1. Background

The widespread destruction caused by the tsunami brought a heavy toll on the livelihoods in the affected areas. Current estimates, reflecting detailed information from the districts, indicate total job and livelihood losses of around 275,000. This figure includes a large proportion of workers in the agricultural and broad informal sectors, who are not necessarily captured in official government statistics. Heavy losses were recorded by fisheries with around 100,000 jobs lost, spread over all affected districts, and some 130,000 jobs lost in a broad range of service occupations. The large majority of jobs was lost in micro and small enterprises, in all sectors.

Overall, around 80 percent of households in the directly affected areas have lost their chief source of income. It is estimated that the 86% of affected households lost or had damaged at least one productive asset, ranging from buildings to livestock, which seriously affects their income earning capacity, and about half are fully dependent on aid. Regenerating sustainable employment and livelihoods is therefore a key and urgent priority in support to tsunami affected areas.

The Government’s Action Plan for Rebuilding the Nation includes a Rapid Income Recovery Programme (RIRP), which will address this priority. One of the three components of the programme concerns the rapid revival of local economies and markets, through support in local economic development, micro finance, business development services and skills training. The current proposal resorts under this programme, and foresees support to this component at the national level as well as in two selected districts in the North East.

1 Unless stated otherwise, the figures in this text are from the ILO/WFP Livelihood household survey, January 2005
2. **Local economic development needs**

The greatest need in tsunami affected areas is for finance to replace productive assets. It has been estimated that the total damage to businesses amounts to $140 million\(^2\). Most of this will be required in the form of long-term micro and small loans, provided through micro finance institutions, commercial banks and credit cooperatives. So far, donors have already allocated some US$ 100 million for this purpose. Lending in the country prior to the tsunami was not constrained by fluidity concerns. Additional capital does therefore not seem urgently required. A much more significant constraint is the lack of institutional capacity and therefore outreach. Longer-term credits are generally missing, and there will also be a need to develop financial products that are appropriate to the tsunami affected. Some microfinance providers have been seriously affected themselves, and will require support to overcome this. It is in these areas that the proposed project could make a real difference.

Further requirements are for skills and business training, and other services that support the development of micro and small enterprises. Some 20 percent of tsunami affected households expect to change their main source of income. Fourteen percent believe they do not have the right skills for their expected means of earning an income, indicating a need for skill straining; half of these are women, many facing the need to be the main income earner for the first time. Nearly 80 percent of affected income earners plan to be self-employed or start a business, which demonstrates the need for business start-up services, such as assistance in developing business plans and trade facilitation; 35 percent of these are women. Since 9 percent has no previous business experience, business start-up training will enhance the viability of the new businesses.

Although there is a dense network of vocational training centres throughout most of the country, coverage in the North East is limited. Moreover, skills training providers generally offer courses of 1 year duration or longer, which are not suitable to the rapid recovery of livelihoods. Many courses are not geared towards immediate income generation in local economies. With regard to business development services, there are some 80 providers in the affected districts, and services are also offered by providers located outside these districts. Key services such as business plan development, start-up training and trade facilitation are, however, not available in much of the North East. The project will address these needs.

Some 16 percent of women and 12 percent of men currently have no clear livelihood strategy for the future. Counselling and job guidance will be required for this group.

Finally, one of the main obstacles to the sustainable revival of local economies is the lack of longer-term development goals, of participation of local communities in decision making that affect their livelihoods, and of effective coordination. Although urgently needed support cannot await such planning, the present time, when many local communities have to be rebuilt virtually from scratch, requires participative local planning more than any time before.

\(^2\) World Bank/ADB damage assessment report
3. Project strategy

The objective of this project is the rapid and sustainable revival of local economies in two selected districts in the North East, in a manner that benefits all members of the affected communities, and that takes into account short-term rehabilitation as well as longer-term development priorities. The project will be implemented within the framework of the Government’s Rapid Income Recovery Programme.

The project offers an integrated and coordinated approach to local economic development in a post-disaster context, with an emphasis on micro and small enterprises, which provided most of the livelihoods in the affected areas. Services will be made available in all communities that have been identified as affected by the tsunami, and to all members of such communities. Targeting communities strengthens social networks in a way that singling out affected individuals will not. Furthermore, it will contribute to reviving local economies more broadly, from which individual tsunami victims will benefit as well.

In addition, the project will not only consider the needs of directly affected communities, but those of the affected Divisions overall, since the indirect impact on livelihoods has been significant as well. It will consider the needs of the divisions within the broader context of the affected Districts, in order to tap into broader economic opportunities and development networks.

The project will comprise five main areas of assistance: local economic development planning, microfinance, business development services, skills training, and job counselling and matching. To ensure the immediate establishment of the programme and coordination with other components and projects under the Rapid Income Recovery Programme, the project will also provide support to the RIRP’s Programme Management Unit.

Programme Management Unit

The project will place a senior advisor on local economic and enterprise development at the PMU of the RIRP. The advisor will support the PMU in the development of its overall policies and strategies in this area, the design of operational manuals, and the coordination and exchange of tools and experience with other projects under the RIRP. S/he will also provide guidance and management support to the activities at the district level.

Local Economic Development Planning

The project will support the adoption of participatory planning approaches by District and Divisional authorities, for the development of Local Economic Development plans at the divisional level. This will ensure that the opinions of communities, the private sector, and other actors are heard when decisions that affect local economies and livelihoods are taken. It will also enhance coordination and place the above interventions in a broader development framework, without, however, making them conditional on such a plan being in place.
The capacity in Sri Lanka in participatory planning is limited. The project will address this by partnering Sri Lankan organisations with an overseas institution specialized in participatory local economic development planning. Most of the capacity building will be on-the-job, while working with District and Divisional authorities, communities and other stakeholders to develop the plans. The resulting plans will be concrete and realistic, taking into account local concerns and resources, as well as already committed external assistance, for instance from INGOs and other agencies.

Microfinance

The project will support existing microfinance institutions and credit cooperatives, to provide loans to those who want to resume their business as well as those who want to start a business for the first time. It will cover all sectors, including agriculture and fisheries. It will also work with organizations that meet basic criteria of viability and accountability, which will be selected in consultation with the National Development Trust Fund and the SANASA Development Bank.

The programme will build the capacity of financial services providers to expand their outreach in a sustainable manner, so as to include more of the affected. This assistance will include:

- Operational grants - temporary subsidies to cover initial operational losses, and so enable them to expand their capacity into new areas at a more rapid rate.
- Technical assistance - expert advice on the design of financial products and adaptation of lending methodologies to tsunami-affected communities, training of operational and management staff, introduction of automated systems to expand capacity.

Similar support will be provided to lending organisations affected by the tsunami. These will also require expert advice on the restructuring of loans with repayment problems due to the tsunami.

Business Development Services

The project will support the provision of the full range of business development services, including business idea generation (since many of the affected lack such an idea), business training, business plan preparation, support to formation of group enterprises, advice on technology, linkage to suppliers and markets, and business counselling and advice.

It will support the expansion of capacity of BDS providers, in particular with regard to the generation of business ideas, business start-up training, and business plan preparation, which are likely to be the services most in demand. This will be achieved through training of trainers and counsellors on existing products that are already available in Sinhala as well as Tamil. The programme will cover the cost of such assistance, as well as the direct cost of service provision.
Skills training

The project will make available skills training through existing vocational training centres under the Ministry of Skills Development, Vocational and Technical Education, as well as through commercial and NGO providers. The training that will be supported is short-cycle training for direct (self) employment.

Training providers will receive financial and if necessary technical support to assess demand for training, adapt their curricula, add new short courses, train trainers, and bring in new trainers if required (including from the private sector). Support will only be offered where training providers can demonstrate an active demand in affected communities, as well as the potential for immediate (self-) employment. Training providers will be expected to work together with local communities to identify needs and opportunities.

Job counselling and matching job seekers with opportunities

This service will be provided through JobsNet, a web-based employment exchange and counselling service. The project will support JobsNet to ensure the registration of new opportunities, including for short-term employment, and to make its service widely known in the affected communities. JobsNet will work together with local NGOs and CBOs to add to its job counselling capacity. Job counselling will be provided as much as possible on site, including in the camps for the displaced.

4. Inputs

Given the focus on rapid capacity building, the project will include a significant component of international expertise, as follows:

- Senior Advisor on local economic and enterprise development and project manager (24 w/m).
- Expert on microfinance capacity building (24 w/m).
- Expert on short-cycle skills training (24 w/m)
- Expert on business development services (24 w/m)

The project also foresees partnerships with overseas institutions for microfinance capacity building and on participatory local economic development planning.

Short-term consultants will be provided to add to this capacity.

This component, including the operational costs of training exercises, is estimated at about US$ 2 million.

The direct assistance to service providers and beneficiaries is estimated at about US$ 3 million.