Buying peace?

A critical review of donors' attempts to apply peace conditionality in the Sri Lankan peace process

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Chapter One: Introduction and Background

1.1   Introduction

Since the end of the Cold War, the international community has been experimenting with diplomatic, economic and military instruments in order to respond to internal armed conflict. The type of engagement has included mediation and facilitation of talks, diplomatic pressure, different types of sanctions, and military intervention. Since the end of the Cold War there has been a fourfold increase in peacemaking activities, the number of UN peacekeeping operations have more than doubled and the number of UN sanctions on regimes have increased more than fivefold (Human Security Centre 2006: 153-154). In short, 'the end of the Cold War set off an explosion of international activism directed toward stopping ongoing wars and preventing wars that had ended from starting up again' (ibid.: 148).

In the same period, there has been an increasing recognition among development actors of how development assistance can influence the dynamics of conflict. A number of donors, such as Norway, the Netherlands, Canada and the UK, have attempted to integrate conflict analysis and peacebuilding strategies into their work. In the foreword to the report *Peacebuilding – a Development Perspective* (Norwegian MFA 2004: 3), the former Norwegian Minister of International Development Hilde Frafjord Johnson points out that 'preventing conflict and making, keeping and building peace is a priority in Norwegian foreign policy. This also applies to development policy'. Furthermore, she stresses that 'peace negotiations must be supplemented by a broad range of measures to advance security and political, social and economic development' (ibid.).

The aim of this thesis is to assess international donors' attempts to use aid to promote peace in Sri Lanka.[1] The thesis will especially focus on the period from the signing of the Ceasefire Agreement (CFA) in 2002 until the Tsunami hit the shores of Sri Lanka Christmas 2004.[2]

International donors have on several occasions made it clear that they will apply *peace conditionality* in order to propel the peace process forward. What is clear, however, is that the strategy has not been successful: the peace process derailed already in April 2003, and the situation continued to deteriorate throughout 2003 and 2004. Today, five years after the signing of the CFA, the peace process hangs 'in the balance of a fragile no-war-no-peace situation' (Frerks & Klem 2006: 27).

This thesis is based on the presupposition that peace conditionality can be an important pacifying tool. On that basis, the purpose of the thesis is to assess why donors' strategy has not had the intended effects in Sri Lanka. Why have donors not been able to buy peace? Have donors' intentions to link aid to peace been carried out in practice? And if yes, why have the specific strategies and approaches failed?

1.2   Defining peace conditionality

Peace conditionality can be defined as 'the use of aid to persuade conflicting parties to make peace, to implement a proposed peace accord, and to consolidate peace' (Frerks 2006: 16). The concept implies that aid disbursements are made conditional on certain actions by the recipients, and the failure to comply with these requirements will lead to changes in donor behaviour. Peace conditionality includes incentives as

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[1] *Aid* in this thesis primarily implies development assistance, and not humanitarian assistance. The common view within the donor community is that conditionality can be applied to reconstruction and development aid, but that humanitarian assistance should be unconditional. As Boyce (2003: 3) points out, 'ethically, it would be untenable to punish vulnerable people for the sins of their leaders…and practically, the leaders may not be terribly sensible to humanitarian needs'.

[2] The Tsunami changed the setting in Sri Lanka dramatically, and it was no longer possible for donors to link aid only to developments in the peace process. As noted by Goodhand et.al. (2005: 94) 'the threat of withholding aid has no leverage whatsoever in an environment that is completely "over-aided"'. The impact of the Tsunami-related aid on the peace process is certainly interesting, but it lies beyond the scope of this thesis. This thesis will focus on the period of time when donors had a real possibility to link disbursements to developments on the ground, and the thesis will consequently only assess donors' actions up until the end of 2004.

well as disincentives: a promise of increased assistance in the case of compliance, as well as a threat of reduced assistance in the case of non-compliance. It is assumed that economic (dis)incentives[3] will affect the strategic calculations of the parties, and that the parties will opt for peace when the expected utility of peace is higher than the expected utility of continued fighting.

Uvin (1999: 5) argues that donors seek four broad categories of objectives as they apply peace conditionality: 1) international donors seek to influence actors' behaviour and encourage the parties to behave in a pro-peace manner, or to discourage from the opposite; 2) donors seek to modify actors' capacities, i.e. strengthen the capacities of actors already behaving in a pro-peace manner to do more of the same, or to weaken those with an opposite attitude; 3) donors attempt to use aid to modify the nature of interactions between social groups in society to become more inclusive and less violent; and 4) donors seek to change the social and economic environment in which conflict and peace dynamics take place.

1.3   Historical background to the conflict in Sri Lanka

The conflict in Sri Lanka has deep historical roots, and it is beyond the scope of this thesis to provide a detailed and comprehensive analysis of the background to the conflict. As Frerks and Klem (2006: 14) note, the conflict 'is a complex, multi-actor, multi-level, multi-faceted and multi-causal phenomenon that is difficult to delineate according to a uniform description'. In order to assess why aid has not served as a pacifying tool in Sri Lanka, however, it is necessary to provide an overview of the most basic events in the conflict between the Government of Sri Lanka and the Liberation Tigers of Tamil Eelam (LTTE).[4]

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[3] The terms "peace conditionalities" and "economic (dis)incentives" will be used interchangeably in this thesis.

[4] Though the analysis in this thesis will focus on the period 2002-2004, this introductory chapter will also point to more recent developments in Sri Lanka as this is regarded as necessary background information.

Sri Lanka is a society that is divided along ethnic, religious, linguistic, cultural and historic lines. Of a population of around 20 million, 74% are Sinhalese, around 9% Tamils and around 7% Sri Lankan Moors (CIA World Factbook 2007). The Sinhalese are mainly Buddhist, the Tamils are mainly Hindu, while the Moors are mainly Tamil-speaking Muslims.

The small island of Sri Lanka at the southern tip of India was united as a crown colony called Ceylon in 1815 and remained under British rule until independence in 1948. Unlike the situation in many other parts of the British colonial empire, the transition to independence was comparatively peaceful.

Already at independence, however, there were signs that the country's constitutional structure could be the source of considerable inter-group friction (Nissan 1998: 10). There had been little debate or struggle over the identity and form of the state, and the independent state was established in accordance with the colonial legacy of centralisation (Goodhand 2001: 30). The Tamils and other minorities feared that the constitution would not provide adequate protection against the majority, and it soon became evident that their fears were grounded in reality. Sinhala soon became the sole official language, a quota system for entrance to universities was introduced with the effect that Tamil speaking students had to get higher marks for university entrance than their Sinhalese counterparts, and the new constitution that was passed in 1972 afforded Buddhism the 'foremost place' in the country. The government also introduced a series of land, employment, settlement and development programmes that were perceived as favouring the Sinhalese population (Frerks and Klem 2006: 14).

From independence until 1972, Tamil leaders responded to the Sinhalese domination with peaceful calls for increased local autonomy in the Tamil-dominated North-East. From the mid-1970s, however, a 'new militancy grew up within Tamil politics' (Nissan 1998: 14). The LTTE was formed in 1976, and it soon became the most prominent and powerful Tamil group.

A steady increase in violence and tension on all sides culminated in an open armed conflict in 1983. This has been characterised as the definitive turning point in the conflict: 'from that point the conflict escalated into a full-blown war that lasted until the conclusion of a Cease-Fire Agreement on 22 February 2002' (Frerks and Klem 206: 10). From 1983 Tamil militant recruitment increased dramatically, and by mid 1985 the militants had gained the upper hand in the Jaffna peninsula (Nissan 1998: 17-18).

In June 1990, the government started a new campaign against the LTTE, including bombing of Jaffna. Both sides engaged in countless massacres, disappearances and political killings. In 1994 Chandrika Bandaranaike Kumaratunga from the People's Alliance (PA) won the parliamentary elections in Sri Lanka on a peace agenda. However, in April the following year talks between the parties collapsed, and Kumaratunga adopted a so called 'war-for-peace strategy': the aim was to weaken the LTTE and at the same time work for a political solution within the framework of a unified Sri Lanka.

In February 2000 it became publicly known that Norway had been requested by the LTTE and the government to facilitate talks between the parties. The CFA was eventually signed on 22 February 2002, and within the next year, six rounds of peace talks were held in various parts of the world. At the third round of peace talks in December 2002, the parties decided to 'explore a solution founded on the principle of internal self-determination…based on a federal structure within a united Sri Lanka' (Norwegian MFA, 2002c).

The peace process went through a number of minor and larger crises the following years, but the parties did largely comply with the CFA. In August 2005, however, Foreign Minister Lakshman Kadirgamar was assassinated and a state of emergency declared. Prime Minister Rajapakse won the presidential elections in November the same year, and the situation soon deteriorated. At new talks in Geneva in February 2006 the government and the LTTE declared that they were 'committed to respecting

and upholding the Ceasefire Agreement' (Norwegian MFA 2006), but there followed another marked escalation in violence.

When these words are written in May 2007, the situation in Sri Lanka is far from encouraging: about 4000 people have been killed since Rajapakse's electoral victory (BBC 2007), and there appears to be little prospect for peace talks to resume in the imminent future.

1.4   Rationale, research question and hypotheses

Sri Lanka is an interesting and important case when studying international actors' responses to internal armed conflict. The peace process has received substantial international support, and a number of instruments, not only peace conditionality, have been applied in order to attempt to propel the peace process forward. The peace process was also for quite some time regarded as a remarkable success and it was often portrayed as a model for other peace processes.[5] Yet, all attempts at bringing peace to the island have failed and it is consequently regarded as important for researchers to ascertain what could have been done differently.

International donors to Sri Lanka have on several occasions pointed to the connections between development assistance and peace. For instance, after the first round of formal peace talks in 2002, the parties issued a joint statement where they urged 'donors to provide immediate funding for humanitarian priorities' (Norwegian MFA 2002b). The justification given was that this would 'enhance public confidence in the peace process and thus contribute to the further progress in the quest for peace in Sri Lanka' (ibid.). The importance of aid, and the alleged links between aid and peace, was reaffirmed in the following rounds of peace talks. At a major development conference in Tokyo in June 2003, donors pointed to the importance of 'urgent humanitarian assistance as well as medium to long-term assistance to rebuild the

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[5] For instance, in 2003 the US Deputy Secretary of State Richard Armitage claimed that Sri Lanka could be 'a nation with lessons to offer the world about how to move from despair to hope, from intractable conflict to workable concord' (Armitage 2003).

conflict-affected areas in the North and East, and to assist in the development of the entire country' (Tokyo Declaration, 2003). Importantly, it was also noted by the donors that assistance should be 'closely linked to substantial and parallel progress in the peace process' (ibid.). The Japanese Special Envoy to Sri Lanka, Yasushi Akashi, reaffirmed as late as in November 2006 that future aid to Sri Lanka will be made conditional on developments in the peace process (Dagbladet, 22 November 2006).

The successful use of peace conditionality would imply progress in the peace process. As the situation in Sri Lanka has deteriorated significantly since 2002, there can be little doubt that donors' strategy has been ineffective, or at the best less than optimally effective.[6] We can consequently formulate the following research question:

> *Why has aid not served as a pacifying tool in Sri Lanka despite donors stated intentions to link disbursements to developments in the peace process?*

Some would argue that peace conditionality in itself is an inappropriate and ineffective instrument in promoting peace. The argument is that the road to peace runs through the resolution of the major political and security obstacles, and that economic (dis)incentives have limited impact. It lies beyond the scope of this thesis to attempt to scientifically prove the effectiveness of peace conditionality. As mentioned above, in this thesis it will simply be assumed that aid, when used correctly and combined with other policy instruments, can act as a significant catalyst to promote peace. This assumption is based on rational choice theory, and the claim will be substantiated in the next chapter.[7]

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[6] One cannot conclude *a priori* that peace conditionality has made no impact at all on the peace process. The situation could obviously have been even worse without the use of peace conditionality. However, as there has been no progress in the peace process, the use of peace conditionality has clearly been less than optimally effective.

[7] It should be noted, however, that no one expects that aid *alone* will be sufficient to induce the parties to bury their arms forever. Peace processes are complex issues, and there are obviously a number of factors determining whether a process ends in success or failure. The thesis will merely assume that aid will affect the calculations of the parties, and that it consequently can be used to promote peace.

If we take as a starting point that peace conditionality can be an effective instrument in promoting peace, we are left with two other possible explanations as to why there has been a lack of results in Sri Lanka. First, peace conditionality will obviously not be effective unless it is implemented in practice. Implementation implies that actual aid disbursements are linked directly to developments in the peace process. We know that donors *intended* to link disbursements to developments on the ground, but we do not know whether rhetoric has been turned into practice. It could be the case that the strategy has failed simply because donors have been unable to follow up on their stated intentions. We could consequently formulate the following hypothesis:

H1:   The strategy has been ineffective because actual aid disbursements have not been linked to developments in the peace process.

Second, if we find that international donors indeed have linked aid disbursements to developments in the peace process, the lack of success must be explained with reference to the specific strategies and approaches that have been adopted. There might be problems related to the amount and type of development assistance, for instance that the incentives have not been sufficiently valuable to the parties, or there might be problems related to sequencing and timing. Furthermore, peace conditionality might not have been applied equally to all parties in the conflict, or donors might have failed to account for other interests of the parties, such as security-related interests. In short, there has been something wrong with the way peace conditionality has been implemented, and we can formulate the following hypothesis:

H2:   The strategy has failed because the specific approach to peace conditionality that has been applied in Sri Lanka has been unsuitable.

In other words, we assume that the lack of results in Sri Lanka is a consequence of either the failure to link actual aid disbursements to developments in the peace process, or it is a consequence of an unsuitable design of the peace conditionalities. H2 is only relevant insofar as H1 is rejected, i.e. if we find that disbursements indeed have been linked to developments in the peace process.

1.5   Structure of the thesis

The next chapter, *chapter two*, will take rational choice theory as a starting point and argue that it is reasonable to assume that economic (dis)incentives affect the strategic calculations of conflicting parties. The chapter will also draw on existing literature and discuss variables influencing donors' possibilities to implement peace conditionality, as well as variables influencing the effectiveness of peace conditionality. *Chapter three* will account for the methodological choices that have been made in the process of writing this thesis. *Chapter four* constitutes the analysis of the thesis, and the chapter will critically assess donors' actions and strategies in the planning and implementation of peace conditionality in Sri Lanka. Taking the two hypotheses as starting points, the chapter will assess to what extent disbursements have been linked to developments in the peace process, and if we find that peace conditionality indeed has been implemented, the chapter will also assess the way this has been carried out in practice. *Chapter five* concludes this thesis by summarising the findings and discussing implications for donors' future operations in Sri Lanka.

Chapter two: Theoretical Framework

2.1 Introduction

The assumption that one can buy peace is closely related to the tradition of rational choice theory. According to this theory, actors calculate the costs and benefits of different courses of action, and choose the line of action that will maximise their expected utility. It is consequently assumed that if a party to a conflict can gain more from a settlement than from continued fighting, a rational actor would opt for the former.

This thesis is based on the assumption that peace conditionality can be an important pacifying tool. It is beyond the scope of the thesis, however, to attempt to scientifically prove the effectiveness of peace conditionality. A larger comparative study would probably be more suitable if that was the intention. In this chapter it will merely be argued that it is *reasonable to assume* that peace conditionalities affect the calculations of conflicting parties, and that economic (dis)incentives consequently can influence the dynamics of peace and war.

This chapter starts out by an introduction to rational choice theory, with a special focus on rationality in times of violent conflict. The purpose of this section is to substantiate the claim that peace conditionality can be an important pacifying tool. The final section of the chapter will draw on existing literature and discuss some of the most important variables influencing the implementation and effectiveness of peace conditionality.

2.2 A rational choice approach

The purpose of rational choice theory is to explain human behaviour. It is assumed that agents calculate the costs and benefits of different courses of actions and choose the action they believe is likely to have the best overall outcome. Rational choice theory proceeds in two steps (Elster 1989: 30): the first step is to determine what a rational person would do under the given circumstances; the second step is to

ascertain whether this is what the person under investigation actually did. According to rational choice theory, decisions are instrumentally guided by the outcome of actions: 'Actions are valued and chosen not for themselves, but as more or less efficient means to a further end' (ibid.: 22).

A standard view of rational choice theory is illustrated in Figure 2.1 below (from Elster 1989: 31):

Fig. 2.1 A standard view of rational choice theory
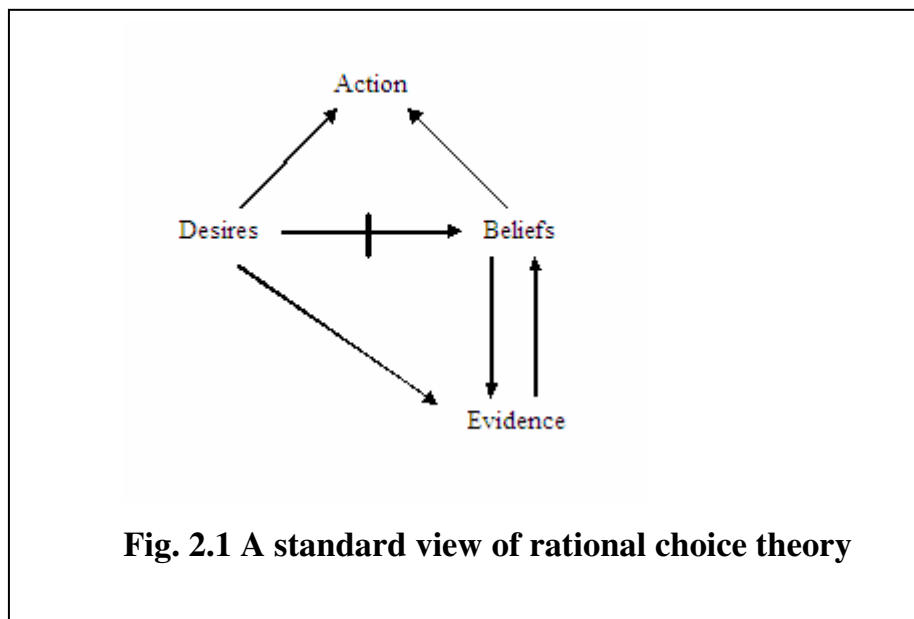
Elster (1989: 30-31) claims that an action is rational if it is the final result of three optimal decisions, represented by the unblocked arrows in the figure. First, the action has to be the best means of realising the agent's desires, given his beliefs about ends-means relationships and other factual matters. Second, these beliefs themselves have to be optimal, given the information available to the agent. Importantly, the process of belief formation must not be distorted by mistakes caused by motivational biases, represented by the blocked arrow from desires to beliefs. Third, the agent must collect an optimal amount of evidence, neither too much nor too little. Desires are the only independent element in the process, to which all others are subservient.

Karl von Clausewitz' famous dictum that war is the continuation of politics by other means can be said to be based on rational logic: it is assumed that political leaders

consider the costs and benefits of war in relation to other instruments available, and rational leaders would opt for war only if the expected utility is greater than the expected utility of remaining at peace. According to rational choice theory, wars occur when no negotiated settlements exist that all parties would prefer to the gamble of military conflict (Fearon 1995: 383).

In this thesis the focus is on the reasons of peace, rather than on the reasons of war. Following rational choice theory one could argue that a party's decision to pursue its goals through either continued warfare or through negotiations rests on the costs and benefits of using each method. 'A reasonable actor will stop fighting when the expected gains of continuing the war reach a very low or unacceptable point' (Massoud 1996: 493). Importantly, a *threat* of punishment or a *promise* of a reward may motivate people as much as the actual punishment or reward (Scott 2000).

Wittman (1979: 744), focusing on interstate conflict, argues that if war is to be ended by a negotiated settlement, rather than victory by one of the parties, both parties must prefer the terms of the settlement to the expected value of continuing warfare: 'for each country the expected utility of continuing the war must be less than the expected utility of the settlement'. This principle through which negotiators determine their resistance points is commonly referred to as BATNA (*Best Alternative to a Negotiated Agreement*) in the theory on negotiations (Hopmann 1996: 57-58). Based on Wittman's model of the ending of interstate wars, Mason and Fett (1996) have developed a rational choice model of the decision process by which parties involved in civil war opt for a negotiated settlement rather than continue fighting. They argue that the likelihood that both the government and the rebels will agree to a settlement depends on each party's estimate of its probability of victory, its expected payoffs from victory versus those from a settlement, the rate at which it absorbs costs of conflict, and its estimate of how long it will take to achieve victory. It follows from this model that any factors that increase the utility from a settlement relative to the utility from victory will make the parties more willing to agree to a settlement (ibid.: 549).

The utility of a settlement can increase in two ways. First, the anticipated costs of continued fighting can change during the course of a war. The costs can be human, economic or political, and they include casualties, economic expenditures, decline in international prestige, loss of allies, and the delay in reaching the objective (Pillar 1983: 47; Massoud 1996: 493). If the costs of continued fighting increase, the utility of a settlement will increase equally. Economic sanctions imposed by third parties are means of increasing the costs of continued warfare. Second, the expected value of a negotiated agreement can be increased. Third parties can provide incentives, not only economic but also security assurances or a promise of political recognition, that can make the payoff from a settlement preferable to continued conflict. 'An incentive seeks to raise the opportunity costs of continuing on the previous course of action by changing the calculation of cost and benefit' (Cortright 1997: 273).

The concept of peace conditionality includes incentives as well as disincentives: 'Incentives are all those purposeful uses of aid that favour or encourage a particular positive dynamic or outcome, whereas disincentives aim to weaken or discourage a negative dynamic or outcome' (Frerks 2006: 14).

There has been considerable academic attention to the distinction between incentives and disincentives.[8] The central research question has been whether incentives are more effective than disincentives, or in the words of David Baldwin (1971: 19), 'Can one influence more flies with honey than with vinegar? Can one influence more Vietnamese with economic aid than with napalm?' Dorussen (2001: 23) claims that there are three reasons why incentives traditionally have been viewed as less effective than sanctions[9]: 1) an actor values more highly the value of a good taken away than the benefit of the same amount added; 2) it is considered difficult to bribe a state, or a state-like group, into compromising its security; and 3) a state that offers incentives makes itself vulnerable to future extortion attempts.

A number of studies during the 1990s, however, concluded that incentives are reasonable and effective tools for encouraging cooperation. David Cortright (1997: 267) assesses the use of incentives in a number of conflict situations and concludes that 'incentives are powerful means of influencing political behaviour'. In a later study, Cortright (2001: 124-125) focuses on economic incentives and points to five advantages of incentives relative to sanctions: 1) incentives can more effectively be designed to address the root causes of conflict; 2) incentives work in harmony with the market, while sanctions go against the market; 3) incentives is good for international trade and promotes economic cooperation; 4) positive measures foster cooperation and goodwill, while negative sanctions create hostility and separation; and 5) sanctions close the channels of communication, while incentives make negotiations more likely to succeed.

As the concept of peace conditionality includes both incentives and disincentives, the relative effectiveness of the two are of less importance here. The point is that the combination of incentives and disincentives can make a peaceful solution more attractive to the conflicting parties.[10]

The assumption that peace can be bought can be attacked from several angles. For instance, we might know what rational actors would do in a certain situation, but to what extent is an actor rational when confronted with violence? War certainly

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[8] See for instance Baldwin 1971 or Dorussen 2001 for informative overviews.

[9] A sanction is a disincentive to behave in a certain way.

[10] It should also be noted that the distinction between incentives and sanctions in reality is more theoretical than practical. As Cortright (1997: 279) observes, it may be difficult to distinguish between sanctions and incentives 'since the lifting of a sanction can be an incentive and the withdrawal of incentives a sanction'. Furthermore, as noted by Baldwin (1971: 23), 'Some things take the form of positive sanction, but are actually not: e.g. giving a bonus of $100 to a man who expected a bonus of $200, or promising not to kill a man who never expected to be killed in the first place. Likewise, some things take the form of negative sanctions, but are actually not: e.g., a threat to cut by $100 the salary of a man who expected his salary to be cut by $200, a threat to punch in the nose, next week, a man who knows he will be hanged at sunrise, or the beating of a masochist' (Baldwin 1971: 23).

involves a number of non-rational elements. [11] Are decision-makers able to look behind a history of violence, humiliation and grievance, and opt for peace when it is expected that a settlement will increase their utility?

A different set of critique can be derived from the realist tradition within International Relations. Realists certainly agree that states[12] are rational actors that will choose the line of action that maximises their utility. However, realists claim that states exist in an anarchic world order in the sense that there exists no overarching authority. In such a system, states regard each other with suspicion, and each state aims to guarantee its own survival. The most basic motive driving states is consequently survival, and states think strategically about how to survive in the international system (Mearsheimer 1994-1995: 10). As Kenneth Waltz (1988: 619) puts it, 'states in an anarchic order must provide for their own security, and threats or seeming threats to their security abound'. From a realist perspective one could consequently argue that whenever it comes to a conflict between economic interests and security concerns, the latter will prevail. A state, or a state-like entity, will never let economic interests compromise its security, and realists would consequently argue that peace conditionalities have little or no impact on the dynamics of peace and war.

A final set of critique concerns the importance of economic incentives relative to the main objectives of the conflicting parties. If we accept that war is a means to an end, one would expect that the 'stakes or issues of war become highly relevant to the war-ending process' (Massoud 1996: 494). If the LTTE is fighting for political autonomy,

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[11] For instance, war is always costly, and rational actors should be able to locate a negotiated agreement that would be preferable to all parties to the gamble of war. James Fearon (1995) has assessed this puzzle, and he argues that there are three explanations as to why rational leaders are unable to locate a mutually preferable agreement. First, leaders might have private information about the relative capabilities of adversaries and incentives to misrepresent such information. Secondly, rational leaders may be unable to arrange a settlement that all parties would prefer to war due to commitment problems. Finally, Fearon argues that parties to a conflict may be unable to locate a peaceful settlement due to 'issue indivisibilities', i.e. the nature of the issues at stake will not permit compromise.

[12] Realism is a state-centred theory, but I will argue that the most basic assumptions apply equally to state-like entities, such as the LTTE. For instance, the security dilemma that realists claim arises from an anarchic world order, could be said to apply as much to internal conflicts as to the international order. As Jack Snyder and Robert Jervis (1999: 16) point out, 'contemporary civil conflicts seem to replicate the well-known pattern of Hobbesian competition for security in the "state of nature", where no sovereign power protects fearful individuals from each other'.

how likely is it that they can be bought off with a promise of economic assistance? Economic (dis)incentives might work in conflicts over natural resources, but it can be argued that they are of little importance when the war has its origin in a struggle for increased political influence.

All three criticisms are to some extent valid and reasonable, and they show that donors should be realistic about the potential of economic (dis)incentives in a situation of conflict. Conflicting parties certainly need some sort of security guarantee before they will agree to lay down their arms, and it is not very likely that they will sign a peace settlement without having felt that they have achieved at least some of their original goals. As Uvin (1999: 4) has pointed out, external aid is often weak when weighed against the range of pressures and interests stemming from actors directly involved in the conflict.

What is clear, however, is that conflicting parties will not opt for peace unless a preferable alternative is put on the table. As noted by William Zartman (2001: 298), 'one may come to dislike the boat one is in, but there needs to be another (better) boat in the neighbourhood before disembarking from the present one becomes an attractive alternative'. Nearly all wars end because the participants agree to stop, not because they are incapable of further fighting (Wagner 2000: 469). After years, maybe decades, of conflict, the parties will at some point come to realise that there is no military solution. Sooner or later they will start looking for alternatives, and peace conditionalities can increase the value of such alternatives. The opening of hostilities may be caused by irrational beliefs, but the ending of wars will normally be based on rational calculations. 'Rational choice is concerned with finding the *best* means to given ends. It is a way of adapting optimally to the circumstances' (Elster 1989: 24, emphasis in the original). When peace conditionalities are sufficiently valuable to the conflicting parties, and the main actors realise that they will gain more from peace than from continued warfare, they will start searching for a peaceful solution.

To conclude this section, the ending of civil war is based on rational calculations by the adversaries and it can be assumed that they will seek a settlement when the

expected utility of continuing the war for each party is less than the expected utility of the settlement. Peace conditionalities can increase the utility of a settlement, or increase the costs of continued warfare, and consequently convince the parties to adopt pro-peace policies. However, one should be realistic about the potential of economic (dis)incentives, and it should be noted that peace conditionalities alone are rarely sufficient to make conflicting parties bury their arms.

2.3 Variables influencing implementation and effectiveness

The previous chapter presented two hypotheses about why aid has not served as a pacifying tool in Sri Lanka: 1) donors have failed to link actual aid disbursements to developments in the peace process; or 2) there has been something wrong with the way peace conditionality has been implemented. This section of the chapter will draw on existing literature and discuss how donors should proceed in order to ensure that: 1) peace conditionality can be implemented; and 2) the economic (dis)incentives will have an effect on the dynamics of peace and war.

A number of variables will influence the implementation and effectiveness of peace conditionality, and the remaining of this chapter will discuss some of the most important (summarised in Box 2.1 below). The variables have been grouped in two categories, corresponding to the two hypotheses.[13] If the analysis in chapter four provides support for H1, the first category of variables will be addressed in order to explain why donors have been unable to link aid disbursements to developments in the peace process. Alternatively, if the analysis provides support for H2, the second category of variables will be addressed in order to explain why the economic (dis)incentives have not had an effect on the dynamics of peace and war.

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[13] It is important to note that there is no clear-cut distinction between the two categories. For instance, the establishment of procedures has been grouped under the heading implementation, but clear procedures are obviously also important for the effectiveness of peace conditionality.

2.3.1 Variables influencing implementation

Peace conditionality is implemented when disbursements are linked directly to developments in the peace process. The probability that peace conditionalities will be implemented is affected by a number of variables. Most importantly, successful implementation is dependent upon the establishment of clear procedures and mechanisms, coordination and flexibility among donors, and the willingness to prioritise peace.

The establishment of procedures and mechanisms: The successful implementation of peace conditionality presupposes that all donors know what to do and how to do it. Vague conditions and unclear procedures may cause uncertainty and hesitation when rhetoric is to be turned into practice, and it is consequently important that donors ensure that conditions are as concrete and tangible as possible, and that there is little room for interpretation. A common design weakness is 'the lack of guidelines when dealing with a mixture of progress on certain issues with stagnation or relapse on others' (Frerks 2006: 30). A peace process does not normally move gradually from a state of war to a state of peace: in most peace processes one will experience that phases of relative calm are followed by phases with a high level of political and social violence (Goodhand et.al. 2005: 29). Donors should consequently establish indicators to measure intermediate results, and they should agree on how big developments, positive or negative, that are required for a change of policy. It is also important that donors establish mechanisms for monitoring the peace process. Finally, donors should specify what will be the reward from compliance, or alternatively the cost of non-compliance. There is no time for donors to start discussing responses once the peace process starts moving – donors, as well as the parties, must know in advance the consequence of specific moves.

Coordination and flexibility: As noted by Uvin (1999: 18), 'all documents on peace-building stress the need for improved co-ordination'. Peace conditionality is no exception in this sense. Peace conditionality is typically to be applied in a dynamic and complex no-war-no-peace situation involving a magnitude of actors on both sides of the donor-recipient dichotomy. Under such conditions, coordination between the

various actors is of major importance for successful implementation. Donors may speak with one voice at donor conferences, but they are often not as coordinated when rhetoric is to be turned into practice. Furthermore, donors must not only be well-coordinated, but also flexible enough to respond promptly to developments on the ground. As Uvin (1999: 7) has noted, windows of opportunity often appear in peace processes, for instance after the signing of peace agreements or when new governments enter office, and these events need a timely and prompt response from the donor community. According to Frerks (2006: 29), the institutional set-up of donors might reduce their ability to respond to developments, especially negative developments, in the peace process. In most countries allocation and disbursement decisions are separated: a central unit makes decisions on allocation, while decisions regarding disbursement are decentralised. Frerks argues that such an institutional set-up has led to 'a strong bias towards "always" disbursing committed funds to designated recipients, irrespective of the performance of the recipient government in question' (ibid.). Boyce (2003: 19) has noted the same problem, and claims that 'individual aid officials typically are rewarded for making loans and disbursing grants, not for holding them up by seeking to impose tough conditions'. Unless donors are organised in a way that makes it possible to respond to developments on the ground, peace conditionality will never be implemented. 'Improving donor capacity to respond in a timely and flexible manner requires both in-depth understanding of the dynamics at stake, and decentralised decision-making procedures' (Uvin 1999: 7).

Willingness to prioritise peace: While the two variables discussed above refer to donors' *ability* to implement peace conditionality, this last variable refers to donors' *willingness* to link disbursements to developments on the ground. According to Dorussen (2001: 260) 'the single largest cause of implementation failure is that senders fail to live up to their promises'. Donors may fail to put the money on the table when the parties have met the requirements, or donors may be unwilling to apply the stick in the case of non-compliance. The problem is often that donors have competing interests, and the pursuit of peace is not always compatible with other

interests, such as geopolitical or economic policy goals. Donors may very well state that their main objective is peace, but donors often 'espouse conflict prevention as "a flag of convenience", but pursue other aims in their deeds' (Boyce 2003: 18). The successful implementation of peace conditionality presupposes that donors are willing to link disbursements to developments in the peace process and enforce the conditions attached to disbursements. This implies that peace must be at the top of donors' agenda and it must be given a pivotal role compared to other policy goals donors might have.

2.3.2   Variables influencing effectiveness

The first threshold to the successful use of peace conditionality is implementation. The second challenge is to ensure that peace conditionalities affect the recipients' strategic calculations. A number of variables may increase or reduce the effectiveness of peace conditionality. The sequencing and timing is important, and peace conditionality is most effective if it is combined with other policy instruments. The value and targeting of the (dis)incentives will further influence the effectiveness of the strategy.

Sequencing and timing: The context in which peace conditionality is to be applied is obviously of great importance. A conflict goes through various phases, and economic (dis)incentives will not be equally effective in all phases. William Zartman assesses a number of peace processes, and concludes that in the successful cases of conflict management, 'a sense of mutually hurting stalemate got the process started by making the parties ready to listen to incentives to negotiate' (2001: 300). Zartman argues that incentives can only be effective when parties are 'sufficiently dissatisfied with their present costs or future prospects to be able to listen to alternatives' (ibid.: 301). Mason and Fett (1996) reach the same conclusion and claim that the longer a civil war has lasted, the more likely the parties are to seek a negotiated settlement. Once the protagonists realise that the war cannot be won through military means, they will start searching for alternatives. Ultimately, the choice for the parties 'becomes one between indefinite bloodletting without foreseeable conclusion or a settlement that

establishes peace and gives both combatants some but not all the payoffs they sought from war' (Mason & Fett 1996: 563).

Value of the incentives: The extent of donor influence does clearly correspond to how valuable the goods on offer are to the recipients. As observed by Cortright (1997: 273): 'an incentive offer must have sufficient value to induce a recipient to change policy' (Cortright 1997: 273). The more fundamental the change, the larger the required incentives (ibid.). Stokke (1995: 33) has noted that no government can be forced to receive development assistance. That is obviously true, and there is always a possibility that aid recipients refuse to accept aid with too many strings attached. However, the more dependent aid recipients are on a continued flow of economic assistance, the more likely they are to comply with the conditions specified by donors: 'If dependency is high, even marginal reductions in aid may hurt' (ibid.: 44). Not all goods and services have the same incentive value to all actors, and Baldwin (1971) claims that donors should establish the actors' baselines of expectations, and target incentives to the specific needs of each recipient. It is important, however, to recognise that the baseline might change over time: 'Today's reward may lay the groundwork for tomorrow's threat, and tomorrow's threat may lay the groundwork for a promise on the day after tomorrow' (ibid.: 24). Donors must consequently carefully assess the context in which peace conditionalities are to be applied, and make sure that the amount of aid on offer is adequate to provide a compelling incentive for the adoption of pro-peace policies. In doing so, donors must also consider the incentives parties might have for continued violence, such as the profits to be made from continuing fighting: 'incentives and disincentives are only likely to work if they are balanced with the opposing dynamics, or if they manage to create alternative dynamics' (Uvin 1999: 7).

Targeting: Donors should make sure that economic (dis)incentives target actors with the ability to implement changes (Boyce 2003). It is not always the case that central authorities are in the best position to implement changes. For instance, in countries such as Somalia and Afghanistan, large parts of the country are under the control of

local warlords and the central governments have little or no authority to implement aid-for-peace bargains in the periphery. Under such circumstances, donors should identify local actors with the power to initiate changes, and focus on these when developing incentives. At the same time, it is important that potential spoilers are included in peace-for-aid bargains. Uvin (1999: 5) argues that donors need to target 'incentives and disincentives for peace at *all* parties to conflict, including non-state and sub-state actors'. There will always be elements within a society that are opposed to peace, and certain groups will benefit more from continued warfare than from peace. For peace conditionality to be effective, all important stakeholders must be included in the bargains.[14]

Combination with other policy instruments: Peace conditionality alone is rarely sufficient to induce the parties to a conflict to bury their arms. Peace processes are complex issues, and a successful outcome is dependent upon a comprehensive approach and the use of a variety of instruments. Uvin (1999: 7) argues that the purposeful use of aid needs to be combined with instruments such as military action and diplomatic recognition. Obviously, peace conditionality should also be combined with political efforts at finding a solution to the conflict. Barbara Walter (2002) argues that the key to make parties to a civil war commit to peace lies in providing them with so called 'security guarantees'. She argues that the greatest challenge when it comes to peacemaking is to 'design a treaty that convinces the combatants to shed their partisan armies and surrender conquered territory even though such steps will increase their vulnerability and limit their ability to enforce the treaty's other terms' (ibid.: 3). Negotiations fail because the adversaries cannot credibly promise to abide by the terms that create a number of opportunities for exploitation. Snyder and Jervis (1999) argue along the same line, and claim that a possible solution to the security dilemma is to establish arrangements that guarantee mutual self-restraint once the

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[14] A number of commentators have pointed to the danger that positive inducements become a form of legitimisations and reward for wrongdoing (see for instance Cortright 1997: 11). That discussion lies beyond the scope of this thesis. Here it is simply noted that in order to make peace conditionality effective it is important that the needs of subversive elements are accounted for.

parties have laid down arms. The technicalities of such arrangements may vary, but there is little doubt that international actors must provide credible security guarantees in order to convince the parties to bury their arms.

Box 2.1 Variables influencing the implementation and effectiveness of peace conditionality.

In order to facilitate implementation, donors should:

- ensure that conditions are concrete and tangible, and designed in a way that leaves little room for interpretation.
- be well-coordinated, flexible and able to react promptly to changes in the peace process.
- be willing to put peace at the top of their agenda.

Peace conditionality will be most effective when:

- it is applied in a situation of a mutually hurting stalemate.
- the amount of aid on offer is adequate to provide a compelling incentive for the recipients to adopt pro-peace policies.
- it targets actors with the ability to implement changes.
- it is combined with security guarantees and other diplomatic and military instruments and efforts.

Chapter three: Methodology

3.1   Introduction

The purpose of this chapter is to account for the methodological choices that have been made in the process of writing the thesis. The first section will explain and justify the choice of single case study as research design. The second section will account for the sources that have been used and discuss important issues related to objectivity when studying social sciences. The final section will focus on the concepts of construct validity and reliability.

3.2   The single case study

The research design for this thesis falls into the category termed *case study*. In a prominent work on case study research, Robert Yin defines a case study as 'an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident' (1994:13). Yin argues that the case study has a distinct advantage when a 'question is being asked about a contemporary set of events, over which the investigator has little or no control' (ibid.: 9). Andrew Bennett (2004: 19) argues that the advantages of case study methods include

> identifying new or omitted variables and hypotheses, examining intervening variables in individual cases to make inferences on which causal mechanisms may have been at work, developing historical explanations of particular cases, attaining high levels of construct validity, and using contingent generalizations to model complex relationships such as path dependency and multiple interactions effects.

The comparative case study seems to be the preferred method in most studies on peace conditionality. Uvin (1999) compares the cases of Afghanistan, Bosnia, Rwanda, and Sri Lanka; Boyce (2003) compares Cambodia, Angola, and Afghanistan; while Goodhand (2006) compares Sri Lanka and Afghanistan. The aims of these studies have, at least partly, been to contribute to the theory of peace conditionality in general. For instance, one of the purposes of the study summarised in Goodhand (2006) has been to generate wider lessons about the relevance and

potential of peace conditionalities in post conflict settings. In the executive summary to the report, Goodhand claims that this will be done 'through a structured comparison of cases'. He claims that one of the reasons for focusing on Afghanistan and Sri Lanka was that the contexts were different from each other and he argues that 'these differences make for interesting comparisons that can contribute to improved understanding and policy development' (ibid.: 12).

In this thesis I have chosen to focus on one single case, namely Sri Lanka. It is believed that a thorough analysis of donors' behaviour in the period 2002-2004 will provide us with detailed and nuanced insights about why aid has not served as a pacifying tool.

A common criticism against case studies, however, is that they provide little basis for scientific generalisation (Yin 1994: 10). It could consequently be questioned to what extent it is possible to generate wider lessons about the relevance and potential of peace conditionality from a study on Sri Lanka. There are two answers. First, the aim of this thesis is not primarily to contribute to the theory on peace conditionality in general, but rather to explain why peace conditionality has been less than optimally effective in Sri Lanka. If the purpose of this study was to attempt to scientifically prove the effectiveness of peace conditionality, a comparative case study would probably be the most appropriate research design. However, in my opinion it is a fallacy to argue that the purpose of research always should be to develop general theories that can be applied on the universe. As noted by Bennett, 'there are several kinds of research objectives, including not only the development of generalized theories but the *historical explanation* of particular cases' (Bennett 2004: 21, emphasis in the original). The latter, which is the objective of this thesis, implies an 'explanation of a sequence of events that produce a particular historical outcome in which key steps in the sequence are in turn explained with reference to theories or causal mechanisms' (ibid.). In fact, case studies, both multiple and single, have played an important role in the study of international relations: 'The IR subfield includes several outstanding case studies that have contributed, together with statistical and

formal work, to cumulatively improving understandings of world politics' (Bennett & Elman 2007: 172).

Second, even though case studies provide little basis for generalisations to the universe, one can still generalise to theoretical propositions (Yin 1994). Yin has characterised this as 'analytic generalisation', as opposed to 'statistical generalisation' in which inferences are made about a population on the basis of empirical data (ibid. 30-32). Analytic generalisation implies that an existing theory is used as a template with which to compare the results of the case study. This study draws on rational choice theory and makes the assumption that peace conditionality can be an important pacifying tool. As economic (dis)incentives have had little or no effect in Sri Lanka, this becomes something like a *deviant case*, i.e. a case that 'does not conform to the predictions made by the theory or theories under investigation' (Bennett and Elman 2007: 176). Deviant cases 'are potentially powerful sources of new hypotheses and variables' (ibid.), and a closer examination of Sri Lanka could consequently provide us with insights into the workings of peace conditionality in general. In the conclusion to this thesis we will briefly examine the wider implications of the findings, and discuss how donors should deal with Sri Lanka in the future. However, because of the scope of this thesis the larger analytic generalisations will be left for later studies.

3.3   Data collection and objectivity

The research for this thesis is conducted through literature review, and both primary and secondary sources have been used. Primary sources include statements by the parties, the facilitator and international donors, official documents, annual reports and letters. Secondary sources include research papers and other analyses of the conflict in Sri Lanka, such as comments and articles in newspapers.

The assessment of donors' intentions and strategies (section 4.2) is primarily based on public statements made by donors at the two major donor conferences in Oslo and Tokyo, as well as the final declarations and press statements made at the conferences. These sources provide insights into the reasoning of donors, and they make it possible

to assess donors' strategies for implementation. When assessing donors' actual actions (section 4.4), however, strategic documents, annual reports and data from the OECD/DAC dataset provide the main sources. The strategic documents provide us with information about donors' goals and the approach they find most likely to lead to these goals, while the annual reports and the OECD/DAC dataset show donors' actual disbursements.

There are many sources of bias when studying social sciences, and it is important to assess the credibility of the sources that are being used. There is little doubt that one could question the objectivity of many of the texts that have been used in this thesis. Statements by the parties after new round of talks, statements by the facilitators, press releases, books and articles written by some of the main actors – these were not merely summaries of important events but rather texts written for a specific purpose. For instance, the chief negotiator of the LTTE, Anton Balasingham, claims that 'official Norwegian press releases on the talks revealed a sense of overoptimism, as if there had been substantial achievements and break throughs' (2004: 464). Furthermore, Balasingham himself can hardly be described as an objective observer describing the events "as they were". The following description by Balasingham of the situation in post-independence Sri Lanka is filled with value-laden statements and subjective reasoning:

> The first victims of the Sinhala racist onslaught were the Tamil plantation workers. A million of this working people, who toiled for the prosperity of the island for more than a century, were disenfranchised by the most infamous citizenship legislation in Sri Lankan political history, which robbed these people of their basic human rights and reduced them to an appalling condition of statelessness (Balasingham 2004: 7).

It is important when using such texts to assess why they were written. The Norwegian historian Ottar Dahl (2002: 37) has drawn a distinction between statements (*beretninger*) and relics (*levninger*).[15] According to Dahl, the responsible historian must first understand the context in which a text is produced, and then decide whether

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[15] The English terms were found in Leidulf Melve's (2002) review of Sebastian Olden-Jørgensen's *Til kilderne! Introduktion til historisk kildekritik*. København: Gads forlag.

the text shall be utilised as a statement, that is as a relatively objective presentation of what really happened, or as a relic, that is as a text that gives us more information about the writer's opinions. For instance, a text written about the conflict in Sri Lanka can either tell us more about a specific course of events, i.e. what really happened, or the text could tell us more about the writer's opinions about these events. All texts can be used as relics, but only some historical texts can be used as statements.

Texts written by parties to the conflict, or statements by international donors, may be subjective relics, but they still provide important insights into the reasoning behind decisions. In my opinion it is not in any sense more "scientific" to rely on statements than relics. The purpose of the study decides what type of sources to use, and relics can provide important information about how central actors thought and why they acted as they did. The important is for the researcher to be aware of the context in which a text was produced, and use the text respectively. This is precisely what I have attempted to do in this thesis.

A note should also be made about the background and objectivity of the researcher. It is often argued that the social sciences can never be as objective as the natural sciences because the social scientist lives and participates in the society that he studies, and his personal values enter into the scientific inquiry at various levels.

During the process of writing this thesis, I have been working at the section in the Norwegian Ministry of Foreign Affairs responsible for the facilitation of the peace process in Sri Lanka. Though I have not been directly involved in work on Sri Lanka myself, I know the facilitators personally, and I realise that I unconsciously might have a tendency to portray the Norwegian role in the process in a favourable light. As noted by Carr (1962: 5):

> When we attempt to answer the question, What is history?, our answer, consciously or unconsciously, reflects our own position in time, and forms part of our answer to the broader question, what view we take of the society in which we live.

However, every possible measure has been taken in order to ensure that the presentation of facts is as objective as possible. Furthermore, all data that have been

used in this thesis is publicly available. This makes it possible for other researchers to follow the same procedures and check the findings.

3.4 Construct validity and reliability

Construct validity can be defined as a matter of 'establishing correct operational measures for the concepts being studied' (Yin 1994: 33). The purpose of the study is the starting point when establishing operational measures. This thesis will assess why aid has not served as a pacifying tool in Sri Lanka despite donors stated intentions to link disbursements to developments in the peace process. Taking the two hypotheses developed in chapter one as starting points, the thesis will assess to what extent donors have been able to link disbursements to developments in the peace process (H1), and if we find that peace conditionality indeed has been implemented, the thesis will also assess the way this has been carried out in practice (H2).

Reliability implies that the research is conducted in a way that makes it likely that if another investigator follows the same procedures, he or she will reach the same conclusion (Yin 1994: 36). The goal of reliability is to reduce the errors and biases in a study (ibid.: 36). By comparing and using different texts, written by persons with different perceptions and motives, I have attempted to understand the particular bias of each. I have attempted to not rely too much one any one single study or writer, but rather examine several sources whenever possible. Whenever the researchers have offered different interpretations of the data, I have made the reader aware of the disagreements before drawing any conclusions.

A note should be made about the complexity when it comes to measuring the level of aid disbursements. An important element in the analysis in chapter four is the assessment of donors' disbursements to Sri Lanka in the three-year period 2002-2004. However, there are a number of ways of measuring aid, and donors have different standards and procedures when it comes to reporting. This thesis does, with two

exceptions,[16] rely on the data provided by the Organization for Economic Co-operation and Development (OECD/DAC dataset). This dataset shows Official Development Assistance (ODA) from individual donors. It should be noted, however, that these data in some cases might differ slightly from data provided directly by individual donors. However, the purpose here is primarily to assess *trends* in disbursements, and absolute numbers are of less relevance. It is consequently of minor importance that there are differences in absolute numbers, and the differences do not influence the conclusions as all data point to the same trends.

Towards the end of this methodological chapter a justification should be given for the numerous delimitations that have been made in the process of writing the thesis. The scope of a master thesis is relatively limited, and several simplifications are necessary in order to finish on time. If time had permitted, a few steps could consequently have been taken in order to add value to the study. First, this thesis does primarily focus on aid disbursements at aggregate levels, and it assesses to what extent overall aid disbursements follow developments in the peace process. It would have been interesting to also assess more in-depth what *type* of projects donors have supported. To what extent have donors been able to target the underlying causes and drivers of conflict? It could be the case that we find few changes at the aggregate level, but that the nature and direction of aid disbursements still have been changed in order to make it more conflict sensitive. Such changes will only to a limited extent be captured in the analysis in this thesis. Second, this thesis focuses on the actions of two groups of donors, namely the development banks and the co-chairs, and the effects on two recipients, namely the government and the LTTE. It would have added value to the study if more variables were included on both sides of the donor-recipient dichotomy, such as India and China on the donor side and the Muslim community on the recipient

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[16] As the data provided by the OECD shows *net* disbursements, it does not make sense to use the data covering aid from the USA and the ADB as these donors in some years have had very low net disbursements (the ADB) or actually been net recipients from Sri Lanka (the USA).

side. Finally, the thesis would have benefited from interviews with donors and main actors as a supplement to the written sources.

Though steps clearly could have been taken in order to add value to the study, it is still believed that the approach in this thesis is sufficient in order to investigate why aid has not served as a pacifying tool in Sri Lanka despite donors' intention to link disbursements to developments in the peace process.

Chapter four: Donors' Actions and Strategies

4.1   Introduction

A number of unfavourable events at the beginning of the new millennium made the conflicting parties in Sri Lanka increasingly eager to attract donor resources. The war with the LTTE shifted gear in early 2000, forcing the government to increase defence budgets from 48 billion rupees in 1999 to 80 billion rupees in 2000 (Bastian 2005: 15). Furthermore, Sri Lanka was struck by a drought, international oil prices reached new highs, and the global economy was in general in a dire strait (ibid.). The consequences for the government were severe: the budget deficit in 2001 reached nearly 11% of GDP, the public debt was above 100% relative to GDP, and the inflation was running at a two-digit level (Kelegama 2004: 2). For the LTTE, on the other side, it was regarded as important to improve the humanitarian situation in the areas under their control (Balasingham 2002). The war had reduced the economy in the North-East to the level of a subsistence economy (Uyangoda 2005: 6), and the situation for the local population was precarious and deteriorating. In other words, both the government and the LTTE were increasingly dependent upon donor assistance and consequently prepared to go a long way in order to comply with the requirements specified by donors.

This chapter will critically assess donors' strategies and actions in Sri Lanka in the period 2002-2004. The analysis is intended to establish why aid has not served as a pacifying tool in Sri Lanka despite donors stated intentions to link disbursements to developments in the peace process. The analysis will take the two hypotheses developed in chapter one as starting points, and assess to what extent donors have been able to link disbursements to developments in the peace process (H1), and if we find that peace conditionality indeed has been implemented, the thesis will also assess the way this has been carried out in practice (H2).

The next section of the chapter will account for donors' intentions and strategies, and show that donors left little doubt about their intention to link aid disbursements directly to developments in the peace process. The third section of the chapter will assess the major events in the peace process 2002-2004 and discuss how one would expect donors to respond to these developments. The fourth section will assess the actual response of donors, while the final section of the chapter will assess donors' actions and strategies in light of the theoretical assumptions that were made in chapter two.

4.2   Donors' intentions and strategies

International donors have on several occasions pointed to the importance of development assistance in order to build peace in Sri Lanka. This has been most clearly expressed at two major donor conferences: The Oslo Conference in November 2002 and the Tokyo Conference in June 2003.

4.2.1   The Oslo Conference

The donor conference in Oslo 25 November 2002 gathered representatives from 37 donors, in addition to delegations from the government and the LTTE. Prominent participants included US Deputy Secretary of State Richard Armitage, British Secretary of State for International Development Clare Short, Norwegian Foreign Minister Jan Petersen, and Margot Wallström from the EU.

The purpose of the conference was to address the issue of immediate financial assistance to Sri Lanka. In an appeal by the Sub-Committee on Immediate Humanitarian and Rehabilitation Needs in the North and East[17] (2002), presented at the conference, it was noted that the government of Sri Lanka was 'unable to provide the resources needed to meet the most immediate needs'. The Sub-Committee

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[17] At the second round of talks, the parties agreed to form of a Sub-Committee on Immediate Humanitarian and Rehabilitation Needs in the North and East. The role of the Sub-Committee was to identify humanitarian and rehabilitation needs, prioritise implementation of activities to meet these needs, decide on the allocation of the financial resources for such activities and determine implementing agencies for each of the activities (Norwegian MFA 2002b).

consequently approached the international community for assistance to resettle and rehabilitate internally displaced persons, address the needs of women and children and help the population to resume their economic activities (ibid.).

Even though the main purpose of the conference was to deal with the escalating humanitarian crisis following the war, the delegates also expressed hopes that the conference would propel the peace process forward. For instance, Jan Petersen, the Norwegian Minister of Foreign Affairs, claimed that the goal of the conference was to 'mobilise political support for the peace process, and to gather economic assistance to be able to address the evident and immediate needs and contribute to the realisation of a peace dividend by the whole population of Sri Lanka' (Petersen 2002). Petersen claimed that it was critical that efforts by civil society to consolidate the broad base of political support were matched by international political and financial assistance 'to demonstrate that peace will bring tangible benefits to the long-suffering population' (ibid.). Clare Short, the British Secretary of State for International Development, had reached similar conclusions and she pointed out that the international community could build confidence in the peace process by helping ensure that 'tangible benefits' were delivered to people across Sri Lanka (Short 2002).

The government of Sri Lanka and the LTTE seemed to agree with international donors on the importance of development assistance for progress in the peace process. In his speech at the opening session Prime Minister Wickremesinghe stated that:

> Economic re-construction and development, particularly of the areas devastated by war will be a deciding factor in sustaining the momentum of political negotiations. Development is part of the healing process in a wounded, divided society. Development is underpinning peace in Sri Lanka. Peace will sustain development. The two processes of peace and development have become inextricably inter-twined and inter-related (Wickremesinghe 2002).

Wickremesinghe also claimed that the international donor community could play a crucial role in this process: 'Without continuing international support and help with resources to build the peace dividend, the momentum for peace could be retarded' (ibid.)

Anton Balasingham, theoretician and chief negotiator of the LTTE, argued that 'for the suffering masses, peace and negotiations have little or no meaning unless they gain the peace dividend in concrete monetary and material assistance without delay' (Balasingham 2002). He claimed that unless the living conditions for the Tamil people were improved, 'the momentum, the optimism and the confidence that arose from the peace process will be severely undermined' (ibid.). According to Balasingham, international assistance was important for demonstrating support for the peace process, and he suggested that development assistance should be used to buy off enemies of the peace process:

> International backing is crucial at this juncture to silence the subversive elements that are opposed to peace and ethnic reconciliation. Such a gesture will generate confidence among the people, create a positive atmosphere and help to advance the negotiating process towards the goal of permanent peace (ibid.).

Similar views were also included in the final declaration. The declaration reads that:

> For the peace process to succeed, popular support for peace must be sustained. Given the complexity of the issues to be resolved, the negotiations will face significant challenges along the way. International financial assistance is important for people to begin to see tangible benefits of peace in their daily lives. We recognize that it is important that people across the whole of Sri Lanka enjoy benefits of peace. Building a national consensus for the difficult steps ahead in the peace process will require particular efforts to meet the humanitarian needs of the most vulnerable, such as the poor, the unemployed, especially in the rural areas, and women and children (Oslo Declaration 2002).

The readiness of a large number of governments to participate at the Oslo Conference attested the willingness of the international community to support the peace process, and the conference resulted in a number of donors pledging significant increases in development assistance to Sri Lanka. However, at this stage donors were not prepared to attach any formal conditions to aid disbursements. The donor communiqué was essentially a form of positive engagement: 'it expressed political and financial support for process and principles without laying down any explicit aid conditions' (Frerks & Klem 2006: 29).

4.2.2 The Tokyo Conference

The Tokyo Conference on the Reconstruction and Development of Sri Lanka was organised 9-10 June 2003 and gathered ministers and representatives from 51 countries and 22 international organisations. One of the purposes of the conference was to 'confirm the importance of the inter-linkage between the implementation of the assistance to Sri Lanka by the international community and the progress of the peace process' (Japanese MFA 2003). Prominent participants at the conference included the Japanese Prime Minister Junichiro Koizumi, Prime Minister of Sri Lanka Ranil Wickremesinghe, and US Deputy Secretary of State Richard Armitage.

Importantly, however, the LTTE had chosen not to attend the conference. Due to its proscription as a terrorist organisation in the US, the LTTE had been barred from participating at a preparatory meeting in Washington in April 2003. The LTTE regarded the exclusion as a 'grave breach of good faith' (Balasingham 2004: 436), and in a letter to Prime Minister Wickremesinghe 21 April 2003 it was stated that 'the exclusion of the LTTE from this conference has severely eroded the confidence of our people in the peace process' (ibid.). The consequence was that the LTTE decided not to participate at the Tokyo Conference.

The Tokyo Conference was still a success when it came to raising funds for reconstruction in Sri Lanka. The international donor community expressed their willingness to extend assistance to Sri Lanka to a cumulative estimated amount in excess of $4.5 billion over a four year period. Richard Armitage claimed that the amount of money pledged 'exceeded both the needs of the Sri Lankan government and the wildest expectations of the organisers' (US Embassy in Colombo 2003b). In his remarks at the concluding session the Japanese Special Envoy to Sri Lanka Yasushi Akashi made it clear that the conference had succeeded in attaining its twofold objectives: for the international community to demonstrate its strong and unified commitment to the reconstruction and development of Sri Lanka, as well as to encourage the Government of Sri Lanka and the LTTE to redouble their efforts to make further progress in the peace process (Akashi 2003).

The Tokyo Conference also represented a new shift when it came to conditionality. Since the Oslo Conference, donors seemed to have realised that the provision of aid should be linked directly to developments on the ground.

The host country was the most outspoken defender of conditionality. In his opening speech, the Japanese Prime Minister Junichiro Koizumi stated that the assistance provided by the international community should help to move the peace process forward, and he stressed that development assistance

> should be implemented in tandem with progress in the peace process itself. The international community should thus carefully review and monitor that process. On the other hand, *the two negotiating parties should not assume that any assistance committed to at this conference will be provided to them automatically*. Implementation of this assistance by the international community will be closely linked to steady progress in the peace process made by both parties through their own efforts (Koizumi 2003, emphasis added).

Yoriko Kawaguchi, the Japanese Minister of Foreign Affairs, followed up when he announced that Japan was prepared to extend up to one billion US dollars to Sri Lanka over the next three years 'while reviewing and monitoring carefully the progress made in the ongoing peace process' (Kawaguchi 2003). He also reiterated the Prime Minister's point that neither party should assume that the assistance by the international community would be provided to them automatically. Finally, he argued that in order to enable the Sri Lankan people to enjoy the dividends of peace, regardless of their community or ethnicity, the international community should take into full account the delicate ethnic and geographical balance in implementing its assistance.

Though Japan was most explicit in the defence for conditionality, representatives from a number of other governments and organisations seemed to agree. Tadao Chino, the President of the Asian Development Bank (ADB), said in his speech that the ADB was prepared to provide up to one billion US dollars to Sri Lanka over the next four years, which constituted a substantial increase from ADB's support in previous years. However, Chino added that 'the magnitude and timing of our assistance will, of course, depend very much on a resumption of the peace talks and,

over time, on a formal end to the conflict' (Chino 2003). Likewise, the Canadian representative, Hau Sing Tse, pledged an increase in development assistance to Sri Lanka, and made it clear that Canada was prepared to consider additional pledges 'when the two parties demonstrate continued tangible progress towards a political solution to the conflict' (Tse 2003). The Dutch representative, Susan Blankhart, pledged an increase in aid for 2003, and made it clear that pledges for the coming years 'will depend on progress in the peace process' (Blankhart 2003).

In his remarks at the concluding session Yasushi Akashi noted that 'a number of donors indicated that the disbursement of their assistance would keep pace with satisfactory progress in the peace process. There was also an indication from some that, given such progress, additional commitments could be considered in some cases' (Akashi 2003). He added that 'Japan will work closely with the other co-chairs to undertake necessary consultations to establish modalities for monitoring and reviewing the progress in the peace process, which, in the opinion of all of us, is intimately linked to the assistance programs' (ibid.).

In his statement at the concluding session, Prime Minister Ranil Wickremesinghe made it clear that the message from the donors had been received:

> Many of you have indicated that your assistance will keep pace with satisfactory progress on the peace process. I, for one, welcome that. I see no problem in your having such an expectation. In fact I would go further and say that we wish to be as transparent as possible in regard to the aid we will receive and spend. And, I invite you in all sincerity to let us know what more you would wish us to do to be accountable (Wickremesinghe 2003).

The final declaration included several references to conditionality. Paragraph 18 of the Tokyo Declaration stipulated that 'assistance by the donor community must be closely linked to substantial and parallel progress in the peace process', including full compliance with the CFA, progress towards a final political settlement and protection of human rights (see Box 4.1 below). Paragraph 20 made it clear that 'the international community will monitor and review the progress in the peace process' and that 'in implementing its own assistance programmes, the donor community intends to take into careful consideration the results of these periodic reviews' (ibid.).

Japan, in cooperation with the US and the EU, was given the task of establishing the modalities of these reviews. Japan was also given the task of conveying the outcome of the conference to the LTTE.

Box 4.1 Paragraph 18, Tokyo Declaration

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

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

4.3   Major developments and expected response from donors

The Tokyo Conference was conducted in a positive tone, and most participants seemed to be optimistic about the prospects for lasting peace in Sri Lanka. For instance, the Japanese Minister of Foreign Affairs stated that when he had visited Sri Lanka in January 2003, he had 'sensed that expectations of the bright future were growing among the people, thanks to the progress made up to then in the peace process' (Kawaguchi 2003). He claimed that he was certain that 'a day will come in

the near future when a durable peace is achieved in Sri Lanka and this island will shine again as "a jewel on the Indian Ocean"' (ibid.).

Such statements represented a sharp contrast to the realities on the ground. As a matter of fact, the peace process had come to a standstill even prior to the Tokyo Conference. On 21 April 2003, Anton Balasingham sent a letter to Prime Minister Wickremesinghe and made it clear that the LTTE would suspend their participation in the negotiations (Balasingham 2004: 434-439). Balasingham cited three main reasons for LTTE's withdrawal: 1) the exclusion from the meeting in Washington in preparation of the Tokyo Conference; 2) the failure of the government to address the humanitarian issues in the areas occupied by the military; and 3) the development policy of the government which according to the LTTE failed to address the grievances of the war-ridden North-East.

The situation deteriorated further when the LTTE on 31 October 2003 presented its plans for an interim administration in the North-East. In a letter to the Norwegian Ambassador to Sri Lanka, the LTTE proposed an Interim Self Governing Authority (ISGA) which would respect Sri Lanka's sovereignty and unity, but which would imply autonomy on crucial issues such as resettlement, rehabilitation, reconstruction and development, revenues, and law (Tamilselvan 2003).

The proposal by the LTTE triggered a forceful reaction by the government. President Kumaratunga declared a state of emergency, took control over the ministries of Defence, Finance and State Media, effectively paralysing Prime Minister Wickremesinghe's administration (Goodhand et.al. 2005: 21). The shaky United National Front government[18] eventually collapsed, and a new coalition government, consisting of the People's Alliance and the radical JVP, came to power in April 2004.

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[18] The United National Front (UNF) was a coalition consisting of the United National Party (UNP), Sri Lanka Muslim Congress (SLMC) and the Ceylon Workers Congress.

Also the LTTE faced political difficulties in 2004 as Colonel Karuna, the Eastern commander, broke away from the LTTE and thus caused fighting between the two different factions in the Eastern part of Sri Lanka (Frerks & Klem 2006: 13).

Political violence increased during the late 2003 and early 2004. In May 2004, the Sri Lanka Monitoring Mission (SLMM)[19] stated that they were highly worried about the killings which appeared to be a 'continuing trend' and thus 'representing a serious threat to the Cease Fire and to the Peace Process' (Sri Lanka Monitoring Mission 2004).

The increased level of violence, combined with the fracturing of politics in both camps, implied that as 2004 came to an end, there were little prospect of resuming peace talks in the immediate future.

To what extent had the parties complied with the requirements laid down in §18 of the Tokyo Declaration? As it will be argued below, the conditions in §18 are vague and imprecise, and even from a purely analytical perspective it can be difficult to make any exact judgements about the extent to which the parties had complied. However, there can be little doubt that the parties still had a long way to go by the end of 2004. For sure, the parties had largely complied with the CFA (subsection *a*), and they had also established rather effective delivery mechanisms relating to development activity in the North-East (subsection *b*). However, it can hardly be said that there had been any progress towards a final political settlement (subsection *d*), there was no agreement regarding demilitarisation (subsection *j*), and as there had been no new rounds of talks, the Muslims had not yet been invited to participate in the peace process (subsection *c*). Some of the clauses in the paragraph were aimed specifically at the LTTE (Bastian 2005: 30), such as the ones regarding human rights norms (subsection *f*) and the issue of child soldiers (subsection *h*). According to Human Rights Watch (2005: 322-323) there had been little improvement on these

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[19] The SLMM was established in accordance with the CFA, and it originally consisted of members from the Nordic countries. The main task of the monitoring mission was to enquire into reported violations of the CFA.

accounts since the signing of the CFA: the LTTE recruited thousands of children between 2002 and 2004, and political killings intensified in the same period.

How would one expect donors to respond to the lack of progress in the peace process? It is reasonable to expect an increase in aggregate aid disbursements in 2003 compared to 2002. Though the peace process came to a standstill already in April 2003, hopes remained high for most of the year that the parties soon would resume direct talks. It probably also made sense to continue for some time to dangle the carrot in order to encourage pro-peace behaviour. However, as the level of violence continued to increase in 2004, and as the parties showed no willingness to resume peace talks, one would expect donors to soon start applying the stick.

A *conservative response* would be to disregard the promises of increased aid, and keep aid disbursements at the same level as prior to the donor conferences in Oslo and Tokyo. In practice, this implies keeping aid at the same level as in 2002. A *radical response* would be to reduce aid disbursements further, for instance to the same level as prior to the CFA, while at the same time communicating to the parties that aid disbursements will not increase until the parties had met certain specified criteria. Based on rational choice logic it can be assumed that the radical response would be the most effective. If the costs of a continued standstill increase, the utility of a settlement will increase equally. The larger the costs, the more likely a resumption of talks. However, in the next section we will see that major donors chose to respond in a way that was not in accordance with the Tokyo Declaration: they continued to increase aid disbursements despite the poor state of the peace process.

4.4 Donors' actual actions

Donors left little doubt after the Tokyo Conference about their intention to use aid purposefully to propel the peace process forward. In order to assess why the strategy failed, this section of the chapter will critically assess donors' actual actions in Sri Lanka. Have disbursements been linked to developments in the peace process? If yes, how has this been done in practice?

Table 4.1 below shows Official Development Assistance (ODA)[20] to Sri Lanka in the period 2002-2004. The data points to two interesting trends. First, there is a significant increase in aid to Sri Lanka from 2002 to 2003. The increase was mainly caused by the World Bank, Japan and the Asian Development bank (ADB). The increase in aid correlates with the peace talks and the positive environment that surrounded the talks and it clearly demonstrates that the international donor community was prepared to support peace efforts in the country.

Second, there was an overall reduction in aid from 2003 to 2004, but the aid level in 2004 was still significantly higher than in 2002. The reduction in aid corresponds with the deteriorated situation on the ground, and it might seem like donors followed up on their promise to link aid to developments in the peace process. However, the response from the donor community was not unambiguous: while some donors, such as the ADB and the World Bank, reduced their disbursements significantly, others, such as Germany, Japan, Norway and Sweden, actually increased their disbursements relative to 2003.

As the extent to which rhetoric is turned into practice differs from donor to donor, one cannot only assess donors' actions at a generic level – one must also assess the actions and explanations of individual donors. It is, however, beyond the scope of this thesis to analyse and discuss the actions of every single donor individually. The continuation of this section will consequently discuss the actions of two important groups of donors, namely the development banks and the co-chairs. The development banks are important because they are among the major contributors to Sri Lanka. Together with Japan they account for approximately 80% of all aid to Sri Lanka (Goodhand 2006: 22). The co-chairs consist of four actors with major relevance to the peace process: the US, the EU, Japan and Norway.

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[20] ODA is defined as grants or loans to development countries which are: a) undertaken by the official sector; b) with the promotion of economic development and welfare as the main objective; c) at concessional financial terms (OECD/DAC 2007b).

Table 4.1 Official Development Assistance (ODA) to Sri Lanka. Disbursements in million USD for selected donors.

	2002	2003	2004
ADB	157,4	225,5	185,7
Germany	7,77	16,31	28,57
IDA	58,95	168,32	31,65
Japan	118,94	172,26	179,53
Netherlands	18,6	21,51	13,91
Norway	21,46	28,55	30,33
Sweden	15,03	13,49	22,95
UK	7,68	9,27	16,82
USA	30,3	36,0	35,6
European Commission	12,55	15,19	14,87
Total selected donors	**448,68**	**706,40**	**559,93**

Sources: OECD/DAC statistics database, www.oecd.org/dac/stats/idsonline. In the case of *ADB*, the data has been extracted from the Annual Reports 2002-2004. In the case of the *USA*, the data has been extracted from USAID's statistics database, known as "The Greenbook", available at http://qesdb.cdie.org/gbk/index.html.

4.4.1   The Development Banks

The ADB and the World Bank have been among the major donors to Sri Lanka for a number of years. According to the ADB (2007: 1), Sri Lanka has received more than $3.8 billion in assistance since joining the bank in 1966. The ADB did originally focus on agricultural support to Sri Lanka, but the bank has gradually shifted its focus towards assisting the power sector, roads, and education. The World Bank assistance to Sri Lanka is provided in the form of grants and interest-free loans from the World Bank's International Development Association (IDA). The first interest-free loan to Sri Lanka was issued back in 1954. The World Bank operations in Sri Lanka are aimed at: 1) sustaining the peace process through support to reconstruction of conflict-affected areas; 2) bolstering economic growth, in part through creating the

appropriate conditions for private sector investment; and 3) increasing equity in access to public services such as health, water, sanitation and education (World Bank 2006).

In an influential study from 2001, Jonathan Goodhand argues that the ADB and the World Bank have tended to 'work around conflict' in Sri Lanka, i.e. treating it as a 'negative externality' to be avoided (Goodhand 2001: 69). The strategy has been to stay out of conflict affected areas based on an assumption that 'development assistance has limited influence on the dynamics of conflict' (ibid.: 68-69). This is illustrated in ADB's country strategy for 2000-2002 where it is pointed out that 'ADB operations will be geographically located away from areas directly affected by the civil conflict' (ADB 1999: 8). Furthermore, in the ADB Annual Report 2002 it is noted that 'for much of the conflict [in Sri Lanka], ADB's strategies and programs acknowledged the existence of the fighting and its impacts but did not specifically address them' (ADB 2003c: 17).

The strategies of the development banks started changing at the beginning of the new millennium. In the ADB country strategy and programme update 2002-2004 it is made clear that peace is 'fundamental to poverty reduction in Sri Lanka', and it is stated that the ADB will address conflict-related poverty by supporting post-conflict planning and provide selective rehabilitation and reconstruction assistance to the conflict-affected areas (ADB 2001: 3). The same year as the strategy is published, the ADB approves a $25 million loan to help finance a restoration and development project in the North-East aimed at improving small-scale social and economic infrastructure and income generation (ADB 2003c: 17). The coming to power of the UNF government, headed by Ranil Wickremesinghe, in December 2001 paved the way for an even more explicit link between aid and peace in the strategies of the development banks (Goodhand et.al. 2005: 78).

Statements made by the banks in 2002 and 2003 show that they planned to increase their disbursements to Sri Lanka in order to propel the peace process forward.

In the Sri Lanka country assessment from 2003, the World Bank states that peace and restoration of domestic security will be a focus for the bank in the years ahead. The strategy sketches out a program which includes $800 million of new assistance from 2003 through 2006, a significant increase from previous years. It is made clear that the projected increase 'is based on a dramatic change both in the peace prospects and the economic policy framework' (World Bank 2003: 22). Furthermore, World Bank Country Director Peter Harrold states that Sri Lanka 'now has the opportunity to embark on a path of sustained peace, more rapid economic growth, and poverty reduction that will benefit the entire population' and he points out that the new strategy 'is a significant expression of the World Bank's confidence in the country's progress in these areas so far' (World Bank 2003b). It is noted, however, that aid disbursements are dependent upon progress in the peace process: '*If the peace process were to break down entirely and hostilities were to break out on a national scale, there would be no new lending and in all probability, it would be necessary to suspend all operations*' (World Bank 2003: 24, emphasis added). The strategy was published in April 2003 – two months before the Tokyo Conference. When the issue of conditionality came up at the Tokyo Conference, the World Bank had consequently already made it clear that they were prepared to link disbursements directly to developments in the peace process. And importantly, the World Bank had signalled that they would not hesitate to apply the stick in the case of a standstill in the peace process.

The ADB country strategy for 2004-2008, which was endorsed in September 2003, proposed a higher level of lending than in the past. The reason was clear:

> The proposal to increase the overall lending level is a response to the increased degree of economic activity arising from the peace process thus far, the needs of reconstruction and development as peace evolves, and the publication of the new government strategy outlining major reforms and a more intensive effort to reduce poverty (ADB 2003d: ii)

However, no one should expect that the increase in aid would come automatically. It was made clear that 'the level and timing of assistance will be contingent on positive development in the peace process and good project performance, without either of

which the lending level scenario will be reviewed and may be adjusted accordingly' (ibid.: 19).

The development banks largely implemented their strategies in 2003. As seen in Table 4.1, both banks increased their level of aid significantly, and the policies and projects were calibrated according to conflict and peace dynamics. Both banks also increased their spending in the North-East in accordance with the Tokyo Declaration. For instance, in early December 2003 the ADB approved a loan for $20 million for a new programme in the coastal communities in the Eastern Province. According to a senior ADB official, the project moved 'beyond the provision of emergency assistance to development interventions to help people take advantage of the economic opportunities afforded by the peace process' (ADB 2003). A few days later, the ADB approved a new $80 million loan package for projects in the same area (ADB 2003b). According to ADB officials, it was important to ensure that the project design and implementation made a positive contribution to durable peace: 'this will be done by being sensitive to social and cultural issues and by generating a rapid peace dividend that will give people demonstrable proof that peace is the most desirable option for everyone' (ibid.). The same year the World Bank approved a $46 million package to provide immediate support to the North-East reconstruction efforts (World Bank 2004: 101). The World Bank was also administering the *North East Reconstruction Trust Fund*, which was designed to meet the immediate needs of people affected by conflict (ibid.).

Table 4.1 shows that both banks reduced their aid to Sri Lanka in 2004. This corresponded to the deteriorated situation in the peace process, and at the surface it might seem like it was a response to developments in the peace process. However, a closer look at official statements by the banks in 2003 and 2004 shows that the reduction in aid was not directly related to the poor state of the peace process.

The reasons for the reduced aid levels are rather to be found in the change of government in Sri Lanka. The UNF government, which lost power after the elections in April 2004, had been extraordinary effective in attracting foreign assistance. A

World Bank strategy describes the government as 'a private sector-oriented government' (World Bank 2003: i), and it had implemented comprehensive economic reform programmes and adopted policies favoured by the development banks (Bastian 2005: 29). The coalition government that took office in 2004 was not as successful as its predecessor in attracting assistance from the development banks. In ADB's Annual Report for 2004 it is stated that 'the new government elected in April 2004 adopted different policies in a number of areas and sectors' and this made it necessary 'to reassess ADB operations in light of the new priorities'. The consequence was a reduced level of disbursements. The World Bank, on its side, withheld aid simply because they were waiting for the new government to formulate clear policies for the use of the funds (Frerks & Klem 2006: 38).

Reductions in aid disbursements alone are obviously not sufficient to get the peace process back on track. Only when these reductions are directly related to developments in the peace process will they affect the dynamics of peace and war. The development banks should have put disbursements on hold while simultaneously communicating to the parties what they should do in order to release aid. Instead, when the situation on the ground deteriorated, 'aid allocations were largely disconnected from the peace process' (Frerks & Klem 2006: 37).

4.4.2   The co-chairs

The co-chairs consist of four actors with major relevance to the peace process in Sri Lanka: the US, the EU, Japan and Norway. The four actors served as co-chairs of the Tokyo Conference, and it was agreed at the conference that the group should continue to meet regularly in order to monitor developments in the peace process.

The co-chairs differ significantly in their policies and positions in regard to development assistance. For the US, development assistance has always served a twofold purpose: promoting American interests abroad while at the same time improving the lives of the citizens in the recipient countries. Norway has not so much used aid to promote national interests, but Norway has over the past two decades increasingly attempted to use aid to promote peace. Japan, on the other side, has

traditionally been reluctant to use aid as a means of applying political pressure, while the EU has been hampered by the diverging positions of member states and consequently unable to use aid to promote specific interests (Frerks & Klem 2006: 46).

Despite the differences in interests and positions, the co-chairs have largely been able to stand together and speak with one mouth in the peace process. The US has not translated its scepticism about the LTTE into increased military support to the government of Sri Lanka (Bastian 2005: 30), while the Japanese somewhat reluctantly appears to have accepted that Norway has the lead as the only facilitator of the peace process.

As Sri Lanka's largest bilateral donor, and as a country with significant influence on international institutions such as the World Bank and the ADB, Japanese policies and actions are of great importance in order to make peace conditionality work in Sri Lanka. It was consequently a promising sign that Japan was the most outspoken supporter of aid conditionality at the Tokyo Conference. Japan pledged up to one billion US dollars in support to Sri Lanka, but stated repeatedly that such assistance should be implemented in tandem with progress in the peace process (see section 4.2.2 on the Tokyo Conference above). The other co-chairs made more modest pledges at the Tokyo Conference: The EU, through the European Commission, promised aid totalling to €50 million over a three-year (European Commission 2007), the US pledged an additional $54 million (US Embassy in Colombo 2003), while Norway stated that it intended to disburse approximately $30 million annually the next few years (Kjørven 2003). Just like Japan, the other co-chairs made it clear in their statements at the conference that such disbursements were contingent upon satisfactory progress in the peace process.

The new strategies were largely implemented in 2003 as the co-chairs increased their disbursements significantly relative to 2002. For instance, USAID, which is the agency that handles US development assistance, announced on 18 December 2003 that it had made 88 grants totalling $2.2 million through its flexible and fast small-

grants program since March 2003 (USAID 2003). The grants were made through the Office of Transition Initiative (OTI) which was established in 2003 in order to assist in generating greater support for a negotiated peace settlement. In August 2003 Japan granted $2.6 million to UNICEF for the improvement of maternal and child health care in the North-East (Japanese MFA 2003d). In the press release where the grant was announced, it is once again pointed out that assistance by the donor community must be 'closely linked to substantial and parallel progress in the peace process' and Japanese authorities expresses concern that peace talks have not yet been resumed 'even after almost two months have passed since the Tokyo Conference' (ibid.).

Also other donors expressed concern about the lack of progress in the peace process. In a press release issued by the US Department of State it was made clear that they noted with concern 'activity by the Tamil Tigers that is undermining confidence in the peace process at this critical juncture' (US Department of State 2003b). US authorities pointed out that they looked forward to 'a timely resumption of peace talks in Sri Lanka' (ibid.).

The concerns about the lack of progress, however, seemed to have disappeared when Japan, the US and the EU met with other donor countries and organisations in September 2003 for the first meeting to evaluate developments in the peace process. The participants at the meeting 'welcomed the continuing commitment of both parties to the peace process and their continued efforts to resume peace talks' (Japanese MFA 2003b). Furthermore, the participating countries and organisations 'reiterated their intention to fulfil the commitment to extend assistance to the entirety of Sri Lanka to a cumulative estimated amount in excess of $4.5 billion US dollars' and they 'reaffirmed paragraph 18 of the Tokyo Declaration' (ibid.).

Donors' concerns became more vocal, however, when the political crisis erupted in November 2003 following the launch of LTTE's plan for an interim administration. All co-chairs expressed their concern about the situation. On 5 November the Japanese Ministry of Foreign Affairs stated that they were 'observing the current development in Sri Lanka with concern' (Japanese MFA 2003c). The concerns were

reiterated a month later when the Japanese Minister of Foreign Affairs, Yoriko Kawaguchi, stated that she had been 'observing with serious apprehension the current political crisis in Colombo' (Japanese MFA 2003e). Furthermore, she stated that the Tokyo Conference provided the people of Sri Lanka with 'an unprecedented opportunity to reconstruct and develop their society' and she urged the parties to 'settle the current political crisis swiftly and to resume the peace process expeditiously, so as not to miss this unique opportunity' (ibid.). The European Commission and the Presidency of the EU issued at joint statement 4 November noting their concern about the developments in Sri Lanka (European Commission 2003b). Later the same month the European Parliament unanimously approved a resolution on Sri Lanka, appealing to the President and Prime Minister to work together in the national interest (European Parliament 2003). In the resolution, the European Parliament 'expresses its deep concern about the recent developments in Sri Lanka which threaten the internationally supported peace process' (ibid.). Before a visit to Sri Lanka later the same month, the External Relations Commissioner Chris Patten stated that he had 'followed recent developments in Sri Lanka with concern as the Peace Process has been effectively put on hold' (European Commission 2003). Also the Norwegian State Secretary Vidar Helgesen expressed concerns about the developments and claimed that 'resumption of peace talks is seriously impeded by the political crisis in the south' (Norwegian Embassy in Colombo 2003). On 29 December same year, US Deputy Secretary of State Richard Armitage made it clear in a meeting with a senior minister from Sri Lanka that the political crisis in the country represented a threat to the peace process (US Department of State 2003). Furthermore, Armitage stated that the political impasse could not be allowed to continue, and he said that he would consult with the other donor co-chairs in order to 'define a way forward' (ibid.).

The co-chairs met as a group twice in 2004. After a meeting in Washington 17 February, the co-chairs expressed their worries about the political situation in Sri Lanka, and they called for 'the earliest possible resumption of peace talks' (Co-chairs 2004). However, the co-chairs reiterated 'their continued determination to implement

their assistance pledged at the Tokyo Conference, based on the principles of the Tokyo Declaration' (ibid.). After the meeting in Brussels 1 June 2004, the co-chairs 'urged in the strongest possible terms a rapid resumption of the peace negotiations so that Sri Lanka can benefit from the generosity of the international community' (Co-chairs 2004b). Furthermore, they noted that 'with so many other demands on donors, donor attention and funding might go elsewhere unless the peace process makes progress' (ibid.).

As the language of the co-chairs toughened and the threats to reduce aid became ever more explicit, one could expect a change in donor behaviour. However, the co-chairs did not seem to be ready to follow up in practice. It soon became evident that the co-chairs were either unable or unwilling to change their aid policies in regard to Sri Lanka.

As Japan was the firmest defender of aid conditionality at the Tokyo Conference, it is rather ironic that Japan was one of the few donors that actually increased aid disbursements to Sri Lanka from 2003 to 2004. In April 2004, Japan published a strategic plan for its assistance to Sri Lanka, which points out that the 'consolidation of peace' is one of the most important aspects in Japan's development cooperation with Sri Lanka (Japanese MFA 2004: 10). Interestingly, it is noted that as there will be times in the peace process when 'cautious and bold action are required', it will be necessary for the donor community 'to respond promptly and flexibly to the various problems facing Sri Lanka' (ibid.: 14). Japan continued to refer to the Tokyo Declaration and it was noted that Japan should 'carefully consider and respond to the substantial progress of the peace process' (ibid.: 15). Japan did certainly monitor the peace process closely in the time after the Tokyo Conference, and the statements above leave no doubt about the fact that Japan was aware of the poor state of the peace process. However, Japan failed to respond 'promptly and flexibly', and observations about the deteriorated situation on the ground were never reflected in actual aid disbursements. Instead, as noted by Frerks & Klem (2006: 45) 'Japan seems to have stuck to its Tokyo pledges, in spite of §18'.

It should also be noted that Japan, despite its willingness to disburse funds to Sri Lanka, has refrained from making any funds available to the LTTE. This is not a result of any political judgements of the LTTE, but stems from a general principle: Japanese aid must be channelled through governments, or alternatively through UN agencies or international organisations (Frerks & Klem 2006: 45-46). In other words, while funds continued to flow to the government of Sri Lanka despite the standstill in the peace process, the LTTE knew that they would not get any direct assistance from Japan no matter how well they behaved. That is hardly an approach that is likely to contribute to peace.

As pointed out above, the EU pledged a substantial increase in aid to Sri Lanka at the Tokyo Conference. While the country strategy for 2002-2006 sketched out assistance to Sri Lanka totalling €16.8 million in the period (European Commission 2002), a total of €50 million was promised at the Tokyo Conference. Just like Japan, however, the EU seems to have stuck to their pledges and neglected §18. At the European Commission website it is simply noted that 'despite the absence of progress in the peace process, the Commission has disbursed most of these funds [pledged at the Tokyo Conference] to consolidate the ceasefire and address urgent assistance needs' (European Commission 2007). No further explanations, no further justifications.

Norwegian policies do not seem to deviate much from the other co-chairs: a closer look at the data shows that Norway has either been unwilling or unable to tie its development assistance directly to the developments in the peace process. Norway has largely implemented the pledges made at the Tokyo Conference, and disbursed around $30 million annually in 2003 and 2004.

Because of LTTE's proscription as a terrorist organisation, the US has had limited possibilities of using aid creatively to promote peace. As noted in USAID's Annual Report for the financial year 2004, the organisation is unable to implement even humanitarian assistance programmes in areas under LTTE control (USAID 2004), and it is consequently impossible for the US to use economic (dis)incentives to affect the calculations of the LTTE. Instead, the US has attempted to engage with the

government, and in practice, the US has kept its aid disbursements to Sri Lanka at a constant level in 2003 and 2004.

To conclude this section, both the development banks and the co-chairs were willing to live up to their promises as long as the peace process seemed to be moving in the right direction. Disbursements increased significantly from 2002 to 2003, and donors also kept their promise to increase assistance to the North-East.[21] However, we have seen that donors failed to link aid disbursements to developments on the ground once the peace process came to a standstill. In the months following the Tokyo Conference, donors noted the deteriorated situation on the ground, but this was not reflected in actual aid disbursements.

4.5   Explaining the failure to implement peace conditionality

The analysis above provides support for H1: donors have failed to link aid disbursements to developments in the peace process, and aid has consequently not served as a pacifying tool in Sri Lanka. The question is: why did donors not reduce disbursements when it was evident that the peace process was not moving in the right direction? Why did they keep on dangling the carrot when they should have applied the stick?

Chapter two made assumptions about some of the most important variables influencing implementation and effectiveness of peace conditionality (see Box 2.1 page 28). As aid disbursements never were linked to developments in the peace process, H2 and the variables influencing effectiveness become irrelevant. The remaining of this chapter will rather focus on the three variables that are of primary importance for implementation of peace conditionality: the establishment of procedures and mechanisms for implementation, donors' coordination and flexibility, and donors' willingness to put peace at the top of their agenda. The two first variables

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[21] Kelegama (2004: 4) claims that by mid-2004, donors had contributed to the rehabilitation of 45 km of the A-9 highway, 238 km of small roads, 108 irrigation tanks, 156 wells, 55 schools, 25 health facilities, and 32,735 IDP-families had received donor funds.

refer to donors' *ability* to implement peace conditionality, while the latter refers to donors' *willingness* to link disbursements to developments on the ground.

4.5.1 Lack of ability

The successful use of peace conditionality puts high demands on donors. This was recognised by a number of participants at the donor conferences in Oslo and Tokyo. For instance, at the Oslo Conference, Clare Short stated that:

> For donors this cannot be business as usual. The peace process is dynamic and demands rapid and flexible responses from donors. We must improve our delivery and must be ready and able to act promptly to operationalise practical initiatives developed at the peace talks. Our support must be effectively coordinated to avoid duplication and overlap (Short 2002).

It is only too bad that few donors paid attention to Short's advice. Donors were by no means flexible and well-coordinated, they were not able to react promptly to developments in the peace process, and their procedures were not harmonised.

Part of the problem is to be found in the ambiguity of the Tokyo Declaration. In chapter two in this thesis it was argued that clear procedures and conditions that leave little room for interpretation will facilitate implementation of peace conditionality. Unfortunately, basically all conditions in the Tokyo Declaration were open to interpretation. For instance, the Tokyo Declaration made it clear that aid disbursements were dependent upon rehabilitation of former combatants and civilians in the North-East (subsection *i*). However, the declaration did not specify any dimension of such rehabilitation programmes or any deadline by which the requirement should be met. Furthermore, the declaration did not stipulate what would be the reward from compliance or the cost of non-compliance. Instead, the declaration linked aid to the process as such, rather than to specific achievements by the two parties. Donors also failed to pay attention to the fact that a peace process is normally not a linear development from war to peace: donors did not even discuss how they should handle progress on some issues and a simultaneous relapse on others.

It has become clear after the Tokyo Conference that there were different opinions in the donor community regarding the application of the stick in the case of a

deteriorated situation on the ground. Though the Tokyo Declaration itself is clear when it comes to the application of negative conditionality, donors' interpretation of this has not been unambiguous. For instance, Jeffrey Lunstead, the US Ambassador to Sri Lanka 2003-2006, claims that though the US was 'an enthusiastic proponent of adding conditionality to the Tokyo Declaration' this was to be understood more as a 'loose linkage' than a strict conditionality (Lunstead 2007: 22). Japan interpreted the Tokyo Declaration much in the same way: the Japanese regarded §18 as 'positive efforts to encourage a good background environment for the peace process, rather than conditionality of any kind' (Burke & Mulakala 2005: 37). However, other donors saw §18 as 'a classic case of conditionality' (Frerks & Klem 2006: 30), and there is little doubt that most local stakeholders interpreted the declaration as a signal that aid disbursements would be reduced unless they achieved substantial progress in the peace process (Burke & Mulakala 2005: 37).

Donors established in §18 of the Tokyo Declaration that the peace process should follow an expeditiously developed 'roadmap with clear milestones indicating the path towards a mutually acceptable final political solution'. However, as donors failed to establish any critical values, and as there was no timetable for implementation, the declaration can hardly be described as a roadmap. Furthermore, as important donors refused to accept that §18 might imply the application of the stick, donors had a bad starting point when rhetoric was to be put into practice. In the words of Burke & Mulakala (2005: 18): 'The government left Tokyo with their pockets full, donors left Tokyo locked into a declaration that they were ill prepared to implement'.

As the conditions in the Tokyo Declaration were vague, mechanisms for monitoring were the more important. According to §20 of the Tokyo Declaration, Japan, in cooperation with the US and the EU, would undertake necessary consultations in order to establish the modalities for monitoring the peace process.

In early 2004, the Donor Working Group on the Peace Process (DWG) was established to monitor the parties' compliance with the conditions. The DWG encouraged shared analysis of developments in the peace process and provided

regular information for assessment (Burke & Mulakala 2005: 21). However, monitoring soon proved to be a sensitive and controversial issue for the donor community, and it was evident that there was no consensus on 'what monitoring should entail and how to link it to decisions on aid disbursements' (Frerks and Klem 2006: 30). For instance, the former US ambassador to Sri Lanka claims that 'the U.S. never meant or understood the Tokyo conditionality language to be a binding and uniform concept for all donors. Rather, each donor could interpret the meaning of conditionality as it saw fit' (Lunstead 2007: 22). The consequence was ad hoc responses from donors, with some withholding assistance to LTTE controlled areas while continuing disbursements to the government, and others continuing supporting both parties despite the failure to comply with §18. The absence of donor coordination also implied that recipients were able to 'shop around for offers of assistance with the minimum strings attached, driving aid for peace bargains down to the lowest common denominator' (Goodhand 2006: 47).

As pointed out in chapter two, there are also institutional barriers to the successful implementation of peace conditionality. The EU representative at the Tokyo Conference pointed to one of the main problems: 'budgets for funding international development are like ocean liners, they take a long time to change direction' (Theophanopoulos 2003).

Norway can serve as an example of an institutional set-up that in many ways is incompatible with a flexible use of aid to promote peace. Norwegian development cooperation with Sri Lanka is based on guidelines from 1998[22] and carried out through a variety of sections and departments within the Ministry of Foreign Affairs, the Norwegian Agency for Development Cooperation (Norad) and the Norwegian Embassy in Colombo. Some sections are responsible for long-term development cooperation, others for peace and reconciliation efforts, and yet others for allocations for emergency and humanitarian assistance. The magnitude of actors involved implies

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[22] Norway is currently (May 2007) in the process of updating their guidelines.

that decision-making often is slow. As long as the strategy is outdated and by no means fine-tuned to the realities on the ground, and as long as all changes of direction require approval from Oslo, field officers are often bound hand and foot and they have little possibility of using aid flexibly and creatively.

Frerks & Klem (2006: 72) point to this problem and argue that the failure to implement peace conditionality in Sri Lanka to some extent can be attributed to differences of view or emphasis between the field missions and the headquarters. Headquarters have tended to be less eager to take immediate steps as they have compared the benefits of conditionality against other interests, such as the maintenance of a good relationship with the parties, as well as geo-political and trade interests (more on this in section 4.5.2 below).

It is also clearly the case that 'the business-as-usual ethos' (Boyce 2003: 19) within aid agencies has posed an obstacle to peace conditionality. As noted in chapter two, in most countries allocation and disbursement decisions are separated: a central unit makes decisions on allocation, while decisions regarding disbursement are decentralised. In a complex and bureaucratic organisation such as the EU, there is clearly a bias towards always disbursing allocated funds to designated recipients. There is no incentive to withhold allocated funds as agencies that fail to disburse funds one year, often find themselves penalised by reduced allocations the following year (Boyce 2003: 19). Furthermore, many bilateral donors channel their assistance through NGOs and multilateral organisations. Many of these organisations are dependent upon a continued flow economic resources through their organisation in order to survive in the hard competition with other organisations. Reductions in disbursements will consequently not only affect the parties in Sri Lanka, but ironically also the organisations that carry out the programmes. Politicians in donor countries trying to reduce disbursements will consequently face a powerful opposition from the NGO lobby. Frerks & Klem (2006: 72) conclude that in Sri Lanka 'spending pressure and programmatic continuity have generated their own momentum'.

4.5.2 Lack of willingness

It is often far from rhetoric to practice in international relations. History is full of examples of political leaders promising bold moves one day, just to carry on with business as usual the next day. Donors' attempt to apply peace conditionality in Sri Lanka adds to the examples.

We have seen above that unclear procedures and mechanisms, combined with a lack of coordination and flexibility, reduced donors *ability* to link aid disbursements to developments in the peace process. There can be little doubt, however, that the failure of the strategy also was caused by a lack of *willingness* to live up to the promises. The development banks certainly managed to reduce disbursements for a combination of political and practical reasons, and if donors only had been willing, they could have reduced disbursements when the peace process came to a standstill. Though unclear procedures provided a bad starting point, the failure to implement peace conditionality in Sri Lanka was largely caused by a lack of willingness. Peace conditionality was only attempted in a half hearted way.

In many conflict settings around the world the problem has been that donors have been unable to follow up on their promises to *increase* aid disbursements in support of a peace process. Peace conditionality can be expensive for donors if the parties comply with the conditions, and there are numerous examples of donors failing to put the money on the table in due time.[23] Interestingly, the opposite has been the case in Sri Lanka: donors were certainly willing to increase disbursements as long as the peace process moved in a favourable direction, but they failed to reduce disbursements when the situation on the ground deteriorated.

Why were donors unwilling to put rhetoric into practice and reduce aid disbursements? In chapter two it was argued that donors often have conflicting interests and objectives, and that the stated objectives not necessarily correspond with

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[23] This was a major problem in Palestine and Bosnia in the mid-1990s, and more recently it has also turned out to be a problem with regard to the peace process in Somalia.

the true objectives. Peace competes with other foreign policy goals, and donors tend to want peace at the lowest possible cost to themselves (Goodhand 2006: 55). This was clearly demonstrated in Sri Lanka: peace conditionality did not fit into the broader relations between donors and the recipients. This is especially clear when assessing the actions of Japan, Norway and the US.

Japan has traditionally had close ties to the government in Sri Lanka. Both countries are predominantly Buddhist and there is extensive economic cooperation between the countries. As noted above, despite Japan's explicit support for conditionality at the Tokyo Conference, Japan was never prepared to apply the stick. Aid was regarded as a channel for bringing the 'fruits of peace' (Frerks & Klem 2006: 45), and when the peace process came to a standstill the Japanese government was not willing to offend their friends in Colombo by reducing aid disbursements. On the contrary, Japan has continued to support high profile aid programmes, 'in order to cement its relationship with the regime in power' (Goodhand 2006: 22). For Japan, aid is primarily an instrument that should be used to expand Japanese influence and visibility internationally and regionally (ibid.). Peace conditionality does not necessarily correspond with these objectives.

Much of the same logic applies to the Norwegian-Sri Lankan relationship. Norway plays a key role in facilitating efforts to reach a political solution to the conflict in Sri Lanka. Frerks & Klem (2006: 48) claim that given the Norwegian role as a facilitator, there was little space for conditionality in Norwegian policies: 'Norwegian Krona [sic] are not primarily useful as leverage, but rather as a means to induce goodwill among all parties concerned and fund peacebuilding at various levels'. The Norwegians themselves apparently reached the same conclusion: apart from the Norwegian statement made at the Tokyo Conference, in which State Secretary Olav Kjørven added in a subordinate clause that Norway would keep aid at a constant level if the peace process progressed satisfactorily (Kjørven 2003), it is difficult to find any public references to peace conditionality in Norwegian rhetoric. Peace was certainly at the top of the Norwegian agenda, but Norway gave priority to a good relationship

with the parties, and they were unwilling to apply the stick. Norway wanted to be the parties' friend and travelling companion on the road to peace, and the stick did not fit into such a relationship. It was feared that the application of the stick would jeopardise the Norwegian role as facilitator.

To the US, Sri Lanka is of little political or economic strategic interest. However, in the aftermath of September 11, 2001, the war on terror has played a central role in American foreign policy and the US has supported democratically elected governments around the world in their struggles against terrorist organisations. As argued above, the US regards aid as a means of advancing American interests abroad, and the war on terror is by the current administration regarded as priority number one. The former US Ambassador to Sri Lanka thus concludes that

> If the U.S. developed anything approaching a strategic interest in Sri Lanka, it derived from the feeling in the post-September 11, 2001 world that the threat from terrorism had to be confronted globally, and that governments facing terrorist threats should cooperate against them. Even though the LTTE had never targeted Americans, the simple fact of the LTTE's status as a designated terrorist organization under U.S. law brought the two countries closer together' (Lunstead 2007: 14).

The US has consequently taken a tough stance towards the LTTE, and used any opportunity to reiterate that the LTTE must denounce terrorism. In a situation where a democratically elected government is in conflict with what the US regards as a terrorist organisation, it has been almost impossible for the US to reduce economic assistance to the government because of lack of progress in the peace process. According to the US, the LTTE is the main problem and those who should be pressured. The government, on the other side, is in need of support and security guarantees. The US has prioritised the war on terror and support for the government and consequently neglected §18 of the Tokyo Declaration.

To conclude, donors were not willing to sacrifice the good relationship with the parties on the altar of conditionality. They were certainly willing to publicly criticise the parties, but the link between the peace process and aid disbursements proved to be stronger in rhetoric than in practice.

Chapter five: Conclusions

5.1   Introduction

Over the past two decades, donors have become increasingly sensitive to conflict issues. It has been recognised that peace is a prerequisite for development and that development goals cannot be achieved unless the conflict itself is addressed. Billions of dollars have consequently been pledged to support peace processes and peacebuilding efforts around the world. As such activity has increased, so has the debate about how aid can be disbursed in a way that promotes peace.

Peace conditionality can be an instrument for making aid a more effective tool for peacebuilding. The purposeful use of aid can alter the incentives faced by the parties and thus strengthen the momentum of the peace process. The aid carrot can serve as an inducement for conflict resolution, while the threat of withholding aid can weaken or discourage negative dynamics or outcomes. The purposeful use of aid thus enables donors to affect the dynamics of peace and war in the areas where they operate. As noted by Shanmugaratnam and Stokke (2005: 2), peace conditionality 'has opened up spaces for donors to be active stakeholders in peace processes in aid-dependent countries'.

Peace conditionality in Sri Lanka, however, is a history of missed opportunities: there was a window of opportunity, but donors failed to use aid to propel the peace process forward. Donors made it clear that they intended to link aid disbursements directly to developments on the ground, but there have been limited, if any, effects on the peace process. The purpose of this thesis has been to assess why aid has not served as a pacifying tool in Sri Lanka.

This concluding chapter will summarise the findings and discuss the wider implications of this thesis.

5.2 Summary of findings

The first chapter of the thesis presented two hypotheses about why aid has not served as a pacifying tool in Sri Lanka:

H1: *The strategy has been ineffective because actual aid disbursements have not been linked to developments in the peace process.*

H2: *The strategy has failed because the specific approach to peace conditionality that has been applied in Sri Lanka has been unsuitable.*

The analysis shows that donors increased disbursements as the peace process seemed to be moving in the right direction. However, donors failed to link aid disbursements to developments in the peace process once the situation on the ground deteriorated. In other words, donors were willing to dangle the carrot, but they were never willing to apply the stick. Donors did certainly note the poor state of the peace process, but this was not reflected in actual disbursements. Sri Lanka did largely receive the aid that was promised at the donor conferences in Oslo and Tokyo, despite the failure by the parties to comply with the conditions attached to disbursements.

The analysis consequently provides support for H1: aid did not serve as a pacifying tool in Sri Lanka because donors failed to link disbursements directly to developments in the peace process. Economic (dis)incentives never became a part of the parties' strategic calculations because donors were unable to put rhetoric into practice. As disbursements were never linked to developments on the ground, H2 becomes irrelevant.

Unclear procedures and mechanisms reduced donors' *ability* to implement peace conditionality. The vagueness of the conditions made it difficult for donors to assess to what extent the parties complied, and monitoring soon became a sensitive issue. Furthermore, the institutional set-up of donors made it difficult to respond promptly and flexibly to developments in the peace process.

Most importantly, however, the analysis shows that major donors were *unwilling* to prioritise peace over other foreign policy goals. It was more important for donors to

preserve the good relationship with the parties, or to combat terrorism, than it was to enforce the conditions attached to disbursements. The application of the stick did not fit into the broader relationship between the donors and the conflicting parties, and donors consequently made little effort to enforce the conditions attached to disbursements. Peace conditionality in Sri Lanka was only attempted in a half hearted way.

5.3   Implications for future operations in Sri Lanka

This thesis has assessed donors' actions and strategies in Sri Lanka up until Christmas 2004. Which wider lessons can be generated from this study? How should donors proceed in Sri Lanka in the time ahead? Is peace conditionality still worth a try?

The main lesson that can be drawn from this study is not that peace conditionality is an inappropriate instrument in promoting peace. A quick glance at the determinants of effectiveness in Box 2.1 shows that if only donors more vigorously had enforced the conditions attached to disbursements, the instrument might have been effective. The amount of aid on offer was certainly sufficient to provide a powerful inducement for recipients to adopt pro-peace policies, and the aid packages were largely targeting actors with the ability to implement changes. Peace conditionality was also introduced at a phase of the conflict where the parties had reached a mutually hurting stalemate. The signing of the CFA proved that the government as well as the LTTE had realised that the conflict could not be won through military means, and they were consequently ready to listen to alternatives. Finally, economic (dis)incentives were combined with security guarantees, provided by the SLMM, and continued diplomatic attempts to reach a peace settlement.

The main lesson to be drawn from this study is rather that donors must prioritise peace. Peace must be at the top of donors' agenda and their policies need to cohere around this goal. Donors must recognise that peacebuilding implies making choices, and each choice involves costs and trade-offs. 'If peacebuilding is to be elevated to

the over-riding goal this necessarily means de-prioritizing or delaying other goals' (Goodhand 2006: 60).

Donors to Sri Lanka have historically tended to treat conflict as a negative externality to be avoided rather than explicitly addressed (Goodhand 2001: 68-69). The rhetoric clearly became more conflict-sensitive at the beginning of the new millennium, but this thesis shows that there is still a need for more conflict-sensitive approaches to aid.

Donors must recognise that all aid, conditional as well as unconditional, will have political ramifications in the recipient country (Boyce 2002; Uvin 1999; Goodhand 2006). Aid can be used purposefully to promote peace, but inappropriate aid might as well have the opposite effect and put fuel to the fire. The question is consequently not whether or not aid will have an effect on the conflict, but rather what these effects will be. As pointed out by Uvin (1999: 4):

> All aid, at all times, creates incentives and disincentives, for peace or for war, regardless of whether these effects are deliberate, recognised or not, before, during or after war. The issue is then not whether or not to create (dis)incentives but, rather, how to manage them so as to promote conditions and dynamics propitious to non-violent conflict resolution.

Donors providing aid in conflict settings have a responsibility to ensure that they avoid the negative and increase the positive impacts on conflict. Donors must understand the context in which they operate and they must calibrate their strategies according to developments in the conflict.

It is the argument of this thesis that donors also in the future should attempt to use aid purposefully to promote peace in Sri Lanka. The setting has certainly changed considerably since the donor conferences in 2002 and 2003. The positive atmosphere that surrounded the donor conferences is replaced by mistrust and a lack of hope for the future. The level of violence has increased dramatically, and there appears to be little prospect for new rounds of peace talks in the immediate future.

Peace conditionality may consequently not be effective in the short-term. However, the purposeful use of aid, in combination with other political and military instruments, may help bring the peace process forward in the long-term. As pointed out by Boyce (2003: 19), 'although aid conditionality seldom will be sufficient to prevent violent conflicts, end wars, or guarantee the success of peacebuilding efforts, it may be a necessary element of broader international strategies to bring about a more peaceful world' (Boyce 2003: 19). Unconditional aid is not a viable alternative: only through a persistent and focused use of aid will donors be able to contribute positively to the peace process in Sri Lanka.

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