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CASE STUDY

BUSINESS AND PEACE IN SRI LANKA: THE ROLES OF EMPLOYER AND BUSINESS MEMBER ORGANIZATIONS



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International Labour Office



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Business and peace in Sri Lanka: The roles of Employer and Business Member Organizations

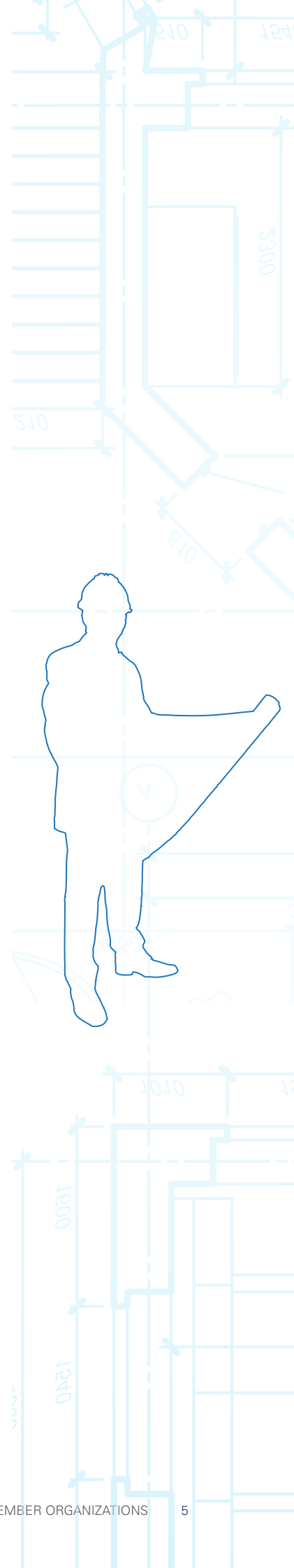
1. Introduction

Sri Lanka's almost three-decade-long ethnic war came to a dramatic and complete end when Sri Lankan government troops overpowered the Liberation Tigers of Tamil Eelam (LTTE) on 18 May 2009. During the conflict, Employer and Business Member Organizations (EBMOs) were expected to play multiple roles to help member firms cope with complex challenges and, in some instances, proactively promote a peaceful climate for investment. Moreover, the business community, considering the war unwinnable, had previously made significant efforts to promote a negotiated and non-military end. Nevertheless, given that the war had been the most significant barrier to the establishment and growth of private sector investment, the unexpected end of military conflict on the island was welcomed by both local and international businesses. The opening of markets and business opportunities was clearly expected to be a catalyst for both profit-making and peacemaking. In the new post-war era, EBMOs had the potential to play important roles in supporting peacebuilding, providing leadership to promote investment in the country, and developing the capacities of members to adhere to peacebuilding principles. However, these roles, during as well as after the conflict, have thus far been largely under-researched.¹

This report partially fills this important gap, highlighting the multiple ways in which the most influential EBMOs in Sri Lanka have assisted its members and promoted peace during the conflict and in its aftermath. Yet as this report emphasizes, there is a need to foster greater participation by the private sector in promoting and investing in long-term peace. The report also offers key lessons for other countries experiencing conflict by examining how EBMOs in Sri Lanka provided leadership to the private sector to influence, advocate for and promote peaceful resolution of the conflict whilst encouraging investment entrepreneurship and the rebuilding of livelihoods and infrastructure. The overall aim of the report is to generate knowledge for a future ILO project that could help relevant EBMOs to meet the key needs of the conflict-affected regions of Sri Lanka and the country as a whole in a responsible and proactive manner.

Stressing the importance of stability and peace for business, this study is based on a qualitative inquiry rather than desk research. Key information was derived through in-depth interviews with 25 people who are currently or were previously heads of 18 business chambers and associations.

¹ For background reading, see Oetzel et al. (2010) for a comprehensive overview of key international literature on the links between business and peace. See Nelson (2000) and Banfield, Gündüz and Killik (2006) for older but insightful international research on the role of the private sector in peacebuilding in several countries (not including Sri Lanka). See International Alert (2005) on public perceptions of private sector engagement in peace-related work in Sri Lanka. Miriyagalla (2014) and Miriyagalla (2013) have provided insights on links between the private sector and peace in the conflict-affected regions of Sri Lanka since the end of the war.



An analysis was made of the characteristics of apex and sector-based EBMOs, such as their actual or perceived interconnectedness with the Government that affect the latter's ability to perform its core functions. Furthermore, research was undertaken to identify the key factors that contributed to investment and economic reconciliation by the private sector organizations that are members of the EBMOs.

The study focuses on four important revenue-generating sectors: apparel, tourism, construction, and tea plantations. Sri Lanka has experienced significant growth in the past two decades as well as developmental change in the conflict-affected regions since the end of the war (primarily in the construction and tourism sectors) and thus insights from the EBMOs in these sectors are critical. Enterprises in the apparel sector have shown considerable interest in investing in the conflict-affected regions with the onset of peace, and are expected to contribute to employment generation in the future. The plantation sector consistently played an important role as a leading export revenue-generating sector for the country, and continues to do so.

There are two main limitations of the study. Firstly, it did not include EBMOs in the information technology (IT) sector, which is an important one in the country's drive to build a knowledge economy. Although the conflict-affected regions do not currently have the capacity to absorb large investments in IT, this is likely to be a pivotal sector for future growth. Secondly, although the war began in 1983, this report is limited to the past twenty years (1995-2015), because information from the interviews suggested that the past two decades have been the most relevant and important.

The report is structured as follows:

- An explanation of the research methodology used for the study
- A brief overview of the ethnic conflict and key issues that connect to the analysis sections.
- A summary of EBMOs in Sri Lanka
- Analysis of the mandates of EBMOs, including the types of services provided
- Analysis of and insights into advocacy activities in relation to peace
- Analysis of the major efforts undertaken by EBMOs to support investment and entrepreneurship as catalysts for peace
- Conclusion followed by recommendations

2. Research methodology

Research information was obtained through in-depth interviews with the business chambers and associations in Sri Lanka that were considered the most important and relevant based on the nature of the study. The selection of the key EBMOs for this research was purposive. They were chosen based on their strong influence on the overall economy, their leadership in a selected sector, or their influence in regional business development in the conflict-affected regions. The EBMOs selected are:

1. Employers' Federation of Ceylon
2. Ceylon Chamber of Commerce
3. Ceylon National Chamber of Commerce
4. Federation of Chambers of Commerce and Industry of Sri Lanka
5. Women's Chamber of Industry & Commerce, Sri Lanka
6. Chamber of Construction Industry, Sri Lanka
7. The Ceylon National Chamber of Industries
8. International Chamber of Commerce, Sri Lanka
9. National Chamber of Exporters of Sri Lanka

10. Business for Peace Alliance
11. Industrial Association of Sri Lanka
12. Exporters Association of Sri Lanka
13. Planters' Association of Ceylon
14. The Hotels Association of Sri Lanka
15. Joint Apparel Association Forum Sri Lanka
16. Sri Lanka Apparel Exporters Association
17. Jaffna Chamber of Commerce
18. Chamber of Commerce and Industries of Yalpanam, Jaffna

Twenty-five senior business leaders who currently or previously represented one of the selected EBMOs were interviewed in confidence. The choice of these individuals was also purposive. Not only were they the key representatives of these apex, sector and regional EBMOs, they were or are also among the most influential business leaders in the country on issues related to the private sector and peace. The criteria for selection of these individuals included, among others, leadership within the business community, concern for peacebuilding and influence in policy-making. Each interview lasted on average for over an hour. The following questions guided the research:

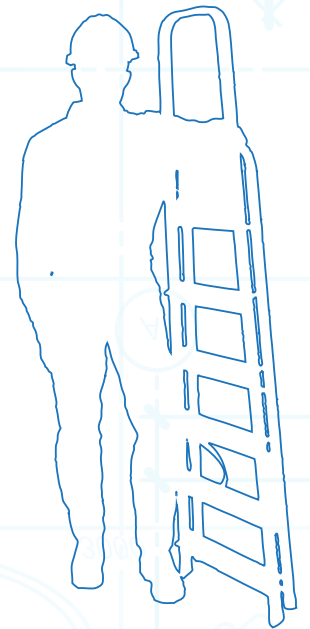
- How did apex, sector and regional EBMOs maintain operations during the conflict?
- What is the evidence of EBMOs supporting actual interventions to drive investment and peace in the conflict-affected regions of Sri Lanka?
- What leadership roles have EBMOs played in promoting stability, dialogue and investment?
- What are the roles of EBMOs in post-conflict reconciliation and reconstruction?

3. Sri Lanka's ethnic conflict and the post-war era

The study of EBMO roles must be set against the backdrop of the start of the conflict and the relevant key milestones of the war period. This section provides a broad overview of the key issues, which can then be linked to the analyses presented in later sections. Sri Lanka has been significantly affected by a number of violent conflicts since its independence in 1948. These include the ethnic conflict between Tamil youth and the Government of Sri Lanka in the north and east of the country (lasting one year in the early 1970s), and two Sinhalese youth insurrections in the south (starting late 1980 and lasting for two years). The most debilitating was the ethnic conflict that began in 1983 and spanned almost three decades. Given that the views expressed in this report are limited to the events of the past 20 years, the lens through which the initiatives of the EBMOs are examined is primarily that of the ethnic conflict.

To a large extent, the causes of all the conflicts were perceived social and economic injustices, particularly in relation to language and employment. While the origins of the ethnic conflict lie partly in the linguistic differences between two of Sri Lanka's largest ethnic groups (the Sinhalese and the Tamils), unjust and discriminatory state policies that were meant to favour the majority Sinhalese played a major role. Although shorter in duration, the Sinhalese youth insurrections in the south of the country were also bloody and led to massive loss of life and debilitation of the economy. Therefore, they had impacts on the roles of the EBMOs.

Ethnic tensions between the two groups escalated when Sinhalese was made the official language in 1957. Several other policies (including the state-aided Sinhalese colonization of northern and eastern provinces, controversial citizenship laws for certain sections of the Tamil community, and low economic investment in Tamil-dominated provinces) further increased hostilities between the



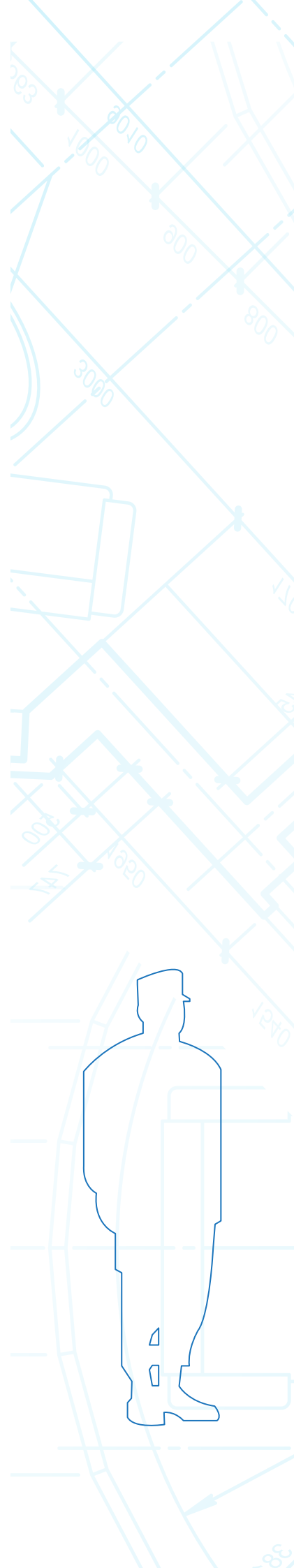
Government of Sri Lanka and the Tamil community. These discriminatory and unjust policies against the Tamils led to the formation of a separatist rebel group called the Liberation Tigers of Tamil Eelam (LTTE) that sought to create an independent Tamil State in the north and east of Sri Lanka. In 1983, state authorities supported the massacre of 3,000 Tamils following the killing of thirteen soldiers by the LTTE, marking the beginning of a long and arduous armed conflict between the LTTE and the Government.

By the mid-1990s, the LTTE had been successful in annihilating competing Tamil military groups that had been fighting against the Government and had built a reputation as one of the deadliest rebel groups in the world. With hardened combatants backed by both sea and land (and later air) power, it matched government forces in ability. Indeed, its tactics of using guerrilla warfare and suicide bombers to target key political and military personalities made the LTTE's defeat seem impossible in the eyes of many analysts. It remains the only terrorist group to have killed two heads of state (Ranasinghe Premadasa and Rajiv Gandhi) and significantly injure another (Chandrika Kumaratunga). It has also been responsible for the deaths of nine cabinet ministers, twelve members of parliament and several other influential persons over the years. Not surprisingly, the group was banned by several countries but continued to grow due to its emotional attraction to unemployed Tamil youth, the use of forced recruitment and financial support provided by sections of the diaspora.

After the assassination of Premadasa in 1994, Kumaratunga came to power on a mandate of solving the ethnic conflict through a negotiated settlement. Negotiations and peaceful attempts to end the conflict failed, and the Government was compelled to continue a military course that would finally see an attempted suicide attack on President Kumaratunga in 1999. With the President blinded in one eye, there seemed little chance of a resumption of peace talks. Until the mid-1990s, the war was primarily confined to the north and east of the country, although intermittent suicide attacks in Colombo reminded the business community that it was never business as usual. The private sector was never a target for the LTTE despite the destruction of many Tamil businesses in 1983 after the onset of hostilities, which led to further deterioration of the economy in the north.

A watershed event occurred in 1996 with the massive explosion outside the Central Bank of Sri Lanka in Colombo. This had a serious economic impact, in particular weakening inward investment. Five years later, in 2001, LTTE suicide bombers infiltrated Colombo's international airport, destroying or damaging twenty five military and civilian aircraft. Following the attack the economy came to a virtual standstill and the private sector appeared on the brink of collapse. Calls for the resumption of peace talks rang loud, elections were held, and the Government was toppled by the opposition, who promised a ceasefire.

When Ranil Wickremesinghe came to power as Prime Minister and head of the cabinet in late 2001, Kumaratunga remained the elected President. The relationship between the two leaders was acrimonious, but a ceasefire was called and the new Government gave in to significant international and private sector pressure to end the war once and for all through peaceful means. However, the LTTE saw the ceasefire as yet another opportunity to re-arm, although the opening of the conflict-affected areas also began to create cracks within their ranks. During this period, the climate for investment improved and the much-needed resuscitation of the business community commenced. The LTTE continued to violate the ceasefire agreement with bombings and killings and the re-arming of its forces. No permanent solution was found and in 2004, the President used her powers to dissolve parliament, paving the way for (her subsequent arch-rival within her party) Mahinda Rajapaksa to assume power in 2005. The ceasefire failed to create sufficient public support to keep the previously popular Wickremesinghe Government afloat.



Because of continued violations by the LTTE, Rajapaksa, with strong backing from hardliners within his party and using the rhetoric of patriotic nationalism, saw little use in pursuing the ceasefire. In moves that appeared to show that it was also ready to restart the war, the LTTE attempted two failed suicide bombings against the defence secretary (Rajapaksa's brother) and the army chief. In 2008, the ceasefire was formally called off and Rajapaksa issued a policy directive to end the war through military means, whatever the cost. Using a combination of threats and shrewd political manoeuvring, he silenced those calling for a peaceful settlement.

After almost three decades of military conflict, four failed attempts to peacefully resolve the dispute, and the violation of several ceasefire agreements by the LTTE, the Government finally defeated the LTTE in May 2009. The defeat prompted the pro-LTTE political parties to drop their demand for a separate state in favour of a federal solution. However, political reconciliation has yet to be achieved, and many political analysts believe that extremist elements within and outside the country, amongst both ethnic groups, continue to fan the flames of conflict.

When the war ended, the Government embarked on significant reconstruction and almost all the former combatants of the LTTE have been rehabilitated and reintegrated into society. With the dawn of a new era, Rajapaksa's popularity led to increased nepotism, crony capitalism and corruption. Investment opportunities were given to favourites, and family members enjoyed increased participation in key private sector organizations.

The Government reiterated that its post-war investments and policies allowed the conflict-affected regions and the country as a whole to reap peace dividends. For example, within five years, Sri Lanka's economy was one of the fastest growing in South Asia, achieving a growth rate above 7 per cent. To compensate for the lost years of growth and to satisfy the aspirations of the population, the Government set an ambitious medium-term growth target of 8 per cent plus, which required an investment rate of around 35 per cent as a share of GDP. Critics of the Government have argued that true development has not occurred and that most investments have been channelled into major infrastructure projects that have not had much impact on people's lives.

Although expansion was fuelled mainly by government investment, certain private sector companies have also played a part in the country's new growth and development trajectory. However, large private sector investment, especially foreign direct investment (FDI), did not pick up significantly until some years after the war, with FDI flows rising by just 2.8 per cent in full-year 2014. It is important to note that some decisions taken by the Rajapaksa Government during the post-war period have hindered private investment. For example, in 2011, a law was brought in to expropriate assets of some private companies. Moreover, partly due to the nationalist rhetoric of the Government and lack of political reconciliation amongst political parties, investment by sections of the diaspora in the conflict-affected regions has also been less than expected.

With obvious signs of hegemonic rule and an attempt at an unprecedented third term in office, the Rajapaksa Government fell after the defeat of the incumbent in the presidential election in January 2015. Notably, this was partly due to the lack of support from the population of the conflict-affected regions. The victory of Maithripala Sirisena has resulted in a change in the style of governance and democratic reform. A parliamentary election held in August 2015 brought back Wickremesinghe, the pro-peace and pro-private sector Prime Minister. The country is now governed by a national Government composed of the two main political parties, which also appears to have the blessing of the main Tamil party. However, there is still a policy vacuum of clear signals to the private sector and investors as a whole that would resuscitate confidence.



4. Background on EBMOs in Sri Lanka

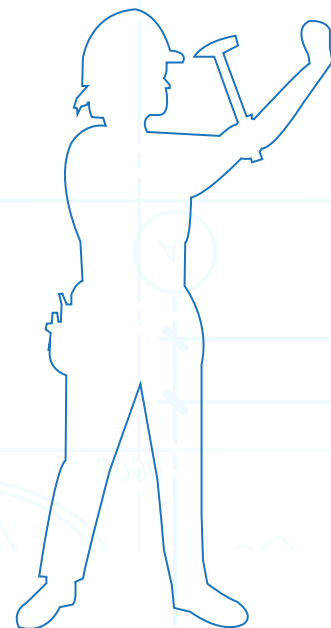
The EBMOs in Sri Lanka comprise six key trade and commerce related chambers and one employers' organization. In as much as the Employers' Federation of Ceylon has the sole mandate to handle labour and employment issues, the trade chambers have competing mandates. All EBMOs have overlapping membership. This includes the Employers' Federation of Ceylon – which currently has the largest membership of employers/businesses – the Ceylon Chamber of Commerce, the Ceylon National Chamber of Commerce and Industry, the Federation of Chambers of Commerce and Industry, the National Chamber of Industries and the National Chamber of Exporters. While considered apex EBMOs, their roles and priorities have historically relied to a large extent on the leadership at any given point in time. Consensus on policy matters is rarely achieved and given the diversity of members' needs, may diverge from the chambers' key areas of focus. The notable exception to this was the joint advocacy for peace.

Some organizations consistently maintain a core mandate. For example, the Employers' Federation of Ceylon provides a portfolio of services, including legal advice and training on labour-related issues and is the trade union of employers and the employers' constituent for Sri Lanka in the ILO. The trade chambers have a voice through the Affiliated Associations grouping in the Federation. Others, such as the Ceylon Chamber of Commerce, the Federation of Chambers of Commerce and Industry, and the Ceylon National Chamber of Commerce and Industry, compete for policy-influencing space and provide members with (sometimes divergent) views on trade policies and support. Historically, the Ceylon Chamber of Commerce and the Employers' Federation of Ceylon have been the most reputable and influential apex EBMOs and have taken the greatest number of initiatives on issues of national importance.

Other EBMOs that have grown in importance over the years are mainly those that have supported sectors of national priority, such as tea, garments, infrastructure and tourism. Within an economy that remains largely undiversified, only a few strategic sectors have developed, partly due to the effects of the conflict. In their own ways, some of these EBMOs have evolved into influential bodies that stand apart from the apex entities mentioned above, and played key roles for their members in promoting their sector in the national economy. For example, the Joint Apparel Association Forum brings together all seven relevant EBMOs in the apparel sector, enabling them to cooperate when needed. Of the seven, the most notable are the Sri Lanka Apparel Exporters Association and the Fabric and Accessories Manufacturing Association.

However, for most sectors, the apex EBMOs such as the Ceylon Chamber of Commerce have played important roles by voicing the key concerns of their constituents. At a sectoral level, the tourism industry is represented by The Hotels Association of Sri Lanka (THASL), which is the most influential EBMO in that sector and is linked to the Ceylon Chamber of Commerce, the Tour Operators Association of Sri Lanka, the Travel Agents Association of Sri Lanka and the Association of Small and Medium Enterprises in Tourism. The support of these sectoral organizations remains particularly important for small and medium-sized enterprises (SMEs), which increasingly regard the apex bodies as mainly representing the views of larger companies.

Important sectors such as tea are also represented by several EBMOs, the most notable being the Planters' Association of Ceylon. While the tea sector does not have a single apex body, the Planters' Association has more leverage and influence than smaller associations such as the Tea Exporters Association of Sri Lanka, the Tea Brokers Association of Sri Lanka and the Tea Traders Association of Sri Lanka.



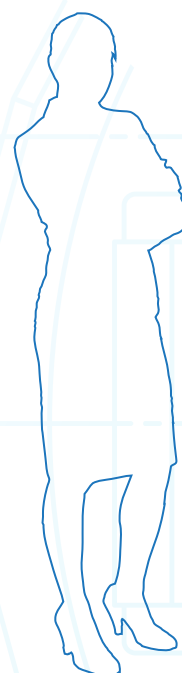
Some EBMOs represent a diverse range of companies in different sectors. These include the Exporters Association of Sri Lanka, which sits apart from the National Chamber of Exporters and is linked mainly with the Ceylon Chamber of Commerce. Another example is the Industrial Association of Sri Lanka, which is also linked to the Ceylon Chamber of Commerce, but lacks influence over key industries such as apparel.

Sri Lanka also has a number of district-based chambers of differing capacities and influence. For example, the Industrial Services Bureau of Kurunegala, the Hambantota Chamber of Commerce and the Kandy Chamber of Commerce have significant capacity. In some districts, there is more than one EBMO. In Jaffna, for example, the Jaffna Chamber of Commerce and the Chamber of Commerce and Industries of Yalpanam have similar mandates. Like Jaffna, other districts in the conflict-affected regions now have regional chambers, although not all had them during the conflict. Most districts also have a regional women's chamber of commerce similar to the national level Women's Chamber of Commerce of Sri Lanka, the world's first chamber dedicated solely to women entrepreneurs and business leaders.

Sri Lanka has also seen the emergence of EBMOs specifically to address challenges relating to the conflict. The most notable is the Business for Peace Alliance (BPA), which represents the views of the regional chambers in relation to peace matters, and was registered as a legal entity during the ceasefire period in 2001. The Joint Business Forum (J-Biz), which included all major national-level chambers and employers' organizations, temporarily spoke on their behalf in order to give the business community a single voice during the ceasefire.

It is important to note that during the conflict the private sector did not have a single hierarchical structure of EBMOs that supported the business community's endeavours to meet the challenges in an organized and cohesive manner. Rather, it was left to the initiative of specific EBMOs and their leaders to rally support and contribute in different ways.

As will be seen, it was the "spaghetti bowl" of organizations with their differing ways of working and priorities that launched various initiatives. These different modus operandi are the primary focus of the next three sections of this report. Overall, the story is one of resilience, perseverance and innovation as EBMOs were not passive observers to the events that unfolded but rather active players at the heart of the country's search for long-term peace.



5. Mandates of EBMOs in relation to services provided and peace

The Sri Lankan private sector is well networked and depends on relationships rather than formal systems and procedures to get business done. Few large enterprises actually needed support from EBMOs in order to establish relationships with decision-making government officials. EBMOs were more useful for smaller businesses (even though their work was on behalf of the whole sector), or regarding specific issues that were of interest to most members. Few matters relating specifically to individual members were taken up by government officials, and a key challenge of the EBMOs was to stay relevant to the needs of their members and regions. Nevertheless, submissions to the Government prior to the annual government budget preparation process were important channels through which to communicate detailed concerns and suggestions. Members did benefit from various information and training sessions, opportunities to participate in trade delegations, and access to business opportunities outside the country. Key services provided to members by apex EBMOs included:

- advising on labour, trade and commerce matters;
- creating awareness about business opportunities in the country through regular news releases, meetings and seminars;
- logistics support to foreign trade delegations visiting Sri Lanka and organizing one-to-one meetings;
- arranging meetings with key government officials;
- arranging business exhibitions in Sri Lanka;
- helping business delegations from Sri Lanka participate in international exhibitions and trade fairs;
- issuing Certificates of Origin in Sri Lanka;
- providing business intelligence information;
- conducting economic research;
- secretarial services for associations, councils and members;
- training programmes.

While one could question the effectiveness of some EBMOs in providing some of these services, it was clear that without these organizations the private sector in Sri Lanka would not have survived the way it did during and after the war. EBMOs gave members the opportunity to speak with a single voice, which proved to be of greater value than their services facilitating general business operations.

Maintaining strong relationships with the Government was considered an essential requirement to being an effective apex EBMO. A consequence of this, however, was that some senior business leaders muted their criticism of the Government, particularly if it threatened to have negative repercussions on their own business. Nevertheless, some business leaders who were well established and had a solid reputation did speak up at crucial times.

It is important to note that very few EBMOs had any members from the conflict-affected regions, and thus their services were based on the interests of companies that were mostly not directly impacted by the hostilities. However, the conflict did have an impact on confidence levels and members' ambitions. Moreover, many business leaders stated that the war was the overall root cause of all other issues, which affected the services provided by EBMOs and their revenues. Thus peace issues were at the top of the apex EBMOs' agenda. Many EBMOs could not increase membership fees as this might have reduced membership numbers, and they had to actively seek donor-funded projects. Peace promotion was an important conduit for such funds.

“Up to 2009, it was an unstable situation and the attention of businesses was diluted. Whatever services we (EBMOs) extended were at a nominal cost to just cover sustainability.”

“Before 2009, the participation of members was much lower but even after the war ended, we (EBMOs) did not see a big income increase due to the global recession.”
Business leader

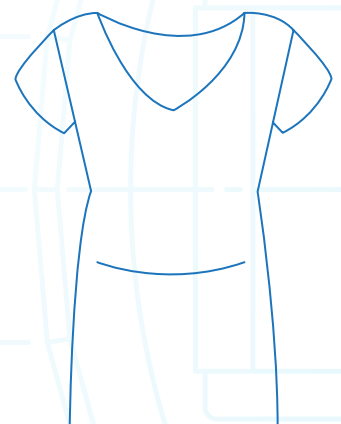
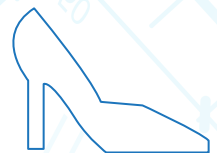
Some sectors, in particular tourism, were directly affected as a result of the conflict spreading to Colombo. For the garment sector, although no apparel enterprises were located inside the conflict-affected regions, there were lost opportunities, including the fact that BMO membership could not be expanded to the north and east, and lower cost labour in those regions could not be accessed. Furthermore, shipping lines increased war risk surcharges, adding to transport costs. As the apex body of the seven associations, the Joint Apparel Association Forum dealt directly with decision-makers, bypassing the main national level chambers.

Despite the war, apparel was the only sector that grew consistently, making significant contributions to the economy. There was one key reason for this: the industry attracted the greatest share of FDI due to quota availability, which in turn brought finance, markets, technology and business practices. With the support of the EBMOs, members were compelled to be compliant to the requirements of buyers and labour legislation. Indeed it was not the conflict, but rather the expected changes to the multi-fibre quotas and agreements in 2005, that was the biggest challenge to the sector. In 2002, despite the weak economy, the apparel EBMOs set an ambitious target for their members to double exports. They supported their members to invest in the supply chain and become total solution providers. Changes included: technological improvements to manufacturing processes; the skilling up and training of human resources; improving the product mix; and catering to niche markets. This was essential because there was little chance that any other sector could grow and the national economy depended heavily on the success of the apparel sector. Because of efficiency gains, many smaller members closed their doors and the total membership of the EBMOs actually declined.

Another key challenge for the apparel sector came from the LTTE-supporting diaspora groups, which launched a campaign that labelled clothes coming from Sri Lanka as “Blood Garments”. In order to counter this, the Joint Apparel Association Forum successfully created its own brand as an enlightened self-regulator called “Garments without Guilt”. When the war ended, the fact that the apparel sector had expanded in terms of its contribution to the overall economy made it much easier for some members to consider investing in the conflict-affected regions (although not many considered it worthwhile to do so). It is worth noting that because of the rigorous standards required for new players to enter the sector, the only companies that have set up factories in the north and east are those that have expanded existing operations in the south.

“Now other sectors are emerging and there is a demand for garment labour, but it is still the only industrial sector that has expanded to the North and East to improve the employment and poverty situation.”

Garment business leader



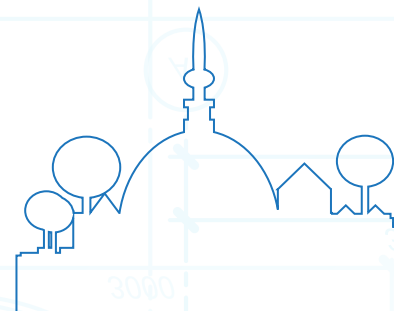
Tourism was much more affected by the conflict than apparel, with the EBMOs in this sector having to operate in survival mode for many years. The negative impact on tourist arrivals, particularly after the Colombo bombings, was dramatic. During the war, the EBMOs tried hard to lobby on behalf of their members with embassies and travel operators, which was particularly challenging given the negative publicity about Sri Lanka in media coverage along with the nature of the war. The EBMOs' efforts were often in vain and not much funding was available to support bigger campaigns. The EBMOs also lobbied the Government for soft loans and interest moratoriums for their members. With low membership fees, EBMOs lacked the means to even have secretariats. It was only in 2015 that The Hotels Association of Sri Lanka set one up. Yet the challenges created by the conflict united tourism businesses and they demonstrated great resilience. New opportunities have opened up in the post-war era and the EBMOs now have ambitious plans to support new entrants, especially SMEs. It is notable that increased competition amongst the members has meant that they have less interest in working together. While only a few new players in the apparel sector have moved in to invest, many more have done so in the tourism industry, although this investment cannot solely be attributed to the work of the EBMOs.



“If the conflict had not ended, the [tourism] sector would have crashed. It is a miracle that the sector survived. When you are in trouble, you work together more and have a collective voice.”

Sector business leader

Other industries, such as tea and niche market exports, were minimally affected by the conflict. Their challenges came from issues related to importing countries, for example in Europe and the Middle East. For the tea sector (as for the apparel sector) production was based exclusively outside the conflict-affected regions and the concerns of the sectoral EBMOs revolved mainly around supporting members to maintain low costs and “value-added” to help capture new markets. Given the excellent reputation of Sri Lankan tea before the war, producers and traders did not have to go to additional lengths to market their product (unlike the apparel sector). Not surprisingly, therefore, the sectoral EBMOs did not experience a dramatic shift in either tea production or sales to foreign importers when the war ended.



“There is no difference between the conflict and peace times. The conflict did not affect the costs of the organization. In fact costs increased after the end of the war because the end coincided with the global recession. The conflict did not give a direct disadvantage and now the peace is not providing an additional advantage.”

Sectoral EBMO business leader

“There has never been any investment in tea to the north and east. The conflict never affected us. In fact now we have more problems. Tea and rubber sectors are facing a number of challenges with the most important being the drop in global prices along with the higher cost of labour.”

Sectoral EBMO business leader



After the war, many apex and sectoral EBMOs questioned the relevance of focusing on peace issues, emphasizing instead the need to focus on improved investment and employment in the conflict-affected regions, and greater efforts to promote trust and common understanding and help build bridges through business.

“War is not something that anyone should promote, and now that it has ended, we need to help those affected on both sides because they are all sons and daughters of this land.”

Business leader

“Businesses with fair opportunities can engender peace and we have seen that attitudes have changed over the years.”

Business leader

Overall, neither the services nor revenues for most apex and sector EBMOs significantly changed immediately after the war. Few EBMOs were ambitious, given the lack of opportunities to credibly influence government policies during the Rajapaksa period and the Government’s lack of success in creating conditions to attract investors. Despite the early post-war optimism, the lack of natural resources on the island also made it difficult to attract resource-seeking FDI. Yet the country could have encouraged efficiency-seeking FDI by, for example, promoting a stable and business-friendly environment, ensuring good governance and introducing transparent rules and coherent government policies – conditions that were absent. Nevertheless, EBMOs felt that it was essential for businesses to remain conflict-sensitive, even though peace issues were not felt to be the core mandate of EBMOs or private sector companies. This meant that the services of EBMOs and their influence on policy remained primarily focused on general economic issues, which were also often promoted as a route to reconciliation.

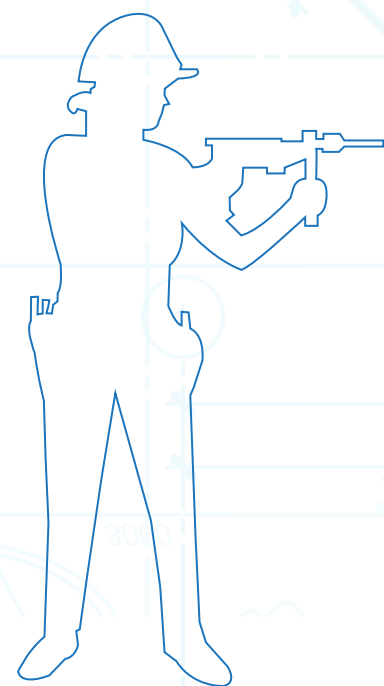
“The effectiveness of the chambers depends on how the regime looks at the chambers.”

Business leader

“Reconciliation is a must and should start with business since it is the best live interaction to build reconciliation. Business transactions can help to build trust. Other types of reconciliation do not bring tangible outcomes and are done ‘by force’.”

Business leader

While businesses remained, on the whole, independent of the Government, most were rarely publicly vocal about the Rajapaksa Government’s policies relating to peace and conflict. In the immediate aftermath of the war, the Government did not actively consult EBMOs in the drafting of its main policy document. This document did, however, note the importance of the private sector’s role in generating employment. Some individual business leaders were consulted, but only in cases where it produced mutual benefit. As is further elaborated in the next section, there was a period before the ceasefire in the midst of economic collapse when EBMOs emerged from the shadows in order to apply pressure on political parties, but this was short-lived. In the future, EBMOs will have a pivotal role in ensuring a business-friendly environment, stability, and coherent government policies to allow Sri Lanka to achieve its medium-term growth target of 8 per cent and establish itself as a strong contender for investment flows. Their approach will remain based on advocacy, influencing policy and learning lessons from past efforts.



6. Peace advocacy and influencing policy

Like businesses everywhere, those in Sri Lanka require a stable investment environment and an administration that delivers consistent policy in order to maintain investor confidence. Advocating and influencing policies to overcome major obstacles to creating confidence was a core part of the work of apex EBMOs, which they carried out in various ways. Business leaders stated consistently that the conflict was the main impediment to the development and expansion of private sector business operations. At times, some chamber of commerce leaders with direct access to policy-makers actively called for a negotiated settlement to the war. There were also occasions when the private sector garnered the support of the public to deliver a categorical message that peace must be achieved. As this section demonstrates, the EBMOs achieved mixed results in their peace advocacy work but did provide insightful lessons.

In 1998, two years after the Central Bank bombing and as the war raged on, six EBMOs (the Ceylon Chamber of Commerce, the Ceylon National Chamber of Commerce, the National Chamber of Industries, the Federation of Chambers of Commerce and Industries of Sri Lanka, the Employers' Federation of Ceylon, and the Exporters Association of Sri Lanka) invited all political parties for an All Party Conference. This marked the first time that these large EBMOs collectively initiated a political discussion to achieve consensus on how to solve the ethnic conflict. While the EBMOs considered that economic reforms, such as improvement to labour laws, were essential, the ethnic conflict had become the single most important factor affecting their members. They pressed for equality in Sri Lanka along with security, and for promoting English as the language to be used to build bridges between communities. The conference agenda also highlighted the need to have a common policy framework to enhance the investment environment for the private sector and thereby improve livelihoods. Despite the significance of this event, the main opposition party, the United National Party (UNP), did not attend, making consensus impossible.

In 2001, after the bombing of the airport, the apex EBMOs stepped up their pressure on the authorities to achieve an end to the conflict through peaceful means. The bombing had brought the economy to a standstill and dealt a heavy blow to the popularity of the Kumaratunga Government. Despite these pressures, the two main political parties saw no need to form a national government. The apex EBMOs held regular meetings focused on the common cause of ending the war. As part of a bipartisan initiative, they developed a ten-point document signed by all chambers and employers' organizations and lobbied the President and the opposition leader, stating that the political parties could not expect support from large businesses unless they made cessation of the war a priority. They insisted on a national unity regime and the resumption of peace talks. The Sri Lankan public and the international community were also applying pressure on the Government to urgently find a solution to the conflict.

“The conflict was impacting everything. Some may say that the policies for a negotiated settlement were obstructing the military solution but we felt that the set of values based on human life were right. We believed that the war was unwinnable and bloodshed on both sides needed to be stopped. It was also destroying the economy, affecting future generations and dividing the people.”

Business leader



Unlike their lobbying efforts in the late 1990s, the apex EBMOs in 2001 showed strong unity, creating the J-Biz. All advocacy efforts with the political leadership were henceforth directed through this new entity with the primary mandate of influencing an end to the war.

Advocacy was also required to influence public opinion toward a peaceful solution, given that there remained citizen and political groups who fervently supported a military one. A key component of private sector advocacy was the Sri Lanka First initiative. The apex EBMOs were instrumental in supporting several influential business leaders run a series of advertisements to rally 1 million people onto the streets to call for a stop to the war. The central message of the campaign, called “Sri Lanka First – It’s Now or Never”, was that the cost of war was much higher than the cost of peace, and that the campaign would continue until peace talks resumed. At the national event in September 2001, an estimated 1 million people held hands in a chain for 15 minutes, voicing this message. In addition to running this campaign, the J-Biz demanded a national unity government comprised of the two main political parties.

Not long afterwards, parliament was dissolved and parliamentary elections were called. With multiple pressures for peace, the UNP came to power, pledging a unilateral ceasefire with the LTTE. Despite the success of peace advocates, however, there remained an uneasy marriage of governance between Prime Minister Wickremesinghe and President Kumaratunga. The J-Biz issued press releases advocating for all political parties – and Kumaratunga and Wickremesinghe – to work together for a peaceful and prosperous future and placed itself firmly behind peace-supporting civil society. Regional EBMOs also played a crucial role in peacebuilding, one EBMO in particular being instrumental in facilitating the ceasefire accord by meeting with both parties and advising them on actions necessary to achieve agreement.

““We (EBMOs) played a big role in getting the ceasefire agreement. We ensured that the trade embargo was lifted, and the A9 road (main linking highway) was opened. We were negotiating with both sides to reduce taxes and allow items to enter and leave the area. Then we were the first organization to bring a bus-load of southern business leaders to show our culture and business opportunities.”

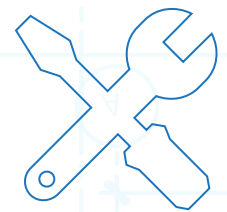
Regional business leader

Peace talks were held between the Government and the LTTE and a ceasefire came into effect in 2002 – viewed by the EBMOs as an opportunity to work towards a sustainable peace. Over the following two years key leaders within the chamber community visited South Africa and Northern Ireland to learn about how the private sector in each country had supported a peaceful end to conflict. Delegations from the two countries also visited Sri Lanka to provide advice. During the ceasefire, EBMOs attended donor conferences in Tokyo and New York, where their presence helped establish credibility amongst the donor community on the appropriate use of funds.

“We (EBMOs) took a delegation to the donor conferences where large amounts of funds were pledged. Our presence and voice gave assurance to donors that business leaders were united and that the private sector was supportive of the peace process.”

Business leader

Delegations also visited the CAZ, whose business potential appeared to be poor despite the active interest in supporting its development. The presence of peace was simply not enough to attract investment.



“A delegation from our chamber went to Jaffna during the ceasefire period. All large businesses took a small project, but we were shocked to see that the capacity of potential partnership businesses was very low. We could not find any partners.”

Business leader

Parallel to these national initiatives, the heads of the fifteen regional chambers created an organization – the BPA – to work towards business development and peace within the conflict-affected regions. Crucially, the leadership of the BPA represented all three of Sri Lanka’s ethnic groups and its membership all regions of the country. The BPA enjoyed significant leverage among regional business and its lobbying efforts demonstrated to national leaders that its call for peace was as strong as that of the larger Colombo-based entities.

Drawing investment to the north and east to support peace was clearly a challenge. One of the most important initiatives was the “Invest in Peace” project led by the United Nations Development Programme (UNDP) and supported by the Ceylon Chamber of Commerce. The key objective of the project was to bring private sector enterprises from the north and south together to build networks and business-to-business linkages. It supported meetings of the regional chambers of commerce by facilitating discussions between regional enterprises and policy-makers and developing the skills of regional business leaders. Although the December 2004 Indian Ocean tsunami diverted funds away from core activities, the project enjoyed some success and was instrumental in making people realize that it takes years to change attitudes and build trusting relationships.

As the gulf between President Kumaratunga and Prime Minister Wickremesinghe widened, the J-Biz, in consultation with religious groups and NGOs, decided to issue an ultimatum to the political leaders in January 2005 that they must cooperate or else face repercussions. However, by early 2005 the President had dissolved parliament and fresh elections were called, leaving the EBMOs unable to progress on their planned efforts to prevent an election and bring the political parties together.

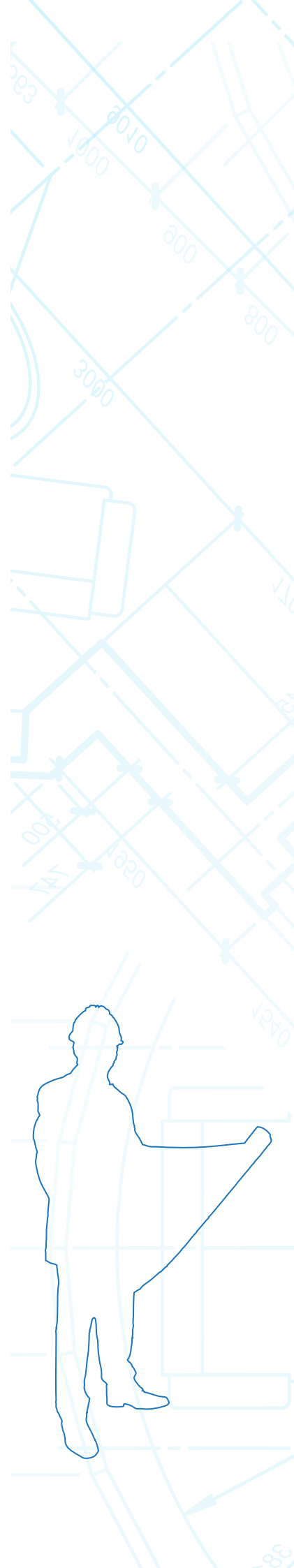
“Even though the ceasefire failed, we (EBMOs) had built very strong links for the future that could not be broken.”

Regional business leader

The breakdown of the ceasefire, the change of administration (with Rajapaksa elected as President) and the renewal of conflict affected the apex EBMOs’ peace efforts, pushing them to explore new avenues toward a solution. It became clear through dialogue with influential members of the Government and the opposition as well as with those who changed alliances from the LTTE to mainstream civil society that peace and the claims of the LTTE were beyond what the administration could accede to.

The LTTE had consistently violated the ceasefire agreement, and public support was increasingly shifting towards a military solution to ending the war.

In the early years of the Rajapaksa regime, the EBMOs that had worked towards a negotiated peace continued to insist that this was the necessary approach. Although the EBMOs knew that the LTTE was not genuinely interested in meeting its ceasefire obligations, their peacebuilding efforts over the years had also impressed upon them that continuation of the war was also not the answer. Thus their search for a peaceful negotiated end continued. The Ceylon Chamber of Commerce, for example, established a separate steering committee to help achieve a negotiated



settlement through multiple stakeholder consultations. However, events that unfolded once hostilities recommenced were difficult to overcome. Peace advocates in business and civil society, who were being called traitors by war promoting civil groups and government-backed propaganda groups, found themselves in a weakened position. From 2006, the Rajapaksa regime adopted a policy of ending the conflict while also using psychological operations to boost the morale of those supporting the war and demoralize those who were against a military solution. As a result of threats and intimidation, as well as direct influence on the business operations of those actively voicing opinions against the Government, members of the business community who, during the previous years, had been key peace advocates now became silent.

“All we had done to find peace was not in vain. Even when we saw that the war was going to end through military means, we remained against bloodshed since we feared that with the end of the war, real peace would not be accepted and trust could not be built.”

Business leader

As the war appeared to be drawing to an end, the EBMOs had to change their roles so as not to be perceived as delaying its end. When the end did finally come in 2009, the nature of peace efforts shifted toward attracting investment and cementing long-term peace. However, some chambers found themselves sidelined by the Government, and the close interaction between the Government and EBMOs of a few years earlier had morphed into what was to become a period of very little influence. Several apex EBMOs that had committees dedicated to peace-related issues saw no need to continue with such activities.

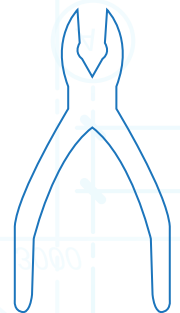
“The war was over but complete reconciliation had not come. The entire development approach was state led, which guided the market economy. The regime was able to influence businesses directly and some key private sector leaders were selected as representatives rather than depending on the chambers. The ability of the chambers to lobby diminished because there was no one hear us.”

Business leader

With the return of the pro-business Wickremesinghe as Prime Minister in 2015, a rapid change in the advocacy and influencing agenda of EBMOs took place. The Government, placing greater emphasis on achieving reconciliation among communities, has been consulting with the EBMOs on economic issues. This is particularly important in the context of the worsening global economic climate that is affecting Sri Lanka.

“There is now an opportunity to engage in and influence policy as our suggestions are taken seriously, but impact has still to be seen. The effort that the chamber has put into pressuring the Government to improve the investment climate can be improved but it's a tough task given the fiscal situation of the country, the drop in remittances and drop in plantation export prices.”

Business leader





The economy and the role that the private sector can play in attracting investment remain priorities for the EBMOs, with the doors now open to using business as a route to sustained peace. This includes investment in the conflict-affected regions, which remains low despite substantial state investment in infrastructure since 2009. Efforts to attract inward investment over the past several years are nevertheless informing current initiatives.

7. Investment in peace and entrepreneurship

During the conflict, EBMOs did little to attract investment and encourage entrepreneurship in the name of peace. However, lessons from the ceasefire and post-war periods are informative. Overall, the EBMOs have been successful in leading and participating in initiatives to develop business-to-business links between enterprises in the conflict-affected regions and beyond. Some apex EBMOs have been able to help investors from outside the region and country to invest to support peace – efforts which have produced financial returns.

During the conflict, one of the key challenges for the private sector was accessing the north and east, and apex EBMOs had to manage through both formal and informal business channels. There were also times when they had to speak on behalf of regional EBMOs to support trade.

“We worked with government agents and the LTTE political authority, and intervened on behalf of northeast traders on issues such as delays in the passage of goods, taxes levied by the LTTE and embargoes.”

Business leader

One of the most important interventions in this regard was the UNDP-led Invest in Peace initiative, in which the Ceylon Chamber of Commerce played a major supportive role. In addition, the BPA succeeded in bringing regional businesses together to form partnerships. Yet neither of these initiatives could be sustained due to the breakdown of the ceasefire and the resumption of war.

In 2008, following the end of the conflict in the east, this region was “cleared” for investment. A project called Connecting Regional Economies (CORE) was launched, with funding from USAID. A US consulting firm, Land O’Lakes, partnered with the Ceylon Chamber of Commerce with the aim of encouraging investment from large-scale private sector firms from outside the region. Financial grants and technical assistance were provided to incentivize investors to develop projects in the east. However, because of the ongoing war in the north and the “wait and see” approach of investors, little was achieved although some service-based organizations did invest, indicating that some private sector companies were comfortable with the risk/return ratio. Lessons from that initiative also suggest that it was important to ensure that new outside investors were not crowding out local ones and were striving to develop partnerships with local businesses. Persistence is needed for this, as was made evident during the ceasefire period when large enterprises made trips to Jaffna with projects in mind but returned empty-handed due to the low capacity of the smaller regional business partners.

With lessons learned from CORE and other ventures, a new project, Biz Plus, was started in 2012. Biz Plus was also coordinated by Land O’Lakes, which had an agreement with the Ceylon Chamber of Commerce to provide business support services to targeted regional chambers. The objective of Biz Plus was to provide incentives to existing local businesses to expand their operations.



After appropriate screening and selection, asset grants were provided to SMEs, which were then obliged to meet specific employment targets. The challenges were finding suitable companies, addressing perceptions of an uneven playing field, and dealing with the competition within and between districts. Although the investments were predominantly service and trade-related with only a few in manufacturing, Biz Plus, scheduled to come to a close in 2017, did achieve financial and employment outcomes in the devastated, conflict-affected economy and increased investors' confidence.

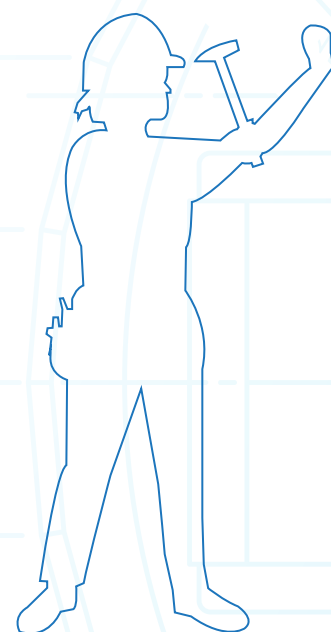
Another innovation was the ILO-led Local Empowerment through Economic Development (LEED) project, which supported links between producers in the conflict-affected regions and exporters from outside. The Employers' Federation of Ceylon was instrumental in developing the skills of youth and providing support for job placements. It offered particular assistance to people with disabilities, helping them to become self-employed by distributing interest free loans. Many of the beneficiaries have successfully implemented their projects and are in the process of repaying the loans.

The National Chamber of Exporters was also a key partner in LEED, facilitating the identification of producers, supporting improvements in quality, linking government authorities with producers and conducting training workshops. Members of the chamber were encouraged to invest, and efforts were made to prevent exploitation of farmers while also ensuring that consistent supplies were maintained. Seven member companies have developed strong links with producers.

ICT training to develop employability skills in the north also included former combatants. Cargills (Ceylon), Singer Finance (Lanka), Taprobane Seafood Group and MAS Active provided considerable support with employment opportunities. Other initiatives supported by the LEED project included "Fostering family engagement" to remove barriers of overprotection by families, "small business development" to promote entrepreneurs with disabilities and "vehicle modification" to bring drivers with disabilities back to work. "Community means everyone" and "employer sensitization" programmes were conducted. Separate interventions were made in order to educate different segments of the community, including parents and guardians.

The Employers' Federation of Ceylon was one of the first EBMOs to link up with the Yalpanam Chamber of Commerce & Industry in the north, successfully assisting its members to overcome many hurdles in the immediate aftermath of the war. These initiatives also included securing grace periods and/or exemptions for businesses in relation to liabilities for employment-related statutory payments for the duration of the conflict. Representations by the Employers' Federation of Ceylon resulted in a specific statement on this issue in the Budget Speech in 2013. The federation continues to support the Yalpanam Chamber of Commerce & Industry in enhancing capacity of the regional EBMO as well as its members.

The Federation of Chambers of Commerce and Industries of Sri Lanka has also been involved in stimulating investment through the District Enterprise Forums. These forums have enabled local businesses to raise issues with government ministers directly, and therefore helped reduce bureaucratic bottlenecks. International exhibitions have also been held in the north since 2013 to facilitate trade, and further efforts are being made to encourage the development of SMEs through links with the relevant ministries.



“The security situation is better but there are lots of other areas that require change to improve the competitiveness of the country. Sri Lanka has a lot of positive things to offer such as hospitality, climate, culture and geography, but what is keeping us back is the ease with which business can be done.”

Business leader

“Before 2009, we talked to foreign investors and embassies, but we did not see much change. Investors want both the destination and investment to be safe. It is now safe and we see a lot of investors looking for projects outside Colombo. There have been a lot of business delegations to the country since the end of the war.”

Business leader

In the post-war era EBMOs have been better able to participate in international trade delegations and promote Sri Lanka as a business destination. Further improvements in trade and investment can be made if the country can increase its ranking in the “Ease of Doing Business” report.

A key challenge remains in attracting international investors. While some are keen to seek out opportunities, few have been interested in the conflict-affected areas partly due to the lack of incentives and the difficulty in obtaining approvals. Nevertheless, there is optimism about the contributions that EBMOs can offer to generate investment and spur entrepreneurship in the country.



8. Recommendations

1. Apex EBMOs must come together as they did during the ceasefire period to influence policies through J-Biz. Advocating with one voice will amplify calls for change. Joint advocacy should be focused on the following areas:

- National economic agenda
- National social agenda
- Ease of doing business
- Strengthening the linkages between the private sector and long-term peace

2. EBMOs should continue to play an important role in supporting their members, particularly in the following areas:

- providing business development services to new investors;
- influencing district secretaries to establish district development committees;
- encouraging businesses to set up branches and employ people from lagging regions in a conflict-sensitive manner.

3. EBMOs should continue to play an important role in fostering an environment where businesses can flourish. With their extensive experience combined with the 2015 change in administration, there is now an opportunity to support efforts to attract investment, particularly by:

- setting the policy agenda;
- strengthening the EBMOs to become more united;
- emphasizing a value-based approach rather than strategies led by the priorities of individual business leaders;
- understanding the needs of investors, the Government and workers and finding ways to bridge differences and achieve collective gain.

4. EBMOs should participate in and lead future business-peace projects that help to sustain peace through economic reconciliation, particularly by:

- connecting sectoral and regional chambers;
- supporting consensus-building by changing perceptions about communities and regions;
- helping businesses become more socially conscious and build social cohesion in their workplaces;
- supporting social integration by building supplier-buyer relationships based on values;
- developing social entrepreneurship;
- supporting the development of the industrial sector rather than purely trade.



9. Conclusion

EBMOs have overcome enormous challenges and survived one of the longest and bloodiest conflicts in Asia by being resilient and establishing innovative projects. Their support of their members and promotion of peace provide a strong foundation for new and sustained efforts. Future work must include not only helping members to communicate with each other and resolve their differences, but also instigating measures to create a positive investment climate that will attract inward FDI. EBMOs also have a critical role to play in ensuring that the private sector supports responsible and sustained actions to ensure that the conflict-affected regions maintain strong links with the national economy and can provide the needed employment for their population. Moreover, EBMOs need to work to influence the Government to develop appropriate economic development plans that seek to bring together different stakeholders to improve the economic wellbeing of all people.

In summary, EBMOs in Sri Lanka can be a vital catalyst to ensure that the dividends of peace are achieved, and become regional leaders in global peace through the business agenda.



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