

Renaissance of the North and the East

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Introduction

A new era of peace and prosperity has dawned on Sri Lanka since mid 2009. The Government has initiated a series of actions to fast track the development in the North and the East (N&E) and to support reconciliation, national unity and shared growth among all communities. Although N&E together account for 29 per cent of the country's land area and 14.5 per cent of the total population, during 2006 – 2009 period, their contribution to GDP by industrial origin has been significantly low at 8.4 per cent due to adverse impacts of long years of terrorism on economic development, poverty levels and social indicators.

Historical Backdrop: Early Development Plans

Since independence, the successive governments have attempted to achieve equitable growth and distribution of wealth in N&E through development of infrastructure. Way back in 1952, the Government prepared a Multi-Purpose Development Plan, of which the conversion of the Elephant Pass Lagoon into a fresh water reservoir and development of Trincomalee and Kankesanthurai harbours were two key projects. The Lagoon project was justified on account of the expansion of a large extent of cultivable land in the Jaffna Peninsula; the increase of the fresh water table in and around the lagoon; benefits from the construction of a 800 ft roadway connecting the Eastern end of the lagoon; the water storage capacity of 72,000 acre ft and irrigation for cultivable land.

The Trincomalee port was to be expanded as a commercial harbour and serve both the N&E, while the Cod Bay fisheries harbour was to be developed to facilitate the fisheries industry. The Valachchenai fisheries harbour, which was commissioned in 1981 stopped its operations in 1991 due to terrorist activities, while the Achchuvveli industrial area operations were also abandoned due to similar reasons.

Nearly three decades of conflict has resulted in the destruction of infrastructure, under-utilisation of productive capacity and severe human suffering, thereby hindering the implementation of numerous development plans. In-between and during short spells of temporary periods of “peace”, civilians in N&E have engaged in livelihood activities.

Table 20.1
Provincial GDP by Industrial Origin at Current Prices (2006-2010)

Year/Province	Eastern	Northern
GDP (Rs Mn)		
2006	143,523	81,978
2007	185,474	104,224
2008	246,436	139,001
2009 (a)	279,363	155,828
2010 (b)	331,603	191,559
GDP share (%)		
2006	4.9	2.8
2007	5.2	2.9
2008	5.6	3.2
2009 (a)	5.8	3.2
2010 (b)	5.9	3.4
GDP by Sector (Rs Mn)		
2006 Agriculture	25,542	16,453
Industry	49,753	5,232
Services	68,228	60,292
GDP	143,523	81,978
2010 Agriculture	74,038	30,622
Industry	97,202	27,151
Services	160,364	133,786
GDP	331,603	191,559

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka Annual Report 2011

As indicated in Table 20.1, GDP by sector was reflective of the under-utilisation of land areas of 15.2 per cent (East) and 13.8 per cent (North) for agriculture or productive activities. GDP in the Northern Province (NP) has been the lowest for a long period and remained around 2.8 – 3.4 per cent during 2006-2010 period, while GDP of the Eastern Province (EP) has been at a much higher range than that of the NP, perhaps due to early liberation of EP and its ability to use land for mass scale production of paddy, maize and fisheries.

The liberation of EP in 2007 and NP in 2009 has provided an unprecedented opportunity to revive economic activities and restore normalcy in these two provinces. During 2009-2010, NP and EP accounted for a provincial GDP share (average) of 3.3 per cent and 5.8 per cent, respectively, accompanied by per capita GDP of 23 per cent (NP) and 19 per cent (EP).

Negenahira Navodaya (Eastern Reawakening) Programme

The Negenahira Navodaya Programme (NNP), launched in 2007, incorporated some of the core elements of the Mahinda Chinthana. Particular attention was paid on the restoration of law and order, civil administration, equitable resource allocation among all communities, speedy implementation of the de-mining program, re-commencement of livelihood operations, reconstruction of damaged social and economic infrastructure and the re-establishment of industrial development with private sector participation.

The Government has invested approximately Rs. 75 billion in various sector developments during 2007 – 2009 and a further Rs. 121 billion during 2010/2011 for the reconstruction of fisheries harbours, road networks, bridges and canals in EP. The increase of 4.1 per cent in paddy and 10 per cent in fish production and an increase of 17,655 metric tons of maize and fruits by 26 metric tons in 2007/8 witness the agriculture resurgence in EP and its growth potential. In 2009, paddy production in EP has doubled at 916,000 MT, indicating EP's vast potential for productivity enhancement. Similarly, post-tsunami infrastructure and housing reconstruction led to a sharp increase in industrial sector, while providing electricity to a large number of households. More than 3,000 km of roads and 30 bridges have been constructed linking EP with the other regions. The severe floods in January 2011 have damaged some parts of the road network and bridges, resulting in significant losses to cultivation, while requiring reconstruction and restoration within a short time span.

During 2007 - June 2011, part of the livelihood operations have been financed by the widely spread banking outlets in EP, which commenced operations immediately after liberation of the province. As shown in Table 20.2 below, the total number of operating banking outlets in EP rose to 211 at the end of June 2011, which included new banking outlets as well as the re-opened old branches and extension offices.

Table 20.2
Bank Branch Expansion in the Eastern Province

	Before 2007	During 31/5/2007 – 30/6/2011	
Branches opened	84	49	
Extension Offices opened	34	44	
Total	118	93	211

Source: Bank Supervision Department, Central Bank of Sri Lanka

Several hotels and tourist resorts are planned to be constructed in Trincomalee, Nilaweli, Arugambay and Pasikudda and other localities. Transportation, travel agencies and tourism information centres are being built to provide ancillary services.

The jointly-funded Government of Sri Lanka, the Netherlands and ADB's North-East Coastal Community Development Project (NECCDP) has spent US dollars 28.4 million to develop coastal areas in the East. In 130 Grama Niladhari divisions, projects on construction of minor roads, community buildings, pre-schools, drinking water wells, drainage systems, fisheries harbours, livelihood-related infrastructure facilities, skills training and micro credit facilities have been completed. Under the recently agreed World Bank US dollars 57.4 million facility for small enterprises, 8 financial institutions have agreed to support the Government's effort to improve access to finance for Small and Medium Enterprises (SMEs) affected by the global crisis. SMEs in the N&E would also benefit from this facility. It is also planned to set up a saltern, covering 1,800 acres and that would provide approximately 2,300 direct and indirect employment opportunities.

It is notable that women are in the forefront of milk production and women's organisations have funded a milk chilling centre valued at Rs. 6.8 million. Women are also involved in the preparation of rice-based products, which has raised the average income of a woman to around Rs. 350 – 400 per day. The reconstruction of the Valachchenai, the Cod Bay Fishery harbour in Trincomalee and the construction of Oluvil harbour are expected to bring in multifaceted benefits to approximately 12,255 people. According to ADB estimates, agriculture, fisheries, SME and cottage industries would create about 68 per cent of total employment in the East. The infrastructure, especially the road network has been completed and movement of goods and services has significantly improved during the latter part of 2009 and in 2010. According to the Ministry of Economic Development, a total sum of Rs. 495 billion has been set aside for the reconstruction activities in the N&E and more than 95 per cent of the planned reconstruction activities have been completed.

The Central Bank of Sri Lanka (CBSL) designed a special refinance scheme under the Reawakening of the East to promote small industries, agriculture and manufacturing activities in the province under which a maximum loan amount of Rs. 250,000 was granted at 9 per cent per

annum with a repayment period of 5 years inclusive of a grace period. Due to improvement in access to finance, EP is expected to increase its paddy production by 0.5 million metric tons and the country's maize requirement by 25 per cent with potential for exports.

The Uthuru Wasanthaya Development Programme – UWDP (Vadakkil Vasantham)

NP is one of the biggest provinces in terms of land mass, comprising Jaffna, Kilinochchi, Mannar, Mullaitivu and Vavuniya districts. In the 1980s, NP played an important role in its contribution to GDP in the areas of agriculture, livestock and fisheries. The destruction of growth momentum by terrorists adversely affected prosperity of NP, contributing GDP at low 2.9 per cent in 2007, a significantly lower contribution than its potential.

180 Day Accelerated Development Plan

In May 2009, the Presidential Task Force appointed for Resettlement, Development and Security was assigned to implement the 180 day accelerated development plan in NP. The UWDP aimed at promoting: nation building; living in harmony; grassroot level administrative involvement and organisation; financial inclusion and banking; equitable growth; and investments by Sri Lankan expatriates. A sum of Rs. 295 billion has been allocated for the planned investment and development program for the 2010 – 2012 period.

The immediate tasks of the 180 day plan were to: continue with the provision of humanitarian assistance to the internally displaced persons (IDPs); reconstruct damaged infrastructure; and support livelihood activities of those already settled as well as the newly resettled. At the end of December 2010, approximately 272,000 IDPs have been resettled on their own lands or government lands after the clearance of land mines.

Special projects, such as the reconstruction of the A-9 highway and main roads, Northern railway line, Mannar bridge (at a cost of Rs. 2 billion), Kokavil transmission tower (completed), Jaffna water supply scheme (at a cost of Rs. 12 billion) and Kankesanthurai port development are in progress. The BOI has approved several private sector led projects in NP, covering manufacturing (textile, garments, furniture and concrete tiles) and agriculture to promote exports.

The Government in partnership with India, is expected to commence the development of the Achchuveli industrial park project covering 65 acres, while infrastructure facilities will be developed by the Industrial Development Board and BOI. This project will revive and pool approximately 745 SME industrialists who were active before 1983 and assist them to start up or develop light industries in the area. At the completion of the project, about 4,000 direct employment opportunities would be created.

The Banking Plan under UWDP

A two-phased banking plan, consisting of a 180-day plan (July-December 2009) and the short to medium term (2010-2012) post-resettlement plan was prepared in June 2009. The primary focus of the 180-day plan was to provide banking services to the civilians (numbering approx. 280,000) housed in six welfare villages in the Manik Farm area. Eight commercial banks established temporary banking outlets and served all zones in the welfare camps through mobile banking. The banks opened new accounts and revived old accounts; collected deposits; facilitated inflow of remittances; provided safe custody facilities for jewellery and valuables; opened Trustee and Foster Family Accounts and serviced the university students and public officials who were living in the camps. During July to December 2009, banks collected a total of Rs. 2.1 billion from civilians who resided in welfare centers.

The 2010–2012 Banking Plan (phase II) advocated the identification of viable and bankable projects; provision of finance at affordable rates; promotion of public/private partnerships; diversification of banking services; revival of the Co-operative Movement, SANASA and Samurdhi Societies; and the engagement in capacity building and youth training.

Catalytic Role played by the CBSL

The CBSL has been directly or indirectly involved in the development of N&E through its development finance and refinance schemes, which date back to the 1980s. CBSL has made available lending to the N&E under all its refinance schemes, although people were unable to derive benefits due to terrorism that prevailed over a period of nearly three decades. According to IDPs, their savings have been collected by the 11 Elam banks operated illegally by the LTTE. The civilians claimed that they lost all such savings when they were forcibly used as human shield during the last stages of the conflict.

Since the liberation of N&E, CBSL played a lead role and clearly demonstrated its commitment through effective contribution to the resurgence of N&E. Under the 2010-2012 Banking Plan, CBSL designed new refinance schemes using its own funds and extended existing schemes to cover N&E, thus assisting the already settled and newly resettled people to commence livelihood activities. To facilitate the process, CBSL has quickened the pace of approving bank branches in N&E. At the end of June 2011, 166 banking outlets (both new and re-opened bank branches and extension offices) have commenced operations in NP. Banks have taken the initiative to promote livelihood operations in agriculture, dairy farming, agro processing, fisheries, ice plants, cool rooms, Palmyra farming, palm oil, transport and trade and services. Salt production in Elephant Pass, agriculture products from Jaffna and fisheries products from Mannar and Jaffna have started to move towards the rest of the country. Due to the potential for fast track development, a Jaffna-centered development was pursued during 2009 until the other districts become fully inhabitable.

‘Pibidena Uthura’ - An Exclusive Refinance Scheme for NP

As per the 2007 special census, the population in Jaffna was around 559,619. To encourage demand for credit and promote livelihood activities, CBSL introduced Vadakkil Vasantham – ‘Pibidena Uthura’, an exclusive refinance scheme, under which loans and advances were granted at 9 per cent per annum to both the already settled and re-settled areas. A maximum of Rs. 200,000 per project was available under this scheme and banks were able to claim refinance up to Rs. 2 billion from CBSL. This refinance scheme aimed at providing loans to small industries, agriculture endeavours, light engineering and manufacturing, and micro sector projects with a repayment period of 5 years, inclusive of 6 months grace period subject to project requirements. At the end of July 2011, Rs. 1.7 billion had been claimed by commercial banks under the “Awakening North Special Loan Scheme” in NP by way of refinance (Table 20.3). It is noteworthy that banks have also lent their own funds based on the viability and cash flows of projects. Bank of Ceylon and the People’s Bank have provided mobile and ATM services to the Kilinochchi and Mullaitivu districts with links to their main branches in Vavunia.

Table 20.3
Awakening North Special Loan Scheme in the NP
Progress as at 31st July 2011

Bank	Refinance Claimed	
	No. of loans	Amount (Rs.Mn.)
Bank of Ceylon	4,993	622.31
People’s Bank	5,437	775.63
Hatton National Bank	476	78.23
Sanasa Dev. Bank	2,110	111.99
Commercial Bank	867	146.28
Seylan Bank	177	28.02
Sampath Bank	88	14.25
National Development Bank	0	0.00
Union Bank of Colombo Ltd.	1	0.09
Total	14,149	1,776.80

Source: Regional Development Department, CBSL

In addition, special attention was paid to provide equity and working capital to N&E under the island-wide SME targeted ‘Saubhagya’ Refinance Scheme introduced by CBSL in 2010 with a commitment up to Rs. 2 billion. Loans are available at 10 per cent per annum to new SMEs and 9 per cent per annum to SMEs whose properties/enterprises were damaged due to terrorism. In addition, approximately Rs. 2,700 million and Rs. 52.06 million have been disbursed for agriculture and livestock activities under the New Comprehensive Rural Credit Scheme and Agro Livestock Development Loan Scheme, of which the recovery rates have been satisfactory.

To further facilitate and promote coordination among all stakeholders and to promote banking and financial services in the N&E, CBSL opened its 4th provincial office in Jaffna in July 2010 and its 5th provincial office in Trincomalee in November 2010. CBSL's NP office has been instrumental in the inclusion of multiday boat financing for the Northern fishermen into the "Pibidena Uthura" refinance scheme and in expediting the commissioning of two chilling plants in the Province by Nestle.

The legal validity of land collateral has been a critical issue in Mullaitivu and Kilinochchi districts (Vanni area). CBSL has been instrumental in solving the land tenure problem of farmers in this area by establishing a Guarantee Scheme for land collateral, which enables banks to lend against a land title certificate issued by the Divisional Secretariat or, in special circumstances, by the Grama Niladhari and certified by the Divisional Secretariat/ Government Agent. In case the collateral becomes unrealisable mainly due to title disputes, banks can reclaim the resultant non-performing loan component from the Guarantee Fund maintained by CBSL. This move has enhanced Vanni area borrowers' access to finance not only for livelihood operations, but also for entrepreneurial activities. Credit in the Vanni area, in particular, has picked up rapidly since the introduction of this Fund.

The economic resurgence in Phase II was supported by the provision of essential infrastructure services by the Government. The re-opening of the A-9 road in December 2009 further facilitated transport services and marketing. The rebuilding of the infrastructure and financial services have created a large number of direct and indirect employment opportunities. The banks operating in N&E have employed nearly 1000 Tamil youth at all grades and about 600 as ancillary service providers. Through loans and advances, the banks have generated more than 50,000 self-employment opportunities in the two provinces. Local and foreign tourism and ancillary services have helped speedy resurgence of the N&E with a large number of service-oriented employment opportunities. The re-building of the piers and roadways to Nagadeepa, the Sangupiddy bridge and expansion of the Palaly airport will promote tourism and generate further employment.

Challenges in N&E Renaissance and Long Term Sustainability

N&E's shares of GDP have been 2.9 per cent and 5.5 per cent, respectively, in 2009 but such rates are reflective of the resurgence and further potential. The continuous inflow of remittances helps households to maintain higher disposable and per capita income of a typical N&E household above that of the national average. This has generated an increasing demand for consumer durables. While enabling the people to enjoy peace dividend, their savings need to be diverted towards investment and economic activities. The resurgence, however, is not without challenges. A few of the major, but manageable ones are set out below:

1. **Challenges for development:** The vast disparities between districts in respect of the distribution of population and limitation of land is a concern. Jaffna district has more people than the rest of the districts taken together. In EP, disparities are less conspicuous

except between Ampara and Trincomalee, but the province as a whole is highly populated. This disparity has created an unevenness in the distribution of productive resources such as land and labour. The future developmental plans for N&E need to take cognizant of this geographical and resource disparities in different districts of the two provinces. It is also important to consider whether development plans should be Jaffna or Killinochchi centered as both centers offer diverse cultural, social and economic conditions.

- 2. Limited awareness of the objectives of development programs:** Despite the implementation of NNP and UWDP and attempts by Government to enhance awareness of Peace Dividends, the Language Policy, Governance Structure, Economic Development, Human Rights, Democracy, IDP Resettlement, numerous external and internal elements attempt to create unrest among the people in N&E. Protecting people from misguidance and re-building their confidence over time would be a challenge.
- 3. Present provincial council structure and devolution of power:** In order to fulfill the above mentioned aspirations, economic development and political reconciliation must go hand in hand. Two important matters have to be considered under the devolution process and in moving towards effective coordination between the central government and the provincial councils / local governments. First, is to build competence of the provincial councils/local governments to handle all functions attributed to them under the 13th Amendment. Second, is to analyse the extent to which the present system obliterates the issues of different districts as a result of overwhelming concentration of power in the hands of the provincial councils.¹ These issues would emerge from time to time and may become obstacles in implementing development plans. Hence is the need to address them as early possible.
- 4. Limited number of Tamil speaking officials has been a constraint:** The Government has been trying to resolve this issue through recruitment of a large number of Tamil officers to the public sector and by teaching Tamil to government officials and other service providers. The position has vastly improved compared to the past. The private sector, especially banks, have managed the problem by recruiting Tamil officers from the region itself.
- 5. Youth unemployment:** The re-establishment of the fisheries industry in N&E has helped solve satisfactorily the immediate employment problem. Establishment of province specific industries and revival of the old wholesale trading centre in Killinochchi and agriculture and industrial centers (Achchuveli) in the Jaffna district need special attention and they would support livelihood operations as well as employment generation. Setting up of vocational training institutes in Killinochchi, Mullaitivu and Vavuniya, Batticaloa and Ampara to develop entrepreneur capacity in these areas and promoting community-based programs would be important. In addition, the four apparel companies that have agreed to set up factories in the NP, Jaffna in particular, will help reduce unemployment problem of youth; women, in particular.

¹ Ministry of Defence and Urban Development: D.A. Rajapakse Memorial Lecture, 24 November 2011.

- 6. Revival of the SME sector:** The limited access of SMEs to land, finance and technology has been a deterrent, although agricultural lending coupled with farmer insurance schemes has helped to sort out problems of crop failure. Banks are attempting to transform agribusiness through a number of initiatives introduced through newer technologies to the Northern farmers. The Government plans to promote public/private partnerships for developmental work in N&E and foreign investment for mega projects, which would create job opportunities and facilitate production and marketing networks based on the use of technology, while the proposed World Bank facility for SMEs would help promote activities of SMEs in both N&E.
- 7. Non-performing loans (NPL)** was a problem for banks as accumulated NPLs prior to 31 May 2009 was moderately high at 4 per cent of total loans. A bulk of NPLs has been on account of agriculture, pawning, manufacturing and trade. As the civilians were unable to repay loans due to dislocation/relocation and loss of livelihood operations, many banks opted to write off part of the unrecoverable loans. The provision of new loans to defaulters was also an issue. Here too, banks have adopted a flexible approach in rescheduling loans in N&E. The land collateral Guarantee Scheme of CBSL has helped to ease the problem in a significant manner in the Vanni area.
- 8. Establishment of backward linkages and value chains:** In order to ensure long term stability, it is important to establish value chain linking the farmer, processor, retailer, wholesaler and exporter. Where possible, supply chains and value addition processes need to be promoted to boost renaissance in N&E. The supermarket chains have shown a keen interest to provide outgrower opportunities in NP and help retain value in the province linking farmers, producers, retailers and marketing groups.
- 9. Destruction due to weather vagaries:** The damage caused by the January 2011 floods has necessitated reconstruction of some parts of the road network and bridges. The Government has started reconstruction in the flood-damaged areas in EP and the provision of livelihood support to the people in the affected areas. Water retention during rainy season is also critical in N&E as they are heavily dependent on monsoonal rains. The provincial councils, under the guidance of relevant central government ministries/departments, should take the initiative to clean and enhance water retention and revive tank irrigation in both provinces.