

## **ANNEX VIII – LIVELIHOOD**

### **A. INTRODUCTION**

1. This annex describes and estimates the damage done to the assets of self-employed and small businesses, assesses the short-term and long-term priorities of the assistance to this sector, and proposes implementation strategies and mechanisms for this assistance.

2. Livelihood not only focuses on income generating capacity, but also people's social links, capacities and skills, financial assets (such as savings, remittances etc), transport, access to social services and drinking water etc. For the purpose of the needs assessment, livelihood restoration focuses on small-scale business entities (comprising of self-employed and small businesses) and those employed in the informal sector. While the disaster imposed significant losses also to businesses with larger assets, this group of enterprises is not included in the strategy and recovery part of the assessment. This group has a better financial and other capacity to cope with the damage and to reestablish the business. Above all, they are in a much better position to mobilize credit from commercial banks and their business partners. Some will also recover their losses from insurance companies.

3. Damage to livelihoods and businesses is both direct and indirect: while there is a possibility that the indirectly affected may be less visible and therefore receive less assistance, we assume that if the missing link is restored within a reasonable timeframe, the indirectly affected businesses will almost automatically recover as well. However, income transfers and other methods would, in the meantime, have to support this category of affected people.

### **B. DAMAGE OVERVIEW**

4. The team undertook the following consultations and site visits:

- Chief Secretary's office of Southern Province, meeting with provincial secretaries in the areas of rural development; cooperative development; lands, agriculture and irrigation; health; and education.
- Sewa Lanka and selected NGOs in Ampara and Batticalao district
- Site visits to villages Talpe (Galle district) and Kapparatota, Pelena and Totamuna (Matara district), as well as Ampara and Batticalao and Mullaitivu.
- District secretaries in Hambantota, Ampara and Batticalao.
- Meetings with TAFREN taskforce members and ILO.

5. About 380,000 people lost their jobs. The disaster has hit those that were already poor the hardest: fishermen and other informal traders and micro enterprises that were

located closed to the sea, housed in often ramshackle conditions. Fishermen and related small-scale food processing were affected the most. The fishery sector in Sri Lanka contributes 2.4% of GDP and employs about 148,000 persons directly, and 20,000 indirectly. About 90,000 to 100,000 active fishermen lost their livelihoods. 27,000 lost jobs in tourism or tourism related industries, while small businesses lost 25,000 jobs. Job losses in agriculture, approximately 30,000 are anticipated to be temporary, until damaged infrastructure has been repaired and paddy fields desalinated. The largest job loss stems however from informal jobs spanning a range of informal activities, discussed in more detail below. Here the job loss is an estimated 180,000.

6. The coastal belt ravaged by the tsunami is largely inhabited by the poorer segments of the population, fishing villages and communities. The north and east was doubly hit, since it was just starting a slow economic recovery, beginning with the signing of the ceasefire in 2001, after 20 years of civil war. Some villages and communities in the north and east have been almost completely wiped out. Many families lost all or almost all members which will lead to a severe weakening of coping mechanism and support not only now, but also in future. In less badly affected areas, the economic cycle has been disrupted and cannot resume unless it is kick-started and some cash injected quickly.

7. The tsunami destroyed not only physical assets. The destruction of public buildings means the loss of legal records, mortgage and other details. Banks and other financial institutions are now faced with customers who have lost everything; or they have lost a large number of their clients.<sup>1</sup> Moreover, the informal nature of trading in small market places ('pola') has been disrupted, and many grocery shops destroyed. Means of transport, ranging from bicycles and three-wheelers, to busses and lorries, have been lost, and bus terminals destroyed. Many of the affected families and businesses, having lost their savings which was held in jewelry or the literal 'cash stashed under the mattress', do not have cash and cannot start rebuilding their livelihoods. Businesses that should be in high demand (such as boat builders, carpenters, cement brick producers etc) have lost most, or all of their tools, but also face a clientele that has lost everything. For example, fishermen cannot pay boat builders in advance to enable them in turn to buy new tools, as they need boats to start earning money. Damaged cottage cement industries can also not satisfy demand; and sand and cement prices have already started to increase.

8. *Rural industries job loss:* An estimated 25,000 jobs were lost. Few businesses, be they informal or formal, have been reported destroyed in the north and north east, but the number is considerably larger in the towns of Ampara, Matara and Galle. These cover a range of activities from carpentry to cement brick producer, to batik and weaving as well as wooden toys producers. The boat building industry, often small informal workshops, has also been decimated.

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<sup>1</sup> If the Government does not enforce an appropriate social safeguard policy to deal with lost legal documents, these persons may not be able to obtain loans fast enough to recover their lost livelihoods. Debt write offs will also have to be an option.

9. *Informal, cross sectoral sector jobs:* These 180,000 losses of livelihoods involved very informal activities and were likely to be in fish selling/transporting and drying, agri-business, agro processing, food and beverages services, trading and manufacturing. The job losses for those are likely to be temporary. Examples of livelihood opportunities would include fish mongers<sup>2</sup>, poultry, paddy, milk, vegetable, maize wood, carving, bakeries, rice mills, livestock, and vehicle hire for transport to market places, often in three-wheelers. Even the most affluent entrepreneurs (incomes greater than LKR 30,000 per month) are largely involved in similar activities though they tend to have more land and/or a greater number of activities rather than large scale single activities. A prosperous family may earn income from a basket of activities including paddy, cattle, garden vegetables and wages. In general, these enterprises produce for local and domestic markets, not for exports.

10. There are some differences in informal activities from region to region, primarily depending on the availability of raw materials. In the coastal belt of the southern province, coir products dominate the informal job market. Bricks and tiles are mostly seen in the district of Puttallam, and rice processing is dominant in eastern provinces.

11. *Tourism job losses:* Total job loss in the tourism industry is estimated at 27,000. The damage to hotels varies sharply district by district. Out of 105 registered hotels in the affected areas, 8 have been completely damaged, and 40 partially, leading to a room loss of 4,000 out of a total of 14,000. An estimated 8,000 staff catering for damaged registered hotels (internet cafes, diving shops, taxi drivers souvenir etc), and the future of at least 6,000 more jobs in tourist hotels is uncertain. Total damage for larger hotels and guesthouses is estimated at \$250 million. The number of unregistered hotels and guesthouses are estimated in the region of 3,000 establishments, employing 28,000 people (both directly and indirectly). An estimated two thirds (19,000) have lost their livelihoods.<sup>3</sup> Many small businesses and informal traders cater to the tourism industry, ranging from dive, souvenir, and handicraft shops to internet cafes. These were also partially damaged, and are now facing a sustained period of time with far fewer, if any customers.

12. Much depends on how quickly tourists return to the country. Most western countries have lifted their travel restrictions by the end of January, and past experience seems to provide some reason for optimism – tourists returned to the Caribbean 3 months after they had been ravaged by a hurricane. However, in the case of Sri Lanka this still means the main tourism season of January to March, where the government was expecting 150,000 arrivals out of 650,000 (last year) will be lost. Therefore, the loss of livelihood, while not permanent, but be too long for most independent small traders and service providers, as well as hotel employees, to survive on their own savings, and short-term coping mechanism will have to be provided to them as well. The formal tourism sector has already submitted plans and strategies on how to recover quickly, among them publicity campaigns in key countries, requests for tax exemptions of imports, and

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<sup>2</sup> Often these traders would not sell more than LKR 800 worth of fish per day.

<sup>3</sup> Damage to restore hotels is estimated at \$250 million for the registered hotels.

discussion with key package operators who have pledged to ‘put Sri Lanka back on the tourism track’ by the end of February.

**Table 1. Immediate and long-term costs of livelihood restoration (in US\$ Millions)\***

Item/Urgency	Immediate	Medium-term	Total
Micro credit and grants to restore productive capacity	70	50	120
Training – reskilling and business development	5	10	15
Public works	2-5	-	2-5
<b>Total</b>	<b>77-80</b>	<b>60</b>	<b>Max 140</b>

\* This table estimates the costs to restore jobs/businesses, and provide employment, in the affected sectors of tourism, fisheries and agriculture, as well as own account workers. It does not include the costs of repairing large registered hotels.

### C. RECONSTRUCTION/RECOVERY NEEDS AND THE PROPOSED ASSISTANCE STRATEGY

13. The affected population needs immediate help which requires support on non-commercial terms for a defined period and with a clear exit strategy. The loss of assets and livelihoods is in many areas almost total; the quicker cash is injected into the affected communities, the stronger the ability of the target group to help themselves. This will help the victims regain their dignity, and reduce their dependency on aid.

14. Speedy targeting however, is difficult and will be the key challenge the government and development partners will face. A balance between transparency and speed will have to be found. Existing institutions, NGOs and other agencies might, while highly capable, be unable to cope with this sudden, and substantial, demand for their services. Their capacity would have to be strengthened on a priority basis. At the same time, mechanisms to target the 180,000 informal workers whose job loss might be temporary will also be found. There is a risk that these people, already among the poorest, will fall between the cracks.

15. In the short-term it is important to: (i) create and restoring income-generating capacity of self-employed and small businesses affected by tsunami; (ii) offer job opportunities to all individuals living in tsunami-affected areas; and (iii) providing training and business-development services to self-employed and small businesses affected by tsunami.

16. In the medium and long-term, microcredit interventions will emphasize assistance to self-employed and small businesses to take advantage of new business opportunities and the adoption of modern, higher productivity technologies. This applies especially to the heavily affected sectors of fisheries, but also affected micro-entrepreneurs, where large potential for efficiency increases exist. Microfinance could also move towards offering insurance, especially life, crop and productive assets. And last, but not least and crucial to prevent the grant/subsidized loan scheme from eroding the financial viability of

microfinance institutions: A credible exit strategy, moving away from the highly subsidized and grant approach will also have to be formulated and implemented.

17. To address the above short-term livelihood needs, three aspects need to be looked at:

- (i) *Grants/ loans:* This might be limited to rural industries, small businesses and own-account workers (as defined above) whose assets were destroyed or substantially damaged (some types of entrants into self-employment would also be considered). The selection of grant recipients/borrowers, the size of the grant/loan, and the terms and conditions of loan repayment, will still have to be determined. One option would be that a grant should be equal in size for all, while different packages might be offered for those who require assistance above that level. These decisions could be made by a committee formed at microfinance/rural finance level, or any other agencies/ committee, depending on the approach adopted.<sup>4</sup> The financial sector in Sri Lanka, especially the rural finance (RF) system is the densest in the region. For instance, the number of savings accounts with Regional Development Banks, Cooperative Rural Banks, SANASA, Samurdhi, SEEDS, etc. exceeds the number of households by about 2-3 times. This extensive network could be effectively utilized by pooling the efforts of the multi-agency financial system. Banks might also be involved, and targeting of customers outsourced to existing NGOs.
- (ii) *Public works.* In principle, jobs will be provided to anyone willing in the affected areas. Public works should not just focus on temporary job creation (for which there might be a high demand, given the large number of people who will have lost their jobs on a temporary basis), but explore options labor based equipment supported (LBES) approaches to rehabilitating infrastructure, thereby creating sustainable jobs. Close coordination is necessary also with rehabilitation work going on in housing and the road sector.
- (iii) *Business training/re-skilling:* A certain, but presumably small percentage of affected people might for various reasons not be able to return to their previous profession. These people would need help, and training. At the same time, the anticipated surge in demand for housing construction might call for some basic, simple ‘crash courses’ in carpentry, masonry etc. In the medium term, strategies would have to be refined to perhaps help those in very marginal jobs move into the realm of micro-enterprises.

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<sup>4</sup> It is proposed that the outstanding loans of tsunami-affected persons be addressed through a bank- or microfinance rehabilitation project.