The IMF-World Bank and Social Welfare Policies in Sri Lanka

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Today a large number of developing countries in the world are dependent on these donor agencies. Those countries have to obtain more and more foreign aid due to economic difficulties of their economies. However, they had to abide by some conditions imposed by the above funding agencies in obtaining foreign aid. These conditions had an adverse affect on the social policies of those countries and Sri Lanka was no exception. Some scholars have employed three models- functionalism, political dominance and neo-functionalism-to discuss how best one could understand how the IMF decides on its conditions vis-à-vis borrowing nations. These models can be applied to discuss the implications of the conditions of the IMF and the World Bank on social policy programmes of Sri Lanka.

There is evidence that the amount of foreign aid flowing to Sri Lanka was much higher during the UNP regimes than the SLFP regimes in the period 1948-77. This was a result of the acceptance of stringent conditions of the IMF and the World Bank by the UNP regimes. These conditions badly affected some of the social welfare programmes in Sri Lanka.

The IMF, World Bank and the UNP regimes 1948-77:-

The IMF and the World Bank aim at promoting the private sector enterprises. The World Bank has identified the cause of the long-term stagnation of the economy as due to the public sector dominant production. According to the Bank's view 'emphasis should be placed on accelerating the process of privatization and reducing subsidies to public enterprises'(World Bank, 1992:203).

There is evidence that the UNP government at the very beginning attempted to follow either "an IMF stabilisation package" or "prototype IMF policies". This package is intended to promote growth and stability within an essentially free market and private enterprise capitalist system. The existing empirical data prove that the UNP government of the 1948–56 period followed economic policies favoured by the IMF and the World Bank. However, the UNP was in favour of developing the private sector as well as the public sector. The government and the private sector were considered to be equal partners in the effort to develop the nation. The government and the private sector are "......like oarsmen in a boat. While they must row together they must ensure that they also row in rhythm... We can reach the promised land of contentment and prosperity that will give us confidence in our selves as a nation' (Ceylon Government, 1955:1V).

The UNP regime's social and economic policies during this period were influenced by the World Bank. In 1951 the World Bank organised "an overall mission to survey the development potentials of the country" and to provide "advice on the development programme to be drawn up for the six year period" from October 1 1953 on the request of the Sri Lankan government (IBRD, 1953:xi) a team of the World Bank arrived in Sri Lanka. The mission arrived in the country in October 1951 and published a report in 1953. The development thinking and strategy of this report influenced the policies of the government. The economic thinking of the Bank embodied in the Six Year Programme of Investment adopted in 1955 by the UNP government. The pledge of the president of the World Bank in the letter of transmittal that it would 'follow with interest the action taken in connection with the report, and (would be prepared), if desired by the Ceylon government, to discuss any questions arising from it, and to consider how the Bank can best help in the future development of Ceylon'(IBRD, 1953:vii).

The economic conditions in Sri Lanka during the period of the Mission were influenced in an unusually favourable manner by the Korean war boom in primary commodity prices. The country was able to accumulate a large amount of foreign reserves due to the Korean war boom and in turn strengthening the economy to import the requirement of the country for almost one full year. In this situation the government was moving away from quantitative restrictions on imports and exchange payments on current account and therefore the Mission did not want to press for a programme of trade liberalization in its recommendations (Lakshman, 1987:59). The domestic currency had been devalued in 1949 by a substantial margin and external economic conditions were generally favourable and therefore the commission felt that there was no necessity for further devaluation.

The other elements of the prototype package were as follows:

(a) 'Government policies should be such as to encourage.. investment of private capital, both Ceylonese and non-Ceylonese' (IBRD, 1953:120);

(b) 'While active government sympathy and encouragement of industrial development is of the first importance, direct government management of factories should be avoided. A genuine partnership with private enterprise should be objective' (ibid:126-7);

(c) 'Policies and measures.. of maintaining internal monetary stability should be continued' (ibid:122);

(d) 'The machinery of budget control should be strengthened, in order to insure that as large as possible a surplus of revenue over recurrent expenditure is available for capital investment' (ibid:122);

(e) 'Food subsidies should be eliminated gradually over the next few years...' (ibid:123).

The UNP regime accepted the World Bank's recommendations in its broad outline. The six year (1953-59) programme of government development expenditure proposed by the mission and the six year (1954/55-1959/60) investment programme subsequently adopted by the government revealed similarities in their sectoral priorities. The Bank mission proposed for the period of 1953-59 to spend Rs.12.2 million for health and 9.1 for education. It seemed that the UNP government followed the World Bank recommendations and proposed in its budget to allocate Rs.4.7 million for health and 5.8 for education (IBRD, 1953 and Government of Ceylon 1955).

The World Bank interventionism was evident in two specific policy areas in the government. The first was the gradual close of a number of public sector ventures started during the Second World War. Secondly, the existing food subsidy programme of the government was affected by these proposals. 'Food subsidies should be eliminated gradually over the next few years' (IBRD, 1953:123) was the included proposal in the report. Though the Mission advised a gradual elimination of food subsidies, the government's approach towards this was different. The UNP government in 1953 decided to remove the food subsidy totally. There is evidence that the World Bank was not in favour of providing welfare. The former director of the policy planning and programme review department of the World bank Mahbub Ulhaq had stated that 'it was recognized that welfare programmes would corresponding increased in the productivity of the recipients, could only be shortlived and even counter productive' (Robert, 1980:60-61).

The IMF and Neo-Functionalist Model 1965-70

As neo-functionalists point out the IMF intervention is intended to solve the balance of payment problem and this happens in the form of providing fund facilities to the needy countries (Crockett, 1982:10-15). The neo-functionalist model would focus attention on the distinct stages of the development of a stand-by or extended facility arrangement (both are the conditional loans made by the Fund) to debtor nations. The stand-by provides limited resources over the short- term-roughly 18 months-to remedy imbalances of an immediate nature. The extended facility provides significant funding to help remedy the structural sources of imbalances over the medium term - 2-4 years (Crockett, 1982:10-15).

The control regimes that prevailed during 1956-65 period resulted in creating a foreign exchange crisis in Sri Lanka. The major element of the strategy of the government that came into power in 1965 was to heavily depend on foreign aid. An Aid Ceylon Group was established under the auspices of the World Bank and a larger volume of foreign aid began to flow into the country, particularly from the West. The inflow of foreign capital on official and private accounts amounted to 25.8% and 21.0% of exports and imports respectively during the period 1966-70 –compared to 7.2% and 6.7% in the previous period- (Lakshman, 1987:70). This provided the setting for increased IMF-World Bank intervention in the Sri Lankan economic policy after 1965.

At the beginning of the 1965-70 period, the IMF-World Bank group attempted to influence the country's economic policy while remaining within the broad outlines of the existing control regime. The UNP government of 1965-70 attempted to obtain foreign aid from the IMF and the World Bank in order to solve the balance of payment problem in the country and this badly affected some of the social policies of the government especially the existing consumer subsidy scheme. The Minister of Finance, Dr. N.M. Perera, in 1970 in parliament revealed the contents of the agreements entered into with the IMF. According to the Minister, the UNP government of 1965-70 had given a categorical undertaking to the IMF to reduce expenditure on consumption by reducing the rice ration. Further he pointed out that the UNP government prepared the ground for over a year, and then under a miasma of false propaganda that there was a world shortage of rice, cut the ration by one measure in November 1966 (Parliamentary Debates, 1970, 19:470).

The Sri Lankan Government entered into a standby agreement with the International Monetary Fund in July 1965, and the government agreed to review the full subsidy scheme with a view to a progressive reduction of its burden on the budget cushioning at the same time, its impact on the low income groups;(Parliamentary Debates, 91, 1970:470-471). The UNP government's second agreement, which was entered into with the IMF also revealed that the Fund had an impact on the government's consumer subsidy scheme. The government entered into this standby agreement with the IMF on the 15th of July 1966 and the Fund agreed to provide 25 million dollars. This agreement was accompanied by a Letter of Intent in which the government agreed inter alia:to review the net food subsidy expenditures with the level of net expenditures for 1965-66 and to announce the steps to be taken to implement the new policy as early as possible before the end of 1966 (Ibid., 1970:472). The review of full subsidy scheme in order to reduce its burden on the government budget became an important policy suggestion of the World Bank (World Bank, 1966:24). The introduction of charges for higher education for the children of parents in the upper income groups was also an important proposal of the Fund. The third standby agreement was entered into with the Fund in a sum of $.19.5 million was entered into with the Fund in May 1968 (Parliamentary Debates, 91, 1970:473). The fourth standby agreement was entered into with the Fund in a sum of $19.5 million for a period of one year on the 12th of August 1969. The government reduced the rice subsidy by half in December 1966.

1968 witnessed the culmination of a trend towards strong intervention by the IMF-World bank group that began three years earlier. The measures of including rupee devaluation, the dual exchange rate system and import liberalization were the important elements of the usual IMF stabilisation package that adopted by the government from November 1967 onwards. The Central Bank report admitted that the IMF was behind these measures. The government in consultation with the IMF introduced the Foreign Exchange Entitlement Certificate Scheme (Central Bank, 1968:22).

In comparison to the SLFP regime of 1960-64, the UNP regime of 1965-70 was able to obtain much foreign aid to Sri Lanka (See Table 3:6). The total aid receipts up to 1965 were negligible in relation to the ratio of aid received by other developing countries. As a whole, the developing countries in the early 1960's were able to finance about 25% of their imports, but Sri Lanka during this period was able to finance only 4.2% of its imports (Karunatilake, 1987:347). In 1964, foreign funds financed only 8% of total imports, but this percentage was 40% in 1969 and 49% in 1970 (Ponnambalam, 1980:53). There was no doubt that the Sri Lankan government during this period was able to obtain this aid from the IMF, World Bank and other Western countries due to the promotion of free-market policies with the IMF-World Bank intervention. As a result of obtaining more and more aid from the international donors Sri Lanka was caught in a severe debt trap.

The Role of the Donor Agencies Under the SLFP Regimes:-

The Minimum IMF-World Bank Interventions under the SLFP Regimes 1956-65:-

The change of the government in 1956 was a turning-point in Sri Lanka. Little was heard of IMF-World Bank intervention in the economy of Sri Lanka from 1956 to 1965. The government received a small World Bank loan in the mid-1950s, but foreign capital inflow on official account was not a critical factor in policy-making at the time of the 1956 political change (Lakshman, 1987:62).

By the end of 1955 and 1956 the country had external assets amounting respectively to 78% and 76% of annual imports. This created hopes in the new government that it would be able to adopt a comparatively independent development strategy without undue influence from the donor countries and international financial institutions. This was clear thinking because the MEP government was able to adopt an independent development strategy during its term. The MEP regime was able to adopt its economic and social policies free from the IMF and the World Bank intervention.

External developments after the mid-1950s were unfavourable for Sri Lanka, and commodity terms of trade consistently deteriorated. The latter index moved from a high 203 in 1955 (1978=100) to 142 in 1965. The trade balance, which was in surplus during 1954-56, turned into a deficit in 1957 and continued to be in deficit in subsequent years. The cumulative deficit for 1957-65 amounted to Rs.1,176 million (7% of the cumulative export earnings of the period) (Corea, 1971:28). There were some inflows of capital on official account but external assets carried the major burden of financing payment deficits. As a result assets fell to 21% and 14% of annual imports in 1965 and 1966 respectively (Lakshman, 1987:64). Meanwhile, between 1955 and 1959 export dropped by 6% and imports rose 32% due to the liberalization of imports and exchange payments, begun in the early 1950s and continued into the second half of the decade despite the change of government in 1956. By the end of 1959, the volume of external assets declined to a low of 33% of annual imports and the policy makers could not ignore this economic situation.

In this situation the MEP government had to impose quantitative restrictions in the economy. The imposition of restrictions on imports became an important policy of the government for the above economic crisis. Thus, the closed economy was built due to the economic crisis.

The MEP's approach to the consumer subsidies especially to the subsidised rice ration was different from the UNP. The removal of the rice subsidy by the UNP government in 1953 on the advice of the World Bank was criticized by the MEP at the election. Meanwhile, the MEP attempted to follow a different development strategy. The MEP government's different approach to the priorities in the economy could be seen from its Ten-Year Plan. The failure of the IMF and the World Bank in influencing the social policies of the MEP government was revealed by the pattern of allocating public expenditure of the government. The MEP not only re-instated the rice subsidy, which was removed by the UNP in 1953 but also allocated more funds for the food subsidy than the UNP. The government had increased its allocations on the food subsidy from Rs.million 103.3 in 1956/57 to Rs.million 187.0 in 1959/60 (The Central Bank Annual Reports, 1956/57 and 1959/60).

It could be argued that the social policies of the MEP government in the mid-1950s and the SLFP government's in the 1960s were not influenced by the IMF and the World Bank. This point could be supported by the existing empirical evidence. On the one hand the nationalization policies of the SLFP governments' were not acceptable to these funding bodies (Lakshman, 1987:67). On the other hand the socialist bloc supported the policies of the MEP government. After 1956 the MEP and later the SLFP governments in the 1960s were able to obtain a large amount of foreign aid from this bloc. This was a gesture given by the socialist bloc as an approval of the policies of the SLFP regimes. Sri Lanka received economic aid from the People's Republic of China under four agreements: one of these was signed in September, 1957, the other in October, 1958, and the other two in October, 1962 and June, 1964 (Karunatilake, 1987:339). Sri Lanka was able to obtain assistance under the economic agreement signed by the Sri Lankan government and the Federal Republic of Germany in October 1958. The MEP government obtained foreign aid from the USSR and Poland for various purposes (Karunatilake, 1987:341-342). The SLFP government of 1960-64 also received more foreign aid from the Socialist bloc than the Western bloc. The governments, which were in power during the period 1956-64 had minimal IMF-World Bank intervention in economic and social policies of the island. There was no sufficient evidence to prove that the IMF and the World Bank were behind the government's proposal of reducing the subsidised rice ration by half in 1962. This measure aimed at finding solutions to the growing balance of payment problem in the country. However, this proposal also was not implemented due to the opposition of the government's backbenchers.

Sri Lanka was not able to receive a considerable amount of aid from the IMF and the World Bank during the period 1960-64 due to the social and economic policies of the SLFP government. Under this situation, it could argue that the IMF and the World Bank were not in a position to impose conditions on domestic social welfare and economic policies of the country. The higher allocations of the MEP government on social welfare programmes in the country was a strong factor for the minimal intervention of the IMF and the World Bank in Sri Lanka during this period.

The IMF-World Bank and the UF government:-

The United Front came into power at the general election of 1970 as a broad coalition. While the SLFP became the main partner of this coalition, the two Marxist parties, the LSSP and the CP were the other two constituent partners. The basic ideas spelt out in the government's policy statement seemed anathema to the IMF-World Bank group. (a) Laying the foundation for an irrevocable transition of the economy to a socialist and (b) maintaining the social welfare measures were the two basic policies of the government (Minister of Finance, 1970:4-5). Further, as mentioned by the government 'socialist' economy was to be a mixed economy in which 'private enterprise has a part to play ....but the leading part ....is in the hands of the public sector'(Ibid:3). This 'ideology of public sector dominance conflicted with the free market, private enterprise ideology of the West' (Lakshman, 1987:75). Even the commitment to maintaining welfare services was in contravention of advice to the Sri Lankan government by advisory teams of the World Bank and the IMF (ibid:75).

There is no strong evidence that the IMF and the World Bank had an impact on Sri Lanka's social welfare policies during the period 1970-77. As mentioned by the center-left coalition government in its first budget it did not follow market economic policies. Instead of promoting those economic policies it introduced a number of restricted economic policies. Nationalizing programmes, price control, income ceiling and house ceiling were some of them. As soon as the coalition came into power, it re-instituted the rice subsidy in 1970. A rapid expansion of the public sector in the economy took place under the UF government. The promotion of the market forces was the major task of the IMF and World Bank donor agencies. Therefore, it is very difficult to argue that these funding bodies were sympathetic to Sri Lanka during the period of the UF government. Sri Lanka during this period was not able to receive a considerable amount of aid from the IMF and the World Bank due to unfriendly attitude of those agencies to Sri Lanka. The UF government was able to receive a small amount of foreign aid in comparison to the previous regime. It is understandable that the UF government could not receive sufficient assistance from the donor agencies due to its commitment to maintain social welfare policies.

The Finance Minister criticized the previous government for uncritically accepting the terms and conditions of the IMF. According to the Minister this resulted in the country getting caught in a severe debt trap. He argued that it was impossible to repudiate and reject IMF advice and its terms and conditions without risking possible far-reaching dislocations (The Minister of Finance, 1970:11). The Minister proposed to obtain foreign aid without losing self-respect, independence and sovereignty. The government required a lot of support from outside to resist the pressures of the IMF and the World Bank, but it did not receive such assistance. Only 34 project loans were received in this period, and this averaged a little over 4 loans per year (Karunatilake, 1987:357). Between 1970-77, the Asian Development Bank sanctioned twelve loans. Meanwhile, the government could not reduce its expenditures on social welfare due to the growth of population and the people's high aspirations. According to the World Bank teams Sri Lanka's chronic difficulties were due to its over-dependence on a few primary commodities for export earnings, its political commitment to far-reaching welfare and redistributive objectives and other various price controls (Lakshman, 1987:78). The government received some assistance from the Socialist bloc, but they were not sufficient to maintain its policies.

The government was forced to introduce some changes in order to receive the necessary balance of payment support. These changes did not lead towards radical reorientation as recommended by the World Bank and the IMF. Therefore, the government had to readjust the food subsidy programme in 1973 and 1974. The 1973/74 oil shock was a major cause behind this crisis.

Liberalized Economic Policies, International Donors and Social Welfare Programmes:-

The political dominance model assumes that important policies including conditionality were formulated or at least heavily influenced by Western capitals. According to this model philosophies and ideological leanings of the United Kingdom, the United States, Japan, France and the Federal Republic of Germany would dominate the decisions of the Fund. Open economic policy measures introduced by the IMF and the World Bank in the 1980s can be explained under the above model. These economic policy measures adversely affected some social policy programmes of the developing world including Sri Lanka.

The IMF-World Bank Recommendations in the 1980s on Third World countries badly affected their social policies. It was argued that the post-1977 economic strategy introduced by the UNP government was a 'monetarist' one which recommended to developing countries by the International Monetary Fund (IMF) and the World Bank. This economic strategy aimed at achieving a high growth rate, increasing the investment and the reducing unemployment in the economy. This prescription was usually known as 'structural changes' associated with the recommendations of the Bank. The Bank introduced these policies to the countries in the developing world, which faced deep financial trouble. Most of the developing countries experienced deep economic problems such as low growth, economic stagnation and high inflation. The high expenses on social welfare services, the absence of a competitive private sector and various regulatory measures in the economy were seen as basic weaknesses in most of the developing countries in the mid-1970s. It was widely believed that the prescription of the IMF-World Bank for this crisis was the 'monetarist type' policies. Some scholars described the monetarist theory introduced to the third world countries by the IMF in the 1980s was similar to the ideas presented under the political dominance model (Stilles, 1990:960). The liberalized policies adopted by the UNP government in 1977 were similar to 'monetarist' type policies. The reduction of public expenditure, the promotion of foreign and local investment were important components of this economic policy.

The UNP government introduced a number of new policy changes calling them 'open economic policies' in 1977. The party justified the creation of a free economy as a solution to economic problems in the country. The Finance Minister in his budget, introduced in 1977 said:

'This country could not have economic growth and development, could not go forward and solve problems of production and employment until we create one economy in this country, free and just economy with one exchange rate with no restrictive controls and rational fiscal, financial and monetary policy.... We have to put an end once and for all to the black market economy and give an impetus to free growth in the context of a democratic socialist society' (Minister of Finance, 1977:9).

The government introduced a set of new economic policies in November 1977 and subsequently, for structural adjustment, one of the most significant changes was a shift from an inward-looking, 'closed' and controlled economy to an outward-looking economy with a heavy market orientation (Sanderatne, 1985:2). The IMF World Bank prescription introduced in the 1980s to the countries, which were in economic difficulties was known as the 'structural adjustment' programme. 'Structural Adjustment' is the generic term used to describe a package of economic and institutional measures which the IMF, the World Bank and individual Western aid donors sought to persuade many developing countries to adopt during the 1980s in return for a new wave of policy oriented loans (Cammack et al, 1993:11-13; Mosley et al., 1991:ch.1). The aim of adjustment lending was to shatter the dominant post-war state-led development paradigm and overcome the problems of developmental stagnation by promoting open and free competitive market economies, supervised by minimal states. The general pattern of adjustment packages usually involved two main stages, 'stabilization' and 'adjustment'. 'Stabilization meant immediate devaluation and often quite drastic public expenditure cuts. Adjustment followed and sought to transform economic structures and institutions through varying doses of deregulation, privatization, dismantling or diminishing allegedly over-sized and rambling public bureaucracies reducing subsidies and encouraging realistic prices to emerge as a stimulus to greater productivity especially for export (Mosley and Toye, 1988:403-41; Nelson, 1990:2-5).

It was argued that there were similarities between the post-1977 reforms in Sri Lanka and the post-1973 period in Chile (Nicholas, 1987:152). A far-reaching programme of economic reforms was initiated with the government budget of 1977. The government aimed at correcting the fundamental macro-economic imbalances and introducing decisive policy changes through these reforms. The Central Bank of Ceylon described these changes as 'a sweeping departure from a tightly controlled, inward looking, welfare oriented economic strategy to a more liberalised, outward-looking and growth oriented one' (Central Bank of Ceylon, 1978:2).

Liberalised Policies, External Constraints, Support and Social Welfare:-

Liberalised policies were introduced to Sri Lanka in 1977 with a view to obtaining financial support from the international donors such as the IMF and the World Bank. The restricted economic policies that followed from 1970-77 period failed to solve the existing socio-economic problems in the country. Therefore, the UNP government was compelled to introduce liberalized economic policies in 1977. However, a strong international backing was a necessary condition to maintain these policies. This backing was the financial support given to the country by the IMF and the World Bank. Even this type of financial support was given by the World Bank to other countries in the world which adopted structural adjustment policies. World Bank structural adjustment loans increased from seven to 187 in 80 countries between 1980-90 and came to account for more than a quarter of bank lending (World Bank, 1990:Table 5.2 and 5.3). The IMF too loaned massively in the early 1980s to promote adjustment in developing countries. Its total lending expanded from SDR 3,276 million in 1980 to SDR 14,121 million in 1983(IMF, 1990:Table 11.1).

One of the first acts of the UNP government was to convince the Western countries of the change in Sri Lanka's financial, economic and monetary policies. Finance minister Ronnie de mel visited West Germany and Britain in this connection before attending the

Commonwealth Finance Ministers' Conference in Barbados, and the annual meetings of the World Bank and the International Monetary Fund (Jafar, 1983:37). At a press conference in London, on September 15, 1977, the Finance Minister said, that it was his government's objective to maximize foreign investments and guarantees. According to him Sri Lanka was moving away from restrictive controls to a more liberalized economy in order to revive the economy. Further, the government had already ended the state monopoly of imports and distribution (Ibid). The minister said that they expected aid and support from the World Bank and the IMF and also from the countries (Ponnambalam, 1980:144). After a sharp devaluation of the rupee by the Sri Lankan government in November of 1977, the IMF announced support for 'the comprehensive programme of economic reform.... in support of which the present stand-by arrangement (of SDR 93 million) has been approved' (Herring, 1987:328). There were a number of elements of the agreement with the IMF and some of them badly affected the welfare of the people in Sri Lanka. Those were as follows;

(1) Immediate devaluation of the rupee to a parity of Rs.16 to the dollar the adoption of a unified exchange rate system and thereafter floating the rupee.

(2) Liberalization of many categories of imports and the replacement of controls by tariffs

(3) The existing food subsidy was to be replaced by one under which only beneficiaries were to be households earning less than Rs.300 a month. In the case of the sugar ration only the children of such families under the age of 12 would be eligible.

(4) A commitment to increase the price of flour at some stage (it had been reduced from Rs.1.10 to Rs.0.68 in the middle of 1977). Similarly price adjustments for fertilizer, petroleum, public transport and infants' milk were differed for the time being.

The IMF approved on January 26, 1979, the Extended Fund Facility (EFF) arrangement which was to permit Sri Lanka to make purchases up to the equivalent of SDR 260,300,300(US $335,000,000)of medium term assistance over the next three years (Jafar, 1983:39). But this was subject to 'mutual agreement on Sri Lanka's economic policies' from year to year. The conditions laid down by the Fund included, among other things, a non-expansionary budget, a manageable balance of payments, a free market economy and an open trading policy.

Birger Moller revealed that the World Bank required the government to cut down on subsidised rice and expenditure on health and education (Ponnambalam, 1980:145). The devaluation of a country's currency, reduction of government spending, curtailment of welfare expenditure, the encouragement of the private sector and the removal of foreign exchange controls were the requirements under the 'stabilization programme' of the IMF. The adoption of these requirements by the UNP after 1977 badly affected the consumer subsidies of the island. The stabilisation programme excluded any socialist programmes and opposed social welfare measures.

There is evidence that the IMF had demanded a reduction in the public expenditure programme, which badly affected the consumer subsidies. The 1980 budget deficit amounted to more than 26% of GDP and the rate of inflation was 30% (Herrings, 1987:329). The officials of the World Bank and the IMF told the government that financial indiscipline was becoming a serious problem (Ibid). The consortium of the donors meeting in Paris in July 1980 criticized the government's housing construction and water supply schemes (Ibid). The Finance Minister revealing this external pressure pointed out that 'external factors beyond our control' (Ibid). The IMF and the donor countries influenced the government's public expenditure programmes in 1982 and in 1983.

In 1980, the government agreed to rephase its development programme as demanded by the IMF. The measures were thereafter announced on February 22 eliminating direct food and other subsidies. This mini-budget effected an increase in the price of bread from Rs.1.25 per lb to 2.05 and flour from Rs.1.30 per lb to Rs.2.37; increase in the price of imported rice from Rs.1.80 per lb to Rs.2.17 and sugar from Rs.3.00 per lb to Rs.Rs.4.50; a 30 per cent across the board increase for bus and rail fares, and in telephone and postal charges and a 30 per cent increase on all petroleum products.

Sri Lanka was thus allowed to draw the first instalment ($35 million)) of the second tranche of the IMF extended fund facility for 1980. Further, the Aid to Sri Lanka consortium meeting in Paris on July 1-2 1980, pledged more than $ 1,000 million in grants and supplies of basic materials, but pressed for a further slowdown in the investment programme (Jafar, 1983:41). In the same month, the IMF suspended disbursement of the three-year EFF on the ground that the government failed to introduce financial discipline (ibid). In March 1981 the government imposed a further 10 per cent cut in all budget appropriations, and agreed that no new projects would be sanctioned for 1981 and 1982. The IMF agreed on June 15, 1981 to a purchase by Sri Lanka equalent to SDR 25,300, 000 under its compensatory financing facility in connection with an export shortfall experienced in 1980 on Sri Lanka's three major products (Ibid).

After October 1980 Sri Lanka had to accept the IMF prescription in full. The IMF condition had not only to be accepted but had to be seen to be accepted. So, public overspending was drastically cut back and money supply reined in through credit restrictions to meet the Fund's performance criteria (Ibid:42).

In 1983 the IMF urged the government to devalue and introduce cuts in subsidies to mass consumption. The Minister of Finance answered that the new capital expenditure projects suspended, but he emphasised the maintenance of the Mahaweli project in order to reduce food import costs. The Minister was reluctant to cut health, education and welfare subsidies further. These areas 'are our pride and we cannot afford to throw them away'(Far Eastern Economist Review, 6/23/83). Some occasional statements made by leaders implied that the IMF-World Bank influenced the consumer subsidy programme of the government. The Prime Minister of the UNP government, J.R. Jayewardene, said on November 28, 1977 during the budget debate that measures such as the limitation of food subsidies, although politically unpopular, were economically imperative if Sri Lanka were to put its economy in order. He further disclosed that the World Bank and the IMF had come to the country's rescue on condition that aid would be used for development and not for consumption (Jafar, 1983:38).

As the Island editor says, IMF has an impact on consumer subsidies.

'..the recent spate of price increases and the revision of the rupee rate against the dollar in Sri Lanka were a result of requests made by the IMF...(T) he increased price of essential commodities including rice and bread as well as transport were necessary for Sri Lanka to obtain an Extended Fund Facility from the IMF to tide over a precarious balance of payments situation' (The Island 9, March 1983).

Table:- 1

International support for the liberalization Regime, Saving and Investment

(as a Percentage of GDP, current market prices)

Year	Gross Domestic Investment	Public Investment	Foreign Savings
1970	18.9	8.2	4.8
1977	14.4	7.2	3.6
Annual average			
1970-71	16	7.7	3.3
1978	20	11.9	4.5
1983	29	15.5	12.5
Annual average			
1978 – 83	27.7	16.7	12.7

Source:-

Sri Lanka, 1948, Ministry of Finance and Planning ' Public Investment, 1984 88'.

International support is a compulsory factor for the continuation of liberalized economic policies. We may note that while the share of public investment more than doubled as a percentage of GDP in the 1978-83 period, compared to 1970-77 averages, international assistance(grants and loans) almost quadrupled as a percentage of GDP (See Table 3:8).

The PA government also had to depend on the IMF and the World Bank in order to continue liberalized economic policies. The IMF and other donors agreed to provide a total of US $ 520 million to the PA government under a comprehensive financial package (The Sunday Times, April 22, 2001). This package approved by the executive board of the International Monetary Fund at its meeting held on 2oth April, 2001. The IMF in its statement, said there was an urgent need by the government to accelerate privatization, strengthen the integrity of the banking sector and to improve public administration, the financial position of public enterprises and the labour market (ibid). The agreement signed between Sri Lanka and the IMF included some stringent conditions. Some of these conditions badly affect the welfare of the people. The government consented to a freeze on a pay hike for the civil service and also on hiring of new civil servants, and to removing fuel price subsidies which are important among those conditions (Sunday Times, May 13, 2001). The letter of intent to the IMF from the government promised not to increase civil servants' pay during 2001 and to tightly control the outlays on other goods and services.

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