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Sri Lanka Reconstruction and Rehabilitation Program

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CURRENCY EQUIVALENTS

(Annual Average)
Sri Lanka Rupees per US\$1.00

1987 - 29.7

GLOSSARY AND PRINCIPAL ACRONYMS

CEB	- Ceylon Electricity Board
DDC	- District Development Council
DRCC	- District Reconstruction Coordinating Committee
GA	- Government Agent
HDFC	- Housing Development Finance Corporation
MLGHC	- Ministry of Local Government, Housing and Construction
MLLD	- Ministry of Lands and Land Development
MOE	- Ministry of Education
MOFP	- Ministry of Finance and Planning
MOH	- Ministry of Health
MWATH	- Ministry of Women's Affairs and Teaching Hospitals
NGO	- Non-Governmental Organization
NHDA	- National Housing Development Authority
NRSC	- National Reconstruction Steering Committee
NWSDB	- National Water Supply and Drainage Board
RDA	- Road Development Authority
REPPIA	- Rehabilitation of Persons, Properties and Industries Authority
RRP	- Reconstruction and Rehabilitation Program
SMIB	- State Mortgage and Investment Bank

Fiscal Year

January 1 to December 31

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This report is based on the findings of a mission which visited Sri Lanka from August 31 - September 24, 1987. The mission consisted of Messrs. Hari Aggarwal (Chief of Mission), Roberto Zagha, Chandra Godavitarne, Terry Hall, Jagdish Srivastava, Louis Gazoni, Grant Sinclair, Richard Leonard, Mmes. Danielle Berthelot, Shanta Pai, and Consultants Messrs. Frederick Cuny and John Flynn. Messrs. Arnold Clift, Chief of Country Operations Division, ASI and Iain Christie Chief of Infrastructure Division, ASI also joined the mission to participate in the discussions with the Government.

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EXECUTIVE SUMMARY

- (i) The recent Peace Accord signed between the Governments of Sri Lanka and India aims at putting an end to a four year bitter and costly conflict that caused extensive damages predominantly in the Northern and Eastern parts of the country and accentuated the country's already serious macro-economic imbalances. In particular, it provides for a considerable degree of administrative autonomy to the Provinces; Tamil to be an official language, and agreement on procedures to determine the ethnic composition of all land settlement schemes.
- (ii) The four years of the ethnic conflict caused considerable damage. About 7,000 lives were lost and thousands more wounded. Almost 100,000 families or about 500,000 people lost their homes. The Northern and Eastern parts of the country suffered the greatest disruptions. Many workplaces were destroyed or damaged. Not only were urban areas affected but fighting was widespread in the rural areas as well; thousands of farmers were forced to leave their lands and in many areas, the irrigation systems they were so dependent on were damaged. Fishermen lost their boats and whole fishing villages were destroyed. Schools, hospitals, clinics were damaged resulting in serious hardships to children and patients.
- (iii) The conflict has disrupted activities in all sectors of the economy--farming, fishing, manufacturing, transport, trade--put a heavy burden on both the budget and the balance of payments, and caused damages to the country's infrastructure estimated to be at about US\$700 million. This US\$700 million is only a portion of the quantifiable economic losses that the country has suffered. The decline in tourist arrivals after the beginning of the conflict caused a US\$200 million reduction in foreign exchange earnings since August 1983. Another US\$500 million had to be allocated to strengthen the security forces, some US\$300 million of which was for imports of military equipment. About US\$250 million of foreign investment that could have materialized in the last four years under normal conditions were lost because foreign investors were reluctant to invest in a country with an uncertain political climate. Lost agricultural and fishing production is estimated to be at US\$250 million. All in all, the ethnic conflict has caused since its beginning losses to the economy that are probably over US\$2 billion, i.e. a third of the current GDP, once the indirect effects of the conflict--such as the increased production that foreign investment would have brought about--are taken into account.
- (iv) The Government intends to rehabilitate all the parts of the country that suffered from the conflict and bring them back to normalcy as quickly as possible. This requires rehabilitating the damaged infrastructure and getting displaced people back to work and facilitate start of economic activities. Three principles have guided the Reconstruction Program as

discussed in this report. First, it is not necessary to rehabilitate everything that was damaged. Unproductive infrastructure or assets do not need to be included in the Reconstruction Program. Second, wherever possible, the replaced infrastructure should be smaller in size and therefore of lower cost, a principle that is particularly relevant in the case of houses, local and public buildings. Finally, the reconstructed assets should be within the Government's capacity to maintain them.

(v) Based on the above criteria, reconstruction and rehabilitation needs total about Rs 13 billion (US\$388.4 million), including contingencies, over three years. The estimates are based on the districts' evaluation and were reviewed and revised by the staff based on visits to eight of the most affected districts. They must be viewed as preliminary and would have to be refined as Reconstruction activities proceed. In particular, the extensive damage to Jaffna and Trincomalee during mid-October clashes are not included here nor are damaged areas where for lack of government staff, an assessment could not be made. The Reconstruction Program of US\$388.4 million includes replacement of buildings and equipment destroyed or lost by small entrepreneurs, traders and shopkeepers, but does not include an estimate of their losses in terms of inventories damaged or destroyed.

(vi) Since the end of the hostilities, the Government has begun to make arrangement for the displaced people to return to their houses. A grant of Rs 10,000 is being provided for all affected families. Based on estimated 100,000 families displaced, resettlement program amounts to Rs 600 million (US\$20 million). Housing is the most extensively damaged sector and will require about US\$73 million for rehabilitation. Reconstruction of other sectors which suffered extensive damage include: Roads and Bridges, US\$70 million; Agriculture and Fisheries, US\$64 million; Telecommunications, US\$37 million; Commercial Sector, US\$25 million; Railways, US\$17 million; Irrigation and Water Supply, US\$16 million.

(vii) During the Mission's visit to the districts, it was apparent that many of the affected people were frustrated in not getting assistance to resettle or start economic activities. In many cases they did not know about the Government's resettlement assistance program of Rs 7,000 (excluding NGO contribution) per affected family. There is an urgent need to announce this program nationwide and make these funds available to the displaced people. This assistance program will go a long way in reducing the anxiety of the affected people, hasten re-establishment of normal life and promote acceptance of the Peace Accord. Assistance in other areas such as agricultural inputs (seeds, fertilizer, sprayers, and machine tools) for farmers to cultivate their lands in time for the upcoming Maha season; fishing inputs for fishermen who already have boats but need equipment such as fishing nets; temporary sheds for schools; and temporary clinics and dispensaries should be provided urgently. In other sectors such as roads and irrigation, some of the equipment needed urgently could be made available from the nearest non-affected areas until new supplies arrive. It is estimated that about Rs

431 million (i.e. about US\$15 million) is required to address priority reconstruction needs for the remainder of 1987. Since the flow of grants may be slow for the remainder of 1987, it is recommended that the Government provide Rs 250 million towards these needs out of the Rs 500 million set aside in the 1987 budget to absorb grants.

(viii) During the Mission's discussions in each district, people were of the view that the priorities of reconstruction needs of each district should be made in the districts. The people wanted a close association with both the program formulation as well as participation in its implementation. The Reconstruction Program is thus structured to reflect the priorities of each district. Consistent with the Government's intention to devolve administrative power to the proposed provincial councils, it is appropriate to put each district administration in charge of its Reconstruction Program. Therefore, the recommended implementation structure is to give the districts the planning and prioritizing role, to the Central Government, financial approval monitoring and problem resolution, and to the line agencies that of the execution of works. Although the districts would be the main focal point of preparing detailed programs, there would be some programs such as Railways, Ports, Public Buildings, and Public Transport that would be national in scope which would require planning by the concerned line ministry.

(ix) The district approach would require close coordination between the district and the center. Therefore, coordinating committees are recommended at the center and in all the affected districts. In addition, in the case of most affected districts, the district coordinating committees would be supported by a Secretariat.

(i) The District Reconstruction Coordinating Committee (DRCC):

Since each district would be in charge of implementing its program, a task force headed by the Government Agent (GA) and assisted by a Technical Director and technical staff of line ministries in the district should be formed. The membership of DRCC will also include district or regional heads of line ministries, citizens committee representatives, and NGOs. The DRCC will plan and prioritize reconstruction activity and monitor implementation of the district program. The DRCC will be represented at the National Reconstruction Steering Committee by the GA. Although some of the required staff already exists in some districts, each district should examine and prepare staffing plans to implement the district program. Since the GA in each district has multiple functions to perform, a Technical Director would be appointed to assist the GA and be in charge of the day-to-day operations. It is recommended that the exercise to prepare staffing plans should begin immediately and be ready before the Aid Group meeting and staff in place by January 1, 1988. In some districts this timetable may have to be altered due to the recent violence.

(ii) The National Reconstruction Steering Committee (NRSC): In order to monitor agreed yearly programs, resolve any inter-district issues, approve

financial resources and determine administrative procedures, especially for reimbursement of foreign aided expenditures, a task force at the center would be created. This task force would be headed by a Senior Government official acting as Chairman and be assisted by a secretariat headed by a Chief Executive Officer to oversee day-to-day operations. This task force would be located in the Ministry of Finance and Planning (MOFP) and would include the GAs in charge of district programs and representatives of line ministries at the center. In order to ensure that all development ministries are involved in the reconstruction effort, the Development Secretaries Committee would be regularly informed of the Reconstruction Program and its implementation.

(x) The NGOs are playing a useful role in assisting in the reconstruction effort, especially in the housing, health, and agriculture sectors. However, each of these agencies have their own agenda, its own clientele, and its own way of doing things. For example in housing, some NGOs are helping reconstruct houses, some are providing material subsidies, but in varying amounts and only in some villages. The issue facing the Government is equity, i.e., ensuring that every affected family has equal access to reconstruction benefits. Therefore, it is extremely important that the Government knows of all NGO programs and coordinate their activities to ensure that there is no duplication of efforts and that all affected villages benefit equally. Similarly, all NGOs should be informed of the various reconstruction activities and assistance programs. In order to ensure proper coordination, it is recommended that all NGOs coordinate their activities with the Government Agent and appoint a representative on the DRCC.

(xi) The three-year Reconstruction Program recommended in this report is well within the country's implementation capacity. Many skilled workers are looking for jobs, some factories are operating below capacity, some equipment is underutilized, many banking branches have been shut down and could be easily reopened. In addition there are already some materials available for the rehabilitation of the housing, agricultural and fisheries sectors and could be utilized at least in the early stages of the program; what is not available, can easily be imported. However, since domestic supply and/or imports may not respond immediately due to increasing demand, some constraints may be experienced in sectors which will compete for the same materials and resources, but they are not believed to be substantial.

(xii) Donor participation will be critical for the success of the Reconstruction Program. It is estimated that donor commitments of about US\$320 million on highly concessional terms will be required, while the Government would finance about US\$70 million or 18 percent of the program. It is recommended that the donors make a one time commitment so that the reconstruction plans for the three years can be developed and firmed up. Preliminary discussions with Sri Lanka's donors suggest that the US\$320 million can be entirely financed through grants and concessional loans.

(xiii) The Peace Accord was signed at a time when the Government had already announced, and taken the first preliminary steps, of a far-reaching program of economic reforms, to be supported by an IMF Structural Adjustment Facility (SAF) aimed at (i) reducing the public sector deficit from 12 percent of GDP in 1987 to about nine percent in 1990, a deficit that could be financed without having to resort to the use of credit from the Central Bank or commercial foreign borrowing. The reduction in the deficit would be achieved through the maintenance of fiscal revenues at about 20 percent of GDP, and the reduction of total Government expenditures from 33 percent of GDP in 1986 to 29 percent of GDP by 1990; and (ii) changing industrial incentives so as to make manufacturing enterprises more competitive and more export-oriented. A more flexible management of the exchange rate, a reduction in the protection afforded by the tariff and licensing system, export promotion policies, divestitures of Public Sector Manufacturing Enterprises (PMEs) and better management of PMEs that cannot be privatized immediately are the essential components of the program of industrial reforms. As the Government did not anticipate a Reconstruction Program of this magnitude from 1988, it may be necessary to modify slightly the economic reform programs to accommodate this Reconstruction Program.

(xiv) The Reconstruction Program is not expected to affect the program of industrial and administrative reforms, but would have an impact on the budget. Over a three-year period Rs 13 billion (US\$388.4 million) will be required to carry-out the Reconstruction Program thus putting on the budget additional claims equivalent to some 1.5 to 2 percent of GDP every year, on the average during 1988-90. While cuts in expenditure related to imports of military equipment of Rs 3.5 billion, i.e. 1.5 percent of GDP projected for 1988, are expected to ease the fiscal situation other factors will add to fiscal pressures. First, the Government has decided to restructure civil service salaries over a two year period in accordance with the recommendations of the Committee on Administrative Reform, a working group formed in 1984 to advise the Government on matters related to the public administration. This restructuring of salaries will result in a 30 percent increase in civil service salaries (1.2 percent of GDP) with larger adjustments at the professional and managerial levels. Despite this, civil service salaries would remain substantially below those of the private sector. Second, the devolution of power to the Provinces will create additional expenditures, as the Provincial Councils, the position of Chief Minister and the Board of Ministers are created. Finally, under the new set up, the Provinces will prepare their own budget and prepare public investment projects. This is another potential source of pressure on the budget.

(xv) To reach its medium term fiscal target and accommodate the Reconstruction Program, the Government has decided to prepare a program to reduce public expenditures with the assistance of the World Bank which has scheduled a public expenditure review mission for December 1987. Under the program, both current and capital outlays will be examined with a view to identifying specific reductions and also measures that would increase the efficiency of

expenditures. There are four areas of expenditures where the scope for and the consequence of expenditure reductions are being examined: i) public administration, where the implementation of the recommendations of the Committee on Administrative Reforms should help in streamlining the public administration and reduce wage costs; ii) budgetary support to public corporations and public bodies such as Air Lanka where expenditure reduction could be achieved through efficiency increases; iii) subsidies such as the fertilizer subsidy, and the subsidies to the Central Transport Board (CTB); and iv) investment in irrigation schemes (including Mahaweli), power and transportation which account for close to half of the public investment program and where some rephasing could bring about substantial reduction in public expenditures.

I. INTRODUCTION

A. Background

1. After four years of a bitter and violent conflict between the militant groups from the Sri Lankan Tamil 1/ community and the Government security forces, the Governments of Sri Lanka and India signed a Peace Accord (see Annex I) on July 29, 1987 aimed at solving this conflict. The Peace Accord provides the basis for the reestablishment of peace and normalcy in the country. In particular, it provides for a considerable degree of administrative autonomy to the Provinces; Tamil to be an official language, and agreement on procedures to determine the ethnic composition of all land settlement schemes.

2. Under the administrative arrangements covered in the Accord, 25 districts (see Map) will be merged into eight 2/ provinces with a fair degree of autonomy. Each province would have its elected Provincial Council, consisting of a Chief Minister, a Board of Ministers and a Governor appointed by the President. Together they will be responsible for education, health, police and the formulation of development budgets. The provinces will determine the ethnic composition of all new minor resettlement schemes whereas the center will determine the composition in major new settlement schemes, such as Mahaweli-System B, taking into account both the country's overall ethnic composition and the composition of the population living in districts where new settlements would take place. Further, Tamil will also be an official language and therefore, hold equal status as Sinhala. This should make access to education and employment opportunities more equitable, particularly in the Government sector.

3. The provincial councils will depend on the Central Government for funding of their expenditure programs since the structure of the Sri Lankan tax system is such that most taxes are levied in Colombo and neighboring Central and Southern districts. Revenues from import taxes are almost

1/ Tamils comprise about 18 percent or a little less than three million of Sri Lanka's 16 million population. About 13 percent of these are Sri Lankan Tamils whose roots in the country are several centuries old. The remaining 5 percent are Indian Tamils who migrated from South India in the second half of 1800s and early 1900s to work in the then thriving tea and rubber plantations. About 82 percent of the Indian-Tamils live in the Central and Southern-Central districts where most of the tea and rubber is produced, while about 75 percent of the Sri Lankan-Tamils live in the Northern and Eastern districts.

2/ The Peace Accord provides for referendum to be held by December 1988 in the Eastern Province to allow the population to decide whether the Eastern districts should merge with the Northern areas.

entirely collected in Colombo and so are export taxes on the tea, rubber and coconuts produced in the Central and Western districts. Export and import taxes have historically accounted for about half of Government revenues. There are no data available in the case of the other two main sources of Government revenues, the Business Turnover Tax (BTT) and the income tax on corporations and individuals, to assess the geographical distribution of their collections but it is likely that they are, again, mostly collected in Colombo and neighboring areas where incomes are higher than in the rest of the country and where most of the corporations have their headquarters. Moreover, most taxes are collected from the formal sector of the economy which is, also, mostly localized in Colombo.

4. Such a tax system is unlikely to change, at least in the short and medium term, and this implies that the Provinces will depend on the transfers from the Central Government to carry-out their functions. The allocation of Central Government funds to the Provinces is expected to be made by a Commission headed by the President and consisting of the Governor of the Central Bank, the Secretary of the Treasury and Representatives of each one of the three major ethnic communities (Sinhalese, Tamils, Muslims), to be appointed by the President. Preliminary indications suggest that over 90 percent of provincial expenditures will be funded by transfers from the Central Government. In spite of their fiscal dependence, the Provinces will acquire a considerable degree of autonomy. First, they will be able to develop public expenditure programs and determine priorities; to carry-out and monitor the public expenditure programs, and to hire staff. Each Province will prepare its own budget and it will be responsible for its monitoring and execution once it is approved by the Central Government and incorporated in the national budget.

B. Aftermath of the Conflict

5. Visits to the affected areas give an impression that conflict was intense and highly destructive. The human toll was tragic. An estimated 7,000 lives were lost and thousands more were wounded. Almost 100,000 families, of which about 90,000 were farmers and fishermen, lost their homes; with an average of 5 people per family, that translates to 500,000 people homeless. Of these, as many as 200,000 people fled for safety to other parts of the country and another 200,000 (125,000 to India) fled the country as refugees. In other words, over 20 percent of the population in the North and East were made homeless and about 10 percent were forced into the numbing existence of living in camps.

6. The northern and eastern parts of the country suffered the greatest disruptions. Fighting there was heavy and very disruptive. Many workplaces were destroyed or damaged, and thousands of others closed, to protect their assets and their employees' lives. Not only were commercial areas affected but the fighting was widespread in the rural areas as well; thousands of

farmers were forced to leave their lands and in some areas, the irrigation systems they are so dependent on were damaged. Fishermen, suspected of smuggling arms, were special targets. Their boats were sunk or destroyed on land, and their villages were often singled out for retaliatory attacks. In some areas, whole fishing villages were destroyed.

7. Schools were damaged and others forced to close. In some areas, children continued their studies under temporary sheds or in their houses. Similarly, some hospitals and clinics were damaged, and while medical services continued, the staff and patients were under great hardships. Some public health services faltered, immunizations particularly, and the result was that many children became susceptible to diseases they are usually protected from. At the end of the conflict, a polio epidemic was detected in the North; under normal circumstances all the children in the area would have received their preventive vaccine.

8. The physical damages indicate the type of fighting that took place. Most of the North and East is flat paddy land. The need to devote as much land as possible to cultivation dictates that many of the people live along the edges of the roads and it was along the roads that much of the fighting was centered. To control an area, one had to control the access to it. For the militants, this meant blowing up the bridges and culverts, mining the roads at key intersections, sinking the ferries, and forcing traffic, especially government patrols, into narrow, restricted areas where they could be fired upon from captured houses. For the Government, the response was to establish camps along the roads by occupying any installation large enough to use as a base: schools, cooperative buildings, hospitals, large industrial complexes all served the purpose. To deny the Government the use of these installations, the militants attempted to destroy them before they could be occupied; a measure of their success is that in some areas there are miles of road where no government or semi-government installation is left standing. To keep the houses along the roads or near the army's camps from being used for ambushes, the army simply razed the houses. In many cases, the housing was not only knocked down, but the debris was physically removed to keep the rubble from being piled up and used as a revetment by the militants. In Jaffna district, the militants stole railway sleepers to build bunkers. In many areas, coconut trees were felled for bunkers or simply burned for the fear that they would be used by the opposing side.

C. Prospects for Reconstruction

9. The signing of the Accord was initially met with considerable discontent that ended-up in short lived but violent riots that caused extensive damages in areas that had remained unaffected until then by the ethnic conflict. Very quickly, however, hostilities came to a halt; by September the country had returned to near state of normalcy; farmers displaced by the conflict had begun to return to their home villages to resume farming activities; the few fishermen who had not lost their equipment were fishing

again; several important private manufacturing companies that had suffered plant damages during the conflict had restarted their businesses. Nonetheless, there was a resurgence of violence in October, this time between the major Tamil militant group and the Indian Peace-keeping force. Hopefully, such violence will abate as the militant groups are disarmed. In addition, strengthening of civil administration through the establishment of interim provincial councils and, ultimately, through the provincial council elections and the Reconstruction Program is likely to help in further abating violence. There is thus, an urgent need to take an early action to support reconstruction and reactivation of economic activities. This would further strengthen the Peace Accord and return to normalcy.

10. The volume of resources needed to sustain the reconstruction effort, how to channel these resources to private individuals and public agencies in need of such resources, and the Government actions and policies that are necessary to ensure that the Reconstruction Program provides adequate returns to the economy, are the main themes of this report. The report first evaluates the likely impact of the Reconstruction Program on the economy and highlights the economic policy actions that would be necessary to accommodate the demands that the Reconstruction Program will put on the economy without disrupting the development goals and strategies that the Government had announced recently. Next, it provides an assessment of the damages that have occurred in each affected district and each sector of the economy. Finally, it formulates the broad guidelines and priorities of a proposed three-year Reconstruction Program.

II. THE RECONSTRUCTION PROGRAM AND THE ECONOMY

A. Macroeconomic Framework

11. The Peace Accord was signed at a time when the Government had taken the first steps of a far-reaching program of economic reforms aimed at (i) reducing the public sector deficit from about 12 percent of GDP in 1986 to 9 percent in 1990, a deficit that could be financed without having to resort to the use of credit from the Central Bank or commercial foreign borrowing. The reduction in the deficit would be achieved through the maintenance of fiscal revenues at about 20 percent of GDP, and the reduction of total Government expenditures from 33 percent of GDP in 1986 to about 29 percent of GDP by 1990; and (ii) changing industrial incentives so as to make manufacturing enterprises more competitive and more export-oriented. A more flexible management of the exchange rate, a reduction in the protection afforded by the tariff and licensing system, export promotion policies, divestitures of Public Sector Manufacturing Enterprises (PMEs) and better management of PMEs that cannot be privatized immediately are the essential components of the program of industrial reforms.

12. The Government's intention to reduce the fiscal deficit was announced in the November 1986 Budget Speech, and the industrial reforms in the report of the Industrial Policy Committee (IPC) that was approved by the Cabinet in February this year. Both were described and discussed in detail in the Country Economic Memorandum that was distributed to the Government and to the members of the Sri Lanka Aid Group last June. As a result of the fiscal adjustment program, the public sector deficit is expected to decline by 0.5 percent in 1987 (11.8 percent of GDP) in relation to 1986 (12.3 percent of GDP), and a further 3 percent of GDP by 1990. The program of industrial reforms would begin in 1988 when the first round of tariff reduction, the elimination of most import licensing requirements, the first phase of the privatization program, and changes in PMEs management systems are expected to take place. The management of the exchange rate has already been made more flexible. The adjustment of the Sri Lanka rupee vis-a-vis the US\$ since late 1984 (the rupee was at Rs 26.2/US\$ at end 1984 and at Rs 30.5/US\$ at end October 1987) coupled with the devaluation of the dollar vis-a-vis the major international currencies, has meant in real terms a depreciation of over 25 percent vis-a-vis the currencies of Sri Lanka's trading partners. This has corrected the substantial real appreciation of the rupee that had taken place in 1980-84, and it is expected that continued flexibility will support the economic reform program.

13. The Reconstruction Program described in this report, amounts to Rs 13 billion (US\$388.4 million) over a three year period. The Reconstruction Program is not expected to affect the program of industrial reforms, and should have a positive impact on the balance of payments. Concessional foreign flows are expected to finance as much as 82 percent of the total cost

of the program while its import content is estimated to be at 35 percent. The Reconstruction Program will, however, create new pressures and put additional claims equivalent to 1.5 to 2 percent of GDP a year on the average on the budget. This will add to other fiscal pressures. First, the Government has decided to restructure civil service salaries over a two year period in accordance with the recommendations of the Committee on Administrative Reform, a working group formed in 1984 to advise the Government on matters related to the public administration. This restructuring of salaries will result in a 30 percent average increase in civil service salaries (1.2 percent of GDP) with larger adjustments at the professional and managerial levels. Despite this, civil service salaries would remain substantially below those of the private sector. Second, the devolution of power to the Provinces will create additional expenditures, as the Provincial Councils, the position of Chief Minister and the Board of Ministers are created. Finally, under the new set up, the Provinces will prepare their own budget and prepare public investment projects. This is another potential source of pressure on the budget.

14. It should be possible, however, to accommodate these pressures, as well as the increase in expenditures brought about by the Reconstruction Program, within medium-term fiscal targets, provided that the Government takes strong action in reducing public expenditures. In addition to the Rs 3.5 billion (1.5 percent of GDP) reduction in defense expenditures that has already been decided for 1988, the Government will prepare, with the assistance of the World Bank which has scheduled a public expenditure review mission for December 1987, a program to reduce public expenditures. Under this program both current and capital outlays will be examined with a view to identifying specific reductions and also measures that would increase the efficiency of government outlays. The balance between current and capital expenditures and the adequacy of budgetary allocations for the social sectors are also part of this review. There are four main expenditure-areas where the scope for reductions and the effect of potential cuts would be examined.

15. The first is related to the civil service. Sri Lanka's civil service has a long and well deserved reputation of excellence but, in the past, the Government has attempted to reduce the high levels of unemployment in the economy through an increase of employment in the civil service. At the same time, to reduce the budgetary impact of such a policy, the Government has limited the increase in the salaries of civil servants. As a result, Sri Lanka's civil service is now both overstaffed and underpaid. The problem of underpay is particularly serious at the senior level. In addition, over the years, there has been a multiplication of ministries and agencies (there are some forty ministries) with fragmented and overlapping functions and little coordination. The Government appointed a Presidential Committee on Administrative Reforms in 1984 to study these problems. The Committee issued its recommendations in mid-1987 which consist of (i) reducing the number of civil servants by 25 percent; (ii) introducing a new salary structure that would narrow the wide disparity between the remuneration of professionals and

managers in the public and private sector; and (iii) reducing the number of entities to eliminate duplication of functions. A precise timetable for the implementation of these recommendations will be developed during 1988, after the implications for the civil service of the planned devolution of administrative functions to provincial councils is assessed. Meanwhile, the present freeze on the hiring of new staff and the filling of vacancies will be continued.

16. Budgetary support to public corporations is the second expenditure-area being examined by the Government. There are three public corporations (Air Lanka, the Cement Corporation and the Ceylon Shipping Lines) which have absorbed the bulk of the budgetary support to public enterprises in the past few years. The Government has already decided to reduce its budgetary support to Air Lanka in 1988. The rationalization of the corporation's operations and the disposal of assets (a Boeing 747 has already been sold and another is expected to be sold in the next few months) has reduced Air Lanka's need for budgetary support. Moreover, the Government is expected to examine what would be the budgetary consequences of: (i) closing down the airline; (ii) restructuring its routes to concentrate on regional traffic exclusively; and (iii) continuing the current routes. In the case of the Cement Corporation (also see para 112), the Government is developing a restructuring plan with the assistance of the World Bank. Under such a plan, the corporation will undergo a financial and technical restructuring that would improve its efficiency and make it internationally competitive. The case of the Ceylon Shipping Lines is more difficult. The company suffers from the contraction in international sea traffic, the reduction in freight rates, and a large debt overhang. The Government has already reduced the number of vessels from 14 in 1983 to 8 in 1986 and is studying ways to minimize the budgetary assistance to the corporation.

17. Subsidies and transfers is the third expenditure-area being studied by the Government. The fertilizer subsidy, the subsidy to the Central Transport Board (CTB), and the National Food Stamp Program are the main ones. An assessment of the impact of the fertilizer subsidy on production and farmer's costs will be made with a view to preparing a plan for elimination of the subsidy by 1990.

18. Finally, the Government intends to reduce the size of its Public Investment Program and it is currently analyzing the social and economic consequences of retarding its investment in Mahaweli and in other irrigation schemes, power, and transportation. These public investment projects account for close to 40 percent of development expenditures in the next five years. Concrete proposals will be developed during 1988 for implementation in the 1989 and 1990 budgets. Meanwhile, no new projects in these areas will be included in the Public Investment Program.

Table 1: SUMMARY OF CENTRAL GOVERNMENT FISCAL OPERATIONS, 1986-90

	Preliminary				
	Actual 1986	Estimates 1987	Projected		
			1988	1989	1990
----- Rs billion -----					
Fiscal Revenues	<u>37.2</u>	<u>41.4</u>	<u>46.0</u>	<u>50.0</u>	<u>55.0</u>
Total Expenditures and Net Lending	<u>59.2</u>	<u>65.0</u>	<u>70.5</u>	<u>75.5</u>	<u>79.2</u>
Current expenditures	34.7	39.5	40.9	n.a.	n.a.
Capital expenditures	22.7	22.5	25.1	n.a.	n.a.
of which reconstruction	..	0.4	4.4	4.8	3.3
Net lending	1.8	3.0	4.5	n.a.	n.a.
Overall Deficit	<u>21.6</u>	<u>23.6</u>	<u>24.8</u>	<u>25.5</u>	<u>24.2</u>
Grants	3.6	4.9	5.2	5.8	5.5
Foreign loans	9.0	7.6	10.4	11.7	11.0
Domestic borrowing	9.0	11.1	9.2	8.0	7.7
----- In % of GDP -----					
Fiscal Revenues	<u>20.7</u>	<u>20.7</u>	<u>20.3</u>	<u>20.0</u>	<u>20.0</u>
Total Expenditures and Net Lending	<u>33.0</u>	<u>32.5</u>	<u>31.3</u>	<u>30.2</u>	<u>28.8</u>
Overall Deficit	<u>12.3</u>	<u>11.8</u>	<u>11.0</u>	<u>10.2</u>	<u>8.8</u>
Grants	2.1	2.5	2.3	2.3	2.0
Foreign loans	5.1	3.8	4.6	4.7	4.0
Domestic borrowing	5.1	5.6	4.1	3.2	2.8

Source: Ministry of Finance & Planning, Central Bank of Sri Lanka, and Bank staff estimates.

19. Assuming that the Government implements the program of economic reforms that it has announced, and is able to accommodate the Reconstruction Program without altering its fiscal and domestic borrowing targets, an overall improvement in growth and employment can be anticipated. The Reconstruction Program itself should give a strong impetus to the economy. It will

generate new employment opportunities, increase production in the agricultural and fishing sectors, and ease the balance of payments situation. Both production of rice and fish will increase, thus reducing the need for imports of these two items that have accounted for 3 percent of total imports in recent years. The reduction in imports of military equipment, 10 percent of total imports in the past two years, will be another source of foreign exchange savings. Moreover, with the return to normalcy, tourist arrivals can be expected to increase as well as foreign investments.

B. LONGER-TERM DEVELOPMENT ISSUES

20. As the implementation of the Peace Accord progresses and the power is devolved to the Provinces, issues relating to resource mobilization, revenue sharing, and levels of public expenditure will become important. Under the devolution of power, Provinces will be able to generate revenues within certain guidelines, but they are likely to be quite limited, at least in the short term, due to the structure of the tax system (para 3). The allocation of Central transfers would be determined by a Financial Commission (para 4). However, it is unclear at this stage, how revenue generation in each Province will alter the transfers from the center and what would be the incentives for Provinces to mobilize additional resources. Ideally, fiscal resources should be distributed among Provinces according to specific rules that take into account incidence of existing taxes in each Province, the efforts made by the Province to raise taxes, and the need to reduce some disparities among Provinces.

21. Another consequence of the devolution will be the structure of public investment expenditures. According to current procedures, development priorities are determined at the Center. However, this function will be devolved to the Provinces except for projects which would be national in scope. Since there are large income disparities and levels of economic development among Provinces, it will be necessary to structure future public expenditure programs to reduce regional disparities and imbalances.

III. AN ASSESSMENT OF THE DAMAGES

A. Overview

22. The ethnic conflict has disrupted activities in all sectors of the economy--farming, fishing, manufacturing, transport, trade--put a heavy burden on both the budget and the balance of payments, and caused damages to the country's infrastructure estimated to be at about US\$700 million (i.e. about 10 percent of the 1987 GDP). This US\$700 million is only a portion of the quantifiable economic losses that the country has suffered. It includes a rough estimate for items such as livestock, business inventories, jewelry and personal effects. The decline in tourist arrivals after the beginning of the conflict caused a US\$200 million reduction in foreign exchange earnings since August 1983 (see Table 2). Another US\$500 million had to be allocated to strengthen the security forces, some US\$300 million of which was for imports of military equipment. About US\$250 million of foreign investment that could have materialized in the last four years under normal conditions were lost because foreign investors were reluctant to invest in a country with an uncertain political climate. Lost agricultural and fishing production is estimated to be at US\$250 million. All in all, the ethnic conflict has caused since its beginning losses to the economy that are probably over US\$2 billion, i.e. a third of the current GDP, once the indirect effects of the conflict--such as the increased production that foreign investment would have brought about--are taken into account. This is a very substantial loss for an economy at Sri Lanka's development level. It also implies that private resources available for reconstruction are limited. For example, as discussed later in this report, farmers and fishermen that had remained partially or totally inactive during the last four years and whose foregone income is about \$75 million (Rs 2.3 billion), are left with little personal savings to finance new capital assets and the working capital requirements necessary to resume activities. This has important implications on the type of assistance that will be required.

Table 2: SELECTED INDICATORS OF THE IMPACT OF THE CONFLICT ON THE ECONOMY

	1980	1981	1982	1983	1984	1985	1986	1987 a/
Tourist Arrivals ('000)	322	371	407	338	318	257	230	220
Tourism Earnings (US\$ Million)	99	117	129	102	102	82	82	80
Defense Expenditures (% of GDP)	1.5	1.2	1.1	1.5	1.6	3.5	5.0	5.4
Foreign Investment (US\$ Million)	46	52	66	39	37	26	22	20

a/ Preliminary estimate.

Source: Central Bank of Sri Lanka and Bank staff estimates.

B. Estimates of Damages by Sector

23. The assessment of the damages was done with the assistance of government officials who, prior to the arrival of the World Bank mission, had established an inter-ministerial task force headed by the Secretary, Ministry of Rehabilitation to compile estimates of the damages in each sector. The Government Agents (GAs) in each district were responsible for collecting information and feeding it to the task force. These estimates were the starting point for the Mission. They were reviewed with the assistance of government officials, and revised based on field visits to eight of the most affected districts. In some districts data collected were incomplete due to lack of technical staff. The estimates presented in the report have to be taken as preliminary and may have to be revised as implementation proceeds and the full extent of the damage is uncovered. Further, the assessment of damages done to the clashes in October are not included in this report. It is recommended that where rehabilitation of heavy infrastructure is involved, a detailed appraisal be undertaken before starting implementation.

Housing

24. This is the most extensively damaged sector. Houses destroyed ranged from temporary wood pole and cadjan shelters up through high cost, two-storey cement block and brick buildings. Approximately 100,000 houses were damaged of which about 70,000 were completely destroyed (see Table 3).

Table 3: ESTIMATED DAMAGES IN THE HOUSING SECTOR
 A. HOUSES DAMAGED OR DESTROYED

District	No. of Houses Damaged	No. of Houses Destroyed	Total Replacement Cost Rs M.	Total Replacement Cost US M.
Ampara	1,100	1,200	69	2.3
Batticaloa	1,100	6,500	228	7.6
Jaffna	20,000	27,000	1,410	47.0
Killinochi	1,500	1,800	69	2.3
Mannar	1,000	1,600	78	2.6
Mullaitivu	2,000	700	81	2.7
Trincomalee	1,000	22,000	690	23.0
Vavuniya	500	7,500	240	8.0
Sub Total (N&E)	28,200	69,300	2,865	95.5
All Other Areas	1,800	1,100	105	3.5
Total	30,000	69,400	2,970	99.0

B. TYPES OF HOUSES DAMAGED

Category	Type of Housing	% of Damaged Housing	Occupied By	Average Cost Rs
Temporary	<ul style="list-style-type: none"> -Wood pole and cadjan (thatch) mats -Wood pole, plywood, and corrugated iron (CI) sheets 	30%	Lowest income groups	3-12,000
Semi-Permanent	<ul style="list-style-type: none"> -Wattle and daub -Mud brick (with cadjan, tile, or CI sheet roof) 	40%	Low and low-to-moderate income	15-30,000
Permanent	<ul style="list-style-type: none"> -Fired clay brick or cement block with concrete or asbestos cement sheets for the roof 	30%	Moderate and upper-income	over 35,000

Source: Ministry of Rehabilitation and Bank staff estimates.

25. The heaviest losses were taken by low and low-to-moderate income families. Rural farm families and fishermen make up over 70 percent of the total number of families displaced, the remainder being urban. Over 40 percent of the displaced had no fixed incomes or farmland to which they claimed even custom title or work rights. The group most affected in terms of numbers are: (i) rural farm families; (ii) rural laborers; (iii) fishermen; (iv) urban low income families; and (v) families living in towns in structures that were both shops and residences.

26. Damages to housing were a result of explosions (aerial bombs, mortars, RPGs and ground detonations); fire, predominantly as a result of rioting; and mechanical razing by bulldozers, tractors, or trucks. The ratio of destroyed, non-repairable structures to repairable ones is approximately 2 to 1. In numerous villages, 100 percent of the structures were destroyed beyond repair. Furthermore, in a majority of cases, after a house was destroyed all salvageable or reusable materials such as roof sheeting, tiles, wood roof beams, doors and window frames, and fittings were looted. In many cases, the only reusable components of the previous house are the cement floor and a portion of the bricks. In comparison, earthquake survivors can usually begin reconstruction with 30-40 percent of the materials reclaimed from their previous house. In this case, it may be as little as 10 percent or less.

27. Persons who reside in houses classified as temporary have no formal legal or custom title to their land. Only about half of those in houses classified as semi-permanent have any recognized form of tenure. This means that loans, which require land ownership or long-term tenure, will not be available for half the families unless special provisions are made to provide alternative forms of tenure.

Commercial Sector

28. Commercial structures of all classes received extensive damage throughout the North and East. Damages to these structures may account for 20 percent of the total value of all physical losses. There are extensive damages in both urban and rural communities. While all sizes of buildings have been destroyed, the group most affected are moderate sized shops in the urban areas and in the center of small trading centers along the main roads.

29. Approximately 11,300 commercial businesses were damaged of which about 8,000 were completely destroyed. Though many of the small microenterprises that were affected by the fighting were able to stay in business by simply moving out of harms way, most of the moderate and larger commercial businesses which lost their place of business were put out of service for the duration of the conflict. Approximately one third of the owners of businesses out of service reported that they had no income after their business

premises were destroyed. Estimated cost of repair is about Rs 695 million based on the following cost assumptions (Table 4):

Table 4: ESTIMATED DAMAGES IN THE COMMERCIAL SECTOR

<u>Class of Building</u>	<u>Size Sq. Meters</u>	<u>Average Cost Rs</u>	<u>Units Damaged</u>	<u>Total Damage Rs M.</u>	<u>US\$ M.</u>
A	over 100	over 100,000	565	56.5	1.9
B	50-100	51-100,000	6,215	466.1	15.5
C	25-50	25-50,000	4,520	171.8	5.7
Total			11,300	694.4	23.1

Source: Ministry of Rehabilitation and Bank staff estimates.

30. These losses are only to the structure. The shops and businesses have also lost inventories, equipment, and tools. In some cases, the structural loss will be far less than other cumulative losses.

Agriculture and Fisheries

31. Close to 90,000 farming and fishing families were displaced and their homes and personal belongings, fishing (boats and fishing gear) and farming equipment destroyed in eight districts. In addition, they also suffered from (i) the security situation that severely limited the ability to carry-out normal operations; and (ii) the scarcity of inputs and difficulty in marketing which resulted in high production costs and low returns, low productivity and reduced incomes. The Northern Province accounted for 40 percent of the total national fish catch in 1982. Its production dropped from 71,000 MT in 1982 to less than one half in 1986. Catches in the Eastern Province also declined substantially over the period.

32. The agricultural sector in the North and East consists of smallholders cultivating paddy in all regions except the Jaffna district, where approximately 40,000 cultivators specialize in other field crops on very smallholdings. Of a total of 145,000 farming families in the affected areas, approximately 55,000 or 38 percent lost some proportion or all of their capital assets such as tools and implements, irrigation pumps, sprayers or livestock as well as their personal belongings. Additionally, approximately 1,000 four-wheeled tractors valued at Rs 200 million were lost (Table 5). An estimated Rs 4 billion of farm production was foregone because of disruptions. Aggregate direct losses to fishermen in seven affected districts are spread across at least 34,000 families (Table 6). Most of

those affected fishermen are small scale operators utilizing small sail powered and inshore craft.

Table 5: LOSSES BY FARMING FAMILIES

	<u>Affected Farm Families</u>	<u>Equipment Losses</u>	
		(excluding Tractors) Rs M.	<u>Tractors</u> Rs M.
Ampara	1,000	1.0	25
Batticaloa	5,000	1.5	30
Jaffna	30,000	10.0	60
Kilinochchi	3,000	1.0	20
Mannar	500	-	5
Mullaitivu	2,000	0.5	5
Trincomalee	9,000	3.0	35
Vavuniya	<u>5,000</u>	<u>1.5</u>	<u>20</u>
Total	<u>55,500</u>	<u>18.5</u>	<u>200</u>

Source: Ministry of Rehabilitation and Bank staff estimates.

Table 6: NUMBER OF AFFECTED FISHING FAMILIES AND EQUIPMENT LOSSES

	Families	(Rs M.)						Total	
		Canoes and Teppan with Nets		Fiberglass Boats with Nets		3.5 Ton Boats with Net			
Ampara	2,000	0.16	1.16	0.6	6.8	1	9.72		
Batticaloa	5,000	0.51	2.92	0.66	1.1	2	7.19		
Jaffna	13,000	10.45	22.88	16.0	114.0	20	183.33		
Kilinochchi	1,000	0.05	0.68	0.5	27.0	-	28.23		
Mannar	6,000	0.33	3.52	3.4	20.1	8	35.35		
Mullaitivu	3,000	0.05	3.84	2.5	22.0	9	37.39		
Trincomalee	<u>4,000</u>	<u>1.50</u>	<u>2.0</u>	<u>0.8</u>	<u>9.5</u>	<u>6</u>	<u>19.80</u>		
Total	<u>34,000</u>	<u>13.05</u>	<u>37.00</u>	<u>24.46</u>	<u>200.5</u>	<u>46</u>	<u>321.01</u>		

Source: Ministry of Rehabilitation and Bank staff estimates.

33. Both public and private sector support services to agriculture and fisheries were seriously constrained and physical infrastructure deteriorated from lack of maintenance or destruction. Irrigation systems, although not directly affected in general, were not maintained and consequently suffered extensive deterioration which must now be corrected. Damage to retail outlets that supply agricultural inputs, both private and public was extensive. Most ice plants had to close down and have deteriorated. Harbor facilities, navigational channels, and fish landings have not been maintained. The cost of rehabilitation, of ice plants, and fishing facilities may approach Rs 300 million. Government stores for paddy were damaged throughout the affected areas. Many vehicles were also lost or damaged.

34. An indirect but pervasive effect of the disruption to economic activity is the large defaulting on loans by farmers (over Rs 500 million) and fishermen (over Rs 60 million). Defaulting causes those individuals to be ineligible for further formal credit, which in turn seriously restricts their access to production inputs and capital goods, complicating economic rehabilitation.

Irrigation

35. Damage to irrigation structures is confined to just a few sites. However, irrigation systems have deteriorated during the last four years as the maintenance staff could not approach many sites e.g., 20 out of 35 schemes in Vavuniya range and 16 out of 24 in Batticaloa. It is not possible to convey water to the entire area under the systems unless the channel banks are raised to proper elevation and deposited sediment removed. Per acre restoration costs are about Rs 500 compared to Rs 200 annual O&M cost. Rehabilitation has been, however, constrained by the difficulty in accessing the various irrigation schemes.

36. As a consequence of the deterioration of irrigation schemes, many farmers moved out of the irrigated areas particularly in the settlement schemes. For example, in Vavuniya district, in eight out of 24 schemes nearly all of the farmers moved out of the area and there was practically no cultivation during 1984, 1985 and 1986. Farmers also left their homes under the other 16 schemes to varying degrees. Movement of the farmers was however caused not only by the break-down of irrigation facilities, but also because of their inability to cultivate due to the loss of tractors, non availability of inputs and lack of security.

37. In addition to damages to irrigation structures, there was damage to equipment, vehicles, buildings, office machines and survey equipment used by the irrigation department of the Ministry of Lands and Land Development (MLLD) for construction works and regular maintenance. These were generally burned, stolen or cannibalized.

Water Supply and Sanitation

38. There has been limited damages to existing water supply schemes and those under construction in six districts in the North and East. In addition, the National Water Supply and Drainage Board (NWSDB) facilities including vehicles, stores, offices and pump stations in other regions of the country have also suffered damage. It is estimated that in affected areas, some five million people in urban centers and one million in rural areas have suffered from a deterioration in services and a lack of access to safe potable water supplies.

39. Another consequence of the ethnic conflict has been the delay in continuing implementation of on-going projects. NWSDB has a large rolling program of tubewell and handpump installations for water supplies in rural areas throughout the country and currently 23 drilling rigs are engaged in this activity. During the past four years this program has not been able to penetrate in the north and east districts affected by the hostilities. As a result, rural communities in these areas have been denied access to safe potable supplies. Sanitation programs have been similarly affected.

Roads and Bridges

40. Roads and bridges have been extensively damaged. The damage is accentuated by the poor specifications with which the roads are built. All types of roads and bridges (as shown in Table 7) were damaged and it is estimated that at least \$70 million would be required for rehabilitation. The damages can be attributed to: (i) bombing, shelling and landmines; and (ii) lack of maintenance due to inability to gain access to the security affected areas and to organize works for regular maintenance; and (iii) poor road construction specifications.

41. The war damage comprises localized road damage, fully or partly destroyed culverts, small and large bridges, ferry vessels and construction equipment. The most extensive damage has occurred due to the indirect effects of war. Access to areas, seizure of vehicles, restriction on the use of explosives (to produce stone aggregates) and difficulties of mobilizing work crews, materials and equipment are some causes of poor road conditions now prevailing in the North and East. Road construction machinery available in the districts is skeletal with two or more districts sharing equipment.

42. Revenues of municipal and urban local authorities in the North and East have declined due to war conditions, hence allocations for maintenance of roads under local authority jurisdiction have also declined. The bulk of the agricultural feeder roads that connect the hinterland are the responsibility of the District Development Councils (DDC), that largely depend on allocations from District Minister's budgets or grant funding.

Table 7: SUMMARY OF DAMAGE TO ROADS AND BRIDGES
(RDA Maintained Roads) /a

RDA Chief Engineer's Region	Class A <u>/b</u> km	Class B <u>/c</u> km	Class C <u>/d</u> km	Class D <u>/e</u> km	Culvert (No.)	Minor Bridge (No.)	Major Bridge (No.)	
Jaffna	181	72	95))	414	49	16	10
Vavuniya	335	73	130)				
Batticaloa	116	13	72	113	80	138	7	
Trincomalee	90	115	236	27	16	5	3	
Ampara	<u>155</u>	<u>104</u>	<u>69</u>	<u>249</u>	<u>24</u>	<u>8</u>	<u>2</u>	
Total	<u>877</u>	<u>377</u>	<u>602</u>	<u>803</u>	<u>169</u>	<u>167</u>	<u>22</u>	

Source: Ministry of Highways and Bank staff estimates.

- /a Damages to feeder roads under DDCs and municipal and urban council roads are not included.
- /b Class A roads are all trunk roads connecting the national capital with provincial capitals.
- /c Class B roads are main roads connecting important towns and provide important links to trunk roads.
- /d Class C roads are agricultural and local roads.
- /e Class D roads are gravelled roads with 8-10 ft. wide surface. Extent of damages to Class D roads maintained by RDA not assessed.

Public Transport

43. Since the increase in hostilities in 1983 the services to the North and East had been curtailed. New buses ordered for the two regions were deployed elsewhere for fear of losses. About 40 such buses have been transferred to the North and East since the peace accord. As shown in Table 8, over the last four years about 48 buses were damaged/lost in the North and East, and in two days of violence in the South in July 1987, about 200 buses were completely burned and about 723 buses incurred varying degrees of damage. Between 60 percent and 70 percent of the buses damaged have been put back to service, and others are undergoing repairs or are awaiting spares. Most of the remainder are expected to be back in service within 3-4 months. A backlog of major repairs and overhauls have built up in the North and East, due to logistical problems of sending vehicles to regional workshops. A

regional administrative office complex with all furniture and computer equipment, and records was completely gutted. Other transport vehicles including cars, jeeps and recovery vehicles were also destroyed or damaged.

Table 8: VEHICLE DAMAGE

Regional Transport Board	Buses Fully Damaged	Buses Partly Damaged	Other Vehicles Damaged
North Central	1	1	-
North Western	1	11	-
Central	9	61	-
Southern	57	183	9
Uva	6	29	2
Colombo North	21	71	4
Colombo South	100	291	12
Northern	25	12	12
Eastern	23	61	6
Central Transportation Board	6	3	-
	<u>249</u>	<u>723</u>	<u>45</u>

Source: Ministry of Transport Boards and Bank staff estimates.

44. The nine regional transport boards jointly have a fleet of 7,200 buses made up of three makes. Ashok Leyland and Tata buses from India account for over 90 percent of the fleet. On average, 5,000 buses are available for service against a timetable requirement (TTR) of 6,500. Replacement of aged buses has not kept pace with requirements.

45. Based on average earnings per bus, the loss in revenue from buses completely destroyed (249) amounts to about Rs 300,000/day. Revenue from damaged buses not yet back in service (35 percent of 723) amount to Rs 304,000/day. Passenger kilometers lost per day for buses completely damaged amounts to 1.1 million and that due to buses yet to be repaired amounts to 1.2 million. Further losses incurred to the transport boards due to the reduction of inter-city services due to requirements of fleet allocations for schools and the essential services.

Railways

46. Damage to rolling stock was limited to 11 miles between Jaffna and Kankesanturai where about 25 percent of the sleepers were removed. In addition, about 4 locomotives, 14 wagons and 50 coaches were damaged or destroyed. Estimate of total damage is about Rs 524 million (US\$17.5 million). Sabotage damage caused interruption to rail services.

primarily on the Jaffna line, where services were suspended for at least two years. The interruption of all rail services beyond Vavuniya was a major contributory factor to the near stoppage of the flow of freight and population between the North and the South of the Island. Services on the Eastern lines were much reduced, limited to daylight hours and were suspended for short periods following incidents that resulted in damage to track or bridges.

47. Following the Peace Accord, repairs have been carried out to the track between Vavuniya and Jaffna and at the present time trains are running on a much reduced schedule in the North and East and normally elsewhere, except on the short length of line (11 miles) between Jaffna and Kankesanthurai.

48. On those sections where damage has been repaired, trains most often travel at considerably reduced speeds, which increases operating costs and adversely affects the attraction of rail travel for passengers by considerably lengthening travel time. At present, however, rail travel to and from Jaffna is still the favored mode because of the poor state of the roads, but because of damage to communication, signalling and train control systems, only two out of the normal 24 trains per day are operated.

Ports

49. Sabotage damage was minor and limited to Trincomalee Port. A tug, a launch, some vehicles, a forklift truck and radio equipment were destroyed or stolen amounting to about Rs 14 million. Although operations were not seriously affected, traffic considerably declined.

Telecommunications

50. The telecommunication network suffered extensive damage and is estimated to be about Rs 1,100 million. Telecommunication services in the North and East and Southern parts of Colombo are non-existent. About 14,000 subscribers have been affected of which about 8,000 are in the Jaffna and Trincomalee districts. This lack of communication services is resulting in a financial loss of revenue of about Rs 14 million per month. Damage has been maximum in the Jaffna and Trincomalee switching areas. Jaffna (which also covers Kilinochchi district) and Trincomalee exchanges have been severely damaged including the buildings housing these exchanges. The trunk circuits connecting these exchanges to the towns in the interior as well as the transmission links to Anuradhapura have been severed. Equipment received under IDA's first Telecommunication Project for development of the Jaffna and Trincomalee switching areas was also damaged. A complete replacement of all equipment and cables is therefore necessary. Works in other districts are mostly to replace overhead lines and cable cabinets damaged during the riots.

Power

51. Detailed lists of equipment, materials and services damaged were available for the areas serviced by the Ceylon Electricity Board (CEB), Development Council areas of Jaffna, Trincomalee Urban and Development Councils. Most of the damage was to distribution transformers due to overloading, overhead cables and house connections. Some districts were unable to estimate damages due to lack of technical staff, but it was obvious that damage was extensive. Total estimated damages are about Rs 180 million (US\$6 million) allowing about Rs 92 million (US\$2.1 million) for areas where estimates are yet to be made as shown in Table 9.

Table 9: DAMAGES TO THE POWER SECTOR

	<u>Rs '000</u>
CEB	59,730
Jaffna District Dev. Council	13,530
Trincomalee (Urban & District Dev. Councils)	14,400
Other Areas	<u>92,340</u>
 TOTAL	 <u>180,000</u>
	=====

Source: Ceylon Electricity Board and Bank staff estimates.

Industry

52. Industrial enterprises both in the public and private sector were damaged. Estimate of damages were well documented by Public Corporations and were verified. However, estimates for the private enterprises were not compiled except for the Tokyo Cement Company at Trincomalee. Since most of the medium and large private industries are located in the Colombo area and the southern parts of Sri Lanka, they were largely unaffected by the conflict. Small enterprises such as rice mills, ice plants, alumina factories suffered extensive damage in the Northern and Eastern parts of the country.

53. Damage to public corporations was limited to the following industries:

	<u>Rs Million</u>
Cement Production	138
Salt Production	11
Mineral Sands	12
Oxygen Production	8
Ceramics Production	1
Paper Production	6
Others	<u>27</u>
Total	<u>203</u>

54. Most of the damage is related to equipment peripheral to the main manufacturing processes. Such peripheral equipment includes crawlers, dumpers, bulldozers, heavy cranes, drilling equipment vehicles, spare parts and tools which were either stolen or destroyed on site. Due to the fact that damages were mainly peripheral to the manufacturing processes, production was maintained in most cases. There were, however, two instances (cement production and mineral sands extraction) where production had to be interrupted for over a 3-month period and one case (production of caustic soda and chlorine at Paranthan) where plant was kept closed for the most part of the civil disturbances.

Education

55. Preliminary estimates indicate that over 300 schools and colleges experienced damage to buildings, furniture and equipment (Table 10). In addition, property of Ministry of Education (MOE) including offices, vehicles and equipment was damaged. Total losses in the education sector amount to about Rs 234 million. This amount may be an underestimate as some estimates were incomplete. These amounts focus entirely on the rehabilitation of physical facilities and do not include costs of "catch up" or remedial education programs. Most of the damage has been sustained in the Jaffna, Batticaloa and Trincomalee districts.

56. Education programs have obviously suffered during the past four years but with considerable variations from district to district. Many teachers reportedly fled along with the populations in some areas while others functioned normally until recent disturbances. Secondary schools operating under makeshift conditions with very little furniture, equipment or books and insufficient numbers of teachers can be expected to receive lower quality education at least temporarily. Many youngsters, particularly those formally "bearing arms" will have had little or no formal schooling for a considerable period of time and this situation will require special remedial measures to be taken. Shortages of teachers in certain areas particularly Jaffna could

become serious unless teacher training can be resumed. Training schemes geared to provide basic technical and employment skills appear to be warranted to absorb young militants in the short term, and expand employment opportunities over the medium term.

Table 10: DAMAGE TO SCHOOL BUILDINGS AND MINISTRY OF EDUCATION OFFICES

	<u>MOE Offices</u>	<u>Primary Schools</u>	<u>Secondary Schools</u>	<u>Total</u>
1. Gampaha	-	-	-	-
2. Matara	1	2	1	3
3. Kandy	-	-	1	1
4. Mannar	-	5	14	19
5. Kalutara	-	-	-	-
6. Polonnaruwa	-	-	-	-
7. Galle	-	2	3	5
8. Monaragala	1 (house)	-	-	1
9. Nikaweratiya	-	1	-	1
10. Ratnapura	1	-	-	1
11. Vavuniya	1	10	17	28
12. Trincomalee	-	60	24	84
13. Mullaitivu	breakdown not available.			
14. Kilinochchi	1	4	10	15
15. Ampara	1	5	19	25
16. Batticaloa	20 Schools reported completely destroyed, no detailed breakdown by school or by cost.			
17. Jaffna	1	15	57	73
	—	—	—	—
	7 1/ ====	104 ====	145 ====	256 ====

1/ Excludes Batticaloa and Mullaitivu.

Source: Ministry of Education.

Health

57. In the health sector damages were confined to hospital clinics, the Jaffna hospital and Ministry of Teaching Hospitals' building. The total damage is estimated to be about Rs 125 million (Table 11).

Table 11: DAMAGES TO THE HEALTH SECTOR

	Rs M.
Buildings	80.0
Furniture	7.0
Equipment	15.0
Vehicles	<u>23.0</u>
TOTAL	Rs 125.0 =====

Source: Ministry of Health, Ministry of Women's Affairs and Teaching Hospitals.

58. About 80 percent of the damage reported was in three districts as follows: Jaffna, 43 percent; Mannar, 22 percent; Batticaloa, 13 percent. In Mannar district, the hospital at Adampan suffered considerable damage and has severely disrupted medical and health services. Although the overall damage to the health sector is limited, it has inconvenienced people in having to travel long distances to obtain medical services. Drugs and basic equipment are available, although there is shortage of staff in many clinics.

Public Buildings

59. Assessment of damage to buildings of line ministries and their agencies are included in the respective sections dealing with the sectors. This section deals with public buildings such as municipal markets, cooperative stores, post offices, police stations and administration buildings of line ministries' regional offices and are not included elsewhere. However, buildings belonging to defense forces, religious buildings and monuments are excluded. In the North and East damaged buildings include: the Jaffna City Hall and Public Library, Jaffna District Multi-purpose Cooperative Society, Jaffna Fort, Post Offices, community markets in Point Pedro, Trincomalee, Batticaloa, Vavuniya and court houses. In the Southern areas, damaged buildings include: offices of Government Agents in Tangalle, Hambantota and Ambalantota; stores and offices of cooperative societies in Matara and Dondra; Open University and Sri Lanka Broadcasting Corporation complex in Matara. The estimated cost of repair/replacement of such buildings is Rs 450 million (US\$15 million).

SECTION IV. RECONSTRUCTION AND REHABILITATION PROGRAM

A. Approach to the Reconstruction Program

60. The Government intends to rehabilitate all the affected parts of the country and bring them back to normalcy as quickly as possible. This requires rehabilitating the damaged infrastructure and getting affected people back to work and facilitate start of economic activities. Based on the World Bank Mission's visits to the affected areas, several factors were evident that should be considered in developing a Reconstruction Program. First, it would not be necessary to rehabilitate everything that was damaged. Unproductive infrastructure or assets should not be included in the Reconstruction Program. Second, the replaced infrastructure could be smaller in size and therefore of lower cost, such as constructing smaller houses and buildings, providing only the essential vehicles and equipment. Third, the proposed solutions should be technically feasible. Finally, the reconstructed government owned assets should be within the Government's capacity to maintain them. The following section recommends a Reconstruction Program based on an analysis of the priorities in each sector as well as implementation issues specific to each sector.

B. Reconstruction Program

61. Based on the above criteria, reconstruction and rehabilitation needs total about Rs 13 billion (US\$388.4 million) including contingencies (price, physical and missing data) over three years as shown in Table 12. This total includes a contingency allowance of 15 percent or about Rs 1.7 billion (US\$ 50 million) to account for missing data. Although assessment of all the major damages were completed by the districts, it is likely that some of them were omitted. Moreover, in some districts some damages were not estimated for lack of technical staff. Therefore, the estimated Reconstruction Program must be viewed as preliminary. These cost estimates would have to be refined as reconstruction activities proceed. In particular, the extensive damage to Jaffna during the mid-October clashes are not included here.

62. The Reconstruction Program of US\$388.4 million includes replacement of buildings and equipment destroyed or lost by small entrepreneurs, traders and shopkeepers, but does not include an estimate of their losses in terms of inventories damaged or destroyed. Estimates of damages suffered by private manufacturing industry were not available, but reflecting the low level of industrialization of the Northern and Eastern areas, these damages (excluding foregone income) are not thought to be substantial. In any case, the Program includes about US\$5 million line of credit for small industrial entrepreneurs. Finally, this program does not include losses of personal property such as jewelry, cash, furniture and other personal belongings.

63. A few towns that have suffered extensive damages (e.g. Jaffna, Point Pedro, Velvettiturai and Manipay) would need special rehabilitation efforts

that may include limited replanning. Infrastructure that may be rehabilitated or reconstructed include roads, drainage, street lighting, power networks and substations, markets and basic civic services such as solid waste management, etc. Defusing of explosive devices, clearance of rubble and establishment of plot and street boundaries, are important prerequisites to the rehabilitation efforts. Funds for these activities are included under various sector estimates that follow.

Table 12: RECONSTRUCTION PROGRAM BY SECTOR

Sector	1987	1988	1989	1990	Total
	----- Rs M -----				
Resettlement	60.0	540.0			600.0
Housing	65.9	439.5	769.2	923.0	2197.6
Commercial Sector		150.0	250.0	359.9	759.9
Agriculture	90.0	450.0	529.0	380.0	1449.0
Fisheries	18.0	150.0	176.0	133.0	477.0
Irrigation	15.5	216.5	31.0	2.0	265.0
Water Supply	11.4	85.7	122.9		220.0
Roads & Bridges	90.0	540.0	735.0	735.0	2100.0
Public Transport	30.0	261.0	12.0		303.0
Railways		131.0	393.1		524.1
Ports		13.4			13.4
Telecommunication	31.8	185.1	746.0	135.3	1098.2
Power		180.0			180.0
Public Industry		100.0	50.2		150.0
Private Industry		75.0	75.0		150.2
Education		150.0	84.2		234.2
Health		40.0	39.9		79.9
Teaching Hospitals		30.0	17.4		47.4
Public Buildings	27.0	120.0	150.0	153.0	450.0
Total	439.6	3857.2	4181.0	2821.2	11299.0
Contingency (missing data)	_____	578.6	627.1	489.2	1694.9
Total (Rs M)	439.6	4435.8	4808.1	3310.4	12993.9
Total (US\$ M)	15.1	139.9	141.4	92.0	388.4

Source: Bank staff estimates

C. Reconstruction Program by Sector

The following sections describe the reconstruction program by sector with details on priorities for each district:

Resettlement

64. Since the end of the hostilities, the Government has begun to make arrangements for the displaced people to return to their homes. Plans now call for the GA in the district where the people are residing in a welfare center to issue them either transport or a bus or a rail pass giving them and their belongings free passage home. Once the family has returned to their home district, they are supposed to show their registration card or a letter from the GA who issued it, to the local GA and be registered for benefits. During the World Bank Mission's visit, affected families were being provided assistance totalling Rs 10,000. This included: (i) a "settling" allowance, of Rs 1,000; (ii) a housing reconstruction allowance of Rs 3,000 from the Government; (iii) Rs 3,000 NGO contribution for housing; (iv) self-employment rehabilitation allowances of Rs 1,500; and (v) Rs 1,500 for dry ration. The Cabinet has recently revised the maximum amount of grants entitlement to Rs 25,000 subject to availability of funds and donor commitments. This is made up as follows:

Shelter

Rs 7,500	-	House Reconstruction from the Government
7,500	-	House Reconstruction from NGOs

Resettlement

Rs 2,000	-	Settling-in
2,000	-	Economic Assistance
6,000	-	In kind (equivalent to six months dry ration)

65. Out of about 100,000 families displaced (including those in India), it is estimated that about 60,000 families are the poorest and most affected and would need grant resettlement assistance. Based on Rs 10,000 per family, an estimated Rs 600 million (US\$20 million) would be required for the resettlement program. Since the amount of belongings of the displaced families is relatively small, and as distances are short and with the bus network returning back to normal, no additional transport cost is required. Repatriation of refugees from India is being handled by the Government with UNHCR assistance.

Housing

66. The priority of this sector is to assist in the resettlement of the affected families. The majority of the victims are the poor. Not only have

their losses been considerable, they have the least access to replacement resources. Few have regular incomes, few have more than custom tenure to land and many have suffered multiple losses. For example, many fishermen lost not only their houses, but also their boats, motors and fishing nets.

67. The average cost of restoring each class of house (temporary, semi-permanent, permanent) is difficult to estimate. The material combinations and method of construction of the temporary and semi-permanent housing is such that repairs are often more costly and time-consuming than total reconstruction. Likewise indigenous materials exposed in a damaged building without a complete roof quickly deteriorate beyond a point where they can be economically or safely repaired. Thus, for planning purposes, the only type of repairs that should be calculated are for houses made of cement block or brick. The range of repair costs is likely to be 50-60 percent of the total cost since roofs and fittings will be the most expensive components to replace. Repair costs, by building type, are estimated to be:

Cement block structure: Rs. 600 per square meter of damaged area.

Brick structures: Rs. 260 per square meter of damaged area.

Table 13 summarizes estimates of replacement costs by district.

Table 13: REHABILITATION OF HOUSING SECTOR
A - Estimated Support Costs for Housing Reconstruction

District	Total Number of Houses	Replacement Cost	
		Rs M.	US\$ M.
Ampara	2,300	51.0	1.7
Batticaloa	7,600	168.7	5.6
Jaffna	47,000	1043.4	34.7
Killinochchi	2,300	51.0	1.7
Mannar	2,600	57.7	1.9
Mullaitivu	2,000	59.9	2.0
Trincomalee	23,000	510.6	17.2
Vavuniya	8,000	177.6	5.9
Sub Total	94,800	2119.9	73.2
All other areas	3,000	77.7	2.6
Total	97,800	Rs 2197.6	73.2

B - Planning Assumptions for Housing Reconstruction

Group	Type of Housing	Unit Cost Rs	No. of Families	Estimated Capital Requirements
				Rs M.
A	Low-income, rural areas	10,000	30,000	300
B	Low-income, urban areas	20,000	19,000	380
C	Moderate income, rural areas	21,000	24,300	510
D	Moderate income, urban areas	35,000	14,500	508
E	Upper income (all areas)	50,000	10,000	500
Total			97,800	2,198

Source: Ministry of Rehabilitation and Bank staff estimates.

68. Existing Programs. The Government, acting through the GAs, and a number of NGOs have been active throughout the conflict providing replacement housing, except in the Jaffna area in October. These programs provide a basis for reconstruction assistance. People rebuilding their homes were entitled to a Rs 3,000 grant from the Government. In many cases this was matched by an additional Rs 3,000-3,500 in cash or kind from the NGOs. With technical assistance from the NGOs, people then built a one-room, 25 square meter structure of brick or block with a cement floor and a small verandah. Most roofs were made of cadjan though many people chose to use tile or cement asbestos sheets. The design was such that the house could be easily expanded at a future date.

69. A number of NGOs have indicated that they will be initiating housing reconstruction programs. Most important of these is the Norwegian Red Cross which has announced plans to build 3,000 houses in the North and East at a cost of Rs 20,000-25,000 each.

70. Approach for House Reconstruction and Rehabilitation. The following program is recommended for reconstruction in the housing sector. It is based on the realization that the low-income group most in need will be the hardest to reach and will have the least access to the needed resources. It is based on an approach of targetting a combination of programs at each economic stratum in the affected community. These programs would be:

(i) grants-in-aid for persons who have lost their houses; (ii) the provision of long-term low-interest loans; and (iii) the provision of funds under the current Million Houses Program. A number of the affected families may qualify for more than one of the following programs:

- i) Grants-in-Aid. The Government's plans to provide a cash allowance of Rs 7,500 to each affected family with low income (e.g. less than Rs 1,500 monthly). NGOs and bilateral donors should be encouraged to provide a matching grant. Total capital requirements for the estimated 60,000 families that would be eligible under this program is Rs 900 million (US\$30 million). The Government would provide Rs 450 million (US\$15 million) whereas the NGOs, would be requested to provide an equal amount.

- ii) Low Interest Rate Loans. The Government proposes to use the legal framework of the Rehabilitation of Persons, Properties and Industries Authority (REPIA) Act to help rebuild/rehabilitate homes. The REPIA 1/ funds would be provided as follows:
- a) eligible households with monthly incomes of up to Rs 1,500 could receive loans of up to Rs 15,000 from a "new window" at the National Housing Development Authority (NHDA). An estimated 40,000 families would take out an average loan of Rs 10,000 totalling Rs 400 million (US\$13.3 million).
 - b) eligible households with monthly incomes over Rs 1,500 could receive loans from the State Mortgage and Investment Bank (SMIB) and Housing Development Finance Corporation (HDFC). An estimated 20,000 families would take out an average loan of Rs 35,000 totalling Rs 200,000 (US\$23.3 million).
- iii) Current Million Houses Program. The Million Houses Program also offers good possibility for reaching out to large number of people especially in the lower income category. To qualify for a loan, people must have a title or permit for their land. Loan counsellors work with each family to determine the amount of the loan based on the client's ability to pay. The principal advantage of the scheme is that people do not overborrow. Initiated by the Prime Minister in 1984, the program has two principal sub-programs, one for urban and one for rural families. Under these, families may borrow up to Rs 15,000 (urban) and Rs 7,500 (rural) at subsidized rates of nine and six percent respectively. Loans may be for a new house; repairs, upgrading, or expansion; utilities; or sites and services. The average loan

1/ REPIA Act was originally established in 1983 to cover the damages incurred in Colombo during the riots of July 1983. Loans were provided through the SMIB to individuals whose residential property was damaged. The terms of the loans were as follows:

- a) Rs 150,000 at six percent for landlords or owners with annual income of Rs 60,000 or over;
- b) Rs 100,000 at four percent for landlords or owners with annual income between Rs 30,000 to Rs 60,000;
- c) Rs 75,000 at two percent for landlords or owners with annual income below Rs 30,000.

The repayment periods varied between 5 to 20 years depending on the individual's capacity to repay.

would be Rs 10,000 for 20,000 families totalling Rs 200 million (\$6.6 million).

71. Issues in Housing Reconstruction. A number of issues will likely surface in relation to housing reconstruction. They are:

- (a) Land Tenure. There will be many opportunities to help people acquire formal tenure. For example, the process of resettling people on crown land could be accelerated as could the issuance of tenure permits to those already encroaching on crown lands.
- (b) Cadastral Data. Many people's land tenure papers may have been destroyed or lost during the disturbances. Issuance of replacement papers and re-recording property descriptions may be necessary, especially in new zones of the larger towns and cities. Support for cadastral surveys may be necessary to help people qualify for loans.
- (c) Combined Casework and Standardization. Since many victims will have multiple needs, they will be eligible for assistance in more than one sector or from more than one agency, governmental or non-governmental. To eliminate confusion and to reduce the need for the clients to make multiple applications for assistance (as well as to reduce the potential for inequity, overborrowing or misuse of the available assistance), a combined casework approach should be established (see Annex II) and aid packages to households standardized. Accordingly, there should be close cooperation between government agencies and NGOs.
- (d) Rubble Clearance. Considerable material damages are reported from some urban areas and large amounts of rubble must be cleared before reconstruction can start. Explosive devices may be hidden in the rubble and military experts will be urgently required to remove them. Rubble clearance may offer an opportunity to provide temporary employment and income to some of the affected population. The possibility of recovering building materials (bricks) or of using them for these purposes (road building hardcore, etc.) should be examined.
- (e) Loan Businesses. Because of disruption to the social fabric and administrative structures in the affected areas, the local capacity for processing and administering loans and grants should be assessed and supplemented as required.
- (f) Assessment of Structural Damages. A technical survey of partly damaged structures may be required to decide whether these can be repaired or should be demolished for reason of safety or economy.

72. Government Capacity to Administer the Program. The processing of loans is generally within the capacity of the institutions which will be involved in implementing the program. However, shelter development activity such as building permits, approvals, inspections, occupation certificates, divestiture of properties from REPPIA control need to be strengthened substantially. Moreover, there has been some disruptions in community level organizations and these will need to be reactivated.

73. Other Housing Sector Projects. In support of the reconstruction activities, the Government should plan to carry out a series of projects to help provide cash and material resources in the affected communities. These projects could include:

- a. Brick and cement block making enterprises;
- b. Tile making;
- c. Establishment of carpentry enterprises to build doors and windows, other wood fittings;
- d. Cadjan matting production (particularly for employment of women);
- e. Establishment of salvage groups to reclaim materials from the rubble for low-cost sale to low-income families.

Commercial Sector

74. Disaster studies have indicated that approximately one third of all small businesses go out of business as a result of disasters and the inability to recover from the direct losses and the time out of business. While other enterprises usually rise up to replace them, they usually represent a shift of ownership to the hands of wealthier people in the community.

75. The average cost of repairing each class of structure damaged in the recent conflict is difficult to estimate. The material combinations and method of construction of the older buildings is such that repairs are often more costly and time-consuming than total reconstruction. In the case of buildings that are attached or in strip developments, it may be possible for some cost sharing, but overall, it will be best to calculate the overall repair costs on the cost of rehabilitation for each structure separately. Costs can be calculated on the per square meter costs for structures made of block or brick.

Cement Block structures: Rs 1,800 per square meter of damaged area.

Brick structures: Rs 1,500 per square meter of damaged area.

Table 14 summarizes estimates of replacement cost which total about Rs 760 million (US\$25.5 million) and planning assumptions.

Table 14: REHABILITATION OF COMMERCIAL SECTOR
A - Estimated Costs by District

<u>District</u>	<u>Total Number of Businesses</u>	<u>Replacement Cost</u>	
		<u>Rs. M</u>	<u>US\$ M</u>
Ampara	412	27.7	0.9
Badulla	471	31.7	1.1
Batticaloa	246	16.5	0.6
Jaffna	8,070	542.7	18.1
Killinochchi	624	41.9	1.4
Mannar	270	18.2	0.6
Trincomalee	297	20.0	0.7
Others	910	61.2	2.1
	<u>11,300</u>	<u>759.9</u>	<u>25.5</u>

B - Planning Assumptions for Commercial Sector Rehabilitation

<u>Group</u>	<u>Average Cost</u> Rs.	<u>No of Businesses</u> <u>Requiring Assistance</u>
A	200,000	565
B	75,000	6,215
C	40,000	4,520
Total		11,300

Source: Ministry of Rehabilitation Bank staff estimates.

76. Businesses wishing to start up again or repair damaged infrastructure cannot be expected to incur new debt on commercial terms and become profitable, in addition to any debt owing at the time infrastructure or inventory was damaged. The Government therefore proposes to use REPPIA (see para 70), passing the funds through the Bank of Ceylon for on-lending to businesses. The facility would be a one time loan on concessional terms. The program is within the capacity of the Bank of Ceylon to handle.

Agriculture and Fisheries

77. The immediate need is to get farmers and fishermen back to work. For the agricultural sector, the critical and urgent need is to provide the inputs for the upcoming Maha season. As farmers are just returning to their lands in many cases (perhaps 20,000-30,000 families are either returning or able to plant their fields for the first time in 2-3 years) they will need extraordinary and quick-acting assistance to enable them to become economically self reliant. Equipment for plowing, seed paddy and simple hand tools are the most urgent needs for all the areas except Jaffna. The intensive cultivation practices of Jaffna farmers require seeds for other field crops, fertilizer, agrochemicals and spare parts and replacement irrigation pumps. Total estimated requirement for rehabilitation of farmers over three years totals Rs 1,449 million (\$48.4 million) as indicated in Table 15.

78. Repair and replacement of critical infrastructure is of second priority and should occur throughout the first year program. Key access roads, bridges and irrigation facilities should be rebuilt on a priority basis. Giving mobility to agricultural offices and bank loan offices is essential. Repair of selected Agrarian Service Centers should also occur early to allow storage of fertilizer and seeds.

Table 15: FARM REHABILITATION PROGRAM REQUIREMENTS BY DISTRICT

	Immediate to December 31	Year 1 -----Rs Million-----	Year 2	Year 3	Total Rs M	Total US\$ M
Ampara	5	15	15	3	38	1.3
Batticaloa	10	40	60	35	145	4.8
Jaffna	35	235	280	175	725	24.2
Kilinochchi	10	25	30	21	86	2.9
Mannar	3	10	3	2	18	0.6
Mullaithivu	5	20	16	12	53	1.8
Trincomalee	12	65	75	90	242	8.1
Vavuniya	10	40	50	42	142	4.7
TOTAL	90	450	529	380	1,449	48.4

Source: Bank staff estimates.

79. Fishermen who still have boats and gear are already fishing. Those that have lost gear and boats need replacement equipment immediately. Equipment needs for fisheries (Table 16) total an estimated \$16 million over three years as shown in Table 17.

Table 16: EQUIPMENT NEEDS FOR FISHING INDUSTRY
BY DISTRICT

	Canoes with Gear	17-21 ft. boat w/ gear	Outboard Motor	Teppan	Boats 28-32 ft. with Gear
Ampara	29	16	20	-	18
Batticaloa	51	73	22	2	3
Jaffna	1,045	572	538	-	300
Kilinochchi	5	17	13	17	71
Mannar	33	88	113	80	53
Mullaitivu	49	96	97	84	58
Trincomalee	150	50	75	42	25
TOTAL	1,349	925	878	225	528

Source: Ministry of Rehabilitation and Bank staff estimates.

Table 17: FISHERIES REHABILITATION PROGRAM REQUIREMENTS BY DISTRICT

	Immediate to December 31	Year 1 ----- Rs Million	Year 2 -----	Year 3 -----	Total Rs M	Total US\$ M
Ampara	1	5	3	-	9	0.3
Batticaloa	1	5	8	3	17	0.6
Jaffna	10	65	75	83	233	7.8
Kilinochchi	1	15	10	-	26	0.9
Mannar	2	20	40	23	85	2.8
Mullaitivu	2	20	20	17	59	2.0
Trincomalee	1	20	20	7	48	1.6
TOTAL	18	150	176	133	477	16.0

Source: Bank staff estimates.

80. An immediate assessment of the loan arrears (about Rs 560 million, of which farmers owe about Rs 500 million) is needed and a program developed for restructuring and rescheduling the loans where the equipment is verified to have been lost. A general policy by the banks should be developed quickly to facilitate new capital flows. The loan restructuring and acquisition of new gear and boats should take place within one year of the launching of the Rehabilitation Program. Orders should be placed with local boatyards for production of approximately 1,000 canoes and 1,000 17-21 foot fiberglass

boats to be delivered over the next twelve months, a production level that is within their capacity. Approximately 50 percent of the nets and related gear will have to be imported, the balance can be produced locally. The 3.5 ton boats should be phased in over a three-year period, given the large financing that is required and the priority of getting larger numbers of low capital fishermen back in business.

81. Simultaneously, critical infrastructure should be rehabilitated, particularly ice plants and cold stores. Three ice plants in Jaffna and one each in Batticaloa and Trincomalee should be put on line during the first year's operation. Subsequent programs should improve fish markets and boat anchorages. The requirement for these facilities is greatest in Jaffna. A longer term program would include harbor dredging and replacing navigational markers.

82. Current Rehabilitation Program. The current government rehabilitation program provides in addition to housing and settling in Rs 2,000 for agricultural implements and inputs; fishermen are provided an allowance of Rs 2,000 for nets and other gear. This allowance is adequate for survival of the families but will not lead to rapid economic rehabilitation. A directed and concentrated assistance effort is needed to bring the affected families out of subsistence and to generate income surpluses. Income-oriented farming requires operating capital of approximately Rs 3,000 per acre for paddy and up to Rs 20,000 per acre for intensive cultivation of other field crops. A special complementary program to the standard rehabilitation package should be developed to channel these additional inputs to affected farmers and fishermen.

83. Assistance Program and Implementation Issues.

Agriculture. For the agricultural sector, employment and income generation can be rapidly expanded to pre-1984 levels, perhaps within two years, by rebuilding the private sector capital stock and channeling working capital to the sector. Complementary public sector investments, primarily in access roads and bridges and irrigation infrastructure will facilitate rapid economic recovery. For the strategy to be effective, immediate action is required to take advantage of the seasonal rains beginning in October. The most critical factor of production is working capital. If sufficient and timely working capital is made available, critical agricultural inputs such as seed, fertilizer and agrochemicals could flow to the affected areas to enable much of the land to be cultivated.

84. Credit availability is a critical constraint and a comprehensive rescheduling will be needed to ease the flow of capital. Farmers' borrowing and repayment capacity is very limited and many already have outstanding loans. Therefore, a rehabilitation program that supplements the ordinary lending program is urgently needed. In addition to the Government's program providing Rs 2,000 per family for farm inputs and tools, bank lending program

should be expanded and structured to the farmers' repayment capacity. Total average operating costs of Rs 3,000 per acre of paddy is roughly divided into three equal portions on average: (i) tillage and land preparation costs; (ii) hired labor; and (iii) purchased inputs. The expenditure of Rs 3,000 in working capital yields Rs 4,500-5,000 of gross value at the farm gate or an average net return to family labor and land of about Rs 1,500-2,000 per acre. Since an average farmer owns about three acres, an average loan of Rs 9,000 would be given under the program for a total working capital of Rs 11,000 including the Rs 2,000 grant provided by the Government. Based on an average loan of Rs 9,000, total working capital requirements would be about Rs 495 million (US\$16.5 million). The program could operate through existing mechanisms such as the joint participation of the local banking community, private sector input suppliers, cooperatives or Agrarian Service Centers of the Ministry of Agricultural Development and Research and NGOs including Thrift and Co-operative Credit Societies.

85. Fisheries. The existing fisheries subsidy program provides 35 percent of the cost of boats and gear and 50 percent for outboard motors with the balance from a bank loan. This program should be adequate to allow the recapitalization of fishermen. The fishermen's assistance program would work much as it currently does except that old bank loans would be restructured and rescheduled if the equipment was verified by GA as lost. Priority should be given to those small-scale fishermen in need of canoes and gear and 17-21 foot boats with nets. The total cost of replacing about 1,500 canoes and 1,200 fiberglass 17 to 21 foot boats with gear and outboard motors is approximately Rs 150,000 (US\$5 thousand) and Rs 90 million (US\$3 million) respectively.

86. Replacement of the larger 3.5 ton boats with gear would be second priority. Many of these boats are typically owned by fleet operators and leased to fishermen. This class of boat comes under the 35 percent subsidy scheme, and should be reactivated although phased in over a three-year period.

Irrigation

87. The Reconstruction Program as shown in Table 18 for irrigation is estimated at Rs 265 million (US\$8.83 million), comprising Rs 125 million (US\$4.17 million) for restoration of civil works (irrigation headworks and channel systems, roads, bridges and buildings) constructed and maintained by the Irrigation Department and Rs 140 million (US\$4.66 million) for replacement of lost construction equipment (vehicles, office machines, and survey instruments).

Table 18: REQUIREMENTS OF FUNDS FOR RESTORATION OF FACILITIES

Districts	ID Range	Restoration of works		Replacement of equipment		Total	
		Rs. (M)	\$ (M)	Rs (M)	\$ (M)	Rs (M)	\$ (M)
Jaffna	Kilinochchi	2	0.07	4	0.14	6	0.21
Kilinochchi	Kilinochchi	8	0.27	16	0.53	24	0.80
Mullaitivu	Kilinochchi	9	0.30	21	0.70	30	1.00
Vavuniya	Vavuniya	6	0.20	15	0.50	21	0.70
Mannar	Vavuniya	7	0.23	15	0.50	22	0.73
Trincomalee	Trincomalee	36	1.20	12	0.40	48	1.60
Batticaloa	Batticaloa	33	1.10	23	0.77	56	1.87
Ampara	Ampara	15	0.50	9	0.30	24	0.80
Anuradhapura	Anuradhapura	8	0.27	10	0.33	18	0.60
Hambantota	Kirindi Oya	1	0.03	1	0.03	2	0.06
Galle	Galle	-	-	7	0.23	7	0.23
Hambantota	Hambantota	-	-	3	0.10	3	0.10
Colombo	Colombo	-	-	4	0.13	4	0.13
		<u>125</u>	<u>4.17</u>	<u>140</u>	<u>4.66</u>	<u>265</u>	<u>8.83</u>

Source: Ministry of Lands and Land Development and Bank staff estimates.

88. The highest priority evidently lies with the restoration of residential and office buildings, replacing lost office and survey equipment and repairing badly damaged access roads. The second priority would be to replace all the lost vehicles since the staff has to be mobile and means of materials transport assured. Between now and commencement of Maha crop in November 1987, very limited repairs could be implemented due to time constraints. With the staff back in place and fully mobile, it should be possible to complete most of the restoration of civil works during the dry periods of 1988 and 1989. Annex III provides the sequence of activities as well as an approximate requirement of funds by quarter.

89. Capacity of Irrigation Department. The restoration work is mainly to be implemented by five Deputy Directors (DD). Of this, DD Trincomalee and DD Batticaloa would have the highest loads of Rs 36 million (US\$1.2 million) and Rs 33 million (US\$1.1 million). However, these works are spread out in a number of Irrigation Engineers' (IE) divisions and can be easily implemented over a period of two years. The required construction materials are expected to be available but there could be problems with supply of explosives. Use of explosives was banned during the conflict.

90. Implementation Approach. In order to ensure that there is no loss of agricultural production due to non-availability of irrigation when the farmers return to cultivate their lands, this program should be accorded high priority. In addition to this program, projects which were suspended (e.g., three major schemes and 130 minor schemes under IDA funded projects) should be restarted. After full implementation of IDA financed Village Irrigation Rehabilitation Project, savings of about US\$4.5 million are expected. These savings could be utilized for the immediate priority work for repair of buildings, access roads, purchase of office and survey equipment and vehicles, and essential repairs of irrigation systems.

91. Implementation Issues. Although no major issue needs to be resolved, the following problems could delay project implementation.

- i) Availability of Explosives: During disturbed conditions, supply of explosives was banned for use by contractors supplying concrete aggregates and road metal. To meet the restoration program, the supply of explosive will need to be assured.
- ii) Responsibility for Metalled Roads: ID has been maintaining several access roads to irrigation schemes although these are used by public buses. Recently, one of these roads in Vavuniya was transferred from ID to Mahaweli Authority but is not being maintained by either. It is desirable that the responsibility for the maintenance of metalled roads constructed by ID be clearly defined. ID should maintain only those reaches, which are common with the structures maintained by ID (canals, dams, spillways, drains) while the rest should be handled by the Roads Development Authority.

Water Supply and Sanitation

92. The rehabilitation requirements for water supply total about Rs 220 million (US\$7.4 million) which could be broadly classified as shown in Table 19.

Table 19: REHABILITATION REQUIREMENTS FOR WATER SUPPLY

Type of Work	Rs Million	US\$ Million
Vehicles, materials, stores and offices	20.0	0.7
Civil works and equipment for existing facilities	20.0	0.7
Civil works and equipment for "suspended" projects	180.0	6.0
	220.0	7.4
	=====	====

Source: National Water Supply and Drainage Board and Bank staff estimates.

93. The annual implementation program is given in Table 20 by district. Annex IV provides description of each scheme by district. This program would be carried out by NWSDB and its appointed contractors on a district by district basis. Priority activities such as the purchase of vehicles and replacement of stores would commence in October 1987, and the whole program would be completed by 1989. The immediate needs are for replacement of vehicles and stores and office repairs. These activities are planned for October-December 1987, and estimated at Rs 11.4 million (US\$0.4 million). The annual program of Rs 110 million is well within the implementation capacity of NWSDB.

The works should be prioritized as follows:

1987

(i) Vehicles, stores, offices

1988

(i) Repair of existing facilities
(ii) "Suspended" projects nearing completion
e.g. Jaffna, Kankesanturai, Kilinochchi, Mannar

1989

(i) Balance of "suspended" projects

**Table 20: ANNUAL IMPLEMENTATION PROGRAM FOR
WATER SUPPLY AND SANITATION**

DISTRICT	Rs. M											
	1987		1988		1989						TOTAL	
	4	1	2	3	4	1	2	3	4			
Anuradhapura	-	-	-	-	-	1.1	-	-	-	-	-	1.1
Batticaloa	4.8	5.0	-	-	-	-	-	-	-	-	-	9.8
Jaffna	1.5	2.5	7.5	10.0	10.0	12.5	15.0	15.0	15.0	-	-	89.0
Kilinochchi	-	2.5	2.4	-	-	-	-	-	-	-	-	4.9
Mannar	0.5	1.0	-	-	-	-	-	-	-	-	-	1.5
Trincomalee	-	4.4	2.5	2.5	5.0	5.0	5.0	7.0	7.0	-	-	38.4
Vavuniya	-	8.4	5.0	5.0	10.0	10.0	10.0	10.0	10.0	-	-	68.9
Matara	1.4	-	-	-	-	-	-	-	-	-	-	1.4
Colombo	1.2	-	-	-	-	-	-	-	-	-	-	1.2
Puttalam	1.3	1.3	-	-	-	-	-	-	-	-	-	2.6
Galle	0.6	0.7	-	-	-	-	-	-	-	-	-	1.3
Kandy	0.1	-	-	-	-	-	-	-	-	-	-	0.1
TOTAL												
Rs Million	11.4	25.8	17.4	17.5	25.0	28.6	30.0	32.0	32.5	32.5	32.5	220.2
US\$ Million	0.4	0.9	0.6	0.6	0.9	1.0	1.0	1.0	1.1	1.1	1.1	7.4

Source: Bank staff estimates

Roads and Bridges

94. The main objective of the roads and bridges rehabilitation program would be to quickly restore them to a reasonable condition to enable transport of goods and services and to facilitate the resuscitation of economic activities in the areas affected by the war. The program emphasizes high priority to main roads as well as agricultural feeder roads. A related objective of this program would be to execute the works on a labor intensive basis to generate employment opportunities in the country. The roads and bridges works to be undertaken total about Rs 2,100 million (US\$70 million). The priorities for each district are shown in Table 21.

Table 21: ROADS AND BRIDGES RECONSTRUCTION PROGRAM

RDA Chief 1/ Engineer's Region	RDA & Local 2/ Authority Roads		Equipment 3/ and Vehicles		TOTAL	
	Rs.(M)	US\$(M)	Rs.(M)	US\$(M)	Rs.(M)	US\$(M)
Jaffna	330	11.0	45	1.5	375	12.5
Vavuniya	741	24.7	45	1.5	786	26.2
Batticaloa	258	8.6	45	1.5	303	10.1
Trincomalee	345	11.5	45	1.5	390	13.0
Ampara	201	6.7	45	1.5	246	8.2
	1,875	62.5	225	7.5	2,100	70.0

- 1/ RDA Chief Engineers regions of Jaffna and Vavuniya cover the districts of Jaffna, Mullaitivu, Mannar and Vavuniya.
- 2/ Notional amounts allowed at this stage for municipal and urban council roads and agriculture feeder roads, would be refined during detailed project preparations.
- 3/ Notional amounts allowed at this stage are for equipment and construction. It also includes RDA vehicles and equipment damaged/destroyed outside North and East and requirements of larger local authorities.

Source: Bank Staff estimates.

95. Components of the Program.

(i) Civil works

- (a) Reconstruction of major trunk roads including culverts and bridges (Class A - RDA roads)
- (b) Repair or part reconstruction and patching of other roads including culverts and bridges (Class A through D roads - RDA and local authority roads)
- (c) Repair/Rehabilitation of feeder roads (DDC roads)
- (d) Repair and reconstruction of causeways

(ii) Equipment and Vehicles

(a) Provision of road construction equipment and vehicles

(b) Provision of ferries and launches

(iii) Technical Assistance and Training

(a) Consultant support for management, engineering services and training

96. Recommended Implementation Approach. Priority would be to commence repair, patching and sealing of roads, and reconstruction of culverts. Concurrently, survey, investigations and designs for bridges and major roads would be undertaken. Vehicles and equipment would be procured in the first year. Major road works and bridges would be constructed during the second and third years. The phasing of expenditures is shown in Table 22.

Table 22: PHASING OF ROAD CONSTRUCTION EXPENDITURE PROGRAM

Quarters	US\$ Million												Total Cost	
	1987	1988	1989	1990	4	1	2	3	4	1	2	3	4	
Roads and Bridges	2.0	2.5	2.5	2.5	4.0	6.0	7.0	6.5	5.0	6.0	6.0	6.0	6.5	62.5
Equip. & Vehicles	1.0	2.0	3.5	1.0	-	-	-	-	-	-	-	-	-	7.5
TOTAL	3.0	4.5	6.0	3.5	4.0	6.0	7.0	6.5	5.0	6.0	6.0	6.0	6.5	70.0
US\$ Million	3		18				24.5				24.5			
Rs. Million	90		540				735				735			

Source: Bank staff estimates.

97. The RDA would execute the bulk of the patch and repair work through the Road Maintenance Contractors (small labor-only contractors). Major works would be executed through a mix of international and local contractors including RDA's wholly owned subsidiary Road Construction and Development Company which will compete with other local contractors. Foreign contractors established in Sri Lanka would also be allowed to participate in bidding for

works. International consultants will be provided to assist RDA design and supervise works, especially where new construction would be required due to severe damage. Town and urban councils will undertake road rehabilitation work for areas under their jurisdiction. Rehabilitation and/or construction of agricultural feeder roads will be carried by RDA on behalf of the DDCs.

98. The road rehabilitation program would be used as a vehicle to provide employment opportunities for residents of the respective districts. Selection of local work gangs for road repair work would ensure this objective is maintained. Manual crushing of stone aggregate at quarry sites may be organized at least during the initial phase of the Reconstruction Program as it would provide opportunities for families to supplement agricultural incomes during the resettling period. Where 10 percent or 20 percent patch repair is required, stretches of roads may be assigned to groups of residents' cooperatives for patching and compaction with gravel as an interim measure.

Public Transport

99. The priority for the transport boards is to restore operational fleet as quickly as possible. A rehabilitation program of US\$10.1 million (Table 23) would include replacement of destroyed buses, spares, other transport vehicles (e.g. jeeps, trucks), buildings and computer equipment.

Table 23: REHABILITATION PROGRAM FOR PUBLIC TRANSPORT

	<u>Estimated Cost</u>	1987	1988	1989	1990
-----US\$ million-----					
Repair of damaged buses	0.6	0.6	-	-	-
Replacement of buses	8.3	-	8.3	-	-
Plant, machinery, equipment, etc.	0.5	0.3	0.2	-	-
Buildings, repairs, reconstruction	0.7	0.1	0.2	0.4	-
Total	10.1	1.0	8.7	0.4	
	=====	====	====	====	

Source: Ministry of Transport Boards and Bank staff estimates.

100. The Central Transport Board (CTB) will undertake procurement of new buses. All other services will be provided by the Regional Transport Boards in consultation with the CTB who would allocate the 249 replacement buses to each Regional Transport Board as indicated in Table 8.

Railways

101. The Reconstruction Program for railways totals Rs 524.1 million (US\$17.5 million) as shown in Table 24. The Railways have been operating at an ever-increasing deficit over recent years. The recent Transport Sector Study recommends that the Railway concentrates on its most profitable operations: long-distance bulk freight and long-distance passenger services. All other operations should be given over to road transport. The recommended Reconstruction Program is consistent with these objectives. New locomotives should be purchased together with coaches with upgraded seating suitable for the long-distance passenger market. The freight wagons should be replaced by a type suitable for transporting flour, cement, containers or clinker, as these are good revenue earners.

Table 24: RECONSTRUCTION PROGRAM FOR RAILWAYS

Type of Equipment	Units	Rs M.
Locomotives	4	70.0
Wagons	14	28.0
Coaches	50	335.0
Bridges	13	24.5
Sleepers	50,000	12.0
Rails	500	4.7
Stations & Equipment	30	27.9
Power, Communications & Train Control Equipment	-	19.1
Misc. Machinery & Equipment	-	1.4
Talaimannar Pier	1	1.5
		524.1
TOTAL	Rs Million	
	US\$ Million	17.5

Source: Ministry of Transport and Bank staff estimates.

102. Implementation Recommendation. As the Jaffna and Trincomalee lines are prime sources of revenue, the first priority is to repair and rehabilitate these lines to full operating condition and replace the track from Jaffna to Kankesanturai. Much of what can be done with available

materials has already been done. Further progress depends on the availability of materials and financial support for increasing the number of repair gangs and for bridge repairs. The track could be rehabilitated in three months once materials were made available, the bridges in six months, and the communications and train control systems in four months. Track repair and maintenance should be strongly supported, in order to give greater operating efficiency. Damage to buildings and stations forms a lower priority and should be repaired as contracting capacity become available from more urgent repairs.

Ports

103. Damage to ports was primarily in the form of stolen or damaged equipment. Total requirements for Ports are Rs 13.4 million (US\$0.45 million) for the items shown in Table 25. Rehabilitation of port facilities in Jaffna belonging to the Cement Corporation is included under the Section on Industry (Cement). Procurement action to replace the damaged items should be initiated soon as it is expected that delivery may take up to a year.

Table 25: REHABILITATION PROGRAM FOR PORTS

	<u>Unit</u>	<u>Rs M.</u>
Tug	1	8.0
Launch	1	2.0
Trucks	3	1.2
Van	1	.3
Buses	2	1.5
Forklift truck	1	.4
TOTAL	Rs Million	13.4
	US\$ Million	0.45

Source: Ministry of Transport and Bank staff estimates.

Telecommunications

104. A complete replacement of all equipment in Jaffna and Trincomalee exchanges including buildings and houses is necessary. Cables, although not directly damaged by the conflict, need to be replaced as existing cables have outlived their useful lives. Works in other districts are mostly to replace overhead lines and cable cabinets. The total cost of rehabilitation and reconstruction works as shown in Table 26 is Rs 1,098.2 million

(US\$36.5 million) of which the foreign component is equal to Rs 846 million (US\$28.2 million). Cost estimates by district are shown in Table 26-B.

Table 26: TELECOMMUNICATIONS SECTOR
A - COST ESTIMATES BY EQUIPMENT CATEGORY

I. <u>North and East Areas</u>	Local	Foreign	Total	
	Rs M.	Rs. M.	Rs. M.	US\$ M.
i. Switching equipment	19.0	295.0	314.0	10.5
ii. Cables and subscriber distribution	44.8	67.5	112.3	3.7
iii. Transmission equipment	39.0	107.0	246.0	8.2
iv. Power equipment and Airconditioning	49.0	186.0	235.0	7.8
v. Buildings	55.1	-	55.1	1.8
vi. Vehicles and office equipment	-	10.5	10.5	0.4
Sub total	206.9	766.0	972.9	32.4
II. <u>Other Areas</u>				
i. Switching equipment	-	-	-	-
ii. Cables and subscriber distribution	37.9	55.1	93.0	3.1
iii. Power equipment	1.0	6.2	7.2	0.2
iv. Buildings	6.4	-	6.4	0.2
v. Vehicles and office equipment	-	18.7	18.7	0.6
Sub total	45.3	80.0	125.3	4.1
Total	252.2	846.0	1,098.2	36.5

Source: Ministry of Post and Telecommunications and Bank staff estimates.

TELECOMMUNICATIONS SECTOR
B - COST ESTIMATES OF REHABILITATION BY DISTRICT
(Rs Million)

	Bldgs.	Veh.	Off. Eqpt	Sw. Eqpt	Trans Eqpt	Ext. Plant	Total
1. Ampara (incl. in Batticaloa)	-	-	-	-	-	-	-
2. Anuradhapura	-	0.4	-	-	-	-	0.4
3. Badulla	-	-	-	-	-	0.1	0.1
4. Batticaloa	10.5	1.1	0.2	85.0	65.0	10.0	171.8
5. Colombo	5.6	18.3	-	4.5	-	67.9	96.3
6. Galle	-	-	-	-	-	2.0	2.0
7. Gampaha	-	-	-	-	-	1.9	1.9
8. Hambantota	-	-	-	-	-	-	-
9. Jaffna	18.0	4.0	1.0	232.0	99.0	60.3	414.3
10. Kalutara	-	-	-	-	-	10.9	10.9
11. Kandy	-	-	-	-	-	1.1	1.1
12. Kegalle	-	-	-	-	-	0.2	0.2
13. Kilinochchi (incl. in Jaffna)	-	-	-	-	-	-	-
14. Kurunegala	-	-	-	-	-	0.1	0.1
15. Mannar	1.8	0.5	0.1	26.0	2.0	8.0	38.4
16. Matale	-	-	-	-	-	0.8	0.8
17. Matara	0.8	-	-	1.9	-	7.5	10.2
18. Monaragala	-	-	-	-	-	-	-
19. Mullaitivu	6.0	0.5	0.1	49.0	17.0	6.0	78.6
20. Nuwara Eliya	-	-	-	0.8	-	0.4	1.2
21. Polonnaruwa (incl. in Batticaloa)	-	-	-	-	-	-	-
22. Puttalam	-	-	-	-	-	-	-
23. Ratnapura	-	-	-	-	-	0.1	0.1
24. Trincomalee	15.4	1.5	0.4	131.0	63.0	20.0	231.3
25. Vavuniya	3.4	1.0	0.1	26.0	-	8.0	38.5
Total	61.5	27.3	1.9	556.2	246.0	205.3	1,098.2
	=====	=====	====	=====	=====	=====	=====

Source: Ministry of Post and Telecommunications and Bank staff estimates.

Bldgs: Buildings Veh: Vehicles Off Eqpt: Office Equipment
 Sw Eqpt: Switching Equipment Trans Eqpt: Transmission Equipment
 Ext Plant: External Plant

105. The main components of the Reconstruction Program totalling Rs 972.9 million for the North and East are the following:

- i) Provision of a 6,000 line digital exchange at Jaffna with ten remote subscriber units including the necessary digital transmission links and multi-access systems and cables. The total cost of this component is Rs 414.3 million of which the foreign exchange cost is Rs 341 million (US\$11.4 million).
- ii) Provision of a 2,000 line digital exchange at Trincomalee with six remote subscriber units to serve the areas of Trincomalee district and the necessary digital transmission links, multi-access systems and cables. The total cost of this component is Rs 231.3 million of which the foreign exchange cost is Rs 179.9 million (US\$6.0 million).
- iii) Provision of a 600 line digital exchange for the Mullaitivu district with associated transmission links at a total cost of Rs 78.6 million. The foreign exchange cost of this component is Rs 64.2 million (US\$2.1 million).
- iv) Provision of 1,000 lines at the five exchanges in Batticaloa, Ampara and Polonnaruwa districts with associated transmission links at a total cost of Rs 171.8 million of which the foreign exchange cost is Rs 127.3 million (US\$4.2 million).
- v) Rehabilitation of power equipment and cables in the Vavuniya and Mannar areas at a total cost of Rs 38.5 and Rs 38.4 million respectively. The foreign exchange cost of these components are Rs 25.9 (US\$0.9 million) and Rs 27.4 million (US\$0.9 million) respectively.

106. Implementation Strategy. If normal procurement procedures are followed, the works would be completed in 2-1/2 to 3 years. This is too long a period for Jaffna and Trincomalee to be without telecommunications service. A proposal for introducing some skeleton service in these areas is indicated in para 107. In addition, the time for introducing the permanent service in the North and East and restoring service to subscribers in the other areas, can be reduced by the following:

- i) Order for supply and installation of cables for the areas other than the North and East can be placed on the contractor responsible for cable work utilizing the price escalation formula in the contract, if still valid.
- ii) For the North and East, work on turn-key contract basis would reduce the coordination problems and implementation time.
- iii) Since there are already three types of digital switching systems operating in the Sri Lanka network, it is advisable to go out on limited

competitive bidding to avoid the risk and attendant disadvantages of introducing a fourth system. This would also greatly reduce the time for placement of orders. As the technical specifications prepared for the IDA Project are still valid, document preparation is reduced to preparation of bill of quantities. Under these circumstances, it is expected that orders can be placed by mid-1988 and the systems should be operative by end-1989 or by first quarter of 1990. The annual fund requirements over three years is given in Annex V.

107. Crash Program for Jaffna and Trincomalee. In order to introduce some sort of skeleton service to Jaffna and Trincomalee, it is proposed to introduce remote subscriber unit working from Anuradhapura exchange. A 500 line remote subscriber unit at each of the places connected over transmission links to Anuradhapura exchange would meet the objective. This scheme would not involve any additional cost as it is part of the equipment needed for the final scheme. However to reduce the time for establishing these links, it is proposed that orders be placed on sole-source basis on the supplier who provided the original equipment. In this way, the time for establishing the service could be reduced to about a year.

Power

108. The Reconstruction Program for the Power sector totals Rs 180 million (US\$6 million) as shown in Table 27. The Ceylon Electricity Board (CEB) has already taken steps to repair the installations in areas under its jurisdiction. In areas outside those served by CEB, the most pressing need is to initiate the installation of distribution transformers where they are damaged or overloaded; repair and maintenance of works for the low tension feeders; and replacement of missing transmission lines. Inappropriate and illegal connections that were made during the conflict would have to be replaced with proper connections and legalized. In addition as affected buildings and houses are reconstructed, electrical connections would have to be provided.

Table 27: REHABILITATION PROGRAM FOR THE POWER SECTOR

	<u>Rs M.</u>	<u>US\$ M.</u>
<u>CEB</u>	<u>59.7</u>	<u>2.0</u>
Transmission lines, Transformers, Pylons		
<u>Jaffna Dist. Dev. Council Areas</u>	<u>13.5</u>	<u>0.5</u>
Distribution System Transformers, Cables Switches		
<u>Trincomalee Dist. Dev. Council Areas</u>	<u>14.4</u>	<u>0.5</u>
Distribution System Transformers, Cables, Switches		
<u>Other Areas</u>	<u>92.4</u>	<u>3.0</u>
<u>TOTAL</u>	<u>180.0</u>	<u>6.0</u>

Source: Ceylon Electricity Board and Bank staff estimates.

109. Implementation Issues.

i. Arrears of Local Authorities: One important impediment to the rehabilitation of electricity supply in the affected areas is that some local authorities are in arrears as much as twelve months of billing to CEB. CEB has a policy of installing transformers or carrying out maintenance work only for those local authorities whose payments to the CEB do not exceed three months of billing. This policy is supported through an IDA financed Power IX project. The CEB is not, therefore, in a position to make exceptions to the policy's application as it could adversely affect future revenue collections.

A possible solution to this issue would be for the Government on an exception basis to cover the local authorities' arrears that clearly resulted from the civil strife. Total amount of arrears in the affected areas are estimated to be Rs 146 million, of which Rs 130 million are over three months old.

ii. Procurement: Procurement of equipment for the local authorities' distribution systems should be centralized, perhaps by the Ministry of Housing, Local Government and Construction. The local authorities should prepare detailed lists and CEB should provide the technical specifications.

Industry

110. Due to the importance of cement manufacture in the country's reconstruction effort and the impact that the production of cement and of mineral sands have on the country's foreign exchange savings (cement) and earnings (minerals), these two industrial activities should have priority in the industrial reconstruction program. Similarly, the best positioned hotels to cater to international class tourism in the Trincomalee district whether they are privately or government owned should be given priority. In addition, small industrial entrepreneurs who have their business such as rice mills, alumina factories should be given priority.

111. Based on this assessment, the Reconstruction Program for public and private industry is envisioned as shown in Table 28.

Table 28: RECONSTRUCTION PROGRAM FOR INDUSTRIAL SECTOR

<u>Public Industry:</u>	<u>Rs Million</u>	<u>US\$ Million</u>
Sri Lanka Cement	88.9	2.96
Lanka Cement	49.3	1.64
Mineral Sands	12.0	0.40
Sub-Total	<u>150.2</u>	<u>5.00</u>
 <u>Private Industry:</u> (line of credit)		
Hotels and		
Small entrepreneurs	<u>150.0</u>	<u>5.0</u>
Sub-Total	<u>150.0</u>	<u>5.0</u>
Total	300.2	10.0

Source: Ministry of Local Government, Housing and Construction and Bank staff estimates.

112. Cement Manufacture. Domestic demand, which was in excess of one million metric tons in 1986, is expected to undergo a quantum jump due to the need to reconstruct private housing and public buildings. The cement consumption is projected to range between 1.5 and 2 million metric tons by 1990. A preliminary review of cement manufacture by the largest and newest facility, Lanka Cement Ltd., located in Jaffna, indicated that domestic cement could be competitive, quality and cost wise, with international cement provided three major steps are taken. First, equipment damaged or stolen from limestone and clay quarries in the North should be replenished in order to enable the plant to eventually function at the presently installed capacity of 500,000 tons. As indicated above such immediate needs are included in the Reconstruction Program. Secondly, and part of a medium term rehabilitation program, Lanka Cement's facilities should be completed so as to reach their initially designed capacity of one million metric tons p.a. for which equipment was procured in 1982-83. Scaling up to this capacity would significantly reduce the impact of currently high depreciation charges per ton of cement produced and bring costs closer to international levels. Thirdly, another critical step of a medium term rehabilitation program, should be to financially restructure Lanka Cement to alleviate the company's excessively high debt burden. Since the medium term rehabilitation issues suggested here cannot be addressed as an emergency operation, it is recommended that these issues be handled as a separate operation from the immediate reconstruction needs.

113. Mineral Sands Corporation. The production of ilmenite, rutile and zircon (for exports) had to be interrupted between March 1986 and June 1986. The Corporation's pumping station, five miles from the plant, which supplied fresh water essential to the final stages of the mineral extraction process, was blasted in mid-March 1986. The pumping station site was left abandoned until August 1, 1987. Although the site was cleared in the past few weeks and is now guarded by the Corporation's own staff, there are still signs of terrorist activity (theft of barbed wires and equipment). The Corporation has therefore rightly decided to provide for a temporary pumping station, covering only half of the plant needs. Although the plant has been functioning on sea water for a year, the main problem of using sea water is that it reduces extraction rates in the final processing stages which yield the two most expensive minerals. Also, it substantially increases the corrosion of the processing equipment. By installing temporary pumps quickly, the Corporation will also be able to check whether the underground piping, bringing fresh water to the plant, was damaged by the high frequency impact of the blast. The Reconstruction Program includes about Rs 12 million for the replacement of the underground piping and other damages of the Corporation.

114. Paranthan Corporation. This Corporation converted domestic salt into caustic soda and chlorine (using obsolescent technology and aging equipment) until the start of civil disturbances in the North. Then, the main office of the Corporation, which is located in Colombo, proceeded to import caustic soda (whose transport is safe) and chlorine (whose transport can be unsafe)

at no duty. The Corporation which had chronically been losing money before closing its northern operations started making a profit while continuing paying the 478 workers and staff on its payroll in the North. It is widely accepted within the Ministry of Industry that the most economical solution would be to continue importing caustic soda but to manufacture chlorine domestically whose transport over long distance seems to constitute a safety hazard. As caustic soda and chlorine are co-products of the same industrial process, the Ministry of Industry plans to construct a modern technology plant of a size sufficient to cover the totality of the domestic chlorine needs and locate it in the South, close to an existing salt plant and to the main market which is Colombo. The cost of the plant is estimated at Rs 120 million or US\$4 million. The balance of caustic soda, which would not come as a by-product from the chlorine plant, would be imported at no duty. However, once chlorine is produced locally, Government apparently wants to revert to the previous duty rate on chlorine, which was 100 percent. Since the viability of the proposition including tariffs is questionable and needs to be carefully studied, rehabilitation of Paranthan Corporation is not included in the Reconstruction Program.

115. Private Industry. Reports on damages to private industry were only partially reported. Damages reported to date relate to cement (clinker) factory built in 1984 by the Japanese firm Mitsui in Trincomalee and amounts to about US\$1.5 million. Yet, hotels in that area (including international class) were reportedly damaged. Although one would have expected a significant number of claims to be made by private hotel owners, no such information was available. Similarly, the damages to other private industrial businesses were not available.

116. An evaluation of damages to the private industries is necessary before an evaluation of compensation, if any, might be available from insurance companies. This could be done with the assistance of Development Banks (NDB/DFCC), commercial banks and major insurance companies. A notional amount of Rs 150 million (US\$5 million) is included in the Reconstruction Program to provide credit to the private sector. This amount would supplement any compensation that might be available to private industrial businesses.

Education

117. The rehabilitation needs in the education sector total about Rs 234.6 million (US\$7.8 million) as shown in Table 29. Cost estimates by district are shown including foreign cost estimates which would be equivalent to US\$2.7 million or 35 percent of the total cost. The education sector as a whole is a priority area for the Government and communities, as education disruption all too often means education foregone.

118. Books, equipment and furniture are urgently required and can be procured quickly as soon as funds become available. Furniture can be

manufactured quickly as local capacity exists in all districts. Construction works, particularly major rehabilitation, will take considerably longer to prepare detailed estimates and contract and would be executed towards the end of year one or during year two of the Rehabilitation Program.

Table 29: REHABILITATION REQUIREMENTS OF EDUCATION SECTOR
(Rs. '000)

	<u>Buildings incl. site services</u>	<u>Equipment</u>	<u>Furniture</u>	<u>Vehicles</u>	<u>Total</u>
Gampaha	-	-	-	-	4
Matara	230	30	50	175.0	485
Kandy	650	50	50	-	750
Mannar	5,600	-	1,000	-	6,600
Kalutara	-	-	16	-	16
Pollonaruwa	-	-	20	-	20
Galle	457	-	50	-	507
Monaragala	300	-	45	-	345
Nikaweratiya	15	-	5	-	20
Ratnepura	5	35	-	-	40
Vavuniya	2,815	835	1,565	-	5,215
Trincomalee	7,300	3,030	3,640	-	13,970
Ampara	480	-	720	475.0	1,675
Mullaitivou	2,485	-	1,030	475.0	3,990
Kilinochchi	1,016	200	300	-	1,516
Batticaloa	37,500	8,500	5,000	3,375.0	54,375
Jaffna a) Schools	67,500	1,300	9,730	1,620.0	80,150
b) Teacher Training College	50,000	5,000	5,000	2,700	62,700 1/
MOE HQ Colombo	12	-	-	2,200	2,212
TOTAL (RS '000)	176,365	18,980	28,221	11,020	234,586
TOTAL (US\$'000)	5,879	633	941	367	7,820
% Foreign	25	95	30	100	
TOTAL FOREIGN COST (US\$'000)	1,469	601	282	367	2,720

1/ Palali Teacher training college sits within perimeter of airport and is not available for use. Replacement residential College for 500 students.

Source: Ministry of Education and Bank staff estimates.

119. Implementation Recommendations.

i) Preparation of detailed Cost Estimates. This is a basic prerequisite to contract documentation preparation, bidding, supply and subsequent rehabilitation. An immediate start should be made in this area by district education authorities. About seven of the 18 districts will have difficulty in preparing construction cost estimates due to the large numbers of buildings involved, and due to insufficient local personnel to undertake this preparatory work within a short time frame. A lack of vehicles in almost all seven districts poses a serious impediment to the start of work. As project funding will not be available for several months, in order to ensure that cost estimates and bidding documents are ready by the date of funding availability, it will be essential for the Government to provide sufficient funding to recruit supplementary technical contract staff or consultant services in at least five districts according to the size of their construction program. Vehicles will be required immediately for Jaffna, Batticaloa, Trincomalee and Vavuniya districts to permit preparatory work to be started and carried out. In a number of cases architectural plans will need to be prepared, and the MOE should review this requirement on a district by district basis. It is recommended that the MOE prepare a schedule of staffing requirements by district and the associated costs of such staffing within the next 2-3 weeks for all preparatory works.

ii) Contract documentation and Bidding Procedures: Subject to the availability of cost estimates and bills of quantities mentioned in the previous paragraph, the MOE procedures correspond to general government tendering regulations and these are appropriate. There are existing procedures by which contracts up to Rs 1.25 million can be bid and awarded at the district level with a minimum of reference to central government and this limit should cover most of the rehabilitation works. It is therefore critical that adequate (temporary) technical staffing be made available at the local level.

iii) Construction Scheduling: Construction works should start as soon as possible after the availability of financing. Work schedules and the duration of construction will depend on the rate of progress in preparing bidding documents. An appropriate and realistic maximum construction time frame should be about 18 months from availability of financing i.e., by about the second half of 1989, and scheduling and staffing carried out accordingly.

Health

120. The Rehabilitation Program for the health sector totals about Rs 129 million (US\$4.2 million) including about Rs 47 million for teaching hospitals as shown in Table 30.

Table 30: REHABILITATION COSTS FOR THE HEALTH SECTOR
A - HOSPITALS AND CLINICS
(Rs '000)

<u>DISTRICT</u>	<u>BUILDINGS</u>	<u>FURNITURE</u>	<u>EQUIPMENT</u>	<u>VEHICLES</u>	<u>TOTAL</u>
1. Ampara	300	-	-	2,650	2,950
2. Batticaloa	4,309	-	3,470	2,600	10,379
3. Hambantota	784	-	-	700	1,484
4. Jaffna	19,150	2,032	3,950	9,800	34,932
5. Killinochchi		not reported			
6. Mannar	16,240 1/	575	450	350	17,615
7. Matale	-	-	-	1,050	1,050
8. Matara	450	-	-	-	450
9. Mullaitivu	1,750	60	50	370	2,230
10. Trincomalee	3,115	670	670	-	4,455
11. Vavuniya	1,320	155	714	2,105	4,294
Sub-Total	47,418	3,492	9,304	19,625	79,839

B - TEACHING HOSPITALS
(Rs. '000)

<u>Component</u>	<u>Buildings</u>	<u>Furn</u>	<u>Equip</u>	<u>Vehicles</u>	<u>Total</u>
1. Teaching Hospitals Jaffna	1,680 1/	90	4,200	600	6,570
2. MWATH Ministry 2/ Building Colombo	36,000	2,400	2,400	-	40,800
Sub-Total	37,680	2,490	6,600	600	47,370
TOTAL	85,098	5,982	15,904	20,225	127,209

1/ Includes Rs 14.6 million for District Hospitals at Adampan and Killinochchi.

2/ MWATH Building in Colombo destroyed by fire.

Source: Ministry of Health, Ministry of Women's Affairs and Teaching Hospitals and Bank staff estimates.

121. The immediate priority is to ensure sufficient drugs and supplies and to strengthen immunization programs that have been seriously disrupted in some areas by civil war. Although the polio outbreak in Jaffna (64 cases) is reportedly being controlled, other childhood diseases are expected to show increases as a result of reduced immunization. Linked to this is a shortage of midwives in Northern and Eastern provinces as a result of training and recruitment patterns as midwives also administer vaccinations. Vehicles are in extremely short supply or non-existent at MOH district offices and are an essential prerequisite to the reconstruction effort, particularly in Jaffna district.

122. Implementation Recommendations.

- i) Estimation of repairs and the preparation of bidding documents should be started immediately on a district by district basis by local MOH staff.
- ii) Requirements for supplementary technical staffing particularly for the Jaffna and Batticaloa districts should be prepared by MOH and funded on a priority basis.
- iii) The rate of implementation will be closely tied to the rate of bid documentation preparation. As most of the damage facilities are less than Rs 1.25 million, bids do not have to be cleared by the Cabinet Tender Committee. Bids can be called at the district level following regular Government and MOH tender board procedures, provided that cost estimates and bidding documents are prepared.

Public Buildings

123. The reconstruction of public buildings not included elsewhere totals about Rs 450 million (US\$15 million) as shown in Table 31. Detailed investigations are necessary to ascertain the structural soundness of the structures that remain. There are many buildings which can be put back to use by replacement of doors, windows, wall beams, roof trusses and roof covering. Areas such as Jaffna, Point Pedro and Velvettiturai, which have sustained heavy damage by bombing and shelling could be replanned, taking advantage of the current demolished state.

Table 31: RECONSTRUCTION PROGRAM FOR PUBLIC BUILDINGS
US\$ Million

	<u>1987</u> <u>Oct-Dec</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>Total</u> <u>Cost</u>
Investigations, planning & design	0.3	0.7	-	-	1.0
Immediate repairs	1.5	1.5	-	-	3.0
Reconstruction	-	<u>3.5</u>	<u>5.0</u>	<u>2.5</u>	<u>11.0</u>
TOTAL	1.8	5.7	5.0	2.5	15.0

Source: Ministry of Rehabilitation and Bank staff estimates.

124. Implementation Issues

- i. Immediate repair of damaged buildings should be undertaken wherever possible. The line ministries and respective municipal councils should allocate funds from their own resources immediately for this purpose.
- ii. Survey of buildings and examination of issues such as land acquisition and zoning should begin immediately. Careful planning and design should precede reconstruction of towns such as Jaffna, Point Pedro and Vellitturai.

D. Immediate Needs

125. During the Mission's visits to the districts, it was apparent that many of the affected people were frustrated in not getting assistance to resettle or start economic activities. In many cases they did not know about the Government's resettlement assistance program of Rs 7,000 (excluding NGO contribution) per affected family. There is an urgent need to announce this program nationwide and make these funds available to the displaced people. This assistance program will go a long way in reducing the anxiety of the affected people, hasten re-establishment of normal life and promote acceptance of the Peace Accord. Assistance in other areas such as agricultural inputs (seeds, fertilizer, sprayers, and machine tools) for farmers to cultivate their lands in time for the upcoming Maba season; fishing inputs for fishermen who already have boats but need equipment such as fishing nets; temporary sheds for schools; and temporary clinics and dispensaries should be provided urgently. In other sectors such as roads and irrigation, some of the equipment needed urgently could be made available from the nearest

non-affected areas until new supplies arrive. Table 32 indicates the program that can be undertaken for the remainder of 1987. It is recommended that the Government make available at least Rs 250 million of the Rs 431 million required for this program. This should be possible from the Rs 500 million set aside in the 1987 budget to absorb grants for the Reconstruction Program. It is estimated that the flow of grants for the remainder of 1987 would be slow. Therefore, in order to address immediate needs, the Government would have to fund most of the costs.

Table 32: PRIORITY RECONSTRUCTION NEEDS FOR REMAINDER OF 1987

	<u>Rs M.</u>	<u>US\$ M</u>	<u>Type of Assistance</u>
Resettlement	60.0	2.0	Cash Grant
Housing	65.9	2.2	Cement, Bricks, CI sheets
Roads & Bridges	90.0	3.0	Rollers and other Road Construction Equipment
Public Transport	30.0	1.0	Buses
Agriculture	90.0	3.0	Seeds, Fertilizer, Sprayers, Tractors, Mamatees
Fisheries	18.0	0.7	Fishing Nets, Tackle, Motors
Irrigation	15.5	0.5	Vehicles
Water Supply	11.4	0.4	Vehicles
Education	30.0	1.0	Temporary Sheds, Books, Furniture, Equipment, Vehicles
Health	20.0	0.7	Temporary Clinics, Dispensaries
TOTAL	430.8	14.5	

Source: Bank staff estimates.

V. IMPLEMENTATION OF THE RECONSTRUCTION PROGRAM

A. District Approach

126. During the Mission's discussions in each district, people were of the view that the priorities of reconstruction needs of each district should be made in the districts rather than the center. The people wanted a close association with both the program formulation as well as participation in its implementation. The Reconstruction Program is thus structured to reflect the priorities of each district. Consistent with the Government's intention to devolve administrative power to the proposed provincial councils, the Mission considered it appropriate to put each district administration in charge of its Reconstruction Program. Therefore, the recommended implementation structure (see para 128) is to give the districts the planning and prioritizing role; to the Central Government, financial approval, monitoring and problem resolution; and to the line agencies that of the execution of works. Although the districts would be the main focal point of preparing detailed programs, there would be some programs such as Railways, Ports, Public Buildings, and Public Transport that would be national in scope and therefore planned by the concerned line ministry. The Reconstruction Program by district is indicated in Table 33 with details including sectors in Annex VI.

Table 33: RECONSTRUCTION AND REHABILITATION PROGRAM
BY DISTRICT

<u>District</u>	<u>Rs M.</u>
Ampara	400.33
Anuradhapura	19.50
Badulla	31.80
Batticaloa	952.56
Colombo	144.31
Galle	10.81
Campaha	1.90
Hambantota	6.48
Jaffna	3,750.95
Kalutara	10.92
Kandy	1.95
Kegalle	0.20
Kilinochchi	235.32
Kurunegala	0.10
Mannar	265.02
Matale	1.85
Matara	12.54
Monaragala	0.35
Mullaitivu	286.49
Nuwara Eliya	1.20
Polonnaruwa	0.02
Puttalam	2.60
Ratnapura	0.14
Trincomalee	1,558.73
Vavuniya	1,243.51
Others	138.92
National	2,220.50
Sub Total	11,298.99
Contingency (missing data)	1,694.85
Total (Rs million)	12,993.84

Source: Bank staff estimates.

B. Coordination and Execution

127. The institutional arrangements developed for project implementation take into account the concerns of the ultimate beneficiaries and practical workable arrangements, given the multi-sectoral nature of the program and the layers of Government involved (central and provincial). The following principles have influenced the selected arrangements:

- (a) prioritizing and monitoring of reconstruction activities for district-level coordinating committees;
- (b) project evaluation, financial sanction, and coordination under a powerful and impartial agency or ministry; and
- (b) project implementation by line ministries utilizing existing procedures, expertise and organizations.

128. The district approach would require close coordination between the district and the center. Therefore, coordinating committees are recommended at the center and in all affected districts. In addition, secretariats will be provided for the district coordinating committees in the most affected districts (e.g., Jaffna, Trincomalee, Vavuniya, Batticaloa).

i) The District Reconstruction Coordinating Committee (DRCC): Since each district would be in charge of implementing its program, a task force headed by the Government Agent and assisted by a Technical Director and technical staff of line ministries in the district should be formed. The membership of DRCC will also include district or regional heads of line ministries, citizens' committee representatives, and NGOs. The DRCC will plan and prioritize reconstruction activity and monitor implementation of the district program. The DRCC will be represented at the National Reconstruction Steering Committee by the GA. Although some of the required staff already exists in some districts, each district should examine and prepare staffing plans to implement the district program. Since the GA in each district has multiple functions to perform, a Technical Director would be appointed to assist the GA and be in charge of the day to day operations. It is recommended that the exercise to prepare staffing plans should begin immediately and be ready before the Aid Group meeting and staff be put in place by January 1, 1988. In some districts this timetable may have to be altered due to the recent violence.

ii) The National Reconstruction Steering Committee (NRSC): In order to monitor agreed yearly programs, resolve any inter-district issues, approve financial resources and administrative procedures, especially for a reimbursement of foreign aided expenditures, a task force at the center would be created. This task force would be headed by a senior government official as Chairman and be assisted by a secretariat headed by a Chief Executive Officer

to oversee day to day operations. This task force would be located in the Ministry of Finance and would include the GAs in charge of district programs and representatives of line ministries at the center. In order to ensure that all development ministries are involved in the reconstruction effort, the Development Secretaries Committee would be regularly informed of the Reconstruction Program and its implementation.

Flow of Funds

129. Funds for implementation would be made available by the Treasury to the participating line ministries and agencies through the normal Government budgetary allocation and transfer procedures. The World Bank and possibly other donors will facilitate implementation of the program through a "Special Account" with the Central Bank of Sri Lanka in foreign exchange. This account would enable the line ministries and agencies to make withdrawals within specific limits with NRSC's approval to cover eligible expenditures incurred without prior approval of the World Bank or other donors. However, the line ministries and agencies would maintain separate records and accounts to record receipts and expenditures which could be verified. The account would be replenished subject to receipt of satisfactory accounts.

Impact of Devolution of Power

130. Since the Government's plans to devolve power to the provincial councils are in its formative stage, it is not possible to fully assess the impact that this change in form of administration would have on the institutions and financial resources for the implementation of the program. Based on the information available, several districts would be combined to form a province without eliminating the district concept. Thus, the recommended district based program and its implementation would be consistent with the devolution of power. When the provincial councils are fully established, it would not be difficult to amalgamate district programs to provincial programs since the district boundaries are expected to remain the same.

Role of the Non-Governmental Organizations (NGOs)

131. The NGOs are playing a useful role in assisting in the reconstruction effort, especially in the housing, health, and agriculture sectors. However, each of these agencies have their own agenda, its own clientele, and its own way of doing things. For example in housing, some NGOs are helping reconstruct houses, some are providing material subsidies, but in varying amounts and only in some villages. The issue facing the Government is equity, i.e. ensuring that every affected family has equal access to reconstruction benefits. Therefore, it is extremely important that the Government knows of all NGO programs and coordinate their activities to ensure that there is no duplication of efforts and that all affected villages benefit equally. Similarly, all NGOs should be informed of the various reconstruction activities and assistance programs. In order to ensure proper coordination,

it is recommended that all NGOs coordinate their activities with the GA and appoint a representative on the DRCC.

132. An effective mechanism to channel credit to farmers and fishermen would be critical in their rehabilitation. Since the NGOs operating in Sri Lanka are familiar with the small farmers and fishermen and how they operate, it is suggested that NGOs be utilized at least on a small scale for channelling credit. The NGOs could act as an intermediary for credit between the bankers and small farmers, fishermen and entrepreneurs and the formal banking sector.

C. Cross-Sectoral Linkages

133. In the Reconstruction Program, the ability of the program to swiftly undertake and complete activities in one sector may be dependent on initiating or completing activities in another. For example, agricultural rehabilitation in some areas will be dependent on repair and rehabilitation of the area's irrigation systems. In these cases, actions in one area may influence the timing, sequence, cost, and possibly the priority of other actions. In others, actions in one sector may provide jobs that will give people the opportunity to obtain the necessary capital to participate more fully in the various reconstruction programs. For example, labor intensive road reconstruction programs can provide temporary jobs throughout the affected zone that give the workers a chance to earn money to rebuild their housing. Recovery in the private sector (housing, agriculture, fishing, business, and industry) will be closely linked to public sector activities. Likewise, in some cases full recovery of a public sector endeavor or enterprise will be dependent on recovery in the private sector. The DRCCs should be aware of these linkages in preparing their respective programs. The following is a summary of the principal linkages between sectors.

Housing

134. Construction of housing will be affected most by the availability of cash. Road construction activities, especially rural roads, can provide much needed temporary employment and inject needed capital into the smaller communities. Since road repairs are labor intensive, can be undertaken in every community, and are the public sector activity likely to create the most temporary jobs, they should receive the highest priority of all public sector activities.

135. The cost of housing reconstruction will also be affected by the availability of building materials and their transport costs. Re-establishment of the rail system, repair of roads and bridges will all play a part in reducing overall costs to the individual families.

136. Restoration of public buildings such as schools, hospitals, etc. will have a spin-off effect on housing reconstruction. Not only will a small number of jobs be created but large scale construction will have an effect on building material availability and price. As a general rule, initiation of these works will cause a rise in material prices and in some local cases make some materials temporarily unavailable. However, in the larger communities this will have a negligible impact compared to reconstruction of the commercial zones. Therefore in large communities, no special considerations need be made but in small communities, it may be wise to delay the reconstruction of large buildings until local people have had a chance to buy the necessary materials for their own constructions.

Agriculture

137. Directly, agricultural rehabilitation will be most affected by rehabilitation of the irrigation systems. In some areas, in order for farmers to have any decent yield of crops, repairs will be mandatory. Some repairs will provide wages for farmers. Indirectly, agricultural rehabilitation can be affected by road repairs. Workers from neighboring farms can earn needed capital for rehabilitation of their lands and to buy needed supplies, and the repaired roads will facilitate marketing agricultural products. Rehabilitation of the transport network will also facilitate micro-scale marketing (garden vegetables, etc.).

Fishing

138. Restoration of the full potential of the fishing sector will be influenced only indirectly by public sector activities other than the strengthening of the credit delivery mechanism. Restoration of the electrical system will permit cold storage to resume, restoration of the transport system will facilitate marketing, and restoration of water supplies to some areas will permit resumption of commercial processing.

Commercial and Industrial Sectors

139. The reconstruction of both large and small commercial and industrial enterprises will be affected indirectly by the restoration of roads (facilitating marketing) and communications (operations and marketing). In some cases reconstruction will be directly accelerated by restoring supplies of electricity and water (which will permit resumption of some forms of manufacturing). Priorities for these activities will have to be determined at the local level and will have to be made on the basis of how many jobs are affected.

D. Implementation Capacity and Constraints

140. The three year Reconstruction Program recommended in this report is well within the implementation capacity of Sri Lanka. Many skilled workers are looking for jobs, some factories are operating below capacity, some equipments are underutilized, many banking branches have been shut down and could be easily reopened. In addition, there are already some materials available for the rehabilitation of the housing, agricultural and fisheries sectors and could be utilized at least in the early stages of the program. This means that there is an existing idle capacity which could easily be tapped for implementing the Reconstruction Program. However, since domestic supply and/or imports may not respond immediately due to increasing demand, some constraints may be experienced in sectors which will compete for the same materials and resources. The following paragraphs describe the areas where these constraints could occur.

141. Materials that are likely to be in short supply are:

i) Bricks: Production of fired clay bricks is common throughout the North and East. Producers include small cottage enterprises that make supplies for local villages, larger cooperative brickmaking kilns, and a few large scale companies that produce good commercial quality bricks. Many of the larger operations were affected by the fighting and even if they get back into operation soon, they will be hampered by a shortage of transport and fuel (coal is delivered by lorry). Though the smaller cottage industries will be able to produce some bricks, shortages will be mostly in the rural areas since demands from urban areas will cause a price rise and the bricks produced at small kilns will flow to the cities.

ii) Cement Blocks: Cement blocks are mostly produced in small cottage industries. Production may be affected by availability of both sand and cement, as well as the cost to transport them, since many of the lorries in the region have been lost in the fighting.

iii) Cement: Large supplies of cement will be needed for repair and rehabilitation of industrial facilities, commercial structures, private upper and moderate income residences, and for repair of many public works. It is estimated that 400 thousand tons of cement will be needed over a three year period. This is equivalent to about one third of Sri Lanka's current production capacity.

iv) Iron Reinforcing Bar: Demands for reinforcing steel from commercial and industrial reconstruction as well as bridge and road reconstruction, may cause a short-term rise in price.

v) Gravel and Stone Aggregate: Gravel and crushed stone used in both road work and for concrete are in short supply. Gravel production is undercapacity at present due to restraints on blasting and the lack of transport.

vi) Construction Timber: Wood of all kinds is likely to be in short supply. Timber is scarce islandwide due to deforestation, and in the North few timber resources exist. The widespread damages to roofs of all kinds will create a high demand for lumber and unless supplies can be allocated quickly, prices are likely to be unreasonably high.

vii) Roof Tiles: Roof tiles are normally produced by the same craftsmen who make bricks. The problems and shortages will be the same.

viii) Asbestos Cement Roof Sheets: Corrugated asbestos cement roof sheets are a popular type of roofing, not only an economic way of covering the roof but also require less, and lighter wood, than a tile roof. Some sheets are made in Sri Lanka, but many are imported. Shortages and corresponding price increases are likely to force many people to switch to tile to cover their roofs. Production of alternative types of sheets is not difficult and can be done as a cottage or cooperative venture. Since the material is popular and is likely to be in short demand, it should be possible to provide some start-up capital to small scale entrepreneurs to increase production. Alternatives to using asbestos as the forming media should be stressed.

ix) Corrugated Iron (CI) Sheets: CI sheets are less popular than cement sheets (since they absorb rather than deflect heat) but are nonetheless widely used since they provide a cheap means of covering houses. The sheets are produced from rolled steel which is imported, but final processing is done at a rolling mill in the country. Prices are not likely to climb at the production end, but transport costs and shortages may raise the final cost significantly.

142. Equipment likely to be in short supply include:

i) Lorries: The lack of trucks of all types may be the single most important constraint on activities and costs in the construction sector. Most lorries in the area were commandeered and destroyed during the fighting or withdrawn from the zone of conflict. Initially, transport for carrying building materials, such as tippers, large flat-bed lorries, and some tractor-trailer units (for timber and reinforcing steel) is likely to be expensive.

ii) Heavy Construction Equipment: Contractors will initially be unwilling to commit expensive, highly visible equipment to the area. This will slow some projects (road reconstruction) but should have only a short-term effect on the overall construction sector.

iii) Skilled Workers: Masons, carpenters, concrete layers, electricians, and heavy equipment operators will be in great demand. Although many skilled workers are idle at the moment and could be quickly absorbed in the reconstruction effort, there is a need to train and recruit additional labor force.

Other Implementation Issues

143. Procurement Procedures. Government tender procedures require that all tenders beyond Rs 5 million must be approved by the Cabinet Tender Committee. Approval of the concerned ministry's tender board is required for limits between Rs 2 to 5 million whereas a department's tender board is authorized to approve tenders for amounts less than Rs 2 million. These procedures have worked satisfactorily in most instances in the past. However, given the emergency nature of the Reconstruction Program where speed is of the essence, it is essential that these procedures do not become a bottleneck to fast procurement. The Government intends to monitor these procedures, and modify them if necessary based on experience under the Reconstruction Program.

144. Standardization of Benefits to the Displaced. In areas where resettlement has started, affected people are being assisted in the housing sector through several different programs:

- a) Government's Rs 7,000 allowance, of which Rs 3,000 is for housing;
- b) NGO assistance (see para 64) to supplement Government's allowance;
- c) Reconstruction of damaged houses by the National Housing Development Authority (NHDA) that were originally built with its assistance.

Some resettlers benefit substantially through these programs, while others get very little. In some areas visited by the Mission, the Government was criticized for discrimination based on ethnic background. This may not be the case, but it gives this perception based on who benefits by the program. It is recommended that the Government develop a standard policy of assistance and ensure that NGOs follow this policy and that NGOs work through the GA's office.

145. Similarly assistance program of Rs 2,000 for farmers and fishermen to restart their economic activities needs to be extended to other sectors such as the commercial sector. Moreover, some individuals may be eligible for multiple assistance depending on the number of types of losses. It is important that such assistance programs are equitable and reach all affected

people. A suggested centralized casework and job referral system is indicated in Annex II.

146. Announcement of Government's Resettlement Assistance. Public information on the Government's assistance program for resettlement is somewhat sketchy. In some villages it is widely known while in some others it is not. It is important that the Government makes a public announcement (radio, television, newspapers, etc.) of this program. Otherwise, the Government may be subject to criticism for favoring one village or community over the other.

147. Training Programs. The Reconstruction Program will generate substantial new employment (see para 148) and it would be necessary to initiate training programs for the youth in building and construction, small industries, boat building, making agricultural tools, health care and small business enterprises. These programs would help employment of the youth and therefore strengthen the Peace Accord. It is recommended that interested donors provide training specialists and organize training activities as soon as possible.

E. Employment Generation

148. Reconstruction activities in both the public and private sector will create employment opportunities. How many new jobs will be created and how much total cash will be provided would be greatly affected by both planning and sequencing of the Reconstruction Program and its sub-activities. The greatest impact of reconstruction on employment will be on restoration of jobs that existed before the hostilities. But reconstruction will also require additional labor to repair and reconstruct physical structures in the affected zones. In addition, the programming of reconstruction assistance to promote long-term development objectives, improve the quality of infrastructure and expand high potential employment activities, can, if programmed properly, provide new employment opportunities. Even so, it should be recognized that reconstruction employment will have primarily a short-term impact and that only a few long-term jobs will be generated.

149. The employment that will be created can be classified as short-term, (a few weeks to several months), medium-term (jobs created by, and likely to last for, the duration of reconstruction) and permanent employment. The following is a summary of the employment opportunities that could be created.

Private Sector Employment

150. Most jobs in the fishing, commercial, and industrial sectors will be restorations of jobs that existed before the conflict. In the building sector (housing, commercial and industrial buildings, public buildings) a large number of new jobs, though mostly of only short- and medium-term duration, will be created. The following is an estimate of the employment created in each job category per year:

	<u>Jobs</u>	<u>Work Days</u>	<u>Income</u> Rs M.
Short-term employment	4,000	624,000	46.8
Medium-term employment	1,800	561,600	42.1
Permanent employment:	<u>1,200</u>	<u>374,400</u>	<u>28.0</u>
TOTAL	7,000	1,560,000	116.9

Of these new jobs, approximately 90 percent will be in actual construction, 10 percent in the production, sale and transport of building materials.

Public Sector Employment

151. Reconstruction and rehabilitation activities in the public sector will create the majority of job opportunities during the reconstruction period. The total number of jobs created by reconstruction of the principal public sector structures and systems is estimated as follows with details in Annex VII.

	<u>Jobs</u>	<u>Work Days</u>	<u>Income</u> Rs M.
Short-term employment	7,400	322,600	13.92
Medium-term employment	1,450	243,000	9.59
Permanent employment	<u>405</u>	<u>126,360</u>	<u>5.50</u>
Total	9,255	691,960	29.01
	=====	=====	=====

152. Judging by past major reconstruction programs, employment in the construction industry will have the greatest impact on lowering overall unemployment rates. For example, in Guatemala in 1976, reconstruction activities are estimated to have reduced nationwide unemployment by 12 percent in the first two years after the earthquake, but after four years the unemployment rate returned to within 2 percent of the pre-disaster norm (Bates et al, University of Georgia).

F. Aid Requirements

153. Donor participation will be critical for the success of the Reconstruction Program. It is estimated that donor commitments of about US\$320 million on highly concessional terms will be required, while the Government would finance US\$70 million or about 18 percent of the program. It is recommended that the donors make a one time commitment so that the reconstruction plans for the three years can be developed and firmed up. Preliminary discussions with Sri Lanka's donors suggest that the US\$320 million can be entirely financed through grants and concessional loans.

INDO-SRI LANKA AGREEMENT
TO ESTABLISH PEACE AND NORMALCY IN SRI LANKA

The President of the Democratic Socialist Republic of Sri Lanka, His Excellency Mr. J.R. Jayewardene, and the Prime Minister of the Republic of India, His Excellency Mr. Rajiv Gandhi, having met at Colombo on July 29, 1987.

Attaching utmost importance to nurturing, intensifying and strengthening the traditional friendship of Sri Lanka and India, and acknowledging the imperative need of resolving the ethnic problem of Sri Lanka, and the consequent violence, and for the safety, well-being and prosperity of people belonging to all communities in Sri Lanka.

Have this day entered into the following agreement to fulfill this objective.

1. In this context:

- 1.1 Desiring to preserve the unity, sovereignty and territorial integrity of Sri Lanka;
- 1.2 Acknowledging that Sri Lanka is a multi-ethnic and a multi-lingual plural society consisting, inter alia, of Sinhalese, Tamils, Muslims (moors), and Burghers;
- 1.3 Recognizing that each ethnic group has a distinct cultural and linguistic identity which has to be carefully nurtured;
- 1.4 Also recognizing that the northern and the Eastern Provinces have been areas of historical habitation of Sri Lankan Tamil speaking peoples, who have at all times hitherto lived together in this territory with other ethnic groups;
- 1.5 Conscious of the necessity of strengthening the forces contributing to the unity, sovereignty and territorial integrity of Sri Lanka, and preserving its character as a multi-ethnic, multi-lingual and multi-religious plural society in which all citizens can live in equality, safety and harmony, and prosper and fulfill their aspirations;

2. Resolve that:

- 2.1 Since the Government of Sri Lanka proposes to permit adjoining Provinces to join to form one administrative unit and also by a referendum to separate as may be permitted to the Northern and Eastern Provinces as outlined below:
- 2.2 During the period, which shall be considered an interim period, (i.e., from the date of the elections to the Provincial Council, as specified in para 2.8 to the date of the referendum as specified in para 2.3), the Northern and Eastern Provinces as now constituted, will form one administrative unit, having one elected Provincial Council. Such a unit will have one Governor, one Chief Minister and one Board of Ministers.
- 2.3 There will be a referendum on or before 31st December, 1988 to enable the people of the Eastern Province to decide whether:
- (a) The Eastern Province should remain linked with the Northern Province as one administrative unit, and continue to be governed together with the Northern Province as specified in para 2.2; or
- (b) The Eastern Province should constitute a separate administrative unit having its own distinct Provincial Council with a separate Governor, Chief Minister and Board of Ministers.
- The President may, at his discretion, decide to postpone such a referendum.
- 2.4 All persons who have been displaced due to ethnic violence, or other reasons, will have the right to vote in such a referendum. Necessary conditions to enable them to return to areas from where they were displaced will be created.
- 2.5 The referendum, when held, will be monitored by a committee headed by the Chief Justice, a member appointed by the President, nominated by the Government of Sri Lanka, and a member appointed by the President, nominated by the representatives of the Tamil speaking people of the Eastern Province.
- 2.6 A simple majority will be sufficient to determine the result of the referendum.
- 2.7 Meetings and other forms of propaganda, permissible within the laws of the country, will be allowed before the referendum.
- 2.8 Elections to Provincial Councils will be held within the next three months, in any event before 31st December 1987. Indian observers will be invited for elections to the Provincial Council of the North and East.

- 2.9 The emergency will be lifted in the Eastern and Northern Provinces by August 15, 1987. A cessation of hostilities will come into effect all over the island within 48 hours of the signing of this agreement. All arms presently held by militant groups will be surrendered in accordance with an agreed procedure to authorities to be designated by the Government of Sri Lanka.
- Consequent to the cessation of hostilities and the surrender of arms by militant groups, the army and other security personnel will be confined to barracks in camps as on May 25, 1987. The process of surrendering of arms and the confining of security personnel moving back to barracks shall be completed within 72 hours of the cessation of hostilities coming into effect.
- 2.10 The Government of Sri Lanka will utilize for the purpose of Law Enforcement and maintenance of security in the Northern and Eastern Provinces same organizations and mechanisms of Government as are used in the rest of the country.
- 2.11 The President of Sri Lanka will grant a general amnesty to political and other prisoners now held in custody under the Prevention of Terrorism Act and other emergency laws, and to combatants, as well as to those persons accused, charged and/or convicted under these laws. The Government of Sri Lanka will make special efforts to rehabilitate militant youth with a view to bringing them back into the mainstream of national life. India will cooperate in the process.
- 2.12 The Government of Sri Lanka will accept and abide by the above provisions and expect all others to do likewise.
- 2.13 If the framework for the resolutions is accepted, the Government of Sri Lanka will implement the relevant proposals forthwith.
- 2.14 The Government of India will underwrite and guarantee the resolutions, and cooperate in the implementation of these proposals.
- 2.15 These proposals are conditional to an acceptance of the proposals negotiated from April 5, 1986 to December 19, 1986. Residual matters not finalized during the above negotiations shall be resolved between India and Sri Lanka within a period of six weeks of signing this agreement. These proposals are also conditional to the Government of India cooperating directly with the Government of Sri Lanka in their implementation.
- 2.16 These proposals are also conditional to the Government of India taking the following actions if any militant groups operating in Sri Lanka do not accept this framework of proposals for a settlement, namely:

- (a) India will take all necessary steps to ensure that Indian territory is not used for activities prejudicial to the unity, integrity and security of Sri Lanka.
 - (b) The Indian Navy/Coast Guard will cooperate with the Sri Lanka Navy in preventing Tamil Militant activities from affecting Sri Lanka.
 - (c) In the event that the Government of Sri Lanka requests the Government of India to afford military assistance to implement these proposals the Government of India will cooperate by giving to the Government of Sri Lanka such military assistance as and when requested.
 - (d) The Government of India will expedite repatriation from Sri Lanka of Indian citizens to India who are resident here, concurrently with the repatriation of Sri Lankan refugees from Tamil Nadu.
 - (e) The Governments of Sri Lanka and India will cooperate in ensuring the physical security and safety of all communities inhabiting the Northern and Eastern Provinces.
- 2.17 The Government of Sri Lanka shall ensure free, full and fair participation of voters from all communities in the Northern and Eastern Provinces in electoral processes envisaged in this agreement. The Government of India will extend full cooperation to the Government of Sri Lanka in this regard.
- 2.18 The official language of Sri Lanka shall be Sinhala. Tamil and English will also be official languages.
3. This agreement and the annexure thereto shall come into force upon signature.

In witness whereof we have set our hands and seals hereunto.

Done in Colombo, Sri Lanka, on this the twenty ninth day of July of the year one thousand nine hundred and eighty seven, in duplicate, both texts being equally authentic.

Junius Richard Jayewardene
President of the Democratice Socialist
Republic of Sri Lanka

Rajiv Gandhi
Prime Minister of the
Republic of India

ANNEXURE TO THE AGREEMENT

1. His Excellency the President of Sri Lanka and the Prime Minister of India agree that the referendum mentioned in paragraph 2 and its sub-paragraphs of the agreement will be observed by a representative of the election commission of India to be invited by His Excellency the President of Sri Lanka.

2. Similarly, both heads of Government agree that the elections to the Provincial Council mentioned in paragraph 2.8 of the Agreement will be observed by a representative of the Government of India to be invited by the President of Sri Lanka.

3. His Excellency the President of Sri Lanka agrees that the home guards would be disbanded and all para-military personnel will be withdrawn from the Eastern and Northern Provinces with a view to creating conditions conducive to fair elections to the council.

The President, in his discretion, shall absorb such para-military forces, which came into being due to ethnic violence, into the regular security forces of Sri Lanka.

4. The President of Sri Lanka and the Prime Minister of India agree that the Tamil militants shall surrender their arms to authorities agreed upon to be designated by the President of Sri Lanka. The surrender shall take place in the presence of one senior representative each of the Sri Lanka Red Cross and the Indian Red Cross.

5. The President of Sri Lanka and the Prime Minister of India agree that a joint Indo-Sri Lankan observer group consisting of qualified representatives of the Government of Sri Lanka and the Government of India would monitor the cessation of hostilities from July 31, 1987.

6. The President of Sri Lanka and the Prime Minister of India also agree that in terms of paragraph 2.14 and paragraph 2.16 (C) of the agreement, an Indian peace keeping contingent may be invited by the President of Sri Lanka to guarantee and enforce the cessation of hostilities, if so required.

EXCHANGE OF LETTERS

President of Sri Lanka

July 29, 1987

Excellency,

Please refer to your letter dated the 29th of July 1987, which reads as follows:

Excellency,

Conscious of the friendship between our two countries stretching over two millenia and more, and recognizing the importance of nurturing this traditional friendship, it is imperative that both Sri Lanka and India reaffirm the decision not to allow our respective territories to be used for activities prejudicial to each other's unity, territorial integrity and security.

In this spirit, you had, during the course of our discussions, agreed to meet some of India's concerns as follows:

- (i) Your Excellency and myself will reach an early understanding about the relevance and employment of foreign military and intelligence personnel with a view to ensuring that such presences will not prejudice Indo-Sri Lanka relations.
- (ii) Trincomalee or any other ports in Sri Lanka will not be made available for military use by any country in a manner prejudicial to India's interests.
- (iii) The work of restoring and operating the Trincomalee Oil Tank Farm will be undertaken as a joint venture between India and Sri Lanka.
- (iv) Sri Lanka's agreements with foreign broadcasting organizations will be reviewed to ensure that any facilities set up by them in Sri Lanka are used solely as public broadcasting facilities and not for any military or intelligence purposes.

In the same spirit, India will:

- (i) Deport all Sri Lankan citizens who are found to be engaging in terrorist activities or advocating separatism or secessionism.

(ii) Provide training facilities and military supplies for Sri Lankan Security forces.

India and Sri Lanka have agreed to set up a joint consultative mechanism to continuously review matters of common concern in the light of the objectives stated in para 1 and specifically to monitor the implementation of other matters contained in this letter.

Kindly confirm, Excellency, that the above correctly sets out the agreement reached between us.

Please accept, Excellency, the assurances of my highest consideration.

(J.R. Jayewardene)
President

His Excellency
Mr. Rajiv Gandhi,
Prime Minister of the Republic of India,
New Delhi

CENTRALIZED CASEWORK AND JOB REFERRAL SYSTEM

1. In order to insure that all beneficiaries receive the assistance to which they are entitled, to speed the delivery of benefits, and to reduce the possibility of cheating, a centralized system for processing beneficiaries claims and referring them to the proper sources of assistance, will be needed.

Benefits

2. A preliminary list of the benefits that individuals and families may be eligible for includes:

- Rs 2,000 "Settling In" Allowance for displaced persons/refugees;
- Rs 7,500 housing rehabilitation allowance;
- Rs 2,000 economic assistance;
- Rs 6,000 dry ration;
- Agricultural tool allowance;
- Fisheries subsidized loans.

3. In addition, people are likely to be eligible for some forms of assistance from NGOs such as:

- Rs 7,500 matching grants for housing reconstruction;
- food;
- clothing;
- immunizations for returning refugee children.

4. Finally, as public sector reconstruction begins, it will be important to channel the most deserving victims into the work force.

Registration

5. The key to a successful casework system is a standardized central registration system. Such a system requires:

- a. That all assistance be provided to people at their place of residence (except for transport home in the case of refugees);
- b. A standard registration card that clearly lists (or depicts with icons) the types of assistance for which people are eligible;
- c. A central permanent register where people's benefits are recorded and where the people sign or initial the ledger to indicate they have received the benefits; and

- d. A central claims office where people can go for one-time processing of their claims and to receive any cash that is due.
6. The system should work as follows: Central claims offices should be set up at convenient and accessible locations throughout the affected areas.
7. Notices informing the public that assistance is available and where to go would then be posted throughout the area, supported by radio announcements, newspaper notices and other appropriate media. The notices would tell the people to bring the following to the claims office: (1) their identity card, (2) a passport photo, (3) any letters or documents they have been issued previously indicating they are eligible for assistance (especially refugee ID cards, etc.)
8. Persons coming to the office would be met by a counselor who would conduct a preliminary screening interview to determine (1) if all the persons documents are in order, (2) the place of residence, and (3) the services for which the person appears to be eligible. If the person has all the necessary papers and/or his identity card, he is issued a registration card, his photo is attached, and the new bearer signs the card. The recipient's name and the number of the card is then immediately entered into the permanent register. The registrar marks the icons representing the benefits the person may be eligible for on the face of the card then refers him to the appropriate caseworkers in the same room so that they can determine more fully if the person is indeed eligible for the assistance.
9. The caseworkers interview the card bearer and determine eligibility. If there is a doubt, a follow-up field visit may be required. When all is complete and the various benefits have been determined, the caseworker countermarks the registration card. The bearer is then led back to the registrar who seals the card in plastic and enters the benefits the bearer is entitled to on the permanent register beside his/her name. If the bearer is not entitled to a particular benefit (as determined by the unmarked icons on the card), the icon that represents that benefit is punched out by the registrar.
10. The bearer of the card may then take the card to the appropriate window or agency to claim the assistance that is due. As the various assistance is issued, the beneficiary signs a receipt and the icon on the registration card is punched by the issuing officer. The receipts are then sent back to the registrar and who records on the central register that the benefits have been received.
11. If a person needs employment or demonstrates a need for part time work to earn additional money to enable him to more quickly reconstruct, the caseworker will make note of this and place his name on a list of eligible workers in his community. When public works projects are undertaken in the area, the workers on that list will have priority for the jobs.

REHABILITATION OF IRRIGATION SECTOR

PROGRAM FOR RESTORATION OF WORKS AND REPLACEMENT OF EQUIPMENT

ITEM OF WORK	ESTD COST	1987				1988				1989				1990			
		10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9
Rupees Million																	
1. Restoration																	
a) Buildings	25.2	5.2	12		8												
b) Roads & Bridges	30.0	3.0	8	14	5												
c) Irrigation works																	
i) Head works	37.0		2	7	8	2		2	8	6	2						
ii) System	33.0	2	2	6	6	2	2	2	5	5	1	1	1				
Sub Total	125.2	10.2	24.0	35.0	19.0	4	4.0	13.0	11.0	1.0	1.0						
2. Replacement																	
a) Plant & Machinery	73.5	2.0	10.0	30.0	31.5												
b) Vehicles	61.0		12.0	40.0	9.0												
c) Office & Survey Equipment	5.3	3.3	2.0														
Sub Total	139.8	5.3	24.0	70.0	40.5												
TOTAL	265.0	15.5	48.0	105.0	59.5	4.0	4.0	13.0	11.0	3.0	1.0	1.0					
		15.5		216.5					31.0			2.0					
				1987					1988			1989					1990

WATER SUPPLY AND SANITATION REHABILITATION

SCHEDULE OF SCHEMES BY DISTRICT

Scheme	Status	Population	Supply mgd	Rehabilitation Details	Cost Rs. Million	Remarks
(A) ANURADHAPURA DISTRICT						
Padawiyę Water Supply	20% complete	15,000	.060	Balance of civil works to be completed	1.00	*All costs are 1987 base figures including axes & duties where applicable, WDB administration cost & consultance services. Work suspended for last 4 years during hostility.
(B) BATTICALOA DISTRICT						
Batticaloa Water Supply	Existing	60,000	1.742	Replacement of damaged pumping & distribution mains & pumps	8.00	Pumps damaged caused by lack of maintenance due to disturbances.
WDB Regional Office	-	-	-	Tractor replacement	0.50	
				Sub Total (B)	8.50	=====

(C) JAFFNA DISTRICT

WDB Regional Office	-	-	-	Replacement of burnt out vehicles	1.50	
Jaffna Market Towns Water Supply	45% Complete	45,000	0.300 stand posts	Balance works to complete	72.00	Work suspended in 1985 and materials lost due hostilities. Implement by WDB. o/m by DDC.
Velvettiturai Water Supply	Existing	13,600	0.056	Pumping main, Pumphouse and pumps	1.50	Pumphouse, pumps and pumping main damaged due to landmine. o/m by WDB. Bulk supply to DDC.
Kayts Water Supply	Started in 1982. 50% complete	8,000	0.0600 Stand posts and property connections	Distribution system needed	2.00	Work suspended due to terrorist activity. Civil works only. pumps & pipes by UNICEF.
Kallady Water Supply	Existing	1,000	-	Two pumps to be replaced	0.25	Pumps removed during hostilities. WDB implementation.
Kankesanturai	90% complete	5,000	0.050	Installation of pumps	0.25	Pumps to be supplied by UNICEF. Work abandoned due to hostilities. o/m by WDB.
					<u>77.50</u> =====	

(D) KILINOCHCHI DISTRICT

Kilinochchi Water Supply	under construction 85% complete	30,000	0.400 stand post & house connections	Replacement of low lift pump equipment and damaged pipes	4.30	Damaged during fighting This scheme was GSL financed. WDB executed and o/m.
					<u>4.30</u> =====	

(E) MANNAR DISTRICT

Mannar Towns Water Supply Scheme	existing scheme	30,000	0.600	Repair to water tower	1.30	Damaged by shell attack 
					<u>1.30</u>	=====

(F) TRINCOMALEE DISTRICT

Trincomalee Town Water	Distribution system not	60,000	8.000 includes for large indus- trial demand	Completion of distribution system damage to water tower, pumping main & pumps	25.0	Distribution system could not be completed due to hostility
Kantalai Intake	10% complete	60,000	8.000	Replacement of damaged pumping main 7 power supply	<u>8.50</u>	Damage due to Kantalai Dam breach. Intake structure is under construction
				SUB TOTAL(F)	33.50 =====	

(G) VANUNIYA DISTRICT

Vanuniya Water Supply Scheme	8% complete	30,000	0.500	Construction of pipelines & towers	<u>60.00</u>	Work suspended in 1983 during hostilities
					<u>60.00</u>	=====

(H) MATARA DISTRICT

Various pump Stations and Stores	Damaged by riots.	-	-	Repair \$ replace- ment of pumps/ pipes & buildings	<u>1.20</u>	
				SUB TOTAL(H)	1.20 =====	

(I) COLOMBO DISTRICT

Vehicles	Burnt and/or destroyed	-	-	Repair & replacement of damaged vehicles	1.00	
Head office of WDB	Damage by riots	-	-	Repair	<u>0.03</u>	
					SUB TOTAL(I)	1.03

(J) PUTTALAM DISTRICT

WDB Chilaw Pipe Store	Pipe materials & store destroyed	-	-	Replacement & rebuild store	<u>2.30</u>	
					SUB TOTAL(J)	2.30
					=====	

(K) GALLE DISTRICT

Pipe Store	PVC pipe materials destroyed	-	-	Replace pipe materials	<u>1.10</u>	
					SUB TOTAL(K)	1.10
					=====	

(L) KANDY DISTRICT

WDB Regional Office	Damaged by riots	-	-	Repair	<u>0.02</u>	
					SUB TOTAL(L)	0.02
					=====	

TOTAL A-L	191.75
Physical & Cost Contingency	<u>18.25</u>
Total Cost Rs Million	220.00
US\$ Million	7.34
=====	

TELECOMMUNICATIONS SECTOR

RECONSTRUCTION AND REHABILITATION PROGRAM - FUNDS REQUIREMENT

Item of Work	1987		1988		1989		1990		Estd. Cost
	10-12 Months	1-6 Months	1-6 Months	7-12 Months	1-6 Months	7-12 Months	1-6 Months	1-6 Months	
	Rupees Million								

North and East Areas

1. Equipment	-	-	26.0	277.0	469.0	135.3	907.3
2. Buildings	-	20.0	35.1	-	-	-	55.1
3. Vehicles and office eqpt.	-	10.5	-	-	-	-	10.5
Sub total	-	30.5	61.1	277.0	469.0	135.3	972.9

Other areas

1. Equipment	23.0	25.0	52.2	-	-	-	100.2
2. Buildings	5.1	1.3	-	-	-	-	6.4
3. Vehicles and office eqpt.	3.7	15.0	-	-	-	-	18.7
Sub total	31.8	41.3	52.2	-	-	-	125.3
Total	31.8	71.8	113.3	277.0	469.0	135.3	1,098.2
	31.8	185.1		746.0		135.3	
	1987	1988		1989		1990	

Reconstruction and Rehabilitation Program (1987-90)
(Rs. Mill.)

S E C T O R

DISTRICT	Roads & Public Housing Resettl Bridges Transp. Bldg.						Teach. Irriga- Agric. Fishery Telecom Educat. Health Hospital tion						Water Supply	Power	Public Commer- Corp. cial	Private Industry	Total			
Ampara	51.00	246.00					38.00	9.00	1.68	2.95		24.00			27.70	400.33				
Anurad								0.40				18.00	1.10			19.50				
Badulla								0.10							31.70	31.80				
Batticaloa	168.70	303.00					145.00	17.00	171.80	54.38	10.38	56.00	9.80		16.50	952.56				
Colombo									96.30	2.01		40.80	4.00	1.20		144.31				
Galle									2.00	0.51			7.00	1.30		10.81				
Gampaha									1.90							1.90				
Hamban												1.48	5.00			6.48				
Jaffna	1043.40	375.00					725.00	233.00	414.30	142.85	34.93	6.57	6.00	89.00	138.20	542.70	3750.95			
Kalutara									10.90	0.02						10.92				
Kandy									1.10	0.75				0.10		1.95				
Kegall									0.20							0.20				
Killinochi	51.00						86.00	26.00		1.52			24.00	4.90		41.90	235.32			
Kurun									0.10							0.10				
Mannar	57.70						18.00	85.00	38.40	6.60	17.62		22.00	1.50		18.20	265.02			
Matale									0.80		1.05					1.85				
Matara									10.20	0.49	0.45			1.40		12.54				
Monara										0.35						0.35				
Mullai	59.90						53.00	59.00	78.60	3.75	2.24		30.00			286.49				
Nu Eli									1.20							1.20				
Pollon										0.02						0.02				
Puttal														2.60		2.60				
Ratnap									0.10	0.04						0.14				
Trincomalee	510.60	390.00					242.00	48.00	231.30	13.97	4.46		48.00	38.40	12.00	20.00	1558.73			
Vavun	177.60	786.00					142.00		38.50	5.22	4.29		21.00	68.90			1243.51			
Others	77.70									0.02					61.20		138.92			
National	600.00	303.00	450.00	524.10	13.40								180.00			150.00	2220.50			
Sub-total	2197.60	600.00	2100.00	303.00	450.00	524.10	13.40	1449.00	477.00	1098.20	234.17	79.85	47.37	265.00	220.20	180.00	150.20	759.90	150.00	11298.99
Contingency (missing data)																		1694.85		
Total (Rs. Million)																		12993.84		

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Annex VI

SUMMARY OF PUBLIC SECTOR EMPLOYMENT
BY SECTOR

i) Road Reconstruction:

	<u>Jobs</u>	<u>Work Days</u>	<u>Income (Rs M.)</u>
Short-term employment	4,000	16,000	4.8
Medium-term employment	1,000	126,000	5.0
Permanent employment	250	78,000	3.1
Total	5,250	220,000	12.9

ii) Restoration of the Electrical Energy Distribution System:

	<u>Jobs</u>	<u>Work Days</u>	<u>Income (Rs M.)</u>
Short-term employment	300	46,800	1.4
Medium-term employment	100	31,200	1.2
Permanent employment	50	15,600	.78
Total	450	93,600	3.38

iii) Restoration of the Water Distribution System:

	<u>Jobs</u>	<u>Work Days</u>	<u>Income (Rs M.)</u>
Short-term employment	400	62,400	1.87
Medium-term employment	150	46,800	1.87
Permanent employment	50	15,600	.78
Total	600	124,800	4.52

iv) Restoration of the Water Distribution System:

	<u>Jobs</u>	<u>Work Days</u>	<u>Income (Rs M.)</u>
Short-term employment	200	102,400	3.0
Medium-term employment	50	15,600	.6
Permanent employment	20	6,240	.3
Total	270	124,240	3.9

v) Rehabilitation of Irrigation Systems:

	<u>Jobs</u>	<u>Work Days</u>	<u>Income (Rs M.)</u>
Short-term employment	2,000	50,000	1.5
Medium-term employment	50	7,800	.3
Permanent employment	10	3,120	.15
Total	2,060	60,920	1.95

vi) Restoration of Public Transport and Rail:

	<u>Jobs</u>	<u>Work Days</u>	<u>Income (Rs M.)</u>
Short-term employment	500	45,000	1.35
Medium-term employment	100	15,600	.62
Permanent employment	25	1,800	.39
Total	625	68,400	2.36

MAP SECTION

