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Post-Tsunami Recovery: Lessons from Case Study 1. Sri Lanka

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Key Lessons Learned

This is one of the first analytical reports on the major lessons learned from Sri Lanka's experience of the tsunami and the response in the rebuilding phase.

- Promised **external assistance** appeared at first to be more than adequate to cover reconstruction costs in full. But problems soon emerged with relief payments, providing credit facilities, distribution of funds, coordination of reconstruction activities, and mismanagement of funds.
- **Progress** has been slow, uneven, and concentrated in certain areas, while missing other regions.
- Poor **coordination** among domestic and external agencies has emerged as a serious problem, together with the sensitive issue of balancing political considerations and humanitarian assistance to the needy.
- Some international NGOs' reluctance to cooperate with government institutions, and competitive behavior towards other agencies have hampered coordination and **implementation**.
- The **modalities of aid** spending, including procedures and mechanisms need to be reviewed to improve quick and effective responses. Problems with aid utilization and accountability must be urgently addressed.

Practical policy recommendations made in this report include: livelihood related cash payments to households; assistance for rebuilding houses; titles to new houses; buffer zone rules; early warning and disaster management systems; coordination of donor assisted activities and macroeconomic policy issues.

Executive Summary

1. The tsunami of December 26, 2004 left Sri Lanka with over 30,000 people dead, almost a million displaced and an estimated 150,000 people lost their primary source of livelihood. There was massive damage to infrastructure and capital assets; estimated at around US\$1 billion (4.5 per cent of GDP), particularly in tourism and fisheries sectors. The medium-term financing needs were estimated to be around US\$1.5–1.6 billion (7.5 per cent of GDP). It is expected to reduce 2005 GDP by around 0.5–1.0%.
2. With no previous history of such disasters Sri Lanka was quite unprepared for the tsunami. But with a massive community response followed by government and international action, it was able to implement an initial relief effort that, in the circumstances can be termed a success.
3. Promised external assistance—a total of US\$2.2 billion over the next 2–3 years—appeared to be more than adequate to cover reconstruction costs in full. But problems have emerged with relief payments, providing credit facilities, distribution of funds, coordination of reconstruction activities, and mismanagement of funds. Clearly the reconstruction phase poses complex and difficult challenges.
4. Housing is the households' main concern. Reconstruction and repairs have been hampered by the 'no-build' coastal buffer zone, cuts to relief payments and cost increases. Progress has been slow, uneven, and concentrated in the south and southeast, though the worst affected areas are in the east and northeast.
5. Reconstruction spending produces a particular type of 'Dutch Disease' reflected in construction cost increases which have escalated

rapidly (by 40–60% in some instances). Overall inflation, caused primarily by policy and exogenous factors, is rising, and may accelerate with election cycle spending, high oil prices and recently promised increases in government expenditures. *This implies a major increase in funds required to fully meet construction targets in the private housing sector and in public infrastructure, implying a major funding gap.* The government has limited options to address the funding shortfall. Poorer households and public infrastructure reconstruction could be severely affected.

6. The report raises issues in the following areas and presents several related policy recommendations: livelihood related cash payments to households; assistance for rebuilding houses; titles to new houses; buffer zone rules; early warning and disaster management systems; coordination of donor assisted activities and macroeconomic policy issues.

7. A Sri Lankan Rs.5,000 (US\$50) monthly grant—a modest sum that falls short of poverty line incomes for a household—was expected to be provided for about six months to all affected households. But this has been scaled back to four months and its scope reduced by tightening eligibility rules. This is inequitable and counterproductive. The grant should be paid to all affected households for six months using donor funds earmarked for livelihood assistance.

8. The cash grants for house rebuilding and repairs are manifestly inadequate given cost escalations. We recommend an upward revision of the grant, at least for the poorer households, using designated donor funds.

9. Eligibility for new houses should be determined on clear criteria in a transparent manner. Freehold title should be granted jointly to the husband and wife unless it is a single parent family, changing existing legislation as necessary. Any time restrictions on sales to non-family members should be limited to minimise market inefficiencies and illegal transactions.

10. A buffer zone to achieve coastal environmental protection and to minimize impact of natural hazards in the future has intrinsic merit, and the basic concept should be retained. However, limits should be set through a transparent and consultative process, clarifying the underlying scientific and economic rationale for zone limits, and regulations must be combined with incentive-based systems drawing on international experience.

11. Livelihood recovery must focus on upgrading key affected sectors such as fisheries, tourism and small and medium scale entrepreneurs to achieve pro-poor growth. At the local level, economic recovery plans must be implemented led by poor households with local government and inputs from NGOs. To achieve national upgrading and local level economic recovery requires a broad approach learning from and building upon past experience of poverty alleviation in Sri Lanka and placing livelihood recovery in a broader political, social and economic context. Funds are less of a constraint than institutional challenges in overcoming mistrust and negative perceptions among key stakeholders, using improved knowledge of demand and supply of livelihood activities, providing much greater voice for affected households, strengthening the capacity of local government, affected households, NGOs and community-based organizations to plan, implement and monitor livelihood recovery programmes and improving the use of micro-finance as a tool for poverty reduction.

12. The tsunami experience, the more recent Pakistan-Indian earthquake, climate change, and scientific opinions highlight the need for greater preparedness to cope with natural disasters. Building on the Sri Lanka Disaster Management Act (presented to Parliament in February 2005), a scientifically sound and financially feasible disaster management system geared to coping with the multiple hazards must be formulated. Sri Lanka cannot afford a multiplicity of specialised warning systems based on low probability events. Options to meet financing issues arising from catastrophic risks, including purchase of insurance and setting aside reserves to meet unexpected disasters should be explored.

13. Poor coordination among domestic and external agencies have emerged as serious problems, together with the sensitive issue of balancing political considerations and humanitarian assistance to the needy. Some international NGOs' reluctance to cooperate with government institutions, and competitive behavior towards other agencies have hampered coordination and implementation. The modalities of aid spending, including procedures and mechanisms should be reviewed to improve quick and effective responses.

14. Problems with aid utilisation and accountability highlighted by the Auditor General's Department must be urgently addressed. But, despite these weaknesses and inefficiencies, the strengths and positive contributions of government institutions must also be recognised. Attempts to bypass government institutions by relying primarily on NGOs can be counterproductive, complicating coordination of reconstruction efforts. A balanced approach must be adopted to improve coordination among donor, government and community groups.

15. Overall macroeconomic management circumstances and policies are critical to the success of reconstruction. The tsunami hit at a time of serious macroeconomic imbalances, and paradoxically helped to mask them for a time. But they are re-emerging now, fuelling inflation, lowering the real value of aid funds, constraining government's fiscal capacity, and adversely affecting reconstruction. Pressure on the currency generates temptations to prop it up using tsunami aid related foreign reserves by delaying reconstruction activities. This would achieve short-term stability at the expense of reconstruction, growth and equity, while aggravating macro imbalances in the longer term. Wider macroeconomic imbalances should be addressed directly targeting their sources; tsunami aid funds should be utilised for reconstruction purposes.