

Economic Transformations for Better Lives Through Better Jobs



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Abstract Until May 2009, Sri Lanka was troubled by a violent separatist conflict, which resulted in widespread damage to human lives, communities, and property. Soon after the ending of the conflict, the government spearheaded a development program in the conflict-affected regions to revive its war-ravaged economies. The development programs aimed to rebuild and modernize damaged or destroyed social and economic infrastructure and facilitate livelihood activities and employment creation to uplift the living standards of people. This chapter examines the success of different strategies adopted by Sri Lanka to improve the labor markets in the aftermath of the war in the conflict-affected provinces. The analysis shows that the development programs have stimulated growth and reduced poverty. However, this was mainly done through the improvement of livelihood activities in the two selected provinces, namely Northern Province (NP) and the Eastern Province (EP). But, labor force participation rates (LFPRs) and employment-to-population ratios remain low in the conflict-affected regions, indicating low job creation and possible labor market imbalances. Further, the analysis shows that the economies of the conflict-affected provinces are not mature enough for the creation of professional and semi-professional jobs. The slow growth of the overall economy, muted attention given to the social sector developments, and unstable macro- and political developments in the country would have contributed to the slow recovery.

1 Introduction

It is often argued that providing access to productive well-paid jobs is the best means of improving the living standards of individuals, while stimulating growth. But, recent literature challenges this premise. According to this new thinking, national and global economic contexts, as well as the performance of different sectors, also influence the impact of employment on poverty and economic growth

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(Holmes et al. 2010). Further, the distribution of employment and the nature of employment created (i.e., wage, duration, and social security coverage) as well as the macro-environment play a critical role in determining to what extent employment affects the lives of people.

Until May 2009, Sri Lanka was troubled by a violent separatist conflict, which resulted in widespread damage to human lives, communities, and property. Soon after the ending of the conflict, the government spearheaded a development program in conflict-affected regions to revive their war-ravaged economies. The government's recovery programs aimed to bring prosperity to the war-affected people, both to improve their lives and to sustain peace. In the immediate aftermath of the ending of the conflict, the focus was on resettling the war-affected population rapidly and safely. Subsequently, the development programs shifted focus to rebuilding and modernizing damaged or destroyed social and economic infrastructure, and facilitating livelihood activities and employment creation to uplift the living standards of the people.

Creating productive employment is difficult in states that are coming out of conflict for several reasons (McLeod and Dávalos 2008; Iyer and Santos 2012). Lack of security for people and property makes returns to investments low and uncertain. Damaged or destroyed infrastructure makes access to markets difficult. Lastly, unstable business environments due to political uncertainties deter businesses from investing in post-conflict societies. Most countries recovering from a conflict have to rely on donor funding to finance development efforts, as the conflicts often leave countries with limited financial resources.

The above-mentioned challenges were especially grim for Sri Lanka, which came out of the separatist conflict in 2009, when the outlook for the world economy was uncertain in the aftermath of the global financial crisis that started in 2007/2008. Despite the global economic downturn, Sri Lanka's economic growth was robust in 2008 at 6%, only marginally lower than its 2007 value of 6.8% (Institute of Policy Studies of Sri Lanka (IPS) 2009). However, maintaining macro-stability amidst a growing external debt and rising inflation was concerning the policy makers (IPS 2009). In addition, the global economic prospects for the next few years were not promising, implying an unfavorable economic outlook for Sri Lanka, a small open market economy. With already high levels of external debt and poor revenue collection, Sri Lanka was dependent on donors for investing in post-conflict development. But, obtaining donor assistance and stimulating growth were difficult for most small economies in the bleak global economic environment that prevailed.

This chapter details the strategies adopted by Sri Lanka to improve access to productive jobs in the aftermath of the separatist conflict, and their successes and failures. Section 2 discusses different ways in which conflicts influence labor markets and best practices in reviving labor markets. Section 3 provides an overview of the war-affected provinces of the country and how these were affected by the conflict. Section 4 describes the policies adopted by the government to create employment. Section 5 examines the impact of those policies on the labor market. Section 6 concludes.

2 How Conflicts Influence the Labor Market

Conflicts affect the labor market both from the demand side as well as from the supply side (Iyer Lakshmi and Indhira Santos 2012). The demand for labor is affected as job creation is slowed down due to the reluctance of firms to invest in new businesses or expand existing business given the insecure environment created by a conflict. Lack of law and order, poor governance of regulations, and uncertainty of the legal entitlements also discourage private firms from investing in conflict-affected regions. Further, conflict-related destructions and damages to infrastructure make the functioning of firms more difficult and less profitable, due to higher transaction costs and lack of access to markets.

On the supply side, conflicts reduce the ability of individuals to supply labor and reduce the quality of labor (Iyer Lakshmi and Indhira Santos 2012). However, given low wages and poor-income earning potential, more members of a family—especially females—may be compelled to work to compensate for lack of income from regular sources. In such instances, conflicts can result in increasing the share of the economically active population. Access to jobs is more difficult in a conflict setting due to security reasons and limited transport. Conflict-related disruptions to education and vocational training programs and the poor quality of available education services due to lack of staff, equipment, and physical infrastructure also reduce the quality of the available workforce. Further, conflict-related displacements reduce labor supply, as families acclimatize to new locations. Disruptions to family structures also can increase or decrease labor supply.

Conflicts change the patterns of employment (Iyer Lakshmi and Indhira Santos 2012). Generally, with development, workers move out of agriculture. But, in high-conflict areas the rate at which workers move out of agriculture is slower. This is partly because of the slow job creation and slower urbanization in conflict-affected areas. Because of the slow creation of wage and salaried work, the share of vulnerable jobs is bigger in conflict-affected areas (Iyer and Santos 2012). However, although high youth unemployment is often linked to greater risk of conflict, there is no clear evidence of conflict resulting in higher levels of unemployment (Iyer and Santos 2012).

2.1 *Phases of Post-conflict Employment Interventions*

There is a common agreement in the literature that economic recovery and employment creation in post-conflict environments need to happen in different phases using different methods (De Vries and Specker 2009; McLeod and Dávalos 2008; Holmes et al. 2010). This is because with peace, the economies of the war-affected regions change, and along with these changes the needs change, calling for different interventions.

Immediately after the end of a conflict, the focus is on providing relief and reintegrating the war-affected population (De Vries and Specker 2009; McLeod and Dávalos 2008; Holmes et al. 2010). This is achieved usually by creating temporary job opportunities through workfare programs, mainly targeting the rebuilding efforts. At this stage of recovery, attention is also given to disarming, demobilizing, and reintegrating (DDR) those who were engaged in the conflict. This is seen as an important step toward sustaining peace. When the conflict was caused by ethnic differences, such as the one in Sri Lanka, sustaining peace will depend on targeting of employment programs to include all affected groups by the conflict, including the ex-combatants as well as the civilian population. At this stage, much of the economic infrastructure such as roads, railroads, bridges, harbors, and reservoirs are still in disrepair and public services such as education and health, and private job creation is starting to take shape. It is easy to obtain donor interest at this stage of the recovery period. This phase lasts till private sector employment generation picks up (McLeod and Dávalos 2008).

Phase two of the employment interventions is aimed at livelihood generation. These programs start once peace has prevailed for an extended period. Employment assistance at this stage of the recovery process is aimed at promoting private sector job creation and takes form in the provision of micro-credit, job training, job placements, and self-employment training. The main aim at this stage of employment interventions is to promote sustainable employment and self-employment activities. The employment creation during these different phases can be facilitated through a variety of interventions as discussed in the next section (Holmes et al. 2010).

Phase three of the employment interventions is about improving the quality of employment and the ‘doing business’ environment. This phase is called the safety net and enabling phase. The main objective in this phase is to reduce poverty and to improve the quality of jobs available in the market.

Of the three phases of post-conflict employment creation discussed above, this chapter will focus more on the employment creation in the second and third phases. The chapter will examine how interventions started in the first and second phases have helped with creating jobs and how these interventions have reduced disparities in employment outcomes across provinces.

2.2 Types of Macro-Level Policies to Create Employment

Governments can facilitate job creation through enabling a peaceful environment. Even after conflicts end, the communities which were affected by conflict are at high risk of falling back into a conflict state (Iyer Lakshmi and Indhira Santos 2012). As such, businesses that invest in post-conflict environments need to take additional precautions to face security risks. Government interventions to DDR rebels and reinstate law and order can improve the confidence of the people as well as businesses. Re-establishing civil administration services to effectively provide all

public services, including security, is important to win the trust of people, as well as improve their lives.

Reconstructing and rebuilding damaged and destroyed infrastructure and improving connectivity of conflict-affected regions with the rest of the country are necessary for the recovery process (Iyer Lakshmi and Indhira Santos 2012). Damages to roads and railroads and telecommunication services reduce connectivity with other areas of the country and the outside world. Lack of access to electricity and water creates additional costs to firms, as they have to secure these services privately. Further damages to economic infrastructure such as fishing harbors and irrigation tanks also restrict economic activities.

Re-establishing social services is essential to improve the quality of labor supply and productivity of people (Iyer Lakshmi and Indhira Santos 2012). Rebuilding schools and hospitals and staffing them and re-establishing services are essential for improving the quality of the labor supply in conflict-affected areas. Active labor market interventions such as skills development and job search assistance are also needed, especially for long-duration conflicts.

Many conflict states are located in rural agrarian societies. Access to formal employment opportunities is low in such environments. As such, promoting self-employment provides an important means of employment creation (Iyer Lakshmi and Indhira Santos 2012). This is especially needed soon after the conflict ends, as the formal sector employment creation can be slow at this phase of the recovery process.

Lastly, governments may need to provide additional incentives to incite firms to invest in war-affected areas, for creating more permanent jobs. Conflicts leave communities and regions, damaged and destroyed and access to such regions restricted, making it difficult to conduct economic activities and increasing the costs of conducting such activities (Iyer Lakshmi and Indhira Santos 2012). Businesses are reluctant to invest in such environments as the profitability of operating from such places is low. The types of incentives given may include tax holidays or concessions on input taxes.

3 Impact of Sri Lanka's Conflict on the Northern and Eastern Provinces

The separatist conflict that lasted for over three decades in Sri Lanka brought widespread disruptions to the NP and the EP, where the conflict was at its severest, while also holding back development in the rest of the country. The conflict ended in the two provinces at different times. It ended in the EP in July 2007 and in the NP in May 2009. The start of the global financial crisis in 2007/2008, which slowed economic growth globally, also had ramifications on the post-conflict recovery process for the Sri Lankan economy. This section will detail the impact of the conflict on the NP and EP in the context of the Sri Lankan economy at the time.

3.1 *Sri Lanka's Economy in the Post-conflict Era*

The ending of the separatist conflict in Sri Lanka coincided with the start of the global financial crisis. The global financial crisis resulted in slowing global economic growth from around 5% in 2004–2007 to 3.2% in 2008 (World Bank 2009). Although this mainly affected more developed countries, its repercussions were also felt in other countries, including Sri Lanka. The combined effect of the global financial crisis and the escalation of the separatist conflict saw Sri Lanka's gross domestic product (GDP) growth rate decline from 7.7% in 2006 to 3.5% in 2009 (Central Bank of Sri Lanka (CBSL) 2016). However, since 2009, GDP growth has picked up, mainly due to an infrastructure-led development drive of the government (IPS 2010).

The labor market performance in Sri Lanka was mixed in the post-conflict years. On the positive side, overall unemployment rates which were steadily declining since the early 1990s,¹ continued to decline during the conflict period and beyond (Department of Census and Statistics (DCS) 2012a, 2016). The overall unemployment rate (excluding the NP and EP) which was 6.5% in 2006, dropped to below 4% after 2010. However, the employment-to-population ratio—an indicator which broadly signals the ability of the economy to create jobs—has remained largely constant over the years, indicating a low level of job creation in the economy, relative to population growth (DCS 2012b). Further, the share of employment in the informal sector has also remained largely unchanged over the years, indicating that the quality of jobs created has also not improved much over the years (DCS 2012a).

Employment in the rest of the country has benefitted from the post-conflict development efforts. The industry-wise employment trends in the year's pre- and post-2009 are very different (Table 1). The employed in Sri Lanka (excluding the NP and EP) increased by about the same number in the 2007–2009 and the 2010–2012 periods. However, the main contributors to this change were vastly different in the two periods. In the last couple of years of the conflict, the main contributors to the increase in employment were the agriculture sector and public administration and defense, while employment in transport, storage and communication, construction, and manufacturing declined (Table 1). In the years immediately following the ending of the conflict, the contributors to the increase in employment came from construction, mining and quarrying, and manufacturing, while employment in agriculture declined. The increase in employment in agriculture from 2007 to 2009 is due to the impact of the global financial crisis on the economy. As shown by Otope (2013), a large number of workers laid off from manufacturing sector jobs found employment in informal agriculture sector and in wholesale and retail services. The increase in employment found in public administration and defense is a direct result of the intensified focus related to the war effort.

¹Data is for Sri Lanka excluding Northern and Eastern provinces. Labor market data is not available for Northern and Eastern provinces for most parts of the conflict period.

Table 1 Employment trends pre and post-2009, by Select Industry Groups

	% Contribution to total employment			Difference in employment (No.)		Contribution to the difference in employment (%)	
	2007	2009	2012	2009-2007	2010-2012	2009-2007	2010-2012
Overall	100.0	100.0	100.0	97,663	98,990	100.0	100.0
1. Agriculture, forestry and fishery	31.3	32.5	32.9	116,523	(99,877)	119.3	-100.9
2. Manufacturing	18.9	18.2	17.9	(30,101)	86,632	-30.8	87.5
3. Construction, mining and quarrying, electricity, gas and water supply	7.7	7.3	6.9	(21,072)	89,512	-21.6	90.4
4. Wholesale and retail trade and repair of goods	13.2	12.8	13.3	(18,707)	28,994	-19.2	29.3
5. Hotels and restaurants	1.7	1.9	1.8	14,666	(14,520)	15.0	-14.7
6. Transport, storage and communication	6.5	5.9	6.2	(37,177)	11,377	-38.1	11.5
7. Financial Intermediation and real estate, renting and business activities	3.1	3.1	3.6	5,762	4,931	5.9	5.0
8. Public administration and defense, compulsory social security	6.1	6.8	6.8	54,425	16,858	55.7	17.0
9. Education	3.7	4.2	3.8	40,654	13,903	41.6	14.0
10. Health and social work	1.6	1.8	1.6	12,547	11,790	12.8	11.9

Source Own construction based on Department of Census and Statistics (2012a) data

Note Data excludes Northern and Eastern Provinces

Box 1 Overview of NP and EP and their Resources In 2012, a little over one million people resided in the NP. About 93% of them were Tamils.² The province covers 8,884 km² of mostly flat land divided into five districts, namely: Jaffna, Mannar, Vavuniya, Mullaitivu and Kilinochchi (Northern Provincial Council 2014). Being a peninsula, the province is surrounded by the sea on three sides, except in the south. It boasts of 480 km of coastline (or 36% of the coastal areas of Sri Lanka). The province is dry and hot most months of the year, except in the short rainy season from October to January (Northern Provincial Council 2014). The main economic activity in the province is agriculture, including fisheries and livestock activities. Due to lack of rain and lack of perennial rivers, the province is highly dependent on irrigated water for agricultural activities (Northern Provincial Council 2014).

The EP, situated along the eastern coast of Sri Lanka, covers 15% of the land area and accounts for 7.9% of the population in the country (CBSL 2007). It is divided into three districts: Batticaloa, Ampara, and Trincomalee. It is ethnically the most mixed province in the country, with Tamils and Moors, and the Sinhalese contributing to 40, 38 and 22% of the population, respectively (Eastern Provincial Council 2018). The topology of the land in the province is mostly flat toward the eastern coastal areas, while it rises into rolling hills toward the West. It is a resource-rich province comprising some of the best paddy lands in the country as well as forests, scrublands, wetlands, bays, and lagoons (CBSL 2007). The Trincomalee Harbor, one of the world's largest natural harbors, is situated in this province (CBSL 2007). The EP is situated in the dry zone, receiving rains only during the north-east monsoon from October to February. The main economic activity in the province is agriculture, including fishing and livestock farming. Being a naturally attractive province with a long coastline, it also attracts a large number of tourists. The Trincomalee Harbor has helped to develop commercial activities in the province (CBSL 2007). In addition, the province has benefitted from the mining and the forestry resources.

3.2 How the Conflict Affected the Northern and Eastern Provinces

The conflict devastated the communities of the NP and the EP. A large number of families lost family members, and many were displaced due to the conflict. An estimated 285,000 people were displaced at the end of conflict in the NP alone

²Based on Department of Census and Statistics (2012a, b.)

Table 2 Human development index and dimension indices by districts (selected) (2009/2010)

Province/district	HDI	Income index	Education index	Health index
Sri Lanka	0.692	0.552	0.694	0.866
Northern Province	0.625	0.471	0.677	0.766
Eastern Province				
Batticaloa	0.637	0.516	0.610	0.822
Ampara	0.666	0.520	0.655	0.868
Trincomalee	0.656	0.507	0.664	0.839

Source United Nations Development Programme (2012)

(Government of Sri Lanka, United Nations and Partners 2011); and an estimated 150,000 civilians were displaced at the end of the conflict in the EP (Ministry of Finance and Planning 2007). Resettling them in their places of origin was delayed, due to the threat of mines and lack of basic infrastructure. In 2008, 400 million square meters of land was estimated to be dangerous due to the threat of mines in the EP (Ministry of Finance and Planning 2007), and the NP was estimated to be contaminated with 1.3 million land mines at the end of the war in 2009 (Ministry of Finance and Planning 2010).

With the rail and road transportation systems severely damaged and bridges destroyed or damaged, the connectivity of the two provinces with the rest of the country was very limited. The lack of authority and legitimacy in the NP and EP during the conflict limited the ability of the government to extend public services to those provinces effectively. The capacity of the institutions in the war affected areas to deliver public services were exacerbated due to the damages to buildings and the shortages of officials due to migration of workers to other areas of the country or abroad. Further, the displacement of people to various parts of the island and lack of information of their whereabouts presented added problems in delivering services to the war affected populations.

Partly as a result, the human development indicators were lagging behind and remained below that of the country average (Table 2). The human development index (HDI) for the NP was far behind the HDI for the country, mainly due to the poor performance of income and health indices. The HDI values for the districts in the EP were also low compared to the overall index.

The economic activities in the NP and EP were severely hampered during the conflict. The access to large parcels of land was restricted due to land mines. Other areas were taken over by the Liberation Tigers of Tamil Eelam (LTTE), the rebel group, and the army for military purposes. Being in the dry zone, both the NP and EP receive rain only once a year. Thus, they are highly dependent on irrigation tanks and canals to obtain water for their cultivations. Many of these tanks and canals were damaged or destroyed due to lack of maintenance, hampering agricultural activities. The main supply route to the war-affected areas during the conflict was the sea. To restrict supply lines, fishing was restricted in the sea surrounding the NP during the conflict. These severely curtailed fishing activities. Lack of maintenance and neglect deteriorated harbor facilities, further hampering

fishing activities. Lack of access to credit, lack of vocational training, loss of assets and tools, and the flight/migrating of managers and professionals also restricted economic activities and the creation of jobs in the region.

4 Policies for Employment Creation in the Northern and Eastern Provinces

Immediately following the ending of the conflict, comprehensive plans were launched to develop both the NP and EP. The ‘Nagenahira Navodaya’ (NN) or Eastern Revival—a three-year economic development plan for the EP—was launched in 2007 (CBSL 2007). A similar program called the ‘Uthuru Wasanthaya’ (UW) or Northern Spring was started in the NP in 2009 (CBSL 2009).

4.1 Financing Post-conflict Development

The total cost of the NN development plan was estimated to be Rs. 198.5 billion over the three years from 2007 to 2010 (CBSL 2007). The project plan reflects the focus given by the government to infrastructure development. A large part of the budget (42%) was allocated to improve economic infrastructure, and a further 17.1% was to be spent on revitalizing productive sectors and the regional economy. About 11% was on resettlement of returnees and a further 19.1% on human settlements development. The rest was to be spent on strengthening special infrastructure and social services and building capacity of public institutions. More than a half of the funds for this programme (52%) came from donors channeled through the Treasury, while a further 30% was funded by the Treasury using its own funds. The rest came from the private sector and non-governmental organizations (NGOs).

The total investment for the UW development program was estimated to be Rs. 294.9 billion over the 2010–2012 period (CBSL 2009). Of this, nearly 60% was earmarked for improving economic infrastructure, and a further 10% for strengthening social infrastructure and re-establishing social services. In addition, another 15.5% was allocated for resettling the war-affected people. Of the rest, 5% was set aside for social protection and livelihood development and 9.7% for revitalizing the productive sectors. Despite the bleak global environment, there was substantial interest from the donor community in the development efforts of the NP (Government of Sri Lanka, and United Nations and Partners 2011). In 2010, 84% of donor commitments were by the governments of China, India, Japan, Russia, and the Asian Development Bank (ADB) and the World Bank (Ministry of Finance and Planning 2010). A majority of these funds were received as loans, rather than grants.

However, donor commitment for the reconstruction efforts soon declined over the years (Financial Tracking Service of United Nations Office for the Coordination of Humanitarian Affairs as cited in Inter Action (2013). The appeal for funding by

the government in 2011 was close to USD 300 million, but the actual funding received was around USD 100 million, and a funding appeal of close to USD 150 million in 2012 met with only actual funding of around USD 25 million. As per the donors, the reasons for the decline in funding support included Sri Lanka's graduation to a middle-income country in 2010, humanitarian crisis in other parts of the world as well as disagreements between the donors and the government on funding priorities (Inter Action 2013). The challenge of raising funds for post-conflict reconstruction efforts was exacerbated by poor revenue collection by the government and poor performance of the external sector on account of the weak global economic outlook.

Sri Lanka's solution to meet the funding gap was to resort to non-concessional loans and commercial borrowings (IPS 2012). The government's ambitious infrastructure development program included not only development projects in the conflict-affected areas, but also ambitious projects outside the NP and EP. Although some of these investments were necessary to balance growth across the country, all identified investments did not promise returns to cover the costs of investments. These policies for development financing have made the macroeconomic environment in the country more unstable. Further, they have limited the ability of the government to invest in health and education, crowded out private investment, increased inflationary pressure, caused the real exchange rate to appreciate and weakened the competitiveness of the export sector (Athukorala and Jayasuriya 2012).

4.2 Ensuring Security and Strengthening Governance

The 180-day rapid resettlement programs launched in the NP and EP had three key objectives: (i) to resettle the displaced communities as rapidly and as safely as possible, and in their places of origin; (ii) to renew and rebuild damaged or destroyed infrastructure; and (iii) to facilitate the restart of livelihood activities.

For safe resettlement of people, clearing land mines from communities and farmlands were essential. Further, to facilitate livelihood development it was necessary to reinstate connectivity of the two provinces with the rest of the country through restoring roads, bridges, and railroads. It was also necessary to re-establish basic services such as education, health, water, sanitation, transport, and financing facilities. Along with the ongoing reconstruction efforts, measures were taken to improve governance and security in the region and re-establish civil administration.

4.3 Improving Infrastructure

At the start of the development programmes in the conflict-affected provinces, emphasis was given to the provision of basic services for the communities such as housing, health, education, electricity, water and sanitation facilities, as well as

facilitating livelihood development through services such as transport and irrigation.

By the end of 2009, more than 3,000 km of roads and 30 bridges were reconstructed, which facilitated the linking of major cities and towns in the EP with the rest of the country (CBSL 2009). Several special projects were started to improve the connectivity of the NP with the rest of the country. Some examples of these include the reconstruction of the A9 highway, Vavuniya–Horowpathana road, rebuilding the Northern railway line and the Mannar Bridge. Public buses and railways were also revitalized (CBSL 2009).

The program involved strengthening public services such as hospitals and civil administration to expedite the resettlement of displaced. The NN also envisioned the establishment of industrial zones and the development of the tourism sector in the province.

Along with the above initiatives, the measures adopted aimed to reconstruct economic infrastructure. The Trincomalee Harbor was planned to be developed through a public–private partnership (PPP) and a 10,565 acre area of land surrounding the Trincomalee Harbor was planned to be developed into a port city. A 500-MW coal-fired power plant was also planned for Trincomalee. A fishery harbor at Oluvil, which was in disrepair, was dredged to make allowances for larger boats used in the harbor.

4.4 Support to Livelihood Activities

In the EP, the NN economic revival was aimed to improve crop agriculture, irrigation, fisheries, and livestock (CBSL 2007). The interventions sought to improve the quality of products and increase access to markets. In the North, with nearly 80% of households engaged in agricultural activities, revival of agriculture received focused attention. Government activities in this regard included, provision of subsidized fertilizer, clearing nearly 4,000 acres of overgrown abandoned paddy land, reviving the crop irrigation system by renovating minor tanks and canals, and the provision of agricultural tools, tractors, and water pumps (Government of Sri Lanka, and United Nations and Partners 2011). In collaboration with the Ministry of Agriculture, the Food and Agriculture Organization (FAO) provided livelihood support to farmers, fishers, and others self-employed in the form of paddy and vegetable seeds, fertilizer, and basic agriculture tools. A standard livelihood package with Rs. 35,000 (USD 315) was provided to those engaged in livelihood activities (Government of Sri Lanka, and United Nations and Partners 2011).

The livestock sector is a main economic contributor in the NP. Several initiatives were taken to revive this sector (Government of Sri Lanka, and United Nations and Partners 2011), including assistance for rounding up stray cattle, building fenced fields for the upkeep of livestock, and providing vaccinations for the livestock. Government support to fishers included the provision of boats and canoes and other necessary fishing equipment (Government of Sri Lanka, and United Nations and

Partners 2011). In addition to this, financial assistance was provided for fishers through the Ministry of Fishery to purchase boats and other equipment. Action was also taken to improve the capacity of fishery cooperatives and fishing infrastructure. In addition to these, support was given for different self-employment activities such as tailoring, construction-related activities, retail shops, and bicycle repair shops.

The conflict left many in the affected areas without assets and savings. Improving access to finance in such an environment was difficult without government support. One initiative for improving access to finance was to encourage private and public banks to open branches in the NP. The CBSL also launched a credit guarantee scheme, through which farmers in the Kilinochchi, Mullaitivu, and some areas of the Mannar District were given credit up to Rs. 200,000 (USD 1,800) for defaults arising from land dispute-related issues (CBSL 2009).

4.5 Support for Promoting Longer-Term Employment

To lure investments to the NP and EP, a variety of tax concessions were offered (CBSL 2009). To facilitate business transactions, the CBSL approved the establishment of 137 bank outlets in the NP and EP (CBSL 2009). Further, programs were launched to train youth for various trades.

From 2008 onwards, government plans included the provision of incentives to private sector firms to relocate to the EP by providing tax concessions to companies willing to invest more than Rs. 50 million and providing employment for more than 50 people (CBSL 2009). The incentives provided included income tax concessions for three years following the commencement of a firm, and custom duty waivers and value-added tax (VAT) exemptions for machinery and equipment imported for the factories. In addition, the government proposed the establishment of industrial zones and estates in the EP and took initiatives for developing the tourism sector by rehabilitating tourism infrastructure.

In 2009, the government identified a list of industries to be revived in the NP and EP. These included existing industries such as salt, cement, chemical, sugar and paper industries, as well as new industries such as textiles, light manufacturing, agricultural food processing, dairy products, canned fish, and gas.

5 Impact of Post-conflict Development on the Northern and Eastern Provinces

5.1 Impact on the Greater Economy

The post-conflict development efforts launched by the government with the assistance of the donor community showed commendable impacts on the lives of the people in the NP and EP. The contribution of the EP to Sri Lanka's GDP increased

from 4.9% in 2006 to 6.3% in 2012. The contribution of the NP to GDP also increased from 3.2% in 2008 to 3.7% in 2012. Poverty, measured by the poverty headcount index, has come down in the NP and EP since the ending of the conflict. The poverty levels in the NP dropped from 10.9% in 2013/2014 to 7.7% in 2016, and it dropped from 11% in 2013/2014 to 7.3% in 2016 in the EP. However, poverty levels in the EP register an increase from 2006/2007 to 2009/2010. This could possibly be due to the violence and insecurities in the province immediately following the ending of the conflict in 2008, and the drought that prevailed in the country. Further, the decline in poverty in these provinces is sharper, compared to the decline in poverty in the country as a whole. However, after an initial growth spurt of more than 8% from 2010 to 2012, Sri Lanka's economic growth rate dropped to below 5% thereafter.

5.2 Achievements in Livelihood-Related Employment

The initiatives taken to improve livelihood activities in the NP and EP also have shown positive outcomes. For example, the number of hectares sown increased sharply in all districts of the NP from 2009/2010 to 2011/2012 (Table 3). In the Mullaitivu District, the increase was as much as 28,625%. From 2007/2008 to 2016/2017, the gross extent sown in all districts in the NP increased by more than 100%. The number of hectares sown also increased in the Trincomalee, Batticaloa, and Ampara districts of the EP from 2007/2008 to 2011/2012. However, there has been a decline in the extent sown in the Ampara district in 2011/2012 and 2016/2017 periods, partly due to adverse weather conditions.

The fishery sector also shows increased activity in the NP and EP. The number of fishers in the EP increased sharply from 2004 to 2008, and these continued to increase till 2011 (Table 4). The number of fishers in the NP also increased sharply from 2008 to 2011. The number of fishers increased in some of the districts outside the NP and EP as well; this was partly due to the construction of two new fishing harbors in Hambantota and Ambalangoda in the Southern Province (SP) and another in Chilaw in the North-Western Province (NWP) (CBSL 2008).

5.3 Achievements in Long-Term Employment

The long-term employment effects of the NN and UW programs in terms of creating employment and improving the quality of employment are positive in the NP, although these impacts are somewhat mixed in the EP.

Isolating the effects of the post-conflict development programs on the labor markets of the NP and EP are somewhat difficult as the economic context in the country as well as the global economy also influence these outcomes. We are especially interested in seeing if the post-conflict development programs resulted in

Table 3 Gross extent sown (hectares)

District	Year					Growth		
	2007/2008	2009/2010	2011/2012	2016/2017	2007/2008–2009/2010	2009/2010–2011/2012	2001/2012–2016/2017	2007/2008–2016/2017
Galle	14,679	17,156	13,299	8,560	16.9	-22.5	-35.6	-41.7
Matara	14,865	15,908	19,177	9,349	7.0	20.5	-51.2	-37.1
Jaffna	7,566	8,948	59,470	62,836	18.3	564.6	5.7	730.5
Kilinochchi	14,650		71,877	81,458			13.3	456.0
Vavuniya	6,422	483	30,161	29,236	-92.5	6,144.5	-3.1	355.2
Mullaitivu	6,596	218	62,621	46,788	-96.7	28,625.2	-25.3	609.3
Mannar	4,894	8,093	13,181	11,536	65.4	62.9	-12.5	135.7
Anuradhapura	72,717	81,463	89,253	37,853	12.0	9.6	-57.6	-47.9
Polonnaruwa	55,529	60,312	64,512	49,621	8.6	7.0	-23.1	-10.6
Trincomalee	18,987	26,535	27,552	19,793	39.8	3.8	-28.2	4.2
Batticaloa	19,134	54,855	31,985	25,680	186.7	-41.7	-19.7	34.2
Ampara	64,490	69,861	12,948	7,955	8.3	-81.5	-38.6	-87.7
Hambantota	24,234	26,098	7,103	3,691	7.7	-72.8	-48.0	-84.8
Sri Lanka	581,597	646,037	702,075	542,556	11.1	8.7	-22.7	-6.7

Source: Department of Census and Statistics, Paddy Statistics for Maha Season, various years

Table 4 Active fishers by district (marine fisheries)

District	Year							Growth		
	2004	2008	2011	2013	2016	2004-2008	2008-2011	2011-2016	2004-2016	
Negombo	16,800	11,500	9,510	9,930	10,570	-31.5	-17.30	11.1	-37.1	
Colombo	2,800	1,730	1,820	1,910	2,340	-38.2	5.20	28.6	-16.4	
Kalutara	4,200	4,810	5,950	6,210	4,820	14.5	23.70	-19.0	14.8	
Galle	6,300	5,880	10,260	10,620	12,420	-6.7	74.49	21.1	97.1	
Matara	7,100	7,710	11,090	11,720	15,570	8.6	43.84	40.4	119.3	
Tangalle	6,100	6,580	10,580	11,060	12,010	7.9	60.79	13.5	96.9	
Kalmunai	15,500	20,600	26,040	25,960	22,290	32.9	26.41	-14.4	43.8	
Batticaloa	21,600	23,540	29,980	29,330	31,820	9.0	27.36	6.1	47.3	
Trincomalee	16,100	22,460	34,620	34,240	32,960	39.5	54.14	-4.8	104.7	
Mullaitivu	3,300	2,090	1,480	3,120	5,250	-36.7	-29.19	254.7	59.1	
Kilinochchi	3,700	2,180	3,720	4,920	4,190	-41.1	70.64	12.6	13.2	
Jaffna	16,800	18,240	22,720	24,220	22,690	8.6	24.56	-0.1	35.1	
Mannar	9,400	10,540	18,530	18,220	18,570	12.1	75.81	0.2	97.6	
Puttalam	12,100	14,410	16,810	15,720	12,530	19.1	16.66	-25.5	3.6	
Chilaw	10,000	10,200	12,320	12,220	10,800	2.0	20.78	-12.3	8.0	
Total	151,800	162,470	215,430	219,400	218,830	7.0	32.60	1.6	44.2	

Source: Statistics Unit—Ministry of Fisheries and Aquatic Resources Development, various years

a faster improvement to the labor markets in the NP and EP, relative to other provinces in the country. We examine the long-term employment effects of the NN and UW using difference-in-difference methods. The difference-in-difference (DD) indicator shows the difference in the change of the outcome variable in the conflict region relative to the change in the outcome variable in the no-conflict region. More formally, this is given by:

$$DD = [Y_A|C - Y_B|C] - [Y_A|NC - Y_B|NC] \quad (1)$$

where $Y_A|C$ and $Y_A|NC$ are outcome variables in the conflict and no-conflict regions, respectively, after the launch of the development program, and $Y_B|C$ and $Y_B|NC$ are the outcome variables in the conflict and no-conflict regions, respectively, before the launch of the development program. In Table 5, we compare the change in labor market indicators in the NP relative to the SP as well as all no-conflict provinces (i.e., all provinces except the NP and EP). We chose SP as the comparison province; as historically, the two provinces have been compared given their different ethnic compositions.³ Ideally, comparisons should be carried out between 2010 and 2014. But, due to lack of data for the NP for 2010, we are compelled to do the comparison for 2011 and 2014. In Table 6, we compare the change in labor market indicators in the EP between 2009 and 2014 with that of the Uva Province (UP) and no-conflict provinces. We chose UP as a comparison province as UP historically has also been a deprived province.

The analysis shows that the labor force participation and the employment-to-population ratio increased in the NP relative to both the SP as well as the no-conflict provinces. Further, the unemployment rate—both the overall, as well as the youth unemployment rate—decreased in the NP compared to the SP as well as the no-conflict provinces. This shows that the labor market and job creation improved in the NP relative to the labor market in the SP and no-conflict provinces.

We next looked at the quality of the work created in the NP. We see that the employment in agriculture has decreased in the NP relative to the SP, although it has not decreased as fast as the average for the no-conflict provinces. Further, the share of vulnerable employment (i.e., self-employed and unpaid family workers) has also decreased in the NP relative to the SP as well as the non-conflict provinces. These results show that the quality of jobs in the NP has improved faster compared to the provinces outside the conflict-affected region. However, the results show a decline in the share of professionals and semi-professionals in the NP relative to both the SP and no-conflict provinces. This suggests that job creation, although good, has not been at the professional or semi-professional level.

The labor market outcomes in the EP are mixed compared to the UP and the no-conflict provinces. The results show that although the unemployment rate and the youth unemployment rate have decreased, labor force participation and the

³The Northern Province is largely populated by Sri Lankan Tamils, while the Southern Province is populated mostly by the Sinhalese.

Table 5 Comparison of labor market indicators in the NP with SP and no-conflict provinces

	2011			2014			Difference in difference	
	Northern	Southern	No-conflict	Northern	Southern	No-conflict	Northern versus southern	Northern versus no-conflict
<i>Labor force participation rate</i>								
All	47.7	58.6	58.8	49.8	59.0	58.9	1.8	2.0
Male	75.4	79.3	79.9	75.6	79.6	80.2	-0.1	-0.1
Female	22.9	40.3	40.0	26.5	40.7	40.4	3.2	3.2
<i>Employment-to-population ratio</i>								
All	44.6	55.3	56.3	47.2	55.1	56.2	2.8	2.8
Male	73.3	76.2	77.6	73.4	75.7	77.3	0.6	0.3
Female	19.1	36.9	37.4	23.7	36.9	37.7	4.5	4.3
<i>Unemployment rate</i>								
All	6.4	5.6	4.2	5.1	6.5	4.6	-2.2	-1.8
Male	2.9	3.9	2.9	2.9	4.9	3.5	-0.9	-0.6
Female	16.8	8.5	6.5	10.7	9.2	6.6	-6.8	-6.3
<i>Youth unemployment rate</i>								
All	18.2	23.3	16.9	17.9	28.8	21.6	-5.8	-5.0
Male	10.8	19.6	13.4	12.2	24.4	17.7	-3.5	-2.9
Female	42.7	30.3	23.0	29.8	36.6	28.0	-19.2	-17.9
<i>Employment in agriculture</i>								
All	37.0	37.7	34.0	33.0	34.1	27.6	-0.4	2.5
Male	39.3	38.0	30.8	35.1	32.8	25.1	1.1	1.5
Female	29.1	37.0	40.0	27.0	36.4	32.0	-1.5	5.9

(continued)

Table 5 (continued)

	2011			2014			Difference in difference	
	Northern	Southern	No-conflict	Northern	Southern	No-conflict	Northern versus southern	Northern versus no-conflict
<i>Share of professionals and semi-professionals^a</i>								
All	21.4	15.8	18.6	18.6	15.6	17.1	-2.6	-1.2
Male	15.9	13.1	17.8	14.3	13.2	15.0	-1.6	1.3
Female	40.4	20.8	20.1	30.6	20.0	20.8	-9.0	-10.4
<i>Share in vulnerable employment^b</i>								
All	39.6	41.2	41.7	36.3	40.0	38.8	-2.1	-0.4
Male	39.5	38.7	39.9	36.0	38.0	37.0	-2.8	-0.7
Female	39.9	45.9	45.0	37.0	43.8	41.9	-0.7	0.3

Source Own calculations using labor force survey data, various years

Note ^aInternational Classification of Occupation codes 1, 2, and 3 are assumed to be professionals and semi-professional; ^bFollowing International Labor Office (ILO) classification, employment in self-employment and unpaid family work are defined to be vulnerable employment

Table 6 Comparison of labor market indicators in the EP with UP and no-conflict provinces

	2009			2014			Difference in difference		
	Eastern	Uva	No-conflict	Eastern	Uva	No-conflict	Eastern versus Uva	Eastern versus no-conflict	Eastern versus no-conflict
<i>Labor force participation rate</i>									
All	50.34	66.90	59.09	47.81	64.91	58.95	-0.54	-2.39	-2.39
Male	78.54	83.57	79.78	77.75	84.18	80.16	-1.41	-1.18	-1.18
Female	25.08	52.71	41.00	22.29	48.16	40.37	1.76	-2.16	-2.16
<i>Employment-to-population ratio</i>									
All	46.10	63.60	55.44	45.33	62.76	56.21	0.07	-1.55	-1.55
Male	74.92	80.95	76.10	75.37	82.72	77.35	-1.32	-0.80	-0.80
Female	20.30	48.83	37.36	19.72	45.41	37.70	2.85	-0.91	-0.91
<i>Unemployment rate</i>									
All	8.41	4.93	6.19	5.18	3.32	4.64	-1.61	-1.68	-1.68
Male	4.61	3.13	4.61	3.06	1.74	3.51	-0.16	-0.45	-0.45
Female	19.07	7.37	8.87	11.50	5.71	6.62	-5.91	-5.31	-5.31
<i>Youth unemployment</i>									
All	24.7	19.1	21.8	16.7	22.4	21.6	-11.3	-7.8	-7.8
Male	16.1	12.7	17.4	13.5	12.6	17.7	-2.5	-2.9	-2.9
Female	45.9	27.9	28.5	25.7	39.7	28.0	-31.9	-19.7	-19.7
<i>Employment in agriculture</i>									
All	33.7	61.3	32.6	28.4	58.3	27.6	-2.2	-0.2	-0.2
Male	35.8	56.1	29.7	31.7	52.6	25.1	-0.6	0.5	0.5
Female	26.6	68.8	37.7	17.7	67.4	32.0	-7.5	-3.2	-3.2

(continued)

Table 6 (continued)

	2009			2014			Difference in difference	
	Eastern	Uva	No-conflict	Eastern	Uva	No-conflict	Eastern versus Uva	Eastern versus no-conflict
<i>Share of professionals and semi-professionals^a</i>								
All	21.0	12.4	19.0	16.2	11.3	17.1	-3.7	-2.8
Male	16.6	10.9	17.6	11.7	9.5	15.0	-3.4	-2.2
Female	35.7	14.4	21.5	30.9	14.2	20.8	-4.6	-4.1
<i>Share in vulnerable employment^b</i>								
All	36.3	57.5	38.7	39.0	57.5	38.8	2.6	2.5
Male	31.4	55.0	36.3	36.2	55.9	37.0	3.9	4.0
Female	52.5	61.1	42.9	48.0	60.1	41.9	-3.5	-3.4

Source Own calculations using Labor Force Survey data, various years

Note ^aInternational Classification of Occupation codes 1, 2, and 3 are assumed to be professionals and semi-professionals; ^bFollowing International Labor Office (ILO) classification, employment in self-employment and unpaid family work is defined to be vulnerable employment

employment-to-population ratio has not improved in the EP compared to both the UP and the no-conflict provinces. However, employment in agriculture has declined in the EP compared to the SP and the no-conflict provinces. But, the share of employed in vulnerable employment has increased, and the share of professionals and semi-professionals has decreased. These results suggest that job creation has been slower in the EP compared to other provinces, and the created jobs have not been very good. Despite this, the unemployment rate has come down. This could partly be due to lower labor force participation of individuals in the EP.

Despite noted improvements to the labor market indicators, both LFPRs and the employment-to-population rates remain lower by a large margin in the NP and EP relative to no-conflict provinces (Tables 5 and 6 in Chapter “Post-conflict Agricultural Modernization in Sri Lanka”). This is mainly due to the lower labor force participation of females in both provinces. Newhouse and Silwal (2018) analyzing the reasons for the gap in labor force participation in the NP and EP relative to the rest of the country conclude that rather than systematic differences in worker characteristic, weak labor demand, and greater reluctance of women in economic participation are driving lower LFPRs. Further, lower education levels and lower access to finance are slowing female engagement in self-employment activities.

6 Conclusion

This chapter detailed the different strategies adopted by Sri Lanka to improve the labor market in the aftermath of the conflict, the conflict-affected NP and EP in the country. The analysis shows that the development programs have stimulated growth in the NP and EP and reduced poverty. These programs have also resulted in improving livelihood activities, and to a certain extent, the labor market indicators. However, LFPRs and the employment-to-population ratios remain low in the conflict-affected provinces. Further, job creation at the professional and semi-professional levels has not increased in the aftermath of the conflict relatively to the rest of the country. This indicates, that although the post-conflict development activities were able to provide livelihood support and bring people out of poverty, the economies in the NP and EP have still not matured enough to provide a business environment to support good-quality employment opportunities. The slow growth of the overall economy, muted attention paid to social sector developments, and macro-uncertainties arising from development finance choices made by the country would have contributed to the slow recovery of the NP and EP, beyond the livelihood creation phase.

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