

Post Tsunami Recovery: Issues and Challenges in Sri Lanka

Interim Report
Institute of Policy Studies

Background

- This is part of ongoing research on policy issues related to tsunami impact and reconstruction
- Aim is to give a local – Sri Lankan – perspective on reconstruction issues drawing on both national and international experience
- This Interim Report to be finalised after this meeting and published immediately

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Structure of Report

- Background and immediate impact to tsunami
- Review of progress and recommendations on following key issues
 - Livelihood related cash payments
 - Assistance for rebuilding houses and related issues
 - Buffer Zone
 - Early warning/disaster management
 - Coordination of donor activities
 - Macroeconomic issues

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Micro issues

- Buffer zone
- Shelter
- Livelihoods
- Social protection
- Disaster management
- Recommendations
- Much success – focus on ways to improve

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Buffer zone and available land

- Majority of people (75%) scared to live near the sea – many false tsunami rumours
- But generally do not want to be too far from sea and want facilities at new sites
- State lands limited and not suitable (floods, elephants, protected)
- Private land – huge cost escalation
- Buffer zone – reduced in some areas

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Shelter – impact of tsunami

- Over 100,000 houses damaged or destroyed
- 50,000 new houses needed in buffer zone (prior to recent buffer zone changes)
- 50,000 new houses needed outside buffer zone (prior to recent buffer zone changes)
- Now 60,000 houses needed outside and 40,000 houses inside

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Shelter - progress

- 250,000 people in transitional shelters
- 25,000 pre-built houses under construction (5000 about to start) but over 10,000 still needed
- 50,000 home owners received first installment – but less than 10,000 have got 2nd payment

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Shelter – challenges

- Transitional – still some facilities lacking
- Buffer zone – shortage of land
- Pre-built houses
 - beneficiary lists: lack of transparency and criteria, so insecurity and political interference
 - Tenure not yet made public
- Owner-built – only one payment, lack of staff to evaluate claims
- Cost escalation of materials, shortage of skilled labour
- Lack of support for those with host families

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Livelihoods – impact of tsunami

- 150,000 people lost their main livelihood
- Over half in fishing (boat owners, labourers, boat & net repairs, fish processing, selling)
- Labourers, farming, construction, micro-entrepreneurs (shops, toddy, tourism, coir, rope, lace, sewing, lime kilns)
- Two thirds have resumed livelihoods, but one third still not

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Livelihoods - progress

- Four payments of Rs 5000 to each family
- Cash for work
- Micro credit (Susahana from banks and NDTF loans –interest free for 1 yr then 6%)
- Boats replaced
- Many other assets redistributed
- Massive boom in construction, good harvest

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Livelihoods - challenges

- Cash grant – delays, targeting a mistake
- Boats – uneven, lack of engines & nets, equity
- Some areas neglected – farmers, shops, small guest houses, gender issues
- Markets and demand side overlooked
- Micro-credit and loans: limits on access of poor
- Too many players and poor coordination: massive increase in NGOs
- Need to address pre-tsunami structural issues (what kept people poor pre-tsunami?)

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Social protection

- Many may not be able to return to work
 - Over 20,000 sick or injured after tsunami
 - Others need to care for family members
- Need to absorb these people into long term social protection schemes
- Need to work out criteria and logistics

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Disaster management

- Increasing risk of disasters – climate change
- Disaster Management Act – top down and very cumbersome (plans and committees rather than rapid response)
- Cannot miss opportunity to rethink infrastructure (eg location of railway)
- Importance of tsunami warning system

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Micro Recommendations

- **Consultation:** Consult and inform affected families eg no clear policy on cash grants, tenure, circulars on cash grants, susahana loans secret, buffer zone
- **Monitoring** - minor problems causing major delays (eg confusion over cash grant, rebuilding grant delays, susahana shortcomings)
- **Targeting** by NGOs and govt – role for local people – but sensitive to conflict & other poor

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Micro Recommendations (cont)

- **Donors and NGO codes of conduct:** enforce Codes of conduct, too many NGOs, some high admin costs, salary anomalies, poor targeting, INGO & NGO tension, competition and “visibility”
- **Government think beyond tsunami specific response**
 - Strategic upgrade for fish, tourism and SME industries
 - Linking tsunami benefits into social protection

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Macroeconomic Impacts

- Direct impact of tsunami
 - immediate negative impact on 2005 GDP
 - longer term impact on future stream of output caused by destruction of assets
- Negative impact partially alleviated by extra spending by non-affected households and community, government and foreign agencies (and affected households digging into savings where possible)
- Impact on 2005 GDP – estimated at around 0.5 – 1.0 %

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Reconstruction Needs and Assistance

- *Donor estimates (initial)* – Total - \$1.5-1.6 b
 - Short-term - \$500 m
 - Medium term - \$ 1-1.1 billion
 - of which, housing – \$ 387-437 m

Source: ADB, JBIC, and World Bank (2005)
- *Government estimates (May, 2005)*
 - Medium term (around 3 years): \$ 1.8 billion

Donor pledges (Kandy, May 2005) \$2.2 b (NGO-private sector: 853 m) over 2-3 years

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Promised external assistance claimed to be adequate to fully cover all losses and meet reconstruction needs

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Financing Reconstruction: key questions

- How likely is it that pledges will be fully honoured?
- Can the country effectively utilize such a large amount of foreign assistance?
- Will external funds be adequate to finance the reconstruction programme, and if not, what options are available to raise necessary funds?

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How likely is it that pledges will be fully honoured?

- International experience suggests “Not Very Likely”
- But in this case a lot of pledges have become commitments
 - Hence present case may fortunately prove to be an exception

But...prudent to prepare for some slippage

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Can the country effectively utilize such a large amount of foreign assistance?

- Past rate of aid utilisation not very satisfactory
- Problems with financial management and fund allocations have already emerged

Past failures do not have to be repeated but they provide a warning

- During early relief stage - it is important to get the resources rapidly to affected people
- During this emergency phase over-emphasis on targeting and strict adherence to normal procedures may be counter productive
- But transparency and proper accounting very important at reconstruction stage

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Will external funds be adequate to finance the reconstruction programme, and if not, what options are available to raise necessary funds?

- Financing requirements initially estimated at then prevailing prices of materials and labour
- But reconstruction effort involves an additional foreign capital inflow equivalent to about 8-10 % of annual export revenues

This is large enough to increase prices and wages

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Reconstruction Spending and Price Increases

- Expenditure on reconstruction (replacement of capital assets and buildings) raises demand for construction materials and labour
- Some materials are easily imported (i.e. are ‘tradeables’) at more or less fixed foreign prices
- But other materials and labour cannot (or will not) be imported (i.e. they are “non-tradeables”)
- Supply of some types of materials and labour (e.g. skilled construction labour) is difficult to increase in short term, then higher demand increases prices and wages

In effect, some of the reconstruction assistance does not produce intended reconstruction but ends up generating higher incomes for suppliers of materials and some types of labour

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Exchange Rate and Reconstruction

- How much reconstruction is possible per unit of foreign assistance (per \$) depends – if exchange rate does not change - on extent of cost increase: higher the cost increase, lower the amount of reconstruction

If monetary authorities maintains exchange rate by using foreign reserves built up with tsunami aid to ‘lean against the wind’ in foreign exchange markets – then even less reconstruction can be done

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House Construction Costs: Anticipated versus Actual

- Government's initial MOU's with donors and companies for stipulated design envisaged a cost of around **Rs 400,000** (\$4,000)
- Surveys and field interviews show rapid cost escalation since Tsunami – sometimes 50% and more: cost of a basic 2-bedroom house is **Rs 600,000 or more and rising**
Poorer households in particular will find it very difficult to rebuild with current levels of assistance

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Overall Rebuilding Costs Underestimated

- House reconstruction costs – largest component of total reconstruction needs — even before large scale reconstruction has commenced
- Higher costs – more or less similar - can be expected in public infrastructure reconstruction projects
- *Cost increases imply a significant gap between actual needs and committed external assistance*
- Do not expect significant extra donor assistance because global donor attention shifts to other disasters and other issues!
- *There will be additional demands on the government for reconstruction*

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Successful tsunami reconstruction cannot be isolated from broader economy

- Tsunami hit at a time of serious macroeconomic imbalances
 - Expected/promised external relief assistance helped avert some immediate problems
 - There will be increasing temptation to use tsunami funds to achieve short term macroeconomic objectives
- Construction cost escalation comes in context of serious and worsening fiscal and external sector pressures – e.g. high oil prices
 - Rising costs - now confined largely to construction sector - can spread over time to other sectors, including export industries

Wider macroeconomic imbalances should be addressed by directly targeting their sources, and tsunami funds should be used for tsunami reconstruction

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