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FOREWORD

This briefing book has been compiled to provide an overview of the current status of the Emergency Reconstruction and Rehabilitation Programme (ERRP) and the critical issues regarding programme planning and administration. Most of the material has been compiled from my personal notes and the Project Issues Papers that I keep for INTERTECT. In several cases, information has been added from the Project Design Analysis report of the AID design team (prepared by Development Alternatives, Inc.).

Most of the information contained herein is publicly available, but certain sections may be sensitive in their interpretation of events and actions of the government. Therefore, please treat the material with caution and use discretion in showing any of the materials to other than the World Bank team.

Frederick C. Cuny
15 May 1988

LIST OF ACRONYMS

ACAS	Assistant Commissioner of Agrarian Services
ADB	Asian Development Bank
AGA	Assistant Government Agent (or AGA division -- district)
ASC	Agricultural Service Center
BOC	Bank of Ceylon
CB	Central Bank
CEO	Chief Executive Officer (of NRSC)
CRB	Cooperative Rural Banks
DER	Department of External Resources
DRCC	District Rehabilitation Coordinating Committee
EEC	European Economic Council
GA	Government Agent
GSL/GOSL	Government of Sri Lanka
IBRD	International Bank for Reconstruction and Development
ID	Irrigation Department
IDA	International Development Agency
IPKF	Indian Peace Keeping Force
IRDP	Integrated Rural Development Project
LTTE	Liberation Tigers of Tamil Eelam
MOFP	Ministry of Finance and Planning
MORR	Ministry of Reconstruction and Rehabilitation
NGO	Non-Government Agency
NHDA	National Housing Development Authority
NORAD	Norwegian Agency for Development
NRSC	National Rehabilitation Steering Committee
ODA	Overseas Development Authority
OFDA	Office of Foreign Disaster Assistance
PMB	Paddy Marketing Board
PRO/AG	Project Agreement
REPPIA	Rehabilitation of Persons, Properties and Industries Authority
TA	Technical Assistance
TCCS	Thrift Credit and Cooperative Society
UNHCR	United Nations High Commissioner for Refugees
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WB	World Bank

INTRODUCTION*

The Current Situation

The signing of the peace accord between the Governments of Sri Lanka (GSL) and India on July 29, 1987 raised hopes for peace in the affected areas in the North and East and spurred GSL and donor interest in supporting a major rehabilitation and reconstruction effort. Rejection of the accord by some key Tamil and Sinhalese groups, however, has delayed key political steps, such as devolution of power to new Provincial Councils in the North and East.

Reports from recent missions to the affected districts by NRSC and MORR staff indicate that some semblance of security and order has returned, notably in Jaffna and Vavuniya. The rate of displacement has dropped and the number of refugees in welfare centers has been reduced. By the end of April, 1988, approximately 7000 refugees had returned from India for resettlement and the number grows weekly. The Government Agents of Vavuniya and Trincomalee estimate that as many as 65 percent of all displaced persons in their Districts have returned to their place of origin prior to the conflict. Some farmers are resuming cultivation, traders and small merchants are reopening their businesses, and some administrative and physical infrastructure is slowly recovering. In short, some limited reconstruction has begun as relative order has returned. There is considerable evidence that people are ready for rehabilitation. It is the fluid political and security situation that represents the major constraint to recovery. True peace will require an agreement that is acceptable to all parties to the conflict.

For the foreseeable future, violence will remain a significant component in the political culture of the northern and eastern Districts. Disturbances will continue and the resumption of normal civil administration by the GSL in many parts of the affected Districts may be slow and irregular. The Peace Accord itself led to riots (and subsequent security operations by the Sri Lankan army and IPKF) that caused extensive damage, especially in Jaffna. The causes of the hostility, resentment, and distrust that remain unresolved for many and as a result, the security situation remains unsettled.

To the extent that militant groups are disarmed by the Indian Peace-Keeping Force, violence may be reduced to isolated acts but this violence will continue to condition social and economic rehabilitation. While there is some hope of an eventual political compromise between the government and the The Liberation Tigers of Tamil Eelam (LTTE), the major Tamil faction, tensions regarding the actual role of the LTTE in governance are likely to continue for a long time to come. The LTTE clearly has considerable power over civil and administrative operations in all districts. In the absence of a political settlement, informal LTTE approval will be essential for rehabilitation efforts to go forward in many areas.

From an AID Project Paper, prepared by Development Alternatives, Inc.

To date, many Tamils feel they have been left out of the rehabilitation planning process which has been largely a Colombo-based exercise. There is a sense among many Tamils that the Peace Accord has resulted in a de facto decline in their role in governance, even in areas where they dominate. Thus, reconstruction will be closely watched by the LTTE. To the extent that they see it as vehicle for reassertion of the central government's control over affected Districts, effective reconstruction would probably be halted.

The result of all this is a dilemma. Uncertainties about the security of reconstruction efforts are a constraint to the willingness of donors to commit funds. At the same time, the viability of the Peace Accord and hopes for stability depend on effective GSL response to concerns that have contributed to the conflict. Some of these concerns are political and must be addressed outside the ERRP itself. Others, however, relate to issues such as economic opportunity and unemployment which must be addressed, at least in part, through reconstruction investments. Thus, risks must be taken to support reconstruction and reactivation of economic activities as a means to strengthen hopes for peace.

With this in mind, the NRSC has given priority to assistance programmes that will give the highest economic benefits and quickest returns, especially for the poor. The first priority is getting affected people back to their homes and work and restarting their economic activities. This requires moving resources quickly, fairly and with a minimum of red tape.

The impact and sustainability of reconstruction efforts undertaken in these circumstances depends on several factors. First, a continuing reduction of tension, violence, and uncertainty is essential. While it is unrealistic to expect that violence will cease altogether in the near future, there is a reasonable hope that it can be contained. Only if people believe that their personal investment of time and resources in rebuilding has a good chance of lasting will they commit their own resources or use project resources as intended.

A second factor is the consistency of political will as reflected in the implementation of the ERRP. It has been agreed that reconstruction funds will be channelled through the Government Agents of the affected Districts without interference from central Ministries. This principle is of critical importance as is non-interference by the IPKF or Sri Lankan security forces at local levels.

A third factor of great importance is how the rehabilitation effort is perceived by potential beneficiaries. These perceptions will influence not only program success but also the possibilities for restoration of deeper political and social recovery. This factor obviously depends to some extent on the first two factors above. But it also hangs on perceptions of fairness and equity among groups across the spectrum of ethnic and political background. Great sensitivity will be required among program administrators and their personal credibility will have a strong impact on the program. This

represents an important additional argument for local control of decision making and the participation, formal or informal, of a wide variety of community groups.

CHRONOLOGY

May 26, 1987

In an effort to militarily end the civil war that has been waged in the North and East of Sri Lanka for almost 5 years, the Sri Lankan government begins Operation Liberation, a major offensive to recapture the Jaffna peninsula from the Liberation Tigers of Tamil Eelam (LTTE).

June 3, 1987

The Indian government announces that it is sending a flotilla of ships with relief supplies for the beleaguered Tamils on the Jaffna peninsula. They claim that widespread famine conditions have broken out due to the government's "final offensive".

June 5, 1987

The government of Sri Lanka turns back the flotilla claiming that India should not intrude on Sri Lanka's international waters and intervene in the affair. They also deny that there are famine conditions in the north and east.

June 23, 1987

The Indian Air Force violates Sri Lankan air space and drops relief supplies to Jaffna. Subsequently, the President of Sri Lanka, J.R. Jayewardene, decides that India will not let Sri Lanka win the war and can continue to stir up trouble with the Tamils indefinitely; therefore, rather than prolong the suffering of the country, he agrees to enter into secret negotiations with India for a ceasefire.

July 26, 1987

Paul Thompson and I learn that the Sri Lankan government has entered into secret negotiations in New Delhi with Rajiv Gandhi to try and bring about a solution to the crisis.

July 28, 1987

Rajiv Gandhi visits Colombo for discussions with President of Sri Lanka.

July 29, 1987

A Peace Accord is announced under which the Tamils are granted a large degree of autonomy in the north and east. Provincial council elections are to be called and the government will promise to decentralize into a center-province structure similar to the system in India.

Anti-government rioting breaks out in large areas of the south, directed primarily against government institutions. The Sinhalese population, feeling that they have been denied a victory in the north and east, and fearing that India is establishing hegemony over Sri Lanka, is almost unanimously opposed to the treaty. Much of the rioting is led by Buddhist priests and many carry signs protesting the "Finlandization" of Sri Lanka by India.

Rajiv Gandhi promises to provide a peace keeping force of 5-7,000 Indian soldiers to protect the Sinhalese population. Initially, troops are landed in Palaly airport, Trincomalee and Batticaloa. In the north, a great deal of jubilation accompanies the initial signing of the peace accord and the IPKF troops are welcomed. Several days later, V.P. Prabhakaran, leader of the Liberation Tigers of Tamil Eelam (LTTE), is returned to Sri Lanka by the Indian military authorities and at a public meeting in Jaffna, proclaims that the war is over and urges his fellow Tigers to turn in their weapons. He then disappears.

August 5, 1987

As the Indian troops take up their positions in the north and east, large numbers of Muslims flee the provinces of Trincomalee and Batticaloa. There are a number of reports of Muslim women being raped by the predominantly Sikh troops of the IPKF and further displacements begin to mount.

August 10, 1987

As part of the peace keeping accord, the Sri Lankan army is to turn over its positions and return to the barracks. Members of the civil Home Guard, Sinhalese youth, who have been armed to protect isolated Sinhalese populations, are disarmed. Immediately, large numbers of the Home Guards and their families flee to the south rather than remain unarmed in a hostile population.

The President of Sri Lanka calls on the international community to help Sri Lanka reconstruct.

August 11, 1987

At a meeting of Parliament, a bomb is hurled at several Parliamentarians and the President by members of the JVP, a southern, Sinhalese extremist group. Placards are posted around Colombo proclaiming that the incident was in retaliation for the peace accord.

An international donors' group headed by the World Bank is formed and plans are made to send an assessment team to determine the extent of damages and to prepare an overall reconstruction plan.

Mid-August, 1987

The Secretary of the Ministry of Rehabilitation, coordinating the reconstruction and rehabilitation operations, asks the government agents (GA's), in each district to prepare estimates of the losses in their areas. He also instructs the line ministries to determine what losses they have experienced.

August 15, 1987

The Deputy UN High Commissioner of Refugees, Gene Dewey, mentions that UNHCR is interested in participating in the repatriation of refugees from India and would be willing to provide rehabilitation assistance to refugees once they have returned to their villages. He says that discussions are under way, but no formal agreement has yet been concluded.

September 1, 1987

The World Bank assessment team begins work.

September 2, 1987

The government agrees to release militants captured during the war from prison. Almost 3500 young men are released.

September 10-15, 1987

The LTTE carries out a series of assassinations in Trincomalee and Jaffna. Most of the persons assassinated are in rival Tamil groups. The mounting number of assassinations with little or no response from the IPKF is outraging ministers of the government who had initially supported the peace agreement.

September 19, 1987

The Bank assessment completes the initial survey and prepares a preliminary report to review with the government.

September 22, 1987

The LTTE carries out a major massacre of its fellow Tamil rival groups under the very noses of the IPKF, which does nothing in response.

The World Bank assessment mission ends with a promise of seeking assistance for approximately 480 million US dollars.

October 3, 1987

A boat carrying arms to the LTTE is intercepted by the Sri Lankan navy north of Jaffna.

October 4, 1987

The militants captured running arms to the LTTE are placed in the Jaffna jail. The government decides to bring them to Colombo, but during the transfer, all of the militants commit suicide with cyanide capsules.

October 5, 1987

The LTTE carries out a widespread massacre of returning Sinhalese villagers by stopping buses and a train and murdering all Sinhalese on board. It also murders four policemen and eight SLAF soldiers that were being held prisoners.

The IPKF is publicly criticized by the government for failing to conduct active peace keeping operations. (Members of the World Bank team had noted earlier that there have not been major sweeps for arms or even the establishment of checkpoints to try and control roads in the militant dominated areas.)

October 8, 1987

The GA in Batticaloa is assassinated.

October 9, 1987

The IPKF begins a massive reinforcement of its troops in Sri Lanka. The number is officially reported at 14,000 but outside observers estimate that it is closer to 30,000.

President Jayewardene tells the Indian Ambassador and C.O. of the IPKF that if the IPKF does not conduct police operations and start protecting the Sinhalese and Muslim communities and actively pursue disarming the militants, it will have to leave Sri Lanka and the peace accord will be abrogated.

After a number of Indian troops are killed, the IPKF finally announces that it is prepared to deal with the militants. In a surprise move, they capture twenty four of the top LTTE leaders in Jaffna and Trincomalee.

The LTTE responds by killing a number of Indian soldiers on duty at several road checkpoints.

October 10, 1987

The IPKF launches a major offensive in the Jaffna peninsula designed to capture Prabhakaran and the leadership of the LTTE. The offensive lasts one month, costs 1,100 Indian lives and destroys or damages almost 50,000 houses in Jaffna, (which had only suffered moderate damage during the 1983-1987 conflict).

November, 1987

Due to instability in the area, work on the World Bank project begins to slow down. Nevertheless, the government continues to

promise that security and order will soon be re-established and hopes to begin the reconstruction program in late February.

November 15, 1987

The World Bank appraisal mission begins its negotiations with the government and refines the work plan and agreements for the ERRP.

December 4, 1987

At a donors' aid group meeting in Paris, twenty four countries plus the World Bank, Asian Development Bank, UNDP and the UNHCR pledge a total of almost \$500 million for reconstruction and rehabilitation to be focused in the north and east.

December, 1987 - January, 1988

Due to continued hostilities, the Christmas recess and other factors, further work on reconstruction planning is delayed.

January , 1988

The GA in Mannar is assassinated.

January , 1988

One AGA and several Grama Sevekas in the north and east are assassinated. The numbers of persons seeking shelter in the displaced persons' camps, (welfare centers), begins to increase. Persons who had left the centers in September and November are now returning. The majority in the north and east in welfare centers are Sinhalese.

January 25, 1988

World Bank credit negotiations begin.

January 28, 1988

Negotiations conclude on a \$78 million World Bank credit.

February 2, 1988

AID and INTERTECT reach agreement on a 3 month TA contract to provide advisory services to the Ministry of Rehabilitation and the National Reconstruction Steering Committee for planning the systems for the overall reconstruction program. The government plans to initiate reconstruction activities in late February or early March.

February 6, 1988

At a GA's meeting with the Ministry of Rehabilitation, the GA's inform the Secretary that all Kachcheries are closed on instructions of the LTTE.

February 7, 1988

The GA's are instructed to develop a first year reconstruction plan for each district with the DRCCs.

February 9, 1988

FCC arrives in Sri Lanka to begin advisory mission.

February 9-10, 1988

Asia Disaster Preparedness Center holds a disaster preparedness workshop. At the workshop, it is clear that several of the GAs are dissatisfied with the fact that devolution issues are not proceeding as promised under the peace accord. Several GA's mention that "reconstruction is going to be the test of devolution". A presentation by FCC on an overview of the operational reconstruction issues from the southern Sudan reconstruction program, which is in many ways similar to the Sri Lanka situation, stirs quite a debate and puts some of the major issues now on the table. Some informal task forces are formed among the GAs to follow-up on several matters relating to operations in the "grey period" (i.e., before real peace is achieved).

February 12, 1988

At a meeting with Peter Bloom, AID director, the GA of Jaffna, Punchalingum, the GA of Jaffna, says that the LTTE stills controls the situation in the north despite an ever increasing presence of the IPKF, (now rumored to be over 50,000).

February 11, 1988

FCC conducts a series of fieldtrips to Anaradhapura, (to visit refugee camps), and to the south to visit welfare centers.

February 14, 1988

The IPKF begins a sweep in Batticaloa. This time they appear to have learned some lessons and do it in a less destructive way. Essentially they cordon off the city, order people section by section to report to the football stadium, where people are interviewed and detained. Each family is allowed to leave one person in the house to protect the structure and women over forty years old and all children under thirteen are allowed to remain home with the person guarding the structure. Periodic spot checks of the housing areas are made but only a few militants are captured.

Mid-February, 1988

The IPKF and the Sinhalese army begin the process of releasing large numbers of former militants captured since the October offensive who have agreed to refrain from rejoining the LTTE. In the south, the Sinhalese population is extremely skeptical that they will do so.

February , 1988

Popular film star and aspiring politico Vijaya Kumaranatunga, is assassinated by JVP motorcycle assassins at his home, (he was leaving to have lunch with the American DCM). Colombo is plunged into a week of mourning and funeral preparations. Almost all sides call for an end to the violence.

February 15, 1988

The UNDP calls a "donors' meeting" to discuss the reconstruction program. This creates interprogram rivalries since the World Bank is the lead agency and is supposed to call all donor coordination meetings. After a flurry of exchanges between the resident reps of both organizations, UNDP clarifies its position by saying it is only going to talk about the UN programs and the special program of technical assistance to the NRSC.

February 17, 1988

The UNDP meeting is concluded with an announcement that the World Bank will be calling the first donor coordination meeting since October on February 29.

February 18-26, 1988

Plans and programs begin to become clarified by the NRSC and the MORR. We focus most of our attention on resolving the minor issues that are delaying the planning and implementation of the larger programs. Special concerns are: returning refugees, estate Tamils that have moved from Nuwara Eliya to the north and east, and estate Tamils who are repatriating with the returnees from India under the UNHCR program.

February 29, 1988

First in-country donor coordination meeting since October is held by World Bank and NRSC.

March 1, 1988

A number of ministers have submitted Cabinet papers defining their contributions to the reconstruction program. The original intention had been to have a unified loan program for all economic activities and to give an "anchor" grant to the poorest people in the housing sector. With the different cabinet papers, the plans for a combined loan scheme fade.

March 3, 1988

Mr. Mahadeva, the chairman of the NRSC, steps down and Malix Marikar is appointed in his place. (This is a technical violation of the World Bank - government of Sri Lanka agreement since the chairman of the NRSC is supposed to be a member of the Ministry of Finance and Planning). Marikar is also Secretary of Plan Implementation.

Early March, 1988

The NRSC works frantically to modify the various sector programs and to present as compatible a series of projects in the different sectors as is possible. Housing and agriculture are pinned down and livestock, small business and rural industries are agreed to in principle.

March 7, 1988

Austin Fernando is relieved as the Secretary of the Ministry of Rehabilitation. He is told he will retain the post of CEO of the NRSC.

March 8, 1988

The Minister of Fisheries objects strongly to our suggested modifications to his program. The following day he publishes his program in the newspapers.

March 10, 1988

GA meeting

March 11, 1988

NRSC meeting

March 13, 1988

World Bank country director, Shinji Asanuma, Hari Agarwal, George West, and FCC go on an inspection tour to Jaffna. It is evident that the damage patterns are very different from the rest of the country and will be more costly since the types of houses are both larger and made of more expensive materials. On a preliminary basis, we estimate total reconstruction costs for housing, buildings, etc., will be increased by over 40%.

Due to the pattern of fighting, we also estimate that the number of commercial buildings that have been damaged (predominantly at road intersections) is of major concern. Little reconstruction has started, probably because owners of the buildings are either Sinhalese who have fled the area or Tamils who are living in Colombo and are unlikely to move back to the north.

March 14, 1988

Several donors query the President to see who will replace Austin at the MOR. They also raise concerns that the government is not providing adequate coordination for the overall reconstruction program at a sufficiently high senior level so that various ministries will cooperate.

March 15, 1988

Shinji Asanuma meets with the President to complain that line ministries are not participating in the reconstruction program and that the government is giving insufficient attention to reconstruction.

March 15, 1988

World Bank credit approved in Washington.

March 18, 1988

Brigadier Denzil hosts a meeting in Trincomalee to discuss reconstruction. The meeting is covered extensively in all of the news media and comments by the Brigadier that link reconstruction to improving security in the north and east sets off a furor among the GAs.

March 22, 1988

The government announces that the Ministry of Rehabilitation has been elevated to Cabinet level and its portfolio has been expanded to include reconstruction.

March 23, 1988

George West hosts a dinner for NRSC staff to meet with the Norwegian representative to try and clarify the Norwegians plans for a geographic approach to reconstruction in the Batticaloa district. The matter is sufficiently resolved to please everyone.

March 24, 1988

D.J. Bandaragoda is appointed as the new Secretary of Reconstruction and Rehabilitation, (MORR).

April 20, 1988

World Bank credit signed.

April 25, 1988

UNDP Technical Assistance Agreement signed.



SECTION III

TARGET GROUPS

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A. GROUPS OF BENEFICIARIES

In the overall ERRP eight groups of beneficiaries can be identified:

1. Families who have lost their house but who have remained in their original community. Approximately 300 thousand people fit into this category. Under the ERRP they will be eligible for a special programme of assistance for displaced persons which will provide a maximum of approximately Rs25,000/-.

The vast majority of persons who have lost their homes are Tamils though Sinhalese and Muslim communities have also suffered housing damage especially in the urban areas of Trincomalee and Batticaloa.

2. Displaced Persons: During the course of the conflict, approximately 360 thousand persons have been forced to flee their communities to seek refuge in "Welfare Centers" established by the government or to live with friends or relatives outside the conflict zone. In many cases, persons who were displaced fled because of general fear not because of direct violence or damage to their personal property, (i.e. many can return to homes that are still standing). The majority of displaced persons are Sinhalese from the eastern region and Muslims from all of the areas. There were also some Tamil DPs but the numbers are much less.

3. Special Category DPs: Among the displaced persons are certain categories of persons who require special attention. Among these are former members of the (Sinhalese) Home Guard, Muslims who fled after the IPKF forces were in place and Sinhalese who have been affected by civil conflict more than twice, (for example, in both pre 1983 disturbances and in the post 1983 conflict).

Since these groups are likely to remain in the Welfare Centers long after all other persons have returned to their homes, it maybe necessary to devise special resettlement programs in order to discharge these persons from the welfare roles.

4. Refugees returning from India: Approximately 50,000 people fled from Sri Lanka after the establishment of the exclusion zone in 1986. Most of these people were placed in refugee camps in India and are now in the process of being repatriated by the United Nations High Commissioner for Refugees, (UNHCR). Under a special programme for returnees the people coming from India are brought by an Indian ship to the port of Taliamannar or the KKS pier in Jaffna where they are screened and processed by immigration authorities. Once cleared by immigration, they are taken by the government agent to their original settlements and there are enrolled in the overall reconstruction program. Depending on their needs and eligibility they are entitled to receive the full range of assistance scheduled for displaced persons (see 2 above), and may qualify for all other programme benefits. In summary there are no special arrangements for refugees other than

the assistance provided by the UNHCR to enable them to return to their homes (it is known, however, that the government of India provides a limited stipend for the families to help them during their time in transit).

5. Estate Tamils: In 1977, after rioting in the hill country districts, approximately 7.5 thousand Tamil families fled from the highlands to the Northern provinces of Vavuniya, Kilinochchi, and Mannar. The position of the government of Sri Lanka is that the Estate Tamils are not citizens of the country and are therefore subject to deportation under a "repatriation" agreement known as the Sirima-Shastri Accord. At the time of the displacement (1977), the government made a decision to provide producers' permits, a form of temporary tenure, to these families and instructed the GAs to try to settle them on government lands near newly established irrigation systems in Kilinochchi and Mannar. Due to a number of factors implementation of this scheme was slow and by the time the conflict in the North erupted in 1983 only a small number of the Estate Tamils had received their producers' permits.

At the height of the conflict a large number of the Estate Tamils fled once again, this time to India where they were accorded refugee status. Thus the overall ERRP is faced with two sets of issues regarding this group:

- a. How to provide assistance to persons who may have been affected by the conflict but who are officially regarded by the government as non-citizens of Sri Lanka.
- b. Since a large portion of the returning refugees are in fact Estate Tamils, questions regarding how much assistance can be provided have only been superficially addressed.

Some persons in the government argue that Estate Tamils should be screened out in India and not permitted to return since the ultimate intention of the government is to repatriate these people under the Sirima-Shastri Accord.

Since none of these people will have permanent land tenure, housing reconstruction as well as other assistance may be difficult to provide.

6. Former fighters: Approximately 20,000 young men in the North and East have participated as insurgents in the conflict. The vast majority of these fighters were between the ages of 13 and 21, thus for the last five years they have not received education or job training. Since these young men have become accustomed to living by the power of the gun, re-education and direction away from violent activities will be a top priority for the reconstruction programme.

7. Women and children affected by the conflict: Large numbers of women and children may have been traumatized by the conflict. Large numbers of women have been raped, numerous small children have witnessed violence and in some cases been personally involved in violent activities either as a witness, a participant, or a victim while others have been silently traumatized by the fears inherent in a community by war. A special programme of assistance is being formulated to assist these persons in emotional and psychological recovery and special efforts are being targeted to try to help families of affected cope with the trauma and to reduce the pressures which might lead to disintegration of the basic family unit.
8. Muslims: In the eastern districts of Batticaloa and Trincomalee there are large populations of Muslims, the descendants of Malay and Indonesian traders. The Muslims have become a major ethnic factor of the situation in the eastern districts. In many areas, especially Trincomalee, they could prove to be the swing vote in any provincial council elections and could decide whether the eastern province remains linked to the northern province in the future.

The Muslims are predominantly shopkeepers and traders though in recent generations many have also become cultivators and moved inland away from the sea coast. Their influence is felt most in Trincomalee where they make up almost one third of the population.

Historically, the Muslims have been pro-Colombo and have cast their lot with the Sinhalese, rather than the Tamils, in most political matters. The majority of the traders learned Sinhalese and many speak both Sinhalese and Tamil. The central government, recognizing the importance of the Muslims in any political equation, has accorded them a disproportionately high percentage of posts in the government.

As in India, some Tamil Hindus have converted to Islam, most of the converts coming from the lower castes. Likewise some of the Estate Tamils brought to Ceylon by the British in the 1800s were also Muslims and a number have drifted down to the east coast and been assimilated by the Muslim communities there.

During the conflict, the Muslims largely sided with the central government though in the eastern districts, both the Sri Lankan army and the militants regarded them with suspicion and there were numerous cases of Muslim villages being attacked by both the SLAF and various militant groups. As a result of some of these attacks, Muslim youth chose sides and there were reported to be a significant number of Muslim fighters in the ranks of the LTTE (probably Tamil Muslims).

Despite their general distrust and dislike for the Tamil militants, the Muslims were not happy to see the IPKF forces deployed in their areas. Most Muslims view the IPKF as a Hindu

and Sikh army and many view them with as much fear as the Tamil militants. Many Muslims leaders have told the government that they would rather be protected by the SLAF than the IPKF. As a result of these requests, the IPKF and the government of Sri Lanka are discussing whether SLAF forces should be deployed to protect Muslim and as well as Sinhalese citizens in the east. (Sinhalese have been receiving protection by Sri Lankan forces since March 1988).

Since the peace accord, the government has made a point of courting the favor of the Muslims while the militants have, if anything, been more hostile towards the Muslims than before. After several months of relative calm between the Tamil and Muslim communities a number of massacres occurred in late March and early April which once again sent the Muslims into flight.

These groups vary in their legal entitlements, access to benefits, and the readiness with which they can return to a productive life. Persons who suffered loss of income-generating opportunity may be saddled with unpaid debts. Returning refugees may find settlers encroaching on their land. Widows may have to resume life without the major family breadwinner.

These are complex issues. Some require a generalized policy framework for their resolution; others need local adjudication. For example, citizenship is not a requirement for assistance under the rehabilitation program. But this issue is complicated by the fact that non-citizens cannot own land and may have been living in areas of encroachment on government land or land owned by absentees. Resolving the land issue for these persons is beyond the scope of the rehabilitation project and will depend on political decisions made by the GSL.

While determining damage to housing is a reasonably straightforward process, determining even the fact of loss for farmers is much more difficult. Farmers who remained on their land despite the obstacles to successful cultivation should not be discriminated against vis-a-vis those who fled and now have returned. In the same way, assessing enterprise loss is difficult. Both the amount and value of lost business or inventory during the period of disruption are difficult to ascertain. Local grass roots groups can assist the DRCC and AGAs with the process of determining benefit eligibility.

1.

BACKGROUND NOTE

Displaced persons in welfare centers in Anuradapura

On 16 February I visited three welfare centers ("refugee camps") in the Anuradhapura area and held discussions with the GA about the situation regarding displaced persons in his district. One of the centers housed Sinhalese displaced in October, one housed Muslims displaced in October, and the other housed Sinhalese displaced in 1985. There were several points that came up as a result of the visit which are worth noting.

1. About 30% of the Sinhalese displaced since October have returned.
2. Among those remaining it appears that a significant percentage of the families are headed by a man who was in the Home Guards (37% in the center we visited). Each said they fled when they were disarmed by the IPKF and that they feared reprisals by their Tamil neighbors. I suspect that it may be difficult to return a number of these families to their previous homes.
3. Almost all the Muslim DPs expressed fears about the presence of the IPKF (which they view as a Hindu and Sikh army) and the safety of their women. These people will probably not return until the IPKF has departed. However, in many ways, these people are the least of our worries since the vast majority of them have been taken in by Muslim villagers (the centers are located in Muslim villages) and there are only about 10% of the families still living in the centers.
4. In the center for persons displaced between 1985-87, there were a significant number of Sinhalese who claimed to have fled and relocated several times before. Several families we talked to said that they had fled from Jaffna in the 1958 disturbances, moved from there in the 1963 disturbances to Vavuniya, fled from there in 1968, and now have fled the '85 troubles. All those who have moved from Jaffna and have been displaced more than once say they will not go back into a Tamil controlled area.

Comments: I believe that at the present time it is government policy that refugees and displaced persons should only receive help if they return to their original place of origin. I think we might want to reconsider this policy for special categories of people. In cases like those who have been displaced more than once, the Home Guards, and others who face a real threat of reprisal, we might want to help them to find homes and jobs in other parts of the country. Numerically, these groups would probably be relatively small, but for the time being, it would help reduce the number of people being sheltered and would give us a chance to test out our assistance systems on a fairly small scale. It would also show the donors that we are taking some actions now.

I think that we should also anticipate that whatever the final settlement terms are, that there will be a number of people who will not want to remain a minority in the new zones. After every political realignment, there have been displaced persons. What would happen for example, if the LTTE went through the area after the new structure were in place and told the Muslims to leave? There are going to be pockets of people whose population is small enough that that they will not be willing or able to resist threats like these. Developing on a small scale the systems for helping people relocate out of their original areas will give us an opportunity to have some systems in place in case they are needed on a bigger scale in the future.

Other notes: All the people I saw are in good shape. The centers are well run, people have adequate space, and I saw no signs of malnutrition, disease, or any threats to public health. All centers are regularly attended by health and medical personnel and no one reported any major complaints. T.K. and his staff are doing a good job and should be commended.

Estate Tamils who fled to the N&E

On Feb 21, a voluntary agency asked what our policy was on assisting Estate Tamils who had fled to the N&E following the 1985 troubles. There are approximately 20,000 families in Kilinochchi, Mannar, and Vavuniya.

The Tamil population in Sri Lanka is divided into two groups, the "Jaffna" Tamils who are the descendants of the original Tamils who came to the island over 2500 years ago, and the Estate or "Indian" Tamils who were brought in by the British during the Raj to work the tea plantations and sugar fields. The Estate Tamils are looked down on by everyone, including the Jaffna Tamils, since many of the people brought in were Harijans (the lowest caste) and Muslims. The Estate Tamils have been the targets of most of the recent prejudice on the part of the government and in 1960's an agreement was reached between India and Sri Lanka to "repatriate" the majority of them over a long term period. However, the move has gone slow due to resistance from the people.

In 1977 there were riots against the Estate Tamils in the tea plantation areas and many fled to the north to escape harrassment. The government agreed to give them land along the new irrigation schemes in the North but only a few had been settled before the most recent troubles broke out. In the meantime, many were living on crown lands allocated to them by the GAs.

The question of assistance relates to the government's contention that these people are "Indians" not Sri Lankans, therefore were they eligible for assistance? Also implied was a question as to whether the Shastri agreement was still operable in light of the Indo-Sri Lanka peace accord?

There is also the question of where to assist them, in the north or in their original (plantation) areas. The policy of the government is that all displaced persons must return to their original homes. Some of the Estate Tamils who fled to the North have been receiving assistance to build shelters from NGOs operating in the area and therefore it may be difficult to get them to move back to their original areas.

It is also claimed that many of those people who had obtained Indian passports under the Shastri agreement (prior to 1982) had destroyed their papers in an attempt to stay in Sri Lanka.

SUBSEQUENT DISCUSSIONS: On Feb 13, I discussed the matter with Austin. We checked with the GAs to get an accurate total. There are only about 750 families who had come north during the most recent period of conflict, 1985-87. The others were obviously people who were displaced in 1977.

On the basis of these facts, we decided to establish the following policy: If people had come north between 1977-83 they would be treated as permanent residents of the area and could be assisted by the government or NGOs where they were. If they had come since 1985, they would be encouraged to return to their original place of origin. Everyone who has been displaced will be offered assistance, until we are otherwise informed by the cabinet. We also decided to keep the matter as quiet as possible so that militants or extremists on both sides didn't blow the matter out of proportion. I was asked to talk to the NGOs and ask them not to bring it up at any NRSC meetings. Austin agreed to brief the GAs in the N & E of the policy privately.

Note: We feel fairly safe with this approach since there was a cabinet decision in 1977 that gave the GAs permission to settle Estate Tamils on crown lands using "producer's permits" (a temporary tenure permit).

This is a very explosive issue.

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SECTION IV

GEOGRAPHIC PROBLEM AREAS

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A. PROBLEM AREAS

In the reconstruction programme there are several distinct geographic areas where certain sets of problems occur. These areas include:

1. The Jaffna Peninsula: The Jaffna peninsula presents several different sets of problems. First, it is the largest town in the North and East and in many ways is the cultural and political as well as geographic heart of the Tamil community. Most of the leaders of the Tamil opposition groups are from Jaffna and therefore reconstruction in Jaffna will be the standard by which the entire programme is judged politically.

The residents of the Jaffna peninsula are one of the most highly educated groups in Sri Lanka. Not only are their aspirations higher but their standard of living is generally much better than other parts of the country. As a result, the cost of the buildings damaged or destroyed during the conflict is much higher.

The types of damages sustained in the district in the SLAF and IPKF offensives are much different than other areas of the country since in both cases artillery and aerial bombardment was used by the offensive forces. Also, the LTTE chose to stand rather than fade away and, therefore, house-to-house fighting occurred in many sections of the district. The CARE damage assessment survey indicates:

- a. there was a greater ratio of damage to destroyed buildings than previously seen in other areas;
- b. the average cost to repair and reconstruct buildings much higher of those of other areas and;
- c. far more commercial structures were destroyed in Jaffna than in other areas.

Other problems that the reconstruction programme is likely to encounter relate to land ownership, especially absentee ownership, of properties and problems of how to assist renters, both residential and commercial.

2. Trincomalee: Due to the ethnic makeup of the area, tensions are likely to remain high and further displacements of people are likely to occur when the final form of devolution is announced. Special attention should be given to certain groups among the affected population, and some funds should be held in reserve to assist relocation and reduce the potential for population shifts becoming violent.

- A. Demographic Factors: The population of Trincomalee is made up of Buddhist Sinhalese, Tamil Hindus and Tamil Muslims in approximately the following percentages:

Trincomalee:

Sinhalese:	34%
Hindu:	34%
Muslim:	29%

- B. Localized Conflicts: During the conflict, the Muslim community largely sided with the Sinhalese and the Sri Lanka government. In these two cities, this triggered a small "war within a war" as Hindu and Muslim communities clashed over this issue and other, older grievances. Sometimes, there was simply a settling of old feuds between families but, in a number of cases, communal violence broke out and whole neighborhoods or commercial districts were sacked. In these areas, tensions are still high.
- C. Political Uncertainties: Due to the ethnic makeup of the area, the political future is a bit uncertain. Under the Peace Accord, the North and East are to be joined temporarily as one province until a referendum can be held to decide whether they should remain linked. The Muslim community could be the swing vote in deciding whether the East remains linked with the North. Most Muslims are likely to vote for separation since the Eastern province, with Ampara and Batticaloa added to Trinco, would be predominantly non-Tamil. Whether or not the eastern zone is included in an autonomous Tamil province, it is likely that some population shifts will occur when the final demarcation is announced. If the district is included in the Tamil area, the Muslims and a large portion of the Sinhalese are likely to leave; if the district remains out of the Tamil province, a number of Tamil Hindus are likely to migrate north. In other situations where "partitions" have occurred (such as in India in 1947), the announcements have been followed by a period of violence and spontaneous relocation of minority populations.

As a way of reducing the levels of violence, it will be important that funds be made available to help people resettle and adjust to their new situation. A program of assistance for those wishing to relocate should be announced before the referendum is held.

Recommended ERRP actions are:

1. Target the urban area of Trinco for early assistance.
2. Target commercial reconstruction assistance for the area.
3. Set aside some funds for local resettlement (within the cities) when devolution plans are announced.

3. Matur Peninsula: One of the areas that is the most problematic for the resettlement programme is the Matur peninsula. Located on the south shore of Koddियar (Trincomalee) bay, the area stretches from Foul Point south to the village of Verugal. The area is generally isolated by the west and south forks of the Mahaweli River and dense jungle and swamp separate the villages in the peninsula from the western parts of Trincomalee District. The villages are Sinhalese and Muslim. Because of their isolation, the LTTE has been able to attack civilians with impunity and has tried to drive the people out of the area. Buses along the Kantale-Allai road have twice been blasted by remotely detonated land mines and there have been numerous assassinations and smaller incidents designed to stampede people out of the area.

In the aftermath of the Peace Accord, the IPKF was to station troops to this area to protect the Sinhalese and Muslim communities. However, due to their ineffectiveness and commitments in other areas, the SLAF re-occupied the area in March, 1988. However, the force is small and has not been effective in controlling the violence. Large numbers of Muslims have been displaced from the area to Anaradhapura and Polonnaruwa Districts and substantial numbers of the Sinhalese population have fled to the China Bay welfare center as well as to areas in the South.

After the Peace Accord, a substantial number of persons returned to the area only to flee again after the first bus bombing in March, 1988.

4. The A-6 road at the edge of the Polonnaruwa and Trincomalee Districts: During the conflict, the Sri Lanka government approved a controversial scheme to try to populate the border between Trincomalee and Polonnaruwa with Sinhalese. Part of a larger programme, called a "West Bank Scheme" by its critics, the plans envisaged sending 200,000 Sinhalese trained in self defense to the Tamil dominated North and East districts where they would be settle on government-owned land. The programme was launched in 1984 and was carried out under the supervision of the Israelis. Settlers were protected by the Home Guard, a militia made up on young Sinhalese, who reported to National Security Minister Lalith Athulathmudali. Settlers arrived in the eastern province in 1984, and in a number of bloody encounters, the LTTE drove them off the land.

The A-6 road south of Kantale is considered to be a strategic zone and several attempts have been made by the SLAF to resettle both the original settlers as well as DPs along the road since the signing of the Peace Accord. At various times, the Ministry of Rehabilitation has been subjected to strong pressures to help the military with this scheme. So far, the Secretaries have successfully resisted.

5. Batticaloa: The Batticaloa District has been a stronghold of both the LTTE and the EPRLF since the Peace Accord. Despite a large IPKF contingent, it has been virtually impossible for the reconstruction programme to operate in the district. The Kachcheri at Batticaloa has been closed more than any other and the GA is often subjected to conflicting instructions from different militant groups, some ordering him to open the Kachcheri and others to close it.

The population of Batticaloa is 71% Tamil, 24% Muslim and 3% Sinhalese.

Tony _____, the GA at the time of the signing of the Peace Accord was killed by a remotely detonated land mine in October 1987, several months after the Accord had been signed.

6. Mannar: The Mannar District will be one of the most difficult for the reconstruction programme to rehabilitate. It is the poorest district and the one with the least resources. Farmers have the lowest per capita income, the farms are the smallest in average size and the district has the least available irrigation resources.

Fishermen in Mannar are among the most impacted by the fighting and large numbers were unable to fish due to the exclusion zone that was established in January of 1986; and therefore, large numbers fled to India as refugees (and many returned as members of the LTTE).

The Mannar District was also one of the areas where large numbers of Estate Tamils were settled following the 1977 riots in the hill country (see Section III). Assisting this group may be problematic and a politically delicate issue complicated by the fact that many Estate Tamils left the country to become refugees and are now being repatriated.

To compound our problems in the area, Mannar has been the district most affected by the drought in the last two years. The most recent Maha rains did not sufficiently replenish water levels in the irrigation tanks and recent assessments by the government as well as USAID indicate that farmers are unlikely to be able to plant crops until 1989. If the drought continues, we can expect severe limitations on reconstruction in the area.

7. Millativu: Miliativu has been problematic for several reasons; its general isolation from the rest of the North and East. A large portion of the people in the district are Tamils who have adopted Sinhalese customs and language (as well as political loyalties). But during the conflict, when large numbers of Sinhalese fishermen from the South attempted to fish and prawn in the Kokkali Bay, the local people enlisted the LTTE to drive them out and thereby switched loyalties back to the Tamils. Miliativu is generally poor with a large percentage of fishermen.

There are no NGOs operating in the area and the Kachcheri is not strong.

B. VARIATIONS AMONG THE AFFECTED DISTRICTS

The target area for RAP is by no means homogeneous. The eight districts vary in ethnic composition, urban-rural mix, cropping mix and intensity, climate, amount of conflict damage, and degree of private sector development.

Among the major variations is the ethnic mix itself. At one extreme, Jaffna is nearly 90 percent Tamil. Few Sinhalese residents remain in this District; most of the non-Tamils are Muslim. By contrast, Trincomalee has a nearly equal division of Tamils and Sinhalese - about 40 percent each - with the remaining 20 percent Muslim. Batticaloa is nearly all Tamil and Muslim. Neighboring Ampara has experienced a good deal of Sinhalese resettlement in formerly Muslim areas. These variations result in differing social situations, each requiring a program sensitivity that is most likely to be found among local actors rather than in Colombo.

Officially, the rehabilitation program will not recognize ethnic differences; that is, assistance will be offered to all victims. Eligibility will depend on income level and loss caused by the conflict. In eastern Districts with a relatively large Sinhalese minority, assuring fairness may be difficult as strong political pressures in favor of Sinhalese interests may come to bear on program administrators.

There are other variations between Districts which may have significance to the program. In Jaffna, for example, there is an unusually high proportion of well-educated and administratively experienced persons and a broad middle class. A large number of relatively well-off persons were affected by the conflict, especially in terms of physical damage to houses and places of business. While their losses are greater, their resources for recovery and access to normal credit windows also are greater. In Vavuniya, there is a relatively high proportion of Estate Tamils resettled from the tea plantations of the central highlands after the 1958 disturbances. Many remain landless or settled in marginal lands and require special attention.

Another variation which could adversely influence project implementation is the degree of security as perceived by the government authorities. If, for example, implementation is skewed to those areas where security is highest, there is risk of benefits moving unequally. Such an eventuality could throw the rehabilitation effort into doubt among other residents of the affected areas.

1.

PROJECT ISSUE

Trinco DP Camp (at China Bay)

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BACKGROUND: The camp for Displaced Persons at China Bay has been a continuous source of problems for the MORR. It is overcrowded and unsanitary, the toilets are not working and people cooking inside the hangars are creating a health hazard from smoke. Repeated requests to the GA for assistance have not helped. The difficulty has been that the Kachcheri has not been able to function full time. The situation is of concern, especially regularizing the food rations for the DPs, but that there is little to be done for the time being.

Action: I have suggested that we contract an NGO to deliver assistance and to clean up the sanitation situation. I also suggested that we get a report on the mortality and morbidity and try to keep monitoring that on a weekly basis.



SECTION V

PROGRAMME MANAGEMENT AND STRUCTURE

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A. PROGRAMME ADMINISTRATION

Background:

The administrative structure of the ERRP seeks to strike a balance between centralized coordination and decentralized implementation. The NRSC recognizes that reconstruction priorities must emerge from local level decision-makers rather than from the center. At the same time, the central government must balance available resources against aggregate needs and assure a consistent and effective system of accountability for the use of donor and national resources.

Another administrative challenge is that local people also must participate in the design and implementation of district rehabilitation programs if these activities are to be perceived as legitimate. Doing so requires administrative mechanisms to incorporate the views of disparate elements in the society, each with its own social, political, and economic agendas.

In its November, 1987 report, the World Bank assessment team recommended putting each district in charge of its own reconstruction program. The major planning role was assigned to the Districts while the Central Government retained responsibility for financial approval, monitoring, and problem resolution. Only programs of national scope such as telecommunications, railways, ports, and public transportation were to be planned and supervised by national line ministries.

The World Bank team offered the following principles to guide program administration:

- o prioritizing, planning, and monitoring of rehabilitation and reconstruction activities to be managed by district-level coordinating committees;
- o project evaluation, financial approval, and coordination to be managed by a powerful and impartial central agency or ministry; and
- o project implementation to be managed by District-level departments of line ministries utilizing existing procedures expertise, and organizations.

In practice, overall NRSC planning, policy setting and administration have been highly centralized in the hands of the NRSC, donors, and technical assistance personnel. District-level program planning within the central framework is proceeding in a more decentralized fashion.

The National Reconstruction Steering Committee

Following the World Bank's guidelines, the Government of Sri Lanka formed the National Reconstruction Steering Committee (NRSC) in December, 1987, within the Ministry of Finance and Planning (MOFP). As a result of recent decisions, the NRSC is now attached to the expanded Ministry of Rehabilitation and Reconstruction (MORR) as an advisory, policy formulation, planning, coordinating, and monitoring unit for rehabilitation activities. The NRSC retains three representatives from the MOFP among its membership, including its Chief Executive Officer, the Budget Director, and the Director of External Resources.

The responsibilities of the NRSC include the following:

- o to organize, coordinate, and supervise the implementation by the line ministries of the rehabilitation program;
- o to develop work programs and budgets for the program, by year and by sector, based on proposals from the District Reconstruction Coordination Committees (DRCC);
- o to review project proposals and recommend financial approval for the transfer of funds from the Treasury to line ministries and DRCCs;
- o to monitor program implementation and prepare periodic reports of financial and physical progress for reporting to the MORR and concerned donors;
- o to liaise with donors, in conjunction with the Director of External Resources in the MOFP, to mobilize funds to implement the program;
- o to prepare reimbursement claims for financing of eligible expenditures from donor agencies;
- o to prepare reimbursement claims for financing of eligible expenditures from donor agencies;
- o to maintain accounts of all project expenditures and prepare annual audit statements; and
- o to settle any disputes arising between districts in the implementation of the program.

The NRSC consists of a Chief Executive Officer, Secretaries of line ministries that have a sizable financial involvement in the rehabilitation program, and the Government Agents of the eight affected districts. Secretaries of additional ministries may be co-opted as needed. An approved plan for the staffing of an NRSC Secretariat calls for a total of 29 people, including one expatriate long-term consultant. Specifically, the NRSC is to be staffed as follows (positions marked with * are to be UNDP-funded):

Chief Executive Officer *
Senior Advisor (expatriate) *
Economic Opportunities Coordinator (for income-generating projects) *
Housing and Building Program Coordinator (to be seconded from the National Housing Development Authority)
Social Sector Coordinator *
Quantity Surveyor *
Repatriation Coordinator *
Finance Monitoring/Liaison Officer *
Public Relations Officer
Documentation Officer *
Computer Operations Coordinator *
Administrative Officer
Accountant
Secretaries (2) *
Support Staff - clerks, stenos, drivers, etc. (16)

Job descriptions have been prepared for each of the professional positions in the Secretariat.

In addition to funding 20 of the above staff at an estimated annual cost of Rs. 874,000 (US\$29,000), the government will provide office space, office equipment, supplies, telephone service, vehicles, and recurrent costs coverage.

Pending implementation of the technical assistance agreement with the UNDP (signed on April 25, 1988), NRSC Secretariat staffing currently is limited to the CEO; an AID-funded short-term advisor who is an expert in rehabilitation; and clerical support. Addition of the UNDP funded staff and additional support personnel is expected to take place shortly. Recruiting activities have, in fact, commenced already. There were some discussions about placing some UNDP-funded staff in the MORR rather than the NRSC since the latter is an advisory body and the MORR has a broader administrative role for the rehabilitation program but the UNDP has ruled this out for the time being.

The NRSC, in coordination with donors, has developed the policy framework for implementation of rehabilitation activities in some, but not all sectors. Aggregate work plans are keyed to expected donor pledges by sector. In some cases, final policy determination is dependent on donor studies and agreements as, for example, the exact form and conditions of USAID assistance. In these cases, planning moves forward on the basis of assumptions about the level, source, and form of assistance.

The NRSC, with the concurrence of the MOFP, also has worked out disbursement procedures to facilitate the flow of funds. Funds will flow from donors through the MOFP Division of External Resources through the MOFP Budget Director to the MORR. The MORR plans to establish a special set of "R" accounts for the rehabilitation

program. The R1 account will be designated for Government of Sri Lanka counterpart funds released by the Treasury. Other R accounts will provide funds to local line ministry directors and assistant directors at the District level for implementation of sectoral activities or to the designated offices for grant and credit programs.

This procedure places ultimate accountability for donor funds with the MORR which will establish a special accounting unit for this purpose. The arrangement is parallel to that used for the World Bank funded Integrated Rural Development Project (IRDP) with a "single project" accounting system to expedite fund flows. Under this arrangement, some normal accounting procedures are waived as long as all government requirements are met. Major benefits are; 1) GA's can receive funds for implementation in advance of formal plan approval; and 2) GSL procurement procedures will be expedited.

Financial and other monitoring will be carried out under the direction of the NRSC according to a detailed procedure currently under development. Major features of the monitoring plan are described in Section VII.

The District Reconstruction Coordinating Committees

The DRCCs were formally established in the eight affected districts in December, 1987. Their stated responsibilities are to:

- o consult elected representatives, citizens' representatives, NGOs, and line ministry staff to reach agreement on priorities for reconstruction;
- o develop annual work plans for needed rehabilitation and reconstruction investment within the District;
- o prepare monthly reports on the status of prioritization, planning, and preparation of proposals for the various rehabilitation sectors;
- o request line ministries to develop proposals for consideration by the NRSC when the district line ministry staff is incapable of doing so for technical or other reasons;
- o coordinate and supervise the implementation of projects and prepare monthly reports of financial and physical progress; and
- o ensure and coordinate the maximum participation by NGOs, departments, and other local citizens' groups in project implementation, in conformity with technical standards established by the government.

Each DRCC is chaired by the District Government Agent (GA) and consists of relevant regional and district line department heads as well as chosen representatives of NGOs and citizens' committees. Each Kachcheri has a special Secretariat handling the DRCC work program. Planned staffing for the DRCC secretariats is as follows:

Staff	Allocation								Total
	Jaf.	Kil.	Tri.	Mul.	Vav.	Man.	Bat.	Amp.	
Project Consultants Engineer/ Quantity Surveyor	3	3	3	1	3	1	3	2	19
Registrar/ Documentation Officer	1		1	1	1	1	1		6
Computer Operator* S Management Systems Analyst	1	1	1	1	1	1	1	1	8
	1		1		1		1		4
	1								1
	7	4	6	3	6	3	6	3	38

In addition to funding 170 of the above staff at an estimated annual cost of Rs. 8,167,000 (US\$ 268,000), the government will provide office space, office equipment, supplies, telephone service, vehicles, and recurrent cost coverage.

Job descriptions have been prepared for each of the professional positions in the DRCC Secretariats. Many of the positions have been filled on at least temporary basis by staff borrowed or transferred from other development activities in the respective districts. Due to the curtailment of some other projects due to disruption caused by the ethnic conflict, there are available qualified personnel in each Kachcheri drawn from staff of the existing District Development Committees, District Development Committees, and other activities. In Districts involved in the largely interrupted World Bank IRDP, there is a particular abundance of well-qualified but underutilized staff. Since, in most cases, local line ministry staff are housed in the Kachcheri office, coordination between the GA and these staff is facilitated.

District Plans and Block Grants

The NRSC requested each DRCC to formulate annual work plans for 1988 consistent with national reconstruction program guidelines. As of April 20, 1988, all of the district plans had been received by the NRSC. In addition, Vavuniya District had tendered to the NRSC approved total cost estimates for priority work items and the MORR had advanced a block grant of Rs. 3 million to the GA to begin these activities. Batticaloa was advanced Rs. 2.5 million as an initial allocation pending the working out of total cost estimates for its rehabilitation workers.

Subsequently, at the April meeting of the NRSC, the Budget Director authorized block grants totaling US\$200,000 to be made available to the eight Districts on a roughly equal basis (Jaffna and Vavuniya received somewhat more than the \$25,000 average). Districts may spend these funds on three categories of activities in their plans.

1. items covered by GSL funding;
2. items for which there is a firm donor commitment (a signed agreement that the costs are reimbursable); and
3. items for which a donor has pledged and sent a memorandum of understanding or pre-implementation agreement authorizing work to begin.

Full funding of DRCC work programs must await the completion of ongoing donor project design studies and approval processes. Nonetheless, early activities such as the distribution of settling-in, economic assistance, and housing grants to early returnees has commenced. The NRSC has requested that donor pledges be confirmed by the end of April.

The performance to date of the NRSC and especially the DRCCs is promising. Despite the lack of a full Secretariat and, until recently, considerable ambiguity about its placement in the government structure, the NRSC has moved forward with several major agendas. These include:

- o development of an implementation framework for the reconstruction program;
- o support to the development of DRCCs in the affected districts and guidance to them in the initiation of their activities, including preparation of the 1988 work plans;
- o development of a feasible funds flow mechanism and initiation of funding for some local activities with GSL and IDA funding.
- o preparation of a standardized beneficiary registration procedure;
- o development of a comprehensive program monitoring system; and
- o determination of a Secretariat staffing plan, job descriptions, and the beginning of hiring procedures.

The status of the DRCCs is even more encouraging. Using presently available Kachcheri staff, each DRCC has initiated comprehensive impact assessment and planning for needed rehabilitation investment. Government Agents from each of the eight affected Districts are participating actively with the NRSC and mobilizing local implementing units through participation in planning and costing specific work items.

Important steps to be completed in the near future include obtaining formal approval for the funds flow scheme from the MOFP, setting up the special "R" accounts, and completing the monitoring and evaluation system. Action on each of these steps is underway.

Credit and Financial Intermediaries

Reconstruction programs in housing and the productive sectors (agriculture, fishing, and small business) require participation by financial institutions as a delivery mechanism.

Nearly three-fourths of the Sri Lankan population lives in rural zones and most businesses consist of rural farmers, fishermen, tradespeople, and small-scale entrepreneurs. Sri Lanka thus needs a strong system of rural financial intermediaries. In rural areas, community-level organizations are best equipped to lend on the basis of an individual's known creditworthiness, supervise the use of funds for the intended purposes, and ensure recovery of funds. Since loans are generally small, it is important they can be obtained cheaply and easily by the borrower and costs to the lender be controlled through administrative simplicity and a high recovery rate. The two principal institutions at the village level which potentially can play this vital role are the Thrift and Credit Cooperative Societies (TCCS) and the CRBs.

Except for Trincomalee and Ampara, an adequate network of local credit institutions exists in the affected districts. These are complemented by Bank of Ceylon units in some of the Agrarian Service Centers. Nonetheless, it commonly is estimated that the formal credit sector provides only 20 percent of total credit in the rural areas. These estimates are supported by aggregate data on agricultural loans outstanding from the formal credit institutions.

The rural community obtains most of its financing needs from relatives, pawning facilities, money-lenders and traders. Despite the apparently high interest rates charged by these sources, ranging from 25 percent to as much as 120 percent per annum, the immediate and easier availability of such credit may make it effectively cheaper and more appealing than borrowing from banks using low interest Central Bank refinance facilities.

A major worry has been that the programmed lending under the auspices of the ERRP with soft loan terms and poorly defined conditions and operating systems, would result in substantial losses to formal credit delivery institutions. In the short term, only a government held bank with adequate to capital or guarantees, such as the Bank of Ceylon, could be obliged to accept the losses implicit in a rehabilitation lending scheme based on low interest rates to current target groups. The NRSC and MORR strongly believe that smaller, and financially weaker, financial institutions should not be drawn into reconstruction lending unless they are able to operate with very high chance of attaining high recovery rates. Only the TCCs meet this criteria and their success is due in large part to small size and close, personal links of their leaders to a community-based membership.

Any attempt to use the Thrifts for a broad program involving nonmembers or to force expansion in their membership for purposes of distributing ERRP loans would be unwise and unworkable. The role of the Thrifts should be limited to serving current members or to members added in the course of natural expansion that occurs under their own control. (Overall TCCS membership did, in fact, expand substantially in 1987 due to their role as a window for subsidized loans from the National Housing Development Authority (NHDA) under the "Million Houses Program". Much of this expansion occurred through the natural generation of new Thrifts rather than expansion of existing ones. The effective maximum size for a TCCS appears to be about 400 members.)

For housing loans under the ERRP program, the TCCS structure is appropriate as a delivery mechanism for its members. Other borrowers and all eligible housing grant recipients should be served by a special window established at the District level by the MORR in conjunction with NHDA, the Government Agent and the District Housing Committee the the GA chairs. The NHDA has division-level outlets in the Districts that can be used for this purpose ranging from 10 in Jaffna and Trincomalee to a minimum of four in Vavuniya, Kilinochchi, and Mullativu. Alternatively, the REPIIA program of the MORR will decentralize its administrative structure to the Districts and could provide a lending facility linked to the local banking and credit system. These mechanisms currently are under discussion by the MORR and will be decided by that Ministry.

For agricultural and small business grants, the Government Agents will distribute cash or input vouchers to AGAs and Grama Sevekass for distribution to beneficiaries identified as eligible by the registration system. For agricultural and small and micro-business loans, the Agrarian Service Centers are most appropriate as a delivery vehicle, at least for the first cycle of production and loan repayment, under the supervision and sponsorship of the Bank of Ceylon. Where this is not possible, finance should be channeled through a special outlet provided under the auspices of the Government Agent. No other existing financial intermediary is appropriate.

Since the Agrarian Service Centers are not themselves credit institutions, the rehabilitation program will need to include arrangements to upgrade the capacity of the Cooperative Rural Banks to assume a permanent role in rural agricultural lending.

Line Ministries and Other Implementing Agencies

Successful implementation of the ERRP depends not only on national and district coordinating units but also on those agencies responsible for program implementation. Sectors such as telecommunications, roads, and electrical power, will depend on line ministries or other agencies for effective delivery of program services.

Since much of the actual implementation activities will be coordinated at the District level, it is the line ministry departments at that level that are important for implementation. This is particularly true in irrigation where much of the technical and construction work will be performed by local units of the Irrigation Department.

In view of the centrality of the District administration and of financial intermediaries for the rehabilitation program, demands on line ministries will generally not be extraordinarily large. Staff availability appears to be generally good despite the disruptions suffered in the North and East. At the same time, the physical infrastructure that these ministries have to work with is severely damaged in much of the affected area. For example, RDA workshops are damaged, Irrigation Department facilities and equipment wrecked, and staff immobilized in all sectors due to the risks of travel and loss of vehicles. In several of these cases, the donors have targeted assistance to help the line departments return to pre-conflict capacity to perform effectively in the ERRP. Selected training and technical assistance has also been funded.

NGOs

Numerous local and international NGOs are active in Sri Lanka's northern and eastern Districts, including many that initiated activities there in the wake of the ethnic conflict. The following number of NGOs are operating above the village level in the eight affected Districts:

	<u>International</u>	<u>Sri Lankan</u>
Jaffna:	7	31
Vavuniya:	5	8
Mannar:	2	8
Kilinochchi:	5	10
Mullativu:	3	5
Trincomalee:	4	15
Batticaloa:	5	20
Ampara:	0	12

Some NGOs classified as Sri Lankan have international affiliations or sources of foreign support such as the YMCA and certain religious organizations. The international NGOs: Redd Barna, CARE, OXFAM, Save the Children (UK) are each active in at least three Districts. The Sri Lankan organization, Sarvodaya, has programs in all Districts and an extensive network of affiliated local groups.

In addition there are countless village-level humanitarian organizations and committees which have arisen in response to particular political or relief and rehabilitation agendas. These include religious groups, human rights advocacy groups, womens' organizations, local rural development societies, and many others. The main limitation of these groups in terms of the rehabilitation program is the absence of linkage to the larger and more formal organizations that are, in turn, linked to the DRCCs. The strength

of these groups is their grass-roots legitimacy. At the same time, many represent narrow interests that may be highly politically charged.

NGOs are and should continue to play a useful role in assisting the reconstruction effort, especially in the housing, health, and agriculture sectors. Each of these agencies, however, has its own limited geographic coverage, program agenda, and clientele. It is unrealistic to expect NGOs to deliver broad-based benefits. They do not have the managerial capacity to handle large programs with large budgets and accountability requirements.

It is unlikely, therefore, that NGOs can or should play a central implementing role in the GOSL rehabilitation and reconstruction program. For example, an early assumption that NGOs would provide housing grants of Rs. 7500 to eligible recipients with incomes below Rs. 750 per month as a supplement to the Government housing grant of Rs. 7500 has proven highly unrealistic; no-one now expects this assistance to be forthcoming and the NRSC has revised the housing program accordingly. Suggestions that NGOs be utilized as intermediaries to channel credit to broad groups of beneficiaries were equally ill-founded. While individual NGOs have excellent access to particular groups of farmers, fishermen, or other groups, they do not possess the administrative mechanisms nor the financial experience to manage a large-scale credit program. Moreover, most will resist "being utilized" for a program outside their sphere of interest and capacity. Others will be unacceptable to local authorities because of their links to external funding or to local militant groups. In fact, the government has indicated it will issue no permits for new international organization to enter the area.

Likewise, the World Bank recommendation that the Government coordinate all NGO efforts to ensure that there is no duplication of effort and that the NGOs all conform to uniform benefit standards is unworkable in practice. Realistically, the impetus for coordination must come from the NGOs themselves but they generally will be more concerned with their own program effectiveness than the broader political and implementation concerns of the government program.

At the same time, NGOs can play several very important supplementary roles that will support the formal rehabilitation program without violating their own program integrity. Potential roles include:

- o assisting in the identification and certification of eligible beneficiaries and establishing priorities among them;
- o helping eligible beneficiaries secure credit, housing materials, agricultural inputs, or other benefits by providing transportation, or, when needed, advocacy with suppliers;
- o advising the DRCCs on issues of community need, preferences, and concerns and help the DRCCs monitor implementation fairness and equity; and

- o serving as a buffer between the DRCCs and local socio-political forces to improve communication and mutual trust.

II. Donor Participation and Coordination

The success of the ERRP will depend heavily on the ability of the NRSC to coordinate donor resources and policies. But the donors also will have to ensure close working relationships among themselves if the overall rehabilitation effort is to achieve its objectives. Both the GSL and the donor community have made good starts toward such coordination.

Soon after the signature of the peace agreement in July 1987, donors met in Paris to pledge support to the rehabilitation program. Pledges of nearly US \$500 million came from a wide range of bilateral and multilateral donor agencies, led by the World Bank., USAID and the ADB. Although certain donors argued for a district by district approach to rehabilitation, by which a donor would support the entire rehabilitation program in a single geographic area, the GOSL finally opted for a sector approach. Donor assistance thus will go to specific domains (agriculture, fisheries, housing, etc.) in which the donor has particular competence or interest. Only Norway and the EEC continue to pursue geographic based approaches. The NRSC will ensure complete coverage of the key districts and of affected economic and social sectors by negotiating with individual donors and with groups of donors.

To date, this system has worked reasonably well. Certain donors, such as the UNDP intend to provide only technical assistance to the planning and monitoring aspects of the program. Others, such as Japan and India, will provide commodities. A few, such as NORAD and the EEC have insisted on applying the district approach approved at the first Paris meetings and have planned "integrated" programs in Batticaloa (NORAD) and the Eastern half of Trincomalee (EEC) respectively. Most of the other donors, including USAID, the World Bank and the ADB, have chosen complementary activities which reflect their historic interests and programs in Sri Lanka and will provide assistance to all of the affected districts in the sectors in which they intend to work.

A few programs are actually underway - a small US-funded (OFDA) emergency relief program, the ADB road rehabilitation program, the UNDP technical assistance to the NRSC and DRCOs (as of 25 April), and some donor-funded NGO activities. Most donors have begun their individual planning processes in an atmosphere of close collaboration and exchange. For example, the World Bank fact-finding mission prepared its initial assessment of damages in the North and East in close association with USAID, which provided two members of the assessment team. The World Bank has taken the lead in establishing a donor coordination group which meets informally each month to discuss policy and coordination issues. All of the donors represented in Colombo attend these meetings. Unfortunately the ADB has no permanent representation in Sri Lanka.

Elevation of the MORR to a Cabinet-Level Ministry

Under the emergency reconstruction and rehabilitation program, (ERRP), the Ministry of Rehabilitation, which was set up originally as a relief and rehabilitation organization for victims of natural disasters, had only a relief and short-term rehabilitation role in the reconstruction program. It was the intention of the planners of the reconstruction program that the co-ordination function at the national level be restricted to that of a committee to demonstrate to the people in the North and East that the intent of the program was to support decentralization. All major reconstruction activities would be coordinated by the NRSC, with implementation being carried out at the district level.

The possibility of creating a new reconstruction ministry was discussed at that time, but it was decided that such a ministry would tend to try and control and further centralize power at the central level and, in effect, inhibit rather than support, the devolution process.

It was the intention of the program planners that the NRSC be placed in the Ministry of Finance and Planning for two reasons:

-- The Minister at that time, Ronnie De Mel, was the most important minister supporting the President and the Peace Plan, and

-- The MFP controls the allocation of resources to all of the ministries as well as to the districts, therefore, by placing the committee in the MFP, fiscal co-ordination was assured.

As a result of many factors, including concerns of some of the donors, demands for quicker action by the army, and a general perception that the program was moving too slowly, the Cabinet decided to elevate the Ministry of Rehabilitation from a project ministry (i.e. a lower status ministry), to a Cabinet level ministry. The Minister, who heretofore had carried two portfolios -- Education as well as Rehabilitation -- was directed to drop his other portfolio and concentrate entirely on the elevated Ministry. In addition, the Ministry's scope was expanded to include reconstruction as well as rehabilitation and relief. Several days later, the NRSC was transferred from the MFP to the new Ministry of Reconstruction and Rehabilitation, (MORR).

The post of Secretary of MORR was vacant because earlier, Austin Fernando, the former Secretary of MOR, who was also the Chief Executive Officer of the NRSC, had received instructions to devote full time to the NRSC. A new Secretary was appointed by transferring the Additional Secretary of Lands and Land Development, Mr. D.J. Bandaragoda, to the elevated ministry.

These moves have created a number of different reactions. In the top government circles in Colombo as well as the Sinhalese community, the moves were greeted enthusiastically. People pointed out that Mr. Bandaragoda is an excellent administrator and is known for his ability to handle tough situations. Sinhalese, as well as Tamil and Muslim senior government officials, have praised the appointment.

In the North and East, and among the lower Tamil civil servants, the appointment and change in the status of the Ministry has been viewed with much less enthusiasm, and in many cases, outright hostility. Several concerns have been expressed:

1. The elevation of the MOR to cabinet level and the expansion of its portfolio to include reconstruction, is seen in the North and East as a move towards greater centralization of the program and a lessening of the program's commitment to devolution as expressed in the original program documents. Several of the GA's have pointed out that no matter how well intentioned the leadership of the ministry are, the tendency will be to consolidate decision-making, funding, and project approval at the central level. The committee structure, under the old plan, was far more acceptable than the new ministry structure.

2. The fact that the elevation of the ministry occurred shortly after extensive media coverage of the military calling for broader reconstruction activities in support of security have lead many Tamils to conclude that this is one way in which the Defense Ministry is trying to control the program. Since the cabinet level ministers sit on the National Security Committee, it is felt that co-ordination between the military and reconstruction will take place at that level.

3. The fact that the Minister of Reconstruction and Rehabilitation, the Secretary of the MORR, the head of the NRSC, and all of the senior program co-ordinators (UNHCR Repatriation co-ordinator, UNICEF Program co-ordinator), are all Sinhalese, many people in the North and East question whether or not Tamil views will get a fair hearing in the new Ministry. Under the old arrangement the Chairman of the NRSC and the Secretary of the Ministry of Finance and Planning, Mr. Chanmugum, were Tamils, giving the NRSC a running start on credibility. Without some immediate action to bring more Tamils into key positions, it is likely that the program will have difficulty in establishing credibility with the GA's or with the militants.

NOTE: Unfortunately, Mr. Bandaragoda is considered by most Tamils to be unsympathetic to the Tamils. At one time, he was GA of Trincomalee. Being a Sinhalese in that sensitive community, he gained a reputation as favoring the Sinhalese over the Tamils. Among the GA's there is much opposition to his appointment as the Secretary of MORR.

Rationale for the MORR handling all funds for the ERRP

When the ERRP was established, it was the intention of the planners that funds would flow from donors to the Treasury and from these either to the line ministries or the GAs for implementation of projects. Funding control was to be executed by the National Reconstruction Steering Committee (NRSC) which would approve the plans of the line ministries and the districts (prepared by the DRCCs) and allocate funds as an arm of the Ministry of Finance and Planning.

In reality, the NRSC has not effective control over the allocation of funds. Staffing for the NRSC has taken much longer than originally envisioned (due in part to innumerable delays in the signing of the UNDP Technical Assistance Agreement). At the same time, several of the line ministries have resisted the coordination efforts of the NRSC. While Ronnie de Mel was Finance Minister, the NRSC had enough clout to bring all ministries under control but with the appointment of the present Minister, many of the stronger ministries have gone their own way.

Another problem with the line ministries is that despite all of the rhetoric about decentralization, few of them have begun to actually implement any form of decentralized project planning and several of the DRCCs have complained that plans and priorities set at district level have been over-ruled by senior personnel in Colombo.

The matter came to a head in mid-April when the NRSC learned that the Ministry of Education had entered into an agreement with the ADB to begin reconstruction of educational facilities in the North and East without consulting either the NRSC or the DRCCs. Furthermore, when the Chairman of the NRSC asked the Secretary of Education to attend the NRSC meeting to explain the agreement, the Secretary declined and didn't even send a senior representative.

When the Ministry of Rehabilitation was expanded and elevated to Cabinet level, we saw a chance to bring the programme back under centralized administration and to give the NRSC the role that the planners had intended. Since the memorandum elevating and expanding the Ministry clearly stated that the Minister was to have responsibility over all reconstruction and rehabilitation activities, it was not unreasonable to expect that all funds for the programme could be channeled through the Ministry and then on to the line ministries and the districts. Not only did the Minister and the Secretary of the MORR advocate such a channeling, Austin and I felt that with the NRSC in the Ministry as a planning and monitoring unit, we could once again establish effective NRSC control over the ERRP since the NRSC would again have control over funds flowing through a central point and could exercise overall coordination by the allocation of those funds.

At the same time, I recognized that we had a chance to actually streamline the planning process with this new fiscal arrangement. Since the Ministry was set up for a special task, it was not unreasonable to seek permission to establish streamlined rules for project planning, budgeting and funding. (Both the Mahaweli and IRDPs have been established with separate, streamlined financial systems which provide a precedent.) To that end, I suggested a series of accounts be set up, known as the "R" accounts, which would operate under special rules but which would allow us to track individual donor contributions as well as specific project outputs carried out with those funds. The intent of the "R" accounts would be to develop decentralized financial systems for the reconstruction programme which would serve as a model for financial systems under devolution.

Thus, while channeling funds through the MORR may appear to be creating an additional layer of bureaucracy for the reconstruction programme, in reality, the establishment of the new Ministry and the channeling of funds through it may make it possible to achieve the objectives which were originally intended. This will be especially the case if the new devolved and streamlined financial procedures are put into place since we are proposing to establish bottom-up planning and implementation procedures even for the line ministries. By placing all possible resources at the district level, we hope to be able to force the line ministries to initiate a planning process that develops plans and sets priorities at the district level.

On May 5, Secretary Bandaragoda prepared a Cabinet memoranda for the Minister outlining his staffing needs as well as requesting that all reconstruction monies be channeled through the MORR. As of this writing, the Cabinet has not taken action on the request.

Staffing Observations and Recommendations for the MORR

Summary: With the elevation of the ministry to cabinet level and given its expanded portfolio, additional staff will be required. The following are some suggestions that I have put forward to Sec. Bandaragoda.

Ethnic requirements: There are several concerns regarding staffing at the Ministry. First, is the problem of the lack of top quality Tamils coordinating activities between Colombo and the districts. It will be very important to bring several top notch Tamils into the executive levels of the ministry as co-ordinators to work in the North and East.

Operational requirements: Initially, I have proposed that we have one Tamil coordinator for Jaffna and Kilinochchi, one for Batticaloa and Ampara, one for Mullaittivu and Trincomalee and one for Vavuniya and Mannar. We also need one person who can represent the Sinhalese in the East and also a Muslim who would work with Muslim communities in the east as well as the displaced persons in the areas to which they have fled. Under this arrangement, staffing would be essentially geographically based (with the exception of the Muslim and Sinhalese coordinators).

Another way to approach the matter would be to create sectorial officers (e.g., housing, agriculture, etc.) or to assign people to specific issues or groups of issues, (e.g., refugees, and displaced persons, estate Tamils, etc.). However, I have recommended assigning staff along generally geographic lines because at the NRSC, coordinators have been established along sectorial lines. Based on my field-trips, I feel that what is needed immediately is more liaison between the GA's and DRCC's and Colombo. Sectorial issues have not yet emerged as the principal concern - and probably will not until the situation moves from more a relief and emergency program into a more stable reconstruction program.

We are also going to need some people to coordinate along functional lines (i.e., special problem groups or special programs of assistance).

The following table lists some of the key functions that need to be addressed in the staffing of the MORR. The organization charts that follow the table represent some staffing possibilities which could be used to implement the ideas outlined above.

Table V-1
 Functions to be Met in the Reconstruction
 and Rehabilitation Work

<u>Function</u>	<u>Unit Responsible</u>
Liaison with GAs	MORR
Supervision of Assistance to Refugees and Displaced Persons	MORR
Estate Tamils	MORR
Logistics	MORR
Finance and Cash Flow Monitoring	NRSC/MORR
Accounting	MORR
Coordination with other Ministries	MORR/NRSC
Personnel Administration	MORR
General Administration	MORR
Coordination of Lending Programmes	MORR
Coordination of Grants and Subsidies	MORR
Overall Planning	MORR/NRSC
Public Relations	MORR/NRSC
Donor Relations (Relief and Rehabilitation)	MORR
Donor Relations (Reconstruction)	NRSC
NGO Coordination	MORR

The role of the GA

BACKGROUND: Throughout the conflict in the North and East the role of the GA has evolved from that of coordinator of government functions to that of a de facto district administrator. As the conflict escalated, MPs representing those districts dropped out of sight and at the signing of the Accord there were no sitting MPs or other elected officials in the North and East. Because there were no MPs, the GAs were, in effect, the government in each district and they operated with virtual freedom of action in most civil affairs.

In recognition of the status that they had attained, the reconstruction programme was designed to give initial control of the programme to the GAs pending the provincial council elections which were to be held no later than December 1987, (see Section 2 of the Peace Accord). The GAs became not only the interim administrator and implementor of all reconstruction monies he also served as the Chairman of the District Reconstruction Coordinating Committees, (DRCCS), which develop the reconstruction plans for each district and coordinate overall implementation between the various government agencies at the district level.

During the conflict, the GAs continued to function as normal, a sign that the militants had concluded that it was important that certain essential services carry on despite the conflict and their dispute with the central government. Up to the signing of the Peace Accord, not one of the Kachcheries had been closed and all of the GAs had faithfully attended each of the monthly GAs' meetings in Colombo. Furthermore, all government salaries, government pensions, benefits, etc., continued throughout the war with little disruption. In September, 1987, one of the militants told a member of the World Bank assessment team that the militants had intentionally avoided disrupting local government since they believed that once independence had been attained they would need a working government structure to build upon.

One of the problems facing the reconstruction programme is what will happen if the provincial council elections go through and the district administration is downgraded or abolished all together. While, in theory, most of the functions could easily be transferred to any type of new administrative arrangement; in practice, such a transfer is likely to be very disruptive. This is especially the case involving assistance in the critical sectors, (housing, agriculture, small business and fishing), where payments in the form of grants, subsidies, or in-kind assistance is being channeled through the GAs and the AGAs.

Local Participation*

Government Agents, assisted by special DRCCs, are the focal point in each District for the executive task of local reconstruction implementation. Most of the affected Districts have Tamil GAs who are sensitive to the needs and circumstances of this majority group. Past government programs in these areas are perceived by many as not reaching affected Tamils in an equitable manner. In typical line ministry programs, some resources have been diverted to activities favoring the majority Sinhalese population in the South. The decentralized structure of the rehabilitation program is essential for the reconstruction effort to have credibility with local people and to motivate their effective participation.

The rehabilitation program directs DRCCs to include representation from citizens groups such as local community groups and NGOs. This is, in fact, happening through appointment of such representatives by the Government Agents. There are, however, difficulties in selecting these persons in a way that achieves the theoretical intent of citizen participation.

In the wake of the disturbances of the early 1980s and the resulting lack of effective civil administration at local levels, many citizens committees emerged in the affected districts of the North and East to press for political concerns or provide a degree of village organization. Some of these committees represent particular aggrieved interests, make no claim to be broad-based, and are not representative of the broader, ethnically-diverse communities where they exist. Others have been more broadly representative but communal hostility has resulted in a number of these broader groups disbanding because of threats to their leadership. Groups of this type, however, have a history in Sri Lanka as effective vehicles of popular participation.

While citizens' committees are genuinely independent of Government, they receive a de-facto degree of official recognition when asked to provide representation to a government body such as the DRCC. This presents an obvious dilemma for both the GA and the Committees. Invitation to representatives of several narrowly-based committees virtually guarantees unproductive in-fighting on the DRCC. For the Citizens' Committees, acceptance of an invitation to serve on a government committee may compromise their legitimacy in the eyes of factional members. Clearly not all groups can or should be invited to participate with the formal rehabilitation structure. Informally, however, they may be able to play a role in beneficiary identification and in monitoring the fairness of program

implementation at the community level. To this end, certain representatives of Citizens' Committees may be given an advisory role to the technical leadership of the DRCCs. Informally, these committees also are a way of providing some line of communication to the interests of militant factions in the affected areas. At the very least, community representatives in some areas will need to be acceptable to militant groups exercising informal control and requiring at least indirect participation in decision making.

NGO PARTICIPATION IN THE SRI LANKA
RECONSTRUCTION PROGRAM

by Frederick C. Cuny,* INTERTECT

SUMMARY:

Prior to the signing of the Indo-Sri Lanka Peace Accord, NGOs in Sri Lanka played a major role in providing assistance in areas that the government could not reach with programs of relief and short-term assistance. Since the signing of the Peace Accord, however, the role of NGOs has declined due, in part, to a lack of resources and the changing nature of assistance requirements. Despite initial hopes of program planners, the NGOs are not likely to be a major factor in the Emergency Reconstruction and Rehabilitation Programme (ERRP).

I. BACKGROUND

During the fighting between the Sri Lankan government and the Tamil militants in the North and East, the NGOs of Sri Lanka played a major role in providing assistance to the victims of the war on both sides. NGOs were active in rebuilding housing, providing food aid and medical and health services. They were also actively engaged in programs for survivors of persons killed in the conflict and they assisted the handicapped as well as persons psychologically affected by the conflict. Most important, they were very active in providing a wide range of assistance to displaced persons throughout the country.

Based on the involvement of NGOs during the conflict, program planners envisioned a major role for them in the reconstruction program and several of the major sectoral programs (housing and agriculture) were designed with a major NGO component. For example, in the housing sector the initial approach was to expand an existing programme the NGOs had developed with the government during the conflict whereby money they raised was matched by the government and the NGO provided organization and technical assistance to the families to build their houses. The ERRP planners had hoped to use this approach for reaching the lowest income sectors since involving the NGOs would ensure that the hardest to reach families would be brought into the program and adequately assisted.

In the agricultural sector it had been hoped that the NGOs would be able to provide a wide range of agricultural services to the lowest income groups and provide community organization services that would enable the farmers to carry out a number of rehabilitation works cooperatively with guidance and assistance from NGOs.

In both cases, these hopes appear to have been overly optimistic.

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REASONS FOR THE REDUCED ROLE OF NGOS

There are several reasons why NGOs are not likely to play a major role in the reconstruction effort, at least for the present. They are:

- a. The sheer scale of the reconstruction requirements is beyond the capacity of even the largest NGOs or NGO consortium. Even if all of the NGOs were to receive twice the amount of money now allocated for NGOs, their total contribution would be approximately 1% of the total project cost.
- b. Due to the continuing violence, the NGOs have not been able to raise as much money for reconstruction activities as they had planned. At the same time much of their work remains relief focused and short-term projects make up the balance of their assistance.
- c. The capacity of the NGOs to implement major portions of the various sectoral projects of the overall reconstruction program is not strong. Only three of the major agencies were involved in housing reconstruction, only three in agricultural reconstruction, none in fishing and only a few in income generating activities -- but those only at a very small scale and for specific target groups (widows and handicapped).
- d. The capacity of the NGOs to provide technical assistance for critical reconstruction sub sectors, such as building materials production and marketing, community organization for housing construction, etc. was, on balance, less than the capacity of government organizations. While many NGOs did express a willingness to work in these areas, on close inspection, it was found that they did not have the necessary expertise.
- e. Despite the fact that there are scores of NGOs in the affected area, few have any real capacity to implement even moderate-scale programs. The few national organizations that are well financed and managed (for example, SARVODAYA) are often not politically acceptable to one or the other ethnic groups in the area.
- f. Many of the NGOs, despite attempts to remain neutral, have been compromised in the eyes of one or more parties to the conflict and therefore, it will be difficult for the government to work with them. Even if full peace were restored, it would be politically difficult at this time for the Sri Lankan government to choose any of the national or local NGOs as a conduit for funds coming from the government and, in fact, many of the organizations that had been considered likely candidates for such funding, have expressed their reluctance to accept funds from the government. There is a feeling that any peace agreement would be very fragile and organizations shouldn't be put into a position where they couldn't provide immediate relief aid if there was to be a sudden resumption of fighting.
- g. Due to the fact that most disaster victims have been multiply affected (i.e. they have lost not only their house but also their source of income) the total assistance requirements are

sufficiently large that they will not be able to be met only by grants. Some loan component must be added. Few NGOs have the ability to participate in long-term loan programs whereby loan portfolios must be managed for anywhere from three to twenty years.

III. THE EVOLVING ROLE OF THE NGOS

Despite the above limitations, there are opportunities for major NGO involvement in the reconstruction effort. The major international NGOs are working to define programs to support certain hard to reach groups and to identify communities where their assistance can be helpful. (It has been argued that the reconstruction program should identify areas where the government cannot work currently as places where the NGOs could be helpful. In reality, any place where the government cannot work, NGOs cannot work either.)

Based on recent discussions with the NGOs and a major rethinking of the role of NGOs in the reconstruction effort the NRSC and the NGO consortium are now working to define a more focused approach to NGO involvement. At present we see the NGO role as follows:

- a. To assist special groups that are difficult for the government to reach. Among these groups are:
 1. Estate Tamils
 2. Sinhalese and Muslim communities in the East
 3. Returning refugees
 4. Internally displaced persons outside the primary conflict areas
- b. To provide specialized assistance to individuals and families who have suffered the loss of one or more family members or who have been handicapped.
- c. To help the very low-income people obtain programme benefits. It is recognized that many of the very lowest income people may have difficulties in obtaining the government services that they are eligible to receive. NGOs have been asked to work among those groups to help them qualify and receive their entitlements.
- d. To provide social services in the affected areas especially focusing on the problems of women, children, victims of violence and young men who were formally militants or members of the Home Guards (Sinhalese militia).
- e. To provide economic assistance for people classified as "most affected" i.e. widows, families who have lost a bread-winner and families that have suffered the loss of more than two members.
- f. To organize activities to provide alternative work to persons in sectors or communities where reconstruction work cannot commence at the present time. For example, due to the security situation, fishermen are restricted to fishing during certain daylight hours

and not more than five kilometers from the coast. In practical terms, this means that many of the fishermen are unable to earn a living, therefore additional assistance is required and NGOs have been asked to organize alternative economic activities as a means of providing income support until the restrictions are lifted.

- g. To plug the gaps in the overall programme. There are scores of groups of people who, for one reason or another, will fall through the cracks or will be difficult to reach with the assistance that is planned. The NGOs can help reach these types of groups (as long as the numbers of beneficiaries are relatively small and their locations can be clearly identified).

IV. OBSERVATIONS FROM THE SRI LANKA EXPERIENCE

Based on the Sri Lanka experience several observations about the role of NGOs in the rehabilitation and reconstruction periods can be made. They are:

- a. NGOs can play a very positive role in plugging the gaps in the assistance system.
- b. NGOs can be used to reach the hard-core disadvantaged and others that are difficult to reach, especially those that will require intensive casework.
- c. NGOs can be extremely helpful in providing assistance to politically difficult groups (for example, Estate Tamils and Muslims and Sinhalese in Tamil controlled areas).
- d. As a rule, NGOs should be encouraged to provide assistance that builds on their existing strengths and to avoid attempting to provide services where their capacity is limited. In the case of Sri Lanka, the government and the cooperative often had better resources than the NGOs.
- e. As a rule, NGOs are more likely to have a major role in assisting affected persons during the actual conflict (with relief assistance), in the immediate aftermath (with short-term rehabilitation and assistance), and during periods such as that we are now experiencing (which we call the "grey period") with short-term relief and rehabilitation activities and assistance. They are not likely to play a major role in long-term reconstruction since few have the ability to participate in loan schemes (which require an institutional capacity to manage a loan portfolio for three to twenty years).
- f. NGOs can be most helpful in assisting people with assistance that can be delivered via cash grants, grants-in-aid, or programs involving sales (at full or subsidized prices) of critically needed relief items or reconstruction materials.
- g. NGOs can be helpful in providing supplemental assistance in certain sectors. For example, in the agricultural sector here in

Sri Lanka, there is a need to help low-income farmers replace draught animals and livestock and poultry. In some cases, the proposed system of loans and grants will simply not provide enough assistance for low-income people to rehabilitate field crops and replace livestock at the same time. In these cases, NGOs can be helpful in providing supplemental assistance to enable farmers to replace all of their losses without having to go into debt or delay activities that would help them to diversify their income generating opportunities.

VI. CONCLUSION:

Despite the limited involvement of the NGOs in the reconstruction period at this time, it is anticipated that the NGOs will expand their operations into a broader range of activities once full peace is restored in the affected areas. Even so their role will be one of limited short-term assistance rather than longer-term widespread aid.

Block Grants - Initiating Reconstruction Actions

The question of devolution and how it is going to be carried out is still unclear to most bureaucrats. Despite instructions from the government and the wording of the ERRP documents, as of March the GAs were still coming to the central government for approval of every project. At the same time, they were complaining that they didn't have the authority to spend money in their districts, therefore the terms of the Indo Sri Lanka Peace Accord are not being honored.

To strengthen the position of the GAs and to break the logjam of inaction at the local level, I proposed that we give a lump sum of money to the GAs which they could use to get activities started in their areas. We would provide general guidelines for how the money should be used, but leave the decisions up to the GAs and the DRCCs. All they have to do is account for the money with the normal accounting procedures. All projects would have to be identified in the District Reconstruction Plan. This approach would put the burden for initiating actions back at the local level.

The concept and strategy was approved at the GAs meeting, NRSC, and by the WB. Austin has submitted a paper (16 March) to the Finance Ministry asking for authorization to send the money. Initially, the MOFP agreed to release Rs. 12 million which we felt was not enough. When Tissa came into the MORR, he immediately backed the plan and we went back to the MOFP with a request for Rs. 200 million. This was finally approved in mid-April just before the NRSC meeting.

Decentralization

Given the political and ethnic background to the conflict that created the need for the rehabilitation program, both the reality and the perception of decentralization are especially important. The principle of District control of processes of prioritizing needs, planning activities, disbursing funds to local implementing agencies, and supervising the monitoring and reporting of local performance must be carefully maintained. Support for the rehabilitation program is weak among some Colombo-based Sinhalese politicians and narrow sectoral interests at the national level are likely to work against effective coordinated action. Domination of the rehabilitation policy and planning process to date by the central NORR and NRSC gives additional cause for concern. While the policy framework upholds the concept of decentralization, the reality of decentralization is still largely on paper only.

Among the majority of local residents in the affected Districts, there remains a deep suspicion of the central government and the likelihood of a fair and equitable distribution of resources. Mechanisms for decentralization contained in the Peace Accord are not accorded a high degree of trust. Programs identified with Colombo are unlikely to succeed or survive under present circumstances. The GAs, by contrast, have a relatively high degree of local credibility although, in some cases, their freedom of action also is circumscribed by militant factions in the community. Nonetheless, a rehabilitation program identified with them, and with DRCCs that are truly responsive to the people, has a chance to make the difference.

GOSL plans to devolve power to Provincial Councils (PCs) are still in the formative stage so it is not possible to fully assess the impact that this administrative change will have on future institutional responsibility for the rehabilitation program. Provincial elections for portions of the country outside the affected Districts now are scheduled for April and June 1988.

PC elections in the North and East originally were scheduled for last December but the rejection of the Peace Accord by the LTTE (the largest Tamil opposition faction) and subsequent security operations by the Indian Peace Keeping Force (IPKF) have postponed them. No one knows when it may be possible to hold the Provincial Council elections in the conflict areas. Timing is dependent on complex political factors including the agreement of all major factions in the area and the linkage of such elections to the eventual pull-out of the IPKF.

It is expected that each province will be made up of several Districts so that the key role of the current northern and eastern Districts in local program coordination will not necessarily change if and when the Councils are established in that area. The important role assigned to the Districts in the rehabilitation program is consistent with the concept of devolution of power embodied in the Provincial Councils. It is probable, however, that some district boundaries may change which could cause administrative disruption to DRCC implementation of the rehabilitation program in those areas.

Provincial governance in the affected area is expected to provide a stronger political voice in Colombo for the interests of the North and East. This will help fill a political vacuum caused by the resignation of the Members of Parliament from all the affected districts except Trincomalee. District leadership in the North and East welcomes the coming of Provincial Councils as an antidote to the perceived responsiveness of most line ministries to political pressures generally favoring Southern interests. At the same time, it is realistic to expect that the political power of Provincial officials, especially the Chief Minister, may reduce the effective authority of District leadership. The political value of large amounts of rehabilitation assistance will not go unnoticed and there is a risk of this assistance being skewed toward the political or factions that control the new provinces.

1.

PROJECT ISSUE

Concerns Regarding Representation on the DRCCs

BACKGROUND: When the World Bank mission advocated the establishment of the District Reconstruction Coordinating Committees, it was decided that the majority of the members of the committees would be public servants with a few additional representatives from NGOs. It was felt that the GAs, in appointing the NGO representatives, would somehow manage to ensure that the militants were represented on the DRCCs. It was also assumed that the militants had their own links to the GAs and that they would be able to make their concerns known directly to the GAs. It was felt that this arrangement would be acceptable to the government and, since the DRCCs were only viewed as an interim mechanism of reconstruction management, that they could be replaced by the provincial councils with a mechanism more suitable and representative when the councils were sworn in.

With the LTTE retaking the field and with the split between the LTTE and the other militant groups, (EROS, PLOTE, etc.), questions have been raised in the North and East about how representative the DRCCs actually are. Several GAs have reported privately that they feel that the DRCC arrangement can only work with civil servants due to political divisions. Since all of the representatives of the DRCCs in Trincomalee and Batticaloa are government officials (no NGO personnel have been wanting to serve for fear of reprisals from the militants), the DRCCs, in effect, represent the central government and may be viewed with suspicion by the militants.

NOTE: This appears to be a bigger problem in the East than in the North.



SECTION VI

ASSISTANCE PLANS

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A. UNIFIED ASSISTANCE PACKAGE

BACKGROUND:

In order to provide an equitable package of financial assistance to the victims of the recent conflict the Ministry of Rehabilitation and Reconstruction proposes to provide a simplified, standard package of grants and loans for all families and productive enterprises that have been effected. This package has been designed to relieve the financial burden on those least likely to be able to recover without assistance and to make it possible to stretch the available resources so that all families can receive the full assistance they need. At the same time, the overall package will be easy to administer, will support the existing credit institutions in the affected areas, and will not endanger either the borrowers or the lenders from over extension of credit.

I. HOUSING:

Because housing is a non-productive activity, i.e., it does not generate income for the occupant, and because many of those who have lost their houses will also have to rehabilitate their source of income (as cultivators, fishermen, etc.), reconstruction of housing must be subject to special financial consideration. For this reason, we propose to offer the following schedule of grants and loans.

A. Terms:

<u>Family Income</u>	<u>Grant</u>	<u>Maximum Loan Amt.</u>	<u>Annual Interest</u>	<u>Maximum No. Yrs.</u>	<u>Monthly Payment</u>
1. <Rs.700 Month	15,000*	-0-	N.A.	N.A.	N.A.
2. Rs.701-1,500 Mo.	15,000*	15,000	6%	15	15% of Mo.Income
3. Rs.1,500-5,000 Mo.	-0-	50,000	6%	20	20% of Mo.Income
4. >Rs.5,000 Mo.	-0-	150,000	6%	20	Negotiable

* This grant may be made by means of a voucher redeemable in building materials from designated suppliers.

B. Grant and Loan Disbursements:

1. All grants and vouchers for building materials will be dispersed by the GAA through the AGAs.
2. Loans for persons in group 2 will be dispersed primarily through the TCCS system though other lenders may be authorized by the NHDA and REPPIA to manage the loans.
3. Loans for groups 3 and 4 will be handled by the Bank of Ceylon, SMIB, and others as authorized by REPPIA.

C. Administrative Fees:

All lending institutions will be paid a lenders fee equivalent to 2% of the loan amount.

II. PRODUCTIVE ENTERPRISES:

The assessment report of the World Bank assessment team found that the many of the victims of the conflict were self employed as fishermen, cultivators, or owner-operators of microenterprises and small businesses. Since it will be vital to reactivate these sectors quickly with a minimum of financial burden, and since all sectors must be rehabilitated at the same time, the MORR proposes to offer the following package of financial benefits for all productive enterprises in the low and moderate income generating categories.

A. Benefits:

1. Grants or grants-in-aid: All persons who were self-employed will be eligible for a cash grant of Rs.2,000/- plus an additional gift of either Rs.2,000 cash or vouchers for the equivalent of Rs.2,000/- redeemable in supplies appropriate to their needs. For example, fishermen may redeem the voucher for fishing tackle or use it towards the purchase of a boat or motor. Cultivators may use the voucher for obtaining seed or fertilizers.

2. Loans: All self-employed persons may apply for a Productive Enterprise Loan at an annual interest rate of 9%. The amount of each loan will be determined by the borrowers' needs and ability of the enterprise to repay the loan. As a guide, lenders will be encouraged to structure the loans so that no more than 20% of the borrowers' annual income is spent servicing the loan. Repayment terms will be permitted to vary according to the nature of the enterprise, e.g., an agricultural loan may be paid at the end of the harvest, fishing loans at the end of the fishing season, etc.

B. Disbursements:

1. Grants and vouchers will be dispersed by the GAA or AGAA.
2. Loans will be made by a variety of lenders chosen by REPPA based on their ability to reach specific clientele. For example, fishing cooperatives would likely be chosen to lend to fishermen, Cooperative Rural Banks to lend to small businesses, etc.. REPPA will strive to ensure that multiple lenders are available for all productive enterprises.

The Basis for Loans and Grants in Each Sector

BACKGROUND: In the overall reconstruction programme it was recognized early on that many of the people would be multiply affected; in other words, they may have suffered losses to their housing as well as to their source of employment or income. In structuring the loans and grants to each sector, it was necessary to establish certain fundamental principles. These were:

1. Housing should be treated differently from productive (i.e. income generating) activities. Since it was likely that many persons would have to obtain money to rehabilitate both their housing and to restart their work either:
 - a. the loans for housing and productive enterprises would both have to be at a low rate of interest, or
 - b. housing, because it was not income generating; should be supported by grants and lower interest rates than activities that were income generating.

The second set of assumptions had to do with how people would get their money for reconstruction. It was recognized that the very poorest people would not be able to borrow or service loans. Therefore, in the housing sector, it was decided to provide a combination of grants and/or building materials that would enable most people to rebuild the simple houses that they had before the war.

As a result of many negotiations and calculations, it was finally decided that persons of very low income should be eligible for a grant which would be equivalent to the cost of rebuilding a small house. (This was determined by calculating the average amount that was necessary to build a small house of semipermanent or permanent materials). Persons at the next level up would be eligible for a combination of a loan and a grant which together would provide enough money to rebuild an average low-to-moderate income house. Persons in the next higher income bracket would be eligible to borrow any amount that they could qualify to repay at a subsidized rate of six percent interest over a fifteen to twenty year period. Originally, the maximum amount of the loan was set by determining the average cost of a middle income house. For ease of administration, it was decided to leave the amount to be borrowed up to the lender which could be determined on the basis of the person's income and the ability to repay the loan.

This system replaced an earlier proposed system that set lending criteria and maximum loan amounts for approximately seven levels of borrowers, staggered rates of interest ranging from two to eight percent. A rate of six percent was chosen since that was the lowest lending rate of any currently established government housing programme.

In the case of productive enterprises it was likewise determined that most persons who would need capital to restart their productive activities, (e.g., small shopkeepers, vendors, etc) would not be able to borrow large amounts of money or service loans with any degree of regularity since they were also likely to be borrowing money for housing. Thus, it was recognized that some amount of grant or in-kind contribution would be necessary to stimulate economic recovery. In sectors such as fishing or agriculture in-kind contributions could be handled through coupons or a voucher system or through direct inputs provided by the agricultural or fishing cooperatives or service centers. For microenterprises, small business, etc. such assistance would be much more difficult and therefore it was recognized that direct grants would probably have to be used as the means of distributing the money.

Therefore, a unified grant and loan scheme for all productive enterprises was also developed. Through various granting mechanisms each person was made eligible to receive 4,000 rupees and could apply to borrow an additional amount at nine percent interest up to a maximum determined by the average estimated cost of rehabilitating a damaged small business, farm or fishing enterprise. Again, the ceiling on the loan amount was not specified for it was felt that each lender would set their own criteria based on the person's ability to pay, past performance, etc.

This system replaced a previous system whereby each ministry had developed a plan to assist its normal clientele, (for example, the Agriculture Ministry planned to provide loans and grants to cultivators, the Fisheries Ministry boats and canoes to fishermen, etc.). The advantages of classifying all loans under the general heading of "Productive Enterprises" as opposed to a ministerial specific approach were as follows:

- a. It widened the number of lending institutions that were available since any lender at the local level, (A Cooperative, Rural Bank, TCCS, MultiPurpose Cooperative Society, Bank of Ceylon, etc.), could make a loan for any type of enterprise.
- b. It provided one unified system that, en toto, was more equitable across the sectors than the "ministerial" approach.
- c. It permitted unification of all lending rates, thereby simplifying administration for both the on-lender and the government dispersing agency.
- d. It increased the likelihood that lending could be "evened out"; in other words, all lending activities would commence at the same time, therefore, no one sector would be shown preferential treatment over the other.

Grants as a Mechanism for Limiting Loan Programs

In order to reduce the burden on the lending institutions, it was eventually decided to add a grant component to the microenterprise sector. Originally it had been planned that all productive enterprises would be handled through lending and that no grants or in-kind contribution would be offered by the government. This was done because it was felt that farmers, fishermen and small entrepreneurs would generally be in a slightly higher income group than general labourers and therefore, in themselves, would be more likely to pay back the loans than lower income groups or persons who were receiving wages. Nonetheless, a number of planners argued that the number of borrowers would still be too high for the existing credit institutions to handle and that there was a risk to damaging the existing credit structure which, due to the conflict, had operated at reduced levels. (Liquidity among the lenders was not a problem since during the war deposits had increased while lending had virtually ceased altogether.) Since only two percent of the people of the North and East had ever participated in any formal loan scheme, trying to utilize the existing lending institutions and to expand their capacity to handle a total loan burden of upwards of 50,000 applicants was deemed unrealistic. Thus the granting arrangements were established to reduce the number of potential borrowers (by sixty percent). Since borrowing will be slower than dispersing grants (due to people's reluctance to borrow money from formal institutions, as well as the continuing uncertainty in the area) the loan money will be dispersed at a slower rate and thus there would be a self regulating mechanism that would spread the loan applications out over a three-to-five year period making the total number of loans manageable for the existing institutions. This also meant that the government could choose among the stronger institutions for on-lending avoiding the weaker institutions and thereby ensuring that the total loan portfolio could be properly managed.

Policy Regarding Assistance to Returning DPs

The policy of the government regarding DPs and returning refugees was that all people should return to their original place of origin. To promote this policy, the government directed that assistance to people in rebuilding could only be given to people at their original site once they had returned.

In a visit to DP centers in Anuradhapura in mid-Feb. 1988, I noted that a number of people deserved exemption from this policy. They included:

1. Former Sinhalese members of the Home Guard, a paramilitary force that had been armed by the government to patrol areas where Sinhalese were a minority. When the IPKF had disarmed these men, they had fled, probably fearing reprisals from their Tamil neighbors. This group made up about 30-40% of the DPs living outside the immediate affected zone, (a measure of how scared they were).

2. Persons who had been displaced by ethnic disturbances more than once previously. Some of the people in one of the centers said they were displaced in 1958, 1963, and 1987. They were refusing to return to the zones again and wanted to be moved to other parts of the country.

Note: No displaced Muslims asked to be resettled to other parts of the country, their only precondition to returning to their homes was that the IPKF had to withdraw first (they feared the Hindu and Sikh soldiers and their treatment of the Muslim women).

RECOMMENDATION: I recommended that the policy that refugees and displaced persons should only receive help if they returned to their original place of origin be modified for special cases like those who have been displaced more than once, the Home Guards, and others who faced a real threat of reprisal. I suggested we help them to find homes and jobs in other parts of the country. Numerically, these groups would probably be relatively small, but for the time being, it would help reduce the number of people being sheltered and would give us a chance to test out our assistance systems on a fairly small scale. It would also show the donors that we were taking some actions at a time when other activities were on hold due to threats against the GAs by the LTTE (see Issue 001).

I also felt that there would be a number of people who would move after peace was restored. After every political realignment, there have been displaced persons. What would happen for example, if the LTTE went through the area after the new structure were in place and told the Muslims to leave? There are going to be pockets of people whose population is small enough that that they will not be willing

or able to resist threats. I didn't think that anything like the displacements that occurred after the partition of India would take place, but on a smaller scale, some movements under duress were bound to happen. Developing, on a small scale, the systems for helping people relocate out of their original areas would give us an opportunity to put some systems in place in case they were needed on a bigger scale in the future.

OUTCOME: At a meeting with Austin, on 23 Feb. we decided to take the following actions:

1. All persons will be encouraged to return to their districts of origin but we would not insist that they return to their specific previous homes or communities.
2. We will try to develop "safe clusters" where minorities would have sufficient numbers that they would be relatively safe from attack from their neighbors.
3. For the time being, we will try to avoid the issues regarding Estate or "Indian" Tamils but would draw up a secret plan to help them in case a mass migration developed.

1.

PROJECT ISSUE

Donor's Request for "Geographic" Assignments for Reconstruction Assistance

BACKGROUND: At the February 29 donor's coordination meeting, the representative of Norway requested confirmation that Norway would be permitted to focus its contribution on a specified geographic area rather than contributing to a particular sector(s). The EEC has also requested to use this approach.

It has been my experience that geographic based approaches are highly problematic for the government and usually result in inequitable assistance for the disaster victims. This is true whether it is a village, a neighborhood, a province, or a region.

I strongly urged the government to resist such approaches and insist that all donor aid be given on a sectorial basis. One only has to look at the problems the NGOs are having in trying to standardize their assistance in order to see what problems we might encounter.

Austin concurred but unfortunately, the DER overruled the NRSC and instructed NRSC to tell NORAD to go ahead. To try to develop a basis for coordination, George West hosted a dinner for the NORAD representative and the NRSC. We agreed to some basic principles regarding NORAD's involvement, but I still feel there may be problems.

Since NORAD and the EEC cannot be dissuaded from this approach and the government does not see fit to prevent it, it is imperative for the government to develop uniform reconstruction guidelines and insist that each donor carrying out a geographic based program strictly adhere to them. For example, if a donor were to give housing loans at a different rate, especially one that was more favorable, than the government rate, it would create resentment in the neighboring district. Therefore, it is of utmost importance that all assistance be given out on an equal basis.

Late Changes in Sectoral Programmes by Donors

BACKGROUND: We are currently in a stage in the program where a number of the more important donors are bringing representatives of their aid organizations to the country to review the reconstruction program. While it is fine that the donors are taking a closer look at the program, they are inadvertently causing some problems by giving off varying and confusing signals to the government about what it is they want.

Examples

1. In one example, Shinji Asanuma, the Country Director of the World Bank, had a meeting with the President after he had completed a quick visit to Jaffna. On the basis of his impressions, many of which were not exactly correct, he made a series of recommendations to the President which were interpreted by him as a demand for tighter controls of the program at the central level. Several weeks later, the Ministry of Rehabilitation was elevated from a project ministry to a cabinet ministry and the portfolio of the Minister was expanded from rehabilitation to include reconstruction. The NRSC was transferred from the Ministry of Finance and Planning to the expanded Ministry of Reconstruction and Rehabilitation (MORR).

While the President thought that he was responding to the donors' request, in fact, this is just the opposite of what the Bank and the majority of the donors want. The whole intention of the program was to support decentralization efforts supporting the terms of the peace accord. By increasing the power of the Ministry, creating a reconstruction portfolio, and putting the NRSC under that Ministry, it appears to the people in the North and East that the program is becoming much more centralized -- exactly the opposite of devolution.

2. Most of the sectorial activities have been agreed to in principle after long planning and intensive debates. While they may not be the best solutions to the problems, at least they are acceptable to all of the major political factions. Now, many of the donors are sending design teams and consultants to work out the parameters of their contributions and are demanding that changes be made in the program that the government has spent several months working out.

In many cases, the changes that they are requesting appear to be based on assumptions that the programs are single sector activities. For example, in some areas, donors are insisting that the terms of the housing agreements be changed without considering the impact on the overall assistance (especially loan) structure. The housing consultants do not appear to be considering that most of the people have suffered losses in more than one sector, often they must also borrow money for economic activities such as agriculture and fishing.

SUMMARY: What was a fairly smooth program planning process is now becoming very confused and many people are becoming frustrated at the fact that the donors are only now showing up to "participate" in the program planning process.

Adjustment of Benefits for Families Assisted Prior to
December 1987 and May 1988

BACKGROUND: In late February, a number of voluntary organizations raised concern about the amount of assistance that people who returned to their homes before Dec.1 should receive. If a person returned to their home before December, they were only entitled to Rs 10,000, but if they returned after that date, they would be potentially entitled to Rs 25,000. Since December, other families have received housing allowances of 7,500 rupees and the amount will now be adjusted to Rs. 15,000.

In February, I recommended that we adjust our policy because:

1. Some people only received partial payments before the dates in question;
2. Record-keeping at the local level was not always entirely accurate;
3. Some people who received the payments need the larger sum.

There were some questions about how people who received houses from NGOs will be treated under the new plans. Will they be entitled to the full Rs 15,000 for example, or would we adjust this on the basis of need?

As a result of much discussion, the NRSC agreed that all people will be entitled to apply for the full package of benefits, even those who have already received smaller amounts. However, adjustments will take place after those who have not received anything have been serviced.

Each family will be interviewed to determine the amount of assistance required and the assistance will be issued on the basis of the findings of the interviewing officer. If people have already received a house, then they won't need the housing allowance. If however, people only received a smaller amount and had a core house put up by the NGO we will try to retroactively adjust the amount for the sake of equity.

Since the basis of the appeal for grant money was on the basis of people who had not received assistance (i.e., it excluded those who already had), we will need to appeal for more funds for the grant portion of the project.

Note: The central casework system will help take care of the confusion over this matter.

Housing Loans for People Who Have Already Rebuilt Their Houses

BACKGROUND: At a meeting of the NHDA district officers with the staff of the Ministry of Rehabilitation, a question was raised regarding whether or not persons who have already rebuilt houses under informal credit arrangements with friends, neighbors, or even contractors, will be eligible for loans or grants under the ERRP. The Secretary of the MOR replied that if people have already rebuilt their houses at the time the goes into operation, they are not eligible for any further assistance under the programme.

After the meeting, I raised the issue with several of the NHDA district officers. They informed me that large numbers of people have begun to rebuild houses in certain districts where the situation is relatively calm and in districts where the IPKF is not likely to conduct widespread sweeps or military operations. They claim that two patterns have emerged:

1. People borrowing on credit from local money lenders. Some of the wealthier people of the community have begun lending money to families to rebuild houses at interest rates of 20% to 30%. There are a variety of different credit mechanisms but generally families are asked to repay the money within a period of one year. The NHDA officers claim most people believe that they are going to receive a substantial amount of housing assistance, (up to 20,000 rupees). Therefore, they intend to pay the loans back once they receive their housing allowances. One of the officers said that in many cases, owners of larger farms have been providing cash to their workers so that they will stay on the land, (in Batticaloa district).

2. In Jaffna, Batticaloa, and Trinco, it was reported that people have made informal arrangements with contractors to rebuild their houses. The contractors have agreed to do the work on the promise that they will be paid once the housing grants have been issued. Quite a number of the housing officers said that the reconstructions in the Jaffna area are being done at little or no interest, while in Batticaloa and Trinco areas, contractors are charging up to 10%.

NOTE: In the Jaffna area, where houses cost several times what they do in other areas because they are made of cement block and because they are larger structures, the amount of the housing grant that people will be able to receive from the government will be fairly small. Furthermore, many of the people will not be eligible for grants must borrow the money at near commercial rates. The GA of Jaffna has been lobbying for increased assistance for people in the Jaffna area due to the fact that the houses are larger and more expensive. But, so far, the has refused to adjust the benefits for Jaffna, (see paper on Jaffna housing costs). It is unclear at this time if people are making these arrangements in expectation of an

upward adjustment for Jaffna or whether they are simply waiting to get a portion of the reconstruction paid for under a reconstruction loan or grant.

DISCUSSION: I feel that it is unwise for us to adopt a policy that says if people have already rebuilt a house damaged due to fighting that they will be ineligible for loans or grants. First of all, there is no additional burden on the since these people have already been enumerated in original assessments or in the subsequent updates of the damage assessment currently being carried out -- therefore money has already been earmarked for their houses.

Second, the fact that informal arrangements are being carried out, is a positive sign and should stimulate further demand for more reconstruction.

Third, and most important, we should not penalize people for taking the initiative to re-house themselves. As soon as their houses are rebuilt, the people will be back in the structures and not living in welfare centers and will no longer be eligible for immediate relief assistance. Therefore, in the long run, it is cheaper for us to go ahead and encourage early reconstruction since the welfare costs will be reduced.

In those cases where people have obtained loans through the formal lending institutions, assistance to help people refinance the loans at the lower ERRP rates, would not only be welcome but would certainly earn the a lot of "good will points" in the community.

ACTION: I have recommended to Austin that at the next NRSC meeting we take this issue up and try to come up with a revised policy statement. In the meantime, we need to get an estimate of how many people would be affected one way or the other by such a decision.

FOLLOW-UP: At the May NRSC meeting, retroactive assistance for all families was approved in principle and under the Unified Assistance Scheme, a methodology has been worked out to help families qualify.

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SECTION VII

MONITORING SYSTEM

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A. The Centralized Registration System

OBJECTIVES:

The objectives of a centralized registration system are:

1. To insure that all beneficiaries are properly entered into the caseload;
2. To insure that all beneficiaries receive all the assistance they are entitled to;
3. To reduce the likelihood that people will register more than once for their benefits;
4. To make sure that people are not lost in the system.
5. To provide a means by which people who feel they are entitled to more assistance can be given a chance to appeal their cases.

DESCRIPTION:

A centralized registration system depends on:

1. Using one interview and card to enter all families into the caseload.
2. Using standard registration cards. The cards should have small icons which depict the benefits or services for which a family is eligible and would have a built in carbon and copy.
3. Using only one source for all initial interviews for a specific area.
4. Establishing a panel to review cases that are appealed.

HOW THE SYSTEM WILL WORK

1. The Grama Seveka will be assigned the responsibility for carrying out the initial interviews.
2. A standard interview form or questionnaire will be designed for the Grama Seveka to use.
3. At the end of the interview, the interviewer will fill out a registration card that would list the families particulars and address and mark out the benefits for which the family is not

eligible by crossing out the icons. He will then sign the card, have the head of the family sign the card, then remove the carbon and copy. The card for the family will then be sealed in plastic. After it is sealed, the icons representing all the benefits for which the family is not eligible for will be punched out.

4. The family will then receive a printed list of instructions on where to go to obtain each type of assistance. They will also be given of list of NGOs working in the area so they could also apply to them for assistance. It would then be up to the family to go to the proper place to get the assistance.
5. The copy of the families card and the original interview will then be sent to the DRCC to be kept on file.
6. If a family felt that they should receive more benefits than the interviewer had allocated on the registration card, the family could petition the AGA to have their case reviewed by a panel made up of the assessors in the district. Decisions by the panel would be final.

BACKGROUND: In order to monitor the performance of the various subcomponents of the overall ERRP, a sophisticated project monitoring system is being designed. This system will permit the NRSC, the DRCCs, and the MORR to closely monitor the monthly performance of activities such as:

- loans and grants; including disbursements, loan performance and liquidity of the lending institutions,
- the impact that specific disbursements will have as measured by such factors as housing starts, number of fields rehabilitated and back in cultivation, the increase in the monthly and seasonal catches of various commercial fish, and the number of small businesses and microenterprises rehabilitated and back in operation. (A list of the key performance indicators in each sector is attached).

The system will work as follows: First, each of the larger districts will receive an IBM System II computer with a minimum of one megabyte storage capacity. (These will be provided under the UNDP Technical Assistance agreement). At the NRSC one System II will be installed with forty megabytes hard disc capacity.

The software for the system will be a combination of D-Base III with a Lotus Graphics Interface.

Almost all data will be collected at the AGA level, (in some cases district data will be sufficient). Each participating institution, such as a Thrift and Credit Cooperative Society, a bank, the AGAs disbursement agent or NGO, will receive detailed instructions on what information to collect each month. Data will be forwarded to the district level where the system operator (a computer programmer hired under the UNDPTA Agreement) will collect the information and enter it into the computer program. The district operator will perform a "first stage aggregation" of the information for use by the DRCC and GA and then send the data to the NRSC by diskette.

The computer operator of the NRSC will perform a "second stage aggregation" of the data and produce a monthly report showing performance in the key sectors by district and region.

The monthly reports will be used to monitor the overall reconstruction programme and make adjustments on a month-to-month basis. In some sectors, a quarterly report will be published by the NRSC for review by interested donors.

A semi-annual report will be prepared in all sectors prior to the donors' aid group meeting to give them an indication of the performance of the programme during the previous semi-annual period.

Most of the key indicators will be measured against targets established by the DRCCs and the NRSC during the preparation of the district reconstruction plans. The information will be graphed and measured against performance curves based on the targets which have been entered into the computer programme. In this way, all of the performance can be visually monitored and performance and the reaction to adjustments can clearly be seen.

Criteria for Evaluating Reconstruction Projects

BACKGROUND: The following criteria will be used when evaluating whether or not to undertake a particular reconstruction project and determining how it should be structured:

- 1). Total cost
- 2). Annual cost
- 3). Donor interest
- 4). Percent of the total reconstruction programme budget
(Is it disproportionate?)
- 5). Loan and grant components
- 6). Loan terms
- 7). Eligibility criteria for both loans and grants
- 8). Debt burden on the disaster victims
- 9). Debt burden on the country
- 10). Contribution to longer term development
- 11). Overall contribution to reducing points of conflict
within the community
- 12). Jobs created
- 13). The number of people served
- 14). Segments of the community served
- 15). Number of spin-off jobs likely to be created
- 16). Will the programme contribute to stimulation of the economy
or is there a danger of stagnating the economy?
- 17). Priority of the project in relation to people's priorities
- 18). Priority of the project in relation to other projects
- 19). Ease of administration
- 20). Contribution project will have to restoring critical government
services, public services, and or facilitating operations in
the area

Registration During a Period of Uncertainty

BACKGROUND: By mid February, plans for the unified registration system had been completed and the forms were ready to print, however, due to the continuing unstable situation in the North and East, several GAs expressed reluctance to go ahead with the registration programme. They expressed concerns that:

1. people would be reluctant to register (not wanting to be on anyone's list);
2. they would be suspicious of any attempts to register them; and
3. they would not be willing to give accurate information.

The GA of Jaffna also worried that when people realized that the benefits would be determined by a person's income and circumstances, that there would be tremendous pressure on the interviewers to qualify everyone for the maximum benefits. Not only could people threaten the interviewer since thousands of guns were still in the areas, but also the interviewers would naturally be sympathetic towards all of the victims and might not have the fortitude to withstand pleas for assistance for which a family didn't actually qualify.

To overcome this latter set of constraints the GA proposed to establish three person teams or assessment panels that would conduct the interviews qualifying people for benefits.

Operationally, the NRSC felt that the panels were unwieldy and too expensive. We argued that the panel members could be threatened just as easily as one person and could be just as easily persuaded to increase benefits. We also felt that having three interviewers agree to the higher benefits meant that there was "safety in numbers" and that it would be harder to correct any tendency to over-qualifying families if it was done as a group.

Finally a compromise was reached. It was decided that individual surveyors would carry out the family interviews and register each family and that a panel of civil servants would be formed at the AGA level to hear appeals for persons or families who felt they had not received all of the benefits to which they were entitled. By instructing the interviewer to tell the family about the appeals panel at the outset of the interview, it was felt that he would feel much freer to honestly qualify people for benefits knowing that if the people were dissatisfied and wanted to ask for more, he could tell them to make an appeal to the panel. With this "pressure release valve" in place, registration was scheduled to begin in early May.

Ethnic Issues in the Project Monitoring System

DISCUSSION: The indicators and the proposed targets for the monitoring system have been developed with inputs from the DRCCs, the NRSC, the MORR, USAID, the World Bank, the ADB and the Donors' Coordinating Committee in Sri Lanka. The NRSC and all donors appear to be satisfied with the indicators that have been established and for the most part the DRCCs and the GAs feel that the information can easily be obtained. However, several GAs have expressed reservation about the feature of the system which permits monitoring the ethnicity of the beneficiaries. While they agree that most of the information will be easy enough to obtain since a person's name, village and in some cases, type of work can identify to which ethnic group the person belongs, they fear that such information could be dangerous to collect.

The NRSC have already discovered that in some of the district plans there have been little or no assistance programmed to non-Tamil communities and have learned that this is due to pressures by the militants on the GAs*. Therefore, it is not surprising that the GAs should be reluctant to collect information that would highlight this discrepancy and collecting certain information may, in fact, put them at some degree of risk.

I feel that it is important that we stand firm on this issue. If we take the ethnic monitoring capability out of the system we have no basis on which to seek corrective measures when gross discrimination occurs. Other members of the NRSC staff, however, feel that the information may be too sensitive at this point and agree that we should leave the capability in the system but simply not ask that the information be forwarded. If things change in the districts, we could go back and collect it at a later time they agree.

* Some of the GAs argue that the reason that the district plans contain no provisions for assistance to non-Tamil communities is that those people are currently not living in the district or in their homes. They argue that since the people have not returned they should plan to provide them with assistance. In some cases, the communities are deserted but in others that we have checked, people are still living in those communities or have returned and are in need of assistance.



SECTION VIII
DONOR COMMITMENTS

Page





SECTION IX

DAMAGE ASSESSMENTS

A. PROJECT ISSUES

Page

1. Damage Patterns Resulting from the
October IPKF Offensive

1

Damage Patterns Resulting From the October IPKF Offensive

BACKGROUND: During the October IPKF offensive against the LTTE in the Jaffna peninsula, a pattern of damage emerged which we have not seen in other areas, specifically, the damage to small businesses located in the areas between Jaffna and the Palaly airport.

Almost all of the roads in the Jaffna peninsula are paved and quite a bit of traffic transits the roads from Jaffna town to the northern coastal towns of Point Pedro, Kankesanturai, and Valveddetturai as well as to the Palaly airport. In addition, a number of east-west roads extend throughout the peninsula connecting the outlying villages to the main Jaffna residential zone.

In almost every location where major paved roads intersect, small strip commercial shopping areas have been built. Normally, anywhere from 10 to 40 shops might be found at one of these intersections, depending on the density of the traffic passing on the two intersecting highways.

Because most of these strips consisted of concrete block structures with reinforced concrete roofs, they made ideal positions from which to ambush advancing troops. What ensued were a series of battles to control the roads, with the militants establishing roadblocks and ambush points at each of the intersections. The IPKF assaulted them with heavy mortars and light artillery, rocket launchers and satchel charges.

The result is that large numbers of these small shops and stores have been destroyed. If one drives from Jaffna town to Palaly airport, every intersection shows extensive damages, most in the range of 80-100%. Only a few of these strips have begun to repair or reconstruct.

DISCUSSION: The absence of reconstruction can be linked to two factors:

- 1) continued instability in the area, and
- 2) the fact that most of the shops are not owner-occupied.

Many of the shops are reported to be owned by persons living outside of Jaffna. Residents claim that a large number of the shops are owned by Sinhalese and that a substantial portion are owned by Jaffna families that have fled to Colombo or have temporarily moved abroad. In either case, it is unlikely that there will be immediate funds available for the reconstruction of the damaged buildings.

There is some sentiment on the part of the people in the Kachcheri to acquire the demolished buildings under government condemnation procedures and to sell the land back to local people who will rebuild the damaged structures. Their strongest argument is that both the reconstruction of the buildings and the new businesses will provide work for the people who are currently unemployed or are unable to resume their normal economic activities.

Any actions to acquire property through condemnation is likely to create controversy on both sides. If land is taken from Sinhalese or Muslims, there will be an outcry in Colombo. If land is taken from Tamils who have temporarily fled the area, there may be problems once they return. (I suspect that the property owners are fairly wealthy and have some political influence no matter which ethnic group they belong to).

There is also some concern that expropriation procedures may be viewed negatively by the donors. In 1985, when the Mexican government expropriated slum properties that had been damaged and were not being rebuilt by the owners following the Mexico City earthquake, the American government was mandated to withdraw its offer of assistance to Mexico by the right-wing element in the Senate and much of the private funding that came from the American Chamber of Commerce and other groups was terminated.

There is also some question about what mechanisms exist under the ERRP for such actions. World Bank funds cannot be used for expropriation and it is unlikely that other donors' monies can be used for that purpose. Therefore, the burden of expropriation would fall to the government of Sri Lanka and under the existing circumstances, it is not likely that expropriation will occur.

This leaves us with a major problem of how to restart these small businesses. As many as 1,000 such businesses may have been affected. Strategies such as land swaps, providing alternative building space, etc., would have only limited impact due to the scope of the overall need.

RECOMMENDATIONS: I have recommended that we set up a small planning group to review our options in this area and to find what alternatives to expropriation are available. Depending on the circumstances, we may be able to purchase some of this land from Sinhalese who have fled the area. In the long run, however, I believe that this will only be a small portion of the land that we need.

NOTE: The severity of this problem should not be underestimated. Following the riots in 1981, areas of the central business district of Jaffna were burned out. Few of the owners attempted to demolish or rebuild those structures. Thus, for eight years a visual reminder of the government's inability to act and to restart economic activities has remained in the middle of the community. That, along with the Hindu library, the Jaffna Municipal building and many of the other structures that have been damaged in earlier times point to the government's inability to deliver reconstruction services in the North and East.



SECTION X

REFUGEES

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A. Description of the UNHCR Repatriation Programme

Repatriation Process

The repatriation program of the UNHCR works as follows:

1. Refugees are interviewed in the refugee camps in India to determine whether or not they wish to voluntarily return to Sri Lanka at this time. (There is some question as to whether or not this procedure actually takes place or not. Until mid-April, UNHCR did not have repatriation officers in the camps and there were claims that refugees were being forcibly returned by the Indian government.)
2. The Indian government transports these people desiring to repatriate to the port of departure, and puts them on a ferry, and brings them to Sri Lanka. The ferry has been provided by the government of India.
3. The refugees disembark either at the port of Talaimannar or at the KKS pier north of Jaffna.

Upon arrival, the refugees are brought into the reception hall at the customs facilities at the port. There each family is interviewed by Field Officers of UNHCR to ascertain whether or not their return is entirely voluntary.

4. If the refugee says that it is voluntary (and all but one family have said so), the people are then turned over to the Sri Lankan immigration authorities who process the people and issue them their temporary papers.
5. Once cleared by immigration, the families are taken to a temporary reception center where they are given a medical check and a hot meal. Usually, the families spend the night at the reception center and are given a series of briefings by personnel from the MORR about the assistance they are entitled to receive once they have been returned to their village.
6. The next morning, buses arrive to transport each family back to their original homesite or village.
7. The GA of the district in which they reside is notified that they have returned and a caseworker is assigned to process them into the caseload system.

Assistance

Once a family has returned to their village they become the responsibility of the MORR and are treated as any other displaced person returning to their home (i.e., they are eligible to receive dry rations, the Rs. 2,000 settling-in allowance, Rs. 15,000 housing allowance, Rs. 4,000 Productive Enterprise Allowance.

Originally the assistance package that displaced persons were to receive included a matching grant from a NGO for housing. When it became obvious to UNHCR that no NGOs were coming forth with this aid, the representative of UNHCR, Kassidas Rochanikorn, signaled UNHCR's willingness to provide in-kind materials to the returning refugees to make up for the portion that the NGOs had been expected to provide. Recently they agreed to continue to provide that assistance even though the government has now proposed to raise the government's contribution to Rs. 15,000 thus eliminating the requirement for a NGO matching contribution.

The Impact of Repatriation on the
Mannar District

The Mannar District lies on the northwestern edge of the island. TalaiMannar Island, which is connected to the main island by a short causeway and bridge, juts westward approximately 30 kilometers reaching towards the southeastern tip of India just 30 kilometers away. The ferry between TalaiMannar Island and Rameswaram, Tamil Nadu, is the traditional gateway to and from India.

The area is flat and dry; there are no forests. Overall, it is one of the poorest areas in the country. Most of the inhabitants are farmers or fishermen. The bay north of Mannar Island is shallow and considered unproductive for large-scale fishing. Nevertheless, many of the people in the area do fish, although most are only subsistence fishermen who stay close to the shore and live along the bay shore in extremely marginal huts made of wood sticks and cadjan mats.

Farms in the area are generally quite small, averaging less than 1.5 acres, and irrigation systems are not as well developed as in other parts of the north and east. Agricultural production in this district is one of the lowest in the country.

Christians form the largest (42%) religious group (most fishermen are Christian), followed by Muslims (28%) and Hindus (27%).

ORIGIN OF THE REFUGEE PROBLEM

A. Pattern of Conflict: The Sri Lanka Army (SLA) maintained a base near Mannar town at the beginning of the conflict. During the fighting, the base became an important command post for the army, not only for land operations in the zone but also as a base for interdicting arms shipped from India. Helicopters operating out of the base were assigned to monitor the Palk Strait and attack boats suspected of carrying arms. The level of conflict around the post was intense and many surrounding villages were completely demolished. Approximately 25,000 people were displaced in the fighting.

As the fighting escalated, large numbers of Tamils began to leave Sri Lanka for India. From 1983 to the end of 1984, the ferry between Sri Lanka and India was still operating; the people who left entered India legally and went through normal customs formalities. Most were given temporary work permits and settled with relatives or friends. The numbers, while large (approximately 150,000), were manageable since the inflow was gradual and the people were quickly absorbed. None of these early refugees were in camps.

- B. The Exclusion Zone and Subsequent Refugee Migration: In early 1985, in order to stem the flow of arms to Sri Lanka, the government declared an exclusion zone in the Strait and warned that any boats in the zone would be subject to attack by the Sri Lanka Armed Forces. Helicopters began armed patrols over the area and several boats were attacked. As a result, the fishermen of the area suddenly found themselves unable to sustain their livelihood and, within only a few months, almost 40,000 fled in their boats to India with their families. Due to the large number of sudden arrivals, the Government of India established a series of refugee camps for the newcomers.
- C. Recruitment of the Refugees: Once the refugees were placed in camps, they became easy targets for rebel recruiters, and overnight the LTTE ranks swelled. Training bases were established near the camps. Soon many of the men were making their way back to Sri Lanka as insurgents. Throughout the remainder of the conflict, the refugee community supplied the bulk of the rank and file fighters.

IMPLICATIONS

Refugees and displaced persons from Mannar may have a significant impact on the reconstruction program for several reasons. First and foremost, a high percentage of the rebel forces that are still armed are from Mannar. Since the area is so poor, it will be hard to provide good work for the people in the area. Even Mannar town is not likely to generate much new work; the levels of damage in the town are light and will not create many new jobs. Housing losses in the surrounding area are heavy but the houses are likely to be rebuilt by the owners themselves, not by contracted laborers. A restless, armed population could be very problematic.

Problems are likely in providing initial assistance to the families of fishermen. Since their houses were made of sticks and mats, most deteriorated quickly and vanished during the time they were gone. When the government enumerated damaged structures, there was nothing to see; thus, the huts were not listed in the damage figures. Since the refugees were still in India, there was no one to interview regarding damages, so most of the fishermen and their families are not on the lists.

While replacement of the huts will not be a problem because most of the materials can be found locally, the families' eligibility for financial compensation may be affected since at present eligibility is determined by losses to property, i.e., if you lost your house, you are entitled to various indemnities; if your damaged house is not on the rolls, you don't qualify. In Mannar, it will probably be necessary to re-enumerate the lists to qualify all those entitled to aid. How quickly and thoroughly this is done will be an important factor in determining how smoothly reconstruction proceeds in the area.

A social problem that the government will face is that many of the returning refugees are widows of LTTE fighters. UNHCR reports that a high percentage are from Mannar. UNHCR also reports that most have dependent children. Unskilled widows will require special services, and new job opportunities need to be considered. Specialists in "women in development" programs should be engaged early in the reconstruction effort.

A final consideration is the drought that is affecting the zone. Not only will this create additional hardship on the farmers in the area but, if food shortages develop, food prices are likely to increase. Given the lack of jobs, the cost of reconstruction and other factors, rising food prices could lead to widespread malnutrition and could trigger social unrest.

RECOMMENDATIONS

For all the aforementioned reasons, the Mannar District should be designated a special priority zone for reconstruction.

- A. Integrated Reconstruction Program: As a first step, all reconstruction efforts should be integrated to achieve the maximum impact. An integrated reconstruction program, using many of the same techniques for planning and programming funds as IRDPs, should be considered for the coastal zones. The reconstruction program should be designed to make long-term contributions to development of the area.
- B. Special Assistance for Returnees: In discussions with the UNHCR assessment mission (led by Kasidis Rachanakorn), I have recommended that they enter into a collaborative program with the government and a large NGO (such as CARE) to initiate a series of special assistance projects that are targeted generally at the refugees but will also support the integrated reconstruction program suggested above. Among the programs that I have suggested are:
1. special assistance for women with dependent children.
 2. creation of special jobs programs to provide interim work for fishermen and low-income farmers.
 3. programs for rehabilitating and improving the fishing sector, such as provision of technical assistance to organize fishing cooperatives, possibly around the "cooperative boathouse" concept.
 4. Assistance in reconstruction of fishing villages with special attention focused on planning, provision of decent services (especially clean water), and upgrading the housing standards of the people.

European Refugees

During the conflict, a large number of Sri Lankans immigrated and sought residence in countries such as Britain, Canada, France, Germany and Switzerland under the status of refugees. Since the Indo-Sri Lankan Accord, many of these host governments have sought to repatriate the Sri Lankans citing the accord as proof that it is now safe to return. Among the countries most anxious to be rid of these refugees are Canada, Germany and Switzerland.

It is unknown how many of these people are actually refugees and how many are simply economic migrants. So far, the government of Sri Lanka has made no attempt to facilitate their repatriation presumably because the immigrants are sending large amounts of money back to their families in Sri Lanka which helps Sri Lanka's foreign currency situation.

At present the issue has not surfaced as a major political issue nor one affecting the reconstruction programme. However, in recent donor coordination meetings, the number of queries we have received from countries such as Canada and Switzerland regarding agreements to repatriate these people could indicate that reconstruction aid may soon be made contingent upon the government of Sri Lanka taking more active steps to bring these people home.

The position of UNHCR so far is that these people are economic migrants and not refugees and therefore, are not of concern to the High Commissioner. The Deputy High Commissioner for Refugees, Gene Dewey, told me that he felt that pledges to the Sri Lanka reconstruction programme were higher than expected because some of the donors intended to use the funds to "leverage" favorable repatriation agreements.

1.

PROJECT ISSUE

Refugees Entering at Trincomalee

BACKGROUND: The Indian government has made several attempts to open a repatriation facility at the port of Trincomalee. They have argued that the port has better facilities and can accommodate larger ships and repatriation could be accomplished faster.

Until recently, the government of Sri Lanka resisted Indian attempts to bring refugees in through the port of Trincomalee because they feel that it is a move by the Indian government to put more Tamils into that district and change the ethnic balance in favor of the Tamil community (at present the ratio between ethnic groups is roughly proportioned to one-third Sinhalese, one-third Muslim and one-third Tamil). They believe that ultimately the Tamils will be more sympathetic to India on questions regarding the use and control of the port.

The Sri Lankan government has been very insistent that all refugees be repatriated through Talaimannar and more recently through the KKS wharf near Jaffna. They argue that since almost all refugees are from the west and northern districts of Mannar, Kilinochchi, Vavuniya and Jaffna that there is certainly no need to bring people in through Trincomalee on the east coast.

The issue has taken a more important aspect now that it is known that a significant portion of the returning refugees are Estate Tamils. Since it can be argued that the Estate Tamils have no permanent home, an attempt by the government of India to bring refugees through Trincomalee could easily be interpreted (and is being interpreted), as a move to change the ethnic equation in the district by making it easier for these Tamils to settle into the community. (Since they are "Indian" Tamils, presumably they are even more prejudicial towards India, some anti-Tamils claim.) In some peoples' eyes, the perception that India plans to settle Estate Tamils anywhere reopens the question of the Indian government's intentions vis-a-vis the Estate Tamils since, under the Peace Accord, the GOI is supposed to be facilitating and speeding the resettlement of the Estate Tamils to India.

Any resettlement in the Trincomalee district is also very sensitive from another viewpoint. During the conflict, the Sri Lankan government pursued a number of settlement schemes in or near the district, moving Sinhalese families into new villages. The villagers were armed and organized in cadres of "Home Guards" and were tasked with wresting control of the rural areas from the Tamils. The LTTE and other groups reacted by trying to drive the new settlers off and many massacres were perpetrated on both sides as a result of these settlement programmes. Even after the cease-fire there are reports that the government has tried to again resettle Sinhalese in the area.

UPDATE: In recent weeks (June 1988) the government has shown a willingness to consider bringing refugees into Trinco. This is because:

1. Most of the people who are to go to the North districts have already been brought in.
2. To take the Tamils who live in Trinco or the East to their homes, the buses must pass through several Sinhalese strongholds and there are fears that there may be incidents, especially attacks by former homeguards who have applied for, but not received, resettlement assistance.

Estate Tamils Who are Repatriating from India*

BACKGROUND: In mid-February we received reports that several "Estate Tamils" were being repatriated from India. It was unclear what the government's policy would be since under the Sirima-Shastri agreement, they might be considered "Indian citizens". The issue is potentially very explosive. Several questions were raised. First, if they came back, should UNHCR be allowed to offer them assistance? Second, where would we send them? It may be difficult to get them to move back to their original areas. Third, what was their legal status? Many of these people obtained Indian passports under the Shastri agreement as "insurance" following the 1977 riots, but they may have destroyed their papers in an attempt to stay in Sri Lanka.

DISCUSSIONS: On Feb 27, I discussed the issue with Austin. We decided that if the people were already settled in the N. or E. and that if they could get by the immigration people at Talaimannar (the western reception center) that they could be assisted by UNHCR the same as all other returnees.

We explained our policy privately to UNHCR and the GAs in the area. Privately, we worried that if the people were stopped by Immigration, it would be difficult for us to intercede.

Later, I had lunch with Kassidis to discuss his program and the assistance they are giving to the returning refugees. He brought up the matter of returning Estate Tamils. I told him of the policy that Austin and I had worked up a few days earlier and told him that everyone could be assisted once they had cleared Immigration. (He reported that there was only one case so far of anyone being returned. I told him that we did not want to commit anything to paper on the policy but that Austin would be talking to the GAs and clarifying our position to them.

In mid-March the problem came up again when larger groups of Estate Tamils began showing up at the new Jaffna repatriation center at the KKS pier. (At Talaimannar, it had been fairly easy for them to hide since the people coming in there knew the Mannar district and the immigration staff was sympathetic to their cause. At KKS, the Jaffna Tamils quickly spotted them and pointed them out to Immigration.) Austin's solution was to get the GA of Vavuniya to issue them producer's permits in that district and to tell the Indians to identify the Estate Tamils in Tamil Nadu and make sure they were repatriated through Talaimannar. However, UNHCR was running scared by the numbers and Kassidas pushed for a more formal arrangement. Bandaragoda then got approval (from the President?) to give all returning Estate Tamils producers' permits for one year. This gives the government time to work out a permanent solution in the overall context of the Accord. It also could signal a major policy shift in this group and in the future could:

- a. lead to a large displacement of people from the hill country to the North and East (since any change in status would likely set off riots and flight from the estates); and
- b. could be a group added to the caseload of the ERRP, since after legalizing their status many might choose to return to their original houses.

MEMORANDUM FOR THE RECORD

1. SUBJECT: [Illegible]

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- 2. [Illegible]
- 3. [Illegible]
- 4. [Illegible]

SECTION XI

OPERATIONAL PROBLEMS

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Coordination of a Decentralized Programme

BACKGROUND: Under the terms of the Indo-Sri Lanka Peace Accord, a broad programme of decentralization of government services and functions is to be carried out and the reconstruction programme was structured to support this devolution of power. Operationally, an interim structure was needed until provincial council elections could be held. Therefore, a series of District Reconstruction Coordinating Committees, (DRCCs), made up of persons at the district level from government, NGO and respected private citizens was set up.

At the national level, the intent of the planners was to ensure that the programme did not become centralized; thus coordination was entrusted to a committee rather than to a specific ministry. This committee, the National Reconstruction Steering Committee, (NRSC), was to have a part-time Chief Executive Officer, (CEO), and a full-time staff of programme specialists who would help coordinate the funding of activities and ensure coordination between the line ministries.

In mid-March, four and a half months after the reconstruction programme was formally established, the government decided to restructure the administration of the programme at the national level. The Ministry of Rehabilitation, which heretofore had been a project ministry, (i.e. a junior ministry), was elevated to Cabinet level status and the portfolio of the minister was expanded to include reconstruction. The NRSC which previously had reported to the Ministry of Finance and Planning, was subsequently placed under the expanded Ministry of Rehabilitation and Reconstruction, (MORR). Subsequent to that move, a decision was made to channel all reconstruction monies through the MORR then onward to the line ministries or district.

DISCUSSION: These changes illustrate the difficulties of managing a major reconstruction programme during an effort to devolve authority to the district level. Several issues are apparent:

1. It is difficult for a committee at any level to manage such an immense programme. At the most, NRSC meets but once a month. In theory it is only supposed to approve plans generated at the district level and to coordinate among plans of the line ministries. In practice, the district committees take their cues from the NRSC and the line ministries tend to operate independently. In the initial stages of the programme, the ministries have shown a marked reluctance to decentralize their functions and in one case, (Ministry of Education), they have actually entered into their own agreement with a donor for reconstruction of schools and rehabilitation of the educational system in the North and East without consulting the DRCCs or the NRSC. Since the NRSC has no funding control or authority, it is powerless to prevent such an action.

2. Technical assistance problems: International donors must work through the national, not the provincial, government. When offered technical assistance there is a tendency on the part of the national government to concentrate more on the needs of the central government rather than on the districts. A case in point is the UNDP Technical Assistance Agreement with the NRSC. The intent of the agreement was to attract the top persons to the NRSC and to the DRCCs since these jobs in theory are short lived. The UNDP offered to provide higher than the normal salary scales for people working full time with either committee. However, the salary scales were still disproportionate in that persons working at the national level received a higher salary than persons working at the district level.

The new Secretary of Rehabilitation and Reconstruction views the Technical Assistance agreement as disruptive to his plans to upgrade the staff of the ministry. As he tries to build his staff to cover the expanded portfolio, he must recruit from the same pool of top civil service officers as the NRSC. Since the pool of Tamil officers in civil service is limited, the best may be drawn off to the NRSC where they receive salaries twice as high than they would receive in the MORR. The T.A. agreement also tends to discourage decentralization. At a time when there is a clear need to strengthen the district governments, the best persons are being drawn to Colombo.

3. Costs of decentralized government: In all of the plans to decentralize government people have failed to realize that the initial costs are going to be much higher than operating a centralized government system. An example is REPIIA. It is the intention of the Ministry of Rehabilitation to devolve the REPIIA function to the district level. At present, applications are made to REPIIA through the GAs and then forwarded to Colombo where the REPIIA staff reviews them and whether to approve or reject. Under the present arrangements, if a person wishes to appeal a REPIIA decision he must travel from the affected area to Colombo to make the appeal. Under the present circumstances, few people are likely to do so.

In order to improve and speed the process it has been decided to devolve the REPIIA functions to the district level. Secretary Fernando initialled a plan presented by his staff in early March that would set up REPIIA offices in each of the larger districts. The plan was generally favored by the GAs.

When Secretary Bandaragoda assumed the reins of the new MORR he reviewed the new decentralization plan and proposed that instead of creating district offices for REPIIA, a REPIIA function, or wing, be established in each Kachcheri. His idea was to limit the growth of bureaucracy at the district level. The plan was generally not favored by the GAs since they felt that having an office that could make all of the major decisions locally was a move towards decentralization whereas simply having a wing, even though more bureaucratically manageable, symbolized that control was still in Colombo.

In summary, even though the initial costs may be higher, in order to prove that the government is serious about devolution, some concessions may have to be made to give segments of the reconstruction programme over to district level administrators.

Difficulties of Coordinating Activities for Maximum Impact

BACKGROUND: When the reconstruction programme was established in September, it was the intention of the planners that activities in the critical sectors, (e.g. housing, agriculture, etc.), be supported by initiating reconstruction activities in the other sectors that would generate employment. For example, work on road construction in a particular area was to be scheduled at times when rural farmers would not be cultivating, so that they would have additional employment opportunities to earn money to help rebuild their houses or to acquire implements, seeds, etc.

Due to the fact that we are now commencing most of the reconstruction activities, during a period when peace has not been restored to all of the areas and isolated conflicts still continue, scheduling sectoral activities to generate maximum employment opportunities is extremely difficult. Since one of the major objectives of the reconstruction programme is to initiate activities in support of the peace process, activities in housing, agriculture, etc., must proceed wherever the situation allows. We can often work in one sector but not in others, for example, we can begin housing in certain Tamil areas because loans or grants are issued directly to the victims, but often reconstruction of roads, carried out by the highway department in the same area, cannot commence since those activities may be disrupted by the militants and the vehicles and equipment might be taken. In other areas, (especially those of other ethnic groups), we are able to do roads but not do housing since it appears that the militants will not permit us to provide housing assistance to certain Sinhalese or Muslim communities.

DISCUSSION: For the above reasons, the total combined benefit of the programme may be reduced and the impact we had hoped to have by pouring millions of dollars into the devastated economy in an initial "quick jolt" to stimulate a wide range of spin-off economic activities will probably not be possible. Ultimately, this means that:

- a. People who do earn money under the reconstruction programme will probably hold onto it as long as the situation remains unstable politically. We cannot expect to see large amounts of money circulating to the various sectors.
- b. The long-term cost of the reconstruction programme is likely to be greater since spin-off activities that would create additional jobs will be slow to start and people will become more dependant on reconstruction and rehabilitation work during the interim period.
- c. The fact that the immediate economic impact of the ERRP will be reduced means that the reconstruction programme will not have as great a chance initially of supporting the peace process. There is no doubt that we can continue to carry out a wide range of physical reconstruction activities, but economic reconstruction, which is the most important support for peace, and massive, full-scale, mutually supporting reconstruction activities that would create a "boom" undercutting support for continued militancy, is not immediately likely.



SECTION XII

LOAN AND GRANT DISCUSSIONS

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A. CREDIT ANALYSIS*

The Institutional Framework

The financial system of Sri Lanka is dominated by the two public domestic commercial banks, the Bank of Ceylon and the Peoples Bank, which together account for approximately 75% of total deposits. Supplementing these are two private domestic commercial banks, two industrial development banks, four regional rural development banks, the National Savings Bank, twenty one foreign commercial banks, 24 foreign currency banking units, fifty finance companies providing leasing and hire purchase facilities, three major leasing companies, and several provident funds and insurance companies.

The relative significance of the types of financial institutions is shown in Table 1.

Table 1
Loans Outstanding: December 1986

	Lending Rs.mln.	% of Total
Commercial Banks: Agriculture	4,216	8.2
: Non-agriculture	38,517	75.1
Finance Companies	1,663	3.2
Cooperative Rural Banks	295	0.6
Thrift & Credit Cooperative Societies	420	0.8
National Development Bank	1,947	
3.8		
-----		-----
	47,058	91.8
Other Development Financial Institutions	1,960	3.8
Development Finance Corporation of Ceylon	1,257	2.5
Insurance Companies	987	1.9
	-----	-----
	4,204	8.2
Total Loans Outstanding	Rs.51,262	100.0

(From Central Bank Survey 1986)

Within the affected Northern and Eastern Districts, Table 2 shows the branch networks of the major commercial banks. The number of branches operating effectively is less than those shown

*By David Lucock, Development Alternatives, Inc.

as the banks are restricting their cash handling transactions to the major cities only until security improves. The table shows that in the immediate term, it is only the Bank of Ceylon (BoC) and the Peoples Bank (PB) that have an extensive network in the affected area. In the case of BoC this is complemented by a sub-system of Agriculture Centers within certain of the Agrarian Service Centers while the PB has linkages with the Cooperative Rural Banks.

Table 2
Network of Commercial Bank Branches

District	Popul- ation '000s	-Major Commercial Banks-				Total Number Branches	Popul'n Per Branch
		BoC	PB	HNB	CBoC		
Trincomalee	292	3	4	1		8	36,500
Ampara	439	9	7			16	27,438
Batticaloa	378	5	7			12	31,500
Kilinochchi)							
Jaffna)	915	8	11	1	1	21	43,571
Vavuniya	108	1	1	1		3	36,000
Mannar	120	1	1	1		3	40,000
Mullativu	86	2	1			3	28,667
	-----	---	---	---	---	---	
	2338	29	32	4	1	66	

Major Credit Schemes

In recent years, the GSL has tried to stimulate lending in key sectors through schemes of re-financing from Central Bank. There are 29 such schemes operated through the Central Bank but these are generally under-utilized: 10 schemes have not made any disbursements and, of the remainder, the range of utilization is between 3% and 50%. These schemes seem to have had little affect on the total supply of agricultural credits, although credits may have been smaller in their absence, and very little positive impact overall. This can be seen in the extent of financial deepening in the agriculture sector and the total economy in Table 3. Over the last decade total domestic private credits as a percentage of GDP have almost doubled while those for agriculture show smaller and variable annual increases of 16% to 60%.

Table 3

Year	Agricultural Credits as % Agric. GDP	Total Private Sector Credits as % Total GDP
1976	7.2	14.9
:	:	:
1981	12.6	27.7
1982	12.2	26.4
1983	10.6	28.3
1984	8.4	28.7
1985	8.6	27.5
1986	11.6	27.1

Since 1978, the only noticeable trends in sectoral credit allocation by the commercial banks have been: 1) a decline in the share of agriculture; 2) an increase in the share of housing; and 3) contrary to normal expectations, a fall in consumer credit share. The commercial and industrial sectors have maintained their share at about 70% of total credits. These trends are outlined in Table 4.

Table 4
Loans and Advances of Commercial Banks

	1978		1983		1986	
	Rs.mln.	%	Rs.mln.	%	Rs.mln.	%
Commercial	4,028	45	15,262	48	20,391	50
Industrial	2,191	25	6,831	22	7,946	19
Agriculture	1,415	16	3,418	11	4,217	10
Housing	296	3	1,982	6	3,440	8
Consumption	252	3	488	2	638	2
Other	666	8	3,437	11	4,301	11
Totals	8,848	100	31,418	100	40,933	100

In 1981, total refinancings for agricultural crop and cultivation credits were Rs.146 million with a further Rs.214 million for the GPS (Guaranteed Price Scheme): a total of Rs.360 million. Refinancing for other subsectors, including medium and long term credit finance for industries, fisheries and non-crop agriculture, amounted to a further Rs.1048 million. Total refinance was Rs. 1,408 million which was 8% of total private sector domestic credits. Total refinance provided in 1986 was Rs.3,169 million and this was 8.6% of total private sector domestic credits. Although these low interest credits reflects

the GSL's commitment to subsidize certain sectors by offering loans at less than the prime rate (currently in the range 12.5% to 14.8%) they still only account for a small segment of the total market. In 1986, refinance provided to agriculture was Rs.221 million and for GPS it was Rs.558 million. In real terms, agriculture crop refinance credits have been declining and are now less than 53% of their 1981 real values.

It generally is estimated that the formal credit sector provides only 20% of total credit in the rural areas. Over a national population of 1,800,000 farmers, only 42,000 (2.3%) in 1986 had short and medium/long term loans obtained under Central Bank re-financing facilities. The amount obtained, Rs.450 million, is a small proportion of total agricultural credits, and have gone mainly to estates, export credits, and GPS financing. The rural community obtains most of its financing needs from relatives, pawning facilities, money-lenders and traders. Despite the apparently high interest rates charged by these sources, generally in excess of 28% per annum, the immediate and easier availability of such credit may make it cheaper than borrowing from banks using low interest Central Bank refinance facilities. For a small loan from a commercial bank, or a CRB, the borrower may need to wait as long as three months to receive loan approval and, in the case of the NCRCS, travel to a bank branch three times after approval to collect three disbursement tranches. A study of interest and transaction costs of borrowing in the Anuradhapura District showed an effective cost of such formal borrowing of 34.7% for loans up to Rs.2,600 and 29.2% for larger loans up to Rs.4,300. These rates are higher than borrowing informally against pawned assets.

The financial institutions handling programmed agriculture credit incur losses in the process. The banks' spread on NCRCS loans is 7.5% (1.5% re-finance rate and 9% on-lending rate) and on medium/long term agricultural lending is 4% (8.5% --> 12.5%). A spread of between 4% to 7.5% is needed to cover the administrative costs of lending to small borrowers but is not enough to cover losses due to late repayments and bad debts. The average recovery rate of NCRCS loans over the years, excluding 1977/78, is about 70%. Excluding any loan guarantee scheme, a risk premium of 46% would need to be charged to cover losses and the 7.5% administration costs. A more efficient rural credit system could obtain loan recoveries of about 90% and hold administrative expenses to about 6%. However, even at this level of efficiency, the risk premium charge would still need to be about 11.8% to cover losses.

Attitudes of lenders and borrowers have polarized over time. In the past, little action has been taken against non-payments of debts. This has led to the perception of Government sponsored loan schemes as "grants". Poor loan recovery rates and a difficult and slow debt recovery legal system have caused banks to impose barriers to rural lending.

Candidates for borrowing must go through difficult and time-consuming loan application procedures. The result is a feeling of hostility between the parties that is not conducive to a deepening of mutual interests. In the last two years, most of the NCRCS lending in the North and East has been through the Bank of Ceylon and the CRBs. The loan arrears rates for these, compared with the remainder of the country, are shown in Table 5.

Table 5
Paddy & Subsidiary Crop Lending: 30 June 1987

District	Bank of Ceylon Arrears %	CRBs Arrears %
Trincomalee	42.9	80.7
Jaffna	62.7	87.8
Kilinochchi	71.1	92.4
Mannar	42.5	100.0
Mullativu	69.0	100.0
Vavuniya	65.5	100.0
Ampara	48.2	69.9
Batticaloa	48.7	80.9
	-----	-----
Average: North/East 1/.	52.0	90.4
Balance National average 2/.	25.3	n.a.

1/. Weighted average

2/. Percentage for other districts

While the recovery rate for the non-affected districts is bad enough at 74.7% (as of 30 June 1987), the recovery rate for the eight affected districts is only 48% for Bank of Ceylon lending and an average of only 9.6% for the CRBs. The, rather theoretical, risk premium needed to cover the Bank of Ceylon's potential losses would be about 96%; assuming borrowers are still willing to borrow at such high rates of interest.

The total real costs of lending in these circumstances are very close to the informal credit market. The recovery rate on lending under the IDA funded SMI I and II schemes are little better for loans to small and medium industries: a rate of 75% as at 31 December 1986.

Any further programmed lending, without substantial changes in loan terms and conditions and operating systems will only result in additional losses to the credit delivery institution. In the short term, only a government held bank with adequate capital or guarantees, such as the Bank of Ceylon, could be involved in a rehabilitation lending scheme based on low interest rates to target groups.

Rural Lending

72 percent of the Sri Lankan population is designated as rural. Most businesses are quite small and comprised of farmers, fishermen, retail outlets, and small and cottage industries. There is a large market and need, therefore, for a strong system of rural financial intermediaries. Currently, a large proportion of rural savings is on-lent to financial institutions lending in urban areas. This can be seen in the CRBs where deposits substantially exceed loans outstanding, surplus funds being deposited with the PB and NSB.

In the rural areas it is very important to have village level organizations which can lend on the basis of an individual's credit worthiness, supervise the use of funds for the intended purposes, and ensure recovery of funds. Since loans are generally small it is important they can be obtained cheaply and easily by the borrower and that costs to the lender be controlled through a high recovery rate. In Sri Lanka there are two institutions at the village level which could play a vital role: the Thrift and Credit Cooperative Societies (TCCS) and the Cooperative Rural Banks (CRB). Their distributions in the Northern and Eastern areas are detailed in Table 6.

Table 6

District	Popul'n '000s	Number TCCS Units	Number CRB Units	--population/unit--		
				TCCS	CRB	Both
Trincomalee	292	4	14	73000	20857	16222
Ampara	439	36	13	12194	33769	8959
Batticaloa	378	172	12	2198	31500	2054
Kilinochchi)		34	4)			
Jaffna)	915	381	30)	2205	26912	2038
Vavuniya	108	57	3	1895	36000	1800
Mannar	120	57	6	2105	20000	1905
Mullativu	86	46	7	1870	12286	1623
	-----	-----	---	-----	-----	-----
Totals	2338	787	89	2971	26270	2669

Table 3 shows that, except for Trincomalee and Ampara, an adequate network of rural financial institutions already exists in the Districts and these are complemented by the Bank of Ceylon units in some of the Agrarian Service Centers.

The Thrift and Credit Cooperatives (TCCS)

TCCSs as organizations date back to 1911 and constitute a village-level savings and credit movement of small groups of rural people. They seek to mobilize rural savings which are then loaned to members in the form of small loans. From the late 1950's until the early 1980's, the TCCSs declined in numbers as the Government promoted the Multi-Purpose Cooperative Societies (MPCSs) to play a key role in socio-economic development. From 4413 societies in 1964, number of units decreased to 1298 societies in 1978 with 232,330 members. Total loans outstanding were Rs.55 million in 1978.

In 1979 the first District Union for TCCSs was formed at Kegalle and a national Federation of TCCSs was formed in 1980. Currently there are 21 District Unions of TCCSs and 5096 TCCS units with membership of 565,000 people and total loans outstanding of Rs. 563 million. Of this amount, Rs. 92 million is in housing loans funded by the NHDA and it is estimated that 75% of the balance (Rs. 350 million) are to agriculture. Aggregated deposits of the TCCSs is Rs. 352 million. TCCS growth has been rapid: in the year of 1986/1987 there was an increase in number of units of 731, a membership increase of 200,000 people, and an increase in loans outstanding of Rs.143 million. In one year, the number of members increased 54% and loans outstanding increased 34%. During the same period, total domestic private credit for Sri Lanka increased by 8%.

It is the policy of the Federation of the TCCSs that the debt equity ratios of units should be maintained at a level of not more than one to one and that loan schemes sponsored from outside the organization should not exceed 25% of total lending. Currently, the TCCSs are estimated to have a still very conservative debt-equity ratio of 1.6:1 but already this exceeds the Federation targets. Borrowing for programmed lending is Rs.92 million for housing and this is 16% of the total loan portfolio and well below the 25% ceiling set. However on an individual basis, about half of the TCCSs have been formed in the last four years and many of these newer units will already have exceeded their 25% ceiling. In 1980, total deposits were 104% of loans outstanding. This percentage has steadily declined as the TCCSs borrow externally to supplement deposits which are now 62% of loans outstanding.

There are twenty staff employed in the Federation head office and a further six hundred fulltime staff employed throughout the twenty five Districts covered. Otherwise staff are mainly part-time and employed directly by each TCCS. There is a plan to decentralize supervision of the TCCS to the 285 AGA Division levels which will necessitate employing at least a further 285 field officers. These staff will carry out monthly

visits to the TCCSs in their area and provide assistance in loan appraisal, bookkeeping methods and unit supervision and monitoring.

The Federation has determined that the TCCS movement will not become an agent of the government but will undertake community development programs of its own through the initiative and participation of its members and with the use of its own resources. It is very important that they maintain this standpoint. Their financial and management strength lies in developing and maintaining a close relationship with their members and borrowers. With an average of 110 members per unit and a lesser number of borrowers (possibly about 50% of members) this close relationship can be maintained.

Most of the TCCS units are staffed by people paid a nominal honorarium. Many of the offices used are provided free of cost. This means that administration expenses are minimal and generally covered by the 4% spread between interest costs and interest revenue. Provision for bad and doubtful debts is not generally made. A manager in the Kegalle area saw no need for such provisions.

Current policy is to open up a new TCCS in a new village area rather than to allow one unit to become larger and cover more than one village. As long as free facilities and low cost staffing exist, this is quite a rational approach. However, once coverage of all economically viable villages is attained then there will be more intensive development within each unit. This could lead to higher administration costs which could, very quickly, exceed the 4% spread. The increase in number of units to be monitored by the District Union will also increase administration expenses. At some point it may be necessary to rationalize the smaller units by opening them less frequently, possibly once per week, and service these with staff from a larger coordinating unit. But each primary TCCS must make this decision for itself.

Funds for lending are primarily mobilized from the members themselves as well as non-members in the area. The minimum savings deposit is Rs.5. Deposits may be supplemented by borrowing from the District Union of TCCSs which also carries out supervision of the TCCS units. Each affiliated TCCS pays Rs.500 as membership of the DU which also holds surplus cash balances (above Rs.5,000) of the units. A TCCS can borrow up to ten times its paid-up share capital from the DU and pays interest at the rate of 12% and on-lends to members at 16%. The rates of interest offered by the TCCSs on deposits are usually 1% higher than those offered by the commercial banks: 10% on ordinary savings and 16% on fixed term deposits. Generally a spread of at least 4% is maintained on the lending rate.

The operating surpluses of the TCCSs are quite fragile. The TCCS visited at Ahasliyadha, Kegalle, had a net profit of

0.4% of average total assets without any provision for bad debts. Total net worth is now 20% of loans outstanding and 16% of total assets so that the debt:equity ratio is about 5:1. This is more than national targets. Expenses are 93% of revenues. Although the lending rate is 16% on loans the actual interest earnings shown are only 14.8%. Although no bad debts are expected, not all interest is being paid. This unit is building its own office facilities and expenses are likely to rise. A relatively small increase in expenses coupled with a small bad debt element would force this unit into a loss making situation even though this is considered to be one of the stronger units in the area.

Conditions for membership vary: a membership fee of between Rs.25 and Rs.240. To this an entrance fee of Rs.5 may be added. A member is then eligible to receive a loan between three to ten times his membership fee and accumulated savings but may need to wait three to four months before becoming eligible. Loans are normally restricted to activities for which there is adequate local demand and are approved by a committee representing the members of the society. The upper limit for loan size is between Rs.10,000 to Rs.15,000. The advent of NHDA loans has increased these loan limits in the case of housing loans. Normal loans are for one to three years, with housing loans between five to fifteen years. Normal lending is usually at 14%, with housing loans at 6%. Under the IFAD support project, lending is at the rate of 16%. A borrower needs two guarantors, who are also members, to support his loan application. Lending is usually free of collateral requirements.

Although the rural rich may deposit savings with the TCCSs, rural social norms tend to constrain them from borrowing through the same institution. Loan sizes and limits are also more relevant to the poorer class of society with smaller investment needs.

The TCCSs have several needs that could be addressed by technical assistance in the RAP. These include:

1. Financial monitoring and supervision: Rigorous training in basic accounting and audit supervision is needed to improve supervision of individual units and improve the presentation of aggregate data.
2. A classification system of individual thrift units: This is needed to help the DUs obtain an objective assessment of each unit in terms of financial viability and performance and managerial ability and performance.

The Cooperative Rural Banks

The CRBs are the banking arm of the Multi-Purpose Cooperative Societies (MPCS). Throughout Sri Lanka there are

now 285 MPCSSs with approximately 8,000 retail outlets and 283 CRBs with about 900 sub-branches.

The concept of a rural bank operating in conjunction with MPCSSs was inaugurated in 1964 by the Peoples Bank (PB) and was seen as a way to obtain deeper financial penetration of the rural sector. At that time there was a very close relationship between the PB and the rural banks with PB staff being posted to the rural banks for periods of time to provide guidance and monitor performance. This close relationship has declined since 1971 when the MPCSSs were reorganized and banking activities subordinated to the MPCSSs' full range of activities of which retailing became the major emphasis. At this time the rural banks' accounting system was terminated and merged with the rest of the MPCSS accounts. This made it very difficult for the PB to maintain adequate supervision of the rural banks. Rural bank staff became general MPCSS staff, leading to the dissipation of banking skills and a lessening in staff morale.

Since the MPCSSs are primarily consumer oriented there is a need to make the CRBs more independent of the MPCSS. Furthermore most MPCSSs make losses on their retail operations and there is a risk this will affect the financial integrity of the CRBs which generally make profits. This has implications for the safety of deposits made with the CRBs.

Recently there have been proposals to restore closer links with the PB and restructure the CRB to become more autonomous from its MPCSS parent. Such a move, coupled with other procedural changes, could substantially strengthen the role of the CRBs in rural financial intermediation.

The numbers of CRBs and summaries of their deposits and volume of lending is outlined in Table 7. The volume of lending has increased five times over the years shown and this compares with the increase of total private sector credit of eight times the 1977 levels. Recipients of CRB lending tend to be the middle class of society and farmers. Marginal farming enterprises are usually excluded.

Table 7
Cooperative Rural Banks: All Sri Lanka

Year	Number CRBs	Total Deposits Rs.mln	Total Advances Rs.mln.	Deposits as % Advances
1977	285	175.46	110.88	158
1978	283	222.15	125.08	178
1979	284	271.02	129.25	210
1980	284	334.73	176.79	189
1981	287	434.05	271.60	160
1982	286	541.48	329.27	164
1983	288	717.98	391.61	183
1984	286	905.49	508.25	178
1985 1/.	286	1054.10	554.45	190
:				
1987 2/.	283			

1/. September 1985. Otherwise December years.
 2/. From Ministry Food and Cooperatives.

Only members of the MPCSS are able to borrow from the CRBs and to do this a member must pay for a shareholding which is never refunded and on which no dividends are paid. The shareholding cost per member can be as low as Rs.1 and consequently most CRBs are undercapitalized. The CRB visited in Kegalle had a share cost of Rs.10. A member may then borrow up to ten times the cost of his subscription with a further limitation that the maximum loan size is generally Rs.35,000, if for productive purposes, and Rs.5,000 otherwise. For cultivation loans under the NCRCS it is possible for a farmer to borrow up to twenty times his paid shareholding.

Rates of interest offered on deposits are usually higher than those offered by the commercial banks: 10% on ordinary savings and 16% on fixed term deposits. Generally a spread of at least 4% to 11% is maintained on the lending rate. Loans are funded from fixed deposits and savings attracted by the CRB which may also have borrowing facilities through the local Peoples Bank branch for which the Rural Bank pays interest at the rate of 15%. Borrowers from the Rural Bank pay interest on their loans at between 20% to 28% with the higher rate being on pawned loans. The Rural Bank is required to hold at least 20% of its deposit liabilities in cash or with the Peoples Bank.

Table 8 shows the numbers of MPCSS and CRBs in the Northern and Eastern Districts.

Table 8
Multi-Purpose Cooperative Societies: North and

East

District	Number Number MPCSs	Number MPCS Staff 1/.	Number CRBs	Maximum Number of A/cs 2/.	Minimum Number of A/cs 3/.	Maximum A/cs as % Total Popul'n
Jaffna	22	2647	30	72789	39858)	10.9
Kilinochchi	4	384	4	20230	18136)	
Mullativu	5	n.a.	7	n.a.	n.a.	n.a.
Vavuniya	3	198	3	17091	13044	17.3
Mannar	6	254	6	15281	7024	13.9
Trincomalee	7	567	14	33894	16749	12.8
Batticaloa	13	682	12	26587	14065	7.8
Ampara	14	n.a.	13	n.a.	n.a.	n.a.
	74	4732	89	185872	108876	

1/. The largest number of employees at any time during 1981-1985
 2/. The largest number of CRB accounts at any time during 1981-1985. These can be deposit or loan accounts.

3/. The minimum, non zero, number of CRB accounts 1981-1985

It can be seen that the MPCSSs are a significant part of society in terms of population cover: a range of 7.8% to 17.3% between Districts with the greatest coverage being in Vavuniya. However, there is some duplication in these numbers as it is possible for one person to have at least two accounts: one for deposits and one for loans. In discussions with the Peoples Bank, it was stated that most farmers are members of a CRB. Given the numbers above, it is estimated that 20% of families have an account with a CRB.

The CRBs are staffed by permanent employees of the MPCSSs and a bank branch will have between three to ten employees depending on the volume of operations. These staff can be assigned to the banking or retail arms of the MPCSS at any time so that it is unlikely that they will develop specialized banking skills during their career.

Supervision of the CRBs is mainly the function of the Department of Cooperative Development. The PB only has the right to inspect the accounts of the CRB and through this make recommendations concerning their operations.

At present, training of CRB staff is carried out by the National Council of Cooperatives and the Institute of Cooperative Management (SLICM). In 1985 and 1986 the SLICM held training courses for 102 CRB managers but given the turnover of

staff and the existence of 283 CRBs with 900 sub-branches this is still insufficient. The PB also hold training courses free of charge. Training needs to become more rigorous and specialized with greater inputs from the SLICM and the PB.

Compared with all Sri Lanka, growth of the CRBs has been rapid in the North and Eastern areas. Loans outstanding have increased six-fold over the five years to June 1987. Growth has been especially high in the Vavuniya, Mullativu and Mannar districts but these also have the worst record of loan recovery: 100% of loans are in arrears. Of the other districts, the level of arrears is also high: between 70% and 92%. Most of these overdue loans are cultivation loans provided under the Comprehensive Rural Credit Scheme refinanced by Central Bank. Lending and performance by district are shown in Table 9.

Table 9
Cooperative Rural Banks: Growth & Performance

	Loans Outstanding		Arrears	Arrears	Total Savings
	1982	1987	on '87	as %	
	Rs.m	Rs.m	Loans	Loans	Rs.m
			Rs.m	Outstndg.	
Jaffna	5.5	15.8	13.9	87.8	44.8
Kilinochchi	0.0	1.9	1.8	92.4	1.5
Vavuniya	0.0	51.3	51.3	100.0	0.9
Mannar	0.1	10.0	10.0	100.0	0.3
Mullativu	0.0	39.8	39.8	100.0	1.2
Batticaloa	4.0	10.7	8.7	80.9	1.5
Ampara	17.8	38.6	27.0	69.9	10.4
Trincomalee	1.1	4.8	3.9	80.7	1.1
	-----	-----	-----	-----	-----
	28.5	173.1	156.4	90.4	61.7

Total savings and deposits have increased 3.77 times over the five years shown; an average growth rate of 30% compared with the national growth rate for all time and savings deposits of 12%. Compared with nationwide CRB savings, those in the North and East were 57% of loans outstanding while the national figure was 164%, indicating a much higher local use of local savings. As the result of using refinance for cultivation loans, the ration of savings to loans outstanding has been only 31% since 1982.

The rapid growth in lending and the high level of overdues on loans have put the CRBs in a financially precarious position. Over the eight districts, overdue loans are 86% of total net worth. For Jaffna and Kilinochchi the figures are 37% and 47% respectively. In Ampara the figure is 108%: overdues exceeds net worth. In the other five districts, overdues are

between 97% and 100% of net worth. Most of these CRBs can not afford to write off much of their loans in arrears.

If the CRBs were to be used in the Rehabilitation program, care would be needed to ensure that further lending does not lead to more overdue loans and eventual liquidation of the CRBs. At the very least, additional programmed lending will lead to a worsening in their debt:equity ratios which, in theory, would force them to raise interest rates on deposits to offset a higher perceived risk. To offset this, some direct financial assistance to maintain an acceptable capital ratio would be needed.

In either case, a program of recovery is essential and both technical and socially effective supports are needed for this to succeed.

Context of ERRP Financial Assistance

In April, an USAID consultant team evaluated the proposed loan schemes of the ERRP. In their opinion, the initial proposals for low interest loans would be damaging to the financial institutions involved and weaken their longer-term effectiveness and economic role. The reasons for this include:

- o Spreads of between 2% to 6% are only adequate if administrative costs can be restricted to 2% and it is assumed that the rate of loan recovery is between 95% to 100%. Given past recovery rates on programmed lending, the higher than normal administrative requirements and expenses, and the uncertainties in the North and East these assumptions are not realistic. Bank losses will be a result
- o Loan re-finance facilities automatically reduce net worth as a percentage of total assets. Losses reduce this further. Depositors, especially in the smaller rural financial institutions such as the CRBs and TCCSs, will perceive a greater risk and require a higher rate on deposits. This will increase costs of funds for lending and may also reduce savings in these institutions with a resultant transfer of resources to non-rural areas.
- o There are already many program credit schemes in existence. The proposals are additional. Each scheme adds to the administrative costs of credit delivery. The proposed schemes will outstrip the capabilities of the system.
- o There is no penalty interest rate stated for these low interest loans and it would be difficult to justify their inclusion. However, their absence lowers the priority for repayment compared with other forms of indebtedness or investment opportunity held by the borrower. It will never be financially advantageous for the borrower to repay.

- o Under the 2-4-6 percent rate structure, it generally is the larger enterprises that would receive the larger net benefit. Not only do they receive a larger grant in some cases but they also receive larger low interest loans that, to the extent that they are a lower cost than income to be generated from savings deposits, provide very large benefits over long time periods of 15 to 20 years. In the case of housing, the proposals also are regressive; higher income groups receive a greater subsidy than the poorer segments of the population. Separating grants from loans (by, in effect, offering the subsidy up front) makes it easier to assure fairness. Such a scheme also makes it easier to implement a voucher system that offers better control over use of the funds.

For these reasons the USAID consultants recommended that

1. Where possible, existing credit programs be used and be combined with a system of grants to reduce their effective interest rates to levels close to those recommended to Cabinet.
2. The standard interest rate on loans be 9 percent in all sectors of lending activity (housing and productive loans). The reasons for the 9% interest rate include:
 - o This is the minimum rate under current Central Bank refinance schemes.
 - o It is approximately the interest rate paid on savings accounts. By charging this amount on loans there is little advantage for recipients to arbitrage loan versus savings accounts.
3. That grant funds be provided at the standard rate of Rs.2000 for all participating farmers and micro and small businessmen.
4. That for housing, the grant provided to the the first and second income second categories of recipients be equalized at Rs.15,000.

Funding for these categories is primarily from the World Bank and USAID. The Bank has allocated \$US 1.8 million for micro-enterprise assistance and \$US 4.8 million for other business (small industries) assistance. USAID has allocated \$US 25 million for housing, \$US 10 million for agriculture, and \$US 12 million for businesses: a total of \$US 47 million. However some of this will be for commodities and technical assistance so that about \$US 41 million will be available for direct lending and grants. Since the total required is more, donors, including the GSL, are needed, especially to achieve the higher housing targets.

Additional proposals of the USAID consultants regarding credit delivery include:

6. For agricultural and small and micro-businesses, the ASCs should be used for lending, for at least the first cycle of production and loan repayment. Where this is not possible, finance should be channeled through an outlet provided under the auspices of the district GA.

7. With a view to strengthening the credit delivery system for small lending (up to Rs.50,000, that financial and technical assistance be provided lending institutions that will lead to an enhanced role within twelve months and provide an on-going system of viable financial intermediation. Procedures would be as follows:

- The financial intermediary, CRB or TCCS, be certified as being capable of carrying out the self-sustaining roles of funds mobilization and lending within its geographical area. Certification would be by the PB in the case of the CRBs and by the Federation of TCCSs and a financial consultant in the case of the TCCSs and would follow a period of staff training and re-assignment.
- In the case of agricultural lending, the CRB would have the option of taking over individual's loan accounts from the ASC after successful completion of the first crop cycle. With micro-business loans, the TCCS would have the option of participating in the first loan cycle or of coming in at a later stage. With housing loans, the TCCS (again subject to its own decision) would be the lender at the first instance.
- To cover the risks of direct lending, a risk premium would be paid to the TCCSs and CRBs. This premium would be based on a target 90% recovery for agricultural lending and a 95% target for all TCCS lending. A premium of 12% would be paid on agricultural lending and 6% on other lending. This would be grant funds paid into capital reserve accounts of the institutions involved.
- To make farmers eligible for formal credit, those with accounts overdue as of September 1 1988 with the CRB or TCCS would make arrangements with the respective financial institution to reschedule their loans. The 10% of loan cash requirement for this, subject to a maximum of Rs.500, would be paid as a grant directly to the financial institution holding the overdue account. In most cases this would take place after the first crop production cycle.

- For farmers with no overdue account, a sum of 10% of their last loan amount, subject to a maximum of Rs.500, would be placed in a fixed deposit interest earning account for a minimum of 12 months.

USAID Proposals for Strengthening the Smaller Financial Institutions

The objective of this assistance is to improve the operating and financial capacity of the participating CRBs and TCCSs within a six month period to enable them to provide on-going credit support after the first phase of rehabilitation. For the CRBs the assistance will be in line with proposals mooted by the Committee of Cooperative Rural Banking (1986) and a precursor to further assistance planned under the proposed ADB Rural Credit Project.

Recommended assistance includes:

1. Training for 180 CRB staff on rural credit, farmer rehabilitation, bookkeeping and management procedures: This is for two staff per participating CRB. Cost estimate for 180 trainees and a two week course is \$US 42,000. Training would be by the supervisors and consultants described below.
2. Consultancy assistance in training needs and curricula and in designing and implementing a system of monitoring the performance of the CRBs and TCCSs: This requires 6 months of foreign and 6 months of local consultancy. Estimated cost \$US 120,000.

Total cost of this technical assistance is \$US 162,000.

In further discussions with USAID, I have recommended that these TA funds be channeled through MORR/REPPIA.

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1.

BACKGROUND NOTE

Liquidity in the Conflict Zone

It was commonly believed that the lending institutions in the conflict area would not be able to participate in loan schemes in the reconstruction programme without providing an influx of capital for on-lending. It was argued that the credit institutions had been virtually inactive throughout the conflict and therefore would need support in order to rebuild their economic base.

In fact, the opposite was discovered. Throughout the conflict there had been an increase in savings by individual members of cooperatives, thrifts and even small deposit accounts in the commercial banks. People evidently trusted the solidity of banks rather than their mattresses during the time of instability. Therefore, most of the lending institutions held large amounts of money which they could loan. The position of the banks was further enhanced by the fact that very few people had borrowed money since they didn't want to risk holding a loan for something that could be destroyed or destroyed by the conflict. Several financial institutions reported that as the conflict heightened, deposits increased. Even after the IPKF October offensive in Jaffna few people withdrew money and deposits continued to increase up through the end of the year.

LESSON: The lesson is that during periods of uncertainty deposits are likely to increase, loans decrease and a lending institution's liquidity position should subsequently improve.

BACKGROUND NOTE

Existing Debt

At the present time, it is the policy of the reconstruction programme that persons who hold existing loans for housing, agriculture, fishing or small business, will not be forgiven or have the loans terminated prior to commencement of reconstruction lending. However, lending institutions will be instructed that poor loan performance may not be considered as a criteria when considering an application for a reconstruction loan. Lenders will be encouraged to combine the two and/or reschedule old loans.

DISCUSSION: At the present time specific guidelines for rescheduling have not been worked out. Furthermore, it is not known what percentage of the potential target groups in each sector already hold existing loans that would have to be rescheduled.

Among those people who do hold loans, it is unknown how large the debt burden potentially is, in other words, do the majority of people still have 90% of the loans outstanding or only 10%-15%? For people with a small percentage to repay, say 30% or less, rescheduling would not be too great a burden. If the amounts are greater than that, however, the total loan burden of a rescheduled loan might be too large for the average poor person to bear. Even if the loan were rescheduled so that payments would be low, it is likely that the rescheduling would go far beyond what would reasonably be considered an acceptable term. The longer the loan period:

- a. The less value the loan will have after collection, and
- b. The less likely that the loan will be collected at the later stages and
- c. The greater cost to the lending institution of administering the loan throughout the loan period, (i.e. at some point it will simply be cheaper to write off the loan than to continue to collect it).

1.

PROJECT ISSUE

Loans Versus Grants for Reconstruction

BACKGROUND: Throughout March and early April there have been increasing pressures on all sides to increase the number and size of reconstruction grants and to de-emphasize loans as the primary vehicle for reconstruction assistance.

In the original concept of the programme, the only grants that were to be given out would be for:

1. Displaced persons and refugees returning to their homes, and
2. Grant assistance to low income people rebuilding damaged or destroyed houses. We called these grants the "anchor" of the reconstruction programme.

All other assistance for economic activities and for helping higher income families and businesses was to be provided through a loan package. The emphasis on loans was for several reasons:

1. Most donors, such as the World Bank, ADB, and others only provide money for lending. They do not provide money for grants. If the government were to borrow the money and to distribute it as grants, the government would have to come up with revenue to repay the loans.
2. By using loans, far less money is needed for reconstruction since the loans can be set up on a revolving loan basis and money being repaid can be reloaned, thus a larger number of people can be served. If the assistance was strictly on a grant or subsidy basis, more initial money would be required up front and, given the high level of damage, it is unlikely that everyone would be able to receive grants large enough to be meaningful.
3. On the political level, it can be argued that providing grants for all reconstruction assistance would be "making it too easy to return to militancy". In other words, it is felt that by requiring people to borrow money, they will think twice about supporting extremism. It is reasoned that if the government shows a willingness to completely give everything away, there is no incentive for dissuading people from militancy.

In recent weeks, arguments favoring increased grants have come from some of the donors. They argue that the lending interest rates are unrealistic and so low that it may actually cost the government more to service the loans than to simply give the money away. While that may be the case, the counter argument would be to raise the interest rates to a more acceptable level. The problem is that the rates cannot be more than other loan rates for housing, agriculture, etc. in the normal development programmes, (i.e. non-reconstruction).

Most of those advocating raising the interest rates, are looking only at one sector, e.g. housing or agriculture. They are forgetting that in the vast majority of cases, people are multiply affected. In other words, they have not only lost a house, they have also lost their economic activity, be it farming, fishing, small business, etc. If we were to raise all loans to commercial rates, the combined debt would be higher and therefore a greater burden would be placed on the people. Even reducing the debt several percentage points in each sector will have a positive benefit on the disaster victims.

A better argument might be that the poor cannot carry the debt burden. Many people already have existing loans which are in arrears and since the government has not agreed to forgive these loans, only to reschedule or refinance them, we may be tying people up in the debt system beyond any time when they would have a reasonable chance to pay off the loans and borrow more money for further economic development. Furthermore, the longer the loan term, the less likely it will be repaid and the less profitable the loan payback, (what lender would want to carry a few thousand rupees for 30 years?)

The counter to this argument is exactly that: the loans and the annual interest rates are low enough that given inflation, over a long period of time, most of the loans will be reduced in value so that the debt burden is not as great as it may appear at this time. Furthermore, it is likely that at some point in the future, say ten years hence, the cost of servicing the loan may be so great in terms of real cost, that the government will simply write off or forgive the remainder. Also, assuming that people have had good loan performance, and need to borrow extra capital, they will be able to re-borrow at the new rates and use the new value of the rupee to absorb the existing debt.

It should also be remembered that under the present loan and grant structure for housing, the vast majority of people will qualify for a grant or a partial grant. Based on the September assessment of the Bank, it was concluded that between 60-70% of the persons who had lost housing were people who also received food stamps. Only about 15% of the people in the project area had ever participated in government loan schemes. Therefore, the numbers of people who will be applying for loans will certainly be within the range and capacity of the lending institutions to handle the case load.

Some of the donors also argue that the lending institutions will not be able to handle the caseload and that there is a danger in overloading the lending organizations (e.g. TCCS, ASC). The counter to that argument is twofold: first, the money that the institutions are lending will not be their money, the money will come through the REPPIA fund and the institutions will only be paid a fee for administering the loans. Therefore, they are not jeopardizing their own members or lending reserves.

Second, the number of people who will borrow is actually quite small. Probably no more than 20% of the total number of affected people will be eligible to borrow housing money from the institutions

that serve the poor. We can also reason that not all of the applications will come in during the first two years of the reconstruction programme.

DISCUSSION: I believe that it is important that we maintain the loan structure and resist increasing the grants. First of all, we do not have grant commitments from most donors, and given the current political situation it is unlikely that the government will increase the government's contribution to grants beyond the level that is already set. We are already experiencing a major shortfall in NGO commitments to the grant structure in the housing sectors, and it is likely that the government will have to come up with that money.

Since we do not have a unified loan structure and will be using different loan structures in each sector, to reduce confusion we need to adopt at least a simplified or standard interest rate system - the 2,4,6% graduations are easy for the programme administrators and for people to keep in mind. Changing interest rates in each one of the sectors, as was originally proposed, becomes very confusing and in the interim, will make it difficult for the people to keep straight, (much less the programme administrators).

I also believe that there is some merit to the argument that the loans will serve to dampen support for extremist activities. In the meetings that I have had with various citizens' groups in the North and East, when it became clear that there were not going to be widespread grants and the enormity of the reconstruction task was reviewed, one could almost sense the resentment that things had gotten out of hand and that events had led to that situation.

Having the people tied up in a loan structure gives the government an "ace" to play in resolving the political situation ultimately. When the peace accord is agreed to by all parties, and is holding, the government will be in a position to make a magnanimous gesture by either reducing the interest rates, forgiving a portion of the loan, or in some cases, and for certain target groups, completely abolishing the loans. If we give the majority of the money in grants, that opportunity is no longer there.

As another practical matter, with the loan structure we can continue giving loans as long as necessary and if they didn't work, we can always switch from loans to grants. If, however, we start with grants and find we don't have enough money for everyone, then try to switch to loans, the inequities that we will create will be a major political burden on the government and could actually serve to destabilize the situation.

ADDITIONAL DISCUSSION: It is important to consider the experience of other countries regarding loans and grants for reconstruction during similar politically unstable situations such as we are now experiencing in the North and East. Experience from countries such as El Salvador, Nicaragua, the central Philippines, southern Sudan and Uganda, is that when people are given grants during unsettled conflicts, that they rarely spend the money for what it was granted -- rather they hoard and slowly spend it. Cash is the most important

commodity in troubled times. When grants are given out, the people hold the money as insurance against an emergency. The longer the situation remains unstable, the more they will be forced to tap into that money and use it for other, more immediate, needs. Thus, over a period of a year or more, if people are unable to rebuild, or start their economic activities, a large portion of their money will be spent and when the political situation does permit reconstruction, people will not have the funds that are necessary.

In these situations, loans become a self regulating means of stimulating reconstruction. People are unlikely to take out loans unless they are convinced that they can indeed begin to rebuild immediately, (because payments will have to be made soon after the loan is taken out). Furthermore, the loans themselves are given for a specific action - the actual reconstruction of a building, cultivation inputs, etc.,. That linkage assumes that people will not borrow money for one thing and then use it for something else. Even if they were to do so, the lending institutions would quickly spot widespread stagnation in the sector and would tend to slow down those loans and only give them to those who would, in fact, be in a position to use them.

Another aspect is that borrowers will be on the upper end of the economic scale. For example, in housing, if they are the first to go into reconstruction, having more costly houses, they are going to be generating more initial employment in the construction sector and in the building material production sector than the poor. From both political and humanitarian viewpoints, it may be best to provide priority assistance to the lowest income groups, but in reality, most reconstruction studies have shown that it is the higher end of reconstruction that provides the greatest economic benefit for a community, since most low-income houses are owner-built and generate only minimal employment.

D. CASE STUDY

Programme of Assistance to Fishermen

BACKGROUND: An interesting programme from which to view the political process of the reconstruction programme is the development of the package of assistance to fishermen in the North and East.

In late February, the Ministry of Fisheries prepared a Cabinet memorandum outlining his proposed package of assistance to affected fishermen. The memorandum (which is attached), is essentially a large give-away programme of free boats and highly subsidized motors. The programme is basically the same programme developed several years ago to convince fishermen to switch from wooden canoes to fiberglass canoes and boats as a means of saving the forest along the eastern coast of the country. According to a number of people knowledgeable about that programme, very few boats were actually issued because the Treasury couldn't come up with enough money to meet all of the demands.

On March 1, Austin Fernando asked me to review the proposed programme and give him comments. My concerns about the programme were that:

1. Giving away free boats was going to be very expensive. Under the terms that the Ministry had set out, almost anyone could walk in and claim a boat. Theoretically, we might be looking at as much as 25 US million dollars needed to support the programme.

2. In terms of equity among various job sectors, I was concerned that fishermen not receive such a high subsidy since people in other economic activities, such as small farmers, small businesses, etc., were being asked to borrow the money rather than receiving any grant component to rehabilitate their activities.

- 3). Most important, I was concerned that simple replacement of the least efficient types of fishing boats had no development impact, and in fact was anti-developmental since it would have meant encouraging many people to go back to or accept boats which were at the lowest end of the fishing scale. A loan structure at favorable interest rates might encourage people to take a risk and go for larger, more efficient boats and therefore improve fishing in the affected regions.

- 4). Finally, the programme, as proposed by the Ministry, showed no real innovation. There were no attempts to try and form cooperatives, partnerships, or any other type of cooperative activity which would strengthen the fishing sector. Furthermore, nothing was presented to show that there was any concern about trying to address the main obstacles to improving fishing performance. Projects such as bunker fuel stores to lower the fuel costs for fishermen using motorized boats, piers and boathouse facilities designed to protect, repair, or build fishing boats, and most important, ice houses to

help fishermen protect their catch and process fish so that they could get value added for more profit, were completely overlooked.

Subsequently, I prepared a memo to Austin outlining my concerns about the programme, Austin concurred with my recommendations and asked that the representatives of the Ministry meet with us to discuss the matter. On that date, Austin and I met for several hours with the representatives of the Ministry and worked out an alternative programme based on lines of loans similar to the loan schemes that we have in other sectors, but which took into account the special concerns of fishermen and the fact that the boats are a larger investment than implements for working a farmer's land.

Within hours, an irate Minister of Fisheries responded that our proposals were unacceptable and that we should go back to the original proposal that he had submitted. Austin tried reasoning with him but finally adopted the position that if the Minister wanted to go ahead with his scheme he could do it provided that the Treasury would give him the money but at the same time, the reconstruction programme would go ahead with our scheme and would seek donors for it.

The next day, the fishing scheme proposed by the Minister was announced in all of the newspapers.

With the publication of the Minister's plan, the political pressure to adhere to his wishes was on. By the March meeting of the NRSC, the Minister had lined up several supporters in Cabinet and had obviously briefed the former chairman of the NRSC, Mr. Mahadeva. During the NRSC meeting, when the different sectoral papers were presented, the Secretary of the Ministry of Fisheries rose to challenge the programme as presented by Austin. A loud debate ensued which lasted for almost 45 minutes. The GA's, who had originally supported Austin, quickly switched sides and supported the Minister of Fisheries. The GA of Jaffna was particularly vocal in saying that the fishermen were the most affected people in his area, (there is very little farming in the Jaffna peninsula), and that they should be given free boats because they haven't been able to work since they lost their boats, some of them for more than a year. In the end, Mr. Mahadeva settled the issue for the time being when he came out and supported the programme noting, "it may be irrational and maybe discriminatory, but it's a good programme"! (Throughout all of the arguments, the Ministry of Fisheries neglected to present an analysis of how much the programme was going to cost. A decision was made by the NRSC to proceed with the programme and Austin was instructed to find a donor to give the money.

Throughout March and early April, Austin met with donors to try and interest a donor in the fishing scheme. I worked up cost estimates that showed it would take 26 million US dollars to support the scheme. Several donors that had expressed an interest in the fishing sector immediately rejected our proposals. Delegates of the government of India declined, noting that by giving people canoes and rafts we were encouraging the most inefficient forms of fishing. The

ADB and the Norwegians, who have agreed to support fishing, will only do so in a lending programme, not through outright grants, (though the loans could be soft loans or have subsidized interest rates).

Several times we have suggested privately that this programme is not going to fly and that the government will have to come up with the money. Each time that it seems that we have been able to convince Treasury of our arguments, the Minister of Fishing has come up with another counter argument to win the day. The first was that fishermen deserve special consideration because they were prevented from working by the exclusion zone, (during the conflict, the government forces had announced that any boats caught in the Palk Strait or in areas north of the island, would be subject to attack. This was an attempt to try and stem the arms flow from India). The counter argument that we used was that other sectors had also not been able to work. The majority of people living in welfare centers, (displaced persons' camps), are farmers, and while they have been living there, in effect they also have not been able to work.

In mid-March the exclusion zone was lifted but fishermen were restricted to fishing within 5 kilometers of the coast and only during daylight hours. The Ministry used this to show that fishermen wouldn't be able to pay for loans because they could only work half-time and not in the deeper areas where they are likely to catch more fish. We responded by saying that the canoes rarely go out beyond 3 kilometers and any night fishing is usually done inside the lagoons. Then they argued that by giving people canoes and Theppams we were giving people the only form of fishing that could work full-time. We responded that a loan programme to put people into the bigger boats, would come on stream about the same time that the 5 kilometer restriction should be lifted.

Fishermen's groups in Batticaloa inadvertently gave us a small boost in early April when they began claiming that because canoes and Theppam were the only types of boats that could operate, the lagoons were being over-fished and that the principal cash fish in the area, prawns, were getting smaller and smaller. (We are breathlessly awaiting their response to that one).

In any event, we still do not have a donor to pay for the programme. On April 11, the new Chairman of the NRSC, Mr. D.J. Bandaragoda, decided to again tackle the issue and asked for me to prepare a cost analysis stating how much money would be needed for the programme. He will then write a letter to the Treasury asking them to give us the money from Sri Lankan resources. At that point, Treasury must either come up with the funds or tell the Ministry to come up with a much more realistic programme.



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001 PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT, 1988

ISSUE: Implementation of the housing reconstruction project

IDENTIFIED BY: Government Agents (GAs) in affected area

BACKGROUND: In February 1988, following the offensive of the Indian Peacekeeping Force (IPKF) in the North and East, the GAs from the North and East held a series of meetings with the Minister of Home Affairs as well as several informal meetings among themselves to discuss problems in their areas and the threats against them by the LTTE.

1. The GAs said that the LTTE told them that any reconstruction planning must include them and that no reconstruction or rehabilitation activities should begin until the GAs are told to begin.

2. Everett Ressler (of AIT) told me that at the meeting with the Minister, one of the major concerns of the GAs was the housing reconstruction program. The GAs are not only worried about the reaction of the LTTE if they try to carry out any activities, even surveys, but they (the GAs) want to be more involved in the planning process. Ressler said that these concerns were also expressed at a disaster preparedness workshop that was being held in Feb. and that several GAs said they were concerned that the international donors were making reconstruction plans that would ultimately be rejected by the LTTE. He said that the GAs told him on several occasions that the local people (Tamils) saw the housing reconstruction plans as a test of the overall devolution process.

Note: It was unclear how the GAs or the Tamils viewed the role of the NGOs in this matter.

MY RECOMMENDATIONS: Given these concerns, I recommended that we should continue to work through the NGOs for the time being. They were working in the housing sector throughout the conflict and we could use them for collecting information, doing assessments, etc. For their safety, I recommended that we limit their activities, and for practical reasons we should be careful to couch all references to housing in terms of temporary or interim assistance.

OUTCOME:

002 PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT, 1988

ISSUE: Defining interim activities of the reconstruction project

IDENTIFIED BY: Government Agents (GAs) in affected area

BACKGROUND: Following the fall offensive of the Indian Peacekeeping Force (IPKF) in the North and East, the LTTE tried to disrupt the government and prevent the GAs from carrying out government business in the affected areas. They ordered all the Katcheries (gov't offices) to close and assassinated several GAs who tried to keep their's open. By Feb.88, almost all reconstruction activities in the areas had come to a halt.

From an operational standpoint, this jepordized the overall reconstruction program. I felt that it was necessary to initiate some of the project activities to keep donor interest alive and their commitments from being canceled.

PROPOSED APPROACH: I proposed siting down with the LTTE (or people close to them) and other groups in the affected area and trying to work up a list of what the local people classified as emergency or rehabilitation activities and what constituted reconstruction actions. Once that list was fixed, we would further subdivide the them into actions that should or had to be carried out by the central government and those which should or could be carried out by the local government (and which implied waiting until the new governmental structure was in place). I recommended that the GAs carry out this work with the help of the DRCCs.

RESULTS:

ISSUE: Policy regarding assistance to returning DPs

IDENTIFIED BY: FCC

BACKGROUND: The policy of the government regarding DPs and returning refugees was that all people should return to their original place of origin. To promote this policy, the government directed that assistance to people in rebuilding could only be given to people at their original site once they had returned.

In a visit to DP centers in Anuradhapura in mid-Feb. 1988, I noted that a number of people deserved exemption from this policy. They included:

1. Former Sinhalese members of the Home Guard, a paramilitary force that had been armed by the government to patrol areas where Sinhalese were a minority. When the IPKF had disarmed these men, they had fled, probably fearing reprisals from their Tamil neighbors. This group made up about 30-40% of the DPs living outside the immediate affected zone, (a measure of how scared they were).
2. Persons who had been displaced by ethnic disturbances more than once previously. Some of the people in one of the centers said they were displaced in 1958, 1963, and 1987. They were refusing to return to the zones again and wanted to be moved to other parts of the country.

Note: No displaced Muslims asked to be resettled to other parts of the country, their only precondition to returning to their homes was that the IPKF had to withdraw first (they feared the Hindu and Sikh soldiers and their treatment of the Muslim women).

RECOMMENDATION: I recommended that the policy that refugees and displaced persons should only receive help if they returned to their original place of origin be modified for special cases like those who have been displaced more than once, the Home Guards, and others who faced a real threat of reprisal. I suggested we help them to find homes and jobs in other parts of the country. Numerically, these groups would probably be relatively small, but for the time being, it would help reduce the number of people being sheltered and would give us a chance to test out our assistance systems on a fairly small scale. It would also show the donors that we were taking some actions at a time when other activities were on hold due to threats against the GAs by the LTTE (see Issue 001).

I also felt that there would be a number of people who would move after peace was restored. After every political realignment, there have been displaced persons. What would happen for example, if the LTTE went through the area after the new structure were in place and told the Muslims to leave? There are going to be pockets of people whose population is small enough that that they will not be willing

or able to resist threats. I didn't think that anything like the displacements that occurred after the partition of India would take place, but on a smaller scale, some movements under duress were bound to happen. Developing, on a small scale, the systems for helping people relocate out of their original areas would give us an opportunity to put some systems in place in case they were needed on a bigger scale in the future.

OUTCOME: At a meeting with Austin, on 23 Feb. we decided to take the following actions:

1. All persons will be encouraged to return to their districts of origin but we would not insist that they return to their specific previous homes or communities.
2. We will try to develop "safe clusters" where minorities would have sufficient numbers that they would be relatively safe from attack from their neighbors.
3. For the time being, we will try to avoid the issues regarding Estate or "Indian" Tamils but would draw up a secret plan to help them in case a mass migration developed.

ISSUE: Vehicle "snatching" from the UNHCR by the LTTE

IDENTIFIED BY: Kassidis Rachanakorn, UNHCR

BACKGROUND: During the repatriation of refugees from India to Sri Lanka, one of the pickup trucks being used to support the repatriation operations was commandeered by the local LTTE forces. When the "snatch" was first announced, it was seen to be a major provocation on the part of the LTTE by the international community and was used by some as a point for reconsidering their support of the peace process and their fiscal commitments to reconstruction.

Kassidis Rachanakorn, the HCR Rep, initiated discussions with the LTTE and discovered that they had what he termed "a very legalistic" point. The LTTE claimed that it did not take the pickup from UNHCR, they took it from the government. They pointed out that the truck was donated to the Ministry of Rehabilitation and was being driven by a government of Sri Lanka employee, therefore it was "fair game" since the LTTE had never agreed to the terms of the Indo-Sri Lanka peace accord. The hint was that if UNHCR and its' employees were to operate the vehicles, they would be left alone.

DISCUSSION: It is not clear (as of 19 Feb.) whether this is a point they are trying to make vis-a-vis the conduct of operations in the north or whether they are trying to find a graceful way out of a situation that they perceive to be hurting them. In any case, it is an example of how small incidents can be blown out of proportion in a conflict situation and why reactions to events like this need to be measured.

ISSUE: Travel to the affected areas

IDENTIFIED BY: FCC

BACKGROUND: On Feb 20, I met with the Us Ambassador to Sri Lanka, _____ Spain to discuss the situation in the affected areas and my traveling to those areas. Essentially, the ambassador insisted that I NOT travel in those areas without his personal permission. While I agreed to abide by his rules, I pointed out my role was to carry out certain functions with the GAs on behalf of the donor community including planning for local staff needs and updating the damage assessment. I said that my style was hands on management, not sitting in the rear. While I accepted there are very real risks, we are now asking the volags and UNHCR to work on our (the donor's) behalf and that if we ask them to put their lives on the line, I think we owe it to them to visit the areas to determine the dangers first hand.

I am hopefull that he will change his mind, if not I may have to switch clients.

COMMENTS: Overall, I was very disappointed with the conversation and the tone of the ambassador. Now is not the time for timid men, we (the US should be out front trying to help make the peace accord work. The ambassador is concerned that the risks are high (he sited the Russians and the Indians as watching for us to fail) but I think we (and I) have a unique perspective on the historical importance of this settlement and I feel we have a responsibility to posterity to try and make it work. I need to start finding some backdoors.

ISSUE: Equalizing of assistance to conflict victims

IDENTIFIED BY: Sam Kenrick, OXFAM (UK)

BACKGROUND: Kenrick mentioned that there is some concern at the local level about the amount of assistance that people are entitled to, especially those who returned to their homes before Dec. 1st. He claimed that people were being told that if they had returned to their home before Dec. first they were only entitled to a total of Rs/10,000, but if they returned after that date, they would be entitled to Rs/25,000.

There are also some questions about how people who received houses from NGOs will be treated under the government's plans. Will they be entitled to the full Rs/25,000, for example, or will we adjust this on the basis of need?

FOLLOWUP:

I met with Austin on 23 Feb. to clarify our policy. He said that it shouldn't be an issue since most of the people who had received the payments had already built their houses. I argued that most of the houses were only partial or "core" houses and that some were no more than cadjan shelters since the volag assistance was by no means uniform. I also felt that we might have some trouble with the people who had only received partial payments or those who had received partial payments in one area and were supposed to get the balance in their home districts. Austin replied that the latter case would not be too big a problem since the only split payments were for settling in or returning, all housing payments were given in the home district.

POLICY: Agreed that our policy would be to try to equalize all payments. We would announce our intention to try to obtain the additional funds to retroactively give people who received payments or housing before Dec 1st the entire balance but that it would depend on the government receiving sufficient funds to meet all the needs. Priority will be given to issuing the new Rs/25,000 grants-in-aid to people who have not received any assistance to date.

We also concurred on the need to clarify to volags that people would be receiving assistance according to established need (i.e., by survey or questionnaire) and that not everyone would be getting Rs/25,000 if they didn't meet the requirements for it.

ISSUE: Estate Tamils who who fled to the N&E

IDENTIFIED BY: Sam Kenrick, OXFAM (UK)

BACKGROUND: On Feb 21, Sam Kenrick asked me what our policy was on assisting Estate Tamils who had fled to the N&E following the 1985 troubles. He claimed that there are approximately 200,000 people (approximately 40,000 in Kilinochchi alone).

The Tamil population in Sri Lanka is divided into two groups, the Jaffna Tamils who are the decendants of the origin Tamils who came to the island over 2500 years ago, and the Estate or "Indian" Tamils who were brought in by the British during the Raj to work the tea plantations and sugar fields. The Estate Tamils are looked down on by everyone, including the Jaffna Tamils, since many of the people brought in were Harijans (the lowest caste) and Muslims. The Estate Tamils have been the targets of most of the recent prejudice on the part of the government and in 19____ an agreement was reached between India and Sri Lanka to "repatriate" the majority of them over a long term period. However, the move has gone slow due to resistance from the people.

In 1977 there were riots against the Estate Tamils in the tea growing areas and many fled to the north to escape harrassment. The government agreed to give them land along the new irrigation schemes in the North but only a few had been settled before the most recent troubles broke out. In the meantime, many were living on crown lands allocated to them by the GAs.

The question of assistance related to the government's contention that these people were "Indians" not Sri Lankans, therefore were they eligible for assistance? Also implied was a question as to whether the Shastri agreement was still operable in light of the Indo-Sri Lanka peace accord?

Also was the question of where to assist them, in the north or in their original (plantation) areas. The peace accord specifies that all displaced persons must return to their original homes. It was reported that "some of those who fled to the North have been receiving assistance from NGOs operating in the area." [read: OXFAM?] Some of this assistance has included shelter and therefore it may be difficult to get them to move back to their original areas.

Kenrick also claimed that many of those people who had obtained Indian passports under the Shastri agreement (prior to 1982) had destroyed their papers in an attempt to stay in Sri Lanka.

SUBSEQUENT DISCUSSIONS: On Feb 13 I discussed the matter with Austin. He disputed the numbers cited by Kenrick and we checked with the GAs to get an accurate total. It turned out there were only about 750 families who had come north during the period 1985-87. The others were obviously people who were displaced in 1977.

On the basis of these facts, we decided to establish the following policy: If people had come north between 1977-83 they would be treated as permanent residents of the area and could be assisted by the government or NGOs where they were. If they had come since 1985, they would be encouraged to return to their original place of origin. Everyone who had been displaced would be offered assistance, until we otherwise informed by the cabinet. We also decided to keep the matter as quiet as possible so that militants or extremists on both sides didn't blow the matter out of proportion. I was asked to talk to the NGOs and ask them not to bring it up at any NRSC meetings. Austin agreed to brief the GAs in the N & E of the policy privately.

Note: Both of us feel fairly safe with this approach since there is a cabinet decision on the matter of settling Estate Tamils following 1977 and the Peace Accord is sufficiently vague that we should be able to proceed under the spirit of the agreement.

ISSUE: Estate Tamils who are repatriating from India*

IDENTIFIED BY: Cuny, Immigration, HCR

BACKGROUND: There have been reports that several "estate Tamils have been among those being repatriated from India. It is unclear what the governments policy will be since under the Shastri agreement, they may be considered "Indian citizens". If they come back should UNHCR be allowed to offer them assistance. It may be difficult to get them to move back to their original areas. Many of these people hold Indian passports obtained under the Shastri agreement as insurance following the 1977 riots, but they may have destroyed their papers in an attempt to stay in Sri Lanka.

SUBSEQUENT DISCUSSIONS: On Feb 27, I discussed the issue with Austin. We decided that if the people were already settled in the N. or E. and that if they get by the immigration people at Talimannar (the western reception center) that they can be assisted by UNHCR the same as all the other returnees. If they came to the area after 85, it is unlikely that they would have settled in the new settlements along the irrigation schemes as those who came after the '77 riots did, so they shouldn't be an issue. Also, we have learned that not Indian passports were issued after 1982.

We plan to explain our policy privately to UNHCR and the GAs in the area. If people are stopped by Immigration, it will be difficult for us to intercede.

Later Note: On Thursday 25 Feb. I had lunch with Kassidis to discuss his program and the the assistance they are giving to the returning refugees. He brought up the matter of returning Estate Tamils. I told him of the policy decision that Austin and I had made a few days perviously and that our "quiet policy" was that anyone who had been settled in the north between 1977 and 1983 could be assisted once they had cleared Immigration. (He reported that there was one case of a Kandy Tamil who fled in 1986 and had returned with the refugees but that he had already been turned back by the immigration authorities and was now back in India i.e., he is not in the caseload and is not a problem.) I told him that we did not want to commit anything to paper on the policy but that Austin would be talking to the GAs and clarifying our position to them. I subsequently re-introduced the matter with Austin and he agreed that I had responded correctly. He asked me to meet with Kassidis and set up a meeting to discuss this and other matters.

* See also Issue 007

ISSUE: What to do with Prabhakaran?

IDENTIFIED BY: CO, IPKF

BACKGROUND: By early March, it was clear that the Indian Peace Keeping Force had located the whereabouts of the commander of the LTTE, Prabhakaran. A general in the IPKF told me privately that they had him so tightly monitored that they knew his every move and intercepted virtually all the messages that sent to his subordinates. Yet the IPKF failed to apprehend him or to attack his position. Why?

The answer appears to be that the IPKF has orders not to kill him. The reasoning is that if they kill him, he might become a martyr and someone else will rise up to replace him. The war may end for now but the underlying feelings will give rise to a continuing struggle and long-term, smoldering ethnic violence. Thus it will be better for everyone if the Indians just try to contain him and his forces as best they can and continue to try to bring him to the bargaining table. If Prabhakaran can be convinced to join the peace process, the peace that it will bring has a better long term chance than if they kill him.

Score some points for the Indians and Rajiv Gandhi.

010 PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT
8 March 1988

ISSUE: Asylum for Prabakaran?

IDENTIFIED BY: NGO in Jaffna

BACKGROUND: One of the people working in Jaffna mentioned to me privately that someone close to Prabakaran is trying to pass a message to the British High Commissioner that he is ready to quit Sri Lanka and go into exile. The person reports that Prabakaran is depressed over the death of his daughter from cholera last week. (It was widely reported that he was unable to attend the funeral since the IPKF were monitoring the site of the cremation.) I was asked to pass the information on to the High Commissioner. According to the source, Prabakaran wants to go to the UK and will do so for a promise of citizenship (or permanent residency).

Assessment: I'm personally skeptical about the claim.

Follow-up: I passed the information on to the US Ambassador for him to relay.

011

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT
8 March 1988

ISSUE: Hoof and Mouth Disease (Rhinderpest)

IDENTIFIED BY: Field Director, Plan International

BACKGROUND: At an NGO meeting in Colombo, the field director of Plan International asked what NGOs were doing about the problem of hoof and mouth disease "brought into the country by the IPKF." (I suppose he believes that the Indians are engaged in germ warfare!) While the remark was irresponsible in its own right (especially from an NGO leader who should know better), it is indicative of the types of rumors that are going around.

Action: I recommended to Austin that we establish a rumor control program via the radio.

Follow-up:

ISSUE: Trinco DP Camp (at China Bay)

IDENTIFIED BY: David Walker, Save the Children (UK)

BACKGROUND: Walker claims that the camp at China Bay is overcrowded and unsanitary. He says the toilets are not working, that people cooking inside the hangars are creating a health hazard from smoke, and that repeated calls to the GA to assist have not been responded to. Mr. Felix, the NGO coordinator for the MOR, responded that the difficulty has been that the Kachereri has not been able to function full time. He admitted that the situation is of concern, especially the food rations for the DPs but that there is little to be done for the time being.

Action: I mentioned this to Austin and suggested that we contract an NGO to deliver assistance and to clean up the sanitation situation. I also suggested that we get a report on the mortality and morbidity and try to keep monitoring that on a weekly basis.

Follow-up:

ISSUE: Family assistance: sectorial loans vs. combined loan

IDENTIFIED BY: Fred Cuny

BACKGROUND: In the reconstruction program, as originally envisioned, the government would provide assistance in housing and a general loan and grant system that would apply for all "productive enterprises" or income generating activities (fishing, agriculture, etc.). People's eligibility would be determined on the basis of their incomes and mitigating circumstances (e.g., the total losses suffered).

Unfortunately, each of the ministries has developed its own plans and recommendations for assistance to its normal clients (fishing, agriculture, etc.). This has given rise to several problems. First, there is the problem of equity for the disaster victims between sectors. For example, the Ministry of Fisheries has proposed replacing boats by giving the people a 90% subsidy on boats that are valued at 20,000 rupees (they are already getting a grant of 2,000 rupees which, together, makes a total 100% subsidy.) In agriculture, the people are being asked to borrow money to a maximum of 10,000 rupees at graduations of 2,4, and 6%. People will undoubtedly ask why since they are also poor should a fisherman get 100% subsidy while a poor farmer has to borrow the money for 80% of his needs.

Another problem is the danger of people being forced into overborrowing if all the programs are loan programs. Many people have been multiply affected (i.e., they lost houses as well as a means of making a living) and therefore to borrow for everything will mean a very high debt burden which could tie them up for years and prevent them from recapitalizing themselves for a long time. Added to that is the fact that under the existing government loan plans, no old debts will be forgiven -- they will just be rescheduled. So if a farmer was half way through a 20 year loan, he will need to borrow the same amount again, making his term 30 years, plus borrow for his house, again for twenty years. At some point the borrowers will be overburdened.

ACTION: I have made three recommendations to the NRSC:

- 1) that the people's loan carrying capacity be studied. We will use the results of the study to determine if we need to adjust the loans scheme and/or increase the grant component.
- 2) That we reconsider developing a standard loan system for all productive enterprises. This could be run as a parallel loan system or would replace the various schemes proposed by the different ministries.
- 3) That we at least attempt to rationalize all the loans with similar interest rate structures.

FOLLOW-UP:

ISSUE: Donors designing the program

IDENTIFIED BY: Fred Cuny

BACKGROUND: Several of the larger donors, especially USAID, are planning to bring design teams to Sri Lanka to determine how their contributions will be programmed and the terms and conditions of the assistance packages.

For the most part, the donors are doing so without involvement of the government. For example, AID has launched into a whole series of studies on housing, non-government organizations to implement the housing program, etc. -- all without initially consulting the government of Sri Lanka. I have been identifying the studies and getting the officers in charge to run them by the NRSC for comments and "approval" and so far have averted any conflicts. However, it is clear that each donor has its own ideas about how to run the programs in each sector and I can see some problems developing -- especially since most of the donors programs are going to be formulated after the government's plans are set and in operation.

FOLLOW-UP:

ISSUE: USAID design team and the design process

IDENTIFIED BY: Fred Cuny

BACKGROUND: The process by which USAID will develop its part of the ERRP is both long and cumbersome, and will probably mean problems for the program.

The process includes: assessment, identification of sectors to assist (based on previous involvement in development programs), preparing a RFP for a project design (to be prepared by a consulting firm), accepting the bid, negotiating a contract, and then having the team come to the country for a period of two months to put "AID's program of assistance" together.

The whole reconstruction process here has been delayed because of the continued violence and poor security situation, however, even so, the consultant's design team will not arrive until after the main programs that they are to "design" are already underway. If the program had gone ahead on schedule, the design process would be completely over and the program underway for six months before the design team even arrived. AID's timing is unacceptable if they want to play a key role.

FOLLOW-UP

ISSUE: Block grants, initiating reconstruction actions

IDENTIFIED BY: Fred Cuny

BACKGROUND: The question of devolution and how it is going to be carried out is still unclear in most bureaucrats' minds. Despite clear instructions from the government and the wording of the ERRP documents, the GAs are still coming to the central government for approval of every project. At the same time, they are complaining that they don't have the authority to spend money in their districts, therefore the terms of the Indo Sri Lanka Peace Accord are not being honored.

ANALYSIS: I believe that the GAs are reluctant to make the first steps and the line ministries and the Ministry of Local Government (one of the more powerful ministries) is keeping its power by just acting as if its business as usual.

STRATEGY: To show faith in the GAs and to break the logjam of indecision at the local level, I have proposed that we give lump sum of money to the GAs which they can use to get activities started in their areas. We can provide general guidelines for how the money should be used, but leave the decisions up to the GAs and the DRCCs. All they have to do is account for the money with the normal accounting procedures. It's not complete devolution but it's a start. Plus, it puts the burden for initiating actions back at the local level -- now!

INITIAL OUTCOME: Concept and strategy approved at the GAs meeting, NRSC, and by the WB. Austin has submitted a paper (16 March) to the Finance Ministry asking for authorization to send the money. (From an initial skeptic, he has become an ardent advocate.)

ISSUE: Role of VOLAGS

IDENTIFIED BY: Fred Cuny

BACKGROUND: Because the volags were the most prominent relief givers during the hostilities, they came to be seen as the prime relief agencies and capable of handling almost any relief program. Much of the reconstruction aid was originally planned to be passed through them or to be planned in conjunction with their TA and knowledge of the areas.

As usual, the agencies now prove to have been over-rated. They do not have the capacity to undertake many reconstruction activities and are only able to operate in some fairly circumscribed areas. Furthermore, with the exception of USAID, NORAD, and British ODA, no bilateral donors are planning to give money to the volags to implement programs. This will leave us very shorthanded in the housing, micro-enterprise, and fishing sectors.

ISSUE: VOLAG contribution in housing

IDENTIFIED BY: Fred Cuny

BACKGROUND: Because the volags were the most prominent providers of housing during the conflict, the MOR worked out a housing replacement grant scheme whereby people were given a sum of money by the government which was matched by the volags to help people rebuild. For the most part, people had enough money to build a core house. Some volags provided TA to the homebuilders and they facilitated the delivery of building materials.

As a result of their efforts, and due to the fact that the initial number of houses of the very poor that were damaged was fairly small, I suggested in the Sept. assessment that we continue to rely on the NGOs to provide matching grants for housing. The contribution requested was about 3,000 rupees.

In January, the government decided to equalize the program with the Million Houses Program (a very successful low income housing program of the government). In the process of modifying the program, they upped the grant component to 7,500 rupees and asked the volags to match it.

Unfortunately, several factors militate against the volags. First, their fund raising efforts have not been as successful as they had hoped (due to the continuing violence and problems in Ethiopia -- again). Second, by more than doubling the volag contribution, the number they can serve is effectively halved. Third, the number of houses damaged is now almost 50% higher since the Jaffna offensive in October. In sum, we are going to have a major shortfall in the grant component of the housing program.

ACTIONS: I've talked to several donors to see if they can find cash to give govt or volags to cover the subsidy (it will be difficult to abandon the promise of the matching grant since it has been published and is widely known.)

UNHCR was the first donor to come forward and offer to pick up the volag contribution but only for the returnees from India. [There was some confusion on behalf of MOR when HCR offered to give the money. Since they cannot be operational here after the people are returned to their villages. They suggested giving cash to the GAs to distribute, but the question arose as to how a GA could get money from a multilateral donor. Finally, it was agreed that HCR could buy building materials and deliver them to the GAs for distribution.]

FOLLOW-UP

ISSUE: Government's distrust of the Volags

IDENTIFIED BY: Fred Cuny

BACKGROUND: During the conflict, many volags worked on the Tamil controlled areas providing assistance to the war victims. (Some of this work was paid for by the GOSL.) Most tried to keep some semblance of neutrality, but some openly sided with the Tamils.

The CID has prepared a report on the volags listing the ones that are "suspect" for helping the Tamils. They are especially worried about the agencies that:

- received funds from India;
- received funds from the Norwegian govt. (since Norway openly sided with the Tamils and consistently ostracized the GOSL for its policies of discrimination against the minorities);
- agencies with a completely Tamil leadership;
- agencies identified with the Tamil cause;
- agencies affiliated with Tamil political parties.

The agencies that are on the suspect list include:

- Red Barrna (Norwegian Save the Children)
- Norwegian Red Cross
- TRRO (The Relief and Rehab. Organization, formerly the Tamil RRO)
- OXFAM (UK)
- Some of the organizations that are in consortia with any of the above, are who have received funds from any of the above.

Because of govt's fears, a lot of pressure has been put on the MOR (not the NRSC, which is a forum with many Tamils) to keep the major volags out of the reconstruction process. Therefore, all mention of NGOs in the government's program descriptions and plans refers to the coops and small rural banks who will be administering the loans, not the volags. This will present some problems for us since the housing program plans to use volags to match the govt. grants (see Issue Paper 017)

FOLLOW-UP

ISSUE: Loans vs. Grants (the debt burden for the victims)

IDENTIFIED BY: Fred Cuny, AID Housing Staff

BACKGROUND: The principal means of providing assistance to people affected by the conflict will be to provide long-term, low-interest loans. Partly this is due to the fact that the majority of the funds come to the government in the form of soft loans and the money must somehow be recovered, but it is also due to the practical matter of stretching the money to cover the needs. (If everything was given out in grants instead of revolving loans, there would not be enough money to go around.) There is also an element of feeling that if people are required to borrow the money to rebuild, they will be more reluctant to participate or support violence in the future. If the people are given new houses, etc., so the reasoning go, what is to prevent them from engaging or supporting the militants in the future?

The only grants that are to be given out will be the housing grants for the very poorest people. The reasoning for this is that housing is a non-productive or income earning item, therefore some grant component is necessary. In the plans, housing is to be the "anchor program" for all other assistance, i.e., the only program to provide grants, but with sufficiently vague criteria that it would be possible for families to divert some of the housing money to other activities.

In a natural disaster program, this arrangement would be fine since most people would have been earning money up to the time of the disaster. However, in the Sri Lanka conflict, large numbers of people have been unemployed for long periods of time leading up to the peace accord (and in many cases, up to now). Therefore, there is some doubt about how much debt we can realistically expect people to carry.

The approach that we have taken to reduce the overall debt burden is to lower the interest rates to the bare minimum (as low as two percent for some categories of people) in all sectors. Therefore, if people do have to borrow for other activities (such as agriculture, fishing, small enterprises) the overall debt burden will be as small as possible and interest will not be overwhelming should the loans get into arrears.

ACTIONS: It will be extremely important that the overall debt carrying capacity of the people be studied before the final package of assistance is worked out.

RECOMENDATIONS: I have suggested that the AID design team look into the matter and make suitable recommendations to the NRSC.

ISSUE: Displaced persons in welfare centers in Anuradapura

IDENTIFIED BY: Fred Cuny

BACKGROUND: On 16 February I visited three welfare centers ("refugee camps") in the Anuradhapura area and held discussions with the GA about the situation regarding displaced persons in his district. One of the centers housed Sinhalese displaced in October, one housed Muslims displaced in October, and the other housed Sinhalese displaced in 1985. There were several points that came up as a result of the visit which are worth noting.

1. About 30% of the Sinhalese displaced since October have returned.
2. Among those remaining it appears that a significant percentage of the families are headed by a man who was in the Home Guards (37% in the center we visited). Each said they fled when they were disarmed by the IPKF and that they feared reprisals by their Tamil neighbors. I suspect that it may be difficult to return a number of these families to their previous homes.
3. Almost all the Muslim DPs expressed fears about the presence of the IPKF (which they view as a Hindu and Sikh army) and the safety of their women. These people will probably not return until the IPKF has departed. However, in many ways, these people are the least of our worries since the vast majority of them have been taken in by Muslim villagers (the centers are located in Muslim villages) and there are only about 10% of the families still living in the centers.
4. In the center for persons displaced between 1985-87, there were a significant number of Sinhalese who claimed to have fled and relocated several times before. Several families we talked to said that they had fled from Jaffna in the 1958 disturbances, moved from there in the 1963 disturbances to Vavuniya, fled from there in 1968, and now have fled the '85 troubles. All those who have moved from Jaffna and have been displaced more than once say they will not go back into a Tamil controlled area.

Comments: I believe that at the present time it is government policy that refugees and displaced persons should only receive help if they return to their original place of origin. I think we might want to reconsider this policy for special categories of people. In cases like those who have been displaced more than once, the Home Guards, and others who face a real threat of reprisal, we might want to help them to find homes and jobs in other parts of the country.

Numerically, these groups would probably be relatively small, but for the time being, it would help reduce the number of people being sheltered and would give us a chance to test out our assistance systems on a fairly small scale. It would also show the donors that we are taking some actions now.

I think that we should also anticipate that whatever the final settlement terms are, that there will be a number of people who will not want to remain a minority in the new zones. After every political realignment, there have been displaced persons. What would happen for example, if the LTTE went through the area after the new structure were in place and told the Muslims to leave? There are going to be pockets of people whose population is small enough that that they will not be willing or able to resist threats like these. Developing on a small scale the systems for helping people relocate out of their original areas will give us an opportunity to have some systems in place in case they are needed on a bigger scale in the future.

Other notes: All the people I saw are in good shape. The centers are well run, people have adequate space, and I saw no signs of malnutrition, disease, or any threats to public health. All centers are regularly attended by health and medical personnel and no one reported any major complaints. T.K. and his staff are doing a good job and should be commended.

ISSUE: Assistance rationalization and equity

BACKGROUND: A number of voluntary organizations have mentioned that there is some concern at the local level about the amount of assistance that people are entitled to, especially those who returned to their homes before Dec.1. I was told that if a person returned to their home before Dec. first they were only entitled to Rs 10,000, but if they returned after that date, they would be entitled to Rs 25,000.

There could be some trouble with this policy because:

1. Some people only received partial payments before the date.
2. Recordkeeping at the local level was not always entirely accurate.
3. Some people who received the payments actually need the larger sum.

We need to clarify this for the GAs. Specifically, are those people who have already received cash under the old arrangements (with the Rs 10K limit) entitled to an adjustment. There are also some questions about how people who received houses from NGOs will be treated under the new plans. Will they be entitled to the full Rs 25,000 for example or will we adjust this on the basis of need?

I have recommended that each family be interviewed to determine the amount of assistance required and the assistance will be issued on the basis of the findings of the interviewing officer. If people have already received a house, then they won't need the housing allowance. If however, people only received a smaller amount and had a core house put up by the NGO we should try to retroactively adjust the amount for the sake of equity.

ACTION: We have agreed that all people will be entitled to apply for the full package of benefits, even those who have already received the smaller amount. However, adjustments will take place after those who have not received anything have been serviced.

Since the basis of the appeal for grant money was on the basis of people who had not received assistance (i.e., it excluded those who already had) we will need to appeal for more funds for the grant portion of the project.

Note: The central casework system will help take care of the confusion over this matter.

ISSUE: Staffing and the UNDP Technical Assistance Agreement

The staffing plan developed by the Bank and the UNDP need to be modified due to the emerging changes in the structure of the reconstruction program. It is obvious with the submission of the various cabinet papers by the different ministries that the program is becoming very sector focused. Therefore, the proposals for staff for the NRSC and the DRCCs should reflect the overall trend in that direction. Overall, the staffing plan is OK, especially as far as clerical and administrative staff are concerned, but I think the staffing suggestions at the professional level are weak. Mostly, I'm concerned that the positions don't relate well to the planned programmes of the ERRP. For example, there are no housing officers, no agricultural programme specialists, etc. Also, I think the terms of reference for some of the positions are too vague.

Another question that I have regards the position of "Chief Co-ordinator." If the intent is for that person to be an advisor, then the title should reflect it.

Regarding specific positions, I have made the following suggestions:

1. At the NRSC, we should retain staff according to specific program functions. At a minimum we need:

a Housing & Building Program Coordinator (possibly seconded from the NHDA),

a Resettlement/Repatriation Coordinator,

an Economic Opportunities Coordinator (income generating projects).

a Social Programs Coordinator could be seconded from ministry of Social Services or from MOR.

The position of engineer will be helpful but a quantify surveyor may be more useful. The engineer could be a municipal engineer seconded from a line ministry.

The position of Computer Programmer needs to be spelled out a bit more. What we really need is someone who can take existing programs and prepare templates for our use. Then, more importantly, he should train computer operators at the local level on how to use them. (See comments on resources for DRCCs.)

2. At the DRCC level, we need to again define the staff in terms of the components of the ERRP. I've reviewed the staffing lines submitted by the GAs so far and it seems that they have only focused on the administrative, not the professional, needs of the committees. At a minimum, I think they will need a full time coordinator, an economic opportunities officer (someone who will work with the lenders as well as the borrowers on income generating activities, a housing officer, municipal engineer for the districts with large urban areas (Jaffna, Trinco, Batti), a quantity surveyor (could be on part time basis or retainer), a social welfare officer, a computer operator, and a registrar (to handle registration and documents processing). Some of these people can obviously be seconded to the committee from existing Kachcheri staff but we need to insure that the remainder are covered in the UNDP budget.

In addition to these, I think we should insure that the Kachcheri also has a public affairs or public relations officer for the first year to make sure that people are made aware of all aspects and benefits of the ERRP and all its subcomponents.

Regarding resources, I think we should make sure that each of the Kachereris has at least one computer. In the UNDP budget, they have only proposed one micro, and that for the secretariat of the NRSC. With the number of programs each Kachereri will be operating, we should have 3 in Jaffna, and one each in Mannar, Vavuniya, Trinco, and Batti. with operators. We should also specify the micros for the field to be battery operated with rechargers so they can be used in the conditions that now exist in the affected areas. I also suggest we standardize on three programs Multi-mate word processing, Lotus 1-2-3, and a D-Base III clone, as there are off the shelf modifications that we can get for monitoring relief operations.)

We also need to insure that the appropriate resources are available to carry out the public awareness campaign. In the larger cities, we may need to plan for some sub-offices to handle the number of petitioners who are likely to seek assistance.

FOLLOW-UP: Austin concurred in staffing recommendations with a few changes in titles. Hiru will make modifications to GOSL staff contributions, I will write modified terms of references for local and international staff. We agreed that rehab/repatriation coordinator should stay in MOR. Coordinator of social projects will be titled social sector officer to differentiate him from Ministry of Social Services personnel.

ISSUE: Standardization of loans and grant schemes in the economic sectors

I have just finished reviewing the proposals in submitted by the ministries of fishing and agriculture for rehabilitation in those sectors. Each ministry has proposed a completely different combination of loans and loan terms as well as differing subsidy arrangements. I fear that these differing schemes will be viewed as inequitable by the people in the various affected areas. As I pointed out in my memorandum on the proposals for the fishing sector, from both management and operational points of view, it has been my experience that non-standard loan and grant schemes in different sectors are problematic. In other words, the amount of the loan, the terms, and the portion subsidized should be standard for all sectors. If not, it is not unlikely that farmers would ask why they are expected to borrow the entire amount of money they need for rehabilitating their lands and cultivating a crop while fishermen who are just as poor are receiving a 90% subsidy in another sector. These matters can become very divisive in a short period of time. (In normal times, such differentiation is possible, but during a reconstruction program where all programs are presented and debated at the same time, sectorial competition is more acute.)

For the above reasons, I would recommend that we consider a standard, graduated loan and grant scheme for all economic sectors. It should be based on people's income and income earning potential and should provide ample opportunity for people to use their combination of loans and grants to make improvements in their income earning potential. A basis for the standard plan can be found in your proposals for assistance to the small business sector.

Our plans should also encourage people to pool their resources and form cooperative arrangements to improve their lot. Such an approach would provide equity across sectors and would serve as a means of encouraging development as well as reconstruction.

I have also been surprised at the high rates of subsidy (up to 90% in one sector) proposed by some ministries. I realize that this is in some cases this is in keeping with existing schemes already administered by the ministries, however, it seems very undevelopmental and counterproductive, even for a reconstruction program. I feel that the grants that will be issued as a part of the overall framework of assisting people affected by the conflict should be enough and that the major emphasis should be placed on loans (on a graduated basis).

ISSUE: Donor's request for "geographic" assignments for reconstruction assistance

At the recent donor's meeting, the representative of Norway requested confirmation that Norway would be permitted to focus its contribution on a specified geographic area rather than contributing to a particular sector(s).

It has been my experience that geographic based approaches are highly problematic for the government and usually result in inequitable assistance for the disaster victims. This is true whether it is a village, a neighborhood, a province, or a region.

I strongly urge the government to resist such approaches and insist that all donor aid be given on a sectorial basis. One only has to look at the problems the NGOs are having in trying to standardize their assistance in order to see what problems we might encounter.

If the donors cannot be dissuaded from this approach and the government does not see fit to prevent it, then I feel that it is imperative for the government to develop uniform reconstruction guidelines and insist that each donor carrying out a geographic based program strictly adhere to them. For example, if a donor were to give housing loans at a different rate, especially one that was more favorable, than the government rate, it would create resentment in the neighboring district. Therefore, it is of utmost importance that all assistance be given out on an equal basis.



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NOTE FOR FUTURE REFERENCE

LAND ISSUES

There are four types of tenure patterns in Sri Lanka:

1. Private ownership: 5% of the people hold either clear legal title to the land on which they reside. Under Sri Lankan law, land can be used as collateral for a loan for housing and in some cases for agriculture.
2. Land leases: A variety of short and long term land leases consist which permit people to live on or work land under fixed rates. Most land leases involve housing and business operations. ___% of cultivators lease the land they are cultivating (most of these lease cultivators work under some form of share cropping arrangement with the landlord).
3. Annual permits/Producers' permits: These permits entitle a person to reside on or cultivate government lands for a period of one year. Permits can be re-issued indefinitely. Producers' permits are the vehicle used to provide Estate Tamils from the hill country who have moved to the North during the disturbances with lands to reside on and to cultivate.
4. Encroachments: As in most third world countries, a significant portion of the poor live illegally on land they have simply taken. Encroachments, as they are called, usually occur in the urban areas where people into vacant lands and establish housing and in rural areas where cultivators move onto government lands in order to grow vegetables or grains.

NOTE FOR FILE
GROUPS OF BENEFICIARIES

In the overall ERRP eight groups of beneficiaries can be identified:

1. Families who have lost their house but who have remained in their original community. Approximately 300 thousand people fit into this category. Under the ERRP they will be eligible for a special programme of assistance for displaced persons which will provide a maximum of approximately 25,000Rs/-.

The vast majority of persons who have lost their homes are Tamils though Sinhalese and Muslim communities have also suffered housing damage especially in the urban areas of Trincomalee and Batticaloa.

2. Displaced Persons: During the course of the conflict, approximately 360 thousand persons have been forced to flee their communities to seek refuge in "Welfare Centers" established by the government or to live with friends or relatives outside the conflict zone. In many cases, persons who were displaced fled because of fear not because of direct violence or damage to their personal property, (i.e. many can return to homes that are still standing). The majority of displaced persons are Sinhalese from the eastern region and Muslims from all of the areas. There were also some Tamil DPs but the numbers are much less.

3. Special Category DPs: Among the displaced persons are certain categories of persons who require special attention. Among these are former members of the (Sinhalese) Home Guard, Muslims who fled after the IPKF forces were in place and Sinhalese who have been affected by civil conflict more than twice, (for example, in both pre 1983 disturbances and in the post 1983 conflict).

Since these groups are likely to remain in the Welfare Centers long after all other persons have returned to their homes, it maybe necessary to devise special resettlement programs in order to discharge these persons from the welfare roles.

4. Refugees returning from India: Approximately 50,000 people fled from Sri Lanka after the establishment of the exclusion zone in 1986. Most of these people were placed in refugee camps in India and are now in the process of being repatriated by the United Nations High Commissioner for Refugees, (UNHCR). Under a special programme for returnees the people coming from India are brought by an Indian ship to the port of Taliamannar or the KKS pier in Jaffna where they are screened and processed by immigration authorities. Once cleared by immigration, they are taken by the government agent to their original settlements and there are enrolled in the overall reconstruction program. Depending on their needs and eligibility they are entitled to receive the full range of assistance scheduled for displaced persons (see 2 above), and may qualify for all other programme benefits. In summary there are no special arrangements for refugees other than

the assistance provided by the UNHCR to enable them to return to their homes (it is known, however, that the government of India provides a limited stipend for the families to help them during their time in transit).

5. Estate Tamils: In 1977 after rioting in the hill country districts, approximately 7.5 thousand Tamil families fled from the highlands to the Northern provinces of Vavuniya, Kilinochchi, and Mannar. The position of the government of Sri Lanka is that the Estate Tamils are not citizens of the country and are therefore subject to deportation under a "repatriation" agreement known as the Sirima-Shastri Accord. At the time of the displacement (1977), the government made a decision to provide producers' permits, (see Memo on tenure patterns), to these families and instructed the GAs to try to settle them on government lands near newly established irrigation systems in Kilinochchi and Mannar. Due to a number of factors implementation of this scheme was slow and by the time the conflict in the North erupted in 1983 only a small number of the Estate Tamils had received their producers' permits.

At the height of the conflict a large number of the Estate Tamils fled once again this time to India where they were accorded refugee status. Thus the overall ERRP is faced with two sets of issues regarding this group:

- a. How to provide assistance to persons who may have been affected by the conflict but who are officially regarded by the government as non-citizens of Sri Lanka.
- b. Since a large portion of the returning refugees are in fact Estate Tamils, questions regarding how much assistance can be provided have only been superficially addressed.

Some persons in the government argue that Estate Tamils should be screened out in India and not permitted to return since the ultimate intention of the government is to repatriate these people under the Sirima-Shastri Accord.

Since none of these people will have permanent land tenure, housing reconstruction as well as other assistance may be difficult to provide.

6. Former fighters: Approximately 20,000 young men in the North and East have participated as insurgents in the conflict. The vast majority of these fighters were between the ages of 13 and 21, thus for the last five years they have not received education or job training. Since these young men have become accustomed to living by the power of the gun, re-education and direction away from violent activities will be a top priority for the reconstruction programme.

7. Women and children affected by the conflict: Large numbers of women and children may have been traumatized by the conflict. Large numbers of women have been raped, numerous small children have witnessed violence and in some cases been personally involved in violent activities either as a witness, a participant, or a victim while others have been silently traumatized by the fears inherent in a community by war. A special programme of assistance is being formulated to assist these persons in emotional and psychological recovery and special efforts are being targeted to try to help families of affected cope with the trauma and to reduce the pressures which might lead to disintegration of the basic family unit.
8. Muslims: In the eastern districts of Batticaloa and Trincomalee there are large populations of Muslims, the descendants of Malay and Indonesian traders. The Muslims have become a major ethnic factor of the situation in the eastern districts. In many areas, especially Trincomalee, they could prove to be the swing vote in any provincial council elections and could decide whether the eastern province remains linked to the northern province in the future.

The Muslims are predominantly shopkeepers and traders though in recent generations many have also become cultivators and moved inland away from the sea coast. Their influence is felt most in Trincomalee where they make up almost one third of the population.

Historically, the Muslims have been pro-Colombo and have cast their lot with the Sinhalese, rather than the Tamils, in most political matters. The majority of the traders learned Sinhalese and many speak both Sinhalese and Tamil. The central government, recognizing the importance of the Muslims in any political equation, has accorded them a disproportionately high percentage of posts in the government.

As in India, some Tamil Hindus have converted to Islam, most of the converts coming from the lower castes. Likewise some of the Estate Tamils brought to Ceylon by the British in the 1800s were also Muslims and a number have drifted down to the east coast and been assimilated by the Muslim communities there.

During the conflict, the Muslims largely sided with the central government though in the eastern districts, both the Sri Lankan army and the militants regarded them with suspicion and there were numerous cases of Muslim villages being attacked by both the SLAF and various militant groups. As a result of some of these attacks, Muslim youth chose sides and there were reported to be a significant number of Muslim fighters in the ranks of the LTTE (probably Tamil Muslims).

Despite their general distrust and dislike for the Tamil militants, the Muslims were not happy to see the IPKF forces deployed in their areas. Most Muslims view the IPKF as a Hindu and Sikh army and many view them with as much fear as the Tamil militants. Many Muslim leaders have told the government that they would rather be

protected by the SLAF than the IPKF. As a result of these requests, the IPKF and the government of Sri Lanka are discussing whether SLAF forces should be deployed to protect Muslim and as well as Sinhalese citizens in the east. (Sinhalese have been receiving protection by Sri Lankan forces since March 1988).

Since the peace accord, the government has made a point of courting the favor of the Muslims while the militants have, if anything, been more hostile towards the Muslims than before. After several months of relative calm between the Tamil and Muslim communities a number of massacres occurred in late March and early April which once again sent the Muslims into flight.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

29 APRIL 1988

ISSUE: Coordination of a Decentralized Programme

BACKGROUND: Under the terms of the Indo-Sri Lanka Peace Accord, a broad programme of decentralization of government services and functions is to be carried out and the reconstruction programme was structured to support this devolution of power. Operationally, an interim structure was needed until provincial council elections could be held. Therefore, a series of District Reconstruction Coordinating Committees, (DRCCs), made up of persons at the district level from government, NGO and respected private citizens was set up.

At the national level, the intent of the planners was to ensure that the programme did not become centralized; thus coordination was entrusted to a committee rather than to a specific ministry. This committee, the National Reconstruction Steering Committee, (NRSC), was to have a part-time Chief Executive Officer, (CEO), and a full-time staff of programme specialists who would help coordinate the funding of activities and ensure coordination between the line ministries.

In mid-March, four and a half months after the reconstruction programme was formally established, the government decided to restructure the administration of the programme at the national level. The Ministry of Rehabilitation, which heretofore had been a project ministry, (i.e. a junior ministry), was elevated to Cabinet level status and the portfolio of the minister was expanded to include reconstruction. The NRSC which previously had reported to the Ministry of Finance and Planning, was subsequently placed under the expanded Ministry of Rehabilitation and Reconstruction, (MORR). Subsequent to that move, a decision was made to channel all reconstruction monies through the MORR then onward to the line ministries or district.

DISCUSSION: These changes illustrate the difficulties of managing a major reconstruction programme during an effort to devolve authority to the district level. Several issues are apparent:

1. It is difficult for a committee at any level to manage such an immense programme. At the most, NRSC meets but once a month. In theory it is only supposed to approve plans generated at the district level and to coordinate among plans of the line ministries. In practice, the district committees take their cues from the NRSC and the line ministries tend to operate independently. In the initial stages of the programme, the ministries have shown a marked reluctance to decentralize their functions and in one case, (Ministry of Education), they have actually entered into their own agreement with a donor for reconstruction of schools and rehabilitation of the educational system in the North and East without consulting the DRCCs or the NRSC. Since the NRSC has no funding control or authority, it is powerless to prevent such an action.

2. Technical assistance problems: International donors must work through the national, not the provincial, government. When offered technical assistance there is a tendency on the part of the national government to concentrate more on the needs of the central government rather than on the districts. A case in point is the UNDP Technical Assistance Agreement with the NRSC. The intent of the agreement was to attract the top persons to the NRSC and to the DRCCs since these jobs in theory are short lived. The UNDP offered to provide higher than the normal salary scales for people working full time with either committee. However, the salary scales were still disproportionate in that persons working at the national level received a higher salary than persons working at the district level.

The new Secretary of Rehabilitation and Reconstruction views the Technical Assistance agreement as disruptive to his plans to upgrade the staff of the ministry. As he tries to build his staff to cover the expanded portfolio, he must recruit from the same pool of top civil service officers as the NRSC. Since the pool of Tamil officers in civil service is limited, the best may be drawn off to the NRSC where they receive salaries twice as high than they would receive in the MORR. The T.A. agreement also tends to discourage decentralization. At a time when there is a clear need to strengthen the district governments, the best persons are being drawn to Colombo.

3. Costs of decentralized government: In all of the plans to decentralize government people have failed to realize that the initial costs are going to be much higher than operating a centralized government system. An example is REPPIA. It is the intention of the Ministry of Rehabilitation to devolve the REPPIA function to the district level. At present, applications are made to REPPIA through the GAs and then forwarded to Colombo where the REPPIA staff reviews them and whether to approve or reject. Under the present arrangements, if a person wishes to appeal a REPPIA decision he must travel from the affected area to Colombo to make the appeal. Under the present circumstances, few people are likely to do so.

In order to improve and speed the process it has been decided to devolve the REPPIA functions to the district level. Secretary Fernando initialled a plan presented by his staff in early March that would set up REPPIA offices in each of the larger districts. The plan was generally favored by the GAs.

When Secretary Bandaragoda assumed the reins of the new MORR he reviewed the new decentralization plan and proposed that instead of creating district offices for REPPIA, a REPPIA function, or wing, be established in each Kachcheri. His idea was to limit the growth of bureaucracy at the district level. The plan was generally not favored by the GAs since they felt that having an office that could make all of the major decisions locally was a move towards decentralization whereas simply having a wing, even though more bureaucratically manageable, symbolized that control was still in Colombo.

In summary, even though the initial costs may be higher, in order to prove that the government is serious about devolution, some concessions may have to be made to give segments of the reconstruction programme over to district level administrators.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

April 1988

ISSUE: The role of the GA

BACKGROUND: Throughout the conflict in the North and East the role of the GA has evolved from that of coordinator of government functions to that of a de facto district administrator. As the conflict escalated, MPs representing those districts dropped out of sight and at the signing of the Accord there were no sitting MPs or other elected officials in the North and East. Because there were no MPs, the GAs were, in effect, the government in each district and they operated with virtual freedom of action in most civil affairs.

In recognition of the status that they had attained, the reconstruction programme was designed to give initial control of the programme to the GAs pending the provincial council elections which were to be held no later than December 1987, (see Section 2 of the Peace Accord). The GAs became not only the interim administrator and implementer of all reconstruction monies he also served as the Chairman of the District Reconstruction Coordinating Committees, (DRCCS), which develop the reconstruction plans for each district and coordinate overall implementation between the various government agencies at the district level.

During the conflict, the GAs continued to function as normal, a sign that the militants had concluded that it was important that certain essential services carry on despite the conflict and their dispute with the central government. Up to the signing of the Peace Accord, not one of the Kachcheries had been closed and all of the GAs had faithfully attended each of the monthly GAs' meetings in Colombo. Furthermore, all government salaries, government pensions, benefits, etc., continued throughout the war with little disruption. In September, 1987, one of the militants told a member of the World Bank assessment team that the militants had intentionally avoided disrupting local government since they believed that once independence had been attained they would need a working government structure to build upon.

One of the problems facing the reconstruction programme is what will happen if the provincial council elections go through and the district administration is downgraded or abolished all together. While, in theory, most of the functions could easily be transferred to any type of new administrative arrangement; in practice, such a transfer is likely to be very disruptive. This is especially the case involving assistance in the critical sectors, (housing, agriculture, small business and fishing), where payments in the form of grants, subsidies, or in-kind assistance is being channeled through the GAs and the AGAs.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

29 APRIL 1988

ISSUE: Concerns regarding representation of the DRCCs

BACKGROUND: When the World Bank mission advocated the establishment of the District Reconstruction Coordinating Committees, it was decided that the majority of the members of the committees would be public servants with a few additional representatives from NGOs. It was felt that the GAs, in appointing the NGO representatives, would somehow manage to ensure that the militants were represented on the DRCCs. It was also assumed that the militants had their own links to the GAs and that they would be able to make their concerns known directly to the GAs. It was felt that this arrangement would be acceptable to the government and, since the DRCCs were only viewed as an interim mechanism of reconstruction management, that they could be replaced by the provincial councils with a mechanism more suitable and representative when the councils were sworn in.

With the LTTE retaking the field and with the split between the LTTE and the other militant groups, (EROS, PLOTE, etc.), questions have been raised in the North and East about how representative the DRCCs actually are. Several GAs have reported privately that they feel that the DRCC arrangement can only work with civil servants due to political divisions. Since all of the representatives of the DRCCs in Trincomalee and Batticaloa are government officials (no NGO personnel have been wanting to serve for fear of reprisals from the militants), the DRCCs, in effect, represent the central government and may be viewed with suspicion by the militants.

NOTE: This appears to be a bigger problem in the East than in the North.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

29 APRIL 1988

ISSUE: How to Provide Technical Assistance to a Decentralized System (In Transition)

BACKGROUND:

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

April 1988

ISSUE: Terminology

BACKGROUND: A sign of the divisions that exist within the government at large, but particularly within the Ministry of Rehabilitation and Reconstruction, are the terms used by different ethnic groups within the ministry to describe the Tamil insurgents. Most of the Tamil officers refer to them publicly as "the militants" and privately as "the boys", the term that is popularly used in the North and East. The Sinhalese staff officers usually use the term terrorists and even since the Peace Accord continued to refer to them in rather derogatory terms. The Sri Lanka army is referred to as "our forces" by the Sinhalese and as "their army" by the Tamils.

I have suggested to Austin several times that to reduce friction and to try and show a modicum of tolerance that the staff be encouraged to refer to them as militants, insurgents or rebels, within the NRSC and the Ministry, terms that are at least more neutral than the ones now in use. So far, even Austin has resisted. D.J. Bandaragoda, on the other hand, seemed to instinctively understand the need for a more neutral term and uses militant in both his private and public conversations as well as in his correspondence.

These are minor points but they underscore the deep divisions and suspicions that are inherent among the personnel in the reconstruction programme.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

29 APRIL 1988

ISSUE: Unified Assistance

BACKGROUND: NOTE: MOVE PART OF OTHER MEMO INTO THIS SECTION

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

29 APRIL 1988

ISSUE: The Basis for Loans and Grants in Each Sector

BACKGROUND: In the overall reconstruction programme it was recognized early on that many of the people would be multiply affected; in other words, they may have suffered losses to their housing as well as to their source of employment or income. In structuring the loans and grants to each sector, it was necessary to establish certain fundamental principles. These were:

1. Housing should be treated differently from productive (i.e. income generating) activities. Since it was likely that many persons would have to obtain money to rehabilitate both their housing and to restart their work either:
 - a. the loans for housing and productive enterprises would both have to be at a low rate of interest, or
 - b. housing, because it was not income generating; should be supported by grants and lower interest rates than activities that were income generating.

The second set of assumptions had to do with how people would get their money for reconstruction. It was recognized that the very poorest people would not be able to borrow or service loans. Therefore, in the housing sector, it was decided to provide a combination of grants and/or building materials that would enable most people to rebuild the simple houses that they had before the war.

As a result of many negotiations and calculations, it was finally decided that persons of very low income should be eligible for a grant which would be equivalent to the cost of rebuilding a small house. (This was determined by calculating the average amount that was necessary to build a small house of semipermanent or permanent materials). Persons at the next level up would be eligible for a combination of a loan and a grant which together would provide enough money to rebuild an average low-to-moderate income house. Persons in the next higher income bracket would be eligible to borrow any amount that they could qualify to repay at a subsidized rate of six percent interest over a fifteen to twenty year period. Originally, the maximum amount of the loan was set by determining the average cost of a middle income house. For ease of administration, it was decided to leave the amount to be borrowed up to the lender which could be determined on the basis of the person's income and the ability to repay the loan.

This system replaced an earlier proposed system that set lending criteria and maximum loan amounts for approximately seven levels of borrowers, staggered rates of interest ranging from two to eight percent. A rate of six percent was chosen since that was the lowest lending rate of any currently established government housing programme.

In the case of productive enterprises it was likewise determined that most persons who would need capital to restart their productive activities, (e.g., small shopkeepers, vendors, etc) would not be able to borrow large amounts of money or service loans with any degree of regularity since they were also likely to be borrowing money for housing. Thus, it was recognized that some amount of grant or in-kind contribution would be necessary to stimulate economic recovery. In sectors such as fishing or agriculture in-kind contributions could be handled through coupons or a voucher system or through direct inputs provided by the agricultural or fishing cooperatives or service centers. For microenterprises, small business, etc. such assistance would be much more difficult and therefore it was recognized that direct grants would probably have to be used as the means of distributing the money.

Therefore, a unified grant and loan scheme for all productive enterprises was also developed. Through various granting mechanisms each person was made eligible to receive 4,000 rupees and could apply to borrow an additional amount at nine percent interest up to a maximum determined by the average estimated cost of rehabilitating a damaged small business, farm or fishing enterprise. Again, the ceiling on the loan amount was not specified for it was felt that each lender would set their own criteria based on the person's ability to pay, past performance, etc.

This system replaced a previous system whereby each ministry had developed a plan to assist its normal clientele, (for example, the Agriculture Ministry planned to provide loans and grants to cultivators, the Fisheries Ministry boats and canoes to fishermen, etc.). The advantages of classifying all loans under the general heading of "Productive Enterprises" as opposed to a ministerial specific approach were as follows:

- a. It widened the number of lending institutions that were available since any lender at the local level, (A Cooperative, Rural Bank, TCCS, MultiPurpose Cooperative Society, Bank of Ceylon, etc.), could make a loan for any type of enterprise.
- b. It provided one unified system that, en toto, was more equitable across the sectors than the "ministerial" approach.
- c. It permitted unification of all lending rates, thereby simplifying administration for both the on-lender and the government dispersing agency.
- d. It increased the likelihood that lending could be "evened out"; in other words, all lending activities would commence at the same time, therefore, no one sector would be shown preferential treatment over the other.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

April 1988

ISSUE: Grants as a mechanism for limiting loan programs

BACKGROUND: In order to reduce the burden on the lending institutions, it was eventually decided to add a grant component to the microenterprise sector. Originally it had been planned that all productive enterprises would be handled through lending and that no grants or in-kind contribution would be offered by the government. This was done because it was felt that farmers, fishermen and small entrepreneurs would generally be in a slightly higher income group than general labourers and therefore, in themselves, would be more likely to pay back the loans than lower income groups or persons who were receiving wages. Nonetheless, a number of planners argued that the number of borrowers would still be too high for the existing credit institutions to handle and that there was a risk to damaging the existing credit structure which, due to the conflict, had operated at reduced levels. (Liquidity among the lenders was not a problem since during the war deposits had increased while lending had virtually ceased altogether.) Since only two percent of the people of the North and East had ever participated in any formal loan scheme, trying to utilize the existing lending institutions and to expand their capacity to handle a total loan burden of upwards of 50,000 applicants was deemed unrealistic. Thus the granting arrangements were established to reduce the number of potential borrowers (by sixty percent). Since borrowing will be slower than dispersing grants (due to people's reluctance to borrow money from formal institutions, as well as the continuing uncertainty in the area) the loan money will be dispersed at a slower rate and thus there would be a self regulating mechanism that would spread the loan applications out over a three-to-five year period making the total number of loans manageable for the existing institutions. This also meant that the government could choose among the stronger institutions for on-lending avoiding the weaker institutions and thereby ensuring that the total loan portfolio could be properly managed.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

April 1988

ISSUE: Liquidity in the Conflict Zone

BACKGROUND: It was commonly believed that the lending institutions in the conflict area would not be able to participate in loan schemes in the reconstruction programme without providing an influx of capital for on-lending. It was argued that the credit institutions had been virtually inactive throughout the conflict and therefore would need support in order to rebuild their economic base.

In fact, the opposite was discovered. Throughout the conflict there had been an increase in savings by individual members of cooperatives, thrifts and even small deposit accounts in the commercial banks. People evidently trusted the solidity of banks rather than their mattresses during the time of instability. Therefore, most of the lending institutions held large amounts of money which they could loan. The position of the banks was further enhanced by the fact that very few people had borrowed money since they didn't want to risk holding a loan for something that could be destroyed or destroyed by the conflict. Several financial institutions reported that as the conflict heightened, deposits increased. Even after the IPKF October offensive in Jaffna few people withdrew money and deposits continued to increase up through the end of the year.

LESSON: The lesson is that during periods of uncertainty deposits are likely to increase, loans decrease and a lending institution's liquidity position should subsequently improve.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

15 April 1988

ISSUE: Reconstruction activities that the LTTE will permit

BACKGROUND: In the last several months, each of the GAs has been able to work out with the LTTE and the other militant groups a list of the types of projects that he can carry out under the reconstruction programme. Though the list varies from district to district it generally includes the following:

1. Housing: The militants point out that it was the Sri Lankan army or the IPKF that destroyed most of the housing in the conflict area. It is generally believed that the LTTE see the construction of housing as something in their favor since the majority of the homeless are Tamils.
2. Roads: In most cases, the LTTE has no objection to the reconstruction of roads as long as:
 - a. it is done by predominantly manual labor that employs large numbers of Tamils;
 - b. the roads benefit the rural poor;
 - c. the roadwork is carried out by district, not national, authorities; and
 - d. the roads do not reconnect links of highway in areas that the Tigers consider to be strategic, i.e. roads that penetrate their sanctuaries.
3. Productive enterprises: It is generally believed that the Tigers favor assistance to farmers, microenterprises and small businesses since the resumption of normal economic activities decreases people's dissatisfaction with the situation. (It should be pointed out that restoration of economic activity also allows them to continue their practice of taxing local businesses.)
4. Fishing: Fishermen have long been the backbone of the LTTE, not only providing a source of communication to India and a pipeline for arms but also providing a large majority of the rank and file of the Tigers. They favor any assistance to this group and, judging from the reaction of the GAs to various proposals for assistance to fishermen, insist that all benefits be given to the fishermen virtually free.

Among those activities which clearly cannot be undertaken are:

1. Reconstruction of government buildings.
2. Reconstruction of certain public works in Sinhalese and Muslim areas.

3. Reconstruction of certain schools, agrarian service centres (ASCs), cooperative buildings and other installations that could be used as barracks or army camps to control strategic highways.

Activities which could begin but which are likely to encounter problems are:

1. Reconstruction of the railway, (the Tigers steal the metal railway ties, or sleepers, and use them for constructing rivetments and bunkers).
2. National roads which are adjacent to the primary conflict zones. (Work could start in these areas but it would have little benefit since the remaining stretches of highway are in areas where control is contested).
3. Schools in rural areas.
4. Any facility near an IPKF or SLAF base or depot.
5. Most activities in Trincomalee.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

20 April 1988

ISSUE: Difficulties in Negotiating with Local LTTE Commanders

BACKGROUND: Through early March it was relatively easy for the GAs to negotiate with the local LTTE commanders for, up until that time, the communications between the local commanders and Prabhakaran were fairly secure. The Tigers had obtained fairly sophisticated communications equipment and they had a highly developed network of couriers that could carry messages back and forth.

In mid-March the IPKF succeeded in closing down most of Prabhakaran's communications on the island. At first they began to intercept most of his radio conversations (and to show him that they were listening, began to publish them in the newspapers). When the LTTE switched codes that couldn't be broken as easily, the IPKF resorted to jamming the principal frequencies and, in a series of raids, managed to capture or destroy the key transmission equipment needed by the Tigers.

Several weeks later, the IPKF captured the person who ran the LTTE courier network and under interrogation he gave them the names of the key couriers and locations where they could be found. The IPKF swiftly captured most of the couriers and the LTTE high command was left, at least temporarily, without a means of communicating with subordinates.

For the reconstruction programme, this has had a slightly disruptive impact. As long as communications were secure, the local commanders could clear reconstruction decisions with Prabhakaran or the leadership of the LTTE and decisions on what the LTTE would permit the GAs could carry out could be cleared without too much worry that they would be contravened later. Once communications were disrupted, however, the local commanders became uncertain about what activities the LTTE should permit and rather than order a local decision, they simply said no to everything. By mid-April, the element of confusion and the concern of the GAs was apparent and at the April NRSC meeting, the optimism and assuredness the GAs had exhibited only a month before, was clearly gone.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION ISSUES

30 APRIL 1988

ISSUE: Registration During a Period of Uncertainty

BACKGROUND: By mid February, plans for the unified registration system had been completed and the forms were ready to print, however, due to the continuing unstable situation in the North and East, several GAs expressed reluctance to go ahead with the registration programme. They expressed concerns that:

1. people would be reluctant to register (not wanting to be on anyone's list);
2. they would be suspicious of any attempts to register them; and
3. they would not be willing to give accurate information.

The GA of Jaffna also worried that when people realized that the benefits would be determined by a person's income and circumstances, that there would be tremendous pressure on the interviewers to qualify everyone for the maximum benefits. Not only could people threaten the interviewer since thousands of guns were still in the areas, but also the interviewers would naturally be sympathetic towards all of the victims and might not have the fortitude to withstand pleas for assistance for which a family didn't actually qualify.

To overcome this latter set of constraints the GA proposed to establish three person teams or assessment panels that would conduct the interviews qualifying people for benefits.

Operationally, the NRSC felt that the panels were unwieldy and too expensive. We argued that the panel members could be threatened just as easily as one person and could be just as easily persuaded to increase benefits. We also felt that having three interviewers agree to the higher benefits meant that there was "safety in numbers" and that it would be harder to correct any tendency to overqualifying families if it was done as a group.

Finally a compromise was reached. It was decided that individual surveyors would carry out the family interviews and register each family and that a panel of civil servants would be formed at the AGA level to hear appeals for persons or families who felt they had not received all of the benefits to which they were entitled. By instructing the interviewer to tell the family about the appeals panel at the outset of the interview, it was felt that he would feel much freer to honestly qualify people for benefits knowing that if the people were dissatisfied and wanted to ask for more, he could tell them to make an appeal to the panel. With this "pressure release valve" in place, registration was scheduled to begin in early May.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

30 April 1988

ISSUE: Update on Estate Tamil Refugees

BACKGROUND: At the end of March number of refugees that had been repatriated by UNHCR was beginning to approach the 8,000 mark. The return programme was moving smoothly at Talaimannar and so a second reception centre was developed at the wharf of the KKS Cement plant north of Jaffna.

After the first group of refugees had been accepted and processed at the KKS facility, I met the UNHCR representative, Kasidas Rachanakorn. He told me that the numbers of returning Estate Tamils were increasing and that he saw this developing into a major problem for UNHCR since the High Commissioner did not want to be put into the position of repatriating people who would later be forced to move back to India under the Sirima-Shastri Agreement.

Since the majority of refugees are from Mannar, Kilinochchi, and Jaffna it is not unreasonable to assume that a large percentage of these will be Estate Tamils who moved to those areas following the 1977 disturbances in Nuwara Eliya. (See Issue paper _____).

Previously, when the numbers were still relatively small, we had decided that if the people could get through the immigration authorities they would be treated as everyone else. We believed that a large number of those who had fled would be people who already had permission to live on government lands or who had been resettled formally by the GAs after 1977 since we had assumed that people who didn't have formal permission to live in the area would not risk leaving the country. As it turned out, most of the people did not have permits and therefore, it looked as though it would be difficult for us to provide assistance for housing reconstruction, agricultural cultivation loans, etc.

The political significance of this problem can be seen in reviewing the terms of the Indo-Sri Lankan Peace Accord. Section 2.16 (d) of the Accord specifies: "The government of India will expedite repatriation from Sri Lanka of Indian citizens (i.e. Estate Tamils) to India who are resident here concurrently with the repatriation of Sri Lankan refugees from Tamil Nadu". The facilities that are being used to accept returnees at Talaimannar had originally been set up as facilities for the repatriation of Estate Tamils to India.

Surprisingly, immigration authorities have been taking a relatively liberal attitude towards readmitting the returning Estate Tamils. Nonetheless, the Ministry of Rehabilitation began to behave cautiously and in late March a group of twenty-two families of returning Estate Tamils processed into the country by immigration were directed by the local authorities to go to a Hindu temple to await further resettlement. All of these families were persons who

claimed to have no place to go and presumably had been encroachers on crown lands prior to fleeing to India. With the numbers now large enough to be noticeable it was necessary to bring the handling of that group into a more formal structure.

On April 7 the government decided to authorize the GAs to issue "producers' permits", (a one year temporary permit to reside on and cultivate crown lands), to people in Mannar, Vavuniya and Kilinochchi. The producers' permits were issued under the 1977 instructions to GAs which authorized them to resettle displaced persons from the Nuwara Eliya troubles on crown lands in those provinces. At Austin's suggestion we then recommended to UNHCR that all Estate Tamils be brought in through Talaimannar since it would be easier for those GAs to absorb them and would not put them in contact with the Jaffna Tamils who tend to be hostile to the Estate Tamils.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

15 April 1988

ISSUE: Project Monitoring System: Ethnic Issues

BACKGROUND: In order to monitor the performance of the various subcomponents of the overall ERRP, a sophisticated project monitoring system is being designed. This system will permit the NRSC, the DRCCs, and the MORR to closely monitor the monthly performance of activities such as:

- loans and grants; including disbursements, loan performance and liquidity of the lending institutions,
- the impact that specific disbursements will have as measured by such factors as housing starts, number of fields rehabilitated and back in cultivation, the increase in the monthly and seasonal catches of various commercial fish, and the number of small businesses and microenterprises rehabilitated and back in operation. (A list of the key performance indicators in each sector is attached).

The system will work as follows: First, each of the larger districts will receive an IBM System II computer with a minimum of one megabyte storage capacity. (These will be provided under the UNDP Technical Assistance agreement). At the NRSC one System II will be installed with forty megabytes hard disc capacity.

The software for the system will be a combination of D-Base III with a Lotus Graphics Interface.

Almost all data will be collected at the AGA level, (in some cases district data will be sufficient). Each participating institution, such as a Thrift and Credit Cooperative Society, a bank, the AGAs disbursement agent or NGO, will receive detailed instructions on what information to collect each month. Data will be forwarded to the district level where the system operator (a computer programmer hired under the UNDPTA Agreement) will collect the information and enter it into the computer program. The district operator will be perform a "first stage aggregation" of the information for use by the DRCC and GA and then send the data to the NRSC by diskette.

The computer operator of the NRSC will perform a "second stage aggregation" of the data and produce a monthly report showing performance in the key sectors by district and region.

The monthly reports will be used to monitor the overall reconstruction programme and make adjustments on a month-to-month basis. In some sectors, a quarterly report will be published by the NRSC for review by interested donors.

A semi-annual report will be prepared in all sectors prior to the donors' aid group meeting to give them an indication of the performance of the programme during the previous semi-annual period.

Most of the key indicators will be measured against targets established by the DRCCs and the NRSC during the preparation of the district reconstruction plans. The information will be graphed and measured against performance curves based on the targets which have been entered into the computer programme. In this way, all of the performance can be visually monitored and performance and the reaction to adjustments can clearly be seen.

DISCUSSION: The indicators and the proposed targets have been developed with inputs from the DRCCs, the NRSC, the MORR, USAID, the World Bank, the ADB and the Donors' Coordinating Committee in Sri Lanka. The NRSC and all donors appear to be satisfied with the indicators that have been established and for the most part the DRCCs and the GAs feel that the information can easily be obtained. However, several GAs have expressed reservation about the feature of the system which permits monitoring the ethnicity of the beneficiaries. While they agree that most of the information will be easy enough to obtain since a person's name, village and in some cases, type of work can identify to which ethnic group the person belongs, they fear that such information could be dangerous to collect.

The NRSC have already discovered that in some of the district plans there have been little or no assistance programmed to non-Tamil communities and have learned that this is due to pressures by the militants on the GAs*. Therefore, it is not surprising that the GAs should be reluctant to collect information that would highlight this discrepancy and collecting certain information may, in fact, put them at some degree of risk.

I feel that it is important that we stand firm on this issue. If we take the ethnic monitoring capability out of the system we have no basis on which to seek corrective measures when gross discrimination occurs. Other members of the NRSC staff, however, feel that the information may be too sensitive at this point and agree that we should leave the capability in the system but simply not ask that the information be forwarded. If things change in the districts, we could go back and collect it at a later time they agree.

* Some of the GAs argue that the reason that the district plans contain no provisions for assistance to non-Tamil communities is that those people are currently not living in the district or in their homes. They argue that since the people have not returned they should plan to provide them with assistance. In some cases, the communities are deserted but in others that we have checked, people are still living in those communities or have returned and are in need of assistance.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

10 April 1988

ISSUE: Refugees Entering at Trincomalee

BACKGROUND: The Indian government has made several attempts to open a repatriation facility at the port of Trincomalee. They have argued that the port has better facilities and can accommodate larger ships and repatriation could be accomplished faster.

The government of Sri Lanka has resisted any attempt to bring refugees in through the port of Trincomalee because they feel that it is a move by the Indian government to put more Tamils into that district and change the ethnic balance in favor of the Tamil community (at present the ratio between ethnic groups is roughly proportioned to one-third Sinhalese, one-third Muslim and one-third Tamil). They believe that ultimately the Tamils will be more sympathetic to India on questions regarding the use and control of the port.

The Sri Lankan government has been very insistent that all refugees be repatriated through Talaimannar and more recently through the KKS wharf near Jaffna. They argue that since almost all refugees are from the west and northern districts of Mannar, Kilinochchi, Vavuniya and Jaffna that there is certainly no need to bring people in through Trincomalee on the east coast.

The issue has taken a more important aspect now that it is known that a significant portion of the returning refugees are Estate Tamils. Since it can be argued that the Estate Tamils have no permanent home, an attempt by the government of India to bring refugees through Trincomalee could easily be interpreted (and is being interpreted), as a move to change the ethnic equation in the district by making it easier for these Tamils to settle into the community. (Since they are "Indian" Tamils, presumably they are even more prejudicial towards India, some anti-Tamils claim.) In some peoples' eyes, the perception that India plans to settle Estate Tamils anywhere reopens the question of the Indian government's intentions vis-a-vis the Estate Tamils since, under the Peace Accord, the GOI is supposed to be facilitating and speeding the resettlement of the Estate Tamils to India.

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Any resettlement in the Trincomalee district is also very sensitive from another viewpoint. During the conflict, the Sri Lankan government pursued a number of settlement schemes in or near the district, moving Sinhalese families into new villages. The villagers were armed and organized in cadres of "Home Guards" and were tasked with wresting control of the rural areas from the Tamils. The LTTE and other groups reacted by trying to drive the new settlers off and many massacres were perpetrated on both sides as a result of these settlement programmes. Even after the cease-fire there are reports that the government has tried to again resettle Sinhalese in the area, (see Issue).

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PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

27 April 1988

ISSUE: "European" Refugees

BACKGROUND: During the conflict, a large number of Sri Lankans immigrated and sought residence in countries such as Britain, Canada, France, Germany and Switzerland under the status of refugees. Since the Indo-Sri Lankan Accord, many of these host governments have sought to repatriate the Sri Lankans citing the accord as proof that it is now safe to return. Among the countries most anxious to be rid of these refugees are Canada, Germany and Switzerland.

It is unknown how many of these people are actually refugees and how many are simply economic migrants. So far, the government of Sri Lanka has made no attempt to facilitate their repatriation presumably because the immigrants are sending large amounts of money back to their families in Sri Lanka which helps Sri Lanka's foreign currency situation.

At present the issue has not surfaced as a major political issue nor one affecting the reconstruction programme. However, in recent donor coordination meetings, the number of queries we have received from countries such as Canada and Switzerland regarding agreements to repatriate these people could indicate that reconstruction aid may soon be made contingent upon the government of Sri Lanka taking more active steps to bring these people home.

The position of UNHCR so far is that these people are economic migrants and not refugees and therefore, are not of concern to the High Commissioner. The Deputy High Commissioner for Refugees, Gene Dewey, told me that he felt that pledges to the Sri Lanka reconstruction programme were higher than expected because some of the donors intended to use the funds to "leverage" favorable repatriation agreements.

PROJECT ISSUES: SRI LANKA RECONSTRUCTION PROJECT

25 April 1988

ISSUE: Situation of Fishermen in the North and East

BACKGROUND: In the aftermath of the Indo-Sri Lanka Peace Accord the exclusion zone which prohibited the fishermen in the North and East from fishing in the Palk Strait or in the waters north of the island, was lifted. However, in early October a number of incidents occurred wherein the Sri Lankan navy intercepted fishing boats bringing arms from India for the LTTE. As levels of violence increased the government was forced to reimpose restrictions on the fishermen. At first, all fishing was again prohibited. Then in response to pressures from the GA and the IPKF, the government agreed to permit fishing in the eastern provinces as long as the fishermen agreed to certain provisions. These included:

- a. Boats could only operate in daylight hours.
- b. All boats had to be painted a bright color such as yellow or red so that they could be seen by patrol boats.
- c. Not more than four persons could be in any one boat.
- d. Boats could not be operated more than five kilometers from shore.
- e. No boats over a certain horsepower could operate.

Subsequently these restrictions were extended to all of the coastal districts of the North and East.

Because of these restrictions fishermen have been particularly hard hit and in effect, maybe the last group to recover economically, (this is one of the reasons why both the GAs and the Ministry of Fisheries argue so vehemently that fishermen should receive preferential subsidies in the Reconstruction programme).

INTERTECT
Reconstruction Advisory Mission
30 April 1988

To: D.J. Bandaragoda
From: Fred Cuny

Subject: UNHCR Agreements with other ministries

At the recent donor coordination meeting, the representative for the United Nations High Commissioner for Refugees mentioned that UNHCR has recently signed agreements with the Ministries of Health, Youth Affairs, and Education and said that several agreements with the Ministry of Agriculture and the RDA are pending regarding rehabilitation of agrarian service centers and rural roads.

I wanted to bring these to your attention since it is now our objective to bring all funding of rehabilitation or reconstruction activities under the banner of the MORR. You may wish to consider asking UNHCR to modify these agreements accordingly.

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To: D.J. Bandaragoda
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Subject: Shelter to Housing Programme

The other day you were asking about ways in which we could involve former militants in productive activities such as housing construction. Attached is a copy of a manual that our company put together several years ago. The portion which might be useful is the description of how people can be organized to build their houses in a cooperative, self-help programme under the guidance of a trained building instructor. To make this programme work for us, we would have to identify some persons who were top-notch masons or carpenters train them as instructors and then bring in groups of former militants for training as contractor apprentices. Once trained, these fellows would go off and organize small groups of between four to six families to help each other rebuild their houses. The instructors would then help them organize to get their materials, see that they were delivered on the site, and then supervise the people as they rebuilt their houses in a safe, and anti-cyclonic manner.

This programme has been successfully used in a number of countries and was the model that the government of Madagascar adopted for its entire housing construction programme in 1984.