



The Indian Ocean Tsunami: How can the region recover economically?

John Roberts

How quickly will economic life recover in the areas bordering the Indian Ocean devastated by the tsunami? Countries with extensive 'informal' sectors of small-scale producers can revive strongly after an economic shock.

An ODI study of the recovery of national economies which were severely disrupted for reasons of conflict or mismanagement identifies some of the factors contributing to rapid recovery.¹ These include: civil peace and order, restoration of transport and communications links, temporary income support for small-scale producers who have lost their livelihoods, and swift revival of employment and of effective demand, especially for informal sector products. There is complementarity between action to restore people's productive capacity and action to revive markets demand for their output and labour. The ability of informal sector workers, if given initial support, to piece together their livelihoods after disruption or disaster is impressive.

The tsunami has deprived over a million people living in coastal areas not only sources of income but also household and productive assets, making them displaced economic refugees in their own countries. For the time being their villages are uninhabitable, wells polluted, fields uncultivable and fishing boats lost. Worst affected is Aceh – 500 000 people displaced – and (in relative numbers) the Maldives where the whole population was affected, one-third severely. Displaced people, apart from the injured and maimed, and dependents deprived of family support, ask little more than to be able to return home and resume their normal existence as soon as possible.

Administration

In most of the affected areas the civil administration has survived, largely unaffected by the disaster. In some cases (Thailand, Tamil Nadu – India) urgent, comprehensive and effective action, coordinated with local NGOs, was quickly initiated to meet immediate relief requirements and to start debris clearance and re-opening transport links and lines of communication. In Sri Lanka which was very severely affected, the authorities, though pro-active were temporarily overwhelmed and appealed for more extensive international

support, particularly for logistics and material and medical support in camps for the displaced.

In Aceh the local administration was in good part destroyed, and with it the capacity to assess needs, restore communications, and orchestrate relief and economic revival. Immediate relief was delayed, with many survivors having for some days to fend for themselves.

The countries concerned, excepting conflict-affected Aceh, also have vigorous and extensive civil society and financial networks engaged in humanitarian, economic and micro-finance action. These are already springing to the support of the affected populations.

Economic consequences

The economic consequences of the disaster have spread beyond the limited areas of death and destruction. The effect will not be large in national terms: the Asian Development Bank estimates that the whole of Aceh only contributes 2% to Indonesia's GDP. Much worse will be the loss of income and jobs in affected areas – in farming, fishing, local services and especially tourism. The Maldives, most dependent on tourism, will be relatively the worst affected by the loss of foreign exchange earnings, followed by Sri Lanka and Thailand.

Above all, national and regional governments face huge, unbudgeted, bills for relief for the displaced and dispossessed, and for the repair and rehabilitation of public infrastructure and services. These bills will add to the already very large fiscal deficits of national governments.² Without external assistance stretching well beyond the immediate relief stage the disaster thus brings the risk of inflation, or of compensating cuts in other important public expenditure.

1. Roberts, J. (2004) 'Recovery from Economic Collapse: Insight from Input-Output Analysis and the Special Case of a Collapsed Oil Producer', *ESAU Working Paper 6*, Overseas Development Institute, London. (www.odi.org.uk/publications/working_papers/esau/esau_wp6.pdf)
2. In India the combined deficit of the central and state governments has recently been 9-10% of GDP; in Sri Lanka the fiscal deficit is 7-8% of GDP.

These economic costs can be counter-acted through an appropriate design of the relief-to-rehabilitation phase of post-tsunami planning, and through suitably aligned foreign aid. The objectives are to (a) finance additional government expenditures on relief, repair and rehabilitation occasioned by the disaster, without impairment to other services, (b) provide direct temporary grants to surviving victims for income support and the reconstruction of their homes and productive capital assets, (c) re-inject purchasing power into the local economies of the affected areas by a policy of local procurement of goods and services (including road haulage and distribution), perhaps using a margin of price preference for locally procured supplies.

Rehabilitation assistance strategies

Official and private donors have been exceptionally aware of the need for aid: they have already pledged US\$5 billion without waiting for needs assessment (FT, 7January). Some initial assessments of the cost of damage repair and replacement income needs have been made by national governments and multilateral donors, including \$4 – 5 billion for Aceh and \$1.5 billion for Tamil Nadu. Beyond relief, how should resources for early recovery be deployed, and what policies should accompany them?

The directly affected. Local people who have sustained loss in the disaster should as far as possible be helped to recover from loss through their own endeavours. It is preferable for them to receive public financial assistance than for governments and donors to attempt to supply them in kind with what they are thought to require, as suggested by ODI's Paul Harvey (www.odi.org.uk/hpg/tsunami_cash.html). The organisation of this will not be difficult, unless subverted by corruption. For example, Sri Lanka has established systems for providing welfare benefits to poor people. Financial assistance can be spent more appropriately by the beneficiaries who know best what their priorities are. Financial assistance also primes the pump of local supply chains disrupted by the disaster, thus widening the circle of beneficiaries and accelerating local economic revival. It is impossible to tailor the size of cash grants exactly to the asset losses and income requirements of each claimant. However, as the funding is only temporary, and serves to quickly revitalise the local economy, it is better to err on the side of generosity and to give claimants the benefit of the doubt.

A very rough calculation of the cash grants required by the dispossessed and jobless after resettlement can be based on average pre-tsunami household income. To those who have lost everything it would be reasonable to offer at least one year's pre-disaster income to rebuild their houses, acquire productive assets, and provide their households with subsistence pending the revival of their former sources of livelihood. Lesser amounts will be appropriate to claimants from zones where the scale of damage is more limited.

Affected businesses. Some medium- and larger-scale enterprises – including internationally-owned hotels – had insurance and so damage compensation is not appropriate. (However, disaster insurance cover is low – estimated by insurers at below 4% of the value of assets lost). Some of the loans and advances made by financial institutions will be irrecoverable. More credit is now needed to bolster affected enterprises than commercial banks are able and willing to provide. Pragmatically, and recognising the risk of moral hazard, governments and monetary authorities should avoid a credit crunch by temporarily extending more credit so that bank debts can be rescheduled – and even written-off.

Some micro-credit schemes may become insolvent because many of their borrowers have lost all their assets. These too should be entitled to facilities from larger national financial institutions. In Indonesia micro-credit is provided by some national commercial banks whose outreach in Aceh could be extended as a contribution to the recovery effort (see: www.odi.org.uk/publications/opinions/31_learning_from_tsunami_jan05.html).

Public services. Direct provision by governments and donor support should be concentrated in two areas: (a) the supply of public goods and services. These include information, coordination and monitoring, the planning and implementation of resettlement, settlement of legal disputes arising from the death of proprietors and debtors, and support for utility companies to repair main power and water supplies, and (b) organising immediate rehabilitation operations, too large for individuals, communities or NGOs to undertake, including, land clearance and re-opening roads.

If these principles are followed and the relief-to-rehabilitation phase is not retarded by budget or balance-of-payments constraints, then there are good prospects that, apart from Aceh, local economies in the affected areas will recover half to two-thirds their pre-disaster levels of local domestic product within a year, and that full recovery will be achieved within three years.

Full infrastructural reconstruction will take longer, and will cost more. Most projects requiring heavy capital expenditure will take a year or more to plan and cost, and longer to implement. Recovery need not wait for them. The main bottlenecks impeding economic activity and undermining livelihoods can and should be relaxed within a year, albeit often by temporary expedients.

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