

**FOREIGN AID AND PUBLIC POLICY :
A CASE STUDY OF SRI LANKA**

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CERTIFICATE

Certified that the dissertation entitled "Foreign Aid and Public Policy : A Case Study of Sri Lanka" submitted by Mr. Danister Jayawardhana in partial fulfilment of nine credits out of the total requirements of twenty four credits for the award of the degree of **MASTER OF PHILOSOPHY (M.Phil)** of this University is his original work and has not been submitted for the award of any other degree of this University or any other Institute.

We recommend that this dissertation should be placed before the examiner for final evaluation.

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**DEDICATED
TO
MY FATHER**

Preface

Global economic interdependence has been a universally accepted fact of present day international living. Since the World War II the revolutionary developments in the means of transport and communication and the progress of industrialization and technological advancement, have vastly promoted the scope of commercial and trade nation. This has in turn, been a source of increased cooperation, links, collaboration among nations. These have also been a source of competition and conflict in international relation. This new dimension of international relation has led to a systematic use of several economic instruments for securing national interest and for exercising influence/power over other nation. These economic instruments include foreign aid, tariff, quota and license, embargoes and boycotts blacklisting, exchange controls, subsidies, inter - government commodity agreements, international cartels, trade and payment agreements etc.

Among these economic instruments for securing national interests, foreign aid has recently become a more powerful instrument. Unlike in the past where foreign aid was used mainly for humanitarian purposes, presently it reflects economic, political, military and strategic interest of

donor countries. Because of this multipurpose nature of foreign aid it has many different and crucial roles to play in the contemporary era of international relation.

One of the most important functions of foreign aid in the present day international relations, is to induce policy reforms in the recipient nations. Aid donors, using foreign aid as a strategic instrument do not hesitate to express this view on the suitability of various policies enacted by national governments. In fact, there is no area in the development field where donors do not chose to exercise a say. Available evidences revealed that they have attempted to influence policies on state ownership, the role of private sector, the monetary and fiscal policies, pricing policy, distribution policy, the use of administrative controls, the structure of development expenditure, the external value of currency, pattern of development administration and variety of other operational, policy oriented and ideological issues.

The attitude of interference in public policy of recipient nations originates in the belief that the size and importance of contribution made by donors to the poor countries give the former a right to dictate how recipient nations should conduct their development affairs. Backed by

powerful finance resources donor's power of such interference in the policy matters of recipient nations is enormous. Such an authority of aid donor emerges due to the economic weakness of recipient nations. Therefore, policy makers of recipient nations have to wait upon decisions in donor countries before they formulate their policies. In other words major policies of these recipient nations are formulated not in their national capital but outside their national boundaries. This whole phenomena deserve a closer look and this study is an attempt in this regard.

The influence on the public policies of poor developing countries by aid donors through foreign aid will be studied with reference to Sri Lanka, a country which ranks among the poorest thirty nations in the world. As other third world countries Sri Lanka lacks the capacity to generate sufficient domestic resources for her development programs and this means an increased dependence upon foreign aid. Sri Lanka, therefore, remains highly vulnerable to pressure from aid donors.

This study has four main objectives:

- (i) to understand the sources and circumstances under which pressure came to be exercised.

(ii) to differentiate the varying perspectives among various groups of donors towards the exercise of pressure in the affairs of Sri Lanka.

(iii) to review the response of successive regimes in Sri Lanka to these pressures and to see how this affected relation between the donors and the regime.

(iv) to examine how far and to what extent foreign aid has led to change the public policies.

This is a descriptive and qualitative study drawing on both library and field work in Sri Lanka and in India. The core chapters are mainly based on primary sources. For this newspapers, periodicals, press reports and annual reports and working papers of international aid agencies were used. Extensive interviews were held with large number of political leaders, scholars officials and journalists of Sri Lanka to understand the nature and working of foreign aid as well as its real impact on the public policy.

The empirical exercise in this study are based on data obtained from Annual Reports of Central Bank of Sri Lanka, Foreign Aid Indicators of Department of External Racecourses of Sri Lanka and annual reports of various aid agencies.

Data from these sources have been classified to facilitate comparison and to bring out important informations in the forefront. Tabulation of data has been used as much as possible. Percentages and averages have been used throughout the interpretation. Arranged data have, sometimes, been presented in the form of charts, graphs and diagrams.

The study is divided into six chapters.

In the opening chapter various issues related to the concept of foreign aid have been briefly discussed and effort have been made to understand the ways in which aid donors bring policy reforms in economically weak recipient countries.

Chapter two deals with the aid situation for Sri Lanka. This chapter also outlines the impact of foreign aid on the development.

Chapter three is devoted to understand the nature of bilateral aid programs and their impact on public policy in Sri Lanka.

Chapter four devoted to understand the nature of multilateral aid programs and their impact on public policy in the country. In this chapter it is also endeavored to identify the real interest of the multilateral aid agencies.

Chapter five outlines the pressure tactics of Sri Lanka Aid Consortium and the ways in which both bilateral and multilateral aid donors coordinated in the consortium to bring policy reforms in the country. This chapter also identifies the areas where the donors have made policy changes.

In final chapter six, the main conclusions of the study are summarised and the policy implications thrown up by the study are indicated.

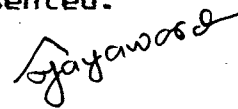
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Finally my sincere appreciation and thanks are offered to A.P. Computers for its neat word processing work.

Needless to add, I alone am responsible for the errors and omissions as well as the views presented.



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CHAPTER 1

FOREIGN AID AND PUBLIC POLICY

Concept of Foreign Aid

Foreign Aid (which is also alternatively called 'economic aid' or external assistance or 'overseas aid' or 'development assistance') is an ambiguous term and there is no common agreement on its definition.¹ Little and Clifford define the term 'foreign aid' as the flow of resources from a developed country to a developing country.² Bhagwati and Eckans observe that foreign aid consists of explicit transfers of real resources to less developed countries on concessional terms.³ In the words of Morgenthau, foreign aid implies the transfer of money, goods and services from one nation (donor) to another (recipient).⁴ Paul Mosley defines foreign aid as money transferred on concessional terms by

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1. For a summary of the controversies on the definition of foreign aid see Adrian Moges and Teresa Hayter, World III: Handbook of Developing countries, (New York, Macmillan, 1967), P. 71.
 2. I.M.D. Little and J.M. Clifford, International Aid. (Chicago, Aldine Publishing Co., 1966), p 13.
 3. Jagdish P. Bhagwati and Richard S. Eckans (ed.) Foreign Aid : Selected Readings. (Penguin Books, 1976), p. 1.
 4. Hans Morgenthau, "The Political Theory of Foreign Aid" American Political Science Review. Vol. LVI.

the government of rich countries to the government of poor countries.⁵ Remand Mikesell⁶ and Arnold,⁷ have also define foreign aid in similar terms.

An examination of various definition on foreign aid indicate that the essence of foreign aid is transfer of resources from more affluent to the less developed parts of the world. It is foreign, external or overseas because it originates outside the national boundaries of the recipient country; it is called aid or assistance because it is not determined by the same principles which govern autonomous flows of trade and capital.

History of Foreign Aid

Foreign aid is not a new concept although its nature and objectives have been changing from time to time. External assistance was seen in early centuries also.

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5. Paul Mosley, Overseas Aid : its defence and Reforms (Sussex, wheatsheaf Books, 1987) p 3.
 6. Raymand Miksell, the Economics of Foreign Aid. (London, 1968). p. 4.
 7. H.T.P Arnold, Aid For Development : A Political and Economic study, (London, 1966), p. 7.

However, it was only in the post war period that foreign aid began to flow in a planned and a systematic way.

Since the nineteenth century it has been a common practice for imperial government to transfer money on concessional terms to the government of their colonies under the label of 'grant in aid', 'budgetary subsidy' or some such terms. The government of Britain, France, Germany and the United States gave this type of assistance before 1914. However, this transfer of resources was on temporary basis and without the slightest connotation of moral obligation or aid for development. During the inter-war period the world economy experienced a great economic depression. Economically weak countries increasingly felt need for foreign aid and for the first time foreign aid for development entered political discussion.⁸

During the later years of World War II the changing shape of international relation was quite clear and economic content of national interest also emerged. The establishment of World Bank and International Monetary Fund during this period explains the awareness of the big powers towards the increasing importance of economic factors in the future world order.

8. Mosley, n. 5, p. 21.

Among the big powers, the United States launched the first systematic and planned foreign aid programme. This was known as the American Marshall Plan (name after George C. Marshall, the U.S. Secretary of State from 1947-49). The aim of the Marshall Plan was to bring about the financial and economic recovery of war-torn Europe. Under this massive amounts of American capital assistance helped Europe recover its war-torn economy.

Another development of the world war II was the emerging of new nations in Asia and Africa. The western powers believed that the poverty in these newly independent countries may create unrest that can lead to Communist revolution. It was feared that if steps were not taken to assist the economies of these newly independent nations the situation would be ripe for communist revolution which the western countries wanted to contain.⁹ The Colombo Plan, an initiative of Common wealth was an implication of these development. The Plan which went into operation in 1951, was intended for countries of south and south East Asia but was later extended to include a much wider area stretching from Iran to South Korea and from Fiji in the Pacific to the Maldives in the Indian Ocean. The six donor countries

9. Miksell, n. 6, p. 4.

(Australia, Britain, Canada, Japan, New Zealand and the USA), are the main sources of aid but the developing members also provide some technical assistance for each other.

During the second half of the 1950s the Soviet Union became for the first time a substantial donor of aid. Until Stalins death in 1953 the sole financial link between the Soviet Union and the developing countries had been its support for local Communist parties. But after the first conference of non-aligned countries at Bandung in 1955 it became clear that the world could not be rigidly divided into pro-communist and anti-communist governments.¹⁰ Soviet union wanted to win this new emerging group and the obvious instrument was the foreign aid. In the next few years massive amounts of Soviet aid was given to some of the leading nations in the non-aligned movement.

The ending of the European empires mainly those of Britain, France and Holland led to a very rapid expansion of the aid programmes of these countries. The main objective of the aid programmes of these old colonial powers was to promote their strategic interest in the newly independent countries. Japan and West Germany also became substantive

10 Guy Aronold, Aid and the Third world: The North/South Divide, (London, Robert Royce L & D. 1985). P. 7.

donor of aid for the first time in early 1960. It was also in the early 1960s that the Scandinavian countries, none of whom had ever been colonial powers on any scale began their development aid programmes. Today even comparatively more affluent countries in the third world such as India, Pakistan and Gulf countries have aid programmes.

Foreign Aid : Aims and Objectives of the Donors

The continued quest for motivation of foreign aid has been pursued through countless commissions, study groups conferences, reports and memoranda. However, there is no clear agreement on motivation of foreign aid.

Apparent objective of foreign aid is to promote economic growth and development of less affluent countries. This is the Liberal approach to foreign aid. Liberal scholars hold the view that internal stagnation on account of inefficiency is the cause of under development of the third world and the cure is foreign aid from the developed countries. In fact, official objective of all the aid programmes is economic development. According to US Foreign Aid Act the main objective of US-AID is to promote economic development of the poor countries. The Soviet Union support to the legitimate aspirations and requirements of developing

countries through its aid programme.¹¹ In addition to raising living standards, the United Kingdom's aim is to use its aid to help world economic recovery and growth.¹² According to Law Number 38, Italian aid objective is to promote growth and development in the third world countries.¹³ The principal objective of the Australian aid programme is also to promote economic and social development of developing countries particularly in the geographical vicinity of Australia.¹⁴ Official objective of other donors such as Canada, Netherland, Japan, China and Scandinavian countries is also the economic development of the third world countries.

The apparent objective of foreign aid which is economic development is viewed by Liberal scholars as a humanitarian or moral act. In the words of the 1969 Pearson Commission Report, "Partners in Development", the simplest answer to the question (why aid) is the moral one; that is only right for those who have is to share with those who have not" In

11. International Business Intelligence (IBI) Development Aid (London, Butter worths 1988). p. 178.

12. Ibid, p. 469.

13. Ibid, p. 420.

14. Ibid, p. 534.

other words those who can help have the obvious responsibility to help eliminate the obvious evils of hunger, disease illiteracy and other various maladies of the third world.

Neo-Marxist Scholars disagree with the Liberal approach of the course and care of the under development of the third world. They believe that the cause of under development is international exploitation by the developed countries and the cure is fundamental change in the relation between the developed and underdeveloped countries. Neo-Marxists emphasize that external assistance in terms of foreign aid, foreign investment and technical assistance are nothing but mechanism to extract wealth of the developing countries. Their argument is that in the rich dominant international political economy poor countries have become satellites. They added that economic benefits of aid in true sense go to the industrial and agricultural interest of the developed countries and not to the developing countries. Hence, in reality aid strengthen new-imperialism in the international system and consequent dependence.

The Liberal view that foreign aid as an instrument to promote economic growth and development in the underdeveloped countries did not hold true in many

countries. On the contrary Neo-Marxist view that aid are not purely humanitarian but normally granted with political and economic condition was proved to be correct in more often than not. The nature of the aid programmes of many principal donors indicate that the main and sole objective has been strategic and not the humanitarian. In fact, the United states promote their strategic interest through the US-AID while the Soviet Union promotes its security interests and communist ideology. China uses its aid to expand overseas markets for its growing industrial and agricultural output. The rapidly increasing Japanese aid has been directly tied to the efforts of Tokyo to extend Japanese commerce and investment in Asia. It is, therefore, be naive to assume that the major objective of foreign aid is economic development. If the objective of aid is economic growth and development of poor countries, why donors grant different amounts of aid? For example Israel, Egypt and Pakistan receive 40 per cent of the annual budget of US. AID while India a poorer country as compared to these three countries does not receive much aid from the United States. The reason is that the United States has a greater interest in promoting the economic development of some countries than the other. What criteria might be used to distinguish between countries in terms of the extent of donors interest?

Obviously, it is not an economic criteria for allocation of resources among developing countries. Economic criteria may play some role but other factors necessarily and indeed appropriately come into the picture. Even the development of poor countries has strategic economic interest. Economic development in poor countries would help donors to achieve their trade and investment interest as economically developed countries are better markets for goods and better locations for investment and chief sources for raw materials. The United States aid to India, Japanese aid to the South-East Asian countries and Indian aid to its neighbouring countries have such strategic economic interest. Official statements on aid in many countries emphasis these strategic economic advantage accruing to them through their aid programmes. As a committee of House of Commons once reported Britain is an aid donor not only because of her concern for the welfare of the people of the developing world but also for reasons of mutual advantage.¹⁵ Similarly the official objective of Indian aid programme is to expand overseas market for Indian Industrial export technology and expertise in the commercial sector.¹⁶ Thus,

15. Ibid, p. 47.

16. Ibid, p. 534.

it is clear that the main rationale behind foreign aid is not humanitarian but strategic.

One of the strategic factors of foreign aid that necessarily and appropriately come in to the picture is security interests of the donor. Security interests of donors in less-developed countries are two fold: first they seek to maintain peace among poor countries so that they will not be drawn into a third world war; and second, they seek to contain the influence of enemy powers or hostile ideologies by maintaining powers or allies in poor countries.¹⁷ Much of US aid can be attributed to such motives. The largest aid recipients of the United States such as Israel Egypt and Pakistan owe their inclusion in the US. AID programme simply to the strategic position they are believed to hold by military strategists and politicians in the United States. Indian aid to Nepal, Soviet aid to Afghanistan and Cuba and the United States aid to the Philippines can also be attributed to such motives.

Political reasons have been one of the main strategic objective of foreign aid.¹⁸ Over the years, aid have been

17. David Wall, the Charity of Nation. (London, Macmillan, 1973), p. 45.

18. Samuel P. Huntington, Political Order In Changing Societies (Yale University Press., 1968), p. 289.

used to win friends, to control behavior of the recipients, to create favourable image of the donors in the international political arena and other various politically motivated actions of the donors. Morgenthau accepts that the aid is used in different circumstances in different forms but the basic function of foreign aid is political.¹⁹ In fact the political objectives of foreign aid programmes were overshadowed by the humanitarian aspect for a long time and it was Morgenthau who first touched this aspect of foreign aid.

From the foregoing discussion it is clear that the main rationale behind foreign aid is strategic interest of donors. Because of these strategic importance of foreign aid it is considered as an instrument of foreign policy. Developing a political theory on foreign aid from donors and recipients points of view, John White viewed foreign aid as instrument of foreign policy and form as part of international relation. Montgomery says that foreign aid is a part of foreign policy as it has many different roles to play in

19. Hans J. Morgenthau in George Liska's, The New State Craft, p. 9.

Morgenthau has classified foreign aid under six categories namely humanitarian, subsistence, bribery, prestige, military, and development aid.

donor's diplomacy.²⁰ Edward Mason,²¹ George Liska²² and Joan Nelson²³ also hold the similar views.

Foreign Aid and Public Policy in Recipients Countries

Some scholars²⁴ claims that the most important function of foreign aid is to induce policy reforms in the recipient country. Using foreign aid as a strategic instrument donors do not hesitate to express their views on the suitability of various policies enacted by national governments, the quality of the administration and the integrity of the political leadership. This attitude originates in the belief that the size and importance of contribution made by donors to the poor countries gives the former a right to dictate how it should manage its development affairs.

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20. John D. Montgomery. Foreign aid in International Politics (MacMillian, 1969), p. 5.
 21. Edward S. Hason, Foreign Aid and Foreign Policy (New York, Harper and Row, 1974). p. 4.
 22. George Liska, The New State Craft: Foreign Aid in American Foreign Policy, (Chicago University Press, 1960), p. 6.
 23. Joan Nelson, Aid, Influence and Foreign Policy, (New York, MacMillan, 1968), p. 8.
 24. Kueger 'Loans to assist the Transition to outward looking Policies', World Economy, Vol 4. No 3, Sept. 1981, Joan M. Nelson Asiad, Influence and Foreign Policy, (New York, Macmillan, 1968), Desmond Mc Neill. The Contradiction of Foreign Aid, (London, Cream Helm, 1981).

Available evidences show that over the years increased attention has been paid by donors to domestic policy factors. For example a seizable US AID loan for road construction in Afghanistan was conditioned on the Government establishing staffing and budgeting for a national high way maintenance department. A loan to the Bolivian Mining Bank by the US AID to finance expansion and modernization of the private mining industry was conditioned on reforms of the country's mining code and enforcement of new mineral export tax laws to encourage investment in mining. US AID loans for power station in Korea were conditioned on changes in rate structure.²⁵ Under the pressure from the IMF the IJI Government of Pakistan in 1990 has effected a massive increase in domestic oil prices and fulfilled three of the twelve conditionalities of the fund to qualify for \$ 240 mn loan. The first two conditions were fulfilled by the care taker Government of Ghulam Mustafa Jatoi in August 1989. The conditions complemented by the caretaker government were: (i) adoption of the flexible pricing policy for the sale of cotton and rice, (ii) imposition of general sales tax at the rate of 12.5% on all goods imported and manufactured in the country and (iii)

25. These three examples were cited from US. Aid Economic Assistance Programme 1967.

adjustments in fiscal policy. Further, additional loans by the Fund were conditioned on appropriate adjustment in electricity tariff public transport tariff and railway fares and locating an IMF official in the Finance Ministry to oversee the speed and progress of the implementation of the Fund's conditions.²⁶ By April 1991 Pakistan agreed to meet all those conditionalities imposed by the Fund and the proposed IMF office was established in Islamabad. Soon after, Prime Minister Nawaz Sharif has announced an early privatisation of 160 public sector companies. Under this programme one of the five nationalized commercial bank was privatised. The private sector has been allowed in power generating and telecommunication hitherto restricted for the public sector. The Government has also made far-reaching reforms in the investment policy. Foreign investors have been allowed to bring and invest money freely, They are allowed to repatriate their capital or profit again in foreign exchange. These measures were taken to please the IMF and to win an immediate IMF loan.²⁷ In 1991 the Fund attached three major conditions for granting a loan worth \$ 1.8 billion to India. The IMF required that India cut subsidies for farm products, reduce the budget deficit and

26. Dawn (Karachi), Nov. 15 1990.

27. Hindustan Times, (New Delhi), April 3, 1991.

slash non-development expenditure.²⁸ After a long discussion the Fund granted the loan. But before the loan was approved the Government increased the tax surcharge. It also increased oil price by 25% as advised by the Fund.²⁹ The annual budget (vote of account for 1991 due to political instability at the centre) which was presented two month after receiving the first IMF loan took some steps to eliminate subsidy in areas such as fertilizer and food. For the second loan worth \$ 2.1 billion the Fund has imposed stringent conditionalities such as regulation of industry more encouragement to foreign investment, liberalisation of the foreign trade regime and major reforms of public sector.³⁰ Both the IMF and the World Bank as also the rich donor nations conveyed in unequivocal terms that India would have to agree to the implementation of above measures and they would not tolerate any half hearted reforms.³¹ In 1990 an IMF loan to Congo was conditioned on Government efforts to reduce public expenditure and pension age form 55 to 50 for some categories of civil servants.³² An IMF loan to

28. Ibid, Jan. 14 1991.

29. Hindustan Times, Jan. 23, 1991.

30. Ibid, Feb. 24, 1991.

31. Ibid, May 2, 1991.

32. FBIS (Sub Sharan African), July 10, 1990.

Egypt in 1990 tied to increase in price on a broad range of consumer goods³³.

In 1976 IMF forced reforms in tax administration and crediting policy in Zambia.³⁴ The IDA, a World Bank subsidiary approved a \$ 200 mn loan at the beginning of April to cover part of an agricultural reform programme in Tanzania. The objective of these reforms was to increase the number of private trades involved in marketing the produce and distribution of fertilizer. The Agency announced that the second part of the loan would be released once the Tanzanian authority starts implementing the reforms.³⁵ Aid to Ethiopia in 1989 was tied with changes in agricultural policy giving a bigger role for free market.³⁶ When the IMF approved a loan equivalent to SDR 44.6 million for Sri Lanka in 1990 under the Structural Adjustment Facility the Fund said the country has to improve the climate for trade and industry by strengthening the public enterprise sector

33. Khaleej Times, July 19, 1990.

34. Robert Cassen, Does aid work (Oxford, Associates Clarendon Press, 1986), p.94.

35. The Indian Ocean News Letter, April 28, 1990.

36. Sydney Morning Herald, Nov 29, 1988.

including privatisation, liberalising trade, reducing regulations and promoting foreign investment.³⁷

From the above examples we have learnt that there is hardly any area in the development field of poor countries where donors do not chose to exercise a say. It was also observed that in many occasions donors have attempted to influence policies on state ownership, the role of private sector, the monetary and fiscal policies, pricing policy distributions policy the use of administrative controls, the structure of development expenditure the external value of the currency, the patterns of development administration and a variety of other operational policy oriented and ideological issues.

One way in which donor can attempt to influence the policies of another is by promising to provide or threatening to withhold or review aid. If the recipient is not ready to accept some conditions or to take certain actions favoured by the donor, pressure can be exerted by threatening to cut aid or to withhold it. For example, IMF has warned Pakistan that without immediate action to bring reforms recommended by the Fund the needed additional

37. Economic Times, (New Delhi), Oct. 27, 1990.

financial recourses from the International Community might be very difficult to obtain ³⁸. IMF stopped aid to Zambia in 1987 as the latter rejected an economic restructuring programme designed by the Fund ³⁹

The World Bank was delaying disbursement of US \$ 160 mn energy credit and US \$ 175 mn industrial credit to Bangladesh in 1990 for non-fulfillment of the bank's conditions ⁴⁰. When Equadors proved unable to implement fully the agreed reforms the U.S. withheld the final installment of \$ 3 mn loan ⁴¹. In the recent past, a large number of western donors have warned the government of Sri Lanka that unless it takes appropriate measures to promote human rights, aid would be reduced. The IMF said that it was ready to release the second loan worth US \$ 2 billions by the end of July, 1991 if India make some policy changes such as deregulation of industry more encouragement to foreign investment, liberalization of the foreign trade regime, financial reforms of public sector banks and cutting subsidies for farm products. ⁴²

38. Dawn, Oct. 13, 1990.

39. Indian Express, (New Delhi), Jan.3, 1989.

40. POT Bangladesh Series, March 3, 1990.

41. New York Times, April 15, 1967.

42. Hindustan Times, Feb. 24, 1991.

When Colombia delayed difficult but vital decision regarding its exchange rate and budget during 1965 US-AID held up disbursement of programme loans and did not negotiate a new loan until in late 1965 when Columbia took the needed measures. As a result US AID commitments to Columbia dropped from \$ 74 million in Fiscal year 1964 to only \$3.6 million in 1965⁴³. The resumption of US aid to India in 1966 was conditioned on the devaluation of the currency. This was against the wishes of the Indian Prime Minister and it was the subject of major pressure and tension between the donors and the government of India⁴⁴. Similarly in 1978 US halted new development aid to Pakistan because of Islamabad's refusal to cancel the purchase of French nuclear reprocessing facilities⁴⁵. Most western donors, both overnments and institutions argue for free enterprise and against state control. They wish to promote the system they themselves favour. In some cases they make plain that greater aid will be forthcoming for countries which favour a free enter price rather than a socialist

43. United States Overseas Loans and Grants, July 1, 1945 - June 30, 1965.

44. Robert Cessas, n. 34, p. 88.

45. Dawn, August 5, 1978.

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approach to development. These changes are brought by adjustment programmes of the World Bank and the IMF. In fact, the adoption of policies guided by these two institutions in the context of Structural Adjustment Programme has now become a pre-condition of additional aid by many donors. Available evidence shows that LDCs which adopted Structural Adjustment Programmes generally received increased amounts of aid as compared to the years preceding the arrangement with the IMF and the World Bank. As shown in Table 1.1 LDCs with adjustment programme also received on the average higher amounts in per capita terms as compared with other LDCs. Thus, if a recipient is ready to accept some condition favoured by a donor he will get more aid.

Another way in which a donor can attempt to influence the policies of recipient is by discriminating the volume of aid between recipient countries, between sector or region or between different projects within a country. Why a donor gives a larger volume of aid to particular country?

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Table 1.1

Official Development Assistance to LDCs with Structural Adjustment Programme. (SAP)

Country	Year of SAP	ODA Before SAP 1980-82	Per capita \$ After SAP 1988
Burundi	1986	32.0	34.4
Hatiti	1986	21.5	22.6
Niger	1986	39.6	56.5
Bangladesh	1987	14.8	15.0
C.African Rep.	1987	45.3	64.6
Chad	1987	12.2	46.2
Guinea	1987	20.2	40.8
Guinea-Bissan	1987	88.8	102.9
Mozambique	1987	15.4	60.7
Nepal	1987	12.7	21.5
Uganda	1987	9.8	17.8
Tanzania	1987	36.5	38.2
Equador	1988	35.7	97.5
Malawi	1988	22.0	39.6
Mali	1988	36.6	47.2

Source : United Nation Least Developed countries 1989.

The answer is that every donor has certain interest in certain countries at a certain period. These interest may be economic (support of capitalist oriented governments), military (securing bases) or psychological (demonstrating sympathy). In the 1980s Israel, Egypt and Pakistan were the largest recipient of the United States aid programme. While US aid to the first two countries continued in 1991 there was a major cut in aid to Pakistan. This was a clear reflection of Pakistan's reduced importance in Americas

post-cold war strategic equation.⁴⁶ If a country like India who was discriminated by the United States in its aid budget wants to attract more aid on concessional terms it will have to bring radical changes in its economic policies as demanded by the western donors.

In certain circumstances, aid is used to discriminate between different sectors or region or different projects in order to further the donors interest. Japanese aid, for example, is heavily concentrated on development of infrastructure since this is likely to stimulate exports from their domestic producers. However, it is important not to confuse this with the common practice of many bilateral aid donors of concentrating on sectors in which they have a particular expertise. (The Norwegian in fisheries or shipping and the Dutch in land reclamation) such discrimination is not exercised in the donor's interest and should be regarded not as an influence but as an intelligent division of labour.

A specific sector or region may be chosen by donors in order to please an influential political or powerful group in the recipient country. For example massive Western aid

46. Hindustan Times, March 5, 1991.

flew to the village re-awaking movement of Ransinghe Premadasa, then Prime Minister of Sri Lanka during 1980s. When he became the President in 1989 he launched another programme called 'Jana Saviya' which also received a substantial amount of aid. In some cases the donors may not honor the priority of development requirements of the recipient country. Building a huge water treatment plant in a small town located within the electorate of the Prime Minister or other influential minister of the recipient country is perhaps not the first priority. Such actions at both sectorial and project level disturb the pattern of development besides wasting money and manpower.

Donors may not only express concern with the details of the project at the planning stage but also maintain a continuing interest in its implementation. This may involve visiting mission or a permanent presence in the form of advisors provided under technical assistance with the project. However, the degree of intervention depends very much upon the donor. Some may virtually disappear once the funds have been handed over while. Some stay till the end of the project. As usual, a project will be divided into two or more stages and further financing will depend on the satisfactory completion of each, or there may be quarterly or annual disbursement of funds subject to the donors

satisfaction with the way in which the project is being carried out.

In addition to promising or withholding aid and discrimination between countries, sectors, regions and projects within a country there is another choice open to donors and that is, varying the terms on which aid is given. The rate of interest, the length of the grace period during which interest and repayment are suspended and the repayment period of the loan can be varied according to the sector or project. Donors would like to impose soft terms if the recipient is ready to bring certain changes in public policy favoured by the donor.

Foreign Aid and Foreign Policy of Recipient Nations

Not only domestic policy but also foreign policy of the recipient countries has been altered or changed by the donors through aid mechanism. Basically, foreign aid have been used to exert influence on four aspects of a recipient foreign policy:

- (i) Its bilateral relation with the donor
- (ii) Its cold war attitudes and roles
- (iii) Its behavior toward neighbours
- (iv) Its behaviour in international organisation.

One of the basic objective of any bilateral aid programme is to maintain or to promote cordial relations with recipient countries. Aid receiving countries are expected to have good will towards their donors. They are expected not to endanger economic, trade and security interest of donors.

Aid has been used over the years to influence the cold war attitude and roles of recipient countries. Through foreign aid, the two power block were trying to win newly independent nations. A classic example can be traced in Guinea. In 1958 when France withdraw its aid programme, Guinea turned to the Soviet Union which responded with substantial technical assistance and with loans to be repaid over a number of years by Guinean exports to the Soviet Union. The excessive reliance of Guinea on the Soviet Union was a matter of concern for the United states. The Washington administration also began to give substantial technical, commodity and project assistance to Guinea and the pressure was exerted to delink with the Soviet Union. After a few months of the beginning of massive US aid Guinea expelled the Soviet Ambassador⁴⁷.

47. Nelson, n. 23 - p 114.

Through aid Western nations tried to contain the spread of Communism and promote capitalism⁴⁸. The United States Foreign Assistance Act of 1963 prohibited giving economic or military aid to countries whose ships or planes carry strategic goods to Communist Cuba⁴⁹. Military aid to Spain was frozen in February 1964 because Spanish ships and aircraft continued to trade with Cuba, a former colony of Spain. The 1966 legislation revising and extending the food for peace programme introduced a similar restriction on food aid to countries which trade with Cuba and North Vietnam⁵⁰. In many occasions West Germany had threatened cancellation of diplomatic relations with a country recognizing Communist East Germany meaning a simultaneous withdrawal of economic aid.⁵¹ Due to this threat a number of recipient nations of West German aid programme did not recognize East Germany.

In a few occasions foreign aid have been used to control behavior of recipients towards their neighbour. For example, in an effort to dissuade Indonesia from her

48. A. Fatouros and R. N. Kelson, Canada's Overseas Aid (Toronto, Canadian Institute of International Affairs, (1964), p. 24.

49. US Foreign Assistance Act, 1963 Sec 301 (c) (1).

50. Food for Peace Act of 1966 sec. 103 (d) (3).

51. Karel Holbik and Henry Allen Myers, West German Foreign Aid 1956 - 1966 (Boston University Press, 1968), p. 47.

confrontation policy-towards Malaysia, the United States drastically curtailed its aid between 1963 and 1965⁵². During Nasser regime the United States openly and repeatedly used its food aid to restrict Egyptian involvement in regional affairs-the Arab Israeli dispute, military intervention in Yemen, political pressure on Jordan and Saudi Arabia and Cairo, aid to the Congolese rebels. The aid tactics of the United State proved to be success and Egypt halted its assistance to the Conglese rebels and moderated its tough statements on the Arab Israeli dispute⁵³.

It has been observed that in many cases foreign aid have been used to win diplomatic support of the recipient country in regional and international organisation. Probably, the clear example was a \$ 5 mn aid to Haiti to be used in constructing an international airport, in return for Haiti supporting vote for the Charter of Punta del Este establishing the alliance for Progress. The Charter vote was expected to be closed and Haiti's vote therefore appeared, important. Once Haiti received the promised aid

52. Nelson, n. 23 p. 117.

53. Washington Post, June 23, 1965.

from the United States it voted for the charter⁵⁴. French aid to former African colonies used to be provided on the explicit understanding that France would be consulted before these countries vote at the United Nations on major issues.⁵⁵ Similarly, Japan as the largest donor of Indonesia was reported to have exerted pressure on many domestic and foreign policy areas⁵⁶.

From the foregoing discussion, it is clear that both bilateral and multilateral donors have extensively used foreign aid to exert pressure on recipient countries to change and alter their domestic and foreign policies.

Vulnerability of Aid Recipient Countries

A high proportion of developing countries particularly in Africa are heavily dependent upon a single commodity. (Table 1.2) This may be a mineral such as copper in Zambia or an agricultural product such as cocoa in Ghana. In either case the one product is the mainstay of the economy and the principal source of foreign exchange earnings. Its price, almost always, is determined by market forces outside the producer country's control; these market forces moreover are in the hands of the principal Western donor nations. This makes poor countries extremely vulnerable to outside pressures.

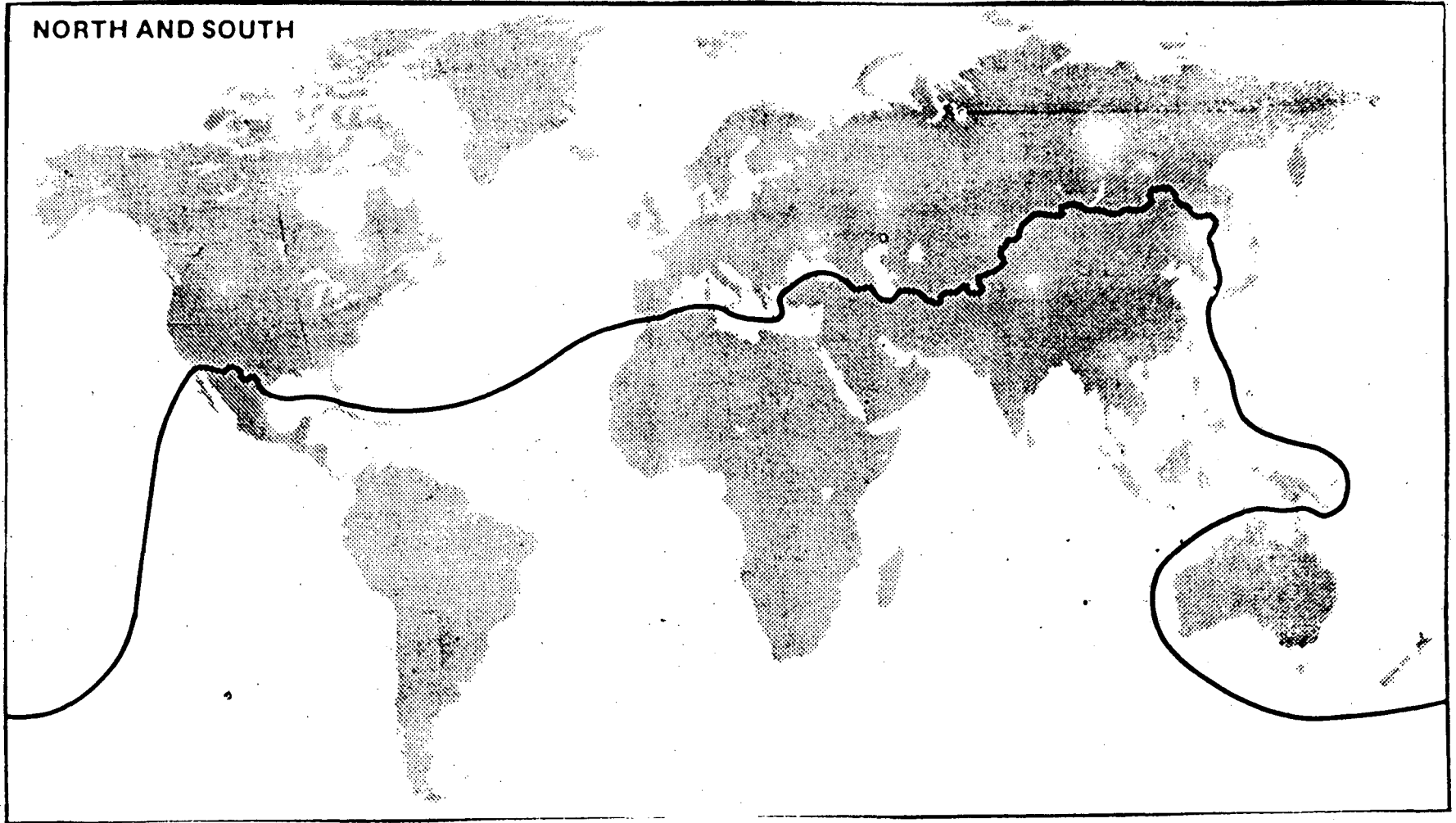
Table 1.2

One Commodity Countries

Alumina	Crude Petroleum	Diamonds
Jamaica	Algeria	Botswana
Bauxite	Angola	Lesotho
Guinea	Congo	Sierra leon
Cloves	Ecuador	Groundnut Products
Cameron	Gabon	Gambia
Cocoa	Indonesia	Iron ore
Ghana	Iraq	Mauritania
Coffee		
Burundi	Kuwait	Live animals
Colombia	Libya	Somalia
El salvador	Mexico	Sugar
Rawanda	Nigeria	Fiji
Uganda	Oman	Mauritius
Copper	Qatcr	Tea
Zambia	Soudi Arabia	SriLanka
Copra	Tunisia	Malawi
Syschelles	U.A.E.	Kenya

The majority of all developing countries lack sufficient trained people. Though third world countries give high priority to education, it takes a long time to build up an education system so that a steady flow of trained people is produced every year. In any case even where educational systems are being successfully expanded, a country's requirements are likely to be growing even faster so that the demand for trained people continues on an upward curve. As a result, years after independence, most developing countries are still in urgent need of technical assistance.

NORTH AND SOUTH



A high proportion of developing countries do not have enough food to feed their population. This is largely the result of a deliberate policy to encourage cash crop production for export—tea, coffee, cocoa and other similar crops—at the expense of food for home consumption. As a result most of the developing countries are highly dependent on food aid.

Emerging nations need capital in their drive for social, political and economic modernization. Some developing countries generate at least a part of what they need. But few have enough capital and the majority will need to seek it overseas for many years to come. So they borrow and become indebted and the greater their debts the more they are vulnerable to pressures by donors.

Most new countries had already been pushed along a particular economic path before independence usually as a part of the Western economic system to which the colonial powers belonged. As a result even if they had wished to do so they would have found it difficult to change direction after independence. In many cases only a part of their potential had been developed and that was the part which suited colonial interest. Thus, minerals or a crop such as tea may have been fully exploited for exports while other

aspects of the economy had been neglected. This unfavourable situation put poor countries in a vicious circle of poverty. Therefore, they are likely to turn for help whatever assistance is to be found no matter what the price may be. The result is increasing dependence on aid. The greater the dependence on aid the greater the vulnerability to outside pressures. (Table 1.3)

Observation of real effect of foreign aid to developing countries reveal the fact that it has failed to improve the socio economic condition in these countries. On the contrary, foreign aid has been used to keep poor countries under the grip of the donors. Indeed there is no area of development where donors do not chose to exercise a say. They have attempted to influence polices on state ownership, the role of the private sector, the monetary and fiscal policies of regimes pricing policy, distribution policy, the external value of currency and variety of other policy-oriented and ideological issues. Occasionally pressure is more crudely applied to serve specific foreign policy objectives of the donor in particular.

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54. Arthur Schlesinger, One Thousand Days, (Boston, Houghton - Mifflin, 1965), p. 782.
 55. Desmond, McNeill From Aid to Re - Colonization: Lessons of Failure, (London : Harrap Publication, 1973), p. 28.
 56. Alar Rix, Japanese Economic Aid, (London, Croom Helm. 1980), p. 229.

Table 1.3
Indicators of External Dependence of Some Least Developed Countries 1982 and 1987.

Country	Debt to GDP%		Debt service to Export %		ODA to GDP %	
	1982	1987	1982	1987	1982	1987
Afghanistan	24	39	5	8	7	7
Bangladesh	37	57	23	40	10	9
Benin	62	64	10	20	8	8
Bhutan	2	18	6	5	7	17
Botswana	40	49	10	9	12	10
Burkina Faso	35	48	15	11	20	16
Burundi	25	63	17	39	13	17
Cape Verde	65	73	6	18	55	46
Central Africa	38	57	6	12	12	16
Chad	31	32	5	3	11	20
Comoros	70	98	9	4	39	27
Dem: Yemen	96	173	20	51	24	23
Djibouti	23	143	2	42	29	48
Equatorial Guina	179	108	37	26	25	29
Ethiopia	28	50	14	28	8	14
Gambia	102	211	22	27	25	57
Guina	101	91	24	22	7	11
Guinea Bissau	73	308	23	54	32	80
Haiti	46	38	12	17	9	10
Kiribati	47	83	0	17	53	27
Laos	130	109	7	17	53	27
Lesotho	43	67	3	4	28	29
Malawi	80	108	36	41	10	23
Maldives	80	79	3	6	9	21
Mali	70	103	19	19	18	19
Mauritania	160	220	21	25	25	22
Mozambique	46	133	46	79	9	50
Myanmar	35	46	40	59	6	4
Nepal	15	39	8	9	9	13
Niger	45	82	39	38	13	17
Rawanda	16	28	6	14	11	12
Samoa	59	80	18	26	22	36
Suo Tome	111	255	4	98	26	47
Sieroa leane	46	98	32	17	7	8
Somalia	44	134	13	37	17	36
Sudan	74	100	25	50	9	9
Togo	130	111	14	24	9	10
Tuvalu	-	14	-	-	248	904
Uganda	47	35	25	47	7	7
Tanzania	44	142	22	43	11	26
Vanuatu	25	255	4	39	47	73
Yemen	35	65	24	90	10	9

Source: United Nations Least Developed countries 1989.

Such interference carries considerable political significance. Poor countries, therefore, remains highly vulnerable to pressure from aid donors to influence their external alignments and the cause of their domestic policies. This whole phenomenon deserves a closer look.

The influence on the public policies of poor countries by donors through foreign aid could be studied with reference to Sri Lanka, a country which ranks among the poorest thirty nations in the world. As other third world countries, where capital formation and percapita GNP are very low, Sri Lanka is highly dependent upon foreign aid. Hence the Sri Lankan case would be a meaningful example of the third world in this respect.

CHAPTER 2

SRI LANKA: THE CONTEXT OF FOREIGN AID

Aid Received by Different Regimes

The aid history of Sri Lanka began in 1950 when it joined the Colombo Plan and entered into an agreement with the United States under the Point Four Programme. During the first regime of the pro-western UNP, the country received aid only from the capitalist world. There was no evidence that the regime made any attempt to get aid from the socialist countries. This was apparently due to its pro western foreign policy and hostility towards the socialist bloc.

In 1956 a coalition under the leadership of S.W. R. D. Bandaranaike came to power. A marked feature of the foreign policy of this regime (1956-1959) was the path of non-alignment. Therefore, for the first time Sri Lanka was able to receive aid from both capitalists and socialists donors. During the four year of the coalition government Sri Lanka received foreign aid worth of Rs. 551.9 mn as compared to Rs 148. 1 m it received during the six years of the UNP rule. Of Rs 551.9 mn Rs 355.9 mn or 64 percent was given by the socialist block. It is noted that the policies of S.W.R.D. Bandaranaike which laid the foundation for firm

friendship with the Communist countries did by no means cause a lessening of Sri Lanka's ability to draw aid from the U.S. The foreign aid figures bear witness to this fact. For instance, during the regime, USA had granted a total of Rs 155.5 mn while standing as the biggest donor of aid to Sri Lanka and the USSR stood as the second biggest donor providing aid worth Rs 142.8 mn.

Between 1960 and 1964 Sri Lanka was governed by the Sri Lanka Freedom Party under the leadership of Sirimavo Bandaranaike, the widow of the slain Prime Minister, S.W.R.D. Bandaranaike. Mrs. Bandaranaike's foreign policy was what her husband formulated and implemented the policy of non-alignment and friendship with all nations. Therefore Sri Lanka continued to receive substantial aid from Communist countries. According to the Central Bank, the total aid received during the period from 1960 to 1964 amounted to Rs 382.7 m. of that Rs 195.9 mn or 51 per cent was given by Communist countries. During the regime of Mrs. Bandaranaike USSR and China were the largest donors who alone contributed 42 percent of the total aid budget.

Between 1965 and 1969 Sri Lanka was governed by the United National Party under the leadership of Dudley Senanayaka who was able to draw more aid from the capitalist countries than from the Communist countries. During his

regime, of total net receipt of foreign aid amounting to Rs. 1206.7 mn, Rs. 1001-2 m or 83 percent was given by the Capitalist donors. The Communist countries not only reduced the quantum of aid but also lessened the grant content of their assistance. While the contribution of Communist countries to the total net receipts of foreign aid declined from 51 per cent to 17 percent the grant content of their aid came down from 34 per cent to mere 3 percent.

In 1970 a coalition under the leadership of Sirimavo Bandaranaike came to power. The Sri Lanka Freedom Party, Communist Party (Moscow) and the Lanka Samasamaja Party (Trosky) were the partners of this tripartite coalition. While strictly adhering to the path of non-alignment the coalition government advocated policies leading Sri Lanka towards socialism. As seen in Table 2.1 the quantum of aid over the seven years from 1970-77 was \$ 1428 mn of which 73 percent was in the form of loans, and 27 percent came in as grants. Among the countries whose assistance came in as 100 per cent grants were Sweden, Australia, Yugoslavia, Italy Norway, Switzerland, East Germany and Saudi Arabia; while the multilateral agencies giving 100 percent grants were the UN group and the EEC. It can also be observed from the data that almost 75 percent of the aid to Sri Lanka came in through Aid Consortium in the 1970-77 period. This illustrates the fact that the aid from Aid Consortium was

fully stabilised during the regime. Total aid pledged by Communist countries amounted to \$ 252.01 mn or 18 percent of the total aid commitment for the period under review. New Communist donors such as Hungary, Czechoslovakia, Bulgaria, Yugoslavia, North Korea and East Germany appeared in the first time showing the United Front government's cordial relation with the Eastern Bloc. Another notable feature was that a number of non-aligned countries had committed aid amounting to \$ 151.42. The possible explanation of the generosity shown by these non-aligned countries was their appreciation of Mrs. Bandaranaike's role in the movement.

(TABLE 2.1)

Commitments of ODA 1970-77 (US \$ millions)

<u>Capitalist Donor</u>	Total 1970-77	Of which		Percent	
		Loans	Grants	Loans	Grants
USA	176.2	148.93	27.27	89.52	15.48
Japan	107.4	90.92	16.48	84.66	15.34
FRG	86.6	62.39	24.21	72.04	27.96
Canada	81.3	51.17	30.13	62.94	37.06
UK	73.5	32.43	41.07	44.12	55.88
Sweden	57.6	57.60	-	57.6	100.0
France	43.5	38.92	4.58	89.47	10.53
Netherlands	41.0	25.07	15.93	61.15	38.85
Australia	22.1	-	2.1	-	100.0
Denmark	7.0	6.50	0.5	92.86	7.14
Italy	3.4	-	3.4	-	100.0
Norway	2.8	-	2.8	-	100.0
Switzerland	1.0	-	1.0	-	100.0

Contd/---

Western aid agencies

World Bank	134.5	134.3	-	100.0	-
ADB	81.3	81.3	-	100.0	-
UN	72.0	-	72.0	-	100.0
EEC	2.8	-	28.8	-	100.0
Total (A)	1020.00	672.13	347.87	65.9	34.1

Socialist Donors

China	132.24	112.13	20.11	89.79	15.21
USSR	90.37	87.71	2.66	97.06	2.94
Hungary	10.36	10.36	-	100.0	-
Czechoslovakia	7.86	7.86	-	100.0	-
Bulgaria	4.80	4.80	-	100.0	-
Yugoslavia	4.15	-	4.15	-	100.0
North Korea	1.76	1.0	0.76	56.82	43.18
East Germany	0.47	-	0.47	-	100.0
Total (B)	252.01	223.86	28.15	88.8	11.2

Non Aligned Countries:

India	42.5	40.55	1.95	95.41	4.59
Iran	32.0	32.0	-	100.0	-
Kuwait	25.72	25.47	0.25	99.03	0.97
UAE	17.2	17.2	-	100.0	-
Libya	16.0	15.0	1.0	93.75	6.25
OPEC Fund	11.3	11.3	-	100.0	-
Saudi Funds	6.7	-	6.7	-	100.0
Total (C)	151.42	141.52	9.9	93.46	6.54

Others (D) 4.65 9.65 100.0

Total A+B+C+D 1428.08 1037.51 390.57 72.65 27.35

(I) North Korea and Yugoslavia is not included.

Source: External Resources Department, Sri Lanka.

When the United National party under the leadership of J.R. Jayawardene came into power, its economic policy was to achieve structural changes both by liberalizing the economy and by expanding rapidly the level of public investment. This twin strategy was very much in line with concerns and recommendations voiced in previous years by the donors, who have responded very favourably to Sri Lanka's needs for foreign aid. Therefore, total foreign aid commitments and disbursement to Sri Lanka increased very rapidly after the election of the UNF government in 1977. Of the total of \$ 9428.69 mn received between 1960 and 1989, 80 percent was received in the period 1978-89. The 1978 aid commitments, at \$ 400 mn, were double the 1976 level. Commitments then doubled again by 1981 to reach a record level of \$ 816 mn. Few other countries have ever received such a high volume of aid per capita as \$ 54 which Sri Lanka achieved in that year. After 1981 new commitments declined somewhat, and have averaged \$ 500-600 mn till 1987. In 1988 Sri Lanka again received a record level of aid amounting to \$ 1128 mn. (Table 2.2).

TABLE 2.2

Aid Commitments 1960 - 1989 (\$ millions)

Year	Aid Group	Centrally planned	other	Total
1960				14
1961				14
1962				18
1963				15
1964				15
1965	49			12
1966	49			99
1967	45			45
1968	59			59
1969	129			129
1970	50	24		74
1971	87	38		125
1972	48	85		133
1973	88			88
1974	113	37	12	162
1975	250	60	67	377
1976	178	3	17	198
1977	227	4	18	249
1978	378	10	12	400
1979	568		1	569
1980	580	33	15	628
1981	737		79	816
1982	485		70	555
1983	353		15	368
1984	428		24	462
1985	532			532
1986	589	15	8	597
1987	563		20	583
1988	122		6	1128
1989	397			397

Source : External Resources Department, Sri Lanka.

During 12 years upto 1989, Sri Lanka under the UNP regime received external assistance from 20 countries and 4 multilateral agencies which amounted to \$ 7023.56 mn. Of that \$ 6800.3 or 96.82 % per cent came through Western donors (Table 2.3).

TABLE 2.3
Commitments of ODA 1978-1989 (In \$ millions)

	Total 1978-1989	Rank	% of Total
Capitalist Donors			
USA	831.0	3	11.83
Japan	1431.9	1	20.38
FRG	420.7	5	5.98
Canada	345.0	7	4.91
UK	362.7	6	5.16
Sweden	270.1	8	3.84
France	179.8	11	2.56
Netherlands	243.8	10	3.47
Australia	49.1	17	0.69
Denmark	46.2	20	0.66
Italy	4.1	24	0.56
Norway	128.6	13	1.83
Switzerland	27.9	21	0.39
Finland	79.6	14	1.13
	-----		-----
	4420.5		62.93
Western Aid Agencies			
World Bank	1172.0	2	16.68
ABD	810.7	4	11.64
UN	255.2	9	3.63
EEC	141.9	12	2.02
	-----		-----
	2379.8		33.88
	-----		-----
	6800.3		96.82
Socialist Donors			
China	48.2	18	0.69
USSR	-	-	-
Others	10.4	22	0.15
	-----		-----
	58.6		0.83
Non Aligned Countries			
India	56.7	17	0.81
Kuwait	47.1	14	0.67
Libya	0.1	25	-
Saudi	54.06	16	0.77
	-----		-----
	157.96		2.24
Other	6.7	23	0.9
	-----		-----
	7023.56		100.00

Source : External Resources Department, Sri Lanka.

The new government's liberal economic policy of welcoming foreign investment and pro-Western foreign policy were the reasons behind the generosity shown by the western donors. Since the diplomatic and political relations with the socialist countries were far less closer than under the 1970-77 government aid received from socialist donors amounted to mere \$ 58.6 mn or 0.83 percent of the total aid commitments during the period 1978-89. Sri Lanka's influential position in the Non-Aligned Movement in the 1970s also helped obtain assistance through both bilateral and multilateral channels from West Asian oil exporters. Though these relationship were strengthened after 1977 by the increase in labour migration from Sri Lanka to West Asia and the fact that a Sri Lankan Muslim, A.C.S. Hamed, was foreign minister of Sri Lanka for a number of years (1977-1989). created a psychological climate favourable to closer cooperation between Sri Lanka and the Arab countries. New aid commitments from West Asia have, however, ceased since 1984, when Sri Lanka entered into an official relationship with Israel for the purpose of obtaining training is counter, insurgency for its armed forces. As a result, contribution made by non-aligned countries declined from 17 percent in the period 1970-77 to 2 percent in the period 1978-89 (Table 2.4).

TABLE 2.4

**Aid Commitments by Different Class of Donors
(In \$ millions)**

Donors	Total 1970-77	%	Total 1978-89	%
Capitalist Donors	713.40	49	4420.5	63
Western aid Agencies	316.60	22	2379.8	34
Socialist Donors	252.01	18	58.6	0.8
Non-Aligned Donors	252.01	18	157.96	2.2
Others	4.65	-	6.7	-
	1428.08	100	7023.56	100

Source: External Resources Department, Sri Lanka.

Foreign aid has been used primarily to finance the very ambitious public investment programmes of the current government and has been of great importance in the country's economy. Thus, during the period 1980-84 foreign aid covered 63 percent of public investment expenditure. In 1985, it equalled 56 percent of total public investment expenditure, 32 percent of total (public and private) investments and 19 per cent of total public expenditure (i.e. for both investment and consumption purposes).

Of the total aid receipts between 1980 and 1989, 41 percent was for the agriculture, forestry, food and fisheries, 20 percent for electricity, gas, water and sanitation services, 8 percent for services and 7 percent for transport storage and communication. (Table 2.5).

TABLE 2.5

Aid Receipts by Sector, 1980-89

SECTOR	Aid Received 1980-89 (US \$ Million)	Percentage %
1. Agriculture, forestry, Food	1939.99	40.84
A. Agriculture	938.23	19.75
B. Forestry	25.84	0.54
C. Fisheries	27.57	0.58
D. Food	453.27	9.54
E. Dairy and Livestock Development	19.01	0.40
F. Rural Development	132.33	2.79
G. Irrigation & Water Management	343.74	7.24
2. Mining and Quarrying	-	-
3. Manufacturing	195.83	4.12
4. Construction	205.43	4.32
5. A. Electricity & Gas	791.25	16.66
B. Water Supply & Sanitation Services	184.27	3.88
6. A. Transport & Storage	204.08	4.30
B. Communications	125.88	2.65
7. Wholesale & Retail Trade	0.89	0.02
8. Banking Insurance and Real Estate	14.58	0.31
9. Ownership of Dwellings	7.35	0.15
10. Public Administration and Defence	4.25	0.09
11. Services	359.37	7.57
12. Miscellaneous Commodities	493.72	10.39
13. Balance of Payment Support	14.74	0.31
14. Technical Assistance	208.39	4.39
TOTAL	4,750.02	100.00

Source: External Resources Department, Sri Lanka.

It is evident that a very little quantum of aid (4%) has gone into manufacturing sector. This reflects the general policies of western aid donors; unlike the socialist donors they tend to provide very little aid for industrial development. This also reflects the policies and preference of the UNP government which sought to privatise manufacturing units under the guidance of the World Bank. (As shown in Table 2.6).

TABLE 2.6
Summary of Aid Receipt

Type of Aid	1965-77	%	1978-89	%
Project Aid	285.1	26	3793.3	73
Commodity Aid	445.1	40	895.5	17
Food Aid	368.9	34	557.9	10
Total	1099.1	100	5246.7	100

Source: External Resources Department, Sri Lanka.

There has been a major switch over from commodity and food aid to project aid during the regime of present UNP government.

Between 1960 and 1977 only 26 percent of all aid receipts were linked to specific projects. The share of project aid in total aid receipts rose to 72 per cent in

the period 1978-89. The share of both commodity aid and food aid declined sharply from 40 per cent to 17 per cent and 34 per cent to 10 per cent respectively. This underlines the diminishing importance of food aid and commodity aid in the total aid picture.

The main reason for the increase of share of project aid was the massive public investment programme of the Government. The Accelerated Mahaweli Scheme which absorbed 36 per cent of all project aid between 1978 and 1985 also contributed to the increase in the project aid. The project involves of using waters of the Mahaweli river for hydropower irrigation and opening up new land for settlement schemes.

Aid Dependence of Sri Lanka

Sri Lanka is among the group of non-oil exporting developing countries that is suffering from an inadequacy of resources both local and foreign to meet basic requirements and inputs necessary for its development efforts. Therefore, Sri Lanka has practically no choice other than seeking foreign aid.

The country's dependence of foreign aid is not a new feature. It is dated back to 1952 when the need for foreign aid was felt for the first time as a result of adverse trade

balance (Rs 200 mn in 1952) and the resultant economic crisis at home. Since then Sri Lanka is caught up in a compulsive drive for more foreign aid. However, dependence on foreign aid was not heavy till 1977. When the United National Party came into power in 1977 it launched a massive public investment programme. However, the Government lacked the ability to generate sufficient domestic resource to finance this investment programme meaning an increasing resort to foreign aid.

The result presented in Table 2.7 shows a steady increase in the margins of aid dependence of the country. The disbursed aid amounted to 8.0% of GDP in 1980 which increased to 9 per cent in 1984. Except in 1987 the ratio remained as 9% after 1984. Table 2.7 further brings out the role of aid in financing the gap in trade, investment and budget. Imports financed by aid rose from 15% in 1980 to 28% in 1989 and the share of aid in financing the budget has been in the region of 90 to 57% for the last ten years. around 1/3 of totals investment was also financed by foreign aid. These ratios indicate that both the domestic and external resources gap have become heavily dependent on aid finance. This dependence become more apparent when one reviews the situation in various key sector of the economy.

TABLE 2.7

Table 2.7 Aid Dependence

Year	Gross Domestic Product (\$ Million)	Aid Disburs. (\$ million)	Aid Disburs. to GDP (%)	Aid Disburs. to Imports	Aid Disburs. to Investment	Aid Disburs. to Budget Financing
1980	4291	326	8	15	24	42
1981	4539	380	8	18	31	57
1982	4769	408	8	18	28	46
1983	5007	396	8	19	26	59
1984	5263	455	9	24	31	72
1985	5526	506	9	27	39	55
1986	5763	546	9	30	39	62
1987	4940	493	8	35	30	48
1988	6006	575	9	39	41	40
1989	6144	536	9	28	49	49

Source: Compiled from Annual Reports of Central Bank of Sri Lanka and Foreign Aid Indicators of External Resources Department, Sri Lanka.

The Agricultural Sector

Agriculture has always been the mainstay of Sri Lanka. It alone contributes more than one-third to the GDP.

According to the available data from 1980 to 1986 development of agricultural sector is heavily dependent on foreign aid (Table 2.8)

TABLE 2.8

Aid in Agriculture, Irrigation and Fishing

(In Rs. million)

Year	Capital Expenditure	Aid	Aid to Capital Expenditure
1980	237.39	105.24	44
1981	210.25	91.37	44
1982	379.47	174.16	46
1983	295.03	202.07	68
1984	307.84	279.98	91
1985	281.85	262.52	93
1986	230.68	221.70	96

Source: Compiled from Annual Reports of Central Bank of Sri Lanka.

The above data show that the share of aid in financing the capital expenditure in the agricultural sector rose from 44% in 1980 to 96% in 1986 indicating the increasing dependency on aid for the development of agricultural sector. In the agricultural sector rural development programme, and the accelerated Mahaveli Development Programme have nearly 100% aid component. Even the more labour intensive canal excavations are sustained by the various food aid programmes for rural public works.

The Manufacturing Sector

Aid has been a critical source for both capacity creation and utilisation in the manufacturing sector in the country. Virtually every new industrial project under

execution in the public sector is tied to aid disbursements either directly to the project or through various public sector financing agencies. Once the project is commissioned level of commodity aid inflows became a crucial determinant of the level of capacity utilisation.

Infrastructure

The entire infrastructure of development and social services remains dependent on aid. The development of transport capacity such as building of national highways to village roads is sustained by aid. Expansion and modernisation of port capacity, expansion of the shipping fleet, modernisation of the airports and air services are being done with external assistance. Similarly in the development of power generating capacity and its distribution including rural electrification the development of public buildings, the expansion and improvement of education and health services, aid remains the main source of finance.

Donors Pressure: Sri Lanka's Economic Weakness as a Variable

Sri Lanka's overall dependency on aid was much more greater in late 1980s. This was mainly due to the slow economic growth, a repercussion of the civil disturbance in the north and east of the country. These civil disturbances

exacerbated the impact of domestic structural imbalances and unfavorable external factors. As a result, the growth rate came down to 2.3 percent in 1989 from 6.0 percent in 1982, and the per capita growth rate declined from 4.5 in 1982 to mere 0.3 percent in 1989. Unemployment which is chronic problem in Sri Lanka rose to 18% of the labour force in 1980 due to the sharp decline in agricultural production and service activities, particularly tourism thus reversing some of the improvements registered in early 1980s. In spite of a relatively higher tax revenue to GDP ratio (19% in 1987) among low income countries, Sri Lanka overall budget deficit rose from Rs 4966 mn in 1981 to Rs 34627 mn in 1989. During the 1980s the overall fiscal position has also deteriorated mainly because of increased expenditure on defence and internal security associated with the civil disturbances. These expenditure rose to more than 5% of GDP in 1988 from about 1-3% in the early 1980s. The trade deficit which was less than Rs 1000 mn before 1978 continued to rise as a consequence of import liberalisation of the UNP Government and it registered a ten fold increase between 1978 and 1989. (Rs 1981 mn and Rs 24716 mn respectively). (see Table 2.9)

(TABLE 2.9)

Balance of Payment (In Rs. Millions)

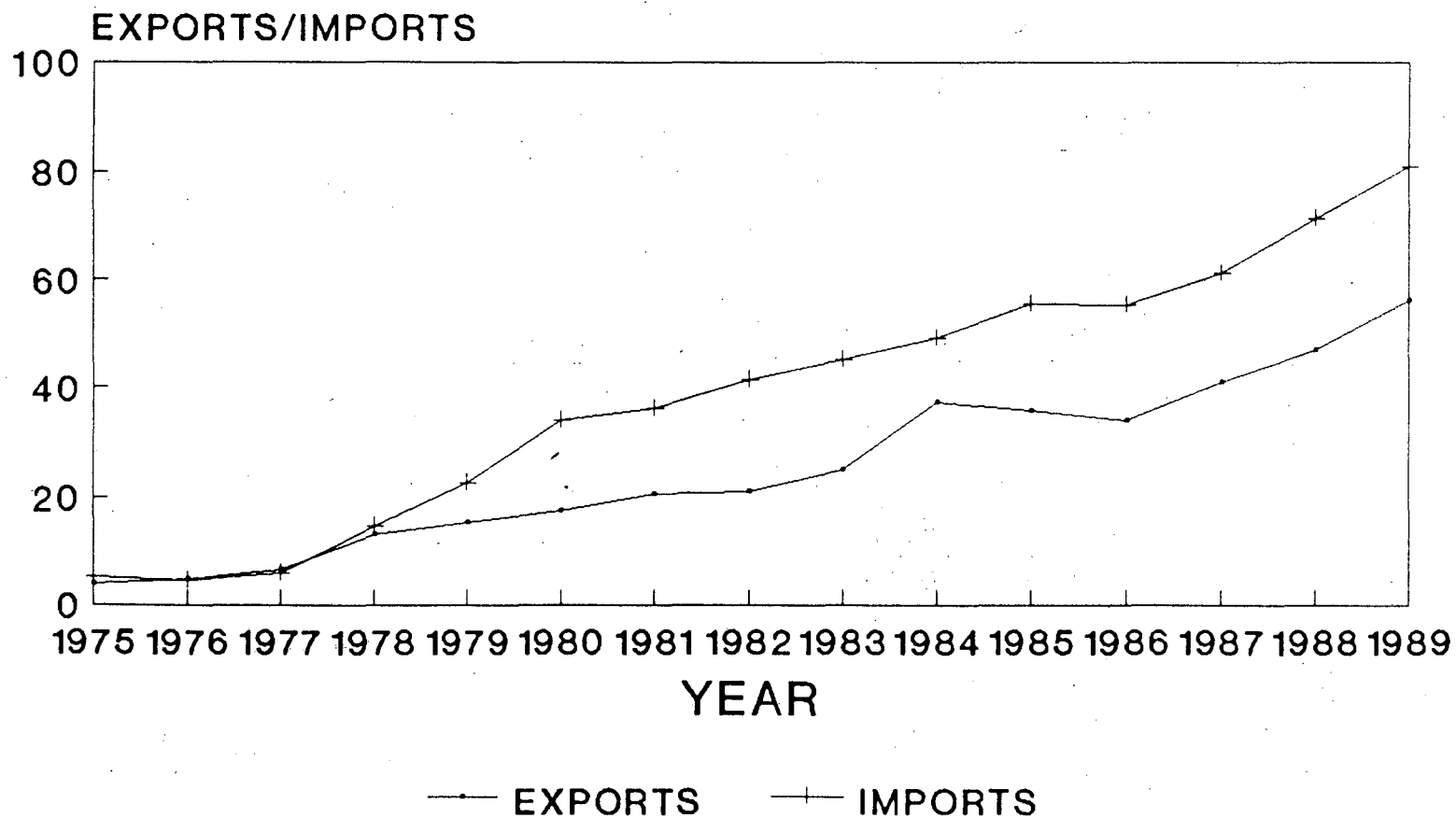
	Exports	Imports	Balance of Trade	Current Account
1975	3,933	5,251	1,310	772
1976	4,815	4,645	170	50
1977	6,635	6,007	+637	+1266
1978	13,206	14,687	1,481	1,032
1979	15,273	22,560	7,228	3,556
1980	17,603	33,915	16,312	10,912
1981	20,507	36,123	15,614	8,498
1982	21,098	41,501	20,322	11,844
1983	25,038	45,206	20,163	11,122
1984	37,198	49,490	11,849	1,400
1985	35,728	55,529	19,800	11,407
1986	33,893	55,283	21,390	11,909
1987	41,097	61,102	20,005	10,093
1988	46,985	71,253	24,268	12,377
1989	56,094	80,810	29,714	12,997

Source: Central Bank of Sri Lanka; Annual Reports, 1983 and 1989.

Similarly, the current account deficit also increased from Rs 1032 mn in 1978 to Rs 12997 mn in 1989 when the deficit was 10% of the GDP. Owing to these serious economic problems, Sri Lanka continued to borrow from the external sources. As a result, the external debt which was Rs. 14582.3 mn in 1978 rose to Rs. 154744 mn in 1989. Consequently the debt service ratio increased from 13.0 percent in 1978 to 20.6 in 1989. The external resource gap which is measured by the difference between total foreign exchange receipts and the payment including short term credits also increased from Rs. 25392 in 1981 to Rs. 38195

EXPORTS AND IMPORTS

1975-1989 (Rs. billion)



mn in 1989. In this unfavourable economic situation Sri Lanka has little choice other than heavily resorting to foreign aid. Implication of more dependency on foreign aid is an adverse economic situation where bargaining power of the the recipient is virtually zero, is the recipient's vulnerability to the pressure from aid donors.

In the economically weak and politically unstable Sri Lanka donors exert different degrees of influence. Most donors try to do so through the Annual Paris meetings of the Aid Group. Others also do it more directly through country programme and project negotiation. The World Bank does so very openly regarding specific projects making project approval and subsequent disbursement conditional on specific policy reforms. For example, the world Bank has taken a lead in bringing out major institutional reforms in the dairy industry using its own loans and technical assistance as a lever. Scandinavian donors have expressed their concern over the present ethnic conflict and they continue to urge Sri lanka to reach negotiated solution to the conflict. The next three chapters of this study are devoted to understand these sources and circumstances under which pressure came to be exercised.

Impact of Foreign Aid

The most mechanically - minded economist believe that there is a fixed relationship between foreign resource flows and the growth rate of the receiving country. Their models are largely based on 'keynesian' concepts. The underline assumption of many of such aid theories is that the rate of development will increase if the rate of investment to national income rises and secondly, that the investment will rise if capital import increase.

The Harrod - Domar model also says that the economic growth rate of a country depends on savings and the incremental capital output ratio. Thus,

$$G = sk$$

where g = Growth rate of GNP
 s = Savings ratio
 k = Capital - out put ratio

Since the saving ratio of the developing countries is very low due to low per capita income there is a gap between the required savings and the actual savings. If a country needs to achieve a higher rate of economic growth the gap should be bridged. This could not be done successfully by increasing domestic savings under the prevailing conditions of the developing countries. Therefore, the only available means is to barrow from external markets. But this to a great extent not very easy

for developing countries to do so as interest rates are high and their repaying capacity is also low. Under this condition the only alternative they have is foreign aid.

If a country receives a grant of aid 'a' the growth rate should rise. Then the Harrod - Domar equation can be written as $g = (s + a) k$. If a country needs to achieve a targeted growth rate then the required investment, assuming the 'k' capital - output ratio is constant, can be determined by the above equation.

$$g = (s + a) k$$

$$g = ck$$

$$g/k = c$$

Where $c = (s + a)$

g = targeted growth rate

c = required capital

s = actual savings

a = required foreign capital

This equation shows that as a result of foreign aid the capacity for economic growth will increase over time.

However, some economists¹ argue that increased investment is neither necessary nor sufficient to achieve a high rate of growth in an under developed country. They further argue that in many cases capital imports tend to

1. Griffen K. and Evans J., "Foreign Assistance : Objective and Consequences", Economic Development and Cultural Change, April, 1970.

increase aggregate consumption more than investment. They have observed and found out statistical evidence to suggest that there is a lack of association between foreign aid and the economic development and growth in the developing countries. We will examine this propositions in the context of Sri Lanka by using data from 1980 to 1989. (Table 2.10).

Table 2.10

Aid, Consumption, Investment and Savings,
(US \$ Million)

Year	Aid	Consumption	Investment	Saving
1980	326	3711	1350	580
1981	380	3997	1238	542
1982	408	4203	1465	566
1983	396	4418	1508	509
1984	455	4449	1464	615
1985	502	5096	1308	430
1986	546	5207	1418	668
1987	483	5249	1412	600
1988	575	5406	1391	600
1989	536	5520	1288	624

Source : World Bank Annual Report on Sri Lanka, 1990.

A simple regression model is used in the study to find out the relationship between the amount of foreign aid

received by Sri Lanka and its savings investment, and consumptions. The below mentioned assumptions were set in order to test the relationship.

- (a) The amounts of foreign aid should increase the growth of both GNP and GDP. It is assumed that the relationship between aid and both GNP and GDP would be positive
- (b) When the country receives more foreign aid the savings investment export growth and sectors development should increase as a result of increase production capacity of the country.
- (c) The overall consumption of the country should decrease as a result of aid inflow because aid should supplement domestic saving rather than consumption. This assumption is made on the basis of the savings gap model which describes that any increase in foreign capital is devoted entirely to raising the rate of capital accumulation.
- (d) The relationship between foreign aid and export growth is positive. It means that the country should reduce imports and increase exports in order to reduce the savings gap retard the economic.

Foreign Aid and consumption.

The saving gap model assumed that any increase in foreign aid would increase the capital accumulation and investment rather than consumption. If the theory is valid the regression coefficient of the consumption VS foreign aid run should yield a negative relationship. It means that when foreign aid increase the domestic consumption should reduce and savings and investment should rise.

Regression Equation:

$$\begin{aligned} C_2 &= 1261.815 + 7.519 (0.863) \\ R^2 &= 0.893 \\ t &= 8.705 \\ F\text{-Statistic} &= 75.774 \end{aligned}$$

Where C is consumption in \$ million
A is foreign Aid in \$ million.

As can be seen from the summary the regression coefficient (b) is statistically significant. The hypothesis testing for 'b' provided evidence to reject the null hypothesis. The conclusion was that there is positive relationship between aid and consumption during the period 1980 - 1989. The model can explain 89.3% of the variation in consumption. Hence the investment and domestic savings did not increase in proportion to increased foreign aid during the period under concerned. In other words a part of foreign aid received by the country was spent on

consumption. Even though we remove the time effect on consumption there still exist positive relationship between the aid and consumption.

Regression Equation :

$$C = 2794.504 + 2.429 A + 147.663 T$$

(1.375) (37.049)

$$R^2 = 0.963$$

$$t = 1.766$$

$$F. \text{ Statistic} = 116.323$$

Where C is consumption in \$ million

A is foreign aid in \$ million

T is time.

Foreign Aid and Domestic Saving

The regression analysis on foreign aid and consumption indicated that the inflow of foreign capital resulted in some combination of increased expenditure on private and public consumption. If this view is valid it implies that the increase in investment will be much less than the increase in capital imports and consequently the domestic savings ratio will decline.

The regression analysis on the relationship between foreign aid and domestic saving produces following results.

$$\text{Dom. Saving} = 453.695 + 0.260 \text{ Aid}$$

$$R^2 = -0.013 \quad (0.276)$$

$$t = 0.942$$

$$F - \text{Statistic} = 0.888$$

As can be seen from the summary the regression coefficient (b) is not statistically significant. The model can't explain the variation in domestic savings satisfactorily. The conclusion is that though coefficient (b) is positive it is not very much significant.

In order to remove the time effect on savings time coefficient can be incorporated. Then the regression analysis produce following results.

$$\text{Dom. Saving} = 541.151 - 0.031 \text{ Aid} + 8.426 \text{ Time}$$

$$(0.785) \quad (21.146)$$

$$R^2 = 0.132$$

$$t = 0.039$$

$$F. \text{Statistic} = 0.478$$

In this new analysis aid coefficient is negative meaning when the amount of aid increases the domestic savings tends to decrease as a result of increased consumption. The result also indicates that the positive coefficient shown in the earlier regression analysis is largely due to the effect of time. However, since both the

regression coefficient are not statistically significant it cannot be exactly said that foreign aid has an adverse impacts on domestic savings.

Foreign Aid and Investment

The level of investment in Sri Lanka almost double to an average of 27% of GDP during 1978 - 1985 as compared to 15% between 1970 and 1975. This was very much due to public investment, which to a large extent was finance by foreign aid. However on this basis it is not safe to conclude that there has been a strong positive relationship between foreign aid and the level of investment. The results of regression run summarised below bare the witness to this point.

$$\text{Investment} = 1397.832 - 0.032 \text{ Aid} \\ (0.372)$$

$$R^2 = -0.124$$

$$t = -0.0854$$

$$F\text{- statistic} = 0.007$$

According to classical aid models, when every thing else being equal, a given amount of aid increased investment and through investment the rate of economic growth will increase.

In other words the relationship between aid and economic growth rate measured by conventional GNP or GDP growth is positive. If the theoretical assumptions are correct the same data should produce a regression equation in which the regression coefficient is positive. However, our analysis did not show strong association of investment with aid. The model can not explain the variation in investment satisfactorily. The regression coefficient is also not statistically significant. Conclusion is that the capital imports did not lead to increase investment in proportion to the aid received but by less than it.

Foreign Aid and Foreign Debt

So far the analysis has been concerned with assessing the effect of net capital inflows on growth but no attention has been given to the indebtedness arising from these capital flows.

Table 2.11

Foreign Aid and Foreign Debt

Year	Population (Mid year)	Foreign Aid (Rupees million)	External Debt (Rs. million)	Per Capita Foreign Aid Rupees	Per Capita Debt Rupees	Gap between per capita foreign aid and debt
1965	11133	6.9	446.6	0.62	40.11	39.49
1966	11439	145.2	521.1	12.69	45.55	32.86
1967	11703	212.0	708.0	18.11	60.49	42.38
1968	11992	299.9	1038.3	25.01	86.58	61.57

Contd/-----

1969	12252	408.6	1337.5	33.35	109.16	75.81
1970	12516	380.7	1550.9	30.41	123.91	93.50
1971	12608	602.9	1767.5	47.82	140.19	92.37
1972	12861	515.2	2352.5	40.06	182.92	142.85
1973	13091	428.3	2750.6	32.72	210.11	177.39
1974	13284	745.1	2833.7	56.09	213.32	157.23
1975	13496	1425.8	3704.9	105.65	274.52	168.87
1976	13717	1432.2	4968.0	104.41	362.18	257.76
1977	13942	1737.6	15593.5	124.63	1118.45	993.52
1978	14184	3926.8	14582.3	276.85	1028.08	751.23
1979	14471	4191.5	15840.6	289.65	1094.64	804.99
1980	14747	5373.4	22276.8	364.37	1510.60	1146.23
1981	14988	7191.5	29172.1	499.82	1946.36	1466.54
1982	15189	8486.6	35262.7	558.73	2321.59	1762.86
1983	15417	10677.6	46687.8	692.59	3028.33	2335.74
1984	15599	13699.4	54181.2	878.22	3473.38	2595.16
1985	15837	13662.0	69453.1	862.66	4385.50	3522.84
1986	16117	15341.5	88304.0	951.88	5478.94	4527.06
1987	16361	14444.0	112440.8	882.83	6872.49	5989.66
1988	16586	18324.7	125656.9	1104.83	7576.08	6471.25
1989	16806	19458.9	154744.1	1157.85	9207.67	8049.82

Source : Compiled from Annual Reports of Central Bank of Sri Lanka.

As shown in Table 2.11 there has been an alarming external debt situation in the country, particularly after 1977. External debt rose from Rs. 444.6 mn, in 1965. As a result, the per capita debt also increased from Rs. 40.11 to Rs. 9207.67 during the period. The growth of foreign aid was slow and as a consequence net foreign debt has been rising gradually.

Chapter 3

Bilateral Aid Donors and Their Impact on Public Policy of Sri Lanka

Sri Lanka has long-standing links with the major industrial countries of Europe, America and Japan. These links were not close during the period 1970-77 because of widespread disapproval of the statist and socialist economic policies and the non-aligned foreign policy of the SLFF - led government. The links were rapidly developed after the election of UNF government in 1977 with its liberal economic policies, welcoming attitude to foreign investment, and pro-western foreign policy stance. At the same time, Sri Lanka has retained and/or strengthened its aid relationship with other types of donors (Table 3.1) Although diplomatic and political relations with the centrally-planned economies are far less close than under the 1970-77 government, the socialist countries have continued to disburse some limited assistance to the present government (Table 3.2). Donors like Norway and Sweden began their aid programmes to Sri Lanka under the previous government, and partly in response to the social democratic flavour of policies of the United Front Government and the evident commitment to social welfare policies. They have expanded their assistance under

Table 3.1
Aid Commitments By Donors 1970-1989 (In US \$ Million)

Aid Donors	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Total
Developed Industrial countries																					
Australia	-	2.1	2.1	0.4	7.8	6.1	2.0	1.6	7.3	3.7	2.1	8.6	5.1	4.4	4.5	-	1.0	-	0.9	8.5	71.2
Belgium	-	-	-	-	-	-	-	-	-	-	1.6	0.7	0.8	-	-	-	-	-	-	-	3.1
Canada	4.9	8.7	4.6	9.7	5.2	19.2	12.4	16.6	27.5	10.4	71.3	30.8	12.6	20.7	53.9	8.2	0.1	47.2	57.9	2.4	424.3
France	0.5	6.5	0.7	6.4	7.2	8.2	7.7	6.3	1.0	28.4	179.5	28.6	19.0	-	19.0	11.6	10.2	24.9	15.2	7.4	223.3
West Germany	0.9	5.9	1.5	18.1	18.8	29.7	8.4	3.3	23.0	30.8	17.8	186.6	6.0	10.1	3.8	3.3	102.9	11.2	22.5	2.7	502.3
Italy	-	1.3	-	-	1.4	-	-	0.7	-	-	-	-	1.1	-	-	-	-	3.0	-	-	7.5
Japan	0.1	8.3	11.4	14.0	14.7	16.6	16.7	25.6	66.6	36.1	100.8	96.7	97.1	30.0	70.6	115.5	160.8	170.0	434.4	53.3	1539.3
Netherlands	-	-	-	-	-	9.5	11.5	16.0	35.7	13.4	41.3	16.4	11.9	14.3	9.3	11.7	15.3	21.2	38.7	14.6	280.0
Switzerland	-	0.2	0.2	0.1	-	-	-	0.2	-	18.1	0.9	-	-	0.9	-	6.4	-	1.6	-	-	28.9
United Kingdom	9.5	16.0	0.1	4.6	6.3	7.4	5.7	23.9	41.1	209.1	7.1	-	-	-	21.5	29.1	46.3	0.2	8.3	-	436.2
United States	15.3	17.2	14.7	7.0	3.2	37.4	67.4	14.0	78.9	51.4	66.5	70.3	83.2	88.6	107.0	37.4	46.8	68.6	57.2	75.1	1007.2
Total	31.2	66.2	35.3	60.3	64.6	134.1	131.8	108.5	281.1	401.4	325.3	436.6	239.7	169.8	289.6	223.2	383.4	347.9	635.1	164.0	4529.1
Scandinavian Donors																					
Denmark	-	-	2.8	-	-	3.7	-	0.5	-	5.8	-	2.3	0.4	6.1	-	-	6.7	2.8	9.2	12.9	53.2
Finland	-	-	-	-	-	-	-	-	-	-	1.0	0.8	5.6	7.8	8.2	7.7	7.2	11.8	13.0	16.5	79.6
Norway	-	-	-	-	-	-	-	2.8	6.2	9.1	9.1	8.7	10.2	9.4	10.1	10.3	11.8	8.8	10.4	24.8	131.4
Sweden	-	1.6	-	2.5	10.8	12.6	13.5	16.6	19.1	20.6	24.1	22.7	25.8	26.7	33.2	34.0	23.9	19.7	5.4	11.9	327.7
Total	-	1.6	2.8	2.5	10.8	16.2	13.5	19.9	25.3	35.5	34.2	34.5	42.0	50.0	51.5	52.0	49.3	43.1	41.0	66.1	591.9
Socialist Donors																					
People Rep. of China	-	-	-	-	-	0.1	3.0	-	-	-	32.7	-	-	-	-	-	15.5	-	-	-	51.3
Soviet Union	-	-	-	-	-	59.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59.8
Other centrally Planned Economic	24.2	38.2	84.6	-	37.2	0.3	0.5	4.1	10.4	-	-	-	-	-	-	-	-	-	-	-	199.5
Total	24.2	38.2	84.6	-	37.2	60.2	3.5	4.1	10.4	-	32.7	-	-	-	-	-	15.5	-	-	-	310.6
West Asian Donors																					
Iran	-	-	-	-	-	32.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	32.0
Libya	-	-	-	-	-	-	-	15.0	-	0.1	-	-	-	-	-	-	-	-	-	-	16.1
United Arab Emirates	-	-	-	-	-	-	5.2	-	-	-	-	-	-	-	-	-	-	-	-	-	5.2
Kuwait Fund	-	-	-	-	-	25.5	0.3	-	-	-	2.1	-	45.0	-	-	-	-	-	-	-	72.9
Saudi Fund	-	-	-	-	-	6.7	-	-	-	4.06	-	50.0	-	-	-	-	-	-	-	-	60.76
Total	-	-	-	-	-	64.2	5.5	15.0	-	4.16	2.1	50.0	45.0	-	-	-	-	-	-	-	186.96
India	-	7.2	-	7.9	0.6	11.0	7.8	8.0	12.4	12.4	-	12.7	-	-	-	-	-	-	19.2	-	99.2
Others	-	-	-	-	-	2.7	3.0	0.1	-	0.4	6.6	-	-	-	-	-	-	-	-	-	12.5
Grand Total	55.4	113.2	122.7	70.7	113.2	1288.5	165.1	155.6	329.2	453.56	400.9	533.8	326.7	219.8	341.1	275.2	448.2	410.2	410.2	676.1	15730.22

Source : External Resources Department, Sri Lanka.

Table 3.2

Aid Disbursement By Donors 1970-1989 (In US \$ Million)

Aid Donors	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Total
Developed Industrial countries																					
Australia	0.9	1.0	1.1	2.2	4.2	8.3	2.0	1.7	1.7	2.9	4.2	6.6	9.3	7.2	7.8	0.7	0.8	-	0.7	7.1	
Belgium	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2	0.4	0.4	0.7	9.8	1.0	0.4	
Canada	8.4	5.5	5.6	3.7	5.1	11.5	11.5	14.7	11.0	16.6	27.8	28.9	29.2	33.1	31.2	22.3	19.6	18.0	24.6	13.7	
France	4.6	2.9	5.6	5.3	3.2	7.1	11.2	3.4	4.5	7.1	5.3	18.5	10.7	11.8	18.6	12.4	9.4	18.9	17.5	3.1	
West Germany	3.3	2.3	4.3	9.3	17.7	12.3	8.7	11.5	28.2	24.2	13.4	5.8	18.5	47.0	44.6	47.3	63.5	30.3	27.1	32.1	
Italy	1.7	0.9	1.8	0.3	0.3	1.3	-	0.7	-	-	-	-	-	-	-	-	-	3.0	-	1.2	
Japan	5.1	7.6	5.5	9.2	9.2	18.1	11.3	17.2	38.1	37.9	37.7	49.9	50.1	53.0	61.9	86.2	118.7	101.2	192.6	177.8	
Netherlands	-	-	-	-	-	3.3	4.3	9.6	28.3	19.8	11.3	42.4	15.5	14.0	23.9	15.7	10.3	14.8	17.7	14.2	
Switzerland	-	-	-	-	-	-	-	-	-	-	0.1	0.6	-	8.9	8.2	4.6	6.2	0.1	3.8	2.4	
United Kingdom	10.3	16.1	7.4	4.6	3.0	4.7	7.4	2.7	8.9	19.1	63.0	43.6	52.6	36.6	25.7	6.3	15.5	8.6	16.8	15.9	
United States	9.9	10.9	25.6	8.5	8.9	26.6	32.7	40.6	39.9	46.2	61.2	37.8	61.7	65.9	88.2	95.7	61.7	44.3	57.6	50.6	
Total	44.2	55.3	56.9	49.1	51.6	93.2	89.1	102.1	160.6	173.8	224.0	234.1	247.6	277.7	309.9	292.1	306.4	240.0	359.4	318.5	
Scandinavian Donors																					
Denmark	1.2	0.4	0.2	2.1	0.7	0.2	0.6	0.3	0.9	0.5	3.5	2.5	2.9	0.2	0.2	0.4	0.8	3.3	6.4	3.6	
Finland	-	-	-	-	-	-	-	-	-	-	0.6	2.4	4.4	4.5	5.3	5.9	13.4	15.4	14.7	20.0	
Norway	-	-	-	-	-	-	-	1.1	5.5	9.3	12.3	16.7	11.8	9.0	11.2	8.7	10.3	12.6	14.5	11.9	
Sweden	-	1.6	-	2.4	3.5	8.6	6.8	9.4	7.4	35.7	22.8	22.1	21.1	27.8	31.3	34.2	23.8	18.3	4.4	4.1	
Total	1.2	2.0	0.2	4.5	4.2	8.8	7.4	10.3	13.8	45.5	39.2	43.7	40.2	41.5	48.0	49.2	48.3	50.1	40.0	39.6	
Socialist Donors																					
People Rep. of China	-	-	-	-	-	1.8	4.4	3.2	3.0	0.1	-	16.7	5.4	1.4	1.7	1.7	-	9.8	5.2	5.4	
Soviet Union	-	-	-	-	-	1.6	7.2	5.1	2.0	0.7	0.1	0.1	-	0.1	-	-	-	-	-	0.01	
Other Centrally Planned Economies	8.8	35.0	13.2	1.2	29.1	0.5	3.1	4.0	0.4	-	-	-	-	-	-	-	-	-	-	-	
Total	8.8	35.0	13.2	1.2	29.1	3.9	14.7	12.3	5.4	0.8	0.1	16.8	5.4	1.4	1.7	1.7	-	9.8	5.2	54.1	
West Asian Donors																					
Iran	-	-	-	-	-	32.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Libya	-	-	-	-	-	-	-	15.0	-	-	-	-	-	-	-	-	-	-	-	-	
United Arab Emirates	-	-	-	-	-	-	12.0	-	-	-	-	-	-	-	-	-	-	-	-	-	
Kuwait Fund	-	-	-	-	-	-	9.6	5.3	3.9	1.7	4.7	3.1	1.2	-	1.0	-	9.6	5.3	3.9	1.7	
Saudi Fund	-	-	-	-	-	6.7	-	-	-	-	-	-	-	3.0	7.7	6.7	-	-	-	-	
Total	-	-	-	-	-	38.7	21.6	20.3	3.9	1.7	4.7	3.1	1.2	3.0	8.7	6.7	9.6	5.3	3.9	1.7	
India	4.8	2.9	2.4	2.3	3.9	2.4	4.7	6.2	13.0	8.5	9.1	1.5	3.1	7.9	0.4	0.1	0.2	1.4	3.3	5.3	
Others	-	-	-	-	-	2.5	0.6	1.1	0.1	0.2	5.5	1.1	1.1	1.4	0.3	0.2	0.3	1.6	0.2	-	

Source : External Resources Department, Sri Lanka.

the present government despite its substantial shift away from this welfare orientation. Sri Lanka's influential position in the Non-Aligned Movement in the 1970s also helped obtain assistance from West Asian oil exporters. New aid commitments from West Asia have, however, ceased since 1984, when Sri Lanka entered into an official relationship with Israel for the purpose of obtaining training in counter insurgency warfare for its armed forces. In this chapter we will discuss aid programmes of these bilateral donors of Sri Lanka. To differentiate the varying perspectives among various bilateral donors towards the exercise of pressure in the affairs of Sri Lanka they are classified into five groups:

- (i) Developed industrial countries
- (ii) Scandinavian donors;
- (iii) Socialist donors;
- (iv) West Asian donors; and
- (v) India and others.

Developed Industrial Countries

Japan

Japanese development aid commenced in the early 1950's. Its assistance is based on two major principles :

- i. Humanitarian concern for the poor nations of the World.
- ii. Japan depends greatly on Third World resources to maintain its prosperity. Accordingly, Japan's relations with the developing countries need to be harmonious and secure. By extending aid and assistance Japan hopes to achieve this objective.

Japanese aid originates from three sources :

- i. Overseas Economic Co-operation Fund (OECF)
- ii. Export-Import Bank of Japan.
- iii. Japan International Co-operation Agency (JICA).

OECF, under the control of the Economic Planning Agency, provides government loans on concessional terms to finance various projects and programmes. The Export-Import Bank of Japan, under the control of the Ministry of Finance, has the function of helping export and import financing and direct investments in the Third World. JICA, part of the Ministry of Foreign Affairs, is responsible for technical co-operation programmes. It provides resources for projects in developing countries which OECF and Export Import Bank of Japan would not be in a position to finance.

Currently, Japan is the largest donor of Sri Lanka and it accounts for nearly one-third of the total annual aid receipts, of the country (Table 3.3). Japanese bilateral aid is available as grants, technical co-operation or loans.

Table 3.3

**Percentage Share of Bilateral Donors
in Total Aid 1985-1989**

Country	1985	1986	1987	1988	1989
Australia	0.13	0.15	-	0.12	1.32
Belgium	0.19	0.13	0.16	0.17	0.08
Canada	4.54	3.58	3.70	4.28	2.56
Denmark	0.07	0.14	0.78	1.11	0.68
Finland	1.18	2.45	3.15	2.54	3.72
France	2.47	1.72	3.86	3.04	0.58
West Germany	9.44	11.60	6.19	4.71	5.99
India	0.02	0.04	0.27	0.57	0.99
Italy	-	-	0.62	-	0.23
Japan	17.20	21.71	20.69	33.51	33.18
Netherlands	3.13	1.88	3.01	3.08	2.65
Norway	1.79	1.89	2.56	2.52	2.21
Sweden	6.83	4.36	3.73	0.76	0.77
Switzerland	0.92	1.13	0.01	0.65	0.44
U.K.	1.26	2.83	1.75	2.91	2.96
U.S.A.	19.10	11.28	9.06	8.41	9.45
Saudi Fund	1.58	2.84	0.54	0.22	0.28
Kuwait Fund	0.25	1.84	0.78	1.76	0.62
China	0.33	-	2.00	0.90	-
UAE	0.03	0.06	0.31	-	-
Total Share	70.46	67.66	63.60	73.04	68.72

Source : Compiled from Foreign Aid Indicators of Sri Lanka.

Over the years grants contents of Japanese aid has increased. Between 1965 and 1970 Japanese aid was exclusively in the form of loans and by 1989 40 per cent of Japanese aid was in the form of outright grants (Table 3.4). Between 1985 and 1989 Japanese loans were heavily identified with Colombo Port Expansion, Colombo Airport Development, Mahaweli Stage I, Colombo Telecommunication and Samanalawewa

Table 3.4

Summary of Bilateral Aid Receipts 1985-1989

Country	1985		1986		1987		1988		1989	
	L	G	L	G	L	G	L	G	L	G
Australia	-	18.1	-	22.8	-	-	-	21.2	86.0	170.7
Belgium	-	26.0	-	20.2	-	23.5	-	32.7	-	15.1
Canada	56.7	563.5	8.1	541.2	1.1	531.7	-	784.5	-	498.0
Denmark	0.3	9.8	-	21.6	81.0	31.2	153.6	51.5	72.2	59.2
Finland	-	161.0	-	376.5	-	454.7	-	467.2	-	724.7
France	337.4	-	263.3	-	558.0	-	557.9	-	113.5	-
West Germany	1267.9	21.5	1778.4	1.6	893.9	0.76	863.0	1.8	1166.0	0.1
India	2.8	-	5.5	-	40.5	-	105.5	-	3.0	190.4
Italy	-	-	-	-	-	90.0	-	-	-	44.2
Japan	1454.3	894.9	1989.9	1340.8	1845.1	1144.7	4068.6	2073.2	3870.5	2585.4
Netherlands	36.5	391.5	71.9	216.1	1.5	434.5	0.7	564.7	0.6	515.3
Norway	-	245.1	-	290.0	-	370.7	-	463.5	-	431.0
Sweden	-	933.4	-	618.8	-	539.6	-	141.3	-	149.5
Switzerland	34.3	90.9	78.3	95.5	-	1.5	-	119.6	13.6	72.4
U.K.	-	172.0	-	434.0	-	253.7	-	533.8	-	576.4
U.S.A.	2285.9	323.2	1410.2	320.9	936.5	372.3	1287.5	548.2	994.3	844.2
Saudi Fund	215.1	-	435.1	-	77.4	-	41.5	-	54.8	-
Kuwait Fund	33.5	-	282.9	-	112.8	-	323.3	-	120.8	-
China	45.6	-	-	-	289.2	-	165.3	-	196.4	-
UAE	4.5	-	8.8	-	45.2	-	5.8	-	-	-
USSR	0.1	-	-	-	-	-	-	-	0.5	-
Pakistan	-	-	-	-	-	2.2	-	-	-	-
Total	5774.9	3850.9	6332.4	4350.0	4882.2	4251.6	7527.7	5803.2	6692.2	6876.6
% of L & G	60	40	60	40	53	47	56	44	49	51

Source : Compiled from Foreign Aid Indicators of Sri Lanka.

Hydro Power projects. During the same period Japanese grants were mainly concentrated on building of a genetic resource centre an automobile engineering, centre a pharmaceutical centre, a national youth centre and a fishery harbour at Kirinda. Besides, these projects, Japan has

extended its cooperation to road maintenance and rehabilitation, computer training, education, television and radio broadcasting, water supply and sanitary improvement, community health, rural development and various research institutions. During the period from 1985 to 1989 the two governments have signed 64 aid agreements amounting to Rs. 28484.1 million and of which agreements worth Rs. 18857.5 million (66%) were loan agreements. Japanese loans are in principal subject to 20 years maturity and 10 years grace period. An examination of the Japanese aid agreements revealed the fact that over the years its interest rate has been declining. Agreements signed in early 1980's carried 3.25 percent annual interest rate and in late 1980s the interest rate was 2.5% including commission and management fees.

The distribution of Japanese aid as shown in Table 3.5 illustrates the fact its aid was highly concentrated on project aid and commodity aid. Data revealed that Japan did not give food aid in the recent past. As can be seen from data Japanese share in Sri Lanka's total annual aid receipt has shot up from 17.20% in 1985 to 33.15 percent in 1989, indicating increasing role of Japanese aid in the island development efforts.

Table 3.5

Japanese Aid

Years	Non Mahaweli		Mahaweli		Commodity		Food		Total		Grand Total	2 Total Aid
	L	G	L	G	L	G	L	G	L	G		
1985	905.9	570.5	90.1	44.8	458.3	279.9	-	-	1454.3	894.9	2349.2	17.20
1986	1249.6	1181.0	174.7	-	565.6	159.8	-	-	1989.9	1340.8	3330.7	21.71
1987	1003.0	987.9	379.7	-	462.4	156.8	-	-	1845.1	1147.7	2992.8	20.69
1988	2882.3	1274.3	377.6	-	808.7	798.8	-	-	4068.6	2076.2	6141.8	33.51
1989	2435.2	1954.0	570.2	-	865.1	631.4	-	-	3870.5	2585.4	6455.9	33.18
Total	8476.0	5967.7	1592.3	44.8	3160.1	2026.4	-	-	13228.4	8042.0	21270.0	

L = Loan

G = Grant

Source : External Resource Department, Sri Lanka.

Japan, in its dealing with Sri Lanka has generally refrained from direct interference in domestic policy changes. However, it favoured co-ordination of policy dialogue through the Asian Development Bank, World Bank and Aid Consortium. It is learnt that Japan has expressed its concern over the implementation of particular projects such as Colombo Harbour and Colombo Airport Expansion projects.

Japan has made its presence felt in Sri Lanka through a large volume of aid. Currently, Japan enjoys a booming bilateral trade at least six times in its favour - with Sri

Lanka. Japan's industrial multinational like Mitsu, Hitachi and Mitsubishi have become big business in the country. The liberalised imports of cars has made Sri Lanka a South Asian heaven for Japanese models. In addition, large number of reconditioned Japanese cars and motor cycles are almost dumped on Sri Lanka's road by local agents. In 1978, the Japanese Government made an outright gift of a fully equipped television station and provided training for personnels. Now, at least in every fifteen households in Sri Lanka have either a colour or black and white set made in Japan. Japanese contractors have clinched some of the most prestigious projects in Sri Lanka including the modern parliament complex, a series of tourist hotels and a nationwide telecommunication network. In short rational behind Japanese aid in Sri Lanka has always been strategic economic interests.

United States of America

The US government stresses that a major objective of its aid spending is to promote American interest overseas. In addition foreign aid programmes for the Third World have four other main objectives :

i. Policy Dialogue and Reform

Through policy dialogue, the USA communicates with governments to eliminate subsidies, price and wage controls, trade restrictions, overvalued exchange rates and interest rate ceilings. A country receiving help from the USA, is given advice on economic policies.

ii. Transfer of Technology

The US foreign aid programme helps expand and strengthen capabilities of developing nations by means of technology transfer.

iii. Institution Building

A major objective of US foreign aid is to promote democracy by establishing institution that encourage self help and increase citizen participation in decision making.

iv. Private Sector Growth

The USA takes the view that developing nations with strong private sectors have achieved faster and more sustained growth. It, therefore, encourages the development of the private sector as a vehicle for generating employment and higher income.

US bilateral aid is managed by the Agency for International Development (AID) which was established in 1961. Its bilateral aid comprises three major programmes:

- i. Economic Support Fund, consisting of economic assistance extended in response to political and security consideration;
- ii. Development Assistance Programme, extended mainly to low income countries;
- iii. Public Law Food Aid Programme (PL480).

The Foreign Assistance Act of 1961 authorises AID to administer first two programmes, while the PL 480 is implemented jointly by AID, the Department of Agriculture and the State Department.

The US aid has a long record of involvement in Sri Lanka. In 1950 Sri Lanka entered into an agreement with the United States to obtain US aid under the Point Four Programme. Between 1950 and 1955 Sri Lanka received US aid worth Rs. 54.5 million or 38 percent of the total aid. In the next three years the value of the US aid commitment was Rs. 155 million. During the regime of Communist backed SLFP Government (1960-69) US aid was sharply reduced and the period registered mere Rs. 23.8 million aid. In contrast,

during the regime of the right wing UNP Government of Dudley Senanayaka the net receipt of US aid amounted to Rs. 248.3 million, a ten fold increase against the previous Communist-backed Bandaranaike Government. US aid was again curtailed during the Communist and Trosky backed United Front Government which came to power in 1970 and the net receipt of US aid during this period amounted to Rs. 167.7 million of which only Rs. 0.1 million was in the form of outright grant.

After 1978 the US government extended its co-operation to the right wing UNP government which brought fully economic liberalism giving a prominent palce to the private sector. To promote and strengthen these liberal economic policies the US aid was given on highly concessional terms. Thus, the volume of US aid and its terms varied according to the ideology of the government of Sri Lanka.

In January 1979 US-AID presented its first country development stragegy statement for Sri Lanka, the basic elements of which were as follows:

- (a) to continue the emphasis on food production, while at the same time widening the scope of activities to involve food crops other than rice, also increased

emphasis to be paid to aspects other than production, such as marketing, processing water management etc.;

- (b) support the environmental health sector, eg. potable water, sanitation and health education;
- (c) explore the natural resources and energy sector for potential assistance;
- (d) provide technical assistance for the build up of management capability of Sri Lanka staff.

Development assistance pledged by the U.S. since 1979 reflects the salient features of this Development Strategy Statements (DSS). The DSS for 1982 and 1984 broadly maintained the same strategy identified in 1979, since it was closely related to the government's own priorities as identified in the medium term investment programme.

In 1980's US aid was mainly concentrated on agriculture, education, reforestation and watershed management water supply and sanitation, irrigation improvement, malaria control and Mahaweli. In addition, the US AID has shown a keen interest in promotion of private sector and aid worth \$ 112 million was received by Sri Lanka for this purpose between 1985 and 1989. The distribution of the US aid as shown in Table 3.6 reveals that Sri Lanka has

been a major recipient of US food aid. Sri Lanka received US food aid from two sources : (i) USA CARE, and (ii) PL 480. While food aid under CARE was in the form of grants food aid under PL 480 was extensively in the form loans.

Table 3.6

US Aid

Years	Non Mahaweli		Mahaweli		Commodity			Food		Total		Grand Total	% Total Aid
	L	G	L	G	L	G	L	G	L	G			
1985	193.7	141.5	1442.6	29.8	-	-	649.6	151.9	2285.9	323.2	2609.1	19.10	
1986	88.0	196.1	452.5	33.3	-	-	869.7	91.5	1410.2	320.9	1731.1	11.28	
1987	143.5	96.5	98.6	30.6	-	-	694.4	245.2	936.5	372.3	1308.8	9.06	
1988	121.4	211.3	36.8	44.5	-	-	1229.3	292.3	1287.5	548.2	1835.7	8.41	
1989	17.4	433.5	29.9	58.2	-	-	947.0	352.5	994.3	544.2	1838.5	9.45	
Total	569.0	1078.9	2060.4	196.4	-	-	4290.0	1133.4	6914.4	2408.8	9323.2		

L = Loan

G = Grant

Source : External Resources Department, Sri Lanka.

It has been observed that the United States has exerted pressure on public policy reforms in many occasions. Pressure was exerted through both Aid Consortium and US AID mission. As we have already mentioned the terms and conditions of US aid were different from Communist and Trosky backed-progressive SLFP regime to pro-western right

wing UNP regime. While terms and conditions of aid for UNP regims were very liberal. SLFP Government received US aid on less concessional terms. This revealed the fact that through aid, US wants to promote the island private sector. Increased aid to promote the private sector and a shift of US aid policy from direct bilateral assistance to American private sector participation in development assistance would strengthen our argument. A US diplomat described Sri Lanka as one of the places where the kind of policies advocates by the Regan administration was working.¹

Available evidence reveals the fact that United States has frequently interfered with aid distribution within Sri Lanka. Atter 1983 ethnic riots, US aid mission was concerned about alleged inequalities in the distribution of US economic aid and the Regan Administration hinted that if the 'discrimination' against Tamil areas continued the aid programmes may have to be reviewed.²

Though concrete evidence is not available it is largely believed that United States frequently use counter fund of PL 480 to promote its own strategic interest in Sri Lanka.

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1. Dawn (Karachi), April 21, 1982.
 2. Telegraph (Calcutta), June 4, 1985.

Since the Government of Sri Lanka does not have any authority to check the application of this fund the US mission is free from any state interference.

Federal Republic of Germany

The Government of Federal Republic of Germany (FRG) sees its development policy as part of its overall aim for peace. It considers the elimination of economic conflicts between rich and poor states as an important task to promote peaceful development and growth. German development aid is, therefore, sets out to promote economic and social progress in the Third World.

Responsibility for official development assistance by the Federal Republic of Germany lies with the Ministry for Economic Co-operation which co-ordinates its activities with the Ministry of Foreign Affairs, the Ministry for Economic Affairs and the Ministry of Finance. German development aid emanates from two main sources: (i) the Federal Government Development Aid Fund, and (ii) The Development Bank of the Federal Government.

As a member of Sri Lanka Aid Consortium Germany contributed around 7 per cent of the total annual aid to Sri Lanka during period 1980-1989. The German aid has been

almost wholly (98%) in loan form while the small balance of grant aid was devoted to technical and training assistance. During the period under concerned German assistance was heavily identified with the Mahaweli Ranatambe and Randenigala multi-purpose projects which received 80 to 90% of the German aid between 1989 and 1990. Kirindioya Irrigation and Settlement project also received substantial portion of the total German assistance. Besides, Germany has extended cooperation in the development of the railway network and the fertilizer distribution system.

Between 1985 and 1989 Sri Lanka and Germany have signed twenty-two aid agreements worth of Rs. 3906.7 million. Of which Rs. 3150 million was in loan form. The interest rates charged for the agreements was 0.75% plus 0.25% for commitment charge. Repayment periods for loans vary from ten to forty years, the normal period being forty years though ten year terms have become more common in 1986 and 1987. Some pressure has been placed on Germany to ease its repayment terms and this has had considerable effect (see Appendix). The new agreements signed during the period illustrates strong emphasis placed by German on development of agriculture and animal husbandary. The German desire for extending cooperation in the development of multi-purpose irrigation project and agricultural sector may bring

substantial influence on policy matters in these two key areas.

The distribution of German aid as shown in Table 3.7 illustrate the fact that the German aid was highly concentrated on project aid. While small portion was in form of commodity loan.

Table 3.7

Distribution of German Aid

Year	Project Aid		Commodity		Food Aid		Total		Grand total	% of total Aid		
	Mon Mahavaweli Loan	Mahavaweli Grant	Loan	Grant	Loan	Grant	Loan	Grant				
1985	90.2	21.5	1091.7	-	86.0	-	-	-	1267.9	21.5	1289.4	9.4
1986	195.6	1.6	1362.2	-	221.2	-	-	-	1778.4	1.6	1780.0	11.6
1987	843.9	0.7	-	-	-	-	-	-	893.9	0.7	894.6	6.2
1988	45.9	1.8	877.1	-	-	-	-	-	863.0	1.8	864.8	4.7
1989	60.0	0.1	964.9	-	141.1	-	-	-	1166.0	0.1	1161.1	6.0
Total	1235.6	25.7	4233.9	-	498.3	-	-	-	5969.2	25.7	5989.9	

Source : External Resources Department, Sri Lanka.

Government of FRG did not engineer any policy change in Sri Lanka. However, a particular issue where it has expressed its concern is the present ethnic conflict. It continues to urge the Government to reach a negotiated

solution to the conflict.³

Since 1956 Sri Lanka had been considering to extend diplomatic recognition to East Germany. However, the decision was deferred due to the pressure from West Germany who threatened to withdraw aid programme in case of diplomatic recognition to the East Germany. The communist and Trotsky backed progressive SLFP Government had enough courage to extend diplomatic relation to East Germany in 1972.⁴ West German reacted angrily and drastically cut its aid commitments from \$ 5.9 m in 1971 to mere \$ 1.5 million in 1972.

The United Kingdom

Since, 1945, the British Aid programme has been increasingly directed by both commercial and political ends, with emphasis given to UK business aims, whilst still attempting to help Third World development. This policy tries to benefit the British economy and that of Third World countries.

3. Annual Reviews, Canadian External Aid Office.

4. Economic Review (Colombo), 'Aid Situation for Sri Lanka.

The main objective of the UK bilateral aid programme is to focus attention on the poorest developing countries. The UK attempts to ensure that the benefits of its aid reach the poor sector of the population of less developed countries. Considerable priority is, therefore, given to agriculture, education and health.

Through its aid policy the UK also aims to halt or reverse protectionist policies and thereby strengthen the attachment of Third World countries to multilateral trading system. This is due to the UK's belief that in the long term, trade is of more importance to developing countries than aid.

The granting of UK aid to Sri Lanka is systematically assessed by the Overseas Development Administration (ODA) on a continuing basis, taking account of the island's development needs, the priorities of the government and the services and expertise the UK can offer. Considerable efforts are made by ODA to ensure that specific aid are likely to be effective and achieve their objectives. The UK recognises that aid spending is fully effective if the domestic policies are programmes pursued by the Government of Sri Lanka and appropriate. Therefore, the UK tries to intervene domestic policies and programme.

In 1980's British aid was overwhelmingly in grant forms. Generally, British aid to Sri Lanka can be divided into two forms: (i) financial aid, and (ii) technical cooperation. Financial aid covers both new capital investment and the supply of spare parts and raw material to allow existing projects to continue. Technical cooperation aims at creating a pool of skilled manpower, both by providing experts from Britain and by training local people. Among the British aided programmes in the island during 1980's Victoria project, Colombo Airport Development, Samanalavewa Hydro Electric projects are worth to mention.

The United Kingdom regards that the private sector can play a vital role in the economic development of the country. Hence, the United Kingdom wants Sri Lanka to pursue policies that deregulate artificial controls.

Australia

The aid programme of Australia is managed by the Australian Development Assistance Bureau (ADAB), part of the Ministry of Foreign Affairs. Australian foreign interests and her international states are both considered to be enhanced through the aid programme.

Sri Lanka is not a major recipient of the Australian aid programme as compared to Bangladesh and Pakistan in South Asia and other developing countries, situated in the vicinity of Australia. Australia in 1980's contributed less than one percent of the total annual aid of the country. Its aid has been almost wholly in grant form while a small proportion of loan aid was devoted to railway and power sector.

The distribution of Australian aid as shown in Table 3.3, illustrates the strong emphasis placed by Australia on food grant. However, this grant was tied to purchase wheat from Australia. The value of Australian project aid was very small and this project aid was identified with the Lower Uva Irrigation project, Production of concrete Railway Sleepers and power supply. Another field that Australia has shown keen interest is education and training.

Under Sri Lanka - Australia bilateral aid programme annually a dozen of student get education and training in the Australian educational institution. Australia wants the Government of Sri Lanka to give more active role to women and provided Rs. 1.3 million in 1989 to this effect.

The important policy of the Australian aid programme is that projects which receive the Australian aid should be consistent with their national development strategy. If the

activities are not consistent with Australian development criteria assistance is not extended. In other words, in implementing project funded by Australia, Sri Lanka has to place more emphasis on Australian development policy rather than domestic one.

Canada

The Canadian International Development Agency (CIDA) is the principal federal agency for implementing Canada's official development cooperation programme. International Development Research Centre (IDRC) and International Centre for Ocean Development (ICOD) are other two Canadian aid agencies.

In Sri Lanka CIDA accounts for 75% of Canadian aid while the rest is from the IDRC and IODC.³ It was observed that CIDA bilateral aid programme concentrates on the provision of basic needs to improve upgrading of existing facilities in order to lessen dependence on foreign aid. IDRC supported the efforts of the Government of Sri Lanka to build up its own research capabilities while ICOD has extended cooperation and technology transfer between Canada and Sri Lanka in marine and acoustic research development.

Canada has been one of the major donors of Sri Lanka. Initially, Canada extended its assistance to Sri Lanka, under the Colombo Plan. Between 1950 and 1955 Sri Lanka received Canadian aid amounting to Rs. 54.6 million or 37% of the total aid during the period. Aid commitment of Canada between 1956 and 1959 amounted to Rs. 20.3 million. Sri Lanka received Canadian aid worth Rs. 138 million between 1960 and 1970 and of which nearly 60% were outright grants. During the period 1970-1989 Canada disbursed aid amounting to \$ 345.5million.

Today Canada extends its cooperation to all the vital sectors of the country. But main emphasis has been on rural development. In the rural development Canada has extended its support to irrigation rehabilitation, Sarvodaya rural upliftment programme and various other agricultural projects. The other areas where Canadian aid was concentrated are Maduruoya project, poultry extension, bio-gas technology, water resources management community health, Soya promotion, honey production and inland fisheries.

Unlike many bilateral donors of Sri Lanka, Canada provides project (both Mahaveli and non Mahaveli) aid commodity aid and food aid.

Table 3.8

Canadian Aid

Year	Project Aid		Commodity Aid		Food Aid		Total		Grand total	% of total Aid		
	Non Mahavaweli Loan	Mahavaweli Grant	Mahavaweli Loan	Grant	Loan	Grant	Loan	Grant				
1985	-	66.9	56.7	16.1	-	308.7	-	171.8	56.7	563.5	620.2	4.54
1986	-	166.0	8.1	7.3	-	103.5	-	264.4	8.1	541.2	549.3	3.58
1987	-	115.5	1.1	3.8	-	233.7	-	178.7	1.1	531.7	532.8	3.70
1988	-	157.9	-	3.3	-	5.57	-	107.6	-	784.5	784.5	4.28
1989	-	128.5	-	13.5	-	356.0	-	-	-	498.0	498.0	2.56
Total	-	634.8	65.9	44.0	-	1517.6	-	722.5	65.9	2918.9	2984.8	

Source : External Resources Department, Sri Lanka.

Canada in its dealing with Sri Lanka has generally refrained from interfering domestic matters. Though Canada has expressed its concern over the violation of human rights in Sri Lanka, it did not go as far as to refrain from new aid commitments or to make direct cuts in its aid. Thus, Canadian aid in many ways contains the most liberal features of all western donor countries.

France

The main objective of French development aid is to establish solidarity between France and the developing countries. There is an acceptance that this policy is in

the mutual interest of France as well as the recipient countries. France also sees her active role in development process as being of benefit to her international political profile particularly in relation to her former colonies.

French development aid emanates from:

- i. Fonds d' aide a la co-operation (FAC) which is used to Finance supply contracts.
- ii. The Caisse centrale de co-operation economique (CCCE) which is the principal source of concessionary loans.
- iii. Treasury aid which provides the aid portion of mixed credits.

As a recipient of French development aid, Sri Lanka received mixed credits during the last two decades. In Sri Lanka, France concentrated its resources mainly on the Nilwalaganga projects and improvement of infrastructure. Credits to Nilwalagange project was seen as a means of improving the management structure of the islands rural economy, through the increase of agriculture output. Besides the Nilwalaganga and the improvement of infrastructure such as Colombo Airport and Telecommunication a smaller share of French mixed credit was given to health, sanitation, technical education and training.

It was observed that the terms of the mixed credit given by the treasury were not concessional. The normal interest rate charged for Nilwalaganga and Samanalawewa multi-purpose irrigation schemes were around 9% with 10 year repayment and a half year grace period. Of 12 agreements signed between 1985 and 1989 only one agreement was in the form of grant while the rest were loan agreements with tough terms and conditions. Thus, French aid in many way contains unconcessional terms.

France has attempted to suggest allocative priorities or poilicy changes to Sri Lanka in its bilateral aid negotiation. However as many other donors, it also favoured coordination of policy dialogue through the World Bank or the donor consortium.

Belgium

As a former colonial power Belgium has extensive overseas interests, notably in Africa. As many colonies became independent in the late 1950s and early 1960s there was increased emphasis on the promotion of their economic development through aid programmes. To implement its aid programmes, the Belgium Government set up the Development cooperation Service in 1962. In 1971, this body was renamed

the Belgian Administration for Development Co-operation (BADC) which forms part of the Ministry of Foreign Affairs.

The objectives of BADC, which were defined by a royal decree in 1976, are:

- Co-ordination of Belgium development policy
- Implementation of bilateral and multilateral agreements.
- Promotion of investments.
- Organisation of the transfer of knowledge to the developing countries
- Dissemination of information in Belgium on the problems of the developing world
- Assessment of the impact of the above objectives.

Belgium is linked to a number of developing countries by means of Global Co-operation Agreements. In regional terms, three quarters of bilateral BADC aid goes to Africa. The remainder of BADC aid is concentrated on Asia (9%) and Latin America(7%).

Sri Lanka has been a beneficiary of BADC bilateral aid under a Global Co-operation Agreement signed in 1981. Belgium made its first aid commitment of \$ 1.6 to Sri Lanka in the same year and it was a technical assistance. Between

1985 and 1989 Belgium aid share in the annual aid receipt of Sri Lanka was in the region of 0.15 percent. The notable feature of Belgium aid during the same period was that it provided only non-Mahaveli project aid in the form of outright grants. These Belgium grants were heavily identified with two projects: (i) Wings Beans Research Project; and (ii) University Development Projects. The Belgium sponsored projects in Sri Lanka received Belgium assistance under three stages: (i) provisions of Belgium experts to provide expertise and possible training; (ii) supply of equipment; and (iii) provisions of training through scholarships and training grants.

Italy

Italian aid programme is administered by the Department for Development Co-operations of the Ministry of Foreign Affairs.

Italy as a member of the Sri Lanka Aid Consortium (SLAC) has extended its assistance for drought and flood relief programmes. This is in line with its basic objective of helping poor countries for fighting the problems of hunger.

Sri Lanka is not a major recipient of Italian aid. During the period 1975-1989 total amount received from Italy was \$ 6.2 million. One reason that Sri Lanka is not receiving substantial amount of aid from Italy is that around 75% of Italy aid goes to Sub-Saharan African and Mediterans Basin. In other words, Sri Lanka lies outside the strategic geographical region of the Italian aid programme.

Switzerland

Swiss technical cooperation with developiiong countries began in 1961, although it was not until 1976 that Federal legislation was enacted, providing the framework for the provision of development aid in the following years. Swiss aid is administrated by the Directorate of Development Co-operation (DCA).

As a member of the Sri Lanka Aid Consortium, Switzerland provides both loans and grants. DCA personals discuss, projects in depth with the Government of Sri Lanka before decisions to give aid are taken. In this process, special attention is paid to examine the relevance of proposed projects in accordance with the DCA's development policy.

In Sri Lanka DCA has supported a number of projects. But more emphasis was given to education and training. It has also committed resources for rural development and related projects. DCA has also attached considerable importance to livestock development in the country. More recently Switzerland began to extend its support through Swiss based non-governmental organisations.

There was no evidence that Switzerland made any attempts to bring policy changes in Sri Lanka. However, it has led the World Bank and the IMF to work freely in this regard.

The Netherlands

Sri Lanka is one of the ten largest recipients of the Dutch aid.⁵ The Netherlands accounts for around 3% of the total annual aid disbursement of the country. It provides both loans and grants. While the project aid and a larger part of commodity aid are in the form of grant a smaller part of commodity aid are in the form of concessional loan. Over the years, loan content of Netherland aid has been declining (8.5% in 1985, 0.1 in 1989).

5. The ten largest recipient of the Dutch aid are Bangladesh India Pakistan, Sri Lanka, Kenya, Egypt, Sudan, Indonesia, North Yeman and Tanzania.

Aid from Netherland covers a variety of areas depending upon the nature of request made by Sri Lanka and the aid policy of the Dutch Government. Between 1985 and 1989, it has covered a number of schemes ranging from rehabilitation of people affected by the ethnic conflict to rural development, water supply and sanitation. However, Dutch aid was mainly concentrated on rural development. Three major integrated rural development programmes (Mulative, Ratnapura and Nuwara Eliya) are being funded by the Netherlands. Available evidence shows that the Netherland in its aid negotiation did not exert pressure on the government of Sri Lanka to bring changes in public policy. However, it has let the Consortium to make policy changes.

Scandinavian Donors

Norway

Norwegian bilateral assistance to Sri Lanka started in 1970 with the first allocation to the NGO implemented CEY-NOR Development project. Subsequent project assistance was limited to this project.

The decision to make Sri Lanka a main recipient of Norwegian development assistance was made by the Norwegian Government in 1976. Until 1989, the Country Programme was

characterized by substantial allocation for commodity assistance and import support. The Hambantota Integrated Rural Development Programme was the only additional component with a sizeable allocation. After the ethnic disturbance in 1983 a process of changing the profile of the assistance programme was initiated. Rural development continued to be a main component and indeed received increased attention with the initiation of a second Integrated Rural Development Programme in Moneragala. Two new main components - rehabilitation of victims of ethnic disturbances and welfare activities for the Indian Tamil plantation workers - were introduced at the expense of commodity assistance and import support. In addition, there was also a rapid increase in allocation to Sri Lanka NGO's.

In Norway, the political unrest in Sri Lanka has been followed with deep distress by the Government, politician and the public at large. There has been a strong concern about the conflict and the violation of human rights associated with it. The Norwegian Government has repeatedly expressed this concern at the annual Aid Group Meetings in Paris and the Annual Aid negotiations with Sri Lanka. From Norway's point of view, the government of Sri Lanka bears a considerable responsibility for this political unrest. For

such reasons Norwegian development assistance to Sri Lanka has been subject to the following guidelines since April 1985:

- a. continuation of those programmes which are not directly affected by the conflict;
- b. increased emphasis on programme benefitting victims of the conflict, the majority of whom have been Tamils;
- c. reduction of commodity aid; and
- d. no commitments for new activities.⁶

Norway, in its dealing with Sri Lanka, has generally refrained from engaging in exchanges about the domestic policy framework. However, it favours coordination of policy dialogue through the World Bank or Sri Lanka Aid consortium. One reason for the Norwegian position in this issue is simply that Norway is a small donor which gives the overwhelming parts of its aid in forms which have provided no framework for dialogue. A second reason is that the Norwegian aid policy, as drawn up in policy documents, has been largely recipient oriented, leaving the decision on priorities with the recipient government. However, over the years Norwegian assistance has been modified with a view to secure various special Norwegian interests. One of those areas is human rights. Norway has threaten Sri Lanka that it would stop its aid programme unless adequate measures is

taken to promote human rights.

As a result of the pressure from donor countries, the Government came up with a proposal for a political settlement in June 1986, which made some concession to the Tamil Claims. Indo-Sri Lanka Accord in 1987 is another step.

Denmark

Denmark's aid is managed by Danish International Development Agency (DANIDA), which is a part of the Danish Ministry of Foreign Affairs. DANIDA attaches high importance to establishing dialogue with developing countries, consideration of ecology, the role of women and careful allocation of resources.

In Sri Lanka Denmark has given assistance to coast conservation, flood protection, water supply and sanitation. While assistance to coast conservation and flood protection were in form of loans with free of interest and service charges, assistance to water supply and sanitation was outright grants.

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6. Gunnar M: Sorbo and others. Sri Lanka Country Study and Norwegian Aid review (Stromgt, University of Bergen, 1987), p.5.

Identification of project for DANIDA financing was done by the Ministry of Finance, Sri Lanka with constant consultation with the Bilateral Department of the DANIDA. If the project is seen as worthwhile, DANIDA will organise an appraisal mission after which final conclusion is made. In most cases, agreed projects corresponds with the specific type of expertise available with Denmark.

Between 1985 and 1989 Sri Lanka has entered only four agreements with Denmark amounting to Rs. 1089.6 million of which Rs. 904.8 million or 83% were in the form of outright grants. These aid agreements sought to continue Danish assistance to coast conservation floor protection, water supply and sanitation.

Denmark rarely has attempted to suggest allocative priorities or policy changes to Sri Lanka. Nor did it had view on fiscal monetary or other policies or suggested that Sri Lanka re-order or improve its administration.

Finland

Both Finnish multilateral and bilateral aid is administered by the Finnish International Development Agency (FINNIDA), a subsidiary of the Ministry of Foreign Affairs. The basic objective of FINNIDA is to support the economic and social development of Third World countries.

Finland is a member of Aid Sri Lanka Consortium. During the 1980's its aid was in the form of outright grants. In Sri Lanka FINNIDA has concentrated its resources on agriculture, rural development, health and telecommunication. In project identification, particular attention was paid to improving the economic and social conditions of women and poor peasants. In line with this emphasis FINNIDA was generally funding dairies in Kilinochchi, Colombo and Digana. To improve the status of women, FINNIDA provided aid to establish a women Bureau. Healthcare was is another sector which was received a substantial amount of Finish Aid. With the support of Finland the government of Sri Lanka was able to improve rural health facilities, sanitation, health education to a great extent.

It was observed that the most Finnish scheme were prepared on the basis of the following procedures:

- i. Assessing the justification for a project and the scope for FINNIDA participation and financing.
- ii. Stating the development and immediate objectives for the project as realistically as possible and setting out a time scale for its completion.
- iii. Involving the representatives of the Government of Sri Lanka at various stages of the project.

iv. Monitoring the project to ensure that it meets its stated objective.

It was also observed that the Finnish aid was not formally tied, but in practice a considerable part of the procurements were made in Finland.

Sweden

In spite of being a country without a recent colonial past Sweden provides political and economic support to many developing countries. Swedish aid is administered by the Swedish International Development Authority (SIDA) and the Ministry of Foreign Affairs.

Swedish bilateral aid to Sri Lanka via SIDA has been based on the country programme. The aim of the country programme is to enable Sri Lanka to integrate external assistance into island's overall development strategies rather than support isolated projects. To ensure a maximum degree of effectiveness, Sweden directs its aid efforts to those sectors in the country which it has considerable knowledge and experience. Integrated Rural Development Programme (Matara and Badulla), Kotmale Dam construction and development of technical education were prominent projects which received Swedish aid during 1980's. Sweden aid to, these projects in Sri Lanka was almost exclusively given in the form of grants.

Like most of the aid donors, Sweden has expressed its displeasure over the widespread violation of human rights in the country. This issue was raised in the consortium as well as in its country programme discussions. It has made clear that, no new projects would be approved before a peaceful solution was reached.

Socialist Donors

The Peoples Republic of China

China's aid to Sri Lanka seems to be to enhance Beijing's image in the regional context and to reduce external influence from India. On the Sri Lankan side, the factors which motivated to seek Chinese assistance were mainly two in number. Firstly, due to its poor resources which were inadequate to keep up with the growing aspirations for development, Sri Lanka was eagerly looking for new sources of external assistance. Against this background, it was natural that the island viewed China as a promising partner in its development efforts. Secondly, Sri Lanka perceived the friendly presence of China as a potential weight to balance the growing influence exert by India.

The volume of Chinese assistance to Sri Lanka is not large and its contribution to the annual aid budget of the island is less than one per cent. Chinese aid has been wholly in loan form and developed to water supply, phosphate extraction and power. A small portion of aid was given as technical assistance, under which Chinese technicians came to Sri Lanka and worked in the projects funded by them. The notable features of Chinese aid was that, help was given to a project that created rapid results with less investment and a shorter construction cycle.

It appears, that China has fully accomplished the goals of its economic assistance to Sri Lanka. The first goal, establishing Chinese presence in the island, has been successfully accomplished. During the period 1970-90 China gradually emerged in Sri Lanka as a very friendly and benign country. Chinese technicians through their non-provocative life style and hard work, have become successful in creating positive impression in the island. This impression has been enhanced by China's continuing military assistance to the government and its objection to India's interference in the island internal affairs. The visit of Chinese Prime Minister Li Peng in December 1990 further strengthened the age-old ties between the two countries.

Soviet Union

The first exchange of ambassadors between the Soviet Union and Sri Lanka was agreed in September 1956. At the same time, trade development and economic co-operation also began. In 1975, Sri Lanka accepted the Soviet's offer to explore oil. The first economic cooperation agreement signed in February 1958, was offered for irrigation and hydro-technology, and for increasing agricultural and fisheries production.⁷ In 1959 the Soviet Union and Sri Lanka signed an agreement for the Oruwala Steel Works. In A further credit was extended in 1971 for the purchase of machinery and equipment, and in 1972 Soviet Union gave its first credit for the oil exploration. In 1974 two new credits were extended for the second and third stages of Oruwala Steel Works. Sri Lanka received a new credit in 1975 from the Soviet Union for the construction of the Samanala-Weva Dam and its hydro-electric power station.

As in elsewhere, the primary focus of the Soviet assistance was on the development of the state sector of the national economy. The development of heavy industry and of energy and mineral resources has been the major target of Soviet aid policy in Sri Lanka.

7. Quintin V.S. Bach. Soviet Economic Assistance to the less Developed countries: A statistical Analysis (Oxford, Clarendon Press, 1987), p 138.

The pattern of Soviet aid is basically clear-cut. Aid is almost 100% in loan form and 100% project-oriented. All loans bears interest rates at 2.5% with repayment over twelve years. Loans are repayable in Rupees which are used for purchase of Sri Lanka goods.

Other European Countries

During the United Front Government (1970-77) Sri Lanka received a substantial amount of aid from Yugoslavia, (\$ 4.15 million), Hungary (\$ 10.36 million), Bulgaria (\$ 4.8 million) and Czechoslovakya (\$ 7.86) These East European countries extended their assistance to Sri Lanka when the western donor nations had scale down their aid programme in protest against the socialist economic policies and the non aligned foreign policy of the united front government. However, the UNP Government which came into power in 1977 did not get the same cooperation from these Eastern Europe countries including the Soviet Union.

West Asian Donors

Among the West Asian Donors Kuwait extends its cooperation to poor countries through Kuwait Fund which was set up in 1961 to promote economic development in the Third World. The major objective of the Fund is to provide assistance to the developing countries in their efforts towards economic development by :

- extension of loans guarantees and grants in aid
- provisions of technical assistance and services
- participation in the capital development of institution and eligible corporations.

Sri Lanka received assistance from Kuwait in the form of loans. Kuwait made its first aid commitment in 1975 amounting to \$ 25.5 million. Between 1976 and 1981 aid commitment made by Kuwait was negligible (\$ 2.4 million). In 1982, Kuwait has pledged aid worth \$ 45.0 million. Since then no new aid agreement was signed by the two governments. Kuwait aid was solely concentrated on Mahaweli system development.

Of the West Asian donors Saudi Arabia has contributed \$ 60.76 million between 1975 and 1981. The aid received from Saudi Fund for Development, the official aid agency of Saudi Arabia, was in the form of both non Mahaweli and Mahaweli project loans. While Mahaweli aid was mainly concentrated on left Bank Development, Non-Mahaweli project loans were heavily identified with Colombo water supply, Drainage and electricity transmission schemes.

A particular issue where Saudi Arabia has expressed concern was the presence of Israelis in Sri Lanka. Saudi Arabia repeatedly requested the Government of Sri Lanka to

close the Israeli Interest section which was opened in 1984. Evidence shows that Saudi aid was used as a leverage to this effect. In 1984, Saudi Arabia had shown reluctance to sign an aid agreement for 171 million Saudi Riyal for the right bank development of Madura Oya project.⁸ Saudi Arabia had also decided not to accept Sri Lanka's new Ambassador to Riyadh while abandoning earlier plans of opening a consulate in Colombo.⁹ In protest against Colombo's links with Israel, Saudi Arabia had withdrawn \$ 94 million aid to Sri Lanka in 1985.¹⁰

Among the other Arab donors the United Arab Emirates extends its co-operation through Abu Dhabi Fund for Arab Economic Development. Between 1970 and 1989 the fund made only one commitment worth \$ 5.2 in 1976. This assistance was too in the form of loan and concentrated on fisheries development. Libya had made a pledge amounting to \$ 15.6 million during the same period. Iran extended its co-operation once during the same period (\$ 32 million in 1975). It was observed that OPEC donors as a whole have extended their co-operation to the United Front Government (1970-77).

8. Sun (Colombo), September 19, 1984.

9. Hindustan Times July 19, 1984.

10. Atta (Colombo), September 9, 1985.

India

The official objective of India's aid programme is to expand overseas market for Indian Industrial export, technology and expertise in the commercial sector.¹¹ The bulk of Indian bilateral assistance is concentrated on the two neighbouring countries of Bhutan and Nepal (In 1985 they alone received 75 per cent of Indian bilateral aid). A substantial amount of Indian aid also goes to poor African nations.

Sri Lanka has a long standing socio-economic and cultural links with India. However, Sri Lanka receives a negligible quantum of aid from its neighbour. Of total aid commitment of \$ 5755.24 between 1970 and 1989 India committed aid amounting to \$ 99.2 or 1.7 per cent. This small amount was also committed in the form of loan with very hard terms. India charged 5 per cent interest rate for its loan which should be repayable over 10-15 years after 2-3 year grace period.

Indian aid to Sri Lanka was wholly commodity aid in nature and tied to the purchase of Indian goods and services.

During the regime of United Front Government (1970-77) under the leadership of Mrs. Sirimavo Bandaranaike, a close

personal friend of the then Indian Prime Minister Mrs. Indira Gandhi India made new commitments in almost every year. In 1973, when the western donors dramatically cut their aid India pledged a substantial amount of aid (11% of total aid commitment in the year) rescuing Sri Lanka from a difficult balance of payment situation. India's contribution to total aid commitment of the United Front Government amounted to \$ 92.5 or 4 per cent. This contribution was higher than the contribution made by some rich donors such as Netherlands, Norway, Switzerland, Denmark, Italy and Australia.

When the UNP Government came into power in 1977 India was governed by the right wing Janata Party. The two countries maintained very cordial relationship during the Janta regime (1977-80). The visit of Indian External Affairs Minister, Atul Behari Vajpayee in 1978 and the Indian Prime Minister Morarji Desai in 1979 was the culmination of the Indo-Sri Lanka warm relations during the Janata regime. As a result of this warm relations Sri Lanka received aid amounting to \$ 32.8 million from the Janata Government. This quantum of aid Sri Lanka received during the three year period of the Janata regime was higher than the aid granted by the Congress Government between 1980 and 1989.

Indian aid commitments and disbursement to Sri Lanka declined very rapidly after 1980 when the Congress Party came into power. Between 1980 and 1989 India made commitments only twice and that was in 1981 and 1987. Obvious reason for this was the tension between two countries over the ethnic problem. After a five year gap India appeared again in 1987 by committing aid worth of \$ 19.2 million. This resumption of Indian aid in 1987 can be attributed to the Indo-Sri Lanka Accord which was signed in the same year. Then again there was no aid commitments during 1988-1990, probably because the relations had started soaring on issues pertaining to the implementation of the Accord.

A Differential Perspective on the Impact of Bilateral Aid and Public Policy

Developed Industrial Countries

The exercise of pressure and influence on Sri Lanka has largely come from certain developed industrial countries. There have been evidence that these countries have expressed their views on the suitability of various policies of the government of Sri Lanka and their aid has been used as a strategic instrument to bring such policy reforms in the country. The size of aid committed by these developed countries gave them a strong capacity to dictate how Sri

Lanka should conduct its development affairs. (79 per cent of the total aid commitment during the period came from these countries).

Table 3.9

Aid Commitments by Bilateral Donors 1970-89

(In US \$ million)

Class of Donors	Commitment	% of total Commitment
Developed Industrial Donors	4529.1	79.0
Scandinavian Donors	591.9	10.3
Socialist Donors	310.6	5.4
West Asian Donors	185.96	3.2
India	99.2	1.7
Other	11.35	0.4
Total	5730.26	10.0

Source : Compiled from Foreign Aid Indicator of Sri Lanka.

Our study reveals that individual countries had their own areas of interest. For example, Japan who contributed nearly one-third of the total aid receipt during the period 1970-89 had economic interest, while the United States, the United Kingdom and the Federal Republic of Germany had both economic and strategic interest. To achieve these interest they have exerted different degrees of influence. Most

donors have tried to do so through the Annual Paris Meetings of the Aid Consortium while other did it more directly through country programme and project negotiations.

As a group these donors continued to share with the world bank, a belief in the need to promote the market economy in Sri Lanka and they have let the World Bank articulate their concern. In many occasion they have attempted to suggest allocative priorities and policy changes to Sri Lanka. Similarly, they had views on fiscal monetary trade and other policies of the country and suggested Sri Lanka to follow policies favourable to their interest. They have also indicated that the level of assistance would be increased if Sri Lanka adopted these policies.

Scandinavian Aid Donors

The Scandinavian, namely Sweden, Denmark, Norway and Finland whilst continuing to be members of the Aid Consortium initially rarely attempted within the Consortium, to dictate policies to Sri Lanka. Though they have expressed some concern over the implementation of particular projects and their preference for supporting rural oriented project they were more inclined to respect Sri Lanka's right to establish priorities and make policies. However, in recent years there has been a growing concern amongst the

Scandinavian donors about human right violation in Sri Lanka. In these countries political unrest in Sri Lanka has been followed with deep distress by politicians and the public at large. Scandinavian countries have, therefore, repeatedly expressed their concern over the widespread violation of human rights at the annual aid consortium meetings in Paris and their annual aid negotiation with Sri Lanka. They are of the opinion that the Government of Sri Lanka bears considerable responsibility for this political unrest. As a whole, they have decided not to make commitments for new activities.

Socialist Aid Donors

Significantly, the socialist bloc have indicated no such commitment to the process of social transformation or even poverty amelioration in Sri Lanka. They have thus far tended to refrain from inflicting their ideological and policy preference on Sri Lanka. In aid negotiation they may have strong views on the terms of the loan or the efficiency of project execution but rarely have the socialist donors attempted to suggest allocative priorities or policy changes to Sri Lanka. Nor did these donors have view on fiscal, monetary or other policies or suggest that Sri Lanka re-order or improve its administration. On a wider plane there was never any suggestion that the level of assistance to Sri

Lanka would increase if Sri Lanka adopted a particular political line at home or abroad. This is, however, not to say that the original decision to pledge aid and the quantum of aid to be given remains uninfluenced by the overall climate of bilateral political relation with Sri Lanka. An examination of aid pattern from 1970 and 1989 reveals that socialist donors have given more aid to communist backed progressive SLFP Governments. According to available data on foreign aid receipt by Sri Lanka during the first four government socialist donors have given more assistance to SLFP governments.

Table 3.10

**Foreign Aid Receipt by Different Regimes
(In US \$ Million)**

Region	Capitalist Donors	% of Total aid	Socialist donors	% of total aid	Total aid
Pro-Western UNP 1950-55	148.1	100	-	0	148.1
Progressive SLFP MEP 1956-59	195.9	36	355.9	64	551.8
Communist backed SLFP 1960-64	186.8	49	195.9	51	382.7
Pro-western UNP 1965-1969	1001.2	87	205.5	17	1206.7

Source : Compiled from Central Bank of Sri Lanka, Annual Reports.

From 1970 to 1989 aid preference of the socialist donors did not undergo any change. During the period the socialist donors pledged aid amounting \$ 310.6 million of

them 81% were made during the period of SLFP government.

Table 3.11

**Aid Commitments By Donors
(In US # million)**

Year	Centrally Planned Economics (1)	Western Capitalists economics and other (2)	Total (1)+(2)=(3)
1965			
1966			
1967			
1968			
1969			
1970	24.2	68.0	92.2
1971	38.2	87.4	125.6
1972	84.6	48.3	132.9
1973	-	87.5	87.5
1974	37.2	124.6	161.8
1975	60.2	316.6	376.8
1976	3.5	194.7	198.5
1977	4.1	243.4	249.5
1978	10.4	389.6	400.0
1979	-	575.0	575.0
1980	32.7	604.3	637.0
1981	-	815.8	815.8
1982	-	541.0	541.0
1983	-	354.0	354.9
1984	-	462.0	462.0
1985	-	546.6	546.6
1986	15.5	637.0	652.5
1987	-	570.1	570.1
1988	-	1128.5	1128.5
1989	-	396.6	396.6

Source : Foreign Aid Indicators of Sri Lanka, 1989.

West Asian Aid Donors

The West Asian countries who are the latest entrants into the ranks of aid donors to Sri Lanka have committed aid worth \$ 186.96 million during the period 1970-89. They

first appeared in 1975 during the United Front Government and continued to extend their assistance to the present UNP Government till 1983. The marked features of their aid programmes during this period was their unconcern with the direction or specifics of Sri Lanka's development strategies. In other words, they focussed their attention on the technical and economic feasibility of projects leaving other things under the authority of the Government of Sri Lanka. Further, their aid was not linked with any political interest. Therefore, Sri Lanka retained the maximum flexibility in investment decisions.

This situation changed when Sri Lanka was considering to allow Israel to open an Interest section in the country. They requested Sri Lanka not to go with the proposal. In protest against this decision Saudi Arabia decided not to accept Sri Lanka's new Ambassador to Riyadh while abandoning earlier plans of opening of consulate in Colombo. Iran, after appointing a new Ambassador to Sri Lanka had instructed him to return; Libya said it would consider its relations with Sri Lanka if it lets Israel open a diplomatic mission in Colombo¹¹ Ignoring the appeals and the pressure

11. International Business Intelligence, Development Aid (London, Butterworths 1988), p. 539.
tactics by the west Asian countries Sri Lanka allowed

Israel to open its interest section and entered into an agreement with Israel for the purpose of obtaining training in counter insurgency warfare for its armed forces. As a result, new aid commitments from West Asia have ceased since 1984.

Chapter 4

Multilateral Aid Donors and Their Impact on Public Policy of Sri Lanka

Multilateral Donors

There are five multilateral aid agencies providing aid to Sri Lanka. They are the European Economic Community Asian development Bank, the UN agencies, the World Bank Group and OPEC. Of these some UN specialised agencies are supporting Sri Lanka since the early fifties. The other multilateral agencies, the IDA and the ADB are involved since the late sixties and their assistance is obviously in the form of loans. Aid from the OPEC and the EEC is flowing since 1970s. In this chapter aid from these multilateral aid donors and their pressure tactics are discussed.

European Economic Community (EEC)

Development aid policy is a part of the high profile of EEC trade policy. Its aid emanates from three sources;

- (a) European Development Fund (EDF);
- (b) European Investment Bank (EIB); and
- (c) Centre for Industrial Development.

Aid from European Economic Community is mainly concentrated on three areas of development : agriculture,

Table 4.1:

Multilateral Aid Commitments 1970-1989 (In US \$ Million)

Donors	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Total
EEC	1.2	-	-	1.4	2.2	13.1	0.6	6.2	3.0	4.4	0.3	16.0	11.4	11.3	14.4	12.1	5.6	6.5	-	-	7.8
Asian Development Bank UN Group of which WFP	1.5	2.8	4.0	3.8	3.0	5.0	8.2	7.7	28.2	10.3	5.3	10.2	18.0	18.8	37.1	30.9	41.9	48.5	64.5	80.1	12.4
FAO	(0.2)	(1.7)	(0.6)	(0.4)	(1.5)	(6.9)	(13.3)	(8.9)	(0.8)	(2.7)	(1.6)	(1.5)	(2.8)	(4.0)	(2.5)	(8.7)	(6.9)	(12.0)	(20.6)	(1.2)	(0.9)
World Bank Group	1.9	7.5	5.8	10.5	15.6	18.7	6.4	13.9	12.8	12.2	20.2	26.0	59.9	74.7	107.3	73.3	88.9	87.6	62.7	58.1	3.8
IFAD	-	-	-	-	-	-	-	-	-	-	2.7	3.4	2.0	1.6	3.2	5.1	5.8	4.5	3.4	-	-
OPEC Fund	-	-	-	-	-	-	-	8.0	1.0	-	1.4	9.6	5.5	3.0	4.0	3.1	2.1	3.1	-	-	-
Total	4.9	12.6	10.7	16.3	23.4	55.9	31.8	50.9	51.4	38.9	43.3	79.4	109.6	110.3	177.8	148.6	166.1	177.3	155.1	162.2	-

* External Resources Department, Sri Lanka.

transport and, energy related field. In the Mediterranean however, EEC has emphasised more on industrial development. In Asia and Latin America emphasis has been on agricultural development and food security for the poorest countries.

European Economic Community (EEC) is the third largest bilateral donor of Sri Lanka. Its aid has been almost wholly (98%) in the form of outright grant and the small balance of loan has been devoted to Mahaweli technical assistance. It is observed that during 1980s the grant aid from the EEC was mainly concentrated on Mahaweli Accelerated Project, East Coast Rehabilitation Scheme and Intergrated Rural Development programme. Over the years, the loan content of EEC aid has been declining and all the agreements signed between 1985 and 1989 are outright grant amounting to Rs 2922.9mn. It is also noted that EEC has emphasized more on food grants and the share of food grant to the total EEC aid is increasing (52% in 1985 and 76% in 1989). The fact that of 9 aid agreements signed between 1985 and 1989 7 agreements worth of Rs 1111.5 mn are food aid agreements indicates this strong emphasize on food aid.

EEC, in its dealing with Sri Lanka, has generally refrained from interfering in internal affairs of the country. However, it favoured co-ordination of policy

dialogue through the Sri Lanka Aid Consortium and in many occasions let the World Bank to work freely in this regard.

Asian Development Bank (ADB)

The Asian Development Bank (ADB) was set up in 1966 to foster faster economic growth and co-operation in the Asian and Pacific region. To this end, ADB:

- promotes investment of public and private capital for development purpose.
- provides loans for the encouragement of growth
- co-ordinates the economic development plans and policies of its member states.
- provide technical assistance to help prepare finance and implement development project and programmes.
- co-operates with relevant UN agencies

ADB is one of the largest donor of Sri Lanka. It alone contributes around 10% of total annual aid receipt. Its assistance is in the form of loans and the terms have generally remains unchanged since 1980.

ADB loans are in principal subject to 30 years maturity, 10 years grace period and 1.0 % service charge. Aid from ADB has covered a variety of areas depending upon the nature of request made by Sri Lanka and the aid policy of the ADB. ADB assistance from 1985 to 1989 shown in

Table 4.2 illustrates that ADB in Sri Lanka covers a number of sectors ranging from road maintenance to rural development.

Table 4.2
Aid Receipts - ADB 1985-1989 (Rs. Million)

Nature of the Project	1985	1986	1987	1988	1989
Telecommunication	0.9	-	-	-	-
Rural Electricity	0.4	45.0	91.9	-	7.3
Kirindioya Irrigation	176.8	172.9	53.8	74.3	78.8
Sevanagala Sugar	178.7	80.4	35.4	43.5	1.3
Development Finance Corp.	23.0	3.0	-	-	-
Rural Credit Project	36.4	25.9	0.3	-	-
Mahaweli Roads Development	48.1	40.0	32.8	41.0	73.7
Tea Industry	21.9	50.3	73.1	58.9	34.3
Anuradhapura Dry Zone	19.4	22.4	15.8	45.1	32.7
National Development					
Bank Loan	54.8	18.7	-	-	-
Coconut Development	6.1	16.9	24.7	8.0	2.5
Technical Education	6.0	143.2	125.5	124.2	120.9
Community Forestry	9.3	28.9	29.2	68.1	30.7
Livestock Development	18.7	39.4	60.9	62.3	65.2
Trincomalee Thermal Power	19.6	1.6	40.7	30.7	19.2
Health & population Projects	10.5	29.1	61.4	29.2	42.8
Towns Power Distribution	8.5	208.2	94.9	54.6	292.1
Fisheries Development	7.4	13.8	6.8	10.2	10.3
Aquaculture Development	2.0	23.6	22.0	-	47.5
Supplementary Asst. For Selected Projects	193.7	-	-	-	-
Wallawe Irrigation Improvement	-	4.7	6.0	12.9	41.9
Plantation Sector Projects	-	107.9	335.6	237.0	126.6
Trunks Roads improvement	-	7.6	49.2	38.7	110.5
Development Financing project	-	154.2	77.6	144.8	257.0
Land Use Planning Project	-	-	2.9	16.5	29.6
Water Supply Project	-	-	13.0	17.6	26.4
Agricultural input programme	-	-	186.0	735.1	112.9
School restoration	-	-	-	-	67.7
Agriculture Development	-	-	-	26.0	67.7
Road Restoration	-	-	-	117.1	1.4
Small and Medium industry	-	-	-	42.1	198.1
Road Improvement	-	-	-	20.2	62.3
Agriculture Programme loan	-	-	-	-	1065.2
	842.2	1237.7	1439.5	2058.1	2908.9

Source : External Resources Development, Sri Lanka.



In 1980s, aid from ADB was mostly concentrated on Kirindi Oya Irrigation & Settlement Project, Sevanagala Sugar Development Project, Mahaweli Area Roads Development Project, Tea Development Project, Anuradhapura Dry Zone Agricultural Project, Livestock Developments Project, Health and population Project Fisheries Development and Town Power Distribution Project.

The total aid receipt from ADB between 1985 and 1989 amounted to Rs 8425.m. It has been observed the share of ADB in the total annual aid receipt of the country has been continuously increasing since 1985 (Table 4.3). This implies that the power of interference of the ADB in the development policies as also increasing.

Table 4.3

Percentage share of Multilateral Donors in the Total Aid 1985-1989					
Donor	1985	1986	1987	1988	1989
EEC	2.36	1.03	1.76	-	1.45
ADB	6.16	7.67	9.66	11.23	149.5
UN Agencies	4.81	3.98	5.22	4.26	2.31
of which WFP	(1.74)	(1.27)	(2.15)	(1.84)	(0.22)
UNICEP	(0.73)	(0.70)	(1.01)	(0.85)	(0.57)
IDA	13.67	15.74	17.02	9.70	9.60
IBRD	0.89	0.51	0.89	1.19	1.25
IFAD	1.02	1.06	0.93	0.58	0.71
OPEC Fund	0.62	0.38	0.62	-	1.01
Total Percentage	29.53	32.34	36.40	26.96	31.28

Source : External Resources Department, Sri Lanka.

Available evidence reveals that ADB has attempted alone and in the consortium, to dictate policies to Sri Lanka. In many occasions ADB suggested allocative priorities and policy changes to Sri Lanka. Similarly it has expressed concern over fiscal and monetary policies of the country. This study learnt that its staff and consultants normally spent much time during the project appraisal phase in reviewing institutional aspects of the project. Many of these aspects of the appraisal were then written into the loan agreement as binding commitments on the government to make particular policy changes and institutional innovation.

If the recipient government is ready to accept the Bank policy perception incorporated for loans then only aid is committed. In such a case the Bank is even ready to give loan on more liberal terms. The Government of Sri Lanka experienced the same thing. For example in 1981 the Bank has approved a loan worth of \$ 10m to the reforms of National Development Bank. This was an interest free loan with a repayment period of 40 years (normal repayment period is 30 years)¹ Again in 1984 the Bank has approved a concessional loan in various currencies equivalent to \$ 15 mn to bring policy reforms and institutional changes in the

1. Tribune (Lahore), June 30, 1981.

areas of export promotion². The terms and conditions of this loans were similar to that of 1981 loan. These two examples illustrate that the task of ADB is to play subordinate role to the World Bank. In other words ADB, in its aid negotiation with poor countries, follows the attitude and practices of the World Bank and the IMF.

The United nation Agencies

Sri Lanka is a member of a number of autonomous-inter-governmental agencies established within the United Nationa System. They are providing technical assistance. Among them major donor agencies are:

- (a) Food and Agricultural Organisation (FAO),
- (b) International Fund for Agricultural Development (IFAD), (c) International Labour Organisation (ILO), (d) International Telecommunication Union (ITU), (e) United Nation Conference on Trade and Development (UNCTAD), (f) United Nation Educational Scientific and Cultural Organisation (UNESCO), (g) United Nation Industrial Development Organisation, (h) United Nation Fund for Population Activites (UNFPA), (i) United Nation Children Fund (UNICEF) (j) World Health

2. Business Standered (Bombay), December 20, 1985.

organisation. (k) United Nation Centre for Human Settlements (UNCHS), and (l) World Food Programme.

In the next few pages we will briefly examine the contribution of these various UN agencies to the economic development of the country.

Among Un agencies FAO has been a major donor of Sri Lanka. As elsewhere FAO has three main objectives in Sri Lanka:

- (a) to raise the level of nutrition and standard of living;
- (b) to improve the production and distribution of all food and agricultural products and;
- (c) to improve the condition of rural people.

In pursuance of these objectives FAO has implemented technical advice and assistance programme. Between 1970 and 1989 FAO made aid commitments amounting to \$ 10 mn.

International Fund for Agricultural Development (IFAD) was established as a specialised Agency of the United Nation by an inter government agreement adopted in 1976. Its main objective is increasing food production and the nutritional level of the poorest population of the world. Hence, it deals exclusively with agriculture including livestock fisheries processing and storage.

In Sri Lanka aid from IFAD is heavily identified with rural development programmes. Between 1970 and 1989 total aid commitments made by the Fund amounted to \$ 68.8 mn. Some of the major project which received IFAD aid are Kirindioya Irrigation and Settlement Project, Anuradhapura Dry Zone Development Project. Badulla and Kegalle Integrated Rural Development Programmes and coconut development. IFAD aid is in the form of loan with 40 years repayment period. 10 years grace period and 1.0% annual interest rate.

As a member of the International labour organisation Sri Lanka continues to receive direct technical assistance in the form of outright grant. A number of directors in charge of technical and vocational institution, training officers senior and middle level managers, trade union leaders and technicians have been trained under the various programmes of ILO

International Telecommunication Union has three main types of activities in Sri Lanka: (i) promotion and strengthening of national telecommunication network ; (ii) strengthening technical and administrative services related to tele-communication and (iii) development of human resources for tele-communication. These programmes are being funded by the UNDP but administered by the ITU.

UNESCO was established in 1946. It promotes scientific and cultural relations of the world community, the objectives of international peace and the common welfare of mankind. In pursuance of these objectives UNESCO has contributed to the development efforts of Sri Lanka in many ways. Some of its main programmes includes training through UNESCO scholarship, fellowships study trips and training seminars promoting studies and research on conflict and peace and violence, establishment of libraries, removing illiteracy and spreading literacy, education for women and the handicapped. Besides aid received under these various schemes, UNESCO funded the Cultural Triangle Project which involves protection of ancient monuments in the country.

United Nation Industrial Development Organisation (UNIDO) encourages the industrialisation process of Sri Lanka. To this end UNIDO prepares industrial studies, conduct researchs, encourages the development and transfer of technology, provide technical assistance, maintains an industrial and technical information bank and compiles industrial statistics. In the last two decades investment promotion services of UNIDO have extended support to improve contact between Sri Lankan entrepreneurs and the government with western investors.

The successful Family planning Programme, of Sri Lanka was designed, funded and executed by the United Nation Fund for Population Activities. As a result the growth rate of population came down from nearly 3% in early 1960's to 2.1% in early 1980s. Besides family planning activitie, the Fund extends its cooperation for school education and demographic surveys.

UNICEF has been one of the most active UN agencies in Sri Lanka. The achievement of Universal Child Immunization (UCI) has been one of the most important milestones in the history of its cooperation in Sri Lanka. It is considered all the more remarkable since it has been achieved at a time when the entire country was in deep social crisis. Besides, UNICEF continues to support the National Diarrhoeal Diseases Central Programme. In other spheres of health concerns, supported by UNICEF, internal mortality, acute respiratory infections and perhaps malaria figure prominently for quite sometimes. Other important national programmes of UNICEF are the supply of safe drinking water, nutrition improvement, increasing of the literacy and community based rehabilitation. In addition to these national programmes stated above UNICEF has extended its cooperation to variety of programme. Of them the UNICEF-assisted Relief and Rehabilitation Programme is prominent. While relief activities continued with greater vigour

focused on displaced children and women rehabilitation efforts in the North and East have had to be slowed down until the situation returns to normal.

As in elsewhere, the World Health organisation in Sri Lanka promotes, the development of comprehensive health services, the prevention and control of diseases, the development of health manpower, the improvement of environmental conditions, the co-ordination and development of biomedical and health services, research and the planning and implementation of health programmes.

The United Nation Centre for Human Settlement popularly known as HABITAT was formed in 1977 with the objective of assisting governments in making affordable and effective improvements in human settlement policies. In pursuance with this objective HABITAT in Sri Lanka assists the Government to promote human settlement activities. Some of the prominent programmes which received assistance from HABITAT during the 1980's are the rural settlement programme in the Mahaweli development area and the re-settlement of refugees of the ethnic conflict. HABITAT has also provided assistance to the One million House Programme of President Premadasa. This has strengthened the country's capacity to design and implement infrastructure programmes which address the needs of poorer people.

Of the total aid commitments of \$258.4 made by the UN agencies between 1970 and 1989 the World Food Programme alone accounted for \$ 97.5 or 38% thus becoming the largest single donor among the UN agencies. (Table 4.4) As in the case of other UN agencies its aid is in the form of outright grants. The world food programme has made aid commitment every year during the period under study becoming a regular aid donor. In 1980s it has extended its cooperation to Mahaweli B.C. and G Development Programmes, Kirindioya Settlement Scheme, Cultural Triangle Programme, Anuradhapura Dry Zone Agriculture Project and afforestation of water catchments and degraded lands. World Food Programme has also provided emergency food aid for a number of disasters.

Table 4.4
Summary of Aid Receipts 1985-1989 (in Rs. Million)

Donor	1985		1986		1987		1988		1989	
	L	G	L	G	L	G	L	G	L	G
EEC	2.6	319.4	3.7	154.0	254.0					286.6
ADB	542.2		1176.7		1439.5		2058.1		2909.0	
UN Agencies										
of which WFP		237.8		194.3	361.0		338.8			43.5
UNICEF		99.9		107.5	196.7		157.5			110.0
IDA	1868.1		2415.0		2458.4		1778.6		1867.0	
IBRD	122.1		78.8		126.8		219.8		243.9	
IFAD	139.1		162.0		134.6		107.3		138.1	
OPEC Fund	84.9		58.4		90.0		-		-	
Total	3059.0	657.1	3594.6	455.8	4251.3	761.7	4163.8	496.3	5188.0	440.1
% of L & G of the Grand Total	82.3	17.7	89.5	10.5	84.6	15.2	89.4	10.6	92	8

L = Loan
G = Grant

Source : External Resources Department, Sri Lanka.

The most prominent were its assistance to victims of Kantalai dam disaster and emergency assistance to 1987 drought victims.

As our discussion revealed Sri Lanka has been fortunate to receive substantial amount of aid from the various UN agencies. These agencies are in principle without political personality since they constitute an aggregate of countries with varying perspective on ideology and policy. In practice, however, this is not always the case. Available evidence show that the country representatives and the field officers of the UN agencies operating in Sri Lanka have interfered with national policies. In their aid negotiation the country representatives have expressed their concern over the ethnic conflict and the increasing human right violation and urged the Government to find solutions to these problems. Further, in their aid negotiation they have expressed some concern over the implementation of particular projects and warned the Government that aid would be withheld if the benefit will not go to poorer section of the population. Thus, in the field of economic and social policy, and of guidance and assistance to Sri Lanka the UN agencies can be regarded as an international administrative instrument, complementing the national administration.

OPEC Fund for International Development

Among the Arab aid agencies Sri Lanka receives aid from OPEC Fund which is also the only bilateral doner outside the Aid Sri Lanka Consortium.

The OPEC Fund established in 1976 gives priority to the development problems of the very poorest third world countries through both balance of payment support and programme help.

In Sri Lanka OPEC assistance was heavily identified with Integrated Tea Development Programme, Mahaweli Power Generation and Rural Electrification which received 90 to 95 percent of the total OPEC aid. OPEC aid was in the form of loan with 15 yeras repayment period, 5 year grace period and 0.75 service charge.

The OPEC has behaved no different other world aid-giving organisations. During the 1973 oil crunch they pushed up the oil prices by 33 cents, unmindful of their "poorest of the poor brothers". That move would have sounded good music to the Arab Sheikhs, but not to an oridinary leader of an economically backward country. And as any other organisation, they harp on political differences with their enemies.

In dealing with Sri Lanka, OPEC Fund did not try to bring reforms in the island economy. However, the Fund has expressed its concern over the Colombo's increasing links with Israel, the 'common enemy' of the Arab World. In 1985 a delegation from the Fund has paid a quiet visit to Sri Lanka and offered the Government its assistance in combating the Tamil insurgency operation provided Isreal is kept out of the picture.³ Thus, OPEC aid was conditioned on the Isreal factor.

The International Bank for Reconstruction and Development World Bank

The International Bank for Reconstruction and Development (Popularly known as World Bank) was set up on December 27, 1945. The principal purposes as set forth in its articles of agreement (charter) are as follows:

- (i) to assist in the reconstruction and development of its member countries by facilitating the investment of capital for productive purposes, thereby promoting long range growth of international trade and improvements in standard of living;
 - (ii) to promote private foreign investment by guarantees of, and participation in, loans and other investments made by private investors; and
-

3. Hindu (Madras), March 29, 1985.

(iii) to make loans for productive purposes out of its own resources or the funds borrowed by it.

In order to achieve these purposes, the charter authorises the World Bank to engage in the following financing activities:-

(i) It may lend funds directly either from its capital funds or from the funds it borrows in private investment markets.

(ii) It may guarantee loans advanced by others or it may participate in such loans.

(iii) Loans may be advanced to member countries directly or to any of their political subdivisions or to private business or agricultural enterprises in the territories of members.

In its efforts to make loans for development purposes, the World Bank has provided loans to the developing countries for developmental projects and programmes. There are some basic characteristics of Bank loans:

(i) loans are meant for high priority productive purposes mainly to develop the infrastructure for the development such as generation and distribution of electric power, rail, roads, ports and inland

waterways, airlines and airports etc.;

(ii) loans must be used to meet only the foreign exchange component of projects;

(iii) the interest rate of the Bank is somewhat lower but related to market rate. (In 1986 the lending rate was 8.50 per cent).

(iv) loans are not tied.

There are two subsidiaries of the World Bank:

(i) International Development Association (IDA); and

(ii) International Finance Corporation (IFC).

International Development Association (IDA) was set up in 1960. It is an aid giving association of donor countries who have come under the aegis of the World Bank to help the developing countries whose paying capacity is limited due to their socio-economic problems. As such countries have low domestic resources and on the other hand are not in a position to pay high rate of interest the IDA offers credit to the eligible developing countries on favourable terms. The main criterion for the allocation of credit is the per capita income of the recipient country. Countries which have an annual per capita of less than \$ 681 are eligible

for IDA credits. Other parameters taken into consideration are country's credit worthiness, its accessibility to commercial borrowings, its economic performance, the density of its population and the existence of viable projects in the borrowing country. IDA interest free credits are available to Governments only and may be obtained on payment of nominal service charges at 0.75 per cent per annum. The period of repayment is 40 years, excluding 10 years for initial grace period.

International Finance Corporation, an affiliate of the World Bank was set up in 1956. It extends credits to private business enterprises in association with private investors and management, encourages the development of local capital market and stimulates the international flow of private capital.

Among these these institutions official development aid emanate only from the IDA. In general IBRD and IDA have common method of operation and financing project. The central purpose of both the institution is to promote economic and social progress in developing countries. To this end, both lend funds, provide advice and stimulates investment by others. Therefore, these two institution will be discussed as one entity in the next pages.

As a whole the World Bank Group is many more times powerful than many of the sovereign governments in Third World today. Backed by powerful finance resources its power of interference in the internal affairs of borrowing countries is enormous. Such an authority of the Bank emerges due to the economic weakness of developing nations. The Bank has been exploiting this economic weakness of developing nation to bring reforms in their economies favourable to the Western capitalist class. In this task the Bank has close cooperation of its sister organisation, IMF, and other western multilateral and bilateral donors.

Mainly the Bank exerts its pressure on the recipient through two ways: (i) structural adjustment loans; and (ii) Aid consortiums of developing countries.

The structural adjustment loan was launched in March 1980. Its purpose is to finance structural adjustment programmes in developing countries. The World Bank's structural adjustment loans last from three to five years in contrast to three year stabilisation programme of the IMF. If the process of structural change, in the World Bank's view, promises to be successful, it may, during this period grant further loans. As in the case of IMF loans, a credit is only granted if the borrower Government signs a letter of intent in which it undertakes to comply with certain

conditions. As with IMF loans, structural adjustment loans are paid out in several tranches; and the next tranche is only paid when the agreed measures have been implemented.

The majority of World Bank terms, however, do not offer greatly from those of the IMF. Like the IMF the World Bank insists on the reduction of trade restrictions, abolition of price controls together with price increases for public goods and services and stimulation of export production by means of tax relief and devaluation. The World Bank regard the reduction of state intervention and of the free market economy as of central importance.

Besides, structural adjustment loans, the World Bank manipulate its capacity as the coordinator of aid consortiums of developing nations to bring the institutional reforms. As the co-ordinator of many aid consortiums the Bank prepare the annual reports of the state of recipient economies. Members of these aid Consortiums usually make commitments based upon reports provided by the World Bank. Since all such reports are informed by the particular ideological biases of the World Bank aid donors' intelligence on recipient economies tends to be largely coloured by same perspectives as that of the Bank. In this atmosphere a country defying Bank advice would not able to get much assistance from its donors. Most recipients, then, find the

margin for survival is very small. And when the margin for survival is very small a country is likely to turn for help wherever assistance is to be found no matter what the price may be.

Since the credit rating of many developing countries is poor and as a result they feel difficulties in raising funds in international capital markets the World Bank is the only alternative source of credit even though its loans are conditioned on many reforms. An analysis of the World Bank share in total official aid of developing countries reveals the fact that over the years the contribution of the World Bank has been increasing.

Table 4.5

IBRD and IDA Aid as % of Total Official Aid of
Some Selected Developing Countries

Country	1980	1989
Algeria	1.48	4.91
Argentina	2.41	4.67
Bangladesh	28.86	36.04
Barbados	0.92	5.65
Benin	15.44	38.25
Bolivia	10.52	13.06
Burundi	31.33	40.12
Cameroon	13.65	21.72
Central Africa	19.65	28.21
Chad	18.62	33.89
Chile	1.95	12.99
Colombia	21.98	24.72
Congo	4.32	5.54
Costarica	8.71	10.76
Dominican Republic	5.66	5.61
Egypt	5.04	5.30

Fiji	13.68	16.10
Gabon	1.42	2.18
Gambia	16.34	29.28
Ghana	19.78	43.65
Guinea	8.58	14.77
Guinea Bissau	3.74	29.02
Guyana	9.45	11.99
Haiti	27.36	41.44
India	31.99	33.54
Indonesia	8.84	20.53
Jamaica	11.79	17.45
Jordan	6.80	8.51
Kenya	20.19	35.66
Madagaskar	16.38	20.33
Malawi	24.96	58.06
Maldives	6.45	13.46
Mali	18.03	21.12
Mauritania	5.28	12.06
Mexico	5.01	9.72
Morocco	6.73	13.67
Myanmar	10.52	15.70
Nepal	48.81	44.84
Niger	9.62	24.22
Nigeria	10.47	9.13
Pakistan	13.49	21.60
Panama	5.84	13.13
Papua New Guinea	17.56	11.95
Paraguay	15.87	15.71
Philippines	10.88	14.19
Rawanda	38.66	49.99
Senegal	16.47	22.64
Sierra Leone	13.51	15.63
Somalia	12.29	23.04
Sri Lanka	10.45	16.69
Sudan	5.61	10.67
Tanzandia	21.01	27.66
Thailand	12.54	13.37
Togo	5.21	31.80
Tunisia	9.89	19.09
Uganda	7.80	40.94
Uruguay	9.40	8.0
Vanata	-	15.59
Western Sampa	11.84	19.54
Yemen Arab Rep.	11.02	15.04
Zaire	5.92	13.82
Zambia	15.58	18.52
Zimbabwe	0.46	17.40

Source : Trends in Economies, World Bank, 1990.

As shown in Table 4.5 developing countries have borrowed more from the World Bank between 1980 and 1989. Obviously, the greater their borrowings the more they restrict future options allowing the Bank to dictate shape of public policy matters. As reveals by a study the Bank success was impressive in this regard.⁴ According to this study the Bank overall success of fully implementation of its conditionalities during the period from 1978 to 1988 was more than 63 per cent. In other words, the Bank was able to make recipient nations to implement its recommendations on all the important policy areas with more than 63 per cent of success. As the data indicates higher success ratios were registered in the area of energy policy (79.2%), financial sector reforms (71.7%), and exchange rate adjustments (70.0%).

The World Bank Group in Sri Lanka

World Bank Group has a long history in the island's development process. It appeared first in large scale in late 1950s. Between 1960 and 1969 World Bank contribution to the total aid receipt was, however, mere 6% (Of Rs. 1589.4m World Bank contributed Rs. 94.9m during the period).

4. Adjustment Lending : An Evaluation of Een Years of Experience - World Bank Report No. 1. 1989.

Table 4.6
Fully Implementation of Conditionality
(% of conditions)

Policy Area	Success Ratio
Exchange Rate Adjustments	70.0
Trade Policy	54.9
Fiscal Policy	53.2
Budget / Public Expenditure	68.0
Public Enterprise Reforms	61.3
Financial Sector Reforms	71.4
Industrial Policy	53.3
Energy Policy	79.2
Agriculture Policy	57.1
Overall Success	63.0

Source : Adjustment Lending : An Evaluation of Ten years of Experience, World Bank Report No.1, 1989.

This share rose to 8.3% between 1970 and 1976 and to 12% between 1977 and 1989. This indicates the increasing presence of the World Bank in Sri Lanka.

Among the two institutions Sri Lanka receives a larger quantum of aid from IDA which alone accounts for nearly 90% of the Group's assistance. Aid from IDA is in the form of loan

with 0.75% service charge and 0.50 commitment charge. Agreement signed till 1986 have 40 years repayment period with 10 year grace period and thereafter the loan repayment period was reduced to 30 years.

Aid from IDA covers variety of areas depending upon the nature and request made by Sri Lanka and the aid policy of IDA. An examination of IDA-assisted projects during the period 1985-89 illustrate that IDA has penetrated deep into the island economy.

Table 4.7

Aid Receipt from IDA 1985-89 (Rs. million)

Nature of Project/Scheme	1985	1986	1987	1988	1989
Mahaweli	350.6	104.1	232.8	449.8	236.5
Tea industry	227.6	369.4	365.5	297.4	174.6
Rural Development	177.7	255.2	126.8	84.3	47.3
Road Maintenance	163.5	16.8	-	-	-
Small and Medium Industry	119.4	272.5	456.4	200.8	152.7
Road Transport	82.0	373.1	-	-	-
Water supply & Drainage	160.3	221.8	221.7	76.8	112.3
Rubber Industry Small holdings	50.2	58.3	54.9	52.3	30.3
Agricultural Extension & Research	36.1	56.7	-	29.1	33.7
Power Distribution	166.4	106.0	205.9	155.8	58.3
Construction industry	60.7	37.2	47.9	-	-
Telecommunication Expansion	80.6	32.3	114.7	-	-
Forestry	16.9	16.4	31.0	38.3	44.0
Industrial Development Credit	214.1	265.1	382.1	145.1	405.4
Irrigation Rehabilitation	92.6	196.4	252.5	141.3	69.1
Municipal Management	-	33.9	26.1	78.5	105.2
Vocational Project	-	-	51.5	45.0	51.5
Emergency Reconstruction	-	-	-	182.9	338.7
Health & Family Planning	-	-	-	-	6.8
Total	1998.7	2415.2	2457.8	1979.2	1866.4

Source : External Resources Department, Sri Lanka.

Some of the most prominent projects funded by IDA during the period were Mahaweli Accelerated Project Tree crops project, Rural Development, promotion of small and medium industries, water supply and sanitation rehabilitation, Power Distribution and Transmission Project, Forest Resources Development Project and Irrigation Rehabilitation.

As compared to IDA aid, assistance from IBRD was very moderate in volume. It is also observed that the number of IBRD-assisted programme was very small at any time as compared to other bilateral donors. For example between 1985 and 1989 IBRD extended its assistance to only 4 projects as against 19 projects of IDA and 33 projects of ABD. Of these four project, second Road Development project alone received 90% of IBRD aid (out of total aid of 793.4 m Rs. 721.2 mn) during the period. The reason for the small quantum of aid from IBRD can be attributed to its hard terms which country like Sri Lanka cant afford. In principle loans from IBRD are subject to 15 years repayment period, 5 years grace period and 0.75% commitment charge. Normally, interest rates are not fixed. It will be notified by IBRD from time to time.

Pressure from the World Bank Group

It is observed that among the bilateral and multinational donors of Sri Lanka the World Bank Group has exerted much pressure on the Government to change its public policies. Indeed, there is no area in the development field where the World Bank does not choose to exercise a say. Available evidence reveals that the Bank has attempted to influence policies on state ownership, the role of the private sector, the monetary and fiscal policies, pricing policy, distribution policy, the use of administrative controls, the structure of development expenditure, the external value of the currency, the pattern of development administration and variety of other operational policy oriented and ideological issues.

As the co-ordinator of the Sri Lanka Aid Consortium the World Bank not only prepares the annual report on the state of the island economy but puts together a considerable body of documentation on particular aspects of the economy and development process. These reports are made available to donors in the aid consortium who can then use the evidence and arguments made available to exercise their own bilateral pressure on Sri Lanka. In this way the World Bank is now a major source of information on the state of the Sri Lankan economy. Since all such studies are informed by the

particular ideological biases of the World Bank aid donor's intelligence on the island economy tends to be largely coloured by the same perspectives as that of the Bank.

The Bank is not only the leader of the Aid Consortium but is also one of the largest source of aid (average 10-12% of the annual aid budget) to Sri Lanka. This importance of the Bank also strengthen its capacity to exert pressure on the Government.

The Bank's ascendancy in the field of aid to Sri Lanka has tended to invest its country representatives with a degree of authority in relation to the Sri Lankan economy which no other donor enjoys today. It is hardly surprising to note that Bank staff has a high degree of authority on the politics, and administration of Sri Lanka. Such an authority of the Bank emerges because of the economic compulsions and political weakness of the island nation.

In the initial phase after the creation of the Aid Consortium, which has institutionalised the leadership of the World Bank, its intervention to policy changes was relatively less. Because at the initial stage a hardline approach was taken by the Government of Sri Lanka in aid negotiation over provision in loan agreements which sought to impose policy and administrative changes on the Government. The Bank's intervention to the issue of rise

subsidies in 1965 can be recalled to prove this argument. Election in April 1965 in the island gave a narrow victory to Dudley Sennanayaka over the United Front Government of Sirimavo Bandaranaike. The new Prime Minister inherited a set of difficult economic problems including a budget deficit running near \$ 120 mn, of which roughly \$ 100 mn could be attributed to high rice subsidies. Under the subsidy system, the Government bought rice from the farmers at twice the world market price and sold it, in turn, to the consumer at a third or a quarter of the procurement price. Moreover, the budgetary impact of the subsidy grew annually, reflecting population growth. The World Bank urged a phase five year reduction in the subsidies. But Mr. Senanayake resisted this particular reform, mindful of his experience as premier a decade earlier, when he cut - subsidies he was voted out office.⁵ Throughout 1972 the Bank exerted much pressure on the United Front Government for devaluation of the Rupee by 55%. The Finance Minister Dr. N.M. Perara categorically stated that no devaluation would be contemplated.⁶ Due to this tussle the World Bank Group did not make new aid commitments in 1971 and 1972. In July 1975 the Bank together with the IMF again asked the United Front

5. Washington Post, August 22, 1966.

6. Daily News (Colombo), June 3, 1972.

Government to devalue the currency and eliminate the free rice ration. But, the Government categorically refused to implement these recommendation.⁷ Implication of the Government's refusal to heed these demands was the suspense of World Bank aid in 1976.

The World Bank's efforts to influence the Government to change public policies prior to 1977 thus met with limited success. When the UNF Government came to power in 1977 its economic policy was to achieve structural changes both by liberalizing the economy and by expanding rapidly the level of public investment. This economic policy was very much in line with concerns and recommendations voiced in previous years by the donors. The World Bank has responded very favourably to these new pro-western economic package. Within four months of the formation of the UNF Government its Finance Minister Ronnie De Mel stated that he had received pledges of sufficient financial support from donor countries and international lending institutions to carry out this liberalising programme. To give a moral boost to the liberalising programme, the World Bank Vice President for South Asia visited Sri Lanka in March 1978. Following the talks with the Sri Lankan leaders in Colombo the Vice President said that when the Sri Lanka Aid Consortium meet

7. Economic Times (New Delhi), July 16, 1975.

in Paris in May a beginning will be made in ensuring, long-term support for the Government's 'far-sighted' development package.⁸ Since then World Bank encouraged the UNP Government to maintain its economic liberalisation. This was done through a large scale aid commitments. Besides increasing its own aid the Bank asked the donors in the Consortium of Sri Lanka Aid to pledge more aid in order not to "allow Sri Lanka bold economic experiments to fail".⁹

However increasing aid was conditioned on radical changes in every aspect of the economy. These conditions were normally brought on the eve of World Bank sponsored Paris Aid meeting. For example, before 1981 meeting of the Consortium the Bank strongly advocated a less energy intensive development strategy.¹⁰ On the eve of 1982 meeting of the Consortium the Bank has exerted pressure on the Government to reduce the scale of housing programme in order to cut the level of public investment.¹¹ The World Bank report on the economy circulated at the Aid Consortium meeting 1986 suggested tha the Cement Corporation, the Sri

8. Patriot (New Delhi), March 20, 1978.

9. Daily News, June 30, 1981.

10. Daily News, July 31, 1981.

11. Dawn (Karachi), July 11, 1982.

Lanka Transport Board and the Urban Development Authority should be restructured or privatised.¹² The World Bank has suggested devaluation of the Sri Lankan rupee to make the island's exports more competitive in the international market and improve its balance of payment position. In a background note on Sri Lankan economy published on the eve of the 1988 meeting of the Consortium the Bank has made this recommendation.¹³ Before the 1988 meeting of the Consortium the World Bank urged Sri Lanka not to postpone crucial economic reforms because of political pressure arising out of Presidential and parliamentary elections due in 1989. Admitting the fact that in such a pre-election situation pressure to postpone the programme of economic reforms have been strong the Bank, however, warned that a postponement would be very 'dangerous'.¹⁴ Some of the proposal which the Bank has insisted in its report on the state of the island economy were far-reaching in their political implication, specially during the election year. These include, cutting down the size of the Food Stamps Programme which provides access to cheaper food supplies to the more vulnerable section of the society, devaluation of the Sri Lankan rupee privatising the public enterprises and the reducing the size

12. Sun (Colombo), July 20, 1986.

13. Hindu, June 19, 1987.

14. Indian Express (Delhi), August 2, 1985.

of public sector work force.¹⁵ Thus the drastic incursions of World Bank programmes into the economic financial and budgetary policies of Sri Lanka mean that the Bank is appropriating central function of the country. This shifts in the centre of decision making in Sri Lankan economic affects outside the borders of the country and as such challenges the national sovereignty.

International Monetary Fund (MF)

International Monetary Fund is not an aid agency in the sense it does not provide long-term balance of payment financing. In principle, it is an international intermediate financial organisation which provides short-term loans with policy advices. In this process the Fund has the capacity to bring changes in policy matters of its recipients. This authority of the Fund to interfere in the internal affairs of the borrowing nations comes from the huge financial resources (SDR 115 b in 1990), it controls and its ability to provide a fairly large scale, quick disbursing and united resources in a short period. Further, the authority of the Fund to dictate terms is strengthened by the close co-operation it receives from other western donors. All of the major sources of credit in the western world, whether

15. Hindustan Times (Delhi), August 11, 1985.

private lenders, governments, or multinational aid agencies will refuse to lend to a country which persists in defying IMF advice. This indicates how coercive IMF can be in giving loans to the developing countries.

International Monetary Fund was one of the two organisations established as a result of the decisions taken at the Brettonwoods Conference. According to Article 1 of the IMF its main objectives are:

1. to promote exchange stability and orderly exchange arrangement and to avoid competitive devaluation;
2. to help re-establish a multilateral system of trade and payments and to eliminate foreign exchange restriction;
3. to provide means for international adjustment, superior to deflation by making available increased international reserves; and
4. to facilitate the expansion and balance growth of international trade.

The basic functions of IMF are:

1. to lay down ground rules for the conduct of international finance;
2. to provide short and medium term assistance for overcoming short-term balance of payment deficit; and

3. creation and distribution of reserves in the form of SDRs.

In this study our discussion is confined to assistance provided by the fund.

Financial Assistance of the IMF

Ordinarily, a Fund member subscribes its quota in the Fund by paying 25% in reserve assets and 75% in its own currency. When a member draws on the Fund's resources, it purchases the currencies of other members-countries or SDRs with its own currency, leading to a rise in Fund's holdings of the member's currency. The borrowing member must buy back its own currency within a specified period with SDRs or currencies specified by the Fund. The Fund's financial resources are made available to its members through a variety of policies, which differ mainly in the type of balance of payment need they address and in the degree of conditionality attached to them. The Fund provides the following assistance to member countries:

1. Reserve Tranche

If a member drawn upto 25 per cent of its quota, it is said to have utilised the gold tranche now called the reserve tranche. Drawing from the reserve tranche are

automatic and the Fund does not raise any objection. A reserve tranche purchase does not constitute use of fund credit and it is not subject to charges or obligation to repurchase.

2. Credit Tranches

Drawings of more than 25 per cent of its quota (reserve tranche) is said to have utilised credit tranches. Each credit tranche is equal to 25 per cent of the member's quota. A member is allowed to draw only four credit tranches. The credit tranches are subject to examination by the Fund. For the first credit tranche, the Fund requires that the member should have a programme, representing a reasonable effort to overcome balance of payment difficulties. For the subsequent credit tranches, the member should present a detailed comprehensive programme to overcome balance of payment difficulties. In the first credit tranche the assistance can be made either in the form of direct purchase or under a standby arrangement while in the subsequent credit tranches the assistance is made available only under a standby arrangement and is paid in instalments.

3. Compensatory Financing

This facility established in 1963 is designed to extend

the Fund's balance of payments support to those member countries producing primary goods and are suffering from fluctuation in receipts from exports. The conditions for drawing under this facility are: (i) export shortfall is a short term one; (ii) it is largely attributable to circumstance beyond the control of the member; (iii) the member will cooperate with the Fund in an effort to find appropriate solution to any balance of payment difficulties.

Members may draw upto 83 per cent of the quota under compensatory financing. Request for drawing beyond 50 per cent of the quota are considered only if the Fund is satisfied that the member has been cooperating in an effort to solve its balance of payment problem.

Initially this facility covered only shortfalls in earnings from merchandise exports but in 1979, the coverage was widened to include shortfalls in receipts from travel and workers remittances. In 1981, the Fund decided to extend this facility to members facing balance of payment difficulty caused by a sharp increase in the cost of their cereal imports.

4. Buffer Stock Financing

The purpose of this facility established in 1969 is to finance a member's contributions to buffer stock arrangements in commodity agreements approved by the United Nations. Drawings under this scheme are permitted up to 45 per cent of the quota. The member is expected to cooperate with the fund in an effort to solve its balance of payments difficulties.

5. Extended Facility

The aim of this facility is to give medium term assistance to member countries in the following circumstances of balance of payment difficulties:

- i. serious payment imbalance due to structural maladjustments in production, trade and price;
- ii. slow growth; and
- iii. an inherently weak balance of payments position preventing the pursuit of an active development policy.

The member is required to submit detailed statement of policies and measures for the first and the subsequent 12 month periods. Drawing may be made in instalments extending over a period of two to three years and subject to

performance clauses relating to implementation of key policy measures. Total purchase under this facility may not exceed 140 per cent of the member's quota provided that the Fund's holdings of the member's currency (excluding holding connected with the Fund's compensatory buffer stock or oil facilities) do not exceed 265 per cent of the member's quota. Repayment of drawings made under the extended facility must be made within four to ten years after each drawing.

6. Enlarged Access Policy

The purpose of the enlarged access policy is to enable the Fund to provide additional financing from borrowed resources in conjunction with the Fund's ordinary resources, to members facing serious payments imbalances that are large in relation to their quotas. The enlarged access policy is used only when the member needs financing from the Fund that exceeds the amount available to it in the four credit tranches or under the Extended Fund Facility, and when its problem requires a relatively long period of adjustment. Such purchases are subject to the relevant policies of the Fund, including those on conditionality, phasing, and performance criteria. The period of a standby or extended arrangement under the enlarged access policy will normally

exceed one year and may extend upto three years in appropriate cases.

7. Structural Adjustment Facility (SAF)

Established in March 1986, this facility provides loans on concessional terms to low income member countries that are facing protracted balance of payments problems in support of medium term macro economic and structural adjustment programmes. The SAF has three major innovative features:

- i. SAF arrangements require a comprehensive three year policy framework which incorporates more explicitly than in most previous fund facilities;
- ii. the process of collaboration with the World Bank was formalised through the requirement of joint assistance to a member country in the formulation of the policy framework paper (PFP) and the common negotiations of the final arrangement; and
- iii. there was an expectation that the PFP and SAF process would be a catalyst for additional financial resources.

8. Enhanced Structural Adjustment Facility (ESAF)

In 1987 the Fund announced the establishment of the

Enhanced Structural Adjustment Facility (ESAF), whose objectives, basic procedures and Finance conditions parallel those of the structural adjustment facility. Under this scheme resources are provided to low income developing countries engaged in economic and structural adjustment. The additional resources are designed in particular to assist the adjustment efforts of low income countries faced with high levels of indebtedness as well as those whose exports are concentrated in commodities - often one commodity - whose prices have remained persistently weak in world markets.

From the foregoing discussion it is clear that other than loan facilities extended under reserve tranche and the first credit tranche Fund's assistance are conditioned on various adjustment programmes. In other words, the Fund will have the capacity to dictate domestic policies of a member country moment it draws more than 50 per cent of its quota. Our discussion further reveals that as a member country draws more interference by the Fund tends to increase more.

The IMF in Sri Lanka

The reliance on the IMF as a major source of financing began in 1965, with the negotiation of the first standby Agreement with the Fund (Table 4.8). The agreement was

Table 4.8

**Credit Facilities Provided by the IMF
to Sri Lanka (1952-1984)**

Type	Date of Approval	Amount (in SDR mn)
SBA	June 1965	30.00
SBA	June 1966	25.00
CFF	March 1967	19.50
CFF	April 1968	19.30
SBA	May 1968	19.50
SBA	August 1969	19.50
SBA	March 1971	24.50
CFF	January 1972	19.45
CFF	June 1973	18.60
CFF	February 1974	5.90
SBA	April 1974	24.50
CFF	November 1976	15.80
SBA	December 1977	93.00
EFF	January 1978	260.30
CFF	June 1981	25.30
SBA	September 1983	100.00

SBA = Stand By Arrangements

EFF = Extended Fund Facilities

CFF = Compensatory Financing Facility

Source : International Investor 1984, p.205.

originally for an 18 month period. However, the problems associated with the trade deficit continued and further access to the IMF facilities was felt necessary. Hence, subsequent agreements were entered into with the Fund to finance stabilisation programmes of the Government. In

addition to drawings made under successive standby Agreements, financing was also made available under the compensatory Finance scheme for export fluctuations. Extended Fund facilities, and Structural Adjustment facilities for fundamental structural reforms.

IMF has been very active in changing domestic policies of the country since 1977 when the new UNP Government came in to power. The new Government liberalised the island economy rejecting the statist and socialist economic policies of the previous government. The new economic policy was very much in line with recommendation voiced in previous years by the Fund. The Fund has responded very favourably to these structural changes. The IMF credit figures bear witness to this fact. For instance, in the first two years of the new government Sri Lanka received credit to the tune of SDR 355.3 mn. This amount was one half time more than the total credit received from 1965 to 1976.

During the first seven years of the UNP government there were four major IMF programmes for Sri Lanka. The first was a Standby Credit of SDR 93 m in December 1977 followed by an Extended Fund Facility of SDR 260.3 m in January 1978. The third was compensatory financing facility amounting to SDR 25.30 mn and the fourth and last of the

period was a standby credit of SDR 100 m. The fund has laid down a number of conditionalities in its very first agreement with the government. The main points of the agreement between the Sri Lankan government and the IMF were:

- i. Immediate devaluation of the Rupee to parity of Rs. 16 to the U.S. Dollar, the adoption of a unified exchange rate system, and thereafter floating the Rupee which was to be tied to a basket of currencies.
- ii. Liberalisation of many categories of imports and the replacement of controls by tariffs.
- iii. The existing food subsidy system was to be replaced by one under which the only beneficiaries were to be households earning less than Rs. 300 a month. In the case of the sugar ration, only the children of such families under the age of 12 would be eligible.
- iv. A commitment to increase the price of flour at some stage. Similarly, the price adjustments for fertilizer, petroleum, public transport and infants milk were deferred for the time being.
- v. A ceiling on the net domestic assets of the banking system, and a sub-ceiling on Government credit. Both these ceilings were to be binding pre-conditions for

making drawings, the timing of the trigger points being the end of December 1977 and the middle of 1978.

- vi. Increases in the interest rate on private saving deposits, from 7-8% to 12-10% on 6-18 months deposits.
- vii. Constraint on the use of foreign exchange reserves. Annual loss was fixed at SDR 150 million, any excess over this figure was to be met by allowing the rupee to depreciate downward.
- viii. Limits on foreign borrowings: SDR 50 million for loans of one to five years' maturity and SDR 150 million for loans of 1 to 15 years maturity.
- ix. An increase in the procurement price for paddy from Rs. 33 to Rs. 40/- bush.
- x. An across-the-board wage increase of 35% subject to a ceiling of Rs. 50 a month.

This was the initial policy framework. Over the following years, the Government policies continued to conform to this general framework, though with varying degrees of emphasis on specific issues.

The subsequent agreement with the fund, while seeking to strengthen the initial structural adjustment programmes

tried to exert pressure on the government to bring more radical changes in the economy. For example, the agreement in 1983 stipulated that the Sri Lankan authorities will adjust the exchange rate of the rupee at frequent intervals and that the changes will be made on the basis of a trade weighted exchange rate under deflated by relative monthly movements in wholesale prices for Sri Lanka and partner countries.¹⁶ And in 1983 the IMF agreed to grant Sri Lanka SDR 50 mn on the Standby Credit Facility on condition of pruning down of the level of public expenditure, urgent rehabilitation of the plantation sector and a review of the exchange rate policy.¹⁷ In 1988 IMF Managing Director Jacques de Larosiere has warned Sri Lanka to keep budgetary expenditure firmly under review due to escalating defence spending and declining tea prices.¹⁸ When Sri Lanka arranged its Structural Adjustment Facility (SAF) of \$ 187 m with the IMF in March 1988 extending for a three year period the Fund has asked the government to strengthen the on-going structural adjustment in the economy.¹⁹ In 1990 the Fund, while announcing the approval of a loan equivalent to SDR

16. Lal Jayawardene and other, stabilization and Adjustment policies and programmes: Sri Lanka WIDER, Helsinki 1987). p. 17.

17. Sun, December 28, 1983.

18. Sun, October 10, 1985.

19. Indian Express, April 8, 1988.

44.6 m for Sri Lanka in support of the programme under the third annual Structural Adjustment Facility, has said that Sri Lanka will have to improve the climate for trade and industry by strengthening the public enterprise sector, including privatisation, liberalising trade, reducing regulation and promoting foreign investment. The release of this credit was thus conditioned on the above mentioned reforms.²⁰ Sri Lanka had no choice other than implementing these tough conditions of the IMF.

In Short, IMF, through its credit, was able to pursue a free market ideology in Sri Lanka, which forced the Government to restrict public borrowing substantially, cut subsidies for basic goods, social services, transport and state enterprises, increase prices for state services, raise indirect taxes; to dismiss workers in the public sector; to limit public investment in favour of private initiative and to pull down protective barriers, imposed with the intention of pushing down inflation, cutting the balance-of-payments deficit and developing the economy through market mechanism.

20. Economic Times, October 27, 1990.

CHAPTER 5

AID CONSORTIUM FOR SRI LANKA AND ITS IMPACT ON PUBLIC POLICY

A conspicuous feature of Sri Lanka's economy over the past four decades has been the problems associated with managing the external assets situation mainly due to the recurring deficit of current account of the balance of payments. Since 1957 payments on current account have exceeded current receipts, almost every year, leading to a severe depletion of Sri Lanka's foreign exchange resources. Among the factors responsible for this situation were the adverse movements in terms of trade and the difficulty of containing imports to a level compatible with the level of external assets available to the country¹. These adverse movements reduced seriously the amount of imports that exports earning could buy and lowered the real national income. In 1950 the external assets of Sri Lanka was sufficient to meet 92% of her annual requirement and by 1960 external assets were sufficient to finance only 21% of the country's annual import bill. Implications were that the country lacked sufficient exchange earnings to meet basic consumption requirements and provide the inputs necessary for the development efforts and long term economic growth.

1. The terms of trade rose from 100 in 1945 to 150 in 1956 and fell to 115 in 1963.

There appeared to be little choice for Sri Lanka at this juncture other than resorting to foreign aid. It was in this environment of crisis and threat of economic stagnation that in 1965 the Sri Lanka Aid Consortium was formed to channel foreign assistance on a regular basis to provide the necessary inputs for long term economic growth. The immediate objective of the Consortium was to supplement, through the provision of scerely needed foreign exchange resources, Sri Lanka's own efforts in overcoming the foreign exchange crisis of the mid 1960s and to prevent a breakdown in the economic and social structure.

The first meeting of the Sri Lanka Aid Consortium (earlier it was called Aid Ceylon Club) was informally convened by the World Bank in Washington in July 1965. It was attended by Britain, Australia, Canada, Japan and the USA with the Federal Republic of Germany and India as observers. Since 1965 the membership of the Consortium has increased from the original five donors to twenty, which consists of sixteen bilateral donors and four multilateral aid agencies (Table 5.1).

The traditional argument in favour of the Consortium was that donors should be given a shared perspective of a country's problem and should then effectively seek to find the solution of these problems.

Table 5.1

Members of Sri Lanka Aid Consortium as on 31.12.1990

Bilateral donors	Multilateral donors
Australia	European Economic Community
Belgium	Asian Development Bank
Canada	United Nations
Denmark	World Bank Group
Finland	
France	
Germany	
India	
Italy	
Japan	
Netherlands	
Norway	
Sweden	
Switzerland	
United Kingdom	
United States	

Source : External Resources Department, Sri Lanka.

This would eliminate overlapping in the aid efforts and would stimulate laggard donors into meeting their obligation when confronted with the generosity of other donors. However, in practice the Aid Sri Lanka Consortium did not always play this role. In effect, notwithstanding the Consortium, the basis for determining the volume and terms of aid continued to depend on the annual negotiation between the External Resources Department of Sri Lanka and the mission of the donor country. The volume of aid determined in these discussions was either repledged at the Consortium if

already committed or the pre-determined figure was put into the kitty. The Consortium, in effect, became a forum for re-iterating what had already been bilaterally negotiated, leaving no room for a shared perspective of the country's problems. This meant that the Consortium became more of a ritual to appraise the World Bank report on the Sri Lankan economy. Those donors who would not dream of making comments on Sri Lanka's policies during bilateral negotiation tended to feel much freer in the Consortium to ventilate their grievances and prejudices. The tone for this was set by the Bank's documents.

The Pressure of the Aid Consortium

The Sri Lanka Aid Consortium provided a forum for putting pressure on the country. It has institutionalised the leadership of the World Bank, the sponsor of the Consortium who prepare the annual report on the state of the Island economy and a number of documentation on particular aspects of the economy and development process. These reports are made available to donors in the Consortium who can then use the evidence and arguments to exercise their own bilateral pressure on Sri Lanka. The meetings of the Consortium are rarely long enough to seriously discuss all, issues, so that the donors cannot do much more than reflect the Bank's view on Sri Lanka. Since the Bank's view is

shaped by the pro-western and capitalist ideology the donors perception on the island economy tends to be largely coloured by the same perspectives as that of the Bank.

Between 1970 and 1977 the Sri Lanka Aid Consortium tried to influence the Government to change its economic policies. Concerns were expressed that aid was being used for consumption rather than investment. Some donors such as the UK, Germany and the US cut-back considerably on their aid. The World Bank decided that as long as economic policies were not changed, it would make no further commitments. At the 1972 meeting of the Consortium Britain and West German who were initially opposed even to holding of the meeting criticized domestic and foreign policy of Sri Lanka. The diplomatic recognition extended to East Germany and the threat to British interest in the island were seen as the reasons for the reluctance of these two western nations². Expressing the dissatisfaction over the economic policy of the communist-backed United Front Government, the World Bank report submitted to the same meeting of the Consortium stated that World Bank can have no quarrel with Sri Lanka for opting for socialism because development has no ideological bias. However, the steps taken to implement

2. Daily News (Colombo), July 19, 1972.

the Government's socialistic aims "give ground for concern", the report warned. Implication of the dissatisfaction expressed by the World Bank and other donors on the economic policy of the country was a sharp reduction of aid from the

Table 5.2

Aid Commitments 1970-89

(US \$ million)

Year	Donors in the Aid Group		Aid Group	Non-Aid	Grand
	Bilateral	Multilateral	Total	Group	Total
				Total	
1970	31.2	36.5	68.0	24.2	92.2
1971	75.0	12.4	87.4	38.2	125.6
1972	38.1	10.2	48.3	84.6	132.9
1973	70.7	16.8	87.5	-	87.5
1974	76.0	36.5	112.5	49.3	161.8
1975	161.4	88.3	249.7	127.1	376.8
1976	153.1	25.0	178.1	20.1	198.2
1977	136.5	90.6	227.1	22.4	249.5
1978	318.8	58.8	377.6	22.5	400.1
1979	443.1	124.5	567.6	1.1	574.9
1980	359.5	230.1	589.6	47.4	637.0
1981	483.8	253.5	737.3	78.5	815.8
1982	281.7	189.7	471.4	69.6	541.0
1983	219.8	121.0	340.8	14.0	354.6
1984	341.1	96.7	437.8	24.2	462.0
1985	275.2	271.4	546.6	-	546.6
1986	432.7	196.0	628.7	23.8	652.5
1987	415.5	159.9	575.4	-	575.4
1988	678.1	444.1	1122.2	6.3	1128.5
1989	231.3	165.3	396.6	-	396.6

Source : External Resources Department, Sri Lanka.

Consortium. As shown in Table 5.2 it came down to \$ 48.3 mn in 1972 from \$ 87.4 in 1971. As a result Sri Lanka had to seek aid from the non Aid group (mostly socialist and west

Asian countries) who pledged \$ 84.6 mmn, a little less than double of the aid commitment made by the donors in the Aid Consortium. However, the donors efforts to influence the Government to change economic policies met with limited success. The Government made it clear that it was not interested in receiving aid that was conditional upon policy reforms. In fact, this had been the broad policy of all the SLFF Government. The founder of the party, SWRD Bandaranaike once said:

"Naturally, we are all most grateful to our friends in this world, as well as the various international organisation for the assistance that they have rendered and are rendering to our country by way of loans and assistance in various ways. We are most grateful to them and it is very useful to us but I cannot escape the conviction that sort of assistance may well become a type of economic drug where there is undue and increasing dependence on foreign aid..."³.

During her period from 1960-64 Sirimavo Bandaranaike realized the inherent dangers of depending on foreign aid. The following statement made in the senate by her shows, that like her husband, she too became sceptical of the relative benefits of foreign aid.

"I have jealously safeguarded the policy of non-alignment followed by my Government even in regard to the matter of foreign aid accepted by the Government of Ceylon. Any foreign aid offered to the Government with strings attached has not been and will not be accepted..."⁴.

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3. S.W.R.D. Bandaranaike's, Speeches and Writings, p. 458.
 4. Honsard of the Senate, August 4, 1964 Vol. 20, p. 442.

The comparatively smaller amount of the foreign aid received by the SLFP Governments as compared to the UNP Governments could be, to some extent, explained the unwillingness of the SLFP to accept aid with conditions. The SLFP regime were able to maintain this policy as it had alternative sources of external assistance such as aid from socialist countries, West Asian countries and neighbouring India. The existence of such alternative sources provided the SLFP Government a better advantage in the bargaining for foreign aid in the Sri Lanka Aid Consortium.

During the present UNP Government (1977-) the Sri Lanka Aid Consortium was increasingly used by both bilateral and multilateral donors as a forum for exerting pressure on the country. In the Consortium, these donors put different degree of pressure and this was in addition to their direct influence through country programme and project negotiation. The donors who did not exert pressure on the public policy of the country in their bilateral negotiation favoured coordination of policy dialogue through the Consortium. Among the donors, the World Bank, the convener of the Sri Lanka Aid Consortium has interfered very openly regarding specific projects making, project approval and subsequent disbursement. Second to the World Bank, the exercise of powers and influence through the Consortium has largely come

from rich industrial countries. The Scandinavian Donors namely Sweden, Denmark and Finland who initially rarely attempted within the Consortium to dictate policies to Sri Lanka have interfered with the way in which Sri Lanka handled the ethnic problem. The UN agencies have rarely attempted within the Consortium to exert pressure on the country. So was the case with European Economic community. In the Consortium the Asian Development Bank has played a subordinate role to the World Bank. In close cooperation with the World Bank it has expressed concern over, fiscal and monetary policies of the country. By and large the UNP Government has bowed to the various conditions and pressures that came through the Consortium and in return received a massive- quantum of foreign aid as compared to all the previous regimes of the country (see Table). The UNP Government attributed to this unprecedented quantum of aid to the reaffirmation of the confidence the international community continued to have in the economic policies and programmes of the Governments of Sri Lanka. This very perception of the Government overshadowed adverse impact of the crucial reforms which were forcefully brought by the donors in the name of the developing the economy through market mechanism. In the next few pages we will discuss about these reforms in the public policy of the country engineered by the donors through the Aid Sri Lanka

Consortium.

Removing of Subsidies

From the early 1940s through 1979 there existed various price subsidies and rationing schemes for basic foodstuffs - especially rice - to ensure minimum consumption levels for the population and protect the poor from severe malnutrition. The World Bank and the IMF, in their negotiation with Sri Lanka, asked the Government to remove the subsidies in the belief and hope that the resulting shift to investment would have made for higher growth rates and thereby lower unemployment rates. No Government until 1977 dared to remove subsidy scheme as the issue was crucially linked with its political survival. Any opposition poorly expecting to win as election had to campaign on the basis of enhancing rather than reducing the food subsidy. The election manifestos of the island's political parties bear the witness to this. For example in 1970 SLFP led united Front Government came to power on the major promise of giving 4 pound of rice at free of cost while in 1977 UNP won the election promising to give 8 pound of rice to every Sri Lankan living on the Island.

The pressure from the World Bank and IMF to eliminate the subsidy scheme, especially, free rice first appeared in 1966. Election in April 1965 in the island gave a narrow

victory to Dudley Senanayaka over the United Front Government of Sri Lanka. The new Prime Minister inherited a set of difficult economic problems including a budget deficit running near \$ 120 mm, of which roughly \$ 100 million could be attributed to high rice subsidies. The World Bank urged a phased five year reduction in the subsidies. But Mr. Senanayaka resisted this particular reform. He had, however, been responsive to Bank advice on other points, specifically to balance the rice subsidy, the Government has raised the price of Government distributed wheat flour. The budget also imposed substantial new taxes and provided for increased noninflationary local borrowings⁵. Similarly, throughout the United Front regime (1970-77) the recommendation of removing free rice ration was made by the World Bank. IMF combination with the support of the members of the Aid Consortium. Their assistance during this period was conditioned on removing the free ration. For example when Sri Lanka approached IMF in 1975 for stand by credit facilities the Fund demanded to remove the free ration as a pre-conditions⁶. The Government categorically refused and as a result the donors cut their aid.

5. Washington Post, August 22, 1966.

6. Economic Times (New Delhi), July 16, 1975.

The UNP Government came to power in 1977 promising to give 8 pound of grain to every Sri Lankan among other things. The IMF and World Bank who had been waiting to eliminate the food subsidy totally whenever a suitable opportunity came, asked the new Government to do so within six month as a pre-condition to release a package of loans. The implementation of this recommendation was a difficult task for the new Government in the immediate aftermath of the election victory as it had to implement at least part of the campaign promises. The Prime Minister JR Jayawardene (later President) confirmed that his Government was in disagreement with the IMF over this issue. He said that in principle his Government intended to phase out subsidies but the "timing must be ours".⁷ However, the Government was not able to maintain this stand and it had to replace the free rice ration scheme with the Food Stamp Scheme which was believed to be framed by the World Bank.

In the first stage the Government introduced the food stamps to those households whose monthly income was below Rs.300. (This was a major condition laid-down in the agreement signed in November 1977 with the IMF for the three tranches standby credit of SDR 93 mn.) In addition to food stamps kerosene stamps have been issued automatically to

7. Ibid, January 29, 1978.

families which qualify for food stamps and live in villages without electricity. While food stamps may be used to buy a range of essential items, kerosene stamps can be used only for kerosene. Under the previous system rations books were issued periodically to nearly every Sri Lankan. The previous system had assured a fixed quantity of rice while the new method assures a fixed value irrespective of the inflation. As a result of this new method, the number of ration books declined from 13.1 mn. to 7.7 mn. The new method also eliminated the subsidies for wheat and flour. Reacting to the new method President Jayawardene, who came to power promising 8 pound of grain at free of cost to every Sri Lankan, declared that the days of subsidies are gone and that people must tighten the belt and suffer short terms pain for long-term gains⁸.

The removal of free rice ration, viewed formally as part of the IMF package of 1977, would not have been feasible without an assurance of support for more aid by the World Bank and the Aid Group.

Fertilizer Subsidy

Fertilizer has been subsidized in Sri Lanka since 1962 to encourage the adoption of modern techniques in rice

8. Times of India (Bombay), March 30, 1980.

cultivation. Initially, the subsidy was designed solely to promote paddy. However, in 1972 the subsidy was generalised. Since then, the Government has adopted the practice of subsidizing selected types of fertilizer through direct payments to importers.

The World Bank was pressuring to the Government to eliminate the fertilizer subsidy. The 1988 World Bank country Paper writes:

"The existence of the subsidy is difficult to justify on efficiency and/or equity grounds. Clearly, the subsidy introduces costly distortion in the country's cropping pattern, it is impediment to the Government objectives in the agricultural sectors most of the subsidy accrued to the wealthy paddy farmers, and, and important port of the subsidy, that accruing to tree crops, has no real effect on production. It is thus recommended that the subsidy be phased out within a reasonable time span".

By 1999 the subsidies for fertilizer were eliminated.

Privatization

The ideology of the western donors, which dismisses state intervention and state planning as evils and advocates the virtues of the privately organised free market economy, is being tried in Sri Lanka. Accordingly, the western

9. Sri Lanka : A break with the past : The 1987 - 90 Bogram of Economic reforms and adjustment World Bank, Report No. 7720-CE p. 75.

donors particularly IMF and the World Bank asked the Government to limit public investment in favour of private sectors, to dismiss workers in the public sector and to privatise public sector units. The World Bank in its annual report on the state of island economy, which is circulated among the representatives of the donors at meetings of the Aid Consortium, continued to recommend the growth of the private sector as a pre-condition for aid.

The Structural Adjustment Programme of the IMF in Sri Lanka has also been particular about the promotion of the private sector. In this background the Government has to give many concession to the private sector. Now private investors can, in principle, set up industries of any size. The restraints on private sector participation in particular sectors have been relaxed. Private participation in the hitherto nationalized sector is being encouraged. The investment ceiling on the private sector has been progressively raised upward. Liberal concession to foreign capital along with investment in the Free Trade Zones in Katunayake and Biyagama was made in order to attract private foreign capital as part of the Government policy to strengthen the private sector. As a corollary, parts of the nationalised sector had been disinvested. Under this, state Distilleries, United Motors and Ceylon Oxygen were selected to be privatized. By 1990, United Motors was sold; Ceylon

Oxygen was being disinvested and the sale of the two state Distilleries was under preparation.

Other significant change occurred during this period was the Government's decision to allow allowed private companies to operate side by side with the state-run Central Transport Board (CTB). The Central Transport Board an entirely state-owned enterprise, was established in 1954 absorbing 73 private bus companies then operating in the country. In 1979, the Government under the guidance of the world bank, decided to free the entry of private bus owners to the industry¹⁰. This brought about a steady deterioration in CTB's services. Within a decade, the private sector registered more than 12,000 buses and it now provides more than half the passenger-miles supplied by the bus industry in the country.

In 1990, the Government totally deregulated bus fares. As a result, bus fares shot up by two fold creating inconvenience to the people. The Government was asked by the World Bank to reduce the CTB's staff by 20,000 (Total 52,000). To achieve this, a voluntary and compulsory retirement scheme was introduced. At the final stage the assets of the Board were transferred to the remaining

10. Financial Express (New Delhi), February 24, 1979.

employees so as to create new companies centered around existing depots. By August 1990, 12,000 workers were made to leave the CTB. According to the 1990 World Bank Report on Sri Lanka the elimination of subsidy to the corporation, an intention of the Bank, was also done.

During the same period the Government under the pressure from the aid donors allowed foreign banks to operate in Sri Lanka. Currently, there are 25 banks and of them only 6 are national banks. This indicates the dominance of the private sector in the financial market. The World Bank has not been happy with the existence of even these 6 national banks and demanding their privatisation. In its 1990 annual report on Sri Lanka the Bank says:

"The Government needs to get institution such as Bank of Ceylon People's Bank, National Development Bank and the Development Finance Corporation of Ceylon to operate more commercially. Their privatization may be the most effective way to achieve this objective, and, a plan in this direction should be prepared"¹¹

This recommendation is now under consideration. However, the Government may find it difficult to justify the privatisation of the state-run banks as they are running on huge profit.

11. Sri Lanka : Sustaining the Adjustment Process, World Bank, 1990, Report no. 8985 CE.

The recent move to privatise the state-run Telecommunication Department would appear to be the culmination of the World Bank's sustained hostility to the State intervention and state planning. The Sri Lanka Telecommunications Bill passed in Parliament on 1st May 1991 provides for the transfer of all property, rights and liabilities of the Department of Telecommunications to the Corporation "Sri Lanka Telecom". In accordance with the provisions of the Act employees of the Department have five alternatives:

- (i) to continue in office as a public officer of the Department;
- (ii) to retire from the public service and become an employee of the corporation; or
- (iii) to leave the public service and become an employee of the corporation; or
- (iv) to leave the public service and become an employee of the Corporation; or
- (v) to both retire or leave the public service and not become an employee of the corporation.

The centre piece of the privatisation programme is the reduction in size of the public sector. This process accelerated following the establishment of the Presidential Commission on Privatization in 1987 (which in 1989 was renamed as the Commission on People-ization). The

Commission designed the general framework for privatization in 1987-1990 and beyond. In addition, the Commission with the World Bank assistance, carried out a study of the performance sensitivity of larger manufacturing public sector units under Ministries of Industries and Textiles. This study recommended to restructure and eventually privatize most activities in textiles mineral sands, minning and mineral development and some activities of Leather, Hardware, Plywood Tyre, Paper, Ceramic and Salt Corporations.

The Presidential Commission on Privatization was disbanded in January 1990 and the task to privatize small public sector units were handed over to the commercialization Division of the Ministry of Finance. The Commercialization Division is now working on privatization of 16 smaller public units with the financial support from the USAID. The Public Investments Management Board established in September 1989, and later incorporated as a company handles the privatization of large public sector units.

It becomes a normal feature of the Sri Lanka Aid Consortium to inquire about the progress of the countries economic policy of privatising public-sector enterprises. At each meeting the donors talked much about the importance

of continuation of the privatisation. Therefore, in the years to come Sri Lanka will be embarking on wholesale privatization of the public-sector enterprises to qualify for continued assistance from the donors in the Consortium. The donors pressure on this will be further tighten by the IMF with whom Sri Lanka is negotiating for an enhanced structural adjustments facility worth \$ 450 mm¹².

Administrative Reforms

One of the major points of the western aid philosophy is that state bureaucracies in developing countries are often overstaffed and corrupt and their planning, administration and production are often inefficient and wasteful of foreign exchange. The logical consequence of this ideology is dismissals from the state sector and an attempt to re-privatise state enterprises. The donors, particularly World Bank and the IMF viewed the Public sector of Sri Lanka in the same context. They were of the view that the size of the public sector was large. Hence, they exerted pressure to reduce its size. Consequently, in 1986 the President appointed an Administrative Reform Committee (ARC) to propose appropriate remedies.

12. Statesman (Caclutta), March 17, 1991.

The Committee, which worked in close cooperation with the World Bank found that the Central Government was overstaffed. The Bank asked the Government to reduce the staff by 20 per cent within two to three years¹³.. This would mean a reduction of about 70,000 based on the current manpower strength in the public sector of 362,000 exclusive of the armed forces, police and health personnel. Though the Government, at the initial stage, hesitate to implement this politically untenable recommendation it had to give the ground in the face of mounting pressure from ther aid donors¹⁴. As a way of reducing the size of the public sector the Government introduced a voluntry retirement scheme under which a compensation package will be given to all those leaving the Government service. According to this the Government pays pension to all those who have had ten years pensionable service or more, and those who do not have ten years of pensionable service can leave jobs with a lump-sum gratuity in lieu of a pension. Now this voluntry retirement scheme is on and a large number of employed are leaving their jobs.

Agricultural Sector

13. Ibid, n. 9, p. 75.

14. Hindustan Times (New Delhi), August 11, 1988.

In the agricultural sector, under sustained pressure from the aid donors of the Consortium Sri Lanka has handed over the entire marketing of paddy, fertilizer and pesticide to the private sector. To facilitate privatization of domestic rice distribution the role of the Paddy Marketing Board (PMB) has been reduced. With this the PMB has become a small-scale purchaser of last resort. About two-third of its staff have been retrenched and the majority of its storage and milling facilities have been sold to the private sector.

The Plantation Sector:

The island's plantation sector has been the mainstay of its economy. The three main commodities, i.e. tea, rubber and coconut, occupy an important place in the economy contributing around 50 per cent of the total export earnings.

After the nationalization during the 1970s. the management of the plantation sector was transferred to two state-owned corporations: The Janatha Estate Development Board (JEDB) and the State Plantation Corporation (SPC). These two corporation now own about 110,000 ha of land under tea, 60,000 ha of land under rubber and 12,000 ha under coconut. They employ does to one-half million people.

In spite of substantial support from donors since the early 1980s and transfers from the budget, the financial performance of the two corporations has been dismal. This has become a matter of concern for the aid donors of Sri Lanka. In 1983, the IMF has requested for urgent rehabilitation of the plantation sector and in fact, it was a one of the conditions for the release of the balance of \$ 50 mn. SDR. on the stand by credit facility¹⁵ The Asian Development Bank, the largest donors in the plantation sector has also called for immediate management improvements to the plantation sector. Due to this pressure the Government appointed a high level "Core Group" to identify the problems and prepare a programme of action in 1989. The Core Group's recommendations for the immediate future included: (i) negotiating increased management flexibility in the use of labour and reduced labour costs; and (ii) reducing taxes on tea and rubber. Based on the core Groups recommendations, the Government introduced a reorganisation of the JEDB and SPC to increase autonomy as well as to reduce over-centralization of their management. The 502 estates under the two corporation were to be grouped into 82 clusters as financially independent operational units - which were in turn to be grouped into 12 zones for supervision purposes. This proces, however, came to a halt

15. Sun (Colombo), December 28, 1983.

in March 1990 as a result of the Cabinet reshuffle. However, the recommendation of reducing taxes on tea and rubber have been largely implemented. Particularly in the tea sector this reduction can be clearly visible.

Table 5.3

Taxes on Tea in Sri Lanka

Expert Duty	1985	1987	1988	1989
Black Tea in bulk	5.0	3.50	3.50	1.50
Packeted Tea	3.50	2.00	3.00	1.00
Tea in bags	0.50	-	1.00	0.50
Green Tea	5.00	3.50	3.50	1.50
Instant Tea	10.00	8.50	8.50	6.50

Source: Tea Statistics, Tea Board of India 1988-89.

Currently, the Government is reviewing the cost and benefits of various options for increasing the private sector role in the plantation sector. This is being assisted by International Development Association and the action plan for this will be prepared in 1991.

Industrial Reforms:

The need for restructuring industrial policies was expressed by the World Bank and IMF in early 1980s. Consequently, in December 1984, the Cabinet appointed an

Industrial Policy Committee (IPC) to report on an appropriate industrial strategy for Sri Lanka. Two years later, the IPC issued a report which was subsequently approved by the Cabinet in February, 1987. The report discuss among other thing the Government's policy towards foreign investment and the merasures the Government could adopt to encourage such investments and improve private sectors confidence in general.

The committee proposed that Public Manufacturing Enterprises be sold to the private sector unless they should remain public for special reasons. In line with the recommendations the Government transformed 16 selected enterprises into public liability companies to prepare them for possible privatization. These companies are free to determine all the aspects of management. At the sametime, with the 1985 budget most remaining special privileges of public sector have been removed.

The second component of the programme is the privatization of enterprises that can be partially or totally divested. Under this programme, State Distilleris, United Motors, and Ceylon Oxygen were selected to be privatized. Now United Motors was sold. Ceylon Oxgen is being divested and the sale of the state Distilliers is under preparation.

Trade

On the trade side, the elimination of import quotas in 1977 was the first action taken under the guidance of the World Bank. This was followed by several structural changes in the tariff system between 1979 and 1987. The last ban on imports that on textiles, was eliminated in 1985. To encourage non-traditional exports, a Free Trade Zone (FTZ) was created near Colombo in 1979 and an Export Development Board (EDB) was set up to manage the export incentives that have been introduced gradually since the early 1980s.

Tax Restructuring:

Sri Lanka's tax base is more developed than those of other developing countries. The tax revenue to GDP ratio was 16% in the 1950s and 18% in 1980s. Domestic taxes have been used to correct distortions generated elsewhere in the economy as well as for a variety of purposes.

However, the Bank was not happy with the existing tax system. In 1988 it suggested a number of reforms in this regard i.e (1) reduction in the number of rates used in the company tax and the Business Turnover Tax (BTT). In, the case of the company, tax, this would mean unifying the existing five corporate tax rates (i.e. 20% ,30% , 20% 50%) to the level of the marginal tax rate for personal income.

In the case of the BTT, the five rates used at present (1%,3%,5%,10%,20%) will be unified (ii) commodities considered luxury goods could be made subject to excises. (iii) Reduction of taxation of sugar wheat and rice. (iv) eliminat/or reduce tax holidays and tax exemption.

The last two budgets have introduced a series of tax changes in line with these recommendations.

The Exchange Rate Policy:

The World Bank had been of the view that a more flexible exchange rate policy was essential to correct the external account imbalances and to support the development of the manufacturing and the export sector in general. Throughout the regim of the United Front Government (1970-77) the World Bank-urged Sri Lanka to devalue the rupee. In 1972, the Finance Minister, Dr.N.M.Perera stated:

"These was a pressure for devaluation of the rupee by the World Bank and the IMF but Sri Lanka would not do it. Last time we devalued by 20 per cent. It has not solved our problems. In fact it has increased our problems¹⁶

The Government gave a categorical assurance that no devaluation was contemplated despite the pressure. The World Bank reacted by stoping new aid commitments in 1972. The pressure to devalue the rupee was again exerted in 1975

16. Daily News (Colombo), March 28, 1972.

when Sri Lanka was negotiating with the IMF for Stand by Credit Facilities¹⁷. The Government refused to devalue and in the following year the World Bank did not make any new commitment.

The opportunity the World Bank and the IMF had been waiting for devaluation the rupee appeared in 1977 November when the new UNP Government negotiated with the IMF for the three tranche Standby Credit of SDR 93 million. In this negotiation the Fund asked the Government to make immediate devaluation of the Rupee to a parity of Rs. 16 to the US Dollar. The adoption of a unified exchange rate system and thereafter floating the rupee which was to be tied to a basket of currencies were another condition in this regard. The Government immediately implemented these conditions and as a result the rupee-Dollar exchange rate rose by 87 per cent from 1976 to 1978. The value of rupees is now let to float. As a result, its exchange rate has been increasing (See Table. 5.4) It registered recorded level of Rs.40 in 1990. However, the desired result of the devaluation did not come out.

17. Economic Times (New Delhi), July 16, 1975.

Table 5.4

Rupee Dollar Exchange Rate

Year	Rate
-----	-----
1965	4.7600
1970	5.9524
1975	7.0166
1976	8.4266
1978	15.6067
1980	18.0000
1982	21.32000
1984	26.2800
1986	28.5200
1988	33.0325
1990	40.5400

Sources: Central Bank of Sri Lanka

Foreign Investment:

The Government is also moving aggressively in the direction of transferring ownership and management of national enterprises to foreigners. In April 1990, a legislation was passed by the Parliament in this regard. The Act provides foreign investors costly privileges such as guaranteed rates of return on capital loan, guarantees and tariff exemption on imports of raw materials. A potential investor remitting a sum of \$ 150,000 or its equivalent is issued a travel documents enabling him to travel freely to and from Sri Lanka. Further, the 100 percent tax on transfer of shares involving foreign national has been abolished. In addition foreign investors are now permitted to hold majority shares in selective joint ventures.

The Mid-Day Meal Programme:

In the beginning of 1989 with a budgetary allocation of Rs.2 billion the Mid-Day Meal Programme was launched. It aims at providing one meal a day to all children enrolled in primary and secondary schools in the country. It seems that many are benefitted from the programme. The World Bank and the IMF are of the view that it is essential to replace the programme by an island-wide nutritional programme. Currently, the Government is considering the suggestion. Until this island-wide nutritional programme is implemented the Government has been advised not to spend more than 3.5 per cent of the GNP on the Mid-Day Meal Programme and Jana Saviya.¹⁸

Price Controls:

The World Bank and the IMF have been the driving forces behind the appreciable rise in the price of a number of goods. This has severely affected all the sections of the population. (Table 5.5).

18. Atta (Colombo), November 24, 1990.

Table 5.5
Administered Prices of Basic
Consumer Goods

ITEM	Unit	1977 Dec.	1980 Dec.	1983 Dec.	1986 Dec.	1989 Dec.
Rice for Food stuffs	kg	2.15	4.48	6.25	7.22	13.09
Rice (Open Market)	kg	3.70	6.72	6.73	9.19	19.67
Flour	kg	1.32	5.23	6.82	7.90	10.60
Bread	kg	1.32	4.52	6.17	6.89	8.89
Kerocene	Litre	0.76	3.34	6.58	6.58	6.58
Electricity	Units	0.12	0.35	0.40	0.50	0.55
Bus Fare	journey	0.50	1.60	2.50	2.50	2.50
Cocunuts	each	1.42	2.48	4.13	2.71	4.50
Coconut oil	bottle	4.58	8.38	20.80	10.06	16.0
Milk Powder	kg	12.13	26.28	52.0	58.20	99.0
Sugar (open market)	kg	6.62	14.55	13.00	14.50	34.00

Source : The Central Bank of Sri Lanka.

The Government is also moving aggressively in the direction of removing all existing price controls that remain under the Fair Trading Commission. In this system, if private businessmen intend to raise prices of basic commodities, they must submit to the commission justification for the price changes. The Commission then reviews the appropriateness of the proposed price change and

give it opinion. The World Bank has advised the Government to close the Commission and let the prices are fixed by the market forces.

Ocean and Air Freights:

The Central Freight Bureaus used to allocated cargo to shipping lines (favouring the state-owned Ceylon Shipping Corporation) and regulate rates. Under the guidance of the World Bank these regulation were dismantled in 1989. Now traders can choose any shipping company (except for a limited number of routes). As a result competition increased and the Sri Lanka Shipping Corporations lost the monopoly. Similarly, the Government also decided in mid-1990 to liberalize air freight operation and terminate Air Lanka's monopoly¹⁹.

Fiscal and Monetary Policy:

The aid donors of Sri Lanka often stress the need for sustained tight fiscal and monetary measures. For example pruning down of 1984 public expenditure was one of the IMF conditions in the year when the Fund agreed to grant Sri Lanka the balance SDR 50 mn on the Standby Credit Facility²⁰. Similarly, the World Bank at the 1984 meeting

19. Atta, November 24, 1990.

20. Sun, December 28, 1983.

of the Aid Consortium stressed the need for reducing all public expenditure²¹. In 1985 IMF Managing Director Jacques de Larosiere warned the Government to keep budgetary expenditure firmly under review²². The World Bank was of the view that reduction of public expenditure from about 33 per cent of GDP in 1987 to 29 per cent by 1990 is essential for the development. The World Bank has made some suggestion in this regard²³.

- (i) Reduction of the size of the work force in the central Government.
- (ii) elimination of fertilizer and sugar subsidy;
- (iii) privatization of the Air Lanka by 1990;
- (iv) Privatization of the Sri Lanka Cement Corporation; and
- (v) suspension of all major investment in Mahaweli.

As we have discussed elsewhere in this chapter, the first two suggestion have been already implemented. Privatization of Sri Lanka Cement Corporation is under consideration and the Government has terminated the monopoly of Air Lanka in the island's civil aviation. The Jana Saviya Programme which initially put high pressure on the budget

21. Ibid, June 23, 1984.

22. Ibid, October 10, 1985.

23. World Bank, Report 1988.

has been redesigned under the guidance of the World Bank and the annual expenditure for the Food Stamps Scheme and the Mid Day Meal Programme has a ceiling of 3.5 per cent of the GNP.

The Jana Saviya Programme (JSP):

The Jana Saviya Programme, an election promise of President Premadasa, is the centerpiece of the Government's effort aimed at alleviating poverty in Sri Lanka. Initially, the programme aimed at transferring Rs.2500 per monthy to each household in poverty during a two year period. Right from the beginning the World Bank and the IMF were not happy with the programme as it puts high pressure on the budget. They advised the Government to redesign the JSP into a more production-oriented and sustainable programme. In fact, this was one of the conditions of aid donors in 1984²⁴. The Government agreed to implement this condition. Soon after redesign was done according to the principles and guidelines set by the World Bank²⁵. Now the JSP operates in a completely novel form. The new programme consists of several components including credit lines to the poor, technical assistance and an entrepreneurial

24. Atta, May 20, 1989.

25. Rawaya (Colombo), November 18, 1990.

development scheme. The marked feature of the new programme is the abolition of free allowance of Rs.2500 per month.

The Ethnic Conflict:

A particular issue where donors have expressed concern lately is the present ethnic conflict. Virtually all donors of the Aid Group have urged the Government to reach a negotiated solution to the conflict. For example a finance Ministry statement issued after the 1986 June meeting of the Consortium stated that all delegation of donor countries expressed "deep concern and anxiety about the political solution to the ethnic problem"²⁶. Before the 1987 meeting of the Consortium Finance Minister Ronnie de Mel said that future foreign aid from the aid group would depend largely on the Government success in restoring peace in the country²⁷. As expected the World Bank and IMF at the meeting have criticised Sri Lanka for not seeking an early end to the ethnic crisis²⁸. This was the period when aid agencies were questioning Sri Lanka's ability to ensure the personal safety of their officials and experts when they visit the country. They were also questioning Sri Lanka's ability to protect such vast development programme scattered

26. Sun, June 21, 1986.

27. Indian Express (New Delhi), May 10, 1987.

28. Ibid, June 23, 1987.

through out the island. This pressure from the donors was stated to be one of the reasons behind the Government's decision to sign the Indo-Sri Lanka Agreement. Hoping that the agreement will bring the long-awaited peace the donor nation have pledged additional aid worth \$ 493 at a special meeting of the Aid Group held in December 1987. After the meeting Finance Minister Rannie de Mel said:

"We feel that support is both an endorsement of the Peace Agreement and of the economic policies of the Sri Lanka Government"²⁹.

In the wake of the Peace Accord, Regan Administration announced its readiness to increase monetary aid to Sri Lanka to assist reconstruction efforts. The US Deputy Assistance secretary of state Robert Pech said that the upon successful implementation of the accord the US with other donors would consider the appropriation of additional funds for Sri Lanka³⁰.

Contrary to the expectation of the aid donors, the Indo-Sri Lanka Accord, which was described as the only way to protect Sri Lankan unity and integrity, sovereignty as also legitimate Tamil aspiration, miserably failed. Within weeks of signing the Accord the Indian Peace keeping Force

29. Telegraph (Calcutta), December 10, 1987.

30. Patriot (New Delhi), August 8, 1987.

(IPKF) which arrived in Sri Lanka to ensure the surrender of arms and to enforce the military aspect of the Accord began a costly and bloody conflict with the Liberation Tigers of Tamil Eelam (LTTE). At the same time, Sri Lankan army was ruthlessly cracking down the JVP activities in the southern Sri Lanka. The Amnesty International reported a number of human right violation and the aid donors began to express their deep concern over the deteriorating state of the civil liberty. The Scandinavian aid donors were more particular about this situation and announced that they would not make any commitments to new projects. At the 1990 meeting of the Consortium held in Paris on January 9 several donors have threatened to cut or review their aid programme to register their displeasure over the widespread violation of human rights. Besides the Scandinavian donors who have already announced a cut in aid, the Netherlands and Canada have also stated that they would review the entire aid programme for the country³¹.

Sri Lanka told the aid group that it was working towards a resolution of the conflict and assured the Consortium that it will uphold its international obligation with regard to human rights³². This assurance was followed

31. Statesman (Calcutta), January 18, 1990.

32. Indian Express, November 5, 1990.

by certain measures such as removal of extra-ordinary power given to the armed forces.

Thus, Sri Lanka Aid Consortium like other multilateral donor institutions, emphasised on economic efficiency by bringing in the free market principle into management of Sri Lankan economy. By thus introducing the principle of free market economy into its aid dogma the Consortium left no scope for alternative development strategies in Sri Lanka. This, in the context of socio-economic conditions of poor countries, like Sri Lanka, worked to the large section of the population.

Chapter 6

Conclusion: Vulnerability of Recipient Nations

Global economic interdependence and continued struggle to secure larger share of scarce economic resources have been a source of competition and conflict in international relation. This has led to a systematic use of several economic instruments for securing national interest. Among these economic instruments foreign aid has been used by rich countries for centuries.

The main objective of foreign aid as officially declared by most donor countries is to promote economic and social development of less developed countries. However, the actual picture is different. Our study reveals that foreign aid is used by donors as a means of securing their economic, political, military and strategic interest besides humanitarian purpose. Because of this multipurpose nature of foreign aid, it has many different and crucial roles to play in international relation.

Aid donors, particular western donors wish to promote the system they themselves favour. In some case they make plain that greater aid will be forthcoming for countries which favour a free enterprise system rather than a socialist approach to development. Our study identifies a

number of cases where foreign aid was conditioned on such free market economic reforms in the recipient nations. The study also highlights the fact that not only domestic economic policy but also foreign policy of the recipient nation has been altered or changed by the donors through aid mechanism.

One way in which a donor can attempt to interfere in the policies of another is by promising to provide or threatening to withhold or review aid. If the recipient is not ready to accept some condition or to take certain actions favored by the donor, pressure can be exerted by threatening to cut aid or to withhold aid. Another way in which donor can interfere with the policies of recipient country is the discrimination in the quantum of aid between recipient countries, between sector or region or between different project within a country. No matter the way they use aid mechanism to influence the policies of the recipient countries this interference is possible because of economic weakness of these recipient nations. The majority of these nations lack adequate financial resources for their social political and economic development; they do not have enough food to feed their population; they lack sufficient trained people to run the development task. A high proportion of developing countries are heavily dependent upon a few

commodities as a source of foreign exchange earnings and their price, almost always, is determined by market forces outside their control. These market forces moreover are in the hands of the principal western donor nations. Because of this unfavorable economic features they are likely to turn for help wherever assistance is to be found no matter what the price may be. The result is the heavy dependence on aid. The greater the dependence on aid the greater the vulnerability to outside pressures. These countries, then experience some loss of independence in decision making, and sometimes compromise with their sovereignty.

Aid situation for Sri Lanka is not different from other poor aid recipients in the third world. Like other poor countries, Sri Lanka is not able to generate sufficient financial resources for her development needs. Similarly, the country lacks sufficient trained people to run the development task and enough food to feed her population. The island economy largely depends upon the tea industry and its prices are determined far away in the London Tea Auction.

In the economically weak and politically unstable Sri Lanka, aid donors have exerted different degree of influence through aid mechanism. Most donors have attempted to do so through the Annual Paris meeting of the Aid

Consortium. Others have done it more directly through country programmes and project negotiation. However, the donor's efforts to influence the Government of Sri Lanka to change economic policies met with limited success before 1977. This was specially noticed during the regimes of progressive Sri Lanka Freedom Party which maintained a cordial relations with both capitalist and socialist countries, thus increasing its bargaining capacity for aid.

A radical change came about in the relations between the aid group and the Sri Lanka Government after the change of regime in 1977. The economic policy of the pro-western United National Party Government was very much in line with the free market economic principles, the system which western donors wish to promote and they themselves favour. As a result, western donors have responded very favourably to Sri Lankan needs for foreign aid, while the West Asian countries and socialist countries virtually disappeared from the aid scene.

In many cases western aid was conditional upon policy reforms. Since bilateral pressure on policy reforms would strain the friendly relationship between the donor and Sri Lanka most donors have favored co-ordination of policy dialogue through the World Bank or the Sri Lanka Aid Consortium. For this task the World Bank had the fullest

corporation of the International Monetary Fund. This indicates the fact that the Bank and the Fund under the cover of their multilateral format emerged as highly effective proxies for the western powers.

This is contrary to the widely held notion that multilateral sources of aid are less tied to public policy in recipient countries.

The study also reveals that aid donors have attempted to influence policies on the monetary and fiscal policies pricing policy, distribution policy, the structure of development expenditure, the size of the budget deficit, the external value of the rupee, state ownership, the role of private sector, the use of administrative controls, pattern of development administration and variety of other policy oriented and ideological issues. In bringing these changes the donors have ignored the political and social conditions of the country. This worked to the disadvantage of the large section of the population.

The World Bank and the IMF have been the driving forces behind the appreciable rise in the prices of a number of public goods such as power, tele-communication, transport and postal charges. This has severely affected all the sections of the population, more particularly the underprivileged section. The lower the income of those

affected and the greater the dependence on social services, the more devastating the effects of the price rise in public goods. Together with increase in price of public goods, the Government eliminated food subsidies. This led food prices rise much faster than those of other consumer goods. The effects of the price rise were compounded when the World Bank and the IMF insisted on keeping wage and salary rises below the rate of inflation thus reducing real income.

The contraction of the public sector, a condition imposed by the World Bank, has led to retrenchment measures and increase in unemployment. Further, the reduction of state influence on the economy did not automatically lead to an increase in the private investment. Indeed, a cut back in state investment has led to a reduction in overall economic activity because there is no entrepreneur class to create coherent market economy structure. Similarly, the Government's attempt to privatise state enterprises ran into difficulties not only because domestic private investors were reluctant to take on the risk of running ailing companies but also Sri Lanka do not possess the capital expertise or managerial skills needed to run private business successfully. Thus it appears only the state is in a position to carry out specific investment necessary for the development of the island economy and to provide an

economic and social frame-work designed to coordinate agricultural and industrial production and distribution structures and to satisfy mass demand. In other words, given the weakness of the island private sector the state enterprise is a necessity to fulfill the production of goods and services to meet the basic requirements of the people.

The devaluation of the rupee and the abolition of controls on foreign trade are intended to set an export boom in motion and bring in additional foreign exchange. These measures are also intended to make the economy more attractive to foreign investors. In practice these goals were rarely achieved in Sri Lanka. Devaluation did not bring the export boom as Sri Lanka's goods are not competitive in the international market in terms of quality. Protectionism of the industrial countries and competitive devaluation among the countries producing the same goods were other reasons for the failure in the export front. The decontrolling of profit transfer brought together with devaluation has led to an outflow of foreign exchange which was not adequately offset by direct foreign investment. While the expected effect of devaluation thus failed its negative effect largely appeared in the island economy. Devaluation has increased the debt service payment; it committed Sri Lanka even more heavily to its

traditional pattern of exports; and it brought a higher rate of inflation.

In 1980s the World Bank and the IMF have strongly advocated Sri Lanka to follow deflation policies. This was based on their diagnosis of excessive home demand which had to be reduced. Implementation of these deflation policies (cut in public expenditure, restriction in money supply reduction of domestic credit etc.) has led to economic recession in the country. Many companies went bankrupt because they were hit by the contraction of the domestic economy.

The World Bank has insisted on the abolition of state intervention in the agriculture sector. As we discussed earlier under the adjustment programme in the agricultural sector the Government has increased in producers prices and allowed private sector to procure grains and distribute fertilizer. However, the agricultural sector, the cornerstone of all developments, did not grow much and infact the growth rate of the sector in late 1980s was marginal. The World Bank was only interested in removing the state interference in the sector but it was not keen in extending support to remove a number of obstacles preventing the rise in the agricultural production. These obstacles included inadequate rural infrastructure marketing structure

and lack of attractive incentives for small and marginal farmers. Admittedly, the Bank recommendation to increase producer prices was a positive step but it was not adequate in the context of ever increasing prices of agricultural inputs.

Structural adjustment brought by the World Bank and the IMF with the strong backing of the Sri Lanka Aid Consortium caused a spiral of inflation which affected the healthy growth of the economy. The reduction in the volume of domestic credit and the restrict money supply and budgetary policies advocated by them did not reduce inflation. In contrast the removal of subsidies price liberalisation and devaluation brought a higher rate of inflation. Hence, the donors' proclamation that the fight against inflation was the top priority in their package of measures, proved to be wrong. On the contrary, their adjustment programmes ended up leaving the rate of inflation as high as it was in the beginning.

Thus the opportunity for the donor nation to impose their views on Sri Lanka was made all too clear when it became the accepted view that Sri Lanka simply could not manage her economy without the assurance that large amount of aid would be forthcoming. As we discussed earlier the influence of donor's is inevitably much greater and the

leverage that can be exerted correspondingly more intense, when a country is considered to be unable to function without aid. For Sri Lanka, as for some of the other developing countries' reliance on outside assistance is most likely to be a feature of in the development of the economy over many years.

A high proportion of all aid recipients like Sri Lanka are now in a sufficient economic difficulties that they tend to seek help wherever assistance is to be found and whatever the conditions are imposed. The increasing resort to foreign aid in such an adverse economic situation will lessen the bargaining strength of poor. This situation is not limited to small countries. The aid donors are exerting pressure to bring changes favorable to them even in large nations like Soviet Union and India.

If developing countries are not to remain at the perpetual mercy of the domestic and external political compulsion of the aid donors they will have to look within themselves to see if there is a more self - reliant path to development. This needs a redirection of development strategies. Unless a fundamental restructuring of the prevailing socio - economic order can be carried, policy makers of these countries have to wait upon decisions in donor countries before they formulate their development

budget, announce an import-export policy and other various policy matters. However, such a redirection of policy will not come easily after decades of exposure to the influence of aid. The aid regime which has power, influence and depth in the society would like to perpetuate the system. Various people involved in the aid negotiation want to continue the dependence on aid for their personal benefits. Any move to reduce the volume of aid will cut off their agency commission, commission fees, scholarship foreign tours etc. Leaders in the third world are well aware of these problems just as they understand the strategic interest governing aid donors.

Foreign aid negotiations, therefore, offer a concrete challenge to the political leaders and planners of the poor countries. This is a central problem concerning the developmental effect of aid, and a solution to it has to be found not only at the level of the donors but also in restructuring domestic political system towards more democratic and responsive direction.

Appendix - I

Table 1

Some Economic Indicators of the Sri Lanka

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Growth Rate of GDP	4.7	6.0	4.8	5.1	5.0	4.3	1.6	2.8	2.0
Per Capita Growth Rate	2.9	4.8	3.2	3.8	3.4	2.5	- 1.0	1.1	3.3
Growth rate of Exports	0.1	- 4.6	4.7	37.7	- 16.0	- 8.2	15.3	5.7	0.0
Export as % of GDP	24.2	21.6	20.9	25.2	22.7	19.6	21.7	21.5	21.4
Balance of Trade (\$ mn)	- 632	- 780	- 664	- 237	- 923	- 556	- 472	- 544	- 567
External Debt (US \$ mn)	2234	2625	2884	2992	2535	4063	4732	5189	5366
Debt Service Ratio	13.2	15.0	15.6	13.6	16.5	22.1	25.2	21.7	20.6
Aid Disbursement	326.0	369.4	408.0	462.4	536.1	546.9	488.9	574.6	536.0
Budget Deficit (Rs mn)	14866.0	20090.9	21605.5	15861.3	25675.7	28070.5	27391.7	43240.5	34627.0

Source : Asian Development Outlook, 1990.

Table 2

Summary of Aid Receipt 1985-1989

(In Rupees Million)

Year	Non-Mahaweli project Aid		Accelerated Mahaweli		Commodity Aid		Food Aid		Total		Grand Total
	Loans	Grants	Loans	Grants	Loans	Grants	Loans	Grants	Loans	Grants	
1985	4449.3	20006.1	3115.2	1428.4	619.8	962.2	649.6	491.4	8833.9	4828.1	13662.0
1986	5932.3	3079.7	2481.7	970.9	943.5	569.3	869.7	494.4	10221.2	5114.3	15341.5
1987	7015.1	3331.2	919.0	601.6	504.4	669.2	694.4	709.1	9132.9	5311.1	11444.0
1988	7822.5	4359.5	1869.8	158.1	914.9	1649.5	1129.3	421.2	11736.5	6588.3	18327.9
1989	7832.5	5550.8	2047.3	161.7	1023.4	1247.6	947.0	648.6	11850.2	7608.7	19458.9

Source : External Resources Department, Sri Lanka.

Table 3

Aid Receipts by Sector and Calendar Year, 1980 - 1989

(In Million U.S. Dollars)

Sector	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
1. Agriculture, Forestry and Fisheries	105.24	91.37	174.18	202.07	579.98	262.52	221.70	194.46	228.09	180.40
A. Agriculture	52.17	23.04	116.06	104.69	88.95	126.79	78.94	104.65	136.01	106.73
B. Forestry	-	0.17	-	0.76	2.28	2.71	10.33	3.43	4.05	2.11
C. Fisheries	3.44	0.98	1.08	1.15	5.04	2.17	4.97	3.30	2.03	3.41
D. Food	38.30	37.40	33.10	51.20	72.40	41.80	48.60	47.52	48.72	34.33
E. Dairy & Livestock Development	1.70	1.07	2.66	0.92	1.20	1.94	2.45	2.62	1.71	2.84
F. Rural Development	4.39	5.00	9.97	11.32	13.46	17.83	17.18	18.54	16.02	18.62
G. Irrigation & Water Management	5.24	23.71	11.29	31.63	96.65	69.38	59.23	14.40	19.55	12.46
2. Mining & Quarrying	-	-	-	-	-	-	-	-	-	-
3. Manufacturing	17.54	23.08	9.74	6.31	16.58	15.31	28.66	35.52	15.91	27.18
4. Construction	1.82	1.67	2.15	2.97	18.56	33.02	47.28	31.87	46.40	19.89
5. A. Transport & Storage	17.57	15.48	26.57	26.56	19.94	15.31	21.90	7.35	16.19	38.21
B. Communications	0.07	8.47	5.27	7.50	18.84	5.22	12.77	16.19	28.00	21.28
7. Wholesale & Retail Trade	0.35	0.21	-	0.08	0.25	-	-	-	-	-
8. Banking, Insurance and Real Estate	-	-	-	0.02	2.50	2.86	6.57	2.63	-	-
9. Ownership of Dwellings	0.12	0.1	-	0.24	0.28	2.19	0.13	0.34	3.91	-
10. Public Administration & Defence	-	0.01	-	-	-	0.12	1.21	-	-	2.91
11. Services	25.05	51.61	19.08	27.89	6.27	30.50	35.63	48.35	41.50	73.49
12. Miscellaneous Commodities	63.26	83.14	54.50	56.00	44.16	36.29	45.98	32.75	39.92	37.82
13. Balance of payment Support	5.74	9.0	-	-	-	-	-	-	-	-
14. Technical Assistance	7.79	1.80	11.66	15.35	13.56	21.24	24.39	22.12	43.17	44.37
Total	326.02	369.40	408.00	462.40	536.29	501.37	546.94	489.06	574.69	535.85

Source : External Resources Department, Sri Lanka.

Table 4
Aid Receipts Mahaweli Development Programme 1980-89

(In Million U.S. Dollars)

Sector	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
A. Agriculture & Forestry	18.70	7.81	18.29	36.94	31.56	74.67	45.41	31.98	31.35	36.78
B. Power Sector	68.56	46.82	69.61	61.66	66.85	44.44	43.91	42.58	31.65	27.50
C. Irrigation	-	-	43.65	61.62	76.09	40.50	32.09	-	0.36	1.65
D. Rural Development	0.74	0.24	0.04	0.11	2.13	6.99	1.43	2.57	0.21	5.17
E. Technical Assistance	-	1.80	0.42	0.30	1.04	0.15	0.36	0.07	0.01	0.33
Total (Mahaweli Programme)	88.00	56.67	130.01	160.63	177.67	166.75	123.2	76.20	63.60	60.83
Annual Average Exchange Rate S.L. Rs./U.S. \$	16.5344	19.3513	20.80	23.03	25.5	27.25	26.65	29.5354	31.8866	36.3156

Source : Department of External Resources, Sri Lanka.

Table 5

External Debt Outstanding by type of donors 1980-89 (U.S. \$ Million)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
A. Loans from Bilateral Donors										
Disbursed	889.7	960.7	1067.0	1111.8	1154.6	1471.4	1674.8	2266.2	2393.0	2442.5
Undisbursed	650.3	752.6	883.4	598.6	568.9	494.5	562.3	715.8	814.9	606.4
Total	1540.0	1713.3	1890.4	1710.4	1723.5	1965.9	2437.1	2982.0	3207.9	3048.9
B. Loans from Multinational Donors										
Disbursed	318.6	370.6	435.8	540.4	652.3	772.8	897.5	1042.5	1134.9	1245.2
Undisbursed	349.0	612.5	653.9	701.0	610.7	758.5	784.3	779.6	1032.2	1021.7
Total	667.6	983.1	1089.7	1241.3	1263.0	1531.3	1681.7	1522.1	2147.1	2266.9
Total A + B										
Disbursed	1208.3	1331.3	1552.8	1652.2	1806.9	2244.2	2772.3	3308.7	3527.9	3669.7
Undisbursed	999.3	1365.1	1537.3	1299.6	1179.6	1253.0	1396.6	1495.4	1897.1	1628.1
Total	2207.6	2696.4	2990.1	2951.8	2986.5	3497.2	4168.9	4804.1	5373.0	5297.8
Total External Debt										
Disbursed	1327.3	1625.9	1964.0	2322.8	2526.3	3029.4	3602.4	4163.6	4372.7	4367.5
Undisbursed	1031.0	1561.2	1734.0	1442.4	1408.3	1414.4	1540.5	1676.8	1942.1	1754.6
Total	2358.3	3206.6	3698.0	3765.2	3934.6	4443.8	5142.9	5840.4	6314.3	6122.1
Share of Bilateral and Multi-										
Bilateral Donors in the External Debt	94	84	81	78	76	78	80	82	85	87
Share										

Appendix - II

Bilateral Aid Agreements (1985-89)

Date	Amount Rs.M.	Type	Terms			Purpose
			RF	GP	IR	
Canada						
22. 3.85	178.8	G				Irrigation Rehabilitation
31. 5.85	35.0	G				Bee-keeping project
2. 1.85	3.1	G				Fin Fish Nutrition
22. 4.85	1.0	G				Coconut Information centre
6. 4.85	1.5	G				Debt Recording and Mgt.
5. 6.85	0.4	G				Supply and Demand for Milk
5.12.86	0.7	G				IRRC Weaning Practices project
30.12.86	0.7	G				Est. of Marine & Aquatic Res. center
15. 2.87	431.54	G				Import of commodities
14. 2.87	471.5	G				- Do -
15. 6.87	175.7	G				Canadian food Aid
14.12.87	47.1	G				- Do -
19. 8.87	116.6	G				Mahaveli Technical Assistance
	76.7	G				Agri. Extension Training
10. 2.87	15.3	G				Est. of National Programme
	2.8	G				Water supply and sanitation
1. 6.87	4.3	G				Food Grain Improvement
						Helminthiasis Control Project
26. 8.87	0.8	G				Helminthiasis Control Project
23.12.87	4.3	G				Oil seeds Project
23.12.87	0.6	G				Educational Quality Important
21.1.87	1.9	G				Marine & Aquatic Resource Centre
27.6.88	1426.4	G				Mahaweli
15.3.88	237.8	G				Agri. Resources Project
11.7.88	151.3	G				Inland Fisheries
	53.1	G				Food aid
13.5.88	4.0	G				Information services Project
6.5.88	2.1	G				Phosphate Fertilizer Research
14.3.89	44.6	G				Forest Project
7.9.89	1.9	G				Research on Rural Ind.
2.7.89	5.7	G				Research on Computer and The

8.1.89 34.3 G

North-East Education Project

Australia

6.2.86	27.1	G				Supply of 6000 M.T. of wheat
9.12.88	29.2	G				Food Aid Grant
12.5.89	124.8	L	12	2	3.1	Railway Sleeper Manu. Project
23.5.89	5.1	G				Small Activities Project
1.6.89	76.0	G				Rehabilitation & Reconstruction
10.7.89	45.8	L	5	2	0	Photo Voltaic Power Supply
13.12.89	37.5	G				Food Aid 1989/90

France

27.12.85	159.6	L	20	10	3.0	Mixed Credit 1985
27.12.85	159.6	L	10	1/2	12.0	Do
28.7.86	144.6	L	20	10	3.0	French Credit
28.7.86	144.6	L	10	1/2	8.8	Do
12.1.87	336.0	L	10	1/2	8.6	Nilwala Ganga
					0.5	Project stage
					0.5	
15.6.87	191.7	L	20	10	2.6	French Treasury
15.6.87	191.7	L	10	1/2	7.6	French Private Bank
9.9.88	25.8	G				Samanalawewa Project
9.9.88	257.1	L	20	10	2.6	Do
9.9.88	216.4	L	10	1/2	8.9	Do
20.9.89	173.3	L	20	10	2.5	Telecommunication
20.9.89	122.9	L	10	1/2	10.0	Samanalawewa & Nilwalaganga

Federal Republic of Germany

18.3.86	56.2	G				Kotagala Teachers Tra.College
11.4.86	36.3	G				Conservation Farming Pro.
7.5.86	1450.6	L	36	14	.75	Rantambe Power Project
7.5.86	1329.8	L	10	5	13.0	Do
12.3.87	57.5	G				Kandy Integrated Dev.
1.4.87	32.4	G				Livestock Production
10.4.87	64.8	G				Mahaweli
12.6.87	3.5	G				Goat Husbandry
14.10.87	10.5	G				Study and Expert fund
13.11.87	37.2	G				Agricultural Research
28.11.88	185.0	L	40	10	.75	Imports of Commodities
25.4.88	37.1	G				NARA
8.4.88	50.1	G				Railway Training Center
5.4.88	74.2	G				Coast Conservation Pro.
3.5.88	7.8	G				Promotion of Livestock
5.7.88	17.1	G				SLIDA
9.11.88	184.8	L	40	10	.75	Commodity Loan



12.8.88	44.0	G				Bridge Rehabilitation
30.8.88	117.8	G				Technical Training
21.11.89	35.7	G				Training
	13.0	G				NSB
	61.3	G				Water Suply Project

Italy

1987	90.0	G				Drought Relief
	4.0	G				Food Asst. for flood Relief
	3.1	G				Do
	37.4	G				Food Asst. for Drought relief

The Netherlands

8.3.85	262.1	G				Development Ass. for 1985
8.3.85	54.0	G				Technical Ass. for North
31.1.86	185.3	G				Import of fertilizers
	92.7					Technical Ass.
	144.1	G				Project Ass.
25.2.87	481.8	G				Ass. for Fertilizers
25.2.87	137.4	G				Technical Ass.
9.10.87	152.9	G				Relabilitation
3.6.88	305.8	G				Do
3.6.88	451.4	G				Financial Ass.
3.6.88	156.0	G				Technical Ass.
3.6.88	68.8	G				Various Projects
1988	76.5	G				Ass. for NGO's
1989	358.6	G				Import of Commodities
	143.4	G				Technical Ass.

Switzer Land

22.3.85	159.8	G				Irri.Rehabi. Pro.
	10.9	G				Livestock Dev. Pro.
15.4.87	4.5	G				Do
20.7.87	11.5	G				Remote Sensing Pro.
27.11.87	11.8	L	10	10	-	Railway Tele.
	11.8	L	7	3	5	Do

Denmark

5.3.86	184.8	L	24	10	-	Coast Protection
21.8.87	83.1	G				Water supply & Sanitation
18.11.88	304.0	G				Do
27.10.89	517.7	G				Coast Conservation and

flood protection

Finland

14.12.84	201.4	G				Finnish Dev. Ass.
18.12.86	331.0	G				Do
						Colombo General Hospital
	5.7	G				Country Programme
12.5.88	403.8	G				Do
5.10.89	568.0	G				

Norway

27.11.84	280.5	G				NORAD
22.11.85	304.9	G				NORAD
	17.5	G				Rehabilitation Pro.
5.12.86	250.5	G				Norwegian Ass.
16.12.87	318.9	G				Country programme
	321.0	G				Do
27.1.89	340.8	G				Reconstruction & Rehab.
13.12.89	35.1	G				Vocational Training Programme
6.12.89	129.4	G				Assistance Outside the Country Programme

Sweden

15.6.84	918.4	G				Kotmale
						Dev. Ass.
30.5.86	647.4	G				Dev. Ass.
	19.0	G				Consultancy Ass.
30.5.86	712.2	G				Dev. Ass.
1.6.88	616.7	G				Do
5.10.89	15.16	G				Reco. & Reha. in N-E
1.6.85	262.4	G				Ass. for Various Project
17.8.89	115.2	G				Do

India

19.11.87	586.7	L	12	3	5.0	Commodity Loan
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Japan

Date	Amount	Nature	GP	IR	Purpose
11.1.85	153.2	G			Colombo water Treatment Pro.
11.1.85	137.8	G			Matara College of Education.

11.1.85	58.6	G				Equipment to Tele. Centre
27.2.85	27.4	G				Debt Relief Grant for import
17.5.85	46.4	G				Road Rehabilitation
15.7.85	229.2	G				Matara College of Education
15.7.85	4.8	G				Cultural Ass. 1985
27.9.85	327.3	G				Food Production Grant 1985
13.5.88	372.8	L	20	10	3.25	Yen Credit for import of commodities.
13.5.88	1077.3	L	20	10	3.25	Colombo Telecommunication
13.5.88	268.2	L	20	10	3.25	Colombo Port Expansion
27.12.85	139.8	G				National youth Centre
27.12.85	252.4	G				Establishment of a pharma. Formulation centre
14.12.86	26.5	G				Debt Relief Grant
23.4.86	110.6	G				Medical Equipment Improvement Project
	81.4	G				Sugar cane Research
	7.6	G				Grant for Sinhala Dictionary
	330.3	G				National Youth Centre
	128.8	G				Pharmaceutical Centre
17.12.86	491.4	G				Food Production Grant
	235.7	G				Medical store
	2676.7	L	20	10	3.25	Samanalawewa Hydro electric project
	461.3	L	18	7	3.25	Import of Commodities
29.1.87	182.6	G				Plant genetic Resources Centre
27.2.87	41.5	G				Debt Relief Grant
25.3.87	172.5	G				Institute of Fundamental Studies
25.3.87	131.8	G				Purchase of Drilling Accessories.
12.8.87	212.3	G				Plant Genetic Resources Centre
12.8.87	9.6	G				Cultural Assistance
13.10.87	3059.6	L	20	10	2.75	Samanalawewa Hydro Power
3.10.87	429.7	L	20	10	2.75	Colombo Port Expansion
13.10.87	869.3	L	18	7	2.75	Yen Credit for Import of

						commodities
14.11.87	129.5	G				Rehabilitation of Fishery Harbours
18.1.88	251.6	G				Medical Research Institute
18.1.88	329.0	G				Automobile Engineering Centre
18.1.88	678.7	G				Food Production Grant
18.1.88	271.5	G				Grant for Purchase of Buses
20.5.88	710.7	L	20	10	2.75	Mahaweli
15.7.88	2072.8	L	20	10	2.75	Do
15.7.88	457.0	L	20	10	2.75	Irrigation Rehabilitation
21.4.88	228.0	G				University of Moratuwa
15.7.8	3041.6	L	20	10	2.75	Road Rehabilitation
15.7.88	112.4	G				Anti-Malaria campaign
15.7.88	49.4	G				Debt Relief Grant
1.3.88	448.3	G				Medical Resesearch Institute
17.8.88	191.4	G				Automobile Eng. Centre
17.8.88	57.5	G				General Hospital -SJP
22.11.88	1654.5	L	20	10	2.5	Computer Training
22.11.88	1069.9	L	20	10	2.5	Transmission System
22.11.88	736.2	L	18	7	2.5	Yen commodity Credit
21.10.88	379.0	G				Model Village Improvement
21.10.88	331.0	G				SW Broadcasting
9.12.88	702.0	G				Food Production Grant
26.1.89	13.6	G				Reconstruction of Victoria Bridge.
28.2.89	46.1	G				Debt Relief Grant
17.4.89	107.2	G				Rural Dev. Project
22.6.89	170.7	G				Minipe Nagadeepa
22.60.89	284.1	G				SW Broadcasting. II
22.6.89	205.6	G				Kandy Water Supply
	239.8	G				IRDP - Gampba
24.10.89	23.2	G				Debt Relief Grant
24.8.89	517.1	G				Victoria Bridge
15.12.89	298.8	G				Education.
15.12.89	21.5	G				Debt Relief Grant

The United States of America

30.9.85	5.5	G				Reforestation and watershed Mgt.
	28.7	G				PVO-Co-Financing Project
	110.9	G				Diversified Agri. Research

	13.7	G					Water supply & sanitation
	713.7	L	30	10	2.0		Purchase of wheat
	151.9	G					Food Items
31.1.86	0.7	G					Grant for Flood Relief
27.3.89	0.7	G					Water Supply & Sanitation
27.3.89	31.7	G					PVO Co Financing
25.8.86	163.0	G					Irrigation System Mgt
29.8.86	132.1	G					Agricultural Planning
27.3.86	24.5	L	30	10	2.0+3.0		Water supply & sanitation
25.8.86	226.1	L	30	10	"		Irrigation systems Mgt.
29.8.86	53.4	L	30	10	"		Agricultural Planning
25.8.86	197.5	L	30	10	"		Imports of wheat
13.11.86	341.4	L	30	10	"		Do
	91.2	G					Supply of Food
7.7.87	442.2	L	20	10	0.65		Low income Shelter
21.5.87	0.7	G					Grant for bomb victims
26.8.87	0.7	G					N.E Rehabilitation
28.8.87	74.4	G					Dev. Studies & planning
28.8.87	46.0	G					P.V.O. Co-financing Project
28.8.87	59.5	L	30	10	2.0+3.0		Mahawali Agricultural
28.8.87	68.3	G					Do
30.9.87	133.9	L	30	10	"		Do
28.8.87	133.9	L	30	10	"		Do
23.9.87	37.2	L	30	10	"		Do
23.9.87	20.8	G					Emergency Relief Asst.
4.3.87	105.2	L	30	10	2.0+3.0		Irrigation Systems Mgt
4.3.87	31.7	G					Do
30.9.87	30.1	G					Community Development
28.4.87	144.7	L	30	10	2.0+3.0		Import of wheat
12.8.87	208.3	L	30	10	"		Do
3.12.87	369.2	L	30	10	"		Do
1987	182.0	G					Food for Nutrition
26.5.88	62.0	G					Dev. Studies
26.5.88	15.5	G					PVO Co-financing
6.6.88	133.0	L	30	10	2.0+3.0		Mahawali
6.6.88	40.3	G					Do
22.6.88	19.1	L	30	10	2.0+3.0		DO
22.6.88	140.0	G					Do
24.7.88	104.0	G					Private Sector
21.7.88	320.0	G					Rehabilitation Ass.
29.9.88	1.6	G					Agri. Marketing
14.9.88	0.7	G					Do
2.9.88	1.0	G					Property Analysis Pro.
10.6.88	310.0	L	30	10	2.0+3.0		Import of wheat
30.9.88	527.8	L	30	10	"		Do
1988	140.6	G					Food for Nutrition
20.1.89	98.7	G					Mahawali
	20.7	G					Dev. Studies and training
	101.6	G					Mahawali

29.3.89	128.7	G				Private Sector
	46.3	G				PVO Co-financing
	330.5	G				Rehabilitation Ass.
3.5.89	32.8	G				Water Supply
24.5.89	0.85	G				Flood relief
13.6.89	158.8	G				Mahaweli
	5.69	L	30	10	2.0+3.0	Water Supply & Sanitation
	2.73	G				- DO -
31.7.89	17.55	G				Flood Relief
28.9.89	0.48	G				Women in Developmnt
21.9.89	5.72	G				Family Planning
	2.98	G				- Do -
29.8.89	0.741	G				Legal Literacy
	1.40	G				Imports of wheat
	0.66	G				Do
16.5.89	511.2	L	30	10	2.0+3.0	Do
	175.5	L				Thripasa Pro.
	640.0	L				Import of wheat
1989	26.3	G				Drought relief

G = Grant

L = Loan

R.P. = Repayment Period

G.P. = Grace Period

I.R. = Interest Rate

Source : External Resources Department, Sri Lanka.

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