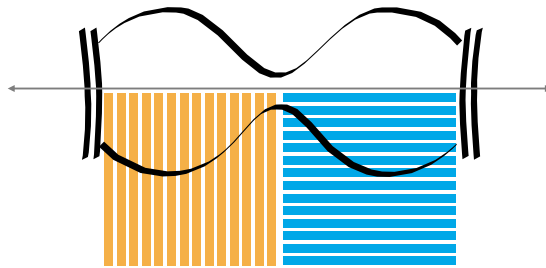


COST OF CONFLICT IN SRI LANKA





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PREFACE

The New Year brings with it a new challenge for Sri Lanka. It is perhaps the year that will make or break Sri Lanka's future. It is a year that will demonstrate whether peace and reconciliation is feasible in the troubled South Asian region. It is a year that will determine whether the people of the island country in the Indian Ocean have a long term vision, or whether they find it difficult to overcome short term opportunism.

Strategic Foresight Group has brought out this report at this crucial juncture in Sri Lanka's history, because the country is at crossroads. It is for the people of Sri Lanka to determine their own future. The report merely provides them with an analytical tool for assessing comparative costs of alternative trajectories.

The onus for showing clarity of vision is particularly on President Mahinda Rajapakse. He is a rare leader to occupy the highest office without belonging to one of the important dynasties. The political skills he has shown in achieving an unusual success in a difficult vocation may be what are required to find an unusual solution to an intractable problem. I have no doubt that President Rajapakse has the ability to lift Sri Lanka out of a conflict and place it on the path of progress. The question is whether he has political will. The question also is whether the new elite in Colombo have a desire to make a new beginning.

South Asia is a region of contradictions. President Rajapakse represents this characteristic of the South Asian political culture, like any other leader in the region. His tough utterances of the election campaign were swiftly forgotten in his initial announcement of a commitment to the peace process. Of course, President Rajapakse is at one side of the table. On the other side is the LTTE. The informal directive issued by the LTTE to the Tamil voters to boycott elections was seen as a strategy to force an extreme situation. The year 2006 will reveal whether this concern was unfounded or whether it actually leads to the collapse of the peace process.

About 40 years ago, Sri Lanka was considered a paradise in Asia along with Lebanon. It had the best social indicators in the region. What a pity that these two beautiful countries which were the greatest promises of the most challenging continent on earth, have turned out to be some of the greatest disappointments.

At the beginning of this decade, both parties in Sri Lanka were forced to review their antagonism. In 2002, they entered into a ceasefire. So far, the ceasefire has survived, albeit amidst mutual accusations of violations. As the parties remain uncertain about their commitment to peace, yet too weak to ignore international pressure, it is possible that they may straddle along during the next half decade of the Rajapakse presidency. It will be such a shame if they do so, as it will mean a great loss of opportunity at a time when Sri Lanka is integrating into South Asian common market and Colombo is emerging as an important regional port.

If the worst happens, the outcome will be more complicated than is generally understood. An outbreak of a new conflict will not only have two parties the Sinhalese and Tamils, but may see the entry of a third one from the East.

The plight of the people in the North and the East is absolutely unacceptable. However, it is also important to realize that if the conflict resumes, it will not be limited to the North and the East. It is quite probable that most parts of the Sinhala heartland will be affected. The city of Colombo will be exposed to the greatest risk. Thus, the future of Sri Lanka is not a matter that can be ignored by the people of the country because of the current concentration of the conflict in one corner. The fire has been relatively contained for the time being. If lit again, it is difficult to speculate how fast and how far it will spread.

It is however not appropriate to be unduly pessimistic about the outcome of the peace process and the dynamics of relations between the Sinhala and Tamil communities. It was the hardliner Menachem Begin who began the peace process between Israel and the Palestinians, and it was Ariel Sharon, known for his hawkish image, who pulled out of Gaza. Miracles can happen, and sometimes they can be driven by calamities. Exactly a year ago, the Tsunami forced the Sri Lankans to consider cooperation between the two antagonists, just as an earthquake forced India and Pakistan to open the Line of Control in Jammu and Kashmir.

Politics is a most unpredictable game. The world must have faith in the political acumen of the new leaders of Sri Lanka. It is a great challenge for them to transform Sri Lanka from the fastest militarizing country in South Asia, to the most caring that it once was. The world should trust that the leaders of Sri Lanka would have the capacity and the desire to meet this challenge.

This report has a modest objective of stimulating thoughts and discussions among stakeholders in the Sri Lankan society. About seven years ago, National Peace Council and Marga Institute had come out with a study on the cost of war in the country. It was necessary to undertake a similar and more comprehensive exercise at this stage because of the crossroads which Sri Lanka has reached, and because of the unusual experience of prolonged ceasefire that it has had since the beginning of the conflict. We also have injected an element of forward-looking analysis for the next five years. In any such exercise, figures are always indicative. We are much grateful to Dr. Jehan Perera and his colleagues at National Peace Council for extending generous cooperation to our team working on this study.

We are also grateful to Dr. John Gooneratne from the Secretariat for Coordinating the Peace Process, for initially approaching us with a suggestion to undertake this study. It was at a time when our report on Cost of Conflict between India and Pakistan had generated a very intense public debate, including editorials in leading newspapers in the two countries and comments by senior policy makers. The impact that our study had on the India-Pakistan peace process evoked worldwide curiosity and interest. A distinguished head of state in the Middle East called for a similar study in his region and various sections of opinion in Sri Lanka approached us for a study on their country. It is they, the scholars and people of Sri Lanka, who have made this study possible. It is they, the people of Sri Lanka, who have to determine how to use it for mapping their options. As far as Strategic Foresight Group is concerned, we are always there to facilitate rational processes to enable people around the world to make their own choices.

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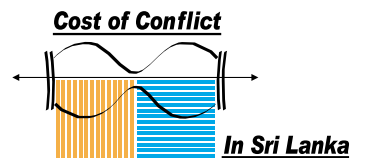
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Costs



1. Basic Data

Capital		Population	
Colombo		20.1 million (July 2005)	
Area		Population growth rate	
65,610 sq km <i>land</i> : 62,705 sq km <i>inland water</i> : 2,905 sq km		1.3% (1992-2004 average) 0.79% (2005 est.)	
President			
Mahinda Rajapakse			
Prime Minister			
Ratnasiri Wickremanayake			
Official Languages		* Ethnic Composition	
Sinhala	Tamil	Sinhalese	81.89%
* Religions Composition		Sri Lankan Tamils	4.37%
Buddhist	76.71%	Indian Tamil	5.08%
Muslim	8.49%	Sri Lankan Moor	8.00%
Hindu	7.88%	Burgher	0.21%
Christian	6.87%	Malay	0.28%
Others	0.05%	Others	0.17%
GDP			
\$ 18.2 billion (December 2004)			
Structure of Economy		Foreign Exchange Reserves	
Agriculture	19.0%	\$ 3.7 billion (May 2005)	
Industry	26.3%	Total Public Debt	
Services	54.7%	119% of GDP (December 2004)	
External Debt Outstanding as a % of GDP			
55%			
Per Capita Income		Labor Force	
\$ 1048 (December 2004)		7.7 million	
Unemployment Rate		Poverty Rate	
8.4%		22.7%	
Literacy Rate			
92% (excluding conflict zone)			
Human Development Ranking			
96			

* In Jaffna, Mullaitivu And Kilinochchi districts, no enumeration was done.

In Mannar District, out of 5 Divisional Secretariat (D.S.) Divisions only one was enumerated partially. In Vavuniya District, out of 4 D.S. Divisions, one was enumerated completely and 2 were enumerated partially. In Batticaloa District, out of 12 D.S. Divisions, 5 were enumerated completely and 6 were enumerated partially. In Trincomalee District, out of 11 D.S. Divisions, 7 were enumerated completely and two were enumerated partially. The data are not included for these districts due to incomplete enumeration.

Political Parties

Sinhala Parties

Sri Lanka Freedom Party (SLFP)*

United National Party (UNP)*

Janatha Vimukhti Peramuna (JVP)

Jathika Heila Urumaya (JHU)

Mahajana Eksath Peramuna (MEP)

Muslim Parties

Sri Lanka Muslim Congress (SLMC)

National Unity Alliance (NUA)

North-East Muslim Congress

Muslim United Liberation Front

Tamil Parties

Eelam People's Democratic Party (EPDP)

Eelam People's Revolutionary Liberation Front (EPRLF)

Tamil Eelam Liberation Organisation (TELO)

Tamil United Liberation Front (TULF)

Tamil Congress

Tamil National Alliance (TNA)

Up Country Tamils

Ceylon Workers Congress (CWC)

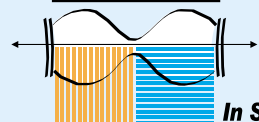
Others

Communist Party of Sri Lanka (CP)

Lanka Sama Samaja Party

** Lot of Muslims and Tamils living outside the Northeast vote for these parties in significant numbers. Some of them also belong to the leadership of these parties.*

Cost of Conflict



In Sri Lanka

2. Main Political Actors

Party	Year of Foundation	Founder	Support Base	Leader
UNP	1946	Don Stephan Senanayake & S.W.R.D. Bandarnaika	Sinhalese masses in rural & urban centers; Tamils and Muslims in urban centres	Ranil Wickremesinghe
SLFP	1951	S.W.R.D. Bandarnaika	Sinhalese masses in rural & urban centers; Tamils and Muslims in urban centres	Chandrika Kumaratunga
MEP	1950s	Philip Gunawardene	Sinhalese supporters	Dinesh Gunawardene
JVP	1965	Rohana Wijeweera	Rural, educated, unemployed, poor, underclass Sinhalese	Somawansa Amarasinghe
SLMC	1980s	M.H.M. Ashraff	Muslim populations in the eastern provinces	Rauf Hakeem
NUA	1980s	M.H.M. Ashraff	Muslim populations in the eastern provinces	Ferial Ashraff
EPDP	1980s	Kathiravelu Nithyananda Douglas Devananda	Regional party with supporters in the northeast province	Kathiravelu Nithyananda Douglas Devananda
CWC	1950s	Saumyamoorthy Thondaman	Indian Tamils in the Central provinces	Arumugam Thondaman
TNA	2002	(A conglomeration of parties)	Northern and Eastern provinces	R.Sampanthan
JHU	2004	Ven. Ellawala Medhananda Thera	Disenchanted Sinhalese nationalist supporters	
LTTE	1976	V. Prabhakaran	Tamils in the North and the East provinces and Tamil Diaspora	V. Prabhakaran S.P.Thamilselvan
Karuna Faction	2004	V. Muralitharan aka Col. Karuna	Tamils in the eastern province of Sri Lanka and Tamil Diaspora	V. Muralitharan aka Col.Karuna

Other Leaders	Ideology	Seats in Govt (2005)
Karu Jayasuriya, Prof. G.L.Peiris, Milinda Moragoda	Free Market and Economic Liberalization	82
Mahinda Rajapakse, Anura Bandarnaika, Mangala Samaraweera	Mixed and welfare economies	65
	Sinhalese nationalism	
Tilvin Silva, Wimal Weerawansa	Sinhalese nationalism	40
	Protection of Muslim interests	5
	Protection of Muslim interests	
	Anti-LTTE Tamil position	1
	Equal rights for Indian Tamils	
	Pro-LTTE Tamil position	22
	Hardliner Sinhalese party	9
Soosai- Head of the Sea Tiger Wing Pottu Amma - intelligence chief Manoharan Thamil Chevlam - political wing Leader Anton Balasingham - Chief Negotiator	Tamil nationalism and rights of self determination	
	Representation of eastern Tamils and autonomy from the northern province	

3. Heads of State

Presidents

Name	Years of Tenure	Political Party
Mahinda Rajapakse	2005 - present	SLFP
Chandrika Kumaratunga	1994 - 2005	SLFP
Dingiri Banda Wijetunga	1993 -1994	SLFP
Ranasinghe Premadasa	1989 -1993	UNP
Junius R. Jayewardene	1978 -1988	UNP
William Gopallawa	1972 -1978	UNP

Prime Ministers

Ratnasiri Wickremanayake	November 2005 - present	SLFP
Mahinda Rajapakse	April 2004 - November 2005	SLFP
Ranil Wickremesinghe	December 2001 - April 2004	UNP
Ratnasiri Wickremanayake	August 2000 - December 2001	SLFP
Sirimavo R. D. Bandaranaike	August 1994 - August 2000	SLFP
Chandrika Kumaratunga	August - November 1994	SLFP
Ranil Wickremesinghe	1993 - 1994	UNP
Dingiri Banda Wijetunge	1989 - 1993	UNP
Ranasinghe Premadasa	1978 - 1989	UNP
Junius R. Jayewardene	1977 - 1978	UNP
Sirimavo R. D. Bandaranaike	1970 - 1977	SLFP
Dudley Senanayake	1965 - 1970	UNP
Sirimavo R. D. Bandaranaike	1960 - 1965	SLFP
Dudley Senanayake	March - July 1960	UNP
W. Dahanayake	1959 - 1960	SLFP
S.R.D. Bandaranaike	1956 - 1959	SLFP
Sir John Kotelawala	1953 - 1956	UNP
Dudley Senanayake	1952 - 1953	UNP
D. S. Senanayake	1948 - 1952	UNP

4. Timeline of the Conflict

1948 Ceylon/Sri Lanka gains full independence from the British

Sinhala Nationalism

1948	Government disenfranchises Tamils of Indian origin.	1956	Government driven Sinhala nationalism begins.	1959	Prime Minister Bandaranaike assassinated by Buddhist monk. Succeeded by widow, Sirimavo Bandarnaike, who continues nationalisation program.
1965	Opposition United National Party (UNP) wins election and forms government with leading Tamil party (the Federal Party), but fails to deliver on promises made to Tamils.	1970	Sirimavo Bandaranaike returns to power and extends nationalisation program.		

Ethnic Tensions

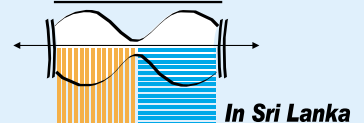
1971	Sinhalese Marxist (JVP) uprising led by students and activists. The uprising is crushed in a few weeks at the cost of 20,000 lives.	1972	Ceylon changed to Sri Lanka and Buddhism given primary place as country's religion, further antagonizing the Tamil minority.	1976	LTTE formed as tensions increase in Tamil dominated areas of North and East.
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1983 13 soldiers killed in LTTE ambush, sparking off anti-Tamil riots, leading to the deaths of hundreds of Tamils. Conflict in the North of the island between the army and the LTTE.

Civil War Intensifies

1984	Steady erosion of government control over Jaffna city and other parts of the North.	1985	First attempt at peace talks between the LTTE and the government fails.	1987	Government forces attempt to retake the northern city of Jaffna.
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Cost of Conflict



Timeline of the Conflict

Civil War Intensifies

1987

Government signs accord with India creating new councils for Tamil areas in the North and the East and reaches an agreement with India on the deployment of Indian Peacekeeping Force in Sri Lanka.

1987

JVP launches armed militancy on the Government and accuses the government of betrayal for bringing in the Indian Peace Keeping Forces (IPKF).

1988

The LTTE starts fighting against the IPKF.

War and Diplomacy

1991

President Ranasinghe Premadasa killed in LTTE bomb attack.

1993

President Kumaratunga comes to power pledging to end the war. Peace talks opened with the LTTE.

1995

Peace talks collapse and the LTTE resumes bombings. Government launches major offensive, driving militants out of Jaffna.

2000

In February, Norway says it will act as an intermediary in the peace talks between the LTTE and the government.

2000

In April, LTTE captures strategic Elephant Pass in the northern part of Sri Lanka.

Peace Moves

2002

In February, Government and the LTTE rebels sign a Ceasefire Agreement, paving the way for talks to end the long-running conflict. The peace initiative is sponsored by Norway.

2002

In March, the road linking the Jaffna peninsula with the rest of the island is reopened after 12 years and passenger flights to Jaffna resume.

2002

In August, talks between the LTTE and the Government take place in Oslo. Both the parties agree to commence formal talks.

1989

JVP attempts to overthrow the government, terrorising Colombo through assassinations and random violence. President Premadasa gives up negotiations with JVP and launches an all-out war, resulting in 20,000-60,000 Sinhalese casualties or disappearances.

1990

Indian Peace Keeping Forces withdraws. Violence between Sri Lankan army and separatists escalates.

1991

The LTTE implicated in assassination of Indian PM Rajiv Gandhi.

1997

Major government offensive against LTTE.

1998

Tigers bomb Sri Lanka's holiest Buddhist site, the Temple of Tooth, in Kandy.

1999

President Kumaratunga is injured in a LTTE suicide bomb attack at an election rally. She is reelected as President.

2000

In October, President Kumaratunga's PA alliance wins general elections.

2001

In July, suicide attack by LTTE on the international airport in Colombo.

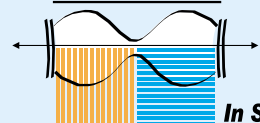
2001

In October, Kumaratunga dissolves parliament hours before a no-confidence vote, which her Marxist-backed minority government seemed likely to lose. UNF, headed by Ranil Wickremesinghe wins General Elections.

2002

In September, the first round of talks held in Thailand. Government lifts ban on LTTE. They establish a Joint Task Force for Humanitarian and Reconstruction Activities for the North and the East. Both sides exchange prisoners of war for the first time. Rebels drop demand for a separate state.

Cost of Conflict



In Sri Lanka

Timeline of the Conflict

Peace Moves

2002

In November, the second round of talks in Thailand resulted in several key decisions to advance the peace process - including the establishment of sub-committees on immediate human and rehabilitation needs, de-escalation and normalization.

2002

In December, the third round of talks between the Government of Sri Lanka and the LTTE concluded in Oslo with the parties agreeing to a federal system of government within a united Sri Lanka. Under the deal, the minority Tamils would have autonomy in the mainly Tamil-speaking North and East.

Political Crisis

2003

In June, the Tokyo Donors Conference pledges \$4.5 billion to Sri Lanka in the form of donor assistance for reconstruction and redevelopment and as an incentive for all parties to further the peace process.

2003

In October, the LTTE presents its proposal for an Interim Self Governing Authority (ISGA) and expresses willingness to recommence peace talks with the government.

2004

In July, suicide bomb blast in Colombo - first such incident since 2001 - raises fear for the fragile peace process.

2004

In August, early general elections held amid political power struggle. SLFP forms a winning coalition with the JVP Mahinda Rajapakse sworn in as Prime Minister.

2005

In June, the JVP withdraws its support to the Government on the issue of a joint mechanism for tsunami recovery operations with the LTTE.

2005

In November, Mahinda Rajapakse wins the Presidential election by a narrow margin; the unofficial boycott of the election by the LTTE plays a decisive role in the election outcome.

2003

In March, the sixth round of talks at Hakone, Japan take place amid growing security concerns. To prevent future incidents, the parties agree to strengthen the mandate and capacity of the Sri Lanka Monitoring Mission. Other issue discussed is a commitment to develop a federal system based on internal self-determination within a united Sri Lanka.

2003

In April, Tamil Tigers suspend their participation in peace talks, saying they are being marginalized.

2003

In November, President Kumaratunga dismisses three ministers, citing threat to national security and suspends the parliament. Parliament reopens after two weeks but the negotiations with the Tamil Tigers are put on hold.

2004

In March, renegade LTTE commander Karuna leads a split in rebel movement and goes underground with his supporters.

2005

In June, the Sri Lankan Government and the LTTE sign a Memorandum of Understanding for establishing a Post-Tsunami Operational Management Structure (P-TOMS).

2005

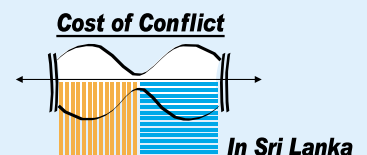
In August, the Sri Lankan Foreign Minister Lakshman Kadirgamar is assassinated.

2005

In July, The Sri Lankan Parliament adopts the Draft Bill to give effect to the International Convention on the Suppression of Terrorist Financing.

2005

Ratnasiri Wickremanayake is appointed as the Prime Minister of Sri Lanka.



Backgrounder: Militarisation of Sri Lanka

Country	No. of Military Personnel per Million	Average Military Expenditure as % of GDP*	Military Holdings Index**
Bangladesh	1,000	1.5%	198
Nepal	2,700	2.5%	160
India	1,300	2.5%	142
Pakistan	4,000	3.5%	144
Sri Lanka	8,000	4.1%	926

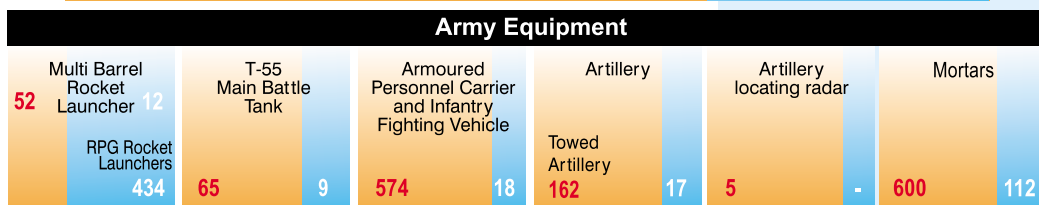
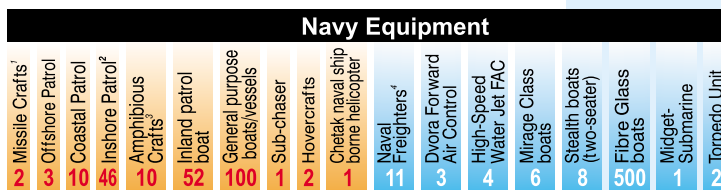
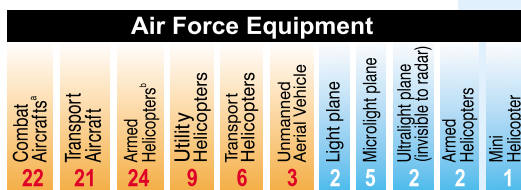
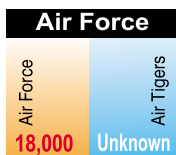
Sri Lanka is the most militarised state in South Asia. In 2006-10, it will continue to hold this dubious position. The possibility of it becoming a less militarised nation lies only after 2011, conditional on the resolution of its internal conflict before 2006-07.

Sri Lanka's defence expenditure as a percentage of its GDP is the largest not only in the South Asian region, but is also higher than other comparable conflict-ridden countries such as Colombia, Myanmar, Sierra Leone, Sudan, the Philippines and Uganda, to name a few.

*2004 figures.

**The Military Holdings Index, 1998 refers to an estimate that is based on the aggregate number of heavy weapons a country has, such as combat artillery, aircraft, ships, tanks etc.

Comparative Military Break up

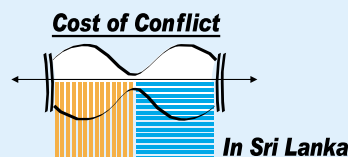


^aIncluding Kfir, MiG-27M, MiG-23 UB, F-7 M, FT-7, FT-5; ^bIncluding Bell 212, Mi-24V, Mi-35P

^cIncluding 200 Black Sea Suicide Tigers

¹Surface to Surface Missile capability; ²Including 43 Forward Air Control (FAC); ³Including Landing Ship Tank, Landing Craft Mechanical, Landing Craft Utility, Landing Craft Air-cushion and Fast Personnel Carrier; ⁴most equipped with latest radar and Inmarsat Communication Technology

*Including Air Tigers, police/administration **Victor anti-armour Regiment, Charles Anthony Brigade, Leopard Commandos



Militarisation of Sri Lanka

The military arsenal of the LTTE is highly sophisticated and forms an integral part of its overall military strategy. The LTTE captures artillery and equipment from the Sri Lankan Army. It is therefore of little surprise that both sides are equipped with similar artillery. The LTTE specialises in the use of Improvised Explosive Devices (IEDs), used to great effect by their Black Tiger Squad to carry out suicide operations and political assassinations. The LTTE also possess hi tech equipments like high-frequency radio transmitters, walkie-talkies, night vision equipment, satellite communications equipment, mobile road-building equipment, anti-tank wire guided missile launchers, surface-search coastal radar facilities for assisting their operations.

The LTTE maritime network includes at least 11 freighters, all of which are equipped with sophisticated radar and Inmarsat Communication Technology. The vessels, manned by Tamils originating in the Jaffna seaport of Velvettiturai, mostly travel

under the Panamanian, Honduran or Liberian (colloquially known as 'Pan-Ho-Lib') flags, and are owned by various front companies in Asia. The ships frequently visit countries in Southeast Asia and Europe. Given the embargo on goods supply by the Sri Lankan government to the LTTE dominated areas during the period of war, the LTTE fleet has been mostly used to transport legitimate commercial goods such as hardwood, tea, rice, paddy, cement and fertilizers. The fleet is also used, albeit less frequently, for transporting arms and ammunition, smuggling and drug trafficking. It should be noted that usage of ships for criminal activities plays a vital role in contributing significantly to LTTE's coffers and in importing war-related material.

The combating strength of the LTTE naval force should also be taken into account. The Black Sea Tiger suicide squad of the LTTE maritime wing has been alarmingly successful in sinking boats and attacking bases of the Sri Lankan Navy.

Five Geographic Zones of LTTE International Arms Procurement Activity

- 1 Northeast and Southeast Asia, focusing particularly on China, North Korea, Cambodia, Thailand, Hong Kong, Singapore, Vietnam, Myanmar and Bangladesh.
 - 2 Southwest Asia, focusing particularly on Afghanistan and Pakistan.
 - 3 The Former Soviet Union, focusing particularly on Ukraine.
 - 4 Southeastern Europe and the Middle East, focusing particularly on Lebanon, Cyprus, Greece, Bulgaria, Turkey, Slovakia and Lithuania.
 - 5 Africa, focusing particularly on Nigeria, Zimbabwe, South Africa and Mozambique.
- The main arms suppliers in the case of the Sri Lankan Military are China, Pakistan, Czech Republic and Slovakia.



LTTE is currently believed to have the capacity to manufacture the following maritime attack crafts:



1. The Muraj:

A 10 crew, 45 knot, petrol engine vessel equipped with 3 machine guns (2 x 23mm), surface search radars and portable SAM unit. It is used for attacks against naval craft.

2. The Thrikka:

A 4 crew, 45 knot, petrol engine vessel equipped with 1 machine gun and normally used by frogmen for debussing.

3. The Sudai:

A 6 crew, 10 knot, petrol engine vessel equipped with 1 machine gun and used for attacks against naval crafts.

4. The Idayan:

A 2 crew, 45-knot fast attack vessel that can be converted and used for suicide operations.

5. Unknown Name:

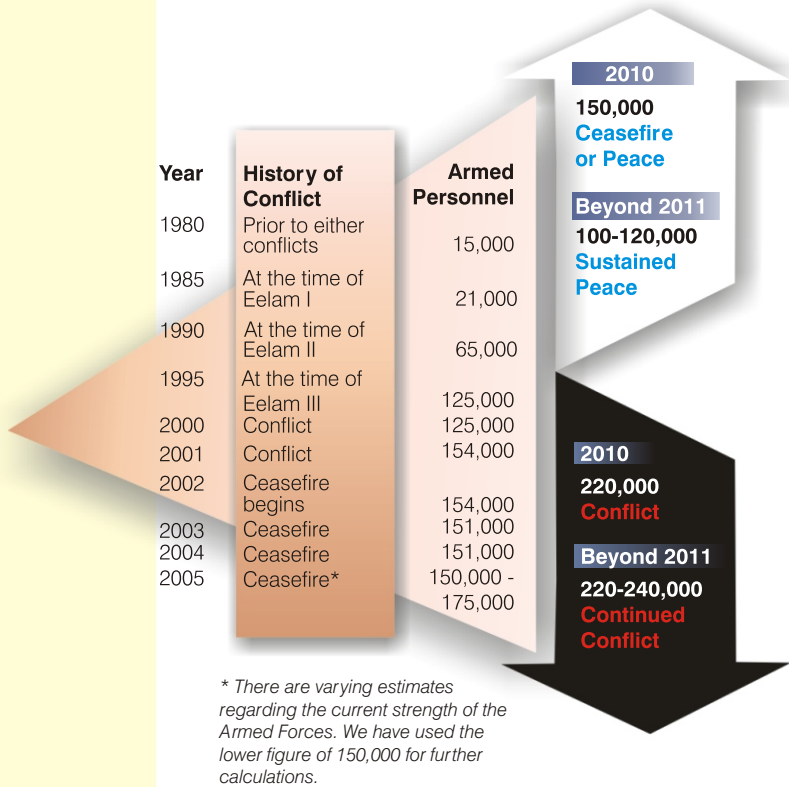
A 2-crew stealth boat resembling a stealth fighter, possibly armor plated, light-weight and capable of traveling at approximately 35 knots.

In the past the LTTE had tried to acquire and equip an air force for reconnaissance and suicide missions. In 2005, the LTTE renewed its efforts to acquire an air force of its own, much to the dismay of the Government of Sri Lanka, India and the United States. The LTTE has bought at least two airplanes and constructed an airstrip in Kilinochchi in the northern province.

Presently Air Tigers are undergoing night landing exercises, with rudimentary navigational assistance. In the future if war breaks out, the Air Tigers could complement ground level forces during an attack, undertake reconnaissance flights and provide intelligence on Sri Lankan Armed Forces' movements.

1. Armed Forces

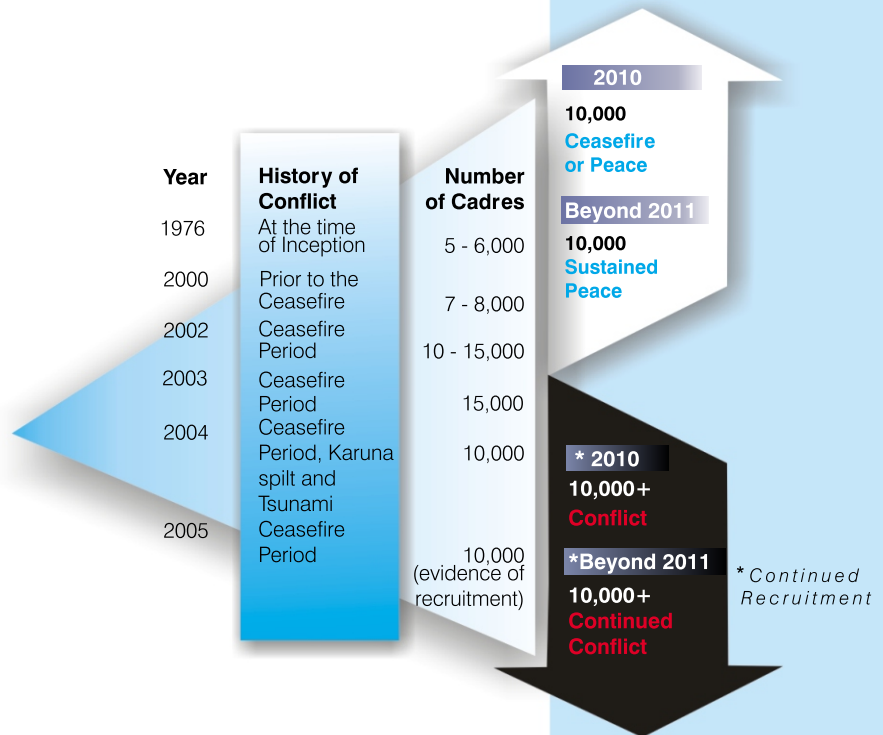
Sri Lankan Armed Forces



Prior to the conflicts of the South and the Northeast, Sri Lankan armed forces mainly fulfilled a ceremonial and support purpose. Since the conflicts, Sri Lankan Armed Forces have continued to grow in size even in intermittent periods of peace, sometimes averaging an annual growth rate as high as 12.5%. If

the current ceasefire continues, Sri Lankan Armed Forces will remain static at around 150,000 during 2006-10. They will gradually reduce in number beyond 2011. However, if war breaks out, Sri Lankan Armed Forces strength could grow at an annual growth rate of about 8%.

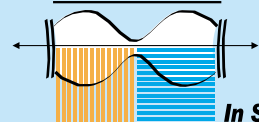
LTTE Forces



If war continues, to compensate for the loss of cadres, the LTTE would recruit more cadres. On the other hand, if there is peace, there is no guarantee that LTTE cadres will be disbanded. The LTTE cadres join up at a young age and their training is completely oriented towards fighting. Analysts believe that it is

unlikely that they could be absorbed into the Sri Lankan Armed Forces, though they may form a separate battalion. Alternatively, it is also likely that they could form criminal gangs. Overall, LTTE strength will continue to be around 10,000, at nearly 5% of the Sri Lankan army strength.

Cost of Conflict



In Sri Lanka

2. Human Costs of Conflict

Sri Lanka Armed Forces Battlefield Casualties

Year	Total	Total
1987	1	451
1988	0	363
1989	0	372
1990	21	961
1991	173	1,614
1992	198	788
1993	201	925
1994	326	375
1995	474	1,505
1996	676	1,376
1997	1,133	2,106
1998	1,332	1,798
1999	1,812	1,545
2000	2,041	1,980
2001	3,755	759
Total	12,143	13,393

LTTE Casualties (inclusive of child soldiers)

The estimated number of civilian casualties till 2005 is around 65,000. Almost two-thirds of these deaths took place in the conflict areas of the North and the East. Some unofficial estimates place the total loss of life caused by the war at over 1.8 million life years (given that the majority of people who have died in the conflict were of the age group of 20 to 35).

Though the official estimates put the Sri Lankan Armed Forces casualties prior to the ceasefire at around 13,000, independent estimates peg this figure at 25,000. The LTTE has lost 14,000 cadres - 1.5 times its current strength. Almost 28% of their casualties

were women.

The ceasefire has brought down casualties on all sides. Some experts peg the number of casualties to a high of 200 per year during the ceasefire period, while some put it at around 50 per year. There are no accurate numbers available. Taking the most conservative estimate, if the ceasefire continues, the total number of casualties during the five-year period of 2006-10 could be around 200. If war resumes, it could claim around 10,000 to 20,000 lives, including armed personnel, insurgents and civilians. Both, the LTTE and the Sri Lankan Armed Forces could lose about 4,000-5,000 personnel each.

Estimates for both the Sri Lankan Armed Forces and the LTTE cadres killed during 1983-1987 are unavailable. However, as this period marked the commencement of the conflict a significant number of casualties can be expected on both sides.

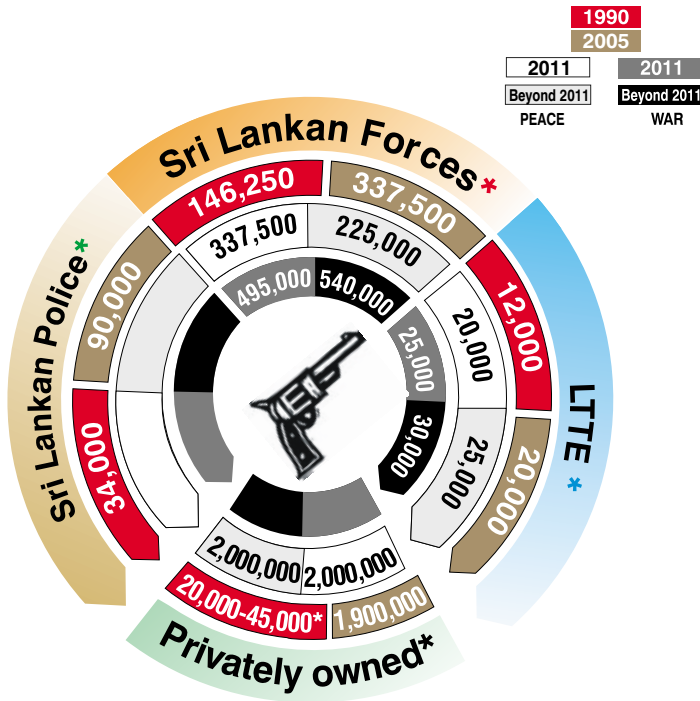
Deaths since the Ceasefire Agreement

Year	Civilians	Security Forces	LTTE*	Total
2002	14	1	NA	15
2003	31	2	26	59
2004	33	7	69	109
2005 (upto October)	95	33	67	195
Total	173	43	162	378

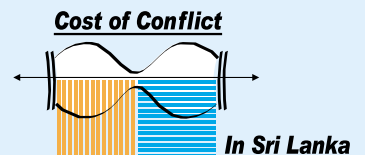
** The high number of insurgents killed, includes members of the Karuna faction and is mostly the result of fighting between the Vanni and Eastern Tigers.*

3. Small Arms

Small Arms Stockpiles



Sri Lanka is one of the few developing countries that has legislation in place to control the spread of small arms and light weapons. However, within Sri Lanka the availability of illegal firearms is fast becoming a concern. Small arms leak into the society from the armed forces as well as the LTTE, leading to an increase in violence and crime. Despite the ceasefire, the armed forces and the LTTE continue to weaponise.



4. Military Expenditure

Sri Lanka: Military Expenditure



	Current GDP	Military Expenditure	Government Expenditure	% Share	
				Mil/GDP	Mil/Govt exp
Rs. billion					
1983	121.6	1.75	N/A	2.0	4.40
1990	321.7	14.60	N/A	5.0	14.60
1995	668.0	43.15	251	6.5	17.19
2000	1,125.0	70.77	453	6.3	15.62
2001	1,245.0	68.29	486	5.5	14.05
2002	1,403.0	64.14	589	4.6	10.89
2003	1,563.0	61.98	661	4.0	9.38
2004	1,798.0	73.45	690	4.1	10.65
2005 (est)	1,847.0	84.98	853	4.6	9.96
2010				2.5-3%	
2010				5%	

Sri Lanka has witnessed one of the most dramatic increases in military expenditure - from an allocated 0.5% of GDP in the 1970s to as high as 6.3% of GDP in 2000 as a consequence of the conflicts in the South and, the North and the East of the country. Since the ceasefire agreement, Sri Lanka's military expenditure has declined to 4.0% of its GDP. If peace prevails, one can expect Sri Lanka's military expenditure to gradually decrease to 2.5-3% of its GDP by 2010. It is unlikely that this could be reduced further since the high labour intensive Sri Lankan military has resulted in a defence budget trap where substantial budget cuts are difficult given salaries, pensions and allowances to military personnel. If the war breaks out, the defence expenditure will jump back to 5% of GDP. It is

highly unlikely that Sri Lanka can increase its military budget beyond 5%, given the degree of government debt and high fiscal deficit.

Information on LTTE military expenditure is not available. But it is evident that majority of the LTTE funds are used towards salaries for top leaders, arms procurement, some relief activities in the Northeast and on national and international propaganda and lobbying efforts. LTTE expenses for their cadres are mostly on account of uniforms, food, shelter, education and other basic amenities. Even if we assume LTTE spending on each member at \$800 per person - which is double the per capita income of \$400 of the Northeast - LTTE's annual expenditure on its 10,000 cadre amounts to \$8 million. LTTE also

sustains a major spy network, mainly in the Northeast to get information on various developments in the region. It offers handsome money to trade information. The actual size of this network is not known, as many people double up as informers for the want of money. However, the total expenditure on cadres and informers is insignificant if compared to LTTE's annual income of \$200-350 million. Thus, it could be said that the LTTE spends a minimum on its cadres and a maximum on sustaining a war economy and its support base internationally.

It is also important to note that the LTTE military expenditure is a direct cost to the Sri Lankan economy as the value of local funds spent on the war could have been otherwise spent on consumption or investment.

5. Excess Military Spending

Excess Military Expenditure (Rs. billion)

Excess Military Expenditure	4.1	12.4	26.5	27.5	24.9	28.2	23.8	42.7	40.1	29.0	22.5	23.2	27.7	332.6
Military Expenditure at 2.5%	11.3	13.1	16.7	17.4	20.1	22.8	24.9	28.1	31.1	35.1	39.1	45.0	46.2	350.9
Actual Military Expenditure	15.4	25.5	43.2	44.9	45.0	51.0	48.7	70.8	71.2	64.1	61.6	68.2	73.9	683.5
GDP	453	523	668	696	804	913	995	1,125	1,245	1,403	1,563	1,798	1,847	
Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*	2003*	2004*	2005*	Total

*Ceasefire Period

Sustained Peace

Growth Rate at 7% of GDP
 Military Expenditure at 2.5% of GDP

Military Expenditure	49.4	52.9	56.6	60.5	64.7	284.1
GDP	1,975.9	2,114.2	2,262.2	2,420.5	2,590.0	
Year	2006	2007	2008	2009	2010	Total
GDP	1,920.5	1,997.3	2,077.2	2,160.3	2,246.7	
Military Expenditure	96.0	99.9	103.9	108.0	112.3	520.1

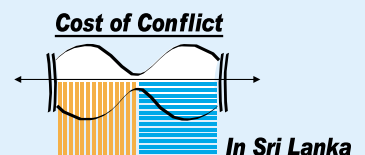
Conflict

Growth Rate at 4% of GDP
 Military Expenditure at 5% of GDP

All the figures are in Rs. billion

While calculating the different future scenarios of war and peace, it is important to take into account the differing GDP rates, as they would be higher at the time of peace and lower in the case of war. It is also important to note that the current ceasefire period has certain associated costs in the form of additional defence expenditure, i.e. over 2.5% of GDP, due to the possibility of returning to war.

In the last decade, Sri Lanka has spent over Rs. 332.6 billion additionally on defence due to the conflict. It is likely to spend Rs. 236 billion as excess military expenditure in the next five years, if the peace process breaks down. This is a huge amount of money that could have been utilised for developmental purposes.




6. Comparison of the Military and Development Expenditure

Human Development Index Value

Year	India	Pakistan	Bangladesh	Nepal	Sri Lanka
1990	0.511	0.442	0.414	0.416	0.697
1995	0.545	0.473	0.443	0.453	0.719
2000	0.577	0.499	0.499	0.471	0.741
2002	0.595	0.497	0.509	0.504	0.740

Comparison of Military Vs Development Expenditure as a % of the GDP



	Expenditure as % of the GDP					
	India		Pakistan		Sri Lanka	
	Military	Development	Military	Development	Military	Development
2002	2.7	6.1	4.1	3.5	4.6	4.9
2003	2.5	6.1	3.9	4.1	4.0	4.3
2004	2.7	6.2	3.8	3.8	4.1	4.4
2007	2.4	6.1	3.9	4.1	2.5-3%	4.5%
					4.5-5%	3.5%

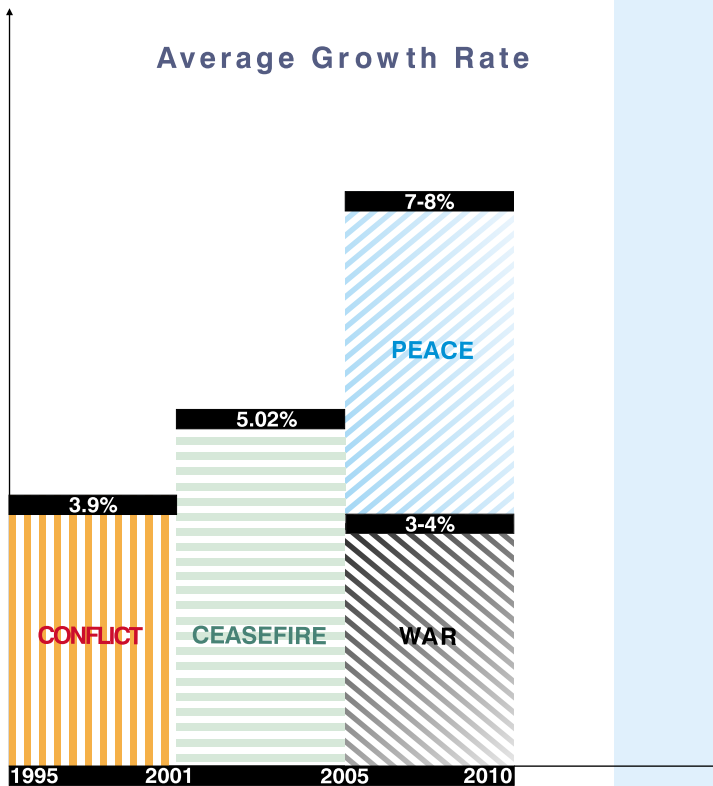
In the case of Sri Lanka, the developmental expenditure is taken as Government expenditure on Infrastructure, which includes both Social and Economic services.

Sri Lanka, unlike its South Asian neighbours, has already achieved many of the Millennium Development Goals. However, while Sri Lanka's HDI rank is the highest in South Asia, its percentage increase in human development index value is the lowest in the region. In the decade right after its independence, Sri Lanka had a per capita income, health, education and other socio-economic indicators comparable to that of the Republic of Korea, Malaysia and Thailand. However, as a result of the internal conflict in Sri Lanka, these countries have outpaced Sri Lanka on all socio-economic fronts. Had the conflict not taken place, Sri Lanka's HDI rank could have been around 50, comparable with other ASEAN nations, as against its current rank of 96.

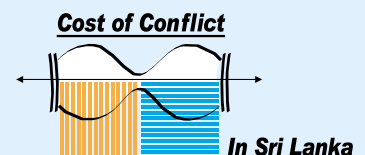
It is important to recognise that Sri Lanka has been plagued by high fiscal deficits averaging around 10% of its GDP, through out the 1990s, leading to the usual problem of crowding out of private investment and a serious public debt problem. In 2005, despite a large and prolonged flow of concessional assistance, the Sri Lankan government debt is at 119% of its GDP and interest payments at about 7%. Given the high interest payments, even if peace prevails, the Sri Lankan

government will not be able to channel enough money into developmental work. However, if the conflict resumes, development expenditure will take a toll to provide for an increase in military expenditure. Only if the military expenditure of Sri Lanka is reverted to the pre-conflict levels of 2%, an additional 2-2.5% of GDP could be freed. This could then be utilized to improve the quality of education, health and other social sectors in the country.

Backgrounder: Economy and Conflict



Sri Lanka has been struggling with a growth rate of below 6%. In the last half decade of the ceasefire it has done marginally better than the previous half decade of conflict. The important question to be raised is whether Sri Lanka will be able to achieve a growth rate of 7-8% as per its potential? India seems to have achieved a steady growth rate of 7% while Pakistan is attempting to reach that level. With the integration of Indian and Sri Lankan economies and with the tremendous goodwill that Sri Lanka earned during the ceasefire period it should be possible for the country to reach the Indian rate of growth. Obviously, both the economic policies and the conflict situation will determine whether Sri Lanka will actually achieve its potential.



1. Opportunity Cost of Growth

a. Trade

It is important to note that it is difficult to quantify the loss of industrial production and trade vis-à-vis the conflict. However, the conflict has resulted in loss of opportunity of trade for Sri Lanka in various ways.

The conflict has destroyed the infrastructure in many parts of the country. This in turn has rendered the intra country trade between the Northeast and the rest of the country difficult. The conflict has also diverted government resources and attention from infrastructure development to security issues.

Sri Lanka's ambition for becoming a trading hub is being frustrated by the continuous uncertainties of the conflict. The conflict and the resultant dip in social and economic indicators considerably reduced Sri Lanka's aspirations of joining the ASEAN bloc. Similarly, the conflict undermined India-Sri Lanka economic cooperation in various sectors - a relationship that would have greatly benefitted Sri Lanka within the SAARC bloc.

The government has failed to utilize its strategic location in the Indian Ocean shipping routes to become the main transit point for cargo ships. The Trincomalee port, which is the second largest natural harbour in Asia, has the potential to be of enormous strategic and economic value. But because it falls in the LTTE controlled region, its infrastructure has not been adequately developed.

If peace prevails, the government can focus on attaining a regional trading hub status by developing ports, cashing in on the Free Trade Agreements (FTA) with India and the US and by signing FTAs with other countries in South and Southeast Asia.

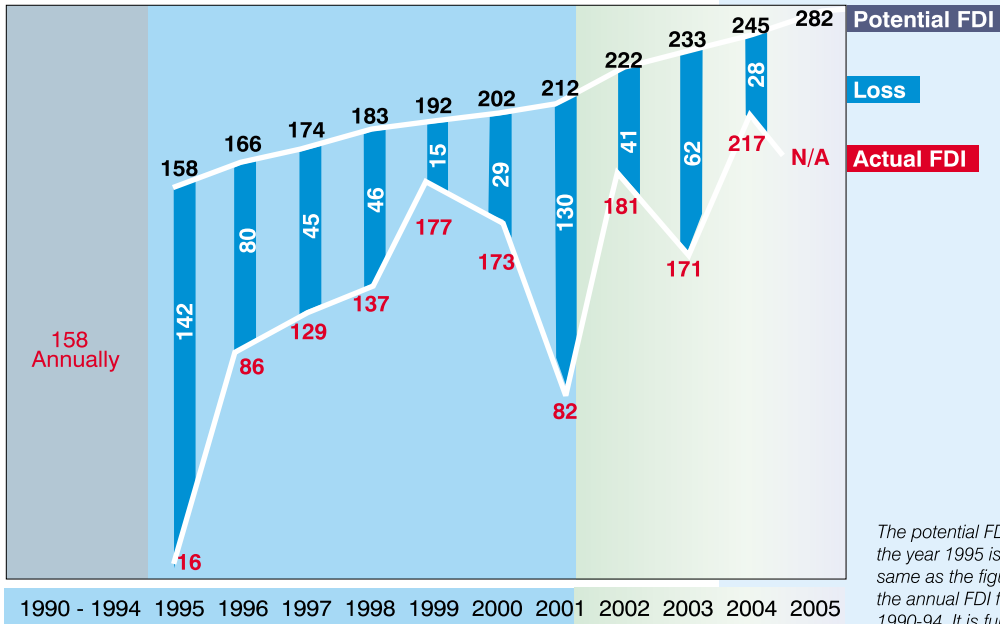
b. Foreign Direct Investment

Even though Sri Lanka has had a liberal foreign investment regime since 1977 and especially after 1990, FDI has been a very small component of its national economy. The pre-conflict era saw a rapid annual percentage increase in the amount of FDI, but since the escalation of the conflict, the net FDI has remained stagnant ranging between a mere \$100-200 million a year, considerably lower than other East Asian economies. The current ceasefire period has seen a nominal increase in net FDI.

It is important to note here that most of the foreign investment goes into the textile and information technology sectors and can be withdrawn at a short notice in case of instability in the country. Long-term investments in sectors such as infrastructure development are not very high.

If Sri Lanka has to achieve a growth rate of 7%, it would have to bring in FDI to the tune of a \$1 billion annually, considering the country has a low savings rate of 22%. Even if FDI grows at 30% per year, it would reach the \$1 billion target only by 2010. Sri Lanka is in a position to achieve this target due to the positive impact that its newly ratified FTAs are likely to have on its economy and the investment that it will attract if peace is maintained. However, if peace process is derailed, Sri Lanka will continue to receive net FDI in the range of a mere \$100-300 million.

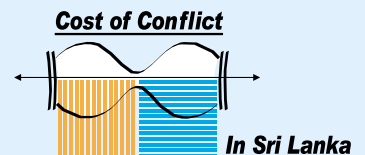
Loss of Net Foreign Direct Investment (\$ million)



The potential FDI for the year 1995 is kept same as the figure for the annual FDI for 1990-94. It is further extrapolated on the basis of 5% growth rate.

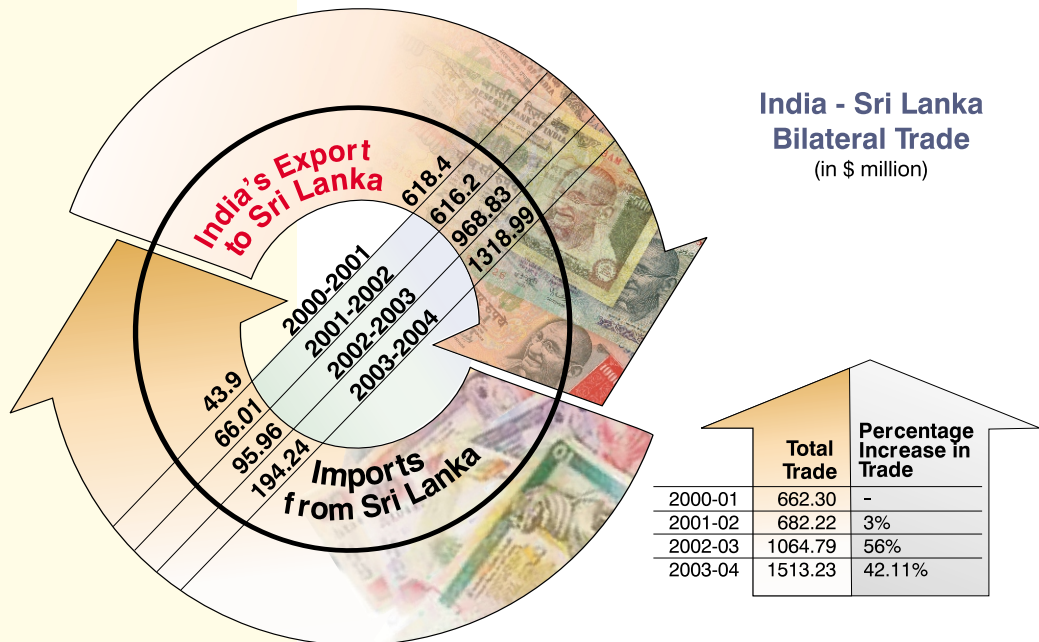
Year	Net FDI (\$ million)
2006	366.7
2007	476.7
2008	619.8
2009	805.7
2010	1047.4
2006-10	100 - 300

It should be noted that it is difficult to separate the effects of the war on foreign investment from other constraints such as macro-economic policy and the lack of supplementary infrastructure.



2. Regional Economic Cooperation

Sri Lanka is a member of the South Asia Association for Regional Cooperation (SAARC), the Bangkok Agreement, Bangladesh, India, Myanmar, Sri Lanka, Thailand - Economic Cooperation (BIMST-EC) and the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC).



It has been argued that one of the prime economic drivers for Sri Lanka, post its economic crisis in 2001, has been its trade with India. Since signing the FTA with India in 1998, Sri Lanka's trade with India has increased more than six fold from \$500 million to \$1.8 billion. With the FTA in place and signing of the ceasefire agreement, India has become the fifth largest buyer of Sri Lankan commodities, and the largest seller of commodities to Sri Lanka. India and Sri Lanka are also negotiating a Comprehensive Economic Partnership Agreement (CEPA) to facilitate private investment and business ties between the two nations.

Further, India has become the largest investor in Sri Lanka, second only to the US in cumulative investments. Currently, over 200 Indian companies are operating in Sri Lanka. India has invested around \$450 million in Sri Lanka so far – 54% of the total equity investment by Indian companies in regional joint cooperation.

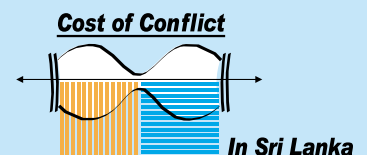
Total bilateral trade between Sri Lanka and Pakistan touched \$148 million in 2004. Sri Lanka's FTA with Pakistan in 2005, allows Sri Lanka to act as a conduit for trade between India and Pakistan, in view of the restricted official trade between the two neighbours. Sri Lanka's FTA with the United States can benefit the South Asian nations.

3. Loss of Tourism

The tourism industry is a major contributor to the country's economy. It is the fourth largest source of foreign exchange and a major employment generator. However, the conflict has taken a toll on the tourist arrivals and tourism receipts in Sri Lanka. The total number of tourist arrivals ranged from 3-4 lakhs in the 1990s, as compared to several million tourists per year clocked by rival destinations in Asia. In the last two decades, the total loss of earnings by the Sri Lankan tourism industry amounts to over \$6.3 billion. Other associated costs include decrease in the contribution of tourism sector to the GDP, decrease in visitor exports and also the loss of thousands of jobs.

If peace prevails, Sri Lanka can earn as much as \$3.2 billion from the tourism sector in the next five years, as against \$2.3 billion in case of conflict.

It is important to note here that the war in the North and the East of the country is not the sole reason for the fall in tourist arrivals and the subsequent loss of tourism related foreign exchange. The JVP insurrections in the late eighties also contributed towards the dip in tourism, as is evident from the quick recovery that came with the cessation of JVP violence after 1990.



Loss of Tourism

Year	Estimated Tourist Arrivals	Actual Tourist Arrivals	Loss of Tourist Arrival
1983	431,664	337,530	94,134
1984	457,564	317,734	139,830
1985	485,017	257,256	227,761
1986	514,118	230,106	284,012
1987	544,966	182,620	362,346
1988	577,664	182,662	395,002
1989	612,323	184,732	427,591
1990	649,063	297,888	351,175
1991	688,007	317,703	370,304
1992	729,287	393,669	335,618
1993	773,044	392,250	380,794
1994	819,427	407,511	411,916
1995	868,592	403,101	465,491
1996	920,708	302,265	618,443
1997	975,950	366,165	609,785
1998	1,034,507	381,063	653,444
1999	1,096,578	436,440	660,138
2000	1,162,373	400,414	761,959
2001	1,232,115	336,794	895,321
2002	1,306,042	393,171	912,871
2003	1,384,404	500,642	883,762
2004	1,467,469	566,202	901,267
Total Loss			

The estimated tourist arrivals is calculated on the basis of 6% growth as given in the Economic, Social and Human Cost of the War by Marga Institute. Earnings per tourist figures are calculated using the figures of actual tourist arrivals and gross receipts given in the Central Bank Annual Reports.

Sri Lanka witnessed a 20% annual increase in tourist arrivals during 2002 and 2003. As 2004 and 2005 figures are unavailable, a 20% annual growth in the number of tourist arrivals is maintained. Similarly, the earnings per tourist for this time period is kept at 2002 levels as updated figures are unavailable.

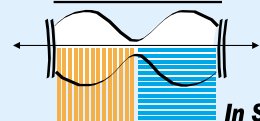
Earnings per Tourist (\$)	Loss of earnings (\$ million)
343.7	32
331.4	46
320.3	73
335.1	95
449.0	163
430.3	170
411.4	176
433.0	152
493.5	183
511.6	172
530.3	202
564.9	233
559.9	261
550.5	340
570.2	348
604.4	395
627.8	414
631.3	481
626.8	561
643.5	587
679.1	600
729.4	657
6,341	

For calculating the number of tourist arrivals in the future if peace sustains, a conservative estimate of 10% is taken as the 22% annual growth rate observed in the pre-conflict era and 20% growth rate during the ceasefire period is unsustainable due to the vast destruction of tourism related infrastructure by the Tsunami.

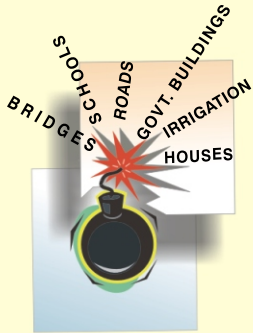
In case of the conflict, a conservative annual decline of 3% is taken as was observed during the Eelam War III. However, it should be noted that the tourist arrivals can dip to as low as 14%, as observed during the Eelam War I, depending on the intensity of the conflict.

	Peace (10% growth)		War (3% decline)	
	Estimated Arrivals (Numbers)	Estimated Earnings (\$ million)	Estimated Arrivals (Numbers)	Estimated Earnings (\$ million)
2005	566,202	413.0	566,202	413.0
2006	622,822	454.3	549,216	400.6
2007	685,104	499.7	532,739	388.6
2008	753,615	549.7	516,757	376.9
2009	828,976	604.7	501,255	365.6
2010	911,874	665.1	486,217	354.6
Total (\$ million)		3,186.5		2,299.3

Cost of Conflict



4. Costs of Physical Damage to Infrastructure



The regional conflict between the LTTE and the Government of Sri Lanka has especially, damaged economic and social infrastructure in the North and eastern parts of the country. Damage, however, is not restricted to these main theatres of conflict and has spread outside, in particular to the capital city of Colombo. A pre-ceasefire estimate of the total amount of damage done to commercial and government property, to houses in border villages, to roads and bridges, to irrigation systems, to land and machinery, to telecommunications and other infrastructure was valued at over Rs.137.1 billion in 1998 prices.

More specifically, war-related damage to transportation networks included:

- Destruction of 1,200 km of roads in the conflict ridden areas of the North and the East alone.
- Suspension of bus service in the North resulting in the redundancy of about 1,000 buses.
- Damage to the buses and buildings belonging to the SLCTB depot, which since the ceasefire is operating 155 buses a day and earning as much as Rs. 16 million a day.
- As a result of the 2001 attack on the KIA airport and other similar instances, the Civil Aviation sector in Sri Lanka has been adversely affected by the conflict. However, as is the case with the bus services, the aviation sector too has profited from the cessation of fighting in the country.
- Suspension of train services to parts of the northern and eastern provinces in the country due to the damage and destruction done to railway lines by the conflict. Efforts to reconstruct the northern and eastern railway lines could cost as much as Rs. 20,000 million for repairs and land acquisition.
- The Ministry of Relief, Rehabilitation and Reconciliation has earmarked Rs. 4 billion to rehabilitate 89 damaged bridges in eight conflict-affected districts to facilitate transport services in the North and the East.

War-related damage to other social infrastructure includes:

- Complete destruction of about 2,000 schools in the Northeast alone.
- About 326,000 housing units have sustained varying degrees of damage in the conflict-affected regions.
- In the Northeast, out of 400 health institutions, 55 are totally destroyed and 49 are not functioning; 115 health care centres are damaged.

In a future scenario of war, a targeted attack on critical national infrastructure such as the Victoria Dam on the River Mahaweli, the Colombo Port or even the garment production centres is a realistic possibility.

Damage to the Victoria Dam on the River Mahaweli would entail:

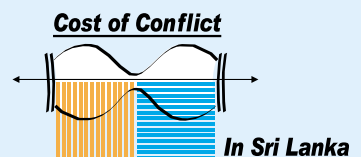
- Destruction of almost 50% of the country's electricity supply as the Mahaweli development project is one of the region's largest hydroelectric power projects in Sri Lanka.
- Disastrous impact on the national rice production in the country as the Mahaweli Authority of Sri Lanka governs the major irrigation systems, which irrigates 17% of national rice producing land.
- Acute electricity shortage for the commercial capital of Sri Lanka, Colombo, as the Victoria and Kotmale hydro plants supply electricity to the western provinces.

Targeting the garment centres or ready made garment companies, most of which are concentrated in and around Colombo, could entail:

- Unemployment of up to a third of the total employed personnel in the manufacturing sector.
- Serious decline in foreign exchange earnings as apparel exports account for over half of Sri Lanka's total exports and over 70% of total industrial exports.
- Decline in total GDP on account of garment exports accounting for 7% of total GDP

In the future scenario of peace, development of key infrastructure such as the Colombo Port, can reap significant economic, political and strategic advantages for Sri Lanka, in the South Asian region as well as internationally.

- The Colombo port has the strategic advantage of being on the main shipping lanes of world cargo movement. It is located in the South Asia Gateway Terminal (SAGT) and is placed in the centre of the main international East-West shipping routes. It has earned a reputation of being the ideal trans-shipment hub.
- In the next five years, the Government of Sri Lanka's vision to make Sri Lanka the Gateway to India, especially southern India, as Hong Kong is to China, can be realized if there is sustained peace in the country. After which, the Colombo port can expand to become the gateway to the entire South Asian region.
- The current ceasefire period has seen annual container throughput exceeding 2 million TEU's (20-foot equivalent units) - the highest volume ever handled by the Port of Colombo. However, Colombo trans-shipment volumes can increase to 4 million TEU by 2011. At this level, trans-shipment would account for around 75% of total port throughput. This is possible only in a climate of peace.



5. Relief, Reconstruction and Rehabilitation Costs

The government of Sri Lanka is spending millions of dollars for relief, rehabilitation and reconstruction work in the conflict-affected areas. It also receives international monetary aid. Total assistance loans and grants to Sri Lanka has averaged a little under \$400 million per year varying from a high of \$700 million in 1991 to a low of \$201 million in 2000. Over four-fifth of the assistance comes from the Asian Development Bank, the World Bank and from Japan. From 1981 to 2004, Sri Lanka has received a total of \$6.4 billion in loans and \$2.6 billion in grants. However, as security issues were the government's primary focus, it had been unable to implement many of the developmental projects. This led to severe under utilisation of the grant money. Between 1996 and 2000 an average of just 28% of the total value of grants had been utilised. The Institute of Policy Studies has estimated that the country had as much as \$2.5 billion in unutilised aid at the end of 2003. Foreign aid utilisation had come down from 27% in 2003 to 18% in 2004. Donors were also not happy with the non-implementation of some of the macroeconomic and institutional reforms that had been promised by the government as a condition for receiving aid. As such, development assistance as a share of GDP came down from 9% in the early 1990s to less than 3% by early 2000.

Since the signing of the ceasefire, additional donor support to the tune of almost \$430 million was coordinated to finance post-conflict assistance and reconstruction. The Government of Sri Lanka on its part has spent over \$230 million on rehabilitation and reconstruction projects as of 2004 end.

Projects by the Ministry of Relief, Reconstruction and Rehabilitation*



Districts	No. of Projects	Estimated Cost (\$ million)
Jaffna	83	13.59
Kilinochchi	10	1.43
Mannar	187	4.96
Mullathivu	7	0.35
Vavuniya	270	5.32
Eastern Districts of Batticaloa, Ampara and Trincomalee	N/A	8.94
Vanni	N/A	N/A
Total		34.59

*RRR work done in the North and the East by the Government since the signing of the Ceasefire Agreement.

Relief

The government provides dry rations to about 127,000 internally displaced families with a monthly income of less than Rs.1,500 (\$15). Although the quantity of rations distributed does not satisfy physical and nutritional standards, lack of funds prohibits enhancements of the amounts of rations handed out. As per January 2005 figures, the free distribution of dry rations costs the government about \$1.3 million per month.

The Livelihood Assistance of \$250 per family - one time aid provided to the families returning to their homes in the Northeast - has so far covered approximately 100,000 returnee families, costing the Sri Lankan government \$25 million. Additional 125,000 returnee families are waiting for the livelihood assistance, however the government has funds to cover only 25,000 families.

Government also pays compensation for conflict related death, injuries and damages.

As proposed by the Government of Sri Lanka at the Tokyo Donor Conference 2004, the immediate costs of some basic infrastructure reconstruction like education, health, water supply, roads etc, in the eight conflict affected districts comes to the tune of \$522 million. This is exclusive of the restoration and rehabilitation costs of employment generation, capacity development, institution strengthening, and development of economic activities like agriculture and fisheries, which adds up to another \$150 million.

Cost of Infrastructure Reconstruction (\$ million)

Head	Subcategory	Immediate	Mid-term	Long-term
Education		55.5	61.0	19.3
Health	Clinical and Preventive Services	18.7	26.8	43.0
	Health Infrastructure and Facilities	37.7	46.7	149.1
Reconstruction and Strengthening of Housing sector		155.8	180.4	273.9
Infrastructure	Roads	93.6	180.9	195.5
	Railways	No major reconstruction project	114.6	79.7
	Ports	1.0	20.5	12.3
	Telecommunications	20.0	65.0	-
	Power	41.0	104.8	84.8
	Irrigation	52.9	81.4	71.9
	Water and Sanitation	45.0	63.7	100.8
	Total		522.0	946.0



As per the background paper 'Assessment of Needs in the Conflict Affected Areas' as an input for the Tokyo Donor Conference 2004.

6. Loss in Earnings

Loss of Earnings: 2002-2005



Time period: Ceasefire period of 2002-2005.

Average income of refugees and people who have lost their lives: \$1,000 per annum (per capita income of Sri Lanka).

Internally Displaced Persons (IDPs): the figure only represents the number of IDPs in the government run welfare centres, most of who are economically unproductive. We have not considered the rest of the IDPs, living independently or with relatives, as they are considered to be economically active.

Average income of IDPs: \$400 per annum (per capita income of the Northeast).

The total numbers of IDPs in Sri Lanka are taken as of November 2004. The number of refugees represents the end of 2004 provisional figures.

Cause of loss	Total Number (2005)	Annual Income	Total Amount Lost Per Annum (\$ million)	Total Amount Lost 2002-2005 (\$ million)
Death	65,000	\$1,000	65.0	260
IDPs in Welfare Centres	78,000	\$400	31.2	125
Refugees	114,000	\$1,000	114.0	456
Total				841

Future Loss of Earnings: 2006-2010

Cause of loss	Annual Income	PEACE		WAR	
		Total Number	Total Amount Lost Per Annum (\$ million)	Total Number	Total Amount Lost Per Annum (\$ million)
Death	\$1,000	200	0.2	20,000	200.0
IDPs in Welfare Centres	\$400	60,000	24.0	175,000	70.0
Refugees	\$1,000	57,000	57.0	114,000	114.0
Total loss			81.2		384.0

It is not possible to put a monetary value on human life. However, it is important to show the impact of the conflict on the productivity of the human capital in a country and the resultant loss to its economy. The estimates are conservative, but they succeed in showing the enormous loss in human earnings caused by the Sri Lankan conflict.

Even in a situation of sustained peace, there still will exist a certain degree of capital loss on account of the following:

- IDPs in welfare centres, who are not likely to return to their hometowns unless they are assured of accommodation and financial support.

- Refugees - The ceasefire period saw the return of about 10,000 refugees from India. In the next five years, one is likely to witness the return of the remaining 57,000 Sri Lankan refugees from India. However, refugee return from developed countries will be lesser in number.
- Some deaths resulting from



sporadic factional, ethnic or insurgent violence.

In a situation of war, the number of IDPs in welfare centres will increase to the pre-ceasefire level; the number of asylum seekers will at least return to the 2005 level; and the number of war-related deaths will rise to 4,000 per year - resulting in losses in human earnings of about \$384 million per year.

7. Brain-Drain: Institutional and State Erosion

Lack of educational facilities and a high unemployment rate in Sri Lanka has resulted in high migration rates. In fact, the government encourages people to seek employment abroad as this not only lessens its burden to provide adequate jobs, but also brings in remittances. This approach of the Sri Lankan government is not surprising in view of the fact that the country's unemployment rate hovers around 9%, and annual remittances from abroad comes to a whopping \$1.3 billion through official channels alone. Remittances accounts for 18% of all current external receipts and 9% of GDP. Prior to the conflict, both migration and remittances were negative.

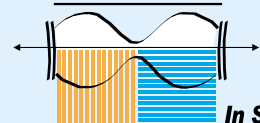
Departure for Foreign Employment (1986-2004)

Year	Total	History of Conflict
1986	16,456	In the eighties and during Eelam War I 
1987	16,127	
1995	172,489	
1996	162,576	
1997	150,283	Eelam War III 
1998	159,816	
1999	179,735	
2000	182,188	
2001	184,007	Ceasefire Period 
2002	203,773	
2003	208,803	
2004	213,453	
2005	N/A	
Total	1,849,706	

Migration by Age Group (2001-2003)

Age Group	2001	2002	2003
19 and below	82	1,468	3,842
20 - 24	20,618	38,843	34,942
25 - 29	34,818	41,946	44,396
30 - 34	33,372	37,550	37,552
35 - 39	31,301	35,078	36,116
40 - 44	25,197	24,621	26,351
45 - 49	12,872	10,254	11,707
50 and above	6,659	4,698	5,062
Unknown age group	19,088	9,315	8,785
TOTAL	184,007	203,773	208,803

Cost of Conflict



In Sri Lanka

Brain-Drain: Institutional and State Erosion

An alarming trend in migration is the increased level of migration of youth and women. Sri Lankan youth in the age group of 20-39 comprises 73% of the total migrating population. Also, since the early nineties, the percentage of Sri Lankan women seeking employment abroad has steadily increased, and as of 2005 it is around 65-70% of the total migrating population. The increase in the proportion of women leaving to work abroad is indicative of the changing social fabric in Sri Lanka where there are a larger proportion of female-headed households.

In the future, migration of people from Sri Lanka, especially youth and women, is likely to continue irrespective of the status of the conflict. This is because migration has a direct correlation to the lack of economic opportunities in the country.

	Central Government Employees	Non-Central Government Employees	Total Government Employees
Asia Average	0.9	0.7	1.6
Sri Lanka	2.3	1.6	3.9

The deterioration of the country's educational system has created non-English speaking constituents, especially in the rural areas. These constituents are unlikely to be employed in urban, private enterprises thereby, forcing them to seek low-skilled employment abroad. In order to ameliorate the unemployment problem, Sri Lanka continues to employ a large number of its citizens in the public sector. It has one of the largest bureaucracies in the region with a ratio of 3.9 civil servants per 100 people. In the decade prior to the ceasefire, public sector employment grew at 3.6% annually, outpacing the growth in population and labour force. The government employs about 14% of the labour force, and an additional 4% is employed in the semi-governmental sector. The already overstuffed public sector is going to be burdened with another 110,000 appointments, if President Rajapakse's election promise to provide government jobs is implemented.

Social and Political Costs

Backgrounder: Culture of Violence - Value Erosion

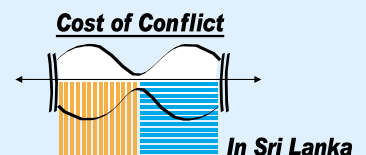
Once upon a time, Sri Lanka was described as a paradise of the South. The conflict has not only weakened its commitment to development and freedom but, also eroded traditional values of the Sri Lankan society such as ahimsa and tolerance. Today, Sri

Lankan society is marked by low tolerance, growth of right wing political parties, desensitisation to violence, high crime rates and draconian laws. The credibility of the government has taken a dip due to its failure to curb violence, protect minorities and deliver social goods.

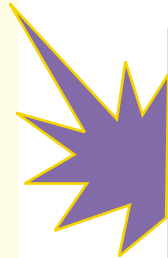
The LTTE, on the other hand, has an absolute authoritarian structure, largely ignoring people's complaints or wishes.

Erosion of human values

↑ The feeling of vulnerability and uncertainty
↑ Fundamentalism
↑ Corruption
↑ Violence towards women
↑ Substance abuse and addiction
↑ Domestic violence
↑ Hostility between Muslim and Tamil population
↑ The acceptance of extremism within the mainstream
↑ The polarisation of media
↑ Use of violence in politics
↑ The use of violent images in advertisements and political propaganda
↑ The erosion of political culture
↑ The distrust between political parties
↑ The criminalisation of politics
↑ Factionalism in politics



Backgrounder



Some of the societal costs emanating from a conflict are direct; some are indirect. For example, the political killings in Sri Lanka are directly related to the conflict. Transformation of institutions like the army and the increase in influence of religion in politics are indirect costs emerging from the conflict. Given the fact that societal costs are difficult to quantify, it is not possible to project future societal costs if the ceasefire is abandoned. However, given the feelings of marginalisation and alienation among the Tamil and Muslim communities of the eastern province, and increase in religious and ethnic clashes, even if the government reaches an agreement with the LTTE, it will still have some serious issues on hand in the coming future.

February 3, 1998 - Independence Day celebrations over shadowed by conflict.

September 3, 1998 - The Amnesty International protested illegal arrests, prolonged detention, use of unauthorized places of detention, torture and disappearances in Sri Lanka.

October 20, 1998 - According to the Presidential Commission, families of civilians who are shot dead by the Sri Lankan Armed Forces are as a rule accounted for as terrorists by the Sri Lankan police and hence are ineligible to obtain compensation.

December 26, 1998 - Civilians armed with knives, cudgels and guns smashed up UNP election office at Ridigama, north of Colombo.

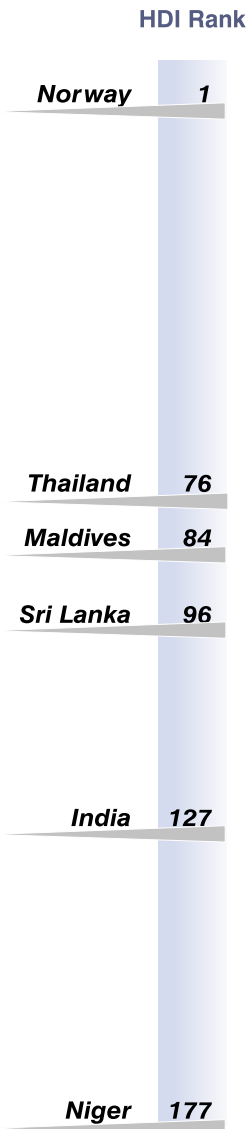
January 25, 1999 - People's Alliance for Free and Fair Elections claimed that the Northwestern provincial elections were rigged with incidents of ballot box stuffing, impersonation of a large number of votes, physical assaults on polling agents, violence etc.

August 18, 1999 - Violence at a rally in Colombo by the youth wing of UNP (opposition party) over the Government's failure to honour its election pledges.

January 4, 2000 - Red Cross officials were charged under the Prevention of Terrorism Act.

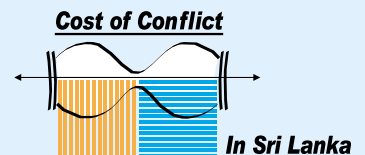
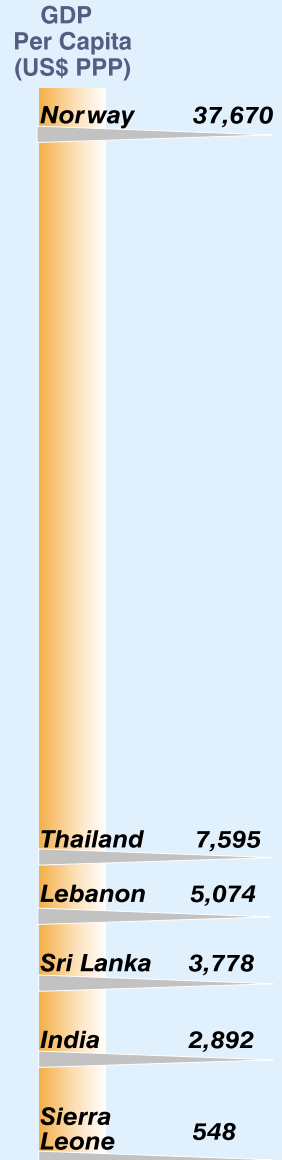
January 29, 2002 - JVP activists demonstrated in Colombo against granting regional autonomy to Tamils; evidence of a growing powerful force of Sinhalese nationalism.

1. Human Development Indicators



Sri Lanka is rightly known for its early commitment to human development. By the 1970s, Sri Lanka had development indicators far better than other low-income countries and some middle-income countries. However, as a result of the southern and northeastern conflicts, Sri Lanka's human development indicators have been adversely affected due to curtailed state expenditure on education and health and damage to social infrastructure. This is particularly evident in the conflict-affected areas of the North and the East.

It is important to remember that most statistics compiled for Sri Lanka in the last twenty years or so, excludes the districts in the North and the East. If one were to include estimates for these regions, Sri Lanka's human development indicators would paint a picture less rosy than the one presented here.





2. Transformation of Institutions and Society

a. Sri Lankan Armed Forces

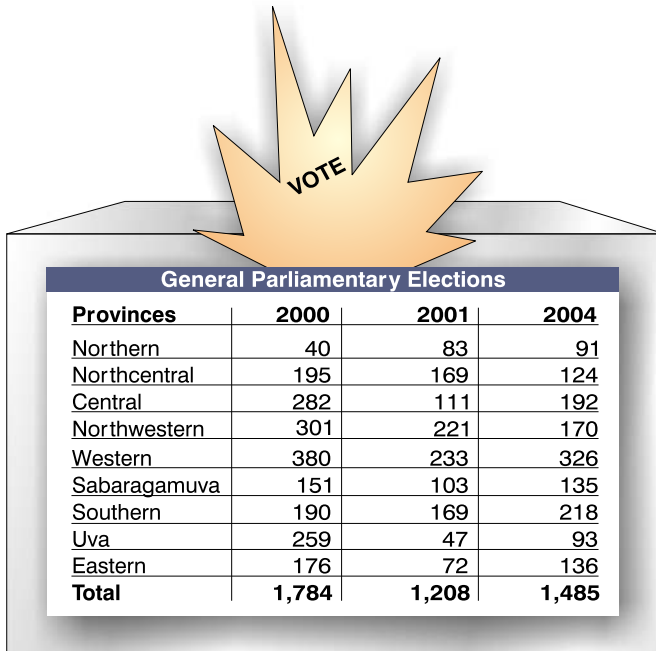
Sri Lanka has developed a strong military apparatus, starting with a mere 10,000 personnel at the time of independence. At that time the military was neither ethnically or religiously representative of the population at large. Both Christian, as well as Tamil minorities were well represented in the armed forces. However, by 1983, the ethnic and religious identity of the forces was altered and by 1985, 92% of the armed forces were Sinhalese. In 2005, Sinhalese constitute 98% of the armed forces. It is ironic that these forces are deployed in predominantly Tamil speaking regions. Lack of knowledge of Tamil or English amongst majority of the armed personnel, makes it difficult for them to communicate with the locals in the Northeast.

b. Segregation of people

The last forty plus years has seen the formation of two distinct monolingual political constituents in Sri Lanka. In spite of being multi-ethnic in character, the different groups in the northeastern provinces share a common Tamil language that sets them apart from the other Sri Lankans, who follow Buddhism and speak the Sinhalese language. The formation of these segregated constituents is largely the result of past government policies on education, which among other things, placed all private schools under government tutelage (1961) and set a policy of monolingual instruction (1972). A negative outcome of these policies was the creation of two distinct sets of population, educated solely in their own mother tongue and respectful only of their own culture, religion and ethnicity. The lack of a common language, which can serve as a means to overcome the linguistic barriers between individuals educated in different languages, leaves little scope to transcend ethno-religious divides. Lack of contact and the restriction on the mobility of people from travelling into each other's territory, have produced unfamiliarity and a psychological barricade between the Tamils and Sinhalese. The government or the media does little to bridge this gap between people.

c. Political Polarisation

The post ceasefire period witnessed couple of interesting turns in Sri Lankan politics. On one hand, the political crisis that led to the 2004 elections underscored the prevalent political schism in the country. On the other hand, when the hardline JVP withdrew its support to the government on the issue of signing a joint post-Tsunami reconstruction mechanism with the LTTE in 2005, the opposition showed solidarity by not bringing down the minority government. However, the political polarisation was evident again during the 2005 Presidential election. Two factors that played a decisive role in the



General Parliamentary Elections			
Provinces	2000	2001	2004
Northern	40	83	91
Northcentral	195	169	124
Central	282	111	192
Northwestern	301	221	170
Western	380	233	326
Sabaragamuva	151	103	135
Southern	190	169	218
Uva	259	47	93
Eastern	176	72	136
Total	1,784	1,208	1,485

Election Related Violence as per Province

outcome of the 2005 Presidential election were: majority voting based on nationalist and ethno-religious platform, and the unofficial boycott of the election by the LTTE, which prevented Tamil populations in the Northeast from exercising their franchise.

The ethnic conflict has augmented polarisation and violence in Sri Lankan politics. Election related violence of varying degrees has been reported by the Center for Monitoring Election Violence (CMEV) in all political elections since the onset of the conflict. Clashes amongst political parties, resulting in casualties and property damage have become a common feature of Sri Lankan politics.

On its part, the LTTE's history reeks of election boycotts, interference in the voting process, intimidation and assassinations of anti-LTTE Tamil leaders.

The peace negotiations will come of age only if Sri Lanka manages to bridge its political rivalries.

3. Societal Costs

a. Influence of Religion in Politics

The results of the 2004 General Elections witnessed the emergence of a theocratic dimension in mainstream Sri Lankan politics. The Jathika Hela Urumaya (JHU), a party formed by Buddhist monks, won 9 seats in the election in spite of the fact that the JHU was formed on the last date of filing of candidature. This speaks volumes about their influence on Sinhalese people. Along with the Mahajana Eksath Peramuna (MEP), the Buddhist-Sinhalese parties account for 4.0 % of all seats in Parliament. This places Sri Lanka at par with India and Pakistan in terms of the percentage of seats belonging to religious hardliner parties in Parliament.

The recent past has witnessed a prominent presence of Buddhist monks at political rallies and demonstrations. The advent of Sinhalese nationalism has led to a rise in the support for organizations such as the All-Ceylon Buddhist Congress, the Colombo Buddhist Theosophical Society, the All-Ceylon Buddhist Women's Association, and the Young Men's Buddhist Association. While it is rare for Buddhist orders to unite behind a political issue, if and when they do so, they form a potent political force given the large number of followers of the religion in the country.

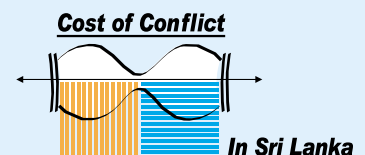
The influence of religion in politics is certain to rise in the future as can be witnessed by the introduction of the "Prohibition of Forcible Conversion Bill" and the "Act for the Protection of Religious Freedom". These bills sponsored by the hardliner party JHU and the Ministry of Buddhist Affairs respectively, aim to place restrictions on the circumstances under which a person can be converted from one religion to another. If either of these bills becomes a law, Sri Lanka will violate the International Convention on Civil and Political Rights (ICCPR).

b. Religious and Sectarian Violence

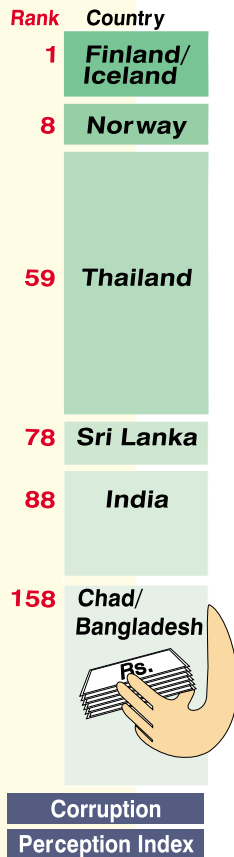
The inability of the Sri Lankan government to stop attacks on religious minorities and to prevent ethnic clashes has severely eroded its credibility. The Tamil and Muslim populations in the eastern province feel marginalized by the government. The eastern province is witnessing an increase in tensions between Muslims and Tamils, clashes between different Muslim sects, while the southern parts of the country have witnessed attacks by Buddhist villagers on Christian groups. There are reports of attacks on mosques, temples and churches. The US State Department report states that the LTTE has attacked Buddhist sites in the past. It also states that as part of the ceasefire accord, government security forces have begun the process of vacating Hindu religious properties in the North and the East of the country. The continued killings and intimidation has created an atmosphere of fear amongst the civilians in the East.

Sectarian Violence

Date and Year	Nature of Incident
October 11, 1997	Armed group sets fire to 15 buses and other vehicles in the Kadirgamam Transport Board area. The Kadirgamam is a temple complex that historically housed Hindu temples but is now a Buddhist shrine enclave.
December 27, 1997	Muslim Tamil unrest in Matale.
December 1997	The month saw a number of attacks on members of the Razeek group in Batticaloa. Around eight members killed in a clash with the EPRLF.
January 25, 1998	Communal violence breaks out in Kandy when a Sinhalese mob went on a rampage damaging several Tamil owned shops and a Hindu temple; 11 people killed and around 23 civilians injured.
February 7, 1998	Ethnic clashes between Muslim and Sinhalese groups in Pannala town in Kurungala district northwest of Colombo, resulting in imposition of curfew in the area.
February 16, 1998	Communal violence in the north-central province of Nochchiyagama after attacks on Muslim shops resulting in imposition of curfew.
June 1, 1999	11 civilians are killed and six injured when the LTTE attacked a Sinhala settlement in the southern part of Mullathivu district.
April 5, 2002	Two Muslims dead and several wounded when the police open fire at a crowd to quell the clashes between Muslims and Sinhalese in a predominately Muslim town of Beruwala, south of Colombo.
June 25, 2002	Clashes between Muslims and Tamils in Mutur town of Trincomalee.
June 26, 2002	Members of an alleged Islamic group attack the home of Tamil journalist P. Satsivanantham in Mutur and damage the house.
June 27, 2002	A Tamilian is killed and 13 more injured in attacks by alleged members of an Islamic group in Valaichenai, near Batticaloa.
June 28, 2002	Muslim extremists attack Deputy Minister for Fisheries, Mr. Mohideen Abdul Cader's house. Another mob sets fire to a local government office in Valaichenai.
October 30, 2002	Unidentified persons burn down two shops owned by Tamils, in Pottuvil, Ampara district.
October 30, 2002	In Colombo clashes are reported between Sinhala and Muslim communities resulting in the death of a Muslim and injuries to 12 more.
November 18, 2002	Curfew is imposed in Mundal, Marunthakuli and 11 more villages in Chilaw division, north-western province following clashes.
November 18, 2002	A group of Sinhala youth attacks a Muslim refugee camp in Puttalam-Srimapura area.
April 18, 2003	Three Muslims die during a clash between Tamils and Muslims in Muttur town.
July 19, 2003	Residence of the Chairman of the Tamil-Muslim Reconciliation Committee, Mohamed Hussein Hayat Mohamed, is attacked at Oddamavadi in Batticaloa district.
September 30, 2004	Several hundred Muslim civilians in Mannar set ablaze two LTTE political offices at Pesalai and Mannar following the murder of a Muslim civilian.
May 17, 2005	A hand grenade lobbed by suspected LTTE cadres at Madathadi Junction in Trincomalee where a new Buddha statue is being erected.



4. Softening of the State



a. Corruption

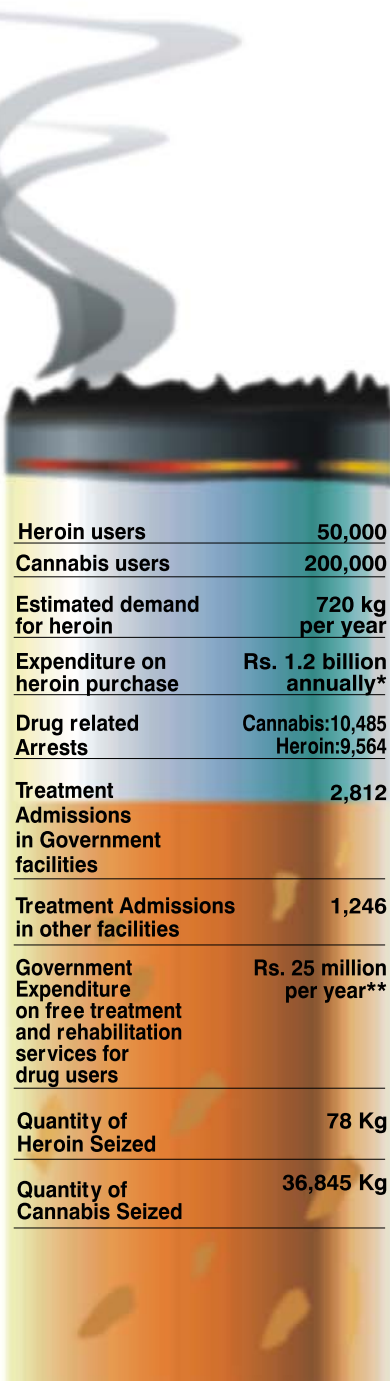
The softening of Sri Lankan state is manifested in varied ways. The biggest manifestation is in terms of growth in culture of violence. There is intense public dissatisfaction over the law and order situation, especially over the acts of violence committed by the political leaders and their children.

Corruption has penetrated every walk of Sri Lankan society. According to Transparency International, the law enforcement agencies - police and judiciary - are the most corrupt public sector agencies in Sri Lanka. Another sector where corruption is widely prevalent is the defence procurement sector. Accusations for irregularities in multimillion dollars defence deals have become a commonality. Speculations are also rife about high corruption in relief, rehabilitation and reconstruction work in the conflict-affected areas with irregularities in procurement of goods and materials, handling of aid money and distribution of livelihood assistance.

b. Growth of Crime

Sri Lankan society is witnessing growth in culture of violence. There has been an increasing incidence of people resorting to violence to solve their problems. There are instances of deserters from the Sri Lankan armed forces setting up criminal gangs, especially in and around Colombo. There are also instances of acts of violence by relatives of political leaders. There is an intense public dissatisfaction against the government for its failure in curbing violence.

The country has witnessed a rise in organized crime. The increasing number of small arms in Sri Lankan society has led to a greater number of incidents involving firearms. Statistics by the Sri Lanka Police puts a total of 14,511+ cases of reported homicide and an additional 7,108+ cases of attempted homicide between 1995-2003 alone. The statistics also indicate that offences under the Offensive Weapons Act continued to grow even during the ceasefire period. These crimes, along with the violence perpetuated by the rebels, are indicative of the deteriorating law and order situation in the country.



c. Drug Culture

Sri Lanka has had a history of cannabis use for cultural, religious and medicinal purposes, however it was not until the late 1970s and early 1980s that narcotics such as heroin and other recreational drugs made their way into mainstream society. One of the reasons for this was the escalation of ethnic conflict in the North and the East that witnessed active involvement of the LTTE in drug trafficking business for revenue generation. The conflict also made it difficult for the armed forces to protect and control their borders effectively against drug trafficking.

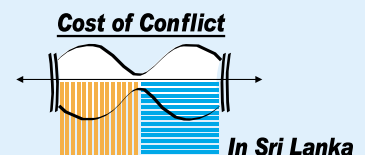
The unofficial estimates for drug addicts are more than double the official figures. The majority of heroin users are in the age group of 20 to 35 years, generally from urban areas. The expenditure on drugs is a considerable drain on the economy. Further, as is proven, drug abuse also leads to domestic violence, thefts, and other crimes.

Sri Lanka's proximity to both, the "Golden Triangle" and the "Golden Crescent" makes it a major transit point for drug trading to Europe and other western countries on an organized scale. With the inflow of revenues from expatriates reducing, the LTTE is likely to deepen its linkages with the trafficking of narcotics, consequently, exposing Sri Lankan society to higher incidence of substance abuse.

All the figures are for 2004.

**Price of heroin taken at Rs.1.7 million per kg.*

***The expenditure by Department of Prisons for correctional services of drug-related offences, mental and physical problems, disruption of education and other costs incurred by the immediate family members of drug users is not taken into account.*



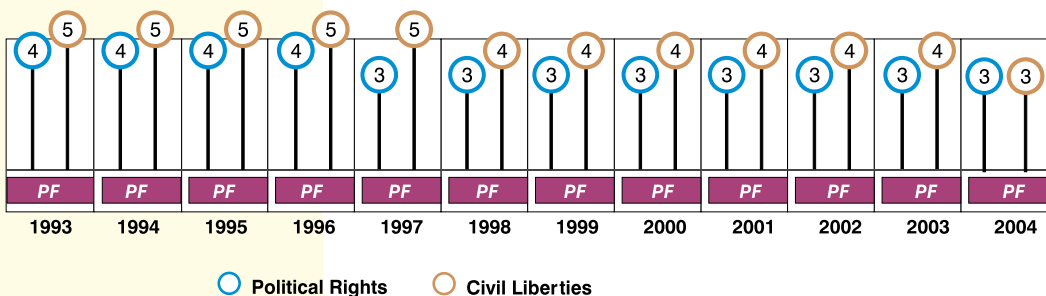
5. Authoritarian Governance

a. Curbs on Civil Liberties

All over the world, ethnic conflicts result in the undermining of the democratic principle. Sri Lanka is no exception. Over the years civil liberties and human freedom in Sri Lanka have taken a beating. Six years prior to the ceasefire, Sri Lanka earned the ominous recognition of being a country with the second highest number of disappearances. Since the ceasefire, there has been an overall reduction in the number of human rights abuses by the police and security forces, however, prolonged detention and use of torture remains a concern. Although no new arrests have been reported under the Prevention of Terrorism Act (PTA) in 2004-05, around 40 prisoners who were previously detained under the PTA remain in custody. There were also reports of 13 custodial deaths as a result of police torture in 2004.

Sri Lanka is an unfortunate example of a country, which has enforced an economic embargo on its own population - the Tamils in the Northeast. The embargo was ostensibly directed against the LTTE but affected the Tamils living in the region. Although travel restrictions on civilians in the North and the East have been lifted as a result of the ceasefire, Tamils continue to face some harassment and abuse by soldiers and police at checkpoints, violating their right to freedom of movement as citizens of Sri Lanka. The Tamil population is also required to carry additional identification papers.

Political rights and civil liberties



PF: Partly Free

Political Rights and civil liberties are measured on a one-to-seven scale, with one representing the highest degree of freedom and seven the lowest. Countries whose combined averages for political rights and for civil liberties fall between 1.0 and 2.5 are designated as "Free", between 3.0 and 5.5 as "Partly Free" and between 5.5 and 7.0 as "Not Free."

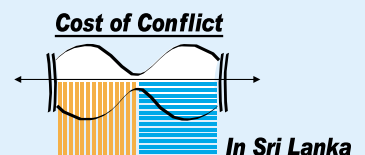
b. Media

During the conflict period, the government had restricted freedom of expression of the media, particularly with regard to coverage of the civil war. Reporters, in particular those who cover human rights issues, faced harassment and threats from the police, security forces, and the LTTE. Prior to the ceasefire, the government also limited the access of domestic and foreign media to information and censored news related to the military and security situation. In 1998, the government imposed direct censorship on all domestic and foreign media reports relating to the ongoing or possible future military and security operations, as well as publication of photos of bomb blast victims. Both these censorships were lifted in May 2001, however, complaints about indirect government censorship of private media personnel and agencies continue. Sometimes this indirect censorship is in the way of not giving government advertisements to media taking an anti-government stance. On its part, the LTTE also restricts the media in areas under its control - especially, the state media has very limited access to the Northeast.

State-owned / State-run		LTTE-owned	
<p>Press</p> <ul style="list-style-type: none"> • Daily News <i>English daily</i> • Dinamina <i>Sinhala daily</i> • Thinakural <i>Tamil Daily</i> <p>Radio</p> <ul style="list-style-type: none"> • Sri Lanka Broadcasting Corporation (SLBC) <ul style="list-style-type: none"> - Sinhala - Tamil - English 	<p>Television</p> <ul style="list-style-type: none"> • Sri Lanka Rupavahini Corporation (SLRC) channels: <ul style="list-style-type: none"> - Rupavahini - Channel Eye • Independent Television Network (ITN) <p>News Agencies</p> <ul style="list-style-type: none"> • Lankapuvath • Tamil News Agency 	<p>Press</p> <ul style="list-style-type: none"> • Several newspapers & magazines • Sinhala language monthly • Tabloid, <i>Dedunu</i> <p>Radio</p> <ul style="list-style-type: none"> • Voice of Tigers 	<p>Television</p> <ul style="list-style-type: none"> • National Television of Tamil Eelam (NTT)
Private			
<p>Press</p> <p>13 privately owned newspapers</p> <ul style="list-style-type: none"> • 7 - English • 3 - Sinhalese • 3 - Tamil 	<p>Television</p> <p>7 private channels</p>	<p>Radio</p> <p>8 private radio channels</p> <ul style="list-style-type: none"> • 3 - English • 3 - Sinhalese • 2 - Tamil 	

In 2002, against the background of the peace process, the government permitted Tamil Tiger rebels to start FM broadcasts of the Voice of Tigers radio station in the North. The station had previously operated on a clandestine basis.

In March 2005, the LTTE launched its very own television channel, the NTT that broadcasts for 15 minutes a day and can be viewed in the Northeast of Sri Lanka, as well as, some parts of Europe. Broadcasts to Asia are expected to start in the near future.

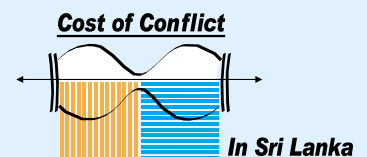


6. Politicide

Leaders assassinated by the LTTE (1975-2000)

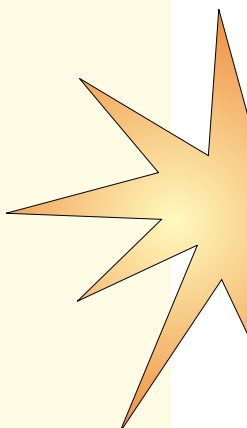

	Name	Post Held	Assassination Date
2000	M.L. Baithullah	People's Alliance (PA) Candidate	October 2, 2000
	Cheliyan Perimpanayakam	PA Candidate & Former Mayor of Batticaloa	September 10, 2000
	C. V. Goonaratne	Federal Minister, Industrial Development	June 7, 2000
	Aruna De Silva	Deputy Mayor, Dehiwala	June 7, 2000
	S. Sunderampillai	UNP	March 1, 2000
1999	Marias Anton aka David	People's Liberation Organisation of Tamil Eelam (PLOTE) leader	December 10, 1999
	Atputharajah Nadarajah alias Ramesh	EPDP leader	November 2, 1999
	Nagalingam Manikkadasan	PLOTE, military wing leader	September 2, 1999
	Neelan Thiruchelvam	MP and TULF leader	July 29, 1999
	Muthulingam Ganesh Kumar aka Razeek	Leader, Razeek group	May 29 1999
	Rajaratnam Kugarajah, Sivalingam Sivathanan and Mirukandam Jeyakody	Senior TELO members	May 15, 1999
1998	Ponnathurai Sivapalan	Jaffna Mayor	September 11, 1998
	S. Shanmuganadan	MP	July 15, 1998
	Sarojini Yogeswaran	Jaffna Mayor	May 17, 1998
	Seenithambi Puvanenthiran	Senior TELO member	February 23, 1998
1997	Mohammad Maharroof	MP	July 20, 1997
	Arunachalam Thangathurai	MP	July 5, 1997
1995	Thomas Anton	Deputy Mayor, Batticaloa	October 26, 1995

1994	Karavai Kandamasamy	Deputy Chairman, Democratic People's Liberation Front	December 31, 1994
	Gamini Disanayake	Presidential candidate, UNP	October 24, 1994
	G. M. Premachandra	MP	October 24, 1994
	Weerasinghe Mallimarachchi	MP	October 24, 1994
	Gamini Wijesekara	General Secretary, UNP	October 24, 1994
	Ossie Abeygunasekara	MP	October 24, 1994
1993	Ranasinghe Premadasa	President, Sri Lanka	May 1, 1993
1991	Rajiv Gandhi	Former Prime Minister, India	May 22, 1991
	Ranjan Wijeratne	Minister of State, Defence, Sri Lanka	March 2, 1991
1990	K. Kanagaratnam	MP	July 15, 1990
	K. Padmanabha	EPRLF General Secretary	June 19, 1990
	V. Yogasankari	MP	June 19, 1990
	P Kirubakaran	Finance Minister, North East Provincial Council	June 19, 1990
	T. Ganeshalingam	Minister, North East Provincial Council	June 28, 1990
	Sam Tambimuttu	MP	May 7, 1990
1989	A. Amrithalingam	TULF General Secretary, MP	July 13, 1989
	V. Yogeswaran	Former MP	July 13, 1989
1987	A. Majeed	Former MP	November 13, 1987
1986	Sri Sabarathnam	TELO leader	May 6, 1986
1985	K. Alalasunderam	MP	September 3, 1985
	V. Dharmalingam	MP	September 3, 1985
1981	A. Thiagarajah	MP	May 25, 1981
1975	Alfred Duraiyapah	Former Mayor, Jaffna	July 27, 1975



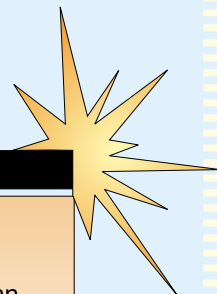
Politicide

Assassination of anti-LTTE Tamil Leaders since the Ceasefire Agreement (2002-05)



2005	2004	2004
Murgesu Wardharaja Vice Chairman, Porathivu Pattu Pradeshiya Sabha, EPRLF (Varathar) <i>April 28, 2005</i>	Velayutham Dayalakumar Former PLOTE member <i>November 4, 2004</i>	K. Balanadarajah Media Secretary, EPDP <i>August 16, 2004</i>
Vijayadas Wijendran EPDP <i>April 11, 2005</i>	Kingsley Rajanayagam Former TNA MP <i>October 19, 2004</i>	Seniththamby Yogarajan EPDP <i>August 11, 2004</i>
A. Kirubeswaran Former PLOTE member <i>March 7, 2005</i>	Valli Sundaram EPRLF (Varathar) <i>September 27, 2004</i>	Athmalingam Ramani Deputy Organiser, EPDP <i>August 10, 2004</i>
	Somasundaram Varnakulasingham Central Committee member, EPDP <i>September 23, 2004</i>	Kandiah Yogarasa aka PLOTE Mohan Intelligence operative, PLOTE <i>July 31, 2004</i>
	Thambithurai Sivakumar EPDP <i>September 18, 2004</i>	Velayutham Raveendran Amparai District Organiser, EPDP <i>July 21, 2004</i>
	Maivan Chandramohan Chairman of the Achchuweli Pradeshiya Sabha, EPDP <i>September 11, 2004</i>	Rajan Sathiyamoorthy Batticaloa TNA candidate <i>March 30, 2004</i>

2004	2003	2002
<p>Ponniah Yogendran EPDP</p> <p><i>March 1, 2004</i></p>	<p>Kandiah Subathiran Former member, Jaffna Municipal Council, EPRLF (Varathar)</p> <p><i>June 13, 2003</i></p>	<p>Poopalapillai Alaguthurai Deputy Chairman, Porathivu Pattu Pradeshiya Sabha, EPRLF (Varathar)</p> <p><i>December 21, 2002</i></p>
<p>S. Sunderampillai Batticaloa UNF candidate</p> <p><i>March 1, 2004</i></p>	<p>Marimuthu Rajalingam Chairman, Aalaiyadivembu Pradeshiya Sabha, EPDP</p> <p><i>April 18, 2003</i></p>	

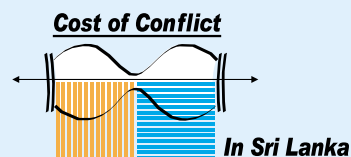


It should be noted that assassinations of only prominent anti-LTTE Tamil leaders are listed here. LTTE has killed many anti-LTTE Tamil party members and political activists.



Political leaders have not succeeded in escaping the wrath of Sri Lanka's ethnic conflict. There was a dramatic escalation in political killings, especially in the East, following the split in the LTTE. Many anti-LTTE Tamil political leaders and activists were assassinated. The Sinhala political leaders have escaped politicide since the ceasefire. However, if there is a conflict again, Sinhala politicians will be the obvious targets.

The assassination of foreign minister Lakshman Kadiragamar in August 2005 threatened to derail the three and a half year old ceasefire. Though, the CFA survived the Kadirgamar assassination, more high profile political assassinations in the future could lead to a disruption of the peace process.



7. Acts of Terror

Outside Main Conflict Theatre

The impact of the conflict has not been restricted to the North and the East, but has been felt in other parts of Sri Lanka. The LTTE has consistently targeted economic entities in and around Colombo. It has used bombs in the past to target telecommunication exchanges, electricity transformers and financial and commercial institutions. This strategy has been successful in disrupting power and communication services, affecting businesses in the capital city. They have also targeted transportation services such as buses and railways, blocking passage to and from the city. If war resumes, during 2006-10, Colombo and other parts of the country are likely to suffer significantly.

Major Incidents of Terror (1996-2005)

Date	Incident
January 1996	The Central Bank of Sri Lanka in Colombo is bombed, adversely affecting the financial district of the country.
June 24, 1996	Bomb blast on the Dehiwala - Colombo train kills 64 passengers.
August 9, 1997	Sri Lankan Government cargo ship MS Princess Wave attacked and badly damaged in a LTTE attack.
September 9, 1997	Sri Lankan government cargo ship MS Cordiality attacked and destroyed by the LTTE.
October 15, 1997	Two bomb blasts; first in the Twin Tower buildings that houses the Sri Lanka Stock Exchange and neighbours a number of five-star tourist hotels; the second in the state owned Lake House building. Three people are killed and at least 40 injured, while financial damages are estimated at Rs.6 billion.
January 25, 1998	A truck bomb rammed into Dala damaligava (the Temple of the Tooth), the planned location of Sri Lanka's Independence Day celebrations.
March 9, 1999	Three isolated bomb explosions: first explosion at the Pettah bus terminal injuring 22 people; the second one, in a Colombo bound train injuring four and causing damage worth Rs. 300,000; the third explosion took out a transformer causing damage worth Rs. 200,000.
December 19, 1999	President Kumaratunga and her cabinet members are injured in a bombblast. A second blast at a UNP elections meeting where a number of prominent members sustain injuries. A total of 104 people are injured and 25 people killed in these twin blasts.
January 5, 2000	13 people are killed, including members of the PM security division, and 25 are wounded when a bomb explodes on a police post located in front of the Pm's office.
January 27, 2000	A bomb explodes in Vavuniya post office killing three and injuring 73 persons.

February 8, 2000	Three people killed and 43 wounded when two bombs explodes in Colombo buses.
March 10, 2000	A bomb explodes near Borella, a suburb of Colombo, killing 14 and injuring 43.
June 7, 2000	C.V. Gooneratne, Sri Lankan Minister of Industries, killed in a bomb explosion on Galle road, south of Colombo; at least 20 other people killed and 27 wounded,
June 27, 2000	Grenade attack on Save the Children office, a Norwegian aid agency in Colombo.
October 2, 2000	A bomb explosion at the cultural centre of Mutur in Trincomalee district kills at least 20 people, including a candidate of the People's Alliance, and injures 45.
October 5, 2000	12 people dies and 44 sustains injuries when a bomb explodes in a PA rally in Medawachchiya, northeast of Anuradhapura.
October 19, 2000	23 persons, including three American women, gets wounded in a suicide bomb explosion near Vinaramaha Devi park in Colombo.
October 23, 2000	Suicide attack on the Trincomalee harbour destroys two naval vessels.
January 31, 2001	Grenade attacks in the Oxfam office, a UK based NGO. No casualties.
May 16, 2001	Tamil Chelvan escapes death when on his way to meet Eric Solheim, his convoy is hit by a claymore mine in Wannii.
June 13, 2001	Nizam, the LTTE political wing leader for Batticaloa and Ampara districts, is killed in a claymore mine explosion near Batticaloa.
July 24, 2001	LTTE attacks the Airforce base in Katunayake and the Bandaranaike International Airport, Colombo. Eight military aircrafts and six Airbus passenger aircrafts are destroyed or damaged. 14 LTTE rebels and seven security force personnel are killed, while 12 are wounded in the attack.
August 22, 2001	LTTE sets off an explosion inside a passenger bus at Periyakulam, 10 km away from Trincomalee, injuring 18 persons.


Acts of Terror

Outside Main Conflict Theatre

September 6, 2001	Unidentified miscreants hurl grenades at the International Committee of the Red Cross (ICRC) office in Muttur.
September 26, 2001	Senior LTTE leader, Vaithyalingam Swarnalingam alias Shankar, is killed in a claymore mine blast in Oddusudam.
October 29, 2001	Bomb blast in Narahenpita kills one and injures at least 20.
October 30, 2001	Oil tanker, Mt. Silk Pride at 12 nautical miles north of Point Pedro is destroyed, killing three Navy personnel and four LTTE Cadres.
November 18, 2001	Chief priest of Sripura, Ven. Pihimbiyagolle Dhammaloka is killed, while three others, including two clerics, are injured when their vehicle hits a claymore mine at Konamariyawa.
March 2, 2002	A blast at an ammunition dump of the Sri Lankan Army in Vavuniya destroys a large stock of ammunition.
July 25, 2002	A soldier is killed in retaliatory firing by the LTTE. This is the first casualty after the truce came into force in February.
December 12, 2002	An explosion is set-off at the office of the Tamil Rehabilitation Organization (TRO) in Batticaloa causing minor
March 10, 2003	Sri Lanka Navy (SLN) sinks an LTTE vessel suspected to be ferrying arms killing 11 cadres, 180 nautical miles east of Mullathivu.
March 20, 2003	Chinese fishing trawler, 33 km northwest of Mullathivu sinks. While 16 fishermen are reported missing; 16 more are rescued.
April 2, 2003	An unidentified, armed assailant kills paramilitary leader Varathan in Ariyampathi, near Batticaloa.
July 7, 2004	Suicide bombing attack at the Kollupitiya Police station next to the Sri Lankan Prime Minister's official residence in Colombo kills four police personnel and injures nine others.
September 23, 2004	LTTE cadres kill Reggie, elder brother of Colonel Karuna, at the Illupadichchenai area in Batticaloa district.
December 11, 2004	Indian actors escape a bomb blast at the end of their concert in Colombo. The blast kills two persons and injures 15 others.
February 7, 2005	LTTE's eastern political wing leader, Kaushalyan, his deputy Nedimaran and three cadres are killed in an ambush at Poonani in the Batticaloa district.
August 12, 2005	Assassination of foreign minister Lakshman Kadirgamar.

Costs for the People of the North and the East

Backgrounder: Costs to the North and the East



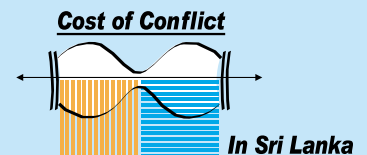
People living in areas of direct military activity	2.5 million
Land Mines*	1.8 million
Civilians killed	43,000
Conflict related disability	10-15,000
War widows	30,000
Internally Displaced Persons (1983-2001)	800,000
Displaced children (1983-2001)**	300,000
Internally Displaced Persons (2005)	370,000
Conflict inflicted migration to foreign countries	2-300,000

*majority in the North

**inclusive in IDPs figures of 1983-2001

The North and the East of Sri Lanka, being the main theatres of conflict, have faced immense destruction in terms of loss of life, displacement of people, and loss of infrastructure, health care and educational facilities. Out of the total 65,000+ civilian casualties claimed by the conflict, two-third was in the North and the East. In 2005, there were numerous instances of violence in the East on account of infighting between the breakaway Karuna faction and the LTTE, as well as violent clashes between the different ethnic groups residing in these provinces. Deaths and casualties on account of both these issues are likely to continue through the ceasefire period.

The ceasefire has resulted in resumption of economic activities in the Northeast region. However, the region will require continuation of peace, billions of rupees of investment and unwavering commitment of the government for reconstruction and rehabilitation to match with the progress and development of other provinces of Sri Lanka. A resumption of the conflict, will take away the benefits experienced by the region during the ceasefire period.



1. Humanitarian Impact of the Conflict

a. Landmine Victims


Year	History of Conflict	Casualties*
1983 - 1995	War	In thousands
1995 - 2000	War	500 - 700 per year
2001	War	700+
2002	Ceasefire Period	142
2003	Ceasefire Period	99
2004	Ceasefire Period	33
2005 (Jan-Aug)	Ceasefire Period	< 30
2006 - 10	Peace	< 20 per year *
2006 - 10	War	500+ per year

**due to residue mines*

According to the Sri Lanka Development Forum 2005 report, there are an estimated 1.8 million land mines in the North and the East spread over 640 villages, 50% of which are located in the Jaffna district. This is due to extensive use of landmines by both the armed forces, as well as the LTTE as defensive weapons. Reports claim that almost 40% of the total number of mines have been cleared since the ceasefire. However, other sources put this figure at 10% of the total mines planted.

Even though there have been no reports of the new use of landmines by either the armed forces or the LTTE since December 2001, landmine casualties continue throughout the ceasefire period. It will continue into the immediate future as well – primary victims being civilian returnees and mine clearing contractors, both of who will live near or work in the landmine areas. On the other hand, if war were to resume, new landmines are likely to be replanted expediently, given that Sri Lanka is not a State Party to the Mine Ban Treaty. This may result in the death of over 500 people each year for the next five to ten years.

b. Internally Displaced Persons (IDPs)



Total No. of IDPs	Year	Total No. of Returnees
Approx. 750,000	2002	269,012
Approx. 481,000	2003	76,722
Approx. 404,000	2004	33,084
Approx. 371,000	2005	
Approx. 175,000*	2006 - 10	Approx. 196,000
Over 600,000	2006 - 10	-

**Out of total number of IDPs at the end of 2005, it is estimated that many IDPs would not like to move back to home, whereas some would rather move elsewhere.*

The Ceasefire Agreement triggered the return of IDPs. However, the number of returnees has been gradually slowing down. Some of the main obstacles hindering the return of the IDPs are:

- Landlessness and the lack of income-generating opportunities;
- The unresolved issue of restitution of property;
- The lack of infrastructure in war-torn areas;
- The continued existence of high security zones in the conflict-affected region;
- Security concerns, especially regarding landmines.

In a future scenario of conflict between 2006-10, there are likely to be more than 600,000 IDPs mostly comprising of the people who have returned to the conflict zone between 2002-05, as they would be considerably more mobile and transient, and thus vulnerable to the conflict.

c. Impact of Migration

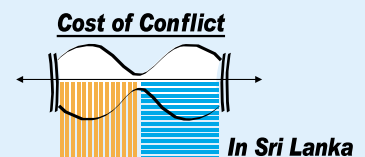
The impact of the mass displacement of people and migration from the conflict-ridden areas of

Change in the Ethnic balance of the North and the Eastern Provinces (% of total population)

	Sinhalese		Tamil		Muslims	
	1981	2001	1981	2001	1981	2001
Ampara	37.65	39.33	20.51	18.76	41.53	41.59
Batticaloa	3.22	0.16	71.99	74.38	23.97	24.98
Trincomalee	33.62	26.50	36.41	33.04	28.97	40.19
Mullathivu	5.09	0.01	89.88	99.99	4.87	0.00
Vavuniya	16.55	8.45	76.26	85.64	6.92	5.89
Mannar	8.14	0.02	63.75	94.84	26.62	5.14
Jaffna	0.56	0.01	97.73	99.95	1.66	0.04

The mass displacement of people from the North and the East has drastically changed the ethnic composition of this region. On one hand, the Tamil population in the country as a whole has decreased from 12% at the start of the conflict to 8% in 2005 due to conflict-induced migration. On the other hand, the internal displacement has resulted in a decrease of Sinhalese and Muslim populations in the conflict zones. This has disturbed the ethnic balance of the affected districts.

Sri Lanka in 2006-10 will face serious problems on account of returnees. When the Muslim IDPs, currently concentrated in the eastern parts of the country, decide to return to their houses in the North, there is a possibility of a clash with the Tamils for government assistance. A combination of displacement and resettlement issues will fuel ethnic violence and tension between all three groups – Tamils, Muslims and Sinhalese.





2. Costs to Children and Women

a. Costs to Children of the North and the East

Children are among the groups most severely affected by the war. The impact of war on children in the North and the East include:

(i) Child Soldiers The LTTE is one of the first insurgent groups to use children as combatants and suicide bombers. Assessments of LTTE soldiers killed in combat during the 1990s found that between 40-60% of the dead combatants were children under the age of seventeen.

LTTE signed the Action Plan for Children Affected by War (APCAW) in mid-2003, agreeing to release child cadres from its ranks, as well as to discontinue child recruitment in the future. However, since the Action Plan was signed, the UNICEF database shows that more than twice as many children have been recruited as have been released. The total child recruitment by the LTTE, since the signing of ceasefire agreement till 2004 end, is estimated at 3,516 children. Especially, the period starting from the last quarter of 2004 showed an increase in recruitment drive due to several factors:

- Disbandment of Karuna faction resulted in the release of more than 1,800 child soldiers by early August 2004. The LTTE carried on a re-recruitment drive to bring these child soldiers back as combatants.
- The possibility of a breakdown of the ceasefire in November 2004 forced the LTTE to enhance its child recruitment drive.
- Various sources estimate that the LTTE lost between 700 to 2,000 soldiers in the Tsunami. The LTTE are reported as replenishing their forces with child recruits who have been orphaned or displaced by the Tsunami.

In the future, irrespective of war or peace, there will be an increasing pressure from the international community to stop child recruitment. However, the LTTE is likely to continue its policy of using child soldiers, if not for anything else, then to keep the notion of a Tamil nationhood alive amongst the next generation.

It is important to note here that the peace process has brought out an unexpected twist to the child soldier issue. People are no longer willing to 'donate' their children to the LTTE. This has resulted in the increased abduction of children by the LTTE. As per the Human Rights report 2004, in 1994 one in nineteen child recruits was abducted, while the rest volunteered. Whereas in 2004, only one in nineteen volunteered, as due to the ceasefire, people see no reason to donate their children to the LTTE.

(ii) Other costs There are large numbers of children who have lost one or both parents as a result of the conflict. In the eastern district of Batticaloa, 53% of children have had a direct family member die or disappear as a result of the conflict. As of today, more than 10,000 children are living in orphanages.

- Children have been exposed to the brutality of war and severely traumatized by the violence they have witnessed or suffered. As many as 95% of such children recalled events for which the definition of a post-traumatic stress disorder applies.
- Of the remaining IDPs in Sri Lanka, it is estimated that 34% are children.
- There are approximately 50,000 children out of school in the North and the East.
- Landmines have killed 20 children and maimed 17 in 2003 alone.
- Parents fear sending their children to schools for risk of them being abducted en route.
- Child marriages are conducted, as it is perceived that the LTTE is unlikely to recruit amongst married couples.

b. Costs to the Women of the North and the East

Widows in Northeast



	< 20 Years	21 - 30 Years	31 - 40 Years	41 - 50 Years	51 - 60 Years	> 60 Years	Total
Batticaloa	192	285	1,220	1,954	2,662	4,146	10,459
Trincomalee	9	47	214	45	650	1,109	2,074
Vavuniya	5	58	155	210	238	365	1,031
Mannar	385	317	311	405	411	696	2,525
Kilinochchi	15	296	1,356	1,323	844	911	4,745
Jaffna	91	760	2,212	4,256	6,805	12,621	26,745

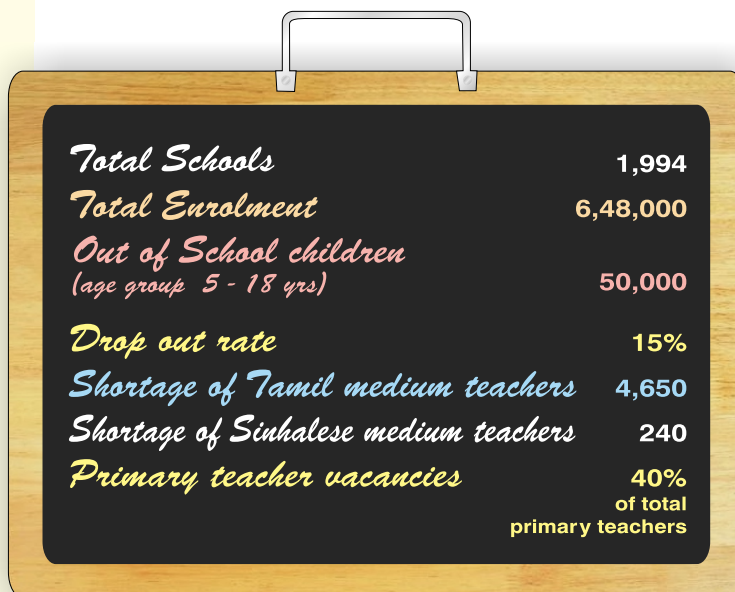
Figures for Ampara and Mullathivu are unavailable.

Women of the North and the East are another group that have immensely suffered as a result of the conflict. They constitute a large chunk of the IDPs in Sri Lanka and have been subjected to rape, detainment, harassment and violation of their personal security.

As an outcome of the conflict, women have been rendered the breadwinners of their families, as their husbands, fathers, sons or brothers were either killed or injured. There are an estimated 47,500 war widows in Sri Lanka, more than 50% of who belong to Jaffna. At present there are an estimated 30,000 female-headed families in the North and the East. The number of widows looking after a household with three dependents or more is 13,000. The conflict has raised the proportion of female-headed households, not only in the Northeast, but also in many of the poorer rural areas and low-income communities of the South from where recruitment into the armed forces is sought.

Many of the war widows and their dependents are heavily reliant on the government or NGO assistance due to the lack of a steady income. This reliance will continue in the future unless government creates enough employment opportunities for them.

3. Education Related Costs



<i>Total Schools</i>	1,994
<i>Total Enrolment</i>	6,48,000
<i>Out of School children (age group 5 - 18 yrs)</i>	50,000
<i>Drop out rate</i>	15%
<i>Shortage of Tamil medium teachers</i>	4,650
<i>Shortage of Sinhalese medium teachers</i>	240
<i>Primary teacher vacancies</i>	40% of total primary teachers

Conflict and the consequent poverty, displacement and infrastructure damage has resulted in non-enrolment, dropouts, absenteeism and poor learning and teaching facilities in the North and the East. Pre-school, primary, secondary and tertiary education facilities lie in disrepair with 25% of schools fully or partially damaged. The conflict has resulted in damages to approximately 15,000 classrooms in some 500 schools. Other sources peg the number of damaged schools to as high as 2,000. More than 100 schools are unable to function because they are near military installations or lie within security zones. Many schools are occupied by the security forces. There are approximately 27,000 internally displaced children in the border districts of Puttalam, Anuradhapura and Polonnaruwa, who require additional classroom space and resources. In some areas, the teaching staff is less than 5% of the requirement.

The cost of reconstructing the educational institutions will run into millions of dollars. Plus about 200,000 square meters of additional classroom space and around 300,000 square meters of additional space for laboratories, libraries and office rooms, will be required to replace damaged buildings and expand the available space to absorb the anticipated increase in enrolment, in the event of prevalence of peace in the region.

4. Infrastructure Costs

The conflict in the North and the East has not only caused destruction of the existing infrastructure, but also impeded development of new infrastructure in the region. Education, health and other physical infrastructure lag behind the national standards by almost 15 years.

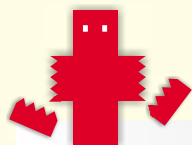
Housing

There has been major destruction of towns and villages in the North and the East. Many towns and villages, like the Chavakachcheri town and Thiriyai village, have been completely destroyed. The government faces economic constraints with regards to reconstruction of the houses. The lack of finances and the uncertainty related to the outcome of the peace process has deterred people from constructing new houses and in repairing damaged ones. While on one hand, a large percentage of partially damaged houses are dilapidated due to neglect and vandalism; on the other, the region is experiencing overcrowding, poor quality of housing and high rentals.

Costs of Current Housing Projects				
Houses	Fully damaged	Partly damaged	Incidental and Capacity Building Costs	Total
No. of Houses	36,800	9,200		
Cost of reconstruction per unit	Rs. 1,50,000	Rs. 70,000		
Total Cost (in Rs. million)	5,520	644	2,836	9,000

Ministry of Relief, Rehabilitation and Reconstruction commenced a project for the construction of 46,000 houses in the eight conflict affected districts of the North and the East, with an implementation period from 2005-08. It is estimated that nearly 326,700 houses are damaged in the region.

Infrastructure Costs



Health Infrastructure

	Total No.	Impact of Conflict
Health institutions	400	55 are totally destroyed 49 are not functioning Many others suffer from lack of maintenance
Health care vacancies	11,132	4,522 posts (41%) are vacant, mainly in the skilled and professional categories
Hospitals with Obstetric Care	55	25 hospitals are either destroyed or non-functioning

The two-decade long conflict has pushed the health sector in the North and the East to the brink of collapse, particularly in the North. Damage extends to the water supply and sanitation systems, inadequate treatment of hospital wastes, shortages of drugs and equipment, inadequate laboratory facilities, absence of blood banks, and lack of intensive care units.

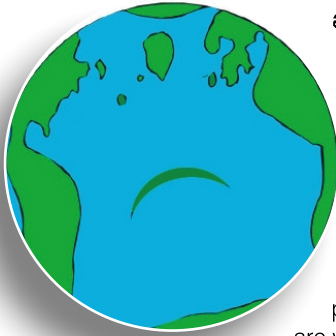
Other Infrastructure

Other infrastructure such as roads, railways, bridges, telecommunications, power and water supplies is greatly debilitated due to the conflict and needs significant reconstruction to match the development standards of the rest of the country. Only 10-15% of the road surface in the Northeast is still intact. Similarly, water and power supply is erratic. Except for the railways and ports, the ceasefire period has seen acceleration in the reconstruction process. About 50 bridges have been identified for rehabilitation and work has started on 10 of them. However, complete restoration of infrastructure will require long-term peace and immense amount of money.

5. Environmental Costs

War Related Costs to the Northeast environment

Forests areas have reduced drastically because:



LTTE indulges in the illegal logging of timber and other wood as a revenue generating source.

Security forces clear forests for reducing the security cover for the LTTE who hide in the forests.

Damage to natural vegetation, animal and plant life, cultivatable land, biodiversity and the ecological balance in the region due to heavy explosives, landmines and military operations.

There has been a significant increase in water pollution posing health hazards, as dug wells and open ponds are vulnerable to the debris generated by the war.

Many animals are killed during the military operations. More than 1,500 elephants have been claimed by the armed conflict.

Use of artillery, aerial bombs, mines and incendiary devices has caused immense destruction of vegetation and animals in the Northeast. Further, left over debris and craters as a result of bombing have disrupted the soil profile and reduced productivity of the land. Significant troop movement and the use of heavy vehicles and tanks have also caused considerable damage to the land. The environmental degradation caused as a result of war-related activities is contributing to the scarcity of natural resources in the region. This in time could lead to an exacerbated conflict over those very same destroyed resources within different ethnic groups and regions of the country .

6. Economic Costs

a. Share of the North and the East in National GDP (in %)

Province	1990	1995	1998	1999	2000	2001	2002	2003
Northern	4.4	3.1	2.9	2.5	2.2	2.5	2.6	2.7
Eastern	4.2	4.6	5.5	5.0	4.5	5.0	4.9	5.5

The transition from war to peace has realized a substantial economic dividend for the North and the East. The GDP of the northern province grew by an average of 12.6% during the ceasefire period, compared to 3.4% prior to the signing of the ceasefire agreement. On the other hand, the GDP of the eastern province increased by 10.1% per annum during the ceasefire period, as compared to 4.6% prior to the ceasefire. However, the combined contributions of these provinces to the national GDP still remains low in comparison to the 1982-83 levels of 15-20% of the total national GDP.

b. Costs to Agricultural Sector

Crop	Exports from the North and the East to Sri Lanka (1982)	Impact of War on Agricultural Sector
Paddy	33%	Vast tracts of land rendered unusable due to land mines, bombing etc
Chilies	40%	Agricultural land taken over for military purpose
Red onions	85%	Damaged irrigation facilities
Grain legumes	30%	Damaged transportation facilities
Livestock production	30%	Low electrification process
Fish production	55%	Prohibition on the movement of goods to & from rebel-held areas to government areas

Agriculture dominated the pre-war economy of the North and the East accounting for 33% of total output and 80% of employment. During the war, areas under cultivation in the North and the East fell by 50-80%, while the share of the North and the East in paddy production dropped from 33% in 1980 to just 3% in 2000.

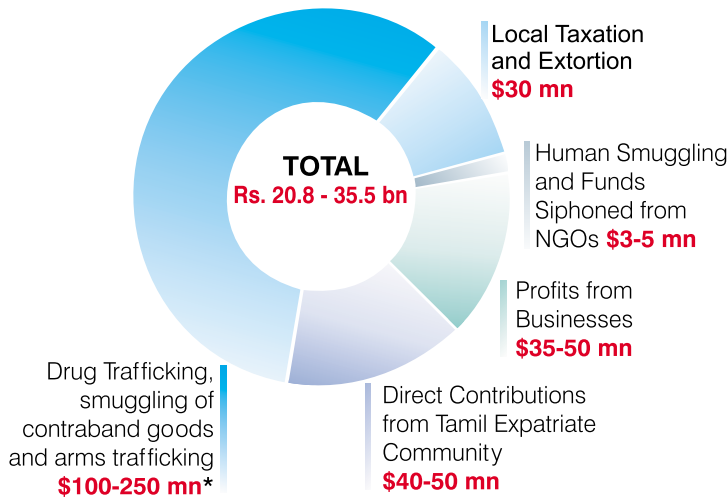
Result

Transformation of agriculture from commercial activity to subsistence activity

A recent study by the Economic Division of the Sri Lanka Peace Secretariat mentions that the agricultural sector has experienced a phenomenal growth of 32% per annum in the northern province and 19% per annum in the eastern province during the ceasefire period, compared to 4.3% and 4.9% respectively during the pre-ceasefire period. This is a positive development given the fact that the agricultural sector currently employs 39% of the labour force of the North and the East.

7. LTTE Income and North and East Economy

Breakdown of LTTE Annual Income



**World Drug Report 2005, UNODC puts the global drug trade at more than \$320 billion a year in revenues. The LTTE income from drug trade is minuscule in comparison to the world drug trade.*

LTTE Income in comparison to the North and the East Economy (Rs. billion)

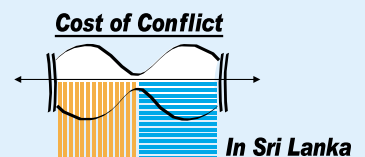
Year	Total GDP of	LTTE
	Northeast	Annual Income
1996	50.8	20.8 - 35.5
1997	62.0	
1998	76.3	
1999	75.0	
2000	75.4	
2001	91.6	
2002	105.2	

In the pre-ceasefire period of 1996-2002, the LTTE income equaled to about 28% of the GDP of the North and the East. In the ceasefire period, the GDP of the northern province grew by 12.6% while the eastern province grew by 10.1%. Concurrently, the ceasefire period witnessed a decline in the overall annual income of the LTTE due to the aforementioned reasons.

As a result of the ceasefire agreement, taxation and extortion from locals in the North and the East provinces has been on the increase, especially with the opening of the A-9 highway, where taxation on vehicles, goods and people contributes to as much as Rs.5 million per day to the LTTE. This income could be expected to increase in case of continuation of ceasefire due to enhanced movements of people and goods.

The ceasefire period has also indicated that if the peace prevails, remittances from the Tamil expatriate community are likely to be invested in the prosperous Western provinces, rather than in the North and the East. Also, with the introduction of stringent anti-terrorism financing legislation in most of the countries, direct contributions by Tamil expatriate communities can be expected to decrease in 2006-10.

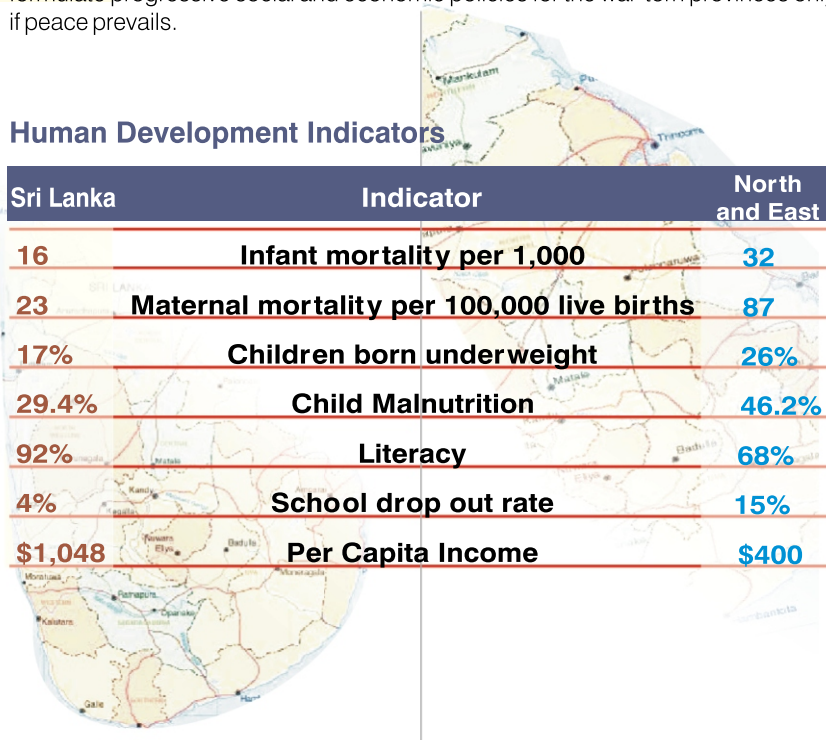
The LTTE already has links with drug cartels originating in Central, South and East Asia. With a dip in its funding due to various terrorism financing laws, the LTTE could more and more be driven to exploit its location between the “Golden Crescent” and the “Golden Triangle” and its established shipping network to generate income from drug trafficking.



8. Regional Disparities

There is a cause and effect relationship between conflict and regional disparities in Sri Lanka. If the conflict continues, the North and the East are bound to remain poor, and the relative regional disparities will further accentuate the conflict. The Government of Sri Lanka will be in a position to invest more resources and formulate progressive social and economic policies for the war-torn provinces only if peace prevails.

Human Development Indicators



Sri Lanka	Indicator	North and East
16	Infant mortality per 1,000	32
23	Maternal mortality per 100,000 live births	87
17%	Children born underweight	26%
29.4%	Child Malnutrition	46.2%
92%	Literacy	68%
4%	School drop out rate	15%
\$1,048	Per Capita Income	\$400

A cursory glance at the available health and education indicators shows a vast difference between the Northeast and the national average.

The number of households with access to sanitation facilities is as low as 28% and 26% for the eastern districts of Batticaloa and Trincomalee respectively. The North and the East account for 92% of all malaria cases reported in the country. The education level is markedly lower in the region with nearly 75% and 65% of the employed persons in the eastern and the northern province respectively, having a level of education below G.C.E. (O/L) only. The region also has an unemployment rate above the national average of about 9%, with unemployment in the eastern province higher in comparison to the northern province. The female unemployment rate is more than four times the male unemployment rate in both provinces. It is observed that the highest proportion of unemployment is reported in the age group 20-24 years, leaving this group vulnerable to recruitment by the LTTE.

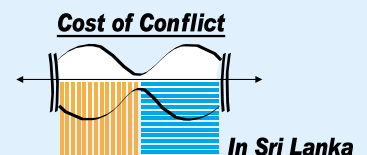
If a long-term sustainable solution to the conflict is to be found or the escalation of a new conflict in the future is to be prevented, the current socio-economic situation of the Northeast needs to be improved.

Investment Climate in the North and the East

Infrastructure	Northeast		Western Province
	North	East	
Access to Electricity	9%	33%	High
Access to Water	70%		98%
Quality and Access to Roads	Ranked the lowest in the country		Twice that of any other province
Telecommunications and Internet usage	Ranked the lowest in the country		Twice that of any other province

The western province accounts for nearly half the total GDP of Sri Lanka, even though only 29% of the country's population resides in these areas. In comparison, the combined contribution of the eastern and northern provinces accounts for less than 10% of GDP, while the number of people residing in these areas is comparable to the western province. Further, the per capita income of the western province is more than two and a half times that of the Northeast. This regional economic difference has resulted in disparities in the incidence and severity of poverty. While the incidence of poverty has declined substantially in the western province, it remains very high in the northeastern region.

Even though, since the signing of the ceasefire agreement there has been a marginal improvement in the conflict-ridden provinces of the North and the East, regional disparity is likely to continue due to the sluggish improvement of irrigation and electrification facilities in the agricultural sector in these provinces, and the concentration of Free Trade Zones, better infrastructure and educational facilities in the western zone.



Scenarios

Scenarios

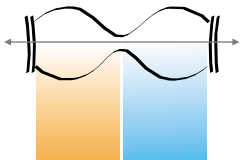
The main actors of the conflict in Sri Lanka are likely to hold on to the ceasefire agreement till 2010. However, beyond 2010 interplay of several factors will determine the course of the status quo. The factors determining the course of the conflict in Sri Lanka are:

Factors acting as an impetus to the peace process

- ⌘ Increased pressure by the international community on all actors integral to the peace process to uphold it.
- ⌘ Commitment of the ruling coalition and all other Sri Lankan political parties to work out a feasible solution to end the conflict.
- ⌘ Prabhakaran senses trouble amongst his cadres and takes interest in quickening the pace of the peace process.
- ⌘ Prabhakaran dies, by natural or other causes, and the LTTE, which is a commander-cadre organisation, loses its power.
- ⌘ A non-Congress government comes into power in India, which softens its stance towards Prabhakaran and the LTTE.

Factors acting as an impediment to the peace process

- ⌘ The nationalist wave witnessed during the 2005 Presidential election continues to advance, further dividing the Sri Lankan society on ethno-religious lines.
- ⌘ JVP continues to take a hardline stance on giving any concessions to the LTTE.
- ⌘ LTTE loses interest in the peace process - either due to the slow progress of the peace process or its desire to continue with unaccountable power.
- ⌘ Congress Government continues to remain in power in India, which has a hardened stance over any sort of concessions to Prabhakaran.
- ⌘ Muslims and Sinhalese join hands in opposition to the peace process.



1. Struggling on the Earth

This scenario is based on the assumption that the Sri Lankan Government and the LTTE manage to uphold the ceasefire agreement till 2010.

The ceasefire period (2006-10) witnesses a considerable reduction in the level of violence. A prolonged status quo increases expectations amongst the population in the conflict zone regarding development issues like equal distribution of social services, relief, reconstruction and rehabilitation, infrastructure development and employment generation. The government's failure to deliver on these accounts leads to dissatisfaction amongst the affected population. The JVP and other hardliner parties increasingly voice their dissent with the status quo. With the ceasefire in place, fewer people volunteer to join the ranks of the LTTE. Further, funding from expatriates, as well as

other Tamil sympathisers decreases – partly due to stringent terrorism financing laws, and partly due to investment opportunities available in Sri Lanka during the ceasefire period. To ward off its funding problems, the LTTE increases its drug trafficking business. To replenish its cadre strength, the LTTE indulges in forced recruitment of children. A possible power struggle within the LTTE's ranks cannot be ruled out.

Sign Posts

- ⌘ The total number of casualties during 2006-10 decreases. Sri Lankan military expenditure ranges between 2.5-3% of GDP, however, its strength continues to remain around 150,000. LTTE strength continues to be around 10,000.
- ⌘ The immediate cost for reconstruction of basic infrastructure, namely education, health, housing, roads, railways, power, water and sanitation, comes to the tune of \$522 million - a major strain on the weak Sri Lankan economy.
- ⌘ Approximately 175,000 people continue to remain displaced in 2010.
- ⌘ Total loss of earnings caused due to death and displacement amounts to \$81 million in the period of five years.
- ⌘ Despite the ceasefire and consequent marginal improvement in the conflict-affected provinces of the North and the East, regional disparity continues due to the sluggish improvement of irrigation and electrification facilities in the agricultural sector as well as the lack of Free Trade Zones and better infrastructure and educational facilities in these provinces.
- ⌘ School enrolment ratio drops as parents fear sending their children to schools for risk of being abducted en route by the LTTE. The assassination of anti-LTTE political leaders continue.
- ⌘ The number of drug addicts increases; expenditure on heroin purchase comes to \$12 million annually.
- ⌘ Polarisation of the masses intensifies, as a significant part of the Sinhalese population, especially those with little direct experience of the conflict, opposes major concessions to the LTTE. Also, demand of the eastern Tamils and Muslims for participation in the peace process makes the situation complex.
- ⌘ Sectarian violence in the conflict zone increases over the issues of monetary assistance, relief, relocation and employment assistance.
- ⌘ Sri Lanka witnesses an increase in the influence of hard-line political parties, along with an increase in the influence of religion in politics.
- ⌘ Intra-country trade increases and the relatively free movement of goods and people proves to be an important confidence building measure between the Tamils and Sinhalese population.
- ⌘ Trade with India and the US flourishes; with implementation of SAFTA, the trade with other South Asian countries also increases.

Scenarios



2. Hell Let Loose

This scenario is based on the assumption that the peace negotiations fail sometime in 2006 or 2007, resulting in a military standoff between the Sri Lankan Government and the rebels. This will result in a major recruitment drive by both, the armed forces and the LTTE, to consolidate their respective positions. The total number of child recruits within the ranks of the LTTE will sky rocket. Sea Tigers and Air Tigers will become domineering forces with sophisticated weaponry. The Sri Lankan government will declare a state of emergency in the island. The armed forces will swamp the northeastern regions, setting up their bases there.

A resumption of clashes between the army and the rebels will lead to massive displacement of civilians from the conflict zones. In addition, it will put a halt to the development process in the region leading to high unemployment and poverty rates in the North and the East.

Sign Posts

- ⌘ The first five years of war claim approximately 10,000 to 20,000 lives, including that of armed personnel, insurgents and civilians. Landmines claim an additional 100 lives per year. Civilian casualties increase with each passing year. Suicide bombing attacks on politicians, civilians and economic targets become a frequent feature.
- ⌘ Armed Forces strength grows at an annual growth rate of about 8% reaching 220,000 in 2010 and ranges between 220,000-240,000 beyond 2010. The LTTE too enhances its recruitment drive to compensate for the loss of cadres in fighting.
- ⌘ More than 600,000 people are displaced from the conflict zone.
- ⌘ The total loss of earnings caused due to death and displacement in the next five years comes to the tune of \$384 million.
- ⌘ Frequent attacks in Colombo and other financial targets in the western zone of the country, leads to a flight of the capital investments. With mounting debt and military expenditure, Sri Lanka finds it extremely difficult to keep itself from falling apart economically.
- ⌘ Enforcement of an economic embargo on the Northeast of the country; intra country trade between Northeast and the rest of the country comes down.
- ⌘ Regional disparities grow alarmingly high; the conflict also affects the growth and development of non-conflict zones, leading to the overall degradation of Sri Lanka's human development indicators.
- ⌘ Increase in human rights abuses and disappearances.
- ⌘ Extreme polarisation in the polity and society based on ethnicity. Rampant violence as a result of hostile relations between Muslims and Tamils in Sri Lanka.
- ⌘ The law and order situation of the country becomes precarious with an increase in political violence, crime, ethnic clashes, drugs and small arms smuggling.
- ⌘ Sri Lanka's aspirations to join ASEAN and to become the commercial hub in the Indian Ocean are shattered.
- ⌘ The net foreign direct investment drops to \$100-300 million per year.



3. Paradise Regained

This scenario is based on the assumption that a successful power-sharing agreement between the Sri Lankan Government and the LTTE comes through by 2006-07, leading to normalcy within the country. The pace and manner with which the brokered peace agreement is implemented becomes a crucial factor for the future of the country. Another factor, which holds utmost importance, is the expediency with which the relief, rehabilitation and reconstruction work is carried out in the North and the East. Further, major confidence building measures are required not only to create harmony between the different ethnic and religious factions of Sri Lankan society, but also to sustain peace within the country.

The LTTE forces are either disbanded or enlisted in international peacekeeping forces. Similarly, additional Sri Lankan Armed Forces personnel join peace missions abroad, or are trained to join the civilian economy.

Sign Posts

- ⌚ With the decrease in military forces beyond 2010 to about 120,000, the defence expenditure substantially decreases.
- ⌚ The long-term cost of basic infrastructure reconstruction, namely education, health, housing, roads, railways, power, water and sanitation, in the conflict-affected region amounts to \$1031 million.
- ⌚ Infrastructure development in the Northeast leads to increased investment in the region and an increase in the region's contribution to the national GDP
- ⌚ Sri Lanka's GDP growth rate increases to 7 - 8%.
- ⌚ Sri Lankan economy gains substantially with the inflow of remittances from the Tamil Diaspora; a substantial part of the war economy translates into the developmental economy.
- ⌚ With strategic location on the main sea-lanes, developed ports, and FTAs with ASEAN, US and SAARC, Sri Lanka becomes the trading hub in the Indian Ocean.
- ⌚ The Government of Sri Lanka's vision to make Sri Lanka the Gateway to India is realized.
- ⌚ The net foreign direct investment touches the coveted \$1 billion mark.
- ⌚ Tourism flourishes; Sri Lanka competes with other tourist destinations in the region, like Thailand and Maldives.
- ⌚ Discontinuation of illegal activities by the LTTE results in a decrease in the availability of small arms and narcotics in the country.
- ⌚ Increase in school enrolment ratios, employment generation and poverty alleviation in the northeastern region leads to better HDI indicators and reduces the regional disparities within the country.
- ⌚ Repatriation of Sri Lankan refugees from India, followed by repatriation from western countries; rehabilitation of the internally displaced persons.

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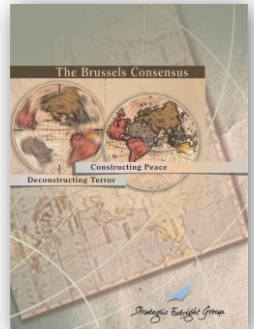
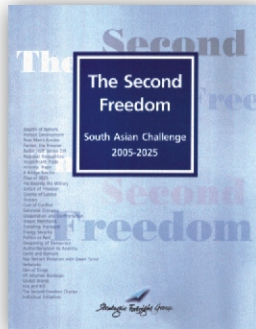
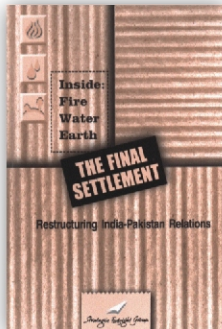
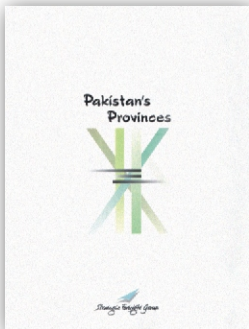
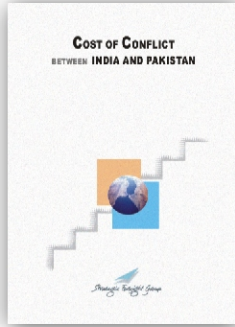
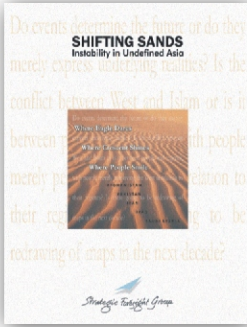
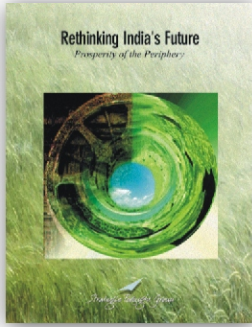
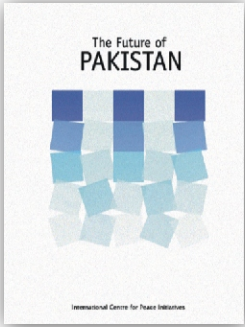
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The Ceasefire Agreement of 2002 between the Government of Sri Lanka and the Liberation Tigers of Tamil Eelam has held on through the last four years in spite of setbacks such as the temporary withdrawal of the LTTE from the process and the assassination of Lakshman Kadirgamar. The dividends of the ceasefire include a reduction in violence, as well as, an upsurge in the Sri Lankan economy. However, the war-torn areas continue to face problems of unemployment, displacement, poverty, and inadequate health and education facilities. The prolonged conflict has also polarized Sri Lankan society across ethnic, religious and regional divides placing the country's social fabric under considerable strain. The *Cost of Conflict in Sri Lanka* enumerates the past, present and the future costs associated with the Sri Lankan conflict.



What does the future hold for Sri Lanka? How long will the current status quo last? Will the LTTE face more rebellion from within its ranks in case of a prolonged status quo? Will the LTTE continue with the peace process if their demand for Interim Self-Governing Authority for the northeast is not fulfilled soon? Will the Sri Lankan political parties overcome their differences to find a permanent solution to the conflict? Will the Sri Lankan government be successful in formulating a solution acceptable to its Sinhalese, Tamil and Muslim populations? The *Cost of Conflict in Sri Lanka* provides three scenarios for the island country for the period of 2006-10 and beyond.



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