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The Role of the International Donor Agencies in the Politics of Sri Lanka

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Abstract

The objective of the paper is to examine the role of the two donor agencies, the IMF and the World Bank in the formulation of social welfare policies in the post-independence Sri Lanka. The ideologies of the two major parties in Sri Lanka, the United National Party (UNP) and the Sri Lanka Freedom Party (SLFP), became the determining factor in the formulation of social welfare policies before 1977. In this context, the IMF and the World Bank played two different roles before 1977. Meanwhile, the ideological gap existed between the two major parties began to disappear after 1977 with the introduction of liberalized economic policies. The IMF and the World Bank played an important role during the post-1977 period. There was evidence that these funding bodies influenced in the formulation of social welfare programmes under the two major parties. The guideline recommended by these two organizations adversely affected the subsidized rice ration, one of the major welfare programmes, in the country.

1. Introduction

The role of the donor agencies, which became more prominent in the 1970s, was a determining factor in the maintenance and implementation of the social welfare programmes in Sri Lanka. There was evidence that the IMF and the World Bank raised concerns about the growing budgetary cost of the welfare programmes and tried to impose restrictions on the borrowing countries in the developing world. The borrowing countries had to meet certain stringent conditions of the IMF and the World Bank in order to obtain assistance from those donor agencies. Some of the recommendations prescribed by the IMF and the World Bank adversely affected the social welfare programmes of the aid receiving countries. Sri Lanka was not exempted from this treatment.

After independence, Sri Lanka had to obtain foreign aid from donor agencies such as the IMF and the World Bank due to the existing economic crisis in the country. The country had to agree to some stringent conditions of the IMF and the World Bank in order to obtain foreign assistance. These terms adversely affected the subsidized rice ration, one of the major welfare programmes in the country. There was evidence that these funding bodies exercised influence in the formulation of social welfare programmes under the United National Party (UNP) government 1948–56 and 1965–70. Meanwhile, there is no evidence to suggest that the IMF and the World Bank had similar influence on the formulation of social welfare policies in Sri Lanka during the Sri Lanka Freedom Party (SLFP) coalition regimes of 1956–65 and 1970–77. Therefore, the determining factor behind the role of the IMF and the World Bank in Sri Lanka seems to be the ideology of the ruling party. While the UNP was in power, there was a cordial and happy relationship between it and these world monetary institutions, but when the SLFP and its coalition partners were in power, the relationship with these monetary institutions has always been unhappy and crisis-ridden. However, this situation has changed in the post-1977 period. There is growing evidence that these funding agencies exerted influence in the formulation of social welfare policies in the country during this period. The disappearance of the ideological gap which earlier existed between the two major parties was the major reason for this. In this context, the present paper attempts to examine the party ideology of those in power as the decisive factor behind the role of the IMF and the World Bank in Sri Lanka.

The paper attempts to examine the role of the IMF and the World Bank in the politics of post-independent Sri Lanka by employing the concept of party ideology.

2. The IMF, World Bank and the UNP Regime 1948–56

The UNP, which came into power at the General Elections held in 1947 and in 1952, was able to stay in power until 1956. The UNP from its inception believed in the economic system of private sector enterprise. The ideology of the party did not conflict with the IMF–World Bank ideology. The IMF and the World Bank aim at promoting private sector enterprises. The World Bank has always identified public-sector-dominant production as the cause of the long-term stagnation of the economy. According to the Bank's view, 'emphasis should be placed on accelerating the process of privatization and reducing subsidies to public enterprises'.[1] This provided a convenient position for the UNP to accept the recommendations of the IMF and the World Bank. There is evidence that the UNP government at the very beginning attempted to follow either 'an IMF stabilization 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. 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

[1] Government of Ceylon, 'Six Year Programme of Investment', 1954/55, 1959–60' (Colombo, Planning Secretariat, 1955), p. iv.

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.'[2]

The UNP regime's social and economic policies during this period were influenced by the World Bank. In 1951 the World Bank organized '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 1 October 1953 on the request of the Sri Lankan government.[3] The World Bank Group 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 was 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'.[4]

During the period the World Bank team was in Sri Lanka, it was able to achieve an unusual economic boom by obtaining good prices for its export commodities due to the Korean War. The country was able to accumulate a large amount of foreign reserves due to the Korean War boom and in turn to enable the economy to import the requirements of the country for a period of nearly one year. The government was already moving away from quantitative restrictions on imports and exchange payments on the current account due to the boom conditions in the export market that had emerged from the Korean War. In this situation, the World Bank team did not feel inclined to pressurize the government for a programme of trade liberalization.[5] The domestic currency had been devalued in 1949 by a substantial margin and the external economic conditions were generally favourable and therefore the commission felt that there was no point in any further devaluation of the rupee.

The other elements of the prototype package of the World Bank report were as follows:

(a) 'Government policies should be such as to encourage investment of private capital, both Ceylonese and non-Ceylonese';[6]

(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 the objective';[7]

[2] IBRD, *Economic Development* (Baltimore: John Hopkins Press, 1953), p. xi.

[3] Ibid., p. vii.

[4] W.D. Lakshman, 'IMF–World Bank Intervention in Sri Lanka Economic Policy: Historical Pattern and Trends', in D. Dunham and C. Abeysekera (eds), *Essays on The Sri Lankan Economy 1977–83* (Colombo: Social Scientists' Association, 1987), p. 59.

[5] IBRD, *Economic Development*, p. 120.

[6] Ibid., pp. 126–7.

[7] Ibid., pp. 122.

(c) ‘Policies and measures of maintaining internal monetary stability should be continued’;[8]

(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’;[9]

(e) ‘Food subsidies should be eliminated gradually over the next few years. . .’[10]

The UNP regime accepted the World Bank’s recommendations in its broad outline. There were similarities in sectoral priorities between the six-year (1953–59) programme of the expenditure of the government proposed by the World Bank team and the six-year (1954/55–1959/60) investment programme subsequently adopted by the government. The Bank team proposed to spend Rs. million 12.2 for health and Rs. million 9.1 for education for the period of 1953–59. It seemed that the UNP government followed the World Bank recommendations and proposed in its budget to allocate Rs. million 4.7 for health and Rs. million 5.8 for education.[11]

The World Bank interventionism was evident in two specific policy areas of the government. The first was the gradual closure of a number of public sector ventures introduced during the Second World War. Secondly, the existing food subsidy programme of the government was affected by these proposals. The proposal included in the report was that ‘Food subsidies should be eliminated gradually over the next few years’.[12] 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.

3. The IMF–World Bank intervention under the UNP regime of 1965–70

The socio-economic policies of the SLFP coalition governments, which were in power during the period 1956–65, created a foreign exchange crisis in Sri Lanka. The major element of the strategy of the UNP coalition government that came into power in 1965 was heavily dependent 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.[13] 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

[8] Ibid., pp. 122.

[9] Ibid., pp. 123.

[10] IBRD, *Economic Development*, and Government of Ceylon, ‘Six Year Programme of Investment’.

[11] IBRD, *Economic Development*, p. 123.

[12] W.D. Lakshman, ‘IMF–World Bank Intervention in Sri Lanka Economic Policy’, p. 70.

[13] Hansard, *Parliamentary Debates*, 19, 1970, p. 470.

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 payments problem in the country and this affected badly some of the social policies of the government, especially the existing consumer subsidy scheme. In 1970, the Minister of Finance, Dr N.M. Perera, revealed in parliament 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 had prepared the ground for over a year, and then behind a smokescreen of false propaganda that there was a world shortage of rice, cut the rice ration by one measure in November 1966.[14]

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, while cushioning at the same time its impact on the low-income groups.[15] 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 15 July 1966 and the Fund agreed to provide $25 million. 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.[16] The review of the full subsidy scheme, in order to reduce its burden on the government budget, became an important policy suggestion of the World Bank.[17] 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 government signed the third standby agreement with the IMF in May 1968 to obtain $19.5 million.[18] The fourth standby agreement signed in 1969 between Sri Lanka and the IMF also agreed to provide $19.5 million loan facility.

The devaluation of the rupee, the introduction of the dual exchange rate system, and import liberalization were the three measures adopted by the UNP government during this period. These were the important elements of the usual IMF stabilization package adopted by the government.[19] 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.[20]

14 Ibid., *Parliamentary Debates*, 91, 1970, pp. 470–1.
15 Ibid., 1970, p. 472.
16 World Bank, *The Foreign Exchange Problem of Ceylon* (Colombo: Ministry of Planning and Economic Affairs, 1966), p. 24.
17 Hansard, *Parliamentary Debates*, 91, 1970, p. 473.
18 W.D. Lakshman, 'IMF–World Bank Intervention in Sri Lanka Economic Policy', pp. 72–3.
19 Central Bank of Ceylon, *Annual Report* (Colombo, 1968, 1978), p. 22.
20 H.N.S. Karunatilake, *The Economy of Sri Lanka* (Colombo: Siridevi, 1987), p. 346.

Table 1.1 *Gross external outstanding 1965–70 (Rs. million)*

	1965	1966	1967	1968	1969	1970
Official loans	489	549	739	1,074	1,376	1,596
Suppliers' credits	n.a.	n.a.	17	66	192	197
Short-term trade – credits	60	31	108	95	130	273
IMF drawings	181	271	376	636	626	490
Bank borrowings	n.a.	n.a.	57	29	256	412
Total	730	851	1,297	1,900	2,580	2,968

Source: Central Bank of Ceylon, Annual Reports.

In comparison to the SLFP regime of 1960–64, the UNP regime of 1965–70 was able to obtain more foreign aid to Sri Lanka (see Table 1.1).

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 1960s 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.[21] In 1964, foreign funds financed only 8% of total imports, but this percentage was 40% in 1969 and 49% in 1970.[22] There was no doubt that the Sri Lankan government during this period was able to obtain this aid from the IMF, the World Bank, and other Western countries due to the promotion of free-market policies with IMF–World Bank intervention. As a result of obtaining more and more aid from the international donors, Sri Lanka was caught up in a severe debt trap. The Debt Service Ratio as a per cent of Gross Domestic Product increased from Rs. million 3.3 in 1965 to Rs. million 20.1 in 1970.[23] However, Sri Lanka had to obtain fund facilities during the period 1965–70 in order to solve the balance of payments problem.

4. The role of the donor agencies under the SLFP regimes

The IMF and World Bank and the SLFP regimes 1956–65

The change of government in 1956 was a turning point in Sri Lanka. The Sri Lanka Freedom party (SLFP) came into power in 1956 as a coalition known as the *Mahajana Eksath Peramuna* (MEP). The chief partner of this coalition, the SLFP, after its inception believed in the public ownership of all major services and industries. The SLFP manifesto of 1951 boldly declared:

> All essential services including plantations and transport, banking and insurance should be progressively nationalized.[24]

[21] Satchi Ponnambalam, *Dependent Capitalism in Crisis – The Sri Lankan Economy 1948–80* (London, 1980), p. 53.
[22] The Central Bank of Ceylon, *Annual Report* (Colombo, 1970).
[23] Sri Lanka Freedom Party, *Party Manifesto* (Colombo, 1951).
[24] W.D. Lakshman, 'IMF–World Bank Intervention in Sri Lanka Economic Policy', p. 62.

This nationalization policy was implemented by the MEP government when it came into power in 1956. Little was heard of IMF and 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.[25] By the end of 1955 and of 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. This regime was able to adopt its economic and social policies free from IMF and World Bank intervention.

External developments after the mid 1950s were unfavourable for Sri Lanka, and the 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. million 1,176 (7% of the cumulative export earnings of the period).[26] 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.[27] Meanwhile, between 1955 and 1959 exports dropped by 6% and imports rose by 32% due to the liberalization of imports and exchange payments begun in the early 1950s and continuing 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. The MEP government had to impose quantitative restrictions on imports. The imposition of these restrictions on imports became an important policy of the government, and the closed economy was built because of the economic crisis.

The MEP's approach to the consumer subsidies, especially to the subsidized 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 1956 General 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 Ten-Year Plan envisaged an overwhelming proportion of government industrial investments channeled to large-scale industry, a move discouraged by the World Bank mission of 1951 and, on its advice, by the government of the day.[28] The MEP not only re-instated the rice subsidy, which had

[25] G. Corea, 'Aid and Economy', *Marga Quarterly Journal*, 1 (1971), p. 28.

[26] W.D. Lakshman, 'IMF–World Bank Intervention in Sri Lanka Economic Policy', p. 64.

[27] Ibid., p. 65.

[28] The Central Bank of Ceylon, *Annual Report* (Columbo, 1956/57 and 1959/60).

been removed by the UNP in 1953, but also allocated more funds to the food subsidy than the UNP. The government increased its allocations on the food subsidy from Rs. million 103.3 in 1956/57 to Rs. million 187.0 in 1959/60.[29]

Meanwhile, the SLFP was able to come to power at the General Election held in July 1960. This regime also continued the socio-economic policies adopted by the MEP in 1956. It can be argued that the social policies of the MEP government in the mid 1950s and the SLFP governments in the 1960s were not influenced by the IMF and the World Bank. This point can be supported by existing empirical evidence. On the one hand, the nationalization policies[30] of the SLFP governments were not acceptable to these funding bodies.[31] The governments in the West and international capitalism viewed the nationalization policy of the MEP government in the mid 1950s and the SLFP government in the mid 1960s as a measure hostile to capitalism at home. At the same time, the West looked at the foreign policy changes which were taking place under the MEP government as an unfriendly step. Sri Lanka established diplomatic relations with the communist bloc in 1956 for the first time since independence. In this situation, international finance capital boycotted the SLFP coalition governments and therefore the coalitions had to depend on the communist bloc. A number of public industrial ventures such as steel, tyre, and plywood corporations were established under the MEP government with the support of the USSR and other Communist countries in Eastern Europe. These factors appear to have been important in making IMF–World Bank interventionism minimal in Sri Lanka during the period 1956–65. On the whole, foreign capital inflow into the country was extremely low. This situation can be seen from the Table 1.2.

Table 1.2 shows the amount of foreign loans received by Sri Lanka during the period 1956–76. Foreign loans received by Sri Lanka increased slightly from Rs. million 258 in 1956 to Rs. million 345 in 1960. There was a zero increase of the debt ratio as a percentage of GDP for the above period. The MEP were in power from 1956 to 1959. As discussed earlier the IMF, the World Bank, and other western countries were reluctant to give financial assistance to Sri Lanka due to the domestic and international policies of the government. This affected low foreign capital outflow to the countries. Even the received foreign assistance consisted of a large amount of foreign grants and concessionary loans from the socialist bloc. Meanwhile, this situation changed during the period 1965–70 under the UNP regime. The UNP government maintained cordial relations with the IMF and the World Bank during this period. This resulted in increasing Sri Lanka's foreign loans threefold during the period 1965–1970. Its foreign loans increased from Rs. million 739 in 1965 to Rs. million 2,394 in 1970. The foreign loan debt ratio as percentage of GDP also increased from 9.1% in 1965 to 17.5% in 1970. Meanwhile, the amount of foreign loans received by Sri Lanka during the period 1970–76 under the

29 The SLFP government nationalized the British and US oil companies in 1962. The USA government stopped the assistance given to Sri Lanka under the PL 480 agreement in 1963 as a reaction to the government action.

30 W.D. Lakshman, 'IMF–World Bank Intervention in Sri Lanka Economic Policy', p. 67.

31 H.N.S. Karunatilake, *The Economy of Sri Lanka* (Colombo: Siridevi, 1987), p. 339.

Table 1.2 *Foreign capital inflow to Sri Lanka, 1956–1976 (values in rupee million)*

Year	Foreign loans	Foreign debt as a % of GDP
1956	258	5.1
1957	278	5.3
1958	293	5.3
1959	307	4.8
1960	345	5.1
1961	407	5.9
1962	412	5.9
1963	489	6.0
1964	549	7.0
1965	739	9.1
1966	1.074	12.9
1967	1.376	15.2
1968	1.578	14.7
1969	1.800	15.4
1970	2.394	17.5
1971	2.795	19.9
1972	2.936	19.3
1973	3.705	20.1
1974	2.859	12.0
1975	3.705	13.9
1976	4.968	16.4

Source: Central Bank Annual Report, 2000, Tables 19 and 22.
Note: (a) As a percentage of earnings from merchandise exports and services.

centre-left coalition government of the UF was also a less amount in comparison to the post-1977 period. The situation can be seen from Tables 1.2 and 1.4.

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 rest in October 1962 and June 1964.[32] The Table 1.3 shows the agreements signed for foreign assistance from the Communist countries during the SLFP coalition governments.

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 aid from the USSR and Poland.[33] 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

[32] Ibid., pp. 341–342.

[33] The Minister of Finance, 'The Budget Speech of 1970' (Colombo, 1970), pp. 4–5.

Table 1.3 *Agreements signed for foreign assistance from the communist countries 1958–1977*

Year	Country	Purpose	Date of Agreement	Amount in US$
1958	USSR	Line of credit	1958.02.25	124,422,504
1970		Import of Commodities	1970.11.02	7.792,214
1972		Import of Commodities	1972.11.02	26,411,989
1974		Iron and Steel Project	1974.08.09	11,195,000
1974		Iron and Steel Project	1974.08.09	3,152,959
1947		Iron and Steel Project	1974.08.09	228,798
1971	FRG	Import of Commodities	1971.11.23	9,473,201
1973		Embilipitiya Paper Mill Project	1973.03.23	11,880,593
1974		Import of Commodities	1974.03.15	2,111,578
1974		Import of Commodities	1974.05.20	8,446,312
1975		Urea Fertilizer Project	1975.12.09	23,431,051
1975		Embilipitiya Paper Mill Project	1975.08.05	4,686,210
1977		Import of Commodities	1977.04.17	2,716,898
1971	PRC	Import of Rice	1971.10.08	6,732,016
1971		Convertible Currency Loan	1971.05.27	44,746,462
1972		Integrate Textile Mill Minneriya	1972.06.29	7,312,099
1972		Economic and Technical Cooperation	1972.06.29	40,622,774
1972		Purchase of Cargo Ship – Lanka Kalyani	1972.09.16	731,615
1972		Purchase of Cargo Ship – Lanka Kanthi	1972.11.21	694,322
1972	Hungary	Supply of Capital Equipment	1972.01.11	10,354,815

Source: CS-DRMS Report 802-1.
Note: USSR = Union of the Soviet Socialist Republic.
FRG = Government of the Federal Republic of Germany.
PRC = Government of the People's Republic of China.

IMF–World Bank intervention in the economic and social policies of the island. There is not sufficient evidence to prove that the IMF and the World Bank were behind the SLFP government's proposal to reduce the subsidized rice ration by half in 1962. This measure was aimed at finding solutions to the growing balance of payments problem in the country. However, this proposal also was not implemented due to the opposition of the government's backbenchers.

The IMF–World Bank and the UF government 1970–77

The United Front (UF) 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 government embarked on policy making with two commitments, which must have seemed anathema to the IMF–World Bank group (a) 'lay the foundation for an irrevocable transition of the economy to a socialist one' and (b) 'to maintain . . . social welfare measures'.[34] Further, as mentioned by the government, the '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'.[35] This 'ideology of public sector dominance conflicted with the free market, private enterprise ideology of the West'.[36] Similarly, the UF government's commitment towards maintaining welfare services was contrary to the advice given to the Sri Lankan government by the advisory teams of the World Bank and the IMF.[37]

There is no strong evidence to suggest that the IMF and the World Bank had an impact on Sri Lanka's social welfare policies during the period 1970–77. As mentioned before, the centre-left coalition government in its first budget did not follow market economic policies. Instead of promoting those economic policies, it introduced a number of restricted economic policies. Nationalization of private ventures, the introduction of price controls and income, and house ceilings were some of the policies implemented by the UF government. As soon as the coalition came into power in 1970, it restored the rice subsidy, which had been withdrawn by the UNP government in 1966. 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 the unfriendly attitude of those agencies to Sri Lanka. The UF government was able to receive only a smaller 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 maintaining social welfare policies.

The Finance Minister of the UF government condemned the previous government for uncritically accepting the terms and conditions of the IMF. According to the Minister, this resulted in the country becoming 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.[38] The Minister proposed obtaining 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 four loans per year.[39] The Asian Development

[34] Ibid., p. 3.
[35] W.D. Lakshman, 'IMF–World Bank Intervention in Sri Lanka Economic Policy', p. 75.
[36] Ibid., p. 75.
[37] The Minister of Finance, 'The Budget Speech of 1970' (Colombo, 1970), p. 1.
[38] H.N.S. Karunatilake, *The Economy of Sri Lanka*, p. 357.
[39] Minister of Finance, 'The Budget Speech of 1978' (Colombo, 1978), p. 9.

Bank sanctioned 12 loans during the period 1970–77. Meanwhile, the government could not reduce its expenditures on social welfare due to population growth and the people's high aspirations. According to 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. 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 payments support. These changes did not lead to 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.

5. The Role of the IMF and the World Bank during the post-1977 era

Since 1977, both major parties have been in power and they both adopted the major components of the liberalized economic policies. The UNP, which came into power at the General Election of 1977, were in power until 1994. The SLFP came into power in 1994 as the People's Alliance (PA) coalition with the support of the two Marxist parties, the LSSP and the CP.

The economic strategy introduced to Sri Lanka by the UNP in 1977 aimed at achieving a high growth rate, increasing investment, and reducing unemployment in the economy. This prescription was usually known as 'structural changes' associated with the recommendations of the World Bank. The Bank introduced these policies to the countries in the developing world facing deep financial trouble. Most of the developing countries were experiencing deep economic problems such as slow 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 were the 'monetarist type' policies. The liberalized policies adopted by the UNP government in 1977 were similar to 'monetarist type' policies. The reduction in public expenditure and the promotion of foreign and local investment were important components of this economic policy.

The UNP government introduced a number of new policy changes in 1977 claiming them to be 'open economic policies'. The party justified the creation of a free economy as a solution to the 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.[40]

The structural adjustment, one of the most significant changes of the package, aimed at shifting from an inward-looking, 'closed' and controlled economy to an outward-looking economy with a heavy market orientation.[41] The IMF–World Bank prescription, introduced in the 1980s to the countries that 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.[42] 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. The adjustment process aimed at transforming economic structures and institutions by adopting various measures such as 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 exports.[43]

It was argued that there were similarities between the post-1977 reforms in Sri Lanka and the post-1973 period in Chile.[44] The UNP government aimed at correcting the fundamental macro-economic imbalances and introduced decisive policy changes in 1977 from its first budget. 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 liberalized, outward-looking and growth oriented one'.[45]

Liberalized policies, external constraints, support and social welfare

As discussed before, liberalized 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 of the UF government during the period 1970–77 failed to solve the existing socio-economic problems in the country.

40 N. Sanderatne, 'The Effects of Policies on Real Income and Employment in Sri Lanka: The Social Impact of Economic Policies During the Last Decade' (Colombo, Unisef, 1985), p. 2.

41 P.D. Cammack, Pool and W. Tordoff, *Third World Politics: A Comparative Introduction* (second edn) (London: Macmillan, 1993), pp. 11–13.

42 P. Moseley and J. Toye, 'The Design of Structural Adjustment Programmes', *Development Policy Review* (1998), pp. 403–41.

43 Howard Nicholas, 'The Post-1977 Economic Strategy: A Comparative and Theoretical Over View', in D. Dunham and C.Abeysekera (eds), *Essays on The Sri Lankan Economy 1977–83* (Colombo: Social Scientists' Association, 1987), p. 152.

44 Ibid.

45 Central Bank of Ceylon, *Annual Report* (Colombo, 1978), p. 2.

Therefore, the UNP government was compelled to introduce liberalized economic policies in 1977. However, 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. This type of financial support was given by the World Bank to countries of the world that adopted structural adjustment policies. World Bank structural adjustment loans increased from seven to 187 in 80 countries between 1980 and 1990 and came to account for more than a quarter of bank lending.[46] 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.[47]

At the very beginning, the UNP government attempted to explain the government's new economic strategy to the Western countries. 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.[48] At a press conference in London, on 15 September 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.[49] The minister said that they expected aid and support from the World Bank and the IMF and also from other the countries.[50] 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'.[51] 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. These 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

[46] P. Mosely and J. Toye 'The Design of Structural Adjustment Programmes' p. 410.
[47] Ghani Jafar, 'Polls and Politics in Sri Lanka', *Regional Studies* (Islamabad), 1(2) (1983), p. 37.
[48] Ibid.
[49] Satchi Ponnambalam, *Dependent Capitalism in Crisis – The Sri Lankan Economy 1948–1980* (London, 1980), p. 144.
[50] R.J. Herring, 'Economic Liberalization Policies in Sri Lanka, International Pressures, Constraints and Support', *Economic and Political Weekly*, 32(8) (1987), p. 328.
[51] Ghani Jafar, 'Polls and Politics in Sri Lanka', *Regional Studies* (Islamabad), 1(2) (1983), p. 39.

fertilizer, petroleum, public transport, and infants' milk were deferred for the time being.

The IMF approved on 26 January 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.[52] 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 requested the government to cut down on subsidized rice and expenditure on health and education.[53] The devaluation of a country's currency, the reduction of government spending, the 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 stabilization 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%.[54] The officials of the World Bank and the IMF told the government that financial indiscipline was becoming a serious problem.[55] The consortium of the donors meeting in Paris in July 1980 criticized the government's housing construction and water supply schemes.[56] The Finance Minister revealing this external pressure pointed out that 'external factors are beyond our control'.[57] The IMF and the donor countries influenced the government's public expenditure programmes in 1982 and in 1983.

In 1980, the government agreed to reconstitute its development programme as demanded by the IMF. The measures taken by the government in response to the IMF badly affected the welfare of the people. The government increased the price of bread from Rs. 1.25 per lb to Rs. 2.05 per lb and flour from Rs. 1.30 per lb to Rs. 2.37 per lb. Meanwhile, it increased the price of imported rice from Rs. 1.80 per lb to Rs. 2.17 per lb and sugar from Rs. 3.00 per lb to Rs. 4.50 per lb. At the same time, bus and rail fares and telephone and postal charges were increased by 30%.

Sri Lanka was thus allowed to draw the first installment ($35 million) of the second tranche of the IMF extended fund facility for 1980. Further, the Aid to Sri Lanka

52 Satchi Ponnambalam, *Dependent Capitalism in Crisis – The Sri Lankan Economy 1948–1980* (London: Zed Press, 1980), p. 145.

53 R.J. Herring, 'Economic Liberalization Policies in Sri Lanka, International Pressures, Constraints and Support', *Economic and Political Weekly*, 32 (1987), p. 329.

54 Ibid., p. 329.

55 Ibid., p. 329.

56 Ibid., p. 329.

57 Ghani Jafar, 'Polls and Politics in Sri Lanka', p. 41.

consortium meeting in Paris on 1–2 July 1980 pledged more than $1,000 million in grants and supplies of basic materials, but pressed for a further slowdown in the investment programme.[58] In the same month, the IMF suspended disbursement of the three-year EFF on the ground that the government failed to introduce financial discipline.[59] In March 1981, the government imposed a further reduction of 10 per cent in all budget appropriations, and agreed not to sanction new projects for 1981 and 1982. The IMF agreed on 15 June 1981 to a purchase by Sri Lanka equivalent to SDR25,300,000 under its compensatory financing facility in connection with an export shortfall experienced in 1980 on Sri Lanka's three major products.

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.[60]

In 1983, the IMF urged the government to devalue the rupee and reduce subsidies for mass consumption. The Minister of Finance pointed out that the government would take measures to suspend new capital expenditure projects, but he emphasized the necessity of the continuation of the diversion of the Mahaweli River Project in order to reduce the cost of importation of foods. The Minister was reluctant to accept a further reduction of expenditure on health, education, and welfare subsidies. These areas 'are our pride and we cannot afford to throw them away'.[61] It was implied from some occasional statements made by leaders of the government that the IMF–World Bank had influenced the consumer subsidy programme of the government. The Prime Minister of the UNP government, J.R. Jayewardene, said on 28 November 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.[62]

Since 1977, Sri Lanka has been able to draw a large amount of financial assistance from various foreign sources due to the implementation of the main features of the liberalized economic policies. This has resulted in increasing the country's outstanding debt from 1977 onwards. Table 1.4 shows that the outstanding debt drastically increased in the period 1977 to 2005. The foreign debt of Sri Lanka increased from Rs. million 10,594 in 1977 to Rs. million 956,620 in 2005.

Meanwhile, the People's Alliance (PA) government, which came into power in 1994, also had to depend on the IMF and the World Bank in order to continue the liberalized economic policies. Moreover, the process of intervention by the IMF and the World Bank in the economy of Sri Lanka further continued even under the People's Alliance

58 Ibid., p. 41.

59 Ibid., p. 42.

60 *Far Eastern Economic Review*, 23 June 1983.

61 Ibid., p. 38.

62 See for a detailed discussion of the PA government economic policies, President's Policy Statement presented to Parliament, The Island, 7 January 1995.

Table 1.4 *International support for the liberalization regime – rupees million*

Year	Outstanding debt	Year	Outstanding debt	Year	Outstanding debt
1977	10,594	1987	112,441	1997	376,331
1978	14,582	1988	125,657	1998	461,273
1979	15,841	1989	156,298	1999	507,866
1980	22,277	1990	176,883	2000	542,040
1981	29,172	1991	214,579	2001	636,741
1982	35,263	1992	235,538	2002	721,956
1983	46,688	1993	270,224	2003	843,882
1984	54,181	1994	301,812	2004	996,138
1985	69,453	1995	346,286	2005*	956,620
1986	88,304	1996	359,685	2006	–

Source: Central Bank of Sri Lanka, Annual Reports.
Note: * Provisional.

(PA) government, which came into power in 1994. At the General Election of 1994, the SLFP was able to come to power as the PA coalition. The two Marxist parties, the Lanka Sama Samaja party and the Communist party (CP) were also constituent partners of this coalition. When the PA came to power it also adopted the main ingredients of the liberalized economic policy.[63] The IMF and other donors agreed to provide a total of US$520 million to the PA government under a comprehensive financial package.[64] This package was approved by the executive board of the International Monetary Fund at its meeting held on 20 April 2001. The IMF in its statement said that there would be urgent need to take action by the government to accelerate the process of privatization, to strengthen the integrity of the banking sector, and to improve public administration, the financial position of public enterprises, and the labour market.[65] The agreement signed between Sri Lanka and the IMF included some stringent conditions. Some of these conditions have a detrimental effect on 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.[66] The letter of intent to the IMF from the government promised not to increase civil servants' pay during 2001 and for tight controls on the outlays on other goods and services.

5. Conclusion

The 1948–77 period and the post-1977 period can be identified as two distinct eras in the examination of the role of the donor agencies in the politics of post-independent

[63] *The Sunday Times*, 22 April 2001.
[64] Ibid.
[65] *The Sunday Times*, 13 May 2001.
[66] Ibid.

Sri Lanka. Sri Lanka enjoyed a cordial relationship with the IMF and the World Bank under the UNP regimes of 1948–56 and 1965–70 but these relations turned sour and were thrown into turmoil under the SLFP coalitions of 1956–65 and 1970–77. The main factor behind these different approaches to the international monetary institutions was the divergence between the two major parties in their respective political and economic ideologies. The UNP from its inception was inclined toward promoting a private enterprise economic system. The process of intervening in the socio-economic policies of Sri Lanka by the IMF and the World Bank had been facilitated by the economic ideology of the UNP during the periods 1948–56 and 1965–70.

The World Bank team which visited Sri Lanka in 1951 presented a number of policy suggestions to the Sri Lankan government to be considered in the formulation of the future policies of the government. These recommendations consisted of a number of policies with regard to the areas of agriculture, industry, and social welfare. There is evidence that the UNP regime accepted these recommendations. The UNP government proposed to allocate Rs. million 4.7 for health and Rs. million 5.8 for education in the Six-Year Development programme of the government. Even these proposed amounts were also less than the recommended percentages by the World Bank team. This could be identified as a consequential intervention of the World Bank in the implementation of the social welfare policies of the government. Further, World Bank intervention was evident in two specific policy areas of the government. The first was the gradual closure of a number of public ventures established during the Second World War. Second, the existing food subsidy programme, one of the major welfare programmes of the government, was adversely affected by the World Bank proposals. Though the World Bank suggested a gradual elimination of the subsidized rice ration, the government adopted a hard-line approach in this regard and removed the subsidized rice ration completely in 1953.

The IMF and the World Bank intervention in the politics of Sri Lanka was again evident during the period 1965–70 under the UNP coalition government. The UNP government of 1965–70 had to depend on the IMF with a view to easing the existing balance of payments difficulties in the country. It seemed that the reduction of the subsidized rice ration in 1966 was also due to the agreement signed by the government with the IMF. This was revealed in 1970 by the succeeding Minister of the Finance of the UF government, Dr N.M.Perera, in parliament. The introduction of the dual exchange rate system and import liberalization were important elements in the usual IMF stabilization package adopted by the government during the period 1967–68. There is no doubt that Sri Lanka was able to obtain much foreign aid from the IMF and the other Western countries during the period 1965–70 due to the acceptance of the conditions of the IMF and the World Bank by the Sri Lankan government.

The periods of SLFP rule were the other important eras in the analysis of the role of the IMF and the World Bank in the politics of Sri Lanka before 1977. The SLFP coalitions were in power during the periods 1956–65 and 1970–77. As discussed in the paper, the SLFP had a different party agenda to that of the UNP. The SLFP from its inception was in favour of the expansion of the public sector and of increasing public expenditure on major welfare services such as free education, free health services, and the subsidized rice ration. The MEP government of 1956 restored the subsidized rice ration, which had been abolished by the UNP regime in 1953. The different approach of the government to the priorities in the economy could be seen from its Ten-Year Plan introduced in 1958. This Plan envisaged an overwhelming proportion of government industrial investments channeled to large-scale industry, a move discouraged by the World Bank team in 1951.

The social welfare policies of the MEP government in the mid 1950s and the SLFP governments in the 1960s were not influenced by the IMF and the World Bank. The government's decision to increase public expenditure on major welfare services and to strengthen the role of the government through the process of nationalization was not acceptable to the IMF and the World Bank. There is no evidence to show that the Sri Lankan governments and these funding bodies maintained friendly relations under the SLFP regimes. The SLFP government in the mid 1960s required much foreign assistance in order to relieve the existing economic difficulties in the country, but it could not receive such assistance from those donor agencies. This was due to the unfriendly relations maintained between Sri Lanka and the donor agencies. It could be argued that the foreign aid granted to the SLFP governments in the mid 1950s and in the 1960s by the Soviet bloc reflected the acceptance of the socio-economic policies of Sri Lanka by the Communist bloc.

Meanwhile, the IMF and the World Bank resistance towards Sri Lanka was evident during the period 1970–77. The SLFP came into power in 1970 as the United Front (UF) with the support of two Marxist parties, the LSSP and the CP. At the very beginning, the Trotskyite Finance Minister of the UF government, Dr N.M.Perera, revealed the major objectives of the government in his first budget presented in 1970. The two commitments of the government, which laid the foundation for an irrevocable transition of the economy to a socialist one and the maintaining social welfare measures, must have seemed anathema to the IMF–World Bank group. There is no doubt that the UF government's ideology of public sector dominance ran counter to the free market, private enterprise ideology of the West. An unfriendly attitude towards Sri Lanka from the IMF and the World Bank was created by the socio-economic policies of the UF government. The government required much external assistance to resolve the prevalent economic crisis in the 1970s, but it could not obtain such support from the IMF, World Bank or the other Western countries mainly due to the government's socio-economic policies. Therefore, the government had to introduce restricted economic policies in the 1970s. The reduction of the subsidized rice ration in 1973 by the UF government was due to the existing economic crisis.

The post-1977 period was the next important era in the examination of the role of donor agencies in the politics of post-independent Sri Lanka. Both major parties were in power during this period. The UNP was in power from 1977 to 1994 and the

SLFP came into power in 1994 as the People's Alliance (PA) coalition. The liberalized policies, introduced in 1977 by the UNP government, were identical to the policies recommended to other developing countries by the IMF and the World Bank. This economic strategy aimed at achieving high growth rates, increasing investment, and reducing unemployment in the economy. This prescription usually known as 'structural change' was associated with the recommendations of the Bank.

The existing subsidized rice ration, one of the major social welfare programmes in the country, was adversely affected by the liberalized economic policies. The government abolished the subsidized rice ration and introduced the food stamp scheme in 1979. This scheme aimed at providing welfare only to targeted groups in the country. However, the standard of living among the food-stamp holders began to deteriorate under the new scheme. Meanwhile, the UNP regime of 1977–94 attempted to draw foreign assistance from the IMF and the World Bank. There is evidence that the UNP government agreed to implement some conditions in order to obtain assistance from the IMF and the World Bank. The abolition of the subsidized rice ration and the reduction of public expenditure on health and education were the important decisions taken by the UNP government during the period 1977–94 with a view to gaining support from the donor agencies. These measures adversely affected the welfare programmes of the country.

Meanwhile, the SLFP came into power in 1994 as the PA coalition. The SLFP as the main partner of the coalition accepted all the major ingredients of the liberalized economy in 1994. The reduction of public expenditure and the process of privatization of public enterprises have continued even under the PA regime since 1994. The government's approach towards the welfare programmes was not different from its predecessors. The PA government also adopted the concept of targeted welfare. The *Samurdhi* scheme, the major welfare programme of the government, aimed at providing relief only to the needy groups in the country. In this context, one can argue that there have been no ideological differences between the two major parties during the post-1977 era. Therefore, instead of reversing the existing socio-economic policies, the PA government is also following them in an attempt to draw assistance from the IMF, the World Bank, and other Western countries. The government has also agreed to some of the conditions imposed by the IMF and the World Bank in order to obtain support from those donor agencies. The reduction of public expenditure and the continuation of the privatization programme were these conditions.

Finally, it could be said that party ideology is the determining factor behind the role of the IMF and the World Bank in the politics of post-independent Sri Lanka. There were different ideological approaches between the two major parties of Sri Lanka during the period 1948–77. This resulted in the emergence of friendly relations with the IMF and the World Bank under the UNP regimes but there was resistance from these donor agencies towards Sri Lanka under the SLFP regimes during the period 1948–77. However, during the post-1977 era the ideological gap between the two major parties began to disappear. This resulted in the establishment of cordial relations with the IMF and the World Bank under the two major parties during the post-1977 period.