

Phantom aid: The politics of humanitarianism

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Ensuring the proper use of foreign aid is crucial in post-conflict Sri Lanka.

Contents

- [New donors](#)
- [Aid tsunami](#)
- [Trade, not aid](#)

The US government, which wields considerable influence at the International Monetary Fund (IMF), has sought to delay Sri Lanka's USD 1.9 billion loan appeal. Washington's hesitance is tied to the context of the humanitarian crisis that preceded the defeat and destruction of the LTTE and the killing of its leader, Velupillai Prabhakaran. Sri Lanka needs the IMF loan to service its external debt, which has accumulated as a result of soaring defence expenditure as well as borrowing related to controversial oil-hedging deals. The government is also seeking funds for the reconstruction of the conflict-affected northeast.

The disbursement of the funds has also been a somewhat controversial issue outside Washington, DC. Initially, the United Nations Security Council had determined that it would not block the loan, when the subject came up during informal discussion. The UN Office of the High Commissioner for Human Rights (OHCHR), Britain and France have, however, asked for an investigation into war crimes and violations of the Law of War by both sides. Earlier, the Security Council president, Mexican Ambassador Claude Heller, stated that "all 15 members agreed that such a move or other steps to punish Sri Lanka were unnecessary." The island's two main donors, China and Japan, along with Russia and Vietnam on the Security Council, regard the conflict between the government and LTTE as an internal matter.

Beyond the politics, the pending IMF loan to Sri Lanka re-opens an old debate on international aid, its relevance and effectiveness, both within and beyond the island. Before the current global crisis, the IMF and many supra-national banks had almost run out of relevance – and, more significantly, clients – in the developing world. Many countries had started borrowing in private capital markets. This was partly due to the unpopularity of the Structural Adjustment Programmes and other conditionalities imposed by the body. The institution had also lost considerable credibility for its response to the East Asian financial crisis during the late 1990s, and its handling of the Argentina economic collapse, from 1999 until 2002. This was particularly true in the wake of World Bank Chief Economist Joseph Stiglitz's critique that IMF policies actually exacerbated these crises. Stiglitz subsequently lost his job at the World Bank, but won the Nobel Prize for Economics in 2001.

The IMF's diminished relevance prior to the current financial crisis was also due to the emergence of new Asian donors such as China and India moving into Africa and Asia with billions of dollars, to secure the natural resources needed to sustain growth at home. Following the financial crisis, the IMF gained a new lease of life, with a revitalised mandate to assist poor countries affected by the

downturn. The G20 Summit in London in April was a particular turning point, as the IMF garnered pledges in the billions to help economic recovery. However, at the same meeting, British Prime Minister Gordon Brown also declared, “the Washington Consensus is dead.” (Perhaps he was following in the English tradition of announcing, “The king is dead! Long live the king!”) In any event, it appears that the IMF, at least in Sri Lanka, may now step in where the World Bank once trod – the latter being the Bretton Woods twin once tasked with post-conflict reconstruction. Going off of the Sri Lanka’s most recent aid experiences, however, perhaps it will make little difference: despite promises in 2003 of some USD 4.5 billion by the four co-chairs of the peace process (Norway, Japan, the US and the EU), much of that aid turned out to be ‘phantom aid’, with some 70 percent being given in the form of loans rather than grants.

New donors

Resurgent as the IMF may be, it has not reduced the importance of India and China as newly established donor countries. Indeed, there has been a shift in the structural dynamics of the international development architecture, as the current aid configuration in Sri Lanka reflects. In the context of a general critique of the Western aid system taking root in the Global South, there has been an emergence of new Asian donors, particularly China and India. What is more, the stepped-up power of these two donors may also be increasingly rendering the established international aid architecture irrelevant. While these Asian donors tend to have a more state-centric approach to aid, they do not attach many policy conditionalities, and offer cheaper technical assistance. The new donors also tend to be less concerned about paying lip service to human-rights requirements, as was clearly demonstrated by New Delhi and Beijing’s recent stance in Sri Lanka.

Such nonchalance is quite in contrast to many Western donors, many of which have a significant Tamil diaspora in their capitals that was troubled by the humanitarian situation as the war drew to a close. Tied in with this concern has the question of the exchangeability of the aid. As the areas in which the aid can be used are rather flexible, there were fears for many donors that Colombo could be redirecting some of the funds to its war effort, for instance, rather than using it for development projects. Given such concerns, many had been arguing that conditionalities on an IMF loan should relate not only to immediate humanitarian assistance, but also extend to a sustainable solution – demilitarisation and good governance for conflict de-escalation.

India, always a significant political force in Sri Lanka, has now taken on a development role previously alien to it. To begin with, it has pledged post-conflict reconstruction assistance, and has sent emergency humanitarian assistance to the conflict zones in northern Sri Lanka, including teams of navy doctors. Of course, New Delhi also supplied intelligence to Colombo and provided defence equipment, principally radar equipment to detect LTTE planes. In the commercial arena, it has also leased oil terminals in Sri Lanka’s prime and much-coveted natural harbour in Trincomalee, on the northeast coast.

The island also counts on China for significant military and financial assistance. In Hambantota – the southern tip of Sri Lanka, 106 km from one of the world’s busiest shipping lines – is a vast construction site, where a Chinese-funded port is being built. One of the poorest districts on the island, Hambantota is also President Mahinda Rajapakse’s electorate. And while China says that the USD 1 billion port is a purely commercial venture, American and Indian military analysts regard it as part of a so-called ‘string of pearls’ strategy, meant to encircle strategic waterways.

China has helped Sri Lanka in other ways as well, including encouraging Pakistan to sell weapons to Colombo and supporting it diplomatically at the Security Council, especially blocking votes on the

war. It is also reported that Beijing provided, free-of-charge, six F-7 jet fighters last year. According to the Stockholm International Peace Research Institute, it was these very planes that subsequently shot down the LTTE 'mosquito' planes. And the relationship shows no signs of dwindling, with Chinese aid to Sri Lanka jumping from a few million dollars in 2005 to USD 1 billion last year, replacing Japan as the island's largest donor. Of course, Beijing was already Colombo's biggest arms supplier by the 1990s. As both India and China fish in Sri Lanka's strategically located troubled waters, the government seems to have been using the rising Asian donors in particular to defeat the LTTE and to counter the Western aid lobby - one that may increasingly become irrelevant in Asia.

Aid tsunami

It is generally agreed that Sri Lanka's current economic woes are related more to soaring defence expenditure, dysfunctional governance and corruption (which have fuelled and been fuelled by the extended armed conflict), rather than to the global economic crisis.

Three years ago, Sri Lanka turned down an IMF offer to give the country a status of Heavily Indebted Poor Country. Then, the Rajapakse regime celebrated the departure of the IMF with fanfare, promising never to go back to Western aid conditionalities, which often included the privatisation of public corporations and assets, underperforming or otherwise. Colombo had also concluded that concessionary loans (one at little or no interest rate) offered by international financial institutions were too costly. This was especially true given aid conditionalities, including over-priced technical assistance from donor countries that flow back to the contributor, amounting to 'phantom aid'. Since then, Sri Lanka's Central Bank has followed a path of borrowing from private capital markets. Not so long ago, the governor of the Central Bank of Sri Lanka, Nivard Cabraal, went on record telling the IMF to put Washington's finances in order following the global financial crisis, rather than advising Sri Lanka on monetary policy.

Sound as this advice to the IMF may have been, the Sri Lankan economy itself is hardly in good shape. The country currently suffers from a serious deficit, a home-grown balance-of-payments crisis caused by excessive defence expenditure, bloated public sector spending and inflation that peaked last year at 30 percent. All the while, official reserves have in recent years been whittled away by defending an exchange rate of 108 Sri Lanka rupees to the US dollar. According to Razeen Sally, the co-director of the European Center for International Political Economy, an apparent balance-of-payments crisis is also related to "corruption and institutional rot that set in long ago, but has plumbed new depths". Currently, controversial oil-hedging deals are under investigation by the Bribery Commission, following a Supreme Court stop order on payments by the Ceylon Petroleum Corporation, including to Citibank and Standard Chartered Bank. Recently, the United National Party, the main opposition, raised questions about conditionalities attached to the IMF loan under discussion in the Parliament. The Rajapakse government has stated that it will not tolerate conditionalities from the IMF, which would likely welcome a client from Southasia given its declining clientele in the region.

Historically, Sri Lanka has been a bit of a donor darling, receiving disproportionate international media attention when compared with other conflict regions. Despite and arguably because of cycles of conflict, peace-building, reconstruction and destruction in the last quarter-century - as well as due to Sri Lanka's lush tropical beauty, cultural openness and tourist-friendly people and infrastructure - the island has been a favourite of the international development industry. The country, however, tends to underutilise normal development assistance (making use of only around 17 to 35 percent of the total aid, depending on the project).

It has also at times experienced 'hot' aid flows. This was particularly the case following the 2004 tsunami, when over 500 donors and international organisations arrived on the island to provide relief – and then stayed on for several years. This experience gave rise to a local discourse that the island had been struck by an 'aid tsunami', which had caused new conflicts and problems of coordination, equity and lack of local ownership of recovery priorities and programmes. Several studies indicated that a significant part of the funds for disaster victims were consumed by international experts from various UN Agencies, the International Committee of the Red Cross and their partners, and INGOs based in Colombo – rather than reaching affected communities.

International assistance can certainly be helpful. But it is clear that aid dependence in conflict situations may lead to institutional de-development that exacerbates the emergent conflict, creating a poverty trap in places where long-term, low-intensity conflict prevailed. It is in this context too that the Sri Lankan government has recently been quite dismissive of Western aid donors. Ultimately, the giving and receiving of aid is as much about politics as it is about humanitarian aid or poverty alleviation. In the words of political theorist Joseph S Nye, "Politics in an information age is not only about whose military wins, but whose story wins." This has proven to be a truism in Sri Lanka, especially as the war has wound up in recent months.

Trade, not aid

With much physical and political reconstruction work now necessary in Sri Lanka, the issue of aid disbursement becomes more relevant than before. It is still possible for Colombo to win the war but lose the peace. Many have predicted that the remaining LTTE cadre will melt into society, in Sri Lanka and South India, continuing to fight a guerrilla war until the root causes of the conflict are addressed. After all, the core concerns of the Tamils are in no way addressed by the military victory. These fundamental concerns will cease to exist only with the devolution of power to the north and eastern regions.

Tamil moderates could argue that now, when the LTTE threat has passed, meaningful power-sharing should take place. This should be in direct opposition to the masquerade of democracy that has been evident in the east since the government 'liberated' the Eastern Province. After that area was re-captured by the Sri Lanka military in mid-2007, the situation in the east has been showcased as a post-conflict development model. A report by the International Crisis Group, issued in mid-April, notes:

Even now, the Eastern Province is still not the 'post-conflict' situation that development agencies had hoped. Despite the presence of tens of thousands of soldiers and police in the east, the LTTE have proven able to launch attacks on government forces and their rivals, the Tamil Makkal Viduthalai Puligal (TVMP). There have also been violent conflicts between different factions of the pro-government TVMP and impunity for killing and disappearances, many of them apparently committed by government forces and their allies. The government has still not devolved power to the Eastern Province as required by the Thirteenth Amendment to the Constitution which established the provincial council system in 1987 in response to Tamil demands for regional autonomy ... In this environment, development of the east remains affected by the conflict and threatens to exacerbate them. Despite the need for development there is a danger of funds being wasted or misused.

The critique of development assistance within the country has, of course, also remarked that international aid itself has contributed in the past to the conflict. Poor governance locally as well as in the international aid bureaucracy, where phantom aid, lack of transparency, poor monitoring and evaluation, and non-existent exit-strategies, are all part of the problem. In this context, it is to be

hoped that the IMF loan and other international aid is now conditional on a scenario that ensures sustainable peace through genuine devolution of power.

Most importantly, the moderate Tamil voice that had been stifled by the LTTE and government-allied paramilitaries must play a central role in the reconstruction of the northeast. The military defeat of the LTTE does not mean that its ideology has been defeated. This will only happen when the state recognises the multicultural and multi-religious nature of the country, and ensures equal rights to all communities. The state will need to reach out to the minority community, ensure that displaced people are not held in internment camps, and offer the Tamils an acceptable political solution. There also needs to be a process of reconciliation and peace-building among the various ethnic and religious communities. Affirmative action, by hiring minority community members into government institutions, the bureaucracy and the armed forces, could be a useful start.

Unfortunately, much like the LTTE, southern politicians have played the 'ethnic card', using the conflict to win votes and stay in power. This political culture must end in order for bridges to be built and ethnic relations to improve in Sri Lanka. Ultimately, no amount of aid, howsoever large, can heal Sri Lanka's wounds if it is not implemented in an environment of compromise and understanding. Indeed, as Colombo's political approach to Tamils and other minorities must change, so must the state's handling of aid monies. Naturally, the involvement of national development experts as well as civil society in monitoring the IMF loan and other reconstruction assistance is extremely crucial. What is more, there should be clear timeframes and exit strategies for all the reconstruction players. Finally, 'trade not aid' is the path forward for sustainable economic recovery, as well as to avoid aid dependency and the related poverty trap in which northeast Sri Lanka has been caught for the last two decades.

P.S.

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