

Reconstruction and Rehabilitation of the North and East of Sri Lanka: Programmes and Constraints

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Introduction

The economies in the Northern and Eastern provinces have suffered much due to the conflict over twenty five years. After the liberation of the East and the North, the government, with the purpose of reviving these provinces, has formulated two extensive plans,

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'Nagenahira Navodaya' for the Eastern province and 'Uthuru Vasanthaya' or 'Wadakkil Wasantham' for the Northern province.

These programmes, along with other government and foreign-funded projects, will be a success, if they are able to restore normalcy in the

short run and attain sustainable growth in the long run. The progress of economic recovery needs to be seen and felt by the distressed community of the region. According to the UNDP (United Nations Development Programme) Crisis Prevention Report 2008, countries with a weak economic performance are twice as likely to revert to conflict as those with a strong

growth performance. Thus, it is important to expedite the economic recovery of this region as economic oppression can once again trigger conflict in the region. This article devotes to explain the programmes launched by the government for the revival of the East and North, and the constraints that would encounter during their implementation.

Table 1: The budget for 'Nagenahira Navodaya' programme 2007-2010(Rs. million)

| Strategy | 2007 | 2008 | 2009 | 2010 | Total | % |
|---|--------|--------|--------|--------|---------|--------|
| Resettlement of returnees | 3,666 | 4,800 | 6,000 | 7,000 | 21,466 | 10.88 |
| Revitalising productive sectors and regional economy | 2,075 | 8,703 | 10,919 | 12,154 | 33,850 | 17.16 |
| Improving economic infrastructure | 11,823 | 21,309 | 25,787 | 24,909 | 83,807 | 42.49 |
| Strengthening social infrastructure and fostering social services | 1,999 | 6,404 | 5,304 | 5,400 | 17,895 | 9.07 |
| Human settlement development | 6,541 | 9,290 | 11,122 | 11,094 | 38,047 | 19.29 |
| Public institution capacity building | 457 | 527 | 569 | 601 | 2,154 | 1.09 |
| Total | 26,561 | 51,032 | 59,700 | 61,157 | 197,219 | 100.00 |

Source: Eastern Revival Programme

Table 2: Method of financing (Rs. million) for 'Nagenahira Navodaya' programme

| Sector | Total | GOSL | Foreign Assistance | Private |
|---|---------|-----------|--------------------|-----------|
| Resettlement of returnees | 21,466 | 5,366.50 | 16,099.50 | |
| Revitalising productive sectors and regional economy | 33,850 | 19,687.26 | 6,562.42 | 7,600.00 |
| Improving economic infrastructure | 83,850 | 20,951.83 | 62,855.48 | |
| Strengthening social infrastructure and fostering social services | 17,895 | 4,473.75 | 13,421.25 | |
| Human settlement development | 38,047 | 7,085.10 | 2,361.70 | 28,600.00 |
| Public institution capacity building | 2,154 | 538.50 | 1,615.50 | |
| Total | 197,219 | 58,102.94 | 102,915.85 | 36,200.00 |
| Share of Financing- % | 100 | 29.46 | 52.18 | 18.36 |

Source: Eastern Revival Programme

Eastern Development Plan 'Nagenahira Navodaya'

This is a four-year development project which commenced in the year 2007. It has short-term and medium-term goals. In the short term, it will incorporate quick implementation of de-mining, livelihood recovery, reconstruction of damaged social and economic infrastructure, and industrial development while restoring law and order and civil administration. In the medium term, its objective is to ensure sustainable development by raising the regional economy from a subsistence level to commercial. Given the ethnic diversity of this region, this project has also focused on resource allocation among all communities to create ethnic harmony.¹ Table 1 indicates the budgetary requirements for the four years under six key strategies. The total estimated funds are Rs.197,219 million, out of which, 52 per cent is to be met from foreign aid. The rest will be financed by the government and domestic borrowings (Table 2).³

Targets and budgets Resettlement of returnees

The 180-day programme under the *Nagenahira Navodaya* was mainly focused on the resettlement of the internally displaced persons (IDPs) due to the conflict and the tsunami in 2004. The Eastern

province is, however, still in the process of resettlement. Currently, there are 59,057 persons displaced (Table 3), including a very large number of orphaned children, elders and disabled persons who require special attention.

Even though the returnees are keen to go back to their place of origin, there is still land to be cleared of land mines. De-mining is being done by the Sri Lankan army and other non-governmental organisations (NGOs), such as, Mine Action Group (MAG), Swiss foundation for de-mining and the Horizon and Danish de-mining group. In terms of relief for the resettled, the government, with the help of the World Food Programme (WFP) and other NGOs, has aimed at providing dry rations as well as other supplementary food items for those resettled for up to six months. Apart from this, a cash

grant of Rs. 25,000 will be paid to the families for support in the short term through the Unified Assistance Scheme (UAS).

For resettlement to take place, immediate housing needs should be met. It is estimated that a total of 120,000 houses were partially or fully destroyed in the conflict and disaster-affected areas in the province. The government has adopted two general approaches to reconstruct houses. One is the owner-driven approach and the other is the donor-driven approach. The main housing programme under the owner driven approach is the World Bank-funded North East Housing Reconstruction Programme (NEHRP).

The investment required for resettlement of the displaced is shown in Table 4.

Table 3: Resettlement of IDPs in the Eastern province as at end 2008

| District | Total IDPs | Resettled families | To be resettled families | Expenditure (Rs. million) |
|--------------|---|--------------------|--------------------------|---------------------------|
| Trincomalee | 14,185 | 13,258 | 927 | 21.43 |
| Batticaloa | 43,381 | 42,102 | 1,279 | 38.60 |
| Ampara | 1,492 | 355 | 1,139 | - |
| Resettlement | (Spent for the districts of Trincomalee and Batticaloa) | | | 202.85 |
| Total | 59,057 | 55,715 | 3,345 | 262.88 |

Source: Ministry of Nations Building as cited in BOI presentation: Investment Opportunities in Sri Lanka.

Table 4: Investment programme for resettlement of returnees in the Eastern province (Rs million)

| Priority Area | 2007 | 2008 | 2009 | 2010 | Total |
|--|-------|-------|-------|-------|--------|
| Clearing of land mines and other unexploded ordnance. (Co-ordination of mine action, strengthening mine clearance resources and activities, mine risk education, victim assistance and advocacy) | 291 | 300 | - | - | 591 |
| Support for immediate restoration of livelihood (UAS) | 375 | 1,500 | 2,000 | 2,000 | 5,875 |
| Immediate housing needs for poor returnees (NEHRP) | 3,000 | 3,000 | 4,000 | 5,000 | 15,000 |
| Total- Resettlement of IDPs | 3,666 | 4,800 | 6,000 | 7,000 | 21,466 |

Source: Department of National Planning.

Revitalising productive sectors and regional economy

Some of the mega projects are highlighted below:

Crop agriculture: The main priority programmes for the agriculture crops sector includes productivity enhancement, crop diversification, promotion of industrial crops and agro-industries, farm mechanisation and post-harvest technology, agricultural marketing, research and extension systems development, and finally integrated farming system management. A number of development initiatives in the irrigation sector have also been added to develop the productivity of this sector. These mega irrigation programmes include, Rambukkan Oya, Heda Oya, Yan Oya, Gal Oya Navodaya and Maduru Oya (Mahaweli system B-right bank).

Fisheries: Main focus to develop the fisheries sector in the Eastern province is given to the reconstruction of fisheries harbours, anchorages and landing sites. The construction of fishery harbours in Valachchanai, Oluvil and Podduwakattu and construction of a multi-purpose fishing complex is in process. There are also plans to upgrade fish markets and set up retail sales centres in Trincomalee, Batticaloa, Vakarai and Kalmunai.

Industries: A number of projects and programmes are planned to be undertaken to revitalise the industrial sector of the region. These include, industrial estates in Kappalthurei and Batticaloa, Board of Investment of Sri Lanka (BOI)-approved garment factories (Sick companies) in Thabalgamuwa, Uhana and Valaichachanai, new garment factories in Trincomalee and Ampara and a special economic zone in Trincomalee.

Tourism: The tourism industry in Sri Lanka will prosper with the development of this sector in the Eastern province. The tourism ministry has plans to develop the Trincomalee district as the 'Sunrise Capital of Sri Lanka' under the Trincomalee ocean city development project and establishment of tourism zones in Arugam bay, Nilaveli and Pasikudah.

Small and Medium Enterprise (SME) sector financing: With the need for business finance in the Eastern province, the Central Bank has established the Regional Development Special Credit Scheme (RDSC). This credit scheme will target SMEs, fisheries projects, including multi-day boats, prawn farming and processing plants, commercial-scale perennial crop cultivation and processing, dairy farming and other livestock projects, tourism and service sector projects and any type of income-generating activity.

Table 5 gives the details of investment from 2007 to 2010 for the above-mentioned sectors.

Improving Economic Infrastructure

Under this strategy, the government has focused on the improvement of electricity, roads, transport, ports, water supply and rural infrastructure.

According to the Ceylon Electricity Board, only 58 per cent of the households in the Eastern province have electricity, and most of the areas in this province have no supply of electricity. Under this programme, there is an initiative to increase the power generation capacity by constructing new power plants in the area and by supplying electricity to the rural villages through the *Gama Neguma* project. Currently, under the BOI, there is a proposed 500MW coal-fired power plant in Trincomalee, China Bay, an investment by India's largest power generation company, NTPC.

The road network within the Eastern province is one of the poorest in the country, as there was a lack of maintenance during the war. In addition, a substantial portion of coastal roads were badly affected by the tsunami in 2004. Some 7.5 km. of roads were rehabilitated in 2007 and Komari, Periyakallar and Koddikallar causeways were completed under the Japan Grant Aid. The financial allocation for the road sector in Eastern province is around Rs. 8 billion in 2007 (excluding expressway projects).

As a mode of transport, the contribution of the port sector to transport in the Eastern province is minimal. At present, the ports in Trincomalee and Oluvil are being developed, the former as a 'port city' and the latter as a means to provide

Table 5: Investment plan for the productive sectors (Rs.million)

| Sector | 2007 | 2008 | 2009 | 2010 | Total |
|-------------|---------|---------|-----------|-----------|-----------|
| Agriculture | 151.0 | 598.0 | 650.00 | 705.00 | 2,104.00 |
| Irrigation | 733.0 | 2,640.0 | 3,983.50 | 5,065.00 | 12,420.50 |
| Fisheries | 1,144.0 | 1,180.0 | 1,410.00 | 1,551.00 | 5,285.00 |
| Livestock | 47.2 | 307.0 | 420.00 | 563.50 | 1,337.70 |
| Industries | - | 400.4 | 511.23 | 447.65 | 1,359.28 |
| Tourism | - | 2,577.7 | 2,944.00 | 2,821.50 | 8,343.20 |
| SME | - | 100.0 | 1,000.00 | 1,000.00 | 3,000.00 |
| Total | 2,075.2 | 7,803.1 | 10,918.73 | 11,590.15 | 33,849.68 |

Source: Department of National Planning.

the South-Eastern link in the developing chain of coastal parts in the country.

Rural infrastructure development is essential for all communities within the province to reap the benefits of this mega project. This is mainly being dealt under *Jathika Saviya/Gama Neguma*, Decentralised budget, *Gam Pubuduwa*, *Gami Aruna* and the rural market development project.

Details of investment in economic infra-structure are shown in Table 6.

As a policy, the government can encourage labour intensive infrastructure development and restrict capital intensive methods. This idea has been put forward by the International Labour Organisation (ILO) which proposed 'Community Contracts'. This is where the local communities themselves carry out infrastructure projects.² This is the approach taken in the NEHRP housing programme by the World Bank.

Northern Development Plan

'Uthuru Vasanthaya' or 'Wadakkil Wasantham'

This development project is implemented in two stages, a 180-day programme and a medium-term plan from 2010 to 2011. At present, the government is implementing the 180-day programme which emphasises on de-mining, resettlement of the IDPs, reconstruction of damaged economic and social infrastructure, livelihood recovery and employment generation. Under the 180-day programme, special focus is given to recover Jaffna, Vavuniya and Mannar districts due to the prevailing IDP situation. However,

Table 6: Investment for economic infrastructure in the Eastern province(Rs.million)

| Sector | 2007 | 2008 | 2009 | 2010 | Total |
|------------------------|--------|---------|---------|---------|----------|
| Electricity | 250 | 1,678.7 | 3,403.2 | 3,792.4 | 9,124.3 |
| Road | 4,858 | 7,685 | 8,380.5 | 8,391.5 | 29,315.0 |
| Transport | - | 2,000 | 2,446.0 | 2,831.0 | 7,277.0 |
| Ports | 305 | 100 | 1,331.0 | 3,088.0 | 4,824.0 |
| Water and & Sanitation | 5,063 | 8,380 | 8,632.0 | 5,113.0 | 27,188.0 |
| Rural Infrastructure | 1,347 | 1,465 | 1,594.0 | 1,693.0 | 6,099.0 |
| Total | 11,823 | 21,309 | 25,787 | 24,909 | 83,807 |

Source: Eastern Revival Programme

under the medium-term plan, which is currently being drawn up, all districts in the Northern province will be developed. According to the 2009 budget speech, Rs. 3,500 million has been allocated from the budget for the development of the North under the 'Uthuru Vasanthaya' project, out of which, Rs.500 million is for the Ministry of Resettlement to carry out resettlement programmes in the North.

The primary target of this programme is the resettlement of the IDPs in the North. This is not being done as fast as the government and the international community would like it to, because of the de-mining situation. A major part of the de-mining is done by the Sri Lankan Army, United Nations Children's Fund (UNICEF), UNDP and a few other non-governmental organisations. The situation of IDPs in the Northern province is shown in Table 7.

Strategies

The strategies that are adopted in the 'Uthuru Vasanthaya' programme are:

- Construction of an environment suitable for resettlement of the displaced persons:

According to government officials, a total of 80,000 houses in the North have been destroyed due to the conflict. The government and the World Bank (WB) under the North-East Community Restoration and Development Project II (NECORD II) are in the process of building houses for those who rendered homeless. There is, however, a problem of property rights in this region, and this is being dealt with under the 'Uthuru Vasanthaya' programme by the task forces, as they are in the process of identifying owners of land. This is an important task as once the property rights are secured, people will be able to provide them as collateral which will improve access to finance for business, etc.

- Generation of livelihood and employment: Currently, livelihood development programmes are being conducted under the 'Gama Neguma'

Table 7: Summary of IDPs as at 28.02.2009 in the Northern province

| District | Families | Persons |
|-------------|----------|---------|
| Jaffna | 8,748 | 30,295 |
| Kilinochchi | 0 | 0 |
| Mullaitivu | 51,629 | 206,442 |
| Mannar | 2,892 | 9,000 |
| Vavuniya | 13,053 | 39,759 |
| Total | 76,322 | 285,496 |

Notes: The figure for Mullaitivu district includes only IDPs outside welfare Camps whereas in other districts it includes both in and outside welfare camps.

Source: Ministry of Resettlement and Disaster Relief Services

programme which provides the farmers with tractors, seeds and fertiliser subsidies. The 'Re-awakening' project funded by the WB aims at restoring the irrigation system in the area while providing village-based training. The government has also allocated Rs.870 million to the Ministry of Fisheries to develop the Northern fishing industry. Under this project, plans have been initiated to provide fishermen with boats, fishing nets and other equipment to commence trade. In addition, vocational training programmes to promote self-employment will be conducted in each district.

• *Allocation of resources to all communities for a balanced regional development:* The government intends to strengthen the District Planning Secretariats to enable proper co-ordination and organisation of governmental and foreign regional development projects to ensure balanced growth.

• *Reconstruction and rehabilitation of infrastructure facilities:* The 'Uthuru Vasanthaya' revival project will connect with the national-level mega infrastructure development projects as the government aims at linking the North and the South. With special focus to develop roads, power and irrigation sectors, the Sri Lankan Highways Ministry has planned to spend Rs. 1 billion in 2009 to implement Stage 1 of the road development programme for the Northern province. The Ministry, in the initial stage, will develop and upgrade roads in rural areas and roads that will connect production centres and market centres to increase mobility. Under this, it also has plans to include highways linking the Jaffna peninsula with the

Table 8: Source of funding for the Northern province development programmes

| Name of Programme | Revised budgetary Provision (Rs.million) | Funding Source |
|--------------------------|--|----------------|
| <i>Gama Neguma</i> | 828.75 | GOSL |
| DCB | 75.00 | GOSL |
| <i>Samurdhi</i> | 133.02 | GOSL |
| <i>Jathika Saviya</i> | 320.40 | GOSL |
| <i>Uthuru Vasanthaya</i> | 2,550.00 | GOSL |
| Foreign-Funded Projects | 2,659.43 | |
| Total | 6,566.60 | |

Source: Ministry of Nations Building

South as well as other highways across the Northern mainland in the medium term. The government also plans to launch the 30MW Chunnakam Power station in Jaffna to provide uninterrupted power.

On-going major infrastructure projects include:

- 1.Rehabilitation of Kankesanthurai harbour,
- 2.Rehabilitation of Thondaimannaaru barrage- This will improve the fresh water in the area,
- 3.Valukkai Aru in Jaffna,
- 4.A32 road (Puttalam- Mannar Silawathurai road),
- 5.Mamaduwa road in Vavuniya,
- 6.Mullikulam- Eluwankulam road,
- 7.Kondachikuda- Mahavilachchiya road,

8. Giant tank in Mannar,

9. A h a t h i m u r i p p u & Thadchchanamaruthamadu tanks in Mannar,

10.Nampankulam and Mamaduwa tank in Vavuniya.

• *Poverty alleviation:* The government under the 'Gama Neguma' programme and the 'Samurdi Relief and Livelihood Development Programme' plans to minimise the poverty level in the region. Under these relief programmes, the government will provide infrastructure facilities, capital, technology, consultancy, guidance and marketing facilities for sustainable livelihood. These programmes also aim at encouraging private investments by creating credit schemes. The

Table 9 : Foreign-funded projects for the Northern province

| Name of the Project | Funding Source |
|--|--|
| Tsunami-Affected Rebuilding Project (TAARP)- Component B | ADB / GOSL |
| Supporting De-mining in North East by the Civilian De-mining Unit of Sri Lanka | Govt. of Japan / GOSL |
| North East Housing Reconstruction Programme (NEHRP) | International Development Association(IDA) / European Commission(EC)/ GOSL |
| Re -awakening Project | WB / GOSL |
| NECORD II- Grant and Loan | ADB & Govt. of Sweden / GOSL |
| Pro-poor Economic Advancement and Community Empowerment Project (PEACE) | Japan International Cooperation Agency (JICA) / GOSL |
| Protracted Relief and Recovery Operation (PRRO) | World Food Programme(WFP) / GOSL |
| TAARP- Component H | ADB and Govt. of Netherlands/ GOSL |

Source: Ministry of Nations Building

Central Bank has also launched a special loan scheme under the name 'The Awakening North'. Under this scheme, a maximum of Rs. 200,000 can be obtained by the borrower at an annual interest rate of 12 per cent.

Funding

All projects which are implemented under the 'Uthuru Vasanthaya' programme is mainly funded by the government. Out of the total Rs. 6,556 million budgetary requirements for the programme Rs. 3,907 million of the budget is funded by the government of Sri Lanka (GOSL), while the rest is funded by the WB, Asian Development Bank (ADB) and other international governments (Tables 8, 9 and 10).

The total budgetary requirement for the 180-day programme is Rs. 3,905 million, although there is a shortage of Rs. 500 million for Jaffna and Mannar.

Targets

Targets to be achieved in the 180-day programme are summarised in Table 11.

Problems and Constraints

The government has a massive task ahead to achieve economic development in these areas, and there is no doubt that this can be achieved through, political acceptance, adequate funds, and proper organisation and execution of development projects.

Political acceptance

Political acceptance in the East is vital for the success of the revival programme given its ethnic diversity. It is necessary that these programmes are not biased towards one ethnic group, but rather focused on meeting the requirements of all ethnic groups. This will be a challenge to the

Table 10: 180-Day programme - Fund availability in 2009 (in Rs. million.)

| Project | Jaffna | Vavuniya | Mannar | Total |
|-----------------------|--|---------------|---------------|-----------------|
| <i>Gama Neguma</i> | 471.18 | 152.66 | 124.93 | 748.77 |
| DCB | 15.00 | 15.74 | 12.62 | 43.36 |
| <i>Samurdhi</i> | 110.11 | 23.02 | - | 133.13 |
| <i>Jathika Saviya</i> | 56.80 | 61.80 | 201.80 | 320.40 |
| Re-awakening | 159.94 | 106.54 | 271.86 | 538.34 |
| NECORD II | 142.03 | 78.89 | 32.87 | 253.79 |
| TAARP- H | 77.38 | - | - | 77.38 |
| PEACE | - | 40.00 | 40.00 | 80.00 |
| TAARP-B | 59.92 | - | - | 59.92 |
| NEHRP | Addl. fund Rs.500 Mn. Required for Jaffna & Mannar | | | - |
| Demining | | | | 40.00 |
| PRRO (WFP) | | | | 1,610.00 |
| Total | 1,092.36 | 478.65 | 684.08 | 3,905.09 |

Source: Ministry of Nations Building

government, but it can be accomplished by involving the democratically-elected representatives in the area, from all ethnic groups in the decision making for the development programmes.³ It is also important for the government to improve ethnic harmony in these areas by implementing policies that will defuse economic benefits to all segments of the community. Elections in the North in July 2009 and in the East in May 2008 are positive steps in the right direction, as it has allowed the community to elect their own representatives.

Developing finance

The development programmes for the East are mainly funded through multilateral and bilateral donors, whereas for the North, it is mainly funded by the government. Financing such large-scale development programmes is a challenge for the government, given the tight fiscal squeeze and the global economic crisis.

The budget deficit has ranged around 8 per cent of the gross domestic product (GDP) in recent years, and as of 2008, it was 7.7 per cent.⁴ The prevailing fiscal deficit in the country is a result of high government debts, the economic contraction, and the

general credit crisis. The IMF loan of USD 2.6 billion, which was granted to Sri Lanka in July 2009, is conditioned upon reducing the fiscal deficit to a sustainable level of 5 per cent of GDP by 2011.⁵ This further increases restrictions on government spending. Meeting this target will be a challenge for the government, given the rehabilitation and reconstruction activities in the North and East.

Given the current economic meltdown, Official Development Assistance (ODA) is likely to be constrained, as many donor countries prioritise on reviving their domestic economies. According to the North South Institute (Global Future), a reduction in ODA levels is likely in the near future. This will be a problem in developing finances for the development in the North and East in the medium and long term.

When looking back over the past two decades, particularly at the European crisis in the 1990s, average foreign aid levels fell from 0.33 per cent of gross national income (GNI) to 0.22 per cent. By 2005, aid from the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) returned to the level of 0.33 per cent. In 2007, this further

Table 11: 180-day programme- physical and financial target by sector

| Sector | Domestic funded | | | | | |
|---------------------------|---|--------------------|--|----------------------|---|----------------------|
| | Jaffna | | Vavuniya | | Mannar | |
| | Physical Target (Km/Nos/etc) | Allocation (Rs.Mn) | Physical Target (Km/No.s/etc) | Allocation (Rs.Mn) | Physical Target (Km/Nos/etc) | Allocation (Rs.Mn) |
| Infrastructure | 605 Nos | 136.40 | 72 projects, 106 Nos | 162.74 | 173 Nos, 50 km (A32 Road) | 183.292 |
| Livelihood | 50,549 Nos | 521.39 | 76 Nos | 18.545 | 23 Nos | 14.22 |
| Spiritual | 26 Nos | 2.54 | 25 Nos | 1.745 | 18 Nos | 6.34 |
| | | | Foreign funded | | | |
| Roads | 28.18 km | 35.953 | 25.75km, 1 Motor Grader | 41.926 | 17.2 km | 14.63 |
| Water supply | 5 Nos&1 scheme | 26.128 | 20 Wells | 4.410 | 2 Nos | 0.34 |
| Agriculture | 58 Acre. | 11.230 | 5 Projects, 285 Acre. | 17.240 | 428 Acre. | 5.48 |
| Fisheries | 88 Nos, Anchorage facility | 5.995 | - | - | 453 Nos | 7.55 |
| Livestock | 205 Nos. | 11.360 | 272 Projects | 5.840 | 179 Nos | 4.05 |
| Livelihood Activities | 118 Nos | 13.760 | 119 Projects | 17.030 | 487 Nos | 31.99 |
| Irrigation | 10 Nos.(bunds) Valukkaiaru | 102.572 | 20 km Channels, 371 Ha, 5 Schemes | 112.813 | Giant tank,895 Ha | 322 |
| Health | 4 buildings, 1 equipment, training for public health officers, 1 gully emptier | 152.2 | - | - | 13 equipment | 9.36 |
| Education | 1 building, training for teachers, 2 sets of sanitary facilities, 1 electricity supply. | 10.129 | - | - | 2 buildings | 23.512 |
| Institutional development | 2 computers, accessories | 0.411 | 6 Nos | 6.870 | - | - |
| Resettlement | 2,287 houses | 441.37 | 43 km ² De-mining, MRE programme -150 | * and *1 (see below) | 68 km ² De-mining, MRE Programme-150 | * and *1 (see below) |

Notes: * Implementation direct by De-mining Organisation, *1 Implementation by UNICEF.

Source: Ministry of Nations Building.

declined to around 0.30 per cent.⁶ This was reflected in the aid levels received by Sri Lanka as well. In 2007, the DAC provided Sri Lanka with USD 297.90 million (total net disbursements), whereas in 2006, we received USD 485.15 million. Given the behaviour of the DAC in

foreign aid in the past during economic crises (Figure 3), it does not seem reassuring to Sri Lanka. However, emerging economies, like China and India, were less affected by this crisis which is promising for Sri Lanka as they have expressed their willingness to assist in the development of the North and East.

Another useful source in developing finance is Foreign Direct Investments (FDI). FDI seems to be promising for Sri Lanka even during the crisis, as FDI flows have continued to grow since 2005 from 4.8 per cent (as percentage of gross fixed capital formation) to 6.6 per cent in 2007.⁷ In addition, another

source that has been under-utilised is the support of the Diaspora living in other parts of the world. The Tamil Diaspora has, for many years, funded the LTTE for the war. Financial and other contributions to the LTTE from the Tamil Diaspora is estimated to have provided around Sterling Pounds 27 million annually.⁸ Now with the war over, the government can take some initiatives to encourage them to participate in the development process of the North and East.

Governance

Proper organisational capacity, transparency and effective resource allocation are vital to complete the enormous task of developing the North and the East. The government must also ensure that cost effective methods are used to minimise the funds required and increase the quality of funds for the development process. In addition, the ministries and various public sectors that are involved with implementation of these development programmes must approach it strategically to yield the maximum outcome from limited available funds. Transparency in handling these programmes is a key requirement to reduce corruption and waste and gain acceptance by the communities in these areas.

Lessons from the Marshall Plan

We draw some lessons from the Marshall Plan and discuss why a Marshall Plan will be successful to reconstruct and develop the North and East.

The Marshall Plan (MP) was the first ever large-scale external post-conflict recovery programme. This was the plan proposed by the then US Secretary of State George Marshall to rebuild the countries of Europe after World War II and was officially known as the 'European Recovery Programme'. The MP was not used to develop Europe, but rather used to reconstruct the economy so that it grows beyond pre-war levels.

There are a few main features of the MP from which we can draw lessons. First, the financial aid provided by this programme was substantial. It provided US\$ 13 billion (more than US\$ 100 billion in today's terms) during a period of four years from 1948 to 1951.⁹ This was the fastest period of growth in Europe up to this date, as this aid allowed countries to reconstruct key sectors in the economy and gain fiscal stability.

Second, it avoided creating an aid dependent-environment, as it fostered the private sector through market reforms. This had long-lasting multiplier effects and resulted in the integration of Europe which later led to the formation of the European Union.

Third, limited conditionality and intervention by the US made it easier for each country to absorb and spend the aid according to their own priorities. For instance, some countries saved some of the funds to build up reserves, while others used it on imports. Use of this aid to finance fiscal deficits often lead to greater spending on rehabilitating economic and social infrastructure, social programmes, etc. Ultimately however, the MP was able to recover these economies such that they gained sustainable growth while restoring peace and democracy.

Apart from the design of the MP the economic and political environment of Europe contributed towards the success of this programme. Most economists say that the recovery of Europe was already on its way when the first disbursement arrived. The MP did not play a large role in the reconstruction of these war-torn nations, as they were already developed prior to the war, and therefore, had strong public

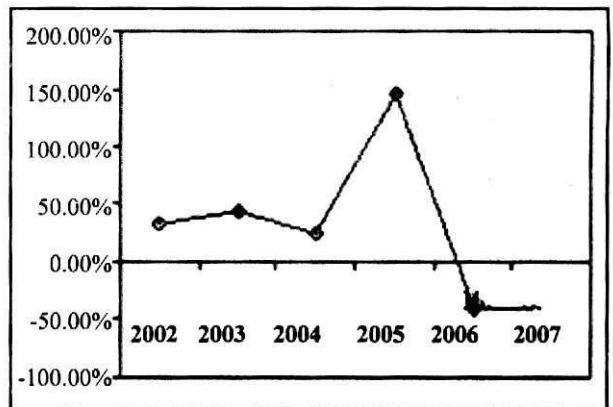


Figure 3: Growth of ODA by the Development Assistance Committee (DAC) from 2002-2007

Source: Author's calculations based on OECD.

institutions, good governance and well-defined policy priorities.

There are clear differences between Sri Lanka and the Western European countries after World War II. The Western European countries consisted of nations ranked as developed with high stocks of human and physical capital prior to the war. They also comprised of strong public institutions and governments that were keen on the development process. Conversely, Sri Lanka is a developing country with an average growth level of 5 per cent while its per capita GDP is USD 2,014, which classifies it under the lower middle-income category alongside other countries like India and China.¹⁰

The North and East has generally been resilient towards negative shocks. These provinces never experienced a negative growth rate and have continued to grow despite the conflict and the tsunami in 2004. This is something that cannot be observed in other countries where conflicts have occurred (Liberia, Sierra Lion, Uganda, Afghanistan). These facts provide proof that the North and East have a robust economy when compared with other areas of conflict today, and thus, give reason to believe that these provinces, with their rich natural resources and human capital, have an appropriate environment for a Marshall Plan.

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In addition, the government has improved foreign aid utilisation rate since of late as shown in the case of the tsunami in 2004, and the ceasefire period of 2002-2003. With elections in the Northern province, some degree of participatory governance and smooth running of local institutions will commence gradually. These compelling arguments point to the fact that ODA in a form of a Marshall Plan will be effective in sustaining development and eliminating poverty and deprivation in these areas of need. Indeed, with such

support from the international community, there is no doubt that Sri Lanka will be able to integrate the North and East with the rest of the country and contribute significantly towards the overall development of the country.

Footnotes:

¹'Nagenahira Navodaya' presentations by the Provincial Council.

²'Nagenahira Navodaya'-
www.nceast.lk.

³State of the Economy 2008-Chapter 16.

⁴CBSL Annual Report 2008.

⁵IMF survey magazines - www.imf.org.

⁶OECD website- stats.oecd.org/Loading.htm

⁷UNCTAD- World Investment Report 2008.

⁸Beyond Remittances- study by the Migration Policy Institute for the Department of International Development (2004).

⁹The Marshall Plan: Lessons for the 21st century by Elliot Sorel and Pier Carlo.

¹⁰CBSL Annual Report 2008.

