

Socio-Economic Challenges of Post-Conflict Reconstruction in Sri Lanka

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September 2011

The Challenges

- Poverty reduction
- Education
- Employment and skills development
- Health financing
- Agricultural development
- Infrastructure development
- Expansion of tourism
- Industrial development
- Environment- and natural resource-based challenges

Challenges in Post-Conflict in Sri Lanka

- The war situation in Sri Lanka more or less destroyed such infrastructure of the North and to some extent in East. For e.g., the entire road transport network and railway lines in Northern and Eastern Provinces was severely damaged including the A9 road, connecting the Jaffna District to southern parts of the country
- Closure of A9 road disconnected war affected region from the rest of the country and led to negative impacts on livelihood of the war affected people through loss of market. In addition, destruction of assets, migration, loss of family members especially breadwinners, destruction of financial market negatively impacted on the livelihood of the people in the conflict affected areas
- Samurdhi poverty alleviation programme (main poverty alleviation programme of the government) was not operational in Killinochchi, Mannar, and Mullativu districts before the liberation of those areas due to the collapse of the administrative structure
- Population displacement together with assets depletion lead to a new form of social inequality
- Deprivation of entitlements were high

Links between Conflict and Poverty

- Conflicts can generate poverty both directly (through the loss of public entitlements) and indirectly (through the loss of market/livelihood and civil/social entitlements, which creates income inequalities)
 1. **Loss of public entitlements** – e.g. closure of A9 road, destruction of transportation systems and public infrastructure such as schools, hospitals etc.
 2. **Loss of market entitlements** – e.g. inaccessibility of fields/markets, disruption of normal trade patterns, reduced employment opportunities, depletion of resource endowments
 3. **Loss of civil/social entitlements** – e.g. destruction of social capital (institutions, social networks), collapse of state-run service provision

Conflict Affected Areas and Infrastructure Development

- *Negenahira Navodaya (implemented in 2007 with the aim of developing the Eastern province)*
- *Short run objectives - de-mining, livelihood recovery, and reconstruction of damaged infrastructure*
- *The focus of the economic infrastructure is on electricity supply, roads, transport, port water and sanitation, and rural infrastructure*
- *Most of the infrastructure development programmes operating at the national level have been fully extended to the Eastern province.*
- ***Uthuru Wasanthaya (initiated in 2009 for developing Northern province)***
- *Two stages: a 180-day programme and Medium term plan for 2010-2011*
- *The focus of the first phase is on de-mining, resettlement of IDPs, reconstruction of damaged economic and social infrastructure, livelihood recovery, and employment generation*
- *The second phase covers the areas of infrastructure development, electricity, water supply and sanitation, health, solid waste disposal, education, sports, cultural affairs, transportation together with livelihood development programmes*

Poverty Reduction: Challenges

- In the short term or immediate aftermath of the conflict, one of the most important challenges has been targeted social protection in the form of meeting short-term food, water, health and sanitation needs, particularly for IDPs: cash and in-kind transfer programmes significant here
- In the medium to longer term, however, efforts to meet the entitlement losses that perpetuate poverty become increasingly important:
- **Public entitlements** –Maga Neguma (regional), Gama Neguma and Gemidiriya (village-level) are supplementary to Negenahira Navodaya and Uthuru Wasanthaya to develop the infrastructure .
- However, these programmes suffer from a **lack of funding**, and there needs to be more focus on allocating funds in proportion to prevailing levels of poverty and population in each village

Poverty Reduction: Challenges

- **Market entitlements** – Gemidiriya focuses on **improving intra-village connectivity**, but a greater focus on **linking villages to markets** and urban centres is required (crucial for agriculture). Grassroots ICT initiatives (which Gemidiriya has introduced) are important in this respect.
- **Civil/social entitlements** – the breakdown of social services in these areas makes the provision of **micro-credit** and **micro-insurance** facilities important for coping with income shocks. The ongoing **resettlement of IDPs** needs to be carried out with sensitivity to livelihoods and existing social networks.
- Increased **investment in human capital** is also needed to ensure people's ability to take advantages of the new opportunities being created, and to prevent the inter-generational transmission of poverty

Challenges in Education in the Post Conflict situation

- Due to the conflict, education of the most of the students of the conflict-affected areas was disrupted due to displacement, loss of family members, psychological impact, loss of school materials, and the destruction of school buildings and infrastructure
- There are several issues which need to be considered in providing basic educational services for the conflict affected groups:
 - reintegrating to school curriculum,
 - dealing with ex-child-combatants,
 - providing educational infrastructure (essential materials such as furniture, teaching and learning aids),
 - ensuring adequate human resources,
 - psycho social support

Employment Opportunities Declined

- **Employment opportunities** have been severely hampered as a result of the conflict
- The labour force participation rate for the Eastern Province (41.3%) is significantly lower than that of the rest of the country (49.5%).
- The unemployment rate among women and educated individuals in the Eastern Province is much higher than in the rest of the country, suggesting a **lack of work opportunities** in the region.

Employment and Skills Development: Challenges

- In addressing these issues, policymakers face several challenges:
 - ◇ **investments in education and skill development** must be made in a manner that generates skills that are in demand in these areas
 - ◇ such investments must be made **equitably** and **speedily**, as uneven treatments and delays could give rise to new conflicts within these communities
 - ◇ measures must be taken to **re-develop the business environment** in order to create long-term employment opportunities – this involves attracting private sector investments which, thus far, has proved difficult
 - ◇ in addition to replacing infrastructure, there is a need for **investment in new technologies** (and training communities to use them) in order to ensure competitiveness in the marketplace.
- **A lack of employment and education data** makes assessing progress difficult. There is thus a significant need for monitoring and evaluation processes.

Employment and Skills Development: Challenges

- Another set of challenges relates particularly to **resuming the education of school-aged children in conflict-affected areas**. In the short-term, the primary focus has been on restoring access to basic education for IDP camp and other conflict-affected children. In the longer term, however, more complex issues remain to be dealt with:
 - ◇ the education system does not have the **capacity** to deal with reintegrating drop-outs – children may have to re-enter schools at lower grades, resulting in psycho-social issues.
 - ◇ particular attention needs to be paid to the **special needs** of ex-child combatants, IDPs, orphans, the disabled etc., and a proper assessment of such needs must be carried out. Training programmes for teachers in this regard are also desirable.
 - ◇ Catch-Up Education (CUE), a programme designed to give students extra academic support currently operates in conflict-affected areas, but better **coordination** amongst schools and the different entities involved in this process is required for it to be effective.
 - ◇ in addition to the challenge of finding teachers in sufficient numbers, a longer-term issue is the **quality** of the education they provide – assessments of experience, qualifications etc. need to be made in order to address this issue.

Health Challenges in Post Conflict Situation

- Sri Lanka has been able to maintain overall health indicators at satisfactory level despite of its economic downturns over time
- There are regional disparities in health indicators and they are compounded in the conflict-affected districts
- Maternal mortality rate is five times higher than those of at national level
- **Returned refugees are making a greater demand for health services**, can create new epidemiological challenges, including a higher probability of epidemics
- Government has taken many steps to overcome these issues related to the conflict affected areas:
 - the Ministry of Health has taken several steps in recent months to develop the main hospitals in Jaffna district
 - Government has allocated more funds (US\$ 3.2 million) to uplift health care facilities in the Jaffna district
 - Government has allocated special funds (US\$ 4.4 million) under the 'Uthuru Wasanthaya' programme to improve health facilities in Jaffna peninsula

Selected Health Indicators for North and East

	Infant Mortality Rate 1000 live births in 2000	Maternal Mortality Rate per 1000 live births in 2000	Low Birth Weight in 2001	Underweight in 2002	Home deliveries in 2001	Safe sanitation in 2001
Sri Lanka	11.2	14	16.7	29.4	4.0	72.6
North and East	14.7	81	25.7	46.2	19.4	48.2
Ampara	10.3	24	22.7	44.1	19.8	52.7
Batticaloa	15.8	117	24.3	53.2	31.4	28.4
Trincomalee	4.6	57	30.5	44.7	13.6	25.6
Jaffna	22.3	62	30.5	43.1	4.4	79.0
Killinochchi	27.8	158	NA	NA	NA	NA
Mannar	22.3	97	12.7	38.3	39.4	70.9
Multhivu	20.3	123	NA	NA	NA	NA
Vavuniya	8.8	76	38.8	50.6	12.3	71.0

Health Financing: Challenges

- A major challenge associated with rebuilding hospitals and other health-related infrastructure is the long time periods involved in their construction (often 3-5 years for rebuilding existing hospitals, and even longer for building new ones). Thus, these projects may not meet the health needs of the population in the present or even in the near future.
- Funding: government spending on health has remained static at 1.7 - 2% of GDP. Capital expenditure is frequently sacrificed in order to meet the demands of the government's recurrent expenditure.
- Furthermore, in terms of ODA, Sri Lanka's elevation to the status of a middle-income country has adversely impacted donor funding for hospital projects.
- Therefore, there is clearly a need for private sector involvement in healthcare provision, but it remains unclear how much benefit the poorest people in conflict areas would derive from private healthcare.
- Significant changes need to be made to the country's health systems in order to successfully manage new epidemiological challenges resulting from the return of IDPs etc. Government financial allocations are crucial.

Agriculture in a Post-Conflict Economy

- The N&E traditionally is a potentially important area for agriculture. Nevertheless, during the conflict, agricultural supplies from the N&E to the rest of the country were blocked off due to factors such as:
 - ◇ government-imposed trade embargos
 - ◇ taxes imposed by the militant groups
 - ◇ breakdown of the North-South road connectivity and railway
- The end of the conflict is thus expected to generate increases in both the demand for and supply of N&E agricultural products.
- Given the **high incidence of poverty** among agricultural workers, developments in agriculture are very important to the goal of poverty alleviation – over 75% of the rural labour force works in agriculture, and agricultural households represent almost 50% of the poorest households in the country.

Agriculture: Challenges

- **Coordinated efforts** must be made to reduce **agrarian poverty**, which stems largely from low resource endowments and skills, poor access to technology and inadequate institutional support.
- **Public spending** on agricultural **research** as a percentage of agricultural GDP in SL remains low – an increase is needed in order to boost productivity. Public-private sector partnerships are desirable for this purpose, given difficulties with securing property rights and the public good nature of services such as surface irrigation that serve as a disincentive to pure private sector investment.
- **Agricultural land markets** are limited in size due to state regulations and ill-defined property rights. – perpetuates the problem of non-viable holdings, short-run profitability is prioritised over land sustainability. Thus, the establishment of secure property rights is an important concern.
- **Inefficiencies in irrigation water use** – this results from a lack of knowledge of water management strategies and a lack of incentives to save water. A suitable participatory management is required to remedy this.

Agriculture: Challenges

- **Productivity** in the N&E agricultural sector is low, due to a variety of reasons such as capital shortages, credit constraints, a lack of access to agricultural inputs and technology and persistently low levels of agricultural research.
- The introduction of cutting-edge **technology** in agriculture is required – private sector participation could help to develop value chains, but government involvement is necessary in order to ensure that the poorest farmers do not find themselves excluded from such processes.
- **Connectivity**: poor infrastructure and technological advances inhibit the N&E's integration with modern dynamic markets. The improvement of market linkages and relaxation of barriers is desirable in order to induce growth in the agricultural sector.

Infrastructure in Post-Conflict Sri Lanka

- Infrastructure development in the N&E is crucial, not only for medium- to long-term economic growth prospects, but also to **improve livelihood opportunities** in the short-term.
- Current infrastructure development initiatives by the government include ‘**Randora**’ (national-level infrastructure development) and two initiatives which focus on the N&E: ‘**Negenahira Navodaya**’ and ‘**Uthuru Wasanthaya**’.
- The rehabilitation of **harbours, roads** and **tanks** are a primary focus of these programmes.
- Public investment in infrastructure was approx. 6.5% of GDP in 2009-10.
- Foreign financing for infrastructure has increased markedly in the post-war environment – **75%** of 2009’s foreign capital inflows (amounting to US\$ 2.2 billion) were directed towards infrastructure development (power generation, port development, roads and bridges).
- Assistance from multilateral sources (the ADB and the World Bank) and bilateral sources (China, India) have been significant.

Infrastructure Challenges

- **Foreign assistance** is mostly in line with govt. priorities (eg. road-building), and less attention is paid to capital investment in **health** and **education** by these sources.
- Public financing has proven challenging given continuously **tight fiscal constraints**.
- **Bottlenecks** in basic facilities such as roads, energy, etc., have accumulated due to a **lack of investment** over many years.
- **Private sector participation** has been sluggish – attempts to forge **public-private partnerships** rely on the implementation of **regulatory reforms** to protect investors' and consumers' interests.
- How to encourage private sector investment in infrastructure is the challenge

Tourism in Post-Conflict Sri Lanka

- The end of the conflict has created a conducive environment for tourism, notably with the removal of negative travel advisories on Sri Lanka.
- The availability of the N&E as potential tourist destinations creates a range of opportunities for expanding the country's tourism sector.
- The National Strategy for Tourism (2009-12) identifies a range of targets for achieving this.

Challenges:

- Tourism development is highly dependent on **infrastructure**, particularly transportation – the poor quality of transport links to the N&E has been a constraint in this respect.
- **Sustainable tourism** - tourism products must be carefully designed, in order to prevent social and environmental damage at these newly available sites.
- **Community-based tourism** (following the example of post-war Cambodia) is a desirable option – promotes rural development and facilitates resource conservation in conflict-affected areas.

Industrial Development in Post-Conflict Sri Lanka

- Growth of the share of industry in SL's GDP has been modest over time – it increased from 26% in 1990 to 29.7% in 2009. This is partly due to the volatile political and security environment that prevailed during the conflict. These uncertainties acted as a disincentive to private investment, particularly to capital-intensive industrial investment.
- In the current post-conflict environment, there are many opportunities for building higher-value industrial potential, attracting better foreign investments (rather than 'footloose' FDI) and boosting the production of higher income-earning exports.
- The current policy framework gives special attention to developing the small and medium enterprise (SME) sector – the N&E has potentially an important contribution to make in this regard.
- Most of the large industrial production facilities are located in the Western Province. However, a number of Export Processing Zones and Industrial Estates have now been established to enable the expansion of industry to other regions, esp. the N&E – e.g. the Achchuveli Industrial Zone in Jaffna and the Kappalthurai Industrial Zone in Trincomalee.

Industrial Development: Challenges

- The industrial data and information are weak. Potential industrialists take long time to do due diligence before taking a decision on investment
- Improve **credit access** – maintaining **low interest rates** in a climate of high public spending on post-war reconstruction is a significant challenge. **Microfinance initiatives** are required to take advantage of untapped capacity in small-scale agriculture- and fisheries-related industries in the N&E.
- The BOI categorises this area as ‘most difficult areas’ for granting of attractive incentives: the BOI will give priority focus on agro processing, fisheries and value added mineral industries for local consumption and exports.
- 675 sq km in Trincomalee as a special economic zone and 300 acres in Killinochchi as an agro economic zone. SLTDA has blocked land at the Pasikudah Bay for a resort of 700 rooms. BOI Arugam Bay tours will invest Rs. 123 million on a 3 star hotel.
- International chamber of commerce together with the help of SCOPP organized, ‘Opening of North and East business opportunities’, BizPAct conference .

Industrial Development: Challenges

- Building a **skilled labour force** – workers need to possess the relevant skills in order to take advantage of the opportunities arising from improved infrastructure and other capital investment. Achievements in science and mathematics remain weak, as do **‘soft skills’** and **management and technical capabilities** – these are important tools for effective industrial workers. Need greater investment in **vocational training, skills-for-work** for school-leavers and measures to grow the **science and engineering** talent pool.
- Forging **industry-research linkages** and **public-private partnerships** are important measures for improving R&D, as is harnessing the potential of **existing research institutes** such as the Industrial Technology Institute and the National Engineering Research and Development Centre.

Environmental and Natural Resource Issues

- In threatening the safety of the environment, conflict represents a serious threat to the process of sustainable development. This stems from:
 - ◇ physical damage to the environment and natural resources
 - ◇ loss of resource access and associated welfare losses to livelihoods
 - ◇ collapse of local systems of resources management
 - ◇ loss of control over state-managed resource
- Failure to address post-conflict environment and natural resource-based challenges could thus impede the achievement of long-term economic goals.
- These ill-effects on the environment and natural resources have particularly severe repercussions for such sectors as **agriculture, fisheries and tourism**, all of which are of potential significance in the N&E.

Environmental and Natural Resource Issues: Challenges

- **Assessing** the losses and damages to natural systems –difficult because of data shortages. The participation of **key stakeholders** is necessary.
- **Resettling** original users of resources and reinstating their rights – need processes that will address the relevant **livelihood sustainability issues**.
- **Re-establishing control** of regulatory bodies and government agencies over **sustainable resource management**.
- **Rehabilitating livelihoods** through promoting the **sustainable use** of environmental resources.
- Strengthening the role of **local communities** in environmental resource management.
- Implementing appropriate **safeguard measures** to enhance restoration and to prevent over-exploitation of natural resources.

Concluding Remarks

- Sri Lanka has been experiencing a high growth during last few years and the end of the conflict has generated a diverse range of opportunities for improving SL's economic fortunes
- Development of the N&E region and absorption of its untapped capacity play a particularly important role in this regard
- However development of North and East has created new challenges that needs special attention
- Underutilised funding of the Diaspora –Tamil Diaspora is estimated to have provided around GBP 27 million annually to the LTTE. The challenge is to attract some of these funds for the betterment of living conditions in the North-East
- The government's policy framework has many programmes to address these challenges but there are some loose ends. Moreover, there is no integrated strategy to address the issues to generate more inclusive growth. These areas need policy attention.