefits for the Indian Tamil community.

Language – Tamil was made a national language under the new constitution, thereby legally guaranteeing the provisions of the Tamil Language (special provisions) Act of 1956. In 1987 the 13th amendment to the constitution would make Tamil an official language, giving it legal parity with the Sinhalese language.

¹¹ These were supplemented by the Grant of Citizenship to Stateless Persons Act No 5 of 1986 and the Grant of Citizenship (Special Provisions) Act No 39 of 1988.

Education – The policy of language based standardization was abolished. The district based quotas were amended and more weight was given to merit based university admission and the quota for marginalized districts was reduced to 5%.

2.1 Devolution of Power

Despite the attempts by the government to address the key issues of contention that had fuelled minority insecurity and had caused tremendous tension between the Tamils and Sinhalese, the violent manifestation of Tamil opposition to the government had gathered sufficient momentum to continue unabated. The outstanding issue was that of devolution of power (which the militant groups would not settle for but continued to demand a separate Tamil state). As mentioned earlier, the issue of devolution of power to the regions has a long history in Sri Lanka. In the colonial period under British rule, various measures of power sharing between the majority and minority community were instituted at the centre. Appendix 1 has a chronology of these measures. The demand by Tamil groups for the devolution of power to the regions (in particular to the North and East of the island which were claimed to be a “Tamil Homeland”) was first articulated by the Federal Party, which expressed this as a formal demand following the 1956 Official Languages Act. Then Prime Minister S.W.R.D. Bandaranaike entered into negotiations with the leader of the FP, Chelvanayakam and agreed to devolve power to regional councils. However as discussed earlier, the BC pact was abandoned following protests by the opposition groups in Sri Lanka. In 1965 Dudley Senanayake of the UNP (son of the first Prime Minister D.S. Senanayake) became Prime Minister by forming an alliance with the FP and the Tamil Congress. Senanayake and Chelvanayakam agreed to a system of devolution of power to District Councils, a smaller unit than the previous regional councils (Sri Lanka has 9 provinces and 25 districts). However this was opposed by the opposition led by Bandaranaike’s widow and was abandoned in 1968. Given the politically charged nature of the subject, the issue of devolution was not addressed until the early 1980s with the UNP’s District Development Councils.

It is interesting to note that the notion of devolution of power to a 2nd tier of government was not a politically charged issue until the 1950s. Until then there was a general degree consensus in

government regarding the desirability of devolution of power. Devolution of power to a 2nd tier of government representing local bodies was suggested as far back as 1928 in the Donoughmore Commission. By 1940 the government in power had all but agreed to implement such a system. In fact even as far back as 1926, S.W.R.D Bandaranaike (who later became Prime Minister and implemented the Sinhala Only Act), spoke in favour of devolution of power.

A report that appeared on The Ceylon Morning Leader on 17th July 1926 carried an extracts of such a speech.

The minorities looked with mistrust at one another. A hundred years ago, there were no such differences. They did not appear because the Englishman sat on the heads of Tamils, low-country Sinhalese and the Kandyan Sinhalese. The moment they began taking the government in to their own hands the differences that were lying dormant smoldered forth. In a Federal Government, each Federal Unit had complete powers over themselves. In Ceylon, each province should have complete autonomy. There should be one or two assemblies to deal with the Special Revenue of the Island. A thousand and one objections could be raised against this system, but when objections dissipated, some form of Federal Government would be the only solution. (Uyangoda 1994: 96)

The association of devolution with the Federal Party's thrust for self determination in response to the disenfranchisement of Indian Tamils and the Official Language Act of 1956 resulted in devolution becoming a politically charged issue. Since then, devolution has always been viewed with suspicion among the Sinhala polity given the fears of the division of the Sri Lankan nation.

J.R. Jayawardena's UNP government entered into negotiations with the TULF in the early 1980s to formulate yet another system of devolution of power. The resulting District Development Councils had even less power than the District Councils negotiated in 1965, with the chief executive of the district being appointed by the President, and not being of the same district that

he/she would be chief executive of. The TULF contested the first election of the District Development Councils in 1981 despite opposing the structure of devolution. The government election campaign was extremely violent, culminating in the burning of the Jaffna library (Wijesinghe 2005:85), an event that further fractured racial relations in Sri Lanka. The LTTE gained further influence at the expense of the TULF and violence in Northern Sri Lanka increased even further. In July 1983, during the TULF annual meeting, the LTTE ambushed and killed 13 Sri Lankan government soldiers in Jaffna, triggering a major backlash in Southern Sri Lanka which resulted in the worst ethnic riots in Sri Lanka's history. The riots of "Black July" saw the beginning of a civil war in Sri Lanka that would last until May 2009.

3.0 Evolution of the Indo-Lanka Accord and the 13th Amendment to the Constitution

The riots of July 1983 resulted in India intervening in the Sri Lankan situation. There were several factors which influenced India's intervention – these are explained in the memoirs of J.N. Dixit, the Indian High Commissioner to Sri Lanka at the time (Dixit 1998: 20, 133).

- 1) Pressure from Tamil Nadu (the Southern Indian state with a predominantly Tamil population) which has a history of pushing for secession from the Hindi dominant Indian Union until this was dropped in 1963 by the DMK.
- 2) Sri Lanka's increasing diplomatic and strategic proximity to the United States in the form of allowing a Voice of America broadcasting facility in Chillaw, Sri Lanka opposed Russia's invasion of Afghanistan and supported the UK in its invasion of the Falkland Islands. This did not sit well with India given the Cold War tensions that dominated international relations at the time.

- 3) The contract for the repair of the Trincomalee oil tank farms was won by a consortium of firms with close ties to America (the firms were of Singaporean, West German and Swiss origin). This was perceived as a move by the West to set up a naval base in Trincomalee.
- 4) Sri Lanka had close security related ties with Pakistan, China and Israel, which further concerned India.

Indira Gandhi, India's Prime Minister at the time, was keen on acting as a mediator between the two sides and peace talks were initiated in Thimpu, Bhutan, between the government of Sri Lanka and the numerous Tamil militant groups. The two rounds of Thimpu talks were held in 1985 with the Sri Lankan government and participation of all the Tamil political and militant parties at the time- EROS, PLOTE, TELO, TULF, EPRLF and the LTTE (Guruge 2006: 50). The Indian Foreign Secretary Romesh Bhandari mediated the talks.

The Tamil groups made the following demands:

- i) Devolution of power with provinces as the unit of devolution
- ii) All aspects of inequality due to Sinhala Only Policy to be reversed legally, constitutionally and politically.
- iii) NE linked into a single province and termed "Tamil Homeland" in the constitution.
- iv) Genuine devolution of administrative and financial powers
- v) Return lands in the NCP (taken for resettlement of peasants associated with the Mahaweli irrigation Scheme) to Tamil people.
- vi) Tamil to be made an official language with equal status as Sinhalese
- vii) Proportional Representation for Tamils in the armed forces, police and civil service.
- viii) Sri Lankan Armed forces to be returned to barracks
- ix) Repeal the 6th amendment to the constitution (the 6th Amendment prevents any MP from supporting the division of the territorial integrity of Sri Lanka. This legislation was passed soon after the July 1983 riots and resulted in the TULF MPs abdicating their seats)

Both rounds of Thimpu talks failed given the limited commitment both sides had to a genuine negotiation. The Sri Lankan government was suspicious of Indian intervention given the substantial evidence for India's involvement in training Tamil rebel groups. To quote Dixit, "Pressures from Tamil Nadu and overall strategic interests saw the government of India providing assistance and training to Tamil militant groups." (Dixit 1998: 78) Furthermore there was substantial domestic political opposition to some of the key demands of the Tamil militants – particularly the merger of the Northern and Eastern provinces. The Eastern province in particular has a large proportion of Sinhalese and Muslim residents along with Tamil residents, and therefore the claim to include it as a province combined with the North under majority Tamil rule has faced substantial opposition. As of the 1981 census, the ethnic breakdowns in the three districts of the Eastern Province were as follows;

Trincomalee – 33.6% Sinhalese, 33.8% Tamil, 29% Muslim

Batticaloa - 3.2% Sinhalese, 70.8% Tamil, 24% Muslim

Ampara - 37.6% Sinhalese, 20.1% Tamil, 41.5% Muslim

Tamil leaders beginning with the Federal Party have attempted to classify the Eastern Province as a majority "Tamil speaking" area, since Eastern Muslims speak Tamil as well. However Muslims have a very distinct ethnic identity, including a different religion (Islam) and culture to the Tamils. Therefore Muslims were apprehensive about the potential merger of the North and East into a single political unit. This apprehension was justified on October 22 1990 when the LTTE ordered all Muslims to leave the North of Sri Lanka within 48 hours (K.M. de Silva 1998: 269). The argument that the Northern and Eastern Provinces of Sri Lanka is the location of a historic "Tamil homeland" is hotly contested since the continuous Tamil occupation in this area has been limited to the Jaffna peninsula which is also limited to a period between the 13th and 17th Century. The Eastern Province has by and large been part of the central kingdom of Kandy and other parts of the North and East have been under the control of various powers over the centuries. K.M. de Silva (K.M. de Silva 1998: 153) argues that the primary reference to the "Tamil Homeland" is derived from a passage by a British academic (later first colonial secretary)

Hugh Cleghorn. This passage refers to “The Cingalese (sic) inhabiting the interior of the country in its southern and western parts...and the Tamils who possess the Northern and Eastern districts”. The passage is of dubious historical accuracy given the fact that it claims the Sinhalese originated in Siam (Thailand)¹². De Silva points out that the territorial dimensions of Eelam, as defined in the Vaddukodai resolution of 1976, draw on almost exactly the same language as the Clagehorn passage. The two documents are compared in Annex 2.

The issue of parity of language has also been an issue of great sensitivity, particularly considering the Sinhalese fears of the dominance of Tamil given the global significance of it compared to Sinhalese, which is spoken only in Sri Lanka, whereas Tamil is spoken in South East Asia, Southern India and particularly in Tamil Nadu.

Despite the failure of the Thimpu talks, there were important developments that arose out of them. Firstly, the Thimpu talks set the standard on the negotiating position of the Tamils at the time. The various Tamil groups that have negotiated with the government thereafter, mainly the LTTE, used the above principles as the goal of any final agreement. More importantly, on the way back from the Thimpu negotiations in August 1985, Sri Lanka’s chief negotiator, Harry Jayawardena, brother of President J.R. Jayawardena, was invited to New Delhi for a week, during which time he engaged in negotiations with Foreign Secretary Bhandari and Indian constitutional expert Balakrishnan to draft a set of proposals that became known as the Delhi Accord and was “fairly responsive” to Tamil demands (Dixit 1998: 37). The initial features of the Provincial Council system such as the three lists (central, regional and concurrent) were framed in the Delhi Accord. Despite the Delhi Accord making no mention of the merger of the North and East, devolution of land and finance and the resettlement in the North Central Province, the proposals were rejected by the Sri Lankan cabinet. Rajiv Gandhi (who was Prime Minister after his mother Indira Gandhi was assassinated) sent Ministers P.Chidambaram (the present Home Affairs Minister in India) and Natwar Singh to Sri Lanka to fine tune the Delhi Accord. In August 1986 an All Party Conference (APC) was summoned to discuss the revised Delhi Accord and the conference produced a 50 page document that included possible items to be scheduled in the three lists of devolution and a proposal for devolution of law and order. The

¹² It is commonly accepted that the Sinhalese originated from North Eastern India

Tamil militant groups were not included in the APC given their unwillingness to relinquish violence and the main Sinhalese opposition, the Sri Lanka Freedom Party (SLFP) opted out of the APC.

In December 1986 Chidambaram and Singh returned to Sri Lanka to further negotiate the merger of the North and East and engaged in discussions with several political figures including a group of Muslim MPs who opposed the proposal (Dixit 1998: 62-63). The compromise reached during the discussions was for the Eastern Province to exclude the Amparai district and for a new Eastern Province to have a Provincial Council of its own. The proposals also included the creation of the post of a vice president which would go to a Tamil. These proposals became known as the December 19th proposals. The LTTE remained opposed to the various proposals and continued to insist on nothing short of a separate Tamil nation of Eelam. India put pressure on Tamil militant groups to engage in the dialogue and as a result V.Prabhakaran, leader of the LTTE, fled Southern India and returned to Jaffna (major city in Northern Sri Lanka) and the conflict escalated with bus bombs in Pettah (in Colombo) and Trincomalee, leaving over 200 dead. The Sri Lankan government responded by launching “Operation Liberation” on 26th May 1987 to recapture Jaffna, which had fallen under LTTE control. This attack was supplemented by an economic blockade on the Jaffna peninsula which caused substantial hardship to the civilian population as well. India was concerned by the situation and urged the government of Sri Lanka to halt the operation. Dixit met National Security Minister Lalith Athulathmudali on June 10th and explained to him that “India would not allow the capture of Jaffna and the persecution of civilian population there and if Indian advice was not accepted, India would provide logistical support to the LTTE” (Dixit 1998: 98).

The military operation continued and with the Sri Lankan military having captured substantial amounts of LTTE territory, the government of India sent a shipment of food and petroleum to the Jaffna peninsula in a unilateral move on June 3rd. The Sri Lankan navy rejected the flotilla, and this was followed by the Indian air force invading Sri Lankan airspace the following day to air drop supplies, escorted by Mirage fighter planes with instructions to take retaliatory action against the Sri Lankan Air Force, air bases and ground forces, if attacked (Dixit 1998: 104). Sri Lanka’s military operation was halted and over the next few months preparations were made to

go ahead with the Indo-Lanka Accord. President J.R Jayawardana bowed to the geo-political realities faced by Sri Lanka and signed the Indo-Lanka Accord on July 29th 1987 under extremely tense circumstances in Colombo. The Agreement linked the Northern and Eastern Provinces of Sri Lanka, but subject to a referendum in the Eastern Province to be held in the future (this referendum never took place and Jayawardana officially authorized the linkage of the two provinces in September 1988 (K.M. de Silva 1998: 239)). Tamil was made an official language by the 13th Amendment to the Constitution, along with its status as a national language, making it on par with Sinhalese as the two languages of administration, legislation, the courts and education (English was stipulated a link language)¹³. The side letters of the Agreement (Annex III) also secured India's strategic foreign policy objectives as it committed Sri Lanka to not allow the use of its ports by any country for military purposes in a way prejudicial to India's interests, to review broadcasting agreements with foreign partners, and assurance from Sri Lanka regarding the presence of foreign military and intelligence personnel in the island. The constitutional validity of the 13th amendment was put before the Supreme Court which ruled in favour of the agreement by just 1 vote and on November 12th 1987 Sri Lanka's parliament approved the 13th amendment with 138 voting for and 11 members voting against.

The Indian Peace Keeping Force (IPKF) arrived in Sri Lanka to support the implementation of the Accord. Whilst many Tamil groups commenced handing over arms to the IPKF, the LTTE defied them despite initially agreeing to the Accord. The Indo-Lanka Accord and the 13th Amendment addressed most of the key Thimpu principles including the devolution of power to the provinces, making Tamil an official language, devolution of financial and administrative powers (though imperfectly as we will see), and article 1.4 in the Indo-Lanka Accord reads, "recognizing that the Northern and Eastern Provinces have been areas of historical habitation of Sri Lankan Tamil speaking people, who have at all times hitherto lived together in this territory with other ethnic groups." (Indo-Lanka Accord, Annex II, as reproduced in Dixit 1998: 356) Many of these provisions, including that of language, the demarcation of territory – both the linkage of the North and the East and reference to "historical habitation of Tamil speaking

¹³ Chapter IV, constitution of the Democratic Socialist Republic of Sri Lanka

people”, are issues of great sensitivity to the Sinhalese polity, and the government by agreeing to these took grave political risks and compromises. Nonetheless the LTTE failed to abide by the Agreement – thereby casting serious doubt over their commitment to a peaceful resolution to the conflict in Sri Lanka. In the second week of October the IPKF launched operations against the LTTE to forcibly disarm them, a dramatic turn of events considering India’s efforts to prevent the Sri Lankan military achieving the same objective just a few months prior.

4.0 The Provincial Council System

The key aspect of the Indo-Lanka Accord relevant to this paper is the inclusion of the 13th Amendment to the constitution of Sri Lanka, which would create a second tier of government, devolving power to the 8 provinces (considering the merger of the NE). Despite the LTTE’s refusal to constructively engage in the process, the Provincial Council (PC) system became the significant power sharing system which is still in practice in Sri Lanka, and is therefore at the heart of any discussion on power sharing in the Sri Lankan context. The system has numerous flaws, in its drafting and in the spirit in which it has been implemented. As a result the economic and administrative costs of the PC system have been extensive. In the rest of this section we assess the efficacy of the current power sharing mechanism in Sri Lanka, the Provincial Council system.

Successive Sri Lankan governments have taken measures to concentrate power in the centre and a major objective has been to sustain the unitary state (as expressed in Article 2, Chapter 1 of the constitution), controlled by the central government. The central government has for instance created national level institutions which have usurped provincial power, exercised control over finances and through the courts (ICES 1996: 39¹⁴) Thus, the real question is not if the PC is viable or not but whether the central government would be willing and able to in practice relinquish some degree of power, for the PC’s in Sri Lanka to truly function as intended by the Constitution.

¹⁴ Thiruchelvam, N “Devolution of Power: Problems and Challenges”

Therefore whatever reforms may devolve power would have to originate from the center. The basic first step would be for the government to empower the PCs to their full potential. In theory the PCs are meant for the transfer of political and administrative decision-making authority from the center to the provinces, though in practice the PC's serve as administrative mechanisms of the central government lacking in autonomous decision-making capacity. PCs in Sri Lanka are characterized by a variety of issues that affect its capacity to function effectively.

1. The PC system is an attempt by a unitary state to devolve power as if through a federal system (Shastri 1994: 205).
2. Bastian argues that PCs suffer from both, a). Decentralization of administration and not decentralization of power¹⁵ b) The lack of the political will of the PC's of the South of the country to exercise even the limited political granted by the constitution (Bastian 1993: 132).
3. PCs could not be financially independent due to a lack of resources and are highly dependent on grants provided by the center
4. PC boundaries have been drawn up in an arbitrary manner (during colonial administration) and therefore legitimacy of control over land has been questioned
5. Limitations in capacity and human resource availability
6. The drafting of the 13th amendment with the three lists, has allowed the center has the ability to infringe on the provincial councils if it so wishes through the concurrent list
7. There has been a replication of functions done by both the center and the PC government that have led to the waste of public funds – this again is largely due to the features of the concurrent list.

4.1) Key Administrative Institutions of the Provincial Councils

¹⁵ Decentralization of administration would entail the responsibility to carry out programs that are planned by the central government, while decentralization of power would give the decision making authority to execute their own plans to provincial bodies.

The administrative structures of the Provincial Council have been designed such that there is substantial scope for central dominance of provincial administration, if the centre wishes to do so.

1.The Governor

2.The Chief Minister

3.Four Provincial Ministers

4.The Legislator

5.The Chief Secretary

4.1.1) Governor

Under the 13th Amendment, 154 B:

“The President of the country appoints the Governor of a Province for a term no longer than five years and will hold office under the pleasure of the President. The Governor is the only person in the Council who holds executive power and all executive power is vested with the individual.”

The Governor has the right to call the provincial council to meet from time to time, would have the authority to prolong the life and to dissolve the PC if seen fit. The governor shall also under section 154F (4) appoint the Chief Minister. The Governor is also responsible for the appointment of the Provincial Secretariat, who are the five Secretaries of the Provincial Ministers and Deputy Chief Secretaries in charge of Administration, Personnel, Finance and Planning. All the Provincial Secretaries are directly under the Chief Secretary who is also appointed by the governor and is responsible for the implementation of the subjects assigned to them as well as to their administrative control.

The Governor would have to give approval to all statutes of the PC before they become law under Section 154B. Section 154G (3) checks the formation of new statutes by specifically stating the following {No bill in respect of any matter set out in the Provincial Council List [List 1] shall become law unless such Bill has been referred by the President }

The Governor may resign from his office or could be removed from office under the advise of the PC if the governor has, (1.) violated the constitution (2.) been found guilty of misconduct or corruption involved in the abuse of power of his office (3.) been found guilty of bribery.

Thus, under the 13th Amendment the governor of the province is at the behest of the President. The Executive power extending to matters in respect to PCs is vested in the Governor of the Province. The governor is obliged to exercise his/her powers in accordance of the Chief Minister (Guruge 2008: 14). The governor has some sweeping executive powers, 154(F), 'If a question arises whether any matter is not a matter as respects which the Governor is by or under his constitution required to act in his discretion, the decision of the Governor in his discretion shall be final, and the validity of anything done by the governor shall not be called in question in any court...the exercise of the governor's discretion shall be on the President's direction'. Thus, the PCs are in essence under the direct oversight of the President of the country. Furthermore, the parliament is responsible for his salary, allowances, age of retirement, pension entitlements; further entrenching allegiance.

The governor can exercise this power either directly or through the PC Ministers or through officers subordinate to him subject to the condition that the governor shall act in accordance with the advice of the PC Ministers except where he is required under the Constitution to exercise his functions in his discretion. Thus, the PCs are in essence under the direct oversight of the President of the country. The question of the governor's impartially comes in to question since the president appoints him and his remuneration is decided by the central government.

There could be some remedies applied to depoliticize the role of the Governor

- 1.) The governor could be appointed by the President on the advice of the Constitutional Council ¹⁶
- 2.) The governor's remuneration package could be decided upon by the Provincial Council

4.1.2) The Chief Secretary

The functions and responsibilities of the Chief Secretary of the PC are not specifically laid down in the 13th Amendment. The President appoints the Chief Secretary with the concurrence of the Chief Minister- as it has been in the case in the last two PC elections, the Chief Minister too has been appointed by the President. In practice, the Chief Secretary is the Chief Executive Officer of the Provincial Council. Thus, the appointed person carries out the day-to-day operations of the Provincial administration. The Northern Province, even though absent of a PC, is currently administered fully by Northern Chief Secretary. Under Financial Rules framed by the Governor, the Chief Secretary is the Chief Accounting Officer for the Provincial Fund. The Chief Secretary exercises power over members of the Provincial Public Service to the extent delegated by the Provincial Public Service Commission.

4.1.3) The Chief Minister & PC Ministers

The Chief Minister is to be appointed by the Governor of the Province (Section 154F 4), though, he has been in the past been appointed directly by the President. The governor together with the Chief Minister of a province is, under the constitution, responsible for appointing the other 4 ministers of the province (Section 154F 4).

The Constitution very specifically points to the responsibilities of the Chief Minister (Section 154B 11)

¹⁶ A Council that is required by the 17th Amendment, which is responsible for adjudicating appointments of unelected officials for public office; More information will follow in the section on the 17th Amendment.

- Communicate to the Governor of the Province all decisions of the Board of Ministers relating to the Administration of the affairs of the Province and the proposals for legislation:
- To further such information relating to the administration of the affairs of the Province and proposals for legislation as the Governor may call for: and
- If the Governor requires, to submit for consideration of the Board of Ministers any such matter on which a decision has been taken by a Minister but which has not been considered by the Board

The major responsibility of the Ministers of the Province is to advise (Section 154F 1) in the exercise of the Governor's functions. The PC is also responsible for passing 'statutes' under the Constitution (Section 154G 1), in relation to matters that are set under List 1 of the constitution. If any provision of a statute is inconsistent with the provisions of any law passed by Parliament, then the provisions of the law will prevail over the provisions of the statute.

4.2) Division of Responsibilities Between the Central and Provincial Governments

The subject areas of responsibility which fall under the Provinces and center are divided in to three lists; the Reserved List, Provincial List and the Concurrent List (contents of the lists at Annex 3). The concurrent list has long been the point of conflict between the center and the provinces. Many commentators believe that the 'Concurrent List' and the language of the 'Reserved List', have been used by the center to encroach on the functions of the provinces. A key ambiguous item in the Reserved List is 'National Policy on all Subjects and Functions.' This ambiguity has enabled the centre to legitimately engage in functions that are meant to be under the purview of the provincial council. The result has been extensive duplication of resources and functions, causing increased administrative costs and a wastage of scarce human and monetary resources. Thus it has been argued by many that the removal of the concurrent list would help overcome this ambiguity and resultant inefficiency (Wanasinghe 2006). The most recent attempt at constitutional reform, the draft 2000 constitution, proposed the elimination of the concurrent

list. Ariya Abeysinghe was prophetic in commenting on the issues of the Concurrent List soon after the implementation of the Indo-Lanka accord;

“There are no less than 35 items in the concurrent list; they are of such crucial importance that they have become the combined concern of the center and the periphery... both the center and provincial councils will have to devise a harmonious relationship between them... otherwise the concurrent list could be a sensitive issue that could eventually become a bone of contention.”

4.2.1) The Concurrent List

It was originally expected that matters that fall under the concurrent list would be under control of both the PC as well as the center. In theory the PC can exercise power in regard to the subjects in this list. However before the PC can pass a statute on a matter on the Concurrent List, it should consult Parliament for its opinions on the provisions contained in such a statute. The PC in theory is not bound to give effect to whatever opinion that is expressed by Parliament. The SL Parliament too if it desires to pass an Act on a subject in this list could do so provided however that it would consult the PC in regards to the Act. However since the inception of the 13th Amendment, the Parliament has not consulted the PCs when passing Acts that fall under the Concurrent list.

The concurrent list has numerous functions that are both the shared responsibility of the centre and the provinces. It enables the centre to engage in functions that are devolved to the Provincial Council List by interpreting the Concurrent List as it sees fit. This is made possible by the arbitrariness of the Concurrent List. While the Provincial Council List (List 1) includes Education and Education Services, the Concurrent List (List 3) too carries Education and Education Services. The idea is that all State schools other than National Schools would fall under purview of the Provincial Councils. However, Cabinet Ministers have the authority to turn

provincial schools in to National Schools with the stroke of a pen- the same procedure is applicable to provincial hospitals. Similarly, the central government has created central institutions that deal with many of the items of the concurrent list. These central institutions such as the Road Development Authority and central income transfer schemes, are far better funded and manned than their PC equivalents and much more visible, and therefore easily marginalize the role and influence of the province in that sphere of activity. The public perception of the PC system is also undermined since the PC then appears as a duplication of resources – whereas in actual fact the PC has been sidelined from an activity that it should legitimately pursue. Since the inception of PCs there have been constant allegations that the center treated the Concurrent List as the Reserved List (Shastri 1994: 215).

4.2.2) Reserved List

The Reserved Lists consists of items that are solely the responsibility of the central government and includes the standard items such as monetary policy, foreign relations, national security, foreign trade and airports and aviation, and most contentiously, “national policy on all subjects and functions.” The reservation of national policy has enabled policy on all matters to be made independent of provincial input and consultation, if so desired. It sidelines the possibility of consultative policy making, particularly where the interests of more than one province is affected in an asymmetric manner.

4.2.3) Provincial List

The provincial list names all functions which the PC has jurisdiction over. Thus, it would be assumed that the center has no control over PC list. However 154G (2) allows the Parliament to legislate on PC subjects, if it is passed with a two thirds majority. Since Sri Lanka has a proportional representation (PR) system for elections to the Parliament, it is unlikely that any government will have a two-thirds majority, which would therefore enable it to legislate on

subjects of the Provincial Council List. This therefore constitutes to an abdication of legislative power (pro tanto). However, this notion is flawed, as the issue is not whether Parliament can unite and make a two-thirds majority under the PR system, but whether an anti Provincial Council (or anti devolution) coalition can form the required majority in Parliament. 154G (11) allows the Parliament to make laws in respect of matters pertaining to the PC List, with a simple majority, if such a law is needed to implement a ‘treaty, agreement or convention with any other country ... or any decisions made at an international conference, association or other body’.

The system of three lists was derived from the Indian framework and was first mooted in the Delhi Accord discussed earlier. Its effective functioning depends on the willingness and commitment of a central government to devolution. In its current framing, the three lists provide the flexibility for a central government to capture power from lower tiers, and is therefore not entirely suitable for the political context of Sri Lanka, where the commitment of central governments to devolution of power has been called into doubt.

4.3) Fiscal Decentralization

A feature of devolution in Sri Lanka has been the dependence of provincial governments on the central government for finances and liquidity. The misalignment between the decentralized revenue and the decentralized expenditure has resulted in significant gaps between the capacity to generate revenue and the expenditure obligations of provinces. This gap has to be bridged by central government grants, which has created a sense of dependency of the provinces on the central government. Furthermore, the Reserved List does not allow the PC from seeking foreign aid for its development projects. While the 13th Amendment requires the provinces to raise its own revenue through various taxes, fees and fines; 21 in all, they have not been sufficient to meet provincial expenditure, less than one-fifth of the provincial expenditure is funded through its own sources (US AID: 22). The availability of central government revenue for PC activity has also been constrained due to the conflict and the resultant military expenditure which has resulted in high central budget deficits. This has made it difficult for the provinces to put pressure on the central government regarding the availability of finances. The resulting liquidity

shortages have greatly hampered the work of the PCs and further undermined the public perception of this tier of government. Another important issue is the fact that there are huge variations in tax revenue depending on the economic size of the provinces. While the Western province raises up to 67% of its expenditure through its own sources, the Uva province generates less than 7% (USAID:22) while the newly formed Eastern province generates even less. This is to be expected given the fact that national income is not spread evenly across the provinces, with the Western Province accounting for 48.5% of national GDP.

4.3.1) The Finance Commission

The Finance Commission (FC) is set out by Article 154 R of the 13th Amendment, and according to the amendment ‘The Government shall, on the recommendation and consultation with, the FC allocate from the Annual Budget, such funds as are adequate for the purpose of meeting the needs of the Provinces. It shall achieve this sum by formulating such principles with the objective of achieving regional development of the country’ and the amendment goes on to state that, ‘The President shall cause every recommendation made by the FC under this Article to be laid before the Parliament, and notify Parliament as to the action taken thereon’. Thus, even though in principle the idea of a FC is sound, it does have some structural flaws that undermine its operations.

- 1.) The FC has no representation from the PC or even necessarily the regions, even though the amendment does call for a balance in ethnic representation in its membership.
- 2.) FC can only make recommendations and does not have any decision making powers
- 3.) The chairman of the FC and its members are appointed by the President, and therefore may not enjoy the confidence of the PCs.

Practical difficulties with the Provincial Council Finances

- 1.) There are large vertical imbalances, central revenue was LKR 655 billion in 2008 while the provincial revenue was 31.4 billion. Such vertical imbalances are unavoidable in general but in Sri Lanka they are particularly severe. In SL the transfer from the center to the provinces average 70% (2004) of provincial revenue, far higher than in countries such India (28.3%) or France (48.2%) (Waidyasekara 2004)
- 2.) Nearly 81% (2008) of the provincial budget is spent on recurrent expenditure (54% US, France 20%, Aus 52%), of which 62% of the budget accounts for salaries. Under the constitution the center is obliged to cover the costs of recurrent expenditure. Thus there is a lack of funds for the PC to undertake much development oriented work; with only 19.2 % (2008) provincial budget is allocated on capital expenditure.
- 3.) Even when funds may have been allocated in the budget for a province, they may not be released by the central government in a timely manner due to the liquidity constraints of the central government. This further undermines planning and development activities of the provinces.

4.3.2) Potential Remedies

- 1.) In order for provinces to have greater financial independence, the terms of relationship between the central government and the provincial governments would have to change. This would entail a move away from the idea of ‘allocation’ of revenue to ‘sharing’ of revenue between the centre and provinces (Wanasinghe 2006: 10).
- 2.) There would also have to be a re-assessment of sources of revenue so that more funds can independently be generated for the administration of PC’s. At present the major sources of revenue are collected at the centre, a greater degree of sharing these items would be more reflective of the expenditure obligations of the PCs.
- 3.) There is also scope for improving revenue performance of PCs by making better use of allocated revenue sources and by innovative measures to legitimately accrue new sources of revenue (Waidyasekara 2004). The central grant system has reduced the incentive for such measures along with weaknesses in performance incentive schemes for the relevant officers.

- 4.) The base of the turnover tax is limited by 3 factors
 - a. Exemptions of certain commodities and items gazetted.
 - b. Limited purely to wholesale and retail sales, and therefore does not include activities such as manufacturing and services.
 - c. Subject to the limitations and exemptions prescribed by Parliament and legislated under the Provincial Councils' Turnover Tax of 1995. For e.g. the maximum turnover tax rate permitted is limited to 5 per cent and no more.
- 5.) If the 17th Amendment were to be implemented, the appointment of the Finance Commission would have to be approved by the Constitutional Council, which will create greater confidence in the FC by the provinces.
- 6.) The figures that are allocated by the FC to the Provinces could be made public, with a report explaining the reasons for the amounts. This would enhance transparency and accountability.
- 7.) A serious challenge would be addressing horizontal imbalances. One way out that has been suggested is for some of the current provinces to be merged to larger administrative units, which are more economically viable. An example would be Sabaragamuwa and Uva, which are both economically backward in their own right, but would be far more viable as a single unit. However there may be broader socio-political issues which would need to be considered prior to such changes of administrative units.

The current system of fiscal decentralization in Sri Lanka has failed to meet the needs of a devolved system of government that is line with the principle of subsidiarity. These fiscal weaknesses have contributed to the limited efficacy of the PC system in being an effective system of governance, and created substantial doubts amongst the polity regarding the suitability of devolution of power in Sri Lanka.

4.4) Human Resources

Provincial Councils have very limited control over their human resource cadre. Employees of the PCs are drawn from the All Island Administrative Service – a central body of civil servants. The PC has limited control over recruitment and transfers; there is no incentive for capacity development and limited allegiance to the PC on the part of many of the employees. All in all, the PC has little or no control over human resource management, a key component of effective administration.

Potential Remedies

Prof. G. L Peiris, Minister of Constitutional Affairs at the time, highlighted the need for independent public servants in the provinces in regards to devolution and called upon a ‘Regional¹⁷ Public Service’, “An important feature of a realistic scheme of devolution is the practical extent of the powers to be exercised by the decentralized administration. This is, to a large extent, facilitated by the independence guaranteed to the Regional Public Service” (G. L Peiris 1996: 181). The system would be far more effective if PCs are empowered to hire staff, provide them with the requisite human resource development and obtain the best level of productivity out of their employees (Wanasinghe 2006: 134/5). This could be supported by the establishment of a Provincial Public Service where public servants are separately recruited and trained for specific positions.

4.5) Conclusions

An examination of the provisions and structures of Sri Lanka’s current power sharing mechanism outlines the fact that the system has numerous faults which have resulted in substantial weaknesses in effective power sharing and economic inefficiencies. This has greatly undermined political support for the PC system in Sri Lanka given the wastage of public funds that results, the administrative burden that is faced in day to day life and the limited benefits that are accrued by the public. This is largely reflective of the fact that the PC system has had deficiencies in financing, human resource management and the duplication of its work by the central government. Any effective power sharing system that is considered by Sri Lanka, be it a

¹⁷ In this context ‘provincial’

full implementation of the 13th Amendment or any other system, the same weaknesses that have been realized over the last two decades must not be replicated.

5.0) The Role of Other Governance Structures

5.1) Executive Presidency

Under the 13th amendment in Sri Lanka the President would have authority over all PC under times of ‘Emergency Rule’ an Act passed by the Parliament of Sri Lanka. With the exception of a few years during the cease-fire agreements with the LTTE, since the inception of the PC’s, the country has always been under ‘emergency rule’ and certain powers awarded by the constitution to the PC’s were never truly devolved, such as the control over a provincial police. Despite the military conflict coming to an end over 7 months ago, the emergency rule has continued in Sri Lanka due to perceived security concerns. It has also been argued that the concentration of political power within a single constitutional office, that of the President, weakens the prospects for effective power sharing between communities in a country. Several measures have been proposed such as the position of a vice-president that would go to a minority race, as was proposed as part of the December 19th proposals referred to earlier. However the more recent debates centre on the full implementation of the 17th amendment to the constitution.

5.2) 17th Amendment to the Constitution

The 17th Amendment to the Constitution was enacted in October 2001, the main provision being the introduction of a Constitutional Council (CC). This important piece of legislation, which brought about a drastic change in the Constitution, the 17th Amendment was the first measure to be passed by Parliament to check the unbound powers of the Executive Presidency. Under the Amendment, the Sri Lankan President cannot appoint any person he/she chooses to a Commission without the recommendation of the CC. The idea was that the CC would be free from political interference when choosing candidates for appointment for high public service.

The CC shall comprise of the Prime Minister, the Speaker of Parliament, the Leader of the Opposition in the Parliament, one person appointed by the President, five persons appointed by the President on the nomination of both the Prime Minister and the Leader of the Opposition, one person nominated upon the agreement by the majority of the members of Parliament belonging to political parties or independent groups other than the respective political parties or independent groups to which the Prime Minister and the Leader of the Opposition belongs and appointed by the President. Even though the CC was meant to be a means by which political interference would be removed from appointments, the composition of the members of the CC is entirely political. While the Speaker of the Parliament shall be the Chairman of the Council; when nominating the five persons to the Council the Prime Minister and the Leader of the Opposition were expected to consult the leaders of political parties and independent groups and include three members to represent minority interests.

The CC is required to make recommendations for a host of powerful Commissions in the country such as, The Elections Commission, The Public Service Commission, The National Police Commission, The Human Rights Commission of Sri Lanka, The Permanent Commission to Investigate Allegations of Bribery and Corruption, The Finance Commission (the independent commission that determines the nature of the transfer of finances between the centre and the provinces). Furthermore, Article 41B states that no person shall be appointed by the President as the Chairman or a member of any of the commissions specified in the schedule except on a recommendation of the Council (17th Amendment). Article 41C clearly states no person shall be appointed by the President to any of the offices specified in the said Article (41C)¹⁸, unless such appointment has been approved by the Council upon the recommendation made to the Council by the President.

¹⁸ (Part 1) The Chief Justice and the Judges of the Supreme Court, The President and the Judges of the Court of Appeal, The Members of the Judicial Service Commission other than the Chairman; (Part 2) The Attorney General, The Auditor General, The Inspector General of Police, The Parliamentary Commissioner for Administration (Ombudsman), The Secretary General of Parliament

At present the constitutional council is not functioning as a result of the inability of the government and opposition to come to an agreement on some of the appointees. The 17th amendment is relevant to effective power sharing due to its role in providing greater independence in appointments of key institutions such as those of the Governor, Chief Secretary, Finance Commission and the Attorney General among others, each of which has an important role in being a conduit between central and provincial governments.

6.0 Conclusion: The Future Prospects for Power Sharing in Sri Lanka

In 2006 President Rajapaksa mandated the All Party Representative Committee (APRC). The APRC was formed with the intension of building a consensus between the various political parties on a solution to the ethno-political conflict in Sri Lanka. The APRC had inherent weaknesses. The major opposition party, The United National Party and the Marxist nationalistic party, Janatha Vimukthi Peramuna (JVP) withdrew from the Committee, while the Tamil National Alliance (TNA), which is widely accepted to be the political proxy of the LTTE, was not invited to the proceedings. Thus, the All Party Representative Committee was not all that representative in practice. After 63 sittings over an 18-month period the APRC submitted a document with regard to power sharing to the President. There were also very sharp divisions between the members of the APRC on the level of devolution to be granted¹⁹.

Based on media excerpts from the members of the APRC including the chairman, it is expected that the proposals would include power sharing between the centre and provinces within a unitary state with responsibilities being divided in two lists (central and provincial), the re-introduction of a bi-cameral system at the centre – with a senate elected by provincial legislators along with the house of representatives elected by the people, separate public service bodies for the centre and provinces and a return to the Westminster system of government. There is however no guarantee that these are the final set of recommendations that were sent to the President by the APRC in August 2009. There has been no official government response to the

¹⁹ From thoughts shared by Prof. Nalin De Silva in regards to the Majority and Minority reports that were leaked to the press in 2007

APRC proposals, but the current expectation is that any future power sharing mechanism will (if) be implemented following the elections scheduled for 2010 (Presidential election in January 2010 and parliamentary elections no later than April 2010). What then could be expected in such a power sharing mechanism?

Current Trends

With the end of the military conflict in Sri Lanka in May 2009, there has been substantial re-consideration of the requirement and the modalities of power sharing. One school of thought is that the focus in the current context should be development of post-conflict areas to enable the inhabitants of these regions to return to normalcy before making decisions on political reform. This has some merit. Whilst a quick implementation of a long term political process will be beneficial in terms of locking in the peace, it is not advisable that such a process be rushed so as to lose sight of important functional modalities. The initial thrust of the government as soon as the military campaign came to an end was to implement completely the 13th amendment to the constitution. This was stated by the President in his victory address on the 19th of May. However since then the debate has moved towards the concept of a home grown solution, particularly considering the fact that the 13th Amendment to the constitution is something that was by and large thrust upon by India. The discussion above makes it clear that the provisions of the 13th amendment are not ideal for the socio-political context of Sri Lanka, (for example the existence of three lists) and therefore the system requires substantial reform. The concept of a home-grown solution could refer to these reforms or to an entirely new power sharing structure – either way, a constitutional amendment would be required and this entails the support of 2/3rds of parliament.

More recently the very need for power sharing in Sri Lanka has also been called into question. The argument that has been made is that the major issues of contention such as language and higher education have been addressed by prior constitutional amendments, and therefore the grievances that gave rise to the calls for self determination have been addressed. However it could be argued that the fundamental desire for power sharing by minorities is the need to have some degree of protection from the possibility of such issues of contention arising again. The

issues of contention need not be the very same issues that arose in the 1950s and 1970s, and therefore a degree of regional autonomy would provide a more blanket protection. The sensitivity in this subject is related to the insecurities regarding the possible secession of certain provinces – particularly considering neighbouring geo-political realities. This issue could, and to an extent has, been addressed by strong constitutional provisions preventing such secession and equally strong protection for minorities which in turn would never provide a sufficient justification for secession. If there is no justification for secession, international support for such a move would be very limited, and this would be sufficient deterrent to secession. It is also interesting to keep in mind the fact that decentralized administration and devolution of power was to a great extent accepted and recognized as a useful tool of governance and administration in Ceylon prior to independence (see section 2.1). An effective system of devolution of power according to the principle of subsidiarity will enhance the quality and efficiency of service delivery by improving the accountability of political actors to the voters.

The other arguments against devolution of power have been based on the economic inefficiencies that have plagued the power sharing system in Sri Lanka. In earlier sections we have demonstrated that to an extent these inefficiencies are the result of weaknesses in the framing of the power sharing agreement and in the political commitment towards it. These weaknesses have resulted in significant overlap of function, duplication of resources and wasteful bureaucratic burdens. A better defined power sharing mechanism (which is implemented after a thorough study of the socio-political and economic realities of the country and has significant political support – unlike the current mechanism which was by and large absorbed from the Indian structure) with broader political commitment towards it; is unlikely to yield the same economic maladies that have plagued the PC system. The importance of political support for a power sharing mechanism is clearly demonstrated by the weaknesses that resulted from the lack of political commitment to devolution through the externally influenced PC system. However the economic arguments against devolution go beyond the issues that have just been referred to. One of the major obstacles to economic development in Sri Lanka has been the inability of the state to push through unpopular but necessary economic policies. One reason for this has been the coalition style governments which have emerged since the implementation of proportional representation electoral system, which has made governments reluctant to engage in

necessary reform due to the threat of losing political support. Hence it is argued that devolution of political power will further weaken the central government's ability to undertake tough economic choices. The coordination of macroeconomic policy (particularly fiscal) will be another significant challenge. This is particularly problematic because a provincial government does not have to face the consequences of national debt and its implications on for instance monetary policy. The question then is whether Sri Lanka has the maturity in economic policy making structures to meet the challenge of devolution of economic power? This remains an open question.

What is clear is that the issue of devolution is a political issue with economic consequences. There are both political and economic arguments for and against devolution and power sharing. One of the biggest problems that is being faced is the lack of an effective articulation of the political aspiration of the Tamil population of Sri Lanka. The LTTE took every effort to eliminate all Tamil voices that were not in line with their own aims – examples include Dr. Neelam Thiruchelvam, a lawyer and moderate Tamil advocate of devolution, A Amirthalingam the leader of the TULF, Sri Sabarathnam leader of the TELO, Dr. Rajini Thirangama a human rights activist and author and numerous attempts on the life of Douglas Devananda, the leader of the EPDP. The LTTE also hijacked the political process that was embarked upon by the Federal Party and later the TULF and converted it into a terrorist agenda, which clouded the political issues that underlined the conflict in Sri Lanka. In this context, finding a “home-grown” solution to the needs of all the communities in the country becomes ever more challenging. Considering the fact that the devolution of power and decentralized administration has economic benefits if properly implemented (and this was recognized even before the Donoughmore commission in the 1930s) and has political benefits in that it has been seen as an important solution to ethnic tensions even prior to the LTTE, the logical way forward would be for the path of power sharing by devolution to be pursued. However the modalities of this will need to be considered carefully, taking into account the flaws of the PC system and the adverse economic consequences that resulted. It would seem necessary at this stage that macroeconomic policy structures would need to adapt and mature accordingly, to be able to effectively meet the new challenges that will result from any possible power sharing arrangement. The second part of the paper addresses the more

immediate macroeconomic policy challenges that will be faced by Sri Lanka in the post-conflict situation.

Part II: Economic Dimensions of the Sri Lankan Conflict

The majority of literature and debate on the Sri Lankan conflict revolves around the political dimensions of the conflict. However there are substantial economic factors that have both shaped the conflict whilst at the same time the conflict has to an extent shaped the economy. In this context, economic policy measures become important when formulating a post conflict policy structure, both in terms of addressing the adverse impacts of conflict, and in terms of using the economic lever to lock in peace and prevent resurrection of conflict. At the same time, the conflict has shaped macroeconomic structures in the country, particularly with regard to fiscal policy formulation which has in turn driven monetary policy, affecting overall macroeconomic stability. The post conflict situation opens several avenues for reforming macroeconomic structures and also calls for various macroeconomic policy measures to facilitate the post conflict reconstruction process. Finally, the economic dimensions of decentralization are critical for effective power sharing. In its current formulation, the provinces are largely dependent on the prerogative of the centre for its financial viability. Reform in fiscal decentralization becomes essential for viable and sustainable power sharing.

This part of the study will focus on the economic dimensions of conflict in Sri Lanka with particular regard to the issues mentioned above. The discussion is organized as follows. Section One deals with the economic roots of the conflict which have been largely overshadowed by the political dimensions. Policy priorities in terms of averting conflict resurgence are examined through this lens. The section also considers the economic policy lessons that arise from the peace process between 2002 and 2004. Section Two addresses the economic costs of the conflict both at a national and region specific level, providing an indication of the degree of economic reconstruction that would be required and the potential areas which could rebound once conflict

has ended. Section Three outlines the impacts of conflict on macroeconomic policy and the policy requirements for sustainable post conflict economic resurrection.

1.0 Economic Roots of the Conflict

Violent conflict in Sri Lanka is often traced back to 1976 with the formation of the LTTE along with several other militant Tamil youth groups. The previous part of the paper outlined the gamut of political issues that fuelled the conflict. In this section we examine the economic aspects that also influenced conflict in Sri Lanka. To understand the economic roots of the conflict it is necessary to provide some background of Sri Lanka's economy in the post independence era. Immediately following independence in 1948 Sri Lanka maintained the open economic colonial structures with reliance on plantation agriculture exports (tea and rubber in particular) until 1956. With a change of government the focus shifted towards mild import substitution in an effort to de-link from colonial economic ties and to rejuvenate the domestic economy. Between 1965 and 1970 another regime change saw a reversion to some degree of economic liberalization but within the framework of overall import substitution. This period coincided with a general shift by developing economies towards import substitution industrialization (ISI) as dependency theory postulated the impossibility of export oriented development. In 1970 Sri Lanka turned to a full blown import substitution industrialization effort as the economy all but completely closed. This situation continued until 1977 when another change of regime saw economic liberalization as Sri Lanka became the first South Asian economy to liberalize its economy.

The period 1960-1977 saw Sri Lanka's growth performance stagnate to a great extent compared to other developing nations, particularly East Asian economies. Between 1960-1977 economic growth averaged 3.9% whilst between 1970 and 1977 growth averaged 3.0%²⁰. Given Sri Lanka's small island economy, the domestic market was never going to be sufficient to create the requisite economies of scale for large scale import substitution industrialization. Furthermore, economic production in Sri Lanka has relied on imported inputs – and with the restrictive trade

²⁰ Peiris M.P, Economic Growth and Structural – Institutional Change Since Independence, in Lakshman 1997

regime it was difficult for industrial production to take place. Manufacturing came to a near halt during this period, and the boom in production soon after liberalization underscores the extent of stagnation during the import substitution period. Between 1978 and 2003, manufacturing output grew at 8.2 per cent compared to 4.8 per cent in the period preceding reforms²¹. The ability of the Sri Lankan economy to create jobs was very limited in this period as a result of stagnant growth. The Central Bank's Consumer Finance survey of 1973²² indicated that unemployment had reached 24% of the labour force in that year, whilst the same survey of 1978 showed that unemployment was 14.8%, a reduction, but still unacceptably high. The inability of the economy to create wealth and employment resulted in the exclusion of certain segments of society from economic activity and the benefits thereof. The youth in particular were excluded from economic activity as is evident in the abnormally high rates of youth unemployment in the country. In 1978 when total unemployment was 14.8%, youth (ages 19-25) unemployment had reached 31.1% according to the Central Bank Consumer Finance and Socio Economic Survey.

Even in 1981 when economic liberalization had taken place and economic activity had been enhanced and total unemployment had fallen to 11.7%, youth unemployment remained high at 28.8%. This is explained by several factors. The absorption of employment by new industries was limited, and several rural informal sectors such as the handloom and cottage sector were adversely affected by liberalization of trade, and employment creation in formal industries failed to compensate for this²³. In fact the adverse (largely unaddressed) negative impacts of trade liberalization in 1977 had substantial impacts on the Northern Province in particular as the agricultural produce of this region was faced by increased competition from imported products – undermining livelihoods in the region²⁴. At the same time, youth unemployment is to some extent explained by the contradictions between Sri Lanka's labour market and the higher and tertiary education sector. Education at higher and tertiary level is free of charge and creates

²¹ Atukorala, 2006.

²² Other labour surveys indicated high unemployment throughout the 1970s – for instance the 1971 census (19%), 1975 Land and Labour utilization survey (19.9%)

²³ Kelegama, S Development Under Stress 2006

²⁴ Dunham, D and Jayasuriya S (2000)

expectations of high end employment, which the economy has failed to deliver²⁵. At the same time new entrants to the Sri Lankan labour market have lacked the relevant skills in demand by employers²⁶. As a result youth unemployment has led to brewing frustrations amongst Sri Lanka's youth since the 1970s.

1.1 The role of economic exclusion

Abeyratne (2004) argues that the economic exclusion of youth of all ethnicities has shaped conflict in Sri Lanka. The JVP²⁷ uprisings of 1987 and 1971 were largely the result of the economic exclusion of rural Sinhalese youth. Abeyratne argues that both the LTTE and the JVP were made up of largely marginalized, unemployed rural youth and the LTTE is arguably an ethnic manifestation of the frustrations of rural youth. Abeyratne in a separate work²⁸ goes on to illustrate the significance of the economic dimension through a comparison between Sri Lanka and Malaysia. The two countries began on similar socioeconomic platforms (multiethnic countries reliant on plantation exports). Malays made up the majority in Malaysia but ethnic Chinese dominated the economic spheres. Economic inequity was countered by the "Malaysian Malaysia" policy which entailed "Special Malay Rights". Malaysia experienced growing communal resentment and riots in 1969. The New Economic Policy (NEP) of 1970 institutionalised affirmative action for Malays, covering spheres of education, training, business ownership, business opportunities, access to credit and employment. Furthermore, public discussion and criticism of "sensitive issues" was prohibited by constitutional amendment. Snodgrass (1995) stated that Malaysia's affirmative action was probably the most ambitious amongst any developing country.

Sri Lanka had a similar situation in terms of economic and political distribution of power in the immediate post colonial era. In fact, even as of 1970 Tamil university students made up 49% of medical students, 48% in engineering and 40% in science. In 1963 mean income in Tamil

²⁵ Abeyratne, S "Economic Roots of Political Conflict the Case of Sri Lanka", World Economy Vol 27, Number 8, August 2004

²⁶ Ibid.

²⁷ Janatha Vimukthi Peramuna: A violent Southern Sinhalese uprising made up of rural youth.

²⁸ Abeyratne, S "Economic Development and Political Conflict: A Comparative Study of Sri Lanka and Malaysia" South Asia Economic Journal, Volume 9, Number 2, 2008.

communities was LKR 327, low country Sinhalese was LKR 292 and Kandyan Sinhalese was LKR 218. Unemployment and underemployment of Tamils was also much less than that of Sinhalese (Abeyratne 1998). However the “corrective” measures taken by the Sri Lankan government (language policy 1956 and university admissions on language basis 1971-1974) were far less ambitious than those undertaken in Malaysia. Abeyratne argues that the reason for the lack of violent conflict in Malaysia was the economic expansion that resulted in increased opportunities for all communities.

Malaysia did not follow an ISI program and export led growth facilitated 7.9% average growth between 1970 and 1995. During the same period average growth in Sri Lanka was 4.4%. Successful industrialization in Malaysia enabled employment creation which reduced surplus labour resulting in increased wages and poverty reduction. Sri Lanka’s failure to follow a similar process resulted in a stagnant economy that created a frustrated pool of unemployed youth – a situation conducive for violent conflict. Whilst economic exclusion is one of many causative factors that resulted in the violent manifestation of Tamil nationalism, it provided the requisite conditions for violent conflict and is clearly important in terms of understanding the roots of conflict. Youth unemployment remains a concern in Sri Lanka even today. By the end of 2008, unemployment in the 20-24 age category was 18.6% whilst national unemployment was just 5.4%. It is essential that post conflict economic reconstruction activities prioritize the generation of employment for youth. There are also implications for access to education in the region, particularly in terms of ensuring better matching between demand and supply of skills. Education in the conflict areas will be discussed in greater detail later in the paper.

1.2 The economic lessons from the 2001-2004 peace process

In November 2001 the United National Front (a UNP led coalition) came into power and declared a ceasefire in the wake of a deteriorating economic situation (Sri Lanka recorded negative GDP growth for the first time in its post colonial history in 2001) and successive losses on the military front. The LTTE was also in a compromised position internationally in the wake of the terrorist attacks on America on September 11th. The new government envisaged a plan to

create rapid development in the conflict provinces and thereby lock in the peace process through an economic dividend²⁹. Several measures were undertaken including the removal of the goods embargo to the North-East, the re-opening of the A9 highway connecting the Jaffna Peninsula with the rest of the country and extensive de-mining activities. However the bulk of the economic dividend was expected through the trickle down impact of macroeconomic reforms which were undertaken simultaneously. These reforms included consolidation of the fiscal position including enacting the Fiscal Management Responsibility Act, a freeze on new public sector hiring, reform of loss making state owned enterprises and reforms to labour and foreign exchange markets³⁰. The economic results were initially rapid. Following the -1.5 per cent contraction in 2001, economic growth in 2002 reached 4% and increased to 5.9% in 2006, above Sri Lanka's trend growth rate of around 5% since the 1990s. The number of tourists increased to 500,000 for the first time in 2003, fishing output in the North-East doubled and paddy output increased five fold. FDI increased from US\$ 82 Million in 2001 to US\$ 230 Million in 2002. A substantial inflow of portfolio investment resulted in the Colombo Stock Exchange reaching a new peak since 1994.

However, with the emphasis on the macroeconomic front, there were limited efforts in terms of direct poverty reduction measures and other social issues. Furthermore, the missing markets and institutional weaknesses (such as perceived weaknesses in SIHRN³¹ – the institution charged with immediate rehabilitation needs) in the North-East made it difficult for the economic dividend to filter down effectively. Largely due to fiscal constraints, the government relied more on external donor support for the social and immediate livelihood generation activities. The World Bank spearheaded the NERF³² which was due to focus on resettlement, special needs of women and children, income generating opportunities for the war affected, small scale infrastructure and basic health and education facility development³³. However the weaknesses in absorption by institutional mechanisms in the North East undermined the efficacy of these

²⁹ Kelegama (2006)

³⁰ Ibid.

³¹ Sub-Committee on Immediate Humanitarian and Rehabilitation Needs in the North and East

³² North East Reconstruction Fund

³³ Secretariat for Coordinating the Peace Process (SCOPP)

measures³⁴. Furthermore, not all the aid that was pledged by donors was disbursed. For instance, out of the US\$ 567 Million IMF PRGF, only US\$ 80 Million was disbursed as economic reforms did not proceed at the pace the donors envisaged. The role of donors in the 2001-2004 peace process will be discussed in greater detail at a later stage. The economic dividend was not sufficiently rapid to lock in peace as there was increasing discontent with the peace process in the South of the country as the LTTE attempted to focus discussion on the basis of forming an interim fully autonomous administration, and did not fully cooperate with rehabilitation activities which were not fully under their control³⁵. By April 2003 the LTTE withdrew from the negotiations and the peace process deteriorated as the LTTE violations of the cease fire increased substantially until the government eventually withdrew from the ceasefire in early 2008 – after full scale war had already broken out. The government’s plan of locking in the peace process and undermining support for the LTTE through the economic lever was not successful as the other dimensions of the conflict took greater significance within the limited time span. This situation is unlikely to arise in current efforts since the LTTE has been militarily defeated, and there will be more time for economic measures to have a meaningful impact. However the importance of delivery institutions in the post-conflict areas and fiscal space become important issues which will also be taken up later on in the paper.

2.0 Economic Impacts of the Conflict

In order to formulate the ideal post conflict economic policy balance it is necessary to have some idea of the impacts of the conflict on the economy. An assessment of the costs of the conflict will illustrate the priorities for action such as infrastructural damage and will also give a sense of the opportunities that would arise in sectors such as tourism which had been suppressed as a result of the conflict. Estimating costs of conflict is notoriously difficult. A few papers have estimated the various macroeconomic and other impacts of the conflict. However none of these are sufficiently recent to take into account the impacts of the final military conflict that took place between 2007

³⁴ Kelegama 2006

³⁵ Ibid.

and 2009. Therefore whilst the broad coverage of the impacts of conflict remains valid, the magnitude will be greater in the Northern Province given the most recent fighting.

2.1 Direct Costs

The direct economic costs of the conflict include destruction of physical and human capital, military expenditure, exclusion of natural resources and resources required for refugee care. Arunatilake et al (2001) estimates that the cost of government expenditure on the conflict between 1983 and 1996 was LKR 288 Billion (present compound value which is equivalent to 41% of 1996 GDP). Defense expenditure in 1982 was 1.1% of GDP whilst it reached 4.4% of GDP in 1988 and ranged between 4.2-4.5% in 1990-1994 and in 1996 reached 6% of GDP. Comparing with other developing countries, in 1985 developing countries defense expenditure averaged 7.1% and in 1995 averaged 3.1% - whereas in SL 1985 expenditure was 3.5% and in 1995 it was 5.4%. In 2008 defense expenditure was 3.8% of GDP or 17.1% of total government expenditure. At the same time it needs to be kept in mind that defense expenditure has acted as an important stimulus to the economy, particularly in terms of rural employment and livelihoods and the multiplier impacts that result. However, expenditure on military wages contributes to current consumption but crowds out investment and increases future repayment obligations, thereby undermining future consumption. Kelegama (2006) estimates that a 1% increase in defense expenditure causes a 2.4% decline public investment.

The North and East is also home to many major industries, all of which either halted production or substantially cut down on production. This includes the cement factory in Kankasanthurei, the chemical factory in Paranthan, the salterns in Elephant Pass and Nilaweli, ilmentine in Pulmoddai, ceramics and Odduchuddan and Amparai and the paper mill in Valachenai. The North East region also accounted for 64% of fish production in Sri Lanka prior to the conflict and was a major source of agricultural output. The loss of this output due to military (both sides) occupation of land and mining activities, adversely affected livelihoods in the North-East and also prices and availability of these products in markets across the country.

Table 1: Agriculture Production Share of N/E

Crop	1980 (%)	2005 (%)
Paddy	33	30
Chillies	25	11
Red Onions	62	23
Potato	13	0.6
Livestock (eggs)	13	12.6
Fish	64	34

Source: Sarvananthan, 2006

It is estimated that US\$ 1 billion (LKR 56.5 Billion) worth of damage to physical and social infrastructure had occurred up to 1995³⁶. Damage was particularly severe in irrigation, roads and bridges, railways, industrial damage and housing – both in the conflict areas and in the South of the country as a result of terrorist attacks. The LTTE targeted economically significant institutions in order to curtail the ability of the government to finance the military effort. Attacks on the oil refinery (1995), Central Bank (1996), Colombo Stock Market/Galadari Hotel (1997), Island-wide Transformers (1999), Airport (2001) are among the main incidents which caused great damage both in money and human terms. For example, the cost of the Airport attack was estimated as US \$ 30mn which was more than what the government received from privatization of the national airline (US \$ 25 million). In the conflict areas extensive mining will pose a major challenge even in the post conflict period. Approximately 1.8 million landmines laid both by the LTTE and government armed forces, spread over 640 villages in the North and the East. Nearly 500-700 people per year became victims of landmines during 1995-2000, which was a major deterrent to economic activity, particularly agriculture³⁷.

³⁶ Arunatilake et al 2001

³⁷ Kelegama, S 2007, Socio-Economic Cost of the War, presented at the International Conference on Countering Terrorism, BMICH.

Social infrastructure has also been adversely affected due to the conflict, with potentially damaging impacts on long term economic performance, particularly in the conflict zones. Close to 2000 schools have been completely destroyed during the fighting. 360,000 housing units have sustained varying degrees of damage. Out of 400 health institutions, 55 were totally destroyed, 49 are not functioning, and 115 centres are damaged where these assets undergo minimum or no maintenance at all. Due to security fears, 4,522 posts were vacant in the health care sector mainly in the skilled and professional category in the North and East³⁸.

The human cost of the war in terms of deaths is estimated to be around 70,000. The most recent estimate of displaced population as a result of the war is estimated at close to 350,000. The bulk of the IDPs are at present housed in temporary camps in the North of the country. The government estimates that it will take a minimum of 6 months before resettlement could be completed – however this is likely to be a conservative estimation and complete resettlement could take substantially longer given the extent of reconstruction that will be needed.

In the most recent needs assessment undertaken during the previous ceasefire, the estimated cost of reconstruction was US \$ 2.5 billion (US \$ 522 immediate, US \$ 946 medium term, US \$ 1031 long term)³⁹. However as mentioned earlier, the damage that occurred in the final bout of fighting would have substantially increased this cost.

2.2 Indirect Costs

The indirect costs of conflict are numerous but harder to estimate quantitatively. Among the most important indirect costs of terrorism in Sri Lanka include the reduced Foreign Direct Investment (FDI) and domestic investment due to insecurity and instability, tourism losses due again to insecurity and the inaccessibility of tourist sites in the conflict zone, brain drain due to refugees leaving the country (this needs to be considered separately from economic migrants, increased taxation (to fund the military effort) and its adverse impacts on business

³⁸ Ibid.

³⁹ Background paper “Assessment of Needs in the Conflict Affected Areas” submitted to the Tokyo Donor Conference in 2003.

competitiveness, the delays to economic reform processes and the adverse macroeconomic impacts of high fiscal deficits that were influenced by high military expenditure.

In terms of foreign direct investment for instance it is estimated that foregone investment cost 71% of Sri Lanka's GDP in 1996⁴⁰. Motorola and Harris Corporation abandoned plans to establish in SL, and the country lost a great chance to upgrade its industrial base. The risky investment climate has created a bias towards industries with limited fixed costs and high labour intensity, and as a result wages have been relatively low. Sri Lanka also had to offer special incentives for companies to compensate for the risk undertaken in investing. These incentives have been fiscally costly and the lack of competition has also been problematic. For instance Caltex was given exclusive market access until 2004 for lubricants, shell had the same for gas transactions from 1995-2000⁴¹. It was expected that in time other firms would also invest and provide the requisite competition, however this did not occur as planned, influenced by security considerations.

Similar estimations have been carried out for tourism and the foregone earnings are substantial, particularly when considering the fact that the multiplier effects of tourist revenue have an important impact on livelihoods.

Table 2: Loss of Tourism: 1983-2004⁴²

⁴⁰ Kelegama 2006

⁴¹ Ibid.

⁴² Kelegama 2007

Year	Estimated Tourist Arrivals	Actual Tourist Arrivals	Loss of Tourist Arrivals	Earnings per Tourist (\$)	Loss of Earnings (\$ Mn.)
1983	431,664	337,530	94,134	343.7	32.4
1990	649,063	297,888	351,175	433.0	152.1
1995	868,592	403,101	465,491	559.9	260.6
1996	920,708	302,265	618,443	550.5	340.5
1997	975,950	366,165	609,785	570.2	347.7
1981	1,034,507	381,063	653,444	604.4	394.9
1999	1,096,578	436,440	660,138	627.8	414.4
2000	1,162,373	400,414	761,959	631.3	481.0
2001	1,232,115	336,794	895,321	626.8	561.2
2002	1,306,042	393,171	912,871	643.5	587.4
2003	1,384,404	500,642	883,762	679.1	600.2
2004	1,467,469	566,202	901,267	729.4	657.4
Total loss					6,341.9

Source: Cost of the War in Sri Lanka, NPC, Cost of Conflict in Sri Lanka, Strategic Foresight Group

Note: The estimated tourist arrivals is calculated on the basis of 6% growth as given in the Cost of the War in Sri Lanka, NPC report by Marga Institute

Numerous taxes and other levies were introduced over the conflict years in order to raise revenue for the military process. In May 1995, the defense levy was increased to 4.5% from 3.5%, and one intention of the privatization program was to free up resources for military expenditure (IPS 1995). The Save the Nation Fund was also introduced in 1996 which levied 3% on income from those who earned above a particular threshold. The National Security Levy increased from 3% in 1992 to 6.5 % in 2001 and financed 48% of the defense expenditure in 2000. The cumulative impacts of these taxes were a burden on private sector activity and served to reduce competitiveness with respect to international competitors and to reduce margins, thereby discouraging investment and expansion of production.

As mentioned at the outset, the three decade long violent conflict has to a great extent shaped economic development in Sri Lanka. The economic costs of the war have been substantial, but at the same time the economy has become increasingly resilient and the performance of the economy particularly in recent years has been very creditable when taking into consideration the

extremely adverse conditions in which it has found itself. In the next section we examine the recent trends in Sri Lanka's macroeconomic performance, taking a close look at the macroeconomic policy priorities that will arise in the post conflict situation.

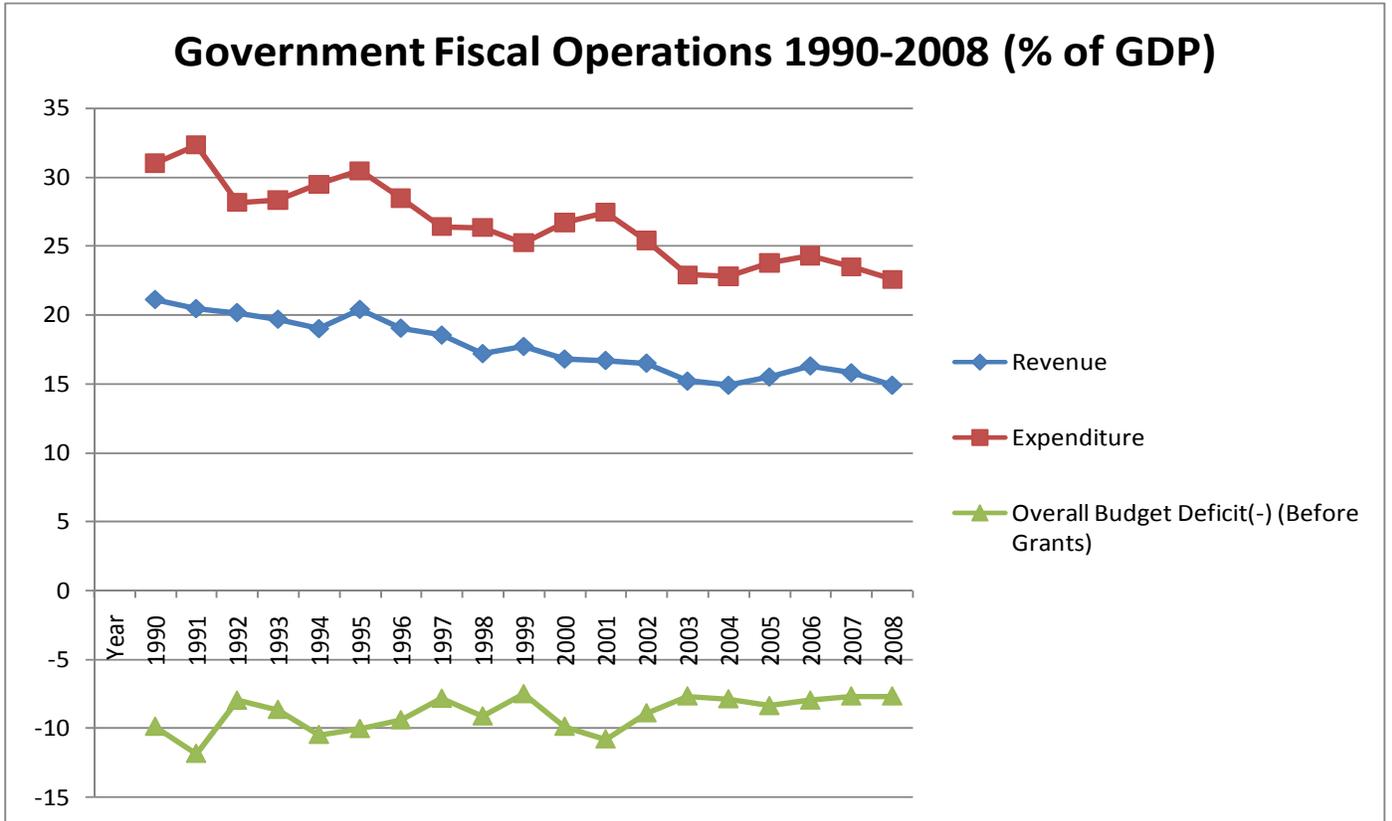
3.0 Macroeconomic Policy Trends

The conflict in Sri Lanka has to a great extent been geographically isolated to the Northern and Eastern Provinces of the country. Whilst intermittent terror attacks have taken place in Colombo and other parts of the country (Kandy (temple of the tooth), Galle (naval base), Anuradhapura (sacred Bo tree), the macroeconomic structures have by and large continued to function. In this section we will look at recent trends in fiscal and monetary policy, consider how these have been shaped by the military conflict, and finally suggest the direction that fiscal and monetary policy should take in a post conflict environment.

3.1 Trends in Fiscal Policy

Management of fiscal policy has proved to be a major challenge for successive Sri Lankan governments. If we consider the time period after the liberalization of the economy in 1977, there has never been a year where the government has been able to maintain a budget surplus. In more recent years the situation has hardly improved. In fact, since 1990, current expenditure has outweighed total revenues in every year. Therefore the entirety of capital expenditure (and part of current expenditure) has been financed by borrowing, resulting in a massive accumulated public debt. In recent years the magnitude of public debt as a percentage of GDP has declined substantially from 105.4% of GDP in 2002 to 81.1% of GDP in 2008. However this is largely due to the growth of nominal GDP (seignorage) rather than an improvement in financial management – as is evident through the continued high budget deficits. Furthermore in the recent past the foreign debt stock as a percentage of GDP has fallen from 47.6% in 2004 to 32.8% of GDP in 2008.

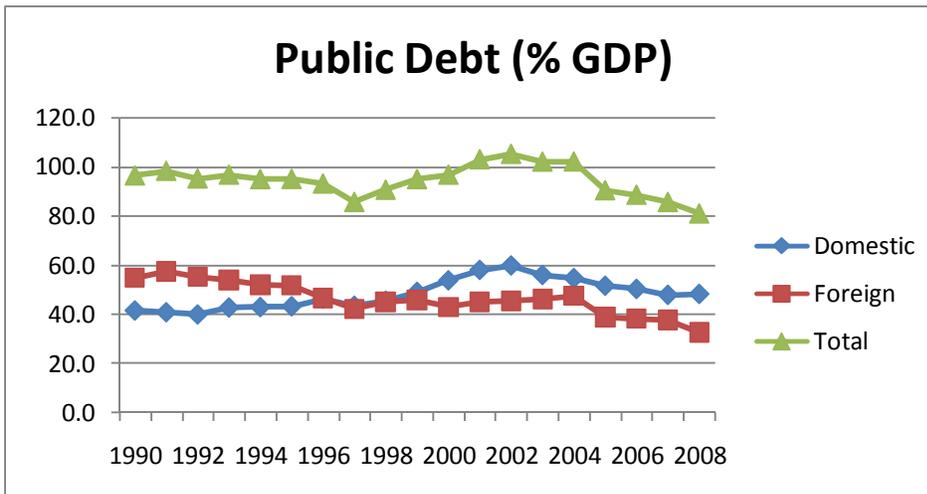
Figure 1: Government Fiscal Operations



Source: Central Bank data

It is clear from figure 1 that budget deficits have ranged around 8% of GDP in recent years and as of 2008 the budget deficit was 7.7% of GDP.

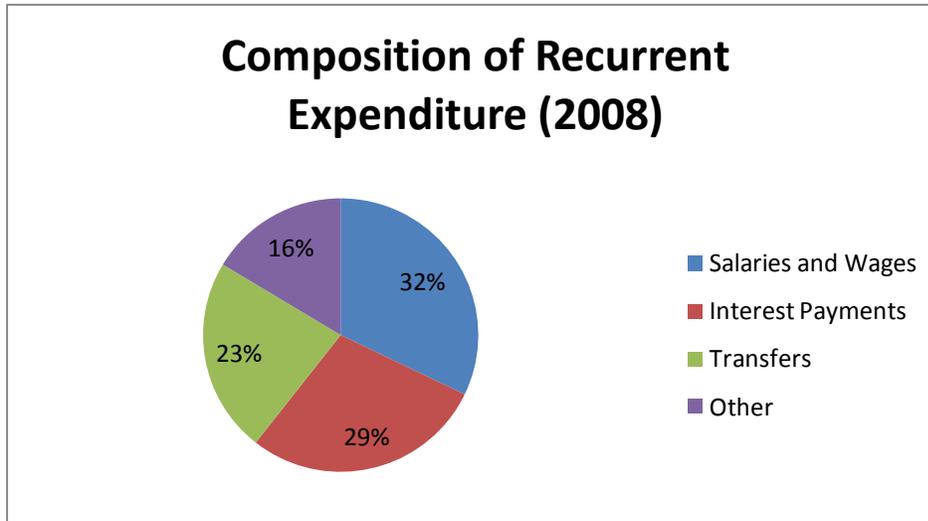
Figure 2: Public Debt



Source: Central Bank data

Public debt remains high at 81.8% of GDP and repayments of debt continue to eat into a considerable portion of government expenditure, crowding out alternative more productive expenditure.

Figure 3: Composition of Recurrent Expenditure (2008)

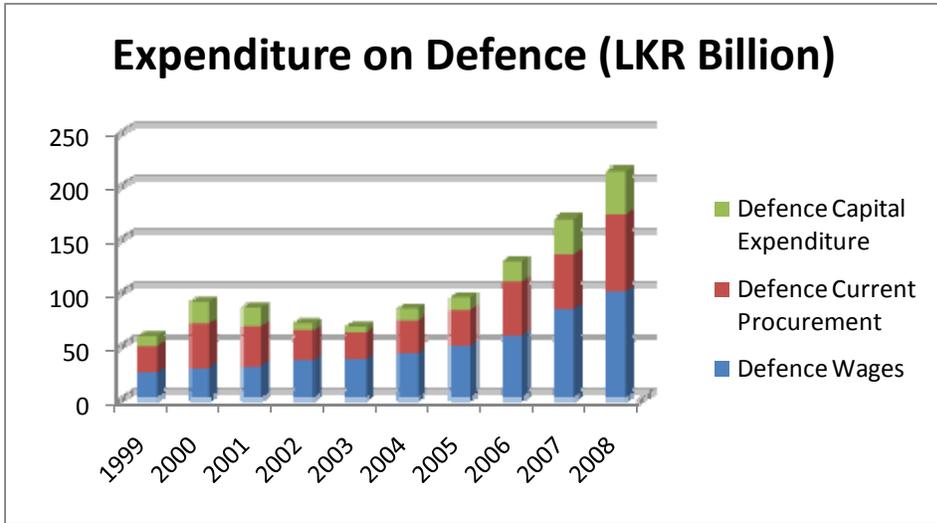


Source; Central Bank data

We now turn to the contribution of military expenditure to overall government expenditure.

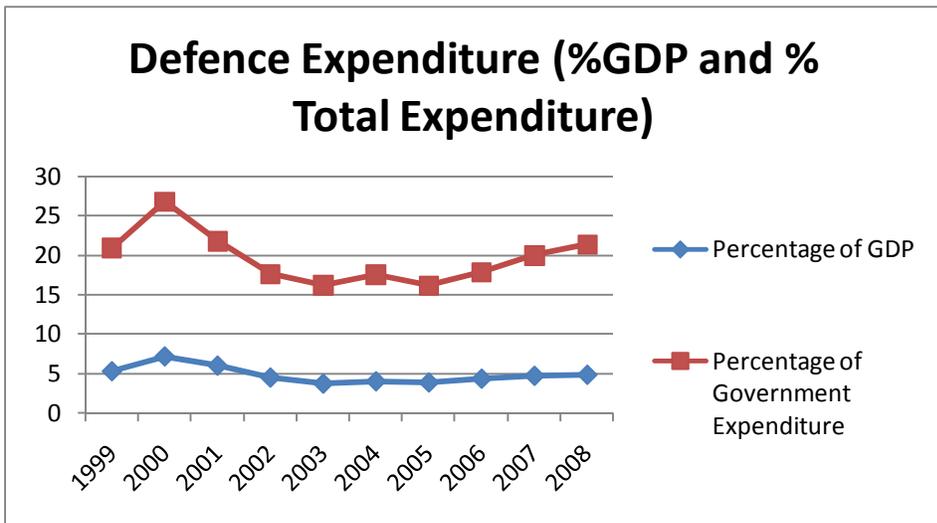
Figure 4: Military Expenditure⁴³ (LKR Billion)

⁴³ Capital expenditure is obtained from the capital expenditure component of the Ministry of Defense whereas wages and recurrent procurement are derived from the economic classification of government expenditure of CBSL AR.



Source: Central Bank data

Figure 5: Military Expenditure as a % of GDP and Government Expenditure



Source: Central Bank data

It can be seen that since 2005 the share of military expenditure has increased substantially across all segments (wages, recurrent procurement and capital expenditure), but particularly in terms of expenditure on wages. Furthermore, military expenditure as a component of overall government expenditure has increased steadily. This reflects the government's ultimately successful policy of engaging in a concerted effort to military defeat the LTTE. This suggests that the end of the

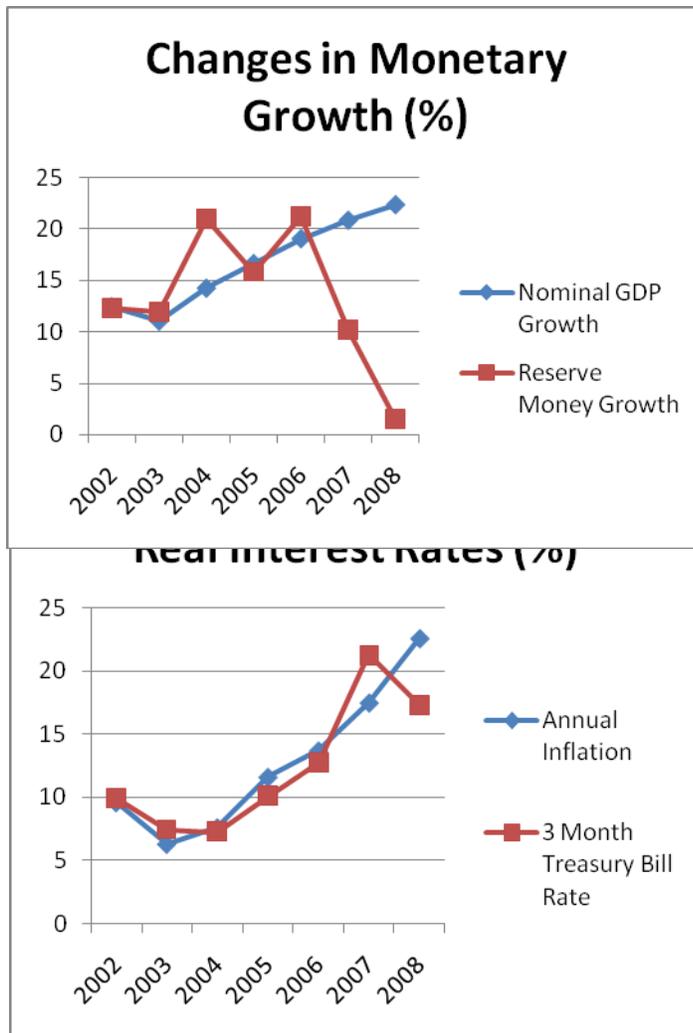
military conflict will in the medium term free up some fiscal space to ease the fiscal position. However it is also evident that the bulk of Sri Lanka's military expenditure has been in recurrent military expenditure, over 50% of which is expenditure on salaries and wages. In the short term this component of expenditure is unlikely to reduce substantially. Sri Lanka's budget deficit in 2008 was LKR 340 Billion, making the extreme assumption that military capital expenditure was completely cut and recurrent procurement was reduced by 50%, the military expenditure would fall by LKR 70 Billion and the budget deficit then fall to LKR 270 Billion or 6.1% of GDP. Therefore, fiscal expenditure pressure is likely to remain in the short term unless substantial efforts are undertaken in other forms of government expenditure.

On the revenue side the developments are of great concern. As a result of the declining prices of imported products and the decline in imports overall, major revenue sources such as motor vehicle and commodity imports have declined. This was compounded by restrictions that were imposed on the imports of certain "luxury" products in October 2008 to counter growing external imbalances. As a result revenue in the first four months of 2009 declined by 8.3% whilst expenditure grew by 36% in the same period compared to 2008. The budget current account deficit for the first four months of 2008 was LKR 15.43 bn whereas for 2009 it was 90.96 bn - a growth of 489%. Sri Lanka's overall budget current account deficit for 2008 was LKR 88.45 bn. There have been measures undertaken to enhance revenue (increase of the nation building tax from 1% to 3% in May 2009) and various other levies (increased tariffs on lentils and sugar), which have helped improve the revenue position in recent months, however these add to the cost of doing business and disrupts production. Along with falling imports, slowing general economic activity has adversely affected government revenue collection. Given the adverse economic impacts of increased taxation, particularly those of an ad hoc and opaque nature, it is essential that stringent measures are taken to curtail government expenditure.

3.2 Trends in Monetary Policy

Given the rigidity of fiscal policy in recent years with budget deficits remaining constantly high around 8%, the burden of macroeconomic stability has fallen upon monetary policy. In recent years monetary policy has lacked the stability and consistency to facilitate a smooth macroeconomic environment.

Figure 6: Monetary Policy Volatility



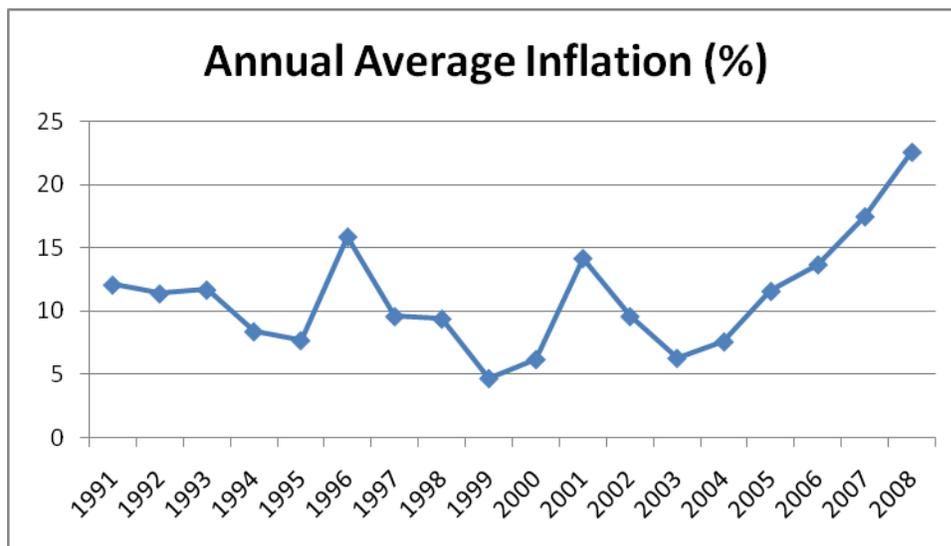
Source: Central Bank data

It can be seen that in 2004 and 2006 there were spikes in money growth and interest rates were negative between 2004 and 2006. One factor that created pressure to keep interest rates low was the extent of government debt service payments (due to accumulated fiscal deficits) that would be difficult to manage if interest rates became extremely high. As a result of this loose monetary

policy⁴⁴, inflation increased rapidly in 2007 and 2008, reaching a peak of 28.2% in July 2008. At the same time the economy boomed, driven by the increased access to cheap credit (also boosted by favourable external markets). Economic growth in 2006 reached 7.7% and 6.8% in 2007 – substantially higher than trend growth rates.

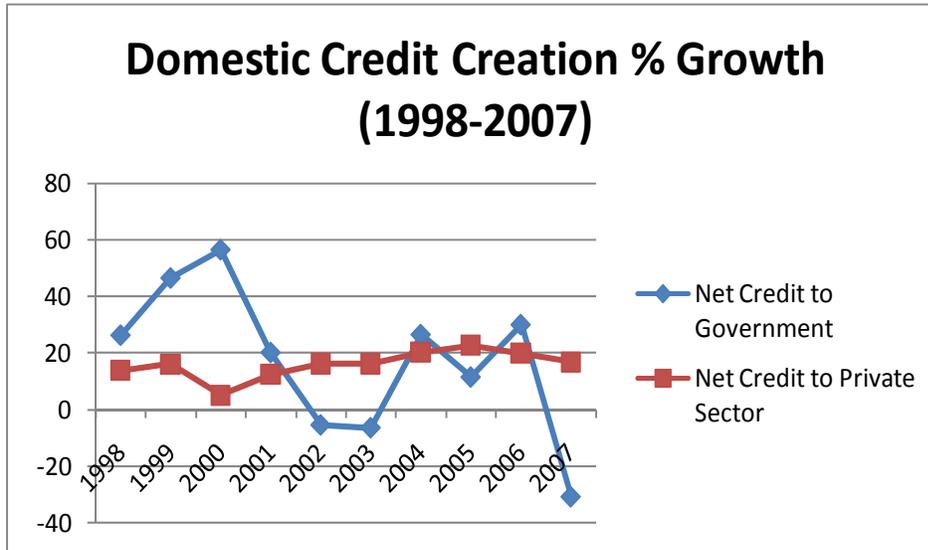
High inflation has been a feature of the Sri Lankan economy, and fiscal excesses have contributed to this. Net credit growth to the government is illustrated in figure 7⁴⁵.

Figure 7: Annual Average Inflation 1991-2008



⁴⁴ Together with the influence of increased prices of imported commodities such as oil and major food products

⁴⁵ The contraction in net credit growth to the government in 2007 is due to the utilization of part of a US\$ 500 Mn sovereign bond by the Government of Sri Lanka to settle Central Bank payments.



Source: Central Bank Data

In response to the extremely high inflation, the Central Bank was forced to substantially contract money supply in 2007 and 2008 and reserve money growth fell to 10.2% in 2007 and 1.5% in 2008. As liquidity shrank (credit to the private sector grew at a slower rate in the 4th quarter of 2008 and in fact declined in January 2009), interest rates increased, resulting a slow down of the economy and a rise in defaults and non-performing loans as well (estimated to have increased from 5.2% to 6.5% by 2008⁴⁶). This has contributed to the slow down in construction and domestic trade, which was the highest recipient of lending in the credit boom. As a result the economy has slowed down and growth in the fourth quarter of 2008 fell to 4.3% compared to 7% growth in the 2nd quarter⁴⁷. The volatility of monetary policy in response to fiscal excesses has resulted in volatility in economic performance as well with a boom in 2005-2007 followed by what is likely to be a trough in 2009, further exacerbated by the global economic crisis. By mid 2009 inflation had been curtailed substantially due to the monetary contraction engaged by the Central Bank, helped by an improved external environment with falling prices of oil and other

⁴⁶ Weerakoon, D (2009), Presentation at the Seminar “Global Economic Crisis and its impacts on Sri Lanka” organized by IPS and World Bank, Colombo, 2009.

⁴⁷ The impacts of the global economic crisis were not to blame for the slow down in the fourth quarter as the major subsector that caused the slow down was services which grew at just 3.8% and makes up 60% of GDP and is unexposed to the global economic crisis.

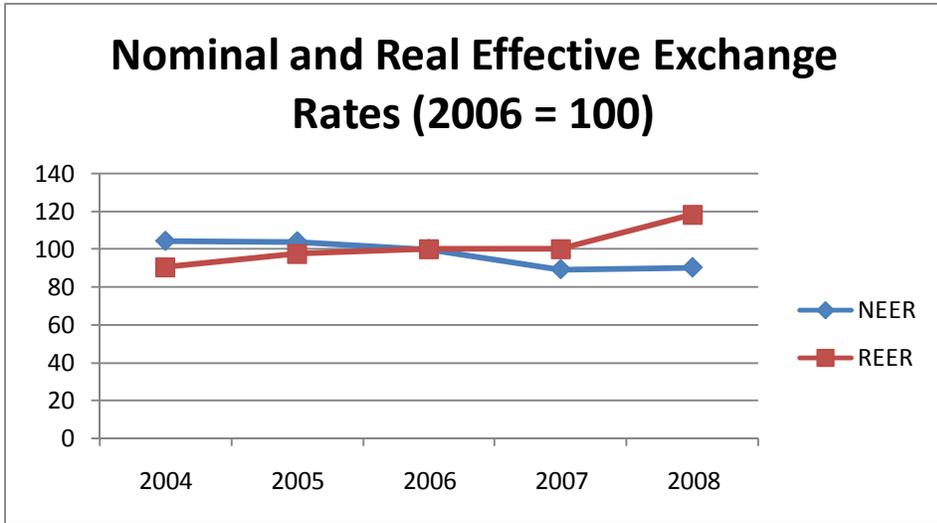
commodity imports. However the fiscal situation remains weak, particularly given the adverse revenue side developments that have been experienced in recent months.

3.3 Exchange Rate

Being a small open economy with high external exposure (trade:GDP ratio is close to 60%) the exchange rate plays an important role in Sri Lanka's economy. The country has in recent years adopted a "managed float" but since 2007 there has been a more concerted effort at pegging the Sri Lankan Rupee (LKR) to the US Dollar. Following the launch of a US\$ 500 Million sovereign bond, the LKR appreciated against the US\$ and the Central Bank since then maintained the LKR at a stable level for a year. However with inflation increasing rapidly at the same time, the situation was not sustainable. Between November 2007 (LKR 109.44) and November 2008 (LKR 109.91) the currency appreciated marginally against the US\$ whilst annual average inflation in November 2008 was 23%. This has an adverse impact on exporters since increases in domestic cost of production are not balanced by a depreciation of the currency – therefore the increased cost is passed on to buyers, reducing competitiveness. The currencies of competing countries have depreciated against the US\$ throughout 2008. Between January 2008 and January 2009 the following countries allowed depreciations; Brazil (35%), India (21%), Mexico (29%), South Africa (24%), Malaysia (12%), Thailand (11%) and a basket of major currencies calculated by the US Federal Reserve depreciated by 15.2%⁴⁸. During this same period the Sri Lankan rupee depreciated by 5.65%. The Rupee has been allowed to further depreciate since then and in mid May the LKR was trading at 117.88 to the US \$, a depreciation of 7.25% since November 2008. However given the extent of inflation and a current account deficit that reached US\$ 5.8 Billion (14% of GDP) in 2008 (though it has narrowed since the fourth quarter of 2008), the exchange rate is likely to still be overvalued as the real exchange rate appreciated by 18% between 2007 and 2008.

Figure 8: Real Effective Exchange Rate

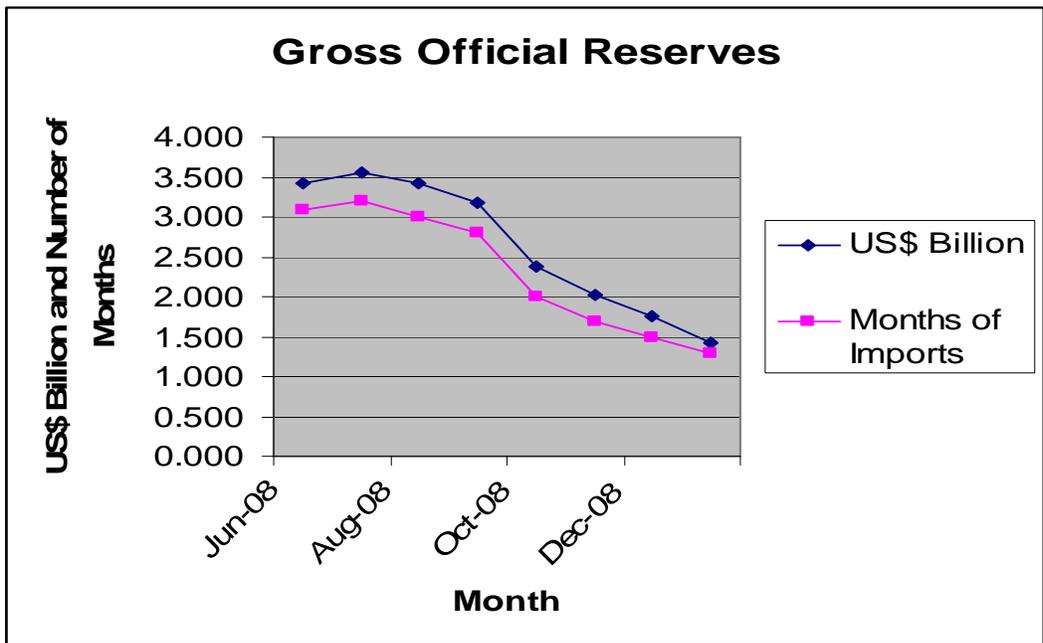
⁴⁸ US Federal Reserve data



Source: Central Bank data

An overvalued exchange rate will continue to put pressure on the performance of exports. The Central Bank has largely allowed the LKR to float since April 2009 as foreign reserves have dwindled substantially in an attempt to defend the LKR between September 2008 and April 2009.

Figure 9: Gross External Reserves



Source: Central Bank data

One of the major reasons for attempting to peg the LKR was the fact that the depreciation of the LKR placed an additional burden on the debt service obligations of the Government. However this policy undermined the performance of exports, which is essential for generating the foreign exchange resources to make these repayments. Furthermore, the overvalued LKR discourages tourism, particularly in the context of a slow down in the global economy.

4.0 Policy Priorities for Post Conflict Reconstruction

Economic growth of an inclusive and sustainable nature is essential for the long term viability of peace. According to the UNDP Crisis Prevention and Recovery Report 2008, countries with a weak economic performance are twice as likely to revert to conflict as those with a strong growth performance. Economic growth needs to be inclusive in that the benefits of economic activity are felt by as many individuals in the conflict area as possible. Therefore in the short term, labour intensive economic activity with substantial backward and forward linkages become important. Therefore macroeconomic policy needs to support an environment that will encourage economic growth. Additional policy measures will be needed to ensure that economic growth is indeed inclusive and sustainable.

4.1 Macroeconomic Policy

It is clear from section 3 that the key impediment to stable economic performance in Sri Lanka has been the dominance of fiscal imbalances. The fiscal sector has influenced inflation and monetary measures to mitigate this have resulted in volatile interest rates, a misaligned exchange rate and unstable economic growth. Given the fact that fiscal revenue sources are being squeezed by the external economic downturn and a domestic economic slowdown, it becomes essential to curtail current government expenditure. In 2008 government expenditure was LKR 996 Billion, of which LKR 233 Billion was capital expenditure (23%), despite the budget allocation for the year being LKR 283 Billion. Recurrent expenditure was LKR 744 Billion, whereas approved estimates were LKR 713 Billion. It is clear that the cuts need to occur in recurrent expenditure.

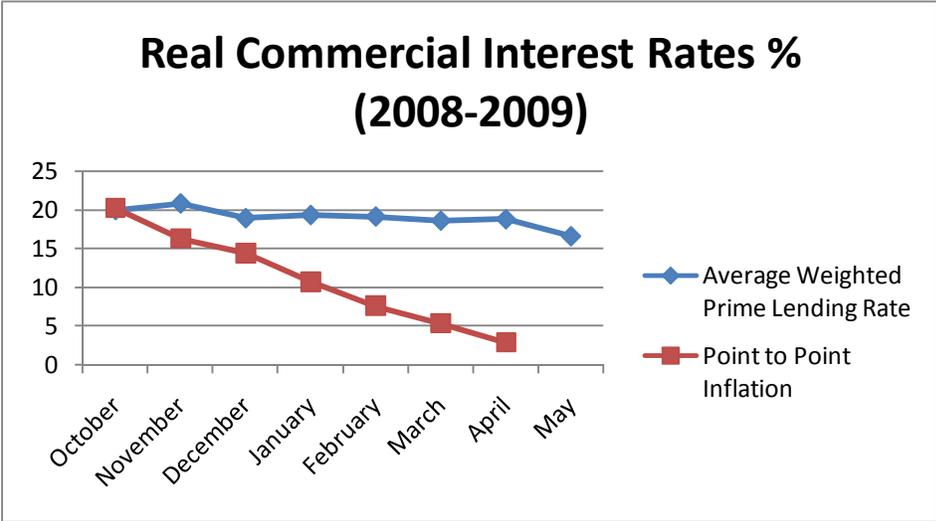
24% of the government's expenditure is on salaries and wages, 21% on interest payments and 17% on transfers. It has been pointed out in several studies that the targeting of many transfers is weak. For instance the main income transfer program, Samurdhi, reaches 41% of households in the country, despite the poverty headcount ratio being 15%. In many provinces the proportion of Samurdhi beneficiaries is more than twice the share of the poor. Voluntary exit schemes have had some success, but targeting remains a major issue⁴⁹. The same applies to other schemes such as the fertilizer subsidy which is often captured by large scale wealthy farmers. Whilst Samurdhi and fertilizer subsidies are politically volatile subjects, improved targeting could yield a better result in terms of efficiency and efficacy, without being politically unpalatable. Reduction of government employment is another politically sensitive subject but action would need to be taken in this regard given the situation of public finances. Given the current strength and popularity of the government, it is an optimal time to make policy decisions that are politically challenging but important for long term economic development. The Agreement entered into between the IMF and the government of Sri Lanka will also create some pressure for improved fiscal management – however the emphasis of the Agreement is on enhancing government revenue, and there is less emphasis on expenditure reduction. In the short term post conflict situation government expenditure will have to address costs of rehabilitation and reconstruction. Whilst some finances can be expected from international sources in the form of overseas developmental assistance, given the current strains in the global economy, it would be necessary for a substantial contribution to be from the government.

If fiscal policy reform is successful the strains on monetary and exchange rate policy will be greatly eased. In the context of post conflict development, the key monetary policy issue is interest rates. In the latter part of 2008 real interest rates increased substantially in response to a tighter monetary policy stance adopted by the Central Bank. The tightening of credit has also discouraged financial institutions from lending due to concerns about the ability to fulfill loan obligations at such high interest rates. A tight credit market would certainly undermine reconstruction and regeneration of economic activity in the conflict areas. However the Central Bank has relaxed monetary policy in an attempt to support economic activity which slowed down substantially in the fourth quarter of 2008. The Statutory Reserve Ratio was cut to 7%

⁴⁹ IPS, State of the Economy 2006, page 83.

from 10%, Central Bank repurchase rates were reduced by 25 basis points, and the penal reverse repurchase transaction rate was reduced from 19% to 14.75%. Commercial interest rates have been slow to respond but the effects of the relaxation of monetary policy are beginning to be felt in the economy. Nonetheless, lending rates remain relatively high (average prime lending rate was 11.5% in December 2009), particularly in the context of a decline in inflation. Lending rates are rigid because most commercial banks had accepted long term deposits at high interest rates, and there remains pressure on financial institution balance sheets as a result of a spike in non-performing loans earlier in the year, resulting in a degree of risk aversity. However it is expected that the loosening of monetary policy will result in a decline in costs of credit in time for the requisite financial support to regenerating economic activity in conflict zones.

Figure 10: Commercial Lending Rates



Source: Central Bank data

Inflation at present is not a concern (point to point inflation in October 2009 was 1.4% and has increased slightly to 2.8% in November, whilst annual average inflation fell to 4.1% in November 2009) and is expected to fall further on the back of slowing economic conditions and tight monetary policy in until the fourth quarter of 2008. In this context there appears to be space to support expenditure activities in conflict areas. However it is a matter of concern that the ability to obtain foreign financing of debt has declined in the wake of external credit tightening.

Therefore there will likely be increased domestic borrowing by the government – which will again put pressure on the Central Bank to retain loose monetary policy in the medium term, even if inflation pressures re-emerge. A fundamental dilemma is with regard to the institutional independence of the Central Bank where the Governor is appointed by the President and the Secretary to the Treasury sits on the Monetary Board. A full implementation of the 17th Amendment to the constitution could be a step in the right direction in this regard.

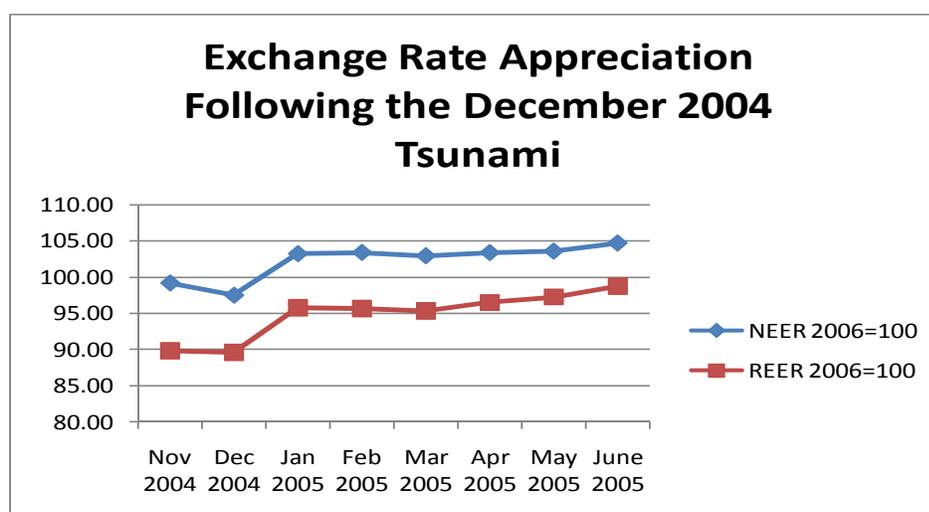
In terms of exchange rate policy, it is encouraging to note that the Central Bank has minimized intervention in the foreign exchange market. In the short to medium term it will be important to develop export markets for the products (agricultural and fisheries in the early stages) and services (largely tourism) of the post conflict zones. A competitive exchange rate will be essential in this regard. The debt situation would need to be managed by more prudent fiscal policy rather than by undermining export competitiveness, particularly in a post conflict situation where external markets are already compromised due to weak global demand. In the recent past the government has resorted to short term borrowing on external commercial markets at relatively high interest rates. This has put more pressure on external repayment requirements, and needs to be curbed.

There is possibility of exchange rate appreciation following aid inflows. However many countries have not experienced substantial real exchange rate appreciation following post conflict aid flows. In fact according to Elbadwi et al 2007, 30 out of 36 countries studied did not suffer from substantial real exchange rate appreciation. However Sri Lanka experienced some real exchange rate appreciation following the December 2004 tsunami as money entered the country through increased remittances and foreign aid. This resulted in some standard Dutch Disease impacts on exports as well⁵⁰. Sri Lanka experienced some appreciation of the Rupee as soon as the conflict ended as a result of foreign capital inflows. Remittances spiked during this period, there was also foreign investment in equity and in the liberalized portion of government treasury bill and bond markets along with the capital inflows from the initial tranche of IMF funding. The Central Bank has responded by stabilizing the Rupee at LKR 115 to the US\$ (an appreciation from LKR 120 to the US\$ in April), by purchasing US\$ and mopping up the

⁵⁰ Weerakoon et al 2007

resulting excess liquidity. Furthermore, there was also some inflationary pressure that resulted from the post tsunami reconstruction as supply side constraints in the domestic non-tradable sector (particularly related to the construction industry) saw an increase in costs of raw materials and labour⁵¹. Similar impacts can be expected in post-conflict reconstruction, and cost estimates will need to take it into.

Figure 11: Exchange Rate Appreciation Following the Tsunami



Source: Central Bank data

4.2 Microeconomic Policy Considerations

The conflict has very different impacts on the national economy and on the local economy that was exposed to the conflict. Whilst the national economy has not suffered large scale damage to productive and administrative infrastructure, the local economy of the North and East has suffered such damage. In this context it is important to assess the priorities in terms of rebuilding the local economies in the North and East that have been devastated by three decades of conflict. In section 4.1 we addressed the macroeconomic policy requirements that would facilitate the regeneration of economic activity; in this section we consider the specific micro level policy issues in post conflict economic development.

⁵¹ Ibid.

Unemployment

In section 1 it was apparent that unemployment, particularly youth unemployment, played a significant role in providing an environment conducive to armed conflict in Sri Lanka in the 1970s. Youth unemployment⁵² in Sri Lanka is at present 21.3% whilst overall unemployment was 5.2% in 2008. Official employment figures for the conflict provinces are unavailable. In this context the creation of employment opportunities becomes a priority in the post conflict scenario. This needs to be considered from different time frames – short and long term. In the long term, job creation requires the existence of a sound macroeconomic environment with low inflation, good investment policy, access to inputs and secure property rights. However in a post conflict situation job creation needs to be conducted on a more urgent basis. The most rapid measure is to maximize generation of local job opportunities through reconstruction activities.

Reconstruction should focus on the current impediments to employment creation. For instance, reconstruction of reservoirs and irrigation systems could assist the creation of employment in agricultural activities. It is important to keep in mind the fact that conflict does not necessarily wipe out economic activity in its entirety, some form of economic activity does occur but it usually falls into the informal sector or the subsistence sector rather than the formal economic sector. Therefore in the short term it is possible to build upon these existing economic structures, and encourage the creation of avenues for re-integration into the formal sector. In the case of Sri Lanka, agricultural production and fisheries have been the traditional strengths of the North and Eastern Provinces. Reconstruction activities should focus on attempting to address constraints to the functionality and economic viability of these activities.

Agriculture and fisheries are both labour intensive and will provide employment in the short term to a number of people. However in the medium term it is important that policy is directed towards creation of higher end employment. One of the reasons that youth unemployment has been a problem is the fact that younger generations are less inclined to work in traditional sectors and desire opportunities in white collar occupations. In order to fulfill these aspirations education and training becomes essential. Access to education (and performance) at all levels in conflict zones has been greatly hampered by the war. It has not been possible to implement many of the

⁵² 15-24 years of age

educational quality enhancement programs that have been implemented in other regions, teacher training programs and so on in the conflict provinces. Furthermore parents have been reluctant at times to send children to schools in fear of abduction or forced recruitment. Education activities have frequently been disrupted by military operations.

Therefore enhanced investment in educational facilities and vocational training, both in terms of ensuring quality and access, is of paramount importance. Private provision of education services at certain levels (professional qualifications such as CIMA) becomes a useful tool (in terms of connection to market demand and in terms of freeing up government resources for investment in educational sectors that will not be handled by the private sector). At present however private provision of education services is not legal. In the longer term perspective, employment generation could be enhanced by macro level national labour policy reforms, particularly with regard to the costs of hiring and firing workers.

Another important factor that would need to be addressed is the creation of gainful employment opportunities for soldiers and ex-LTTE combatants. Sri Lanka's military manpower strength is substantial – close to 180,000 in the army, navy and air force, equivalent to 2% of the national labour force (8.15 Million) and it is estimated by the Ministry of Defense that there are 10,000 surrendered LTTE cadres in IDP camps at present. The long term policy in this regard should be geared towards enhancement of the investment climate in the country to maximize the creation of jobs in the private sector. Vocational training would be important to equip former combatants with the requisite skills for such employment – however it is essential that these skills are those that would be in demand in the private sector. English language and information technology training would provide a good starting point in this regard. Apprenticeship programs in the private sector and incentives for firms hiring former combatants could be considered. In the short term however the most viable prospect of employment is for the involvement of ex-combatants in reconstruction activities – both in manual work and in administrative work wherever possible. Employment prospects in the medium term would largely arise in rural markets in traditional sectors such as fishing, agriculture and small scale retail. In the longer term, training should focus on the aspirations of ex-combatants, particularly in terms of upward social mobility and equipping them with the requisite tools to do so. All training programs should be informed by a

thorough evaluation of the available skills, strengths and desires of ex-combatants – but at the same time management of expectations with regard to actual future job prospects needs to be kept in mind as well.

Key Sectors

It was mentioned that fisheries and agriculture would be good starting points in terms of livelihood generation in the North and East. It is important to identify the priorities for reconstruction in terms of regenerating the economic viability of these sectors. In the case of the fisheries sector this would entail supporting the reconstruction of damaged fishery harbours, piers, storage facilities and ice plants. Whilst there is also a need for access to boats and other direct fishery implements, however care needs to be taken in this regard since an over supply of such implements could result in unsustainable fishing. This occurred during the tsunami as well as aid agencies donated boats without due regard to the pre-tsunami fisheries situation, and some non fishing families acquired boats, resulting in over fishing and pollution. One possible approach would be to provide credit facilities for the acquisition of boats and other fishing implements, with limited collateral requirements and generous repayment terms. This would ensure that there would be a market for fishing boats and other implements, with some opportunity cost attached to engagement in the industry, thereby limiting the prospects of unsustainable fishing. In addition to this, it is important to supply the necessary training and extension services.

In terms of services, tourism becomes a potentially important source of livelihoods, both in terms of direct employment and the indirect spin off employment that occurs such as transport services, tour guides, eateries and so on. Furthermore, a vibrant tourism sector will provide a ready market for produce (agriculture, fisheries, livestock) of the North and East. The natural resources, in the form of beaches, wildlife and history (both recent and ancient), of the region makes tourism a viable source of livelihoods in the medium term. In the pre-conflict era the Eastern Province in particular was extremely popular among tourists.

Connectivity to markets

For fisheries, agriculture and all other economic production, a key component for viability and income generation would be connectivity to markets. The effective demand within conflict provinces is very limited and therefore the ability to sell produce in other parts of the country and to export markets becomes essential. Several measures could be undertaken to facilitate this. Firstly, interaction between buyers in the more developed areas (Colombo and the Western Province has the biggest market in Sri Lanka) and producers in the conflict provinces provides the initial connectivity and understanding of requirements and capabilities of both parties. Transport infrastructure is essential, and investment in both national highways connecting the North and East to the rest of the country, and smaller rural roads connecting smaller villages and hamlets to the major roads, are important. Major marketing and collection points for products of the conflict provinces would facilitate the transmission of goods between buyers and sellers. A good example to follow would be the Dambulla Economic Centre, which acts as a central collection point for agricultural products of the bulk of the North Central and Central Provinces in Sri Lanka. Retailers from major urban areas purchase goods in bulk and transport it to the major urban markets around the country. Similar collection centres could be administered in the North and East as well, Vavuniya and Ampara being potential locations for such centres.

Telecommunications is relatively easy as this is dominated by the private sector, and Sri Lanka's telecom operators have had great success in providing services to the Bottom of the Pyramid. Investment in telecommunications will provide multiple benefits in terms of other economic activities as well since it enhances access to information on prices, markets and so on. Transport services are also essential over and above the reconstruction of roads. Rail services are relatively underutilized in Sri Lanka for freight transport. However the "Yal Devi" train between Colombo and Jaffna is potentially an ideal mode of transporting goods between conflict areas and the major market in the country. The services provided by the railway needs to cater to the demands of the private sector in this regard – particularly with regard to reliability of service and quality. The pricing structure of the railway system needs to be reformed to enable this. Domestic air services which have been compromised during the war as a result of security concerns will play an important role in connectivity in the post conflict scenario. The airport in Jaffna will provide an avenue for the transport of perishable goods (fresh and ornamental fish are particularly important in this case) to Colombo (the gateway to international markets) and also for the

transport of tourists between the South and the North. Similar air services could be envisaged between Colombo and Trincomalee.

A potential problem resulting from enhanced production from the conflict provinces, particularly in agriculture and fisheries, is the negative impact on national price levels of these products. With increased fish production from the Eastern Province in 2008 there has already been a fall in fish prices, which is beneficial to consumers but is detrimental to fishermen across the country. In this context export markets become important. Once again connectivity becomes essential between export suppliers and producers in the conflict provinces. One possibility is to encourage the diaspora to actively purchase products from the conflict provinces – this would be a positive manner in which the diaspora could engage in development of the conflict areas. Certain products such as fisheries and agricultural products would need quality testing facilities and consultancy on quality assurance. There are several such institutions in other parts of the country which also provide services to small and medium exporters. Similar services need to be assured for conflict provinces. In terms of market access, a logical market would be Southern India. Sri Lanka already has a Free Trade Agreement with India, and it would be logical to take advantage of this and to enhance it by improving connectivity between the two countries – possibly by rekindling the ferry service that operated and by commencing merchant shipping between Trincomalee harbour and Southern India. Another important source of market access is the GSP + provision that gives Sri Lanka and 14 other countries duty free market access to Europe for 7200 tariff lines. Sri Lanka's exports to Europe of food products, fish and garments have been substantially enhanced since 2005 as a result of this provision. The extension of the GSP + facility beyond 2009 is still under consideration, and Sri Lanka should take every effort to ensure that it is indeed extended for a further 3 years.

Property Rights

This is often an issue when displaced populations are prevalent and when there is a lack of established legal regulations and dispute settlement mechanisms. Such a situation could result in

a reversion to informal legal processes which are based more on existing power structures and could result in fostering inequalities. An example is the Shura Councils in Afghanistan. The priority in this regard is establishing property rights to housing. In so far as economic objectives, security of agricultural land in particular becomes important for households. From a longer term perspective, more formal large scale legal security for land for investment is essential to ensure job creation and income generation. More complex property rights definitions will be required for common property such as fisheries – there have already been problems in the Eastern Province in this regard.

Credit

Access to credit will be a major challenge to economic regeneration in the post conflict scenario. The lack of established property rights will make collateral a complicated and almost untenable issue. It has also been noted that current interest rates are also prohibitively high, though declining. In this context innovative measures of enhancing micro credit to the conflict zones will have to be implemented. Such measures will need to be established with the long term objective of developing a strong formal credit culture.

Remittances

Remittances play a major role as potential source of finances. Anecdotal evidence suggests that stored up funds from remittances have generated substantial finances in post conflict towns such as Jaffna. Remittances increased substantially in May and June 2009, possibly due to increased cash flows to support families displaced by the conflict. Remittances could be utilized more effectively in the financial system through formal investment and savings channels. Measures must be taken to facilitate the transfer of remittances and reduce transaction costs in doing so by enhancing information on formal channels and improving financial services networks in post conflict areas. Sri Lanka as it stands receives substantial remittances and its financial sector has already made efforts to maximize the utility of these – what is required then is to extend such services to conflict areas through existing financial service providers. As mentioned earlier, remittances are likely to increase in the immediate aftermath of conflict in order to support the

displaced population. A similar experience occurred in the immediate aftermath of the tsunami where remittances increased from 6.7% of GDP to 7.7% of GDP between 2004 and 2006⁵³. It should be kept in mind that remittances (voluntary and involuntary) from the Tamil diaspora played a key role in financing terrorism in Sri Lanka, and there are concerns that remittances could be used to finance violence in the future as well. The Central Bank has however engaged in several programs to ensure the transparency and legitimacy of financial flows, and these need to be extended in the conflict zones as well.

5.0) Conclusions

The post conflict macroeconomic policy priorities are largely in line with the general macroeconomic policy priorities that have characterized the Sri Lankan economy in recent decades. The dominance of fiscal excesses has greatly undermined macroeconomic stability by passing on the burden of macroeconomic stabilization to monetary policy, which in turn has resulted in inflationary and balance of payments pressure. The recent global economic crisis has had negative impacts on the Sri Lankan economy in terms of export performance and on the revenue side of fiscal policy. However it has helped bring down inflation rapidly as prices of global commodities have declined sharply. This has also contributed to an easing of the balance of payments position. This will support post conflict economic development. What has been more worrying is the slower transmission of monetary policy as commercial interest rates remain high. The government recently ordered public banks to cut lending rates to 7%, in an attempt to bring down market interest rates. Whilst interest rates remain sticky downwards, they have been declining, albeit at a slow pace. The Central Bank has also continued to aggressively loosen monetary policy with a rate cut on November 19th, bringing policy rates down to 7.5%. Monetary policy remains in a delicate position as inflation has begun to pick up in November (point to point inflation reached 2.8% from 1.4% in the previous month) but at the same time commercial interest rates remain comparatively high.

⁵³ Weerakoon et al 2007

There are several microeconomic policy issues that would require attention in order to support post-conflict economic regeneration. The most critical of these include the rehabilitation of employment generating activities, particularly fisheries and agriculture in the post-conflict provinces. Potential measures have been highlighted in section 4.2. Many of these activities will also require substantial investment of resources by the government and foreign assistance sources, particularly in terms of reconstruction of infrastructure. The latter will be challenging in the present context of the global financial crunch, and this will pose a challenge to a government already facing fiscal constraints. Sri Lanka's key donors such as the World Bank and the Asian Development Bank have supported some of the relevant infrastructure projects, particularly with regard to connective infrastructure such as road development. It would be important for such support to continue in the short to medium term in the context of supporting economic rehabilitation in the post-conflict regions. At the same time the government must endeavour to improve the prioritization of expenditure to create the necessary fiscal space to effectively respond to the needs of reconstruction in the post conflict areas.

Annex I

History of Power Sharing in Ceylon

After some years of absolute authority by the British over her colony, by the 1820's the British began to share some form of political power with Ceylonese (The native population of Ceylon - which included Sinhalese, Tamils, Burghers & Muslims). The two major groups that dominated the Ceylon Civil Service after decentralization were the minorities, the Tamils and the Burghers, given their greater propensity for the English language among other factors. In the early 20th century the McCallum Constitution was enacted, where by the Ceylonese were allowed to vote for their representatives (Wijesinha 2005: 61). The McCallum Constitution led to the Manning Constitution, which led to the Ceylonese having an unofficial majority in the then Legislative Council and by 1924 after further lobbying by the Ceylonese the Manning- Devonshire Constitution was passed, where by the majority of the Legislative Council were elected with a minority being appointed (Wijesinha 2005: 64). By this period, when the majority-rule principle was being implemented the Tamils began to demand for constitutional safeguards for minority rights.

It is noteworthy that the ideas about a Federal Ceylon after her independence were not voiced by the minorities but by the Sinhalese majority. The minorities may have been apathetic to the situation in the early 1900's due to their political strength. While it is clear that Sinhalese leaders were in favor of some degree of autonomy for the provinces. One of the first politicians to voice his opinion was S.W.R.D Banadaranaika, who ironically passed the Sinhalese only Act of 1956.

The introduction of the Donoughmore Constitution in 1931 named after Lord Donoughmore, the Chairman of the Commission, introduced new and radical reforms to Ceylon. The single most significant development was the adoption of universal suffrage (Wijesinha 2005: 67) and paving the way to representative democracy (Guruge 2006: 14). Many of the top politicians in Ceylon both Tamil and Sinhala spoke against universal suffrage, perhaps understanding the dangers of majoritarian politics that would evolve as a result of it (Wijesinha 2005: 67). Prior to the Donoughmore Constitution being implemented the minorities in Ceylon had a disproportional share of representation in politics due to members being appointed by the Governor and the number of representatives from each ethnic group not being wholly proportional to its population size. Donoughmore Constitution led to two other major developments - *the removal of representation based on ethnic lines* to be replaced by territorial representation with some safeguards for the minorities. The other development was to change what had been urban representation to a more rural one; thus, a new political landscape was created. Furthermore, it led to the unintended consequence of the possibility of 'political re-conquest' (Thangarajah 2000: 125) where the Sinhalese villager had the political capacity recapture political and

economic control over Ceylon that was mainly controlled by economic and social elites. The Donoughmore constitution emancipated the villager and gave them a political voice, the political leaders who depended on the urban elite were now accountable to the rural majority. The Tamil minority feared such a turn of events would be inevitable under the given set of circumstances. These concerns were materialized in the 1936 elections where minority representation was at a minimum (Wijesinha 2005: 70).

In a post-Donoughmore scenario some of the Sinhalese politicians saw the dangers of majority-based politics with minimum safeguards for minorities, though not much was done about it. While symbolic steps were taken such as placing a Tamil politician Arunchalam Mahadeva as the Home Affairs Minister (Wijesinha 2005: 71), more concrete efforts such as the demand by G.G Ponnambalam's for a 50:50 representation which would give all minorities equal representation was turned down. During the Second World War a Commission that was led by Lord Soulbury visited Ceylon to investigate if further autonomy could be given to the Ceylonese. The negotiations between D.S Senanayake, the then Chairman of Ministers, and Lord Soulbury led to the final independence of Ceylon in February 1948.

1.1 Soulbury Constitution

The new constitution was in essence a copy of the British Cabinet system and laid the foundation of the 'nation-state' (Uyangoda 1994: 104). The Soulbury Constitution drew up a unitary state with a centrist government. It had two Chambers, a Prime Minister with his/her Cabinet of Ministers. There was also a governor who would be appointed by the British Crown as its representative. The great issue at heart with the Soulbury constitution was the fact that it envisioned Ceylon as a unified nation state, which assumed a considerable degree of amalgamation of the races (Uyangoda 2000: 93), that was by the time of Ceylon's independence clearly lacking. On hindsight what Ceylon required was a constitution that engaged the state with the different ethnicities (Uyangoda: 93). The Soulbury Commission rejected the idea of 50:50 representation in parliament as a tool of preventing majoritarianism. The Commission instead incorporated three constitutional safeguards to protect minorities.

1. Distribution of seats in Parliament so that there was a semblance of a balanced representation between the minorities and majority, through multi-member constituencies. The first ever Ceylon parliament attempted to achieve a 60:40 balance between the Sinhalese and all other minorities. (Bastian 1993: 121)
2. There were safeguards against discriminatory laws, as laid down by the Section 29 of the Constitution. (Uyangoda 1994: 99; Bastian 1993: 121)
3. There was a second chamber where minorities could be appointed by the Governor (Bastian 1993: 121)

A provision in the Constitution required the consent of the British Parliament to make any amendments or changes to the Ceylon Constitution (Uyangoda 1994: 94). There were also other safeguards that were in the Constitution that in practice should have given some degree of security against majoritarian politics. The Constitution that was based on the British model had two houses, of which one was the Senate; whose major responsibility was to act as a check against the legislature. However, unlike in the British system the Ceylon Senate did not have an independent identity and was very much under the influence of the government of the time. The members of Parliament appointed half of the members while the rest was appointed by the Governor-General on the *advice* of the Prime Minister to the Senate (Wijesinha 2005: 75). This structure in essence guaranteed that the senate members were more of a rubber seal of the government than being its overseers.

The other major safeguard that was set in place was the fact that the Prime minister was not the head of the State but functioned under the Governor General of Ceylon. However, the Governor General was appointed by the Crown on the *advice* of the serving government or more specifically the Prime Minister, thus, not entirely independent of the government (Wijesinha 2005: 77). Thus, even though in principle the Soulbury Constitution had checks and balances, in reality these never materialized.

Annex 2

Clagehorn Minute (as quoted in K.M. de Silva 1998)

“Two different nations, from a very ancient period, have divided between them the possession of the island. First the Cingalese (sic) inhabiting the interior of the country, in its southern and western parts, from the river Walouve (sic – Walawe) to that of Chilow (sic – Chillaw), and secondly the Malabars (Tamils), who possess the northern and eastern districts. These two nations differ entirely in their religion, language and manners. The former, who are allowed to be the earlier settlers, derive their origin from Siam, professing the ancient religion of that country”

Extract from Vaddukodai resolution of 1976 (as quoted in K.M. de Silva 1998)

“Whereas throughout the centuries from the dawn of history, the Sinhalese and Tamil nations have divided between them the possession of Ceylon, the Sinhalese inhabiting the interior parts of the country in its southern and western parts from the river Walawe to that of Chilaw and the Tamils possessing the northern and eastern districts...(the TULF resolves that) Tanuk Eelam shall consist of the Northern and Eastern Provinces (of Sri Lanka).

Annex 3

Responsibilities of the Central and Provincial Governments According to the 13th Amendment to the Constitution

List 1

(Provincial Council List)

1. Police and Public order. - Public order and the exercise of police powers, to the extent set out in Appendix I, within the Province, but not including National Defence, National Security and the use of any armed forces or any other forces under the control of the Government of Sri Lanka in aid of the civil power, and not including the city of Colombo, Sri Jayewardenepura Kotte, and their environs the limits of which shall be specified by the President by Order published in the *Gazette*.

2. Planning - Implementation of provincial economic plans.

3. Education and Educational Services, - Education to the extent set out in Appendix III.

4. Local Government –

4 : 1 Local authorities for the purpose of local government and village administration, such as Municipal Councils, Urban Councils and Pradeshiya Sabhas, except that, the constitution, form and structure of local authorities shall be determined by law ;

4 : 2 Supervision of the administration of local authorities established by law, including the power of dissolution (subject to such quasi-judicial inquiries into the grounds for dissolution, and legal remedies in respect thereof, as may be provided by law, and subject to provisions relating to audit as may be provided by law) ;

4 : 3 Local authorities will have the Powers vested in them under existing law. Municipal Councils and Urban Councils will have the powers vested in them under the Municipal Councils Ordinance and the Urban Councils Ordinance, Pradeshiya Sabha will have the powers vested in them under existing law. It will be open to a Provincial Council to confer additional powers on local authorities but not to take away their powers ;

4 : 4 Gramodaya Mandalayas will have the powers vested in Gramodaya Mandalayas under existing law. It will be open to a Provincial Council to council to confer additional powers on Gramodaya Mandalayas.

5. Provincial Housing and Construction -

5 : 1 Implementing, co-ordinating, supervising and monitoring provincial housing development programmes and projects (other than National Housing Development Authority projects) including aided self-help housing projects, housing loans and the provision of building materials ;

5 : 2 The implementation of the Protection of Tenants Act and the Rent Act within a Province ;

5 : 3 Construction activity in respect of subjects in this List.

6. Roads and bridges and ferries thereon within the Province, other than -

(a) national highways ;

(b) bridges and ferries on national highways.

7. Social Services and Rehabilitation –

7 : 1 Probation and Child Care Services ;

7 : 2 The Rehabilitation of destitute persons and families ;

7 : 3 Rehabilitation and welfare of physically, mentally and socially handicapped persons ;

7 : 4 Relief of the disabled and unemployable.

8. Regulation of road passenger carriage services and the carriage of goods by motor vehicles within the Province and the Provisions of inter-provincial road transport services.

9. Agriculture and Agrarian Services –

9 : 1 Agriculture, including, agricultural extension, promotion and education for provincial purposes and agricultural services (other than in inter-provincial irrigation and land settlement schemes, State land and plantation agriculture) ;

9 : 2 Rehabilitation and maintenance of minor irrigation works ;

9 : 3 Agricultural research, save and except institutions designated as national agricultural research institutions.

10. Rural Development

11. Health –

11 : 1 The establishment and maintenance of public hospitals, rural hospitals, maternity homes, dispensaries (other than teaching hospitals and hospitals established for special purposes) ;

11 : 2 Public health services, health education, nutrition, family health, maternity and child care, food and food sanitation, environmental health ;

11 : 3 Formulation and implementation of Health Development Plan and of the Annual Health Plan for the Province ;

11 : 4 The provision of facilities for all institutions referred to in 1 above within the Province, excluding the procurement of drugs;

11 : 5 Awarding of Scholarships for Post-Graduate Education within Sri Lanka to personnel attached to the Institutions specified in 1 above.

12. Indigenous Medicine - Ayurveda, Siddha and Unani-

12 : 1 Establishment of Ayurvedic dispensaries and hospitals, grants to such dispensaries and hospitals ;

12 : 2 Establishment and maintenance of herbaria.

13 : 1 Resthouses maintained by local authorities ; and

13 : 2 Circuit bungalows presently administered by Government departments whose functions are exclusively specified in this List.

14. Pawnbrokers - Pawnbrokers other than pawnbrokers business carried on by Banks.

15. Markets, fairs.

16. Food supply and distribution within the Province.

17. Co-operatives –

17 : 1 Co-operative undertakings and the organization, registration, supervision and audit of co-operative societies within the province ;

17 : 2 Co-operative development within the Province including co-operative education and propaganda ;

17 : 3 Provincial Co-operative Employees Commission ;

17 : 4 Matters connected with employment, promotion, retirement and other connected matters of employees of co-operative societies within the Province.

18. Land. - Land, that is to say, rights in or over land, land tenure transfer and alienation of land, land use, land settlement and land improvement, to the extent set out in Appendix II.

19. Irrigation - Planning, designing, implementation, supervision and maintenance of all irrigation works, other than irrigation schemes relating to rivers running through more than one Province or inter provincial irrigation and land development schemes.

20. Animal husbandry. - Preservation, protection and improvement of stock and prevention of animal diseases within the Province.

21. Subject to the formulation and implementation of National Policy in regard to development and planning, the power to promote, establish and engage in agricultural, industrial, commercial and trading enterprises and other income-generating projects, within the Province without prejudice to the power of the Government and public corporations to have such enterprises and projects.

(This would include the promotion of scientific and industrial research within the Province and the preparation, co-ordination and the implementation of industrial development plans for the Province).

22. Reformatories, Borstal institutions and other institutions of a like nature and persons detained therein, arrangements with other Provinces for the use of such institutions.

23. Possession, transport, purchase and sale of intoxicating liquors.

24. Burials and burial grounds, cremations and cremation grounds, other than those declared by or under law made by Parliament to be national memorial cemeteries.

25 : 1 Libraries, Museums and other similar institutions controlled or financed by a Provincial Council;

25 : 2 Ancient and historical monuments and records other than those declared by or under law made by Parliament to be of national importance.

26. The regulation of mines and mineral development, to the extent permitted by or under any law made by Parliament, within the Province.

27. Incorporation, regulation and judicial winding up of corporations with objects confined to the Province, excluding trading corporations, banking, insurance and financial corporations.

28. Regulation of unincorporated trading, literary, scientific, religious and other societies and associations.

29 : 1 Theatres and dramatic performances, music, cinemas, entertainments and amusements, excluding the sanctioning of cinematograph films for exhibition and public performances.

29 : 2 Encouragement and development of sports (other than national sports associations).

30. Betting and gambling, other than imposition of licence fees and taxes.
31. Provincial debt.
32. Offences against statutes with respect to any of the matters specified in this List.
33. Fees in respect of any of the matters in this List, excluding fees taken in any court.
34. Development, conservation and management of sites and facilities in the Province for the generation and promotion of electrical energy (other than hydro-electric power and power generated to feed the national grid).
35. The borrowing of money to the extent permitted by or under any law made by Parliament ;
- 36 : 1 Turnover taxes on wholesale and retail sales within such limits and subject to such exemptions as may be prescribed by law made by Parliament ;
- 36 : 2 Betting taxes, and taxes on prize competitions and lotteries, other than National Lotteries and lotteries organized by the Government of Sri Lanka ;
- 36 : 3 Licence taxes, arrack, toddy rents, tapping licence fees, and liquor licence fees ;
- 36 : 4 Motor vehicle licence fees within such limits and subject to such exemptions as may be prescribed by law made by Parliament ;
- 36 : 5 Dealership licence taxes on drugs and other chemicals ;
- 36 : 6 Stamp duties on transfer of properties, such as lands and motor cars ;
- 36 : 7 Toll collections ;
- 36 : 8 Fines imposed by courts ;
- 36 : 9 Fees charged under the Medical Ordinance ;
- 36 : 10 Fees charged under the Motor Traffic Act ;
- 36 : 11 Departmental fees in respect of any of the matters specified in this List ;
- 36 : 12 Fees under the Fauna and Flora Protection Ordinance ;
- 36 : 13 Fees on lands alienated under the Land Development Ordinance and Crown Lands Ordinance ;
- 36 : 14 Court fees, including stamp fees on documents produced in court ;

- 36 : 15 Regulatory charges under the Weights and Measures Ordinance ;
- 36 : 16 Land revenue, including the assessment and collection of revenue, and maintenance of land records for revenue purposes ;
- 36 : 17 Taxes on lands and buildings including the property of the State to the extent permitted by law made by Parliament ;
- 36 : 18 Taxes on mineral rights within such limits and subject to such exemptions as may be prescribed by law made by Parliament ;
- 36 : 19 Licensing fees on the possession, transport, purchase and sale of intoxicating liquors ;
- 36 : 20 Other taxation within the Province in order to raise revenue for provincial purposes to the extent permitted by or under any law made by Parliament.
37. Protection of environment within the Province to the extent permitted by or under any law made by Parliament.

LIST II

(Reserved List)

National Policy on all Subjects and Functions.

Defence and National Security : Internal Security Law and order and prevention and detection of crime except to the extent specified in item 1 of List I.

This would include -

- (a) Defence of Sri Lanka and every part thereof including preparation for defence and all such acts as may be conducive in times of war to its prosecution and after its termination, to effective demobilisation ;
- (b) Naval, military and air forces; any other armed forces of the Government of Sri Lanka ;
- (c) Deployment of any armed force of the Government of Sri Lanka or any other force subject to the control of the Government of Sri Lanka or any contingent or unit thereof in any Province in aid of the civil power ; powers, jurisdiction, privileges and liabilities of the members of such forces while on such deployment ;

- (d) Delimitation of cantonment areas, local self-government in such areas, the constitution and powers within such areas of cantonment authorities and the regulation of house accommodation (including the control of rents) in such areas ;
- (e) Naval, military and air force works ;
- (f) Arms, firearms, ammunition and explosives ;
- (g) Atomic energy and mineral resources necessary for its production ;
- (h) Industries declared by Parliament by law to be necessary for the purpose of defence or for the prosecution of war ;
- (i) Criminal Investigation Department ;
- (j) Preventive detention for reasons connected with Defence, Foreign Affairs, or the security of Sri Lanka, persons subjected to such detention ; and
- (k) Extension of the powers and jurisdiction of members of a police force belonging to any Province to any area outside that Province, but not so as to enable the police of one Province to exercise powers and jurisdiction in any area outside that Province without the consent of the Provincial Council in which such area is situated ; extension of the powers and jurisdiction of members of a police force belonging to any Province to railway areas outside that Province.

Foreign Affairs

This would include -

- (a) Foreign Affairs ; all matters which bring the Government of Sri Lanka into relation with any foreign country ;
- (b) Diplomatic, consular and trade representation ;
- (c) United Nations Organization ;
- (d) Participation in international conferences, associations and other bodies and implementing of decisions made thereat ;
- (e) Entering into treaties and agreements with foreign countries and implementing treaties, agreements and conventions with foreign countries ;
- (f) War and peace ; and

(g) Foreign jurisdiction.

Posts and Telecommunications ; Broadcasting ; Television

This would include -

- (a) Posts and telegraphs ; telephones ; wireless, broadcasting and other like forms of communications ; and
- (b) Sanctioning of cinematograph films for exhibition.

Justice in so far as it relates to the judiciary and the courts structure

This would include -

- (a) Constitution, organization, jurisdiction and powers of the Supreme Court (including contempt of such Court), and the fees taken therein; persons entitled to practise before the Supreme Court, Court of Appeal and other Courts ;
- (b) Constitution, Organisation, jurisdiction and powers of the Court of Appeal, and the fees taken therein ; and
- (c) Jurisdiction and powers of all courts, except the Supreme Court and the Court of Appeal.

Finance in relation to national revenue, monetary policy and external resources ; customs

This would include -

- (a) Public debt of the Government of Sri Lanka ;
- (b) Currency, coinage and legal tender ; foreign exchange ;
- (c) Foreign loans ;
- (d) Central Bank ;
- (e) National Savings Bank ;
- (f) Lotteries organised by the Government of Sri Lanka or a Provincial Council ;

- (g) Banking ;
- (h) Bills of exchange, cheques, promissory notes and other like instruments;
- (i) Insurance ;
- (j) Stock exchanges and futures markets ;
- (k) Audit of the accounts of the Government of Sri Lanka and of the Provinces ;
- (l) Taxes on income, capital and wealth of individuals, companies and corporations ;
- (m) Customs duties, including import and export duties, and excise duties;
- (n) Turnover taxes and stamp duties, except to the extent specified in List I ;
- (o) any other tax or fee not specified in List I.

Foreign Trade ; Inter-Province Trade and Commerce

This would include-

- (a) Trade and commerce with foreign countries ; import and export across customs frontiers ; definition of customs frontiers ; and
- (b) Inter-province trade and commerce.

Ports and Harbours

This would include -

- (a) Ports declared by or under law made by Parliament or existing law to be major ports including their delimitation, and the constitution and powers of port authorities therein ; and
- (b) Port quarantine, including hospitals connected therewith ; seamen's and marine hospitals.

Aviation and Airports

This would include-

Airways ; aircraft and air navigation ; provision of aerodromes ; regulation and Organisation of air traffic and of aerodromes ; provision for aeronautical education and training and regulation of such education and training provided by Provinces and other agencies.

National Transport

This would include-

- (a) Railways ;
- (b) Highways declared by or under law made by Parliament to be national highways; and
- (c) Carriage of passengers and goods by railway, land, sea or air, or by national waterways in mechanically propelled vessels.

Rivers and Waterways ; Shipping and Navigation ; Maritime zones including Historical Waters, Territorial Waters, Exclusive Economic zone and Continental Shelf and Internal Waters ; State Lands and Foreshore, Except to the Extent specified. in Item 18 of List I.

This would include –

- (a) Piracies and crimes committed on the high seas or in the air ; offences against the law of nations committed on land or the high seas or in the air ;
- (b) Shipping and navigation on inland waterways, declared by Parliament by law to be national waterways, as regards mechanically propelled vessels ; the rule of the road on such waterways ;
- (c) Maritime shipping and navigation, including shipping and navigation on tidal waters ; provision of education and training for the mercantile marine and regulation of such education and training provided by Provinces and other agencies ;
- (d) Lighthouses, including lightships, beacons and other provision for the safety of shipping and aircraft ;
- (e) Regulation and development of inter province rivers ; and river valleys to the extent to which such regulation and development under the control of the Government of Sri Lanka is declared by Parliament by law to be expedient in the public interest ;
- (f) Fishing and fisheries beyond territorial waters ; and
- (g) Property of the Government of Sri Lanka and the revenue therefrom, but as regards property situated in a province, subject to statutes made by the Province save in so far as Parliament by law otherwise provides.

Minerals and Mines

This would include-

- (a) Regulation and development of oilfields and mineral oil resources ; petroleum and petroleum products ; other liquids and substances declared by Parliament by law to be dangerously inflammable ; and
- (b) Regulation of mines and mineral development to the extent to which such regulation and development under the control of the Government of Sri Lanka is declared by Parliament by law to be expedient in the public interest.

Immigration and Emigration and Citizenship

This would include-

- (a) Citizenship, naturalization and aliens ;
- (b) Extradition ; and
- (c) Admission into, and emigration and expulsion from, Sri Lanka passports and visas.

Elections Including Presidential, Parliamentary, Provincial Councils and Local Authorities

This would include-

Elections to Parliament, Provincial Councils, Local Authorities and to the Office of President ; the Department of Elections.

Census and Statistics

This would include-

- (a) Census ; and
- (b) Inquiries, surveys and statistics for the purposes of any of the matters in this List.

Professional Occupations and Training

This would include-

- (a) Institutions, such as Universities, declared by Parliament by law to be institutions of national importance ;
- (b) Institutions for scientific or technical education by the Government of Sri Lanka wholly or in part and declared by Parliament by law to be institutions of national importance ;

(c) Provincial agencies and institutions for -

(i) professional, vocational or technical training, including the training of police officers ; or

(ii) the promotion of special studies or research; or

(iii) scientific or technical assistance in the investigation or detection of crime ; and

(d) Co-ordination and determination of standards in institutions for higher education or research and scientific and technical institutions.

National Archives ; Archaeological Activities and Sites and Antiquities declared by or under any law made by Parliament to be of National Importance

This would include-

Ancient and historical monuments and records, and archaeological sites and remains declared by or under law made by Parliament to be of national importance.

All Subjects and Functions not Specified in List I or List III including –

(a) Pilgrimages to places outside Sri Lanka ;

(b) Incorporation, regulation and winding up of trading corporations, including banking, insurance and financial corporations but not including co-operative societies ;

(c) Incorporation, regulation and winding up of corporations, whether trading or not, with objects not confined to one province, but not including universities ;

(d) Patents, inventions and designs ; copyright, trade marks and merchandise marks ;

(e) Establishment of standards of weight and measure ;

(f) Establishment of standards of quality for goods to be exported out of Sri Lanka or transported from one province to another ;

(g) Industries, the control of which by the Government of Sri Lanka is declared by Parliament by law to be expedient in the public interest ;

(h) Regulation of labour and safety in mines ;

(i) Manufacture, supply and distribution of salt by agencies of the Government of Sri Lanka ; regulation and control of manufacture, supply and distribution of salt by other agencies ;

- (j) Cultivation, manufacture, and sale for export, of opium ;
- (k) Industrial disputes concerning employees of the Government of Sri Lanka ;
- (l) Institutions such as Museums and War Memorials financed by the Government of Sri Lanka wholly or in part and declared by Parliament by law to be institutions of national importance ;
- (m) The Survey of Sri Lanka, the Geological, Botanical, Zoological and Anthropological Surveys of Sri Lanka ; Meteorological organizations ;
- (n) National Public Services ; National Public Service Commission ;
- (o) Pensions, that is to say, pensions payable by the Government of Sri Lanka or out of the Consolidated Fund ;
- (p) Salaries and allowances of Members of Parliament, and the Speaker and Deputy Speaker of Parliament ;
- (q) Powers, privileges and immunities of Parliament and of the members and the Committees of Parliament ; enforcement of attendance of persons for giving evidence or producing documents before Committees of Parliament or Commissions appointed by Parliament ;
- (r) Emoluments, allowances, privileges, and rights in respect of leave of absence, of the President and Governors ; salaries and allowances of the Ministers of the Government of Sri Lanka ; the salaries, allowances and rights in respect of leave of absence and other conditions of service of the Auditor-General ;
- (s) Inter-Province migration ; inter-province quarantine ;
- (t) Offences against laws with respect to any of the matters in this List; and
- (u) Fees in respect of any of the matters in this List, but not including fees taken in any Court.

LIST III

(Concurrent List)

1. Planning -

1 : 1 Formulation and appraisal of plan implementation strategies at the provincial level ;

1 : 2 Progress control ;

1 : 3 Monitoring progress of public and private sector investment programmes ;

1 : 4 The evaluation of the performance of institutions and enterprises engaged in economic activities ;

1 : 5 The presentation of relevant data in the achievement of plan targets ;

1 : 6 The dissemination of information concerning achievement of plan targets ;

1 : 7 Publicity of implementation programmes ;

1 : 8 Manpower planning and employment Data Bank ;

1 : 9 Nutritional planning and programmes.

2. and 3. Education and Educational Services. - Education, except to the extent specified in items 3 and 4 of List I.

4. Higher Education -

4 : 1 The establishment and maintenance of new Universities.

4 : 2 The establishment of degree awarding institutions under the Universities (Amendment) Act, No. 7 of 1985, and other institutions for tertiary, technical and post-school education and training.

5. National Housing and Construction. -The promotion of integrated planning and implementation of economic, social and physical development of urban development areas.

6. Acquisition and requisitioning of Property.

7. Social Services and Rehabilitation-

7 : 1 Relief, rehabilitation and resettlement of displaced persons ;

7 : 2 Relief of distress due to floods, droughts, epidemics or other exceptional causes and rehabilitation and resettlement of those affected ;

7 : 3 Restoration, reconstruction and rehabilitation of towns, villages, public institutions and properties, industries, business places, places of worship and other properties destroyed or damaged, grant of compensation or relief to persons of institutions who have sustained loss or damage and the reorganization of civil life.

8. Agricultural and Agrarian Services –

8 : 1 Establishment and promotion of agro-linked industries, the establishment and maintenance of farms and supervision of private nurseries ;

8 : 2 Soil conservation ;

8 : 3 Plant pests.

9. Health -

9 : 1 Schools for training of Auxiliary Medical Personnel ;

9 : 2 The supervision of private medical care, control of nursing homes and of diagnostic facilities within a Province ;

9 : 3 Population control and family planning ;

9 : 4 Constitution of Provincial Medical Boards.

10. Registration of births, marriages and deaths.

11. Renaming of Towns and Villages.

12. Private lotteries within the Province.

13. Festivals and Exhibitions.

14. Rationing of food and maintenance of food stocks.

15. Co-operatives, - Co-operative Banks.

16. Surveys - For the purpose of any of the matters enumerated in the Provincial or Concurrent List.

17. Irrigation -

17 : 1 Water storage and management, drainage and embankments, flood protection, planning of water resources ;

17 : 2 Services provided for inter-provincial land and irrigation schemes, such as those relating to rural development, health, education, vocational training, co-operatives and other facilities.

18. Social Forestry and protection of wild animals and birds.

19. Fisheries. - Other than fishing beyond territorial waters.

20. Animal Husbandry -

20 : 1 Production, processing, distribution and sale of livestock and livestock products ;

20 : 2 Veterinary training services and research, inclusive of the provision of science laboratories and science equipment ;

20 : 3 Animal breeding, care and health,

20 : 4 The establishment of pastures.

21. Employment -

21 : 1 Employment planning at Provincial level ;

21 : 2 Special Employment programmes relating to the Province ;

21 : 3 Promotion of youth employment activities relating to the Province ;

21 : 4 Technical Manpower Development Programmes in relation to the Province.

22. Tourism. - Development and control of the Tourist Industry in the Province.

23. Trade and commerce in, and the production, supply and distribution of –

(a) the products of any industry where the control of such industry by the Government is declared by Parliament by law to be expedient in the public interest, and imported goods of the same kind as such products ; and

(b) foodstuffs and cattle fodder.

24. Newspapers, books and periodicals and printing presses.

25. Offences against statutes with respect to any matters specified in this List.

26. Fees in respect of any of the matters in this List, excluding fees taken in any Court.

27. Charities and charitable institutions, charitable and religious endowments and religious institutions.

28. Price control.

29. Inquiries and statistics for the purpose of any of the matters in this List or in the Provincial Council List.

30. Adulteration of foodstuffs and other goods.

31. Drugs and Poisons.

32. Extension of electrification within the Province and the promotion and regulation of the use of electricity within the Province.

33. Protection of the environment.

34. Archaeological sites and remains, other than those declared by or under any law made by Parliament to be of national importance.

35. Prevention of the extension from one Province to another of infectious or contagious diseases or pests affecting human beings, animals or plants.

36. Pilgrimages.

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Acronyms

APRC – All Party Representative Committee

BC Pact – Bandaranaike-Chelvanayakam Pact

CBSL – Central Bank of Sri Lanka

CFA – Ceasefire Agreement (2001-2008)

CIMA – Chartered Institute of Management Accountants

EPDP – Eelam People’s Democratic Party

EPRLF – Eelam People’s Revolutionary Liberation Front

EROS – Eelam Revolutionary Organisation of Students

FC – Finance Commission

FP – Federal Party

GDP – Gross Domestic Product

GSP – Generalised System of Preferences

IDP – Internally Displaced Persons

IMF – International Monetary Fund

ISI – Import Substitution Industrialisation

LKR – Sri Lankan Rupee

LTTE – Liberation Tamil Tigers of Eelam

NE – North East

NERF - North East Reconstruction Fund

PC – Provincial Council

PLOTE – People’s Liberation Organistaion of Tamil Eelam

PRGF – Poverty Reduction Growth Facility

SCOPP - Secretariat for Coordinating the Peace Process

SIHRN - Sub-Committee on Immediate Humanitarian and Rehabilitation Needs in the North and East

SLFP – Sri Lanka Freedom Party

TELO – Tamil Eelam Liberation Organisation

UF – United Front (1970-1977)

UNDP – United Nations Development Program

UNP – United National Party

UPFA – United People’s Freedom Alliance (2005- present)

TULF – Tamil United Liberation Front